



Consultancy and Advisory
Leasing

Prospects for Leasing in India:

Traditionally, one would look at buying an asset, either with own funds or borrowed funds. As the businesses are becoming professionally managed with lesser deployment of owned funds, the businesses realized that there is no point in blocking costly capital in buying assets. If the purpose can be served by acquisition of the right to use the asset. Hence, asset leasing or rental contracts came in.

The development of lease transactions stands on the understanding that capital is precious, costly and has multiple alternative uses hence higher opportunity cost attached to it. Business would rather save precious capital for more important needs if it can avoid investing into fixed assets.

Leasing of movable assets acts as an alternative form of acquiring usable resources has been prevalent for decades now. Economic history of the world indicates that during periods of recession, leasing has been responsible for retaining economic activity by enabling enterprises to rent in what they cannot own.

While equity and loans provided owned and loaned capital to business, leasing provides rented capital. As the focus of businesses shift from carrying an asset-heavy balance sheet to core operations, businesses would want to invest less in fixed assets and retain more space for working capital. Hence, leasing in the in-thing.

Leasing is preferred world over not merely for cosmetic reasons such as off-balance sheet funding. It is the way to do business with less money blocked in non-core assets. This leads us to the discussion that, is leasing merely an alternative to funding, or is it an alternative way of acquiring the equipment? If it were a pure financial alternative, the user should stay in the position of a virtual borrower. In other words, the user can look at leasing as a mode of financing – just as loan, bond or other borrowing option.

If it were an alternative mode of acquiring an asset, such as an asset-renting option, it becomes a distinctive way of getting to use an asset without owning, or almost-owning it. In this case, the user would be looking at leasing as an alternative mode of acquiring the equipment, significantly different from a plain financing alternative. If a lease plan is a funding alternative, it is called a financial lease. If it is not a financial alternative alone, it is an operating lease.

Our Experience:

Vinod Kothari Consultants has also worked with a number of reputed organizations in the world. Some of the prestigious projects that we have handled so far has been listed below:

- We are known in the country for number one position as consultant in the matter of leasing and asset-based funding. We have been engaged by every significant name in the field of asset-based finance including State Bank of India, Canara Bank, IRFC, ICICI, HDFC, Kotak Mahindra, Development Credit Bank, Tata Finance Ltd, Mahindra Finance Ltd, Apple Industries Ltd, etc.
- Acted as retainer to Citibank for their asset-backed finance business.
- Provided active consulting support to GE Capital, the world's largest non-banking leasing company.
- Engaged on consulting in operating leasing for a telecom hardware company, which is the largest in its field in India.
- Acted as a consultant to Infosys Technologies to prepare functional requirements for a comprehensive IT solution for leasing transactions.

Services Offered

Product Conceptualisation & Structuring

- Understanding the requirements of the Company for the proposed leasing product and developing a suitable product, including key elements of the product such as determination of nature of lease, tenure, RV, customer segment etc.
- Providing concept note on the product structure detailing the following-
 - ❖ Features of the lease product
 - ❖ Parties involved and their roles
 - ❖ Legal aspects around the proposed structure
 - ❖ Insurance
 - ❖ Maintenance of the asset
 - ❖ Flow of transaction
- Understanding the amount and nature of investment to be made for leasing business of the Company, the return expected by the Company, market prospects, Company's outlook on marketability of the product and developing model based on the same.
 - ❖ Preparing/Reviewing the business plan based on the assumptions/scenarios relevant as per the prevailing market conditions
 - Determining the appropriate amount of investment to be made
 - Analysing the profitability for the Company based on assumptions
 - ❖ Preparing projected financials of the Company (P&L, B/S and CF)
 - ❖ Preparing/Reviewing the analysis of profit/loss to the Company based on the business plan
- Providing excel sheet for IRR computation, pricing (**Lease Calculator**)

Legal and Regulatory Services

- Review of lease transactions from the perspective of applicable regulatory guidelines and legal aspects, including aspects such as:
 - ❖ Classification of leases
 - ❖ Taxation aspects
 - Direct tax
 - Indirect tax
 - ❖ Regulatory aspects for non-banking non-financing companies
 - ❖ Advisory on prudential norms for NBFCs undertaking leasing
 - ❖ Security enforcement
- Providing opinion on legal and/or regulatory aspects
- Assistance in drafting responses to regulatory/ audit concerns on the structure/ classification or accounting of the deal
- Advisory on norms applicable for cross border leasing

Advisory Services on Accounting from Ind-AS/AS perspective

- Providing varied advisory services pertaining to accounting for lease transactions, from the viewpoint of Ind AS 116/AS 19 and other relevant accounting standards. This includes:
 - ❖ Classification and accounting of leases – operating and financial lease
 - ❖ Advisory on accounting of complex/structured lease products
 - ❖ Computation of expected credit losses, etc, to the extent applicable
 - ❖ Other aspects such as income recognition, derecognition etc.
 - ❖ Accounting of security deposits and other items in respect of leases

Review of Existing Transaction/ Business Models

- Review of practices implemented by the Company, such as:
 - ❖ Classification of leases
 - ❖ Treatment of Residual Value
 - ❖ Treatment of Security Deposit
 - ❖ Bundling of service along with leases
 - ❖ IRR computations and cashflow modelling
 - ❖ Provisioning/ECL and impairment practices

Recommendation - Budget & Capex, IT requirements, legal Documentation, Statutory, Pilot Run

- Advising the client about the budget based on review of business plan and about the legal documentation and other statutory requirements applicable to the Company
 - ❖ Recommendation of an expected budget based on the business plan
 - ❖ Recommendation as to preparation of legal documents such as term sheets, agreements with third parties, lease agreements, sanction letters, etc.
 - ❖ Recommendations regarding registration of motor vehicles, transfer of ownership etc. (if any)
 - ❖ Recommendations regarding the capital requirements, applicability of prudential norms, manner of accounting in the books, etc.
- Developing a macro view of the lease product for the Company including features of the lease product, cost-benefit analysis and expected impact on the Company

Legal Documentation Services

- Understanding the current practices of the Company for its existing products, infrastructure, possibility of outside engagements, market practices etc. and based on that, devising procedures to be followed and compliances to be ensured by the Company while dealing with the customers and drafting documents required:
 - ❖ Application form
 - ❖ Sanction Letter
 - ❖ Lease Agreement and relevant annexures
 - ❖ Agreements for employee leasing/ CTC leasing
 - Bi-patriate agreements
 - Tri-patriate agreements
- Understanding the terms of arrangement with the OEMs and drafting documents to be executed with the OEM
 - ❖ Term sheet/Purchase Order including the clause for assignment of warranties
 - ❖ Service level agreement with the OEM

Preparing SOPs

- Devising internal operating procedural guidelines for the lease product, based on the current practices of the Company, general market practices and legal/regulatory requirements:
 - ❖ Drafting of lease policy or review of the lending policy and suggesting changes in the policy to customise it for lease transactions
 - ❖ Drafting an internal manual on procedural guidance (Internal code of conduct and process flow) for the following-
 - On-boarding process of the parties to lease transaction
 - Verification/assessment criteria
 - Other pre-requisites
 - Execution of transaction documents with the customer.

Advisory on Operational Aspects

- Advisory on customer related compliances like:
 - ❖ KYC Documentation
 - ❖ Creation of charge or other security agreements (if any)
 - ❖ Manner of ensuring payment of lease rentals
 - ❖ Payment of stamp duty
 - ❖ Registration requirements (including under MV Act)

Contact Us:

Financial Services Division
finserv@vinodkothari.com
www.vinodkothari.com

Kolkata

1006-1009, Krishna
224, AJC Bose Road
Kolkata – 700 017
Phone: 033 4001 0157
Email: info@vinodkothari.com

Mumbai

403 – 406, Shreyas Chambers
175, DN Road Fort
Mumbai – 400 001
Phone: 022 2261 4021
Email: bombay@vinodkothari.com

New Delhi

A-467, First Floor,
Defence Colony,
New Delhi – 110 024
Phone: 011 4131 5340
Email: delhi@vinodkothari.com

Vinod Kothari Consultants P. Ltd.

Vinod Kothari Consultants is a premiere training and consulting firm in the field of securitisation, direct assignment, structured finance, leasing, asset backed lending, mortgage finance, accounting for financial instruments, credit derivatives etc. Headquartered in Kolkata, the team consists of Chartered Accountants, MBAs, Company Secretaries, Lawyers etc.

The firm has been in existence for past 30 years and has been offering services various renowned private and public sector entities in India and outside India, including multilateral organisations like IFC, ADB etc.



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