

- **Lease** is an agreement for the use of the asset for a specified rental. The owner of the asset is called the lessor and the user the lessee. Two important categories of leases are: operating leases and financial leases. The most compelling reason for leasing equipment rather than buying it is the tax advantage of depreciation that can mutually benefit both the lessee and the lessor. Other advantages include convenience and flexibility as well as specialised services to the lessee. In India, lease proves handy to those firms, which cannot obtain loan capital from normal sources.
- **Operating Leases** are short-term, cancellable leases where the risk of obsolescence is borne by the lessor.
- **Financial Leases** are long-term non-cancellable leases where any risk in the use of the asset is borne by the lessee and he enjoys the returns too.
- **Equivalent Loan** Financial lease involves fixed obligations in the form of lease rentals. Thus it is like a debt and can be evaluated that way. Given the lease rentals and tax shields, one can find the amount of debt which these cash flows can service. This is equivalent loan. If equivalent loan is more than the cost of the asset, it is not worth leasing the equipment.

- **Net Advantage of Lease** You can also approach lease evaluation by calculating the net advantage of lease (NAL). After-tax lease rentals and tax shields may be discounted at the after-tax borrowing rate while operating costs and salvage value at the firm's cost of capital to find out NAL:

$$\text{NAL} = A_0 - \sum_{t=1}^n \frac{(1-T)L_t + \text{DTS}_t}{[1 + k_d(1-T)]^t} + \sum_{t=1}^n \frac{(1-T)OC_t}{(1+k)^t} + \frac{\text{ATSV}_n}{(1+k)^n}$$

- **Hire Purchase Arrangement** like in a lease, the hire purchaser is able to avoid the payment for the purchase of the asset now, and instead pays hire purchase instalments (either monthly or quarterly or any other agreed period) over a specified period and time. The hire purchaser becomes the owner of the asset once he had paid all instalments. Unlike the leasee, he is entitled to claim depreciation as well as the salvage value of the acquired asset. Hire purchase arrangement differs from instalment sale arrangement in terms of the ownership. Under hire purchase, ownership passes to the hire purchaser on the payment of the last instalment, while under instalment sale ownership is transferred once the agreement has been made between the buyer and the seller.

- **Project Financing** is yet another asset-based financing arrangement. It is the financing of a project as an independent economic unit, where the project itself forms a direct security, and its cash flows are used to service the debt or equity provided by the project sponsor. Project financing is the most common method of financing large infrastructure projects. Project financing involves considerable risk in the form of completion risk, market risk, foreign exchange risk, political risk etc. Therefore, generally the project sponsors seek guarantees from the host governments and use various risk mitigation arrangements. Usually, the risk will be distributed among owners, contractors, suppliers of inputs, customers, government etc. Project finance may take the form of a simple loan, or may involve a more complex arrangement like BOOT , BOO etc.
- **Build-Own-Operate-Transfer** In a BOOT arrangement, the project sponsor builds a project, operates it for a long period of time to earn a reasonable return, and then transfers it to the host government or its agency.
- **Build-Own-Operate** In BOO arrangement, the project is not transferred to the host government, rather the owner divests its stake in the capital markets. In a build-lease-transfer arrangement, the owner transfers the project to a lessee for

operational purposes, but keeping ownership intact.