



Fairfax India (FIH/U CN)

Smart investor in a promising country at a 40% discount



ASIAN
CENTURY
STOCKS

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Summary



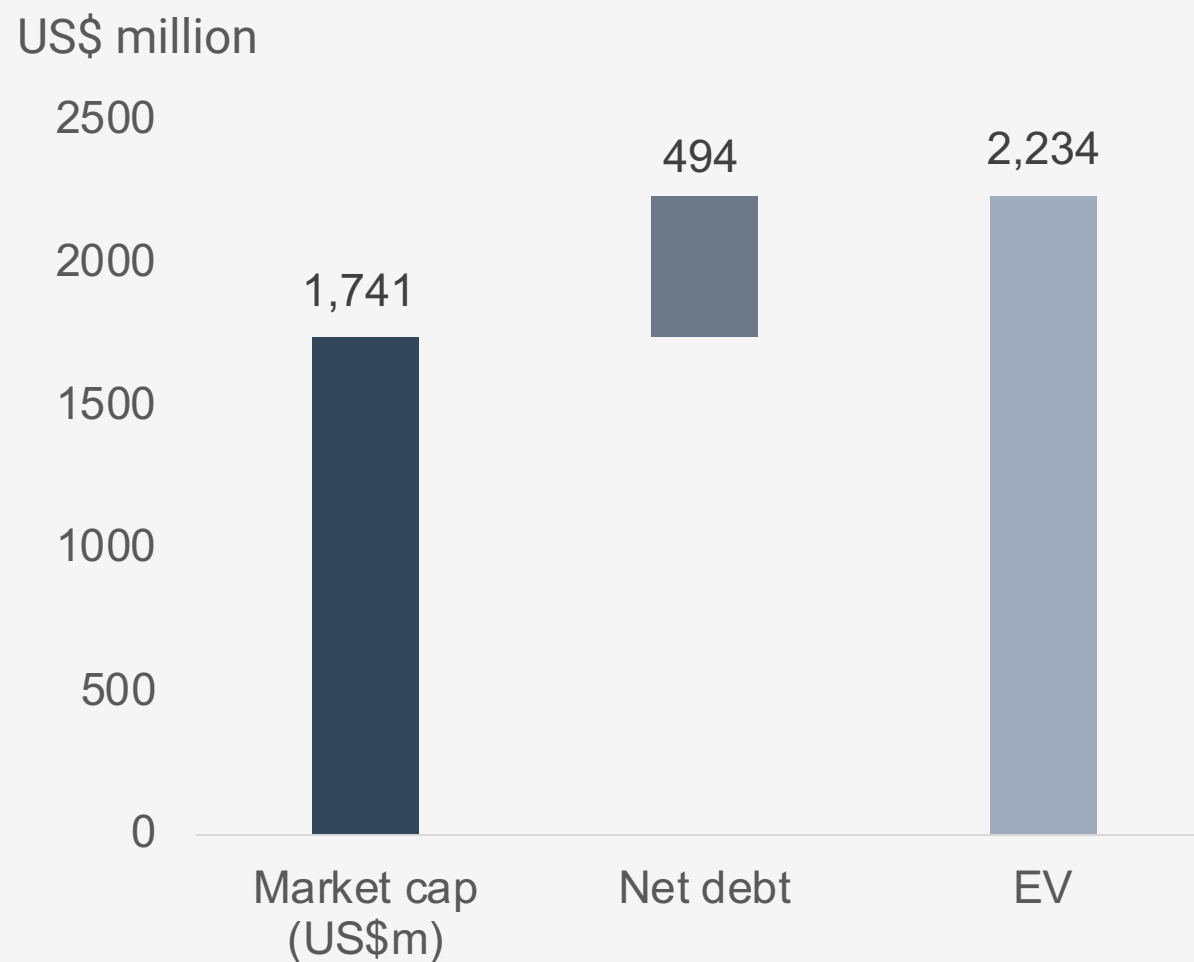
1. Fairfax India (FIH/U CN) is an investment vehicle focusing on Indian equities but listed on the Toronto Stock Exchange. The fund is managed by Fairfax Financial, an insurance company started by billionaire investor Prem Watsa. After Narendra Modi was elected as India's prime minister in 2014, Prem Watsa saw the potential in the country's reform agenda. He therefore decided to raise US\$1.1 billion for a separate vehicle called Fairfax India, which Fairfax Financial would then manage for a base fee of 1.5% and performance fee of 20% over a hurdle of 5%.
2. Since inception, Fairfax India has deployed its capital in a number of investments and compounded its tangible book value per share at 11% per year. But the team at Fairfax Financial that manage Fairfax India have a much longer track record going back all the way to the year 2000. And from the year 2000 to 2015, they compounded their capital at a yearly rate of 20%. I think it's safe to say that they are savvy investors.
3. Today, Fairfax India's portfolio consists of its key holding Bangalore International Airport (BIAL), the monopoly airport for the fast-growing city of Bengaluru with its 12 million population, making it the third busiest airport in India. It just completed a second terminal and a second runway which almost doubled the passenger capacity to be able to handle greater traffic in the years ahead. It's been counted as one of the world's fastest growing airports. Other than BIAL, Fairfax India also owns a small stake in the National Stock Exchange of India, several chemicals companies, transport companies as well as manufacturing businesses.
4. The book value per share is currently US\$20.9 – significantly higher than the last share price of US\$12.6. But management believes that the portfolio's intrinsic value is even higher than the book value. In my estimates, the intrinsic value per share is probably closer to US\$28.8. Of course, there are reasons to expect a discount, including the high management and performance fees and a liquidity discount. But even if you adjust for a typical Asian holdco rebate, the NAV discount is still above 40%. It used to be zero.
5. A catalyst for a lower discount may be the IPO of Bangalore International Airport by September 2025. Or just greater investor interest.

Capitalization



- Share price: US\$12.8
- Shares outstanding: 136 million
- Market cap: US\$1.7 billion
- Net debt: US\$0.5 billion
- Enterprise value: US\$2.2 billion

- Average daily trading volume: US\$260,000



Business overview



- Fairfax India is an investment vehicle focusing on Indian private and public equities, managed by Canada's Fairfax Financial. The name "Fairfax" stands for "fair & friendly acquisitions".
- The founder and CEO of Fairfax Financial is Prem Watsa, an Indian native who built up the company from scratch through savvy investments. He's a value investor who reveres Benjamin Graham. And these investments have made him a dollar billionaire.
- Fairfax India was set up in 2014 and then raised US\$1.1 billion through an IPO and a private placement to parent Fairfax Financial, which remains the controlling shareholder. Fairfax India is essentially a closed-end fund managed by Fairfax Financial's advisory firm Hamblin Watsa, which charges 1.5% management fee and 20% performance fee over a 5% hurdle for its services.
- The current portfolio includes Bangalore International Airport (BIAL), and a host of financial, transport and chemicals companies.
- The performance so far has been decent, with tangible book value per share rising at a 11% rate after most accrued performance fees.





The background story of Fairfax Financial & Fairfax India

- Prem Watsa set up Hamblin Watsa Investment Counsel in **1984**, which was an advisory firm for third-party clients.
- In **1985**, he acquired control of a company called Markel Financial, which owned a trucking insurer. This company was then renamed Fairfax Financial. It eventually acquired Hamblin Watsa, which run the successful investment operations. Meanwhile, the combined ratio was average.
- Over the next few decades, it acquired a large number of insurance-related companies including Morden & Helwig, Federated Insurance, Commonwealth Insurance, Ranger Insurance, Continental Canada, First Capital, Falcon Insurance, Zenith National, Gulf Insurance, General Fidelity, First Mercury, Pacific Insurance, Skandia America, Crum & Forster. Unlike Berkshire, it often financed these acquisitions by issuing new shares.
- But in the late 1990s, Fairfax encountered a four-year stretch in soft pricing in P&C and reinsurance. Its acquisition of TIG Holdings was eventually put into run-off mode (no new business), with claims dealt with in the course of a few years.
- The entry into India started with the setting up of the ICICI Lombard insurance JV in **2001**. It's now become India's leading general insurance company. Around the same time, Hamblin Watsa started managing the HWIC Asia Fund. It later bought tech start-up Digit and Thomas Cook India.
- But Watsa has also made mistakes. In **2010-13**, Fairfax invested US\$1.2 billion RIM/Blackberry shares and convertible bonds, eventually losing over half of it. He also stayed too bearish throughout the 2010s, betting on deflation. It also suffered from low interest rates.
- In **2014**, Prem Watsa met newly elected Prime Minister Modi and became convinced that economic reforms were coming. He then announced a US\$1 billion fund called Fairfax India to capitalise on these opportunities. Fairfax India was then on the Toronto Stock Exchange in **2018**.



Tony Hamblin



Prem Watsa

Fairfax India's senior management team is dominated by investment professional Chandran Ratnaswami



- Fairfax India is run by CEO **Chandran Ratnaswami**, who has been with Hamblin Watsa since 1993 as a director of international investments. In 1995, he started investing on behalf of Fairfax in India, and then across Asia including South Korea, Thailand, Hong Kong and Singapore. He's also been a non-executive director of Thomas Cook India, ICICI Lombard as well as a director of Fairbridge Capital. Just like Prem Watsa, Chandran graduated with a bachelor's degree in civil engineering from IIT Madras in the 1970s, and also has an MBA from the University of Toronto.
- The CFO is currently **Amy Sherk**, who comes from an accounting background and according to her LinkedIn bio, calls herself director of investment accounting. Somewhat worryingly, Fairfax India has had several CFOs since inception including John Varnell and Jennifer Allen.

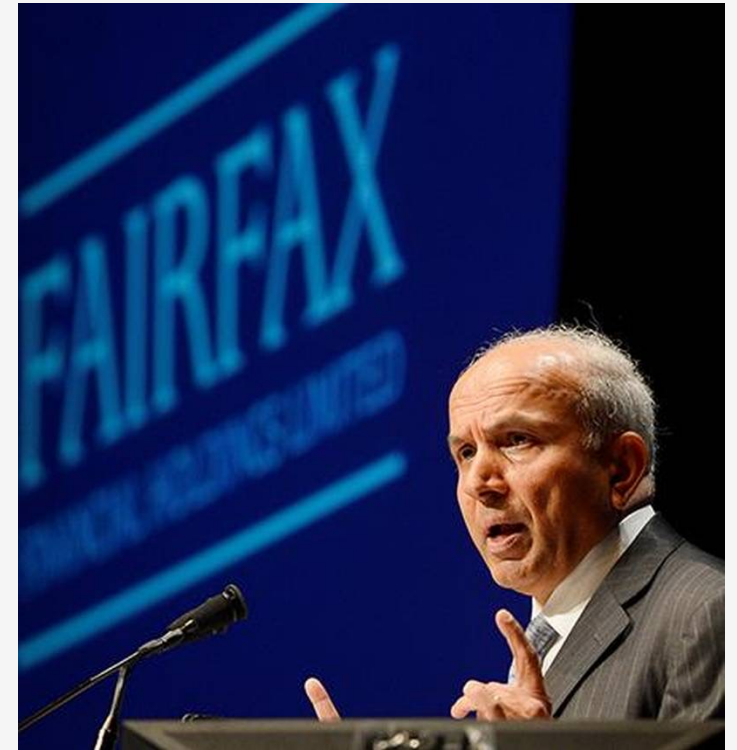


Chandran Ratnaswami

But ultimately, it is Prem Watsa who is in charge

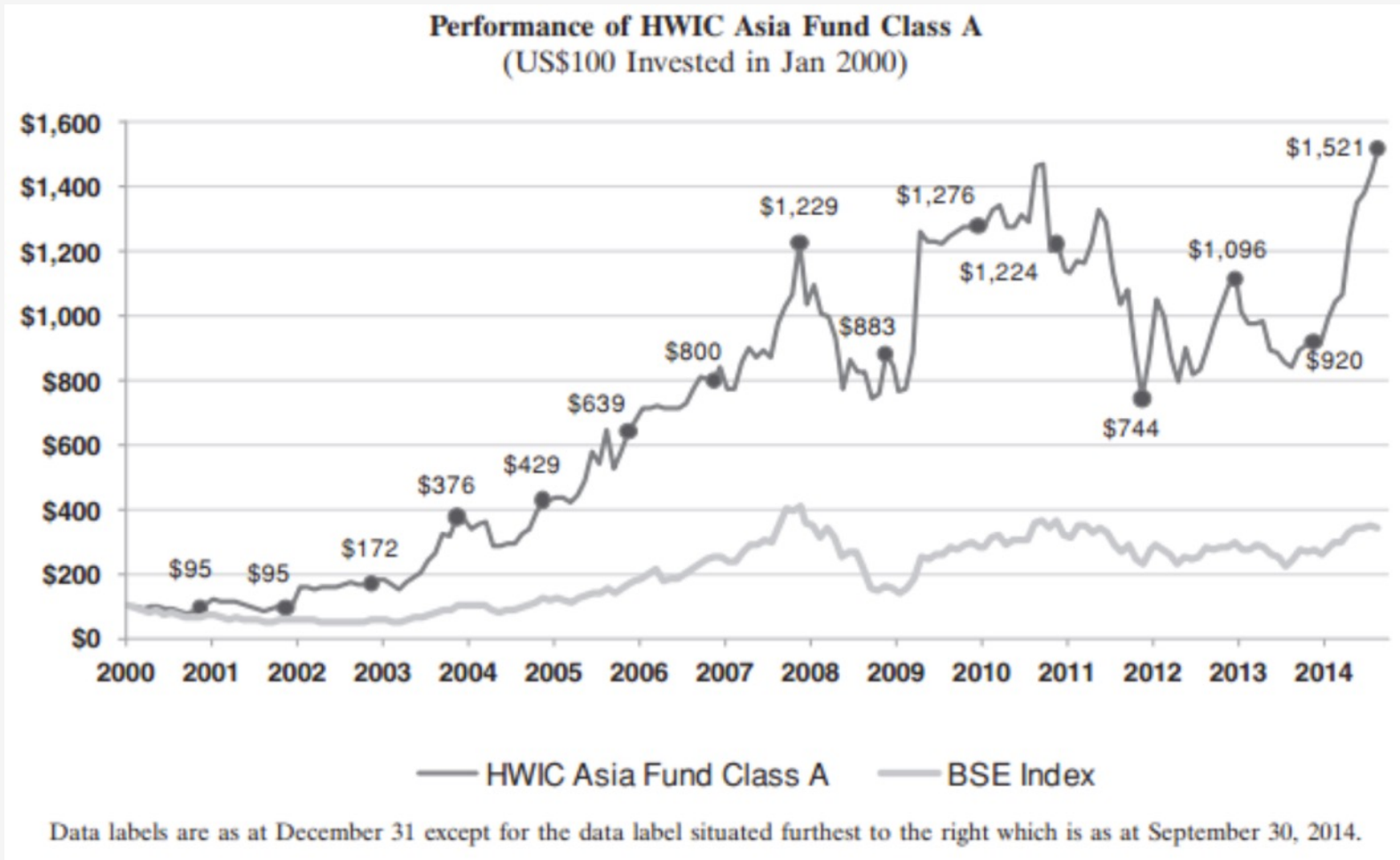


- Prem Watsa is an India-born entrepreneur who founded Fairfax Financial, an insurance conglomerate based in Toronto, Canada
- He was born in Hyderabad in what's today known as Telangana. He went to IIT Madras with a degree in chemical engineering and then studied for an MBA at Richard Ivey School of Business. He famously left India with US\$8 in his pocket, and supported his education by selling appliances door-to-door in his after-school hours.
- After graduation, he worked for insurance company Confederation Life. In 1984, he started investment firm partnership Hamblin Watsa Investment Counsel. The year after, they took over a small insurance company and renamed it Fairfax Financial. Today, Fairfax has a market cap of US\$22 billion and has made Watsa a billionaire.
- Watsa is a Christian and says that faith is central part of his life. He values honesty, treating people with respect, family life and hard work.
- He's historically capped his salary at US\$650,000, instead mostly relying on capital gains along with minority shareholders for building wealth. Historically, 99% of Watsa's net worth has been tied up in Fairfax Financial.



Prem Watsa

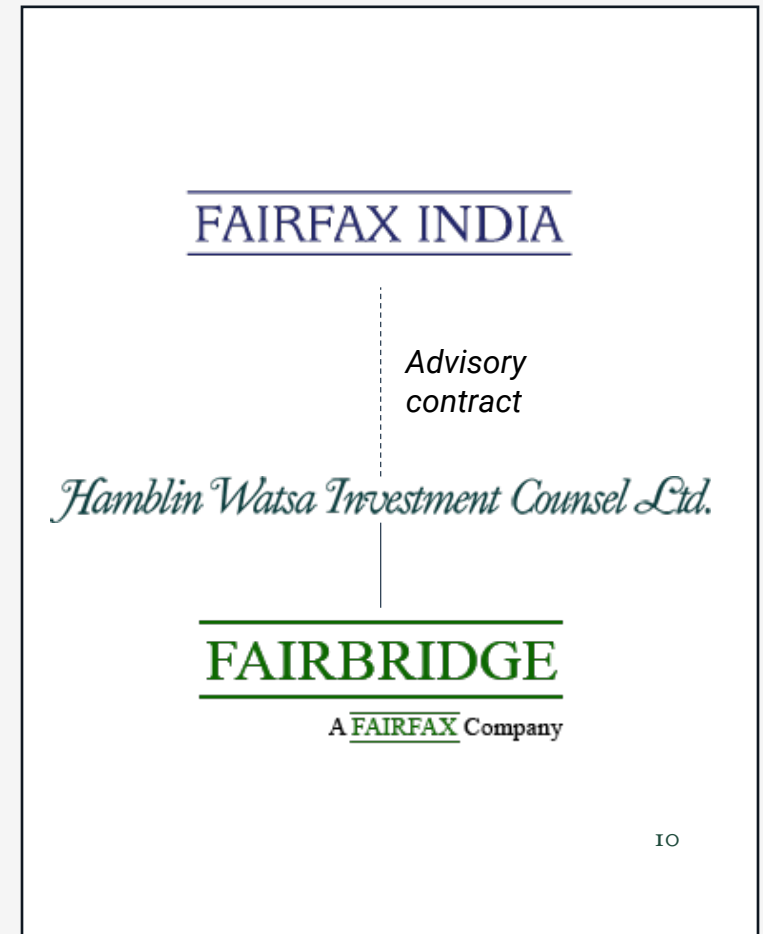
The manager of Fairfax India – Hamblin Watsa – has had an incredible track record in India since the start in 2000 of almost 20% return CAGR



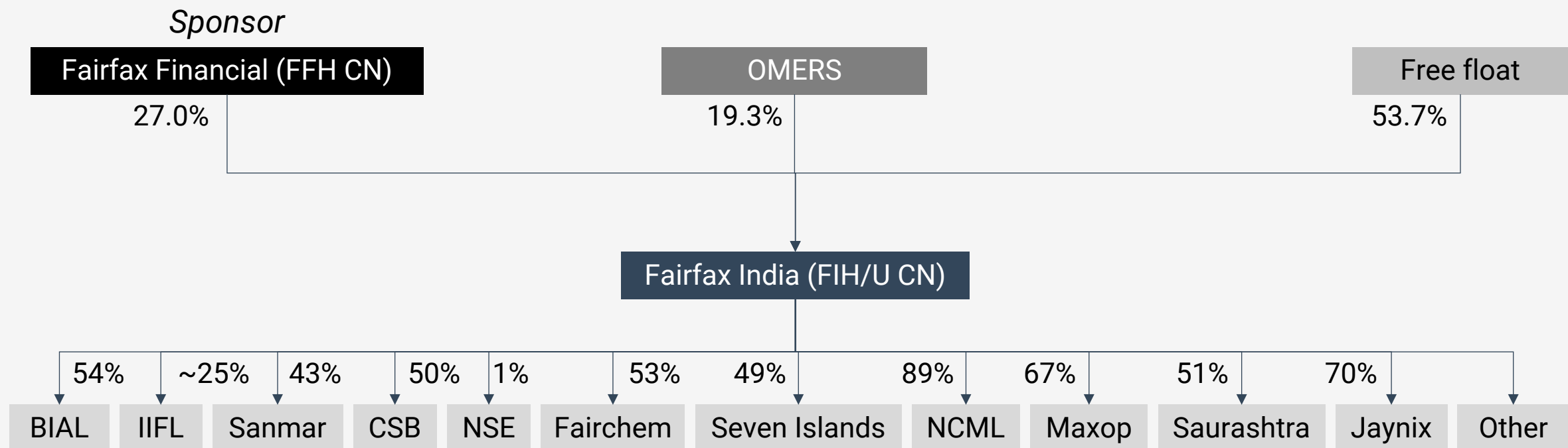


The relationship with its parent Fairfax Financial

- Uses Mauritius subsidiaries, which allow for both public and private asset ownership in India
- Fairfax India uses Fairfax Financial subsidiary Hamblin Watsa Investment Counsel for investment advice, and it outsources some of that advice to India-based 100% subsidiary Fairbridge Capital.
- Hamblin Watsa is entitled to 1.5% management fee on deployed capital and 0.5% on undeployed capital.
- It's also entitled to a 20% performance fee above a 5% annual hurdle subject to a high watermark.
- The performance fee is calculated against net asset value, which is partly based on management estimates. Some investors have complained that fees should be based off the share price to truly align interests between Fairfax Financial insiders and minority shareholders.
- Performance fees are calculated and accrued quarterly, paid out every 3 years in either cash or Fairfax India shares at Fairfax Financial's discretion.



Parent Fairfax Financial has a significant stake in Fairfax India, worth roughly US\$470 million



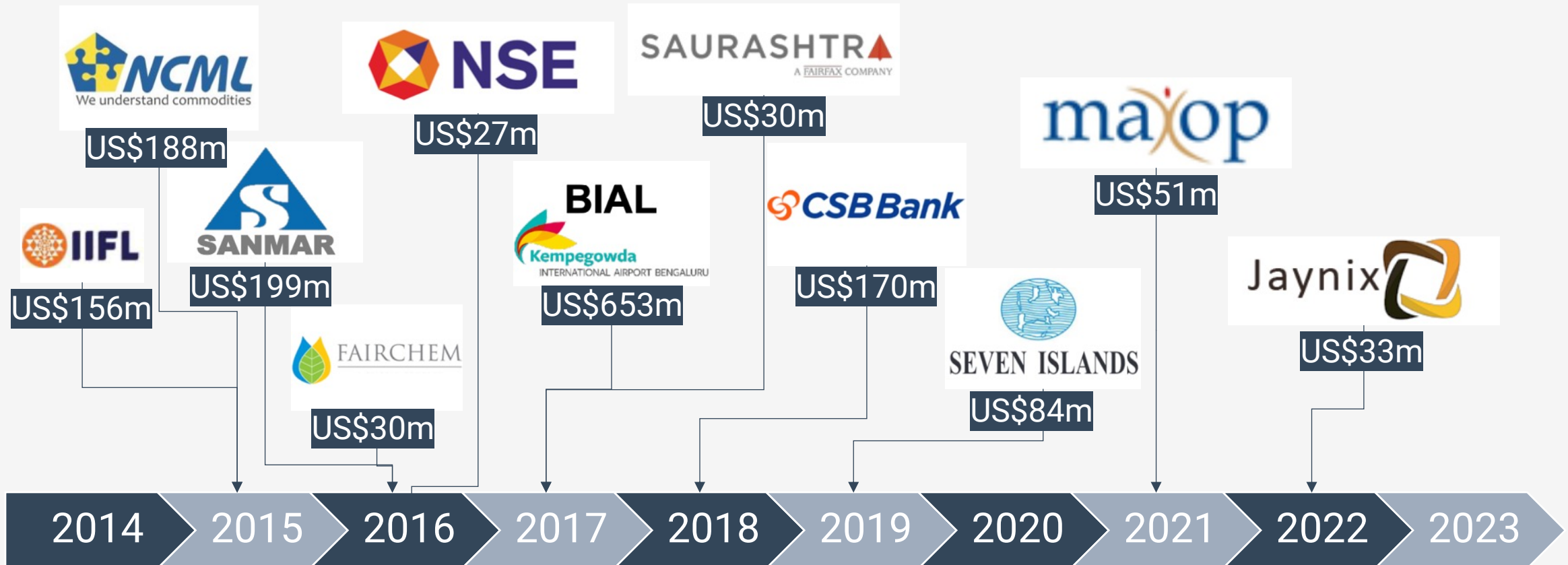
Source: 2023 AGM presentation

Fairfax India's mandate states that it aims to invest in infrastructure, consumer and export-related businesses



"The Company will invest in businesses that are expected to benefit from India's current pro-business political environment, its growing middle class and its demographic trends that are expected to underpin strong growth for several years. Sectors of the Indian economy that the Company believes will benefit most from such trends include infrastructure, the consumer services and retail sectors and the export sector. The Company, however, will not be limited to investing solely in these sectors and intends to invest in other sectors as opportunities arise."

Fairfax India's ramped up most of its investments pre-COVID

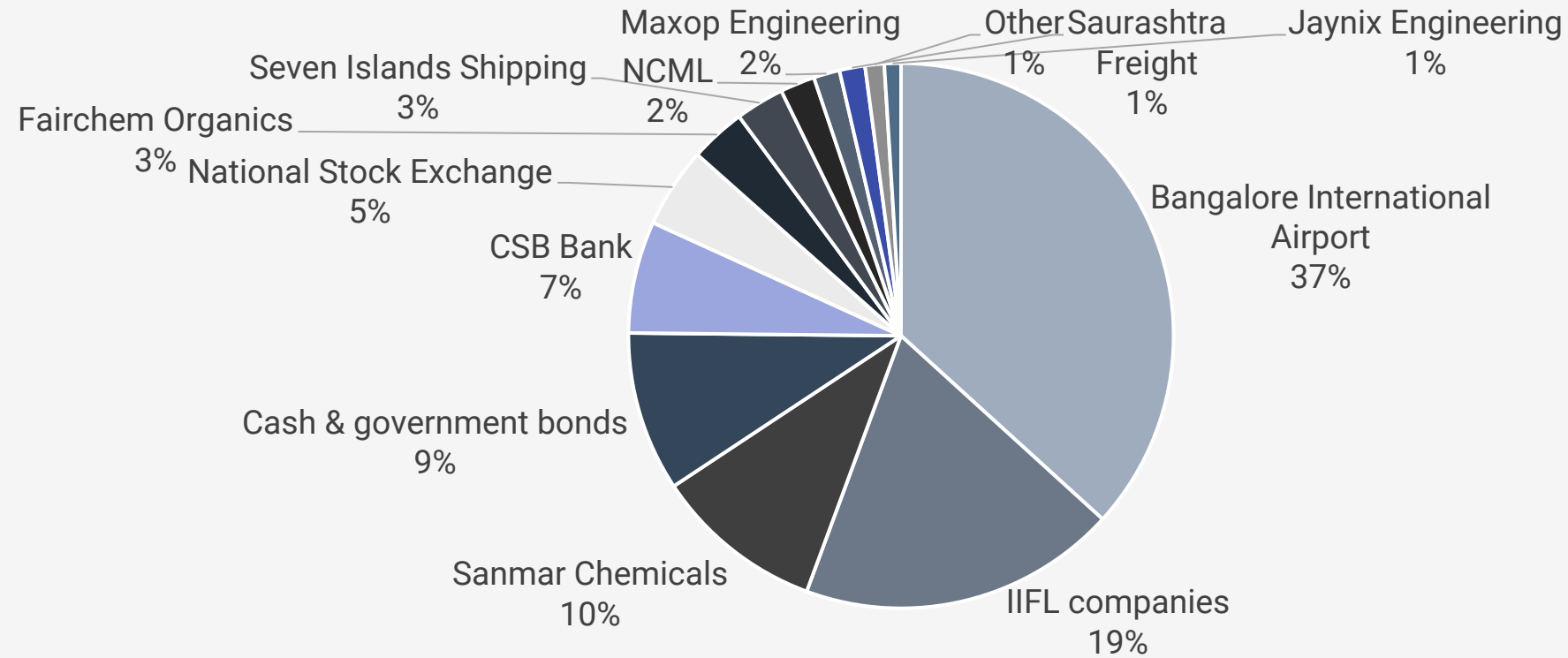


Fairfax India's portfolio is measured at “fair value”: either market prices or internal valuation models like discounted cash flows



Fairfax India portfolio	First investment	Ownership	Amount invested	Fair value	Annualised return
Bangalore International Airport	2017	54%	653	1234	12.2%
IIFL companies	2015	n.a.	156	634	19.8%
Sanmar Chemicals	2016	43%	199	338	13.2%
CSB Bank	2018	50%	170	223	7.5%
National Stock Exchange	2016	1%	27	160	35.2%
Fairchem Organics	2016	53%	30	111	34.1%
Seven Islands Shipping	2019	49%	84	97	4.0%
NCML	2015	89%	188	69	-13.8%
Maxop Engineering	2021	67%	51	52	0.8%
Saurashtra Freight	2017	51%	30	51	10.1%
Jaynix Engineering	2022	70%	33	33	1.0%
Other Indian Investments			34	38	24.8%
<u>Total investments</u>			<u>1655</u>	<u>3040</u>	<u>13.2%</u>
Cash & government bonds			318	318	
<u>Total cash & investments</u>			<u>1973</u>	<u>3358</u>	

Fairfax India reported fair value split



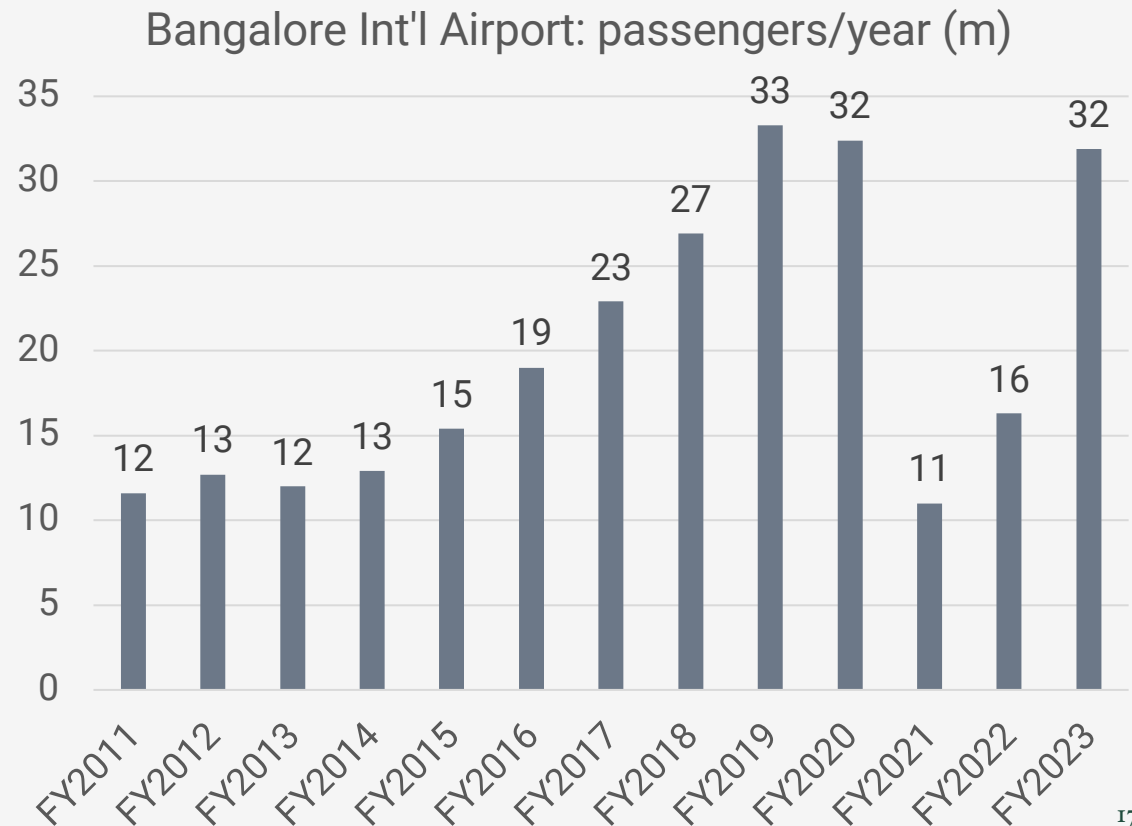
The portfolio includes companies from across India



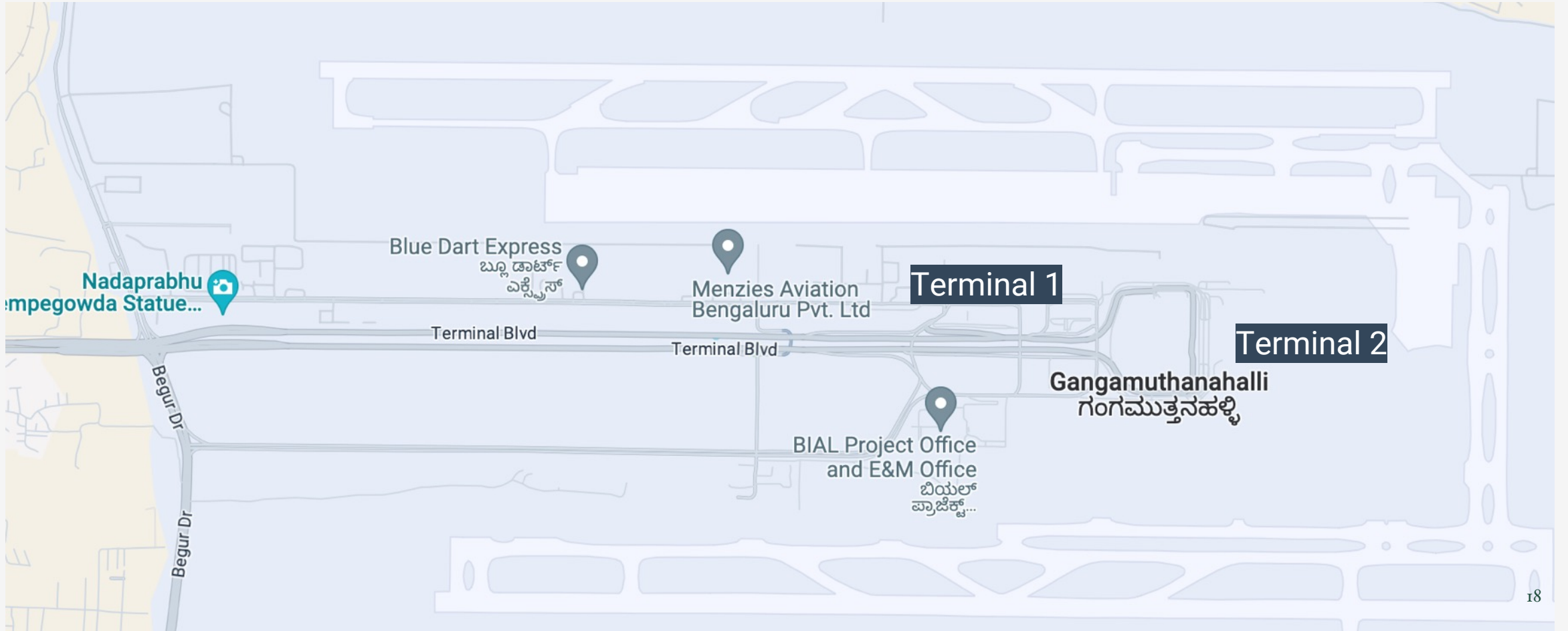
Bangalore International Airport (BIAL), owner of Kempegowda International Airport (KIA)



- BIAL owns “Kempegowda International Airport” (“KIA”), the largest airport in the Indian city of Bengaluru. It opened in 2008 as an alternative to congested HAL Airport, built by a consortium of investors under a public-private partnership structure incl Siemens, Larsen & Toubro and Zurich Airport. Fairfax India accumulated 54% shares in 2016-18. Other shareholders include gov & Siemens Project Ventures (20%).
- Two airport terminals, two runways and 460 acres of land that could eventually be monetised. In 2022, BIAL completed the construction of phase 1 of Terminal 2, doubling capacity from 27 million pax/year to 53 million. 100% utilization is expected by the late 2020s. A third terminal is expected in the late 2030s.
- To fund the capex, BIAL borrowed US\$1.1 billion. BIAL now has net debt of US\$793 million, paid back from 2025 onwards. Future capex will now be ~US\$100 million each year.
- Aeronautical (e.g. landing fees) plus 40% of non-aero revenues (retail, car parks, advertising) earns 16% regulated ROE, rest of non-aero revenues enjoys full pricing power, a.k.a. hybrid-till.



Map of KIA's facilities



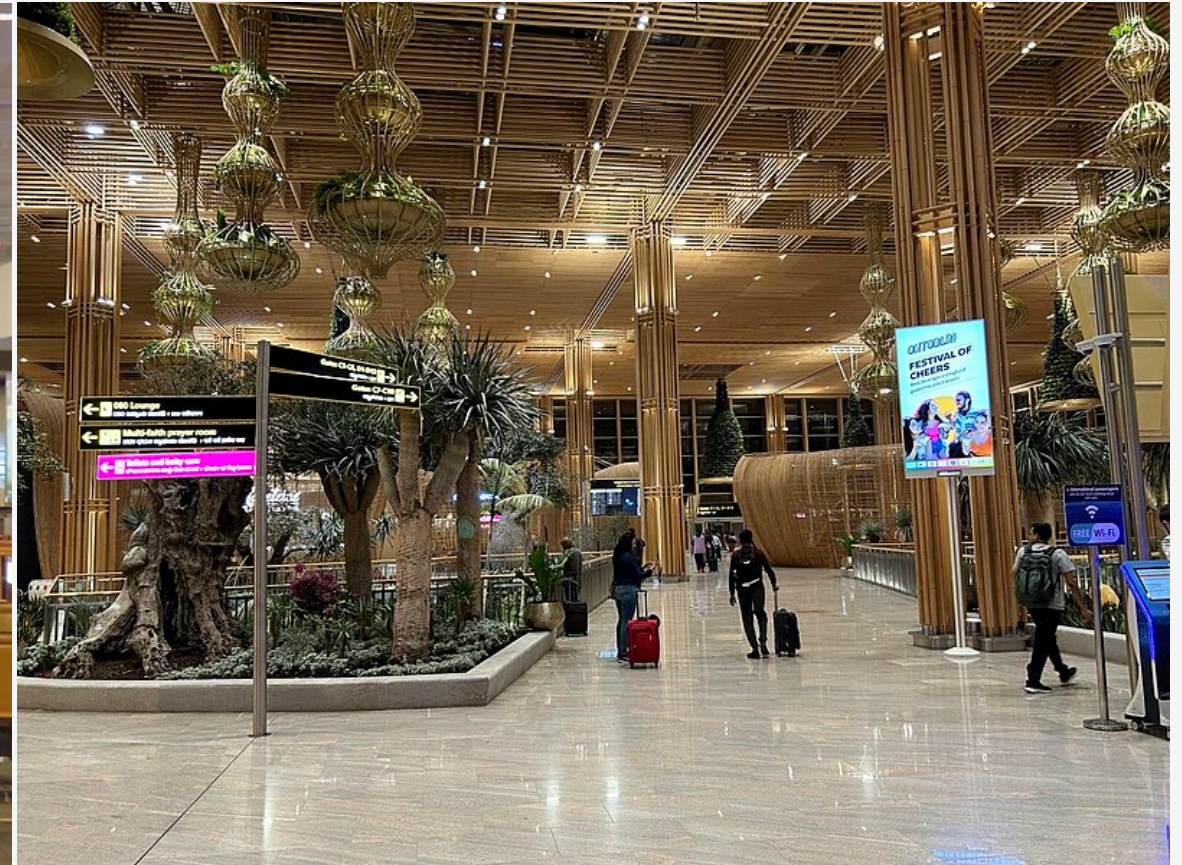
KIA's two terminals



Terminal 1



Terminal 2



A view from outside Terminal 2



In FY2019, KIA was the fastest-growing airport in the world



KIA fastest-growing airport in the world

Swathy R Iyer / TNN / Sep 19, 2019, 15:30 IST



New For You



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Husband in UAE, woman chops off neighbours genitals in UP's Kaushambi

With over 3.2 crore passengers passing through it in 2018, Kempegowda International Airport is the fastest-growing airport in the world, says the latest world traffic report published by Airports Council International (ACI) on Tuesda ... [Read More](#)



File photo of Kempegowda International Airport.

BIAL is clearly one of the most attractive airports globally



Mexico's airports have generated best in class revenue growth and profit margins over the past decade

Global Airports: Last 10 year revenue growth vs EBITDA margin

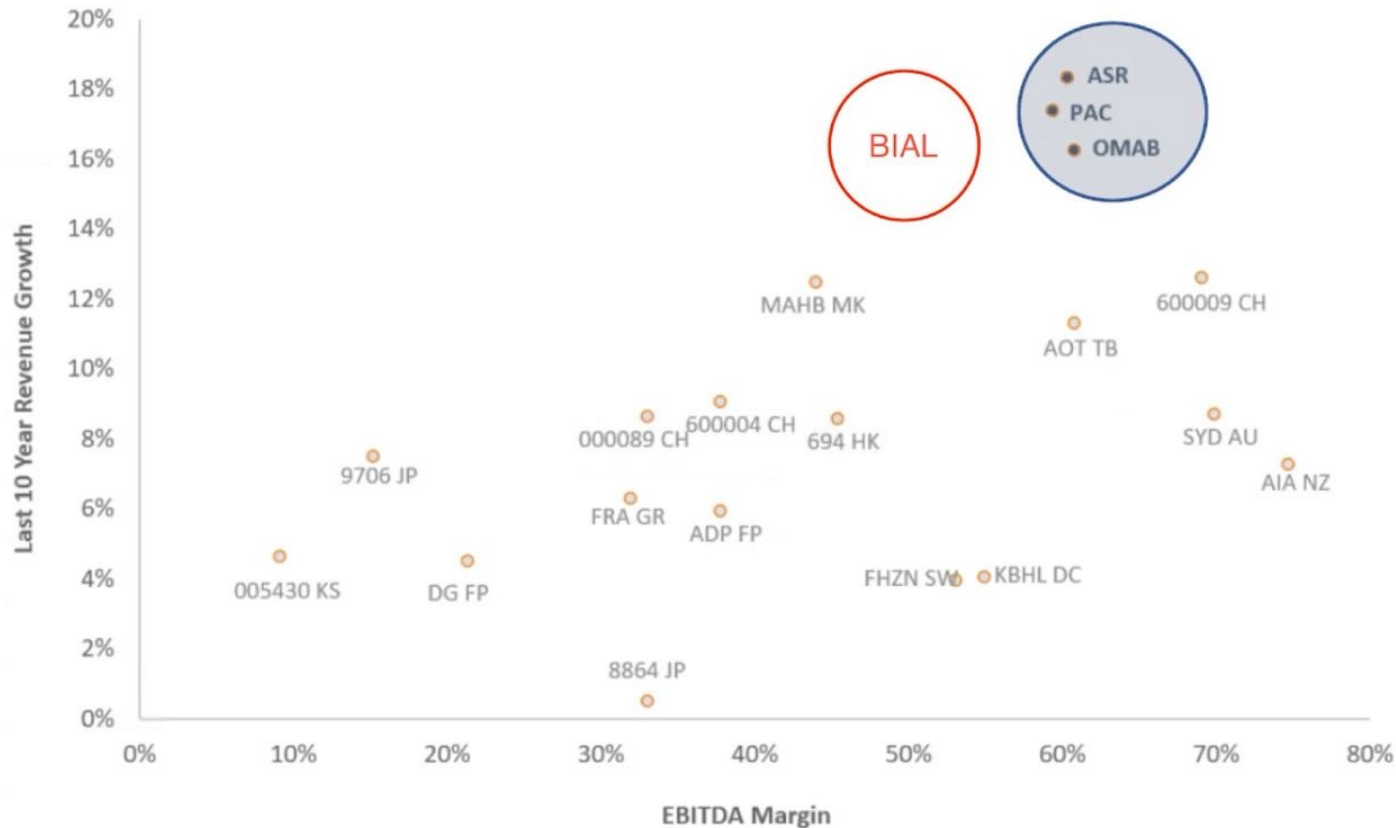
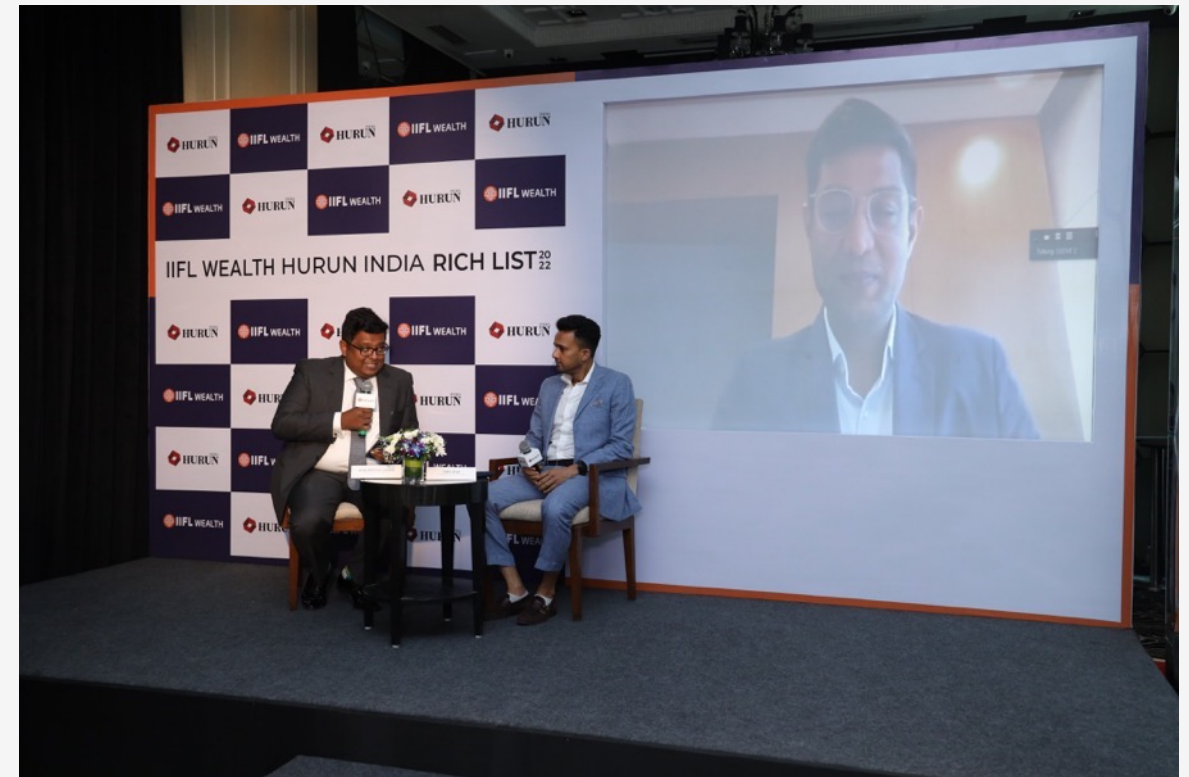


Chart credit: Broyhill Asset Management

IIFL Finance, IIFL Wealth (360 One Wam) & IIFL Securities



- Fairfax had been in contact with IIFL since 2005, being impressed with them as a client. In particular, they were impressed with Nirmal Jain, the founder and CEO.
- So in 2015, it jumped on the opportunity to invest US\$156 million in IIFL, which eventually was spun off into IIFL Finance, IIFL Securities and IIFL Wealth now (renamed 360 One Wam).
- IIFL is one of the larger non-bank finance companies in India. It provides home loans, personal loans, business loans, offers wealth management products and also securities brokerage. In 2015, they served 3 million customers across 2,500 business locations across India.
- In 2018, after the default of quasi-government lender IL&FS, IIFL suffered from reduced access to funding. But it survived the crisis and has innovated into area such as “WhatsApp loans”. Meanwhile, it has some of the best asset quality in the peer group with conservative LTVs.
- The value of Fairfax India’s investment in IIFL is now US\$634 million, with an IRR of about 20%.



Sanmar Chemicals



- In 2016, Fairfax India invested US\$300 million for a 43% stake in Sanmar Chemicals and non-convertible debentures yielding 13%. Sanmar Chemicals is one of the largest suspension poly vinyl chloride (“PVC”, used for plastic pipes etc) manufacturers in India. Parent Sanmar is a conglomerate of which “Sanmar Chemicals” represents roughly 80% of revenues.
- Sanmar Chemicals had two PVC production sites: one in India with 200ktpa capacity, and another one in Egypt with 130ktpa capacity. Fairfax India’s investment helped double the capacity of the Egyptian plant, but it has not been a success.
- Fairfax India still calculates its IRR on its investment at 13% per year.



Catholic Syrian Bank (“CSB”)



- Fairfax India invested in Kerala-based Catholic Syrian Bank (“CSB”) back in 2018, investing US\$170 million for a 51% stake. This represented a Price/Book multiple of 1.1x.
- CSB is one of the oldest private sector banks in India, with significant presence in Kerala, Karnataka, Tamil Nadu and Maharashtra.
- The new capital was used to recapitalise the bank and modernise its operating practices. Today, it has a CAR of 23%, with better credit quality and faster deposit growth. Today, the NIM has reached 5.0% with an ROE of 18%.
- Today, the stake is worth US\$223 million, having yielded an IRR of 7.5%. But the market value is far higher at US\$373 million, valuing it at 11x P/E – showing that Fairfax India’s marks are conservative.



National Stock Exchange of India



- In 2016, Fairfax India acquired a 1% stake in National Stock Exchange of India (“NSE”) for US\$27 million. It runs India’s only stock exchange, being one of the largest in the world.
- It had originally planned to acquire 5% but the selling shareholders changed their mind upon hearing that the NSE was planning an IPO.
- The acquisition price implied a 14.5x P/E and a P/B of 2.6x. At that time, Fairfax India believed it would be a winner investment, given book value compounding of about 20% per year.
- The stake is already worth around US\$160 million, using a relatively conservative P/E of 19x. It could be worth far more in the future, though the timing of its IPO is still unclear.



Fairchem Organics



- In 2016, Fairfax India purchased a 45% stake in Ahmedabad-based Fairchem for US\$19 million. It then invested in Privi Organics, which later merged with Fairchem and then demerged. The total investment in both ended up at around US\$30 million.
- Fairchem produces oleochemicals, which are chemicals derived from plant or animal fats used for both edible and non-edible products. For example, soaps, detergents, paints. Customers include BASF, Archer Daniels Midland, Cargill, etc.
- Fairfax liked founder Nahoosh Jariwala, and also though Fairchem occupied a unique niche, owning in-house technology. Over the past ten years, sales have grown 20% per year with an ROE of 23%.
- The value of the investment has grown to US\$111 million, representing an IRR of 34%.



Seven Islands Shipping



- Founded by captain Thomas Wilfred Pinto in 2004, operating tanker shipping vessels sailing along the Indian coast and international water. The domestic market is protected by regulation.
- It's the second-largest private tanker shipping company in India, buying pre-owned good quality vessels during periods of distress.
- Fairfax India acquired a 41% stake in Seven Islands Shipping in 2019, paying US\$72 million, and later another 7% for another US\$12 million. The purchase price implied an EV/EBITDA of 8.9x and P/B of 1.7x. It owned 14 vessels with deadweight capacity of 1mt.
- Today, the value of the stake is about US\$97 million, representing an IRR of 4%. That sounds conservative, given that Seven Islands accumulated cash of US\$120 million during the COVID boom.



National Collateral Management Services (NCML)



- Fairfax India owns 89% of National Collateral Management Services (NCML), a private agricultural commodities storage business.
- Prem Watsa met with CEO Sanjay Kaul and came away impressed with him. It then invested US\$149 million back in 2015 for an 88% stake. Fairfax had experience with a similar company in Africa, which had become a success financially.
- The company offers grain procurement, storage and collateral management for agricultural loans. By letting NCML store their grains, they can borrow post-harvest loans from banks. At acquisition, it had a 50% market share in the collateral management business in India.
- At that time, only 5% of the grain storage market was controlled by private companies and Fairfax believed this number would rise.
- The investment has not turned out well, now only worth US\$69 million. The loss seems to be Fairfax scaling back prior risky business practices.



Maxop Engineering



- In 2021, Fairfax India invested US\$51 million for a 67% stake in Maxop Engineering, a precision aluminium diecasting and machining solutions provider. It serves the automotive and industrial sectors in India, Asia, North America and Europe with four plants in Northern India.
- Fairfax saw potential in founder Shailesh Arora, who started the business himself and built it up by forming connections with customers such as General Electric. Shailesh believes that the brand name of Fairfax India will open doors for the business.
- The investment continues to be valued at cost.



Saurashtra Freight



- Fairfax India invested US\$30 million for a 51% stake in Saurashtra Freight in 2017, partly buying out the founder but also to help the company sever ties with the rest of the Saurashtra group.
- Saurashtra owns and operates container freight stations, which operate close to ports helping store containers before they are dispatched to their destinations. Its services help the Mundra port operate at high utilization rates.
- In 2017, the company went on an aggressive cost optimization program, then doubled its fleet of trucks and launched a non-vessel operating common carrier called Fairfreight.
- While the ROE remains at around 13-15%, the value of the investment has risen to US\$51 million, implying an IRR of 10%.



Jaynix Engineering



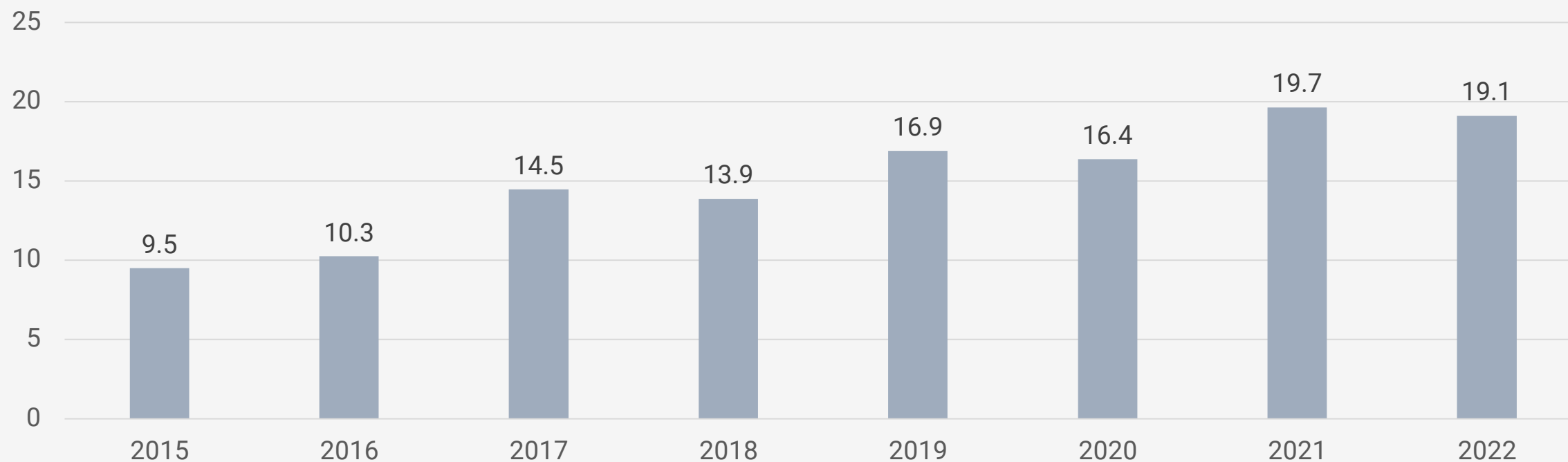
- In 2022, Fairfax India acquired 70% of Jaynix Engineering for US\$33 million.
- It produces aluminium electrical neutral bars, lugs, connectors and assemblies. It's a supplier to electrical OEMs such as Schneider, Eaton and Siemens in North America and Europe.
- The company is run by two brothers, engineers Nikhil and Ninad Diwakar in Gujarat.
- The return on equity is 412% and the P/E just 6.4x. The investment continues to be valued at cost.



Tangible book value per share has compounded at an 11% rate



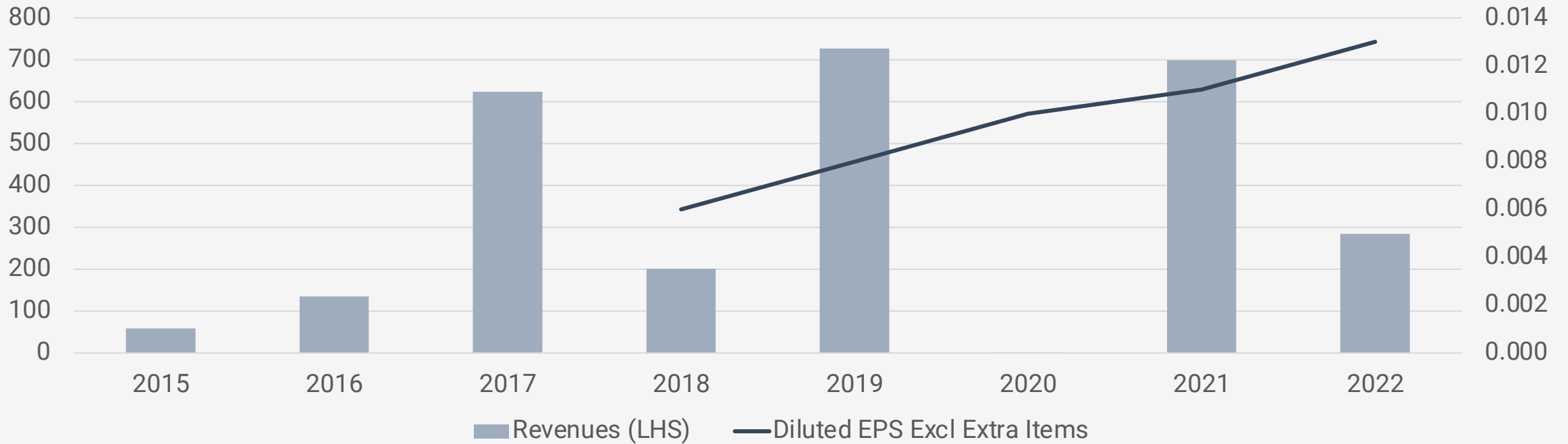
Fairfax India: Tangible book value per share



Headline revenues are not particularly meaningful



Fairfax India (FIH/U CN)



Source: TIKR



Competitive advantages

- **Prem Watsa's brilliance and (likely) integrity:** There's no doubt that Prem Watsa has built up an enviable track record through savvy investments. I am seriously impressed with Watsa. Since the mid-1980s, Fairfax Financial has racked up returns of almost 20% per year. These returns were achieved with leverage. But I still think mid-teens gross IRR (pre-fees) is achievable.
- **Regulated monopolies:** Several of Fairfax India's holdings, most notably Bangalore International Airport and National Stock Exchange of India are essentially monopolies with almost zero competition. BIAL effectively has a 60-year concession, with 25-year exclusivity right for 150km radius.
- **Alignment of interests:** While it would be better if management simply held shares in Fairfax India alongside minority investors, or were remunerated based on the performance of the share price, I still think that performance fees offer some alignment not typically seen in M&A focused entities.



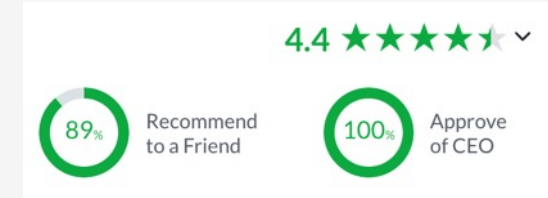
Fairfax guiding principles seem reasonable... most importantly, they emphasise adding value to minority shareholders.



- **Focus on value:** Investing based on a long-term value-oriented philosophy, preferring negotiated transactions rather than over-priced auctions.
- **BVPS growth:** They want to compound mark-to-market book value per share over the long-term by 15% annually by treating customers, employees, shareholders and communities well. Ignore short-term fluctuations in quarterly earnings.
- **Strong balance sheet:** They want to be soundly financed.
- **Decentralised structure:** Each business run by presidents except for performance evaluations, succession planning, acquisitions, financing & investments, which are done together with Fairfax.
- **Incentives:** Share ownership and large incentives are encouraged.
- **Integrity:** *"Honesty and integrity are essential in all our relationships and will never be compromised."*
- **Disclosure:** Complete disclosure annually to shareholders.



The Glassdoor reviews for Fairfax Financial are among the best I've ever seen for a company



Positives

- *"Solid Work life balance and decent salary considering the workload"*
- *"Big company work with small company atmosphere."*
- *"A great and productive workplace."*
- *"Good team and people are nice"*
- *"Excellent support from supervisors and working environment is great"*
- *"Many professionals there to mentor you and help you to be success."*
- *"Excellent company that really cares about their people."*
- *"Smart people with great working conditions and work-life balance."*
- *"Small, tight-knit teams"*
- *"Great atmosphere"*
- *"Great People"*
- *"Great Job ! ! Boss and colleagues were very nice and friendly."*

Negatives

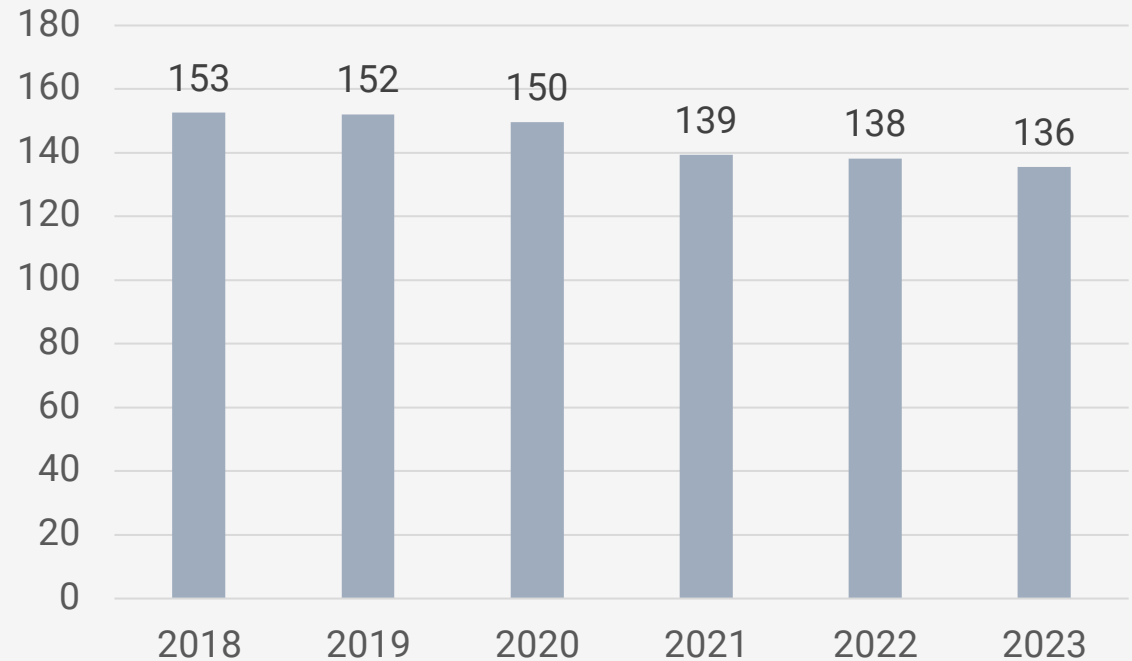
- *"Not challenging enough, average age of employers too high"*
- *"No much downside is that I was aware of"*
- *"Working from home and not getting to meet colleagues"*
- *"None that I can think of. Didn't have lots of chance to meet with senior management."*
- *"There are no downsides that I can recall."*
- *"Toronto is cold."*
- *"The office decor is very stale, but that's part of the idea (e.g. to be understated)"*
- *"Honestly, there are no cons. It was the best working experience I have had so far."*
- *"Office is too quiet"*
- *"Workload is extensive, Hong Kong is very HOT"*

Fairfax India's capital allocation gets an A+ from me



- From what I can tell, past acquisition multiples have been reasonable, almost across the board:
 - Bangalore International Airport was acquired at **14.5x** P/E for one of the fastest-growing companies in the world with the potential for traffic to quadruple.
 - NSE was also acquired at **14.5x** for a monopoly stock exchange growing over 20% per year.
 - Fairchem was acquired at **12.7x** for a company with 20% annual EPS growth historically.
- While Fairfax India does not pay dividends, it has been generous with share buybacks. They only accelerated once discount to NAV widened after the outbreak COVID-19 in 2020, so they should be value accretive. For example, Fairfax India repurchased 5.5% of shares outstanding in 2021 and another 3 million shares in 2022. Note that they cannot buy more than the TSX limit of 12.2k per day.
- The capital allocation reminds me very much of what I've seen at Berkshire Hathaway, the only difference being the management and performance fees paid to investment adviser Hamblin Watsa.

Fairfax India shares outstanding



The share price has continued lower, despite a steadily rising NAV





Long-term industry trends

- Economic reforms:** Under President Modi, entrepreneurship has blossomed, and the stock market has performed well. While export growth has remained tepid, there's promise. For example, Apple has said that it wants to move 25% of iPhone production to India by 2025. India is a clear beneficiary from China's turn inwards under General Secretary Xi. Another positive is Modi's success in moving savings from gold and property into financial investments that generate greater productivity.
- Privatization program:** The Indian government has had ambitions to privatise state-owned enterprises. While the process has been delayed for multiple years, there is hope. These could eventually end up purchased by Fairfax India.
- Growth in Indian air travel:** The Indian air travel market has grown at a ~15% CAGR historically. And the penetration rate of aircraft is still minuscule compared to that of the United States and China.

Now the world's 5th largest economy

Projected to overtake Germany by 2025 and Japan by 2027, and account for 1/5th of global economic growth in next decade

	2010	2022
1	U.S.	U.S.
2	China	China
3	Japan	Japan
4	Germany	Germany
5	France	India
6	UK	UK
7	Brazil	France
8	Italy	Canada
9	India	Italy
10	Canada	Brazil

**Projected*

What Prem Watsa saw in Modi in 2015

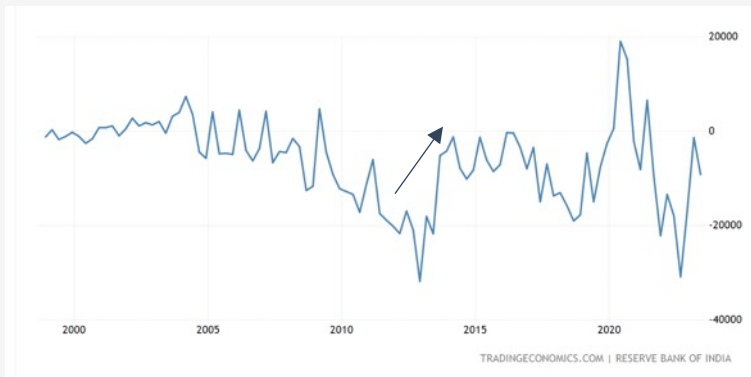


Crack-down on crony capitalism	Modi initiated a crackdown on crony capitalism, especially industrialists getting preferential access to loans at public sector banks. The tendering process of government departments and state companies was also made transparent.
Aadhar scheme	Modi pushed for the Aadhar network of biometrics-based identity cards covering 970 million, enabling transfer of government subsidies without corrupt middle-men.
Financial inclusion	Modi launched a program to open bank accounts for hundreds of millions of Indians who were previously unbanked, moving capital away from gold and property into higher-productivity investments through the banking sector.
Improvement in rail and roads	Investments in road and rail as a percentage of GDP has gone up exponentially.
Make in India	The government liberalised foreign investment in 25 sectors, with most now open for 100% foreign ownership, bringing in the likes of Apple.
Power distribution reform	The government promised to take over power distribution company debt, improving their financial health and enabling greater capex to ensure 24/7 power supply.
New bankruptcy code	Modi's government introduced a new bankruptcy code, enabling much faster resolutions of business distress.
New labour laws	Amendments to the Factories Act, the Apprentices Act and the Labour Laws Act have been passed with the aim of improving the business conditions for manufacturers. Also flexibility to states to amend their own labour laws.

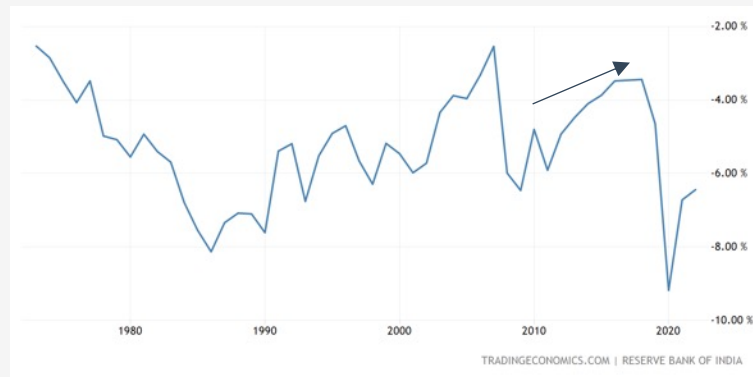
Under Modi, India's macroeconomic fundamentals improved... though COVID-19 presented challenges for the administration



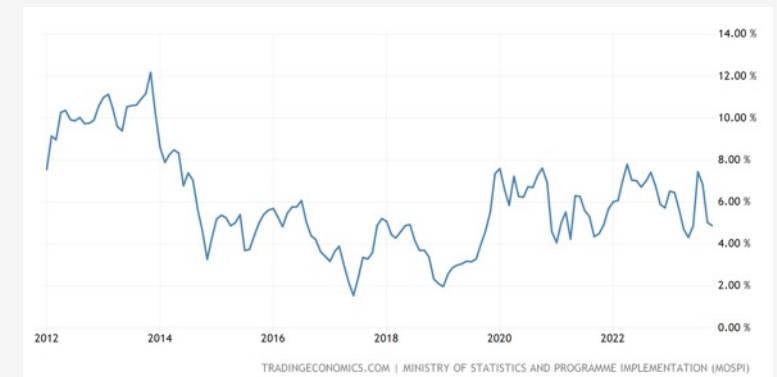
India's current account balance



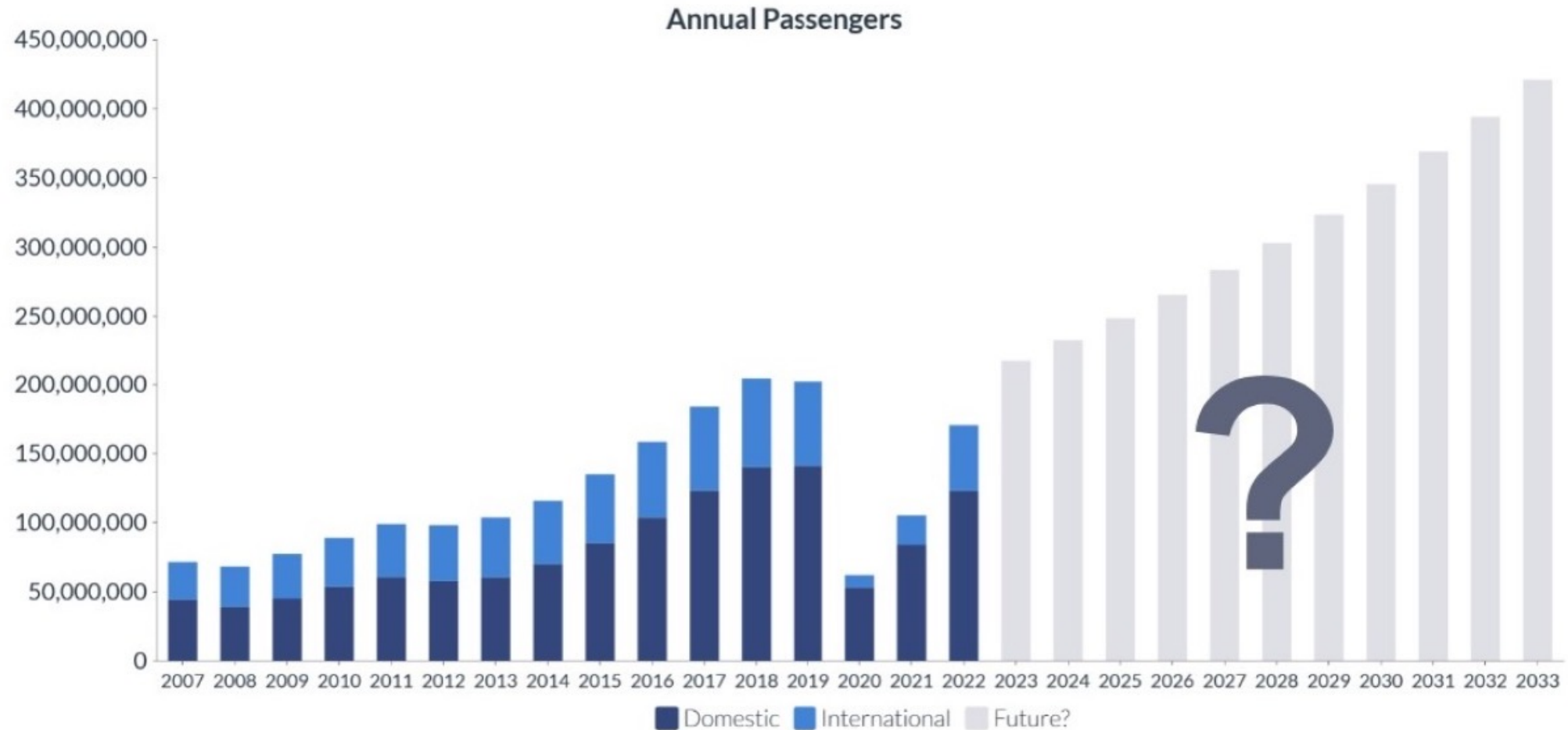
India's central government budget



India's inflation rate



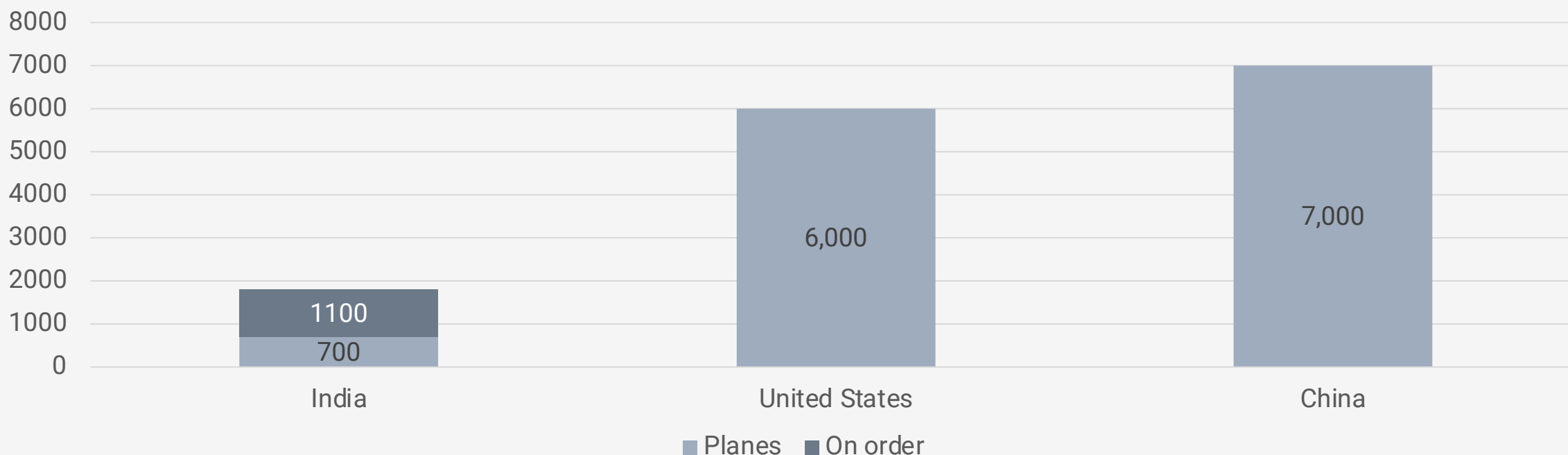
India air traffic grew rapidly prior to COVID-19



Growth in the number of operating aircraft will almost guarantee growth for India's airports



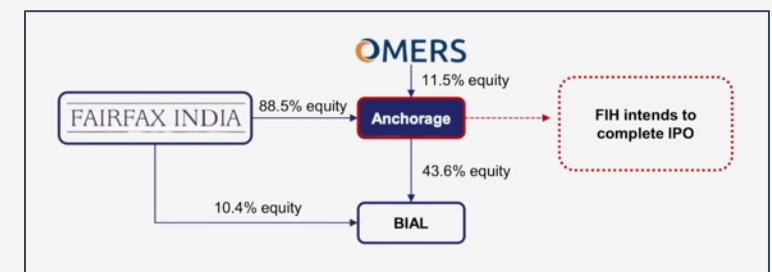
Total active commercial aircraft



What is going to change for Fairfax India?



1. **Share buybacks:** As long as Fairfax India trades at these levels, it will continue buying back shares. In the latest annual report, the company said that while the book value per share is US\$19.1, they believe that the underlying intrinsic value is much higher. Expect the share count to continue dropping.
2. **BIAL land development:** BIAL plans to construct the “Bengaluru Airport City” by 2025 across an area of 100 acres of land, which will include 1) a business park 2) a 775 room business hotel 3) a retail, dining and entertainment village 4) a multi-purpose concert arena 5) a central kitchen for in-flight catering and 6) a corporate event venue and warehouse.
3. **BIAL’s 2025 IPO:** BIAL is planning to go public by September 2025 at the latest, which will help Fairfax India realise some of the value from its holding. To prepare for the IPO, Fairfax injected BIAL into a new subsidiary called Anchorage, which now owns 43.6% of BIAL while Fairfax India retained the other 10.4%. Management has previously said the valuation could be as high as US\$3.7 billion and I deem that valuation to be reasonable. Note that Fairfax India’s portfolio will at that time become 80% liquid, which could arguably help close the NAV discount.



While most permanent capital vehicles trade at a discount to tangible book, Fairfax India's discount is among the highest



Permanent capital vehicles	Ticker	Region	Mkt cap (US\$m)	P/TBV	P/E	Div yield
Fairfax India	FIH/U CN	India	1,741	0.61x	5.6x	0.0%
Pershing Square Holdings	PSH LN	United Kingdom	7,129	0.67x	4.4x	1.3%
Macquarie Global Infrastructure Fund	MGU US	United States	281	0.80x	5.5x	6.3%
Third Point Investors	TPOU LN	United Kingdom	477	0.79x	n.a.	0.0%
Greenlight Capital Re	GLRE US	United States	377	0.65x	4.1x	0.0%
3i Infrastructure	III LN	United Kingdom	3,773	0.94x	8.9x	3.5%
F&C Investment Trust	FCIT LN	United Kingdom	5,799	0.99x	13.8x	1.5%
Alliance Trust	ATST LN	United Kingdom	3,745	0.98x	7.4x	2.3%
Average ex-Fairfax India			3,745	0.80x	6.4x	1.5%
Median ex-Fairfax India			3,083	0.83x	7.4x	2.1%

The reported book value discount is almost 40%



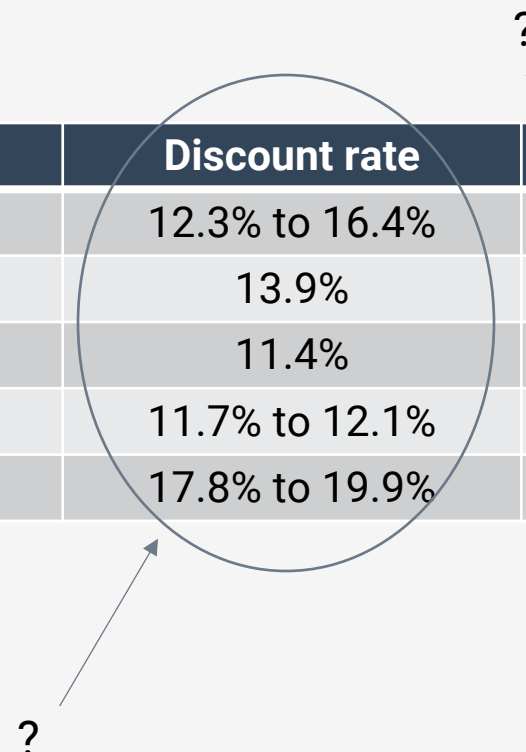
Premium/discount to book



Fairfax India's valuation assumptions are overly conservative



Level 3 assets	Discount rate	Terminal growth rate
BIAL	12.3% to 16.4%	3.5%
Sanmar	13.9%	3.0%
Seven Island	11.4%	3.0%
NCML	11.7% to 12.1%	2.4% to 6.0%
Saurashtra	17.8% to 19.9%	4.0% to 5.0%





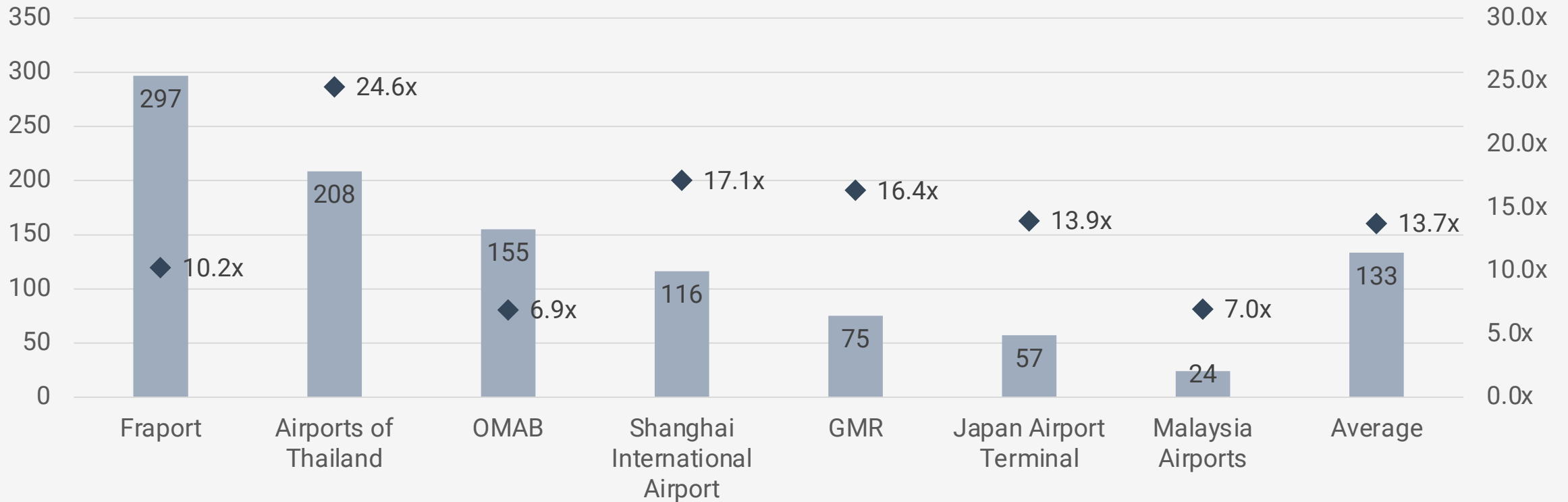
Why permanent capital vehicles should trade at a discount

- **Liquidity:** The underlying assets tend to be illiquid, and investors prefer liquid assets all else equal.
- **Management fees:** If the underlying assets are publicly traded, then investors can purchase the listed securities directly. Meanwhile, 1.5% base fees and 20% performance fees on an NPV basis should justify a discount to underlying assets above 20%.
- **Corporate governance:** While underlying values can sometimes be realised to the benefit of minority shareholders, the sponsor does not have incentives to disrupt the status quo as it would lose a permanent stream of fee income.

But note the following:

1. Fairfax India's valuation marks are conservative
2. Fairfax has access to deal flow
3. Fairfax is an astute investor

BIAL's emerging market hybrid/dual-till airport peers trade at 15-20x EBITDA and >US\$100 EV/pax



With 2026e EV/EBITDA of 16x, I get to a US\$1.8 billion valuation for Fairfax India's stake in BIAL



BIAL valuation	2026
Passengers	50
Revenue per pax (USD)	9.0
<u>2026e revenue</u>	<u>450</u>
EBITDA margin	60%
2026e EBITDA	270
Assumed EV/EBITDA	16x
<u>Target enterprise value</u>	<u>4,320</u>
Future net debt	634
<u>Implied equity value</u>	<u>3,686</u>
Fairfax India's stake	54.0%
<u>Value to Fairfax India</u>	<u>1,990</u>
Implied EV/pax	86

A realistic sum-of-the-parts with an assumed 25% closed-end fund discount yields an adjusted NAV/share of US\$21.6/share



Fairfax India (FIH/U CN)	Method	Ownership	Total value	Value to Fairfax India	% of GAV
IIFL Finance	Market	22.3%	2,941	656	15%
IIFL Wealth (360 One Wam)	Market	3.8%	2,337	89	2%
IIFL Securities	Market	27.8%	436	121	3%
5paisa	Market	25.0%	168	42	1%
CSB Bank	Market	49.7%	751	373	8%
Fairchem Organics	Market	52.8%	182	96	2%
Bangalore International Airport	16x EBITDA	54.0%	3,686	1,990	44%
Sanmar Chemicals	2022 report	43.0%	786	338	7%
Seven Islands Shipping	2022 report	49.0%	198	97	2%
NCML	2022 report	89.0%	78	69	2%
National Stock Exchange	2022 report	1.0%	16,000	160	4%
Saurashtra Freight	2022 report	51.0%	100	51	1%
Maxop Engineering	2022 report	67.0%	78	52	1%
Jaynix Engineering	2022 report	70.0%	47	33	1%
Other Indian Investments	2022 report	n.a.	n.a.	38	1%
<u>Total investments</u>				<u>4,205</u>	
Cash & government bonds				318	
<u>Total cash & investments</u>				<u>4,523</u>	
Borrowings and minority interests				-614	
<u>Net asset value</u>				<u>3,909</u>	
Shares outstanding				135.7	
<u>NAV/share</u>				<u>28.8</u>	
Typical holdco discount				25%	
<u>Adj NAV/share</u>				21.6	
Current share price				12.65	
<u>Discount to NAV</u>				<u>41%</u>	



Potential downside risks

- **COVID-24:** Another pandemic could potentially impair the value of BIAL.
- **Self-dealing:** In 2021, OMERS bought 11.5% of BIAL in a related party transaction, valuing the airport at US\$2.6 billion. Fairfax Financial has also made direct investments in India itself, bypassing Fairfax India (TCI, ICICI Lombard, Digits). These represent conflicts of interest, made worse by the fact that Fairfax Financial controls 95% of the voting shares in Fairfax India's dual class structure.
- **Zero dividends:** While Fairfax India has not been generous with dividends (zero dividends per share), it has been buying back shares aggressively.
- **Weaker Indian Rupee:** If the rupee depreciates, the value of the portfolio would drop commensurately.
- **Government regulation:** BIAL is a regulated asset and therefore at the whim of the regulator / government.
- **Uncertain politics:** Modi will cross 75 years of age in 2024 and it's possible that he will not be re-elected.



Prime Minister Modi inside KIA Terminal 2

Short-sellers criticised Prem Watsa for not marking-to-market the bets it made against the US housing market pre-2008. But he proved to be right.



Prem Watsa, 2003:

"It seems to us that securitization eliminates the incentive for the originator of [a] loan to be credit sensitive. Prior to securitization, the dealer would be very concerned about who was given credit to buy an automobile. With securitization, the dealer (almost) does not care....And here's the rub! These asset-backed bonds are rated based on their historical loss experience record which will likely be very different in the future--particularly if we experience difficult economic times."

John Hempton, 2014:

"The company had about 4 billion in "hole"... He hid those holes for years. But they made 2 billion in derivative profits on the crisis and raised another couple of billion. Prem Watsa bet big and correct on a financial crisis. It undid big holes in his balance sheet."

Indian Rupee real effective exchange rate is high but not unreasonably high

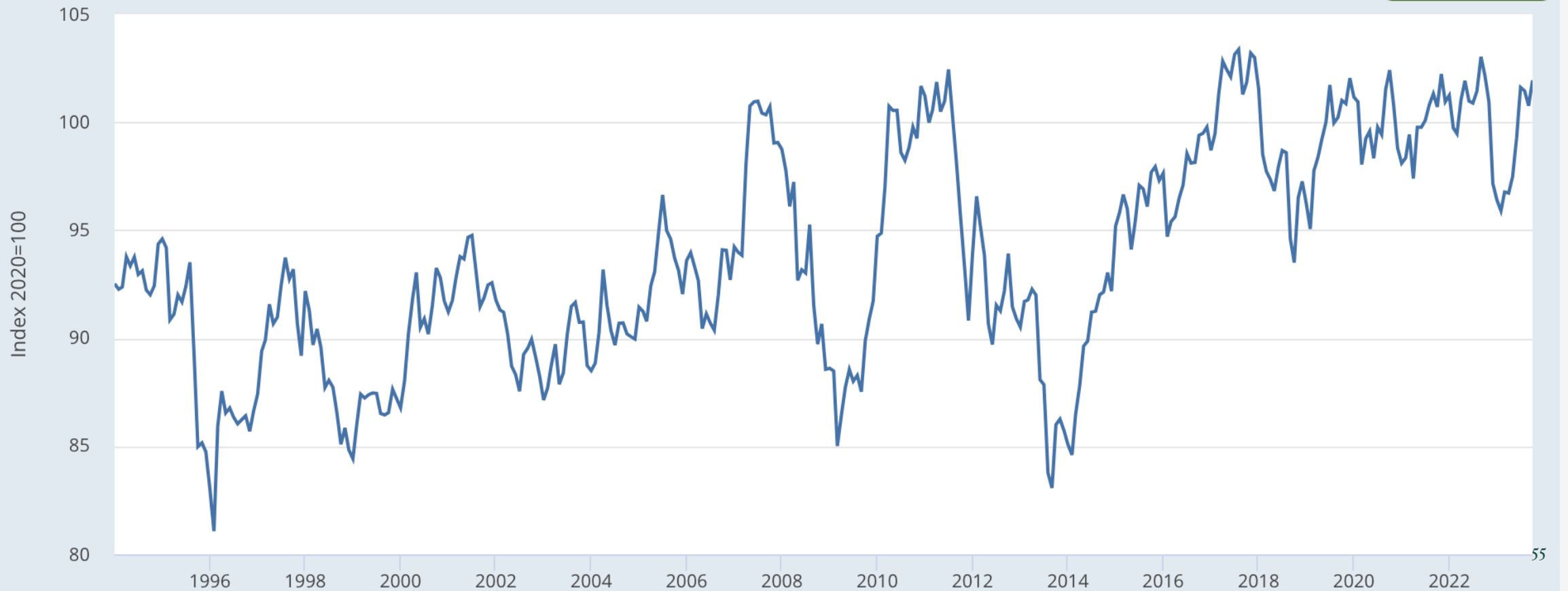


FRED



— Real Broad Effective Exchange Rate for India

[VIEW MAP](#)



Catalysts



- BIAL IPO by 2025
- Ramp up in BIAL passenger volumes
- US Dollar weakness
- Further buybacks

