

A People's Business

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The financial industry of Sri Lanka is going through many changes where new regulations have come into effect to consolidate the industry so that it could be better governed and monitored. In such a competitive landscape the financial companies are looking at technology and novel approaches to increase their efficiencies and attract investors and customers. AMW Capital Leasing and Finance, having been in the industry for nearly a decade with a constant focus on niche markets, have understood the need to look into new ventures while strengthening their team and systems to better serve their loyal customer base. Brandon Morris, Director/CEO of the company speaks about the success achieved and the future progress of AMW Capital Leasing and Finance.

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Photography Mahesh Bandara

Why did AMW branch out into the field of finance and leasing?

AMW (Associated Motorways) currently has many brands of vehicles such as Nissan, Suzuki from Japan, Suzuki Maruti from India, Yamaha, Piaggio, New Holland Tractors and

Dongfeng from China. As such, an idea was proposed to have a one-stop-shop for customers, because at the time the number of people who brought vehicles by paying cash were very few. Though interest rates were high, many people chose to go for hire purchases, leasing or loans.

Furthermore, during that time there was no need to have a license to start a leasing company and so in 2006 we started AMW Capital Leasing and Finance. The company was started with the intention of doing in-house business. If a customer was to walk into AMW, he will select the vehicle he wants and then obtain the leasing or loan facility here without having to go to an outside company or institution to conclude the deal. The concept was to give a complete solution. We also provide insurance through a sister company, which is directly owned by Al-Futtaim Group Dubai, namely; Orient Insurance. As such we can supply the vehicle, carry out financing and also provide the insurance, all under one roof and there is no need for the customer to look or shop around. This also helps us to give a good value proposition to the customer.

How did AMW's experience in the automobile industry translate to the financial industry?

AMW Capital Leasing and Finance operates as an independent company. It's a public quoted company on the Colombo Stock Exchange, whereas AMW, who owns 90 percent of Capital Leasing is a private company. Leasing in Sri Lanka mainly comprise of motor vehicle financing. Therefore the personnel in finance and leasing companies are well versed with the types, models, prices and all other related factors. That was one aspect where the transition was made easy. The second aspect was because it is a completely different business-since trading and financing are two different areas, AMW recruited people who had more than sufficient experience in running finance and leasing companies to manage the business. AMW played an independent supportive role as a provider of finance, where you have to borrow money in order to lend and the money borrowing part mainly came from the parent company.

In 2008 AMW was acquired by Al-Futtaim Engineering LLC Dubai. How did this effect AMW Capital Leasing and Finance?

Al-Futtaim Engineering is a company from Dubai and there, the company is present in many different sectors and they are very strong in both the finance as well as the automotive sectors. Al-Futtaim coming in with their expertise, processes and systems have helped to strengthen AMW. They understand the business very well and they lend their support to us

in terms of expertise and advice. However, they are mindful of the fact that we have to run the company according to the business practices unique to the country. Therefore, other than expertise and support, there is limited involvement of Al-Futtaim when it comes to the day to day management of the company.

How has the progress of the company been so far?

There are some critical aspects to focus in a finance company. One is the sales aspect, in other words, the lending; second is the credit aspect, in other words, the quality of your lending; and the third is the recovery aspect, because if you make a wrong credit decision you have to be strong enough to get back your resources and funding. These are very crucial.

With Regard To Lending, We Have Doubled Our Executions In The Last One And A Half Years. But Amidst All These, One Of The Most Critical Success Factors For Us Has Been Our Non-Performing Loans Ratio (NPL).

Then you need to have the power and strength to borrow cheap, because otherwise you would not be able to lend cheap. When you can't lend cheap, then the competition is much more and you also have to take more risks. Most of the customers who are prepared to pay high interest rates-not the clients who are ready to pay more for a premium service, but those who pay high because they cannot go to a premium company fall into the high risk category. As such, borrowing cheap funds is a critical part in financing.

Added to these aspects, you need to have the necessary technology to run the company in today's business landscape as you need to be fast, have web access and increase your efficiencies by five, six folds. And it's a people's business and when you are 'selling money' you need to have a good team as well.

AMW Capital Leasing and Finance has been fortunate to have a very strong parent backing us when it comes to funding, they have supported us from day one. Our parent company is able to get the best terms from bankers and in turn support us.

And though the company was mainly started for in-house business, it has grown since then and we have realised the potential in the financial sector. And over the years, the business

ratio between in-house to outside, which was initially 80:20 has gradually reduced to a stage where we were lending only 30 percent in-house and 70 percent outside.

This transformation was specially seen during the last one and a half years. However, with the new 'Alto boom', this ratio has changed to 45 percent in house and 55 percent outside.

With regard to lending, we have doubled our executions in the last one and a half years. But amidst all these, one of the most critical success factors for us has been our non-performing loans ratio (NPL). The average non-performing loans ratio in the non-banking or the financial industry is about 7 percent net. Our gross NPL is 2.50 percent and our net is 1.7 percent. We take pride in having a high quality portfolio. I would say that we are in the top three, if not the best in terms of NPLs. As such, when it comes to lending we have much leverage, and we can afford to take some risk, as our ratios are very good.

With regard to key ratios, which measure the financial performance of finance and leasing companies, we are well ahead and within the industry requirements. Our net interest margins, tier 1 and 2 capital, the NPL ratio and core capital are at highly acceptable levels.

There Are Some Critical Aspects To Focus In A Finance Company. One Is The Sales Aspect...Second Is The Credit Aspect...And The Third Is The Recovery Aspect, Because If You Make A Wrong Credit Decision You Have To Be Strong Enough To Get Back Your Resources And Funding. These Are Very Crucial.

Our asset base has also steadily increased over the years. One and a half years ago, we were a tier 2 company where the assets were less than eight billion rupees. However, we crossed the eight billion rupee mark in December 2014, and now we are tier 1 company.

Furthermore, until December 2014 we operated with 17 branches and service centres all together, but this year we have obtained approval to open six more. We still do not have a presence in the Northern or Eastern provinces. Reason for that is we want to focus on consolidating our existing areas, before going into these provinces. Many who have gone to the Northern areas have experienced many challenges and obstacles. We are not avoiding those areas, and our next stage will be to go into the north and the east as well.

The company's productivity is extremely high and we have a very good team. If you take

most companies who operate at our level of business, they have a staff strength exceeding 300. Our staff is about 180 and more than 50 percent is in marketing. We have also made very good profits last year and we are in line to make budgeted profits this year as well. Actually, we are ahead of the budget this year.

Why should a customer choose AMW Capital Leasing and Finance?

You cannot change the way banks operate and that is one of the reasons why leasing started in Sri Lanka and financing has grown into this proportion. Today you have very large finance companies giving a big run to banks. And we have also seen banks encroaching into the territory of leasing and finance companies, because they have excess liquidity in their hands. At the same time, finance companies are encroaching into the banking territory. Some of the big finance companies' lending portfolios consist of 75 percent of business loans and only 25 percent of leasing. This trend is followed by few more finance companies who see a lot of potential, in an area previously dominated by commercial banks.

A customer looks at what will give him a good return for his investment. When I say investment, it's not only money. It's money, time, convenience and working with a group of people who understand your needs and who are committed to satisfying your requirements. All these factors form a part of an investment decision of a customer. In terms of such an investment, a finance company, in some instances can give a very high return to a customer. Whereas a bank can mostly offer only a cheap interest rate and the interest rate is only one aspect of a transaction.

The Company's Productivity Is Extremely High And We Have A Very Good Team...We Have Also Made Very Good Profits Last Year And We Are In Line To Make Budgeted Profits This Year As Well.

Take an example of a customer who buys one of our own cars. He or she joins a one-stop-shop. Now if that customer obtains a financing facility from a bank, he may probably get a cheaper interest rate, that is not considering the time taken to process the facility and all other complications involved. And his involvement with the bank ends there, it's a different relationship. However, when a customer chooses one of our products, we are the supplier of the goods, spare parts and servicing along with a 24 hour road side assistance programme and a loyalty programme. In the loyalty programme for every spare part you buy and service or financial facility you utilize, you will be eligible for certain privileges and discounts.

Most first time borrowers, tend to go in for interest rates. And we understand that everyone cannot be our customer, we have to pick and choose and segment the market. As such, there are segments, where the interest rate is not the only concern in financing or leasing. They look at the whole package, convenience, quick decision making and settlements. When you are taking a leasing facility you are tying up a contract for five to six years and during that period many changes can take place and you might want to start something new. Even though we might be slightly higher than banks, in some instances, there is a quite a fair segment of customers who patronize us due to our flexibility and total value offering.

Do you have any unique services, especially for SME's and individuals that sets AMW apart from other financial institutions?

Our portfolio mainly consists of SMEs and individuals. Most financial institutions these days carry campaigns that say pay less now, and sell your car and settle the amount later. Such facilities have been there for the past 20 years, and even in my previous places of employment, without branding, we have been practicing these facilities. At AMW Capital Leasing and Finance, we do it "day in" and "day out". Once we speak to the customer, and realise that their income generating cycles vary during the year, or experience receiving lump sum payment at different time intervals, their leasing or financing payments will be structured accordingly.

We also facilitate vehicle "trade ins" through a business owned and managed by our parent company, namely; "Automall". At Automall vehicles taken in and sold are not restricted only to AMW brands. With Automall in place, a prospective customer need not spend time advertising his or her current vehicle or looking for buyers. This burden is taken over by Automall, who in turn will assess the condition of the vehicle and offer a market price and you have the option of keeping your vehicle there to sell. We give a guaranteed price and as such you can decide to acquire any brand of vehicle and finance it from AMW Capital Leasing. If a customer is acquiring a vehicle from AMW, immediate credit is given for the value of the old vehicle and he/she can drive away with a brand new vehicle.

This is a facility that is open for SME's individuals and corporates. Further, we are not a mass market player and we operate in niches. We have a very strong base of individual customers, especially those who would have not been considered for a finance or leasing facility four or five years ago. However, today they may even command a higher bargaining power in financing facilities elsewhere. They are a very loyal customer base. And I can say that our SME/individual base consists of nearly 90 percent of our customer portfolio. As

such our focus has always being with them.

A Customer Looks At What Will Give Him A Good Return For His Investment. When I Say Investment, It's Not Only Money. It's Money, Time, Convenience And Working With A Group Of People Who Understand Your Needs And Who Are Committed To Satisfying Your Requirements.

We also cater to the corporate sector, but on a selective basis. However, with the SMEs / individuals, we go that extra mile to understand what their needs are and to stay in line with all the other market offerings. A customer can walk into our company and take a lease as fast as what any other company in the market is offering. And I say with much confidence and responsibility that we receive a great number of referral marketing.

The rating of AMW Capital Leasing and Finance was upgraded to a stable outlook. Can you elaborate on this?

We were rated as a BB- by Fitch in 2013/14. And in December 2014, for the year 2014/15 we received a BBB+ rating that is three notches up within a span of about one year. It is a big achievement. Our ratings could have been even better, but for the fact that we were mainly dependent on our parent company for borrowings. Though we see it as a good thing, perhaps rating companies may not see it as a good fact to depend on one source and not divest our sources of funding. We were very dependent on our parent company about four years ago, but now that dependence is less and there are many banks that we are borrowing from. Further, we started deposit mobilisation in mid-2013 and crossed the one billion rupee mark in April 2015. However, between April first week and now, our deposit base has grown over two billion rupees where we have received one billion rupees within a short period of time.

These deposit mobilisations were carried out with a very small team, but if the need arise we can widespread ourselves and mobilise deposits. However, at the moment borrowing from non-deposit holders is cheaper, but as a long term strategy we are looking at more deposit mobilisation through a range of products.

From a lending point of view, the improvement in rating has not affected our business as SMEs/individuals don't focus much on ratings. However, ratings are important for corporates, because when you need to borrow from corporates, they have certain criteria

where they can only invest in companies that have a certain minimum rating. However, there are times that we refuse certain deposits as it's important to balance our funding with the lending. We do not need to have excess money with us. It's good to accept from whoever provides, but it is also dangerous. When companies have a very large deposit base, imagine the interest cost per month that you have to pay out. To do so you have to at least generate a minimum net income monthly to meet that amount. If you don't do that your depositors are not going to get paid and they will rush to withdraw their money and the company will collapse overnight. It's a critical function to balance your lending and borrowing in a manner, where excessive pressure is not brought upon lending.

How do you plan on taking the company forward in the future?

We want to continue being a niche player and while doing so, we would also like to go into the territories of the banks, encroach into some of the areas that they have been traditionally doing, where we can do better. That is one area we would like to focus on.

If you take leasing, Sri Lanka has the same types of standard leasing, what some say 'vanilla leasing' as of 20 years ago. However, leasing can be taken into a much higher level with various facilities such as leverage leasing, syndicated financing and other types of products which can be introduced and we will seriously look to introduce some of these products to the Sri Lankan market.

Furthermore, if you take consumption in the country, it is going to expand and the expansion in consumption means either the disposable income of the people should increase or there should be enough lenders to give them money. Though we have not decided to go into consumer financing, that is another exciting area as consumer spending is going to increase in the years to come.

Another is micro lending. There are some reputed companies that are like 'gini poli mudalalis', shockingly charging interest rates as high as 80 percent. Customers don't feel this, because they are paying very small installments per week, but actually the effective interest rate (IRR) is very high. Central Bank of Sri Lanka has understood this fact and they have requested these companies to reduce the interest rate and they are coming up with regulations to curtail this practice. The CBSL will put a cap on this, which will be a good deed because we have to discard this age old notion of higher the interest rate you charge, higher the risk you are taking. A customer who is going to default, or who does not

understand the value of money, even if you give him money and charge an interest rate of 100 percent, he will take it. He will take it because either he's going to bust or default on the payment. Therefore, charging high interest rates doesn't mean that the company is doing good and your top marketers are doing well as it will suddenly boomerang. When carrying out business, we are mindful of all these complications, but still there are much opportunities and avenues in micro lending to explore.

Information And Technology Will Play Key Roles In The Financial Sector In The Coming Years And We Are Fully Geared For That.

From a funding perspective, we would also look at tapping into the vast resources available in outstation areas. We are also focusing on making our products techno-savvy where a customer would be able to utilise our service from the shortest possible time within one point of contact. In many places what is happening at the moment is, the customer would first talk to an executive, then come to the office to sign documents and then, there are many other procedures to follow. We are looking at technology so as to see how we can fine tune this process.

However, in the end what we want to be is a niche player who is very good at doing what we are specialised in, while providing value to our stakeholders and taking care of our employees as well.

What are your thoughts about the financial industry in Sri Lanka?

The consolidation process of the financial industry that is taking place is a good thing, but I believe it was done in a wrong manner where a noose was put forth and you are told to either tighten it or fall in line. That was against the normal business ethics. However, from a broader perspective, I believe Sri Lanka certainly requires a few large financial institution and banks that can go into the international market and showcase a substantial balance sheet that can attract investors. Otherwise, we would not be able to attract investors by presenting small balance sheets and figures that may look like 'peanuts' when converted to dollars. Currently Sri Lanka does not have a single large institution of that magnitude to attract foreign capital and hence consolidation will serve that purpose.

Before the start of the consolidation process, the financial sector of the country had 58 companies, which is far too much considering the size of our market. Even the Central Bank

found it difficult to govern and monitor so many companies. Therefore, consolidation is a good thing, but has to be done in the right manner. And I believe the process will now commence in a more liberal and rational manner where there is consent from the buyer and the seller when striking a deal.

At the moment there is political instability in the country, and no investor would like to come in. And the very moment the country reaches political stability after the election, investors are going to come in and the economy is going to pick up, industries are going to recommence and various projects that are at a standstill will commence. There will be a gradual increase in economic activity. With the economy picking up momentum, the excess liquidity that has been there for the last one year or so, will drain out and banks and financial companies will, most likely resume what they do best respectively, hopefully without further encroaching into each other's territories.

I believe the credit information bureau is also taking a lead role where they are bringing in utilities under them as well. Therefore, credit ratings will be a key factor in the future where you will just have to access the company website, fill in your information and see how you are rated. And based on that you will be able to get a facility. Information and technology will play key roles in the financial sector in the coming years and we are fully geared for that.

We at AMW Capital Leasing and Finance have always monitored the economic activity of the country in the past. We have a very strong integrated risk management committee, an asset liability committee, audit committee and a credit committee. All these committees meet monthly and we look at the trends and brainstorm the best course of action, depending on the circumstances. As such, we are ready to take whatever challenges that may come our way.

Can you talk about yourself?

I have been in the financial services industry for over two decades. I started as a management trainee in a finance company, which is one of the top three finance companies today. After undergoing a training period there, I worked for Sri Lanka's first leasing company. That's where I developed my skills and competencies in leasing, credit, selling money, recoveries and management. I worked under very astute leaders, who were industry captains of top corporates. One of the key things I learnt there was to take decisions. Even

as marketing executives, we were trained to take crucial or big decisions. I did not have to tell the customer that I have to consult my manager and revert. I was empowered to take decisions. That culture helped me significantly.

I Can Say That We Work Together As A Strong Team, And It's Nothing But People Who Produce Results.

I worked five years for the first company and 13 years at the second one. From there I worked for a subsidiary of a state bank, a leasing company for about three and a half years and at which point I realised that I have been in the financial services sector far too long and wanted a change. And one thing that a person who continuously stays that long in the financial service sector does not realise is that you unknowingly become risk averse. You always think of all the possible scenarios that could happen when taking a decision and you become scared of taking risks.

It was at this juncture that I realised that if I wanted to reach the peak in my career, I must learn to look at risks from a different perspective. I decided to completely move out of the financial sector and joined the trading sector. That's the other side of the coin where one has to think and act as an entrepreneur with hardly any securities backing your debt. You have to get involved in selling, inventory management, debtor management, imports, international trade and many other activities. It was a very big learning curve for me.

Despite the tremendous experience I got from this sector, I was always partial to the financial industry and though I was offered many good prospects, I waited for the right opportunity to join the financial sector again. And here I am back again at AMW Capital Leasing and Finance.

Final thoughts

One of the key success factors in my career has been my involvement with people and adopting a consultative approach to problem solving. Also I have been very fortunate to have fantastic teams to work with throughout my career. I see that at AMW Capital Leasing and Financing as well, which makes my task very easy. I can say that we work together as a strong team, and it's nothing but people who produce results.



