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9B19N005

Catholic Syrian Bank: Valuing a Majority Stake in a Commercial Bank[[1]](#endnote-1)

S. Veena Iyer wrote this case solely to provide material for class discussion. The author does not intend to illustrate either effective or ineffective handling of a managerial situation. The author may have disguised certain names and other identifying information to protect confidentiality.

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The Catholic Syrian Bank Limited (CSB), a regional player in the Indian commercial banking industry, was urgently looking to raise capital. It was December 2017, and the recently declared half yearly results of fiscal year (FY) 2017/18 were not encouraging. The bank’s chairman, T. S. Anantharaman, had said a couple of months earlier that the bank needed a capital infusion of ₹4–6 billion[[2]](#endnote-2) by December 2017 through private placement. The bank would then aim for an initial public offering (IPO) about three years later, once the bank had achieved consistent profitability.[[3]](#endnote-3)

Less than a year earlier, Canada’s Fairfax Financial Holdings Limited (Fairfax) had evinced interest in a stake in the CSB. The Reserve Bank of India (RBI), the Indian regulator of banks, had given its approval, but by June 2017, talks between the parties had fallen through on valuation issues. The business media carried contradicting reports on the offer made by Fairfax. Reports ranged from an equity valuation of ₹60 to ₹100 per share,[[4]](#endnote-4) and from an equity valuation of ₹10 billion for the bank[[5]](#endnote-5) to ₹10 billion for a 51 per cent stake in the bank.[[6]](#endnote-6) In any case, the offer was deemed inadequate and was rejected by the CSB board and shareholders.[[7]](#endnote-7)

Subsequently, at the behest of the RBI, the CSB made a counter-offer to Fairfax with a view to resolve the stalemate over valuation. The counter-offer was for a 51 per cent stake in the bank, valuing the CSB at ₹160 per share (translating to an equity valuation of nearly ₹13 billion), plus a control premium.[[8]](#endnote-8) The richer valuation came on the back of an improved set of annual results for the year ended March 31, 2017 (see Exhibits 1 and 2 or the student spreadsheet that accompanies this case, Ivey product no. 7B19N005).[[9]](#endnote-9) What had changed in a mere six months to warrant the CSB’s ambitious proposal? Should Fairfax accept the offer?

the CATHOLIC SYRIAN BANK Limited

The CSB was established in 1920 in the Thrissur district in the southern state of Kerala, India, to serve the region’s Roman Catholic community. The bank maintained its position among the many banks and credit institutions that proliferated and collapsed over the next half century. The CSB played an active part in the consolidation that followed and grew by taking over five such failing banks in Kerala.[[10]](#endnote-10)

In 1969, the CSB was included in the RBI’s list of scheduled commercial banks, and in 1975, when the bank’s deposits exceeded ₹250 million (US$3.73 million), the CSB was granted the status of an A-class scheduled commercial bank. Largely confining its operations to the state of Kerala, the CSB’s clientele was predominantly the small businesses and individuals with small accounts. This was reflected in the bank’s geographical distribution: at the end of 2017, approximately 80 per cent of the CSB’s branches were located in rural and semi-urban areas. Still, the CSB boasted a strong deposit book because most of its non-resident customers and expatriates in the Persian Gulf region[[11]](#endnote-11) sent money home through the bank’s network. Over the years, the bank grew its offerings in personal banking and insurance and in corporate banking, which included working capital finance, cash management, and corporate lending, among other services.[[12]](#endnote-12)

As of March 31, 2017, the CSB had a deposit base of more than ₹149 billion and a loan book of over ₹81 billion. Foreign entities, including institutions, corporate bodies, and individuals, held more than 30 per cent of the bank (see Exhibit 3).

FAIRFAX Financial HOldings LImited

Fairfax described itself as a “holding company whose corporate objective is to achieve a high rate of return on invested capital and build long-term shareholder value.”[[13]](#endnote-13) Through its subsidiaries, the firm engaged in property and casualty insurance and investment management.

Fairfax was founded in 1985 in Toronto, Canada, by Prem Watsa, who was chairman and chief executive officer at the time of negotiations with the CSB. Fairfax had grown its revenues from US$12.2 million in 1985, its first year of operations, to US$9.3 billion in 2016—a compounded annual growth rate (CAGR) of close to 24 per cent of its book value. Fairfax’s book value per share and closing share price had also recorded impressive CAGRs, with the CAGR for book value per share at 19.4 per cent and for closing share price at 18.6 per cent over the same period.[[14]](#endnote-14)

As of December 31, 2016, Fairfax had invested over US$1.2 billion in India through Fairfax’s subsidiary Fairfax India.[[15]](#endnote-15)

THE BANKING LANDSCAPE IN INDIA

At the end of March 2017, India had 27 government-owned banks,[[16]](#endnote-16) 21 private sector banks, and 45 foreign banks operating under commercial banking licences in the country. The government-owned banks accounted for close to 70 per cent of the banking sector’s total book value of assets on March 31, 2017, and the private sector banks accounted for a little over 25 per cent.[[17]](#endnote-17) However, the situation was the reverse with market capitalization.[[18]](#endnote-18)

The private sector group of banks in India consisted of two distinct subgroups: the old private sector banks (OPSBs) and the new private sector banks (NPSBs). The OPSBs primarily originated in a community or region and were formed to serve the needs of members and businesses of that community or region. These banks came into existence in the early to mid-twentieth century. The CSB was one of these OPSBs.

The NPSBs were promoted by professionals, financial institutions, and other commercial organizations when, in 1994, the RBI issued new licences for the first time for private sector banks. The idea was to bring a competitive spirit and efficiency to the banking sector. Among other features, these banks would be spread geographically, leverage technology in their operations, adhere to prudential norms from the start, and have greater autonomy in recruitment and remuneration.[[19]](#endnote-19)

Clearly, the NPSBs were different from the OPSBs, right from their vision and mission to the way they conducted the business of banking. While OPSBs were defined by their need to serve a circumscribed, concentrated clientele, the NPSBs were more universal in scale, scope, and diversity. Among private sector banks, the OPSBs accounted for about 16 per cent of the total assets. While their small size and regional focus helped them manage credit risk better due to familiarity and greater control of local information, their size and focus also led to lesser diversification and economies of scale. The difference in equity beta between the OPSBs (1.29) and NPSBs (1.15) perhaps reflected these conflicting considerations.[[20]](#endnote-20)

FY 2015/16 was a turning point in the business trajectory of Indian banks. The RBI denounced the banks for not having provisioned sufficiently for bad loans and, in many cases, for converting these bad loans to renewed loans or lines of credit to avoid declaring them as non-performing assets (NPA).[[21]](#endnote-21) Over the next two years, NPA were stripped of their disguises, increasing the gross NPA ratio—the gross amount of loans recognized as NPA divided by the total loans outstanding—to 9.32 per cent for the Indian banking system by March 31, 2017.[[22]](#endnote-22)

The bulk of the NPA belonged to government-owned banks (also known as public sector banks) because their advances were largely directed toward large corporate and infrastructure borrowings. To a significant extent, the NPA problem was caused by the global commodity market meltdown in the early part of the decade. The majority of the Indian firms that were affected and defaulted on their repayments were from the metals and mining industry. The OPSBs remained relatively insulated from this crisis, however, because they focused on small and medium sector firms and community-based and geographically concentrated lending.[[23]](#endnote-23)

Over those two years, the RBI announced many restructuring packages for distressed borrowers to help them manage their debt and avoid insolvency while minimizing losses for the lending banks. These measures finally culminated in the introduction of the *Insolvency and Bankruptcy Code, 2016* (amended in 2017) under which lenders could take defaulting companies to the National Company Law Tribunal for restructuring. Companies were granted a fixed period of time for resolution, failing which, the company would be forced into liquidation.[[24]](#endnote-24)

In May 2016, in the midst of the NPA crisis, the RBI made a radical shift in its policy on ownership of foreign entities in private sector banks. With other limits, the change allowed non-promoter foreign entities to acquire more than a 40 per cent stake in Indian banks with RBI approval, granted on a case by case basis.[[25]](#endnote-25) All approval for ownership came with the rider that irrespective of shareholding, the voting rights of these foreign entities would be capped at 15 per cent. Within one month, in June 2016, Fairfax first showed its interest in taking an equity stake in the CSB, albeit a minority interest.[[26]](#endnote-26)

FAIRFAX’S INTEREST IN the CSB

Having launched an India-dedicated investment company in 2014, Watsa, known as “Canada’s Warren Buffet,” had already pumped over a billion dollars into India. In November 2016, Fairfax made an offer for a 51 per cent stake in the CSB. This was Watsa’s boldest bet in the country thus far. The CSB’s management was enthusiastic about the prospect of Fairfax’s fund infusion and applied to the RBI for approval.[[27]](#endnote-27)

The outgoing chairman of the CSB announced that the funds would be a primary infusion into the bank rather than a sale of a secondary stake. The funds would be used for growth, with a focus on the small and medium enterprises, gold, and retail. Corporate lending was not an area of significant interest. The chairman added that the bank would appoint an independent evaluator for valuation once the RBI approved the transaction.[[28]](#endnote-28)

The CSB had been scouting for funds since 2015, when it had plans to raise ₹4 billion through an IPO. However, it had deferred that plan due to volatile market conditions and raised approximately ₹1 billion through a privately placed equity issue in September 2016 instead.[[29]](#endnote-29) The deal with Fairfax would help augment these funds and enable the CSB to implement its growth plans.

However, by the middle of 2017, the anticipated deal with Fairfax had fallen through, the parties citing differences in valuation. Fairfax attributed its lower valuation of the CSB to the bank’s poor asset quality, evidenced by a steady increase in the gross NPA ratio (see Exhibit 4). The CSB, on the other hand, set its higher valuation betting on a turnaround under the guardianship of the newly appointed managing director, C. V. R. Rajendran. The bank was also buoyed by its 2017 year-end performance: it had successfully converted losses at the operating and net levels from the previous year to profits in FY 2016/17.[[30]](#endnote-30)

The bank’s chairman asserted that the bank was doing everything it could to strengthen its financial position. This included strengthening its delivery channels, leveraging technology, and reducing the cost of funds by focusing on lower-cost demand deposits (current account savings accounts, popularly termed CASAs), in addition to increasing capital adequacy by raising capital from multiple sources.[[31]](#endnote-31) The results showed in the lower cost of funds and lower cost-to-income ratio for FY 2016/17, although the results for the half-year ended September 30, 2017, showed a slight increase in the cost-to-income ratio (see Exhibit 4).

Going forward, management was aiming to improve profitability at the operating level without the benefit of treasury gains; the goal was to close FY 2017/18 with net profits higher than in the previous year.[[32]](#endnote-32) Ten-year government yields had been declining since April 2014, reaching a low of 6.24 per cent in December 2016, then slowly increasing, likely in tandem with increasing interest rates in the U.S. market. By September 2017, the yields had reached 6.66 per cent. Treasury profits were going to be difficult to achieve with interest rates on the rise.[[33]](#endnote-33)

The bank needed capital for growth. With the Fairfax deal gone, the bank’s board of directors approved a proposal to raise ₹4 billion by issuing a qualified institutional placement (QIP) before the end of 2017 to fund the bank’s growth for the next 18 months. The managing director set a target of 27 per cent growth in advances during FY 2017/18.[[34]](#endnote-34) The market was ripe for the QIP, with more than 18 such issues already floated during the year, mostly by financial services companies, including banks. The CSB’s managing director declared that the bank would defer an IPO until it saw at least three consecutive years of profitability.[[35]](#endnote-35)

As if on cue, more than 20 investors, including private equity investors such as AION Capital Partners Limited, the Everstone Group, and InCred Finance, and distressed asset investors like SSG Capital Management Limited, showed interest in acquiring a stake in the CSB, although just a minority interest.[[36]](#endnote-36) The bank’s management decided to seek RBI approval only once the parties agreed on valuations.[[37]](#endnote-37)

In the meantime, there were reports that the CSB’s shares were trading on the grey market at a premium of approximately 25 per cent, ostensibly in response to the increased interest from prospective bidders. This spike in share prices was expected to affect the deal prices that would be negotiated and possibly sealed. Speculation was rife that a large transaction would happen at a discount, although at a price significantly higher than the spurned offer from Fairfax.[[38]](#endnote-38)

An investment by Vallabh Bhansali, chairman of ENAM Group, gave some indication of what to expect with the bank’s valuation. Bhansali picked up a 4 per cent stake in the bank on May 23, 2017, at ₹160 per share. The price was a 30 per cent premium on CSB’s per share book value of ₹123.5 at the end of March 2017.[[39]](#endnote-39) Bhansali’s investment was at a lower price-to-book value ratio than the average ratio at which OPSBs had been trading since April 2017; however, the high variance in the trading multiples across individual banks made it difficult to simply apply the group average to any individual bank (see Exhibit 5).

STRATEGIZING FOR THE FUTURE[[40]](#endnote-40)

The CSB’s results for the six months ending September 30, 2017, showed improvements in operating profits despite high employee costs; the improvements were without the support of treasury profits, which accounted for only ₹20 million as against ₹1,959 million for FY 2016/17 (indicated as net profit [loss] on sale of investments in Exhibit 1). However, the market was disconcerted by the large net loss posted by the bank for the half-year period. The small net profit of ₹16 million posted for FY 2016/17 had seemed like the bank was finally recovering.

The managing director attributed the financial decline to three main problems: high employee costs, high provisioning for bad assets, and a low credit–deposit ratio resulting in a negative carry for the bank. Management planned to reduce the average cost per employee by making fresh lateral recruitments and moving toward a performance-based pay system. A focus on recoveries and stemming bad loans seemed to be meeting with success; the bank had recovered ₹1.4 billion in bad loans in just the first half of FY 2017/18—more than the recoveries made in the whole of FY 2016/17.

The low credit–deposit ratio meant more than ₹25 billion was invested in low-margin, short-term treasury assets. Management aimed to move a sizable portion of these funds into highly rated corporate lending, while keeping an eye on capital requirements. The bank was going to remain focused on small and medium businesses rather than on large corporations for lending, and it was working on making its credit appraisal and rating systems more robust. These plans were expected to reflect in the bank’s vital parameters over the next three to five years (see Exhibit 6).

The bank had ambitious growth aspirations and needed funds to execute them. There were enough investors in the market looking to invest in the bank for at least a minority stake, and the CSB’s counter-offer to Fairfax was still on the table. Fairfax had had a successful run with investments in India so far and believed the CSB was a good candidate for investment. But at what price could a deal be sealed?

EXHIBIT 1: CATHOLIC SYRIAN BANK, Profit and Loss Statements (₹ Million)

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | **FY 2013** | | **FY 2014** | **FY 2015** | **FY 2016** | **FY**  **2017** | | **1HY 2018** |
|  | **REVENUES** |  | |  |  |  |  |  | |
| I. Interest earned | 1. Interest/discount earned on advances/bills | 10,743 | | 11,387 | 11,682 | 10,512 | 8,809 | 4,495 | |
| 1. Income on investments | 2,263 | | 3,304 | 3,492 | 3,945 | 4,126 | 1,858 | |
| 1. Interest on balances with RBI and other interbank funds | 201 | | 320 | 77 | 54 | 27 | 106 | |
| 1. Others | 1 | | 29 | 194 | 318 | 402 | 134 | |
| Total interest revenues (I) | | 13,209 | | 15,040 | 15,446 | 14,829 | 13,363 | 6,593 | |
| II. Other income | 1. Commission, exchange, and brokerage | 163 | | 167 | 194 | 195 | 205 |  | |
| 1. Net profit (loss) on sale of investments | 229 | | 441 | 392 | 57 | 1,959 |  | |
| 1. Miscellaneous income | 554 | | 565 | 687 | 795 | 648 |  | |
| Total non-interest revenues (II) | | 946 | | 1,173 | 1,273 | 1,047 | 2,812 | 667 | |
| Total revenues (I+II) | | 14,154 | | 16,213 | 16,719 | 15,876 | 16,175 | 7,260 | |
|  | **EXPENSES** |  | |  |  |  |  |  | |
| III. Interest expended | 1. Interest on deposits | 9,502 | | 10,942 | 11,500 | 11,357 | 10,041 |  | |
| 1. Interest on RBI/interbank borrowings | 73 | | 115 | 260 | 160 | 93 |  | |
| 1. Others | 241 | | 190 | 126 | 75 | 93 |  | |
| Total interest expenses (III) | | 9,816 | | 11,248 | 11,886 | 11,593 | 10,227 | 4,668 | |
| IV. Net interest income (I − III) | | 3,392 | | 3,792 | 3,560 | 3,236 | 3,136 | 1,925 | |
| V. Operating expenses | 1. Payments to and provisions for employees | 2,339 | | 2,878 | 3,078 | 3,026 | 2,936 | 1,450 | |
| 1. Other operating expenses | 904 | | 1,060 | 1,145 | 1,158 | 1,346 | 708 | |
| 1. Depreciation on bank's property | 75 | | 74 | 109 | 137 | 149 |  | |
| Total operating expenses (V) | | 3,318 | | 4,012 | 4,332 | 4,320 | 4,431 | 2,158 | |
| VI. Operating profit (I + II – III − V) | | 1,020 | | 953 | 501 | (37) | 1,517 | 434 | |
| VII. Provisions and contingencies | | a) Provision for NPA | 392 | 749 | | 1,108 | 2,179 | 1,828 | 506 | |
| b) Provision for diminution in value of investments | 13 | 46 | | 130 | 148 | (168) |  | |
| c) Other provisions | 196 | (249) | | 84 | (82) | (54) | 129 | |
| d) Provision for taxes | 92 | 139 | | (290) | (786) | (105) | (70) | |
| Total provisions and contingencies (VII) | | | 693 | 685 | | 1,032 | 1,460 | 1,502 | 566 | |
| VIII. Profit (loss) during the year (VII-VI) | | | 327 | 269 | | (532) | (1,497) | 16 | (131) | |

Note: ₹ = INR = Indian rupee; FY = fiscal year, expressed as fiscal year ending; HY = half year; NPA = non-performing assets; RBI = Reserve Bank of India.

Source: Catholic Syrian Bank Limited, *Unaudited Financial Results for Half Year Ended September 30, 2017*, accessed March 9, 2018, www.csb.co.in/pdf/Financials%2030092017.pdf; Reserve Bank of India, “Earnings and Expenses of Scheduled Commercial Banks,” Database on Indian Economy, accessed March 9, 2018, https://dbie.rbi.org.in/DBIE/dbie.rbi?site=publications.

EXHIBIT 2: CATHOLIC SYRIAN BANK, Balance Sheet (₹ million)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **FY 2013** | **FY 2014** | **FY 2015** | **FY 2016** | **FY 2017** | **1HY 2018** |
| **ASSETS** |  |  |  |  |  |  |
| Cash and cash equivalents | 10,650 | 10,743 | 7,986 | 7,263 | 12,111 | 21,881 |
| Investments | 33,011 | 51,317 | 44,271 | 59,867 | 57,615 | 39,780 |
| Advances | 88,515 | 87,074 | 94,694 | 78,526 | 81,189 | 90,440 |
| Bills purchased and discounted | 2,548 | 4,743 | 7,506 | 3,520 | 5,792 |  |
| Cash credits, overdrafts & loans | 63,680 | 57,132 | 58,752 | 48,696 | 50,416 |  |
| Term loans | 22,288 | 25,199 | 28,435 | 26,311 | 24,981 |  |
| Fixed assets | 1,692 | 1,733 | 1,751 | 2,151 | 2,153 | 2,132 |
| Other assets | 2,333 | 2,289 | 8,895 | 8,712 | 9,164 | 9,341 |
| **Total assets** | **136,201** | **153,155** | **157,597** | **156,519** | **162,232** | **163,574** |
| **EQUITY AND LIABILITIES** |  |  |  |  |  |  |
| Equity capital (80.96 million equity shares paid up in FY 2017) | 419 | 419 | 604 | 718 | 810 | 821 |
| Reserves and surplus | 7,157 | 7,281 | 8,281 | 8,210 | 9,183 | 9,103 |
| Deposits | 123,416 | 136,739 | 144,745 | 144,384 | 149,116 | 148,555 |
| Demand deposits | 3,294 | 3,314 | 3,763 | 3,857 | 6,078 |  |
| Savings bank deposits | 18,340 | 20,295 | 22,293 | 25,064 | 30,868 |  |
| Term deposits | 101,782 | 113,129 | 118,688 | 115,464 | 112,170 |  |
| Borrowings | 1,994 | 5,555 | 454 | 418 | 418 | 2,429 |
| Other liabilities and provisions | 3,215 | 3,161 | 3,513 | 2,789 | 2,705 | 2,666 |
| **Total liabilities** | **136,201** | **153,155** | **157,597** | **156,519** | **162,232** | **163,574** |
| Gross non-performing assets | 2,109 | 3,336 | 4,748 | 4,469 | 6,001 | 6,237 |
| Net non-performing assets | 993 | 1,932 | 3,646 | 3,452 | 4,476 | 4,278 |

Note: ₹ = INR = Indian rupees; FY = fiscal year, expressed as fiscal year ending; HY = half year.

Source: Catholic Syrian Bank Limited, *Unaudited Financial Results for Half Year Ended September 30, 2017*, accessed March 9, 2018, www.csb.co.in/pdf/Financials%2030092017.pdf; Reserve Bank of India, “Liabilities and Assets of Scheduled Commercial Banks,” Database on Indian Economy, accessed March 9, 2018, https://dbie.rbi.org.in/DBIE/dbie.rbi?site=publications; Reserve Bank of India, “Movement of Non-Performing Assets (NPAs) of Scheduled Commercial Banks,” Database on Indian Economy, https://dbie.rbi.org.in/DBIE/dbie.rbi?site=publications.

EXHIBIT 3: SHAREHOLDING IN CATHOLIC SYRIAN BANK,

AS Of MARCH 31, 2017

|  |  |  |
| --- | --- | --- |
| **Shareholder Category** | **Indian** | **Foreign** |
| Institutional investors | 5.28% | 3.49% |
| Bodies corporate | 23.40% | 14.99% |
| Individuals | 27.02% | 0.00% |
| Others | 6.06% | 19.76% |
| Total shareholding | 61.76% | 38.24% |

Source: Catholic Syrian Bank Limited, *Annual Report 2016–2017*, 27, accessed March 9, 2018, www.csb.co.in/pdf/CSB%20AR%202016-17%20WEB.pdf.

EXHIBIT 4: Catholic Syrian Bank and Industry, KEY FINANCIAL RATIOS

(% unless otherwise specified)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Key Ratios for CSB** | **FY 2013** | **FY 2014** | **FY 2015** | **FY 2016** | **FY 2017** | **1HY 2018** |
| Return on assets | 0.25 | 0.18 | −0.34 | −0.92 | 0.01 |  |
| Return on equity | 4.94 | 3.52 | −6.41 | −16.81 | 0.16 |  |
| Credit–deposit ratio | 71.72 | 63.68 | 65.42 | 54.39 | 54.45 |  |
| Investment–deposit ratio | 26.75 | 37.53 | 30.59 | 41.46 | 38.64 |  |
| Capital adequacy ratio | 12.29 | 11.00 | 11.00 | 10.55 | 12.15 | 11.09 |
| Cost-to-income ratio\* | 76.49 | 80.80 | 89.64 | 100.87 | 74.49 | 83.25 |
| Average cost of funds | 8.28 | 8.40 | 8.27 | 7.99 | 6.95 |  |
| Return on advances | 13.01 | 12.97 | 12.85 | 12.14 | 11.03 |  |
| Return on investments | 7.02 | 7.84 | 7.31 | 7.58 | 7.02 |  |
| Ratio of gross NPA to gross advances | 2.35 | 3.77 | 4.96 | 5.62 | 7.25 | 6.75 |
| Ratio of net NPA to net advances | 1.12 | 2.22 | 3.85 | 4.40 | 5.51 | 4.73 |
| **Key Ratios for Peer Group** |  | **Old Private Sector Banks** | | | | **NPSB** |
|  | **FY 2014** | **FY 2015** | **FY 2016** | **FY 2017** | **FY 2017** |
| Return on equity | | 11.90 | 9.60 | 6.67 | 3.39 | 12.65 |
| Return on assets |  | 0.87 | 0.77 | 0.52 | 0.32 | 1.38 |
| Leverage (average assets ÷ average equity) (times) | | 14.36 | 13.48 | 13.44 | 13.40 | 9.25 |
| Net profit margin |  | 7.15 | 6.16 | 4.74 | 4.67 | 13.26 |
| Asset turnover ratio  (gross revenues ÷ average total assets) | | 10.67 | 10.64 | 10.41 | 9.71 | 10.33 |
| Operating profits margin  (operating profits ÷ gross revenues) | | 15.81 | 15.65 | 15.21 | 18.30 | 27.96 |
| Provision for NPA as % of gross revenues |  | 8.65 | 9.48 | 10.47 | 13.63 | 14.70 |
| Return on advances |  | 12.13 | 11.75 | 11.71 | 10.50 | 10.24 |
| Return on investments and other assets |  | 8.34 | 8.85 | 8.55 | 8.56 | 10.54 |
| Net interest income as % of gross revenues | | 27.15 | 26.24 | 27.69 | 28.91 | 31.24 |
| Other income as % of gross revenues |  | 8.17 | 9.43 | 8.92 | 11.67 | 18.62 |
| Operating expenses as % of gross revenues | | 19.51 | 20.03 | 21.40 | 22.28 | 21.90 |
| Cost-to-income ratio\* | | 56.90 | 57.66 | 60.48 | 55.38 | 44.02 |
| Net interest margin (net interest income ÷ average interest-bearing assets) | | 3.17 | 3.17 | 3.25 | 3.20 | 3.74 |
| Yield on average interest-bearing assets (IBA) | | 10.83 | 10.92 | 10.76 | 9.75 | 9.69 |
| Cost of average interest-bearing liabilities (IBL) | | 8.19 | 8.15 | 7.82 | 6.88 | 6.89 |
| Spread (yield − cost) |  | 2.64 | 2.77 | 2.94 | 2.87 | 2.81 |
| Excess of IBA over IBL as % of IBA |  | 4.48 | 3.13 | 4.76 | 3.03 | 13.66 |

Note: CSB = Catholic Syrian Bank; FY = fiscal year, expressed as fiscal year ending; HY = half year; NPA = non-performing assets; NPSB = new private sector banks; \* Cost-to-income ratio = operating expenses ÷ (net interest income + other income).

Source: Created by the case author based on Reserve Bank of India, “Ratios and Rates,” Database on Indian Economy, accessed March 9, 2018, https://dbie.rbi.org.in/DBIE/dbie.rbi?site=publications.

EXHIBIT 5: PRICE-TO-BOOK VALUE RATIOS FOR PEER BANKS, AS of MARCH 31, 2017

|  |  |  |  |
| --- | --- | --- | --- |
| **Category** | **Bank** | **Ratio** | **Average\*** |
| OPSB | City Union Bank | 2.55 | 1.53 |
| DCB Bank | 2.50 |
| Federal Bank | 1.76 |
| J&K Bank | 0.78 |
| Karnataka Bank | 0.84 |
| Karur Vysya Bank | 1.36 |
| Lakshmi Vilas Bank | 1.62 |
| South Indian Bank | 0.84 |
| NPSB | Axis Bank | 2.06 | 3.28 |
| HDFC Bank | 4.62 |
| ICICI Bank | 1.67 |
| IDFC Bank | 1.37 |
| IndusInd Bank | 4.16 |
| Kotak Mahindra Bank | 5.33 |
| RBL Bank | 4.28 |
| Yes Bank | 2.73 |

Note: OPSB = old private sector banks; NPSB = new private sector banks; \*Average price-to-book value ratio for the categories is a simple average of the price-to-book value ratios for the banks listed in that category.

Source: Created by the case author based on daily price-to-book value ratios obtained from ACE Analyser corporate database, accessed June 10, 2018, www.aceanalyser.com.

EXHIBIT 6: Catholic Syrian Bank, Projected Ratios

(% unless otherwise specified)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **FY 2018E** | **FY 2019E** | **FY 2020E** | **FY 2021E** | **FY 2022E** |
| Return on assets | 0.00 | 0.20 | 0.45 | 0.70 | 1.00 |
| Leverage (times) | 16.50 | 16.00 | 15.00 | 14.00 | 13.40 |
| Asset turnover ratio | 10.20 | 10.30 | 10.40 | 10.50 | 11.00 |
| Net interest income as % of gross revenues | 27.00 | 28.00 | 29.00 | 30.00 | 30.00 |
| Other income as % of gross revenues | 9.19 | 9.50 | 10.00 | 10.50 | 11.00 |
| Provisions and contingencies as % of gross revenues | 10.00 | 9.50 | 9.00 | 8.50 | 8.50 |
| Interest spread | 2.70 | 2.70 | 2.70 | 2.70 | 2.70 |
| Excess of IBA over IBL as % of IBA | −6.00 | −4.00 | −2.00 | 0.00 | 3.00 |
| Growth rate of assets | 0.00 | 2.00 | 3.00 | 4.00 | 5.00 |

Note: E = estimate; FY = fiscal year, expressed as year ending; IBA = interest-bearing assets; IBL = interest-bearing liabilities.

Source: Estimated by the case author based on current performance of the CSB and peer group (Exhibits 1, 2, and 4), as well as goals set by the bank’s management, as mentioned in the case.

ENDNOTES

1. This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of The Catholic Syrian Bank Limited. or any of its employees. [↑](#endnote-ref-1)
2. ₹ = INR = Indian rupee; all currency amounts are in ₹ unless otherwise specified; ₹1 = US$0.0154 on December 1, 2017. [↑](#endnote-ref-2)
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11. The Persian Gulf region included the oil-rich countries Saudi Arabia, the United Arab Emirates, Kuwait, and Qatar. [↑](#endnote-ref-11)
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28. “Fairfax India to Take 51% Stake in Catholic Syrian Bank for ₹1,000 Cr,” op. cit. [↑](#endnote-ref-28)
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