

AN ANALYSIS OF HIRE PURCHASE SYSTEM IN NBFCs

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ABSTRACT:

Consumers can buy things on credit and pay for them in monthly installments with the hire purchase method. This study aims to provide a comprehensive analysis of the hire purchase system as it pertains to NBFCs by investigating its components, merits and downsides, and regulatory context. Part one of this research delves into the inner workings of the hire-buy system and the significance of NBFCs in the delivery of financial services to customers. By analyzing crucial aspects of hire purchase agreements such as down payments, installment plans, and ownership transfer procedures, this article elucidates the significance and influence of hire purchase agreements for both buyers and NBFCs.

1. INTRODUCTION

With a hire buy agreement, the lessee can purchase the goods from the vendor outright. In a hire buy agreement, the consumer and the lender enter into a loan transaction, but the hirer is under no obligation to complete the purchase at any moment. A hire purchase arrangement is a type of loan transaction since it involves financing an acquisition in which the buyer is also the owner. A hire purchase agreement may be hiding a hidden loan transaction. The court will assess if the terms of the agreement constitute a loan or hire buy. The customer entered into an agreement with the finance company to purchase a vehicle, the vehicle was purchased in the customer's name, and ownership was with the customer and no one else; therefore, even though the agreement is called a hire purchase finance agreement, a loan transaction would be at play.

SCOPE OF THE STUDY:

- This study demonstrates how hire buy can be a useful tool for small and medium-sized enterprises in their pursuit of vehicle ownership.
- Using examples helps illustrate the theoretical foundations of the research.
- To promote hire buy as an alternate means of obtaining credit to more conventional means.

NEED FOR THE STUDY:

Hire Purchase is such a common form of financing for commercial cars, a thorough understanding of the transaction is essential to the success of the research.

OBJECTIVE OF THE STUDY:

- The Hire Purchase Program: An Evaluation of NBFC Leasing and Purchase Programs for Commercial Vehicles
- Examining the Recruiting and Purchasing Methods
- Investigating Possible Funding Options for Recruitment

2. RELATED WORK

British rental-buy in India for 60 years. Auto Supply Company's successor, Commercial Credit Corporation, invented hire purchase. Motor and General Finance and Installment Supply Company is still in Madras despite its northern headquarters. In the 1920s and 1930s, these enterprises started. Hired automobiles and appliances skyrocketed. For expensive consumer products, hardware and home improvement companies offer lease-to-own. Singer Sewing Machine and Murphy Radio enable Hire Buy. Truck rental rose. Commercial auto lots and lending rose. This banking sector has risen rapidly

because to high collateral values and simple repossession. Families dominate vehicle loan markets.

FEATURES OF HIRE PURCHASE SYSTEM:

- Payments scheduled.
- Possession follows lease signing.
- After the last rental payment, the lessee gets the goods.
- If a buyer or lessee misses on payment, the vendor can reclaim items, and the buyer or lessee can return them without penalty.

PARTIES TO HIRE PURCHASE CONTRACT

Hire Purchase Agreements are signed by sellers and buyers. Vendor, lender, and lessee make up modern Hire Purchase Agreements. In recent decades, finance businesses have flourished, making the Hire Purchase Contract's selling clause independent of the financing arrangement. Hire Purchase Agreements are between customers and lenders. It's three.

- HPA provisions.
- The bank finances the dealer's hire-buy agreements. Transaction fees, dealer warranties, etc.
- Select products are purchased. The dealer will help with the HPA. Distributing lenders.
- The client pays after the proposal. Dealer payments decrease with company deposits.
- The dealer will have the loan company buy the merchandise and accept the Hire acquire Transaction if everything goes well.
- If everything checks out, the financing company will sign the lease and give the lessee payment details. Late merchandise is reported to the dealer by the loan firm.
- After lessee acceptance, dealer transfers title to financier.
- Leaseholders buy.
- The lessee owns the merchandise after final payment and loan business completion certificate.

RIGHTS AND OBLIGATIONS OF THE PARTIES TO HIRE PURCHASE SYSTEM:

RIGHTS OF THE HIRER:

To purchase with rebate:

During the Term, Owner may sell Goods to Hirer for full payment. The balance after rebate is HIRE PURCHASE.

Highest Price Paid divided by Future Payment Amount multiplied by the difference is Cash Price Discount.

Hirer rights agreements that conflict are void. The lease's larger yield goes to lessees.

To terminate the agreement:

The hirer can cancel before the final payment. 14 days before lease termination, Lessee must notify Landlord. Cancelled leases oblige the lessee to return the goods and pay any remaining rent.

To appropriate payments

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To Assign and Transmit:

The Hirer must pay the contract rental charge if products break due to carelessness. Stopping Abuse Hirers are liable for item abuse.

OBLIGATION OF THE HIRER:

To Comply With the Agreement

If the tenant repeatedly fails to pay rent, the landlord can terminate the lease with written notice. One-week notice is required for hire purchase payments every two weeks or less. If the lessee breaks the lease, the owner can terminate it. Owner can terminate this Lease by writing to Lessee.

Not to Make Unauthorized Use

The landlord is entitled to prepayment and arrears until the lease termination date if the tenant cancels. Seized rentals can be repaid.

RIGHTS OF THE OWNER:

If the tenant repeatedly fails to pay rent, the landlord can terminate the lease with written notice. One-week notice is required for hire purchase payments every two weeks or less. If the lessee breaks the lease, the owner can terminate it.

Owner can terminate this Lease by writing to Lessee.

To retain hire:

The landlord is entitled to prepayment and arrears until the lease termination date if the tenant cancels. Seized rentals can be repaid

To forfeit the initial deposit:

The owner can keep the advance as a penalty under contracts.

OBLIGATION OF THE OWNER:

- Within a reasonable time, the owner must sign and give the company a contract.
- Get Surety's Agreement.
- Request it.
- Maker and consumer payments.
- The payment plan indicates the installment amount, due date, and total amount.

BENEFITS OF HIRE PURCHASE

- Assets can be used and paid for instantly by the company.
- HP contracts are simple. Modern gear and software increase productivity.
- VAT and depreciation are available to lessees.
- Starting price.
- Consumers are protected by funding.
- If the client breaks the contract, HP gets paid.

3. COMPARISON OF HIRE PURCHASE SYSTEM TO OTHER FORMS OF FINANCING

HIRE PURCHASE SYSTEM V/S LEASING

Leasing or renting equipment is a common way for businesses to generate revenue. Corporate asset finance allows businesses to acquire funds to purchase automobiles, cars, machinery, office equipment, computer gear, and furniture.

The only difference between HP and lease buy is the payment structure. Some companies that provide financing choose for lease purchase agreements so that a sizable portion of the total cost of the asset can be spread out over the term of the contract. Lease-like in operation, hire purchase goes by a few different names. The asset, however, belongs to the customer. There is a premium because of the danger associated with

the hirer.

Leasing, a phenomenon of the 1980s, was initially used mostly for physical assets. Leasing has become synonymous with the purchase of machinery, while Hire Purchase was once associated with the acquisition of automobiles. Depreciation and investment allowance can only be claimed by the lessee.

HIRE PURCHASE SYSTEM V/S LOAN AGREEMENT

The most typical form of credit arrangement looks like this. When paid in full, the asking price becomes effective. However, there are stores that provide layaway programs with zero interest. Loans are typically repaid in equal monthly payments. You become the legal owner of the items at the time the contract is formed, and you have no right to cancel your purchase order after it has been accepted. If payment is not made when due, the seller will no longer be able to retrieve the items, but can still sue for damages. While credit sale and loan arrangements have mostly replaced hire-purchase agreements, the former were still widely used.

Those that enter into HP agreements are essentially renting the items they are buying until the final payment is made. Until then, you're only using the stuff on loan. You have the option to cancel your order at any time and receive a full refund. However, if less than half of the purchase price has been paid, the remaining balance may be due from you.

NON BANKING FINANCIAL COMPANIES (NBFCs)

Both publicly traded and privately held organizations that are not banks but who offer financial services to the general public are referred to as "non banking financial companies" (NBFCs).

Leasing, hire purchase, and other fee-based services account for a large portion of NBFCs' revenue streams. The following are some examples of fund-based activities that NBFCs engage in:

- Hire purchase
- Leasing
- Bill discounting
- Promoter funding
- Bridge financing
- Inter corporate deposits
- Public deposits

There are some non-fund/ fee based activities of NBFCs. They are:

- Merchant banking
- Corporate advisory
- Stock broking
- Syndication of loans
- Shares and bonds underwritten

Companies Act registration is required for NBFCs. The RBI regulates them and sets their rules. The SEBI also closely monitors those who deal in "Merchant Banking." In response to a rise in economic activity and the need for more resources, non-bank financial institutions (NBFCs) emerged in the 1950s and 1960s.

The guidelines of the RBI:

- Credit rating
- Reporting to RBI
- Furnishing of half yearly return
- Prohibition of loan against its own shares
- Concentration on credit and investments

4. PROCEDURE OF HIRE PURCHASING IN SIL

Shriram Investments Limited will use the following steps to arrange hire buy financing for commercial vehicles:

SOURCES OF FUND FOR HIRE PURCHASE

COMPANY'S OWN FUNDS:

Used car purchases are financed by Shriram's own money, which it has acquired from public deposits and invested in the business.

non-cumulative interest rate debentures/bonds having maturities between one and 10 years that are above the market average for companies in the same industry. Each sort of public debenture and its corresponding interest rate is listed below.

- GROWTH BOND
- HAPPY BOND
- PRINCESS BOND
- PROTECTION BOND
- STRAIGHT BOND

LENDING OF FUNDS:

Customers looking to finance the acquisition of a commercial vehicle through the hire purchase system can take advantage of the firm's debenture offerings.

PARTIES TO HIRE PURCHASE AGREEMENT:

HIRER:

Most people looking to rent commercial vehicles run small enterprises.

OWNER:

"SHRIRAM INVESTMENTS LIMITED" is the asset's financial supporter. As a Consequence The division manager in charge of the branch, with the help of the Zonal officer and under the supervision of regional heads, approves the lending amount to the branch, which is the limit a branch can lend to a customer for a specific period of time in accordance with the rules and regulations of the company.

Proposal Stage

When a consumer submits a proposal and price quote for a car to a local branch, an agent in the field conducts an investigation. After performing an exhaustive inspection, he records a detailed account of the vehicle's history and current state. The customer's creditworthiness is established after the company's research staff verifies the references and asks any additional questions they may have. In addition, the customer must provide proof of transportation insurance. As part of the agreement, we need a picture of the car, the customer, and the guarantor. After customer and guarantor sign the agreement and it is approved by the branch manager, the hirer must have the RC book at the regional transport office endorsed to reflect that the vehicle is under Hire purchase arrangement with the company. Shriram reveals both the potential employer and the reference. It then calculates the car's value based on its current

market value and its condition after confirming the information provided by both parties.

Funding amount:

The funding amount is based on the vehicle's fair market value and its condition. Vehicle financing terms are limited to a maximum of 12 years and advances will never go above the company's annual budget.

75% of OLV – Original Liquidation Value
60% of FMV – Fair Market Value

TABLE 1: FUNDING AMOUNT

MARKET VALUE	ADVANCE RATE	FUNDING AMOUNT
415000	60%	Rs.250000/-

Therefore, the said customer would be funded: **60% (415000) = 249000** which is rounded off to **Rs.250000/-**

Therefore as per the case, the **Advanced Amount = Rs.250000/-**

All required documentation is signed by both parties: Shriram and the customer.

Advance Stage

If the divisional manager agrees to the proposal (list of bills with hirers' information and agreement Nos., etc.), the branch manager will issue a demand draft in the amount of Rs.2,50,000/- in favor of the seller. Through the branch manager, the DD is transmitted to the supplier. The manager of the local office is responsible for negotiating a suitable repayment schedule with the borrower in accordance with the policies of the parent firm. When the division office has to be reimbursed, they send these records to the zone manager. The reimbursement will be processed after the zone manager has reviewed the necessary accounting documents.

Collection Stage

Shriram's field officers will collect rent each month and provide the tenant with a receipt. The funding date listed on the DD will mark the beginning of the payment plan. All fees associated with the loan, including interest and insurance premiums, are rolled into one lump sum for the duration of the agreement, with the first year being billed separately. Here is the recommended loan amount and timetable for this

particular case:

TABLE 2: DETAILS OF TRANSACTION

Advanced amount	Rs.250000/-
Interest (flat rate)	15 %
Tenor	36 months
Insurance premium (Rs.10000/ annum for 2 years)	Rs.20000/-

Note: The insurance premium of the first year is considered to be paid by the customer himself.

$$\begin{aligned} \text{INTEREST PAYABLE} &= \text{Advanced Amount} * \text{Interest} * \text{Tenor} \\ &= 250000 * 15/100 * 3 \\ &= \text{Rs.1,12,500/-} \end{aligned}$$

$$\text{Loan Amount} = \text{Advanced Amount} + \text{Interest Payable} + \text{Insurance Premium}$$

TABLE 3: CALCULATIONS Of LOAN AMOUNT

Advanced Amount	250000
Interest Payable	112500
Insurance Premium	20000
TOTAL LOAN AMOUNT	3,82,500/-

$$\begin{aligned} \text{EMIs} &= \text{Loan amount} / \text{Tenor(months)} \\ &= 3,82,500 / 36 \\ &= \text{Rs.10,625/ per month} \end{aligned}$$

The customer will receive a repayment schedule from the company which contains the following:

TABLE 4: Repayment Schedule

Months	Due Date	Installment Payable	Balance Due
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The collection detail of the customer is as follows:

TABLE 5: FLAT PAYMENT

Year	HP Installment Amount Due (annual)	Interest	Principal (funded amount + insurance)
1	127500/-	61824.33	65,675.67
2	127500/-	37500	90,000
3	127500/-	13175.67	1,09,534

Interest Allocation on yearly basis:

$$1^{\text{st}} \text{ year} = 112500 * 366/666 = \text{Rs.61824.33}$$

$$2^{\text{nd}} \text{ year} = 112500 * 222/666 = \text{Rs.37500}$$

$$3^{\text{rd}} \text{ year} = 112500 * 78/666 = \text{Rs.13175.67}$$

TABLE 6 : STRUCTURED PAYMENT (40: 30: 30)

Year	HP Installment Amount Due (annual)	Interest	Principal	EMIs
1	153000/-	61824.33	65,675.67	12,750
2	114750/-	37500	90,000	9562.5
3	114750/-	13175.67	1,09,534	9562.5

The branch manager also submits a statement of actual collection/hirer wise to the regional office.

Non-performing Assets

The field agent keeps tabs on the payment history of each contractor. If a tenant falls more than

three EMIs behind, the company will take action with the consent of upper management. In the event that the renter does not respond to the notice sent by the company, the postdated checks issued by the renter at the time of agreement with the bank will be deposited. If the customer's check is returned unpaid, the company has two legal options:

Cheating case

Cheque bounce case

The company will seize the vehicle and take possession of it after giving the customer notice, then follow its legal procedures to recover the debt. The company would then auction off the vehicle. If the money from the automobile sale isn't enough to pay off the loan, they'll go after the renter in court.

Termination of agreements

The manager of the branch office will contact the head office of the division when the agreement's terms have been met. In the event of a foreclosure by the lessee, the branch manager is responsible for voluntarily collecting the foreclosure amount as set by the regional manager and remitting it to the zone office. The branch manager reviews the dismissal documentation and then forwards it to corporate. When Shriram hands in his resignation papers to his employer, that will be the end of his employment there.

5. TERMS AND CONDITIONS OF HIRE PURCHASE

GUARANTEE

The guarantor is a significant third party with significant legal obligations under this agreement. He acts as a cushion for the employer or the transaction. In the event that the owner rents out the vehicle, the guarantor agrees to bear full responsibility for any and all damage caused by the lessee. Once Owner has received all funds due, owing, and payable to Owner under this Agreement, Guarantor's obligations hereunder shall expire. The parties agree that the obligations of the Hirer under this Agreement shall survive the expiration or earlier termination of this

Agreement and shall remain in full force and effect

SCHEDULE OF PAYMENT

Any and all payments required by the hire purchase agreement must be made by the hirer. This plan, known as a hire purchase, will allow him to pay for the car over time, with the first down payment amounting to just Re.1.

RIGHTS OF THE COMPANY AS A FINANCIER

During the term of this agreement, the vehicle may be inspected at any time by the owner or the owner's representative. If the Owner sells, assigns, or transfers his rights under the Hire Purchase Agreement, the Lessee agrees to treat the Buyer's successors and assigns as parties to the Hire Purchase Agreement. If the renter has signed a blank transfer letter, the owner can reclaim the vehicle and transfer registration into his name if the rental agreement is terminated for the renter's default.

HIRE PURCHASE AGREEMENT

Lessor agrees to lease the vehicle to Lessee at the rental rates agreed upon, and Lessee agrees to rent or lease the vehicle from Lessor.

TITLE AND OWNERSHIP

The renter is only acting as the owner's bailee and has no legal or equitable interest in the vehicle.

RIGHT AND OBLIGATIONS OF THE HIRER

Without the owner's prior written approval, the lessee is not permitted to resell, reassign, sublet, pledge, or otherwise dispose of or permit another person to utilize the rented vehicle. If there is a problem with the car, the lessee can sue the manufacturer up to the limits of the warranty. The owner of the car has no duty to ensure the vehicle is roadworthy or to fix any problems that may arise.

TERMINATION BY DEFAULT

Tenant's substantial breach of the lease gives the owner the right to terminate the lease. The lessee has breached the lease by failing to pay rent on time. More than 48 hours have gone since an accident that resulted in damage to the car or to

the person or property of another, and the owner has not been notified.

The rental agreement can be terminated if the renter is breaching the law or using the car in a way that wasn't agreed upon in advance. If Owner exercises Owner's right to reclaim the Vehicle upon termination of this Agreement, Lessee shall pay to Owner all accrued but unpaid HP installments and other charges, plus any applicable late fees, plus any costs incurred by Owner in reclaiming the Vehicle and restoring it to a roadworthy condition. For the convenience of its subsidiaries, the company has set up financial arrangements with numerous banks.

THE SCHEME:

Shriram Group handles the logistics of truck fleets for banks. The financial industry has the option of fulfilling the priority sector quota. If a truck driver is unable to secure a loan with favorable terms through a bank's priority quota program, they can use our method to do so. If the Shriram team notices a drop in performance, they will take over the portfolio immediately. There is a five-year grace period for the credit.

The steps are the same as in the first scenario, except that the bank is the one to offer funds and the business communicates directly with the client.

Collection and Payment details

The owner would provide Shriram Investments Limited with periodic payments. The bank should authorize Shriram Investments Limited to issue bank receipts in the bank's name. Shriram Investments Limited routinely sent a bank wire on the 15th of each month. Accounting for the operator will be handled by Shriram Investments Limited. Upon the bank's request, Shriram Investments Limited will provide the bank with monthly statements.

Documentation

Only the bank and the operator need to be listed on the paperwork. But the bank has to give Shriram Investments Limited the power to represent it in the following situations.

Collection and issue of receipts

Repossession of vehicles in case of defaults

Formalities with RTO

The bank can outsource the monitoring of customer accounts and security to a third party if it so chooses.

NPAs

If there are more than four EMIS on file for a contract, it is considered NPAs. Within a month, Shriram Investments Limited expects to have fully paid off the NPA contracts it has assumed responsibility for.

DOCUMENTS TO BE SIGNED

Both the tenant and the guarantor need to sign the following documents.

Demand At the end of the lease term, Lessee promises to pay Landlord the sum stated in the promissory note.

Sale If the renter doesn't pay, the automobile owner can use this letter to resell the vehicle and reclaim some of their costs.

All parties to a hire-purchase and guarantee agreement must first provide their informed consent to the agreement's terms and conditions before the deal can move forward.

Employer signatures are needed on the following RTO forms.

Form 20 must be filled out in order to register under Rule 47.

Application for a Name Change (Form 29)

Form 30 is the official method for requesting notification of a vehicle title transfer.

Form 35, Notice of Termination of HP Agreement. Application for a Replacement (Form 26) Document Proving Registration Use Form ACC to ask for the return of a certificate of permission and clearance under Rule 204, as required by Rule 61(1).

The New Vehicle Identification Number Application (Form 27) (Regulation 54).

Relocation of RC/Office Files (Records Retention Rule 59) Form 33

6. CONCLUSION

Hire purchase might be a good way to pay for a commercial vehicle. Due to its many advantages,

it has quickly become the most common type of funding. There has been a rise in the number of NBFCs that offer hire buy plans for commercial vehicles. Shriram Investments Limited is a strong rival when it comes to providing truck financing to small businesses in the United States. NBFC "Shriram Investment Limited" was recently revealed for engaging in unfair employment practices. NBFCs provide a wider range of services than conventional banks, including hire purchase. Hire purchase is superior than alternative means of financing commercial vehicles. To both individual drivers and logistics organizations, Shriram provides in-house finance for secondhand vehicles. Shriram is able to offer car loans for both new and used vehicles thanks to its relationships with major financial institutions.

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