MOCK TEST PAPER 2

FINAL (NEW) COURSE: GROUP – I

PAPER – 2: STRATEGIC FINANCIAL MANAGEMENT

SUGGESTED ANSWERS/HINTS

1. (a) The XYZ Bank shall choose those CTD (Cheapest-to-Deliver) Bonds from the basket of deliverable Bonds which gives maximum profit computed as follows:

Profit = Future Settlement Price x Conversion Factor – Quoted Spot Price of Deliverable Bond

Accordingly, the profit of each bond shall be computed as follows:

Security (1)	Future Settlement Price (2)	Conversion Factor (3)	(4) = (2) x (3)	Quoted Price of Bonds (5)	Profit (6)
7.96 GOI 2023	1000	1.0370	1037.00	1037.40	- 0.40
6.55 GOI 2025	1000	0.9060	906.00	926.40	- 20.40
6.80 GOI 2029	1000	0.9195	919.50	877.50	42.00
6.85 GOI 2026	1000	0.9643	964.30	972.30	- 8.00
8.44 GOI 2027	1000	1.1734	1173.40	1146.30	27.10
8.85 GOI 2028	1000	1.2428	1242.80	1201.70	41.10

Since maximum profit to the Bank is in case of 6.80 GOI 2029, same should be opted for.

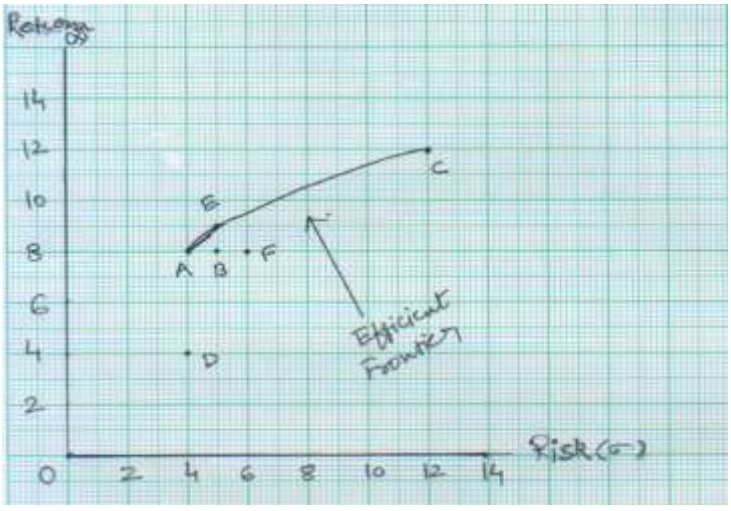
(b) (i) Security A has a return of 8% for a risk of 4, whereas B and F have a higher risk for the same return. Hence, among them A dominates.

For the same degree of risk 4, security D has only a return of 4%. Hence, D is also dominated by A.

Securities C and E remain in reckoning as they have a higher return though with higher degree of risk.

Hence, the ones to be selected are A, C & E.

Alternatively, three securities can also be found as follows:



Since securities other than A, E and C are not on Efficient Frontier they are rejected.

(ii) The average values for A and C for a proportion of 3 : 1 will be :

Risk $= \frac{(3\times 4)+(1\times 12)}{4} = 6\%$

or $\sqrt{(0.75)^2\times(4)^2+(0.25)^2\times(12)^2+2\times 0.75\times 0.25\times 4\times 12\times 1} = 6\%$

Return $= \frac{(3\times 8)+(1\times 12)}{4} = 9\%$

Therefore:	75% A	E
	25% C	_
Risk	6	5
Return	9%	9%

For the same 9% return the risk is lower in E. Hence, E will be preferable.

(c) The given statement is true to a certain extent in reference to Mutual Funds where the concept of Quant Fund is becoming popular day by day.

Quant Fund follows a data-driven approach for stock selection or investment decisions based on a pre-determined rules or parameters using statistics or mathematics based models.

Contrary to an active fund Manager who selects the quantum and timing of investments i.e. entry or exit, this fund completely rely on an automated programme for making decision for quantum of investment as well as its timings.

It does not mean that there is no human intervention at all, the Fund Manager usually focuses on the robustness of the Models in use and also monitors their performance or some modification is required.

Sometime a Quant Fund manager is confused with Index Fund Manager but it is not so as the Index Fund Manager may entirely hands off the investment decision purely based on Index, while Quant Fund Manager often designs and monitors models that throw up the choices.

The main advantage of Quant Fund is that it eliminates the human biasness and subjectivity. Further using model based approach also ensures consistency in strategy across the market conditions.

Also since the Quant Fund normally follows passive strategy, the exposure ratio tends to be lower.

Since Quant Fund uses highly sophisticated strategies investors who well understand Stock Valuation methods, different stock picking styles, the market sentiments and derivatives etc. should invest in the same. Further since Quant Fund are tested on the basis of historical data and past trends though cannot altogether be ignore but also cannot be used blindly as good indicators.

Thus, overall it can be said that whether it is human or a machine it is not easy to beat the market.

2. (a) Bank will buy from customer at the agreed rate of Rs. 70.40. In addition to the same if bank will charge/ pay swap difference and interest on outlay/inlay in funds.

(i) Swap Difference

Bank Sells at Spot Rate on 28th November 2019	Rs. 70.22
Bank Buys at Forward Rate of 31 December 2019 (70.27 - 0.10)	Rs. 70.17
Swap Gain per US$	Rs. 00.05
Swap Gain for US$ 1,00,000	Rs. 5,000

(ii) Interest on Outlay Funds

On 28th November Bank sells at	Rs. 70.22
It buys from customer at	Rs. 70.40
Outlay of Funds per US$	Rs. 00.18
Interest on Outlay fund for US$ 1,00,000 for 31 days	Rs. 153.00
(US$100000 x 00.18 x 31/365 x 10%)	

(iii) Gain on early delivery

Swap Gain	Rs. 5,000.00
Interest on Outlay fund for US$ 1,00,000 for 31 days	(Rs. 153.00)
	Rs. 4,847.00

(iv) Net Inflow to Mr. X

Amount received on sale (Rs. 70.40 x 1,00,000)	Rs. 70,40,000
Add: Gain on early delivery received by bank	Rs. 4,847
	Rs. 70,44,847

(b) (i) For finding expected market price first we shall calculate Intrinsic Value of Bond as follows:

PV of Interest + PV of Maturity Value of Bond

Forward rate of interests

1st Year	12%
2nd Year	11.62%
3rd Year	11.33%
4th Year	11.06%
5th Year	10.80%

$$\text{PV of interest} = \frac{\text{Rs. } 90}{(1+0.12)} + \frac{\text{Rs. } 90}{(1+0.1162)^2} + \frac{\text{Rs. } 90}{(1+0.1133)^3} + \frac{\text{Rs. } 90}{(1+0.1106)^4} + \frac{\text{Rs. } 90}{(1+0.1080)^5}$$

= Rs. 90 x 0.8929 + Rs. 90 x 0.8026 + Rs. 90 x 0.7247 + Rs. 90 x 0.6573 + Rs. 90 x 0.5988

= Rs. 80.36 + Rs. 72.23 + Rs. 65.22 + Rs. 59.16 + Rs. 53.89

= Rs. 330.86

$$\text{PV of Maturity Value of Bond} = \frac{\text{Rs. } 1000}{(1+0.1080)^5}$$

= Rs. 1,000 x 0.5988 = Rs. 598.80

Intrinsic value of Bond = Rs. 330.86 + Rs. 598.80 = Rs. 929.66

Expected Price = Intrinsic Value x Beta Value

= Rs. 929.66 x 1.10 = Rs. 1,022.63

(ii) The given yield curve is inverted yield curve.

The main reason for this shape of curve is expectation for forthcoming recession when investors are more interested in Short-term rates over the long term.

(c) The key decisions falling within the scope of financial strategy include the following:

1. **Financing decisions:** These decisions deal with the mode of financing or mix of equity capital and debt capital.
2. **Investment decisions:** These decisions involve the profitable utilization of firm's funds especially in long-term projects (capital projects). Since the future benefits associated with such projects are not known with certainty, investment decisions necessarily involve risk. The projects are therefore evaluated in relation to their expected return and risk.
3. **Dividend decisions:** These decisions determine the division of earnings between payments to shareholders and reinvestment in the company.
4. **Portfolio decisions:** These decisions involve evaluation of investments based on their contribution to the aggregate performance of the entire corporation rather than on the isolated characteristics of the investments themselves.

3. (a) Working Notes:

(i) The Earnings of S Ltd.

	Rs. lakh
Earnings of C Ltd.	10000
Earnings of D Ltd.	5800
	15800
Growth	0.08
Earnings of S Ltd. (15800 X 1.08)	17064

(ii) Market Value of S Ltd.

	Rs. lakh
Earnings of S Ltd.	17064
P/E Ratio (10+8)/2	9
Market Value of S Ltd.	153576

(iii) No. of shares in S Ltd.

No. of shares of C Ltd.	4000
No. of shares issued to P Ltd.	3000
No. of shares of C Ltd.	7000

Gain to Shareholders of P Ltd.

Share of Shareholders of P Ltd. in S Ltd. (3000/7000) x 153576	Rs. 65818.29 lakh
Market Value of P Ltd. before merger (5800 X 10)	Rs. 58000.00 lakh
Gains to Shareholders	Rs. 7818.29 lakh
No. of Shares (before merger)	1000 lakh
Gain Per Share	Rs. 7.82

(b)

Shares	No. of shares	Price	Amount (Rs.)
Nairobi Ltd.	25,000	20.00	5,00,000
Dakar Ltd.	35,000	300.00	1,05,00,000
Senegal Ltd.	29,000	380.00	1,10,20,000
Cairo Ltd.	40,000	500.00	2,00,00,000
			4,20,20,000
Less: Accrued Expenses			2,50,000
Other Liabilities			2,00,000
Total Value			4,15,70,000
No. of Units			10,00,000
NAV per Unit (4,15,70,000/10,00,000)			41.57

(c) Under Constant Proportion Portfolio Insurance (CPPI) strategy investor sets a floor below which he does not wish his asset to fall called floor, which is invested in some non-fluctuating assets such as Treasury Bills, Bonds etc. The value of portfolio under this strategy shall not fall below this specified floor under normal market conditions. This strategy performs well especially in bull market as the value of shares purchased as cushion increases. In contrast in bearish market losses are avoided by sale of shares. It should however be noted that this strategy performs very poorly in the market hurt by sharp reversals.

The following equation is used to determine equity allocation:

Target Investment in Shares = multiplier (Portfolio Value – Floor Value)

Multiplier is a fixed constant whose value shall be more than 1.

4. (a) (i) To compute perfect hedge we shall compute Hedge Ratio (Δ) as follows:

$$\Delta = \frac{C_1 - C_2}{S_1 - S_2} = \frac{150 - 0}{780 - 480} = \frac{150}{300} = 0.50$$

Mr. Dayal should purchase 0.50 share for every 1 call option.

(ii) Value of Option today

If price of share comes out to be Rs.780 then value of purchased share will be:

Sale Proceeds of Investment (0.50 x Rs. 780)	Rs. 390
Loss on account of Short Position (Rs. 780 – Rs. 630)	Rs. 150
	Rs. 240

If price of share comes out to be Rs. 480 then value of purchased share will be:

Sale Proceeds of Investment (0.50 x Rs. 480)	Rs. 240

Accordingly, Premium say P shall be computed as follows:

(Rs. 300 – P) 1.025 = Rs. 240

P = Rs.65.85

(iii) Expected Return on the Option

Expected Option Value = (Rs. 780 – Rs. 630) × 0.60 + Rs. 0 × 0.40 = Rs. 90

Expected Rate of Return = $\frac{90 - 65.85}{65.85} \times 100 = 36.67\%$

(b) (i) Working for calculation of WACC

	Orange	Grape	Apple
Total debt	80,000	50,000	20,000
Post tax Cost of debt	10.40%	8.45%	9.75%
Equity Fund	20,000	50,000	80,000
Cost of equity	26%	22%	20%

WACC

Orange: (10.40 x 0.8) + (26 x 0.2) = 13.52%

Grape: (8.45 x 0.5) + (22 x 0.5) = 15.225%

Apple: (9.75 x 0.2) + (20 x 0.8) = 17.95%

(ii)

	Orange	Grape	Apple
WACC (%)	13.52	15.225	17.95
EVA [EBIT (1-T)-(WACC x Invested Capital)]	3,770	1,350	-1,050

Alternatively, it can also be computed as follows:

	Orange	Grape	Apple
Net Income (Rs.)	8,970	12,350	14,950
Pre Tax Income (Rs.) (A)	13,800	19,000	23,000
Debt Amount (Rs.)	80,000	50,000	20,000
Interest (Rs.) (B)	12,800	6,500	3,000
EBIT (Rs.)	26,600	25,500	26,000
Tax 35% (Rs.)	9,310	8,925	9,100
EAT	17,290	16,575	16,900
Less: WACC X Invested Capital	13,520	15,225	17,950
EVA (Rs.)	3,770	1,350	-1,050

(iii) Orange would be considered as the best investment since the EVA of the company is highest and its weighted average cost of capital is the lowest

(iv) Estimated Price of each company shares

	Orange	Grape	Apple
EBIT (Rs.)	26,600	25,500	26,000
Interest (Rs.)	12,800	6,500	3,000
Taxable Income (Rs.)	13,800	19,000	23,000
Tax 35% (Rs.)	4,830	6,650	8,050
Net Income (Rs.)	8,970	12,350	14,950
Shares	6,100	8,300	10,000
EPS (Rs.)	1.4705	1.488	1.495
Stock Price (EPS x PE Ratio) (Rs.)	16.18	16.37	16.45

Alternative Answer

	Orange	Grape	Apple
Net Income (Given) (Rs.)	8,970	12,350	14,950
Shares	6,100	8,300	10,000
EPS (Rs.)	1.4705	1.488	1.495
Stock Price (EPS x PE Ratio) (Rs.)	16.18	16.37	16.45

Since the three entities have different capital structures they would be exposed to different degrees of financial risk. The PE ratio should therefore be adjusted for the risk factor.

(v) Market Capitalisation

Estimated Stock Price (Rs.)	16.18	16.37	16.45
No. of shares	6,100	8,300	10,000
Estimated Market Cap (Rs.)	98,698	1,35,871	1,64,500

(c) The difference between Pass Through Certificates (PTCs) and Pay Through Securities (PTSs) are as follows:

Pass Through Certificates (PTCs)	Pay Through Securities (PTSs)
The originator (seller of the assets) transfers the entire receipt of cash in form of interest or principal repayment from the assets sold. Thus, the investors carry proportional beneficial interest in the asset held in the trust by SPV.	In PTS, SPV debt securities backed by the assets and hence it can restructure different tranches from varying maturities of receivables.
PTCs are self-amortizing assets because it is a direct route of prepayment of principal which is proportionately distributed among the securities holders. Due to these characteristics on completion of securitization by the final payment of assets, all the securities are terminated simultaneously. Further it also carries uncertainty in repayment of principal.	This structure permits desynchronization of servicing of securities issued from cash flow generating from the asset which are used as collateral. Accordingly these subject to less uncertainty regarding the pre-payment of principal.
Since whatever cash is received is simply passed through there are hardly any surplus fund is left for short term investment.	This structure permits the SPV to reinvest surplus funds for short term as per their requirement.

5. (a)

Date	Closing Sensex	Sign of Price Charge
1.10.07	2800	
3.10.07	2780	-
4.10.07	2795	+
5.10.07	2830	+
8.10.07	2760	-
9.10.07	2790	+
10.10.07	2880	+

11.10.07	2960	+
12.10.07	2990	+
15.10.07	3200	+
16.10.07	3300	+
17.10.07	3450	+
19.10.07	3360	-
22.10.07	3290	-
23.10.07	3360	+
24.10.07	3340	-
25.10.07	3290	-
29.10.07	3240	-
30.10.07	3140	-
31.10.07	3260	+

Total of sign of price changes (r) = 8

No of Positive changes = $n_1 = 11$

No. of Negative changes = $n_2 = 8$

$$\mu_r = \frac{2n_1n_2}{n_1+n_2} + 1$$

$$\mu = \frac{2\times 11\times 8}{11+8} + 1 = 176/19 + 1 = 10.26$$

$$\hat{\sigma}_r = \sqrt{\frac{2n_1n_2(2n_1n_2 - n_1 - n_2)}{(n_1+n_2)^2(n_1+n_2-1)}}$$

$$\hat{\sigma}_r = \sqrt{\frac{(2\times 11\times 8)(2\times 11\times 8 - 11 - 8)}{(11+8)^2(11+8-1)}} = \sqrt{\frac{176\times 157}{(19)^2(18)}} = \sqrt{4.252} = 2.06$$

Since too few runs in the case would indicate that the movement of prices is not random. We employ a two- tailed test the randomness of prices.

Test at 5% level of significance at 18 degrees of freedom using t- table

The lower limit

$= \mu - t \times \hat{\sigma}_r = 10.26 - 2.101 \times 2.06 = 5.932$

Upper limit

$= \mu + t \times \hat{\sigma}_r = 10.26 + 2.101 \times 2.06 = 14.588$

At 10% level of significance at 18 degrees of freedom

Lower limit

$= 10.26 - 1.734 \times 2.06 = 6.688$

Upper limit

$= 10.26 + 1.734 \times 2.06 = 13.832$

As seen r lies between these limits. Hence, the market exhibits weak form of efficiency.

*For a sample of size n, the t distribution will have n-1 degrees of freedom.

(b) For calculating probability of financial difficulty, we shall calculate the area under Normal Curve corresponding to the Z Score obtained from the following equation (how many SD is away from Mean Value of financial difficulty):

$$z = \frac{x - \mu}{\sigma}$$

$$= \frac{\text{-1.00 crore - 2.00 crore}}{\text{1.60 crore}}$$

$$= -1.875 \text{ say } 1.875$$

Corresponding area from Z Score Table by using interpolation shall be found as follows:

Z Score	Area under Normal Curve
1.87	0.4693
1.88	0.4699
0.01	0.0006

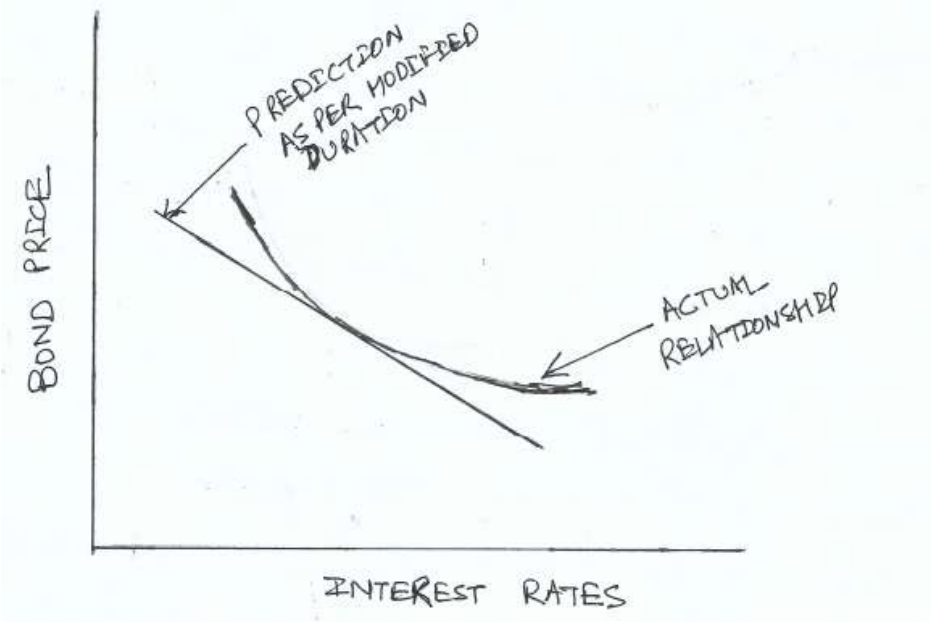
The corresponding value of 0.005 Z score = $0.005 \times \frac{0.0006}{0.01} = 0.0003$

Thus the Value of 1.875 shall be = 0.4693 + 0.0003 = 0.4696

Thus the probability the company shall be in financial difficulty is 46.96%.

(c) Although Modified Duration is a measure of volatility or change in the price of a Bond consequent upon change in the yield or interest rates as it assumes a linear relationship between the Modified Duration and the price of a Bond but is not accurate measure because of Convexity.

Accordingly the relationship between change in the interest rate and bond value is non-linear i.e. convex curve to the origin as shown below:



From the above diagram it is clear that the actual effect of change in interest rate on Bond Price is different from the predicted linear relationship.

OR

The term business model is a wide term denoting core aspects of a business including purpose, business process, target customers, offerings, strategies, infrastructure, organizational structures, sourcing, trading practices, and operational processes and policies including culture.

Further, as per Investopedia, a business model is the way in which a company generates revenue and makes a profit from company operations. Analysts use the term gross profit as a way to compare the efficiency and effectiveness of a firm's business model. Gross profit is calculated by subtracting the cost of goods sold from revenues.

A business model can be illustrated with the help of an example. There are two companies – company A and company B. Both the companies are engaged in the business of renting movies. Prior to the advent of internet both the companies rent movies physically. Both the companies made Rs. 5 crore as revenues. Cost of goods sold was Rs. 400000. So, the companies made Rs. 100000 as gross profit. After the introduction of internet, company A started to offer movies online instead of renting or selling it physically. This change affected the business model of company A positively. Revenue is still Rs. 500000. But the significant part is that cost of goods sold is now Rs. 200000 only. This is because online sales lead to significant reduction of storage and distribution costs. So, the gross profit increases from 20% to 60%.

Therefore, Company A isn't making more in sales, but it figured out a way to revolutionize its business model, which greatly reduces costs. Managers at company A have an additional 40% more in margin to play with than managers at company A. Managers at company A have little room for error and they have to tread carefully.

Hence, every investor wants to get his money back, so it's important to tell them in a pitch presentation as to how they should plan on generating revenue. It is better to show the investors a list of the various revenue streams for a business model and the timeline for each of them. Further, how to price the product and what does the competitor charge for the same or similar product shall also be highlighted. It is also beneficial to discuss the lifetime value of the customer and what should be the strategy to keep him glued to their product.

6. (a) (i) Do Nothing

We shall compute the cross rates in Spot Market on both days and shall compare the amount payable in INR on these two days.

On 1st February 2020

Rupee – Dollar selling rate	= Rs. 75.50
Dollar – SKW	= SKW 1190.00
Rupee – SKW cross rate	= Rs. 75.50 / 1190.00
	= Rs. 0.0634

Amount payable to Importer as per above rate (1190 Million x Rs. 0.0634) Rs. 754.4600 Lakh

On 1st March 2020

Rupee – Dollar selling rate	= Rs. 75.75
Dollar – SKW	= SKW 1188.00
Rupee – SKW cross rate	= Rs. 75.75 / 1188.00
	= Rs. 0.0638

Amount payable to Importer as per above rate (1190 Million x Rs. 0.0638) Rs. 759.2200 Lakh

Thus, Exchange Rate Loss = (Rs. 759.2200 Lakh - Rs. 754.4600 Lakh) Rs. 4.7600 Lakh

(ii) Hedging in NDF

Since company needs SKW after one month it will take long position in SKW at quoted rate of SKW 1190/ USD and after one-month it will reverse its position at fixing rate of SKW 1187/USD. The profit/ loss position will be as follows:

Buy SKW 1190 Million and sell USD (1190 Million/ 1190)	USD 1,000,000
Sell SKW 1190 Million and buy USD at Fixing Rate (1190 Million/ 1185)	USD 1,004,219
Profit	USD 4,219

Final Position

Amount Payable in Spot Market (as computed earlier)	Rs. 759.2200 Lakh
Less: Profit form NDF Market USD 4219 x 75.50	Rs. 3.1853 Lakh
	Rs. 756.0347 Lakh

Thus, Exchange Rate Loss = (Rs. 756.0347 Lakh - Rs. 754.4600 Lakh) Rs. 1.5747 Lakh

Decision: Since Exchange Loss is less in case of NDF same can be opted for.

(b) Net Issue Size = $15 million

Gross Issue = $\frac{\$15\,\text{million}}{0.98}$ = $15.306 million

Issue Price per GDR in Rs. (300 x 3 x 90%) Rs. 810

Issue Price per GDR in $ (Rs. 810/ Rs. 60) $13.50

Dividend Per GDR (D_1) = Rs. 2 x 3 = Rs. 6

Net Proceeds Per GDR = Rs. 810 x 0.98 = Rs. 793.80

(1) Number of GDR to be issued

$$\frac{\$15.306\ \text{million}}{\$13.50} = 1.1338\ \text{million}$$

(2) Cost of GDR to Odessa Ltd.

$$k_e = \frac{6.00}{793.80} + 0.20 = 20.76\%$$

(c) Here are some of the methods in which a startup firm can bootstrap:

(i) Trade Credit

When a person is starting his business, suppliers are reluctant to give trade credit. They will insist on payment of their goods supplied either by cash or by credit card. However, a way out in this situation is to prepare a well-crafted financial plan. The next step is to pay a visit to the supplier's office. If the business organization is small, the owner can be directly contacted. On the other hand, if it is a big firm, the Chief Financial Officer can be contacted and convinced about the financial plan.

Communication skills are important here. The financial plan has to be shown. The owner or the financial officer has to be explained about the business and the need to get the first order on credit in order to launch the venture. The owner or financial officer may give half the order on credit and balance on delivery. The trick here is to get the goods shipped and sell them before paying to them. One can also borrow to pay for the good sold. But there is interest cost also. So trade credit is one of the most important ways to reduce the amount of

working capital one needs. This is especially true in retail operations.

When you visit your supplier to set up your order during your startup period, ask to speak directly to the owner of the business if it's a small company. If it's a larger business, ask to speak to the chief financial officer or any other person who approves credit. Introduce yourself. Show the officer the financial plan that you have prepared. Tell the owner or financial officer about your business, and explain that you need to get your first orders on credit in order to launch your venture.

The owner or financial officer may give half the order on credit, with the balance due upon delivery. Of course, the trick here is to get the goods shipped, and sell them before one has to pay for them. One could borrow money to pay for the inventory, but you have to pay interest on that money. So trade credit is one of the most important ways to reduce the amount of working capital one needs. This is especially true in retail operations.

(ii) Factoring

This is a financing method where accounts receivable of a business organization is sold to a commercial finance company to raise capital. The factor then got hold of the accounts receivable of a business organization and assumes the task of collecting the receivables as well as doing what would've been the paperwork. Factoring can be performed on a non-notification basis. It means customers may not be told that their accounts have been sold.

However, there are merits and demerits to factoring. The process of factoring may actually reduce costs for a business organization. It can actually reduce costs associated with maintaining accounts receivable such as bookkeeping, collections and credit verifications. If comparison can be made between these costs and fee payable to the factor, in many cases it has been observed that it even proved fruitful to utilize this financing method.

In addition to reducing internal costs of a business, factoring also frees up money that would otherwise be tied to receivables. This is especially true for businesses that sell to other businesses or to government; there are often long delays in payment that this would offset. This money can be used to generate profit through other avenues of the company. Factoring can be a very useful tool for raising money and keeping cash flowing.

(iii) Leasing

Another popular method of bootstrapping is to take the equipment on lease rather than purchasing it. It will reduce the capital cost and also help lessee (person who take the asset on lease) to claim tax exemption. So, it is better to a take a photocopy machine, an automobile or a van on lease to avoid paying out lump sum money which is not at all feasible for a startup organization.

Further, if you are able to shop around and get the best kind of leasing arrangement when you're starting up a new business, it's much better to lease. It's better, for example, to lease a photocopier, rather than pay $3,000 for it; or lease your automobile or van to avoid paying out $8,000 or more.

There are advantages for both the startup businessman using the property or equipment (i.e. the lessee) and the owner of that property or equipment (i.e. the lessor.) The lessor enjoys tax benefits in the form of depreciation on the fixed asset leased and may gain from capital appreciation on the property, as well as making a profit from the lease. The lessee benefits by making smaller payments retain the ability to walk away from the equipment at the end of the lease term. The lessee may also claim tax benefit in the form of lease rentals paid by him.