

VINOD KOTHARI CONSULTANTS PVT. LTD.

Equipment Leasing market in India: 2011-12

A report on volumes, drivers and undercurrents

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The data picked up in this Report is based on published annual reports – we have made certain assumptions to make the data collation and analysis. In case any of the company's whose volumes are reported here want to point out any inaccuracies in the data, please do email to nidhijain@vinodkothari.com or call our Mumbai office below.



Kolkata Office

224, AJC Bose Road, Room No. 1012 Krishna Building, Kolkata- 700017

T +91 33 22817715/ 1276/ 3742

E vinod@vinodkothari.com www.vinodkothari.com www.india-financing.com

Mumbai Office

Room No. 222, 2nd floor Asoka Shopping Centre, Near G T Hospital, Mumbai 400 001

T +91 022-22675600

E bombay@vinodkothari.com

I. Evolution and development of leasing in India:

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.

Several public sector entities have resorted to leasing, primarily for IT equipment, by bundling together acquisition of hardware with software and training. This seems like a growing segment of business.

Leasing in India originated in 1973 with First Leasing Company of India starting its business. Thereafter, in a short time span, leasing business grew brilliantly. Some of the prominent names are Shetty Investment and Finance, Jaybharat Credit and Investment, Motor and General Finance, and Sundaram Finance etc. Mr. Vinod Kothari, in an article titled **25 Years of Indian Leasing** traces the early growth and development of leasing till 1998¹. However, around 1996, NBFCs in India came under a regulatory focus as many of them defaulted under severe asset liability mismatches. The RBI framed new directions for regulation of NBFCs. Public perception about NBFCs took a severe beating with depositors having lost faith and regulations, including taxmen, finding leasing engaging in several practices that could be labeled as undesirable, primarily tax-benefit driven lease transactions.

Hence, post 1996, the volumes of lease transaction generally suffered. The effect is quite evident: the White Clark Global Leasing Report, 2011² lists down annual leasing volumes in various countries: India is nowhere in the top 50 countries.

Contributory to the growing unpopularity of leasing from 1996 until 2008 or so, sales-tax complexities made leasing comparatively costlier and difficult to administer. This tax was an incremental tax, in the sense no offset was available for the lessee to absorb the same. However, most Indian states moved to VAT from 2004 onwards. VAT removed the tax differential, except to a very limited extent, as the input taxes paid on purchase could be offset against the taxes payable on lease rentals.

Lately, depreciation rates on owned assets were reduced. This made leasing advantageous to direct ownership. However, in case of financial leases, the eligibility of lessors to tax depreciation continued to remain in doubt. While there was no clear tax rule, rulings of Courts went to disallow depreciation to lessors. Thus, operating lease became the obvious choice – both for tax advantages as also for off-balance sheet treatment.

¹ <http://www.india-financing.com/25years.html>

² http://www.whiteclargroup.com/knowledge-centre/category/global_leasing_reports

From 2008 or so, lease transactions started picking up as India's economic performance started looking up. A growing economy, with substantial pick up in infrastructure assets, will need means to finance such assets – leasing seemed like an add-on method of funding.

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:

- 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.

Volume of leasing business in India

The lease volume data picked from RBI reports³ 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 NBNCs 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. 4900 crores for FY 11-12.
- IRFC is 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.

³ <http://rbidocs.rbi.org.in/rdocs/Publications/PDFs/OTPB021112FLS.pdf>

Leasing volume of various companies during FY 2011-12 (for few companies, the figures are for 2010-11, mentioned in note below)*

(Amount Rs. in Lakhs)

Total leasing volumes (both operating lease and financial lease)	2317740
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Total leasing volumes (both operating lease and financial lease excluding IRFCL)	487685
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Total operating lease volumes (in Lakhs)	294510
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Total Finance lease volumes (including IRFCL)	2023230
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Total Finance lease volumes (excluding IRFCL)	193175
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Total car leasing volumes (both op. lease and fin. Lease)	102412
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(Amount Rs. in Lakhs)

Sl. No	Particulars	Plant & Machinery	Equipment (including office equipments and construction equipments)	Data Processing / computer software	Car	Commercial vehicles	Computer	Furniture & fixtures	Others (including Windmills, Buildings)	Lease receivables from assets given on Financial lease
1	First Leasing Company of India									8854
2	Indian Railway Finance corporation Limited									1830056
3	Shriram Transport Finance Company Limited (refer note 1)	1167	9	348		8		225		
4	Srei Infrastructure Finance Limited	4345								
5	Sundaram Finance Limited (refer note 2)	1201				9826				1992
6	Srei Equipment Finance Pvt	8492	16230	409		26158	9323	904	24803	

[illegible]

Sl. No.	Particulars	Plant & Machinery	Equipment (including office equipments and construction equipments)	Data Processing / computer software	Car	Commercial vehicles	Computer	Furniture & fixtures	Others (including Windmills, Buildings)	Lease receivables from assets given on Financial lease
	Limited									
14	GE Capital Services India	575			17					
15	Siemens Financial Services Pvt. Ltd. (refer note 5)									6000
16	Orix Auto Infrastructure Services Limited (refer note 6)									30800
17	Leaseplan (refer note 7)									23240
18	Arval				8480					
19	Tranzlease				3320					
Total (in Lakhs)		17434	24410	757	31962	37792	10723	1129	24803	2023230

***All figures are obtained from the Annual Report of respective companies available at public domain with few exceptions 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	The figures are of FY 2010-11.
Note 4	The figures are of FY 2010-11. Finance lease figures include computers, software and others.
Note 5	The figure provided is for the period Oct, 2011 to Sept, 2012. This is the estimated figure on the basis of our understanding of SFSPL's leasing volume.
Note 6	Orix is doing both finance lease and operating lease of Cars. The data given above consists both finance as well as operating lease. However, in view of the difficulties in obtaining break up, we have put the entire volume of Orix into finance lease category. The figure of 30800 lakhs is our estimated based on industry inputs.
Note 7	Leaseplan is into both finance lease and operating lease of Cars. The data given above consists both finance as well as operating lease. We have assumed most of the leases as finance lease based of the business model. The figure mentioned above is an estimated figure for the volumes during the year based on VKC compilation from various leasing entities.
Note 8	The below mentioned companies are into leasing business, but they don't report their laesed assets on their books. The volumes below are based on industry inputs.
Company	Operating Lease Assets (Amount in Lakhs)
Rentworks India Pvt Ltd	90000

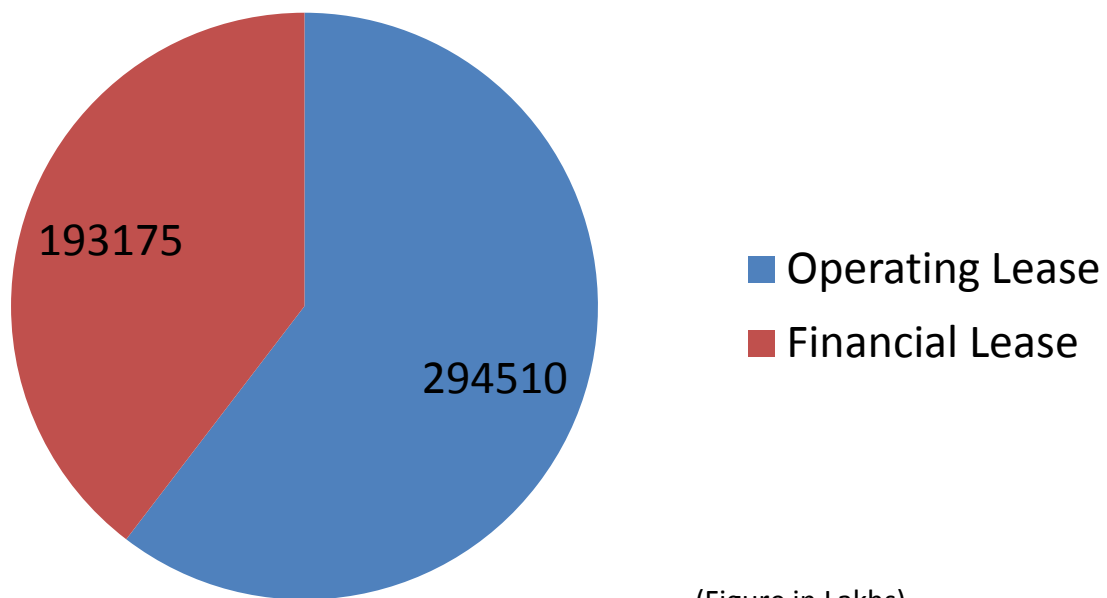
OPC Asset Solutions	53000
Leasing IQ (India) Pvt Ltd	2500
Note 9	Connect Residuary Pvt. Ltd.: This is a newly incorporated company in 2011.
Note 10	Additions to financial lease assets are calculated by using the following formula: (closing net investment - half of opening net investment) . Only in case 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 11	Daimler Financial Services India Pvt. Ltd. is doing operating lease of vehicles. The gross block of vehicles given under operating lease is Rs. 2591.95 lakhs. However, there is no addition to block during the year 2011-12.
Note 12	We have not considered entities like CarZone Rent which provide cars on pay-per-use model

TOP 5 NBFCs INTO OPERATING LEASE BUSINESS			
Serial No.	Company	Operating Lease Assets (Amt in lakhs)	% of total industry volume
1	Rentworks India Pvt Ltd	90000	30.56
2	Srei Equipment Finance Pvt Ltd	86319	29.31
3	OPC Asset Solutions	53000	18.00
4	ALD Automotive Pvt. Ltd.	16257	5.52
5	Sundaram Finance Limited	11027	3.74
Total		256603	87.13

TOP 5 NBFCs INTO FINANCIAL LEASE BUSINEES			
Serial No.	Company	Financial Lease Assets (Amt in lakhs)	% of total industry volume
1	Indian Railway Finance corporation Limited	1830056	90.45
2	Hewlett-Packard Financial Services (India) Pvt Ltd	55319	2.73
3	IBM India Private Limited	45624	2.26
4	Orix Auto Infrastructure Services Limited	30800	1.52
5	Leaseplan	23240	1.15
TOTAL		1985039	98.11

Leasing Volumes (in Lakhs) (Excluding IRFCL)

Leasing Volumes (Excluding IRFCL)



(Figure in Lakhs)

Product wise leasing volumes

Product wise leasing volumes

