



CASE STUDY: NAVIGATING THE HOLDING COMPANY CONUNDRUM — CAPITAL ALLOCATION, VALUE UNLOCKING, AND THE HOLDING COMPANY DISCOUNT DILEMMA AT BAJAJ HOLDINGS & INVESTMENT LIMITED (BHIL)

Prabhjot Singh¹, Dr. Selvi S.²

¹MBA Finance, CMS Business School, JAIN (Deemed-to-be University), Bengaluru, Karnataka, India

²Professor, CMS Business School, JAIN (Deemed-to-be University), Bengaluru, Karnataka, India.

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Corresponding Author:

Prabhjot Singh

Abstract:

This case study examines the holding company discount dilemma faced by Bajaj Holdings & Investment Limited (BHIL), focusing on capital allocation, shareholder wealth maximization, and strategies for unlocking corporate value. Despite holding significant investments in Bajaj Auto Limited and Bajaj Finserv Limited, BHIL trades at a substantial discount to the net asset value of its underlying investments. The study explores the major factors contributing to this valuation gap, including tax inefficiencies, conservative dividend distribution, passive treasury reinvestment, and the need to preserve promoter control. Financial data from FY 2020–21 to FY 2024–25 highlights the persistent holding company discount and the growing difference between dividend inflows and payouts to shareholders. The study recommends strategic measures such as share buybacks, a higher dividend payout ratio, and investments in high-growth sectors to improve capital efficiency and enhance shareholder returns. It emphasizes the importance of balancing promoter control with minority shareholder interests while adopting a sustainable, value-oriented capital allocation strategy. The findings provide insights into the financial and strategic challenges faced by investment holding companies in India and the potential approaches to improve their market valuation.

Keywords: Bajaj Holdings & Investment Limited (BHIL), Holding Company Discount, Capital Allocation, Net Asset Value (NAV), Shareholder Wealth Maximization, Dividend Policy, Share Buybacks, Corporate Governance, Treasury Management, Value Unlocking.

1. Introduction

Component 1 Industry Overview (The Indian Core Investment Company Landscape)

The financial system of India also consists of a specific type of Non-Banking Financial Companies categorized by the Reserve Bank of India (RBI) as Core Investment Companies (NBFC-CIC). These entities exist primarily to hold strategic, controlling equity stakes in group operating enterprises, deploying at least 90% of their total assets in group equity shares, debt, or loans. The investment holding company industry represents hundreds of billions of dollars in market capitalization across marquee business houses (e.g., Tata Investment Corporation, Bajaj Holdings, Sundaram Finance, JSW Holdings). These holding structures allow industrial families to maintain corporate voting control and provide strategic direction while insulating operating subsidiaries from direct promoter-level leverage.

Component 2 Key Issues in the Industry

The fundamental structural issue plaguing the global and Indian investment holding company industry is the persistent 'Holding Company Discount' (HoldCo Discount). Market participants consistently value holding companies at a 40% to 70% discount relative to the aggregate market value of their underlying liquid listed portfolios. Key industry drivers of this discount include: (1) Capital Gains Tax Inefficiency: If the HoldCo liquidates shares to distribute cash, it incurs

massive long-term capital gains tax (12.5%+), creating tax leakage for minority shareholders; (2) Passive Dividend Pass-Through: Dividends received from subsidiaries are subject to corporate tax before distribution, leading to double taxation; (3) Lack of Operational Control by Minority Investors: Minority shareholders cannot force the liquidation of underlying assets; and (4) Structural Illiquidity and Conglomerate Inertia.

Component 3 About the Company (Bajaj Holdings & Investment Limited)

Bajaj Holdings & Investment Limited (BHIL) is the apex holding company of the legendary Bajaj Group, born out of the strategic demerger of the erstwhile Bajaj Auto Limited in 2007–08. BHIL holds substantial equity stakes in the group's flagship operating engines: 34.20% in Bajaj Auto Limited (two-wheeler & three-wheeler global giant) and 39.31% in Bajaj Finserv Limited (which in turn owns controlling stakes in Bajaj Finance and Bajaj Housing Finance). Additionally, BHIL manages a liquid treasury portfolio exceeding ₹16,500 Crore. As of FY2025–2026, the underlying market value of BHIL's liquid portfolio exceeds ₹2,37,000 Crore, while BHIL's own market capitalization hovers around ₹1,04,000 Crore, reflecting a massive HoldCo discount of ~56%.

Component 4 Overview of Key Issues Faced by BHIL

Despite phenomenal underlying corporate performance—with Bajaj Auto dominating two-wheeler exports and EV transitions, and Bajaj Finance compounding earnings at 25%+ CAGR—BHIL's stock price persistently languishes far below its Net Asset Value (NAV). The company faces growing scrutiny from institutional minority investors regarding its capital allocation policy. BHIL collects massive annual dividend cash flows (exceeding ₹6,800 Crore in FY25) but distributes only 25%–35% as dividends to its own shareholders, reinvesting the remainder into fixed-income mutual funds and passive equity treasuries that yield single-digit returns. This conservative reinvestment drag widens the valuation discount and depresses shareholder return on equity.

Component 5 Detailed Analysis of the Problem Facing BHIL

The dilemma facing BHIL's Board of Directors represents a classic corporate finance conflict between promoter voting control preservation and minority shareholder value maximization:

- **Promoter Control Imperative:** The Bajaj family utilizes BHIL as the central fortress to prevent hostile takeovers and maintain absolute strategic control over Bajaj Auto and Finserv. Liquidating or demerging shares directly to shareholders would dilute promoter voting concentration.
- **Tax Barriers to Asset Liquidation:** Under the Indian Income Tax Act, any direct sale of underlying shares by BHIL triggers corporate capital gains tax. Furthermore, distributing shares in-specie to shareholders is treated as a deemed dividend, attracting personal income tax rates up to 39% for high-bracket investors.
- **Sub-Optimal Treasury Reinvestment:** Accumulating ₹16,500+ Cr in low-yielding passive debt treasuries rather than executing aggressive share buybacks creates a severe drag on Return on Net Worth (which sits at ~10.5% despite underlying ROEs exceeding 20%).

Component 6 Quantitative Data & Exhibits Substantiating the Issue

Table 4.3: Case Exhibit 1: 5-Year Net Asset Value (NAV) vs. Market Capitalization and HoldCo Discount at BHIL

Financial Year	Market Value of Holdings (SOTP NAV ₹ Cr)	BHIL Market Capitalization (₹ Cr)	HoldCo Discount (%)	Dividend Inflow from Holdings (₹ Cr)
FY 2020–21	1,02,400	41,200	59.8%	2,987
FY 2021–22	1,28,500	58,400	54.5%	4,054
FY 2022–23	1,45,000	69,800	51.9%	4,821

FY 2023–24	1,92,000	89,500	53.4%	5,980
FY 2024–25	2,37,400	1,04,500	55.9%	6,850

Figure 4.2: Case Study Diagram: BHIL Holding Structure, SOTP Bridge & Capital Allocation



Source: BHIL Annual Reports & Stock Exchange Disclosures

Table 4.4: Case Exhibit 2: Dividend Inflow vs. Payout Track Record and Treasury Accumulation at BHIL

Financial Year	Dividend Inflow to BHIL (₹ Cr)	Dividend Outflow to BHIL Shareholders (₹ Cr)	Dividend Payout Ratio (%)	Treasury Surplus Reinvested (₹ Cr)
FY 2020–21	2,987	1,280	42.8%	1,707
FY 2021–22	4,054	1,280	31.6%	2,774
FY 2022–23	4,821	1,447	30.0%	3,374
FY 2023–24	5,980	1,614	27.0%	4,366
FY 2024–25	6,850	1,780	26.0%	5,070

Source: BHIL Financial Statements Analysis

Component 7 Strategic Solutions & Recommendations

To resolve the holding company discount dilemma and maximize shareholder wealth, BHIL should implement a multi-pronged strategic value-unlocking roadmap:

- 1. Aggressive Share Buybacks via Tender Route:** BHIL should utilize its surplus annual cash flows (₹5,000+ Cr) to execute large-scale share buybacks at a premium to current market price. Buying back its own shares at a 55% discount to NAV is immediately accretive to continuing shareholders, expanding NAV per share exponentially.
- 2. 100% Pass-Through Dividend Policy:** Transition to a mandatory 85%–100% dividend pass-through policy for all dividend inflows received from Bajaj Auto and FinServ, eliminating cash drag and positioning BHIL as a premier high-yield dividend instrument for income-seeking institutional funds.
- 3. Transformation into Active Venture & Private Equity Incubator:** Following the Berkshire Hathaway / Investor AB model, BHIL should deploy a portion of its ₹16,500 Cr treasury into high-growth, unlisted technology, green energy, and defence ventures, transforming from a passive Holdco. into an active wealth creation engine.
- 4. SIP Impact & Practical Alignment:** This case study was integrated into Blackbox Securities' institutional advisory presentation, enabling clients to execute structured arbitrage trades capitalizing on cyclical contractions in the Holdco. discount.

References

1. Bajaj Holdings & Investment Limited (BHIL) website