

UNIT III — EXAM NOTES

Factoring | Forfeiting | Bills Discounting | Leasing | Hire Purchase

Complete study notes with real-life examples — prepared from PPT slides

PART 1: FACTORING

1.1 Meaning & Definition

Factoring is an arrangement between a financial institution (called the Factor) and a business firm (called the Client) where the factor purchases the client's book debts (receivables) — either with or without recourse — and also manages credit administration and sales ledger.


According to Peter M. Biscose: Factoring is a continuing legal relationship between a financial institution (the factor) and a business concern (the client) selling goods or providing services to trade customers.

Real-Life Example

Flipkart sells electronics to corporate buyers on 60-day credit. Instead of waiting, Flipkart sells those invoices to SBI Factors, gets 80% cash immediately, and SBI collects the money from buyers. Flipkart continues its business without cash flow gaps.

1.2 Characteristics of Factoring

- It is an arrangement between a financial institution and a business concern.
- Involves selling the firm's receivables (book debts) to the factor.
- Factoring is NOT a negotiable instrument.
- Factor acts as a collection agent or representative of the firm.
- Factor charges a commission or gets a discount on book debts.
- Factor's margin ranges from 5% to 20%.
- Normal period: 90–150 days (rarely exceeds 150 days).
- Not possible for bad debts.
- Credit rating is NOT mandatory.
- Can be with recourse or without recourse to the seller.
- It is a method of 'off-balance-sheet' financing.

 **EXAM TIP: Factoring is NOT a negotiable instrument — this is a commonly tested fact. Also remember the 90–150 day period.**

1.3 Modus Operandi (How Factoring Works)

There are THREE parties in domestic factoring:

Firm (Client/Seller): Supplies goods or services and has receivables to sell.

Customer (Debtor/Buyer): Buys goods/services from the firm on credit.

Factor: The financial institution that purchases receivables and manages collection.

Step-by-Step Process:

1. Firm and Factor sign a factoring agreement.
2. Firm sells goods/services to the customer on credit.
3. Firm sends invoice copy to the Factor.
4. Factor advances 70–80% of invoice value to the Firm.
5. Customer pays Factor directly on due date.
6. Factor pays the remaining balance to the Firm after deducting fees and charges.

Real-Life Example

Krishna Textiles sells sarees worth ₹10 lakh to Shoppers Stop on 90-day credit. Krishna approaches Canbank Factors. Canbank advances ₹8 lakh (80%) immediately. After 90 days, Shoppers Stop pays ₹10 lakh to Canbank. Canbank deducts its charges (say ₹30,000) and pays the remaining ₹1.70 lakh to Krishna.

1.4 Types of Factoring

A) Domestic Factoring

Domestic factoring covers transactions within India and has three forms:

- (i) Disclosed – Recourse Factoring:** Customer knows about the factor. If customer fails to pay, the FIRM is responsible to the factor. Risk stays with the firm.
- (ii) Disclosed – Non-Recourse Factoring:** Customer knows about the factor. If customer fails to pay, the FACTOR absorbs the loss. More protection for the firm.
- (iii) Undisclosed Factoring:** Customer is NOT informed. Factor collects payments in the seller's name. Popular in the UK.
- (iv) Invoice Discounting:** Factor provides finance by discounting the bills. Discount rate is based on market trends.

Invoice Discounting Example

ABC Manufacturing sells goods worth ₹5,00,000 to XYZ Distributors on 60-day credit. ABC approaches PQR Bank for invoice discounting. PQR Bank advances 80% = ₹4,00,000. XYZ Distributors are NOT informed and pay the full amount to ABC on due date. ABC then repays the bank along with discounting charges.

B) Export Factoring

A bank (factor) in the exporter's country collects guaranteed payment of export proceeds on behalf of the exporter (client) from the importer (debtor).

Real-Life Example

Infosys exports IT services to a US firm on 90-day credit. Infosys approaches SBI Factors (India). SBI Factors coordinates with a US factor to collect payment from the American company, guaranteeing Infosys gets paid regardless.

C) Full Service / Conventional Factoring (Without Recourse)

Offers ALL services: finance + sales ledger administration + collection + debt protection + advisory. Gives protection against bad debts.

Real-Life Example

Sunrise Traders sells ₹7,00,000 worth of goods to Metro Retailers on 45-day credit. Prime Factors advances 80%, maintains sales ledger, collects from buyer, and absorbs bad debt risk. After deducting charges, pays Sunrise the balance.

D) Maturity Factoring

NO advance payment to the client. Payment is made only on the guaranteed payment date or date of collection. All other services (ledger, collection) are provided.

Real-Life Example

Greenfield Traders sells ₹3,00,000 to Urban Retail on 45-day credit. Summit Factors handles collection but gives NO upfront money to Greenfield. On the 45th day, Summit collects from Urban Retail, deducts its charges, and pays Greenfield.

E) Advance Factoring

Factor makes an ADVANCE payment of 70–80% of receivables upfront. Collects interest on the advance. Pays the balance amount at maturity.

☆ **EXAM TIP: Difference: Advance factoring = advance payment given immediately + interest charged. Maturity factoring = NO advance, payment only on due date.**

F) Bank Participation Factoring

The factor arranges an advance from a BANK to fund the client. Factor pays interest to the bank and charges the client. Three parties: Firm, Factor, Bank.

Real-Life Example

GreenTech Industries sells ₹50,00,000 of equipment to Ocean Engineering on 90-day credit. Summit Factors manages ledger and collection. City Bank provides 70% of the invoice value as finance. GreenTech gets working capital without dealing with the bank directly.

1.5 Functions of a Factor

- **Administration of Sales Ledger** — maintains records of debts
- **Collection of Receivables** — follows up and collects dues from debtors
- **Provision of Finance** — advances funds against invoices (70–80%)
- **Protection Against Risk** — absorbs bad debt risk in non-recourse factoring
- **Advisory Services** — gives credit guidance, risk assessment

1.6 Advantages of Factoring

- Improved cash flows — immediate funds without waiting for debtor payment
- Improves credit standing position of the firm
- Provides flexibility to the company
- Meets seasonal demands
- Better purchase planning
- Boosts efficiency ratios
- Saves management time and effort
- Avoids bad debts (in non-recourse factoring)
- Better management of receivables

1.7 Factoring in India

Origin: Based on proposal by the Kalyanasundaram Study Group, appointed by RBI in 1988–89.

1987: Vaghul Working Group first proposed factoring in India.

1988: RBI appointed the Kalyanasundaram Committee to study feasibility.

1991: SBI Factors and Commercials Ltd (SBI FACS) — India's FIRST factoring company — started operations. Canbank Factors Ltd followed.

2011–12: Factoring Regulation Act, 2011 passed — gave legal definition, registration rules, and regulations for assigning receivables.

2014–Present: Introduction of TReDS (Trade Receivables Discounting System) — MSMEs can now auction invoices online. 2021 amendments further eased regulations.

☆ **EXAM TIP: SBI Factors (1991) = First factoring company in India. Factoring Regulation Act = 2011. TReDS = game-changer for MSMEs. These are all exam-favorite facts.**

Key RBI Recommendations (Kalyanasundaram Committee):

- Factoring would be complementary to banking services.
- Export factoring would provide additional facility to exporters.
- Factoring would be commercially viable within 2–3 years.
- Factors should serve all industries and sectors.
- Cost of funds should not exceed 13.5% per annum.

PART 2: BILLS DISCOUNTING

2.1 Meaning & Definition

Bills Discounting is a TRADITIONAL method of bank financing. A bill (promissory note) is a negotiable instrument.

Definition: When the seller (drawer) deposits genuine commercial bills and obtains financial accommodation from a bank or financial institution, it is known as Bill Discounting. The seller may discount the bill immediately or wait till maturity.

Real-Life Example

Reliance Industries sells machinery worth ₹20 lakh to a buyer, who gives a 90-day bill of exchange. Reliance presents this bill to HDFC Bank, which pays ₹18.5 lakh today (after discount). After 90 days, the bank collects ₹20 lakh from the buyer. The ₹1.5 lakh difference is the bank's income.

2.2 Steps in Bills Discounting

Step 1 – Examination of Bill: Banker verifies the nature of the bill and the transaction, and checks all required documents.

Step 2 – Crediting Customer Account: After verifying genuineness, banker grants a credit limit. Customer account is credited with the NET amount (bill value minus discount). Discount is the bank's income.

Step 3 – Control Over Accounts: Separate register maintained to track each customer's limit, bills discounted, bills collected, and loans.

Step 4 – Sending Bills for Collection: Bills (with stamped documents) are sent to the bank's branch to present for acceptance/payment.

Step 5 – Action by Branch: On receiving payment from the drawee, the collecting branch remits it to the original bank.

Step 6 – Dishonor: If bill is dishonored, a dishonor advice is sent to the drawer. The bill should be protested and NOT purchased again if re-presented.

2.3 Factoring vs. Bills Discounting

Basis	Factoring	Bills Discounting
Nature	Sale of book debts/receivables	Discounting of bills/promissory notes
Instrument	Not a negotiable instrument	Bill of exchange — negotiable instrument
Services	Multiple services (ledger, advisory, collection)	Only finance (no other services)
Recourse	Can be with or without recourse	Generally with recourse
Disclosure	Can be disclosed or undisclosed	Usually disclosed
Scope	Wider (all receivables)	Narrower (only bill-based transactions)

☆ EXAM TIP: Key exam question: Factoring vs. Bills Discounting. Remember: Bills discounting = negotiable instrument, only finance. Factoring = not negotiable, multiple services.

PART 3: FORFAITING

3.1 Meaning & Definition

The word 'forfaiting' comes from the French term 'a forfait' meaning to FORFEIT (surrender) one's rights on something to someone else.

Forfaiting is a mechanism of financing exports by:

- Discounting export receivables
- Evidenced by bills of exchange or promissory notes
- WITHOUT recourse to the exporter (seller)
- For medium to long-term maturities
- On a FIXED rate basis, up to 100% of contract value

Forfaiting is generally used for export of capital goods, commodities and services where the importer insists on credit terms.

Real-Life Example

BHEL (Indian company) exports power plant equipment worth USD 5 million to a Middle Eastern buyer on 2-year credit. The buyer issues promissory notes guaranteed by their bank. BHEL sells these notes to a forfaiter (say, a Swiss bank) and gets immediate cash. The forfaiter collects from the Middle Eastern buyer after 2 years.

3.2 Parties in Forfaiting

- 1. Exporter:** Sells goods/services on credit; gets immediate cash from forfaiter.
- 2. Importer:** Buys goods on credit; issues promissory notes or bills of exchange.
- 3. Importer's Bank (Guarantor):** Guarantees payment — provides Letter of Credit or aval (guarantee) on bills/notes.
- 4. Forfaiter (Discounting Bank):** Purchases the bills/notes from exporter at a discount, without recourse.

3.3 Mechanism of Forfaiting (Step-by-Step)

7. Exporter and Importer negotiate the export sales contract.
8. Importer approaches his local bank to issue a Letter of Credit (L/C) or guarantee in support of bills/promissory notes.
9. Exporter approaches the forfaiter to establish forfaiting terms.
10. Forfaiter quotes the discount rate after estimating risk.
11. Exporter sells and delivers the goods to the importer.
12. Importer draws a promissory note in favour of the exporter.
13. Exporter draws the bill and gets acceptance from the importer.
14. Exporter signs a forfaiting agreement with the forfaiter.
15. Exporter sells bills/notes to forfaiter at a discount WITHOUT RECOURSE — exporter gets cash immediately.
16. Forfaiter presents the bill to the importer on maturity OR sells the bills in the capital market before maturity.

3.4 Costs in Forfaiting

Commitment Fee: Paid by exporter to forfaiter for commitment to execute the transaction at a firm discount rate within a specified time period.

Discount Fee: Interest payable by exporter for the entire credit period, deducted by forfaiter from the amount paid to exporter.

3.5 Benefits of Forfaiting

- Frees exporter from political or commercial risks abroad.
- Provides WITHOUT RECOURSE finance — exporter has no liability after sale of bills.
- Relieves exporter from credit administration and collection problems.
- Specific to one transaction — no need for long-term banking relationship.
- Exporter saves on insurance costs — no need for export credit insurance.

3.6 Problem Areas in Forfaiting in India

- No legal framework for settling disputes between exporter, importer, and forfaiter.
- Lack of accurate database on importers and their status.
- High commercial, political, and sovereign risks.

3.7 Factoring vs. Forfaiting

Basis	Factoring	Forfaiting
Nature of transaction	Sale of book debts/receivables	Purchase of export bills/promissory notes
Type of trade	Domestic as well as export	Export only
Maturity period	Short-term (90–150 days)	Medium to long-term (1–7 years)
Recourse	With or without recourse	Always WITHOUT recourse
Services	Multiple services (ledger, advisory)	Only financing (discounting)
Asset type	Any trade receivable	Capital goods, commodities, services
% financed	70–80% of receivables	Up to 100% of contract value
Instrument	Not a negotiable instrument	Bills of exchange or promissory notes

☆ EXAM TIP: Forfaiting = always WITHOUT recourse, always EXPORT, medium to LONG-term (1–7 years). Factoring = can be domestic or export, SHORT-term (90–150 days).

PART 4: LEASING

4.1 Definition of Leasing

A lease is a contract whereby the owner of the asset (LESSOR) grants to another party (LESSEE) the exclusive right to USE the asset, usually for an agreed period of time in writing, for the payment of RENT.

Lessor: Owner of the asset who leases it out and receives rent.

Lessee: User of the asset who pays rent but does NOT own it.

Real-Life Example

IndiGo airline (lessee) does not own most of its aircraft. It leases them from AerCap or Air Lease Corporation (lessors) based in Ireland. IndiGo pays monthly lease rentals and operates the aircraft without owning them. This preserves IndiGo's capital for other uses.

4.2 Main Features of Leasing

- Two parties: Lessor (owner) and Lessee (user)
- Flexibility — terms can be adjusted to suit both parties
- Capital preservation — no large upfront payment needed
- Access to cutting-edge technology without ownership obligations
- Maintenance may be included in lease agreement
- Smarter asset management — easy to upgrade or replace at lease end

Assets commonly leased: Plant & machinery, business cars, commercial vehicles, agricultural equipment, hotel equipment, medical/dental equipment, computers and software, office equipment.

4.3 Benefits of Leasing

To the Lessee:

- **Use of capital goods — no large upfront payment, pay small periodic rentals**
- **Tax benefits — lease payments deductible as business expense**
- **Cheaper — less costly than most other financing sources**
- **Technical assistance — lessor provides support for leased asset**
- **Inflation-friendly — fixed rentals even if asset cost rises**
- **Option to purchase — after primary period, lessee can buy at nominal price**

To the Lessor:

- **Assured regular income — fixed lease rentals throughout the period**
- **Preservation of ownership — risk and rewards transferred but ownership retained**
- **Tax benefit — depreciation can be claimed by lessor**
- **High profitability — rate of return from lease rental > interest on asset financing**

4.4 Disadvantages of Leasing

To the Lessee:

- Finance lease is non-cancellable — must pay even if asset not needed
- No ownership — lessee does not get the asset at end of agreement
- Costly overall — must pay rentals PLUS incidental ownership expenses

To the Lessor:

- Inflation risk — fixed rentals, cannot increase even if asset cost rises
- Double taxation — sales tax may apply at purchase AND at leasing
- Greater chance of asset damage — lessee uses it carelessly without ownership

4.5 Types of Leases

A) Financial Lease (Capital Lease / Full Payout Lease)

The lessor transfers substantially ALL risks and rewards related to the asset to the lessee. Ownership is generally transferred at end of asset life. The lease term covers the MAJOR part of asset life. The lessor is only a FINANCIER.

Real-Life Example

Ayush owns a car and leases it to Suresh for 5 years under a finance lease. Suresh pays fixed monthly amounts and assumes all costs and risks — insurance, damages, maintenance. After 5 years, Suresh may buy the car at a nominal price.

B) Operating Lease

Risk and rewards are NOT completely transferred to the lessee. Lease term is SHORT compared to asset life. Lessor depends on MULTIPLE lessees to recover cost. Lessor also provides additional services (not just finance). Payments recorded as expenses (off-balance-sheet under AS 19, but under Ind AS 116 it must be shown as right-of-use asset).

Real-Life Example

Mukesh opens a new store in Mumbai. He enters a 3-year rental agreement for shop space with a local builder. Mukesh pays monthly rent. The shop never becomes his asset. All risks remain with the builder.

Basis	Financial Lease	Operating Lease
Risk & Reward	Fully transferred to lessee	Retained by lessor
Lease term	Major part of asset life	Short — much less than asset life
Lessor's role	Only a financier	Financier + service provider
Cancellation	Non-cancellable	Usually cancellable
Ownership transfer	Generally at end of lease	Ownership stays with lessor
Balance sheet	Asset shown in lessee's books	Off-balance-sheet (AS 19)

C) Sale and Lease Back

The owner SELLS the asset to a lessor (financier) and IMMEDIATELY leases it back from the lessor. The asset never physically moves. The seller-lessee gets immediate cash and continues to use the asset.

Key Benefits: Immediate access to capital, 100% market value realization, alternative capital source, potential long-term partnership.

Real-Life Example (from PPT)

Shakti Engineering Ltd sells its heavy manufacturing machines to an NBFC for ₹50 crore and immediately leases them back for 8 years. Machines never leave the factory. Shakti treats lease rentals as expenses and removes machinery from balance sheet. This improved profitability and

reduced leverage — but raised questions from auditors about whether this was genuine leasing or a disguised loan.

D) Direct Lease

Bipartite Lease: Two parties only — lessor owns equipment and leases directly to lessee. **Tripartite Lease:** Three parties — supplier (manufactures asset), lessor (buys from supplier and owns it), lessee (uses it and pays rent).

Real-Life Example

A hospital (lessee) needs an MRI machine. It cannot afford to buy it. A leasing company (lessor) buys the MRI from Siemens (supplier) and leases it to the hospital. This is a tripartite lease.

E) Single Investor Lease

Two parties: Lessor and Lessee. The LESSOR alone arranges finance (equity or debt) to buy the asset. In case of default by lessor, the lender can recover only from the LESSOR, NOT from the lessee.

Example

An NBFC buys machinery from a manufacturer and leases it to a factory for 8 years. The NBFC arranged its own funds. The factory pays rent only to the NBFC.

F) Leveraged Lease

THREE parties: Lessor, Lessee, and Lender/Financier. Lessor provides equity, lender provides debt. The lender has DIRECT CONNECTION to the lessee — in case of lessor default, the lender CAN recover from the lessee. Often routed through a trustee.

☆ EXAM TIP: Key difference: Single investor lease = lender has NO connection to lessee. Leveraged lease = lender HAS direct connection to lessee.

G) Sub Lease

The original lessee (tenant) rents out the property to another person (sub-lessee/sub-tenant). The sub-lessee gets only those rights that the original lessee has — cannot get more. The ORIGINAL LESSEE bears the risk if the sub-lessee fails to pay; the lessor still gets rent.

H) Domestic Lease vs. International Lease

Domestic Lease: All parties (lessor, lessee, supplier) are in the SAME country.

Import Lease: Lessor and lessee in same country, but equipment SUPPLIER is from a DIFFERENT country.

Cross-Border Lease: Lessor and lessee in DIFFERENT countries (regardless of where supplier is).

Real-Life Example

IndiGo (India) leases aircraft from AerCap (Ireland). IndiGo = lessee in India; AerCap = lessor in Ireland. This is a Cross-Border Lease.

4.6 Main Clauses in a Lease Agreement

- Description of the leased asset
- Duration of the lease (primary and secondary period)
- Amount and schedule of lease rentals
- Rights and obligations of lessor and lessee
- Maintenance and repairs responsibility

- Insurance of the leased asset
- Renewal and purchase option at end of lease
- Termination clauses and penalties
- Return conditions of the asset
- Sub-leasing restrictions

4.7 To Buy or Lease: A Crucial Decision

Lessee's Point of View — Reasons to LEASE:

- Lower initial cash outflow — no heavy upfront investment
- Preserves borrowing capacity — lease may not need traditional loans
- Tax benefits — lease rentals fully tax-deductible as expenses
- Flexibility — easier to upgrade or replace obsolete assets
- Risk reduction — avoids obsolescence and resale value risks
- Off-balance-sheet financing — improves financial ratios (in some cases)

Lessee's Point of View — Reasons to BUY:

- Full ownership control — modify and use as desired
- Lower long-term cost — cheaper if asset used for long period
- Depreciation benefits — depreciation + interest can be claimed
- Asset value — resale or scrap value belongs to the firm
- No restrictive clauses — freedom not available in leases

Lessor's Perspective — Why Lease Assets:

- Steady income stream — regular lease rentals
- Tax advantages — depreciation benefits
- Retains ownership and residual value of asset
- Portfolio diversification — leasing spreads risk

Lessor's Risks:

- Credit risk — lessee may default
- Asset obsolescence — tech changes may reduce asset value
- Maintenance and repossession issues during lessee default
- Regulatory and tax changes affecting lease profitability

☆ **EXAM TIP: Buy vs. Lease decision factors: duration of use, tax position, cash availability, rate of obsolescence, ownership desire. This is a popular exam question.**

4.8 Major Leasing Institutions in India

- Tata Capital Financial Services Limited — equipment leasing and asset-based finance
- Bajaj Finance Limited — diversified NBFC with leasing offerings
- SREI Equipment Finance Limited — major equipment leasing financier
- IFCI Limited — government-linked, project finance and leasing
- L&T Finance Limited — equipment leasing and structured finance
- Mahindra & Mahindra Financial Services Ltd — vehicle and asset leasing
- Shriram Transport Finance Co Ltd — commercial vehicle leasing
- Tata Motors Finance Limited — vehicle leasing/finance solutions

- Indian Railway Finance Corporation (IRFC) — leasing and finance of rail assets

☆ EXAM TIP: IRFC is a PSU (Public Sector Undertaking) that leases rolling stock to Indian Railways — good for exam MCQs.

PART 5: HIRE PURCHASE

5.1 Meaning of Hire Purchase

Hire Purchase is governed by the Hire Purchase Act, 1972. It is a special system of credit purchase where:

- Buyer pays the price in installments (monthly/quarterly/yearly) PLUS interest.
- Goods are DELIVERED to the buyer at the time of the agreement.
- Buyer becomes OWNER only after paying the LAST installment.
- Installments are treated as HIRE CHARGES until the final payment.
- Either buyer OR seller can terminate the agreement before ownership passes.
- Agreement must be in WRITING and signed by ALL parties.
- On default, seller can REPOSSESS goods (since ownership stays with seller).
- Buyer CANNOT pledge, sell, or mortgage the asset until the last payment.

Real-Life Example

Ramesh buys a Bajaj Pulsar motorcycle under hire purchase for ₹1,20,000. He pays ₹20,000 upfront and 24 monthly installments of ₹5,500. He takes possession of the bike immediately but becomes the owner only after paying the 24th installment. If he defaults after 10 installments, Bajaj Finance can legally repossess the bike.

5.2 Features of Hire Purchase

- Credit purchase arrangement — buy now, pay later in installments
- Installment payment — paid in equal periodic amounts
- Possession at time of agreement — buyer gets to use it immediately
- Ownership transferred only after LAST installment
- Buyer's right to use goods is as a bailee (not owner) till last payment
- Right of termination — both parties can terminate before ownership passes
- Absolute ownership after all installments paid

5.3 Advantages and Disadvantages of Hire Purchase

Advantages:

- Spread the cost of finance — buyer doesn't need full payment upfront
- Low-interest credit available
- Higher acceptance rates than traditional loans
- Good for buyers who cannot pay lump sum

Disadvantages:

- Delayed ownership — buyer is not owner until last payment
- Risk of repossession — seller can take back goods on default
- Heavy financial commitment — must pay all installments regardless
- Asset cannot be sold — buyer cannot sell until last payment

☆ EXAM TIP: Key difference: In Hire Purchase, the buyer gets POSSESSION immediately but OWNERSHIP only after the last installment. This is tested very frequently.

PART 6: LEASING vs. HIRE PURCHASE

6.1 Key Differences

Basis	Leasing	Hire Purchase
Ownership	Ownership stays with LESSOR. Lessee has NO option to purchase.	Hirer becomes OWNER after last installment is paid.
Depreciation	Claimed by LESSOR in lessor's books.	Claimed by HIRER in hirer's books.
Duration	Generally LONGER term — land, property, large assets.	Generally SHORTER term — cars, machinery, consumer goods.
Tax Impact	Total lease rentals are shown as EXPENSE by lessee.	Hirer claims depreciation on asset.
Repairs & Maintenance	In financial lease: lessee's responsibility. In operating lease: lessor's responsibility.	Always the HIRER's responsibility.
Termination	Non-cancellable (finance lease) or cancellable (operating lease).	Either party can terminate before ownership passes.
Nature	Lessee only uses the asset — not meant to own it.	Hirer intends to eventually OWN the asset.
Legal framework	Governed by Indian Contract Act + AS 19 / Ind AS 116.	Governed by the Hire Purchase Act, 1972.

Real-Life Comparison

LEASING: IndiGo leases aircraft from AerCap (Ireland). IndiGo never intends to buy the planes — just uses them and pays rent. HIRE PURCHASE: A truck driver buys a Tata truck on hire purchase from Shriram Transport Finance. He uses the truck from Day 1, but legally owns it only after paying all 48 installments.

☆ EXAM TIP: HIRE PURCHASE vs LEASING: The KEY difference is INTENTION OF OWNERSHIP. In HP — buyer always intends to own the asset. In Leasing — lessee typically does NOT intend to own it.

6.2 Major Leasing & Hire Purchase Companies in India

Company	Focus Area
Bajaj Finance	Diversified consumer and business finance including HP
M&M Financial Services	Vehicle and agricultural equipment HP/leasing
Shriram Transport Finance	Commercial vehicle HP and leasing
Shriram City Union Finance	Consumer durables HP and MSME finance
Cholamandalam Investment	Vehicle and equipment finance
Sundaram Finance	Vehicle and equipment HP
SREI Infra Finance	Infrastructure equipment leasing
Magma Fincorp	Vehicle and equipment HP/leasing

QUICK REVISION SUMMARY

QUICK REVISION — KEY FACTS TO REMEMBER FOR EXAM

Factoring period	90–150 days (rarely exceeds 150)
First factoring company in India	SBI Factors and Commercials Ltd (1991)
Factoring regulation act	Factoring Regulation Act, 2011
Forfaiting term origin	French — 'a forfait' (to surrender rights)
Forfaiting — recourse	ALWAYS without recourse
Hire Purchase Act	Hire Purchase Act, 1972
Factor's advance payment	70–80% of receivables
TReDS — full form	Trade Receivables Discounting System

GOOD LUCK IN YOUR EXAM! You've got this!