



Recent development in the leasing industry:

The significance of lease transactions stands on the understanding that capital is precious – a business would rather save precious capital for more important needs if it can avoid investing into assets. The motivations for which lessees are prepared to take assets on lease differ – in some cases, it is off-balance sheet funding and consequent advantages, in some cases, ease of employees acquiring cars, in some cases tax benefits, and so on.

It is clear that off-balance sheet remains a strong differentiator between leasing and borrowing in India.

In India, leasing has been in existence since the 1970s and has had its own peak and trough. Despite the long existence, leasing has not been very impactful over the decades and had a low penetration rate. It is only in the last couple of years that leasing has regained popularity and despite the stressed times for the economy, leasing has been growing at a steady pace.

The new business leasing volumes for the year 2012-13 (ex-IRFC) are around Rs. 5300¹ crores which is slightly higher than volumes of 2011-12 being around INR 4900 crores. IRFC new business volumes for 2012-13 are around Rs. 15000 crores. With the growing demand for leasing as a product and its growing acceptance in the recent times, several new players have entered the market to test the waters; typically non-banking non-financial companies.

In terms of asset classes as well, apart from construction equipment and IT equipment, several new asset classes were in vogue in 2012-13; these included medical equipment, solar equipment and some bit plant and machinery. Car leasing continues to be burning hot asset classes amongst players and there are several new players exploring this asset segment. The significance of the growing car leasing industry is clear from the fact several banks are also trying to offer car leasing to corporates.

Once tossed out of the lease circuit, sale and lease back transactions are explored again. Pay-per-use transactions similarly are being experimented with different asset classes. All in all, leasing industry is expected to witness steady growth in the recent times to come.

Having said this, it would not be appropriate to not bring out the challenges for the leasing industry. Like any growing sector, leasing is not free from its share of complexities and troubles. Leasing and taxes seem to be concomitant with each other. State wise variations in the tax provisions on leases and cumbersome process of registration requirements for each state in which the leasing entity is to operate are few among the several operational hassles that act as a deterrent. The complexity of the tax issues is a serious deterrent for leasing to grow and have huge cost implications too. To top all of this, the constant flip flop of the judiciary on the issues of depreciation allowances has left too much to interpretation and ambiguity.

As a premier consultant on leasing business, VKCPL is able to affirm a steady increase in lease volumes in India. This is evident from the following:

¹ VKC's estimates

- Growing number of consulting enquiries
- Entry of several serious players from overseas into the leasing scene – inclusively, Siemens Financial Services, Mizo group of Japan, Macquarie Leasing, and in the auto sector, Daimler Financial, Volkswagen Financial, etc. In addition, all the IT majors including IBM, Hewlett Packard, Cisco, HCL, etc continue to offer leasing plans as well.
- Several non-banking non-financial companies are also actively undertaking lease transactions.
- Banks are also venturing into offering leasing products.

Volume of leasing business in India

The lease volume data picked from RBI reports² fails to give a complete picture of leasing volumes as lease transactions are currently being done both by NBFCs as well as by non-banking non-financial companies (NBNFCs).

However, we did our own study of leasing volumes in the country. The results of our survey are summarized below.

The sources on which we have relied upon are as follows:

- Published balance sheets of companies which, to our knowledge, are engaged in leasing business.
- Our information collected from industry sources in case of NBNFCs which do not show leased assets on their own balance sheet

Key findings:

- The estimated annual volume of leasing in India, excluding IRFC volumes, is about Rs. 5300 crores for FY 12-13 as against INR 4900 crores for FY 11-12.
- IRFC continues to be an outlier. IRFC does most of its funding to Indian Railways by way of leasing only. IRFC's volumes are huge, but since this leasing is entirely to the parent, the volumes are not relevant for analytical purposes. However, that volume will be relevant if one were to compute the penetration rate for the country.
- Also note that volumes exclude purely captive transactions – for example, a holding company to a subsidiary, as these are not of industry significance.
- Most of leasing in India is operating leasing. The reason for this is not difficult – if the lease is a financial lease, it partakes the character of a loan. Asset-backed loans are much simpler than financial leases. Hence, most financial leases get transacted as loans.

Among equipment types, construction equipment forms a large chunk of the assets. IT equipment, furniture and fixtures, plant and machinery, etc. are other major asset types.

² <http://rbidocs.rbi.org.in/rdocs/Publications/PDFs/OTPB021112FLS.pdf>

Leasing volume of various companies during FY 2012-13 & 2011-12)*

(Amount Rs. in Lakhs)

	2013	2012
Total leasing volumes (both operating lease and financial lease)	2553256	2277969
Total leasing volumes (both operating lease and financial lease excluding IRFCL)	361190	447913
Total operating lease volumes (in Lakhs)	234973	348832
Total Finance lease volumes (including IRFCL)	2318282	1929137
Total Finance lease volumes (excluding IRFCL)	126216	99082

Leasing volume of various companies during FY 2012-13 & 2011-12

(Amount Rs. in Lakhs)

Sr no	Particulars	Plant & Machinery		Equipment (including office equipments and construction equipments)		Data Processing/ computer software		Car		Commercial vehicles given on operating lease		Computer		Furniture & fixtures		Others (including Windmills, Buildings)		Lease receivables from assets given on Financial lease	
		2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
1.	Indian Railway Finance corporation Limited (refer note 7)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2192066	1830056
2.	Shriram Transport Finance Company Limited (refer note 1)	2220	739	49	6	197	172	0	0	0	6	0	0	415	140	0	0.21	0	0
3.	Srei Infrastructure Finance Limited	11380	4345	1542	8115	373	205	0	0	4239	13079	2551	4662	828	452	0	0	0	0
4.	Sundaram Finance Limited (refer note 2)	27	1201.4	0	0	0	0	0	0	11045	9825.78	0	0	0	0	0	0	1218	1992
5.	Srei Equipment Finance Pvt Ltd	0	8492	0	16230	45000	409	0	0	0	26158	0	9323	0	904	0	24803	0	0
6.	Reliance capital	300	900	0	0	200	0	0	0	200	1800	0	1400	0	0	0	0	0	0

Sr no	Particulars	Plant & Machinery		Equipment (including office equipments and construction equipments)		Data Processing/ computer software		Car		Commercial vehicles given on operating lease		Computer		Furniture & fixtures		Others (including Windmills, Buildings)		Lease receivables from assets given on Financial lease	
14.	Arval India Pvt Ltd	0	0	0	0	0	0	0	0	12100	9965	0	0	0	0	0	0	0	0
15.	Magma Fincorp Ltd	0	0	0	0	0	0	0	0	46	0	0	0	0	0	0	0	0	0
16.	L & T Finance Limited	220	1175	1	34	0	0	7434	6335	0	0	36	1853	0	311	0	0	6632	9425
17.	Daimler Financial Services India Pvt Ltd	0	0	0	0	0	0	5464	2592	0	0	0	0	0	0	0	0	0	0
	Total (in Lakhs)	15054	18180	1749	29437	45770	786	14053	32624	39680	77205	7425	20990	1243	1807	0	24803	2318282	1929137

***All figures are obtained from the Annual Report of respective companies available at public domain with few exceptions and assumptions as mentioned in notes below.**

Notes:

Note 1 There is no bifurcation between own assets and leased assets. The assets given on operating lease are included in the total fixed assets. We have taken the entire figure assuming that the major portion belongs to fixed assets.

Note 2 A) Plant & Machinery includes Computers. B) Finance lease assets are capitalised and shown under Fixed Assets separately. These assets include P&M, Computers, Vehicles and Office Equipments. The net block for these assets amounts to Rs. 20.14. Net investment in lease is shown separately under loans and advances.

Note 3 As on the date of this report, the Company had not filed its financial statement for 2012-13.

Note 3A It has been assumed that the figure provided in financing receivables majorly comprises of Finance leases in both years 2012 & 2013

Note 4	The figure provided is for the period Oct, 2011 to Sept, 2012.	
Note 5	The below mentioned companies are into leasing business, but they don't report their leased assets on their books. The volumes below are based on industry inputs.	
	Company	Operating Lease Assets (Amount in Lakhs)
		2013
		2012
	Rentworks India Pvt Ltd	50000
	OPC Asset Solutions	50000
	Connect Residuary Pvt. Ltd	10000
		-
Note 6	Connect Residuary Pvt. Ltd.- This is a newly incorporated asset life cycle management company.	
Note 7	Additions to financial lease assets are calculated by using the following formula: (closing net investment - half of opening net investment) . Only in case of IRFCL, the additions to financial lease assets is calculated as = (cl. net investment - 4/5 of op. net investment). In case of IRFCL, the lease receivables are spread over a very long term.	
Note 8	We have not considered entities like CarZone Rent which provide cars on pay-per-use model	
Note 9	Total Volume of Car leasing during the year is Rs. 750 crores where the major players are Magma Fincorp, Tata Motors Finance, Orix India, Arval.	
Note 10	Total Volume of Medical Equipment Leasing during the year is Rs. 1000 Crores where the major players are Siemens Financial Services, GE Capital, Phillips	
Note 11	Total Volume of IT Equipment Leasing during the year is Rs. 2500 crores where the major players are HP, IBM, Cisco, Rentworks, OPC, L&T and Srei.	
Note 12	Total volume of Commercial Equipment Leasing during the year is Rs. 1000 crores where the major players are Srei Infrastructure Finance and L& T finance Limited	

TOP 5 NBFCs INTO OPERATING LEASE BUSINESS

(Amt in lakhs)

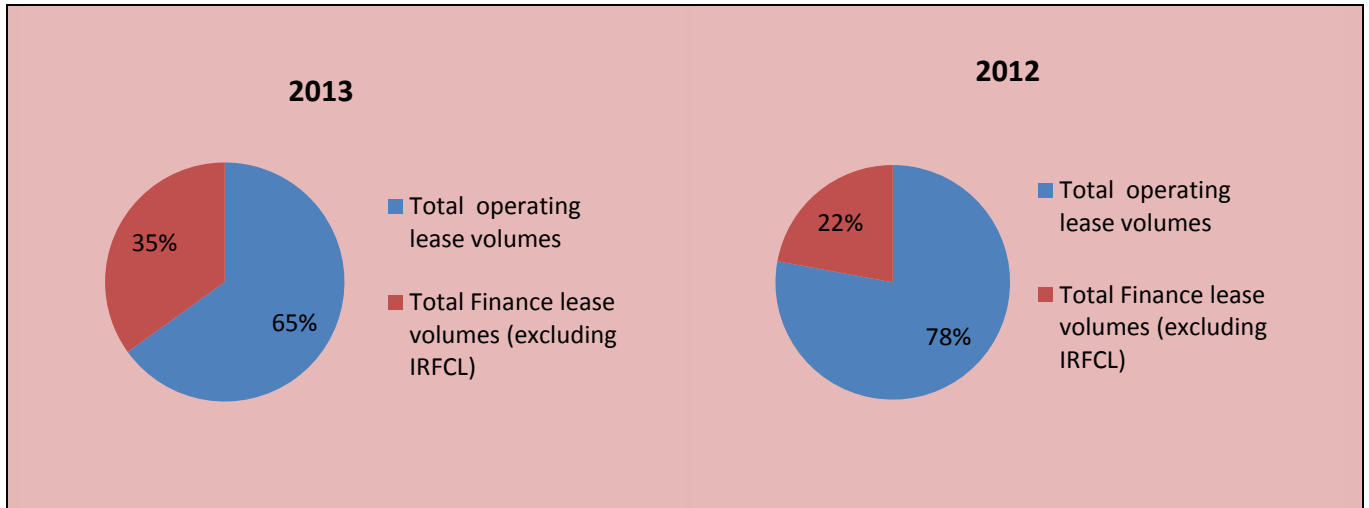
Sr. No	Company	Operating Lease Assets	% of total industry volume	Operating Lease Assets	% of total industry volume
		2013		2012	
1	Rentworks India Pvt Ltd	50000	21.28%	90000	25.80%
2	OPC Asset Solutions	50000	21.28%	53000	15.19%
3	Srei Equipment Finance Pvt Ltd	45000	19.15%	86319	24.75%
4	SREI Infrastructure	20913	8.90%	30858	8.85%
5	Sundaram Finance Limited	11072	4.71%	11027	3.16%
Total		176985	75.32%	271204	77.75%

TOP 5 NBFCs INTO FINANCE LEASE BUSINESS (excluding IRFCL)

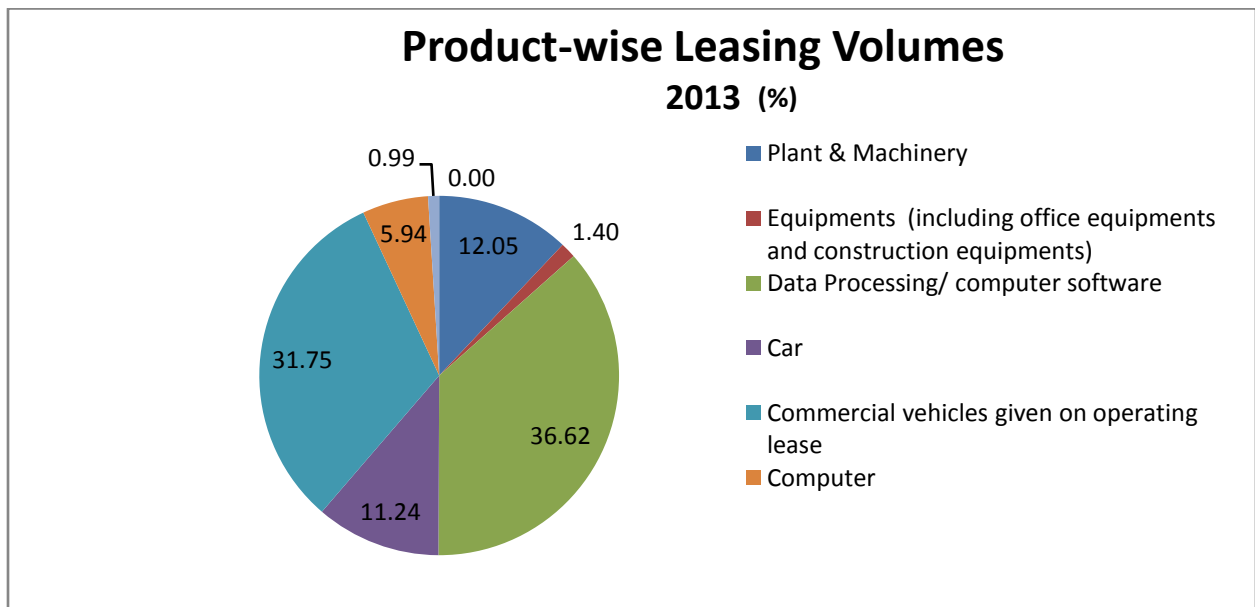
(Amt in lakhs)

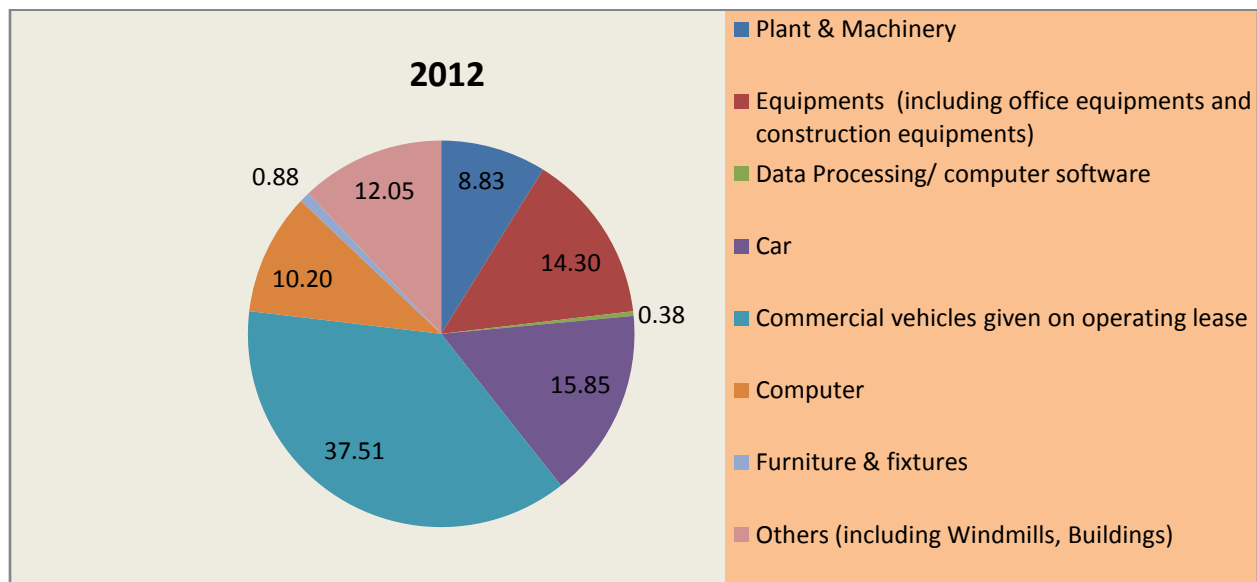
Sr. No	Company	Finance Lease Assets	% of total industry volume	Finance Lease Assets	% of total industry volume
		2013		2012	
1	IBM India Private Limited	69115	54.76	30770	31.06
2	Hewlett-Packard Financial Services (India) Pvt Ltd	35434	28.07	55319	55.83
3	GE Capital Services	9600	7.61	1175	1.19
4	L&T Finance Limited	6632	5.25	9425	9.51
5	Siemens Financial Services Private Ltd	3342	2.65	-	-
Total		124123	98.34	96689	97.59

Leasing Volumes (in %) (Excluding IRFCL)



Product wise Leasing Volumes (in %)





Regulatory development pertaining to leasing industry:

1. External Commercial Borrowings (ECB) Policy for NBFC-AFCs

On July 8, 2013 RBI came out with a circular³ allowing NBFCs categorized as Asset Finance Companies (AFCs) to avail of ECB subject to fulfillment of following conditions:

- 1.1 In order to finance the import of infrastructure equipment for leasing to infrastructure projects⁴, NBFC-AFCs can avail of ECB under the automatic route, with a minimum average maturity of 5 years, from all recognized lenders prescribed under ECB guidelines.
- 1.2 Such ECBs can be availed in the form of Foreign Currency Bonds from international capital markets that are subject to regulations prescribed by the host country regulator in a Financial Action Task Force (FATF) member country compliant with FATF guidelines.
- 1.3 Under automatic route, ECBs (including outstanding ECBs) can be availed upto 75% of owned funds of NBFC-AFCs, subject to maximum of USD 200

³ http://www.rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=8219

⁴ On September 18, 2013, RBI came out with a circular expanding the existing definition for infrastructure sector for the purpose of availing ECB taking into account Harmonised Master List of Infrastructure sub-sectors and Institutional Mechanism for its updation approved by Government of India.
<http://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=8434&Mode=0>

million or its equivalent in a financial year. ECBs above 75% of owned funds to require approval of RBI

1.4 Currency risks of such ECBs needs to be hedged in full.

This regulatory amendment surely opened doors to opportunities of investments for NBFCs⁵.

2. Insertion of Section 30A in Maharashtra Stamp Act, 1958

2.1 Maharashtra Government vide Notification No. VAT 1515/C.R. 57/Taxation-1 dated 25th April, 2013 made certain amendments in the Maharashtra Stamp Act, 1958 (the Stamp Act) effective from 1st May, 2013, one of major being insertion of Section 30A which requires any Financial Institutions (FIs) such as Banks/ **NBFCs**/ HFCs or alike to ensure that proper stamp duty is paid on all instruments which creates rights in favor of such instruments.

2.2 The amendment goes further to impose liability for not just such instruments executed post the amendment but also such instruments which though were executed before the commencement of this amendment but are effective after this amendment and for such instruments FIs were to impound such instruments before 30th September, 2013

With this amendment in the Maharashtra Stamp Act the onus of ensuring that the proper stamp duty is paid on all instruments is on NBFCs and where such proper stamp duty is not paid, NBFCs shall also be responsible for impounding of such instrument failing which they will be liable to pay penalty equal to the stamp duty payable on such instrument. This added burden of adequate stamping of the document was surely not well received by the industry⁶.

Outlook for 2013-14

Leasing in the last few years has been doing well. New entrants into the industry, new asset classes being tried and old shamed structures being revisited are all indicators of the development of a leasing market in the country. While the growth of the leasing volumes has slowed down this is largely attributable to the macro-economic factors, rising NPA levels, stunted economic growth etc. In the short term it seems that the growth in the new business generation volumes shall remain modest; having said in the long term we need to see whether this growth story fizzles or is here to stay and create waves with greater penetration.

⁵ Read our article on the issue -- [https://india-financing.com/Leasing to get impetus with ECB doors under automatic route opening up for NBFC-AFCs.pdf](https://india-financing.com/Leasing%20to%20get%20impetus%20with%20ECB%20doors%20under%20automatic%20route%20opening%20up%20for%20NBFC-AFCs.pdf)

⁶ Read our article on the issue -- [https://india-financing.com/Maharashtra Stamp law amendment makes financial institutions incriminate themselves.pdf](https://india-financing.com/Maharashtra%20Stamp%20law%20amendment%20makes%20financial%20institutions%20incriminate%20themselves.pdf)

Authors of the report:

Ms. Nidhi Bothra

nidhi@vinodkothari.com

Ms. Nidhi Bothra is an associate member of the Institute of Company Secretaries of India (ICSI). She has been the pillar of strength to VKC for the past four years. She specializes in areas of securitisation covering cash flows; structuring the transactions including both legal and commercial aspects, assignment transactions; domestic, off-shore as well as cross border transactions, Covered Bonds and Other Financial Instruments, Leasing, Mortgage Lending, Affordable Housing and Housing Microfinance, Asset Reconstruction Business etc.



Ms. Vinita Nair

vinita@vinodkothari.com

Ms. Vinita Nair is a Bachelor of Management Studies (BMS) graduate from Sydenham College of Commerce and Economics, Mumbai, Maharashtra, MS(Finance) from ICFAI university and an Associate Member of the Institute of Company Secretaries of India (ICSI). Her expertise lies in the field of Corporate Laws, Corporate Restructuring, Merger / Amalgamation and general corporate advisory matters, incorporation of companies including section 25 companies, FEMA matters and compliances.

