

Prem Watsa embraces his roots with launch of Fairfax India



Fairfax Financial Holdings Ltd. founder Prem Watsa has always seen major growth potential in his birthplace of India, and now he is putting money behind that vision with a new investment holding company that has already raised \$500-million (U.S.).

Toronto-based Fairfax said Wednesday that it will sponsor and promote Fairfax India Holdings Corp., which will operate as a public company that invests in businesses focused on India's marketplace.

Fairfax India will be funded in part by a \$300-million investment by Fairfax, in exchange for 30 million voting shares, according to an initial public offering prospectus filed Wednesday. Hyderabad-born Mr. Watsa will serve as chair of the new company.

"We've been in India for at least 15 years, but we've found that the amount of money we could invest given regulatory constraints is limited.

The opportunity in India is greater than our ability to invest alone so we decided to create a separate company to allow other investors to participate," Mr. Watsa said when reached by phone in Toronto. The company will be listed on the Toronto Stock Exchange.

Joining Fairfax are three cornerstone investors: Markel Corp., West Street Capital Corp. and certain funds and accounts of FMR LLC. They will contribute a total of \$200-million, and receive 20 million shares. "We'll raise another \$500-million in the marketplace. And it'll be from long-term investors," Mr. Watsa added.

Mr. Watsa said Fairfax has confidence in the "business-friendly government" of Indian Prime Minister Narendra Modi, who was elected in May. He has pledged to improve the lives of the 1.2 billion Indian people through urbanization, transport and technology investments. India's relatively young population with rising consumption and savings rates makes the country's demographics attractive to Fairfax.

That stands somewhat in contrast to Fairfax's global concerns about tepid growth, unstable markets in North America and Europe, and the possibility of deflationary pressures. At the end of Fairfax's third quarter, its investment portfolios of common stock were 79 per cent hedged.

The focus of the new firm will be investing in India across major sectors including consumer goods, energy and financial services. The firm said it will target public and private businesses with strong management teams that have a lengthy track record – a model similar to Fairfax's own. And Fairfax India plans to take either controlling stakes in the businesses, or positions of "significant influence."

Fairfax, which specializes in insurance and investment management, is known for investing in distressed companies around the world. One recent interest in BlackBerry Ltd. resulted in Fairfax leading a \$1.25-billion investment in the smartphone maker after an attempt to take the company private fell through. Several years ago, Fairfax took a position in credit default swaps that became highly valuable after the U.S. housing market collapsed.

This is the first time in Fairfax's nearly 30-year history that it has launched a new public company. As of Fairfax's 2013 financial year-end, the company's stock price has seen compounded annual growth of 19 per cent, as well as a similar increase in book value.

Others in Canada are also watching for signs of India's potential. Prime Minister Stephen Harper met Mr. Modi for the first time in November and the two leaders discussed trade and investment.

And India could be the world's "next big engine," Michael Sabia, chief executive officer of pension fund manager Caisse de dépôt et placement du Québec, said in a speech Wednesday in Toronto. He added that "reforms in financial sector policy, energy and agriculture may be inching that country toward breakout economic growth."