RBC Capital Markets

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Sector: Specialty & Other Finance

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Fairfax India Holdings Corp

A long-term value approach to India; Initiating at Outperform with $14 price target

Our view: Fairfax India Holdings is a unique investment holding company providing investors an entry to a dynamic emerging market undergoing transformational change. We believe an experienced and proven management team combined with well positioned investee holdings provides a vehicle ideally suited to benefit from India's long-term growth opportunities.

Key points:

Initiating at Outperform: There are many ways to make emerging markets investments. We think Fairfax India is a unique vehicle bringing together the long-term benefits of private equity investing, the resources of an experienced and well connected management and the opportunities inherent in well positioned businesses with the ease of a publicly traded investment. Our $14 price target is based on a discounted cash flow analysis of FIH's underlying investee holdings.

A direct play on India. With a large population, good legal system and attractive geography, India is viewed as one of the more attractive emerging markets. The country's 2014 election brought a pro-business leader and plans for wide-ranging reforms many of which are already underway. Fairfax India provides a direct play on the business opportunities that will arise from such change.

Proven and experienced leadership. Fairfax India's management has been investing in the Indian market for over 20 years. The company's senior leadership is well connected and includes teams located in India full time facilitating identification of opportunities and oversight of investees. In our view, the right management makes a huge difference and the approach, experience and connections of this team add substantially to the attractiveness of FIH as a vehicle to invest in India.

Good businesses, well positioned. Fairfax India's initial investments are in well established businesses with their own track record of success. These businesses have meaningful opportunities to expand their position within their respective marketplaces and in so doing drive earnings growth and scale benefits. In our view, these would be good businesses in most any market; the fact that they are positioned to benefit from various reforms augments the opportunity.

Speculative Risk rating: Fairfax India is a narrowly positioned investment company tasked with doing one thing—investing in attractive Indian businesses. Our Speculative Risk rating reflects this narrow mandate and the risks inherent in emerging market investments. While we think management has taken reasonable steps to mitigate these exposures, it is the evolving and rapidly changing environment in which FIH invests which leads to this view.

Outperform

Speculative Risk

TSX: FIH.U; USD 11.05

Price Target USD 14.00

Scenario Analysis*

Downside Scenario	Current Price	Price Target	Upside Scenario
8.00	11.05	14.00	22.00
↓ 28%		↑ 27%	↑ 99%

*Implied Total Returns

Key Statistics

Shares O/S (MM):	106.7	Market Cap (MM):	1,179
Dividend:	0.00	Yield:	0.0%
BVPS:	9.68	P/BVPS:	1.14x
Float (MM):	106.7	Avg. Daily Volume:	77,608
Debt to Cap:	0%		

RBC Estimates

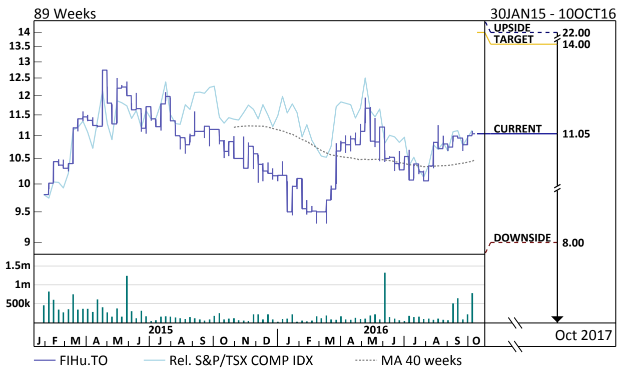
FY Dec	2015A	2016E	2017E	2018E
Net Operating Income	0.4	0.4	0.0	0.0
BVPS Diluted	9.50	9.69	9.67	9.65
P/BVPS	1.16x	1.14x	1.14x	1.15x

Net Operating Income	**Q1**	**Q2**	**Q3**	**Q4**
2015	0.1A	0.0A	0.2A	0.2A
2016	0.0A	0.4A	0.0E	0.0E
2017	0.0E	0.0E	0.0E	0.0E
BVPS Diluted				
2015	9.59A	9.45A	9.36A	9.50A
2016	9.52A	9.68A	9.69E	9.69E
2017	9.68E	9.68E	9.67E	9.67E

All values in USD unless otherwise noted.

Target/Upside/Downside Scenarios

Exhibit 1: Fairfax India Holdings Corp



Source: Bloomberg and RBC Capital Markets estimates for Upside/Downside/Target

Target price/base case

Our price target results from our discounted cash flow estimates, utilizing a 15% discount rate, for each FIH investment. While the particulars vary by business, our base case models tend to assume a continuation of recent growth and margin trends and only modest multiple expansion over FIH's acquisition price. Our $14 price target represents the sum of our various underlying base case scenarios.

Upside scenario

Our upside scenario reflects enhanced growth and margin assumptions for each of FIH's underlying investments and also assumes overall multiple expansion either as a result of investment specific results or in reflection of the attractiveness of Indian investments overall. Our $22 upside value represents the sum of our various underlying upside scenarios and assumes all of FIH investments achieve better than expected results.

Downside scenario

Our downside scenario reflects a combination of weaker growth rates and contracting margins for each of FIH's underlying investments. It can also reflect business impairments relative to current operating results which can result in multiple contraction and loss of intrinsic value. Our $8 downside value represents the sum of our various underlying downside scenarios and assumes all of FIH investments achieve weaker than expected results.

Investment summary

Fairfax India Holdings Corporation is an investment holding company which seeks to acquire attractive private equity stakes in well positioned Indian businesses with good management and the opportunity to benefit from various reforms underway within India. Management has over 20 years of experience in investing in India and has built a local network to source special situations that can benefit from Fairfax's long-term investment approach. The opportunities acquired so far reflect a range of industries from chemicals and infrastructure to finance and food supplies and all share the attributes of being established businesses positioned to benefit from long-term growth within the Indian market. Our Outperform rating reflects management's skill in identifying and acquiring such well positioned assets as well as our view that India can be an attractive emerging market over the long term.

Speculative Risk rating. Fairfax India is a narrowly positioned investment company, tasked with doing one thing—investing in attractive Indian businesses. Our Speculative Risk rating reflects this narrow mandate and the assortment of risks inherent in emerging market investments. While we think management has taken reasonable steps to mitigate these exposures, it is the evolving and rapidly changing environment in which FIH invests which leads to this view.

A direct play on India. FIH is solely focused on investments in Indian companies. With a large population, good legal system and attractive geography, India has long been viewed as one of the more attractive emerging markets.

Proven and experienced leadership. The company's senior leadership is well connected and includes teams located in India full time which facilitates identification of good opportunities and oversight of acquired properties.

Good businesses, well positioned. Fairfax India's initial investments have meaningful opportunities to expand their position within their respective marketplaces and in so doing drive earnings growth and scale benefits.

Upsides and risks

Emerging market risk: All of Fairfax India's investments are within an emerging market that is subject to a variety of risks which include, but are not limited to: greater market and economic volatility, limited access to financing, risks due to less social, political and economic stability, smaller market size, restriction of foreign investment opportunities, changes in national policies, a lack of uniform accounting and financial disclosure.

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Key questions

Our view

1. **Why is Fairfax India an attractive vehicle for an investment in India?**

As an India-focused investment company, Fairfax India Holdings provides investors with two ways to realize attractive returns. First, the investments are directly exposed to the Indian market and are positioned to benefit from the various reforms and growth opportunities inherent in an attractive emerging market. Beyond that, however, the businesses Fairfax India has selected for investments are good businesses that have been acquired at attractive valuations. These companies have opportunities that are specific to their own markets and market position independent of the broader secular trends across India as a whole. We believe the combination of owning good small businesses within a country that is providing an attractive growth and reform environment provides investors with the best of both worlds, an emerging market play as well as a focused private equity fund.

2. **What advantages does Fairfax India have in identifying attractive investments?**

Fairfax India benefits from its relationship with Fairfax Financial, a company that has been making investments in India for over 20 years. Fairfax's Chairman and CEO is well known and respected within the investment community. Over many years, he has assembled a team of on-the-ground managers associated with Fairfax's many investee associates, joint ventures, and operating subsidiaries with extensive contacts in a variety of industries. This extensive network is an advantage in sourcing deals as it allows the company the opportunity to work directly with principals and avoid bank-brokered deals and auctions, which can be time-consuming and do not always produce the best terms. Fairfax Financial's reputation as a "fair, friendly" acquirer makes Fairfax India an attractive partner for management teams that are looking for a long-term, patient partner rather than simply a private equity backer with demanding return requirements and an eye for a quick exit.

3. **Why is Fairfax India structured as a holding company rather than as a closed end vehicle?**

This was done deliberately to facilitate acquisitions and allow those acquisitions to be made in a tax-efficient manner. The holding company structure also provides Fairfax India the ability to borrow and issue stock or preferred shares should these be attractive funding vehicles for the purpose of adding to existing investments or making additional investments (subject to prevailing limits on investment size).

4. **Will Fairfax India pay a dividend?**

While there is nothing in FIH's bylaws that precludes the payment of a dividend, at this point no dividends have been declared and management and the board have indicated a preference for retaining and reinvesting profits in additional investments rather than returning capital. This will be re-evaluated periodically.

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Executive summary

In our view, the case for Fairfax India is straightforward and embraces three main points.

- **A direct play on India**. With a large population, good legal system and attractive geography, India has long been viewed as one of the more attractive emerging markets. The country's 2014 election of Prime Minister Narendra Modi adds a pro-business leader and plans for wide-ranging reforms, many of which are already underway. Accordingly, if one shares our view that India is a market that is well positioned for both growth and economic transformation, Fairfax India provides a direct play on the business opportunities that will arise from such change.
- **Proven and experienced leadership.** Navigating emerging markets is difficult in the best of circumstances and identifying attractive businesses to acquire is challenging in any market, which is why we think management is critical to a good investment decision. Fairfax India's management has been investing in the Indian market for more than 20 years. The company's senior leadership is well connected and includes teams located in India full time, which facilitates identification of good opportunities and oversight of acquired properties. In our view, the right management makes a big difference and the approach, experience and connections of this management team add substantially to the attractiveness of Fairfax India as a vehicle to invest in India.
- **Good businesses, well positioned.** Independent of the opportunities that may arise from market reforms and the long-term growth of the Indian market, Fairfax India's initial investments are in well-established businesses with their own track record of success. These businesses have meaningful opportunities to expand their position within their respective marketplaces and in so doing drive earnings growth and scale benefits. Said differently, these would be good businesses in most any market, and the fact that they are positioned to benefit from various reforms augments the opportunity.

In consideration of these factors, we rate shares of FIH Outperform.

We would expect that most investors considering Fairfax India already come to the investment with views about the potential attractiveness of the Indian market and some appreciation of the risks inherent in emerging market investments. While we are prepared to make a bullish case for the opportunities presented by the country's pro-business leadership, growth potential and expanding middle class we appreciate that emerging market investments are fraught with an assortment of risks. Emerging market investing is never easy, but we believe with the right management, right investments and right vehicle attractive returns are possible.

We have applied the Speculative Risk rating to FIH shares: Fairfax India is a narrowly positioned investment company. They are tasked with doing one thing—investing in attractive Indian businesses. Our Speculative Risk rating reflects this narrow mandate and the assortment of risks inherent in emerging market investments. While we think management has taken reasonable steps to mitigate these exposures, it is the evolving and rapidly changing environment in which FIH invests which leads to this view.

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Target upside and downside

Business valuation is a complex exercise and there are many ways to approach valuation. These challenges are compounded in an investment vehicle like Fairfax India. Some parts of the valuation are fairly straightforward—FIH has about $1 billion of equity, nearly all of which has now been deployed into investments in Indian companies. Two of these companies are publicly traded so there is a ready "Level 1" valuation available for at least some of the company's assets.

The FIH opportunity, however, goes well beyond the 'spot' value or balance sheet valuation of FIH's holdings. Value creation for shareholders in part comes from FIH management identifying good businesses and acquiring stakes at an attractive price, but also from these underlying businesses executing their business plans and achieving growth in their own right. Accordingly, the unlocking of value and the transmission of that value to FIH shareholders is not likely to be linear and only infrequently within the direct control of FIH management. As such, value accretion is likely to be lumpy and rely on external inputs for validation.

In valuing FIH and setting a price target, we have taken a sum of the parts approach. Detailed financial information about most of these businesses is very limited. Four of the six are private companies and in all but one case FIH is a minority investor.

For each of the five investee companies, we have taken financial information provided by FIH management in their reports together with public information, where available, in other filings and have used this information to construct a basic five-year discounted cash flow model. Considering the inherent limitations of the data as well as the various uncertainties about growth and other risk factors, we have considered a range of potential outcomes for each company. The range of outcomes and the sum is presented below (please see the detailed models and assumptions underlying these in each related report section).

Exhibit 2: Sum of the parts valuation range for FIH investments ($ in 000s)

	Downside	Base	Upside
National Collateral Mgt.	$125,111	$237,663	$403,842
IIFL	$240,889	$447,088	$741,516
Adi Finchem Limited	$12,596	$34,473	$51,707
Privi Organics	$55,000	$55,000	$55,000
Bangalore Intl. Airport Limited	$138,750	$342,880	$536,670
The Sanmar Chemicals Group	$125,000	$250,000	$414,868
Total Investment value	**$697,346**	**$1,367,105**	**$2,203,603**
Cash and other holdings/share	$1.00	$1.00	$1.00
Estimated Book value with 106,678 shares O/S	$7.54	$13.82	$21.66

Source: RBC Capital Markets estimates

Our $14 price target is based upon this range of outcomes and an end of 2018 target date. We think investors should have a long-term approach in considering an investment in FIH. While it is always possible that monetization of any of these investments could come quicker than expected, these are inherently private equity investments and the realization of value will take time as the various underlying management teams execute their business models and market reforms are enacted and take hold.

Our price target is based upon our "base case" valuation of each of these opportunities, although obviously some of the particular investments are going to have a bigger influence on ultimate value creation and realization than others. Trying to risk weight these outcomes

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would be arbitrary at best. We present the ranges by way of suggesting that a variety of outcomes, both positive and negative, are possible. In the risks section of this report, we enumerate a number of risk factors that could affect our price target.

More details about our assumptions are included in the sections related to each company. A few items of note, however:

All of the valuations are highly sensitive to growth rates. Our base case assumptions are generally consistent with recent growth run-rates being maintained with upside and downside cases varying around that mid-point.

All of the valuations are highly sensitive to terminal value multiples. Our base case assumptions usually apply a multiple consistent with what Fairfax India paid to acquire its stake with upside and downside multiples varying around that mid-point.

We have not assigned upside or downside values to Privi Organics because the investment is recently closed and there is limited financial information available.

Our valuation approach for Sanmar Chemicals is different from the others as it is a debt financing transaction with carried equity ownership and as such our base and downside cases are more consistent with credit analysis. Only our upside case considers equity value.

In each of the related analyses, we have noted, where appropriate, other factors that have not been accounted for either in the base or upside valuation. Naturally, there are downside factors as well but the most obvious of these are the general risk factors associated with emerging market investments and ownership of minority interests. We would view these risk factors as more important than any particular investment specific scenarios.

Risks to price target

Emerging market risk: All of Fairfax India's investments are within an emerging market that is subject to a variety of risks. Those risks include, but are not limited to: greater market and economic volatility; limited access to financing; risks due to less social, political and economic stability; smaller market size; restriction of foreign investment opportunities; changes in national policies; a lack of uniform accounting and financial disclosure standards; reduced public reporting requirements, higher rates of inflation and interest rates; and the inability to enforce contractual obligations. Significant changes relating to any of these factors could have a material impact on Fairfax India's investments individually or collectively and directly affect our price target.

Minority investments in private businesses: Most of Fairfax India's investments are in businesses for which there is not publicly available financial information and for which the company is not a majority shareholder. This means we may not be able to assess material non-public information, which could directly impact the valuation and financial position of one or more of Fairfax India's investments.

Potential concerns include these investments may have short financial histories, limited access to financial resources, narrow product lines, and be highly dependent on existing management. They may also be parties to litigation or have financial obligations that may not be apparent. As a minority investor, Fairfax India may not be able to exercise control or be in a position to disclose one or more of these risk factors.

Illiquidity: As a private business and as a minority shareholder the investments held by Fairfax Financial are not liquid. We base our valuations on orderly markets where there are ready buyers and sellers, any constraint on which, including changes in allowable levels of foreign ownership, could have an impact on valuation.

Currency risk: Fairfax India investments are made primarily in Indian rupee and the company's functional currency for reporting is US dollars. Movements between and among these and other currencies can have an impact on valuation.

Taxation and regulatory risk: The company structures its business to prevailing tax laws in Canada, Mauritius and India. Changes in tax laws or regulations governing investment holding companies could have a direct impact on valuation.

Company background

Fairfax Financial has been an investor in India for a long time. Some of these investments have been insurance related investments such as the company's joint venture with ICICI Bank known as ICICI Lombard. Others have included specific real-estate investments and the company's investment in Thomas Cook India, which had long served as the company's investment platform for India.

In 2014, following the election of the Modi government, Fairfax Financial believed there was a significant opportunity for investments in India to take advantage of the many proposed reforms. Unfortunately, as a regulated insurance company, Fairfax Financial was constrained in the amount of direct investment it could undertake in private equity or equity investments, particularly in emerging markets and in instances where achieving liquidity might be difficult.

Fairfax India was the answer.

Fairfax India went public in January 2015 raising $1.1 billion with Fairfax Financial providing $300 million of that capital through the purchase of multiple voting shares. The resulting business is not a closed end fund, but an investment holding company with the following stated objective:

"To achieve long term capital appreciation, while preserving capital, by investing, either directly or through one of its wholly owned subsidiaries, in public and private equities and debt instruments in India and Indian businesses or other businesses with customers, suppliers or business primarily conducted in, or dependent on, India."

Management and investment philosophy

For some investors, the decision to get involved with Fairfax India may begin and end with the company's Chairman Mr. V. Prem Watsa. His views on value investing and track record in acting upon those views are well known and have been established over more than 25 years. The investing team he has assembled at Hamblin Watsa, Fairfax Financial and now Fairfax India is both experienced and open-minded. A combination, in our view, which positions it to capitalize on timely, value oriented investments, particularly in an evolving market like India.

Beyond the track record, Mr. Watsa is well known and established within the investing community. He has proved adept at assembling groups of like-minded investors to tackle complex refinancings such as the Bank of Ireland as well as funding investment vehicles like Fairfax India. He is well connected in India both politically and with a range of business contacts built up over decades of honest and mutually rewarding business relationships in the country.

While Mr. Watsa is the chairman, he would be the first to say he is not the only player on the field. Fairfax India benefits from the significant on-the-ground resources that Fairfax Financial put into place over many years. Investment ideas are sourced through a network of contacts developed over the years by Harsha Raghavan at Fairbridge (a Fairfax subsidiary), Madhavan Menon at Thomas Cook India (a Fairfax associate investment), Ajit Isaac at Quess, Ramesh Ramanathan at Sterling Resorts (a Fairfax associate investment) and also S. Gopalakrishnan, the long-serving head of investments at ICICI Lombard (a Fairfax JV partner). All of these are entities are owned wholly or partially (also directly or indirectly) by Fairfax Financial and as such these individuals can directly represent the attractiveness of working with Fairfax/Fairfax India.

By sourcing deals directly, Fairfax India avoids participation in many auctions and bank brokered deals that can consume a lot of time and may not produce the best acquisition price. More importantly, however, by sourcing deals directly Fairfax India management is able to form personal relationships with key people within the target organization. We view this as a critical differentiator and one that greatly improves FIH's chances to make successful investments.

Beyond the deal sourcing, Chandran Ratnaswami is the CEO of Fairfax India and he has more than 20 years of experience doing deals in India and has been part of Fairfax Financial's investment efforts in various capacities. He is supported by John Varnell in the role of Vice President, Corporate Affairs while maintaining his role as CFO of Fairfax Financial and has long experience in providing financial support and facilitating the creation of operating controls at both start-up and well established organizations. Jennifer Allen has recently been appointed CFO of Fairfax India and has worked with Mr. Varnell as Fairfax Financial's Assistant Vice President, Finance and Global Controller. Fairfax India also benefits from the services of its Mauritius investment subsidiary led by CEO Amy Tan. This unit has also facilitated a variety of investments made by Fairfax Financial throughout Southeast Asia.

Philosophy

The "Fairfax" name provides the starting point for how the company thinks about its investments and acquisitions. Fairfax is meant to embrace "Fair, friendly, acquisitions." The point of the deal is not to strike a bottom dollar bargain, nor wrest control via a proxy fight. Rather, the deals are designed to provide the seller a fair price and the buyer the opportunity to make a good return. Auctions, proxy fights, distressed sales are not likely to deliver the type of properties that Fairfax India (or Fairfax) would want to buy.

Beyond that, the company employs a conservative value-based approach to identifying businesses that are in attractive industry segments and that have honest and capable management with the skills to deliver long-term returns. The pro-business political and cultural trends that Fairfax hopes to capitalize upon are not short-term in nature. The investments the company seeks are ones that have very good potential in any environment and excellent potential if the right reforms and laws are enacted.

In its offering documents, management identified infrastructure, consumer services, retail and exports as among the sectors that could be attractive. While the company is not limited to these sectors by any means, we would say that the first five investments that have been made (or soon will be) correspond to these sectors.

These are not passive investments and they are not simply finance arrangements. The goal is to be a strategic partner in the business, a partner who is able to deliver financial resources, management guidance and business contacts among other things.

Investment selection

All investments are made after the completion of due diligence which includes among other things: (1) review of historical and projected financial information; (2) on-site visits; (3) interviews with management, employees, customers and vendors; (4) review of material agreements; (5) background checks; and (6) research relating to the businesses' management, industry, markets, products and services, and competitors. Additionally, due diligence generally includes consultations with Fairfax's network of current and former management teams, consultants, competitors, investment bankers and senior executives to assess, among other things, the industry dynamics, the character of the management team and the viability of the business plan.

The company considers four key criteria in making any investment (as enumerated in its 2015 Annual Report):

Attractive valuation: The company's conservative fundamental value approach leads it to focus on businesses that have positive, stable cash flows that can be purchased at discounted multiples. The company does not invest in start-up businesses or businesses that have speculative business plans.

Experienced and aligned management*:* The company focuses on businesses with experienced, entrepreneurial management teams with strong, long-term track records. The company generally requires the portfolio businesses to have in place, either prior to or immediately following investment by the company, proper incentives to drive the businesses' profitability.

Strong competitive position in industry*:* The company seeks to invest in businesses that hold leading market positions, possess strong brand power and are well-positioned to capitalize on the growth opportunities in the Indian economy. The company also seeks to invest in businesses that demonstrate significant competitive advantages as compared to their peers and that position them to protect their market position and profitability.

Alignment of the management team with the values of the company*:* The company, Fairfax and the Portfolio Advisor all seek to adhere to the highest standards of business practices and ethics. The company requires that the management teams at each of its portfolio businesses adhere to a similar standard of business practices and ethics and adhere to the company's fundamental values as described above.

These may seem like fairly ordinary or obvious investment guidelines, but in our view are very important for the types of investments Fairfax India has been and will be making. In the end, most of these criteria boil down to finding the right managements in the right sectors. If these decisions are made well, it goes a long way to minimizing downside risk which is an important consideration given the dynamic nature of an emerging market.

Restrictions

There are few mandated restrictions on the sort of businesses in which Fairfax India can invest, although management has indicated they do not intend to invest in start-ups or unproven technologies. The main restrictions have to do with investment concentration. The company is required to invest in at least six different investments, only two of which can be as much as 25% of Fairfax's total assets.

At this point, the company has completed or has commitments to complete six investments, two of which, Sanmar Chemicals Group (Sanmar) and Bangalore International Airport Limited (BIAL), will be at the 25% level (i.e. $250 million each).

Ongoing monitoring of Indian investments

The company intends to take an active role in all of its investments to both help ensure that the value of the organization is maintained and to execute the business model on which Fairfax India's business is based. This will normally include obtaining board seats as well as receiving regular financial and operating reports. In particular, the company has adopted a series of methods for evaluating the progress of its investments, as follows:

- Assessment of success in adhering to the portfolio investment's business plan, objectives and compliance with covenants;
- Periodic and regular contact with management of the portfolio business and, if appropriate, the financial or strategic sponsor, to discuss financial position, requirements and accomplishments;
- Comparisons to other portfolio businesses in the industry in which the company or its affiliates are involved;
- Attendance at, and participation in, board meetings; and
- Review of monthly and quarterly financial statements and financial projections for the portfolio businesses.

As discussed above, Fairfax has no preset timeline for realizing returns on any of these holdings. Obviously, they would seek to sell to the extent they believe the full value opportunity is realized, but would not preclude a partial or total sale of any of its existing holdings should attractive offers arise or if management identifies other opportunities with more attractive risk-adjusted return potential. The form of any sale could range from a public offering, a private sale or other exchange of value.

Said differently, Fairfax India is happy to own all of these companies provided they are continuing to generate value and returns, but it does not preclude a sale of any them under the right circumstances or at the right price.

At this point, Fairfax India is still primarily in investment mode so it does not have any plans for either share buybacks or a regular dividend. Capital return will be evaluated once the company begins to monetize assets and/or realize regular cash returns from its holdings. At this point, it is expected that realized gains would be redirected towards other investment opportunities rather than returned to shareholders.

Investments

Since going public in January 2015, Fairfax India has fully completed and funded five investments. Two of these were made in conjunction with founding sponsor Fairfax Financial, since FIH is limited to a maximum of $250 million per investment and the investment opportunity required a higher total investment. In one case, IIFL, the Fairfax India investment was in addition to an already pre-existing investment made by Fairfax Financial.

In the sections below, we will provide a description of each of the company's investments, recap the nature and size of the investment, what we see as the main opportunities associated with that investment (i.e. value drivers) and then summarize our valuation approach for the business along with any critical assumptions. We have presented these in the order they were acquired.

- *National Collateral Management Services Limited (NCML)*
- *IIFL Holdings Limited (IIFL)*
- *Adi Finchem Limited (Adi)* – we also comment upon Privi Organics Limited within this section
- *Bangalore International Airport Limited (BIAL)*
- *Sanmar Chemicals Group (Sanmar)*

More detailed business descriptions and certain additional financial and operating information can be found in Fairfax India's annual and interim statements as well as the various company websites.

National Collateral Management Services Limited (NCML)

The business

NCML is a 10-year old company that provides end-to-end solutions in the agricultural commodities sector. Their services include gain procurement, storage, testing and collateral management. NCML has 1.3 million tons of storage capacity across 794 warehouses and 18 states. It has 6 regional offices and 176 touch points at agricultural produce markets and relationships with thousands of farmers and traders involved in the production, procurement, distribution and trading of commodities. They have relationships with more than 50 banks that provide post-harvest loans to farmers and commodities dealers.

NCML currently handles about $1.4 billion of assets, which management estimates is about 50% of the private collateral management business in India.

The opportunity

India's commodity storage market is highly under-developed. Approximately 80% of the country's 118 million tons of storage capacity is controlled by government agencies where inventory controls are weak and testing is inconsistent and often inaccurate. A further 15% of capacity is controlled by unorganized players such as private warehouse owners or the farmers themselves where controls and testing are likely to be even weaker or non-existent. Only 5% of the market is controlled by companies like NCML.

The demand for controlled and efficient storage where testing services are available is expected to grow as more and more industrial food processors enter the market and need access to secure storage, with modern systems to maintain high quality control. Because of the investment that is required to deliver such services, it is likely that an increasing portion of these services will be done by private companies.

The Modi government has already indicated that, owing to corruption, waste and inefficiency, food distribution of staple items such as rice and wheat is to be deregulated via an outsourcing model, which favors private companies. NCML's CEO Sanjay Kaul was previously in the agriculture ministry of the Indian Administrative Service and believes that commodity storage and management will also be increasingly privatized.

There are only three other large private companies in the warehouse and collateral management sector. NCML is the largest and the only one that combines storage with testing. This positions it to be a leader in transitioning the market from the current antiquated bag storage system to silo storage as practiced in most major agricultural markets (using silos requires quality control to ensure that all the grain that reaches the silo is of similar quality and purity).

In our view, the opportunities in this market are vast both in terms of growth potential with a full 80% of the market ripe for privatization as well as in terms of reinvestment opportunity as profits are recycled into newer, better and more efficient facilities to build NCML's reputation as a preferred provider of commodity management services.

We would note also that Fairfax Financial has prior experience in the industry being the largest shareholder of AFGRI, Africa's largest warehouse management company.

The cost

FIH committed $148.7 million to this investment. $118 million was used to purchase shares from existing shareholders and $30.7 million was invested in newly issued shares as a capital infusion to fund the company's growth plans. FIH has an 88% share of NCML.

Valuation

Our approach is a five-year discounted cash flow model and evaluation of a base case, an upside case and a downside case using the following assumptions.

Exhibit 3: NCML valuation estimates ($ in 000s)

National Collateral Mgt. Services Limited (NCML)								
Fairfax India's ownership	88.01%	Fiscal year ending March 31,						
		Most recent year (est.)	2017	2018	2019	2020	2021	5-year summary
Total revenue for the business		$70,000	$84,000	$100,800	$120,960	$145,152	$174,182	$625,094
Revenue growth rate %			20%	20%	20%	20%	20%	**20.0%**
Fairfax India's revenue share		$61,607	$73,928	$88,714	$106,457	$127,748	$153,298	$550,146
Net earnings before tax		$6,962	$8,797	$11,001	$13,839	$17,246	$21,462	$72,345
% margin		11.3%	11.9%	12.4%	13.0%	13.5%	14.0%	**13.0%**
DCF								
Discount rate		15.0%						
Years from valuation			1	2	3	4	5	
Discount factor			1.15	1.32	1.52	1.75	2.01	
PV of FCF			$7,650	$8,318	$9,100	$9,860	$10,670	
		Base	Upside	Downside				
PV of 1-5 cash flows		$45,598	$62,662	$32,618				
PV of terminal cash flow		$10,670	$17,059	$6,166				
Terminal pretax multiple		18.0x	20.0x	15.0x				
Terminal value		$192,065	$341,180	$92,492				
Enterprise value		**$237,663**	**$403,842**	**$125,111**				

Source: Company reports and RBC Capital Markets estimates

The base case assumptions for revenue growth and margins are as shown. The discount rate in all scenarios is 15% and the terminal value multiple is as shown. We are using a terminal value multiple of 18x for our base case which is lower than the 29x pre-tax income FIH paid to acquire their position. The lower multiple reflects the need to invest cash flows to achieve growth.

In the upside case, we assume margins average 14% and the growth rate averages 30% across the five years.

In the downside case, we assume margins average 12.3% and the revenue growth rate averages 15%.

IIFL Holdings Limited (IIFL)

The business

IIFL is a publicly traded diversified financial services holding company. Major units include a non-bank financial company (NBFC), wealth management, retail broking, institutional equities, investment banking and financial products distribution. The company has over 3 million customers and 2,500 business locations in 850 cities and towns in India in addition to offices in New York, Singapore, Dubai, Geneva, Hong Kong, London and Mauritius.

The NBFC makes loans within a variety of areas including capital markets, commercial vehicles, corporate, gold, mortgage, property and medical equipment. Growth has been strong with 30% average loan growth over the last four years to $2.3 billion in total. Gross and net non-performing assets have been 1.6% and 0.8%, respectively, so loan quality has been pretty high. This segment had a net interest margin of about 7% in 2015 and an ROE of 15%.

The Wealth Management unit is the fastest growing segment within IIFL. Assets under management have grown 46% over the last four years to $11.1 billion and segment income has grown 61% per year to $72.2 million. In October 2015, a private equity fund purchased 22% of this unit alone for $173 million, which values the overall Wealth Management business at about $800 million. A varied product list, good distribution and high value added services in areas like succession planning and asset protection have earned this business a good reputation, which supports its overall growth.

For its full fiscal year ended March 31, 2015, IIFL had revenues of nearly $600 million and net earnings of $75.5 million. Through the first 9 months of fiscal 2016, the unit had revenues of $484 million and earnings of $61.6 million.

The opportunity

The IIFL investment brings together a number of underlying opportunities. Even before Prime Minister Modi was elected, this was a growing business with products and services designed to appeal to a growing middle class population. Among the first reforms implemented by the government was expansion of banking and financial services to a much broader array of households ranging from lower to middle classes and this has facilitated the development and adoption of a variety of basic financial products that the market previously lacked. IIFL has benefitted from these trends and their extensive distribution was well positioned to tap into the resulting growth.

Beyond that, the company's NBFC is positioned to capture loan growth in a number of areas. As an NBFC, the company is less constrained by regulations and bureaucracy, which has slowed growth of the banking sector. As a result, IIFC has been able to be nimble and respond to growth opportunities with narrowly focused products that it would take banks ages to get approved.

This has been a fast-growing entrepreneurial business situated at the crossroads of a number of business opportunities. In our view, it is particularly well situated to provide financial products to a wide range of individuals and business as market liberalization creates a more hospitable investment and lending environment.

The cost

Since IIHL was already a public company, FIH's investment was made pursuant to a public offering in which they ultimately acquired 21.85% of the issued and outstanding shares for approximately $202 million. The acquisition price of Rs195 per share represented a trailing PE ratio of 12.9x, a price to book value of 2.0 times and a dividend yield of 1.5%.

We would note that Fairfax Financial had been an investor in IIFL for several years and had a seat on its board as a major shareholder long before FIH was created and funded so there was already considerable familiarity with IIFL management and its business prior to making a further investment. Following FIH's investment, Fairfax and Fairfax India together own approximately 44% of IIFL. Likewise, IIFL is a publicly traded company in India and, as such, it is one of FIH's two investments for which there is ready visibility to valuation.

Valuation

Our approach is a five-year discounted cash flow model and evaluation of a base case, an upside case and a downside case using the following assumptions.

Exhibit 4: IIFL valuation estimates ($ in 000s)

IIFL								
Fairfax India's ownership	21.85%		Fiscal year ending March 31,					
		Most recent year (est.)	2017	2018	2019	2020	2021	5-year summary
Total revenue for the business		$608,500	$681,520	$763,302	$854,899	$957,487	$1,072,385	$4,329,593
Revenue growth rate %			12%	12%	12%	12%	12%	**12.0%**
Fairfax India's revenue share		$132,957	$148,912	$166,782	$186,795	$209,211	$234,316	$946,016
Net earnings before tax		$27,389	$31,272	$35,024	$39,227	$43,934	$49,206	$198,663
% margin		20.6%	21.0%	21.0%	21.0%	21.0%	21.0%	**21.0%**
DCF								
Discount rate		15.0%						
Years from valuation			1	2	3	4	5	
Discount factor			1.15	1.32	1.52	1.75	2.01	
PV of FCF			$27,193	$26,483	$25,792	$25,120	$24,464	
		Base	Upside	Downside				
PV of 1-5 cash flows		$129,052	$174,039	$94,928				
PV of terminal cash flow		$24,464	$37,832	$14,596				
Terminal pretax multiple		13.0x	15.0x	10.0x				
Terminal value		$318,035	$567,477	$145,961				
Enterprise value		**$447,088**	**$741,516**	**$240,889**				

Source: Company reports and RBC Capital Markets estimates

The base case assumptions for revenue growth and margins are as shown. The discount rate in all scenarios is 15% and the terminal value multiple is as shown. We note that FIH paid approximately 13x pre-tax income to acquire their position and that is the basis for our 13x pretax terminal multiple. At June 30, 2016 IIFL shares were valued at $226.6 million. The growth rate in recent years has varied between 7% and 25%, while margins have been *consistently* in the low 20%.

In the upside case, we assume margins average 23% and the growth rate averages 20% across the five years.

In the downside case, we assume margins average 18% and the revenue growth rate averages 6%.

Adi Finchem Limited (Adi) and Privi Organics (Privi)

The businesses

Adi is a specialty chemical manufacturer. They have developed a process that converts waste generated in the production of soy, sunflower, corn and cotton oils and turns it into chemicals used in the production of paints, inks and adhesives. These chemicals include acids that are also used in non-edible consumer products like soap, detergents and personal care products.

The company operates from a single plant in Ahmedabad, the largest city in Gujarat (the home state of Prime Minister Modi). Production has grown from 8,000 to 45,000 metric tons per annum and over the last 10 years revenues have grown 23% per year to $27 million. The company's customers are primarily multi-national companies including BASF, Archer Daniels Midland, Cargill, Advanced Organic Material, IFFCO Chemicals and Asian Paints.

In August 2016, FIH acquired 51% of the outstanding shares of Privi Organics Limited for approximately $55 million. Privi is a supplier of aroma chemicals to many large fragrance companies. Privi's products are backed by the company's R&D program and they have a long-term track record of developing new products and customizing aromas to customer order. The company enjoys a dominant position within its niche and has significant economies of scale.

It is intended that Adi and Privi will merge, with both companies converting renewable waste feedstocks into value-added specialty chemicals. Following the merger, Fairfax India will own approximately 49% of the combined business. This merger is expected to be concluded in the first quarter of 2017 subject to regulatory approval. It is intended at this point that the units will run as distinct and independent business units with FIH as the largest, but not majority, shareholder.

The opportunity

Production of plant-based chemicals such as those made by Adi and Privi has increasingly migrated from developed markets to emerging markets. Adi's process relies on waste from plant oil production so it is appropriately located in proximity to where these wastes are produced. Privi is similarly situated in a key market for fragrance.

The opportunity in this case is partly driven by internal growth of the Indian market, but also by the opportunity to build additional plants to provide further volumes to existing customers. The demand from products ranging from paints to personal care products is growing and multi-national companies are increasingly investing in local production facilities to satisfy that demand.

The cost

Adi is FIH's smallest investment at just $19 million for a 45% stake. The shares were acquired from friends and family members of Adi's founder who needed liquidity for their investment. The price of Rs212 per share represented a trailing PE of 33.9x, a price to book value of 3.0x and a dividend yield of 1.2%. Shares of Adi are publicly traded on the National Stock Exchange and the valuation at June 30, 2016, was approximately $31.7 million.

Privi is also a small investment at just $55 million for 51% of the company.

Valuation

At this point, there is relatively little financial information available about Privi Organics. Accordingly, for analysis purposes we will focus on the potential upsides associated with Adi as a stand-alone unit. For valuation purposes, we will assume that the Privi unit has no value beyond the $55 million that was paid for it, although there is a likelihood that not only would Privi enjoy similar growth opportunities as Adi, but also there could be some synergies between the two. At this point, given limited available information, we are more inclined to view these as potential ‘upsides’ to our analysis than make them a central part of the valuation.

Our approach with respect to Adi is a five-year discounted cash flow model and evaluation of a base case, an upside case and a downside case using the following assumptions.

Exhibit 5: Adi valuation estimates ($ in 000s)

Adi Finchem Limited							
Fairfax India's ownership	**44.91%**						
	Most recent year (est.)	**2017**	**2018**	**2019**	**2020**	**2021**	**5-year summary**
Total revenue for the business	$28,000	$33,600	$40,320	$48,384	$58,061	$69,673	$250,038
Revenue growth rate %		20%	20%	20%	20%	20%	**20.0%**
Fairfax India's revenue share	$12,575	$15,090	$18,108	$21,729	$26,075	$31,290	$112,292
Net earnings before tax	$931	$1,207	$1,539	$1,956	$2,477	$3,129	$10,308
% margin	7.4%	8.0%	8.5%	9.0%	9.5%	10.0%	**9.0%**
DCF							
Discount rate	15.0%						
Years from valuation		1	2	3	4	5	
Discount factor		1.15	1.32	1.52	1.75	2.01	
PV of FCF		$1,050	$1,164	$1,286	$1,416	$1,556	
	Base	Upside	Downside				
PV of 1-5 cash flows	$6,471	$8,206	$3,619				
PV of terminal cash flow	$1,556	$2,175	$598				
Terminal pretax multiple	18.0x	20.0x	15.0x				
Terminal value	$28,002	$43,501	$8,977				
Enterprise value	**$34,473**	**$51,707**	**$12,596**				

Source: Company reports and RBC Capital Markets estimates

The base case assumptions for revenue growth and margins are as shown. The discount rate in all scenarios is 15% and the terminal value multiple is as shown. We note that FIH paid approximately 13.3x pre-tax income to acquire their position. The 18x pre-tax multiple utilized in our base case is consistent with where the shares are currently trading and with expected growth.

In the upside case, we assume margins average 10% and the growth rate averages 25% across the five years.

In the downside case, we assume margins average 7.5% and the revenue growth rate averages 5%.

Bangalore International Airport Limited (BIAL)

The business

BIAL owns and operates the Kempegowda International Airport under a 30+30 year concession agreement with the Indian government. KIAB is the first Indian airport that was built to the highest international standards and currently handles about 20 million passengers per year with plans to grow to 60 million by 2030. The airport is in the midst of a multi-year expansion plan, which includes the addition of a new runway and terminal building along with associated amenities.

BIAL has a regulated return of 16% from 100% of aero revenue and receives 40% of non-aero revenue. BIAL also owns about 450 acres of land near the airport, which can be monetized over time as real-estate assets such as commercial buildings, hotels, warehouses and other value added development. Bangalore is India's third largest city and is viewed as its "Silicon Valley" hosting a number of technology-oriented businesses.

The opportunity

BIAL is a key piece of infrastructure in a region that is growing in importance as well as directly benefitting from the various economic growth opportunities in India. There was considerable complexity in simply being allowed to bid on the 33% stake, which was being sold by an existing shareholder (GVK Group). In securing the right to make their ultimately successful bid, Fairfax India (and Fairfax) positioned themselves as long-term investors interested in committing to the venture and the region over time rather than as short-term "financial" investors.

In our view, this is one of the 'core holdings' within Fairfax India and is a venture that will likely provide both immediate returns as well as spawning additional opportunities associated with developing the nearby land. The economics of the concession by itself are appealing and returns from related land transactions are an intangible, which could provide icing on the cake.

The cost

Both FIH and FFH participated in this deal and together own 33% of BIAL with Siemens (26%), the Government of India and Karnataka (26%), GVK Group (10%) and Zurich Airports (5%) owning the balance. The total purchase price (at closing) is expected to be $330 million, of which Fairfax India will contribute $250 million and Fairfax Financial will contribute $80 million, valuing the full enterprise at about $1 billion. The acquisition price equates to about 1.2x BIAL's book value or approximately 31x fiscal 2014-2015 earnings.

Valuation

Our valuation approach is a five-year discounted cash flow. The company has multiple sources of revenue growth including increased passenger volumes, increased fees and higher non-aero revenues that should correspond with increased passenger volumes. There has been no public announcement about the timing of the new runway, which is in progress. It is anticipated a second terminal will be in-place by 2021, which is slightly beyond the scope of our five-year analysis. Accordingly, we have placed modestly higher terminal values on the project reflecting the long-term growth dynamics of the investment. FIH would not anticipate earning any dividends during the scope of the analysis period as all earnings are being reinvested in growth and capital expansion.

BIAL has not published 2015-2016 fiscal year financials so we have estimated these from the 2014-2015 results and public filings of rate increases.

Exhibit 6: BIAL valuation estimates ($ in 000s)

Bangalore Intl. Airport Limited							
Fairfax India's ownership	25.00% (estimated share of the 33% acquired jointly by FFI and Fairfax Financial)						
	Most recent year	2016	2017	2018	2019	2020	5-year summary
Total revenue for the business ($mil)*	$150,000	$187,500	$234,375	$292,969	$366,211	$457,764	$1,538,818
Revenue growth rate %		25%	25%	25%	25%	25%	**25.0%**
Fairfax India's revenue share	$37,500	$46,875	$58,594	$73,242	$91,553	$114,441	$384,705
Net earnings before tax *	$8,550	$10,781	$13,770	$17,578	$22,430	$28,610	$93,170
% margin	22.8%	23.0%	23.5%	24.0%	24.5%	25.0%	**24.0%**
* Estimated for 2015-16 year as 2014-15 most recently published financials							
DCF							
Discount rate	15.0%						
Years from valuation		1	2	3	4	5	
Discount factor		1.15	1.32	1.52	1.75	2.01	
PV of FCF		$9,375	$10,412	$11,558	$12,825	$14,224	
	Base	Upside	Downside				
PV of 1-5 cash flows	$58,394	$69,406	$37,500				
PV of terminal cash flow	$14,224	$18,691	$6,750				
Terminal pretax multiple	**20.0x**	**25.0x**	**15.0x**				
Terminal value	$284,487	$467,264	$101,250				
Enterprise value	**$342,880**	**$536,670**	**$138,750**				

Source: Company reports and RBC Capital Markets estimates

The base case assumptions for revenue growth and margins are as shown. The discount rate in all scenarios is 15% and the terminal value multiple is as shown. We note that FIH paid approximately 31x pre-tax income to acquire their position. Our 20x pretax terminal value multiple reflects the continued use of cash flows in order to achieve growth. Revenue growth was over 30% during the period 2012-2014.

In the upside case, we assume margins average 25% and the growth rate averages 30% across the five years.

In the downside case, we assume margins average 20% and the revenue growth rate averages 15%.

We have not assumed any cash flows from monetization of adjacent property which would likely augment the upside case.

Sanmar Chemicals Group (Sanmar)

The business

Sanmar is the second largest suspension PVC manufacturer in India with an installed capacity of 300,000 tons per annum. The company is also expanding its PVC capacity in Egypt from 200,000 to 400,000 tons per annum. Sanmar also manufactures related chemicals such as caustic soda, chloromethane, refrigerant gases and specialty chemicals. The top three Indian players account for about 90% of India's domestic PVC manufacturing capacity.

The business is fourth generation, family-owned and professionally managed with an overall asset base of $1.5 billion.

The opportunity

This is a somewhat different opportunity relative to the other investments as it is a bit more like restructuring finance as compared to simply investing in a growing business, although there is an element of that too.

FIH (again along with Fairfax Financial) agreed to provide an initial tranche of $250 million of 7-year non-convertible debentures that will allow Sanmar to restructure its balance sheet, necessitated by debt assumed when Sanmar began building out its production in Sanmar Egypt. An additional $50 million will likely be funded by either FIH, Fairfax Financial or a third party in September 2016.

The debt will allow for the completion of the Sanmar Egypt project, which should in turn facilitate a ramp-up in production that should enable supporting cash flows for debt service and repayment. The construction completion and ramp-up are expected to take approximately 18 months (i.e. completion in late 2017 to early 2018).

In addition to the 13% coupon returns on the debt, FIH will also get a 30% stake in Sanmar. Sanmar debt is rated BBB- with a stable outlook by Brickworks Rating, an Indian rating agency. The interest income will be included within the overall valuation of Sanmar, which is to say it will not be separately recognized through the financial statements but will be used to support the carried value of the Sanmar investment.

The basic opportunity is simply to provide restructuring finance. By providing funding that will enable the completion of a key expansion project the timely funding essentially unlocks the cash flows, which will support the debt itself that in turn enhances the value of Sanmar overall creating value for the shares.

The risk in this case is if the Egyptian expansion does not produce supporting cash flows, the overall organization will be that much more debt-laden and the shareholding in Sanmar would have correspondingly less value in addition to any risk of recovery on the debt itself.

Nearly the entire $250 million of the investment has been allocated to the debt, which means much of the upside on this investment will come should the overall financial position of Sanmar improve to where the overall company has equity value. Sanmar's combined, unaudited financial statements as of March 31, 2016 are shown below and show that the company's equity is currently in deficit due to accumulated losses.

Exhibit 7: Financial information for Sanmar Chemicals Group

Balance Sheets
(unaudited - US$ thousands)

	March 31, 2016[1]	March 31, 2015[1]		
	SESL Combined	SESL	SHL Alpha	Total
Current assets	148,892	739	175,581	176,320
Non-current assets	1,285,258	85,034	1,277,060	1,362,094
Current liabilities	463,725	4,435	451,581	456,016
Non-current liabilities	1,062,992	105,128	936,046	1,041,174
Shareholders' equity	(92,567)	(23,790)	65,014	41,224

Statements of Earnings
(unaudited - US$ thousands)

	Year ended March 31, 2016[2]	Year ended March 31, 2015[2]		
	SESL Combined	SESL	SHL Alpha	Total
Revenue	565,584	4,044	604,943	608,987
Net earnings before tax	(77,437)	(12,421)	(67,816)	(80,237)
Net earnings (loss)	(81,200)	(12,427)	(86,233)	(98,660)

(1) The net assets of Sanmar were translated at March 31, 2016 at US$ 1 = 66.22 Indian rupees and at March 31, 2015 at US$ 1 = 62.58 Indian rupees. The exchange rates used were the spot rates prevailing on those respective dates.

(2) Amounts for the years ended March 31, 2016 and 2015 were translated into US$ using the average exchange rates of US$ 1 = 65.38 Indian rupees and US$ 1 = 61.12 Indian rupees prevailing during those respective periods.

Source: Company reports

Valuation

Because of the nature of this investment, our valuation approach is somewhat different. We will take as our base case that FIH simply realizes the 13% coupon rate of return on its $250 million debt investment ($227.5 million of total interest income), has its principal fully returned at the end of seven years and that the 30% carried interest in Sanmar never realizes any value. On a discounted basis, we would simply value the Sanmar investment at $250 million.

Exhibit 8: Sanmar Chemicals upside case ($ in 000s)

The Sanmar Chemicals Group								
Fairfax India's ownership	30.00%							
	Most recent year (est.)	2016	2017	2018	2019	2020		5-year summary
Total revenue for the business	$565,000	$565,000	$576,300	$806,820	$847,161	$889,519		$3,684,800
Revenue growth rate %		0%	2%	40%	5%	5%	Avg	**10.4%**
Fairfax India's revenue share	$169,500	$169,500	$172,890	$242,046	$254,148	$266,856		$1,105,440
Net earnings before tax	($23,730)	($16,950)	($17,289)	$0	$17,790	$24,017		$7,568
% margin	-14.0%	-10.0%	-10.0%	0.0%	7.0%	9.0%	Avg	**-0.8%**
DCF								
Discount rate	13.0%							
Years from valuation		1	2	3	4	5		
Discount factor		1.13	1.28	1.44	1.63	1.84		
PV of FCF		($15,000)	($13,540)	$0	$10,911	$13,035		
	Upside							
PV of 1-5 cash flows	($4,593)							
PV of terminal cash flow	$13,035							
Terminal pretax multiple	13.0x							
Terminal value	$169,461							
Enterprise value	**$164,868**							

Source: Company reports and RBC Capital Markets estimates

Our downside case is to assume as above, but that the project does not generate sufficient cash flows for debt repayment and only 50% of the principal is recovered. This would have a present value of approximately $200 million.

Our upside case is as follows and assumes the Sanmar Egypt venture is successful and that the Sanmar shares eventually have value. This would represent a gain of approximately $165 million, in addition to the return of principal and interest for a total value of approximately $415 million. We've employed a 13x terminal value multiple which is consistent with the 13% discount rate used for this investment.

Other items of note

Accounting

FIH Mauritius – The company makes substantially all of its investments through FIH Mauritius Investments Ltd. and FIH Private Investments Ltd. The purpose of these holding companies is to facilitate acquisition of shares, particularly for FIH's public company investments. While there are tax advantages associated with Mauritius, they are not really a factor unless FIH happens to realize short-term gains in conjunction with one of their investments. More likely, the gains will be long term. Fairfax Financial has long used service providers in Mauritius to facilitate accounting, tax and administrative services and has located FIH's investment vehicle there primarily for that purpose.

Management fees – FIH has entered into an investment advisory agreement with Fairfax to provide investment advisory and administrative services for FIH. The per annum fee is calculated as 0.5% of the value of undeployed capital and 1.5% of net asset value less the value of undeployed capital. Such fees totaled $5.4 million in 2015.

FIH has also agreed to pay a performance fee, which is calculated on a cumulative basis as 20% of any increase in net asset value (including distributions) above a 5% per annum increase. The performance fee was negotiated with the non-Fairfax related members of the FIH board and as currently applicable from January 30, 2015 through December 31, 2017, at which time it would be subject to review. There was no performance bonus paid in 2015.

Capital management

While there is nothing in FIH's bylaws that precludes the payment of a dividend, at this point no dividends have been declared and management and the board have indicated a preference for retaining and reinvesting profits in additional investments rather than returning capital. This would be re-evaluated periodically.

We would note also that Fairfax India is a holding company, not a closed end investment fund. As such, it has the ability to borrow, issue stock or preferred shares should these be attractive funding vehicles for the purpose of adding to existing investments or making additional investments (subject to prevailing limits on investment size). To that end, FIH recently announced a $225 million credit facility with a syndicate of Canadian banks.

Earnings model

Quarterly earnings are not a material aspect of an investment in Fairfax India. The company expects to earn investment income on undeployed financial assets sufficient to substantially offset the operating costs and overheads associated with managing Fairfax India, overseeing its investees and identifying additional investment opportunities. Our earnings model is targeted at these recurring results.

Actual reported results will include net positive and negative mark-to-market adjustments associated with changes in fair value of the underlying estimates. As the timing or amount of realization of such adjustments is impossible to estimate, we have excluded this from our estimates. Instead, we focus on longer-term discounted valuations of each of the respective businesses for estimating valuation.

The case for India

Part and parcel of investing in a company called 'Fairfax India' is having a view on the business and investment climate and opportunities present in India. Simply put, if you do not believe India is a good place to invest, it does not make much sense to invest in shares of Fairfax India. To some extent, our thesis on Fairfax India is that it is a good investment vehicle for tapping into the opportunities present in India to the extent that you share our view that these exist.

The fact is, bookshelves of work have been written about India (we link many that we found useful at the end of this section). The history, the politics, the social issues, the multiple attempts at reform and the various successes and failures—there is extensive research on all of them, with a mixture of "bull" and "bear" perspectives.

Our thesis on India

There are a number of positive structural reforms underway that should, over time, provide a foundation to support long-term GDP growth for that market. The political environment is pro-business and reforms are geared towards growth and open markets, not restriction. We think this is a favorable investment climate and one which can reward in-country investments and support a long-term tailwind of growth.

It begins with Modi

India is "an engine of international growth," Prime Minister Narenda Modi asserted in 2015 about one year after taking office as Prime Minister. For over a decade, Modi served as Chief Minister of Gujarat, where he successfully brought stability and prosperity to the developing state. Now he is focusing on making similar strides at a national level, and with many reforms already implemented, positive and substantial change is starting to emerge within the world's largest democracy.

India's economic outcomes have not always looked so positive. Under the United Progressive Alliance (UPA) government, which ruled for 10 years from 2004 through May 2014, the economy languished. It grew at an average rate of 8.3% from 2003 to 2011 before stagnating at 4.5% growth over the duration of the last two years of UPA rule. With the current account deficit soaring to almost 7% of GDP and the rupee at an all-time low, Modi and his ruling Bharatiya Janata Party (BJP) inherited an economy on the brink of a crisis.

After two years of reform, India today has a much more promising economy. Growth has risen from 6.9% in 2013-2014 to 7.2% in 2014-2015, and inflation (as measured by the CPI) is down to 5%. S&P forecasts 8% GDP for 2016 and 2017. With foreign direct investment (FDI) rising 24% in 2015 to approximately $350 billion of foreign exchange reserves, the country has some financial flexibility at its disposal to pursue its wide-ranging reform initiatives.

Key initiatives

As one reads the literature on India's economy in general and Prime Minister Modi in particular, the one thing that shines through most of all is that this is not a government that is sitting on its hands waiting for something good to happen. The pace of legislation has been both brisk and in many cases quite bold.

We could probably list as many as 50 particular legislative actions the Modi government has taken over the past two-plus years which are likely to have long-term implications. Indeed Fairfax India, in its 2015 Annual Report listed off 20 they found significant. Our research found they could have included more and there have been more since. We list below, in brief, the five initiatives we find most impactful and which have the most direct bearing on the investments Fairfax India has made so far.

Financial Inclusion: Under the Jan Dhan scheme, zero balance bank accounts were opened for all Indians who did not already have them. This resulted in more than 200 million people becoming 'banked' and was backed by the implementation of a biometric based identity program (the Aadhaar) scheme. These programs simultaneously facilitate direct benefit transfers to legitimate beneficiaries and facilitated the elimination of false claimants and corruption. Approximately 170 million of the new accounts hold balances now representing more than $4 billion of banked wealth.

These reforms should benefit the company's investment in IIFL.

Infrastructure improvements: Transportation is the backbone of any economic system, with a solid infrastructure enabling a country to effectively transport goods and services both nationally and internationally. India has already seen a huge improvement in transportation infrastructure, with additional advances expected in the near future. Road construction rose from 11.7 km per day in the last year of UPA rule to 12.1 km per day in 2014-2015 and 16.5 km in 2015-2016. The government awarded 10,000 km worth of highway projects in 2015-2016, up from 8,000 km in 2014-2015 and only 3,500 km in 2013-2014. The initiation and completion of these projects have led to a stronger network of reliable roads and highways, and as a result, the previously isolated northeastern region is now better connected with the rest of India.

Railway infrastructure and civil aviation have also seen significant improvement in recent years. Investment in railways during 2015-2016 was double the average for the preceding five years. The government plans to invest $130 billion in railway infrastructure over the next five years, and modernize 400 railway stations with private investments.

Airports have also drawn investment with over 80 million passengers flying domestically in India in 2015. In civil aviation, we have seen a major jump in the passengers carried. Internationally, the figure has risen from 16.9 million in 2014 to 18.4 million in 2015.

These reforms should directly benefit the company's investments in NCML, Sanmar and Bangalore Airport.

Invest India/Make in India: Investment in the economy can come domestically, from research and development (R&D) funding, or internationally, from foreign direct investment (FDI). New initiatives like Make in India and Invest India are directly contributing to R&D, and stronger intellectual property laws encourage FDI. In 2015, India received $63 billion in FDI and as India's economy continues to improve, we expect FDI will correspondingly increase.

The government has also made considerable efforts to promote Indian startups and businesses. The Invest India programs seeks to promote foreign investments in India "in a focused, comprehensive and structured manner while acting as the first reference point to provide quality input and support services to foreign investors."

Make in India, launched in September 2014 aims for a similar goal by encouraging manufacturing. The initiative focuses on job creation in 25 sectors of the economy, including automobiles, pharmaceuticals, textiles, and electronics. In all but three sectors (space, defense, and news), 100% FDI is permitted.

These reforms have clear benefits for IIFL, Sanmar and Adi.

Tax reform: The government has pledged to cut the corporate tax rate from 30% to 25% along with an elimination of exemptions. These reforms, scheduled for implementation in the 2017 fiscal year, will encourage companies to do business in India. Additionally, Parliament recently passed a bankruptcy law that makes it easier to declare bankruptcy and recover debts. The new code is expected to cut the time to resolve insolvency from an average of 4.3 years to 180 days.

Food safety: Indian agriculture is increasingly commercialized and being integrated into global food systems so the issue of food safety regulation is of key importance. The Food Safety and Standards Act was passed under Prime Minister Modi's predecessor (2006) but enforcement has increased as Modi's government has worked to eliminate layers of bureaucracy and empowering the Food Safety and Standards Authority of India to be the final arbiter of standard setting and accreditation.

In our view, these actions are positive for NCML.

Growth of the middle class

Beyond the various legislative and political reforms, India is also in the midst of an important socio-economic shift, which has given rise to a prosperous and growing middle class—something that had long been lacking. A growing, and spending, middle class has key implications for Indian GDP growth and related infrastructure spending and foreign direct investment.

According to Ernst & Young, India's middle class of about 50 million people, or 5% of the population will reach 200 million five years from now; they also predict that India's middle class growth will continue to accelerate, reaching 475 million by 2030 and adding more people than China to the global middle class. A study from McKinsey Global Institute is even bolder suggesting the middle class population could reach 583 million people or 41% of the total population by 2025. Not to be outdone, the World Bank estimated that India could add over 1 billion people to the middle class by 2039.

One of the challenges in evaluating these claims is defining what is meant by "the middle class." The Asian Development Bank defined middle class as being able to spend $2 to $20 per day in disposable income and said that most Indians are currently in the lowest part of that range (i.e. $2 to $4 per day). That growth would come from moving more people out of poverty below that level and into that level than having movement within the middle class category.

This type of 'middle class growth' produces more volume, but less consumer value added, than a migration from $4 per day to $10 per day, for example. They also suggested that achieving such growth would be more dependent on corporate or government creation of jobs than organic job creation from within the middle class.

Despite the challenges, most reports on the Indian market seem confident that there will be gains in median income and consumer spending. A Euromonitor report suggested that India is expected to be among the top five countries with the fastest real gains in median income, with the median income per household set to increase by 89.8% over the period of 2015-2030.

Migration to cities (aided by improved infrastructure) was also viewed as a driver of middle class growth. A McKinsey report noted that only 29% of Indians live in cities, but it projected that up to 37% of the population will move to the cities by 2025 as the middle class urbanizes; today, 57% of private spending is spread across rural areas, but by 2025 cities will command 62% of the country's spending power. Since urban centers usually drive more productivity growth, this migration is both significant and consistent with many of Prime Minister Modi's policies (infrastructure, financial inclusion and growth initiatives).

In terms of sectors of employment, middle-income groups are largely located in the service sector. Common industries include trade, tourism, shipping and port services, storage, telecommunications-related services, real estate, IT, accounting/auditing services, R&D, infrastructure services and financial services.

While the growth rates are impressive, these reports all focus on time frames that are 10 to 15 years in the future. While no doubt Fairfax India will capitalize on these trends in the long-term, we would say they fall more in the category of creating a favorable background for business opportunity than being a singular catalyst for investment.

Still a work in progress

While India has made significant strides in recent years, many obstacles still stand in the way of progress. In fairly simple terms, 67 years of socialism, entrenched regional interests and decades of crony capitalism will not be reversed in the space of a couple of years. While bold initiatives are a good first step, it is going to take time for reforms to have an impact and a longer time still to impact demographic and cultural norms that are socially ingrained.

A weak education system with a lack of skill development is one of India's largest challenges. More than 90% of India's labor force has not completed higher education, and less than a third have graduated from primary school. Additionally, only 4.7% of India's workforce has undergone formal skill training, compared to 96% in South Korea, 68% in the UK, and 52% in the United States. In order to overcome this obstacle, India will need to invest more money in education. While increasing spending on education from 4% of GDP to 6% of GDP was a repeated pledge during the election cycle, this did not happen; in fact, in January 2015 the government actually reduced education funding.

A tangled bureaucracy also limits India's full economic potential. Largely due to red tape and a rigid bureaucracy, India was ranked 130 out of 189 countries in the World Bank's "ease of doing business" index. A major goal of the Modi government is to receive a top 50 ranking.

The ambitious goals of the Modi government have also faced the obstacle of limited tax revenue. While India has a population of 1.2 billion people, only 49 million pay income taxes and the central government collects the equivalent of just 11% of GDP in taxes. The aforementioned Aadhaar program, in addition to improving the transfer of government subsidies, can also help to mitigate the country's tax problems.

After two years under the leadership of Prime Minister Modi, India has started on the path toward economic prosperity and progress. While many of the changes brought about by the government so far have yet to be fully developed, there is a promise of big returns. India's current growth rate of 7.5% outpaces China, and India currently has the world's fastest-expanding economy.

Over the past two decades alone, India has become the world's third largest economy behind the US and China, and the economy is likely to continue expanding at a similar rate. In our view, India is well on the path to becoming "an engine of international growth" as Modi asserted.

For those interested in additional insights on the Indian economy, financial markets and Prime Minister Modi's various initiatives, we list below the various sources we consulted in our work.

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Risks to rating

As an investment holding company doing business in an emerging market there are a number of risk factors that could impact our investment rating, the most foreseeable of which include the following:

Geographic concentration: Substantially all of Fairfax India's investments are within India, which means that they are exposed to such political, economic, social and currency risks as relate to that country. Adverse changes in the economic or regulatory environment could have a significant impact on one or more of Fairfax India's subsidiary holdings and directly impact our related views on valuation. By their very nature, such risks are not easy to foresee and this risk factor contributes the Speculative rating we attach to shares of Fairfax India.

Emerging market risk: Beyond simply geographic concentration, all of Fairfax India's investments are within an emerging market, which is subject to a variety of additional risks. These risks include, but are not limited to: greater market and economic volatility, limited access to financing, risks due to less social, political and economic stability, smaller market size, restriction of foreign investment opportunities, changes in national policies, a lack of uniform accounting and financial disclosure standards, reduced public reporting requirements, higher rates of inflation and interest rates, inability to enforce contractual obligations. Significant changes relating to any of these factors could have a material impact on Fairfax India's investments individually or collectively.

Minority investments in private businesses: Most of Fairfax India's investments are in businesses for which there is not publicly available financial information and for which the company is not a majority shareholder. This means we may not be able to assess material non-public information, which could directly affect the valuation and financial position of one or more of Fairfax India's investments.

Potential concerns include these investments may have short financial histories, limited access to financial resources, narrow product lines and be highly dependent on existing management. They may also be parties to litigation or have financial obligations, which may not be apparent. As a minority investor, Fairfax India itself may not be able to exercise control or be in a position to disclose one or more of these risk factors.

Illiquidity: As private business and as a minority shareholder, the investments held by Fairfax Financial are not liquid. We base our valuations on orderly markets where there are ready buyers and sellers, any constraint on which, including changes in allowable levels of foreign ownership, could have an impact on valuation.

Currency risk: Fairfax India shares are made primarily in Indian rupee and the company's functional currency for reporting is US dollars. Movements between and among these and other currencies can have an impact on valuation.

Taxation and regulatory risk: Fairfax India structures its business to prevailing tax laws in Canada, Mauritius and India. Changes in tax laws or regulations governing investment holding companies could have a direct impact on valuation.

Management risk: The company has a concentrated core management team. Unexpected management turnover or departures of senior level management could cause disruption to the business near term.

A more comprehensive list of potential risk exposures is included in Fairfax India's regulatory filing.

Fairfax India Segment Valuation Summary ($ in 000s U.S.)

National Collateral Mgt. Services Limited (NCML)								
Fairfax India's ownership	88.01%		Fiscal year ending March 31,					
		Most recent year (est.)	2017	2018	2019	2020	2021	5-year summary
Total revenue for the business		$70,000	$84,000	$100,800	$120,960	$145,152	$174,182	$625,094
Revenue growth rate %			20%	20%	20%	20%	20%	**20.0%**
Fairfax India's revenue share		$61,607	$73,928	$88,714	$106,457	$127,748	$153,298	$550,146
Net earnings before tax		$6,962	$8,797	$11,001	$13,839	$17,246	$21,462	$72,345
% margin		11.3%	11.9%	12.4%	13.0%	13.5%	14.0%	**13.0%**
Discount rate		15.0%						
		Base						
PV of 1-5 cash flows		$45,598						
PV of terminal cash flow		$10,670						
Terminal pretax multiple		18.0x						
Terminal value		$192,065						
Enterprise value		**$237,663**						
IIFL								
Fairfax India's ownership	21.85%		Fiscal year ending March 31,					
		Most recent year (est.)	2017	2018	2019	2020	2021	5-year summary
Total revenue for the business		$608,500	$681,520	$763,302	$854,899	$957,487	$1,072,385	$4,329,593
Revenue growth rate %			12%	12%	12%	12%	12%	**12.0%**
Fairfax India's revenue share		$132,957	$148,912	$166,782	$186,795	$209,211	$234,316	$946,016
Net earnings before tax		$27,389	$31,272	$35,024	$39,227	$43,934	$49,206	$198,663
% margin		20.6%	21.0%	21.0%	21.0%	21.0%	21.0%	**21.0%**
Discount rate		15.0%						
		Base						
PV of 1-5 cash flows		$129,052						
PV of terminal cash flow		$24,464						
Terminal pretax multiple		13.0x						
Terminal value		$318,035						
Enterprise value		**$447,088**						
Adi Finchem Limited								
Fairfax India's ownership	44.91%							
		Most recent year (est.)	2017	2018	2019	2020	2021	5-year summary
Total revenue for the business		$28,000	$33,600	$40,320	$48,384	$58,061	$69,673	$250,038
Revenue growth rate %			20%	20%	20%	20%	20%	**20.0%**
Fairfax India's revenue share		$12,575	$15,090	$18,108	$21,729	$26,075	$31,290	$112,292
Net earnings before tax		$931	$1,207	$1,539	$1,956	$2,477	$3,129	$10,308
% margin		7.4%	8.0%	8.5%	9.0%	9.5%	10.0%	**9.0%**
Discount rate		15.0%						
		Base						
PV of 1-5 cash flows		$6,471						
PV of terminal cash flow		$1,556						
Terminal pretax multiple		18.0x						
Terminal value		$28,002						
Enterprise value		**$34,473**						
Bangalore Intl. Airport Limited								
Fairfax India's ownership	25.00% (estimated share of the 33% acquired jointly by FFI and Fairfax Financial)							
		Most recent year	2016	2017	2018	2019	2020	5-year summary
Total revenue for the business ($mil)*		$150,000	$187,500	$234,375	$292,969	$366,211	$457,764	$1,538,818
Revenue growth rate %			25%	25%	25%	25%	25%	**25.0%**
Fairfax India's revenue share		$37,500	$46,875	$58,594	$73,242	$91,553	$114,441	$384,705
Net earnings before tax *		$8,550	$10,781	$13,770	$17,578	$22,430	$28,610	$93,170
% margin		22.8%	23.0%	23.5%	24.0%	24.5%	25.0%	**24.0%**
* Estimated for 2015-16 year as 2014-15 most recently published financials								
Discount rate		15.0%						
		Base						
PV of 1-5 cash flows		$58,394						
PV of terminal cash flow		$14,224						
Terminal pretax multiple		20.0x						
Terminal value		$284,487						
Enterprise value		**$342,880**						
The Sanmar Chemicals Group								
Fairfax India's ownership	30.00%							
		Most recent year (est.)	2016	2017	2018	2019	2020	5-year summary
Total revenue for the business		$565,000	$565,000	$576,300	$806,820	$847,161	$889,519	$3,684,800
Revenue growth rate %			0%	2%	40%	5%	5%	Avg **10.4%**
Fairfax India's revenue share		$169,500	$169,500	$172,890	$242,046	$254,148	$266,856	$1,105,440
Net earnings before tax		-$23,730	-$16,950	-$17,289	$0	$17,790	$24,017	$7,568
% margin		-14.0%	-10.0%	-10.0%	0.0%	7.0%	9.0%	Avg **-0.8%**

Source: Company reports, RBC Capital Markets estimates

Fairfax India Income statement
$ in 000s (U.S. $), except per share data

	2015A					2016E				
	1Q	2Q	3Q	4Q	Total	1QA	2Q	3Q	4Q	Total
Income										
Interest and dividends	$4,901	$13,900	$13,915	$11,983	$44,699	$12,093	$4,518	$3,063	$1,313	$20,986
Net realized gains (losses) on investments	48	(569)	(390)	994	$83	(2,152)	4,669	0	0	$2,517
Net unrealized gains (losses) on investments	(1,046)	(12,112)	14,215	16,619	$17,675	6,134	22,351	0	0	$28,485
Net foreign exchange gains (losses)	300	48	2,375	71	$2,794	(8,300)	2,379	0	0	($5,921)
Total Income	**4,203**	**1,267**	**30,115**	**29,667**	**$65,251**	**7,775**	**33,917**	**3,063**	**1,313**	**$46,067**
Expenses										
Investment and advisory fees	856	1,234	1,417	1,886	$5,393	2,141	2,703	1,000	1,000	$6,844
General and adminstration expenses	588	1,253	3,001	673	$5,515	1,756	1,264	1,300	1,000	$5,320
Total Expenses	**1,444**	**2,487**	**4,418**	**2,559**	**$10,908**	**3,897**	**3,967**	**2,300**	**2,000**	**$12,164**
Earnings before income taxes	2,759	(1,220)	25,696	27,108	$54,343	3,878	29,950	763	(688)	$33,903
Income tax expense	(1,256)	965	7,378	6,317	$13,404	3,136	(8,309)	0	0	($5,173)
Net earnings attrib. to common shareholders	**$4,015**	**($2,185)**	**$18,318**	**$20,791**	**$40,939**	**$742**	**$38,259**	**$763**	**($688)**	**$39,076**
Net EPS	**$0.06**	**($0.02)**	**$0.17**	**$0.20**	**$0.42**	**$0.01**	**$0.36**	**$0.01**	**($0.01)**	**$0.37**
Weighted average shares oustanding	71,559	106,679	106,679	106,679	98,019	106,679	106,679	106,679	106,679	106,679

	2017E					2018E				
	1Q	2Q	3Q	4Q	Total	1Q	2Q	3Q	4Q	Total
Income										
Interest and dividends	$604	$595	$595	$586	$2,380	$586	$586	$578	$578	$2,328
Net realized gains (losses) on investments	0	0	0	0	$0	0	0	0	0	$0
Net unrealized gains (losses) on investments	0	0	0	0	$0	0	0	0	0	$0
Net foreign exchange gains (losses)	0	0	0	0	$0	0	0	0	0	$0
Total Income	**604**	**595**	**595**	**586**	**$2,380**	**586**	**586**	**578**	**578**	**$2,328**
Expenses										
Investment and advisory fees	0	0	0	0	$0	0	0	0	0	$0
General and adminstration expenses	1,000	1,000	1,000	1,000	$4,000	1,000	1,000	1,000	1,000	$4,000
Total Expenses	**1,000**	**1,000**	**1,000**	**1,000**	**$4,000**	**1,000**	**1,000**	**1,000**	**1,000**	**$4,000**
Earnings before income taxes	(396)	(405)	(405)	(414)	($1,620)	(414)	(414)	(423)	(423)	($1,673)
Income tax expense					$0					$0
Net earnings attrib. to common shareholders	**($396)**	**($405)**	**($405)**	**($414)**	**($1,620)**	**($414)**	**($414)**	**($423)**	**($423)**	**($1,673)**
Net EPS	**($0.00)**	**($0.00)**	**($0.00)**	**($0.01)**	**($0.01)**	**($0.00)**	**($0.00)**	**($0.01)**	**($0.01)**	**($0.02)**
Weighted average shares oustanding	106,679	106,679	106,679	106,679	106,679	106,679	106,679	106,679	106,679	106,679

	2015A					2016E				
	1Q	2Q	3Q	4Q	Total	1QA	2Q	3Q	4Q	Total
Cash and investments	1,017,255	990,391	832,691	630,298	630,298	636,993	374,107	319,870	69,182	69,182
Fair value of holdings in investees	-	-	147,596	367,192	367,192	384,571	648,585	703,585	953,585	953,585
Other assets	9,926	19,808	28,012	27,961	27,961	6,017	14,029	14,029	14,000	14,000
Liabilities	4,272	2,307	9,443	12,122	12,122	12,416	3,565	3,565	3,500	3,500
Debt	-	-	-	-	-	-	-	-	-	-
Shareholders equity	1,022,909	1,007,892	998,856	1,013,329	1,013,329	1,015,165	1,033,156	1,033,919	1,033,231	1,033,231
Book value per share	$ 9.59	$ 9.45	$ 9.36	$ 9.50	$ 9.50	$ 9.52	$ 9.68	$ 9.69	$ 9.69	$ 9.69

	2017E					2018E				
	1Q	2Q	3Q	4Q	Total	1Q	2Q	3Q	4Q	Total
Cash and investments	68,786	68,381	67,976	67,562	67,562	67,148	66,735	66,312	65,890	65,890
Fair value of holdings in investees	953,585	953,585	953,585	953,585	953,585	953,585	953,585	953,585	953,585	953,585
Other assets	14,000	14,000	14,000	14,000	14,000	14,000	14,000	14,000	14,000	14,000
Liabilities	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500
Debt	-	-	-	-	-	-	-	-	-	-
Shareholders equity	1,032,835	1,032,430	1,032,025	1,031,611	1,031,611	1,031,197	1,030,784	1,030,361	1,029,939	1,029,939
Book value per share	$ 9.68	$ 9.68	$ 9.67	$ 9.67	$ 9.67	$ 9.67	$ 9.66	$ 9.66	$ 9.65	$ 9.65

Source: Company reports, RBC Capital Markets estimates

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Required disclosures

Conflicts disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

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An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average. Although RBC Capital Markets' ratings of Top Pick (TP)/Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis.

Ratings

Top Pick (TP): Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio.

Outperform (O): Expected to materially outperform sector average over 12 months.

Sector Perform (SP): Returns expected to be in line with sector average over 12 months.

Underperform (U): Returns expected to be materially below sector average over 12 months.

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As of March 31, 2013, RBC Capital Markets suspends its Average and Above Average risk ratings. The **Speculative** risk rating reflects a security's lower level of financial or operating predictability, illiquid share trading volumes, high balance sheet leverage, or limited operating history that result in a higher expectation of financial and/or stock price volatility.

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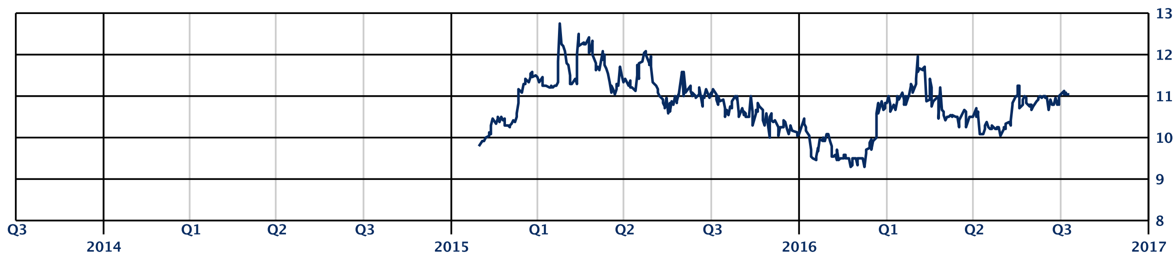
For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. RBC Capital Markets' ratings, determined on a relative basis (as described above), correspond to these categories.

Distribution of ratings
RBC Capital Markets, Equity Research
As of 30-Sep-2016

			Investment Banking Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [Top Pick & Outperform]	848	50.62	255	30.07
HOLD [Sector Perform]	719	42.93	133	18.50
SELL [Underperform]	108	6.45	10	9.26

Mark A. Dwelle, CFA (804) 782-4008; mark.dwelle@rbccm.com

Rating and price target history for: Fairfax India Holdings Corp as of 10-Oct-2016 (in USD)



Legend:
TP: Top Pick; O: Outperform; SP: Sector Perform; U: Underperform; I: Initiation of Research Coverage; D: Discontinuation of Research Coverage; NR: Not Rated; NA: Not Available; RL: Recommended List - RL: On: Refers to date a security was placed on a recommended list, while RL Off: Refers to date a security was removed from a recommended list; Rtg: Rating.
Created by BlueMatrix

References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by RBC Wealth Management or one of its affiliates. RBC Wealth Management recommended lists include the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Dividend Growth (RL 8), and the Guided Portfolio: ADR (RL 10), and former lists called the Guided Portfolio: Large Cap (RL 7), the Guided Portfolio: Midcap 111 (RL 9), and the Guided Portfolio: Global Equity (U.S.) (RL 11). RBC Capital Markets recommended lists include the Strategy Focus List and the Fundamental Equity Weightings (FEW) portfolios. The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

Equity valuation and risks

For valuation methods used to determine, and risks that may impede achievement of, price targets for covered companies, please see the most recent company-specific research report at https://www.rbcinsight.com or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

Fairfax India Holdings Corp

Valuation

Our $14 price target is based upon our five year discounted cash flow estimates for each of Fairfax India's six investee holdings which are then summed to arrive at our price target. We believe our price target is consistent with our Outperform rating. Investors should have a fairly long-term approach in considering an investment in FIH as valuation depends inherently on the monetization of these investments. While it is always possible that monetization could come quicker than expected, these are inherently private equity investments and the realization of value will take time as the various underlying management teams execute their business models and market reforms get enacted and take hold.

Risks to rating and price target

Geographic concentration: Substantially all of Fairfax India's investments are within India which means that they are exposed to political, economic, social and currency risks related to that country.

Emerging market risk: All of Fairfax India's investments are within an emerging market which is subject to a variety of additional risks which include, but are not limited to: greater market and economic volatility, limited access to financing, risks due to less social, political and economic stability, smaller market size, restriction of foreign investment opportunities, changes in national policies, a lack of uniform accounting and financial disclosure standards, reduced public reporting requirements, higher rates of inflation and interest rates, inability to enforce contractual obligations.

Minority investments in private businesses: Many of Fairfax India's investments are in businesses for which there is not publicly available financial information and for which the company is not a majority shareholder. Accordingly, we may not be able to assess material non-public information that could directly impact the valuation and financial position of one or more investments. Potential concerns include but are not limited to: investments may have short financial histories, limited access to financial resources, narrow product lines and be highly dependent on existing management. They may also be parties to litigation or have financial obligations, which may not be apparent. As a minority investor, Fairfax India itself may not be able to exercise control or be in a position to disclose one or more of these risk factors.

Liquidity: As private businesses and as a minority shareholder, some investments held by Fairfax India are not liquid. We base our valuations on orderly markets where there are ready buyers and sellers.

Currency risk: Fairfax India investments are made primarily in Indian rupee and the company's functional currency for reporting is US dollars. Movements between and among these and other currencies can impact valuation.

Taxation and regulatory risk: The company structures its business to prevailing tax laws in Canada, Mauritius and India. Changes in tax laws or regulations governing investment holding companies could have a direct impact on valuation.

Management risk: The company has a concentrated core management team. Unexpected management turnover or departures of senior level management could cause disruption to the business near term.

A more comprehensive list of potential risk exposures is included in Fairfax India's regulatory filings.

Conflicts policy

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https://www.rbccm.com/global/file-414164.pdf
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