

Boon for dozens of struggling firms

Capital Reach seeks ailing companies

Dozens of ailing companies in Sri Lanka swirling in debt and poised for banks to auction their assets under parate rights – if other efforts to revive the company fail – may have just what the doctor ordered for their plight: a company specializing in restructure and recovery.

Capital Reach Holdings Ltd, whose chairman Ajith Nivard Cabraal is virtually considered the guru of the restructure industry here, said last week that one of its special functions would be to turnaround ailing companies.

“This is a specialized service that we are offering. In Sri Lanka there are people who give birth to companies and those who charter their growth. But there is no one to take over when the company is dying. That’s where we come in and we have the expertise to do that,” Cabraal said.

The Capital Reach Group which offers a range of financial services through its three subsidiaries, discussed this new field of activity in Sri Lanka’s financial services sector, during a briefing to the media.

The group was recently formed by acquiring the interests of Vanik Leasing Ltd and Vanik Factors Ltd, two firms in the troubled Vanik Group, in an acquisition that itself gave birth to Capital’s foray in the restructure business.

Cabraal said while the NPL (non performing loans) portfolio of banks is less than 1-2 percent in many countries, here in Sri Lanka it is 10% to 15% of the total portfolio while the total amount could be over Rs.100 billion. The rise in ailing companies, most of which have been affected by external situations and high costs, has an adverse impact on the economy.

There are also instances where directors have fiddled with the funds and run away with the profits. Thousands of acres of productive land and useful buildings are “locked out” of the economy since such properties and assets have been foreclosed by banks and are idle for long periods.

He said by restructuring these companies more jobs could be created, cost of credit would decrease, entrepreneurs would be able to devote more time to their businesses and large tracts of land would be released for productive use. “Overall, it would spur economic growth and enhance wealth.”

Nihal Fonseka, CEO at DFCC Bank, while welcoming the entry of specialized restructuring companies, noted that banks also make every effort to restructure companies before resorting to parate execution. Almost daily banks advertise in newspapers offering properties for sale of companies that have gone bankrupt. Sumant Batra, an Indian barrister and international restructure specialist, said this is a big gap in the financial services market that Capital Reach is plugging. “In India, the government and the Central Bank encourage the restructure of failed companies,” Batra, a director at Capital Reach said.

Cabraal said their involvement would be a fee-based activity and at the request of banks. “We will be meeting the banks individually and offering this service. This is a unique service,” he said, adding that they may extend their services in this area to other countries in the region.

The former president of the Institute of Chartered Accountants has extensive experience in business restructuring and corporate governance. Other directors of the group are Mayura Fernando (Managing) and Daya Muthukumarana. In the subsidiary companies, the directors of Capital Reach Leasing Ltd are Nalin Wijekoon (Managing), Ranjith de Silva and Ms. Anusha Wijesinghe while Capital Reach Credit Ltd has Kolitha Perera (Managing) and Ms. S. Mudalige. The main board directors are also on the boards of the two subsidiaries. --**Feizal**