CHAPTER 9

Summary and Conclusions
SUMMARY AND CONCLUSIONS

Modern business environment is becoming more and more complex. The strategy of business firms is to achieve growth with stability. To accomplish such an objective, these firms are required to go for massive expansion, diversification and modernization. Due to these obvious reasons, leasing has emerged as a new source of financing.

Leasing perhaps is as old as civilization. Leasing is one such new technique developed by man to meet his growing economic needs. Over the years, leasing has been a potential financial instrument that facilitates access to sophisticated technology. In view of multifarious benefits of leasing, a few leasing companies have successfully emerged. Right from the beginning, this economic activity has proved to be beneficial to both producers and consumers.

LEASING INDUSTRY – AN OVERVIEW

The world’s first known leasing company, The Birmingham Wagon company was constituted in 1855 at Britain. It leased railway wagons to coal and other properties. In 1952, The United States Leasing Corporation set up by Henry Schoenfield. It was first modern leasing company. In Europe leasing business grew during the first half of 60’s. In France, Italy, Germany, Japan leasing market entered by 1962, Orient Leasing Company, the first Japanese leasing company was formed in 1963 and several Australian finance companies began marketing leasing facilities in the early 1960’s. Leasing entered the United Kingdom in the early 1960s after the companies of the United States began to explore foreign markets. In India ‘The First Leasing Company’ was started in 1973.
EVOLUTION OF LEASING

The earliest details of leasing can be traced to the advanced cultures of the middle east land owners, the gods of various degrees of divinity, temples, kings princes and their authorized agents, granted other people the right to use land they themselves did not cultivate. This form of leasing existed as early as 5000 years ago among the Sumarian people. In Babylonia, around 1800 B.C., certain laws were framed which shows that leasing was used in transactions relating to land. During this period ship leases came on the scene in Persia. Akin to a land lease.

Leasing In Some Leading Foreign Countries

Leasing business in some of the foreign countries were stated below;

The United States of America (U.S.A): American leasing industry is perhaps the largest and the oldest in the world. The U.S equipment leasing industry accounts for about 50 percent of the world market. Leasing played a significant role in strong market like telecommunications equipment, transport equipment including a remarkable increase in aircraft leases. The industry formed an association called American Association of Equipment Lessors (AAEL) in 1961.

Canada: It is seen that there is remarkable income for a number of vendor leasing companies operating in Canada and also vendor lessors from the U.S doing the business in Canada. Manufacturers and distributors are showing interest in getting involved in financing as well as manufacturing and marketing their products.
**Australia:** In Australia leasing business commenced in 1950s. Since 1960s, trading banks, merchant banks and packages have also been active in bringing their special skills and cost of funds into the competition. Australian Finance Conference (AFC) has 18 members.

**United Kingdom:** England is the first European country where leasing was introduced in 1960. The rapid growth of the equipment leasing business in the U.K. is indicated by the figures of the Equipment Leasing Association (ELA), whose membership is for at least 90 percent of the market.

**Japan:** In Japan, leasing goes in the name of 'shogun' lease. One of the reasons for the growth and development of lease in Japan, was the removal of restrictions on the acquisition and sale of overseas assets between residents and non residents of Japan.

Shogun lease became popular lease in Japan due to the flexibility of lease contracts, removal of various restrictions by the Japanese ministry of finance and the liberalization of yen loans, the long term funds were freely available for more than 10 years.
Leasing In India

Leasing has been in existence in India since the very early times. Legend has it that Lord Venkateswara of Tirupati, the richest deity among the hindus, had taken Tirumala hills on lease from Lord Varaha murthy.

The First Leasing Company of India Limited first initiated leasing activity in 1973, at Chennai. Farouk Irani set it up, with industrialist A.C.Muthia. For several years this company remained as the only leasing company until Twentieth Century Leasing Company Limited came into existence in 1980 at Mumbai.

Since the early 1980s the Indian leasing industry witnessed a dramatic rise in the number of leasing companies entering the capital market. Despite of rapid growth, competitors First leasing and Twentieth century has been made public, many more companies fascinated to join the leasing industry.

Some of the better managed leasing companies, reacting to the level of competition, have diversified into other areas like service industry and manufacturing, in the process, becoming multi product companies. Within the industry, some have specialized in areas like medical equipment and medical centers for diagnostic services, while others have targeted market segments having natural and geographical advantages. But, by and large, lessors have courted the business.

In 1983, the Banking Regulation Act, 1949 was amended, whereby commercial banks were permitted to promote subsidiaries specializing in equipment leasing and financial services. The first bank to set up a financial services subsidiary was the State Bank of India (SBI) in 1986. There was a rapid growth in investment in leased assets which was found to be Rs.50 crores by
the end of 1983 increased to Rs. 900 crores in the year 1990. Registering a compounded growth rate 50 percent p.a.

However, even in today leasing scenario, post – liberalization era has been slow but there has been an increase in foreign investment into Indian leasing. GE Capital entry and number of foreign owned financial firms and banks are currently engaged with leasing industry in India.

**Leasing In The Eighties**

During the eighties, leasing graduated from asset/equipment finance to project finance. Transactions range from large manufacturing facilities to satellites, to power projects and large construction projects. Some recent large projects are Paper Industry, Telecommunication, Construction Industry, Utilities (Power), Nuclear Facilities and chemicals.

**Major Players In Indian Leasing Industry**

The major players of the leasing industry in India are the lessors and the lessees. The important Lessors are Independent Leasing Companies, Banks and Bank-Subsidiaries, Financial Institutions, One-Off Lessors, and Manufacturer-Lessor. The major players in lessees are Corporate Customers, Public Sector Undertakings, Mid-Market Companies, Consumers, Car Customers, Earth-moving Machinery Customers, Government Departments and Authorities.

**Recent Developments**

One of the most interesting developments in the leasing industry is the shift from ‘balance sheet’ financing risk to ‘asset based’ financing. The risk is shifting from airlines/companies to aircraft/assets and financiers are increasingly assuming the risk of the residual value and remarketing. In such leases, the lessor is given a walk away option during the primary period of the lease,
leaving the asset with the lessor. The premium for such options is getting smaller and smaller and may completely disappear in the near future.

**Importance and Significance of Leasing Business**

With globalization and liberalisation, the Indian industry is trying to gear itself to grow fast in the new environment. Many Indian industries like Information Technology, Telecommunications, Bio-Technology have already created a niche for themselves in the global arena. Leasing plays a major role in Indian industry due to the following important features:

Leasing provides 100 percent financing. There is no need for the margin money, as in the case of the other sources of financing. Initial investment is minimal i.e limited to the amount of advance payment of one or two rentals only. So, it is quite possible for a company to avoid a large immediate outlay for down payment.

Industrial advancement and obsolescence: With the rapid advancement of science and technology, use of computers is inevitable for organizations. Due to technological advancement and obsolescence prompt the entrepreneurs to go in for leasing against owing the high cost machines of latest and sophisticated technology.

Leasing is now an important source of medium term finance in many countries. Different projects illustrates the role of leasing in promoting new capital investment whether it is to provide essential tools for small business or to finance orbiting satellite systems in unites states.

Increase in competition amongst sources of finance leasing has lowered the cost and increased the supply of finance, particularly fixed rate finance for investment. In developing countries, leasing has frequently been able to fill a
gap in the finance market place and has enabled firms to rely less on overdraft facilities. Leasing companies have introduced financial innovations and accelerated the trend wherein financial institutions become responsive, market oriented finance partners.

Enhancement of the overall level of capital investment coupled with some of the growth of leasing can be attributable to the gradual substitution of other forms of finance by leasing, a significant component has arises but a result of satisfying a long term need for a complementary source of finance. Support to industrial modernization and small business leasing companies have played an important role in extending finance to small and medium fixed firms by focusing (for credit analysis purposes) on the future cash flow, thereby maintaining firms, banking lines and by speeding up financing formalities, helps in the implementation of industrial and fiscal policies in addition to mobilizing liquidity for capital formation. Leasing acts as an important stabilizing influence during recessions by significantly increasing the efficiency of tax based investment incentives. In view of all this leasing is a very important and significant for the industrial development of the country.

**Importance of Leasing Business**

Some of the following points high lights leasing business, they are as follows;

**Innovative Adaptation:** The Leasing concept - an innovative adaptation of the finance function to the taxation laws of this country - offers the Corporate Finance Manager.

**Leasing for Schools/Colleges and Universities:** The leasing companies also could play a vital and pivotal role for the schools/colleges and universities. The Central Government has decided to introduce computers at
different levels of education computer wares. Leasing would perhaps be a sure answer to meet the situation.

A Device for Funds Generation from the Public: Leasing companies help to mobile not only the small savings which are available with the common man but also from the kith and kin of the Directors of the leasing company in large quantities.

Review Of Literature Most of the literature on leasing originated from the U.S. Some selected important Studies conducted in different countries and its gist as follows:

Vancil and Anthony (1959) carried out two stage analysis on reasons behind leasing in United states and Canada. Through mailed survey they tried whether a long term lease is considered equivalent to debt financing. The study revealed that long term non-cancellable lease was equivalent to debt and they treated lease payments as a fixed charge. Their results indicated that the use of long-term non-cancellable lease made it possible for a company to obtain a greater amount of credit than would have been available if debt financing were used. The study also revealed that a lessee might be willing to pay a higher interest rate in order to avoid showing the lease obligations on its balance sheet. Other reasons for leasing were tax advantages, advantage of not having to invest in equity or working capital, avoidance of restrictive convenants etc.

Marrah conducted a survey in U.S to study the advantages and disadvantages of leasing as felt by manufacturers. He mailed questionnaires to 60 companies to evaluate leasing as a source of capital. Advantages given by the companies are conservation of working capital, shifting the risk of obsolescence from user to buyer, preservation of credit capacity etc. The main disadvantages are high cost,
increases fixed obligations, do not build equity, objectionable clauses etc. Johnson and Lewellen (1972) tried to solve the lease Vs buy problem explicitly placing them on the firm goal. They stated that the firm’s cost of capital should reflect the long run debt equity proportion chosen by the firm. They considered a financial lease to be an “acquisition of services arrangement”, that is equivalent to purchase arrangement. Bower (1973) conducted a study in order to choose decision between purchasing and leasing. Bower discounted the lease payments at the loan interest rate and used sensitivity analysis.

In 1976 Deutsche Leasing AG (A German leasing company) conducted a study concerning the motives for leasing of 576 large German firms. Motives ranked in order of importance were leasing permits 100 percent financing, amount of lease payments are known in advance, avoiding restrictive covenants in debt agreements, conserves working capital etc. the least important motives being ‘leasing is relatively inexpensive’, ‘off balance sheet financing and leasing serves as a hedge against inflation’. Hull and Hubbard carried out a survey in U.K. for Cransfield school of management. The focus of the study was to investigate the mode of operation, attitude and decision criteria of lessors, lessees and lease brokers. Separate questionnaires were mailed 1000 for potential lessees, 132 to lessors, 46 to lease brokers. The response rate was about 30 percent. Copeland and Weston (1982) classified leases into pure financial leases and operating leases. The pure leases are considered to be perfect substitute for debt capital because they are not cancelable without bankruptcy and are fully amortised.

Narayana Swamy (1988) in his research study analysed the issues in accounting for leases by lessees. The study reveals that leasing is used for motor
cars, manufacturing plant and machinery, computers are most popular in practice. Satyanaraya Murthy in his thesis evaluated the role of leasing industry in equipment decisions of the business firms in private corporate sector of India. The analysis of 211 lease contracts of companies located in twin cities of Hyderabad and Secunderabad provided some findings:

- 47 percent of the total lease contracts had a maturity period ranging from 4 to 7 years and the maturity period of another 75 contracts range from 2 to 4 years. Manufacturing equipment constituted the bulk of lease contracts, accounting for 40 percent of the total contracts.

Brahmaiah studied on the accounting practices of 60 leasing companies. The study reveals that there is no uniformity in the accounting practices of lessee companies. Lessees neither show their leased assets as assets nor as liabilities in view of their future rental obligations. Thus leasing is considered as off-balance sheet transaction in India.

Pandey, I.M. and Brahmaiah in another study on lease accounting practices in India, based on annual reports of the select companies reported as follows.

- Most of the Indian leasing companies followed operating method for treating lease rentals in the financial statements.
- Leasing companies showed leased assets as owned assets on historical basis in their balance sheet.
- Majority of the leasing companies depreciated leased assets on straight-line method.

Sreenivasa Murthy in his research studied 130 Indian companies on factors influencing the decision to lease or not to lease. Mohinder N. Kaura has
published article on lease financing in India development and prospects. This paper traces the development of lease financing of equipment in India

**Need For The Study**

With the rapid advancement of science and technology, the chances of advancement and obsolescence are phenomenal, the technological advancement and obsolescence prompted the entrepreneur to go in for leasing. In leasing initial investment is nominal, due to 100 percent financing. Leasing is now an important source of medium term finance for companies with innovations and modernization. Leasing also acts as an important stabilising influence during recession by significantly increasing the efficiency of tax based investment incentives.

There is not much research work done in this area, so researcher has undertaken to study the areas are financial structure and performance of leasing companies, legal aspects, related problems and to identify the future prospects in this area.

As per the global leasing report, presented by the London Financial Group it reveals that there is a significant growth in leasing industry world wide. In the year 1978 leasing business was of $ 40.8 billions. Then the volume of the business increased tremendously to $273.8 billions in 1988. Within a decade i.e. in the year 1998 it reached to $432.5 billions. The highest leasing volume found to be $499 billions in the year 2000. Through out the period there was a significant growth found in this industry. Remarkable growth is found due to the contribution from the U.S based companies their contribution is $242 billions which is highest of all countries in the world. Where as other developed countries like Japan's contribution is $58.95 billions, Germany $34.45 billions.
To suggest measures to solve the problems and for development of leasing companies in India.

**Methodology**

In order to achieve the objectives as stated above, both primary and secondary sources of information were relied upon. The primary data was collected mainly through structured questionnaires apart from discussions and interviews with executives of the selected companies. Questionnaire was focused on profile of the company, financial structure and performance, decision-making, accounting, problems of the leasing companies etc.

Secondary data was collected from company records, reports, financial statements, circulars, relevant acts, books, journals and national and regional newspapers, brochures and other published and unpublished literature on the subject was also studied and referred in various projects and thesis in various institutes, libraries etc., various related websites are also searched through to Internet browsing to collect relevant data for the study.

**Sampling**

There are over 300 private and public limited leasing companies in India. These companies are spread in all the regions of the country. Most of the dominant leasing companies are there in southern region. Hence it has been decided to study leasing companies in southern region. In southern region most of the leasing companies are located at Chennai, Bangalore and Hyderabad.

The researcher has contacted all the leasing companies in southern region and found the nature of the leasing companies are of financial institutions, financial companies and subsidiaries of manufacturing/ group companies. In order to collect the data for the study, the researcher had collected
list of companies from CMIE, through internet, previous thesis reports, RBI bulletin and few books, journals and magazines with this secondary data researcher collected company’s list in which the total number of companies are about 300, then sorted the list of companies are into leasing and also located in south India with this the number of companies are minimized to 100, the secondary data is collected through annual reports for the period 1998 to 2002 but few companies provided as reports as required for 4 years period i.e. from 1998 to 2001 only 13 companies annual reports were tallied with the required period.

Then primary data collected through questionnaires and also with personal interviews. Apart from the annual reports a questionnaire is also mailed to all southern region based leasing companies, for questionnaire see Annexure -2. The questionnaire is designed to Lessor companies only. The questionnaire is categorized into five main parts. Firstly, general, structure of leasing, procedure for leasing, lease decision making and finally lease accounting altogether there are at about 48 questions of open ended, some multiple, dichotomous and trichotomous and closed questions. There was not much response to the mailed questionnaire even after constant and continuous reminders and personal visits. There are only 12 companies had responded. Hence those 12 companies are selected as a sample for the study. The composition of selected 12 companies by activity as Finance (Leasing & H.P) companies (6), Financial Institutions (2), Leasing as subsidiary companies (2). Independent Leasing Companies (2)

The selected 12 leasing companies are categorised as follows:

Finance Companies (Leasing and Hire purchase)

1. Ashok Leyland Finance Limited. (AFL)
2. Bajaj Auto Finance Limited. (BAFL)
3. Kinetic Capital Finance Limited (KFL)
4. Kotak Mahindra Finance Limited (KMFL)
5. Sundaram Finance Limited (SFL)
6. Tata Finance Limited (TFL)

Financial Institutions
7. Housing Development Finance Corporation. (HDFC)
8. Industrial Financial Corporation of India. (IFCI)

Leasing as a subsidiary
10. Reliance Capital Limited. (RFL)

Independent Leasing companies
11. Mafatlal Finance Limited (MFL)
12. Mukunda Industries Limited (MIL)

**Method of Analysis**

In order to know the overall performance of the leasing companies in India, the selected companies’ annual reports and responded questionnaires are used as a source for the analysis.

Overall performance of the leasing companies is analysed through consolidated profit and loss accounts for 5 years and also balance sheets for 5 years period. Apart from financial position, company’s performance is analysed through proportionate of expenditure towards individual company’s total income. Finally, ratio analysis is also used as a technique to identify the profitability, operating efficiency, earning ratios, turn over ratios etc., and further for detailed report refer to the chapter- 4 and 5 of this report.
Period of The Study

The study will cover the life of leasing as a financial service in India. The study starts with the evolution of leasing to present era. The financial data of the selected companies is studied for a period of 5 years i.e. 1998 to 2002.

Presentation of The Study

The Research Study presented in the thesis entitled ‘Lease Financing in India – With reference to the leasing companies located in Chennai, Bangalore and Hyderabad’. The Thesis is divided into eight chapters. Chapter one deals with the evolution of leasing and leasing in India and abroad. The importance and significance of leasing objectives, need for the study, methodology, sampling and review of literature are presented in chapter two.

The profiles of the Selected leasing companies are presented in the chapter three. Chapter four deals with financial structure and the performance of the leasing companies.

Chapter Five explains about Lease versus Buy decision making. Laws and regulatory work as related laws are stated in the chapter six. The problems and prospects of lease financing are presented in the chapter seven. Finally, summary and suggestions are given in the eighth chapter.

LIMITATIONS OF THE STUDY

- The study is purely and precisely a descriptive and exploratory analysis of leasing business. The following points are some of the limitations faced by the researcher.

- The study has been confined to only twelve companies in south India, and it is not free from the limitations. A major difficulty the researcher
faced was the non availability of organized and up to date information in some of the areas such as lease financing related laws, practices and their performance evaluation techniques etc.

- It was very difficult to administer the questionnaire from various companies. Very few companies were responded to the questionnaire. Hence, the sample size was limited to only twelve companies. though the responses received, the responses were different.

- The study is restricted to few years. The period of the study is confined from 1997 to 2001 year i.e. for five years only.

- There is no direct access to the financial matters, legal aspects. While some companies were good enough to supply the annual reports, literature. Many have chosen either not to supply or reply for questionnaire.

- Books and literature on leasing are not many in India and one has to depend upon foreign text books and articles as supplemented for this research work.

- Most of the leasing companies in India are not pure lesing companies but are mixed. Hence the profit and loss arrived at here may not exclusively be due to leasing alone.

**PROFILES OF THE SELECTED LEASING COMPANIES**

There are over 300 private and public limited leasing companies in India. These companies are spread across the country. Most of the successful performing leasing companies are in south India. Ashok Leyland Finance Limited, Bajaj Auto Finance Limited, Birla Century Finance Limited, Housing Development Finance Corporation, Industrial Finance Corporation of India, Kinetic Capital

ASHOK LEYLAND FINANCE LIMITED

Ashok Leyland Ltd. promoted this company. This company belongs to Hindujas group. During 1992 the company issued 10,50,000 fully convertible debentures of Rs.200 each for a total value Rs. 21 crores.

In 1989, the company undertook new activities like bill discounting, financing of consumer durables and industrial hire purchase.

BAJAJ AUTO FINANCE LIMITED

Bajaj Auto Finance Ltd. is a group company of Bajaj Auto Ltd. In 1987, Bajaj Auto Finance was incorporated on 25th March, as a Private Limited Company to take up Hire Purchase Finance and Lease Finance activity. Bajaj Auto Finance Ltd is probably one of the very few non-banking finance companies in the country with such a rating.

In 1992, The Company is proposed to increase the financing activities of the Company by introduction of various schemes of financing cars, trucks and leasing of equipment.

BIRLA CENTURY FINANCE LIMITED

Birla Century Finance Limited (BCFL) is a Company belongs to B.K.Birla group. Then existing paid-up Capital of the Company was Rs.200/- comprising of 20 Equity Shares of Rs.10 each. The name of the Company was
again changed to Birla Century Finance Limited. The company has few branches in selected areas in India

**HOUSING DEVELOPMENT FINANCE CORPORATION (HDFC)**

In October 17, 1977, HDFC was incorporated as a Public Limited Company. HDFC provides housing finance in India.

HDFC launched India's first captive auto finance company named Maruti Countrywide Auto Financial Services Ltd., with the objective of exclusively financing Maruti Vehicles in India.

**INDUSTRIAL FINANCE CORPORATION OF INDIA**

The government decided to establish The Industrial Finance Corporation of India (IFCI) on July 1, 1948, as the first Development Financial Institution in the country to cater to the demand for medium and long-term finance for the industrial sector. IFCI has also assisted 8 Port projects, 67 telecom projects and 1 road/bridge project.

IFCI has also created Chairs in reputed educational/management institutions and universities.

**KINETIC CAPITAL FINANCE LIMITED**

Kinetic Finance Limited is one of the largest and specialised two-wheeler financing companies in the country. Furthermore the amalgamation of other retail finance companies in the group i.e. Kinetic Lease & Finance Ltd. and
Kinetic Capital Finance Ltd. with KFL was completed in November 2000 to create a retail finance mega power.

**KOTAK MAHINDRA FINANCE LIMITED**

The company was incorporated on 21st November 1985 under the name Kotak Capital Management Finance Ltd. The company obtained the certificate of commencement of business on 11th February 1986. The company's name was changed on 8th April 1986 to its present name Kotak Mahindra Finance Ltd.

The Company deals in Bill discounting, leasing and hire purchase, corporate finance, management of fixed deposit mobilisation, financing against securities, money market operations, consumer finance, investment banking and clients' money management. The Company established itself as a major leasing and hire-purchase company and as a source of finance for purchasers of automobiles.

**MAFATLAL FINANCE COMPANY LIMITED**

The Company was originally incorporated on 20th October, in the State of Maharashtra as a Private Limited Company. Subsequently, the Company became a Deemed Public Company under section 43A of the Act, on 11th September 1987 by virtue of holding of its shares by another Public Company.

MFCL commenced leasing and hire purchase financing activities in 1992.

**MUKUNDA INDUSTRIAL FINANCE LIMITED**

Mukunda Industrial Finance Limited (MIFL) was incorporated on 1st February 1985, and the Company commenced its business on 1st March 1985.
The Company is engaged in Equipment Leasing, Hire Purchase Financing of motor vehicles, industrial machinery, equipments, etc., since incorporation. The Company's other major operations are in Hire Purchase. The company's clientele consists of more than 250 accounts. Leasing and Hire Purchase finance divisions of the Company are very buoyant since inception.

**RELIANCE FINANCE LIMITED**

Reliance Industries Ltd. promoted this company. The Company undertook portfolio management services for reputed corporate clients. In 1995, The Company issued equity shares of Rs 10 each at a premium of Rs 40 per share. The Company plans to diversify its activities into money market operations, project finance advisory services, foreign exchange and every sphere of financial services.

The Company has also become the first non-banking financial company to receive approval to act as a depository participant. The company has branches in few cities only.

**SUNDARAM FINANCE LIMITED**

The main object of the company carries on hire purchase business and equipment leasing. They provide finance for acquiring equipment either under hire purchase or lease finance routes. In 1981, the Company started equipment-leasing operations.

India Equipment Leasing Ltd., is a subsidiary of the Company. This subsidiary was promoted jointly by the Company and International Finance Corporation, Washington, U.S.A. Sundaram Finance Securities Ltd. Sundaram Finance
Securities Ltd. became subsidiary of the company. Sundaram Finance Ltd. has promoted Sundaram Home Finance Ltd. and Fiat Sundaram Auto Finance Ltd.

**TATA FINANCE COMPANY LIMITED**

Tata Finance Company (TFC) was incorporated as a private limited company at Mumbai on 16th March 1984 and converted into a public company on 26th April 1984. The company offered equity and preference shares public subscription. In 1992, the company merged with Tata Industrial Finance Corporation Limited (TIFCO). Tata Finance is a non-banking financial company engaged in the business of hire purchase, leasing and other finance related activities and also accepts fixed deposits from public under various deposit schemes.

**Financial Structure Of Leasing Companies**

The growth and development of leasing business depends to a very large extent on the quantum of funds they can command. Most important sources of funds and employment of funds for Indian leasing companies are explained in the chapter 4.

A. **Sources of Funds Available to Leasing Companies**

There are two types of sources of funds are available for the leasing companies. They are conventional and non-conventional sources.

1) **Conventional Sources**: In this category, the sources of finance can be obtained from owned funds, borrowed funds, debentures, Commercial papers, commercial financial companies, public financial institutions and from NRI deposits etc. These are some of the most important and widely used sources by the firms and companies.

   a) **Owned Funds** This is one of the main sources mostly used by the almost all the companies within few years after their inception. It can be
observed from the table as the amount of equity capital can be categorised into four ranges. In first range, below 100 millions two companies identified they are MIL around Rs. 50 millions and KCF1 around Rs. 44 millions. Then in second category Equity Share Capital (ESC) ranges from Rs. 100 to 300 millions, ALL, BAFL, SFL, and BCL companies are identified. KMFL, TFL and MFL, these three companies fall under Rs. 300 to 600 millions range. In the last category equity capital amount is more than 1000 millions, three companies HDFC, RCL and IFCI are highly successful. Almost all the selected companies issued equity and preference share capital several times in the study period from 1998 to 2002 year.

b). Borrowed Funds. The borrowings may be on long, medium and short-term basis from banks and other financial institutions. Besides this, the company may also raise funds from public through fixed deposits schemes or by issuing bonds/debentures–fully convertible, partly convertible and non-convertible subject to SEBI guidelines.

Borrowed long-term fund is used by all the companies but the maximum projected by IFCI Rs. 201731.6 millions followed by HDFC Rs. 187556.9 millions and minimum by KCFL Rs. 83.5 millions. As per leasing companies it can be allowed up to 10 times above the equity. In this survey IFCI Company is able to collect 18 times more than its equity. Finally, it can be concluded that almost all the companies in a sample are issued convertible and non-convertible debentures and bonds several times in the given study period.

11) Non-Conventional Sources of Finance: Innovation and creativity are the requisites for the raiser of non-conventional sources of finance, which can be anything from public deposits, hypothecation of assets and loans on the security
of lease rentals due. Non-conventional sources are generally public deposits, NRI investments, Commercial papers.

a) **Public Deposits:** Public deposits in our country have a high potential than equity capital. For effective mobilization of fixed deposits it is necessary to identify target group, as salaried employees, retired employees. The approach medium being adopted at present to reach this group is mostly by mass mailing or personal contact. b) **NRI Investments:** The Non-Resident Indians (NRI) are playing an important role in Indian economy. The importance of their participation has been well recognized by government of India and has made efforts to encourage NRI deposits and investments in India. c) **Commercial Papers:** A Commercial Paper (CP) is a short-term fund raising instrument. It is an assurance promissory note and is negotiable by endorsement. It can have minimum period of 90 days and maximum of 364 days. The commercial paper may be issued in multiples of 5 lakhs but the amount to be invested by any single investor shall not be less than Rs.25 lakhs (face value). Only two companies TFL issued commercial papers for the worth of Rs.50 crores and BAFL issued for the worth of Rs. 80 millions.

These are various sources of finance available for the leasing companies. These companies depend up on different sources as in combination of conventional and non-conventional, based on its policy, financial position and interest rates etc. Leasing companies are quite active on the capital market for raising the share capital as they initially started their operations.

**B. Application of Funds in Leasing Companies**

The key to the success of a leasing concern lies in a judicious and well-planned deployment of its funds, raised with much effort and expense.
Every leasing company will have its own planning for deploying their funds. Normally a company should not lock up its short-term funds under fixed assets of long-term nature so, as to avoid technical insolvency. The leasing companies should diversify deployment of their funds in different types of products and clients.

**Pattern of Deployment of Funds**

The pattern of deployment of funds of selected leasing companies, It can be observed that most of the companies have invested in the fixed assets and current assets. The allocation of funds on total assets to that of investments is found to be very low. There is a gradual increase in almost all the companies from the year 1998 to 2002. The IFCI investments found to be highest Rs. 43.270 millions in the year 2002, followed by HDFC and RCL. The KMFL, SFL and TFL here invested similar amount ranges from Rs.2,000 millions to 3.500 millions. Companies like ALL and MFL investments found to be decreased from Rs. 820 millions to Rs. 360 millions for the same period.

**Fixed Assets** The major development for a leasing company is on the acquisition of equipment to be given on lease. Deployment of funds into fixed assets by selected leasing companies as it can be observed that most of the companies have invested in fixed assets like land and buildings, equipment, plant and machinery etc., gross fixed assets found to be satisfactory position with the companies such as SFL, TFL, HDFC, IFCI and RCL. The amount varies from Rs.7000 millions to 9,500 millions. Fixed assets found to be below satisfactory level are MIL, BAFL, KCFL & BCL below Rs. 500 millions.

**Current Assets:** As compared to the fixed assets, current assets are found to be higher. HDFC and IFCI here maintained current assets above Rs.1,50,000
millions and below Rs.2,00,000 millions. It has increased continuously from
time to time for all the select leasing companies. As the proportion of
deployment of funds in current assets found to be highest as 91.6 percent with
ALL followed by 86.6 percent with BAFL and next 84.35 percent with HDFC.

Total Assets Total application of funds is high for HDFC and IFCI as fixed and
current assets are higher. Total assets of these companies vary between
Rs.1,00,000 millions and Rs.2,20,000 millions. Throughout 5 years these
companies are able to maintain at the same level Other companies in the sample
are able to maintain between Rs.15,000 millions to 40,000 millions.

An analysis of sources and uses of funds of leasing companies has
enabled to compare their financial and capital structure and also employment of
funds into fixed as well as current assets. It can be suggested with the above
analysis that most of the leasing companies are good at sources of funds but they
are not able to deploy the funds in a better way. In view of great divergence in
the employment of funds by the leasing companies and for other purposes also it
is suggested that the Companies Act, 1956 may be amended to create a separate
cadre of "lease auditors".

Financial Analysis

The following methods helpful in analysis and comparison of financial
statements i) Intra-Firm Analysis, ii) Inter-Firm Analysis, iii) Industry Average
or Standard Analysis and iv) Vertical Analysis.

A survey is conducted to know the financial structure, overall
profitability, financial position and its performance etc. of selected leasing
companies. In relation to this, the data is collected through questionnaires,
annual reports, company records, interviews and through internet websites. The
data collected is for five years period i.e. from 1998 to 2002 for 12 selected leasing companies.

I) Profitability Analysis: Profit is the most essential source for the survival and development of any company. Profit can be maximized either by increasing operating income or reducing expenses. Hence, the factors such as Operating Income, Profit Before Depreciation, Interest and Tax (PBDIT), Profit Before Tax (PBT), Depreciation, Profit After Tax (PAT), Provision for Tax, Dividend Payout etc. are analyzed.

a) Operating Income: Operating income is a most important for profit analysis as well as for performance of any company. Operating income comprises of lease income through rentals and other income. The total operating income of the sample companies is Rs.65,907 millions in 2002 year, where as in 1998 it is Rs.60745 millions. There is increase of Rs.5161 millions i.e. 8.5 percent of amount is increased over a period. The IFCI company is able to maintain a highest level through out the period followed by HDFC, Rs.28,741.47 millions is found to be the highest in the year 2001 with IFCI.

b) Depreciation: The accounting method of evaluation varies from one company to other. Some companies adopted straight-line method while others adopted written down value method. The collected data about depreciation on leased assets indicate that most of the companies' amount of depreciation was reduced from time to time. The value of depreciation of nine companies i.e. 75 percentage of respondents said that it is true. The reason for reduction in depreciation is due to reduction in the number of leased assets.

c) Profit before Depreciation, Interest and Tax (PBDIT): Profit Before Depreciation, Interest and Tax (PBDIT) data, It can be observed from
some companies PBDIT continuously increased over a period. PBDIT is found to be high as Rs.25943 millions in the 2002-year with HDFC. The lowest amount is in negative with MFL i.e. (271.11) millions. This indicates that these two companies are performing in better way to meet its depreciation, interest and tax easily.

d) Profit After Tax (PAT) : PAT is a vital factor to be considered by the shareholders for the calculation of dividends. The higher the amount leads to the higher dividend, it is a good sign for shareholders. ALL, BAFL and KMFL companies profit is increased, where as for KCFL, SFL and TFL companies level of profit is decreased. The PAT of HDFC and IFCI is increased continuously form year 1998 to 2002. It can be suggested that almost all the companies except two managed PAT level in a better position. Hence, it is suggested that companies have to reduce their expenses or to focus on optimum utilisation of resources.

e) Total Income (TI) : TI is addition of operating income and other income. Few companies total income is increased over a period, for others it is decreased and also for few companies it is in volatile state. For the first category where TI is increased from the year 1998 to 2002, the companies such as BAFL, HDFC and RCL are considered. BAFL TI is Rs.577 millions in 1998 year increased to Rs.1075.8 millions in 2002 year, Where as for HDFC Company, it is increased to Rs.27,001 millions from Rs.14,446 millions. RCL’s total income is Rs.5464 millions in 2002year. Where as it was Rs.3012 millions in the year 1998. MFL Company’s TI was i.e. Rs. 1265.73 millions in 1998 year but it has decreased to Rs.122.05 for the year 2002. Finally in the last category ALL’s TI is decreased from Rs.3306 millions (1998 year) to Rs.1965.9 millions (2001
year). Although SFL Company could meet Rs.5240.75 millions in the year 2002 but it came down to Rs.4643.62 millions in current year. In similar way for TFL Company the amount was high as 6124.57 in the year 2000, but decreased to 3316.7 millions for 2002 year. Out of all companies HDFC and IFCI companies T1 is found to be high i.e. it ranges between Rs.20,000 to 30,000 millions.

With available income (PAT) after meeting its current obligations depreciation and tax then the companies will declare a portion of it for dividend payment. Based on their capacity, performance and policy companies declares their dividend. In general dividend is declared from 20 percent to 50 percent of Net profit. If we see company wise ALL, Rs.148.42 millions paid to its preference as well as to equity shareholders for the 2002 year In the same way KMFL, SFL, IFCI and RCL are contributed Rs.242 millions, Rs.144 millions, Rs.480 millions and Rs.374 millions consecutively worth amount toward dividend in the year 2002.

**Ratio Analysis of Leasing Companies**

Ratio analysis is a very popular tool of financial analysis. It refers to analysis of financial statements by computation of ratios. For analysing performance of leasing companies, ratio analysis is a best suitable technique as used. The Liquidity ratios, Profitability ratios, Valuation ratios, Leverage ratios and Turnover ratios are used to identify liquidity, profitability, valuation, turnover and leverage of the select leasing companies. The categorization of ratios is as follows
A) Liquidity Ratios:

Liquidity ratios refer to the ability of a firm to meet its obligations in the short run, usually for one year. The important liquidity ratios are current ratio, acid test ratio, and cash ratio.

**Current Ratio**: It is calculated to test the short-term solvency of a business and its ability to meet its short-term commitments. A ratio of 2 to 1 is considered satisfactory for industrial companies. For the leasing companies, the acceptable ratio is 10:1. The most of the select companies are able to maintain above the ideal current ratio. The ratio identified in the survey for the sample companies varies from 2 to 16. ALL and BAFL have consistently maintained current ratio of 3 to 3.5 times. The ratio is found to be highest in HDFC and IFCI, i.e., 12 to 15 times. It can be concluded that the liquidity position of the sample companies is at satisfactory level.

B) Profitability Ratios:

Profitability ratios are calculated to analyze the earning capacity of the business, which is outcome of utilization of resources employed in the business.

**Gross Profit Ratio**: Gross profit ratio is computed to have an idea about gross margin or mark-up. The gross profit margin ratio varies from 47 to 80 percent, but majority of the companies are able to maintain the ratio between 60 percent to 75 percent.

**Operating Ratio**: In general acceptable operating ratio should vary between 75 to 85 percentages. Almost all the companies in a given sample are able to maintain equal to the acceptable ratio. The ratio found to be between 72 percent to 88 percent. Hence, the company's operational efficiency is good and cost of operations is low which indicates that the companies are healthy.
Net Profit Ratio: The net profit margin is highest as 40.59 percent followed by 31.46 percent belongs to BCFL and BAFL. Most of the companies' Net Profit margin is between 8 to 23 percent. Some companies such as MFL, IFCI, TFL, KCFL and MIL are in losses.

Return on Equity (ROE): Most of the companies ROE is increased over a period of time. ROE ratio ranges from 150 to 500 percent. ALL, BAFL, SFL and HDFC are comes under this category. The ratio is found to be decreasing in some cases as with KCFL, KMFL, IFCI, BCL and RCL.

Return on Capital Employed (ROCE): ROCE ratio varies from 2 to 25 percent. On an average most of the companies' ratio is above 10 percent. This ratio gradually reduced for all the companies from year 1998 to 2002.

C) Valuation Ratios: Valuation of ratios are the most comprehensive measures of a firm's performance. The important valuation ratios are price earning ratio, yield and market value to book value ratio.

Earning Per Share (EPS) As in comparison to these companies EPS of SFL company's average ratio is of Rs.60. ALL, BAFL and KMFL, these companies EPS ratio is above Rs.12 and below Rs.35. Where as HDFC's EPS found to be highest out of all the companies i.e. Rs.320 in 1999 year followed by Rs.286 in 1998 year but it is decreased gradually to Rs.50.27 in 2002 year.

Dividend Per Share (DPS): Out of 12 companies two companies did not declare dividend through out the period i.e. from 1998 to 2002, the companies are KCFL and MFL. All most all the leasing companies are not in a position to declare dividend. If their performance and efficiency is better, then only reserves and surplus, profitability increases hence the companies could declare DPS in a favourable way. As per the industry standards DPS ratio should be
more than Rs.6.40, where as in this study the ratio found to be par with the standards are with only ALL and SFL Companies.

**D) Leverage Ratios:** Structural ratios are debt equity ratio and debt asset ratio.

**Debt-Equity Ratio:** The ratio is useful to understand the stability of the company. Total debt is equal to long term loans and equity is used as components for the calculation. The ratio of ALL is continuously increased from year 1999 to 2002 year as from 4.56 to 8.81 times. For BAFL Company the ratio is below and near to 2 times. KMFL’s ratio is decreased from 2.3 to 1.62 it is a good indicator. SFL company ratio is varies from 3 to 4 times. TFL’s ratio is little high than SFL as it is between 7 and 8.

**Turn Over Ratios:** Various ratios under this category are as inventory turn over, receivables turn over, creditors turn over, and net assets turn over.

**Fixed Assets Turn Over:** KCFL, SFL, TFL, BCFL, RCL, MFL and MIL FA turn over ratios are less than one time, for other companies except HDFC, the ratio varies between one and three.

**Lease Vs Buy Decisions**

The important decision for most of the firms is whether to acquire the property, plant and equipment through outright purchase or leasing arrangement. A decision is classified either as a financing decision or an investment decision. In the case of financing decision, the object is to select the best source of financing involving minimum cost. In case of an investment decision, the object is to select the best available outlet.

In the context of leasing, T. M. Clark observes that if a firm is deciding between leasing and borrowing, it is purely a financing decision. If a firm is deciding between leasing and buying.

On the choice of an appropriate rate of discount for discounting the cash flows
in a lease versus buy evaluation. Middleton, Gringer, and Burrows all favour the use of the after-tax cost of debt. The after-tax cost of debt appears as an appropriate discount rate considering that leasing is analogous to borrowing.

**Steps Involved in Evaluation:**

In a buy-lease evaluation, the first step is to determine the cash flows and their timings pattern. In this regard, calculations of corporate tax rate should be taken into account and after-tax lease rentals should be calculated. The next step is to discount the cash flows and cash inflows in order to determine their present values. Three steps for evaluation are as

Define the present value of the after-tax cash flows associated with the buying alternative. Define the present value of the after-tax cash flow associated with the leasing alternative. Either alternative providing lower cost present value of the asset's cost should be selected.

**Key Factors to be Considered in Decision Making:** An analysis of a leasing opportunity should at a minimum encompass the following factors

i) Asset total cost of ownership, ii) Asset usage restrictions and iii) Lease management requirements.

**Financial Appraisal Techniques**

The concept of present value is extensively used in lease evaluation process. There are two important techniques that incorporate the time value of money. Viz. Internal Rate of Return (IRR) and Net Present Value (NPV) these two techniques are also known as ‘Discounted Cash Flow’ (DCF) techniques.

**Net Present Value (NPV):** Step (i) Calculate the NPV of the purchase option
Step (ii) Calculate the NPV of the leasing option
Step (iii) Decide whether the asset should be purchased or leased or the investment proposal rejected. If this NPV is a positive figure, the project is profitable and hence should be accepted. In case one has to select one project out of many, it should be the one which provides the highest positive figure of NPV.

- If NPV (P) is positive and also greater than NPV (L): Purchase the asset
- If NPV (L) is positive and also greater than NPV (P): Lease the asset.
- If NPV (P) as well as NPV (L) is negative, reject the proposal.

**Internal Rate of Return (IRR):** The IRR is another discounted cash flow technique, in which the rate at which the cash flows associated with an investment re discounted, is calculated. IRR is the discount rate at which the cash flow of a project sum to zero.

After calculating IRR is to be compared with the cost of capital which is the cut-off rate of return. If the IRR is greater than the cut off rate the investment project should be accepted and in case IRR is less than the cut off rate the project proposal will be rejected.

To know the most widely used techniques for lease-purchase decision in Indian companies, a survey conducted through questionnaire, based on the responses from the 12 major leading finance companies as, the study reveals that 50 percent of the respondents said that the first priority is given for IRR then secondly to NPV by remaining 50 percent of respondents.
Lease Evaluation from the Lessee’s Angle:

While there are more than half a dozen models are available for evaluating a lease. Weigngartner’s model, Equivalent loan model, Bower-Herringer-Williamson (BHW) model and Bower model.

1) Weigngartner’s Model: The steps involved in the application of this model is as follows Step 1: Compute the net present value of the ‘lease’ alternative – NPV (L), Step 2: Compute the net present value of the ‘buy’ alternative – NPV (B) Step 3: Compare the net present values defined in step1 and step 2.

Lease, if NPV (L) > NPV(B) > 0

Buy, if NPV (B) > NPV(L) > 0

2) Equivalent Loan Model: The Net Advantage of Leasing (NAL) is called the Net Value of Lease (NVL) under the equivalent loan model NVL is calculated by using the below stated formula

3) Bower-Herringer-Williamson (BHW) Model: Under this model, the lease related cash flow stream is divided into two parts – the one part relating to financing and the other part relating to tax shields and residual value. The cash flow stream related to financing is called the Financial Advantage of Leasing

FA (L) = PV of loan payments – PV of lease payments

The cash flow stream related to tax shields and residual value is called the Operating Advantage of leasing OA (L) = PV of lease related tax shields – PV of loan-related tax shields – PV of residual value.

It is important to note that either FA (L) or OA (L) or both can be negative. A negative FA (L) signifies financial disadvantage of leasing and a negative OA (L) denotes operating disadvantage of leasing. If FA (L) + OA (L) is negative, then leasing has an overall disadvantage. If FA (L) + OA (L) is
positive, then go for lease. If FA (L) + OA (L) is negative go for Buy or Purchase.

4) **Bower's Model**: The lease evaluation model developed by Richard Bower. He developed a model which recognizes the point of disagreement and still permits the decision-maker to take advantage of the broad agreement on other matters. The steps involved in the application of the model are

- Calculate the Cost Of Purchase (COP) then calculate Cost Of Leasing (COL).
- If COL < COP, the decision will be to lease and COL > COP, the decision will be to purchase. The advantage of this model over the other models is that it permits the decision maker to choose the appropriate discount rate for valuing the tax shelters.

5) **Johnson-Lewellen Approach**: Johnson-Lewellen viewed the question of purchase or lease as two distinct, independent, and mutually exclusive projects.

If NPV is positive, purchasing is better while GNPV is negative leasing is preferred.

Although there are various models available in evaluating lease or buy as explained above, the mostly and widely accepted model is as evaluate leasing and buying as two mutually exclusive investment alternatives the recommended model is NPV and appropriate discount rate is marginal cost of capital of all cash flows.

**Lease Evaluation from Lessor’s Perspective:**

Lease evaluation focuses on the pricing of a lease using the risk-return framework. The first part dwells on the computation of the break even rental which sets the floor-price of a lease. For calculating lease rentals there are few important methods are a) Break-Even rental for the Lessor, b) Negotiating Lease
Rentals, c) Gross Yield and Add-on Yield, d) Internal Rate of Return (IRR)

Flexibility in Structuring the Lease Rentals: The lease rentals can be structured to accommodate the cash flow situation of the lessee, making the payment of rentals convenient to him. The methods are as follows:

- Equated lease rentals
- Stepped rentals
- Ballooned lease
- Deferred rentals
- Zig Zag rentals
- Bell shaped lease rentals

Forms of Leasing: There are various forms of leasing in India, the following are some of the important types of lease finances as:

A) Financial Lease Vs Operating Lease

B) Sales & Lease back Vs Direct Lease

C) Single Investor Lease Vs Leveraged Lease

D) Domestic Lease Vs International Lease

E) Other Types.

As explained above that there are several kinds of lease financing. The study reveals that the selected companies are offering financial lease, operating lease, leverage lease and sale and lease back. Each one has its own implication to the company. All the companies have extended financial lease and operating lease at different levels. Financial leasing is provided by five companies extended to high level. A majority of the companies extended operating lease to the average level. It can be concluded from the above that almost all the companies are granting finance lease and operating lease and very few companies (Two) are offering leveraged lease and only one company i.e. MFL is offering sale and lease back.
Documentation for Credit Evaluation

The study conducted through questionnaires, the responses for the questionnaire collected from major leading companies in India. The findings of the study are to know about the pre requisites for a lease deal. The study reveals that the 50 percent of the respondents wants documents like legal, project details, asset details and company details. Where as remaining 50 percent of the respondents is looking forward for annual reports for past two to three years period. Very few as one or two selected companies are also asking for security and IT statements. Other than these most of the companies will be checking for at least two guarantors for finalising an agreement.

Essential Aspects of the Leasing: Some of the essential factors identified in leasing are collected through survey have given below

Time Taken for a Lease Deal: An enquiry is made in this regard. 50 percent of the companies said that they take one week time for finalising one lease proposal. 30 percent of the respondents said that at least two to three days required for completing a deal. Two companies of the given sample require 10 to 20 days to finalise a single deal.

Leasing and its Promotional Strategies: Just like any company leasing companies, do follow business promotional techniques. As per the leasing companies promotional methods are through references from parent company, financial companies and also financial institutions, lease brokers and also the agreement with manufacturers, dealers. With the help of media, public relations, press interactions, exhibitions and hand outs are also used.

Extent of Finance Provided for Different Items: There are different types of items for which companies provide lease financing. The lease financing mostly
provided for the items like plant and machinery, vehicles, earth moving machines, office equipment, computers, furniture, land and buildings, medical equipment and other household items.

It can be concluded that in present scenario first priority is given to Industrial Equipment due to cost and usage, then vehicles and due to automation and computerization, computers and office equipment takes next place.

**Value of the Assets Given for Leasing:**

The study reveals that the amount for lease financing varies from below 1 lakh to above 50 lakhs. Generally companies do provide amount firstly to known and then to unknown companies

**Lease Tenure for Primary and Secondary Periods:**

Primary period, which varies from 1 to 5 years. 50 percent of the companies are providing 1-3 years and 3-5 years as equally (5 each) for the primary period, and then Secondary period followed by primary period varies from 1 to 5 years. Six of the respondents are providing 3-5 years as under secondary after primary period. Major Clauses of the Lease Agreement and The Structure of a Lease Agreement are also covered in this chapter

**Laws and Regulations of Lease Financing**

With the rapid increase in leasing business the need for some laws governing the functioning of the finance companies/firms was strongly felt. Though there is no special law governing leasing transactions, the relevant provisions of the general law apply to all such transactions. The few important laws governing the leasing transactions are discussed in this chapter. The relevant laws for leasing are as follows,
Indian Contract Act 1872

In Indian Contract Act 1872, refers to the types of contract as valid, voidable, breach of contract and also bailment. Then gives details about how contract arise, discharge of contract and remedies for breach of contract etc., specially for leasing the Indian Contract Act is provided some provisions related to bailment. Liabilities of lessee and lessor are covered in this Act. In the same way the remedies to the lessor and lessee are also explained.

The Transfer of Property Act, 1882: Real estate leasing is regulated under the provisions of the Transfer of Property Act. Various sections under the Act are given in the chapter. Important provisions for leasing are also explained in this.

Tax Aspects of Leasing

As under the tax aspects the important two Acts are Income tax Act and sales tax Act.

Income Tax Act, 1961

Under the provisions of the Income Tax Act, 1961, computation of ‘taxable income’ of an assessee involves computing the income under various heads of income. Depreciation Allowance on Leased Assets, rates and various methods of depreciation is covered. Then various issues involved with income tax are covered.
Sales Tax and Leasing

The Sales Tax Act, 1957 is concerned with the levy and collection of sales tax on inter state sale of goods. Central Sales Tax Act (CST), 1957 enacted by the parliament. Sales tax laws are enacted by the state legislatures.

Most of the states levy tax between 4 to 5 percent in India. Central government can impose tax on sale or purchase of goods

i) In the course of inter-state trade or commerce,

ii) Outside the territory of a state,

iii) In the course of import into, or export out of, India,

Several objections have been raised by leasing companies, challenging the levy of sales tax on lease rental.

Legal Issues in Leasing: Some of the important legal issues raised by the leasing companies are Supplier-Lessor-Lessee Relationship, Insurance, Usage and Maintenance, Sub-Lease, Set-Off Provisions, Defaults and remedies, Cancellability, Warranties, Technology Transfer and Supply or Purchase Contract. Policy of the Government, Investment Allowance and Policy of Reserve Bank of India are explained under the regulatory measures.

Problems and Prospects for Lease Financing

1) Problems for Leasing Business:

One cannot say that the growth rate of leasing will 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 leasing companies presently facing many problems. Some most crucial problems faced by the selected leasing companies. As they 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.

In order to understand the problems of leasing business, a survey is conducted through questionnaire and collected relevant data from 12 leasing companies. Various types of problems in general, are experienced by the leasing companies are such as 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. Problems for the new leasing companies are also discussed.

**Risk Perception of the Leasing Companies:**

Risk is common for every business. Lease financing is not exception for risk. Risk to the leasing business can be assumed from different dimensions such as default, interest rate, obsolescence, salvage, product and industry. 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; 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. Based on ranking and points for ranks reveals that default and obsolescence risks are perceived to be highest in leasing business.

Leasing has a bright future, provided the government and RBI extend assistance to encourage the promotion of this business. The non-availability of loans, delay in the process of getting the medium term and long term loans from banks and leading financial institutions, both from the organized and unorganized sector, have created necessity for nurturing of leasing companies. In developing economy like in India the leasing potential is enormous and vast. Certain suggestions and recommendations could be made from the analysis are given below.

**Recommendations:** Leasing by itself is a financial instrument, which develops the growth of Indian economy but a certain amount of caution is required by leasing institutions both as well as quantitatively and qualitatively.

The Govt of India and state governments has to liberalise the lease related laws and practices. Considering Indian potential pay back, it is necessary that highly ambitious entrepreneurs, speculators without a sound background, technical know how should be discouraged. Whereas medium entrepreneurs with technical know-how their position, track records should be encouraged. This is a great extent will enhance the overall growth of leasing. This in ultimately analysis will bring result in overall profit for leasing companies and also the increase as the in productivity development in India.

Leasing consumer durables should be given less importance as the prime importance in India is productivity and industrialization, with this growth for consumer development is concomitted industrial development, but at this stage individuals were encouraged to buy consumer durables such as fast moving cars etc. many a time it has been observed a segment of consumers not having the
necessary paying capacity will hike their demands and go in for leasing, which ultimately leads to leasing agency, institution and individuals.

In order to promote and develop leasing business in India, the government may liberalise the depreciation allowance and investment allowance. RBI has to relax the existing rules and regulations for import of capital goods. This will help the many cross border companies in India to come to the surface.

Conclusion: In the interest of the country in general and industrialisation of India in particular, leasing as a method of financing has to be developed with the utmost care and diligence. It is true that leasing companies have a vast growth potential under Indian conditions.