CHAPTER 8

Problems and Prospects of Lease Financing

- Problems of Leasing Business
- Prospects for Leasing Business
- Future of the Indian Leasing Industry
- Latest Developments in Lease Financing
PROBLEMS AND PROSPECTS OF LEASE FINANCING

The growth of leasing in developed countries has been of a phenomenal nature over the last quarter of a century. This has been due to the basic advantage of financing investments in capital goods mutually beneficial to the lessor and the lessee.

The development and current status of the lease financing in India clearly brings out the substantial growth of this industry during the 80s. What needs to be recognised is that this growth has been possible despite the enormous constraints and problems faced by it. These problems relate to the inadequacy of finances, insufficient tax benefits, sales tax problems, unsettled accounting, and the absence of specific legislation governing lease transactions. With the indiscriminate entry of new companies into the industry, a need has been felt for regulating the functioning by introducing certain trade restrictions. Recent, guidelines proposed by the ICAI for lease accounting are 1.

I) Problems for Leasing Business:

The growth rate of leasing may continue to be as high in the years to come. Lease business is poised for a high rate of growth in the years to come, due to many problems presently leasing companies are facing. Some most crucial problems faced by the selected leasing companies are as follows
a) Resource Constraint b) In Adequate Tax Benefits c) Non-Availability of Concession Rate of Sales Tax d) Restrictions on Import of Capital Goods for
Leasing e) Lack of Proper and Integrated Accounting Standards f) Legislation and g) Lack of Expertise in the Management.

a) **Resource Constraint:** A large number of leasing companies have been floated in India during the last decade. These companies have to raise capital through public issue. Thus availability of funds is not adequate to enable the companies to expand their business.

b) **Inadequate Tax Benefits:** The tax benefits arising out of depreciation, investment allowance and taxes on gross receipts are lower due to the Indian income tax law. Thus there is a mismatch between the legal depreciable life of an asset and the primary lease term. Investment allowance is available only to the owner-cum-user. It is stipulated under section 32(a) of the income tax that the assessee is entitled to a deduction by way of investment allowance equal to 25 percent of the actual cost of new plant. The assessee owns the machinery and it is wholly used for purpose of business carried on by the assessee. As per this lessor is not entitled to the deduction by way of investment allowance.  

c) **Non-Availability of Concessional rate of Sales Tax:** Benefits further from sale tax rates, the lessor is denied this privilege due to the existing laws, the concessional rate of sales tax is only availed by the firms for the purpose of manufacture or other business.

d) **Restrictions on Import of Capital Goods for Leasing:** Import of capital goods is permitted only to actual users. Thus the leasing company is unable to take advantage of leasing in the respected area.
Certain other problems. Due to increase in the competition has led to the companies vying each other to expand their business by reducing lease rentals, low documentation charges, procedures for sanctioning. Rentals have come down from Rs. 40 to Rs. 13.5 per thousand per month. The details of lease rentals for various contract periods like 3 to 8 years and rentals for 1980 and 1985 are shown in the Table 8.1.

<table>
<thead>
<tr>
<th>S.No</th>
<th>Years of Contract</th>
<th>1980 Lease rentals per Rs. 1000</th>
<th>1985 onwards Lease rentals</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>3 yrs contract</td>
<td>Rs. 35 to 45</td>
<td>Rs. 22 to 29</td>
</tr>
<tr>
<td>2</td>
<td>5 yrs contract</td>
<td>Rs. 30 to 35</td>
<td>Rs. 24 to 27</td>
</tr>
<tr>
<td>3</td>
<td>8 yrs contract</td>
<td>Rs. 35 to 45</td>
<td>Rs. 13.5 to 17.50</td>
</tr>
</tbody>
</table>


e) Lack of Proper and Integrated Accounting Standards: Leasing companies are following variety of lease accounting practices. The leasing companies are not amortising the value of the leased asset during the primary lease period. Then the calculation of depreciation methods differ from one to another. Some follow the straight line method where as others use written down value method. There is no consistency in showing the leased assets in the balance sheet.

f) Legislation: There is no specific Act, under which lease financing is considered. For leasing various acts to be considered like Transfer of Property Act, Income Tax Act, Sales Tax Act and Indian Contract Act. Hence, it is very difficult to do lease business as there are multiple laws covering lease business.

1 Lease rentals at this rate amounts to approximately Rs. 17 per thousand per month for eight leases (17/1000/p.m).
g) **Lack of Expertise in the Management**: Some of the companies enter into lease business without having specialized knowledge in lease evaluation and credit worthiness of lessees etc. Due to competition and lack of support from banks and financial institutions and lack of trained employees have created a number of problems.

**Problems of Leasing Companies**: In order to understand the problems of leasing business, a survey is conducted through questionnaire and collected relevant data from 12 leasing companies. The details of these are explained in the Table 8.2. The data depicted in the table reveals about various types of problems in general, which are experienced by the leasing companies. The problems are high interest rate, high rate of income/sales tax, high cost of operation, default in lease rentals, competition, lack of opportunity, obsolescence, law of agreement, discharge of contract and in raise of public issue are found to be important problems. The Extent of Impact was enquired from maximum through average to low. The Maximum, Average and Low are assigned weightage points as $M=3$, $A=2$ and $L=1$ as mentioned in the questionnaire. Based on weightage points the total points are scored highest for high interest rate (26), followed by competition (25), default in lease rentals (24), high rate of income/sales tax (21), high cost of operation (20), lack of opportunity (18), law of agreement (17), then both obsolescence and discharge of contract (16) and finally lowest points are found for in raise of public issue (13). The total weightage points are shown in parenthesis. Hence, it is suggested that leasing companies should be conscious about the antecedents of the companies to whom they extend lease finance, as high interest rate is to be paid for those from where,
Table 8.2
Problems Experienced by Leasing Companies

<table>
<thead>
<tr>
<th>S.No</th>
<th>Company Name</th>
<th>High interest rate</th>
<th>High rate of income/sales tax</th>
<th>High cost of operation</th>
<th>Default in lease rentals</th>
<th>competition</th>
<th>Lack of opportunity</th>
<th>Obsolescence</th>
<th>Law of agreement</th>
<th>Discharge of contract</th>
<th>In case of public issue</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>ALL</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td></td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>2</td>
<td>BAFL</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>3</td>
<td>KCFL</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>4</td>
<td>KMFL</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>5</td>
<td>SFL</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>6</td>
<td>TFL</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>7</td>
<td>HDFC</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>8</td>
<td>IFCI</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>9</td>
<td>BCL</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>-</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>10</td>
<td>RCL</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>11</td>
<td>MFL</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>3</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>12</td>
<td>MIL</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td><strong>Total Points</strong></td>
<td><strong>26</strong></td>
<td><strong>21</strong></td>
<td><strong>20</strong></td>
<td><strong>24</strong></td>
<td><strong>25</strong></td>
<td><strong>18</strong></td>
<td><strong>16</strong></td>
<td><strong>17</strong></td>
<td><strong>16</strong></td>
<td><strong>13</strong></td>
</tr>
</tbody>
</table>

Source: Primary data through Questionnaire: Note: The extent of impact was enquired from maximum through average to low. The Maximum(M), Average(A) and Low(L) are assigned weightage points as M=3, A=2, L=1.
funds borrowed are collected. Then due to competition lease rentals are decreasing continuously, they should be conscious of implementing new strategies for marketing their financial services. Lastly, default lease rentals arise on account of certain economy-wide factors like unanticipated cost push inflation, so they should be conscious with this problem. By having many problems most of the leasing companies are able to manage effectively due to their experience, decision-making, proper planning and policies etc.

**Problems for the New Leasing Companies:**

As for the new entrants into the field of leasing, they face problems other than those of pricing and profits. To start with most of the leasing companies begin operations soon after incorporation, which clearly shows that promoters are seeking to encash on the leasing boom and have not conducted detailed feasibility studies, which can be highly dangerous.

These companies suffer from lack of qualified personnel. Most of them boast of having retired bankers on their boards, but these bankers may not be able to help in the technically complex of leasing. The banker may be able to influence his colleagues or clients a couple of times. Hence but not continuously it will not carry much weightage. Moreover, he will be able to help only one or two leasing companies though he may be associated with many such companies.

Most of the companies are unable to attract public deposits. They are working only with equity funds. A major portion of these equity funds is spent on advertisement to make the public issue successful and is now really worth only 60-70
percent of the capital raised. Thus, they face heavy resource scarcity. Lastly, because of fierce competition and because of other problems the leasing companies are unable to live up to the expectations of the public for high dividends. So, new companies lose their faith towards the public.

**Risk Perception of the Leasing Companies:**

Risk is common for every business. Lease financing is not exception for risk. Risk is hard to pin down, for its shifts constantly across many dimensions. For financial service industry the risk is the volatility of potential outcomes. Risk to the leasing business can be assumed from different dimensions such as default, interest rate, obsolescence, salvage, product and industry. **Default Risk** is of not receiving the lease rentals on schedule. The default risk can arise on account of certain economic factors like unanticipated cost push inflation, which affect the financial performance of almost all lessees or on account of industry/company specific factors, which affect only a few lease accounts in the portfolio. **Residual Value Risk** is the possibility of a decline in the estimated residual value of the equipment. This risk is particularly relevant in operating leases of hi-tech equipment and is caused by factors like technological obsolescence and uncertainty with regard to the product-market life of the equipment. **Interest Rate Risk** the interest rate risk refers to the changes in the market rate of interest, which adversely affects the cost of funds to the lessor. **Purchasing Power Risk** this refers to the reduction in the value of lease rentals in real terms caused by unanticipated inflation. This risk is particularly relevant for real estate leases or leases with a long duration. **Political Risk** refers to the changes in the governmental policies in general and the fiscal policy in particular, which have
significant implications for the economic viability of lease investments. An example is the withdrawal of the investment allowance scheme, which as we noted earlier has a favourable implication for the economies of leasing. Currency and Cross border Risk these risks are relevant only for cross-border lease transactions. The currency risk refers to the fluctuations in the exchange rate of the rupee vis a vis the currency in which the lease payments are structured, the cross border risk refers to the unfavourable changes in the political and economic environment of the country where the lessee is located.

Different companies perceive risk from various factors based on their experience or nature of factors. As such an enquiry is made to understand the risks in related to leasing from leading companies; as such the collected data is shown in the Table 8.3. The table reveals that the companies perceived highest risk from default (56) by the lessees followed by Obsolescence (42), Interest rate (35), Industry (32), Product (28) and Salvage (17). The figures in parenthesis indicate as total points. The points allotted are based on ranking method. Rank 1 carries 6 points, as it continues to be rank 6 carries 1 point. Based on ranking and points for ranks reveals that default and obsolescence risks are perceived to be highest in leasing business. Hence, it is suggested that leasing companies should be conscious about the antecedents of the companies to whom they extend lease finance, as the default risk is perceived to be high. It is also suggested that the companies should be careful about the assets for which obsolescence risk is involved.
### Table 8.3  Risks Perception of the Leasing Companies

<table>
<thead>
<tr>
<th>S.No</th>
<th>Company Name</th>
<th>Default</th>
<th>Product</th>
<th>Int. rate</th>
<th>Salvage</th>
<th>Obsolescence</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>ALL</td>
<td>6</td>
<td>2</td>
<td>3</td>
<td>1</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>2</td>
<td>BAFL</td>
<td>6</td>
<td>2</td>
<td>5</td>
<td>1</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>3</td>
<td>KCFL</td>
<td>5</td>
<td>4</td>
<td>2</td>
<td>1</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td>4</td>
<td>KMFL</td>
<td>6</td>
<td>2</td>
<td>3</td>
<td>1</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>5</td>
<td>SFL</td>
<td>6</td>
<td>3</td>
<td>5</td>
<td>1</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>6</td>
<td>TFL</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>HDFC</td>
<td>6</td>
<td>1</td>
<td>5</td>
<td>3</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>8</td>
<td>IFCI</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>BCL</td>
<td>5</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>6</td>
<td>1</td>
</tr>
<tr>
<td>10</td>
<td>RCL</td>
<td>5</td>
<td>4</td>
<td>3</td>
<td>1</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>11</td>
<td>MFL</td>
<td>6</td>
<td>2</td>
<td>3</td>
<td>5</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>12</td>
<td>MII</td>
<td>5</td>
<td>4</td>
<td>3</td>
<td>1</td>
<td>6</td>
<td>2</td>
</tr>
</tbody>
</table>

| Total Points | 56 | 28 | 35 | 17 | 42 | 32 |

Source: Primary data through Questionnaire

Note: Rank 1 = 6 points, Rank 2 = 5 points, Rank 3 = 4 points, Rank 4 = 3 points, Rank 5 = 2 points and Rank 6 = 1 point.
II) Prospects for Leasing Business: Equipment leasing is a new device, which can go a long way in providing the necessary resources for maintaining the tempo of industrial growth. Thus, leasing has acquired a special importance in the economies of the developing countries particularly for small and medium scale industries. Capital formation through leasing can help industrial growth with minimum investment by the corporate enterprises.

Various estimates have been provided pertaining to the potential leasing business in India ranges from Rs. 2 crores to Rs. 20 crores with the gross leasing business aggregating Rs. 100 crores during this decade. A particular estimate given by the Federation of India Chamber of Commerce and Industry (FICCI) is that of Rs. 1000 crores with the growth rate of 50 to 100 percent per annum over the current business of Rs. 20 crores. The urgent need for modernisation and new investments is likelihood to create huge demand for additional funds. To a certain extent lease financing can meet this demand provided the constraint of resources and other problems are taken care of.

To promote leasing the foremost requirement is to provide a legal framework so that leasing may perform its role as a specialized activity. It is essential that there should be a clear definition of true finance lease. In other words, there should a non-cancellable primary lease period during which the cost of equipment should be allowed to be fully amortised and the lessee should have and option to purchase the equipment at an agreed price.

The tax benefits arising out of depreciation and investment allowances should accrue to the lessor in case of financial lease. The rates of depreciation provided in
the tax law should be revised so as to be comparable with the amortisation of leased assets during the primary lease term. Similarly, the deduction by way of investment allowance which is now available to owner-user should be extended to lessor. This benefit could be passed on to the lessee by way of reduced rentals. Lease rentals which accrue to the lessor include a large proportion of return on capital invested and do not constitute service income. Thus, taxes on gross receipt of rentals amount to unfair levy. This needs to be corrected so that taxes are levied only on the interest part of the rental rather than on the principal amount recovered. It can be concluded that the potential leasing business is of a very high order in spite of the problems which need to be resolved.

a) Prospects for Equipment Lease Financing in India

Despite all the problems currently faced by the equipment lease financing, this business has come a long way to stay. The leasing industry has an immense potential this can be judged from the following facts:

1) Only one per cent of the total industrial investment has so far been financed through leasing, compared to 30 to 40 per cent capital investment through leasing in the US, and the UK, 10 to 20 per cent in Japan, Canada, and Australia.

2) India's general purpose equipment needs, for the coming years have been estimated to be very large. The public sector units, such as HMT, SAIL, BHEL, BEL, the Coal India Ltd, Air-India, the Indian Airlines, and the Shipping Corporation of India would offer enormous scope for equipment
leasing business. India’s steel mills are expected to require an outlay of US $1.3 billion for modernisation and upgradation. ONGC has anticipated its requirements at $1.4 billion for its southern regional operations alone.

3) While most leasing companies are chasing customers requiring small plant and equipment items, vast areas have not yet engaged their attention. For instance, mining industry needs large quantities, such as dumpers, drills, shovels, etc, which are very expensive.

4) In fact, a good market exists for specialised leasing operations, such as infrastructure leasing.

Another positive development in the industry adding to the conviction that leasing industry has future prospects in India. They have started shedding their conservative attitude and preference for asset ownership and are moving towards leased equipment in a big way. In fact the urge to own the equipment has been the main attraction for hire purchase system and an impediment to the practice of leasing of equipment in view of the tax problems connected with the inclusion of an option to buy clause in a lease contract.

However, large professionally managed independent leasing companies alone are expected to succeed and grow. Mushroom leasing companies lacking professional approach to evaluating leasing opportunities and managing lease transactions are being forced to go out of the industry due to intense competition created by the entry of development financial institutions, financial subsidiaries of banks, and large industrial houses. Indeed, the experience of the last four years has
shown that a predominant number of new entrants failed to do their homework on cost of funds Vs the projected weak rental rates. The experience of some of the western countries also confirms that when banks and large financial institutions enter the leasing industry, conventional leasing companies are forced to take a back seat.

Companies also engaged in multiple financial services, rather than lease financing alone will have greater chances of survival and growth even during the slack period of leasing business. Hence, it would be a sound policy on the part of leasing companies to diversify into multiple financial services. Thus, streamlining of the policies governing leasing companies would go a long way in stimulating the growth of the leasing finance industry on sound lines. Sale and lease back transactions need to be specially monitored and regulated particularly in respect of transactions involving in-house leasing companies.

Future of the Indian Leasing Industry

The future holds out many challenges and unlimited possibilities. Lessors will no longer be competing against banks and institutions. Today finance mangers have a whole new range of options, in the form of GDRs, Euro issues and Euro loans, to choose from. Leasing will have to compete against all these new and relatively cheaper sources of finance. To survive in this dynamic environment lessor will have to identify and exploit niches. Some potential areas for Indian lessor are big ticket leasing and infrastructure leasing.

The present is hectic the future will be frantic. The future will not necessarily be the way you or, rather it is how present events and discounting patterns suggest it
will be. The key factors that lend an impact on the future of financial service industry stem from forces that are already visible.

i) Deregulation: Corporate members have gained entry to stock exchanges, which have hitherto had been the prerogative of stock brokers. Commercial banks considering the high profitability of the leasing industry have convinced the RBI to modify the Banking Regulations Act to permit their subsidiaries to write leases. Banks now have their eyes on the hire purchase industry and are lobbying for a further change in the Banking Regulation bill to permit them access to hire purchase markets.

Deregulation is a market oriented activity, but not licentious deregulation. We charge individuals 20 to 22 per cent money to build a house and pay them a mere 4 per cent or 5 per cent on their savings. If deposit rates are artificially suppressed to compress expenses of the banking system, people are not encouraged to save. Money finds its way into socially destructive activities.

ii) Legislation: Most of the companies undoubtedly have learnt with in their business experience, that the most unpredictable constraint in finessing your corporate plans is an inability to predict what government will legislate next. Government is desperate for new revenues.

The leasing industry grew at a frenetic pace until government stopped it in its tracks with the introduction of Section 115-J, which implied the tax imposed on a company's book profits where it has no taxable income. The leasing industry regained its composure only to receive another blow in the form of the Sales Tax Amendment Bill that deemed a lease to be a sale and imposed an average 4 per cent
tax on lease rentals. The frequency of new legislation is increasing to the point where there is a surprise in every corner!

The worst is by no means over. The non-banking finance companies were recently convulsed by the Reserve Bank of India directive that proposed to implement the Shah Committee recommendations (See Annexure-4).

iii) Expanded Consumer Awareness Leading to Transient Customer Relationships: The customer of 1990s will be less tied to old norms and loyalties. Price and convenience will be paramount. With potential access to data bases and online video text information, tomorrow's customers will be better informed and able to stay updated continuously.

The future of the financial services industry is conflicting. Will India be able to replicate what the Japanese have done so strikingly in our generation? The Swiss dominated the manufacturing and marketing of watches, the Germans held market domination in optics and cameras with their respected Leica cameras and the Americans provided low cost assembly line manufactured automobiles to most of the world. The Japanese re-designed market shares in each of these apparently unassailable market positions. Their citizen and Seiko watches stole the thunder from the Swiss watchmakers, their Cannon and Asahi-Pentax cameras left the German despairing whilst their Toyotas, Nissans and Hondas gave Detroit nightmares.

Consumer credit is a globalised financial phenomenon and nowhere in the world is there a comparable opportunity to that of India. The consumer credit opportunity in India translates into 150 million middle class consumers as the tip of the iceberg portion of the present market plus the almost inexhaustible rural market
approximating 650 million people. Consumer credit represents a financial service that is currently encircling the globe, improving standards of living and generating aggregate demand to support industrial production of items such as automobiles, scooters and white goods, such as refrigerators, washing machines, toasters, etc.

On the basis of present trends management guru Peter Drucker's counsel, visualise the future, the key landmarks of tomorrow, that are startlingly visible in the Indian market are:

- Citibank's incremental success involving business of Rs 20 billion at rate of return averaging between 25 and 29 per cent.
- Bank of America's stated intention of investing approximately US $ 15 million into consumer credit operations in India.
- Hongkong Bank and Standard Chartered Banks, as also ANZ Grindlays stated intentions to also develop a separate consumer credit operations.

India's participation in the globalisation need not be restricted to providing international markets a highly profitable and almost limitless market for consumer credit. Tomorrow's globalised product offerings are 'knowledge intensive'. Financial services such as 'securitisation', 'negotiable certificates of deposit', 'Swap options', etc, are the products of creative intellect.

This identification of an attractive market niche for global lessors via sale and lease back transactions is not without precedent. Government of India gave its blessings to an international sale and lease back, when a consortium of Japanese lessors led by Sumisho Leasing completed a sale and lease back for equipment
owned by the Oil and Natural Gas Commission aggregating $ 60 million. The payment terms were fixed at a rate of 10.5 per cent. The facility was repayable in 14 equal semi-annual installments following a grace period of 6 years so that the aggregate lease tenor extended 13 years.

iv) Export Leasing: Export leasing transactions represent a possible future growth area for the Indian leasing industry. Indian exports such as GI pipes, these pipes in the US market at prices lower than those charged in India.

The Indian leasing company purchases the GI pipes from the manufacturer supported by a lease contract with the US user of the GI pipes. Indian export will of course benefit by retaining its export market in the US. India's invisible earnings will also grow because of the net impact of India's earnings from leasing.

India could also explore the possibility of completing exports on a lease basis against a counter trade arrangement. We could explore the desirability of exporting machine tools to Brazil in exchange for their supply of sugar or cocoa beans every month over the period of the lease.

v) Big Ticket Leasing: As far as the big ticket leasing goes, leasing companies would try to write big leases for companies of proven credit worthiness. So, instead of doing 20 deals each worth Rs.5 million a company would write five leases of Rs.20 million each. Fewer deals would mean less of administrative and marketing overheads but such deals carry the inherent risk that even a single misjudgment while measuring the credit worthiness of a client could prove disastrous for the company.

With the power, roadways and telecommunication sectors being thrown open to the private sector, opportunities for leasing are bound to a rise infrastructure leases
are typically of very long duration for periods ranging up to twenty years. The need of the hour is to develop the expertise for pricing lease deals for such long duration. The near future could see leasing companies going in for specialization.

**Latest Developments in Leasing:**

Over the last decade, leasing and financing activities in India have become an intrinsic part of trade, commerce and industry. In addition to generating funds for financing the various consumer durables needs of the middle class, lease and financing contributes largely to the growth in the manufacturing sector through financing of capital equipment required to enhance production capabilities. There is a scope for the future developments in leasing for the following sectors.

- **Leasing in Auto Finance:** The spurt in the sale of automobiles of all types in the recent past and forecasts for mounting sales in the future is an indicator to the pivotal role leasing is expected to play in the economy. With foreign banks initiating the entry into auto-financing, then non-banking finance companies, and now even public sector banks following suit, the dealer is no longer the first stop for a buyer of car, willingly or unwillingly, the financier has become the first point of contact for the potential car buyer, gradually, but definitely the basic sale point of automobiles has shifted from the dealer’s showroom to finance companies.

  Thus, in the coming days the focus will continue to be on personalized service with competitive rates offering an edge, too. In addition the second hand car market is expected to mushroom with the entry of commodity specialists.
Leasing Spreading Its Wings: During the last 10 years, finance companies in India have assumed an important role in the industrial development and marketing of consumer durables. Before the launch of leasing companies like First Leasing Company of India Limited and Twentieth Century Finance Limited, a few companies in hire purchase financing were known in the market, generally for financing of commercial vehicles, but the last decade saw a spurt in business activities in the financial sector. This industry has generated business worth Rs. 1,000 crore. Financial services companies have widened their role in different dimensions.

Asset-Based Financing: Acquisition of capital assets like plant and machinery, vehicles, office equipment, through leasing or hire purchase has become very popular mode of financing for industrial units. Leasing provides the advantages of tax shield, structured cash flows, 100 percent financing and speedier finalisation of deals and disbursement. It is also considered to be a useful tool for off the balance sheet sources of funding without affecting the financial ratios of the companies.

Today, leasing and hire purchase are prevalent as mode of financing that this has become a sales-aid tool for automobile and consumer electronics industry. Almost all leading manufacturers like Tata, Escorts, Ashok Leyland, Baja auto etc have set up their own finance companies. This has resulted in a boom in the sales of their products and helped these companies to come out of recession.

Working Capital Financing: Of late the industry has switched over from banks to finance companies for bills discounting which is convenient sources of
working capital is financing. Many ancillary units who are supplying to reputed companies can arrange discounting of bills accepted by their buyers.

- **Consumer Financing:** Purchase of Cars, TVs, VCRs, Air conditioners, Two-wheelers. Washing machines, Fax, Photocopies, Computers etc. has never been so easy as it is today. Courtesy is required in private sector financial companies.

- **Housing Finance:** After the establishment of the national housing bank another avenue has been created to provide housing finance to individuals through various finance companies at reasonable rates. Although public sector agencies like Canbank Housing, SBI Home finance, LIC Housing are extending such facilities, certain companies in private sector have come forward for the basic needs of shelter to common man. Organizations like HDFC and HUDCO have played a very important role in housing finance.

- **Investment Banking:** Since the flow of funds has diverted to direct investments in the industry through capital market, a major emphasis is laid on investment banking. The corporate funds—which were generally parked in short term lending are now invested in either primary markets for new issues or invested in secondary markets for purchase of securities. These channels have provided lucrative returns on investments.

- **Equity Research and Investment Counselling:** A common investor is not able to apply his mind for analysis of financial statements and future prospects of various companies for investment decisions. To cater to the needs of ordinary investors, equity research and investment counseling has been providing due support. Many finance companies have established such departments and provide
these services at nominal costs or free advisory services to attract the investors. The role of these services is becoming more important when the stock markets are booming and every person is looking towards investment opportunities to book profits.

**Mobilisation of Household and Small Savings**: Professionally managed finance companies, which are promoted by reputed organizations/individuals, have been successful in winning the confidence of investors who prefer to park their savings with these finance companies to earn better returns. Now most of the companies in the financial sector enjoy credit rating from independent agencies like CRISIL or ICRA and investors can easily place their funds in deposit schemes of such companies, which offer far better rates of interest as compared to banks. These finance companies have provided a good medium for tapping small savings and generated substantial deposits. Many retired persons looking for regular income through monthly returns are subscribing to deposits schemes of reputed finance companies. Therefore, finance companies are coming up fast as competitors/substitute for banks & financial institutions and they are expected to play the key role in financial reforms in our economy.
References:


3 The Hindu Saturday, 'Leasing Firms take Stock at the end of Initial Europe', 5th July, 1986.


