

A Billion Dollar Vision

Posted on



After arriving in Britain at the tender age of 19, Nalin Welgama, scion of the family who pioneered Sri Lanka's road haulage business, qualified as an accountant and managed a firm of chartered accountants in the UK. During his 11-year stay in the UK he was also involved in the import and export of premium cars. However, he was to renounce it all to abide by his father's wishes and return to his roots to take over the family company. His ambition to carve a niche for himself in the business world led him to establish his flagship company Ideal Automobiles which today boasts a string of franchises including SsangYong of Korea and Mahindra of India. In this interview with Business Today, he speaks about how he steered the rise of his company to the summit.

By Manu Gunasena

Ideal Automobiles has become one of the top companies in the motor industry in Sri Lanka today. How did the acorn grow into the mighty oak, and what has the ride from first to top gear been like?

I left Sri Lanka when I was 19 years old and I spent eleven years of my life in England where I studied and worked and also engaged in business. During this time I would often look at various magazines. Something that really intrigued me was the Ideal Homes Magazine. I used to look at this Ideal Homes Magazine and I thought Ideal was such a beautiful name. It stuck in my mind and I knew I would use it one day as part of the name of any company I formed. I come from a business family, so business is in my blood and I knew it was only a matter of time before I entered the business field.

In 1986 whilst I was managing a firm of chartered accountants in the UK, I set up a business there with another dear friend of mine, Gamini Vitharane, who had migrated to the UK from Sri Lanka. He was actually my neighbour. As luck would have it, he was also in the automobile field. He and I got together and we formed a company in 1986 in the UK. Of course, I used the word Ideal and called it Ideal Plant and Vehicles Limited.

Our idea was to export premium cars from the UK worldwide, particularly Mercedes-Benz, BMW, Porches and so on. We sourced from European dealers right-hand drive cars and mainly brand-new cars from franchise-holders and then we exported to countries such as Singapore, Malaysia, Hong Kong and Africa - in short, throughout the right-hand drive world and also some to Sri Lanka at the time. These were imported by parallel importers in those countries, not by the franchise or authorised importers, because the local franchisee did not have sufficient stock and they did not study the market as much as the parallel importers in those countries, who were very strong. So we had a very successful business. In some years we sold almost five to six hundred cars out of the UK. This business continued till 2003 although I returned to Sri Lanka in 1987, but from 1987 to 2003 I visited the UK very regularly, every month or so. My partner Gamini Vitharane managed the operations in the UK. I was doing all the buying and selling but he helped me with the operations of Ideal Plant and Vehicles Limited and the company was very successful. It had a substantial turnover.

What made you return to Sri Lanka and when did you start Ideal Automobiles

Company?

I came here in 1987 because my dad was insisting that I come back home. At that time I had only one daughter - the second was born here - and he was very concerned about my eldest girl.

He said, "Look - you have a daughter. I don't want you raising your daughter in the UK. You should raise her here in Sri Lanka." But that was not the only reason because he also said at the same time, "you know, out of your two brothers, Nimal might move on and join the Upali Group and Kumar is now well into politics and there is no line of succession for S A Welgama. You are my only choice. Please come back - please return."

It involved some soul searching. I was very comfortable in London, but then I realised that I couldn't just brush aside my father's request. I had a duty to the family business. So I took my dad's advice and I returned to Sri Lanka. I have never looked back. This was at the height of the JVP problem and while many were trying to get out of the country, here I was trying to get in.

One of my good friends said, "Nalin, as sure as God made you an accountant, you will return. You will come back within a year or two for you are going to get sick of Sri Lanka. Mark my words: you will come back." But I didn't, and that's because, you know, I quite liked it. I think the main reason is because I left Sri Lanka as an adult, and my roots had spread far too deep on Lankan soil for me to think I would ever be able to sever those ties and live permanently abroad.

I suppose that's the reason your father also asked you to return - because he would have preferred to have his granddaughter educated here and, like you, have her roots here?

Exactly, and I really thank him for his wisdom at the time.

As I said, I was really very well set in the UK and my accountancy practice was doing well and my clients didn't want me to leave. I was doing it concurrently. Whilst I was engaging as the manager of the accounting firm, I was also doing export business at the same time and my colleagues and customers didn't want me to leave. But I took my dad's advice and abided by his wishes to see me home. After I came back home, I formed a company called

Ideal Automotive Parts Private Limited around 1995.

Up until then I was managing my own Ideal Plant and Vehicles Limited with Gamini Vitharane. That was a flourishing business. I used to make Sri Lanka my home base and I used to visit the markets I mentioned in the Far East, Singapore and of course, Africa.

I was developing that business here and at the same time I was giving leadership to S A Welgama and Sons, the pioneer road haulage company in Sri Lanka founded by my father. Then in 1997 I moved into the spare parts business. Panchikawatte was and still is the spare parts hub.

My dad gave me a block of land there and I decided to construct a building and get into the spare parts business and operate from where the action was. The building faces Sri Sangaraja Mawatha which is an ideal location - a prime site for the spare parts business, you might say. I thought to myself that I must make use of this opportunity that came with the building, and I formed Ideal Automotive Parts Private Limited and engaged some staff who were involved in the spare parts business.

First I started selling Peugeot parts - genuine and OE Peugeot parts. That was the first company that I started and then from there I got the SsangYong Leadership for Sri Lanka.

When was that?

That was in 2005. I got the SsangYong Franchise for Sri Lanka which I jointly managed with Micro Cars and thereafter in 2009, I stumbled onto the Mahindra business, the Mahindra franchise.

I Have Learned A Lot From Mahindra Because Sri Lankans Think In A Narrow Space. It Was He Who Taught Me How To Think Differently. It Was From Him That I Learnt To Think Out Of The Box; Not To Think We Have Only A Market Of 20 Million People.

So you have both?

Yes. I have more franchises now but first let me tell you the chain of events that led to the

success of my company. The franchise was first forged with SsangYong, following which I obtained the dealership for Mahindra. In 2012, Mahindra bought a controlling stake in Ssangyong, which was a great feat for the Ideal Group. Currently Ideal Motors also represents Chery-a Chinese brand of automobiles. When I started Mahindra I invited Aravinda de Silva, my deputy chairman, to invest with me, which he did and so he and I now own the Ideal Group together. I function as the chairman and he functions as the deputy chairman. We were very successful with the Mahindra Group because when we started Mahindra in 2009, the actual market share of Mahindra in Sri Lanka was well below five percent. Today we are almost 50 percent. We have a huge market share and we sell over a thousand units of Mahindra a month.

Anand Mahindra, the chairman of Mahindra Group, threw a challenge at me. It was when I met him in Mumbai. I invited him to visit Sri Lanka. He said, "Nalin, if you do 10,000 units a year, I will visit Sri Lanka." So in the year 2011 I achieved that milestone and he kept to his word and he came to Sri Lanka and from that point on he has been a great inspiration to me.

In what way has he inspired you and what other fields have you moved into?

I have learned a lot from Mahindra because Sri Lankans think in a narrow space. It was he who taught me how to think differently. From him I learned how to think out of the box and not to think we have only a market of 20 million people. Think global. I had global exposure in the UK, but then after coming here we work within the parameters of Sri Lanka. But his guidance has been very useful to me. It is that support, that vision he created that gave me the confidence to venture into unknown territory, to start a finance company.

We started Ideal Finance which is a Central Bank-approved finance company. So we also have a finance company to assist us with the business development that we have in the motor car field and the total assets of Ideal Finance exceed 1.2 billion today, and of course Ideal Motors is the mother company which has a turnover of around 14 billion rupees a year which is substantial. And that's not all.

We also ventured out into the tyre business. We became the franchisee for Apollo Tyres, which is a major tyre company based in Delhi in India. They are the biggest exporters of tyres out of India, and we represent them here in Sri Lanka. And again we have a very good market share with the tyre business.

Recently I ventured out into renewable energy – solar energy – where we have tied up with a tier one company called ReneSola in China. We import their panels and we give solar solutions as well. We have about 12 companies in our group which are into other fields of business, other than our mainstay business concerning automobiles.

We also have a real estate portfolio which we are developing now, particularly in Ratmalana. We are developing an auto city there. We intend to bring all the automobile-related activities conducted by our companies under one roof there because we are predominantly an auto-based group. We are going to have a lot of value adds, like our go-downs, the tyre business, the repair workshops, the body shops, the spare parts storage and logistics. We have housed it at Ratmalana now because we have 22 acres there. Further, we own a valuable piece of real estate in the heart of Union Place in Colombo 2 where we have our Ssangyong and Chery showrooms and the head office of Ideal Finance. The construction of the Ideal Group headquarters are currently underway on a half-acre block of prime land, which hopefully will be ready by the end of the year. We have a good portfolio of real estate within the company but it's not for sale. We plough back our profits into land because with trading you never know what the government policies are going to be. It can change overnight and we have seen that happen, and how companies, even ones we never thought would ever go bust, have crashed without warning, mainly because they had nothing to fall back on.

So we invest in land. That's one of the things that I learned from my dad also. The long-term appreciation and sustainability is greater when you have some choice assets. So that's what we have been doing.

We Have A Good Portfolio Of Real Estate Within The Company, But It Is Not For Sale. We Plough Back Our Profits Into Land, Because With Trading You Never Know What The Government Policies Are Going To Be. It Can Change Overnight And We Have Seen That Happen.

With Mahindra's franchise, we have 45 sales outlets throughout the island. Out of these, 14 or 15 sales outlets are our own. That's why I said that we have a big focus on real estate, because we feel that even if trading business has a difficult period, we can overcome that because of the capital appreciation of the land and I think that has been very useful to us and gives us the confidence to meet the highs and lows of the business cycle in a spirit of equanimity.

What aftermarket services and facilities do you provide?

We actually thrive on aftersales. It is the most important thing. We are very customer-centric. Mahindra was the first company in the world to introduce common rail technology which is called CRDE technology to a mini truck.

What does that mean in simple terms?

It is common rail technology which is common to the rail diesel engine. It is a new concept which gives you more power with a low consumption of diesel. It's a new technology. You also find it in Mercedes-Benz cars. Also, all the premium vehicles have this technology, but Mahindra was the first in the world to introduce this latest cutting-edge technology to a small diesel truck.

This happened in 2011 in May. That's the time they introduced the Maxximo truck which is now a top seller here. At that time we had a major challenge because the target audience of the little Maxximo truck is in the provinces that are in the rural areas of Sri Lanka. People challenged us and they were spreading the news that we would be unable to service these markets since it requires diagnostics and scanners. What we did was we teamed up with Automobile Association of Sri Lanka and we teamed up with Mahindra and we took that technology to the rural areas of Sri Lanka. We were the first to do it and we equipped throughout Sri Lanka CRBE technology which was necessary to maintain these vehicles. Since we did it so successfully we were able to capture a larger foothold in this segment. For you see, CRBE technology has its inherent advantages. It gives more kilometres per litre. The fuel consumption is absolutely first class - it's the best in its class and the torque is very good and the power is fantastic. It's because it's the latest technology that we were able to capture the market away from the traditional engine because we were able to put into play a good network of dealerships throughout the island.

When you say rural areas, what are the areas you serviced?

Everywhere in Sri Lanka from Jaffna, to Vavuniya, to Mannar, Batticaloa, Ampara, Moneragala, Deep South, Kirinda, Tissamaharama and all those areas. We also cover Puttalam. Throughout the island we have over 100 service repair centres.

Does the land belong to the company?

No, not on the service side. There are two things. One is the showroom. As far as the showrooms are concerned, we have 45 showrooms throughout the island of which about 15

are our own. They are run by Ideal Motors and out of the 15, some of the lands are owned by us. Yakkala, for example, is one. Matara is another. We also own the ones at Tissamaharama and Ratnapura. In addition to that, there are outside dealers making up that 45. Then you have what you and I call aftermarket. Aftermarket is service, repairs and spare parts. In the aftermarket arena we have about 100 to 125 dealers covering the entire island, because our vehicles are used by the self-employed poor gentry in Sri Lanka for dual purposes as well, you know; it's the light truck segment. They are scattered throughout the island; some are transporting groceries or all sorts of spare parts, hardware, fish, transport, vegetables - all sorts of things. A large number of self-employed people use it.

The Management Makes Its Own Decisions And Will Decide Whether To Finance A Project Or Not Solely On Its Merits And Project Feasibility And Repayment Possibility And On No Other.

Does your finance company finance the purchase of your vehicles?

Our finance company does not. The finance branch of our group is run completely independently and they make their own decisions and will decide whether or not to finance any project solely on its merits and project feasibility and repayment possibility and on no other. Although I'm the chairman of Ideal Finance, the management of that company makes its own decisions. We have a full time CEO, and a top team. More often than not I find that they finance other franchises more than they finance us.

So it's run on independent lines?

It's absolutely independent. I think out of their portfolio Mahindra could be less than five percent which is very small. Because of this, other finance companies find it very easy to work with us. This is because our residual values are very good in our trucks and the aftercare that we give has been so good that they are willing to support our customers with low down payments and low rates of interest since they haven't had problems with our vehicles and even if they did we would take it over and we would give them that support. So we have never had issues - aftermarket issues are very few and far between. That's why finance companies find that they are more secure with the Mahindra Bridge.

Would you like to speak about your association with SsangYong?

When I was living in England and exporting cars worldwide there was a friend of mine - his name is Andrew Jackson - who is also a car dealer in the UK, a very established car dealer, whose company is Park Lane UK Limited.

He ventured out into Malaysia and Hong Kong and set up the SsangYong franchises there. He became very successful as the SsangYong franchisee in Malaysia. At that time - this was in 2005 or 2006 - since he and I were very close friends, I requested Andrew to try and help me to set up SsangYong here in Sri Lanka.

At that time, the franchise was with Arthur Senanayake and there was not many sales at the time. So Andrew Jackson introduced me to SsangYong and at the time Laurence Perera was also doing his micro car assembly here in Sri Lanka. He told me that he could assemble some of those vehicles in the SsangYong range in Sri Lanka.

I introduced Laurence Perera to Andrew Jackson and the three of us went to SsangYong for discussions. We were given the franchise largely because of the influence that Andrew had with them, because they recognised Andrew as one of their top dealers. The assembly side went to Laurence because he was already in assembly and the sales part came to me.

At one time we were handling the sales of Micro Cars-assembled SsangYong vehicles but now things have changed a little bit because he has grown and we also have grown. We don't have any cross holdings.

What is your opinion of the present automobile industry in this country?

The automobile industry in Sri Lanka has changed dramatically. When I say dramatically, with the entry of hybrid vehicles, the entire landscape has changed. That is because the government has a duty structure that taxes hybrids at a lower duty than normal petrol or diesel cars. As a result, in terms of affordability, hybrids possess a great attraction and people opt to switch to hybrid cars. Most of the hybrids come from Japan and a lot of them are imported in parallel. Thus a lot of them are not sold in Sri Lanka by the franchisees as such. Only a few such as Toyota has a restricted range but all the right hand drive cars end up in Sri Lanka. So as a result, if you take the SUV and the car segment, I think 80 percent of the imports in the last couple of years would be hybrids.

Now there is an inherent problem, which many are ignorant of or not unduly worried about, and that is that though the vehicle is attractively priced, the fact of the matter is that hybrid technology is not available in Sri Lanka. Hybrid technology is the technology of the electric motor being coupled with the normal engine, the combustible engine. So these two coming

together – that is, the hybrid situation – causes problems. For whilst the combustible engine side is fully catered for in Sri Lanka, only a few companies have the technology to tackle the hybrid side.

Now the only company, which can actually say that it has some expertise in hybrid technology, I think, could be Toyota, who sent a team to Japan and they were trained in hybrid technology. These hybrid batteries, these electric batteries have a life of five years or so. Thereafter it has to be renewed, so there is a colossal cost involved and when a car meets with an accident, there are certain precautions that one has to take because the current is very strong. It can kill a human being if it's mishandled. It's that powerful. If you go to remove the battery without the proper gloves you can actually be electrocuted.

But not on impact?

No; not at all. Only if it's not properly handled. You know, removing the battery and installing it following an accident: these are the challenges. There is no expertise readily available. Hybrid technology is something very nebulous right now; it's very vague. So there is a need for more and more people to obtain that expertise. I mean, I am trying to do that now with my Ideal Motor City. That's one of the things that I am going to tackle because otherwise the hybrid owners, the users, will find themselves with a huge problem in the next few months and years. If that hybrid unit fails, God help them, because there is no one who is really capable of handling it properly.

Today in the country there are all sorts of hybrid cars plying on our roads. All makes from Daihatsu to Nissan to Toyota – you name it, and there is a hybrid available, even on continental cars. But the people who can really handle these cars in a dire situation are few and far between and none of them have that real technology. So it's still in its infancy. It has to be put right. That's why I said the vehicle market has undergone a dramatic change. We have to take stock of that now and put into place the service repair side.

Do you still consider the hybrid to be the car of the future and here to stay?

Of course. It is the future, but being in its infancy, there are a whole load of teething problems. Take electric cars. You need charging stations and at the moment charging stations are very expensive to install, particularly throughout the country, because they have a range of only 150-200 kilometres. This means that when you are doing long distances you have that range anxiety to overcome. In order to do this, you have to have rapid

charging stations.

For instance, if someone is going to Jaffna from Colombo, he will have to break his journey in the middle and wait for three to four hours merely to get his battery charged, and if there is a queue, he will be delayed for even longer. So you see, there have to be rapid charging stations scattered countrywide first for the electric car to be a vehicle in which you can practically travel long distances.

It's a whole new dimension – a whole new thinking has to come in but it's a good start. The hybrid car is actually a good start, but we have to gear ourselves towards it and not go blindly.

The Government Can Give Incentives To Encourage Expertise Training. Skills Are Exactly What We Need.

You mean you can't just buy the car and find that the support systems don't work?
Exactly – that's my point. That's where the real trouble comes, the potential problem. That's what must be addressed.

Could you compare it to the situation when Ford built his first car and there were no petrol stations in America? It had to develop later on.

Correct. But during that time, there were only a few cars with a few owners but right now it's gone, really throughout the island. These cars ply everywhere and there are so many users it has really increased by leaps and bounds.

What do you think the government can do to help the situation? What steps should the government take?

I think the government has done the right thing by introducing and giving a concessionary duty to hybrids because that is the future but also it must recognise that there must be suitably qualified repair shops – repair workshops – that can handle it. Of course, that's not the duty of the government but that's the duty of the private sector. But the government can give incentives to encourage expertise training. Skills, skills and skills – that is exactly what we need. And take that technology to the rural masses because there is a lot of talent in our rural areas, who can learn from this, the technical side.

Apart from business, what are your other interests? How do you unwind?

I don't have very much time because I work long hours but whenever I am able to relax, I do a lot of reading – business magazines and also the Frederick Forsyths and I love cricket. I played for Under 13 cricket for college but had to give it up as my brother Nimal was very keen that I studied. He pointed out to me that Kumar didn't pursue his studies so he said, "You have to study really hard if you want to reach the top," and he was on at me all the time, so I was more focused on that at the time. But I did athletics; I ran for the public schools also, the track and field.

As far as home life is concerned, of course, my wife always complains about my absence from home but she is very supportive. She knows that I am very focused on my business and I have a goal that I am trying to work towards.

I was very young when I got married. I was just 24. My father was petrified at first but he was more petrified at the thought of me marrying a British girl and thus, when I told him of my intention to marry the girl whom I loved, he agreed without much ado. In fact, he told me, "Nalin, very good, you are wise. Go and get married." And I did. My wife joined me in England in 1981. I first went to England in 1976, got married in 1981 and I continued to live there till 1987 or 1988. She too was working there and we have two daughters.

So what's your vision for the future, for yourself and for the business?

Actually, Aravinda and I have had numerous discussions on this and as you know, Aravinda is a world-renowned figure. He is one of the best cricketers that Sri Lanka has produced so I have to do justice to him as well. He and I both think that we should try and take our company to a billion dollar company by 2020, which is very hard but we are going to give it our best shot.

We are now trying to expand into India as well. We are hoping to form a company in India very soon and we are going to expand our activities by 2020: that's our vision. It's a tall order – it's not easy but it can be done. That's where we want to go to. Some time during the latter of next year we want to try and list our finance company.



