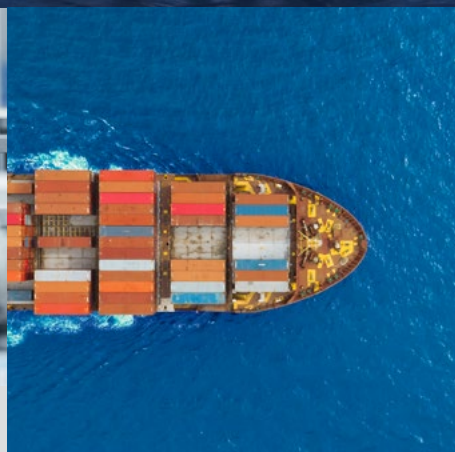
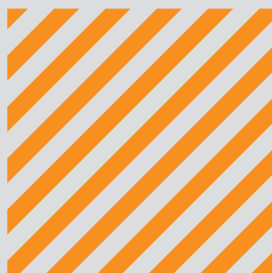
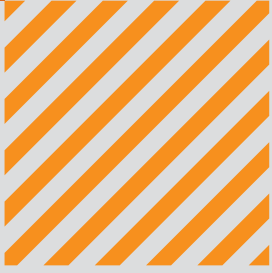
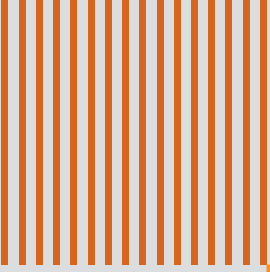


# Unveiling opportunities: Exploring India's leasing landscape

May 2024





# Foreword from FICCI

The leasing industry in India is at the cusp of transformation, which is being shaped by a multitude of factors that are coming together. These factors include the entry of new players in the market including OEMs, diversification of asset classes and understanding the benefits of leasing as a financing tool for businesses. While growth in the leasing industry in India in recent years is noteworthy, the industry is still at a nascent stage when compared to the progress seen in some of the more developed markets such as Germany, Australia, Japan, the UK and the US. Conversely, this also indicates that the industry holds tremendous potential for growth in the Indian market as well.

As businesses grow, the need for capital-intensive assets – equipment, machinery, vehicles – also increases. Therefore, instead of opting for an outright purchase, businesses can look at leasing as an efficient financial tool, which will allow them to use such assets without making significant upfront investments. In addition to helping conserve capital, leasing helps businesses to gain access to latest technologies, have a flexible financing structure and curate customised solutions as per their specific requirements. Another major factor that is providing impetus to the leasing industry is sustainability and transitioning to low-carbon solutions. As companies scale up, the sustainability quotient of their operations and demand for energy-efficient equipment are increasing, which is expected to further boost the growth of the leasing industry in the country.

So far, the leasing market in India has been dominated by vehicles and equipment. However, we are slowly seeing new asset classes being introduced in recent times. Construction equipment and machinery, medical equipment, office and commercial spaces, aircraft, railcars etc., are some of the segments that are seeing greater leasing activity in the country.

In order to emphasise the potential of the leasing industry in India, FICCI and PwC have collaborated to develop this report which highlights the key trends and opportunities in the leasing finance market in India. It also presents some of the challenges faced by the lessors and lessees, and how all stakeholders – including the Government and the regulator – can work together to address these challenges and facilitate further growth of this industry.

Given the growth outlook for the Indian economy and the thrust laid on greater efficiency – particularly by SMEs and start-ups – leasing can emerge as a preferred financial tool across diverse business segments. This report will be a valuable resource for policymakers, industry stakeholders and researchers interested in the leasing finance sector in India. The insights and recommendations presented will contribute to informed decision-making and policy formulation, leading to the further growth and development of leasing in India.

I would like to extend my gratitude to the members of FICCI, PwC and the FICCI Secretariat for their support in putting together this report.

Happy reading!



**Rajiv Sabharwal**  
Chairman – FICCI National  
Committee on NBFCs and  
MD and CEO – Tata Capital

# Foreword from PwC

As we navigate the dynamic landscape of India's leasing market, it's essential to pause and reflect on the evolving trends, challenges and opportunities shaping this crucial sector. This report serves as a guide for stakeholders to navigate through the complexities and nuances of India's leasing industry.

In an era defined by rapid technological advancements, shifting consumer behaviours and macro-economic fluctuations, the leasing market in India stands at a pivotal juncture. From automotive to aircraft, equipment to green leasing, the sector continues to witness transformative shifts.

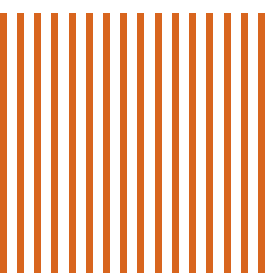
Against this backdrop, the report highlights the intricacies of India's leasing ecosystem, offering insights, analyses and actionable insights for businesses, policymakers and investors. From market sizing to competitive landscapes, and from regulatory frameworks to emerging trends, each section provides a comprehensive overview of the forces shaping the industry's trajectory.

As India embarks on its journey towards sustainable growth and economic resilience, the leasing market assumes heightened significance. By fostering innovation, facilitating access to capital and promoting efficiency, leasing emerges as a catalyst for economic development and inclusive growth in the country.

I extend my gratitude to all contributors, researchers and industry experts whose invaluable insights have enriched this report. May this document serve as a ready-reckoner for navigating the complexities and unlocking the immense potential of India's vibrant leasing landscape.



**Sidharth Diwan**  
Partner – Strategy and Digital  
PwC India



# Foreword from FICCI Sub-committee on leasing



India is poised to become the third-largest economy in the years to come.<sup>1</sup> This will require a large-scale investment in various sectors such as manufacturing, infrastructure, information technology, education and healthcare, in terms capital goods. Here, leasing can play a pivotal role in enabling growth for both private and public sectors. Leasing will also lead to significant financial inclusion at the MSME and small enterprise levels since these entities are able to avail good quality machinery and can pay for it over the life of the equipment or tenure of a particular project. Availing good quality machinery in turn helps in higher realisations. Leasing will enable industries to further take a step towards achieving the goals of 'Atmanirbhar Bharat' and 'Make in India' initiatives envisioned by the Government.

Globally, leasing has contributed immensely post-World War II during the industrial revolution era. Globally, the leasing industry stands at USD 1.6 trillion today, across all segments of capital expenditure.<sup>2</sup> Historically, leasing was most prominent in America, Japan and Europe. However, over the last two decades, it has grown rapidly across the Middle East and some developing countries, especially in the Asia-Pacific region.

Leasing as a product brings with itself numerous financial and non-financial advantages. It helps companies in periodic technology upgradation and adequate re-cycling of the equipment. In addition to providing tax breaks, it improves capital efficiency ratios which help companies in raising further working capital. Leasing is an excellent product for MSMEs in India for scaling up. Today, the leasing-to-GDP ratio in India is less than 1%, vis-à-vis the global ratio of 1.7%.<sup>3</sup> This represents massive untapped growth opportunity across all segments of the industry in the country.

Regulatory reforms are important to grow leasing further in the country. In 2017, the introduction of the GST in India was the watershed moment for the leasing industry. It simplified the indirect taxation on leasing and led to significant pick up in the adoption of the product. To further increase adoption, the Government and the financial regulator need to acknowledge leasing as a mainstream product to build capacities right from grassroot levels such as agriculture to large corporates, and accordingly construct a suitable regulatory framework for the product to flourish. One of the areas that can bring in exponential growth is to incorporate leasing under the purview of priority sector lending of banks. This will release large amounts of bank funds to standalone leasing companies, which in turn will lead to capacity building on the ground.

In order to create awareness of this product across various agencies and players, FICCI and PwC have come together to put out a comprehensive report on the subject. We hope that you'll find this report to be insightful, and its findings will go a long way in growing the product adoption of leasing across various segments of the industry.



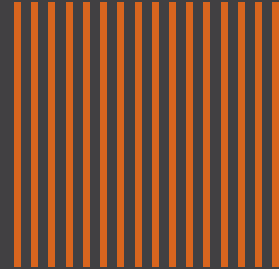
**Shrirang Tambe**  
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Auto Infrastructure Services Ltd.

1. <https://www.thehindu.com/business/Economy/india-to-become-third-largest-economy-with-gdp-of-5-trillion-in-three-years-finance-ministry/article67788662.ece#:~:text=India%20is%20expected%20to%20become,Ministry%20said%20on%20January%202029.>
2. <https://www.einpresswire.com/article/672959258/global-leasing-market-surges-predicted-to-reach-2424-62-billion-by-2027>
3. Solifi Global Leasing Report 2023

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01

# Introduction

The evolution of lease financing began in the early 1950s in the US, spreading to Europe in the 1960s and globally in the 1970s. In India, the leasing industry originated in 1973 with the establishment of the company called 'First Leasing Company of India Ltd'.<sup>4</sup> While leasing had several phases of development, the state of the leasing industry is a product of regulatory, market and customer preferences.

As compared to the global market, it is estimated that hardly 1% of the industrial investment in India is covered by lease finance, as against 40% in the US and 30% in the UK and 10% in Japan.<sup>5</sup> Leasing business offers a great opportunity to facilitate India's growth story. New businesses have faith in lighter monetary records, zeroing in on their core activities as opposed to heavy capital investment. Additionally, certain sectors have emerged as new focus areas for leasing (agriculture, healthcare, solar, etc.). The leasing industry has been constantly reorienting and improving itself for market responsiveness and specialisation.

This report highlights the key opportunities and trends with a focus on the role of market participants, regulators and Government bodies for enhancing the leasing ecosystem.

## 1.1 Understanding lease

### 1.1.1 What is a lease?

A lease is an understanding whereby the lessor passes on to the tenant the right to utilise a resource for a concurred period in return or arrangement of payments.

In simple terms, a lease is a contract between two parties, wherein one party provides the asset on rent to the other party in return of periodic pre-decided payments.

The capacity to secure resources via a lease as opposed to possessing them has a few advantages, such as enabling the lessee to keep a lighter monetary record and opening up assets for working capital, among others.

Leasing offers businesses and individuals a flexible and cost-effective means to access and utilise assets without committing to full ownership. It can provide advantages in terms of financial management, flexibility and tax benefits. However, it is suggested to carefully consider the total cost involved, credit obligations, end-term options before entering a leasing contract.

### 1.1.2 Types of leases

There are two basic structures in leasing – i.e. operating lease and financial lease.

- **Financial lease** is an agreement that permits the lessor to hold lawful responsibility for assets, while moving every risk and benefit of financial possession to the lessee. In this type of lease, the leasing instalments made during the term of the rent reimburses the primary expense of the asset (in addition to the interest charged by the lessor), and is called payout lease. At the end of the lease term, the lessee has the choice to buy the resource at a scaled-down cost or return it to the lessor.
- **Operating lease** is an agreement that permits the lessor, as owner, to hold legitimate responsibility for the asset, yet permits the renter to partake in the financial utilisation of the asset for a preordained period, prior to returning the asset for the lessor. Towards the finish of the rent time frame, the assets is still owned by the lessor. Under this structure, the risk and the return stay with the lessor. Rent installments under an operating lease ought to be perceived as a cost in the profit and loss statement on a straight-line premise over the rent term, unless there is another way to spread the cost that better matches the benefits derived by the lessee from the asset. For example, if a machine produces 40% of its output in the first year, 25% in the second year, 15% in the third year, and so on, it makes sense to spread the cost over the same period based on the production instead of dividing it equally over the rental period.

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4. <https://www.moneycontrol.com/company-facts/firstleasingcompanyindia/history/FLC>

5. <https://www.yourarticlelibrary.com/essay/economics-essay/future-prospects-of-lease-financing-in-india/40999>



Determining the type of lease relies on the substance of the exchange as opposed to its structure. Instances of circumstances which would regularly prompt a lease being coined as a financial lease include the following:

- The lease moves the proprietary rights of the asset for the tenant towards the finish of the rent term.
- The renter has the choice to buy the asset at a value which is adequately lower than the fair worth at the date. This option becomes exercisable with the end goal that, at the beginning of the lease, it is sure that the option will be worked out.
- The rent term is for a significant part of the financial existence of the asset, regardless of whether the title is changed.
- At the beginning of the lease, the minimum lease payments' present value equals to at least substantially all of the market / fair value of the leased asset.
- The leased asset is modified to such an extent that only the lessee can utilise it without significant changes being made.

Other circumstances which could – individually or combined – prompt a lease being coined as a financial lease are as follows:

- If the tenant nullifies the lease, the lessor's damages related with such call-off are borne by the lessee.
- The gains or damages from the variation in the fair worth of the residuary is borne by lessor.
- The lessee can proceed with the lease for a subsequent period at a rate which is considerably lower than market rate.

It can be perceived that the basis to decide whether a lease is a financial or an operating lease is not characterised under any regulation. Nonetheless, the above points present a characteristic rundown and can be used to decide the classification of a lease based on previous case regulations/law/decisions (refer to the annexure for key contrasts between financial and operating leases.).

## As per IFRS 16/Ind AS 116:<sup>6,7,8</sup>

1. A lease is defined as 'a contract, or part of a contract, that conveys the **right to control the use** of an **identified asset** for a period of time in exchange for consideration'.
2. The concept of financial and operating leases of accounting is omitted from these new accounting standards for lessee accounting, but remains the same for lessor accounting.
3. Under Ind AS, asset(s) taken on lease shall be recorded as a right-to-use asset and depreciation on the same shall be accounted for. Moreover, lease liability shall be recorded with respect to the future lease payments. A notional interest shall be accounted for on-the-lease liability. The notional depreciation and finance charges shall not be allowed as a deduction while computing the income under the head PGBP.
4. However, from the income-tax perspective, the deductibility of the lease expenses shall be dependent upon whether the transaction is a financial or an operating lease-related transaction. The tax treatment has already been discussed above.

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6. [https://www.mca.gov.in/Ministry/pdf/AS19\\_16012018.pdf](https://www.mca.gov.in/Ministry/pdf/AS19_16012018.pdf)  
7. [https://www.mca.gov.in/Ministry/pdf/IndAS116\\_2020\\_10112020.pdf](https://www.mca.gov.in/Ministry/pdf/IndAS116_2020_10112020.pdf)  
8. <https://www.pwc.com/pg/en/publications/ifrs-news/in-depth-ifrs16.html>

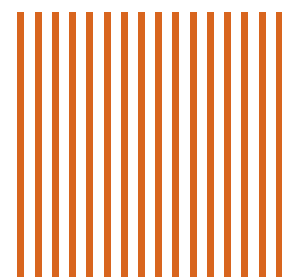
## 1.2 Comparison between lease and loan

There's often a debate on choosing between lease and loan as a financing option. Thus, it is crucial to have a thorough understanding of both these concepts and then decide on which option best suits the need.

### Key differences between lease and loan

Particulars	Lease	Loan
<b>Definition</b>	A lease is a contract where the lessor permits the customer (lessee) to utilise the asset for an explicit amount of time in return for an intermittent instalment, with an option to return or buy the asset at the end of term.	A loan is the borrowing of funds from any financial institution by the customer.
<b>Types</b>	There are two types of leases: Operating lease: It is like a rental agreement where the customer pays to rent the asset. Financial lease: Here, the customer has a choice to purchase the asset towards the end of the period like asset purchase financed by debt.	Depending on the need of the customer, loans can be of various types: home loans, car loans, education loans, personal loans, etc.
<b>Ownership</b>	In operating lease, the customer does not have the ownership of the assets during/ after the lease term. Lessor retains the ownership.  In financial lease, ownership may/ may not be transferred to the customer at the end of the term, depending on the decision whether the customer wants to buy the asset or not.	Ownership of the asset (if any) is not directly tied to the loan. The customer owns the asset if he/she purchased it using the loan amount.
<b>Ease of documentation/ application</b>	Generally, the process of lease application or documentation is faster as compared to that of a loan. Also, the terms and conditions are also flexible and can be made specific to a customer's need.	The process of loan application documentation is time consuming. Loans as a financing option are less flexible in nature and terms and conditions are standard across the industry.
<b>End-of-term options</b>	Customers have various options apart from just paying the monthly instalments such as renewing the lease, or purchasing the asset at a predetermined price.	Customers shall repay the borrowed amount according to the loan terms.

Note: Refer to Annexure 1 for a detailed numerical explanation.





## 1.3 Leasing products

There are a variety of leases that a person can opt for, depending on his or her requirements. However, it is important to remember that the terms and circumstances of a leasing agreement might change based on the lessee, lessor and leasing product.



**Vehicle leasing:** Vehicle leasing allows individuals or businesses to use any sort of vehicle for a specified period in exchange for regular lease payments. Towards the termination of the lease term, the lessee has the choice to give back the vehicle, buy it at a settled-upon price or re-establish the lease arrangement.



**Equipment leasing:** This type of leasing gives organisations access to different sorts of hardware, instruments, etc., without significant expenditure. Such equipment includes leasing machinery, medical devices and machines, construction equipment, technologically advanced machines (including IT assets), material handling equipment and mining equipment. The lessor (leasing company) owns the equipment, while the lessee pays customary rent instalments to utilise the hardware during the lease term. Such leasing offers businesses access to specialised and expensive machinery without the need for complete ownership.



**Aircraft leasing:** Such a lease is common in the aviation industry, wherein airlines and other aviation operators lease aircraft from dedicated aircraft leasing companies. It allows airline operators to expand their fleets without significant capital investment and provides flexibility in managing their fleet.



**Boat and yacht leasing:** This kind of arrangement enables individuals or businesses to lease boats and luxury yachts for recreational or business purposes. This is a cost-effective option for individuals who don't want or cannot afford to own a boat or yacht.



**Software leasing:** Software leasing, also known as SaaS, allows businesses to access and use the latest software applications through the internet on a subscription basis. Such a model eliminates the need for upfront software purchases and allows for regular updates and continuous expert support from the software provider.



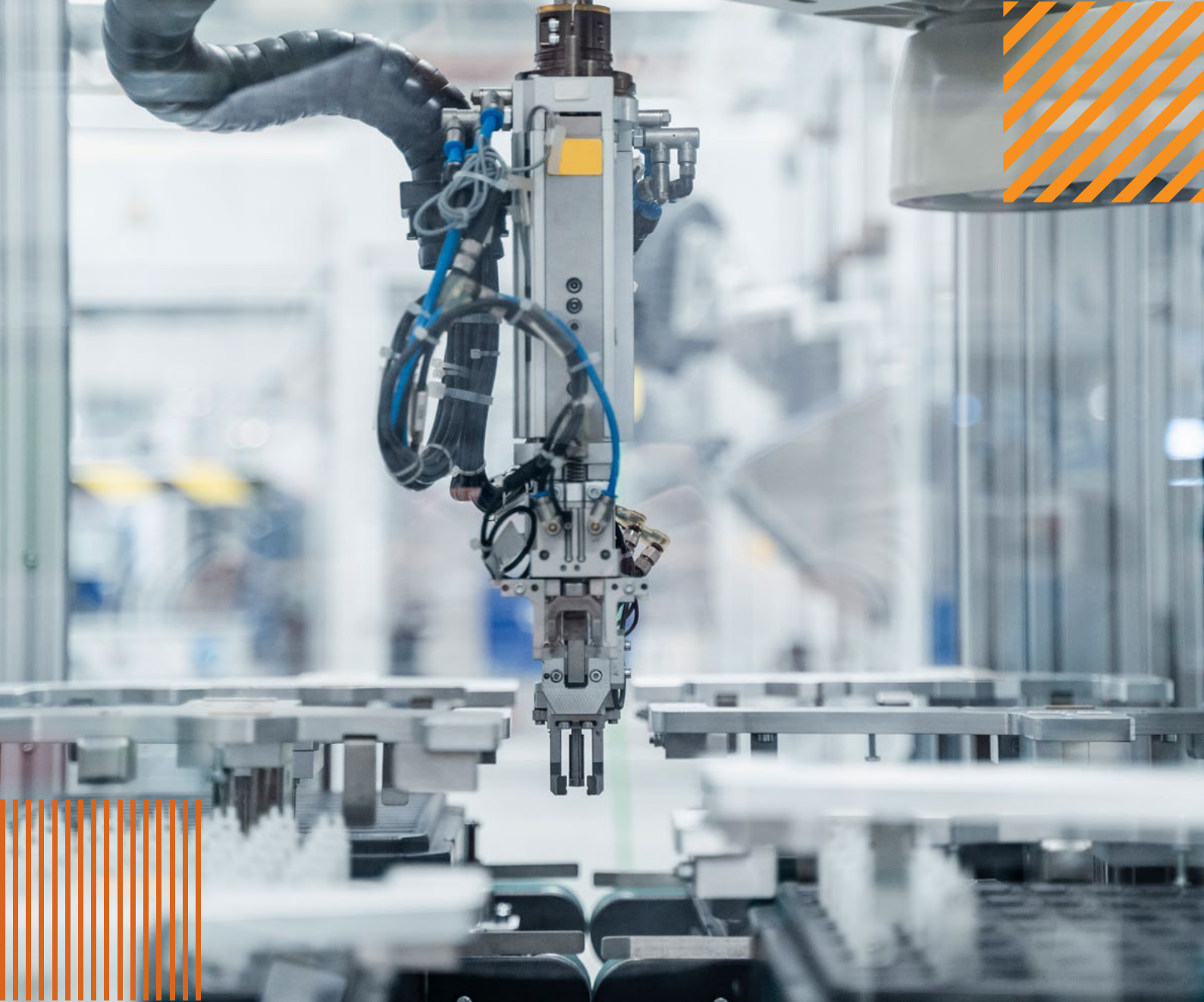
**Renewable energy leasing:** Leasing renewable energy allows individuals or businesses to lease wind turbines, solar panels, and other renewable energy systems. The energy produced benefits the lessee, who does not have to bear the brunt of paying upfront costs for installation or upkeep.



**Retail leasing:** Retail leasing involves leasing retail spaces inside shopping malls or commercial centres to retail business owners. The terms and conditions of the agreement can vary significantly based on the type of lease and location of the retail space.



**Railcar/vessel leasing:** This arrangement involves leasing shipping vessels and rail carriages to shipping companies and rail operators. It allows companies to have access to the necessary container or railcar capacity without owning it themselves.



02

## Industry insights

The diverse leasing market is influenced by economic conditions, regulatory changes, interest rates and market trends across regions globally. However, evolving market sentiments and unique dynamics of the industry have contributed to considerable growth of the leasing market.

## 2.1 Global leasing growth

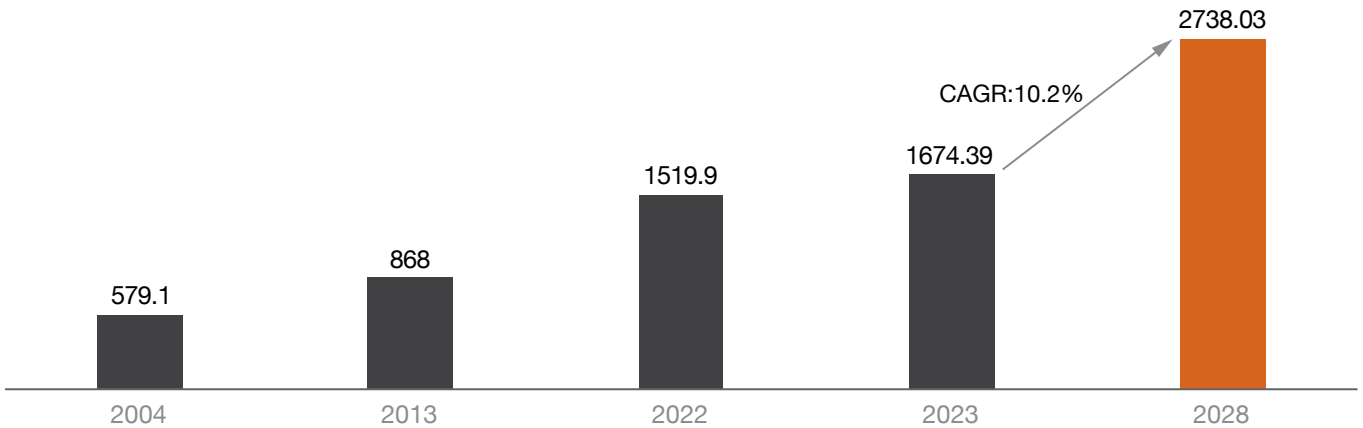
### 2.1.1 Overall figures

The global leasing market grew from nearly USD 1,519,900 million in 2022 to USD 1,674,390 million in 2023. According to estimates, in the 2023-28 period, the market is projected to reach around USD 2,738,030 million by 2028 at a CAGR of 10.2%.

In 2022, leasing was the third-largest segment within the services market, accounting for nearly 10.8%. In terms of per capita utilisation and as a percentage of the global GDP, the market stood at USD 194.8 and 1.42% respectively.

During the forecast period (2023-28), Africa, the Middle East and Asia-Pacific regions are expected have high CAGRs of around 11–12%.<sup>9,10</sup>

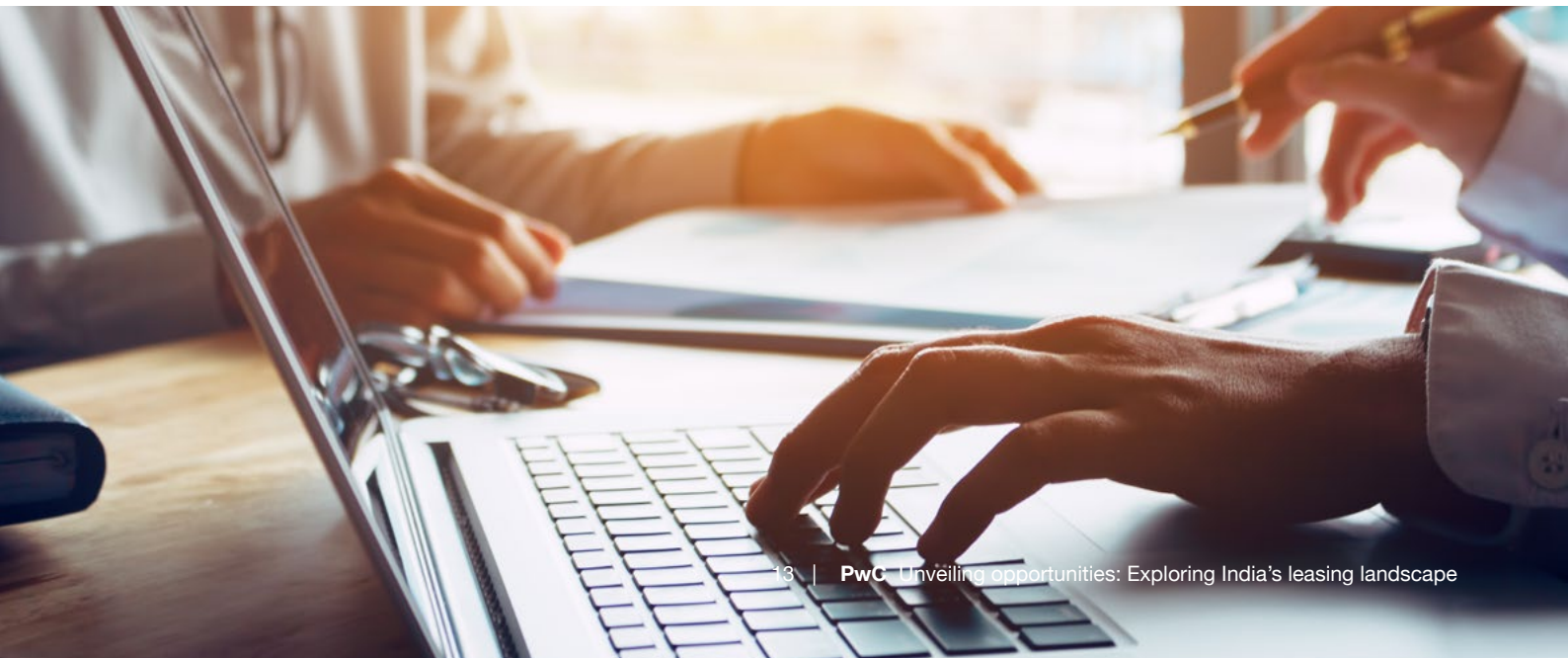
**Figure 1: Global leasing market (in '000 USD million)**



Source: Global Leasing Report 2014 (for 2004 and 2013 figures); EIN Presswire (for 2022-28 figures)

9. <https://www.einpresswire.com/article/672959258/global-leasing-market-surges-predicted-to-reach-2424-62-billion-by-2027>

10. <https://www.einpresswire.com/article/697026270/leasing-market-size-share-revenue-trends-and-drivers-for-2024-2033>





## 2.1.2 Global machinery leasing market

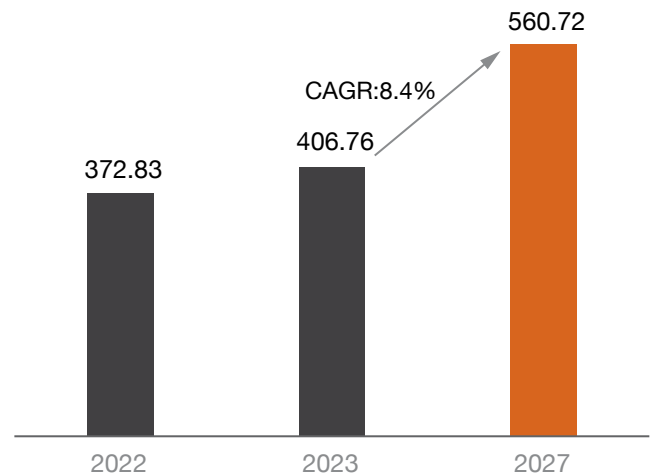
The global machinery leasing market grew from USD 372,830 million in 2022 to about USD 406,760 million in 2023 at a CAGR of 9.1%.

By 2027, the market is expected to grow to nearly USD 560,720 million at a CAGR of 8.4% (2023-27).

In 2022, Asia-Pacific was the largest region in the machinery leasing market showcasing significant impact.<sup>11</sup>

The rise of start-up companies as critical clients of leasing specialist organisations is the driving force for the leasing industry. New companies, that are primarily focused on increasing cost proficiency and require cutting-edge tools and technologies which are costly, choose renting or leasing to save costs.

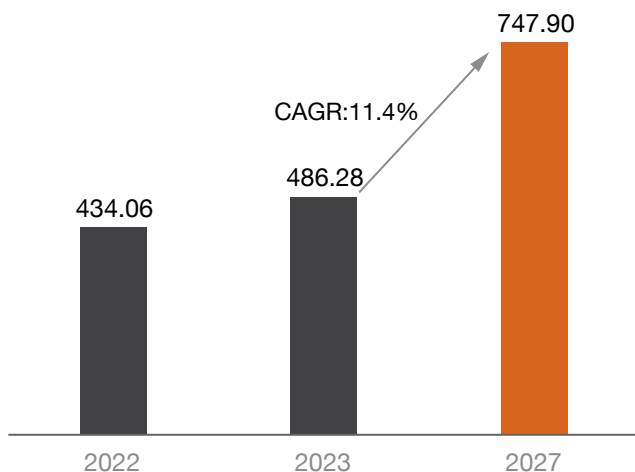
**Figure 2: Global machinery leasing market (in '000 USD million)**



Source: EIN Presswire

## 2.1.3 Global automotive equipment leasing market:

**Figure 3: Global automotive equipment leasing market (in '000 USD million)**



Source: EIN Presswire

The global automotive equipment leasing market grew from USD 434,060 million in 2022 to USD 486,280 million in 2023 at a CAGR of 12%.

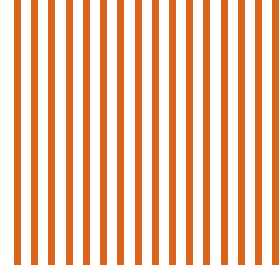
In 2027, the market is expected to grow to USD 747,900 million at a CAGR of 11.4% (2023-27).

In 2022, western Europe emerged as the largest market in the automotive equipment leasing market, with Asia-Pacific coming a close second, reflecting the global influence on the leasing industry.<sup>12</sup>

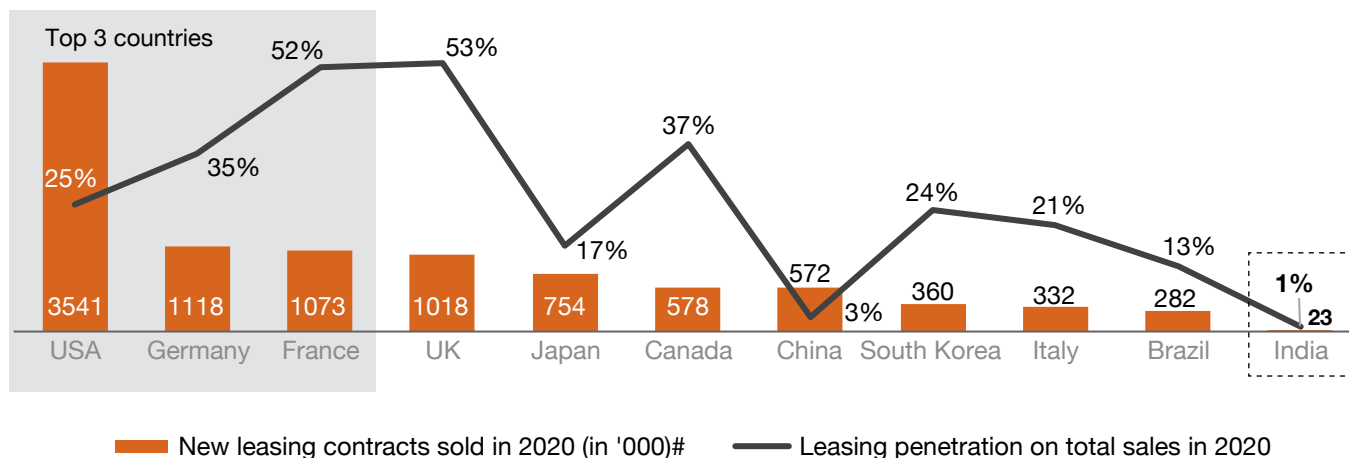
11. <https://www.einpresswire.com/article/677728883/navigating-the-dynamics-of-the-global-machinery-leasing-market>

12. <https://www.einpresswire.com/article/672961118/global-automotive-equipment-leasing-market-accelerates-projected-to-reach-747-9-billion-by-2027>





**Figure 4: Country-wise new leasing contracts sold and leasing penetration on total sales in 2020**



Source: Economic Times

#One leasing contract sold implies one vehicle.

In India, total company car registrations accounted for 9% of total vehicle sales (PVs+LCVs) in 2020, compared to 7.1% in 2019.<sup>13</sup>

With green shoots in the primary PV and CV fragments, the Indian vehicle financing disbursals are ready to see an exponential growth. This expectation can be validated by the following facts:

- PV sales grew at 26.7% from 2022–23.<sup>14</sup>
- CV industry is poised to grow at a rate of 13–15%.<sup>15</sup>
- EV sales is expected to grow at a CAGR of 32% till FY26.<sup>16</sup>

<b>Growth drivers</b>	<b>Car ownership</b> period has declined from 6–8 years to four years.	<b>Tax benefits</b> provided by operational lease to serve as an impetus	<b>Used car sales are now 1.6x of new car sales</b>	Currently, India has only <b>36 cars per 1,000 citizens</b> .	Premium vehicle leasing to grow as number of HNIs grows by 76% in ten years.
<b>Growth restraints</b>	<b>Lack of awareness</b> among Indian customers	<b>Cultural preference</b> and value perception for vehicle ownership	Leasing costs are <b>comparable</b> to those of traditional financing options.		

13. <https://auto.economictimes.indiatimes.com/news/aftermarket/opinion-how-company-car-segment-recovery-will-spur-return-of-indian-light-vehicle-leasing-market/89566499>

14. <https://www.moneycontrol.com/news/business/pv-sales-surge-26-7-to-nearly-39-lakh-units-in-fy23-1-in-every-2-vehicles-sold-a-uv-10408911.html>

15. <https://www.financialexpress.com/business/express-mobility-indian-cv-industry-to-clock-upto-15-growth-in-fy2023-says-icra-2635859/>

16. <https://economictimes.indiatimes.com/industry/renewables/ev-sales-in-india-likely-to-grow-at-cagr-of-35-annual-volumes-may-cross-27-million-by-2032-says-report/articleshow/106578432.cms?from=mdr>

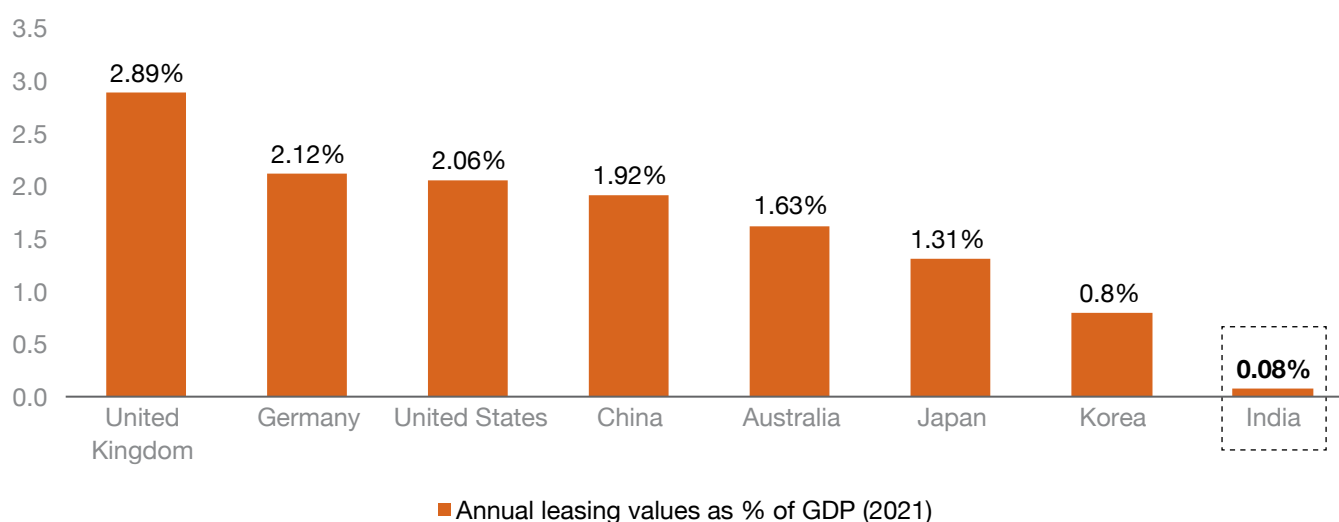
## 2.2 Indian leasing market

### 2.2.1 Market penetration

The leasing value-to-GDP ratio gauges the size of a country's leasing market, relative to its economic output. Calculated by dividing the annual leasing value by GDP, a higher ratio signifies a more developed market. In 2021, the global average ratio was 1.5%. In 2023, with a global leasing market of USD 1,674 billion and a GDP of USD 104,480 billion,<sup>17</sup> the estimated ratio is 1.6%, indicating stabilisation and market recovery post the COVID-19 pandemic.

Within the sphere of prominent markets, the UK distinguishes itself with the most substantial ratio of leasing value to GDP. On the other hand, Germany, the US, China, Australia, Japan etc., exhibit ratios that span between 1.3% to 2.1% of their respective GDPs. India presents a notably lower ratio of merely 0.08%, signifying a vast untapped potential for the burgeoning of the leasing industry within the Indian market.

**Figure 5: Annual leasing values as a percentage of GDP (2021)**



Source: Solifi Global Leasing Report 2023

### 2.2.2 Leasing market as a percentage of financial assets

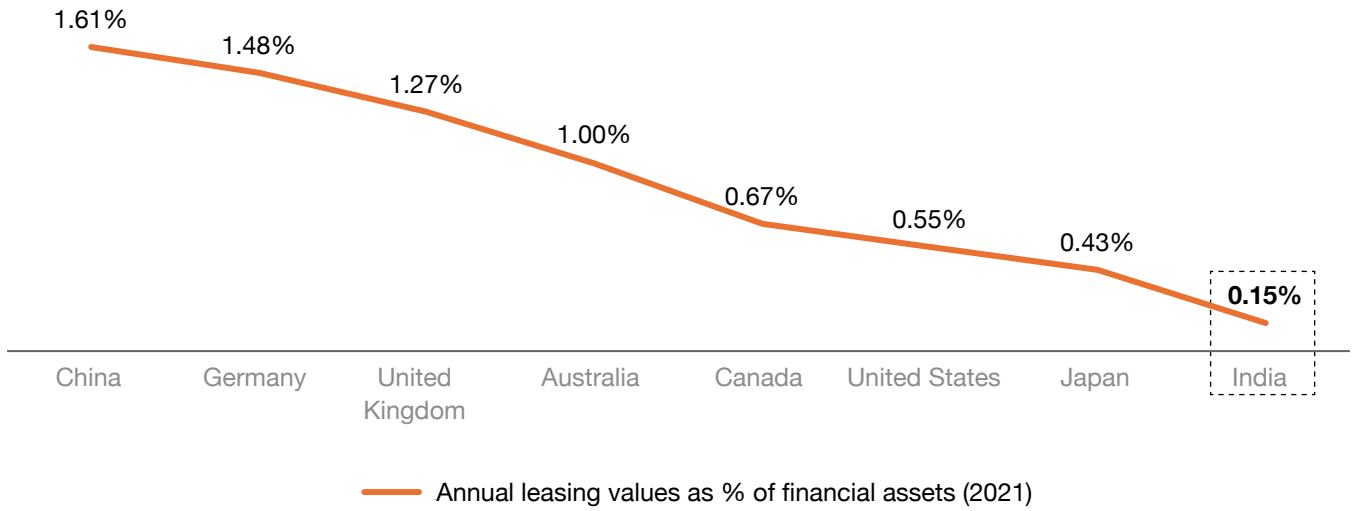
The leasing value-to-financial-assets ratio measures a country's leasing market size relative to its total financial assets. This ratio is calculated by dividing the annual leasing value by total financial assets, and a higher ratio signifies a more significant market.

Amidst major global markets, China stands out with the most substantial leasing value to financial assets ratio, registering an impressive 1.61%, followed by Germany, the UK and Australia having ratios in the range of 1–1.5% of their financial assets. Meanwhile, India's ratio lingers at a considerably lower 0.15%, underscoring the immense growth potential that India holds within the burgeoning leasing landscape.

The leasing value to financial assets ratio can be affected by various factors, such as the availability and cost of capital, tax laws and incentives, transaction costs and risks, and demand and supply of assets.

17. <https://www.imf.org/external/datamapper/NGDPD@WEO/OEMDC/ADVEC/WEOORLD>

**Figure 6: Annual leasing values as a percentage of financial assets (2021)**

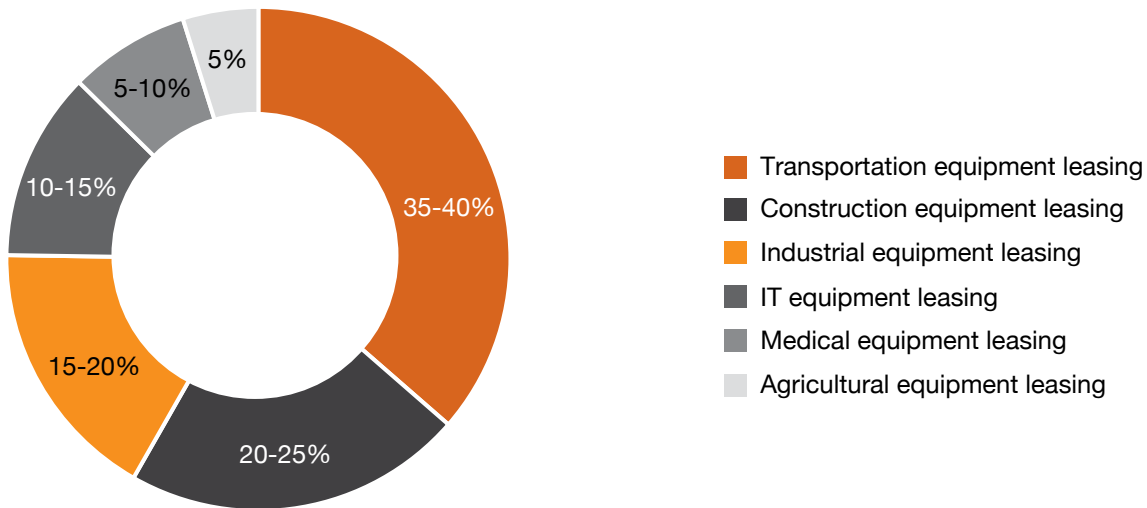


Source: Solifi Global Leasing Report 2023; PwC research and analysis

### 2.2.3 Segment-wise bifurcation

In India, the transportation, construction and industrial equipment leasing industry captures atleast 80% of the market. This is because most of these assets are high-capital goods, seasonal and undergo dynamic technological changes. On the other hand, the IT, medical, agriculture equipment leasing are increasingly gaining popularity due to the significant boost by the Government towards promoting the industry and establishing new leasing companies.

**Figure 7: Indian leasing industry: Segment-wise (2021)**



Source: PwC estimates and analysis

## 2.3 Indian leasing landscape

This SWOT analysis intends to provide a snapshot of the internal strengths and weaknesses of the Indian leasing industry, along with the external opportunities and threats it faces in the market. This analysis may assist businesses in strategic decision making, thereby helping them capitalise on their strengths while addressing the areas for improvement.

	Internal factors	External factors
Favourable factors	<ul style="list-style-type: none"> <li>• Flexible financing structures</li> <li>• Stable revenue stream</li> </ul>	<ul style="list-style-type: none"> <li>• Growing market demand</li> <li>• Shift towards asset-light customer mindset</li> <li>• Collaboration opportunities with FIs and other businesses</li> <li>• Curated industry product customisation</li> </ul>
Unfavourable factors	<ul style="list-style-type: none"> <li>• Asset management complexity</li> <li>• Cost of funds</li> <li>• Lack of adequate talent pool</li> </ul>	<ul style="list-style-type: none"> <li>• Economic turndowns</li> <li>• Intense market competition</li> <li>• Interest rate fluctuation</li> <li>• Regulatory changes</li> </ul>





## 2.4 Observations from across the globe

Initially, in the 1900s, the leasing market was significantly new and its growth was quite slow due to regulatory gaps, unfavourable tax policies, legal uncertainties and limited awareness. However, over the years, countries across the globe opened up their leasing markets to foreign players, including banks and private organisations.

In one of the growing economies, leasebacks accounted for more than 90% of the new leasing volumes in 2021, making this a feasible opportunity to consider. Furthermore, it has been observed that the bank-affiliated leasing companies – though constituting a small part of the total players operating in this industry – contribute more than one-third of the total leasing volumes.<sup>18</sup>

In most economies where the leasing market is developed, the industry is governed by the central regulating authority. This has enabled a more regulated environment and level playing ground for all the players in the sector. Moreover, granting of licences to leasing companies based on the business scope, source of funds, nature of companies etc., is another step taken by a few countries towards developing a mature leasing market. However, it is important to note that companies are required to fulfill a required set of parameters before becoming eligible to obtain a licence.

18. PwC research and analysis

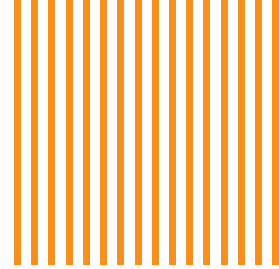




03

## Key trends, opportunities and challenges





## 3.1 Key trends in the leasing industry

We are seeing several new trends driven by evolving customer preferences, and economic, technological, and environmental factors. Most of these trends will help provide the required impetus to the leasing business model as a preferred product of choice for both retail and business customers.

### Demand for flexible and asset-light solutions

As businesses seek more flexibility and economical solutions, there is a rising demand for flexible leasing services. Leasing allows companies to access assets with minimum initial costs, providing them the freedom to upgrade or change assets as needed. This trend is partly driven by the uncertainty caused by events like the COVID-19 pandemic.

### Use of technology and data analytics

Technology and data analytics can be used to improve customer experience, accelerate risk assessment and streamline lease management procedures. Insightful assessments of credit risk, competitive pricing strategy optimisation and leasing sector leadership can be achieved by utilising digital platforms and analytics.

### Subscription-based leasing models

Such models offer admittance to resources and administrations without huge forthright ventures, unsurprising costs, and the capacity to handily scope tasks. Furthermore, it facilitates a client-driven approach using recent innovations, thus making it an alluring choice for both organisations and purchasers.

### Technology leasing

Speedy technological advancements lead to frequent replacements and upgrades in IT equipment and technology. Leasing allows businesses to stay updated with the latest technology without worrying about asset obsolescence and heavy upfront investments.

### Circular economy and leasing

This type of economy emphasises reducing waste and maximising resource efficiency. Leasing plays a crucial role in this model by facilitating asset reuse, refurbishment and recycling. By providing environmentally friendly and sustainable leasing solutions, leasing companies may profit from this trend.

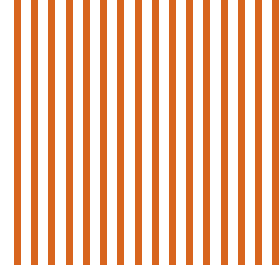
### E-commerce and logistics

Leasing logistics and warehouse equipment is in high demand as e-commerce expands. This pattern was advanced by the expanded requirement for productive inventory chains over previous years and can be a possible market for leasing industry.

### Cross-industry leasing

Leasing is branching out into varied sectors – like technology, agriculture and renewable energy. Cross-industry leasing enables companies to access specialised equipment and work collaboratively to maximise potential.

Note: Refer to Annexure 3 for details on 'Intervention of OEMs' that will act as an enabler for growth.



## 3.2 Sustainability and green leasing

Due to increasing environmental issues, there is an advancing interest in green renting choices that invigorate energy proficiency, ecological power use and eco-accommodating practices. The objective of sustainable and green leasing is to bring down the natural effect of rented resources and implement environmentally conscious leasing practices among players of the industry.

Sustainability leasing	Green leasing
<p>Sustainability leasing alludes to joining of earth-mindful practices over the lifecycle of rented resources. It gives a green perspective for those in the industry to take environment into consideration, think about ecological variables while deciding whether to acquire or rent, and managing end-of-life assets. The core concept is to restrict use of fossil fuel by-products, save regular assets and encourage social commitment.</p>	<p>Sustainability is supplemented by green leasing. It involves including specific environmental clauses and performance benchmarks in leasing contracts and practices to ensure that the leased assets uphold the sustainability criteria. Green lease agreements incorporate elements such as energy efficiency, waste reduction, water conservation and indoor air quality improvement measures. Such provisions promote adoption and upkeep of environmentally friendly procedures and technologies by lessors as well as lessees.</p>

### 3.2.1 Key components of sustainable and green leasing



### 3.3.2 Benefits of sustainable and green leasing

Environmental impact	Optimised cost	Brand reputation	Compliance and regulation	Improved occupant satisfaction
<p>By advancing sustainable practices and green leasing, there will significant reduction in carbon footprints and other environmental impacts associated with leased assets.</p>	<p>Lower operating costs can be achieved by using energy-efficient and sustainable assets, which can benefit both lessors and lessees in the long term.</p>	<p>A company adopting green leasing practices and methodologies has a positive impact on its brand reputation by proving its commitment towards maintainability and corporate social responsibility.</p>	<p>Green leasing should be in line with domestic ecological guidelines, guaranteeing compliance for both lessors and tenants.</p>	<p>On account of real-estate renting, green structures frequently offer better indoor air quality and inhabitant solace, prompting expanded fulfillment and efficiency for residents.</p>

In general, manageability and green renting are gaining momentum as organisations and people become more concerned about ecological issues. By consolidating eco-accommodating practices into renting arrangements and contracts, partners in the leasing business can contribute towards a green dependable future.

## 3.3 Innovation and technology in leasing



**Digital platforms and automation:** From lease origination to contract management and asset tracking, leasing companies are streamlining processes by utilising digital platforms and automation. These stages enable quicker and more productive exchanges, reducing desk work and managerial weights.



**Data analytics and AI:** Information investigation and computerised reasoning (AI) are being utilised to acquire significant bits of knowledge from huge measures of information. These instances help leasing companies take data-driven decisions, survey credit risk, assess demand and recognise market patterns.



**Blockchain, digital signature and electronic documentation for smart contracts:** Blockchain facilitates information gathering by using encrypted channels requiring minimal human intervention. Use of technology streamlines the leasing process, aiding quicker, secure and unalterable agreement execution.



**IoT for asset monitoring:** Leased assets are sold with integrated IoT devices that allows lessors to remotely monitor usage, performance and maintenance needs. With real-time updates, the lessor can foresee breakdown/upkeep requirements and proactively schedule maintenance. This will guarantee runtime and efficient use of assets.



**Enhancing customer experience:** Innovation enables specially curated and seamless customer experiences, from online self-service options over various applications, thereby ensuring customer convenience. This will allow the customer to access his lease information, repayment schedules and pay dues on the go based on his/her needs.



**Remote asset inspections:** Drones and augmented reality (VR) can be used by lessors to carry out remote inspections and evaluations of the asset. This saves time and costs incurred for assessments.



**RPA:** In lease management, RPA may be used to automate repetitive tasks like data entry, invoice processing and document verification. This will improve operational efficiency, with minimal human intervention.



**ML for risk assessment:** AI/ML can enhance credit risk assessment by dissecting historical data and drawing patterns through algorithms that traditional methods may not be able to capture.



**Asset telematics:** Telematics innovation provides real-time information of drivers' behavioural patterns and performance of the vehicle. This allows insurance companies to gather accurate data for risk assessment and ensure appropriate risk-based pricing for insurance policies.

By embracing innovations, leasing companies will not only enhance their operational efficiency but also offer a predominant client experience, which is crucial for having an edge over other market players. Staying on top of developments in technology will enable leasing companies to adapt to rapidly changing market trends and customer demands.

## 3.4 Challenges faced by the industry

### Customer awareness

One of the greatest issues faced by the Indian leasing industry is the low degree of mindfulness and understanding about the same among tenants, who don't completely comprehend its advantages, which can restrict market development.

### Fragmented market

The Indian leasing market is profoundly divided, with numerous small-scale players scattered over various industries and geographies. This causes hurdles for lessors to accomplish economies of scale and contend successfully with established players.

### Economic uncertainty

Businesses' willingness to invest in leasing arrangements can be affected by economic volatility and uncertainty, both domestically and globally. Financial slumps can bring about decreased interest for leasing arrangements.

### Credit risk

Evaluating financial soundness can be difficult in India because of limited access to credit data and existence of informal methods of business. This can bring about higher credit risk for leasing organisations.

### Funding shortfall

The leasing industry in India is heavily reliant on bank funding, which can be limited and is subject to fluctuations. This can make it challenging for lessors to scale up or finance sizeable deals.

### Regulatory restrictions

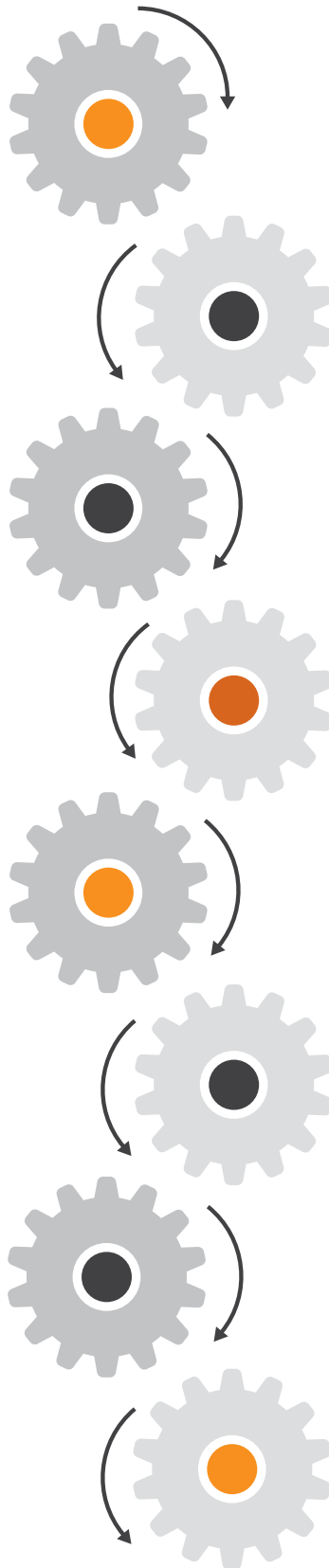
Sectors such as aviation and shipping face distinct challenges in India due to stringent regulations, limited infrastructure and global socio-economic market factors.

### Infrastructure and technology

A robust infrastructure and tech-led contracts management system, ability to track assets and perform risk assessments are the basic requirements of an effective leasing business. However, adoption of modern infrastructure and technology in the Indian leasing market is lower as compared to the global market.

### Complex regulatory environment

Legal enforcement, accounting standards and taxation regulations can create uncertainty and hinder leasing companies' ability to operate effectively. India falls short of a unified regulatory body focused on leasing. Absence of a supervisory body may lead to inconsistencies in regulation compliance and cause problems.



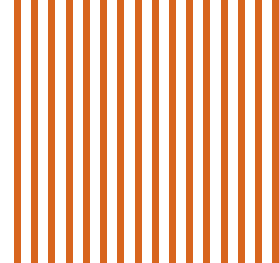




04

## GoI initiative: GIFT City





The GoI initiated a significant step in April 2015 by inaugurating the first IFSC in Gujarat, located within GIFT City. Through the establishment of this IFSC in GIFT City, the GoI marked its initial move toward the repatriation of financial services transactions related to India.

The IFSC platform at GIFT City presents a valuable opportunity for global enterprises to establish a diverse range of business sectors, encompassing aircraft leasing, ship leasing, banking, insurance, stock exchanges, AIFs, etc., by creating companies, LLPs or subsidiaries within the precincts of GIFT City.

## 4.1 Benefits for lessors registered in GIFT City IFSC

Particulars	Benefits
<b>Income Tax Act</b>	<ul style="list-style-type: none"> <li>• 100% tax exemption for 10 continuous years out of 15 years (IFSC unit has the flexibility to select any 10 years out of a 15-year block)</li> <li>• Capital gain tax deduction from transfer of an aircraft or aircraft engine previously leased by it to any person – previously mentioned tax holiday period is also applicable to it, provided it has commenced its operations by 31 March 2024, under section 80 LA of Income Tax Act, 1961</li> <li>• MAT/AMT is calculated at 9% of book profits – applies to company/others who set up as a unit in IFSC (companies in IFSC opting for new tax regime are exempt from MAT)</li> <li>• Dividend paid to shareholders of company in IFSC (From 1 April 2020, dividend income distributed by company registered in IFSC will be taxed in the hands of the shareholder)</li> <li>• Interest income paid to non-residents on: <ul style="list-style-type: none"> <li>– amount lent to IFSC units is not taxable</li> <li>– long-term bonds and RDBs are listed on IFSC exchanges taxable at a lower rate of 4%</li> </ul> </li> <li>• Post a recent amendment, dividend income earned by an aircraft leasing unit set up in the IFSC from another aircraft leasing unit is considered to be exempt.</li> <li>• As per the Finance Act 2023, capital gains arising in the hands of a non-resident or an aircraft leasing unit in the IFSC from transfer of equity shares of a domestic company (aircraft leasing unit in the IFSC) for a period of 10 years, is also exempt, provided that the latter commences operations on or before 31 March 2026.</li> </ul>
<b>Goods and Service Tax (GST)</b>	<ul style="list-style-type: none"> <li>• No GST on services: <ul style="list-style-type: none"> <li>– received by IFSC/ SEZ unit in IFSC</li> <li>– provided by IFSC/SEZ units to offshore clients</li> </ul> </li> <li>• Supply of all goods or services provided from DTA to a unit located in SEZ are classified as zero-rated supply (irrespective of the currency of payment)</li> <li>• Facility of single-window clearance for all central- as well as state-level approvals</li> </ul>
<b>Customs duty</b>	<ul style="list-style-type: none"> <li>• Exemption from customs duty for all goods imported in the SEZ used for authorised operations – however, any removal of goods from SEZ into DTA would attract customs duty</li> </ul>
<b>Central excise duty</b>	<ul style="list-style-type: none"> <li>• Exemption of central excise duty on domestic procurement to carry out operations authorised by the governing body – however, the removal of goods into DTA shall be liable to excise duty</li> </ul>



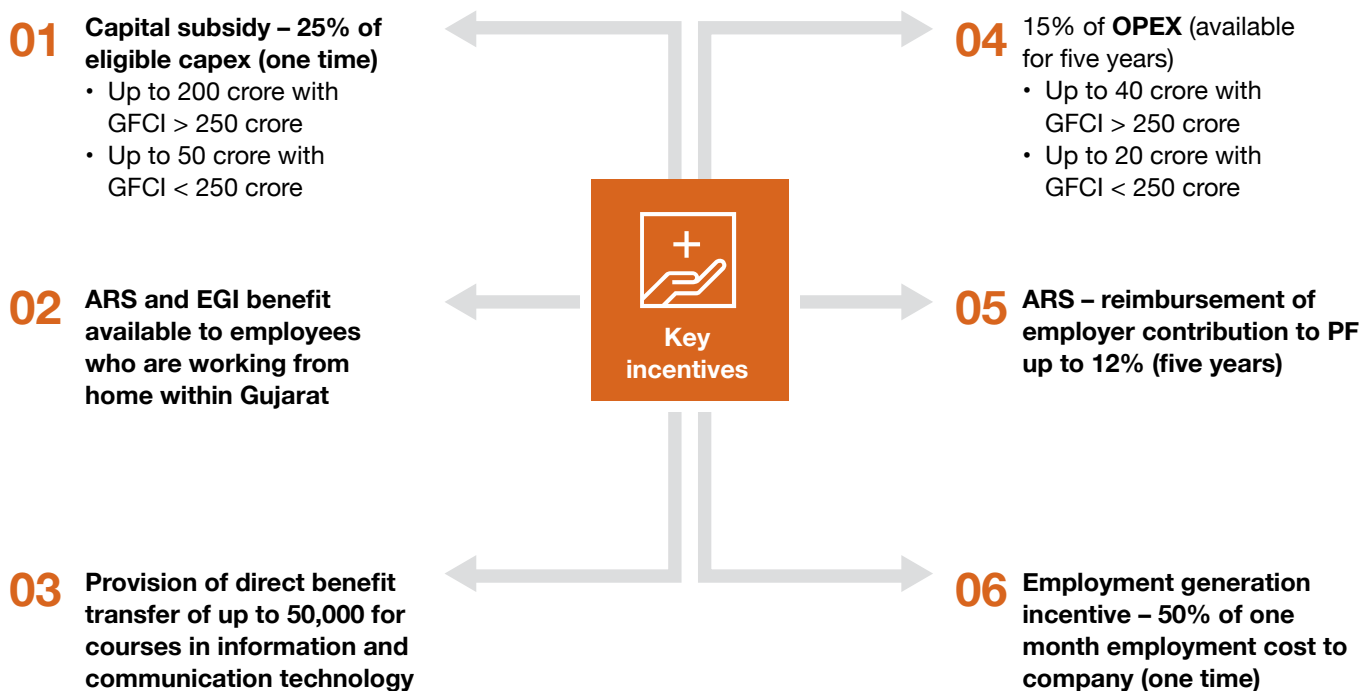
Particulars	Benefits
<b>Other benefits</b>	<ul style="list-style-type: none"> <li>• 100% reimbursement of stamp duty and registration paid</li> <li>• 100% reimbursement of electricity duty and INR 1 subsidy on power tariff for 5 years</li> <li>• 100% of EPF amount paid in case of female employees and 75% of EPF amount paid in case of male employees</li> <li>• Lease rental subsidy for every 50 square feet per employee</li> <li>• &lt; 20 employees – INR 8 per square feet</li> <li>• 20 to 100 employees – INR 5 per square feet</li> <li>• &gt; 100 employees – INR 3 per square feet</li> <li>• 25% of capital expenditure granted as capital subsidy for one-time purchase of computers, network, and related hardware, subject to a max of INR 1 crore</li> </ul>

Source: <https://giftsez.com/ifsc-units.aspx>

## 4.2 Benefits given by Gujarat government for setting up a unit in GIFT City IFSC under Gujarat IT/ITeS policy (2022-27)

Figure 8: Key incentives for setting up a unit under GIFT City IFSC

Figures in INR



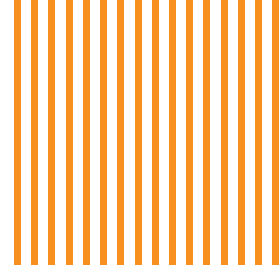
Source: [https://dstpolicy.gujarat.gov.in/public/assets/itpolicy/document/Implementation-Guidelines\\_IT\\_ITeS\\_Policy\\_2022-27.pdf](https://dstpolicy.gujarat.gov.in/public/assets/itpolicy/document/Implementation-Guidelines_IT_ITeS_Policy_2022-27.pdf)

Note: Refer to Annexure 2 for detailed information on aircraft and shipping leasing.



05

## Way forward



The penetration of leasing market in India is relatively low as compared to that in other countries. Hence, there is a need for the Government and regulators to create a more enabling environment for carrying out lease transactions and encourage use of this product through removing existing disincentives. Based on the report and our discussion with the industry experts, we've presented insights and actionable solutions below, which would help in creating an efficient ecosystem for leasing entities to operate in India:



### Consumer education and awareness:

Consumer awareness is essential for a healthy and ethical leasing industry. It's crucial to actively educate consumers about the concept of leasing, the different types of leases (e.g. finance leases, operating leases), and their respective advantages and disadvantages. Collaborating with consumer advocacy organisations and Government agencies to promote consumer awareness in the leasing industry can lead to better regulations and standards.



### Higher adoptability of lease:

In India, leasing is not most-opted solution which is due to:

- advantages of leases being eliminated with the introduction of complex accounting standards
- uncertainty in terms of eligibility for tax benefits
- disadvantages in terms of indirect taxes being imposed – i.e. an uneven competition with loans.

Therefore, to promote leasing in India, we need to come up with a comprehensive, well-thought-out strategy that educates businesses about the benefits of leasing and addresses their specific needs.



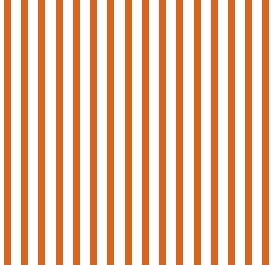
### Clarification on claim:

It is pertinent to note that there is an ambiguity whether depreciation of leased assets will be applicable to the lessee/ lessor. Ordinarily, in the case of financial leases, depreciation is claimed by the lessee (typically, this is agreed in the lease agreement between the lessor and lessee, such that the lessor does not claim the depreciation). However, there are various contradicting decisions. Thus, a clarification in the law by the income tax authorities will bring an end to the long-standing litigation in this matter.



### PSL benefits could be extended to leasing transactions:

To promote financial inclusion, banks are required to maintain their PSL ratios. The sectors which qualify for the PSL benefit include loans to MSMEs, and small and marginal farmers. Since leasing is accepted as one of the permissible modes of financing by banks, lease finance to MSMEs and other underserved groups such as farmers could also potentially be considered for inclusion under PSL.



### **Extending subsidies to leased assets:**

There are a few capital investment aids/subsidies designated to advance MSMEs in various states, keeping in view the degree of industrialisation in the state or locale. Such plans largely provide a subsidy for the investment in capital assets/equipment. There is scope to stretch out such subsidies to the piece of equipment/ assets obtained via leasing – especially if it is a financial lease.



### **Leasing by micro-finance companies:**

As per the regulating guidelines, an MFI must hold at least 85% of its assets in the form of qualifying loans. Such loans do not include leased assets. Including leasing transactions under qualifying loan could potentially provide a good avenue for MFIs to increase financing options to micro-enterprises, with better access to the asset and the option to lend at cheaper rates.



### **Establishing a central governing body for leasing:**

Economies with an emerged or emerging leasing market have a central apex authority to regulate the leasing companies. Establishing an industry specific governing body imparts confidence and trust in the working framework. This type of governance aids stability and level playing ground for all companies to operate in a regulated environment.



### **Boost lease rental discounting as a financing and an investment option:**

With increasing popularity of leases financial institutions can offer LRDs with the intent of providing immediate access to capital to property owners on the leased properties. On the other hand, LRDs can be advertised as a stable fixed income alternate investment option acting as a medium for portfolio diversification and risk mitigation.





06

# Annexures

# Annexure: 1

## Understanding lease – example for comparison

A numerical example to illustrate the difference between lease, loan and upfront buy options for a piece of equipment is provided below.

### Illustration 1:

This illustration shows only the **differential tax impact** between loan and lease options.

While all other assumptions are constant, the tax benefit available to the lessee in the given scenarios is as follows:

- A) Loan:** Since the borrower is the owner of the equipment, he/she incurs the expense in terms of interest and depreciation. Basis this expense, the borrower will get the tax benefit on the interest and depreciation only.
- B) Lease:** The lessee pays lease rentals as an expense since he/she does not own the equipment. Consequently, he/she is eligible for tax benefits on these lease payments.

Upon deciding to purchase the equipment at the end of the lease period, the lessee becomes the owner, allowing him/her to claim depreciation and enjoy tax benefits.

### Assumptions

Particular	Figures
Cost of the asset	2,000
Residual value	600
Loan internal rate of return (IRR)	12.50%
Lease IRR	12.50%
Tax depreciation rate	15%
Tenure of lease/loan (years)	4
Annual loan payments	540.78
Annual lease rentals	540.78
Discounting rate for NPV of tax	8%
Tax rate	30%



# Computation

Year	Loan									Lease						
	Loan repayment	Residual repayment	P/O/s	Interest	Principal	Depreciation	Tax benefit	CFBT	CFAT	Rental	Residual repayment	Depreciation	Tax benefit	CFBT	CFAT	Difference in tax shelter
1	540.8	-	1,709.2	250.0	290.8	300.0	165.0	540.8	375.8	540.8	-	-	162.2	540.8	378.5	(2.8)
2	540.8	-	1,382.1	213.7	327.1	255.0	140.6	540.8	400.2	540.8	-	-	162.2	540.8	378.5	21.6
3	540.8	-	1,014.1	172.8	368.0	216.8	116.9	540.8	423.9	540.8	-	-	162.2	540.8	378.5	45.4
4	540.8	600.0	600.0	126.8	414.0	184.2	93.3	1,140.8	1,047.5	600.0	600.0	90.0	189.2	1,140.8	951.5	95.9
5						156.6	47.0	-	(47.0)			76.5	23.0	-	(23.0)	(24.0)
6						133.1	39.9	-	(39.9)			65.0	19.5	-	(19.5)	(20.4)
7						113.1	33.9	-	(33.9)			55.3	16.6	-	(16.6)	(17.4)
8						96.2	28.9	-	(28.9)			47.0	14.1	-	(14.1)	(14.8)
9						81.7	24.5	-	(24.5)			39.9	12.0	-	(12.0)	(12.5)
10						69.5	20.8	-	(20.8)			33.9	10.2	-	(10.2)	(10.7)
11						59.1	17.7	-	(17.7)			28.9	8.7	-	(8.7)	(9.1)
12						50.2	15.1	-	(15.1)			24.5	7.4	-	(7.4)	(7.7)
13						42.7	12.8	-	(12.8)			20.8	6.3	-	(6.3)	(6.5)
14						36.3	10.9	-	(10.9)			17.7	5.3	-	(5.3)	(5.6)
15						30.8	9.2	-	(9.2)			15.1	4.5	-	(4.5)	(4.7)
16						26.2	7.9	-	(7.9)			12.8	3.8	-	(3.8)	(4.0)
17						22.3	6.7	-	(6.7)			10.9	3.3	-	(3.3)	(3.4)
18						18.9	5.7	-	(5.7)			9.2	2.8	-	(2.8)	(2.9)
19						16.1	4.8	-	(4.8)			7.9	2.4	-	(2.4)	(2.5)
20						13.7	4.1	-	(4.1)			6.7	2.0	-	(2.0)	(2.1)
21						11.6	3.5	-	(3.5)			5.7	1.7	-	(1.7)	(1.8)
22						9.9	3.0	-	(3.0)			4.8	1.4	-	(1.4)	(1.5)
23						8.4	2.5	-	(2.5)			4.1	1.2	-	(1.2)	(1.3)
24						7.1	2.1	-	(2.1)			3.5	1.0	-	(1.0)	(1.1)
25						6.1	1.8	-	(1.8)			3.0	0.9	-	(0.9)	(0.9)
26						5.2	1.5	-	(1.5)			2.5	0.8	-	(0.8)	(0.8)

**Note:** The computation has been done by considering two similarly structured lease and loan transactions. So, while there is a residual value in case of a lease, we have assumed a balloon payment in case of the loan as well, so as to equalise the annual payments in case of both. We have also equated the pre-tax IRRs of both, so as to focus only on the tax efficiency of the lease option.

Particulars	Pre tax	Post tax
NPV of loan	1,648.1	1,000.0
NPV of lease	1,602.0	1,000.0
<b>NPV of differential tax shelter in case of lease</b>	<b>46.1</b>	

## Conclusion:

The NPV of lease is lower than that of the loan option because of the different bases available for tax benefit.

A person should opt for a lease considering the tax benefit, where other variants – i.e. rate of interest, tenure, cost of asset, purchase value at the end of year 4 – are constant.

## Illustration 2:

This illustration shows the comparison of an actual case scenario of a loan and lease (option to buy).

All other assumptions are constant.

In the loan option, there is a downpayment of INR 600 at the start of year 1, and in lease option, there is a purchase option at the end of year 4.

**A) Loan:** Since the borrower is the owner of the equipment, he/she incurs expense in terms of interest and depreciation. Basis this expense, the borrower will get the tax benefit on the interest and depreciation only.

**B) Lease:** The lessee pays lease rentals as an expense since he/she does not own the equipment. Consequently, the lessee will be eligible for tax benefits on these lease payments.

Upon deciding to purchase the equipment at the end of the lease period, the lessee becomes the owner, allowing him/her to claim depreciation and enjoy tax benefits.

## Assumptions

Particulars	Figures
Cost of the asset	2,000
Residual value	600
Loan IRR	9.50%
Lease IRR	12.50%
Tax depreciation rate	15%
Tenure of lease/loan (years)	4
Downpayment	600
Annual loan payments	436.89
Annual lease rentals	540.78
Discounting rate for NPV of tax	8%
Tax rate	30%

# Computation

Year	Loan									Lease						
	Loan repayment	Down payment	P/O/s	Interest	Principal	Depreciation	Tax benefit	CFBT	CFAT	Rental	Residual repayment	Depreciation	Tax benefit	CFBT	CFAT	Difference in tax shelter
1	436.9	600.0	1,096.1	133.0	303.9	300.0	129.9	1,036.9	907.0	540.8	-	-	162.2	540.8	378.5	32.3
2	436.9	-	763.4	104.1	332.8	255.0	107.7	436.9	329.1	540.8	-	-	162.2	540.8	378.5	54.5
3	436.9	-	399.0	72.5	364.4	216.8	86.8	436.9	350.1	540.8	-	-	162.2	540.8	378.5	75.5
4	436.9	-	-	37.9	399.0	184.2	66.6	436.9	370.2	540.8	600.0	90.0	189.2	1,140.8	951.5	122.6
5						156.6	47.0	-	(47.0)			76.5	23.0	-	(23.0)	(24.0)
6						133.1	39.9	-	(39.9)			65.0	19.5	-	(19.5)	(20.4)
7						113.1	33.9	-	(33.9)			55.3	16.6	-	(16.6)	(17.4)
8						96.2	28.9	-	(28.9)			47.0	14.1	-	(14.1)	(14.8)
9						81.7	24.5	-	(24.5)			39.9	12.0	-	(12.0)	(12.5)
10						69.5	20.8	-	(20.8)			33.9	10.2	-	(10.2)	(10.7)
11						59.1	17.7	-	(17.7)			28.9	8.7	-	(8.7)	(9.1)
12						50.2	15.1	-	(15.1)			24.5	7.4	-	(7.4)	(7.7)
13						42.7	12.8	-	(12.8)			20.8	6.3	-	(6.3)	(6.5)
14						36.3	10.9	-	(10.9)			17.7	5.3	-	(5.3)	(5.6)
15						30.8	9.2	-	(9.2)			15.1	4.5	-	(4.5)	(4.7)
16						26.2	7.9	-	(7.9)			12.8	3.8	-	(3.8)	(4.0)
17						22.3	6.7	-	(6.7)			10.9	3.3	-	(3.3)	(3.4)
18						18.9	5.7	-	(5.7)			9.2	2.8	-	(2.8)	(2.9)
19						16.1	4.8	-	(4.8)			7.9	2.4	-	(2.4)	(2.5)
20						13.7	4.1	-	(4.1)			6.7	2.0	-	(2.0)	(2.1)
21						11.6	3.5	-	(3.5)			5.7	1.7	-	(1.7)	(1.8)
22						9.9	3.0	-	(3.0)			4.8	1.4	-	(1.4)	(1.5)
23						8.4	2.5	-	(2.5)			4.1	1.2	-	(1.2)	(1.3)
24						7.1	2.1	-	(2.1)			3.5	1.0	-	(1.0)	(1.1)
25						6.1	1.8	-	(1.8)			3.0	0.9	-	(0.9)	(0.9)
26						5.2	1.5	-	(1.5)			2.5	0.8	-	(0.8)	(0.8)

NPV analysis:

Particulars	Pre-Tax	Post Tax
NPV of purchase	1,522.70	1000
NPV of lease	1,602.01	1000
NPV of differential tax shelter in case of lease	(79.31)	

## Conclusion:

In this illustration, the NPV of lease is clearly higher than the loan option due to the higher interest rates charged in the lease agreement. It is essential to note that though the lease NPV is greater than the loan NPV, there is an immediate outflow of cash in the loan option as downpayment, whereas there is a cash outflow at the end of year 4 if the lessee opts to purchase the asset.

The lessee should take a decision by considering his/her financial situation. Though the lease option looks expensive at first, there are some advantages of opting for the same. These are mentioned below:

- **Conservation of cashflow outflow** in the initial year
- **Flexibility** – offers flexibility in defining the duration term and terms of agreement
- **Less risk** – ownership of assets carries risks, such as depreciation, maintenance costs and the potential for asset obsolescence. With a lease, these risks are typically shifted to the lessor (the entity providing the lease), providing the lessee with more predictability
- **Access to up-to-date asset**
- **Easier asset disposal:** When the lessee no longer need the asset, returning it at the end of the lease can be simpler and less costly than selling or disposing it as an owned asset.<sup>19</sup>

19. PwC research and analysis





## Annexure: 2

### GIFT City: Key areas of focus

#### 2.1 Aircraft leasing

India is one of the fastest-growing aviation markets in the world, with the potential to become the third-largest aviation market by 2025.<sup>20</sup>

However, the industry has been facing various challenges, which have been hindering its growth. With the motive to resolve this, the Ministry of Civil Aviation, GoI constituted a working group on the development of avenues for aircraft financing and leasing activities, known as 'Project Rupee Raftaar'.

Aircraft leasing offers multiple benefits for airline operators. It allows airlines to operate aircrafts and relieves them from the financial burden of buying them. In addition, it provides an option to return the aircraft when it no longer serves the need of the business. This arrangement is especially beneficial for new or emerging airlines that are looking to expand their fleet. Leasing aircrafts also provides airlines with a momentary upsurge in capacity, which helps in fulfilling demand during peak travel seasons.

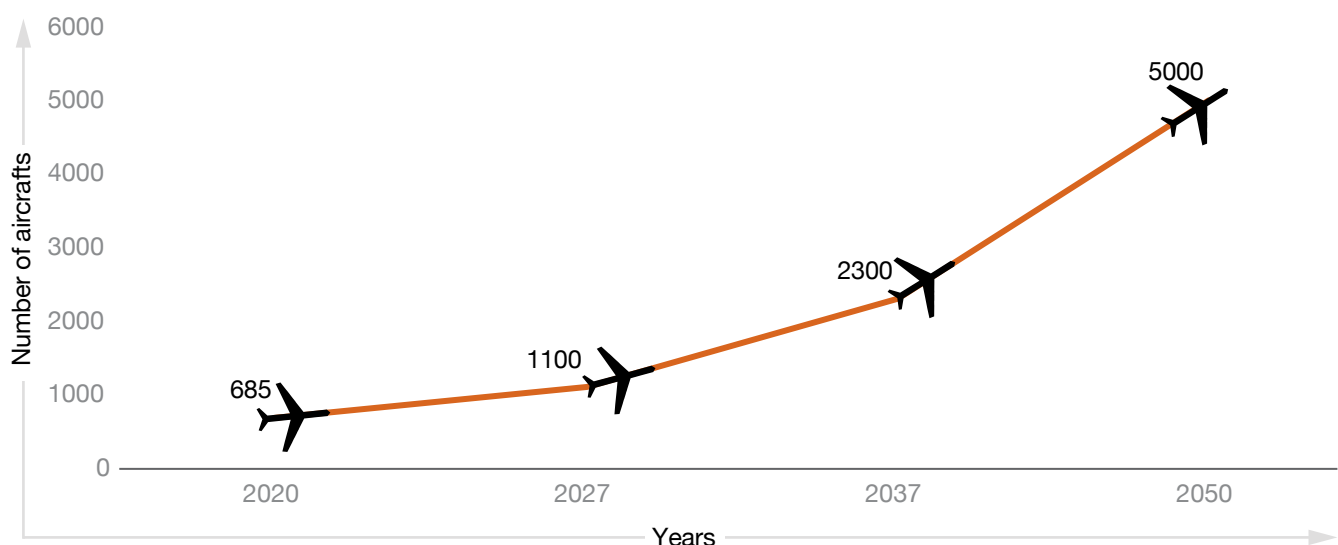
Generally, lease contracts are entered for a term which is shorter than the lifespan of the aircraft. This provides an added benefit that grants airlines to test latest aircraft models before pledging to purchase them.

Lastly, leasing can prove to be a more economical option than buying an aircraft for most airlines. On the other hand, leasing companies can capitalise on economies of scale when purchasing aircraft and defer the cost of ownership across multiple lessees.

##### 2.1.1 Opportunities for aircraft leasing

- Leasing will be a preferred choice in India because approximately 80% of the commercial aircraft fleet is leased.
- India has the third-largest aircraft order book globally.
- By 2038, domestic air traffic in India is expected to grow to 4.8 times that of 2018 levels – the fastest for any sector in the world.
- India's commercial fleet size is expected to exceed 5,000 aircrafts by 2050.
- Freight traffic on airports in India has the potential to reach 17 MT by FY 2040.<sup>21</sup>

**Figure 9: India's commercial fleet size forecast**



20 [https://ifsc.gov.in/Document/Developments/IFSCA\\_Aircraftleasing\\_Digital.pdf](https://ifsc.gov.in/Document/Developments/IFSCA_Aircraftleasing_Digital.pdf)

21 Ibid.





## 2.1.2 Eligible activities for aircraft leasing where the lessor can undertake permissible activities depending upon nature of lease:

Financial lease	Operating lease
<b>Activities approved by IFSCA</b>	
Hybrid leasing	Operating aircraft lease arrangement or aircraft ground support equipment
	Asset management services for owned or leased assets by the group entities
	Sale or leaseback, purchase, novation transfer of assignment or similar transaction related to aircraft leasing

## 2.1.3 Process flow for registration of aircraft leasing



## 2.2 Ship leasing

India is among the largest maritime countries in the world with coastline spanning over 7,517 km consisting of 212 ports.<sup>22</sup>

To monetise the gap in ship leasing and realise the vision outlined by the SAFAL in January 2022, the IFSCA notified 'ship lease' as a financial product.<sup>23</sup> This notification stated that 'ship lease' shall include the operating and hybrid leases of a ship or ocean vessel, engines of a ship or ocean vessel, or any other part thereof. Subsequently, to assist the set up of ship-leasing businesses in the IFSC, the IFSCA provided a framework for enabling ship finance and operating leases on 16 August 2022.

### 2.2.1 Opportunities for ship leasing

- India's major ports handled approximately 1 billion MT of cargo in fiscal year 2022.
- The country's shipping industry is expected to see an increase in demand, with projections estimating a cargo handling capacity of 2.5 billion MT by 2030.
- With India's rising focus on trade and port-led development, the demand for vessels, especially for coastal shipping and inland waterways, is also on the rise.
- India's strategic geographical location between the Middle East and Southeast Asia makes it a pivotal hub for global shipping routes.
- The Sagarmala project could lead to an increased demand for ships for both domestic movements and international trade.
- India's major and minor ports are seeing a constant rise in cargo traffic, and this growth is projected to continue, necessitating more vessels to cater to this demand.
- IFSCA has enabled ship leasing business under its regulatory regime which will facilitate the growth of shipping capacity in the region, bring cost-efficiency to charterers and lead to the development of new business models.
- IFSC-based ship leasing companies can lease shipping vessels in India as well as overseas.<sup>24</sup>

### 2.2.2 Registration

It is necessary to obtain the certificate of registration from IFSCA to act as a lessor.

### 2.2.3 Permissible activities

**01** All types of leases including sale and leaseback, purchase, novation, transfer, assignment and other similar transactions in relation to ship lease

**02** Drafting voyage charters, entering into contracts of affreightment, employment in shipping pools and all other legal transactions

**03** Asset management services for owned or leased assets by the group entities

**04** Under IFSCA's Ancillary Services Framework, ship broking services – including leasing and third party AMC services – can be performed by taking a separate registration

**05** With prior approval of IFSCA, any other related activity can be undertaken with approval

22 <https://www.investindia.gov.in/sector/ports-shipping>

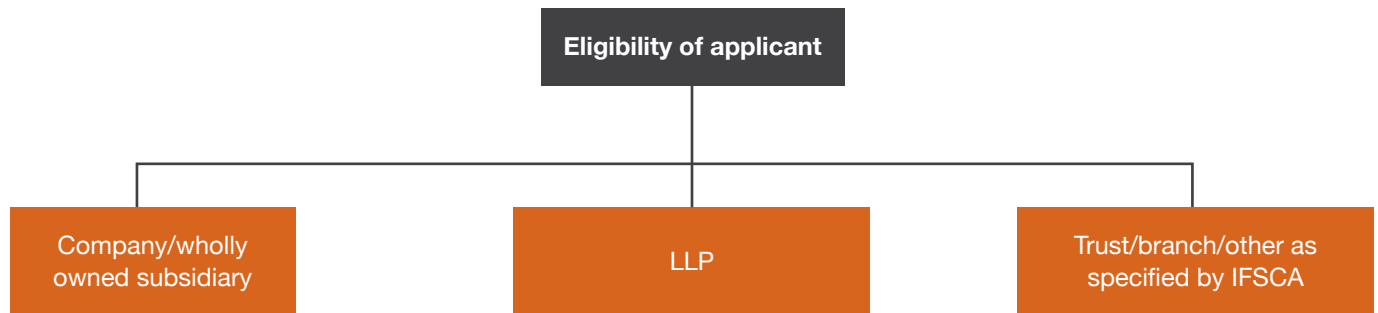
23 <https://www.ifsc.gov.in/Document/ReportandPublication/safal-report-final-2021-10-28-signed-live1212112021032138.pdf>

24 [https://ifsc.gov.in/document/Developments/IFSCA\\_Ship\\_Leasing\\_and\\_Financing.pdf](https://ifsc.gov.in/document/Developments/IFSCA_Ship_Leasing_and_Financing.pdf)

## 2.3 Commonalities for aircraft and ship leasing

### Eligibility of applicant to act as a lessor

#### 2.3.1 Structure of organisation



#### 2.3.2 Financial requirements

Particulars	Financial lease	Operating lease
<b>Aircraft leasing</b>		
Minimum capital requirement	USD 3,000,000	USD 2,000,000
Application fees (one time)	USD 1,000	USD 1,000
Registration fees (one time)	USD 12,500	USD 5,000
Annual fees (second year onwards)	USD 12,500	USD 3,000
<b>Ship leasing</b>		
Minimum capital requirement	USD 3,000,000	USD 2,000,000

Source: [https://ifsc.gov.in/document/Developments/IFSCA\\_Ship\\_Leasing\\_and\\_Financing.pdf](https://ifsc.gov.in/document/Developments/IFSCA_Ship_Leasing_and_Financing.pdf)

#### 2.3.3 Currency

- Dealings can be made in convertible foreign currency only.
- An SNRR account needs to be maintained to meet administrative expenses.





## Annexure: 3

### Interventions by OEMs

Promoting leasing as a product for OEMs can be a strategic move that provides both OEMs and their customers with various benefits and offer leasing as an alternative to traditional loans.

#### 3.1 Ways and techniques to offer leasing as an alternative for OEMs



##### Structured leasing programmes

Structured lease programmes may be developed to curate to customer requirements and provide flexible contract terms, repayment options and end-of-lease choices. Such customisations may lead customers to choose leasing over loans.



##### Online leasing market

Provide user-friendly digital platforms that permit customers to compare and analyse lease products, repayment options and execute lease agreements.



##### Collaboration with leasing partners

Collaborate with leading leasing companies to perform a seamless lease agreement execution. Such partners can assist with necessary financial expertise and resources to structure and supervise various leasing programmes effectively.



##### Educational marketing campaigns

Conduct marketing campaigns that educate customers about the advantages of leasing, and emphasise cost savings, flexibility, and the potential for upgrading to newer equipment. Clear and informative communication can influence customer perceptions positively.



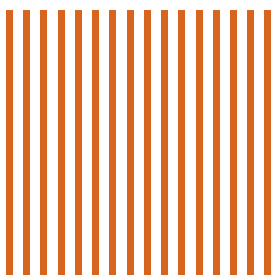
##### Integrated financing solutions

Offer embedded finance options which act as a one-stop-shop for lease purchase. This aids customer convenience and builds brand image.



##### Incentive programmes

Introduce incentive programmes for customers who choose leasing over traditional financing methods. This could include discounted lease rates, special promotions or loyalty programmes to encourage repeat business.



## 3.2 Advantages for OEMs offering leasing

### Increased sales and market share

Offer lease as an alternative financing option which will attract a broader customer base – i.e. one which prefers flexibility and lower upfront costs. Such an approach will drive sales and help OEMs to capture a larger market share.



### Reduced financial burden on customer

Opting for a lease reduces financial burden on customers aided by lower initial costs and deferral of expense over the lease term. This makes high-quality equipment highly accessible to a wider range of customers.



### Stable revenue streams

Monthly lease payments earned via leased assets contribute to stable cash flows which allow financial planning and stability to the OEMs.



### Facilitates after-sales servicing

Leased assets require regular upkeep and maintenance. This creates an additional revenue stream for OEMs through AMC's, spare parts and extended warranties.



### Enhanced customer relationships

Regular lease renewals and anticipated desire for equipment upgrade establishes continuous engagement and builds customer loyalty.



### Financial partnership opportunities

Offering lease options opens doors for OEMs to form strategic tie-ups with banks and other established leasing companies. Such partnerships supplement OEMs with financial support and expertise.



### Faster equipment-replacement cycle

Leasing facilitates faster equipment-replacement cycles, allowing customers to stay up to date with the latest technology. This benefits OEMs as it creates a continuous demand for their newer, more advanced products.



### Competitive advantage

Providing leasing as a product can differentiate an OEM from competitors who may offer only traditional financing options. This competitive advantage can be influential in winning business in a competitive market.

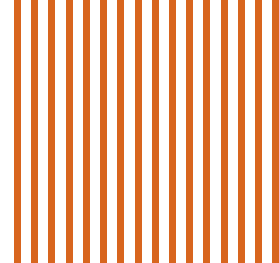




## Annexure: 4

### List of abbreviations

Sr. no.	Abbreviations	Full form
1	<b>AI</b>	Artificial intelligence
2	<b>AIF</b>	Alternative investment funds
3	<b>AMC</b>	Annual maintenance contract
4	<b>AMT</b>	Alternate minimum tax
5	<b>ARS</b>	Atmanirbhar Rojgar Sahay
6	<b>CAGR</b>	Compound annual growth rate
7	<b>CFAT</b>	Cash flow after tax
8	<b>CFBT</b>	Cash flow before tax
9	<b>CV</b>	Commercial vehicle
10	<b>DTA</b>	Domestic tariff area
11	<b>EGI</b>	Economic gross income
12	<b>EPF</b>	Employee provident fund
13	<b>EV</b>	Electric vehicle
14	<b>FICCI</b>	Federation of Indian Chambers of Commerce & Industry
15	<b>GDP</b>	Gross domestic product
16	<b>GFCI</b>	Global Financial Centres Index
17	<b>GIFT City</b>	Gujarat International Finance Tec-City
18	<b>GoI</b>	Government of India
19	<b>GST</b>	Goods and Service Tax
20	<b>HNI</b>	High net-worth individuals
21	<b>IFSC</b>	International Financial Services Centre
22	<b>IFSCA</b>	IFSC Authority



Sr. no.	Abbreviations	Full form
23	<b>IoT</b>	Internet of things
24	<b>ITeS</b>	Information Technology-enabled Services
25	<b>LCVs</b>	Light commercial vehicles
26	<b>LLPs</b>	Limited liability partnerships
27	<b>MAT</b>	Minimum alternate tax
28	<b>MFI</b>	Micro-finance institution
29	<b>ML</b>	Machine learning
30	<b>MSME</b>	Micro, small and medium enterprises
31	<b>NPV</b>	Net present value
32	<b>OEMs</b>	Original equipment manufacturers
33	<b>OpEx</b>	Operating expenses
34	<b>PGBP</b>	Profit and gains of business or profession
35	<b>PLOA</b>	Provisional letter of allotment
36	<b>PSL</b>	Priority sector lending
37	<b>PV</b>	Passenger vehicles
38	<b>RDBs</b>	Rupee denominated bonds
39	<b>RPA</b>	Robotic process automation
40	<b>SaaS</b>	Software-as-a-service
41	<b>SAFAL</b>	Ship Acquisition Financing and Leasing
42	<b>SEZ</b>	Special Economic Zone
43	<b>SME</b>	Small and medium-sized enterprises





# About FICCI



Established in 1927, Federation of Indian Chambers of Commerce and Industry (FICCI) is the largest and oldest apex business organisation in India. Mahatma Gandhi addressed FICCI's 4th AGM in 1931. Our 96th AGM was held in December 2023. With our rich legacy, FICCI would play an even greater role as India emerges as the third-largest economy.

FICCI works with its key stakeholders to foster active engagement and dialogue with decision makers, to support steps that are good for commerce and industry.

As a member-led and member-driven organisation, FICCI represents over 2,50,000 companies across all segments of economy including public, private and multinationals. The diverse membership base of FICCI across all Indian states includes both direct and indirect members through its 300 affiliated regional and state level industry associations. FICCI has a large international presence via partner agreements with 250 national business associations in over 100 countries.

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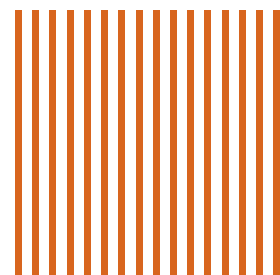
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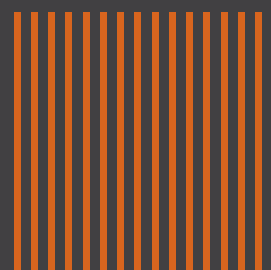
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