
CapInvest



Leasing Features



AN OVERVIEW

CapInvest represents a synthesis of two essential building blocks of the New Economy: (a) advanced financial technology and (b) advanced financial modeling techniques.

The synthesis has been accomplished by a lease consulting firm well-known for its expertise in both areas. CapInvest is designed to provide unparalleled support for day-to-day analytical requirements of the modern-day leasing enterprise. The product comprises of several tightly linked modules that work in harmony for a single purpose: “delivering value to lessors and lessees while supporting the financial objectives of the leasing enterprise”.

CapInvest is a technology transfer tool as it offers leasing technology not available from any other source. This document presents an overview of CapInvest and its numerous features.

Vish Tumu Associates (VTA) is headed by Viswanath Tumu, Principal Consultant, who is also the principal author of the book *“The Principles and Practice of Leasing”*, a standard text on leasing in a number of countries, as also with several international financial institutions. He is the author of several papers on leasing and is a regular contributor to the World Leasing Yearbook. He has developed several financial products, including the firm’s flagship Project Appraisal and Operations Structuring Tool ‘LeaseEx 2000’.

Viswanath Tumu holds a Masters degree in International Finance from Columbia University, New York, and professional accounting qualifications from the Institute of Chartered Accountants of India. He has been certified as an expert in Microsoft Excel, by Microsoft Corporation, on completion of two written tests.

Modern-day leasing operations have graduated rapidly from the halcyon days of the 70's and 80's, when leasing operations relied on financial calculators and dedicated accountants to support leasing operations. In the new economy of the 21st century, financial modeling and computer based operating systems have moved decisively to the forefront, in the process, replacing traditional financial analysis techniques and operating procedures.



The modern-day leasing enterprise relies on computer support for three tasks:

- (1) Project Appraisal, Operations Structuring and Business Plan Preparation;*
- (2) Day-to-Day analytical support for leasing activities;*
- (3) Accounting of leasing operations and management information;*

The first task is very strongly addressed by 'LeaseEx 2000', VTA's Project Appraisal and Operations Structuring Model, which has been employed in appraising and structuring leasing projects in a number of countries, including the Dominican Republic, Brazil, Argentina, Yemen, Georgia, Armenia and Ukraine.

The second task is superbly carried out by 'CapInvest', VTA's Transaction Structuring and Production Creation Software. This document provides an overview of leasing related features of CapInvest, including, the Lease Structuring Module, the Profiling Module, the Post Tax Pricing Module, the Lease Vs. Buy Module and the Cost of Capital Module. Information on using Portals to create a range of specialist leasing products (for example, Zero Finance Product), is contained in other documents. The User Manual contains in-depth information on the modules and portals of CapInvest.

The third task is carried out by a MIS System.

CapInvest enables a leasing enterprise to move forward aggressively on a number of fronts:

- **Winning new business**
- lease pricing, lease profiling & lease vs. buy modules;
- **Conceptualizing lessee friendly leasing products**
- lease profiling & post-tax pricing modules;
- **Providing fine lease terms to lessees**
- cost of capital, post-tax pricing, VAT integration & lease vs. buy modules;
- **Addressing a leasing enterprise's financial objectives**
- cost of capital, lease pricing, lease profiling, post-tax pricing & overhead estimation modules;
- **Deploying a country's tax code to maximum effect**
- post-tax pricing module.



CapInvest provides the complete set of analytical tools to enable a leasing enterprise to compete efficiently and aggressively in the market place. CapInvest requires that a user be knowledgeable in Discounted Cash Flow techniques as the concept is used extensively in all modules. An exposure to DCF is included in the training package.

CapInvest is available to leasing enterprises as a complete solution for day to day analytical requirements. The package includes a single or multi-license version of the product, documentation and training. CapInvest operates on the Windows platform.

Lease Pricing

The lease-pricing module enables a leasing company to generate Pre-Tax Equated Lease Rental Payments that address the company's financial objectives and a lessee's requirements.

Lease Pricing Variables

"The module allows any of the pricing variables to be calculated, given information on the other variables. In other words, a hands-on approach to generating lease quotes is facilitated; for example, a lessor can calculate the value of lease to be financed, given a lessee's repayment capacity, or calculate the number of rental periods given a balloon payment and monthly lease rental, or calculate a balloon payment given the lease rental, the value of the lease, and the lease term, and so on"

1. the Present Value of a lease (or the amount of lease to be financed by a leasing company);
2. the Future Value of a lease (or the balloon / lump-sum amount that a lessee will pay at the end of the lease term or the residual value of an automobile that is subject to an Operating Lease);
3. the annual interest rate to be charged for the lease (translated by the module into an appropriate period rate, which could be monthly, quarterly, half-yearly or a yearly rate);
4. the lease term over which a lessee pays lease rentals;
5. the lease rental per period.

Payment Modes

- Payment in Advance (start of a lease rental period);
- Payment in Arrears (end of a lease rental period).

Payment Frequencies

- Monthly
- Quarterly
- Half-Yearly
- Annual

Duration of Lease Term

- Unlimited – can be for as short as one month or as long as 100 years.

Reports

- Module generates an amortization schedule over the lease term; table provides calendar year totals of rental, interest and principal, during the year;
- Table provides grand totals for the lease term, i.e., total Rental during lease term, interest and principal.

Lease Profiling

“The Lease Profiling Module employs sophisticated numerical techniques to enable a lessor to instantly generate unlimited rental profiles for developing proposals that are fully attuned to the cash-flow profile of a lessee or a lessor.”

In a lease-profiling mode, the module generates lease rental payments that are unequal to each other, as contrasted to the common practice of payments being equal over the lease term.

The capacity to generate profiled lease quotes is necessary to address a lessee’s cash-flow profile – for example, a lessee may operate a seasonal business (say a tour operator) and it may be necessary to develop a rental profile that closely mirrors the lessee’s cash-flow profile. Alternatively, a lessee may require a rental profile that gradually increases over the lease term, reflecting the earning capacity of the lease asset, or a leasing company may require a profiled lease rental to defer or accelerate cash flows. Whatever the reason, a leasing company requires tools for effortlessly generating profiled rental payments.

Profiling Features

- Simple and highly intuitive graphical user interface;
- 10 Year horizon;
- Monthly, Quarterly, Half-Yearly, and Yearly payment frequencies;
- Inputs: Value of Lease Asset, Payment Frequency, Pricing Rate, Lease Term
- Output: Profiled Lease Rental (Base Rental)

Profiling Inputs

“A user may also indicate profiling by using percentages – for example, the lease rental factors of 1 (Month 1), 1.1 (Month 2,) 1.21 (Month 3), would indicate a rental profile that increases by 10% each month during a 3-month period.”

- A user sketches a custom rental profile using a 10X12 table (10 years across and 12 months downward, to handle all types of leases over 10 years), by placing a lease rental factor in the relevant cell of the table – rental factors range from 0 to 12;
- 0 represents zero rental payment in a period; 1 to 12 represent relative magnitudes of rental payments; for example, a zero in all cells during years 1 to 4 would indicate a rental profile with zero rental during those periods, while a factor of 1 in year 5, a factor of 2 in year 6, and a factor of 3 in year 7, would indicate that the lease rental in year 6 will be 2 times the rental of Year 5 and the rental in Year 7, three times the rental of Year 5.

Lease Vs. Buy

The Lease Vs. Buy Module is designed to illustrate the financial advantage of leasing vis-à-vis buying an asset.

“A number of misconceptions exist in comparing leasing with buying. An erroneous procedure employed by many is to compare the interest rate implicit in the lease (the Lease Pricing Rate) with the bank rate at which a lessee is able to borrow funds and to conclude that leasing is expensive simply because the lease pricing rate is higher than the bank borrowing rate.”

“Nothing could be further from the truth, as illustrated by the example in the annex to this document.”

The simplistic approach employed by many in evaluating leasing Vs. buying ignores the fact that leasing offers a number of other advantages that need to be quantified before comparing the two; many factors affect the decision: tax depreciation rates, the cost of equity of a lessee, the down-payment required for purchasing an asset, available tax capacity of a lessee, and so on.

CapInvest incorporates appropriate financial analysis techniques to quantify all variables. Using a simple interface, CapInvest enables the lease Vs. buy decision to be carried out systematically and in the process provides leasing companies with a powerful tool for marketing leases.

“To illustrate the Lease Vs. Buy decision, an example is provided of a lease that is priced using a rate significantly higher than the rate at which a lessee may access funds to buy the asset.”

“It may be noted that the financial advantages of leasing would never come to light if the conventional method of comparing leasing with buying is adopted. CapInvest provides the right tools to carry out the lease Vs. buy analysis.”

As may be noted from the example, the rate employed in pricing the lease is 24% p.a.; it is assumed that a lessee will be able to access bank borrowings at a cost of 18% - a full 6% cheaper, on the face of it. It is also assumed that the lessee will pay a Lease Management Fee of 1.25% of the value of the lease asset, i.e., USD 1,250, while no such charges have been assumed for bank borrowings by a lessee.

- The surprising conclusion, even with all charges loaded against leasing, is that leasing is cheaper than buying by USD 4,623.
- Should the lease terms eliminate the LMF, leasing would be cheaper than buying by USD 5,435.
- Going further, if the lease were priced using the same rate available to the lessee, i.e., the bank rate of 18%, the analysis reveals that leasing would be cheaper than buying by USD 11,849 – a significant financial advantage that needs to be brought to the attention of a lessee.

Cost of Capital

“Of all the components of lease pricing, the most crucial is Cost of Capital. Very often, leasing companies erroneously equate the coupon rate on a funding source with cost of capital. Such an approach ignores “hidden” costs that raise the cost of capital – the risk in using the ‘coupon’ approach is that a leasing company could be under pricing itself in ignorance, by not pricing legitimate costs. At the very least, such an approach leads to an imprecise appreciation of profitability of leasing transactions.”

The question that arises, is “what are the other items that raise the cost of capital for a leasing company?”

As can be seen from the example, if a leasing company were to rely solely on the coupon rate for estimating its cost of capital, it would use the rate of 10%. The analysis reveals the actual cost is an entirely different number – in fact, it is double the coupon rate – the pre-tax cost of capital is found to be 20% when all variables have been quantified.

A leasing company’s primary expense of operations is its cost of capital; capital for a leasing company comes from a number of sources – borrowings from parent banks, insurance companies, public deposits, lines of credit from International financial institutions, and so on. All sources have a cost attached. Other operational expenses of leasing include, Selling, General and Administrative Expenses and other overheads.

In pricing leases, an essential starting point is the estimation of a leasing company’s cost of capital; this lays the foundation for the pricing decision, constituting the floor rate for pricing leases – in addition to the cost of capital, lease pricing also needs to incorporate other components: a component for overheads (CapInvest’s Overhead estimation module carries out the analysis of overheads), a component for risk (lessee business risk), and a component for profit.

Following is a listing of some “hidden” items that influence the cost of capital.

- Issue Price (below par);
- Issue Expenses (issue expenses and fees, project appraisal fees);
- Statutory Reserves to be set aside from borrowings (mandated by central bank) for financial institutions and others;
- Interest on Statutory Reserves (sometimes no interest is paid on such reserves);
- FX Rates on date of borrowing and date of repayment of loan;
- Other relevant expenses.

Occasionally, authorities disallow interest payments on certain type of borrowings in computing taxable profits – this further raises the COC. The effect on profitability and operations is disastrous when “hidden” costs are ignored in computing the cost of capital.

CapInvest’s Cost of Capital Module sets out the analytical framework for computing a leasing company’s cost of capital.

VAT Pricing Integration

“VAT regulations in most countries allow VAT collections on lease rentals (also referred to as Input VAT) to be set-off against VAT paid on purchase of lease assets (also referred to as Output VAT); the excess of collections over payments is to be remitted to treasury every quarter.”

CapInvest’s VAT Integration module is designed to integrate the financial effects of VAT into lease pricing. Absence of tools to integrate VAT results in two consequences: (1) a lessor’s lease spread is ‘watered’ down by the ‘VAT carrying cost’, or (2) if VAT on purchase of lease asset is capitalized, a lessee is compelled to pay a ‘double VAT’, with the result that the lease terms turn prohibitive, vis-à-vis other sources of financing an asset. CapInvest’s VAT module slices out the double VAT factor and perfectly integrates VAT into lease pricing as can be seen from the illustration in the annex to this document.

Addressing the VAT Issue

“There exist two possible ways for a leasing company to address the VAT issue and each has financial implications, both of which are sub-optimal.”

Capitalizing VAT as Cost OF Asset

This approach adds the VAT paid to the cost of the asset; the lease rental amortizes the lease asset as well as the investment in VAT. This approach ensures that a lessor’s investment in VAT is fully funded by a lessee; however, this approach leads to a double VAT impact, since a lessee also pays VAT on lease rental – VAT on VAT – the effect is to drive up the cost of leasing vis-à-vis other sources of finance.

“The annex to this document illustrates the VAT issue by examining the financial implications of the two approaches.

The example also demonstrates how CapInvest handles the issue and sets out the financial implications of all approaches. In all, three scenarios are presented, including the CapInvest approach.”

Excluding VAT from Cost of Asset

This approach ensures there is no double VAT impact on the lessee; however, the timing cost of funding the VAT investment shifts to the lessor; the effect is a ‘stealth’ erosion of the profit margin of a lease.

CONCLUSION

The VAT issue is addressed by sophisticated financial techniques that ensure the following: (a) that the carrying cost of VAT is not borne by the lessor; and (a) there is no double VAT impact on a lessee.

Post-Tax Pricing

CapInvest includes a Post-Tax Pricing Module, in addition to two other pricing related modules: (a) Lease Pricing Module, which generates the 'bread and butter' lease quotes on a pre-tax equated basis; and (b) Lease Profiling Module, which generates lease quotes that are profiled to reflect a lessee's cash flow profile.

While these two modules perform the bulk of pricing related analytical work, CapInvest provides a third pricing related module to address those situations wherein a leasing enterprise may wish to integrate the tax effect associated with favorable tax depreciation rates into lease pricing for the benefit of a lessee or to fully quantify the benefits flowing to the enterprise.

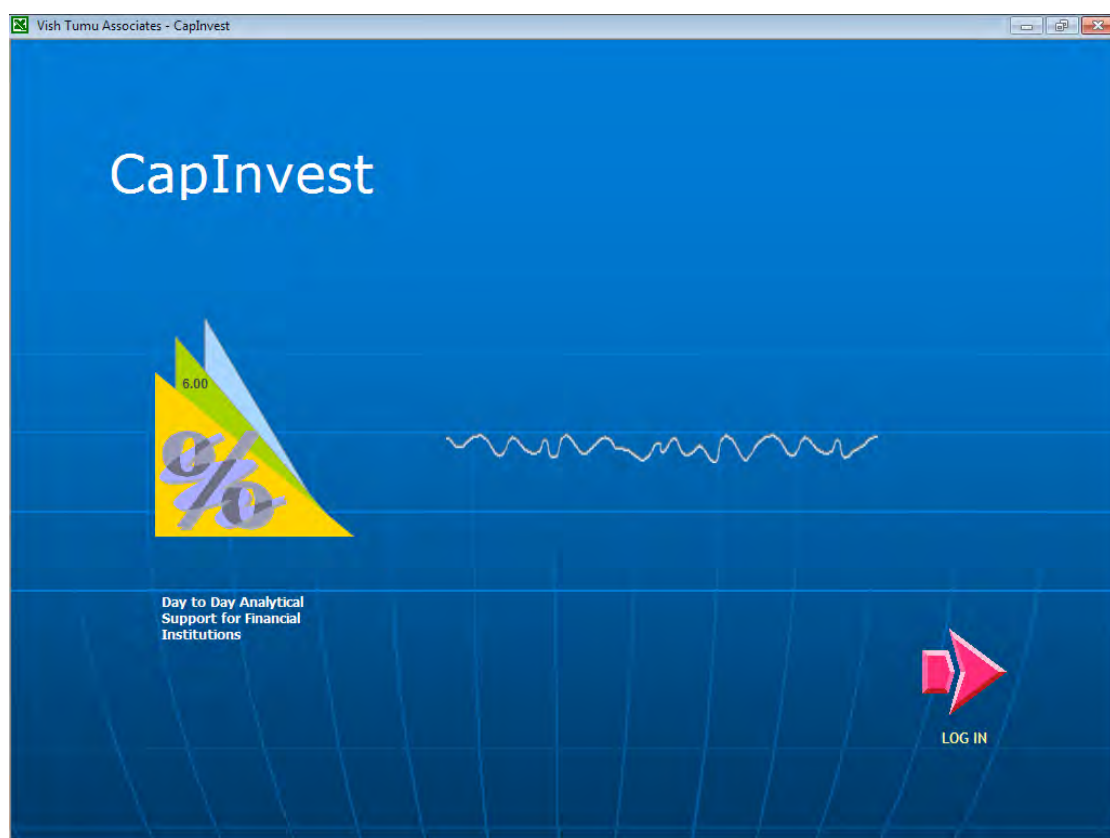
Tax based leasing performs a very valuable service in a country and its effects are often not appreciated by policy makers. Very often leasing companies employ tax-based leasing techniques to transmit fiscal incentives to an end user via a lowering of the lease rental – this is crucial in a developing country where many lessees may not be able to access fiscal benefits directly – for example, a lessee could be in a loss-making situation or be tax-exempt, such as a municipality – in such situations, availability of accelerated depreciation and other tax deferral benefits put in place by a State will not have much use for those who have no taxable profits to shelter. A leasing company can transmit these benefits by capturing the benefits for itself and subsequently transmitting these to the lessee via a lower lease rental.

For situations such as the above and for other business reasons, a leasing enterprise will need to employ post-tax pricing analysis to quantify the effect of fiscal incentives.

The post-tax analysis example demonstrates the effect of a rise in tax depreciation on the post-tax spread of a lessor, and sets out the analytical framework for post-tax pricing decisions. CapInvest contains the tools for carrying out post-tax pricing analysis.

Screen Shot

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CAPINVEST / POINT OF ENTRY

Screen Shot

Screen Shot



CAPINVEST / MAIN COMMAND CENTER

Screen Shot

Screen Shot

Vish Tumu Associates - Calculator

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lease structuring

Help
Power Pack
Reports

Post Tax
Lease Buy
Profiling
Import
Export
Clear

Flat Rate
Goal Seek
Random
Prompts
Print
Default

Product
Zero Rate
Repricing
Rate Conv
Moratorium
Financials

Quotation Date: 14-May-2009

Lease Start Date: 28-May-2009

Frequency: Monthly

Type: Arrears

Asset Value: 221,875.10

(Down Payment) Percent: 15,000.00

Net Financing: 206,875.10

Lease Term: 3.00

Annual Pricing Rate: 16.50%

Lease Rental: 6,782.72

Balloon: 25,000.00

Lessee: ABC Corporation

Asset Description: IBM PC

LMF: 1.50%

Direct Expenses: 5,000.00

Depreciation: HALF

Full Year

Depreciation Method: WDV

Tax Depreciation Rate: 60.00%

Tax Year-End: 31-Mar

Income Tax Rate: 36.75%

Cost of Capital: 12.00%

VAT: 20.00%

Lease Start Date: 28-May-2009

First Pmt Date: 28-Jun-2009

Last Pmt Date: 28-May-2012

Rental Periods: 36.00

Pricing Rate: 1.37%

Frequency: Monthly

Payment Type: Arrears

Period Rental: 6,782.72

Total Rental: 269,177.96

Principal: 206,875.10

Interest: 62,302.86

PV of Rentals: 224,787.06

NPV Of Lease: 12,911.96

Old Post-VAT: 14.35%

VAT Pricing: 18.87%

New Post-VAT: 16.49%

Capinvest

Flat Rate: N.A.

Lease Rental	269,177.96	98.86%
LMF	3,103.13	1.14%
Revenue	272,281.09	100.00%
Direct Exp	(5,000.00)	(1.84%)
Depreciation	(206,875.10)	(75.98%)
Expenses	(211,875.10)	(77.81%)
PBIT	60,405.99	22.19%
Interest	(44,595.71)	(16.38%)
PBT	15,810.28	5.81%
TAX	(5,810.28)	(2.13%)
PAT	10,000.00	3.67%

CAPINVEST / LEASE STRUCTURING MODULE

Screen Shot

Screen Shot

Vish Tumu Associates - Profiling

Leasing *profiled*

Quotation Date
May 14, 2009

Start Date
28-May-2009

Asset Description
IBM PC

Lessee
ABC Corporation

Investment
400,000.00

Transaction Period
8.00

Finance Rate (P.A.)
16.17%

Residual
5,000.00

Frequency
Monthly

PaymentType
Arrears

☐ **Service Charges**
Include in IRR 1.00%

Direct Expenses
5,000

Grid	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Period 1	6.00	8.00	10.00	5.00	6.00	7.00	0.00	1.00
Period 2	0.00	3.00	3.00	3.00	0.00	9.00	3.00	10.00
Period 3	8.00	3.00	3.00	8.00	4.00	5.00	7.00	9.00
Period 4	4.00	6.00	2.00	11.00	8.00	12.00	2.00	8.00
Period 5	0.00	7.00	2.00	6.00	11.00	4.00	6.00	4.00
Period 6	11.00	5.00	0.00	9.00	10.00	11.00	10.00	2.00
Period 7	6.00	9.00	0.00	0.00	1.00	6.00	4.00	11.00
Period 8	1.00	2.00	6.00	10.00	12.00	8.00	2.00	4.00
Period 9	3.00	2.00	6.00	2.00	12.00	3.00	10.00	3.00
Period 10	11.00	5.00	5.00	5.00	2.00	11.00	1.00	11.00
Period 11	10.00	4.00	5.00	9.00	5.00	2.00	9.00	10.00
Period 12	5.00	7.00	8.00	3.00	12.00	1.00	3.00	9.00

Base Repayment 1,342.83

Lease Rental 740,871.20 99.46%

LMF 4,000.00 0.54%

Revenue 744,871.20 100.00%

Direct Exp (5,000.00) (0.67%)

Depreciation (400,000.00) (53.70%)

Expenses (405,000.00) (54.37%)

PBIT 339,871.20 45.63%

Cost of Capital (240,970.97) (32.35%)

PBT 98,900.23 13.28%

TAX (36,345.83) (4.88%)

Lease Start Date 28-May-2009

First Pmt Date 28-Jun-2009

Last Pmt Date 28-May-2017

Rental Periods 96.00

Pricing Rate 1.35%

Frequency Monthly

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Post Tax EMI
Reports
Defaults
Random
Clear
Reverse
Goal Seek
Print Sheet
Help

CAPINVEST / LEASE PROFILING MODULE

Screen Shot

Screen Shot

Vish Tumu Associates - LeaseBuy

CapInvest
Lease Vs. Buy

ABC Corporation

Reports
Help

Annual Lease Pricing Rate (%) 14.00%

Lease Management Fee (%) 0.00%

Lease Term (Years) 5

Balloon 0.00

Lease Asset Value 100,000

Customized Depreciation ☐

Break Even Variable Last Used
Depreciation Rate

Set as Default Defaults

Equivalency Print

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Lessee Data

Cost of Debt (%) 10.00%

Cost of Equity (%) 25.00%

Debt Financing (%) 75.00%

Equity Financing (%) 25.00%

Tax Rate 36.75%

Depreciation Rate 25.00%

Depreciation Type WDV

Tax Life of Asset 6

Tax Delay (Months from Y.E.) 0

Advantage Leasing

5,304

Wrap-Up

EMI

Lease Payment

29,128.35

Pre-Tax Cost of Debt

10.00%

Post-Tax Cost of Debt

6.33%

Pre-Tax Cost of Equity

39.53%

Post-Tax Cost of Equity

25.00%

Pre-Tax Cost of Capital

17.38%

Post-Tax Cost of Capital

10.99%

Year	Custom Rentals
1	28,200.00
2	28,200.00
3	28,200.00
4	28,200.00
5	28,200.00
6	1,200.00
7	1,200.00
8	1,200.00
9	0.00
10	0.00

Cost of Leasing

8.99%

Cost of Buying

10.99%

Lease Outflows

(68,103)

Buy Outflows

(73,406)

CAPINVEST / LEASE VS. BUY MODULE

Screen Shot

Screen Shot

Vish Tumu Associates - PostTax

Post Tax Analysis

Quotation Date: 14-May-2009 10:11

Lease Start Date: 28-May-2009

Asset Description: Laptop Computers

Lessee: ABC Corporation

Asset Value: 150,000.00

Lease Term: 4.00

Annual Pricing Rate: 18.00%

Lease Rental: 4,341.13

Balloon: 0.00

Frequency: Monthly

Clear Random

Defaults Print

Flows in Use: ☒ Native ☐ Profiling

Type: Advance

LMF: 1.00%

Direct Expenses: 2,500.00

Depreciation: HALF ☐ Full Year ☐

Depreciation Method: WDV

Depreciation Rate: 40.00%

Tax Year-End: 31-Dec

Tax Rate: 36.75%

Cost of Capital: 10.00%

Goal Seek

Reports

Help

EMI

Tax Delay (Months): 0

Period Rate: 1.50%

Total Periods: 48

First Payment Date: 28-May-2009

Last Payment Date: 28-Apr-2013

Total Revenue: 208,374.38

Gross Profit: 58,374.38

NPV of Lease: 22,589.24

Custom Depreciation ☐

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Wrap-Up

Pre-Tax Return: 18.00%

Expected Post Tax Return: 11.39%

Actual Post Tax Return: 12.81%

Depreciation Effect: Positive

Variance from Expected: 1.42%

Post Tax Return: 12.81%

Post Tax Cost of Capital: 6.33%

Post Tax Pricing Flexibility: 6.48%

CAPINVEST / POST-TAX PRICING ANALYSIS

Screen Shot

Screen Shot

Vish Tumu Associates - COC

Help

Cost of Capital

Fx ☒ USD

Opening Rate 1.00

Estimate / Low End 1.00

Estimate / High End 1.00

Average Rate 1.00

Print

Variables Defaults

Contract Amount 1,000,000.00

Issue Price 95.00%

Coupon Rate 10.00%

Direct Expenses 150,000.00

Statutory Reserve 11%

Statutory Reserve Interest 5.00%

CAPITAL FLOWS

Proceeds from Issue	950,000.00
Issue Expenses	(150,000.00)
Net Proceeds from Issue	800,000.00
Statutory Reserve Allocation	(104,500.00)
Investible Funds	695,500.00
Coupon Charges	(100,000.00)
Interest from Statutory Reserve	5,225.00
Net Expense of Funding Source	(94,775.00)

COST OF CAPITAL

Net Expense of Funding Source	(94,775.00)
Investible Funds	695,500.00
Pre-Tax COC	13.63%

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CAPINVEST / COST OF CAPITAL

Screen Shot

Screen Shot

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LEASE PROFILE Preview

SaveAs

Quotation Date 14-May-2009 10:19 AM	Cost of Capital 12.00%	Interest Cost of Lease (44,595.71)
Lessee ABC Corporation	VAT 20.00%	Profit Before Tax 15,810.28
Lease Asset IBM PC	Tax Year-End 31-Mar	TAX (5,810.28)
Asset Value 206,875.10	Lease Start Date 28-May-2009	Profit After Tax 10,000.00
Lease Term (Years) 3.00	First Payment Date 28-Jun-2009	Present Value of Rentals 224,787.06
Lease Pricing Rate (P.A.) 16.50%	Last Payment Date 28-May-2012	Net Present Value of Lease 12,911.96
Balloon 25,000.00	Rental Periods 36.00	VAT Outflows 41,375.02
Lease Rental 6,782.72	Period Pricing Rate 1.37%	VAT Inflows 53,835.59
Frequency Monthly Payment	Total Rental 269,177.96	VAT To Treasury 12,460.57
Type Payment in Arrears	Principal 206,875.10	Incorporated Rate 16.50%
LMF 1.50%	Interest 62,302.86	Actual Post-VAT Rate of Return 14.35%
Direct Expenses 5,000.00	LMF Income 3,103.13	VAT Enabled Lease Rental 7,048.06
Depreciation Method		

CAPINVEST / LEASE PROFILE REPORT

Screen Shot

Screen Shot

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AMORTIZATION SCHEDULE Preview

SaveAs

Number	Date	Investment	LMF	Op Bal	Interest	Repayment	Principal	Cl Bal
1	28-Jun-2009	206,875.10	0.00	206,875.10	2,844.22	6,782.72	3,938.51	202,936.59
2	28-Jul-2009	202,936.59		202,936.59	2,790.07	6,782.72	3,992.65	198,943.94
3	28-Aug-2009	198,943.94		198,943.94	2,735.17	6,782.72	4,047.55	194,896.39
4	28-Sep-2009	194,896.39		194,896.39	2,679.53	6,782.72	4,103.19	190,793.20
5	28-Oct-2009	190,793.20		190,793.20	2,623.11	6,782.72	4,159.61	186,633.59
6	28-Nov-2009	186,633.59		186,633.59	2,565.93	6,782.72	4,216.80	182,416.79
7	28-Dec-2009	182,416.79		182,416.79	2,507.95	6,782.72	4,274.77	178,142.02
8	28-Jan-2010	178,142.02		178,142.02	2,449.18	6,782.72	4,333.54	173,808.48
9	28-Feb-2010	173,808.48		173,808.48	2,389.60	6,782.72	4,393.12	169,415.36
10	28-Mar-2010	169,415.36		169,415.36	2,329.20	6,782.72	4,453.52	164,961.84
Tax Year-End SUB-TOTALS			0.00		25,913.95	67,827.21	41,913.26	
11	28-Apr-2010	164,961.84		164,961.84	2,267.97	6,782.72	4,514.75	160,447.09
12	28-May-2010	160,447.09		160,447.09	2,205.90	6,782.72	4,576.82	155,870.27
13	28-Jun-2010	155,870.27		155,870.27	2,142.98	6,782.72	4,639.74	151,230.53
14	28-Jul-2010	151,230.53		151,230.53	2,079.19	6,782.72	4,703.53	146,526.99
15	28-Aug-2010	146,526.99		146,526.99	2,014.52	6,782.72	4,768.20	141,758.79
16	28-Sep-2010	141,758.79		141,758.79	1,948.97	6,782.72	4,833.76	136,925.04
17	28-Oct-2010	136,925.04		136,925.04	1,882.51	6,782.72	4,900.21	132,024.83
18	28-Nov-2010	132,024.83		132,024.83	1,815.14	6,782.72	4,967.58	127,057.24
19	28-Dec-2010	127,057.24		127,057.24	1,746.84	6,782.72	5,035.88	122,021.36
20	28-Jan-2011	122,021.36		122,021.36	1,677.61	6,782.72	5,105.11	116,916.25
21	28-Feb-2011	116,916.25		116,916.25	1,607.42	6,782.72	5,175.30	111,740.95
22	28-Mar-2011	111,740.95		111,740.95	1,536.27	6,782.72	5,246.45	106,494.49
Tax Year-End SUB-TOTALS			0.00		22,925.31	81,392.65	58,467.35	
23	28-Apr-2011	106,494.49		106,494.49	1,464.14	6,782.72	5,318.59	101,175.91
24	28-May-2011	101,175.91		101,175.91	1,391.01	6,782.72	5,391.71	95,784.20
25	28-Jun-2011	95,784.20		95,784.20	1,316.89	6,782.72	5,465.84	90,318.36
26	28-Jul-2011	90,318.36		90,318.36	1,241.74	6,782.72	5,540.98	84,777.38
27	28-Aug-2011	84,777.38		84,777.38	1,165.56	6,782.72	5,617.16	79,160.22
28	28-Sep-2011	79,160.22		79,160.22	1,088.33	6,782.72	5,694.39	73,465.83
29	28-Oct-2011	73,465.83		73,465.83	1,010.04	6,782.72	5,772.68	67,693.15
30	28-Nov-2011	67,693.15		67,693.15	930.68	6,782.72	5,852.04	61,841.11
31	28-Dec-2011	61,841.11		61,841.11	850.22	6,782.72	5,932.50	55,908.61

CAPINVEST / AMORTIZATION SCHEDULE

Annex 1

Vish Tumu Associates - LeaseBuy

ABC Corporation - Lease Vs. Buy Analysis Preview

FileSave Print

User Provided Parameters

Lease Asset Value	100,000
Lease Management Fee	0.00%
Annual Lease Pricing Rate	14.00%
Lease Term (Years)	5
Balloon	0
Cost of Debt	10.00%
Cost of Equity	25.00%
Debt Financing	75.00%
Equity Financing	25.00%
Tax Rate	36.75%
Tax Depreciation Rate	25.00%
Depreciation Type	WDV
Tax Life of Asset (Years)	6
Rental Type	Equated Annual Rentals
Tax Payment Delay (Months)	0

Lease Vs. Buy Analysis

* Present Value of Lease Payments	68,102.75
* Present Value of Buy Payments	73,406.29
Leasing is Cheaper than Buying by:	5,303.54

* cash flow has been discounted using
Post Tax Cost of Capital of Transaction
(10.99%)

Derived Parameters

Pre-Tax Cost of Debt	10.00%
Post-Tax Cost of Debt	6.33%
Pre-Tax Cost of Equity	39.53%
Post-Tax Cost of Equity	25.00%
Pre-Tax Cost of Capital	17.38%
Post-Tax Cost of Capital	10.99%

Lease Rentals

Year 1	29,128.35
Year 2	29,128.35
Year 3	29,128.35
Year 4	29,128.35
Year 5	29,128.35

Double-Click a Report

- Lease Vs. Buy Analysis
- Economics of Leasing
- Economics of Buying
- Implicit Cost of Lease

LEASE VS. BUY ANALYSIS / VARIABLES

ABC Corporation - Economics of Leasing							Preview
FileSave		Present Value Factors of Post Tax Cost of Capital of Transaction				Print	
Year	LMF	Lease Rental	Post Tax Outflow	PVF	Tax Delayed PVF	DCF	
0	0.00	0	0	1.0000	1.0000	0	
1	0.00	29,128	(18,424)	0.9010	0.9010	(16,599)	
2	0.00	29,128	(18,424)	0.8117	0.8117	(14,955)	
3	0.00	29,128	(18,424)	0.7313	0.7313	(13,474)	
4	0.00	29,128	(18,424)	0.6589	0.6589	(12,139)	
5	0.00	29,128	(18,424)	0.5936	0.5936	(10,937)	
TOTALS	0	145,642	(92,118)			(68,103)	

ABC Corporation - Economics of Buying									Preview
FileSave		Present Value Factors of Post Tax Cost of Capital of Transaction						Print	
Year	Cost	Deprn	Tax Write-Offs	Tax Shield	CF	PVF	Tax Delayed PVF	DCF	
0	100,000	0	0	0	(100,000)	1.0000	1.0000	(100,000)	
1	0	25,000	25,000	9,188	9,188	0.9010	0.9010	8,277	
2	0	18,750	18,750	6,891	6,891	0.8117	0.8117	5,593	
3	0	14,063	14,063	5,168	5,168	0.7313	0.7313	3,779	
4	0	10,547	10,547	3,876	3,876	0.6589	0.6589	2,554	
5	0	7,910	7,910	2,907	2,907	0.5936	0.5936	1,726	
6	0	23,730	23,730	8,721	8,721	0.5348	0.5348	4,664	
TOTALS	100,000	100,000	100,000	36,750	(63,250)			(73,406)	

ABC Corporation - Implicit Cost of Leasing							8.89%	Preview
FileSave							Print	
Year	Investment Saved	Lease Rental	Post Tax Rental	Depreciation	Deprn Shield Foregone	Total Flows		
0	100,000	0	0	0	0	100,000		
1	0	29,128	(18,424)	25,000	(9,188)	(27,611)		
2	0	29,128	(18,424)	18,750	(6,891)	(25,314)		
3	0	29,128	(18,424)	14,063	(5,168)	(23,592)		
4	0	29,128	(18,424)	10,547	(3,876)	(22,300)		
5	0	29,128	(18,424)	7,910	(2,907)	(21,331)		
6	0	0	0	23,730	(8,721)	(8,721)		
TOTALS	100,000	145,642	(92,118)	100,000	(36,750)	(28,868)		

Annex 2

Lease Profiling Examples

- The first example profiles monthly lease rental for a lease asset of USD 15,000 over 12 months employing the annual interest rate of 12% and lease rental factors as set out in the table. The profiling results in a lease rental that increases with each month in line with the lease rental factor adopted for the profile; in this example, rental in month 12 is 12 times the rental of month 1.

(the Interest Rate implicit in the lease is 12%, which can easily be verified by computing the IRR of the monthly lease rentals against an outflow of USD 15,000).

- The second example profiles quarterly lease rental for a lease asset of USD 15,000 over a period of 2 years employing the annual interest rate of 12% and completely random lease rental factors.

Annex 2

LEASE RENTAL PROFILING / FIRST EXAMPLE

Rental Number	Rental Date	Base Rental	Lease Rental Factor	Lease Rental	PV of Lease Rental
1	28-Feb-01	\$208.84	1.00	\$208.84	\$206.78
2	28-Mar-01	\$208.84	2.00	\$417.69	\$409.46
3	28-Apr-01	\$208.84	3.00	\$626.53	\$608.11
4	28-May-01	\$208.84	4.00	\$835.38	\$802.78
5	28-Jun-01	\$208.84	5.00	\$1,044.22	\$993.54
6	28-Jul-01	\$208.84	6.00	\$1,253.07	\$1,180.45
7	28-Aug-01	\$208.84	7.00	\$1,461.91	\$1,363.55
8	28-Sep-01	\$208.84	8.00	\$1,670.76	\$1,542.92
9	28-Oct-01	\$208.84	9.00	\$1,879.60	\$1,718.59
10	28-Nov-01	\$208.84	10.00	\$2,088.45	\$1,890.64
11	28-Dec-01	\$208.84	11.00	\$2,297.29	\$2,059.12
12	28-Jan-02	\$208.84	12.00	\$2,506.13	\$2,224.07
				\$16,289.87	\$ 15,000.00

AMORTIZATION SCHEDULE / FIRST EXAMPLE

Rental Number	Date	Opening Balance	Period Interest	Total Dues	Payment	Closing Balance
1	28-Feb-01	15,000.00	150.00	15,150.00	208.84	14,941.16
2	28-Mar-01	14,941.16	149.41	15,090.57	417.69	14,672.88
3	28-Apr-01	14,672.88	146.73	14,819.61	626.53	14,193.07
4	28-May-01	14,193.07	141.93	14,335.00	835.38	13,499.63
5	28-Jun-01	13,499.63	135.00	13,634.62	1,044.22	12,590.40
6	28-Jul-01	12,590.40	125.90	12,716.30	1,253.07	11,463.24
7	28-Aug-01	11,463.24	114.63	11,577.87	1,461.91	10,115.96
8	28-Sep-01	10,115.96	101.16	10,217.12	1,670.76	8,546.36
9	28-Oct-01	8,546.36	85.46	8,631.82	1,879.60	6,752.22
10	28-Nov-01	6,752.22	67.52	6,819.74	2,088.45	4,731.30
11	28-Dec-01	4,731.30	47.31	4,778.61	2,297.29	2,481.32
12	28-Jan-02	2,481.32	24.81	2,506.13	2,506.13	0.00

Annex 2

LEASE RENTAL PROFILING / SECOND EXAMPLE

Rental Number	Rental Date	Base Rental	Lease Rental Factor	Lease Rental	PV of Lease Rental
1	28-Feb-01	\$544.18	6.00	\$3,265.10	\$3,170.00
2	28-May-01	\$544.18	11.00	\$5,986.02	\$5,642.40
3	28-Aug-01	\$544.18	0.00	\$0.00	\$0.00
4	28-Nov-01	\$544.18	1.00	\$544.18	\$483.50
5	28-Feb-02	\$544.18	3.00	\$1,632.55	\$1,408.25
6	28-May-02	\$544.18	0.00	\$0.00	\$0.00
7	28-Aug-02	\$544.18	0.00	\$0.00	\$0.00
8	28-Nov-02	\$544.18	10.00	\$5,441.84	\$4,295.84
				\$16,869.69	\$15,000.00

AMORTIZATION SCHEDULE / SECOND EXAMPLE

Rental Number	Date	Opening Balance	Period Interest	Total Dues	Payment	Closing Balance
1	28-Feb-01	15,000.00	450.00	15,450.00	3,265.10	12,184.90
2	28-May-01	12,184.90	365.55	12,550.44	5,986.02	6,564.42
3	28-Aug-01	6,564.42	196.93	6,761.35	0.00	6,761.35
4	28-Nov-01	6,761.35	202.84	6,964.19	544.18	6,420.01
5	28-Feb-02	6,420.01	192.60	6,612.61	1,632.55	4,980.05
6	28-May-02	4,980.05	149.40	5,129.46	0.00	5,129.46
7	28-Aug-02	5,129.46	153.88	5,283.34	0.00	5,283.34
8	28-Nov-02	5,283.34	158.50	5,441.84	5,441.84	0.00

The above examples illustrate the fact that rental profiles could as easily be developed for any period in the range 1 to 10 years employing any type of lease rental factors, including random factors, that change from period to period for each of 120 periods – CapInvest effortlessly generates profiled quotes.

Annex 3

To illustrate the complexities involved in estimating the cost of capital, consider a hypothetical line of credit set out below:

COST OF CAPITAL ILLUSTRATION		
Contract Amount	USD	10,000,000
Issue Price	(%)	97.50%
Coupon Rate	(%)	10.00%
Direct Expenses	USD	195,000
Statutory Reserve Allocation	(%)	25.00%
Statutory Reserve Interest	(%)	5.00%
FX		
Opening		44.00
Estimate / Low End		46.00
Estimate / High End		90.00
Average (Calculated)		68.00

If a leasing company were to rely solely on the coupon rate for estimating its cost of capital, it would use the rate of 10%

However, on analysis, the actual cost of capital of the line of credit is an entirely different number – in fact, it is double the coupon rate – the pre-tax cost of capital for the above line of credit is actually 20% when all of the above variables are quantified and included.

Sometimes, authorities disallow interest payments on certain type of borrowings in computing taxable profits – this has the effect of raising the COC. The effect on profitability and operations is disastrous when “hidden” costs are ignored in computing the cost of capital.

Annex 4

Vat-Enabled Lease Pricing A Hypothetical Lease

Lease Value	\$25,000.00
Annual Lease Pricing Rate:	15.00%
Monthly Lease Pricing Rate	1.25%
Lease Terms (Years):	2
Number of Monthly Periods	24
Monthly Lease Rental	\$1,212.17
Balloon Amount	0.00
VAT	20.00%



Take a look at the
CapInvest results

Three Approaches Addressing the VAT Issue

	Exclude VAT	Include VAT	CapInvest
Monthly Lease Rental	1,212.17	1,454.60	1,241.81
Total Lease Rental	29,091.99	34,910.39	29,803.46
Lessee VAT Outflows	5,818.40	6,982.08	5,960.69
Total Lessee Outflows	34,910.39	41,892.46	35,764.16
Target Return	15.00%	15.00%	15.00%
Actual Return	12.85%	30.15%	15.00%

Note the perfect match between Target
and Actual Return obtained by CapInvest