RESULT REVIEW

BUY
TP: Rs 1,133 | ⮝ 18%

BAJAJ FINANCE | NBFC | 25 July 2025

Asset quality concerns in near term

- **GNPA and NNPA increased 16bps YoY (7bps QoQ) and 11bps YoY (5bps QoQ) in Q1FY26 to 1.03% and 0.49% respectively**
- **Credit cost increased to 2.3% vs 2% in Q1FY25 — primarily on account of elevated stress in 2Ws, 3Ws and MSME businesses**
- **Maintain BUY on BAF with TP of Rs 1,133, assigning Jun'27E P/BV of 4.5x on a standalone entity**

Vijiya Rao | Niraj Jalan
research@bobcaps.in

A sudden increase in the credit cost: GNPA and NNPA increased 16bps YoY (7bps QoQ) and 11bps YoY (5bps QoQ) in Q1FY26 to 1.03% and 0.49% respectively. Credit cost rose to 2.3% vs 2% in Q1FY25. This was primarily due to elevated stress in the 2W & 3W and MSME businesses. Further, the company witnessed an increase in net stage 2 and 3 assets during the quarter to the tune of Rs 8,780 mn, which included Rs 2,190 mn flowing from the restructured standard accounts. It continues to closely monitor for the consumer leverage across product portfolio, which is an area of concern for the company and which may have slowed down the disbursements during the quarter. BAF expects the AUM growth for 2W & 3W and MSME businesses to be lower in FY26E. It must be noted that the company has guided credit cost in the 1.85-1.95% range in FY26 vs credit cost guidance of 1.75- 1.85% in FY25 vs the actual credit cost of 2.33% in FY25. Management commentary remained cautious and refrained from giving guidance on the credit cost for the ensuing quarters citing a fluid situation and preferring to reassess in the next quarter.

Succession plans to be watched out for: The new CEO, Mr. Anup Saha, in a surprise move stepped down in July'25, just 3 months after taking charge (took charge in Apr'25), due to personal reasons. However, in response, former MD, Mr. Rajeev Jain recently elevated as Executive VC — resumed the role of Executive VC & MD until March 2028. Mr. Jain's continued presence, along with a seasoned senior management team, is expected to ensure a smooth near-term transition. However, succession planning remains a key medium-term focus. Going ahead, the company is expected to come up with a succession in the six months. However, the new MD would take charge only in FY28.

Maintain BUY: The company reported a deterioration in the asset quality in some of the segments resulting in elevated credit costs; thereby raising concerns in the near term. However, on the operating performance front it was a steady quarter. Hence, we have largely maintained our estimates and would like to wait for another two quarters to reassess. Hence, we maintain BUY on BAF with Target Price of Rs 1,133, assigning a multiple of 4.5x to its Jun'27E P/BV on standalone entity.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	BAF IN/Rs 959
Free float	44%
3M ADV	US$ 40.5mn
52wk high/low	Rs 937/Rs 643
Promoter/FPI/DII	56%/20%/13%

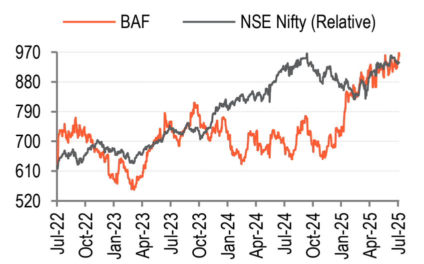
Source: NSE | Price as of 24 Jul 2025

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
NII (Rs mn)	3,63,928	4,47,031	5,67,729
NII growth (%)	23.0	22.8	27.0
Adj. net profit (Rs mn)	1,67,617	2,06,556	2,61,073
EPS (Rs)	27.0	33.0	41.4
Consensus EPS (Rs)	NA	NA	NA
P/E (x)	35.5	29.0	23.2
P/BV (x)	6.2	5.1	4.2
ROA (%)	4.0	4.1	4.3
ROE (%)	19.4	19.2	19.8

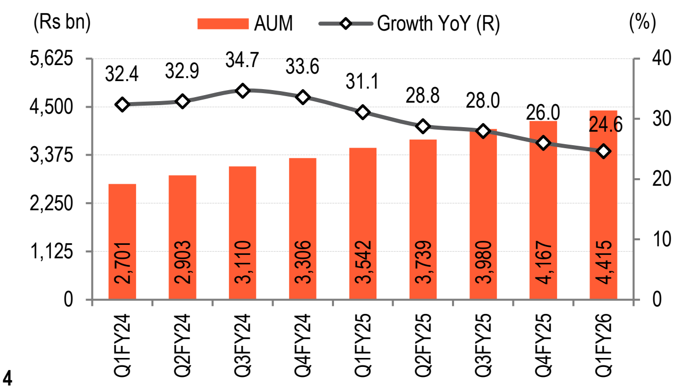
Source: Company, Bloomberg, BOBCAPS Research

Stock performance



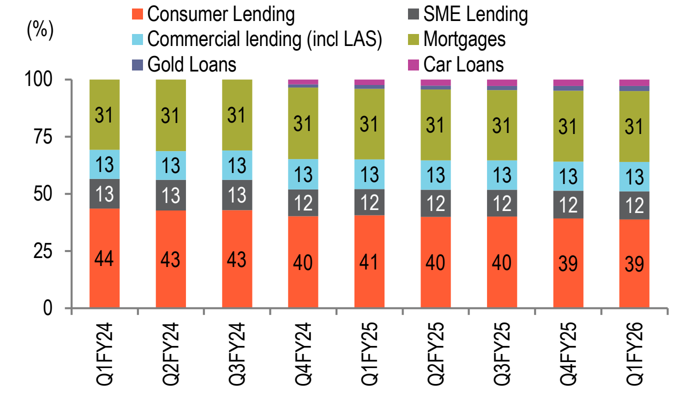
Source: NSE

Fig 1 – AUM growth inline with mgmt. expectations



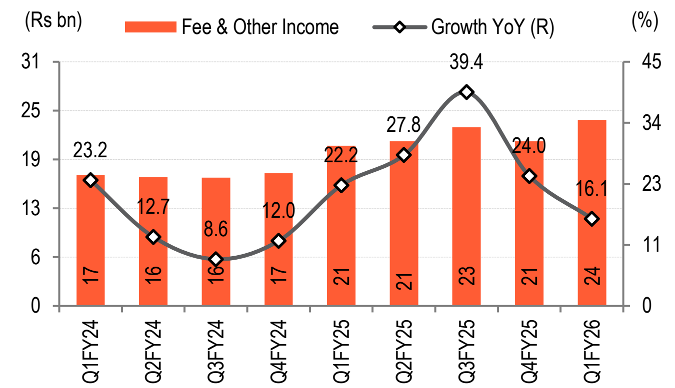
Source: Company, BOBCAPS Research

Fig 2 – AUM mix remains largely stable



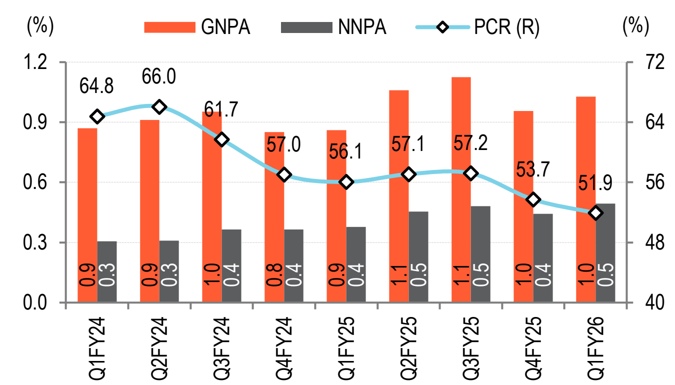
Source: Company, BOBCAPS Research

Fig 3 – Fees and Other income grew at 24% YoY



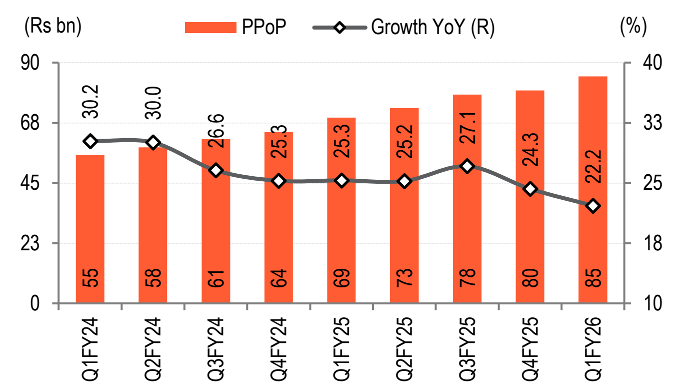
Source: Company, BOBCAPS Research | AUF: Assets under Finance

Fig 4 – Stable asset quality with above-expectations GNPA



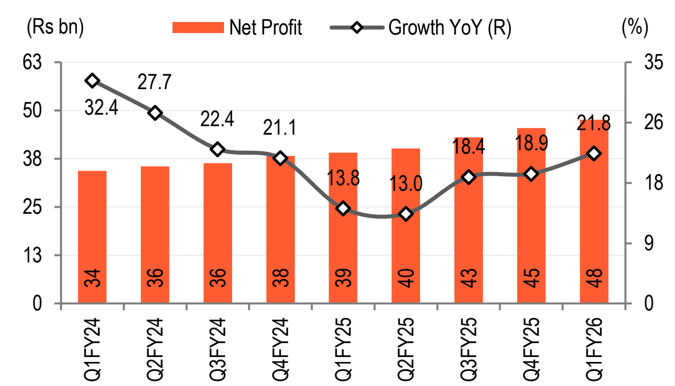
Source: Company, BOBCAPS Research

Fig 5 – Strong PPOP growth YoY in FY25



Source: Company, BOBCAPS Research

Fig 6 – Net profit grew 19%YoY, including two one-offs



Source: Company, BOBCAPS Research

Fig 7 – Profit and Loss Account

Consolidated (Rs mn)	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	YoY (%)	QoQ (%)
Interest Income	1,17,321	1,25,233	1,32,301	1,40,492	1,49,870	1,57,682	1,63,591	1,71,447	22.0	4.8
Interest Expenses	45,371	48,680	52,171	56,839	61,493	63,856	65,520	69,177	21.7	5.6
Net Interest Income (NII)	**71,951**	**76,553**	**80,130**	**83,653**	**88,377**	**93,826**	**98,072**	**1,02,270**	**22.3**	**4.3**
Fee and Commission Income	13,119	12,905	13,244	15,242	14,264	15,106	15,217	17,840	17.0	17.2
Net gain on fair value changes	711	684	784	1,034	1,484	1,646	1,227	2,253	117.9	83.6
Sale of services	135	89	88	285	92	34	(139)	98	(65.7)	-
Recovery of assets written off	-	-	-	437	1,657	1,862	1,565	915	109.3	(41.5)
Other Income	2,531	2,748	2,903	3,533	3,588	4,253	3,227	2,726	(22.9)	(15.5)
Total Income	**88,447**	**92,980**	**97,149**	**1,04,185**	**1,09,461**	**1,16,727**	**1,19,168**	**1,26,101**	**21.0**	**5.8**
Employee Costs	15,875	16,618	16,497	17,748	18,348	19,555	19,432	21,026	18.5	8.2
Fees & Commission expenses	4,730	4,706	5,196	5,542	6,292	6,853	7,289	7,675	38.5	5.3
Depreciation	1,585	1,758	1,930	1,998	2,100	2,191	2,520	2,515	25.9	(0.2)
Other expenses	7,910	8,477	9,405	9,421	9,649	10,070	10,252	10,015	6.3	(2.3)
Total Operating Expenses	**30,100**	**31,557**	**33,028**	**34,709**	**36,390**	**38,670**	**39,493**	**41,230**	**18.8**	**4.4**
PPOP	**58,347**	**61,422**	**64,121**	**69,475**	**73,071**	**78,057**	**79,675**	**84,871**	**22.2**	**6.5**
Provisions & Writeoffs	10,771	12,484	13,100	16,847	19,091	20,433	23,289	21,202	25.9	(9.0)
PBT	**47,576**	**48,939**	**51,021**	**52,628**	**53,980**	**57,624**	**56,386**	**63,668**	**21.0**	**12.9**
Taxes	12,070	12,566	12,806	13,534	13,877	14,572	11,018	16,023	18.4	45.4
PAT	**35,508**	**36,390**	**38,245**	**39,120**	**40,137**	**43,082**	**45,456**	**47,653**	**21.8**	**4.8**

Source: Company, BOBCAPS Research

Fig 8 – Key Parameters and Product Mix

Particulars	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	YoY (%)	QoQ (%)
AUM Mix (Rs mn)										
Bajaj Finance	21,48,910	23,20,400	24,48,260	26,18,280	27,50,430	29,33,700	30,88,320	32,54,380	24.3	5.4
Housing	8,12,150	8,59,290	9,13,700	9,70,710	10,25,690	10,83,140	11,46,840	12,04,200	24.1	5.0
Consolidated AUM	**29,02,640**	**31,09,680**	**33,06,150**	**35,41,920**	**37,39,240**	**39,80,430**	**41,66,610**	**44,14,500**	**24.6**	**5.9**
Consolidated AUM (Rs mn)										
Consumer B2B -Auto Finance	1,65,480	1,93,840	1,97,420	1,96,890	1,89,600	1,89,720	1,73,190	1,57,030	(20.2)	(9.3)
Consumer B2B - Sales Finance	2,29,730	2,44,850	2,34,480	2,69,750	2,71,690	2,91,490	2,91,090	3,28,390	21.7	12.8
Consumer B2C	5,81,780	6,17,050	6,60,930	7,16,280	7,72,390	8,31,430	8,76,960	9,23,330	28.9	5.3
Rural B2B - Sales Finance	55,340	61,660	62,090	75,530	72,800	79,550	79,440	90,570	19.9	14.0
Rural B2C	2,08,800	2,14,260	1,76,070	1,80,490	1,88,150	2,01,350	2,14,670	2,14,050	18.6	(0.3)
SME	3,86,730	4,13,960	3,84,700	4,07,910	4,43,820	4,69,430	5,03,450	5,40,940	32.6	7.4
Securities Lending	1,69,860	1,92,050	2,20,380	2,20,430	2,33,590	2,52,620	2,53,770	2,72,250	23.5	7.3
Commercial Lending	1,95,580	2,06,720	2,20,060	2,35,890	2,46,150	2,60,570	2,77,600	2,98,830	26.7	7.6
Mortgages	9,09,340	9,65,290	10,33,160	10,96,710	11,58,360	12,20,190	12,94,610	13,63,770	24.4	5.3
Gold Loans	0	0	45,990	54,940	63,630	72,670	83,070	99,890	81.8	20.2
Car Loans	0	0	70,870	87,100	99,060	1,11,410	1,18,760	1,25,450	44.0	5.6
Total Consolidated AUM	**29,02,640**	**31,09,680**	**33,06,150**	**35,41,920**	**37,39,240**	**39,80,430**	**41,66,610**	**44,14,500**	**24.6**	**5.9**
GNPA (%)	0.91	0.95	0.85	0.86	1.06	1.12	0.96	1.03	16bps	7bps
NNPA (%)	0.31	0.36	0.37	0.38	0.45	0.48	0.44	0.49	*11bps*	*5bps*
Provision coverage ratio (%)	66.0	61.7	57.0	56.1	57.1	57.2	53.7	51.9	(414bps)	(180bps)
New Loans booked (mn)	8.5	9.9	7.9	11.0	9.7	12.1	10.7	13.5	23.0	26.1

Source: Company, BOBCAPS Research

Earnings call takeaways

Net Interest Margin

- Management attributed the recent NIM decline is due to liquidity buffers being deployed into mutual funds, with the associated income recorded separately, resulting in flattish NIM on a comparable basis.
- Management maintained a flattish NIM outlook but indicated a possible 5 bps–10 bps expansion, supported by a 50-bps rate cut in June 2025 and declining cost of funds (CoF) in H2 FY26.

Operational highlights

- NII grew 22% YoY and 4% QoQ to Rs 102.3 bn vs our estimate of Rs 102.9 bn in Q1FY26.
- AUM grew 25% YoY (up 6% QoQ). This was primarily aided by gold loans (up 82% YoY/ 20% QoQ) and car loans (up 44% YoY/ 6% QoQ) on a lower base.
- CoF declined by 20 bps sequentially to 7.79%, management expects it to further reduce to 7.6%–7.65% going forward.
- Other income declined by 23% YoY to Rs 2,730 mn, due to a one-off NPA sale in Q1FY25 that inflated the base.
- Rs 790 mn fair value additional gain, due to fair value change was recorded from MTM gains on mutual fund investments, driven by strong equity performance.
- Non-interest income is expected to grow by 13%–15% for FY26.
- The PCR declined from 53.73% to 52%, primarily due to restructuring of Rs 2,190 mn worth of standard accounts.
- Gross and net NPAs stood at 1.03% and 0.5%, respectively.
- Mortgages contribute ~31% to the total loan book, while gold loans contribute 2.3%.
- Deposit contribution to the balance sheet decreased from 20% to 19% and is expected to fall further to 15%–16%.
- Management highlighted that on the liability side, because of rate cuts, there has been a 90 bps improvement in NCDs, with NCD rates dropping from 8% to around 7–7.1%, and 85% of bank borrowings, which linked to external benchmarks has full transmission. The remaining 15%, which are linked to MCLR rates, has seen partial transmission. An 80-90 bps improvement was observed in CP rates.
- Management expects a slowdown in BHFL, 2W and 3W financing, and MFI segments in FY26.

Asset quality

- Stage 2 assets rose by Rs 3,240 mn, largely due to MSME restructuring offered to customers facing short-term cash flow issues, with Rs 2,190 mn restructured from standard accounts.

- Credit costs remained elevated at 2.02%, 5 bps higher QoQ and flat YoY. However, management guided the credit cost to fall to1.85%–1.95% for FY26.
- Credit costs will likely remain flattish in Q2FY26 and are expected to start declining from Q3FY26.

BHFL performance snapshot

- BHFL reported robust AUM numbers growing 24% YoY, at Rs 1,204.2 bn. Of which home loans AUM grew by 21%, LAP grew by 30%, lease rental discounting by 29% and developer finance by 32%.
- In Q1FY26, cost of funds stood at 7.73%, reduced by 21 bps on a sequential basis, due to incremental borrowing at a lower rate and transmission benefit on existing borrowings.
- Gross NPA came in at 30 bps and NNPA at 13 bps.
- Capital adequacy ratio stood at 26.94% as of Q1FY26. Tier-1 capital came in at 26.43%.

Others

- Karnataka remains a concern as it contributes ~11% to the company's balance sheet.
- Used car and new car loans together deliver a return on equity (ROE) of 13%–14%.
- Anup Kumar Saha has resigned from his role as Managing Director, citing personal reasons.

Valuation Methodology

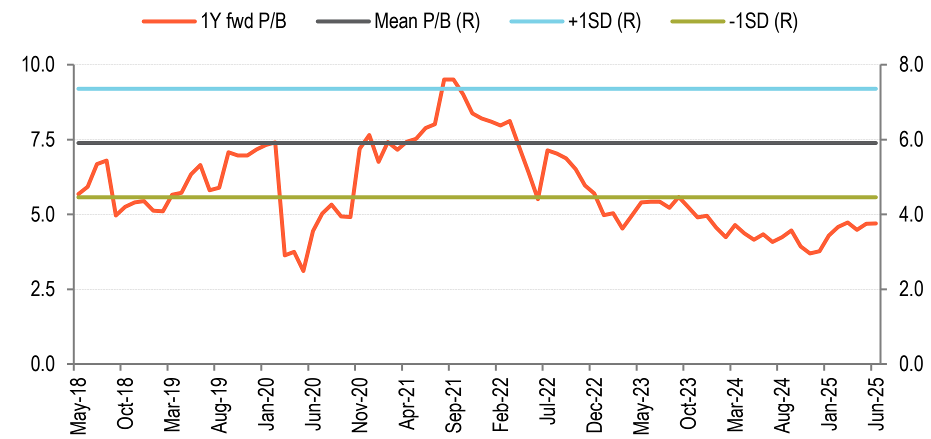
Maintains BUY: The company reported a deterioration in the asset quality in some of the segments resulting in elevated credit costs; thereby raising concerns in the near term. However, on the operating performance front, it was a steady quarter. Hence, we have largely maintained our estimates and would like to wait for another two quarters to reassess. Hence, we maintain BUY on BAF with TP of Rs 1,133, assigning a multiple of 4.5x to its Jun'27E P/BV on standalone entity.

Fig 9 – Actual vs Estimates

(Rs mn)	Q1FY26A	Q1FY26E	Variance (%)
Net Interest Income	1,02,270	1,02,891	(0.6)
Other Income	23,831	22,505	5.9
Operating Expenses	41,230	41,041	0.5
Pre-Provisioning Profit (PPoP)	84,871	84,355	0.6
PAT	47,653	46,714	2.0
AUM	44,14,500	44,14,000	0.0

Source: Company, BOBCAPS Research

Fig 10 – P/B Band



Source: Company, BOBCAPS Research

Key risks

- **Intensifying competition:** Based on a wide product suite, solid execution capabilities, and robust demand for credit in its target industries, we expect BAF to achieve 20%+ loan growth in the medium term. However, above-expected competition, particularly from banks and other financial institutions, could weigh on performance, affecting our earnings, margin and valuation assumptions.
- **Deteriorating asset quality:** Between FY19 and FY24, BAF's GNPA and NNPA averaged just 1.4% and 0.6% respectively. Asset quality may decline because of slow economic growth or the recurrence of a pandemic (such as Covid) or a particular business segment.
- **Higher delinquency in new segments:** The company entering the higher risk microfinance and tractor financing markets could pose risks to asset quality.

- **Regulatory headwinds:** According to the RBI's scale-based NBFC framework published in 2022, BAF (along with 15 others) has been classified as an upper layer NBFC that must adhere to enhanced regulation. It cannot, for instance, lend more than 20% to one entity and more than 25% to a group of entities. In future, the RBI may even direct the company to transition from an NBFC into a bank, which would entail maintaining CRR, SLR and PSL – strictures that NBFCs aren't subject to and which would impact profitability, in our view.

Glossary

Glossary of Abbreviations			
AUF	Assets Under Finance	**LRD**	Lease Rental Discounting
AUM	Assets Under Management	**MDR**	Merchant Discount Rate
CIF	Cards in Force	**MSME**	Micro, Small & Medium Enterprises
CRR	Cash Reserve Ratio	**PSL**	Priority Sector Lending
ECL	Expected Credit Loss	**SLR**	Statutory Liquidity Ratio
EMI	Equated Monthly Installment	**UPI**	Unified Payment Interface
LAP	Loan Against Property		

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Net interest income	**2,95,819**	**3,63,928**	**4,47,031**	**5,67,729**	**7,32,665**
NII growth (%)	28.7	23.0	22.8	27.0	29.1
Non-interest income	66,759	85,612	95,205	1,09,125	1,24,423
Total income	3,62,578	4,49,540	5,42,236	6,76,854	8,57,088
Operating expenses	1,23,252	1,49,261	1,79,036	2,21,022	2,71,105
PPOP	2,39,326	3,00,279	3,63,200	4,55,832	5,85,983
PPOP growth (%)	27.9	25.5	21.0	25.5	28.6
Provisions	46,307	79,660	88,235	1,11,375	1,34,959
PBT	1,93,019	2,20,618	2,74,965	3,44,457	4,51,024
Tax	48,584	53,002	68,408	83,384	1,17,277
Reported net profit	**1,44,435**	**1,67,617**	**2,06,556**	**2,61,073**	**3,33,747**
Adjustments	0	0	0	0	0
Adjusted net profit	**1,44,435**	**1,67,617**	**2,06,556**	**2,61,073**	**3,33,747**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Equity capital	1,236	1,242	6,209	6,209	6,209
Reserves & surplus	7,65,718	9,65,687	11,67,159	14,20,125	17,44,457
Net worth	7,66,954	9,66,929	11,73,368	14,26,334	17,50,666
Debt securities	0	0	0	0	0
Borrowings	23,31,949	28,98,455	40,69,367	50,82,946	55,23,450
Other liab. & provisions	6,58,514	7,95,884	-	-	-
Total liab. & equities	**37,57,416**	**46,61,268**	**52,73,390**	**65,64,926**	**72,23,768**
Cash & bank balance	1,06,240	1,35,435	1,59,396	1,92,023	2,01,224
Investments	3,08,807	3,44,408	6,10,506	7,86,683	10,70,941
Advances	32,62,933	40,78,441	43,95,954	54,67,350	58,29,592
Fixed & Other assets	46,536	64,801	65,618	72,712	74,646
Total assets	**37,57,416**	**46,61,268**	**52,73,390**	**65,64,926**	**72,23,768**
Total debt growth (%)	7.6	24.3	40.4	24.9	8.7
Advances growth (%)	49.5	25.0	7.8	24.4	6.6

Per Share

Y/E 31 Mar (Rs)	FY24A	FY25A	FY26E	FY27E	FY28E
EPS	23.4	27.0	33.0	41.4	53.0
Dividend per share	36.0	56.0	0.6	0.7	0.8
Book value per share	124.1	155.8	189.0	229.7	282.0

Valuations Ratios

Y/E 31 Mar (x)	FY24A	FY25A	FY26E	FY27E	FY28E
P/E	41.0	35.5	29.0	23.2	18.1
P/BV	7.7	6.2	5.1	4.2	3.4
Dividend yield (%)	3.8	5.8	0.1	0.1	0.1

DuPont Analysis

Y/E 31 Mar (%)	FY24A	FY25A	FY26E	FY27E	FY28E
Net interest income	9.1	8.6	9.0	9.6	10.6
Non-interest income	2.1	2.0	1.9	1.8	1.8
Operating expenses	3.8	3.5	3.6	3.8	4.0
Provisions	1.4	1.9	1.8	1.9	2.0
ROA	4.4	4.0	4.1	4.3	4.8
Leverage (x)	4.9	4.8	4.5	4.6	4.1
ROE	22.1	19.4	19.2	19.8	20.7

Ratio Analysis

Y/E 31 Mar	FY24A	FY25A	FY26E	FY27E	FY28E
YoY growth (%)					
Net interest income	28.7	23.0	22.8	27.0	29.1
Pre-provisioning profit	27.9	25.5	21.0	25.5	28.6
EPS	NA	NA	NA	NA	NA
Profitability & Return ratios (%)					
Net interest margin	9.1	8.6	9.0	9.6	10.6
Fees / Avg. assets	2.1	2.0	1.9	1.8	1.8
Cost-Income	34.0	33.2	33.3	33.2	32.2
ROE	22.1	19.4	19.2	19.8	20.7
ROA	4.4	4.0	4.1	4.3	4.8
Asset quality (%)					
GNPA	0.8	1.0	1.2	1.3	1.3
NNPA	0.4	0.4	0.5	0.5	0.0
Slippage ratio	NA	NA	NA	NA	NA
Credit cost	1.6	2.1	1.9	1.9	1.8
Provision coverage	57.0	53.7	53.4	53.4	0.0
Ratios (%)					
Loans to Total debt	NA	NA	NA	NA	NA
CAR	23.3	22.5	21.1	19.6	19.3
Tier-1	22.0	21.4	20.2	18.8	18.5

Source: Company, BOBCAPS Research

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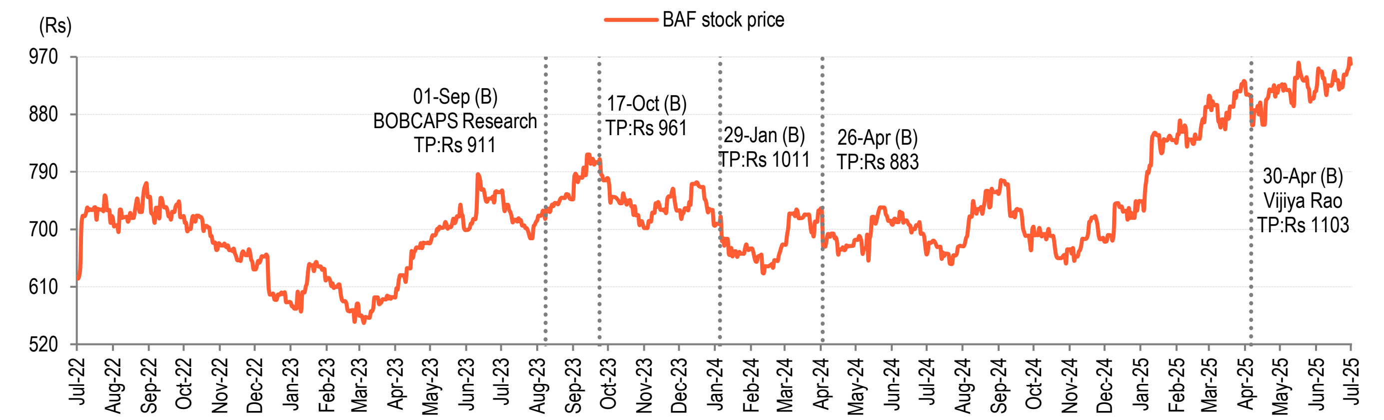
Recommendation scale: Recommendations and Absolute returns (%) over 12 months
BUY – Expected return >+15%
HOLD – Expected return from -6% to +15%
SELL – Expected return <-6%
Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): BAJAJ FINANCE (BAF IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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