

How Leasing shall progress as an alternative for secured lending



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The significance of lease transactions stands on the understanding that capital is scarce – a business would rather optimize use of capital for more important needs if it can avoid investing all of its capital into assets. Another significant factor could be ease of asset management which also considers risk of asset obsolescence. Therefore, the key benefits 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 such as property undergoing depreciation, avoidance of obsolescence costs and so on.

Introduction:

The leasing industry in India has been growing steadily in recent years, driven by a combination of economic factors, government policies, and changing mindset attitude towards asset ownership among businesses along with an increase in demand for equipment and machinery by businesses across various sectors.

Primarily dominated by non-banking financial companies (NBFCs), along with other financial institutions inclusive of non-NBFCs. The Global Leasing Report 2022 by Solifi mentions the year 2022 saw impressive annual growth of Leasing by **44.8%** and **2.6% penetration** in India in comparison to **9.6% annual growth** and **0.7% penetration** during 2021.

Market Overview - Key Takeaway from the Global Lens:

Leasing is definitely booming in India, thanks to a more open regulatory structure and not merely due to tax arbitrage opportunities. The current state and stage of the Indian economy are also playing a vital role as new-age enterprises and startups believe in focusing on core activities and keeping leaner balance sheets that are not lured towards asset accumulation. And leasing plays an important role here which is **not confined to startups** but also larger companies that can operate with lower levels of fixed capital investments.

Basis the global experience, the key takeaways for India are as follows:

- The leasing market can grow rapidly once the penetration achieves a certain level and there is a wider acceptance of leasing as a financing alternative among all corporates.
- Favourable taxation can give lot of growth in the

leasing market.

- SME could emerge as key end user segment for leasing especially for equipment with high degree of technological obsolescence.
- Development of robust secondary market for equipment, asset valuation and servicing of equipment can be growth catalyst.

What makes us say that leasing can be a true alternative for secured lending?

The leasing industry in India caters to a variety of asset requirements across industries – from *IT equipment and peripherals to manufacturing and packaging equipment, from medical equipment to construction equipment, from catering commercial cars to logistics sector, to furniture and fixtures for the retail industry.*

From daily used items such as *office furniture to computers, monitors, servers, to sophisticated products like automobiles, wagon leasing and aircrafts leasing*, industry is witnessing an all-round growth. Heavy equipment used in infrastructure (like tunnel boring machines, heavy cranes) are also being procured through leasing mechanism.

Properly structured, lease transactions have the potential to turn **assets into services** – enabling users to get to use assets **without having to lock capital** or be concerned about asset management or technological obsolescence therein. It is our belief that leasing provides the way for users of capital equipment to acquire assets, keeping their businesses asset light.

Efficient use cases in day-to-day leasing:

- Acquire assets without the need for upfront capital enabling companies to **conserve cash** and allocate resources towards other critical areas.
- Hassle-free experience to eliminate the need for complex collateral assessments and lengthy approval processes associated with secured lending.
- Inclusion of maintenance and support services, **ensuring smooth operations** and reducing the burden on lessees.

Talking about the use cases in day-to-day leasing, we cannot fail to ponder upon the lease offerings of rental companies in India, allowing individuals and businesses to access assets without ownership burdens particularly for Cars, Two Wheelers etc.

At the end of the term, lessees have options like renewal of lease for secondary tenure, return of asset at end of lease, or purchasing the asset at Fair Market Value.

Ultimately, leasing offers a win-win solution, combining convenience, cost-effectiveness, and flexibility for corporates. These are some of the benefits that accrue to Lessors who avail Tata Capital's customized and flexible lease offerings.

Helm of Financial Institutions (FI) in Leasing:

Some of the major players operating in the Indian leasing space include NBFCs, Government backed financial institutions and equipment manufacturers. Banks

presently do not have an offering in this space due to regulatory restrictions.

Tata Capital is among the few NBFCs in India that offers leasing solution across complete spectrum of assets viz- IT, Plant and Machinery, Medical Equipment, Construction Equipment, Commercial vehicles, Passenger Cars, and Furniture & Fixtures unlike other players who are focussed on specific asset types. As a matter of fact, we have in the last 12 months added Electric Vehicles also to our asset category which also includes Buses and Two wheelers. Structuring deals is also a critical factor that helps us differentiate. Our teams therefore can offer either Lease or Loan as may be suitable for the Customer.

Where are we on Digital Leasing?

Leasing is one of the offerings on Tata Capital's Digital platform. This is particularly true for small ticket facilities up to Rs 1 Crs. This is a new offering and going forward we anticipate that this platform will enable us to have larger penetration of leasing solutions in the SME segments.

Multi Fold Advantages falling under it include a) Streamlined Application Process, b) Enhanced Risk Assessment, c) Seamless Integration with Ecosystem Partners, d) Automation of Payment Collections.

Beyond Digital processing of lease proposals, we have also initiated E-Signing of the facility documents which is also a significant step in our journey making the process truly digital for our customers.

Tapping the Untapped Lego Blocks:

With the economic environment turning conducive for 'Make in India' Initiative and investments in multiple industry segments, leasing offers the flexibility to customers to efficiently balance their expansion plans without leveraging their balance sheet while continuing to enjoy the benefits of the assets.

What can however be of help is the Schemes run by Central and State Governments such as the Product Linked Incentive (PLI) and Subsidy, which are also made available to the Lessee's when they invest in expansion or new projects with Asset Leasing as one of the funding avenues, and not just loan.

As also mentioned earlier, Electric Vehicle (EV) lease is gaining traction across passenger and commercial segments. Green Energy funding in Solar Roof tops is also another area where we are seeing interest from the OEMs and the end users. Going forward we anticipate that these asset classes will gain large share of the leasing market.

While the GST implementation has been a landmark decision in enabling customers embrace leasing solutions, further simplification and easing some policies can go a long way in benefiting the end users/lessees.

Future Outlook and Upcoming Trends:

Overall, the leasing industry in India is headed for a robust growth in the coming years, driven by the increasing demand for leased assets, and EV Leasing. The growth of the Indian economy, and the supportive policy environment created by the government is expected to give the necessary fillip to the leasing industry.

At Tata Capital, we are committed to scale up our reach and offering to customers seeking innovating solutions across SME and Corporate segments. We will continue to be at the forefront of serving the changing requirements through a comprehensive suite of product offerings and leasing solutions across Vehicle Leasing, IT Leasing, Plant and Machinery Leasing, Construction Equipment Leasing which shall strive to be a strong focus area as we aim to grow multi-fold in the next 2-3 years.