

Fairfax India announces open offer to buy 26% in IIFL Holdings

The additional stake will take Fairfax India's holding in IIFL to 35%, higher than the promoter group's 29.77%

Mumbai: Fairfax India Holdings Corp. on Tuesday announced an open offer to buy 26% stake in financial services firm **IIFL Holdings Ltd**, earlier known as India Infoline Ltd.

According to the offer document, the India unit of Fairfax, the financial services firm founded by Toronto-based billionaire Prem Watsa, plans to buy 83.1 million equity shares in IIFL. At an offer price of Rs.195 per share, the transaction will cost almost Rs.1,621 crore.



Fairfax India is acquiring the stake through its subsidiary FIH Mauritius Investments Ltd.

IIFL is a diversified financial services holding company which operates businesses in non-banking finance, housing finance, wealth management, retail broking, institutional equities, investment banking and insurance distribution. It reported a consolidated revenue of Rs.3,666.4 crore and a net profit of Rs.447.3 crore in fiscal year 2015.

"IIFL, under the independent leadership of its executive chairman Nirmal Jain has an impressive management team with a strong, long-term history of profitable growth, which fits within our strategy for investing in well-managed companies with high integrity and long-term track records in India," said Watsa, chairman of Fairfax India, in a press release.

Fairfax India is an investment holding company which invests in public and private equity securities and debt instruments in India and Indian businesses or other businesses with customers, suppliers or business primarily conducted in, or dependent on, India.

ICICI Securities Ltd is managing the open offer for Fairfax India.

Shares of IIFL Holdings rose 10.1% to close at Rs.207.05 in Mumbai trading on Tuesday, while the benchmark Sensex closed at 27,932.90 points, down 0.10%

Fairfax India has raised a corpus of almost \$1 billion. Fairfax Financial Holdings Ltd has invested \$300 million in the firm; another \$200 million was raised from investors such as Markel Corp., West Street Capital Corp. and certain funds and accounts of FMR Llc. In addition, Fairfax India raised another \$500 million from an initial public offering.

Fairfax already holds 9% stake in IIFL through one of its investment vehicles called HWIC Asia Fund. If Fairfax succeeds in acquiring an additional 26% stake through the open offer, it will end up holding 35%, which will

be more than the promoter group shareholding of 29.77%, according to the company's shareholding pattern as on 31 March.

According to R. Venkataraman, managing director and co-promoter of IIFL Group, Fairfax is not looking at acquiring controlling rights or additional board seats in the company. "They already have a stake in the company and they already have a board representative. If you look at Fairfax's investment style, they are mostly passive investors in a company; they support the existing management," he said.

Fairfax believes that there is a value in increasing stake in the company and hence it is doing so; the promoters are not a party to this transaction, he added.

According to Venkataraman, the key growth drivers for IIFL are its non-banking finance and wealth management businesses. The broking business has come down as a part of the overall turnover of the group over the years, he said.

The firm's non-banking finance business clocked revenue of Rs.2,513.8 crore in fiscal year 2015, while the wealth management business reported a revenue of Rs.457.3 crore. The broking business reported a revenue of Rs.447.6 in the same period.

Brokerages are back on the radar for investors such as private equity funds. As India's economic growth accelerates, retail investors have flocked to buy stocks, particularly those of small- and mid-cap companies, boosting the fortunes of brokerages.

In May, *Mint* reported that global private equity firm Warburg Pincus is looking to acquire a controlling stake in brokerage Sharekhan Ltd in a deal valued at almost Rs.2,400 crore.

"Broking businesses have benefited from the revival in the stock market ever since the new government has taken charge. Most of the broking stocks have had a good year and they are looking at bright prospects in the coming time," said Saurabh Tripathi, partner and director-leader, financial institutions practice, at The Boston Consulting Group.

A lot of new opportunities are coming up in the financial services industry, driven by the disruption that technology is creating and this is driving a lot of investment activity in the sector, he added.

According to Grant Thornton India's Dealtracker report, the banking and financial services sector saw private equity deals worth \$1.35 billion (43 deals) in 2014, after seeing \$1.1 billion (43 deals) in deals the previous year.