CHAPTER VII

SUMMARY OF THE FINDINGS AND CONCLUSIONS

7.1 SUMMARY OF THE FINDINGS

The modern business environment is becoming increasingly competitive and complex. To meet the exigencies arising out of this phenomenon, the business firms must constantly strive for modernisation, expansion and diversification of their activities for which additional amount of capital is required. In a capital-scarce state like West Bengal, obtaining the required finance is not an easy task. Therefore, business firms have been looking for a convenient alternative source of finance. Thus, during the past two decades or so, a new source of finance has emerged in West Bengal in the form of lease financing.

In spite of a large number of players in the market, there is scope for new entrants. Prospects are good for large group companies who can start off by lease financing to its subsidiaries and then engage in direct competition with other firms in the market. The small players in the market do not face any grave threat from the banks and financial institutions which have enormous funds at their disposal since the latter will go in only for
big-ticket leasing leaving a substantial share of the market to the small companies. The entry of banks due to relaxation in the RBI rules has not diminished the confidence of the lease financing companies and they are confident that they will ward off the threat by their efficiency, client loyalty and flexibility in approach. Moreover their vast experience in this business will give them a definite edge over the banks.

In West Bengal mainly financial leasing is done though some companies like Nicco Uco Alliance Credit Ltd., engaged in operating lease. Import leasing is one area which holds out a lot of promise. Now that the leasing firms have been allowed access to the international market, raising of foreign capital will not be a problem. This would mean substantial reduction of costs for the lessee due to low cost of funds and excise duty exemptions. The import duties on capital goods have been reduced drastically which will give a further boost to these firms. Financial institutions have a lot to gain from this if they choose to pursue this field since they already have several foreign lines of credit. They also have huge low cost funds at their disposal which could be profitably used for lease financing. Some major issues from the findings are briefly mentioned below:
7.1.1 ASSETS LEASED

Most Companies relax their rates for well-known trustworthy clients. Assets leased are generally industrial equipment and depend on the requirements of the lessee. Some companies however rule out the leasing of certain classes of assets e.g., computer, with the apprehension of obsolescence and little resale market value. Lease financing business normally comes from contracts, a marketing network and occasionally through brokers. It is noted that lease brokers are also active in the industry.

7.1.2 RECENT TREND

The recent trend has been to go in for long term leases because with the reduction in depreciation rates short term leases are uneconomical. The study revealed that around two-thirds of the leases having the primary period between five and eight years and one-third of agreements with less than five years.

7.1.3 PERFORMANCE

The analysis of profitability highlighted that in most of the cases small companies earned higher profitability as compared to medium and big companies over the period of the study. It has also been found that
medium – leverage group companies obtained higher returns as compared to high-leverage group companies. It is also clear from the study that high lease income group companies earned higher profitability in terms of net profit. Some sample-companies’ growth rates in leased assets were high but they did not earn satisfactory profit because of the percentages increase in depreciation and in operating expenses leading to decline in profitability.

The analysis revealed that the general upswing in the leasing business resulted in commendable growth rates in almost all important indicators, i.e., lease income, leased assets, operating income etc. Lease incomes of all leasing companies in West Bengal (except Yule Financing) are on the rise which indicates good performance over the period of the study.

7.1.4 ACCOUNTING AND DISCLOSURE PRACTICES

In respect of leased assets, the selected leasing companies have been following the accounting policy as per ICAI guidelines. Statutory depreciation, as per the Companies Act, 1956 is being provided. The difference between the depreciation and the capital recovery factor of lease rentals is being adjusted to the Lease Adjustment Account by a corresponding credit / debit to the Profit and Loss Account. Lease rental
income has been accounted for by using the internal rate of return (IRR) implicit in contracts to provide a constant rate of return on the net investments outstanding on those contracts. Lease rentals, lease equalisation and depreciation have been disclosed as specified in the Guidance Note on Accounting for Leases issued by the ICAI.

7.2 SUGGESTIONS

On the basis of the above analysis, attempt has been made to offer some specific suggestions as stated below:

(a) One of the major problems which the leasing industry is facing is that of inadequate funds. In this regard, it is suggested that the RBI should reconsider the rate of interest on public deposits. The hike in interest rate on public deposits will help leasing companies to raise more public deposits.

(b) It is suggested that the sales tax on lease rentals could be scrapped for a healthy growth of leasing business. The Central Government should endeavor to eliminate or at least reduce the burden of sales tax on leasing companies.

(c) Around thirty years of active business, many lease financing companies have either diversified their leasing business into other forms of
activities or decided to quit the market. The phenomenon may reasonably be attributed to erosion of capital and inefficient management. To deal with this problem, the Government of India must come up with a ‘National Policy’ on lease financing, so as to give a definite direction to the industry. Such an announcement will dispel uncertainty and doubts and lead to a healthy growth of lease financing.

(d) In replacement of the Guidance Note on “accounting for leases” issued by the ICAI in 1995, AS 19 has been issued and made mandatory effective in respect of all assets leased during the accounting period commencing on or after 1.4.01. It is suggested that all leasing companies should comply with the requirements of this new standard for the sake of uniformity and consistency in accounting practices. Certain key ratios should be published to make financial statements beneficial to the users.

7.3 LIMITATIONS OF THE STUDY

(i) Due to non-availability of annual reports of leasing companies, it has not been possible to survey the published annual reports of more than fourteen leasing companies. Analysis and conclusions have been drawn on the basis of available data.
(ii) While some companies were good enough to supply their annual reports, many have chosen either not to supply them, or reply.

(iii) Leasing companies in West Bengal do not confine themselves to leasing activities. All of them are carrying out other business along with leasing activities. Hence, the reported profit / loss may not exclusively be due to lease financing.

(iv) There are no separate rules and regulations as to leasing. The existing rules and regulations applicable to hire – purchase and installment – payment system have been extended to leasing.

(v) Literature on lease financing is limited in India and one has to depend mainly upon foreign text books and articles supplemented by literature published by ICAI, ICWAI, ICFAI and ICSI.

7.4 SCOPE FOR FURTHER RESEARCH

(i) Research may be undertaken to see the application or develop models for evaluating lease in the Indian context.

(ii) Attempts could be made to measure the impact of lease financing on the overall credit and financial system.
(iii) As the AS 19 (on Lease), has been introduced w.e.f. 1.4.2001, research may be undertaken to see how far the leasing companies are complying with the requirements of this new Accounting Standard.

(iv) The detailed implications of the big-size lease transactions may be analysed.

(v) Studies may be conducted to assess the perceptions of users of annual reports vis-à-vis the necessity of accounting and reporting of lease financing.

7.5 CONCLUSION

Attempts made in our new economic policy to liberalise and globalise the Indian Economy have brought about a dramatic change in corporate capital structure on the one hand and the overall Indian capital market on the other. As a result, a large number of leasing companies have been floated recently, even though some of them disappeared because of shortage of capital and inefficient management. Despite high cost, lease financing has proved its worth as a popular financing method for acquiring almost all categories of fixed assets for companies. The growth can be attributed to advantages of speed, informality and flexibility to suit
individual needs. The Narsimham Committee has also recognised the importance and significant role of lease financing companies in the financial intermediation process and has recommended that a minimum capital requirement should be stipulated, prudential norms and guidelines in respect of conduct of business should be laid down and supervision should be based on periodic returns by a unified supervisory authority. So it is expected that systematic and transparent management is needed to make 'lease financing' a more popular component of the overall capital structure of the firm which will ultimately be helpful in fulfilling the broad objectives of the economic policies of the country.

In the interest of the country in general and industrialisation of West Bengal in particular, lease financing as a method of financing has to be developed most assiduously. It is true that lease financing companies in West Bengal have a vast growth potential and the performance of the existing companies may be considered an indicator of the prospects of the industry in the State of West Bengal.