

Ijarah (Lease) - Standard Operating Procedure (SOP)

Stage - 1

A member interested in Ijarah/Leasing of certain goods shall submit an application in the prescribed requisition form (to be provided by IFCCS).

Application shall include full description and detailed specification of the item including the source of supply and place of installation (in case of machineries). Preferably the cost (market price) of the goods is also to be mentioned by the member.

IFCCS should verify or update KYC (Know Your Customer) documents, if needed.

IFCCS shall explain all the terms and conditions to the Member that may include period of Ijarah (Lease), rent amount, Security Deposit (Security amount may be invested in Tata Ethical Fund in the name of lessee in this case rental will be decided on total cost of asset and the amount is used by the IFCCS then rental will be calculated on the remaining amount), securities/guarantees, rules related to maintenance of equipment's etc. so that lessee (*musta'jir*)/Member is well informed about the product and his obligations.

Lessee (Member) shall provide collateral/securities, Security Deposit as may be requested by the IFCCS. In-case the member does not complete the Ijara financing after the purchase order has been issued to the supplier, the member shall make good the cost incurred on the transportation/cancellation of the goods from the Security Deposit.

Upon receiving application from the Member, Security Deposit and guarantees/securities, IFCCS shall issue a receipt to the member of receiving down payment and guarantees/securities papers or articles to be fully refunded in case no agreement is signed between the IFCCS and the member.

Application received shall be evaluated for tax implications on the product. GST and other taxes (if applicable) should be taken into consideration while calculating rental.

Required risk analysis (credit, market, technology) shall be conducted to ascertain viability and profitability of the financing.

Only those products shall be financed which are allowed by the law of the land and also meets shari'ah stipulations.

Stage – 2

IFCCS shall invite quotation from the genuine suppliers from open market or select a genuine supplier as per the member's product specifications.

A detailed study of quotations for selecting a cost effective (best price and quality) and viable proposal to be carried out.

The competent authority shall assess all the documents (quotation/proposal, Member application along with internal evaluation report) and issue a purchase order and subsequently sign Lease Agreement with the Member.

Stage – 3

IFCCS shall inform the member of the availability of goods with monthly rental as per the supplier's delivery commitment.

Lease agreement shall be signed between IFCCS and the member subject to the acceptance of the Member with the terms and conditions set forth in the document

Stage – 4

Purchase order shall be issued to the supplier along with the draft/crossed cheque /NEFT/RTGS or any electronic transfer of the specified amount for delivery of the goods.

Supplier shall issue a receipt of amount which has been received as per purchase order.

IFCCS shall intimate the member of expected date, time and place of delivery in advance.

Supplier shall deliver goods on the delivery date as agreed and the IFCCS shall receive goods from the supplier and store it in its warehouse or directly transfer the goods to the Members address as the case may be, and make entry into the stock register or in the book of accounts accordingly.

Member shall sign an acceptance receipt which shall illustrate the specifications of goods and the state in which it has been received.

Stage – 5

Rent received as per due date

In case regular rent received the prescribed accounting treatment shall be made.

Delayed Rent/default

IFCCS shall ascertain the reason of delay/default in repayment and if there is genuine causes involved for the same it shall treat such delay/default on compassionate ground and provide needed relief.

However in cases where the delay/default is willful or habitual the IFCCS may charge a certain amount as penalty to deter the members from willfully or habitually making

delayed/defaulting the repayments. The penalty charges received shall be given to a charity not in any way connected with the beneficial interest of the IFCCS.

The penalty charges should be decided by the IFCCS keeping in mind that it should have deterrent effect and also not be exorbitant.

Early Cancellation of Contract

The lessee may seek to terminate the lease prematurely by paying the early termination charges and enter into a secondary lease for the leased assets on such terms and conditions as the parties may decide.

IFCCS may calculate the Rental as per given method

Asset Value – ₹ 100,000

Residual Value - ₹ 20,000

Lease Tenure – 5Years/60Months

Expected Return on Investment – 15% per annum

$$\begin{aligned}\text{Total Lease Rental} &= \text{Loss in Value of Asset} + \text{Return on Investment} \\ &= (100,000 - 20,000) + (100,000 + 20,000) / 2 \times 15\% \times 5 \\ &= 80,000 + (60,000 + 15\% \times 5) \\ &= 80,000 + 45,000 \\ &= 125,000\end{aligned}$$

$$\begin{aligned}\text{Lease Rental per Month} &= \text{Total Lease Rental} / \text{Lease Tenure} \\ &= 125,000 / 60 \\ &= \mathbf{2083.33}\end{aligned}$$

IFCCS may calculate the early Lease Termination Charges as per given method

Assuming that the lease is terminated after 24 months

Assuming that the market value of the asset is only 35, 000

$$\begin{aligned}\text{Rentals Received} &= \text{Monthly Rental} \times \text{Lease Tenure} \\ &= 2083.33 \times 24 \\ &= 49,999.99\end{aligned}$$

$$\begin{aligned}\text{Return due @ 15\%} &= (100,000 + 35,000) / 2 \times 15\% \times 2 \\ &= (135,000/2) \times 15/100 \times 2 \\ &= 20,250\end{aligned}$$

$$\text{Total Amount Expected} = 100,000 + 20,000$$

$$\begin{aligned}\text{Total Amount Obtained} &= 49,999.99 + 35,000 \\ &= 84,999.99\end{aligned}$$

$$\begin{aligned}\text{Early Termination Charge} &= 120,000 - 84,999.99 \\ &= 35,000.01\end{aligned}$$