CHAPTER IV
FINDINGS FROM THE LESSORS:

Introduction to lessor findings:

Leasing industry is facing very tough time now. Many of the leasing companies have either closed down or diversified to other financial services mainly hire purchasing. Even though the term 'leasing' is included in their name, many leasing companies now concentrate on recovery of the pending lease rentals rather than finding new opportunities in leasing.

Many leasing companies are having positive attitude towards RBI guidelines. Evaluation of credit worthiness of the lessee is a challenging task for the lessor. Many lessors still depend up on the quantitative data rather than qualitative data and did not have a standard format for lease evaluation.

Lessors are not clear what qualities of employees will make the customer satisfied. The employees are the prime movers in satisfying the customers. Even though many of lessors give lot of importance to the employees only few of them collect feedback from them (both internal and external customers).

Perception towards quality service is more important than the customer satisfaction through quality service. Majority of lessors also agreed with the same.

Those companies who build relationship with employees would also build relationship with the customers. Among all the surveyed companies who practice the above are profit making companies.

Always there will be a gap between what service provider expectations about customer satisfaction and what customer expectations from the service provider. Leasing is no exception to it. The gap analysis discussed in this chapter later, gives detailed analysis about this.

Non-performing assets is not only limited to financial institutions, banks, etc. but also for the leasing companies. But the impact of one defaulter is much more felt for the leasing company when compared to other similar players.
As expected many of the lessors accepted that CRM could be implemented in financial services. But they are not sure about CRM implementation in leasing.

Profile of the respondents:

- Among the respondents 62% are profit making and the remaining are loss-making companies.
- RBI registration is applicable to 80% of the respondents. 45% of them are registered with RBI.
- Among the respondents 44% of the lessors operate in financial lease and 34% of the lessors operate both in financial lease and operating lease. And 12% of the lessors operate exclusively in operating lease.
- Among the respondents, 40% of the leasing companies are specialized in Industrial equipment leasing, 28% of the leasing companies are specialised in vehicles. And 16% of the leasing companies deal in both industrial equipment and vehicles.
- Many of the financial companies do not have any leasing business for the last three to four years. Only 24% of the companies are able to find some customers. Those companies, which are not able to get new business, are concentrating on recovery of the previous lease rentals. And some of the companies changed their business into hire purchasing etc. Ashok Leyland Finance is one such company which is completely concentrating on hire purchasing. First Leasing Company had only a few customers but was doing business in crores of rupees. Sundaram Finance also concentrating on hire purchasing and other areas.

- As there is no leasing business for many companies, the number of lease agreements cancelled is also very low. And if at all cancelled they are due to attitude of the customer, change in the economic position of the customer, etc.
- Majority of the lessors (84%) use Internal Rate of Return as the evaluation criteria for lease agreement as it gives maximum advantage to them. Only 8% of the lessors use NPV and, they use it for the evaluation.

- Majority (84%) of the lessors opined that the lowering rates in India are good for the economy and to the leasing industry. And 80% of them are going to pass the benefits to their customers. 16% of the lessors are ready to pass the benefits in partly.

- Awareness about VAT is there among 68% of the respondents only. The remaining does not have any idea about it. Among those who said that there would be an impact on their business, 24 (87%) of them opined that VAT will have a positive impact on their business and the rest opined that it would have a negative impact.

And what government planned about VAT did not become a reality till today, because of various reasons. The researcher is optimistic about VAT in respect of removal of sales tax.

Majority of the respondents (68%) opined that there is need for a separate legislation on leasing. And the main thrust areas should be on more powerful on legal aspects of recovery, clear guidelines on calculation of depreciation and uniform sale tax rates through out India.

- Majority of the respondents (40%) opined that RBI rules and regulations are not complicated. And 32% of the lessors felt that the RBI rules and regulations are complicated. And interestingly 28% of the lessors are of the opinion that they are insufficient, particularly in recovery of lease rentals in case where lessee fails to pay.
And the same is proved through hypothesis testing i.e. more than 60% of the respondents will be satisfied and have a positive opinion towards the guidelines issued by RBI and also agree that the existing rules and regulations set by RBI are not complicated.

Awareness about vendor leasing is not as expected among the leasing companies. Only 68% of them are aware of it and remaining do not.

The basis for the evaluation of credit worthiness of the lessee: The researcher's assumption on creditworthiness evaluation by the lessor about lessee is proved to be correct. i.e. Profitability: Debt equity ratio: Information from the banks : Private consultants : Credit rating agencies : conduct and character of the lessee: others are the in the proportion of 9:5:4:3:3:2:1. And from the data it is observed that lessor gave more proportion than the assumed and $\chi_{cal} < \chi_{table value}$.

And thus from the above study it can be concluded that the profitability is the highest priority component in the evaluation, followed by debt/equity ratio, information from banks and so on.

Only 60% of the lessors have a standard format for evaluation of credit worthiness of the lessees. And the rest adopt case-by-case method for the same purpose. A sample Standard format of KSFC is given in the annexure and the customers who score more than 75% points are eligible for lease.

Defaulting by lessees is a common phenomenon for majority of the lessors. And lessors are worried about insufficient rules and regulations for recovery of loans. A small number of defaulters affect a big amount on profits.
- Majority of the lessors are going for funding of full lease including the installation costs of the machine. 58% of lessors who fund the installation costs collect it in the lease rentals.

- Reference from the present lessee is the main source of getting customers (which is also highlighted in the CRM process). And also references from the equipment manufactures also play a major role in getting the business. Direct mail also plays a major role in attracting the customers. Lease brokers and advertising have a very limited role to play in leasing business.

- Speed of disbursals, attitude toward customers, quality of work, cost of leasing are the main factors to satisfy the customers in the given order of preference. The next preference will be on attending customer's complaints, job knowledge, dependability and communication skills, flexibility of work are the factors that count for customer satisfaction.

- Leadership potential of the employees, honesty & sincerity of the employees, quality of suggestions for improvement also play a role in the customer satisfaction.

  The Spearman's Rank Correlation between factors that affect customer satisfaction (what is required) and the qualities required by the employee (how it is provided) is 0.51. Which shows that there is a positive correlation between the factors that influence the customer satisfaction level and the qualities that employee should possess to satisfy the customer, which signifies the importance of the employees and their skills.

- According to the lessors the following are characteristics an employee should possess to satisfy the customers. They are given in the order of preference: attention towards customer complaints, regularity, quality
in work, honesty and sincerity, attitude towards customer, leadership skills, teamwork, job knowledge, and communication skills and judgmental skills.

- Only 14% of the lessors have retained customers to the extent of more than 80%. And 54% of lessors have the retained customers to the extent of 20% to 40%.

- 76% of the lessors opined that the employee satisfaction and customer satisfaction are positively correlated. 24% of them opined that there is no relationship between employee satisfaction and customer satisfaction.

- 64% of the lessors opined that all the customers are not one and the same. And the rest are in the opinion that they are same.

- Those who opined that segregation of customers is required, stressed that the basis for segregation is based on turnover of the business, the number of customers they bring to the business, regularity of payments and some of them felt that the basis should be on all of the above. The Financial Manager of First India Leasing Company had a different opinion. According to him, segregation should be based on regularity in payment of lease rentals.

- Even though 76% of the lessors say that they take lessee's problems into consideration while fixing the lease rentals only 68% of the lessors customize their lease agreements.

- 20% of the leasing companies collect information every month about the lease. 28% of the companies collect information every six months and 12% of the companies collect information about the lessee every three
8% of the respondents did not find it is necessary to collect information about the lessee after the lease is granted.

- 92% of the respondents gave importance to customer feedback and 8% of the respondents felt that feedback from the customer was not important.

- Even though 92% of the lessors opined that customer feedback are important only 72% of the respondents that they took the feedback from their customers and the remaining said that they did not.

- 62% of the companies collect feedback once in a year and 38% of the companies collect the feedback from the customers after the lease period. Many of them do not have a standard format for the same.

- 80% of the respondents are aware of call centers and 20% of the respondents are not aware of call centers.

- Among those who are aware of call centers, only 55% of them opined that call centers are helpful in satisfying the customers' needs, while 30% of them opined that call centers are not helpful in satisfying the customers' needs. And 15% of them were not clear about the role of call centers in satisfying the customers' needs.

- Among those who agreed that call centers will be helpful in satisfying the customers needs, 90% of them are in favour of call centers in financial services. And 10% of them, who agreed that call centers will be helpful in satisfying the customers needs did not accept the same.

- Among those who opined that call centers are helpful in financial services, only 35% of them opined that call centers will be helpful in
leasing also. And the rest opined that call centers are not helpful in leasing.

- Awareness about CRM is not encouraging. 64% of the lessors are aware of Customer Relationship Management. 36% of the lessors are not aware about CRM.

- CRM packages awareness:
  Most of the respondents are aware of Oracle (44), Baan (8), Sap (12). And few of them are aware of Siebel (8), Talisma (2) and others did not know about any one of them. Even though Siebal is the market leader in CRM packages, the awareness among leasing companies is very low about it. Seibel Mid-end product is a CRM package, which is useful for small and medium size companies.

- Customer satisfaction and perception about customer satisfaction: For 68% of the lessors, customer satisfaction through quality service is more appropriate than the customer perception towards service quality, and for 8% of the respondents both are appropriate.

- 24% of the lessors opined that their customers feel O.K. about their service. 56% of the lessors have opined that their customer felt satisfied about their service. Only 8% of the lessors are confident that their customers are delighted with their service. And 12% of them did not know about them.

- 36% of the lessors have an opinion that their employees feel O.K. about them. 48% of the lessors have an opinion that their employees feel satisfied about them. Only 8% of the lessors are confident that their employees are delighted about them.
• Majority of the lessors opined that their employees as their customers. 32% of them opined that their employees are not their customers. Only 8% of the lessors are considering their employees as more than their customers: they consider their employees as their family members. Among them First Leasing India Company Limited and Saaswatha Leasing Company, both of them profit-making companies.

• 64% of the lessors take the feedback from their employees. And 36% of the lessors don’t. And only 16% of them have a standard format and the remaining take feedback orally and with the help of other methods.

• 'Customer retention and employee retention are related'. This is the opinion of 60% of the lessors. 32% of the lessors did not agree with the above. And 8% of them did not have any idea about it.

The success of First Leasing Company of India limited according to its Financial manager, is due to it's conservative approach in doing business and selection of right customers and depending upon corporate leasing only. Even though the company is known for its volume of business only four employees are on the roll organization. Even if a single lease installment remains pending by any customer they meet the customer immediately and see to it that they get the payment.

According to the CEO, Arrtha Corporate and Financial Services the main problems in leasing business are lack of quality customers and changes in business cycle of the lessees. There is no sharing of information among the lessors i.e. a lessee who is in default with one lessor can get a lease with another because there is no sharing of information among the lessors (including FIs, Banks etc) and also no accountability with the managers who approves the lease. This is particularly true with public sector units. All managers are not...
competent enough to read between the lines of financial statements and in estimating the future prospects of the lessees' business. Sometimes problems are created by diversion of the funds/assets by the management.

According to the Manager, IDBI, lack of awareness and clarity of guidelines are the problems faced by the leasing industry today.

The Financial manager, Canara Bank Leasing division highlights that by doing the leasing business banks are coming under unnecessary scrutiny of CBDT/INCOME TAX for whom rules are not clearly defined by themselves. And one good thing is, leasing is no more off balance sheet finance. One important problem is if the lessor repossesses the asset for non-payment of lease rentals regularly, there is no secondary market or it is not possible to find a customer with the same business needs. Even though Canara Bank Leasing is not doing well it is ready to lease if it finds a right customer.

According to the Deputy General Manager, Ashok Leyland Finance Limited, the success of the company is because of its' employees. He felt proud to say that only six to seven employees resigned from the company for the past 10 years. And it is the biggest NBFC in India (with Rs. 2000 crores turnover) and next to it is Sundaram finance (1200 crores turnover). As many NBFCs are concentrating on hire purchasing, ALFL is also completely concentrating on hire purchasing. And in contrast to First Leasing Company, ALFL concentrates on individual customers.

One interesting factor which is observed in Heramba Lease & Finance Limited is that when a lessee in not in a position to pay lease rentals (for genuine reasons), instead of going to court and troubling the lessee, the company prefers to wait for some time, and when the lessee's business comes back on the track, they know that lease rentals will be paid regularly. This strategy worked for this company with one of the lessees.
Many lessors are of the opinion that the service tax 5% (at present 8%), and turnover tax of 3% and sales tax are unnecessarily increasing the cost of lease and making the leasing unviable.

- The employee turnover in the software industry, which is specialized in development of CRM packages, is more than 30%.
- Most of the companies concentrate on how to develop technical skills rather than human skills and relationships.
- Except few companies like WIPRO, INFOSYS, SAP .... Many of them have less number of retained customers.
- Employees of the CRM package developers are not aware of the fact that for successful implementation of CRM it is required more 'humaware' than software.
FINDINGS FROM THE LESSEES:

Many lessees are more affected by the business fluctuations when compared to the lessors. They take an asset for lease with good intention but during the lease period, they come across stiff competition or change in the technology, which will affect their business. By which they are not in position to pay lease rentals regularly. For example, many SMEs have to supply the goods on credit due to stiff competition, and if one buyer becomes defaulter, the entire business of the supplier is under risk. This is a common phenomenon in the business and leasing is no exception for it.

The medium through which service provider delivers the service is employees. In other words customer knows better what he expects from the company and from the employees. The Spearman co-efficient of correlation between the factors effecting customer satisfaction and the qualities that should be possessed by the employee according to the lessees is 0.97. (When compared to the lessors the same figure is 0.51).

Many lessees expect that they should be satisfied as they are the customers and expect the lessor shall collect the feedback. But when it comes to them, they will not collect the feed back from their customers.

Lessees are favourable for implementation of CRM in financial services and not sure about in leasing. Many lessees are not ready to share the information with the lessors about them.
• Lessees took the lease basically machines and vehicles.

• 52% of the lessees are operating financial lease and the rest operating lease.

• Financial lease and Operating lease are the commonly known leases for all the respondents. 76% of the respondents are aware of Sale and Lease back in addition to Finance Lease and Operating Leases. There is no much familiarity of cross border lease and leveraged leases and others.

• According to 40% of the lessees, internal rate of return is the right criteria for lease evaluation.

• Only 8% of the lessees are delighted with the service of the lessors. And 60% of the lessees are satisfied. And 24% of them opined that their service is o.k. and 8% of them felt as poor.

• Only 23 respondents out of 50 are ready to go to the same lessor for their next lease. And 20 respondents are not ready to go to the same lessor for their future requirements. And 14% of them will take a decision depending upon the situation like depending on the number of available alternatives.

• Only 62% of the lessees are optimistic about the effect budget/government proposals on their business. 24% of the lessees are in pessimistic about the same. And 14% them do not have any idea about them.

• Surprisingly only 18% of the lessees preferred leasing as their first option. And 58% of them felt that it is only a second option.

• In their opinion 66% of the lessees are regular in payment of lease rentals where as others are not paying lease rentals regularly.
• Only 60% of the lessees had customized lease rentals.

• Though lease rentals are customized, only 36% of the lessors listen to the problems of the lessees when they are not in a position to pay lease rentals regularly due to genuine problems.

• 68% of the lessees opined that the penal charges levied by the lessors are not reasonable.

• 78% of the lessees opined that segregation of customers is necessary and rest opined that it is not necessary. Among those who opined segregation is necessary, 48% of the respondents opined that the segregation of customers shall be based on the turnover they bring to the business. And 24% opined that the basis shall be on the numbers of years they are doing business, and 20% opined that the basis shall be based on the new customers introduced.

• Lessees are not in favour of disclosing the information more frequently. Majority i.e. 54% of them preferred that lessor should collect information once in a year about them. And 26% of them felt that there is no necessity to collect the information about them as long as they are paying rentals regularly.

• Majority of the lessees i.e. 72% opined that feedback from the customers is important to the lessors. And the rest felt that it is not important.

• Only 16% of the lessors take the feedback from the lessees. And they do not have a standard format for it. All of them collect the feedback only after completion of the lease. Remaining 84% do not collect any feedback from their lessees.
• At the same time only 19 lessees out of 50, collect feedback from their customers. Of them majority do not have a standard format for the collection of feedback. The remaining 31 respondents never collect the feedback from their customers.

• Only 80% of the respondents are aware of CRM and the remaining do not have any idea about CRM.

• Among those 40 who are aware of CRM, 30 of them opined that CRM could be implemented in financial services. And the rest did not have any idea about it. The same is proved through hypothesis testing.

• Only 50% of the lessees among who opined that CRM could be implemented in financial services had opined that CRM could be implemented in leasing.

• 54% of the respondents are aware about the call centers remaining are not aware of the call centers.

• 85% of the respondent who are aware of call centers opined that call centers are useful in financial services. And the remaining opined that call centers are not helpful in financial services.

• Only 8 out of 23 respondent opined that call centers are helpful in leasing. Remaining 15 respondents did not felt that it is of any help.

• 74% of the respondents opined that the lowering rate of interest in India is good for the economy and to the business of leasing. And the rest did not have any idea about the effect of it.
• Only 58% of them are sure that their lessors will pass on the benefits to them. Others do not have any confidence that their lessors will pass on the benefits to them. And 6% of them were not clear about it.

• About 54% of the respondents opined that the introduction of VAT would have impact on their business. Among those who opined that VAT would impact the business, 55% of them are optimistic about the impact on their business.

• Majority i.e. 58% of the respondents opined that there is a need for a separate legislation on leasing. And 42% of the respondents opined that there is no necessity for a separate Act on leasing.

• Only 20% of the respondents opined that the existing rules and regulations of the RBI are complicated. And 46% of the respondents opined that the existing rules and regulations of RBI are not complicated. And the rest were not clear about it.

• The major problems faced by the lessees according to their ranking are
  
  o Too many securities /sureties required by the lessors
  o Higher charges
  o Too much of interference by lessors
  o Lower speed of disbursal of the loans
  o High penal interests
  o Lengthy procedures
  o No transfer of ownership rights & right for depreciation.
Oracles, Sap, are the more popularly known packages among the lessees. Even though Seibel is the market leader.

- 62% of the lessees opined that customer satisfaction through quality service is appropriate to them compared to customer perception towards quality service

- Only 36% of the lessees opined that their employees as the customers. And 64% of them opined that they would not think their employees as their customers.