FINANCIAL TIMES

August 25, 2013 1:21 pm

Prospering Falcon Group prepares for next phase of trade finance

By Brooke Masters, Chief Regulation Correspondent

Ever since the 2008 financial crisis led to a crackdown on risky banks, academics and analysts have been forecasting that so-called shadow banks would spring up to provide types of lending that tightly regulated deposit-taking institutions shun.

While they have been talking, Kamal Alzarka's Falcon Group has been acting.

Although the company is more than two decades old, during the past six years it has grown rapidly to become one of the world's largest standalone providers of trade finance.

Owned by Mr Alzarka, its founder and chairman, Falcon borrows money from banks and investment groups and makes short-term loans to middle-sized businesses which need help funding their international sales.

With offices in London, Dubai, Jakarta and Singapore, the group does a lot of plain vanilla trade finance – extending letters of credit, buying a company's overseas receivables – as well as more complex deals with banks which seek to offload parts of their portfolios.

Unlike some of the global banks that are its main competitors, Falcon is largely unregulated and gets most of its funding in dollars. So it has been able to move in as other banks, particularly in France, cut back on trade finance because of higher capital requirements and dollar-funding constraints.

Falcon's revenue has increased by an average of 25 per cent a year for the past six years, and it shot up 57 per cent to nearly $1.7bn in the fiscal year to the end of January 2013. Mr Alzarka expects to it top $2bn this year.

Profits before tax nearly doubled to $43m, according to its audited accounts. Much of the lending growth has been in Asia, where global banks have dramatically pulled back.

Mr Alzarka came up with the idea for Falcon as a business school case study more than 20 years ago. When he graduated and was not offered a good job, he started the company, which then bumped along for more than a decade with relatively little success, until Mr Alzarka decided to relocate the main operations to London in 2004.

Once there, the group found it much easier to tap in to international finance flows and to find the legal expertise it needed to structure more complicated deals. Falcon has also been able to attract dealmakers and managers disenchanted with the bigger banks.

“Banks are making it difficult for bankers to get things done and they aren’t paying them [as much]. So they are coming to us,” he said.

Falcon recently agreed to fund the transfer of copper piping to Africa using assets based in the US as collateral, an agreement that would probably be vetoed or loaded with high capital charges at a bank.

Although the group benefits from its largely unregulated status, Mr Alzarka is under no illusion that it will last. Global regulators are already discussing how best to regulate non-banks that extend credit.

Falcon’s Dubai arm sought authorisation from the Dubai Financial Services Authority last year and the group now has three compliance-focused employees on a staff of 47.

“Regulation in our industry is coming. It is a matter of when not if – and we want to be part of the conversation when it does,” he said.

The group’s success has also smoked out interest from other potential investors. Falcon is in the process of attaining a corporate credit rating to make its debt more attractive to investment managers, and Mr Alzarka said he had also received inquiries about whether he would be willing to sell an equity stake.

“Why would I sell it now? It’s really starting to happen,” he said.