INSTITUTIONAL RESEARCH

India Equity Strategy

Holding Companies

Holdcos for portfolio diversification

Investing in the stocks of holding companies can be a very efficient and inexpensive way of gaining exposure to the stocks of India's reputable growing business houses. It can generate consistent returns with a margin of safety over a long period of time, as well as portfolio diversity. To make it even more lucrative, market cycle or business group-specific corporate events can trigger scenarios with disproportionately greater returns. According to evidence from the western world, in evolved markets with diverse shareholdings, like the US and UK, holdco discounts are extremely low (in certain cases holdcos even trade at a premium to underlying asset values).

While Indian holdco stocks are majorly owned by promoters and typically trade at a discount of 30-90%, their global counterparts trade at a lower discount level of 10-25%. In our view, as Indian markets evolve promoter shareholdings in holdcos will decline, and holdco discounts will gradually lessen, unlocking value. Risks associated with this category of stocks include skewed returns during the investment period and low liquidity.

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- Returns generated in past: we studied our universe of 18 holding companies. 14 of these stocks outperformed Nifty in two time frames: (a) FY16-H1FY22 (Nifty returns: 16% CAGR) and (b) FY11-H1FY22 (Nifty returns: 11%). In the past 10 years, nine stocks have delivered >20% CAGR.
- Drivers of returns generation: There are mainly three drivers of returns generation by holdco stocks:
  - Appreciation of underlying investment portfolio: There is a direct and strong correlation between a holding company and its investment portfolio. With rise in value of investments, a holdco stock may appreciate, even if discount remains the same;
  - Narrowing of discounts with market cycle: We have observed a high inverse correlation between BSE midcap index and holdco discounts. In other words, in positive market cycles, when midcaps rise, holdco discounts narrow and stocks generate returns;
  - Event driven value unlocking: If a holding company decides to delist or reverse merge with its subsidiary, then the discount almost vanishes, resulting in significantly high returns.
- Prerequisites for picking holdco stocks: In our view, the two prerequisites for picking a holdco stock in the portfolio are as follows:
  - The prevailing holdco discount should be historically high
  - The underlying investment portfolio should have stocks that are fundamentally stable and expected to grow

Through our analysis of holding companies, we have found empirical evidence that in the absence of either of the above two conditions, the returns on holdco stocks would be disappointing.

Preferred holding company stocks: We have analysed 18 holding companies, their historical discounts movements, and performance of underlying investment portfolios over the years. Based on prevailing discounts and investment portfolios, we prefer nine holdco stocks (as listed in the table on the right side of this page) for investments at current market prices.

Stock	Holdco discount	Market cap (INR bn) As on 30th Nov21
Bajaj holdings	65%	560.7
Bombay Burmah	84%	69.3
Kama holdings	79%	63.9
Tata investment	62%	71.1
Maharashtra scooters	80%	47.2
Pilani investments	81%	22.5
Summit securities	88%	7.0
Kalyani investments	88%	8.2
Rajapalayam mills	76%	8.1

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Holding companies in India

A holding company is a business structure that has been registered with the intent of controlling other group companies. The main purpose of a holding company is to make investments in other group operating companies.

There are two important categories of holding companies in India:

- **Operational holding company:** It will own stocks in one or more subsidiaries/group companies while simultaneously managing its own operations. For example: apart from owning a majority stake in Britannia, Bombay Burmah operates its own tea and coffee plantations, among other businesses. Furthermore, HDFC Ltd is an operating holding company as it runs its own operations of housing finance, apart from holding shares in group companies like HDFC Bank.
- **Financial holding company:** This holding company was formed solely to hold shares in group companies. Bajaj Holdings & Investments Ltd, for example, is a financial holding company whose sole reason of existence is to hold shares in group companies and support their future business opportunities with its cash pool. It does not have its own operations, but it does hold stakes in group companies Bajaj Auto Ltd and Bajaj Finserv Ltd.

In India, over a period of time, holding companies evolved mainly due to the following reasons:

- Operating companies whose cash flows were used by promoters to purchase a stake in a group company
- Investment holdings in operating companies that were demerged and listed separately
- Various group companies running different businesses under the same conglomerate umbrella decided to demerge and list separately, but they kept cross holdings

Holdcos almost always trade at a discount to fair value

Stocks of holding companies typically trade at a discount to the fair value of the assets they hold, which may include investment stakes in group/other companies, real estate assets, or brands. There could be several reasons for the existence of this discount:

- Distribution tax if assets are monetized and distributed among shareholders
- Discount arising from "absence of control" as minority shareholders can't control the timing of monetization of underlying assets of holding companies. The method and timing of asset sale and distribution are decided by the controlling shareholder, which is usually the promoter
- Uncertainty around rise in stock prices and business growth of underlying companies whose shares are held by holdcos
- Due to the low liquidity of such holding companies' stocks, they do not attract the attention of a wide range of investors and, thus, a discount prevails

Typical range of discounts

Globally, holding companies trade at much lower discounts (10-25%), while in India, the corresponding figures vary widely from 30-90%.

- **Holding company discounts - global context:** Global markets, like our Indian examples of holding companies, have the concept of closed ended investment funds (CEF). This concept is primarily prevalent in the markets of the US and UK. These funds have been around for more than 50 years and provide a well-balanced vehicle for investing in a theme/sector based portfolio.

  These funds invest in other listed entities that correspond to the fund's theme classification, are managed by an investment firm, are traded on exchanges like any other stock, and distribute dividends (constituted of earnings, capital appreciation received from underlying shares). Unlike mutual funds, these CEFs do not receive new money. They trade at discount/premium to the underlying net asset value.

  We've noticed that these global CEFs, which are essentially global versions of Indian holding companies, trade at much lower discounts (and sometimes even premiums) than their Indian counterparts. We believe that, over time, Indian holding companies will evolve, attract broader investors, see increased trading volume, and, with increased liquidity and a reduction in promoter holding, discounts will narrow to very low levels comparable to global CEFs. The table below contains a few examples of leading CEFs and their discounts:

Si. No.	CEF Stock	Listed on Exchange	Market cap	Net asset value	discount	Key Investments
1	The India Fund	NYSE	$617 million	$690 million	10.6%	HDFC, Infosys, TCS
2	Voya Emerging Markets High Dividend Equity Fund	NYSE	$137 million	$153 million	10.4%	Taiwan semiconductors, Tencent, Alibaba, Infosys
3	ASA Gold and Precious Metals Limited	NYSE	$368 million	$418 million	12.7%	Orla mining, Prime mining, Endeavour mining
4	Blackrock Core Bond Trust	NYSE	$ 855 million	$852 million	-0.32% (trading at Premium)	Leading short term bonds
5	F&C Investment Trust PLC	LSE	4567 million pounds	5069 million pounds	10%	Alphabet, Amazon, MS, FB, Apple
6	3i Group PLC	LSE	12700 million pounds	10140 million pounds	-25% (trading at premium)	Leading UK private equity and listed infrastructure companies
7	Alliance Trust Plc	LSE	3170 million pounds	3347 million pounds	5.3%	Listed firms of US, Europe and Asia

Source: HSIE Research

- **Holding companies discounts – the Indian context:** In India, not all holding companies trade at the same discount. Various well-run operating companies that are also holding companies for its group trade at lower discounts of 30-40%, such as HDFC Ltd. On the other hand, many other holding companies that exist purely for investment purposes, such as Summit Securities, trade at much steeper discounts of 70-90%.

The following characteristics of Indian holding companies distinguish them from their global peers, resulting in higher holding discounts:

- Promoter holdings in Indian holdcos are extremely high (typically >50%), in contrast to global holding companies
- The majority of the underlying investments are in group companies controlled by the same promoters. This adds to the uncertainty surrounding the expected sale of underlying investments, giving rise to the perception that these assets may never be monetized

- Due to small market cap of most of these holding companies (<INR 3000 cr) and low liquidity, FII and DII participation in trading of such holding companies would be very low and, hence, price discovery is entirely dependent on promoters and small individual investors/funds
- Low institutional research coverage of such holding companies due to their shares' low liquidity and inadequate disclosure standards, resulting in information asymmetry

Benefits of The Company's Act 2013 in context of holdcos

Prior to 2013, various promoters had the flexibility to extend support to weaker group companies by using their control over financially stronger group companies in the form of inter corporate lending, investments, and other related party transactions. So, this holdco structure was used as a conduit for extending support across the group companies. Sometimes these related party transactions favored promoters unfairly at the expense of minority shareholders' interests.

Following the introduction of the Company's Act 2013, this flexibility in executing related party transactions was reduced. Under this act, specific related party transactions became tougher, requiring prior approval of public shareholders. For example, sales/purchases of more than 10% of turnover through a related party, underwriting subscription of investments in Group Company greater than 1% of net worth, and so on.

To pass a related party resolution, the number of votes cast in favor must be greater than the number of votes cast against it. Further, in most cases, related party promoters are unable to vote in such resolutions, which has proven to be a major disadvantage for various promoters. As a result, public shareholders were given a fair opportunity to make objective decisions about such significant transactions.

Overall, this act improved holding companies' corporate governance levels and investors' perception of holding companies. This indirectly helped in the gradual reduction of holding company discounts in various cases, as transparency increased. Also, this reduced flexibility acted as an incentive for promoters to consider delisting the holding companies, as maintaining multiple listed entities was cumbersome from compliance perspective.

For example, Kirloskar Brothers Investment Ltd (KBIL) was delisted in 2014, resulting in a near-zero holding discount and a stock that returned 300% between May and Sep 2014 (holding discount narrowed from 77% to 10% during this time).

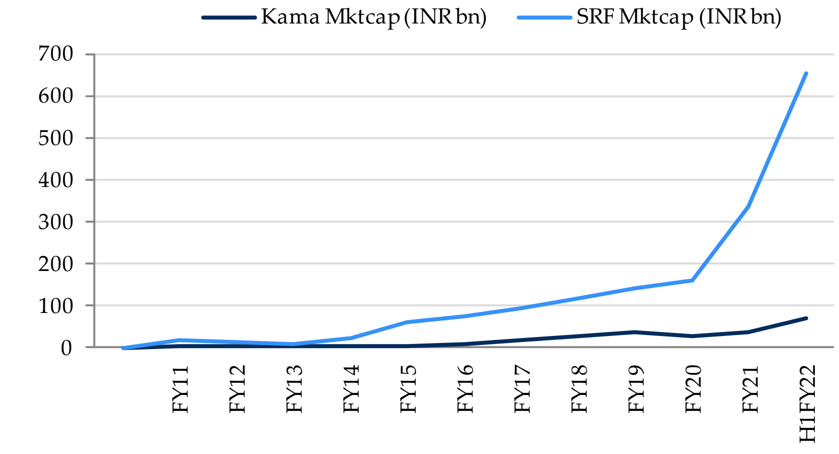
Drivers of holdco stock return generation

Contrary to popular belief, these holding company discounts do not remain constant. Even if they do not reach zero in most cases (unless the promoters decide to delist the company), they vary widely across market cycles. According to historical data, the following factors drive the movement of discounts and, as a result, the generation of stock returns:

- **Movement with change in market value of underlying assets**: Even if the holding discount remains constant, the stock of a holding company rises or falls in tandem with the appreciation or decline in the market value of its underlying assets. Furthermore, as underlying assets appreciate, the discount narrows, generating additional returns.

  For example, there is a strong correlation (~93%) between market capitalisation of SRF Ltd and Kama Holdings (which owns 51% of SRF Ltd) from 2010 to 2021, as shown below.

High correlation (~93%) between market capitalisations of SRF and Kama



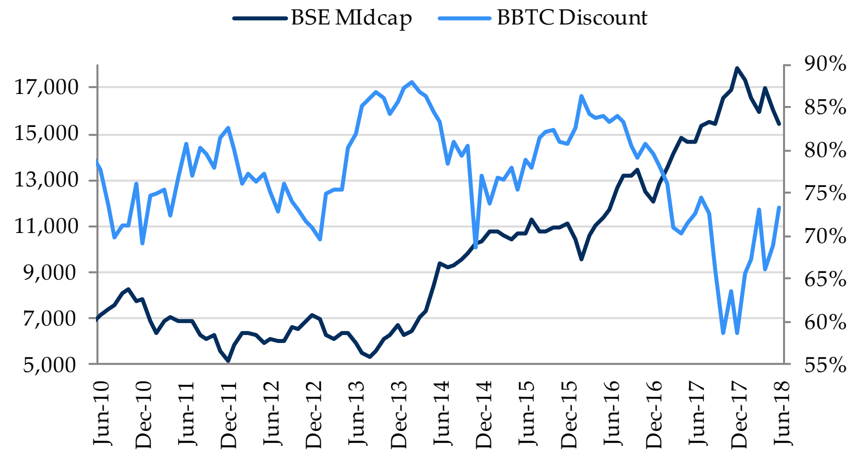
Source: HSIE Research, BSE

- **Variation of discounts in different market phases:** In most cases, the discount of holding companies varies with market phases. In bull cycle, discounts narrow and, in bear cycles, they increase. It has been observed that there is a significant inverse correlation (>60%) between BSE midcap (representing broader market) and discounts of various holding companies. Also, as many holding company stocks are mid to small cap in nature, they tend to move in tandem with mid/small cap indices.

  This means that as the midcap rises, the discount narrows and vice versa. It is important to note that when the 80% discount narrows to 70%, then stock return is 50% because an asset purchased at INR 20 (100-80% of 100) has increased in price to INR 30 (100-70% of 100), generating 50% returns (stock price rising from INR 20 to INR 30). Similarly, reducing the discount from 90% to 80% results in a 100% stock return, and so on. As a result, the greater the discount at the stock purchase point, the better the stock return prospects.

  In most cases, the discount narrows with a rise in the midcap index and vice versa, as shown in the chart below of Bombay Burmah Trading Corporation (BBTC), which owns 50.5% of Britannia Industries.

Inverse correlation between BSE midcap values and BBTC stock discounts



Source: HSIE Research

- **Event-driven value unlocking:** Specific events may lead to the unlocking of value in holding companies. These events could take the form of M&As in investee companies, delisting of holding companies, share swaps, etc. These factors may lead to reduction in the holding discount and a rapid convergence of the holding company market cap to its underlying net asset value.

  For example: The share price of Kirloskar Brothers Investment Ltd (KBIL) rose 3x in three months in 2014, driven by approval of underlying share swap (Sep-14) and consequent delisting of KBIL. KBIL discount narrowed from 77% to around 10% between May and Sep 2014, thereby generating 300% return during this period.

Kirloskar Brothers Investments: delisting of stock unlocked huge value in a short duration of time

Source: HSIE Research, Screener

In a nutshell, the following two conditions must be met in order to generate a stock return by investing in a holding company stock:

(1) Entry price of stock should reflect the historically high discount level

(2) After investing in this holdco, the underlying investments should grow in value

The combination of these two factors will lead to amplified returns.

Risks involved with holding companies

- The inherent attribute of holding company stocks is illiquidity. As mentioned earlier, because these are small market cap companies, institutions and large mutual funds tend to overlook these opportunities. So, these names receive less coverage and trade less frequently.
- Although these stocks hold a large potential for returns, they may not show much movement for a long time. In a bull market, discounts narrow and stocks offer returns. In the bear phase, stocks may remain subdued or move sideways, generating negligible or negative returns.
  When discounts are higher than usual and a stock offers value, it attracts the attention of market participants, and sudden buying interest is observed, causing a fluctuation in stock price. So, price volatility is another factor to keep an eye on.
- These holding companies' underlying investments should be stable and growth oriented. If the fundamentals of the underlying stocks are poor, then discounts may widen and holding company stock may fall in tandem with the fall in underlying investment values.
- Despite the risks mentioned above, we have observed that many holding company stocks have generated returns in excess of 20% CAGR over the last ten years, outperforming Nifty returns of around 11% CAGR.

Analysis of holding companies

We examined 18 leading holding companies that represent reputable Indian business houses. We prefer nine stocks at current price levels, based on our understanding of these holding companies' historical discount trends, current investment portfolio values, and potential stock returns (highlighted in green). The selection is based on two main criteria: solid fundamentals of underlying investments and historically higher holding company discounts. If invested for the long term with an absolute return perspective, this portfolio of nine stocks could outperform the market.

The risks involved include a prolonged period of short-term underperformance relative to benchmarks, but overall absolute returns at the end of the horizon will compensate for it.

Various holding companies representing leading Indian business houses

Si. No.	Stock	Mktcap (INR bn) (as on 30th Nov'21)	Discount (as on 30th Nov'21)	Returns CAGR since FY16*	Returns CAGR since FY11*
1	Bajaj Holdings	560.7	65%	24%	19%
2	Summit securities	7.0	88%	20%	21%
3	Kama Holdings	63.9	79%	45%	35%
4	Maharashtra scooters	47.2	80%	28%	29%
5	Tata Investment corporation	71.1	62%	21%	10%
6	Bombay Burmah	69.3	84%	23%	29%
7	Kalyani Investments	8.2	88%	4%	19%#
8	Pilani investments	22.5	81%	15%	6%#
9	Rajapalayam mills	8.1	76%	22%	17%
10	RPSG Ventures	17.7	77%	19% (since FY19)	
11	JSW Holdings	46.3	71%	32%	17%
12	STEL holdings	2.8	64%	45%	27%
13	Uniphos	7.6	72%	27%	27%
14	EID Parry	82.7	36%	13%	7%
15	Alembic Ltd	26.0	49%	24%	32%#
16	BF Investment	11.8	68%	22%	24%#
17	Bengal & Assam company	22.2	69%	33%	24%
18	Ramco Industries	21.1	59%	24%	19%
			Nifty Returns (CAGR)*	16%	11%

*As on 30th Sept'21 stock prices taken for CAGR calculations to maintain consistency
#CAGR since FY12

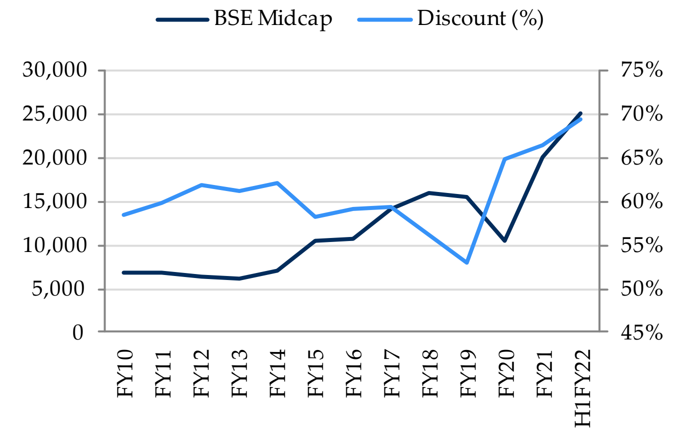
Bajaj Holdings & Investment Ltd (BHIL)

- BHIL is a holding company of the well-known Bajaj Group, with investments in leading group companies and other equities. In Dec 2007, BHIL was formed as a result of the demerger of the Bajaj group. It is registered with the RBI as a non-banking finance company.
- Its major investments are in the following group companies:

Stocks	% Shareholding
Bajaj Auto ltd	35.77%
Bajaj Finserv Ltd	41.63%
Maharashtra Scooters Ltd	51.00%

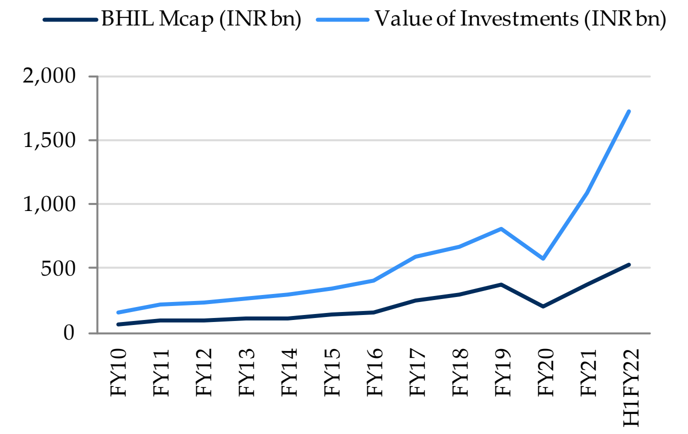
As on 30th Nov'21	Values
Value of investments	INR 1595.1 bn
Market cap	INR 560.7 bn
Discount	65%

Holdco discount's variation with BSE midcap



Source: HSIE Research, BSE

Holdco market cap movement with investment portfolio



Source: HSIE Research, Company

Observations:

- This can be seen in the left diagram, which shows that from FY10 to FY19, holdco discount has had an inverse correlation with BSE midcap. Further, around the time of the COVID-related fall in Mar 2020, the midcap index fell and the holdco discount increased. Discount has remained elevated since then, despite the fact that midcap has recovered and reached new highs.

  We believe this is an aberration, and that the historical inverse correlation between discount and midcap will hold true eventually. It will result in a narrowing of the holdco discount and, as a result, higher stock returns.
- As of Nov 2021, the value of underlying investments is INR 1,595.1 bn, and the market cap of BHIL is INR 560.7 bn, implying a 65% discount, near the highest in several years. We expect this discount to narrow to the 55-60% range, resulting in a healthy gain. Any increase in underlying value would amplify this gain.
- Despite trading at significant discounts to underlying investment values, BHIL stock has generated a 24% CAGR since FY16 (Nifty: 16%) and 19% since FY11 (Nifty: 11%).

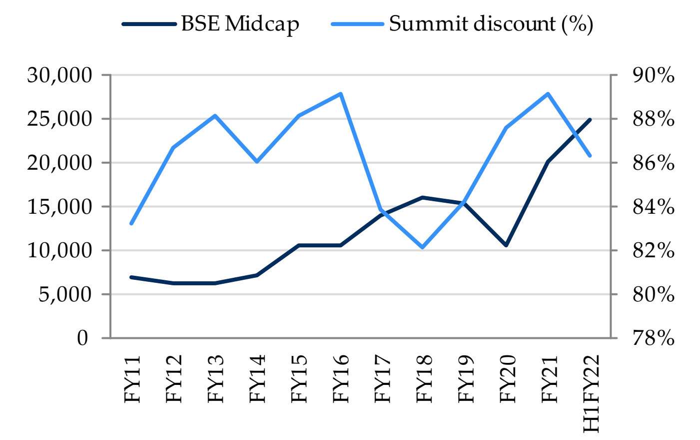
Summit Securities

- Summit Securities Ltd is a holding company of the RPG group. It is registered with the RBI as a non-banking finance company and is run with the primary motive of holding investments in group companies.
- Its major investments in group companies are as follows:

Stocks	% Shareholding
KEC International	19.6%
CEAT Ltd	31.6%
STEL Holdings	13.4%
Zensar Technologies	19.5%

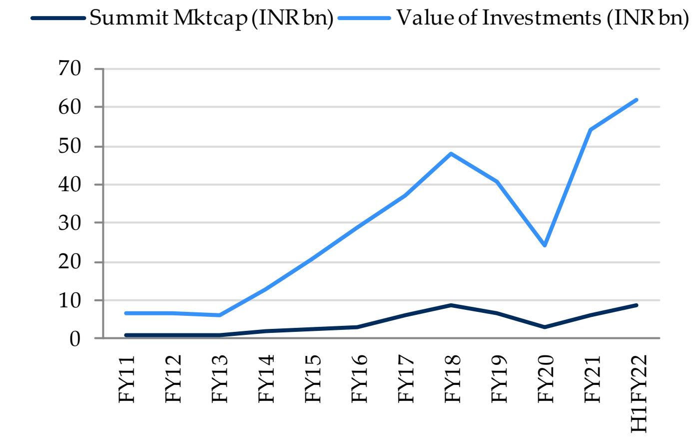
As on 30th Nov'21	Values
Value of investments	INR 57.8 bn
Market cap	INR 7.0 bn
Discount	88 %

Holdco discount's variation with BSE midcap



Source: HSIE Research, BSE

Holdco market cap movement with investment portfolio



Source: HSIE Research, Company

Observations:

- As shown in the LHS graph, the BSE midcap rose from FY11 to FY18, and the discount eventually fell to 82%. Confirming our hypothesis of inverse correlation between midcap and holdco discounts, it can be noticed that in FY18, when midcap was at its peak, discount was at its lowest. We have noticed a narrowing of the discount in the last two quarters as the midcap has reached new highs.

  Hence, this becomes an attractive entry point for investors. We expect the discount to narrow further to ~80%, depicting mean reversion, which would imply >50% stock return from current levels.
- Further, it can be seen that Summit has been significantly undervalued over the years in comparison to the investment it holds (as reflected in the RHS graph), which provides an incentive to investors to own this stock at current inexpensive levels in order to participate in the RPG group's wealth creation journey.
- Although holding discounts have historically been higher, the stock has generated a 20% CAGR return since FY16 (Nifty returns: 16%) and a 21% CAGR return since FY11 (Nifty returns: 11%).

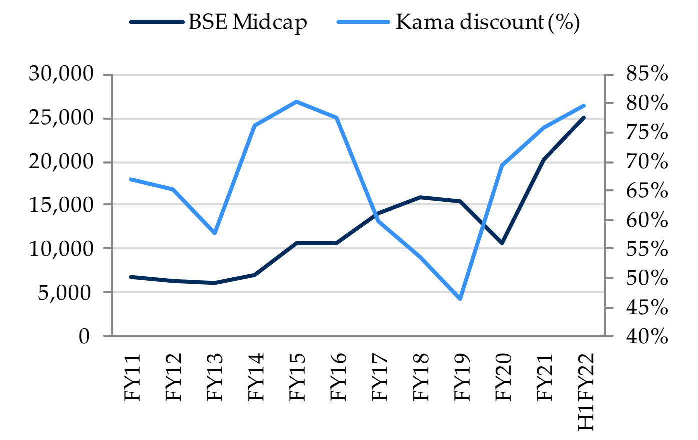
Kama Holdings

- Kama is a core investment company (CIC) and the parent of the leading chemical intermediates company, SRF Ltd. Through its other subsidiaries, it has business interests in the fields of education and real estate.
- Its major investments in group companies are as follows:

Stocks	% Shareholding
SRF Ltd	50.72%

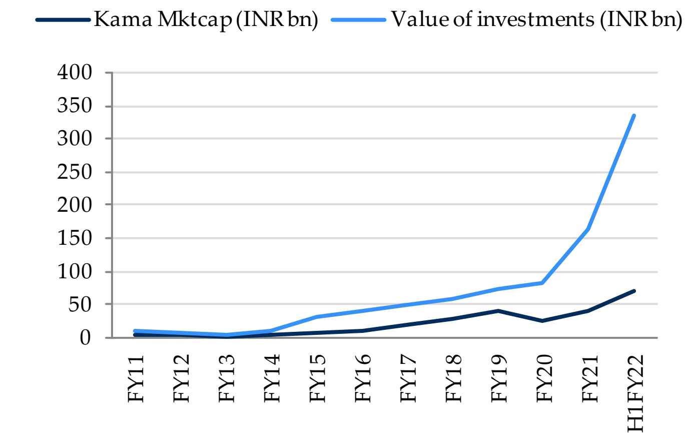
As on 30th Nov'21	Values
Value of investments	INR 301.6 bn
Market cap	INR 63.9 bn
Discount	79%

Holdco discount's variation with BSE midcap



Source: HSIE Research, BSE

Holdco market cap movement with investment portfolio



Source: HSIE Research, Company

Observations:

- Kama has a strong underlying SRF in which it has a controlling stake (50.72%). SRF stock has performed admirably over the years, driven by its strong earnings growth. Kama has also delivered strong returns in line with this. It has generated 45% CAGR returns since FY16 (Nifty: 16%) and 35% CAGR returns since FY11 (Nifty: 11%).
- As seen in the graph above, the discount narrowed to less than 50% in FY19, when midcap reached its highest level in the previous eight years. Further, as the midcap fell in Mar-20 due to COVID concerns, Kama discounts jumped. It is still at elevated levels and hasn't fallen since, despite the fact that midcap has already recovered from its COVID lows. We believe that as midcap gain further strength, the Kama discount will narrow in the coming months, resulting in strong stock returns.
- Despite delivering strong stock returns, the RHS graph shows how Kama's market cap has lagged behind the value of investments held over the years. This reflects the stock's hidden underlying value, which makes it attractive.

Maharashtra Scooters Ltd (MSL)

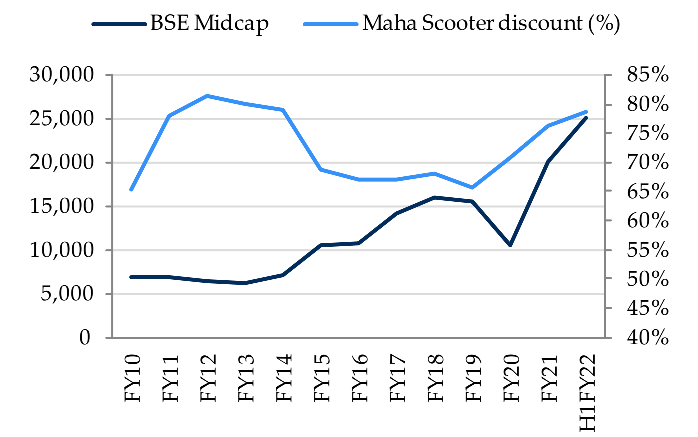
- MSL is a 45-year-old Bajaj group company known for pioneering auto brands such as Priya Scooter, Bajaj Super and Bajaj Chetak. It discontinued its scooter business in 2016, and its current operations are restricted to the manufacturing of pressure die casting dies, jigs and fixtures, primarily meant for the two and three-wheelers industries.

- Apart from above mentioned businesses, it also holds a meaningful stake in the following group companies (as detailed below):

Stocks	% Shareholding
Bajaj Auto	2.3%
Bajaj Finance	3.1%
Bajaj Finserv	2.3%
Bajaj Holdings	3.0%

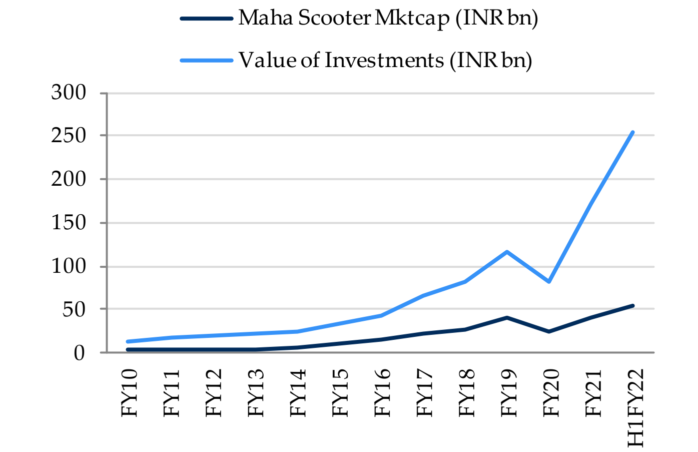
As on 30th Nov'21	Values
Value of investments	INR 238.4 bn
Market cap	INR 47.2 bn
Discount	80%

Holdco discount's variation with BSE midcap



Source: HSIE Research, BSE

Holdco market cap movement with investment portfolio



Source: HSIE Research, Company

Observations:

- As we can see, the MSL discount fell to lower levels as midcap rose between FY12 and FY18. When midcap fell in Mar-20, as has been observed in other holding companies, discounts rose to historically higher levels. Since then, the midcap has recovered, but the holdco discount has yet to narrow.

  This, we believe, is an attractive investment opportunity. As the discount falls to a more stable historical lower range, the stock will outperform. In this case, we expect a discount of 65-70%, implying a return of more than 50% from the current level.

- The value of the MSL investment portfolio has been rapidly increasing, as evidenced by the graph on the right. This is due to the superior performance of the Bajaj group companies. Although MSL market cap has yet to catch up with it, we believe it represents an investment opportunity.

- Despite trading at a higher discount, this stock has generated a CAGR of 28% since FY16 (Nifty: 16%) and a CAGR of 29% since FY11 (Nifty: 11%).

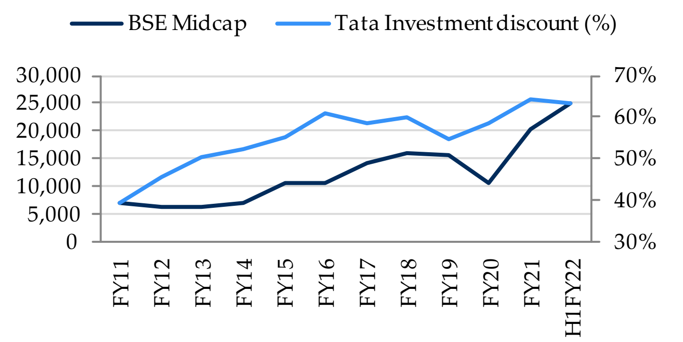
Tata Investment Corporation (TIC)

- Tata Investment Corporation Ltd (TICL) is an NBFC. The company's activities primarily consist of investing in long-term investments in equity shares, debt instruments, both listed and unlisted, and equity related securities of companies from a wide range of industries. The company's primary income sources are dividend, interest, and profit on investment sales. The following are its primary group investments:

Stocks	% Shareholding
Titan	2.0%
Tata Consumer	4.8%
Trent	4.3%
Tata Chemicals	6.0%
Voltas	3.0%
Tata Elxsi	2.3%

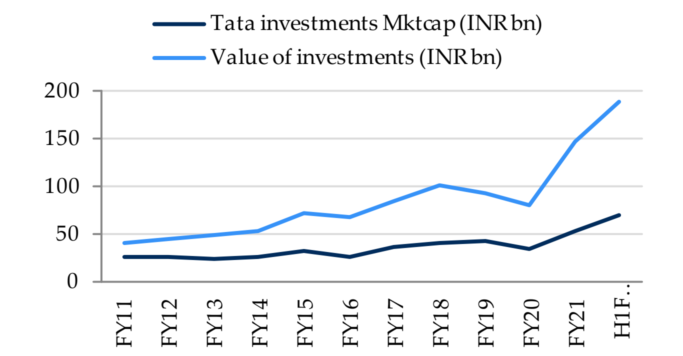
As on 30th Nov'21	Values
Value of investments	INR 188.0 bn
Market cap	INR 71.1 bn
Discount	62%

Holdco discount's variation with BSE midcap



Source: HSIE Research, BSE

Holdco market cap movement with investment portfolio



Source: HSIE Research, Company

Observations:

- TIC stock has fared well since FY16 by delivering 21% CAGR returns (Nifty: 16%) but its performance over a longer horizon of 10.5 years (since FY11) has been lower 10% CAGR returns (Nifty: 11%).
- This longer term underperformance can be understood looking closely and breaking it into two periods. As Mr N Chandrasekharan took charge of Tata sons chairman office towards end of FY17 and his direction to the group has been instrumental in realigning businesses to shareholders interests, so we study returns in two periods – before and after his taking charge of office.
  - FY11-FY17 (before the new chairman took charge): During this period, TIC generated 6% CAGR returns while underlying investment portfolio delivered 13% returns. Discount increased from 40% odd levels to around 60% levels.
  - FY17-H1FY22 (after the new chairman has taken charge): In this period, TIC delivered 16% CAGR returns as against 20% CAGR returns of investment portfolio. Discount has remained in 60-65% range which is on the higher side if we see its historical range in above graph.
  - FY20-H1FY22: Most of TIC's and its investment portfolio's gains came when the market recovered in FY20, wherein they achieved 107% and 136% absolute returns respectively. We believe holdco returns are highly correlated to midcap index behaviour; therefore, this acceleration of returns can be attributed to increased momentum in midcap space.
- According to our estimates, the stock can be purchased at current prices for a discount reduction to 50%, with up to 35% absolute returns.

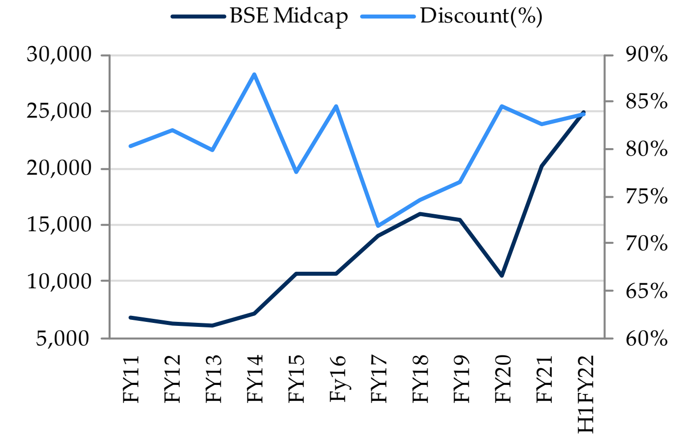
Bombay Burmah Trading Corporation (BBTC)

- BBTC is a leading concern of the Wadia Group, a reputed business house with interests in plantations, food, textiles, aviation, and real estate. Coffee, tea plantations, auto electric parts, horticulture, and healthcare products are among the company's diverse interests.
- Apart from these above-mentioned businesses, BBTC owns 50.5% of its group company, Britannia Industries.

Stocks	% Shareholding
Britannia Industries	50.5%

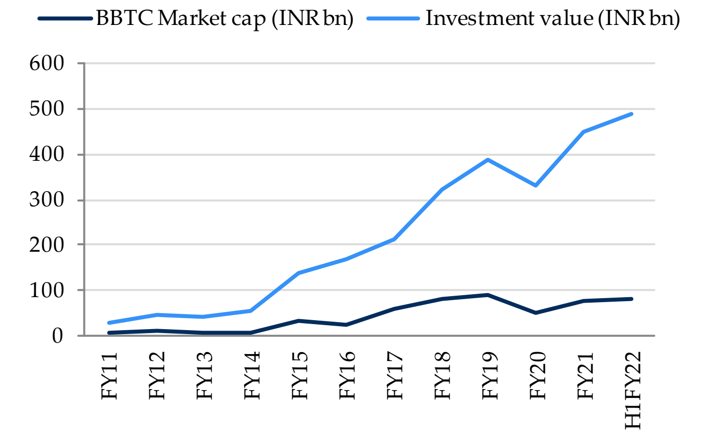
As on 30th Nov'21	Values
Value of investments	INR 439.0 bn
Market cap	INR 69.3 bn
Discount	84%

Holdco discount's variation with BSE midcap



Source: HSIE Research, BSE

Holdco market cap movement with investment portfolio



Source: HSIE Research, Company

Observations:

- Because BBTC owns a controlling stake in the rapidly expanding Britannia Industries, it can be considered a proper pseudo play on the Indian biscuit industry. Many investors perceive Britannia to be an expensive stock, so BBTC represents an attractive investment opportunity that offers Britannia growth but with valuation comfort, as it currently trades at a historically high discount level of 84%.
- We believe that the BBTC discount has increased in the last two years, despite the midcap rising to a lifetime high, it is in an unsustainable territory and will eventually fall to a stable 70-75% range. With this narrowing of the discount to, say, 75%, the stock could generate around 50% returns from here.
- The stock has generated 23% CAGR returns since FY16 (Nifty: 16%) and 29% CAGR returns since FY11 (Nifty:11%), but it has not generated any positive returns in the last four years as discounts remain elevated. Britannia has delivered 81% absolute returns over the last four years, clearly indicating the value built up in BBTC.

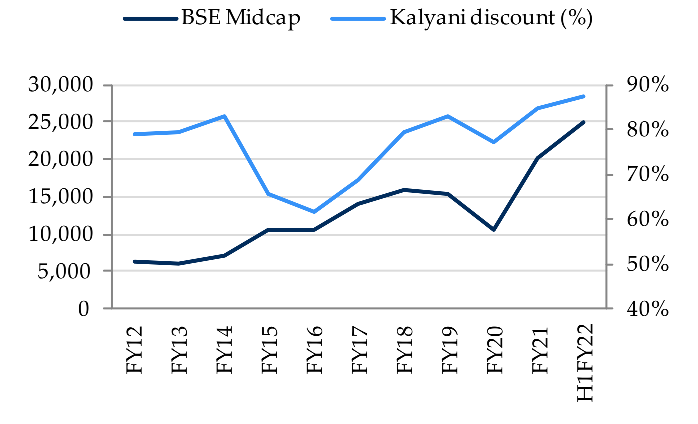
Kalyani Investment

- Kalyani Investment Company Ltd is a part of the USD2.5bn Kalyani Group. It is an investment company holding a verified investment portfolio consisted of both listed and unlisted companies, which are in diversified sectors such as forging, steel, power generations, and chemicals, among others. Its main listed investments are as follows:

Stocks	% Shareholding
Bharat Forge	13.6%
Hikal Ltd	31.4%
BF Utilities	16.4%

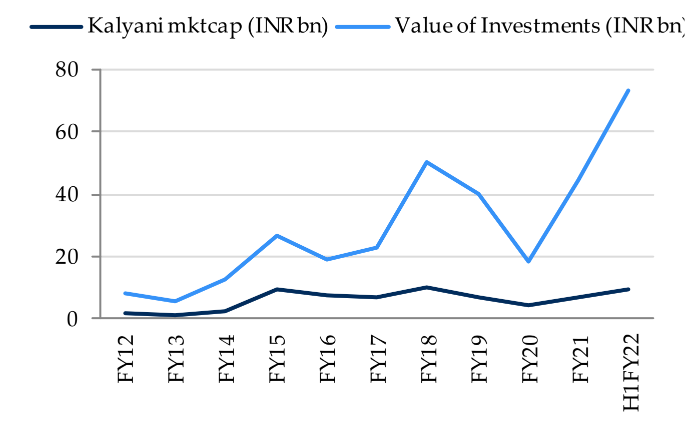
As on 30th Nov'21	Values
Value of investments	INR 65.7 bn
Market cap	INR 8.2 bn
Discount	88%

Holdco discount's variation with BSE midcap



Source: HSIE Research, BSE

Holdco market cap movement with investment portfolio



Source: HSIE Research, Company

Observations:

- Kalyani has not delivered any meaningful returns since FY16 as the discount has steadily increased to a very high level of 88%. Since FY16, its investment portfolio has grown at a stellar rate of 27.5% CAGR, whereas Kalyani has delivered only a meager 4.2% CAGR during same period. It can be understood better by breaking the time period into two parts:
  - FY16-FY20: During this period, the underlying group companies' shares in Bharat Forge and Hikal Ltd generated poor returns and, as a result, the investment portfolio de-grew by 5%. Thus, the Kalyani discount increased rapidly from 62% to 77%, resulting in a 41% loss in the stock.
  - FY20-H1FY22: Kalyani's investment portfolio has grown 4x in 18 months since FY20, owing to strong increases in Bharat Forge and Hikal prices, whereas the Kalyani stock has only risen 112%. This has expanded the holding company discount even more.
- When we combine the two time periods, we can see that the investment portfolio was subdued in the first period but made up for it and grew even more in the second, resulting in solid 27.5% CAGR returns since FY16. In the second period, Kalyani stock only managed to cover its losses from the previous period. Hence, it has only achieved 26% absolute gains since FY16, compared to a 280% growth in its investment portfolio.
- We believe it will only be a matter of time before the increased value of Kalyani's investment portfolio is reflected in its stock price. This represents an attractive investment proposition. Even if this discount narrows historical average level of 70-75%, the stock might double from here, given the very high discount at present.

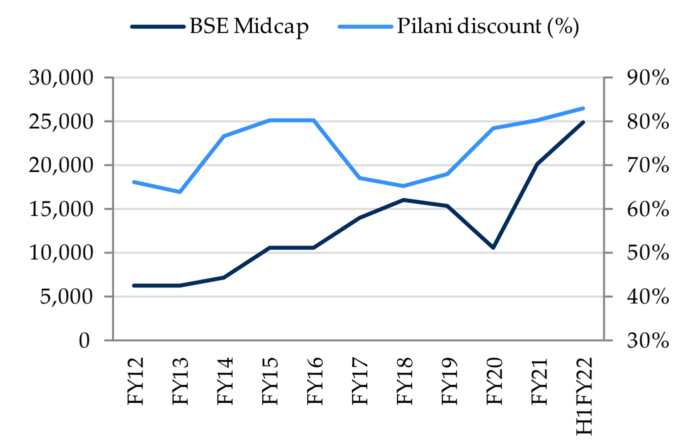
Pilani Investment

- Pilani Investment and Industries Corporation Ltd is an investment company registered with Reserve Bank of India as a non-banking financial company that does not accept public deposits.
- Its main investments in group companies are as follows:

Stocks	% Shareholding
Grasim Industries	3.8%
Century Textiles	33.1%
Ultratech	1.2%
Hindalco	1.3%
AB Capital	1.4%

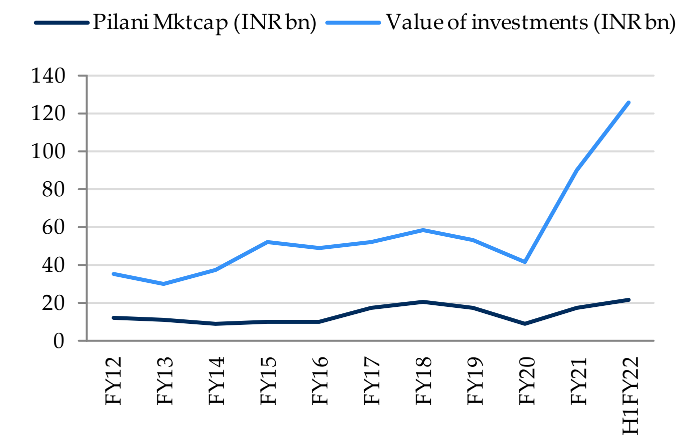
As on 30th Nov'21	Values
Value of investments	INR 117.0 bn
Market cap	INR 22.5 bn
Discount	81%

Holdco discount's variation with BSE midcap



Source: HSIE Research, BSE

Holdco market cap movement with investment portfolio



Source: HSIE Research, Company

Observations:

- The Pilani discount has nearly reached an all-time high in the last decade. Hence, despite the fact that underlying investments are rapidly growing in value, Pilani stock has not managed to show much traction. This high discount level, along with recent rapid growth in investment portfolio value, presents an opportunity for an attractive play on the business growth of Birla group companies.
- If we consider returns of the last nine years, Pilani has not been an outperformer. It has reported 15% CAGR returns since FY16 (Nifty: 16%) and 6% since FY12 (Nifty: 13.6%). This can be better understood by breaking it down into two periods:
  - FY12-FY20: Due to the subdued stock performance of Birla Group companies during this period, the investment portfolio generated only a 2% CAGR return, while Pilani delivered negative returns at 3.7% CAGR.
  - FY20-H1FY22: Following FY20, Birla group companies demonstrated superior performance, as has been visible in 3x returns on the underlying investment portfolio. Pilani stock, on the other hand, has reported absolute 136% gain in 18 months (FY20-H1FY22). This performance lag is reflected in an increase in discount from 79% to 83% over the same period.
- When midcap reached its peak in FY18, holdco discount reduced. Later, post FY18, this discount kept increasing in the next three years although midcap bounced back after a fall in FY20. In our view, this discount will eventually fall and reach its historical average range of 65-70%. Hence, investing at current levels may generate more than 70% returns if the discount falls to 65-70%. This gain could be boosted with any further rise in price of underlying shares.

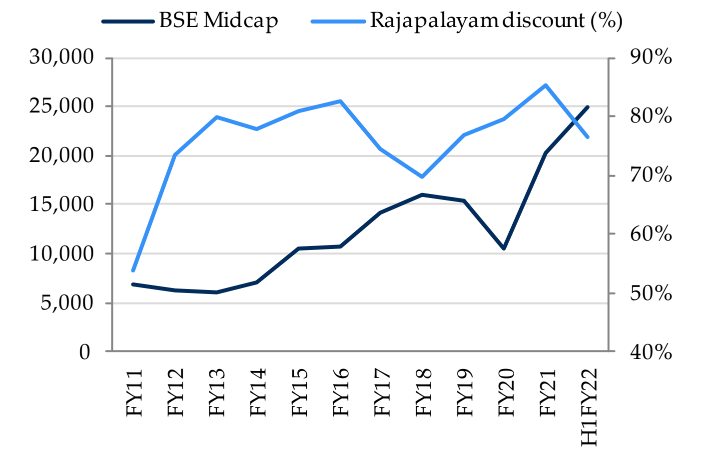
Rajapalayam Mills

- Rajapalayam Mills is a Ramco group company that primarily manufactures cotton yarn and fabrics. It also serves as an operating holding company, with stakes in the following group companies:

Stocks	% Shareholding
The Ramco Cement Ltd	14.0%
Ramco Industries	9.7%
Ramco Systems	2.4%

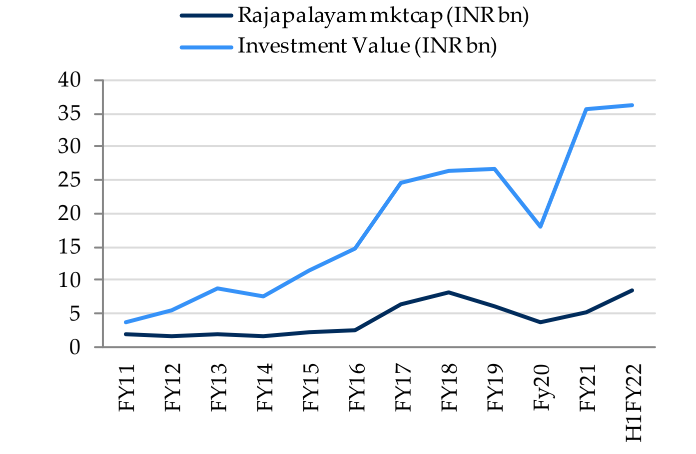
As on 30th Nov'21	Values
Value of investments	INR 33.4 bn
Market cap	INR 8.1 bn
Discount	76%

Holdco discount's variation with BSE midcap



Source: HSIE Research, BSE

Holdco market cap movement with investment portfolio



Source: HSIE Research, Company

Observations:

- Since FY11, Rajapalayam Mills' stock has gained 5x, representing a 17% CAGR (Nifty: 11 percent), while its underlying investment portfolio has grown 10x. This means that the discount has risen. In the last 3.5 years, the stock has returned only 6% absolute gain while the underlying portfolio has increased by 38%, indicating value.
- As shown in the graph above, discount, which had reached the peak of 80%+, has started to moderate in the previous two quarters as midcaps have risen. We estimate this to fall to a range of 65-70%, implying more than 30% gain. Major portion of its underlying business is Ramco Cement, which has started reflecting earning growth and, hence, better stock prices after a long period of underperformance. Ramco Cement's improved performance could act as a trigger for stock of Rajapalayam.

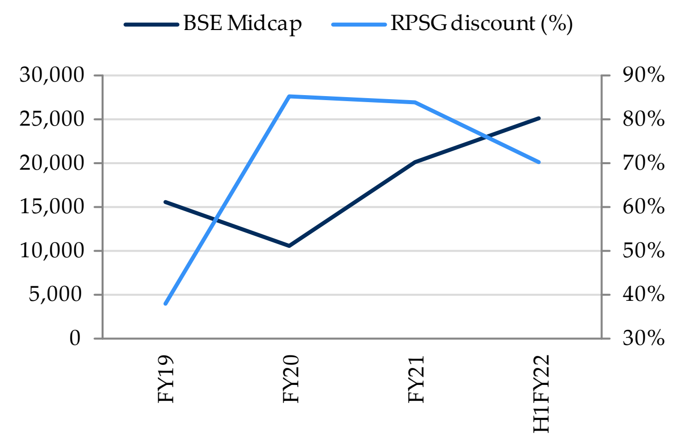
RPSG Ventures (RPSG)

- RPSG Ventures is an investment holding company of the RP-Sanjiv Goenka group. The following are the company's direct subsidiaries:
  - First Source Solutions (listed)
  - Quest Properties - engaged in real estate and operates the Quest Mall in Kolkata
  - Bowlopedia restaurants
  - Guiltfree Industries - engaged in the FMCG business under the brand name "Too Yumm"
- The main listed investments are as follows:

Stocks	% Shareholding
First Source Solutions	53.6%

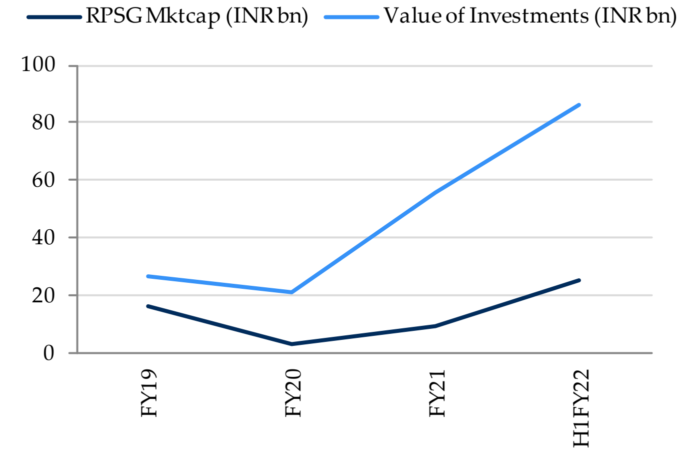
As on 30th Nov'21	Values
Value of investments	INR 76.6 bn
Market cap	INR 17.7 bn
Discount	77%

Holdco discount's variation with BSE midcap



Source: HSIE Research, BSE

Holdco market cap movement with investment portfolio



Source: HSIE Research, Company

Observations:

- RPSG is a great play on the growth of the RP Sanjeev Goenka Group Companies. It was listed only three years ago, so there isn't much historical data to understand the discount trend.
- As per limited data of discounts over the last three years, it can be seen that the discount has already reduced from 85% in FY20 to 70% in H1FY22, with a steep rise in the midcap index. During same time period, stock has generated 8x returns while underlying investment portfolio has increased 4x. Further, it has generated a 19% CAGR return since its listing in FY19.
- We believe that investing in this stock at these prices would not be prudent, and that we should wait for higher discounts and better entry prices.

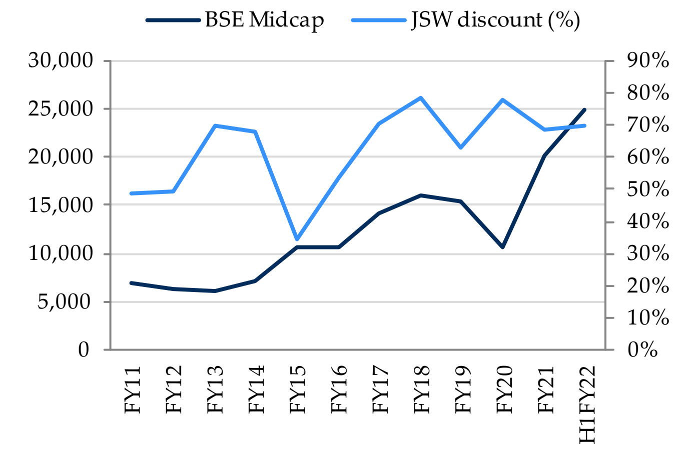
JSW Holdings

- JSW Holdings is an NBFC that serves as the investment arm for the JSW Group. Its major investment is in the following listed stocks:

Stocks	% Shareholding
JSW Steel Ltd	7.5%
Jindal Steel & Power	0.36%

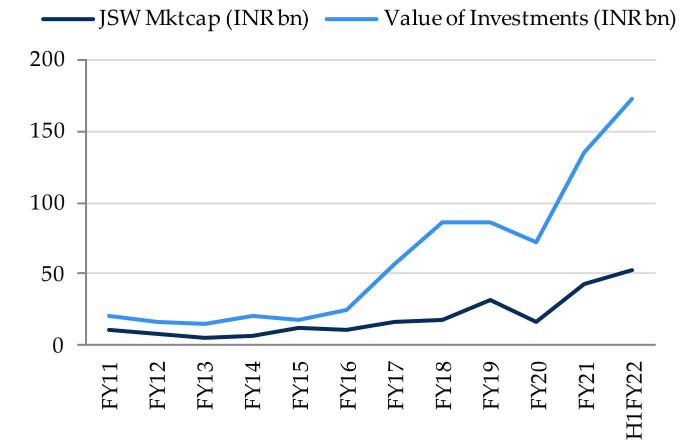
As on 30th Nov'21	Values
Value of investments	INR 160.8 bn
Market cap	INR 46.2 bn
Discount	71%

Holdco discount's variation with BSE midcap



Source: HSIE Research, BSE

Holdco market cap movement with investment portfolio



Source: HSIE Research, Company

Observations:

- JSW Holdings is primarily a play on JSW Steel, as a major part of its investment portfolio is comprised of JSW Steel stake (7.5% stake).
- JSW Holdings' discount has fallen from its historic high of 79% in FY18 to 71% today. This has been primarily driven by an increase in steel demand in the industry, resulting in higher JSW steel stock prices. So far, JSW Holdings has generated 32% CAGR returns since FY16 (Nifty: 16%) despite a discount increasing from 53% to 71%. The increase in discount can be explained by the fact that the underlying investment portfolio has grown faster than the holdco, at a CAGR of 43% during the same period.
- In our view, because the underlying portfolio has grown at a rapid pace, driven by the prevailing high steel prices, we need to be cautious on JSW Holdings stock as expecting steel prices to rise further wouldn't be prudent.
- Furthermore, steel is a cyclical commodity, and its demand is currently seeing an upcycle. When the cycle turns negative due to any domestic or global factor, the JSW steel stock price may slide, causing the JSW Holdings price to fall as well. As a result, because the current stock price offers no margin of safety, it would be prudent not to invest in this stock at this time.

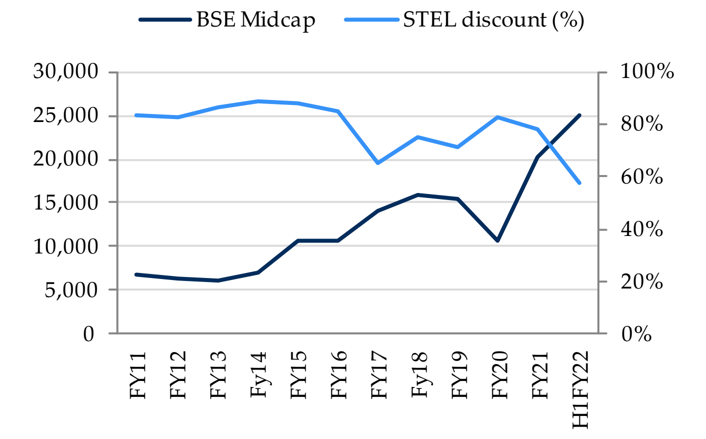
STEL Holdings (STEL)

- STEL Holdings is a core investment company that invests in a diversified portfolio of quoted and unquoted securities of RPG and RPSG group companies that operate in a variety of businesses across sectors. The company's typical investment approach combines value and growth.
- The main investments of STEL are as follows:

Stocks	% Shareholding
CEAT Ltd	3.5%
KEC International	1.9%
CESC Ltd	1.9%
Phillips Carbon Black	0.2%

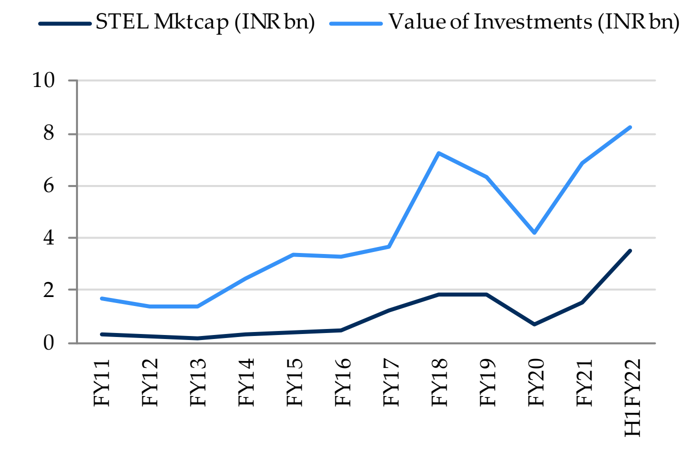
As on 30th Nov '21	Values
Value of investments	INR 7.5 bn
Market cap	INR 2.8 bn
Discount	64%

Holdco discount's variation with BSE midcap



Source: HSIE Research, BSE

Holdco market cap movement with investment portfolio



Source: HSIE Research, Company

Observations:

- STEL has delivered an extremely high return CAGR of 45% since FY16 (Nifty: 16%). Over a longer time horizon since FY11, it has generated a stable 27% return CAGR (Nifty: 11%). As it is a high beta micro-cap company that holds various small cap stocks as part of its underlying portfolio, STEL's gains have been amplified in the recent uptrend of mid-small caps.
- As is evident in the graph above, the holdco discount for the stock has already reduced significantly (57% in H1FY22, from 83% in FY20) generating returns in the process. As of Nov '21, this discount has expanded again to 64%.Overall, in our view, the stock has already delivered a major portion of its value and, thus, the margin of safety may be low currently. As a result, we would advise against investing in the stock currently, but it should be kept on the watchlist for any suitable future entry points.

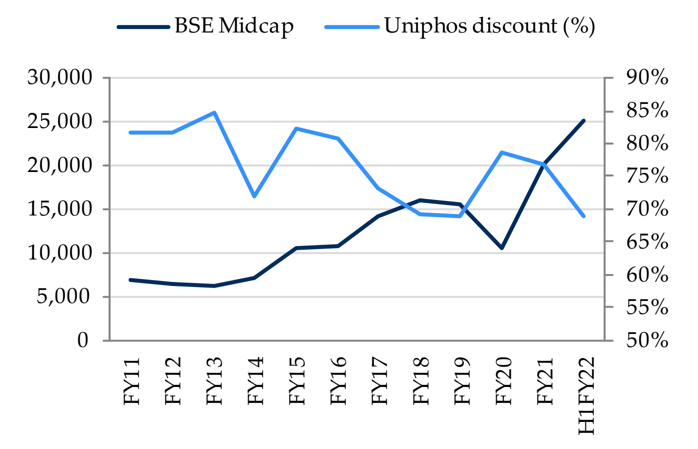
Uniphos Enterprises Ltd

- Uniphos Enterprises Ltd operates a chemical trading business. The company's trading activities are currently on a very small scale, but management expects them to grow it in future, given the increasing demand for chemicals in India. Further, the company holds a stake in UPL Ltd, as part of its investments (mentioned below):

Stocks	% Shareholding
UPL Ltd	5.1%

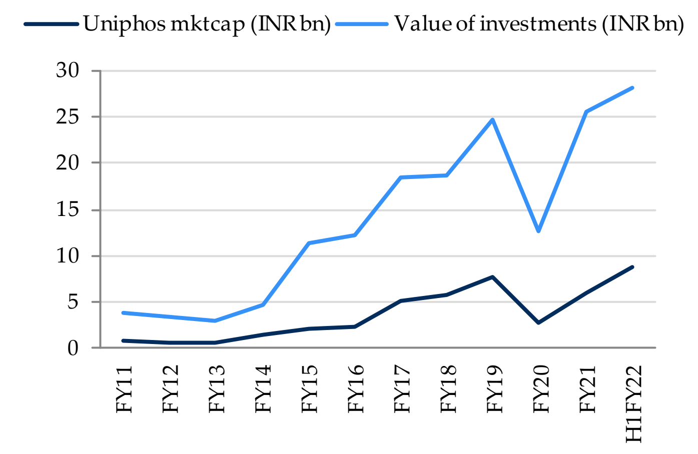
As on 30th Nov'21	Values
Value of investments	INR 27.0 bn
Market cap	INR 7.6 bn
Discount	72%

Holdco discount's variation with BSE midcap



Source: HSIE Research, BSE

Holdco market cap movement with investment portfolio



Source: HSIE Research, Company

Observations:

- Uniphos has delivered a strong 27% CAGR return since FY16 (Nifty: 16%) and since FY11 (Nifty: 11%). So, it has performed well in both the medium and long term. The value of the underlying investment portfolio has appreciated at 16% CAGR since FY16 and 21% CAGR since FY11. As a result, Uniphos has risen faster than the underlying, as discounts have narrowed significantly from around 85% in the past to 72% now. The current discount level is nearly the lowest at which the stock has traded in the last decade.
- Also, the above graph shows that, with the rise in BSE midcap, the discount of Uniphos has already declined, thereby generating returns for investors.
- Hence, in our view, there is no strong investment proposition in favour of this stock right now and, thus, it should not be considered for investment at this time.

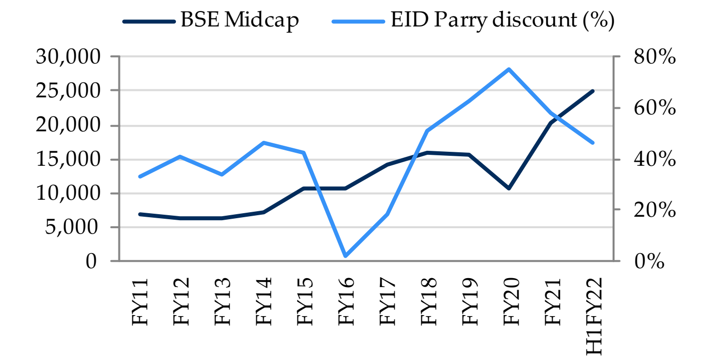
EID Parry (India) Ltd (EID)

- EID Parry is engaged in the business of sugar and nutraceuticals. It is a part of the Murugappa Group, one of India's leading business conglomerates, based in Tamil Nadu. Apart from the standalone business, it owns shares in its group company, details of which are as follows:

Stocks	% Shareholding
Coromandel International	56.4%

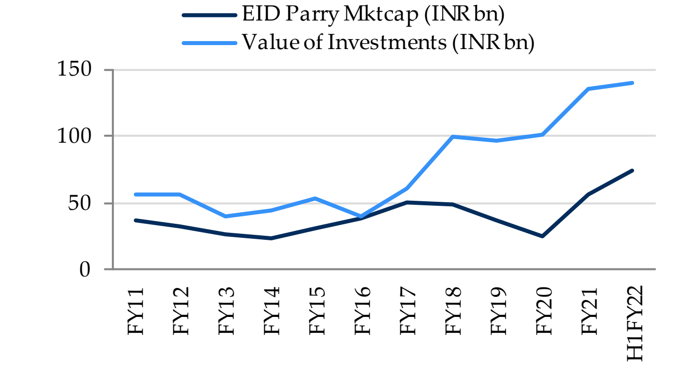
As on 30th Nov'21	Values
Value of investments	INR 129.4 bn
Market cap	INR 82.7 bn
Discount	36%

Holdco discount's variation with BSE midcap



Source: HSIE Research, BSE

Holdco market cap movement with investment portfolio



Source: HSIE Research, Company

Observations:

- EID generally trades at a lower discount than other pure holdcos as it has its own standalone operating business as well. Historically, its average discount has been in the 40-50% range.
- EID has generated a 13% CAGR return since FY16 (Nifty:16%) and 7% CAGR return since FY11 (Nifty: 11%).
- As we know, the performance of a holding company stock is a function of two variables: a change in the value of the underlying stock portfolio and % discount at the time of buying the holdco stock. We will analyse both the factors in this case for the two time periods:
  - FY11-FY17: The value of the underlying stock portfolio effectively did not grow much during this period (actual growth: 9.7% absolute), owing to the poor performance of the underlying stock Coromandel International. During this time period, the EID stock delivered 34% absolute returns, which were mainly due to the narrowing of discounts, as the underlying portfolio didn't contribute much.
  - FY17-H1FY22: Furthermore, while the underlying portfolio grew at a 20% CAGR during this period, led by superior performance by Coromandel International stock, EID grew at a 9.4% CAGR. This was due to an expansion in the holdco discount from 18% in FY17 to 47% in H1FY22. So, underlying portfolio performance was supported during this time period, but discount did not work in favour because it was already very low at the start of the period, leaving little room for further discount narrowing.
- This brings us to conclusion that holdco stocks perform better, only if the underlying stock portfolio is fundamentally sound and expected to grow; at the time of buying a holdco stock, the discount should be relatively high, with a scope to reduce. If either of these two rules is violated, the return generation from a holdco becomes difficult to achieve.
- Currently, the discount is at 36%, which has already fallen from 76% two years ago, so we believe there is little scope for discount reduction. Hence, we suggest investors should best avoid the stock.

Alembic Ltd

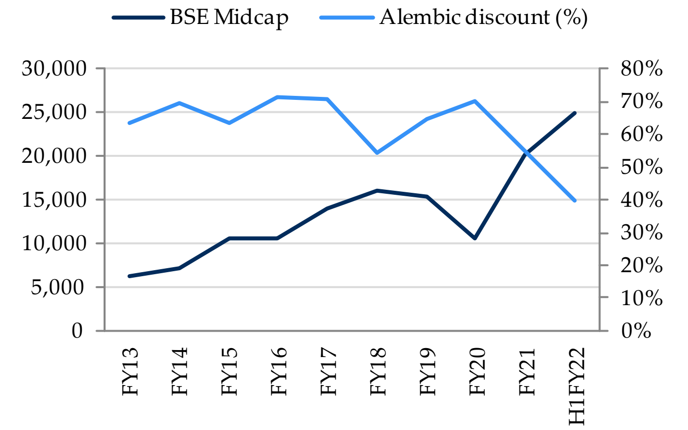
- Alembic is mainly engaged in the following businesses:
  - Manufacturing and marketing of fermentation-based APIs
  - Development of real estate and commercial real estate

- Apart from the above activities, it also holds a significant shareholding in group companies as follows:

Stocks	% Shareholding
Alembic Pharma	28.4%
Paushak Ltd	19.0%

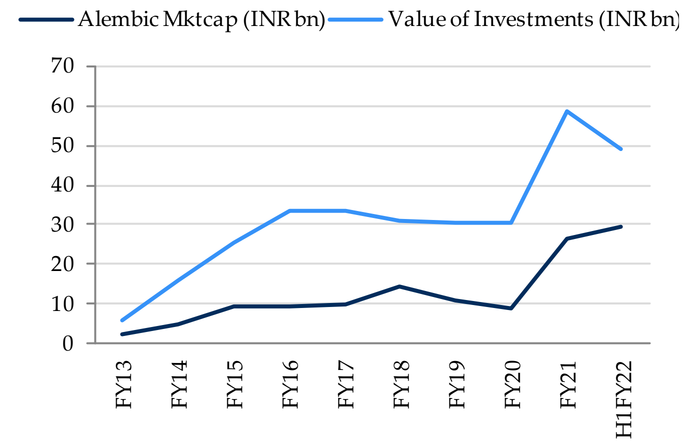
As on 30th Nov'21	Values
Value of investments	INR 50.7 bn
Market cap	INR 26.0 bn
Discount	49%

Holdco discount's variation with BSE midcap



Source: HSIE Research, BSE

Holdco market cap movement with investment portfolio



Source: HSIE Research, Company

Observations:

- Alembic has delivered superior returns in all time periods considered. It has returned a 24% CAGR since FY16 (Nifty:16%) and 32% CAGR since FY12 (Nifty:13.6%). The primary driver of this spectacular performance was strong underlying portfolio appreciation.

- As evident in the graph above, the holdco discount has already shrunk from around 70% to 49% in the last 20 months. Due to this, the stock has already generated an astonishing 3.25x approx return since FY20. So, we believe that this is not an appropriate entry price for this stock because there is little margin of safety left. The stock's holding discount is already at a low level, with little room for further decline. Hence, we advise to avoid the stock because the risk-reward ratio is not in favour.

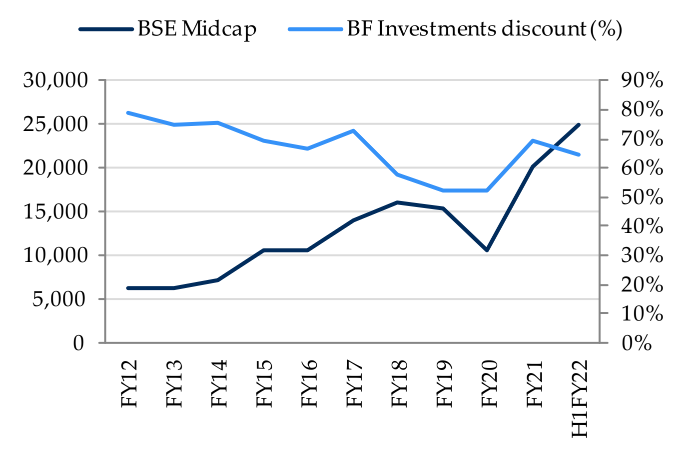
BF Investment

- BF Investment Ltd (BFIL) is a part of the USD 2.5bn Kalyani Group based in Pune. BFIL is holding investments in various Kalyani Group companies. The following are some of the major companies in which BFIL has equity stakes:

Stocks	% Shareholding
Bharat Forge	3.4%
BF Utilities	3.2%
Hikal Ltd	2.7%
Kalyani Forge	15.8%
Kalyani Steels	39.0%
Automotive Axles	35.5%

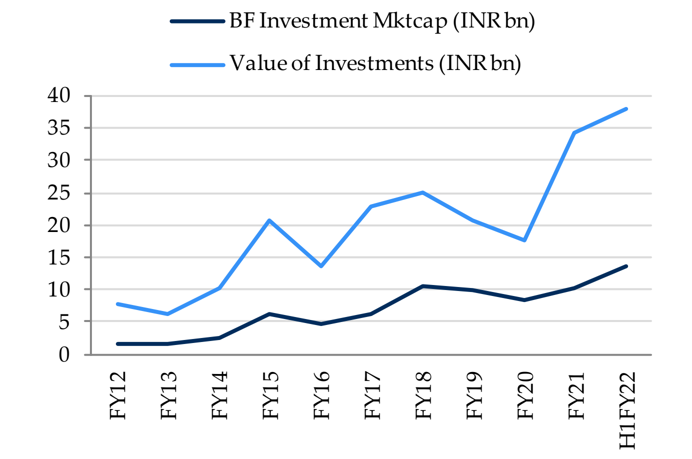
As on 30th Nov'21	**Values**
Value of investments	INR 37.0 bn
Market cap	INR 11.8 bn
Discount	68%

Holdco discount's variation with BSE midcap



Source: HSIE Research, BSE

Holdco market cap movement with investment portfolio



Source: HSIE Research, Company

Observations:

- BF Investments is mainly an indirect play on the growth of Bharat Forge Group's business. The stock has returned 22% CAGR since FY16 (Nifty: 16%) and 24% CAGR since FY12 (Nifty: 13.6%). The performance was led by the appreciation of group company stocks and the narrowing of holdco discount from 79% to around 64%.
- As per the graph above, with the rise in the BSE midcap, the BF investment discount has already started to decline and now stands at 68%, down from 70% in FY21. The average historical discount range for the stock is 55-60%.
- Hence, in our view, any significant discount decline for this stock is unlikely. As a result, the risk per unit of return is slightly higher than justified. In light of the above, we recommend the stock be avoided at present.

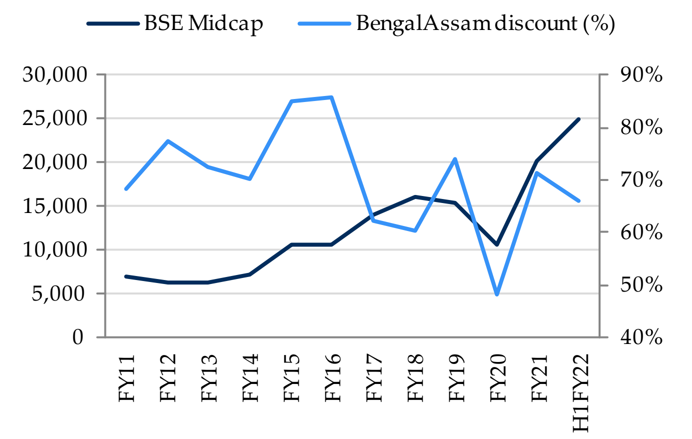
Bengal & Assam Company (BAC)

- Bengal & Assam Company is an investment firm that has been duly registered as a non-banking financial company with the RBI. It owns stakes in the following companies in its group:

Stocks	% Shareholding
JK Lakshmi Cement	44.5%
JK Paper	47.0%
JK Agri Genetics	59.6%
JK Tyre	53.3%

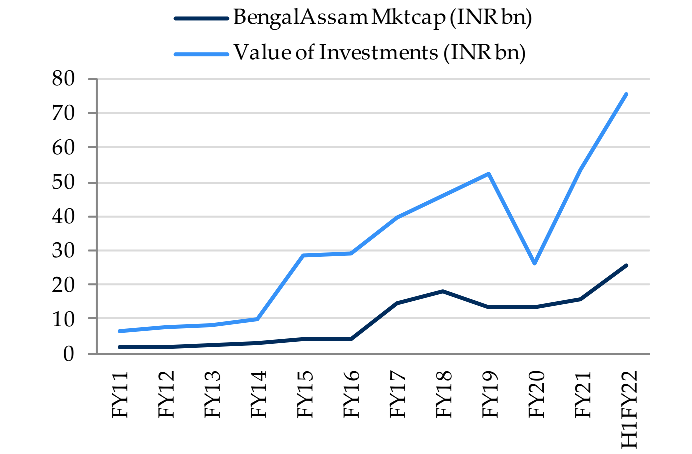
As on 30th Nov'21	Values
Value of investments	INR 72.0 bn
Market cap	INR 22.2 bn
Discount	69%

Holdco discount's variation with BSE midcap



Source: HSIE Research, BSE

Holdco market cap movement with investment portfolio



Source: HSIE Research, Company

Observations:

- BAC stock achieved strong returns in the medium term (33% CAGR since FY16 vis-à-vis 16% of Nifty) and the long term (24% CAGR since FY11 vis-à-vis 11% of Nifty). This was mostly due to the underlying investment portfolio's constant increase in value. Since FY11, the underlying portfolio has grown at a remarkable 26% CAGR.
- BAC's stock price increase since FY16 is a clear illustration of a combination of a high discount entry stock price and underlying growth in future years. The discount was historically high in FY16, at 86%, but the underlying portfolio has appreciated at a 19% CAGR per year since then, and the discount narrowed to 66% by H1FY22. For BAC stock, these two positive levers proved to be quite effective. During this time, it achieved a strong 33% CAGR. Hence, it validates our hypothesis that, in order to achieve better holdco returns, the stock's entry price should represent historically high discount levels, and the underlying portfolio should increase rapidly after that.
- The stock is currently trading at a 69% discount, which is not very high compared to its historical discount levels. As a result, we do not recommend buying the stock at current prices. The stock should be monitored for entry at higher discount levels.

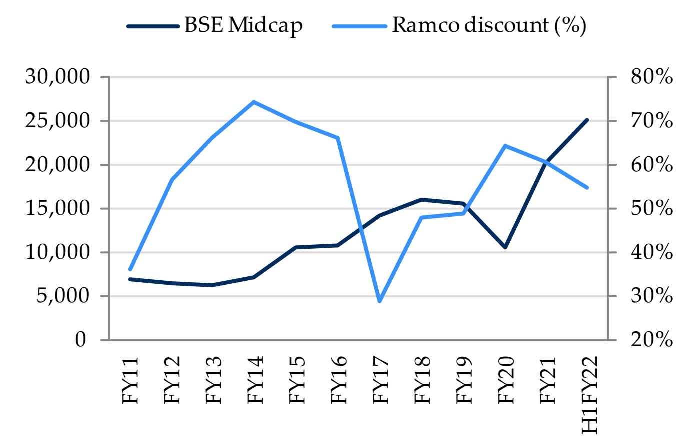
Ramco Industries

- Ramco Industries Ltd is a part of the Ramco Group, a USD 1bn conglomerate with interests in cement, dry wall and ceiling products, roofing, cotton yarn, surgical cotton, and computer software.
- With 12 manufacturing units, Ramco Industries is one of the biggest building materials manufacturers in South Asia. It also has stakes in the following listed group companies:

Stocks	% Shareholding
The Ramco Cement Ltd	22.4%
Rajapalaym Mills	1.5%
Ramco Systems Ltd	17.8%

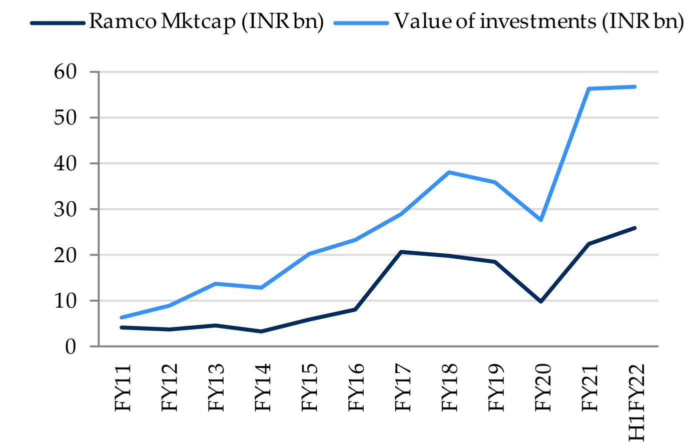
As on 30th Nov'21	Values
Value of investments	INR 52.0 bn
Market cap	INR 21.1 bn
Discount	59%

Holdco discount's variation with BSE midcap



Source: HSIE Research, BSE

Holdco market cap movement with investment portfolio



Source: HSIE Research, Company

Observations:

- Ramco's underlying portfolio has grown at a steady rate since FY11, with a CAGR of 23.5%. However, as the discount was substantially lower during FY11 at 36%,hence Ramco Holdco's return for last ten years was relatively lower at 19% CAGR.
- Furthermore, over the last 5.5 years (FY16-H1FY22), the underlying investment portfolio expanded at a CAGR of 17.5%, but Ramco Holdco grew at a significantly quicker pace of 24%. This was due to the fact that increase in the value of the investment portfolio was reinforced by a discount reduction from 66% to 55% during this time period.
- As we can see from the table above, the discount is currently not very high (59% as of Nov'21). It has slightly corrected from recent highs in FY20 but has already produced significant gains. As a result, the current discount level does not provide us with any appealing opportunity for further decrease that could be beneficial to stock appreciation. As a result, we advise against buying in the company at current prices and instead waiting for better entry chances in the future.

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Disclosure:

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