

Turnaround Journey

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Refusing to shy away from economic uncertainty and operational challenges, UB Finance transformed its negative outlook into a positive one within a matter of a few years. Today, the company is one of Sri Lanka's leading non-banking financial institutions. Alex Lovell, Chairman

of Union Bank of Colombo and Ransith Karunaratne, CEO of UB Finance speak about embracing strategic business models, being risk-averse and creating new opportunities within a competitive market space.

By Keshini de Silva. Assisted by Nawya Ponnampereuma | **Photography** Menaka Aravinda

Can you elaborate on the beginning of UB Finance and how the journey has been so far?

Alex Lovell (AL): In 2011, Union Bank had an IPO. At that stage one of the strategies that we looked into, was to take over a finance company. We wanted to develop Union Bank as a financial services group that was involved in commercial banking, retail banking and wealth creation and management.

It was at this time that the Central Bank of Sri Lanka requested us to take over and restructure The Finance and Guarantee Company, which was a failed finance company attached to the Ceylinco Group. The Board took up the challenge looking at the business as well as the CSR aspect.

Having rehabilitated Union Bank several years ago the Board believed that they had the expertise to rehabilitate the finance company too. However, unlike the Union Bank, when we took over The Finance and Guarantee, the company was not functioning and had a negative balance sheet. The Board devised an aggressive rehabilitation and growth strategy in consultation with the Central Bank of Sri Lanka (who were the initial architects of the restructuring of The Finance and Guarantee) to restructure, rebranded and re-launched the company as UB Finance in 2012.

Today, UB Finance has cleared a majority of its legacy issues and has positioned itself as a market leader in the financial services space.

How does the company position itself in the Sri Lankan market?

AL: Influenced by its parent company Union Bank, UB Finance has positioned itself

as a company that operates much like a commercial bank. It offers its customers a wide range of products and services and caters mainly to the SME sector. We cater to various industries and the average ticket size is less than one million rupees, which has greatly mitigated the risk factor as exposures are low and widely spread.

The company also believes in going the extra mile and doesn't limit itself to financing. UB Finance also plays a financial advisory role to the SME sector, which is in dire need of financial expertise to guide the SME customers along their journey.

Ransith Karunaratne (RK): The company is uniquely positioned to offer its customers the versatility of a finance company backed by the strength of a commercial bank. The company strongly believes in high quality service delivery supported by time tested systems and processes.

What are the company's key business strategies?

AL: UB Finance has several financial products, of which leasing is our main focus. Sri Lanka's per capita income is hovering at 3,600 US dollars and is moving towards 4,000 US dollars. Therefore, Sri Lankans have a substantial amount that can be spent on consumer items. As we gradually move past 4,000 US dollars and 5,000 US dollars consumers will have extra funds to spend on investments and expansions. Therefore, we believe that the leasing and factoring segments have potential.

RK: Our key business strategy has been to offer our customers a one stop shop to service all of their financial needs. The company product offerings encompass investment, financial and working capital solutions with short to medium term options covering most segments of the market.

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The company's 17 branches and business locations are fairly well spread out and are strategically located at business hubs. This geographical distribution in strategic locations assisted us to focus and directly reach out to various industries. For example, in Polonnaruwa, Kurunegala and Tissamaharama, our strategy is mainly

focused towards the farmers; in Ambalangoda, Galle and Matara our solutions are geared towards the fishing communities, in Ratnapura we facilitate the gem and mining industry and in Nuwara Eliya the focus is on the tea sector.

What are the services and solutions you offer in line with the changing needs of your customers?

RK: Our vision is to be Sri Lanka's preferred financial services provider. To that extent we want to offer our customers end-to-end solutions.

We are sensitive to the continuous changing needs of a modern customer and tailor make our products and services to suit their specific and diverse requirements. We are not tied to the traditional investment products or fixed rental leasing products and offer a wide-range of products with features and options to suit our customer's requirement, capacity and cash flows. Working capital financing has been one of our key strengths. When servicing the SME sector this area has been overlooked by the traditional banking sector and has given us a unique opportunity to offer our services. Our factoring, invoice discounting and easy draft products are firm favourites among the SME community.

AL: The SME sector employs approx 65 per cent of Sri Lanka's workforce, which is the targeted segment for UB Finance. For example, many of the customers that come to us to borrow approximately a million rupees, and we find that this particular brand of customer, services the facility particularly well. Accordingly, over the years, we help him finance his second and third assets as he has been established as a reliable customer. However, our services further extend to helping the customer maintain his accounts and teaching him to exercise financial discipline.

UB Finance Has A Management Relationship Team Through Which We Harness Relationships With Our Customers. This Is The Reason For Our Success.

UB Finance has a management relationship team through which we harness relationships with our customers. This is the reason for our success. I must commend CEO Ransith Karunaratne, as he has handpicked the right management

to execute our strategies. One of our key strategies for turning UB Finance around has been implementing strong governance practices and efficient management. In terms of management, I believe we have the right team working for us.

How did UB Finance overcome its negative balance sheet, among other challenges?

AL: Almost all companies start with a positive balance sheet. At UB Finance we started with a negative balance of approximately 800 million rupees. Union Bank with its US based strategic investment partner ShoreCap II invested 1.2 billion rupees into UB Finance in 2011 giving it the distinction of being the first finance company to be backed by a commercial bank in the private sector. Today the company has a strong balance sheet with a stated capital of 800 million rupees, which has supported and facilitated the strong growth trajectory embarked upon by the company.

RK: Restructuring and growing UB Finance has been a colossal task and a rewarding experience. At present there is no specific business model to follow and volatile economic conditions have further complicated matters. The management were tasked with resolving complicated legacy issues, safeguarding all the stakeholders (including shareholders, depositors, customers, staff and regulators) while restructuring and growing the business.

The financial services sector mirrors the global and local economic movement. When economic activity slows down so does the financial services sector. There have been many challenges in the financial services landscape in the recent years such as direct implication from global economic changes in other sectors that directly affected the finance sector such as slump in tea, rubber and sugar, finance industry acquisitions, mergers and consolidations, changes to the tax structures, exchange rate increases, interest rate fluctuations and the intense competition among the many players in the sector.

Can you tell us about your highlights and significant performance achievements?

AL: Today our total stated capital is 800 million rupees. The company's principle shareholders will continue to support the company if any further capital infusions

are required to meet any regulatory changes. In terms of revenue and profitability, when we took over the company the revenue was less than ten million rupees a month as business operations were at a complete halt. Today, we are generating approximately 400-500 million rupees in revenue a month. Our target is to reach a billion rupees a month and I believe we are well on our way to achieve this.

Sri Lanka Is A Country That Depends On Foreign Direct Investments. FDIs Have Always Been Our Backbone For Development As It Is Through Large FDIs That We Achieve Sustainable Economic Development.

For a finance company that started off in distress, it takes time to come out of the woods. During the last financial year the company made a profit of 78 million rupees. However our target is to double this profit in the next financial year. Our ultimate goal is to become the customer's preferred option, which is a position we are fast moving into.

RK: UB Finance came with a legacy that needed to be addressed. Thus far, during the last few years we have done admirably and the Central Bank has used us as the model of a turnaround company. Our revenue has grown from 0 to a billion rupees. We have a five billion rupees deposit base, which has grown from a one billion rupees. Our total assets have gone up from two billion rupees to nine billion rupees. Employees have increased from 60 to 256. If you look at the business size it has grown tremendously in a very short period of time.

What are the demands of the Sri Lankan customer?

AL: Sri Lankan customers demand a good service. Once they have decided upon a product, they want the facility approved tomorrow. In our case, we have to meet the 'Know Your Client requirement' (KYC) set by the Central Bank. We have to make sure the client is able to service the loan and has the income to payback the loan. However, we set ourselves apart from the rest by providing the client an excellent and efficient service, not just before the purchase but after the purchase as well. At times, the management team including Ransith and myself would travel to the various regions and meet with our clients. Although a larger volume of our customers are based in the Western Province we make sure to visit our branches in other provinces as well, especially our rural client base.

What is your opinion on the current global and Sri Lankan macroeconomic climate?

AL: There is much uncertainty in the global front today. Certain occurrences were predictable, while some were unpredictable. We never expected the global price of crude oil to fall, as a result the currencies are in fluctuation. We never thought the Brexit would be a reality. Amidst this uncertainty, the global investor wants to be absolutely assured before engaging in global expansion.

Sri Lanka is a country that depends on Foreign Direct Investments. FDIs have always been our backbone for development as it is through large FDIs that we achieve sustainable economic development. However, we are not the epicenter of the world. Sri Lanka competes with countries such as Malaysia, Thailand, Philippines, Laos and Cambodia, which are offering equal incentives for people to invest. Therefore, there are many challenges ahead, to attract the right kind of investors. Sri Lanka requires long term investments, which are sustainable. We do not want someone who would set up shop here, but would pack up and leave tomorrow.

Locally, there are budgetary deficits and revenue deficits, which need to be addressed by the government. Once that stability is established, within the next year or so, the economy will begin to flow. There are some large scale projects that are being talked about by the government right now, and if this all comes to fruition the multiply effect is going to be considerable.

For example, when the Port City Project starts, there will be employment creation due to the vast construction requirements. The boom in tourism in Sri Lanka, which sees the establishment of hotels across the Island will create benefits and opportunities for SME sector suppliers. Thus, this will create a substantial multiply effect cascading into the SME sector. And once this sector is revitalised it will drive the economy.

RK: It is a challenging time to be in business. A decade ago we would maintain a five-year budget, and we could predict outcomes. However today, it is quite challenging and quite difficult to produce even a one-year budget. We constantly align and refocus the budget based on macro and micro economic changes. The

global economy as a whole is not stable, with the main economies struggling and the changes in power bases, commodity prices too have been fluctuating.

Our Target Is To Double This Profit In The Next Financial Year.

Our biggest client, the SME sector is directly affected by exports. For example, they maybe outsourcing a production element for a bigger company. For those catering to the local market, they may have to import certain elements, which may increase in cost due to the price fluctuations. In addition, demand is not consistent. We need to support our clients and introduce solutions. In terms of the Sri Lankan financial sector, the regulator plays a major role, therefore the market is fairly well-regulated.

Alex Lovell, could you tell us about yourself and your vision for UB Finance?

I am an entrepreneur, while in terms of expertise, I am an investment banker and have received a special award from the Queen of England for my contribution to investment banking. I was born in Sri Lanka and work both here and overseas, especially focusing on attracting investment to the country. When I took over Union Bank in 2007, I envisaged that ten years from that day the bank should see itself as one of the top five financial institutions in Sri Lanka. Today, I believe we are well on our way to achieving this. When we established UB Finance, that too was the goal. I will not hesitate to say that UB Finance is a neat operation, that conducts itself in line with international governance standards.

Ransith Karunaratne, could you give us a brief introduction about yourself and your role in the company?

I completed my primary and secondary schooling at St Thomas' College, Mount Lavinia. I am a Fellow Member of the Chartered Institute of Management Accountants - UK and hold a Masters Degree in Business Administration (MBA) from the Postgraduate Institute of Management (PIM), University of Sri Jayewardenepura. I have almost two decades of experience in the financial services sector, having successfully launched, grown and managed high quality and profitable credit portfolios. My specialty is Factoring. I am also involved in several social and community alleviation projects and serve on the Board of the Lanka Evangelical Alliance Development Service (LEADS). I joined UB Finance in November 2012 at the

Chief Executive Officer one year after the company was acquired and was tasked with the specific role of restructuring and re-launch of the company. Although it has been a challenge, I have had the luxury of having a good Board of Directors headed by Chairman, Alex Lovell that supports me. I have also been lucky in my ability to put together a great team who help me manage UB Finance.

What are your future plans for UB Finance?

AL: Sri Lanka has 85 banking and non banking financial institutions out of which there are 46 finance companies at present. 25 of these are very active. I personally feel that at some point, a consolidation process should start. You need to build a larger, more resilient finance company over the next five years and consolidation of financial institutions is most likely to take centre stage. I would like to see our organisation become bigger and merging with another that wants to grow. The process of organic growth would take too long, therefore we would prefer to move forward through consolidation.

Our Ultimate Goal Is To Become The Customer's Preferred Option, Which Is A Position We Are Fast Moving Into.

At the inception of UB Finance, there were only three branches. Today however, after four years in existence we have expanded to 17 locations. We have cherry picked where we want to be based on the concentration of our customers. There are certain areas where we need to establish a physical presence. It's like the story of the bee going where the honey is. Also, our strategy is to build the management of the branch from the locality.

RK: The company has an ambitious detailed three-year plan. However, due to economic uncertainty we have tweaked it periodically. Our outlook is positive. UB Finance has continued to significantly contribute towards the group. Our brands are now very strong, and we are very positive about the future. We will strive towards achieving our future objectives, both in terms of profitability and in terms of our Corporate Social Responsibility, which we are quite conscientious about. In addition to our ongoing CSR Projects supporting schools and rural water projects, we initiated welfare programmes across our branches. During the recent landslides and floods UB Finance aided many of those affected in Mawanella and Tissamaharama.

Any thoughts on the UB Finance revival?

AL: Turning around a distressed financial company is a long-drawn out process. You need the support of the regulator, you need the support of your staff and most importantly you must have a vision. These are aspects that have been the ingredient for the success of UB Finance and now it is just a question of marching forward.

RK: The future for UB Finance is promising. We look forward to a successful listing on the Colombo Stock Exchange this year. We are confident that the current economic climate will improve and that we can move towards sustainable development.



