



Date: 22th June, 2016

To,
The Director General of Foreign Trade,
Department of Commerce,
Ministry of Commerce & Industry,
Government of India,
New Delhi –110034.

Sub: Representation on reinstating EPCG benefit to capital goods acquired on lease under the Foreign Trade Policy 2015-2020.

Dear Sir,

Asset Finance Association of India (AFAI), an industry body formed with the objective of promoting leasing, factoring and other asset-backed financing entities is an initiative by the Indian Securitisation Foundation (ISF), a non-profit organization incorporated with the cause of promoting capital market instruments in the country. Some of the eminent players of the leasing industry are members to AFAI and are dedicated to the cause of promoting leasing in India. The details of AFAI, its activities and members are provided for in **Annexure I** to this representation.

The purpose of this representation is to humbly request for reinstating benefits under Export Promotion Capital Goods (“EPCG”) Scheme to capital goods acquired on lease in the extant Foreign Trade Policy 2015-2020 as was available under the Foreign Trade Policy 2009-2014.

Summary of the Representation

- **Foreign Trade Policy 2015-2020 for Export Promotion:**
 - The erstwhile Foreign Trade Policy 2009-2014¹ explicitly granted the EPCG benefits to importers for the capital goods acquired on lease while the same has not been provided for in the Foreign Trade Policy 2015-2020².
 - Para 2.28 of Handbook of Procedures (Volume 1) under the heading “*Import under lease financing*” dealt with “*Import under lease financing shall be available under EPCG Scheme, EOU / SEZ scheme.*”
 - a. The same para has now been replaced with para 2.32 which states that imports under lease financing shall be available under EOU/SEZ mechanism.

¹ <http://dgft.gov.in/exim/2000/policy/ftp-plcontent0910.pdf>

² <http://dgft.gov.in/exim/2000/ftp2015-20E.pdf>



- b. The omission of EPCG scheme does not suggest that the benefit will not be available under the extant policy, however the omission creates ambiguity on whether the benefits continue under the extant policy or not.
- Therefore a clarification in this regard is sought and we would be highly obliged if the erstwhile language pertaining to availability of benefits, even in case of leased assets, is reinstated.

Leasing Industry in India

The Indian leasing industry has witnessed some growth in leasing volumes since 2010 and has seen several new players venture into new asset classes after leasing in India came to a sudden halt in 1996. Leasing has found favor as some of the issues from the past resolved, corporates preferred usage of several assets over ownership, technological obsolescence also created an inclination towards appreciating usage benefits over ownership, leasing facilitated creation of new customer class, as a tool to boost sales for some asset classes and more.

While assessing the performance of the Indian leasing industry, it is noted that the leasing volumes stood at around USD 669 million³ during FY 2014-2015 as opposed to USD 505 million during FY 2013-2014. The leasing industry outlines the upward trajectory motion in terms of growth. The acquisition of capital goods involve high cash outflow, thus importers opt for equipment leasing rather than buying outright. Leasing, as an alternative provides several benefits which are enumerated below:

1. Technological up gradations are suitably met with the lease form of financing. It is easy for companies to replace their worn out or obsolete machines with the leased assets.
2. Hedging of technological obsolescence helps equipment users to avoid the burdens of ownership, one of them being equipment obsolescence. Much of today's equipment incorporates technology that is rapidly changing.
3. Cashflow constraints make leasing attractive. An outright purchase requires an immediate cash outflow, whereas in case of lease, the cash outflow are spread over years of usage of the asset. Also in case of leased assets, the ownership of the assets is retained by the leasing entity and only the usage of the assets is transferred to the end user. Therefore, in most lease cases, there is no requirement for additional collateral. Therefore, the free assets (not encumbered to leasing entities) can be used by the end user – importers for procuring funds from other resources. This, in fact imparts affordability to importers.

³ The leasing volumes do not include new leasing business volumes of Indian Railway Finance Corporation a subsidiary of Indian Railways



EPCG Scheme:

The Export Promotion Capital Goods (EPCG) scheme was one of the several export-promotion initiatives launched by the Government in the early 90s. The basic purpose of the scheme was to allow exporters to import machinery and equipment at affordable prices so that they can produce quality products for the export market. Under EPCG scheme of Foreign Trade Policy (FTP), import of capital goods which are required for the manufacture of resultant export product specified in the EPCG authorization is permitted at nil/ concessional rate of customs duty. The Export Promotion Capital Goods scheme under FTP enables up gradation of technology of the indigenous industry.

EPCG Scheme under Import Export Policy 2015-20 allows import of capital goods for pre-production, production and post-production at zero customs duty. Alternatively, the authorization holder may also procure capital goods from indigenous sources in accordance with provisions of paragraph 5.07 of FTP. In order to boost up the domestic capital goods manufacturing industry, EPCG scheme has been extended to include within its ambit the procurement of capital goods indigenously, by reducing the export obligation by 25%. Capital goods for the purpose of the EPCG scheme shall include:

- Capital goods for pre-production, production and post-production
- Capital goods in Semi Knocked Down (SKD) / Completely Knocked Down (CKD) conditions to be assembled into capital goods by the importer
- Spare parts of goods specified above as actually imported are required for maintenance of capital goods so imported, assembled, or manufactured.
- Spare parts required for the existing plant and machinery of the importer
- Computer software systems
- Spares, moulds, dies, jigs, fixtures, tools & refractories for initial lining and spare refractories
- Catalysts for initial charge plus one subsequent charge

The aforementioned goods may be exempt from whole of the duty of customs which includes basic custom duty and additional duty leviable thereon under section 3 of the said Customs Tariff Act, when specifically claimed by the importer.

Import of capital goods for project imports notified by Central Board of Excise and Customs is also permitted under EPCG Scheme.

Import under EPCG Scheme of Import Export Policy 2015-20 shall be subject to an export obligation equivalent to 6 times of duty saved on capital goods, to be fulfilled in 6 years reckoned from date of issue of authorization.

Under EPCG, the core essence is the usage of the assets by the importer. The ownership of the capital goods is not the essence of the scheme. Also, the leasing facilitates the importers to spread the cash flows over a period of time providing twin advantage which was there in erstwhile [FTP 2009-2014](#).



ASSET FINANCE ASSOCIATION OF INDIA

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The Economic Survey 2015-2016 reported the following figures:

Particulars	FY 2014-2015	FY 2015-2016
Adjusted total Gross Capital Formation	Rs 39,11,601 crores	Rs 42,76,158 crores
Adjusted total Gross Capital Formation as against the percentage of GDP at current market prices	34.7%	34.2%
Total Exports (including re-exports)	USD \$ 310338 million	USD \$ 196604 million
Total Principal Imports (April-December)	USD \$ 316281 million	USD \$ 261867 million
Out of which, imports of capital goods	USD \$ 203080 million	USD \$ 213256 million
Percentage of Import Of Capital Goods	64.208%	81.47%

Source: <http://www.unionbudget.nic.in/es2015-16/estat1.pdf>

From the above table it is clear that there has been a substantial increase in the import of capital goods. Also, the gross domestic capital formation has been increased thereby showcasing the increasing need for capital assets in the country.

Our Representation

We understand the objective with which EPCG scheme was introduced and we think it is quintessential for importers to have several options for procuring capital assets from overseas, other than outright purchase. Leasing for one, is a befitting alternative.

Therefore, while the reasons for removing EPCG benefits in case of assets procured on lease under Foreign Trade Policy 2015-2020 are not known, we humbly request your good-self to kindly reinstate the erstwhile language as was in Foreign Trade Policy 2009-2014.



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As AFAI is dedicated to the cause of contributing to the development of the asset backed funding sector in particular, in the event of any further clarification needed, we would be happy to provide the same.

For ***Asset Finance Association of India***

Sd/-

(*Nidhi Bothra*)



Annexure - I

The Asset Finance Association of India is an initiative by the Indian Securitisation Foundation to bring together the stakeholders of the asset finance sector in India. The organisation is intended to promote, help, develop, protect, encourage and secure, in India, general interest of various forms of asset backed funding by acting as industry association, to organize industry events, forums, discussions to promote research, generally to take care of the interest of trade, industry and commerce, stakeholders, participants and investors in asset finance and generally to act in the best interest of the Indian asset finance sector. Primarily, the asset finance activities to be catered to by the Association include leasing, factoring, trades in receivables, etc.

The Association aims at bringing industry players on a common platform – to join their thoughts, and to provide a voice to their thoughts. The Association aims at providing a strong platform of advocacy for asset finance industry.

Some of the functions of the organisation include:

- **Advocacy:** making representation to various authorities from time to time on matters concerning the following –
 - a. Leasing
 - b. Factoring
 - c. Receivable Financing
 - d. Other forms of asset backed finance.
- **Industry forums and networking:** holding periodic conventions and educational courses.
- **Development of industry standards:** framing self-regulatory standards on disclosures, reporting, servicing reporting, DOs and DONTs for various forms of asset finance.
- **Information exchange:** on matters of common interest, collateral performance etc.

AFAI Executive Committee Members

1. Ms. Simi Thapar

Ms. Simi Thapar is a Head - Equipment Leasing and Financing Solutions - Corporate Finance at Tata Capital. Simi has 25 Years Work Experience in Financial Services across diverse industries and diverse asset and product categories. Ground experience in new business initiative, product development and in devising strategy for organic and inorganic growth of business.



2. *Mr. Gautam Munish*

Mr. Gautam Munish, currently serving Hewlett Packard financial services as regional sales director is a seasoned finance professional with 20 years of diverse work experience across Asset, Liability and Investment products. He has extensive experience in building and managing business from ground up, with exposure to detailed competitive landscape analysis, compliance and regulatory adherence and evangelizing the merits of a differentiated approach to market.

3. *Mr. Sunil Badala*

Mr. Sunil Badala is a partner with the financial services tax practice of the Indian Firm of KPMG. He specializes both in domestic corporate tax and international tax and entry and exit strategies for multinationals and large domestic companies investing into/ outside India. He has a total of about 18 years of experience, including 14 years with the India Firm and has extensive experience in International and Domestic taxation, Inbound Entry Strategies for Multinationals and Outbound Structuring Strategies for large domestic companies.

4. *Mr. Shrirang Tambe*

Mr. Shrirang Tambe founder and CEO of ORIGA Leasing one of the first FinTech asset leasing companies for high growth oriented companies with philosophy of access to finance. His expertise lies in advising and nurturing growth oriented companies across financial and strategic areas.

5. *Ms. Nidhi Bothra*

Ms. Bothra is a consultant on leasing, asset backed lending, securitisation, structured finance and corporate finance and is Executive Vice President in Vinod Kothari Consultants (P) Ltd. Ms. Bothra has conducted various corporate training workshops on leasing, and has handled several consulting assignments on leasing in different markets. Nidhi has analysed state of leasing industry in several countries and writes the report on the state of leasing industry in India for several years now.

6. *Mr. Dipankar Sen*

A MBA graduate with specialisation in finance, He has over 20 years of experience in leasing and financial services and today heads the leasing portfolio for Orix in India. His experience has been in both fund based and fee based activities where he has managed the SME, Corporate and PSU segments for their leasing requirements in equipments. Under the leasing portfolio in Orix, he today manages the vehicle leasing business where company offers solutions in both dry and wet leases.