

Former Fairfax exec's PE fund Convergent makes maiden banking bet

A private equity firm floated by former Fairfax India executive Harsha Raghavan has struck its first deal in the financial services sector, and fifth overall, as it continues to diversify its portfolio.

Convergent Finance LLP, through its affiliate Infinity Investment Management, has picked up a 1.14% stake in CSB Bank Ltd (formerly Catholic Syrian Bank) via open market purchases on stock exchanges.

The exact time and price details of Convergent's investment are not publicly disclosed. However, the value of the investment is pegged at roughly Rs 25 crore (\$3.3 million) based on the volume weighted average price at the approximate time when the firm bought the shares, VCCircle estimates show.

Raghavan confirmed the investment. The rationale behind Convergent's investment is its confidence in CSB Bank's sound management team and relatively strong financials compared with other private-sector lenders.

CSB Bank is incidentally controlled by Canadian billionaire Prem Watsa's Fairfax Group. Raghavan said he has known bank CEO CVR Rajendran and the team that was formed since Fairfax took control of the lender in February 2018.

CSB Bank's high capital adequacy ratio, which will help it increase lending activities, and improvement in financial performance also attracted Convergent, Raghavan said.

While CSB Bank's earnings for the April-June period are awaited, it swung to a pre-tax profit of Rs 134 crore for the year ended 2019-20 from a loss of Rs 300 crore the previous year.

Its capital adequacy ratio for 2019-20 improved to 22.46% from 16.70% while gross bad loans fell to 3.54% of total advances from 4.87% the previous year.

CSB Bank's shares, too, have shown a remarkable recovery in recent months. The shares have doubled since touching a one-year low of Rs 95 apiece in March as stock markets tanked, though they remain below a high of Rs 314.20 touched in December last year.

The shares are now just a tad lower than the price of Rs 195 apiece at which the bank floated its initial public offering in November last year. The IPO was lapped up with high demand across investor categories.

CSB Bank was originally incorporated in November 1920 and is one of the oldest private-sector banks in India. It has a strong base in Kerala, Tamil Nadu, Karnataka and Maharashtra.

Convergent Finance

The PE firm was set up by Raghavan in 2018 after he quit as the India head of Fairfax's private equity wing, Fairbridge Capital Pvt. Ltd. In December that year, VCCircle had reported that Raghavan's new investment firm was looking to raise as much as \$500 million (Rs 3,515 crore then) under its maiden fund.

Raghavan has also pulled in other Fairfax veterans for Convergent Finance. These include Sarvjit Bedi, who has also worked at companies including Vedanta Resources and Credit Suisse. Also part of the team at Convergent is Amruta Adukia, who has worked with consultancy services majors KPMG and Deloitte.

Convergent Finance has been on an investment spree in recent months, making bets across sectors such as life sciences, packaged foods and logistics.

Most recently, VCCircle reported that Convergent Finance had picked up a stake in the publicly listed SeQuent Scientific Ltd, which manufactures active pharmaceutical ingredients mainly for the animal healthcare sector.

Prior to that, the firm said it would invest Rs 180 crore in speciality chemicals maker Camlin Fine Sciences Ltd. Earlier this month, VCCircle reported that Camlin promoter Ashish Dandekar had received an option to buy back some of the stake held by Convergent.

Before Camlin, Convergent had invested in Jyoti International Foods Pvt. Ltd, a supply chain solutions provider for the food services industry; and Hindustan Foods Ltd, a contract manufacturer for PepsiCo's Kurkure brand of snacks.