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Prem Watsa-owned Fairfax Financial Holdings close to picking up controlling stake in Catholic Syrian Bank

By [Saloni Shukla](#), [Arijit Barman](#) & [Baiju Kalesh](#), ET Bureau | Updated: Nov 28, 2016, 01:36 AM IST

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MUMBAI: [Fairfax Financial Holdings](#), owned by Canadian billionaire [Prem Watsa](#), is close to picking up a controlling 51% stake in Kerala based [Catholic Syrian Bank](#) (CSB), one of India's oldest private sector lenders, marking the first takeover of a local private bank by a foreign investor, said three people with direct knowledge of the development.

On Friday Toronto based Watsa, popularly known as Canada's Warren Buffet, met Reserve Bank of India (RBI) Governor along with Deepak Parekh, chairman HDFC who is also a board member of Fairfax India Holdings Corporation, to seek the regulator's nod for what would be an unprecedented deal.

Watsa, 65, who has compared Modi to Lee Kuan Yew, Singapore's first Prime Minister, has already pumped in over a billion dollars into the country in sectors as diverse as travel and airports to financial services and commodity warehouses. But if this deal goes through, this arguably will be his boldest bet after launching an India-dedicated investment company in end 2014.

Big Bank Bet



WATSA'S KEY INDIA BETS

- ₹2,149 cr in Bengaluru Intl airport
- ₹1,341 crore in IIFL Holdings
- ₹1,550 crore in IICI Lombard
- ₹800 crore for 74% stake in National Collateral Mgmt Services
- ₹2,000 crore in Sanmar Group
- Acquired Thomas Cook India, Sterling Resorts, Kuoni India travel biz

CSB IN A NUTSHELL

430 branches, over 240 ATMs	Deposit* ₹14,475 cr	H1 FY17 Net Profit: ₹53 cr <small>*(end 2015)</small>
	Advances* ₹9,472 cr	

The sources cited said Fairfax is likely to have 15% voting rights in CSB.

"This will be a primary infusion of capital into the bank and not a secondary share sale. CSB has been valued at Rs 1000 crore," said another official aware of the ongoing developments.

Catholic Syrian Bank's chairman S Santhanakrishnan declined to comment. Harsha Raghavan, Fairfax's India Head, told ET, the firm does not comment on speculation. An RBI spokesperson did not respond to ET's questions seeking comment.

On July 27, ET had reported the Fairfax Holdings' interest in CSB. On October 26 CSB had said in a press release that it was in talks with various strategic investors like Asian Development Bank and Fairfax, to raise further capital to expand its network of 430 branches, 240 ATMs across the country and bolster loan growth in the world's fastest growing major economy.

NEW ERA OF CONSOLIDATION

In May this year RBI had issued an elaborate set of guidelines detailing the ownership structure in private sector banks. While the shareholding pattern was divided into two broad categories, individuals (natural persons) and legal entities/institutions, the acquisition of shareholding in a private sector bank by foreign entities was capped at 74%. The RBI had also retained a provision under which investors have to seek its permission to increase shareholding/voting rights to 5% or more.

The new norms, which envisage diversified shareholding in private sector banks, are aimed at helping them meet additional capital requirements under the Basel-III regulations and to rationalise the ownership limits, the RBI had said.

This transaction, once completed, is therefore expected to open doors for many foreign investors to invest in local banks that are starved of capital. "I see consolidation in banking industry for economic reasons because now there will be a plethora of newer banks," said Abizer Diwanji, partner and national leader, financial services at EY. "The 5-10% ownership norm won't work anymore RBI will have to ease that. RBI will have to come up situations like we will give you control with a gradual dilution program." "There is significant capital and control required to turn-around some of these banks," he added.

In 2002, Dutch banking giant ING Group had bought into Vyasa Bank, the first significant investment involving management control by a foreign bank in an Indian one.

The 96 year old mid-sized lender from Thrissur, Kerala, with a diversified shareholding, has often been on the takeover radar of bigger banks and corporates. It posted its highest net profit of Rs 53 crore during the first half of the current financial year against a loss of Rs 41 crore during the same period previous year. The bank also saw a slight improvement in its asset quality with gross non-performing assets reducing to Rs 463 crore from Rs 504 crore a year earlier. At the end of 2015, the bank had advances of Rs 9,472 crore and a deposit base of Rs 14,475 crore.

CSB had also in parallel revived a plans to raise Rs 400 crore through an IPO in 2017 as it sought to raise around Rs 800 - Rs 1000 crore over the ext three years. As on September, it had raised Rs 115 crore through an issue of preferential shares. The banking regulator had also recently approved the appointment of CVR Rajendran as its managing director for three years.

CSB has a strong base in Kerala and a significant presence in Tamil Nadu, Karnataka, and Maharashtra. With over 1.4 million customers, its key focus areas are small and medium enterprises, retail clients, and non-resident Indians (NRIs). It has a strong deposit book as most of its NRI customers and expatriates in the Gulf send money home through the bank's network.

In March 2015, there were around 21 shareholders with more than 1% stake in the bank. NRI businessman Yussufali MA holds a 4.9% stake followed by another Kerala based lender Federal Bank with 4.61%. Efforts to merge the two in the past had faced stiff resistance. Other investors include Edelweiss Tokio Life Insurance Company, Reliance Capital, ICICI Prudential Life Insurance Company Ltd among others.

INDO-CANADIAN CONNECT

Watsa founded Toronto-based Fairfax in 1985 modelling his investment style and strategy after value investor Warren Buffett. In India, through its arms Fairfax India Holdings Corp. and Fairfax Financial Holdings Ltd, it has been expanding its footprint. In March it acquired 33% stake GVK's in Bangalore International Airport Ltd (BIAL) for Rs.2,149 crore, its largest cheque till date.

Last year in November, Fairfax India acquired a 21.85% stake in the financial services firm IIFL Holdings for Rs 1,341.37 crore through an open offer.

On October 31, ICICI Bank announced the sale of a 9% stake in its general insurance subsidiary ICICI Lombard General Insurance Co to Fairfax Financial for Rs 1,550 crore. Also, in July of 2015, Fairfax India acquired a 74% stake in commodity warehousing and collateral management company National Collateral Management Services Ltd for about Rs 800 crore. Fairfax has also invested Thomas Cook (India) Ltd and Sterling Resorts.

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