

Ekuinas eyes first private credit disbursement by the end of the year

BY ADAM AZIZ

In September, Ekuiti Nasional Bhd (Ekuinas) finally received all the necessary approvals to start providing private credit (PC) to companies, almost a year after talks surfaced that the state-owned private equity firm was exploring other programmes on top of its private equity (PE) mandate.

CEO Datuk Syed Yasir Arafat Syed Abdul Kadir says the firm has launched its RM800 million shariah-compliant private credit fund dubbed the Ekuinas Credit (Tranche 1) Fund and the first sign-on could happen before year's end.

"We started to look at this two to three years ago. We did a lot of background work," Syed Yasir tells *The Edge*. He has been with Ekuinas since its inception in 2009 and took the helm in March 2016.

"We believe there is untapped demand. There's an imbalance in total banking exposure to small and mid-market companies. Because we also own companies [of a similar size], we know how difficult it is for such companies to essentially have access to credit."

To obtain bank loans, companies have to meet stringent criteria, such as environmental, social and governance (ESG) related restrictions. This would mean sectors such as oil and gas would not make the cut.

They may also have difficulty securing financing for other reasons, such as collateral that does not meet banks' requirements, a lack of a track record, a mismatch in the financing structure or because they have reached the credit limit with certain banks.

At times, banks also treat credit utilisation differently, such as share acquisition financing or capital expenditure allocation for growth purposes.

With this new fund, Ekuinas will provide PC for a ticket (or loan) size of between RM10 million and RM80 million each to Malaysian companies, with priority given to entities with bumiputera status according to the classification by the Ministry of Finance.

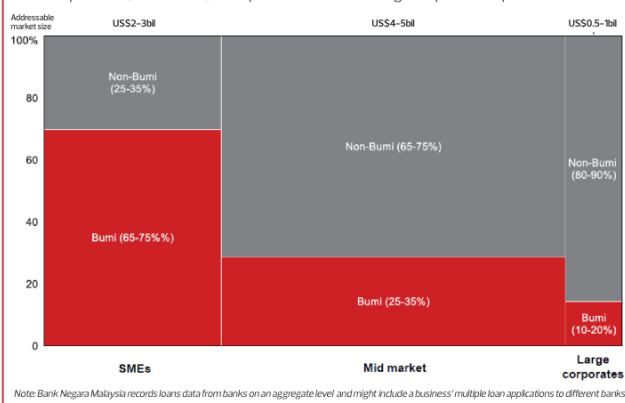
In terms of company size, the fund will prioritise lower-mid-market companies (with annual revenue of RM50 million to RM100 million) and mid-market companies (with revenue of up to RM1 billion). The funds could be disbursed to up to 15 companies in the next three to five years, Syed Yasir says.

While declining to disclose details about Ekuinas' first PC deal, he says it will focus on the manufacturing, education and healthcare sectors.

Other sectors are on the horizon, too, although the fund may avoid the crowded real estate and construction sectors, similar to its PE strategy.

Serviceable and addressable private credit market

This comprises US\$2.5 bil to US\$4.5 bil potential market involving Bumiputera companies



Untapped demand

According to data compiled by Ekuinas, the credit profile of the Malaysian market comprises 59% of loans provided to households and 41% to corporates, of which 26% goes to large corporates and just 15% to micro, small and medium enterprises (MSMEs), suggesting that this segment is underserved.

In comparison, 60% of the loan book in the Philippines is attributed to companies; in Thailand, it is 47%.

The data also shows that as at 2021, PC funds' assets under management (AUM) in Malaysia amounted to US\$2 billion or just 0.5% of the country's GDP. This is higher than the AUM of India and China (0.2%) but lower than that of South Korea (1%), the European Union (2%) and the US (3%).

For Malaysia's PC to reach a penetration level similar to the US, the market size could grow eight to nine times to US\$13 billion to US\$14 billion, the data shows.

To determine the sectors and deployment opportunity, Ekuinas looked into Bank Negara Malaysia's loan application, approval data and sector classification, which are mapped against the Department of Statistics Malaysia's data and Ekuinas' own investment manual.

A financing gap of US\$4 billion to US\$5 billion was identified among Malaysian mid-market companies, and at least 70% of it is serviceable. This is after excluding non-bankable companies and those that faced loan rejections because of regulatory or other concerns.

As it stands, there are already government-linked firms or development banks that support these companies. Syed Yasir says Ekuinas' entry will not overlap with them and that it will, in fact, stand



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out because of the ticket size and the currency denomination of its credit line.

Other government-linked funds are mostly associated with venture capital (smaller firms like start-ups) such as Cradle Fund Sdn Bhd, which handles more than RM1.6 billion in private and foreign funds targeting technology companies; Malaysia Debt Ventures Bhd (MDV), with an aggregate fund size of RM4.1 billion; Malaysian Venture Capital Management Bhd (Mavcap), with a RM2 billion fund size; as well as Kumpulan Modal Perdana, with RM380 million in AUM.

"There are plenty of PC funds — regional and global funds have their own PC [offerings]. But in terms of ringgit, I think we are the only one at this ticket size," he says.

There are six development banks in Malaysia: Bank Kerjasama Rakyat Malaysia Bhd; Bank Pembangunan Malaysia Bhd; Bank Pertanian Malaysia Bhd or Agrobank; Bank Simpanan Nasional; Export-Import Bank of Malaysia Bhd; and Small Medium Enterprise

Development Bank Malaysia Bhd.

But these banks prioritise certain industries, critics say. In addition, mid-market companies have to contend with rigid and high collateral requirements, such as hard assets, when it comes to bank loans.

A manager with exposure to mid-market companies explains: "Most funds have no idea how hard it is for smaller companies to borrow money. How many banks do we have in Malaysia? If three banks say 'no', do you think the others will lend?"

Syed Yasir says while banks have fixed product offerings, Ekuinas can provide customisation in terms of collateral, which may include personal guarantees, securitisation of cash flows or assignment of proceeds, upon closer assessment.

"With our streamlined decision-making, we can do things a lot faster compared with the turnaround time of these banks," he adds, explaining that Ekuinas has 15 years' experience in providing private equity.

"For example, some owners want to expand their business and

don't have access to bank financing in a big way but are quite reluctant [when it comes to equity] dilution that they may face.

"We could also work with financial sponsors — but there will be less of that — to make up for the portion [of financing requirement] not taken up by the banks."

Managing risks

While this is a new venture for Ekuinas, Yasir says its experience in the private equity space gives it a leg up when assessing the opportunity and risks involved. The fund has established a separate PC desk comprising talents with a credit background as well as a separate private credit committee to oversee the venture.

"Private credit is supposed to be less risky because you are taking debt and some of these debts can be secured, whereas you are taking on equity risk with PE.

"The rates will depend on the quality of collateral that is provided," he says, adding that Ekuinas estimates a gross internal rate of return of 8% to 12%.

It will assess the potential borrower much like banks do — such as the quality of cash flow and the background of the promoters. "It's like banking in the old days; knowing the promoter's track record and behaviour is important."

In case of defaults, Ekuinas will take actions similar to those of other financial institutions such as legal actions or crystallisation of securities. It will also not provide PC to its investee companies to avoid double dipping.

As a start, Ekuinas will prioritise direct lending with add-on equity kickers that allow the debt to be converted into equity. It could go into hybrid lending but does not intend to pursue venture debt, event-driven lending or lending to distressed companies for now.

"Some PC will be embedded with equity-linked instruments for us to increase our returns. It may vary depending on the needs of the companies, the preferred structure and how we will address the credit risk itself," Yasir says.

As bumiputera companies are concentrated in certain sectors, keeping the line open for non-bumiputera companies also allows the fund to diversify as part and parcel of risk management, he adds.

"When we lend, we will try to support the companies the same way we support our PE companies beyond financing, such as to help them corporatise, and make them more sophisticated and institutionalised," Yasir says.

"[Providing PC] helps us provide complete offerings to those that require investments. What we want to do is fund credit for productivity. With this, Ekuinas can reach a wider pool of bumiputera beneficiaries to support the growth of the country."