

BUY

TP: Rs 1,329 | ▲ 22%

BAJAJ FINANCE

| NBFC

| 11 November 2025

Asset quality priority, credit growth moderated

- AUM rose 23.6% YoY, though guidance was cut to 22–23% amid MSME stress and revised BHFL growth outlook
- Credit cost remained stable at 2% - primarily on account of the rundown in 2Ws, 3Ws and MSME businesses
- Maintain BUY on BAF with TP of Rs 1,329, assigning Sept'27E P/BV of 5.1x on a standalone entity

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Lower than estimate performance: Bajaj Finance reported operating performance below our estimates in Q2FY26 with lower NII (0.3%), PPOP (1.2%) and PAT (1.6%). The company lowered AUM growth guidance to 22-23% in FY26E vs. the earlier expectations of 24-25%. This is primarily on account of emerging stress in the MSME business and revised assessment of AUM growth in BHFL, marking the slowest growth in recent years. MSME portfolio forms ~12% of the consolidated book. Management indicated that it maintains a cautious stance on the portfolio and now expects the book to grow in the 10-12% range in FY26E.

Other guidance - stable credit costs: The company maintained its credit cost guidance at 1.85-1.95% for FY26E and expects a significant improvement in FY27E. Credit cost was stable at 2% vs 2.1% in Q2FY25 vs 2.3% in Q4FY25, owing to the rundown of 2W and 3W finance and MSME delinquencies. The company has undertaken measures such as reducing unsecured MSME volumes by 25% to mitigate risk. Cost of funds is expected to be in the 7.55-7.6% range. Management remains confident of adding 16-17mn new customers to scale up customer franchise base.

Operating performance: BAF reported a PAT growth of 23% YoY (up 4% QoQ), coming in below our estimates. NII grew 22% YoY and 5% QoQ, aided by strong AUM growth of 24% YoY (5% QoQ). NIMs stood at 11.7% vs 11.8% in Q1FY26. Management indicated that going forward, margins will likely stay at the current levels.

Maintain BUY: The company reported performance below our expectations with continued deterioration in the asset quality in MSME and 2W and 3W finance portfolio, thereby raising concerns in the near term. However, we believe that the company's 'risk-first' approach to preserve asset quality and long-term sustainability is likely to bode well for growth going forward. Hence, we have largely maintained our estimates and would like to wait for its long-term guidance in Dec'25 to reassess. We maintain BUY on BAF with TP of Rs 1,329, assigning a multiple of 5.1x to its Sept'27E P/BV on standalone entity.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	BAF IN/Rs 1,085
Market cap	US\$ 7.5bn
Free float	44%
3M ADV	US\$ 82.0mn
52wk high/low	Rs 9,366/Rs 645
Promoter/FPI/DII	56%/20%/13%

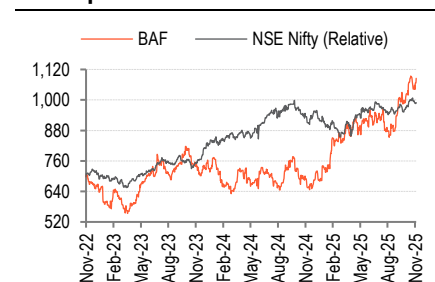
Source: NSE | Price as of 10 Nov 2025

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
NII (Rs mn)	3,63,928	4,38,700	5,50,033
NII growth (%)	23.0	20.5	25.4
Adj. net profit (Rs mn)	1,67,617	2,04,905	2,54,113
EPS (Rs)	27.0	32.8	40.4
Consensus EPS (Rs)	0.0	0.0	0.0
P/E (x)	40.1	33.1	26.9
P/BV (x)	7.0	5.8	4.8
ROA (%)	4.0	4.1	4.2
ROE (%)	19.4	19.0	19.4

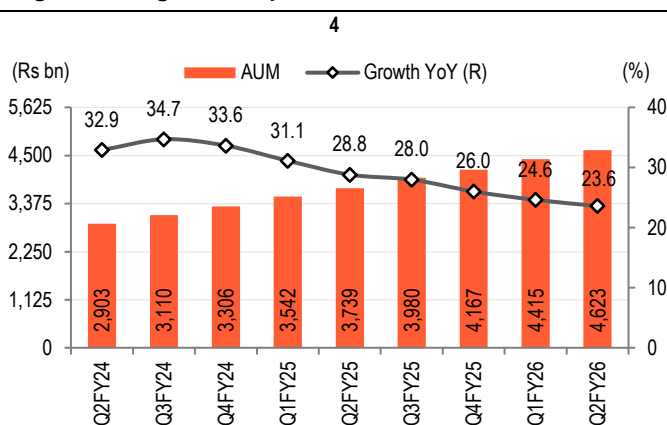
Source: Company, Bloomberg, BOBCAPS Research

Stock performance

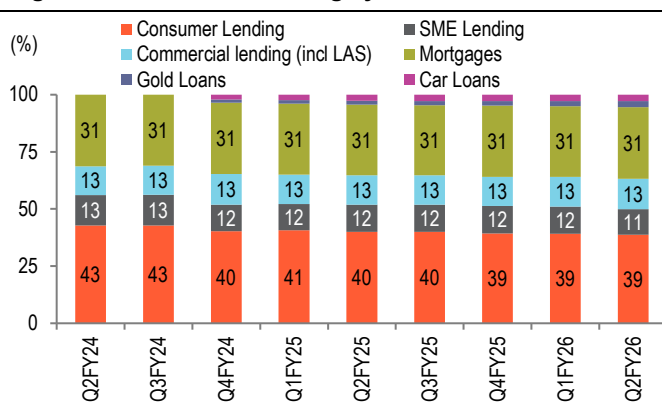


Source: NSE

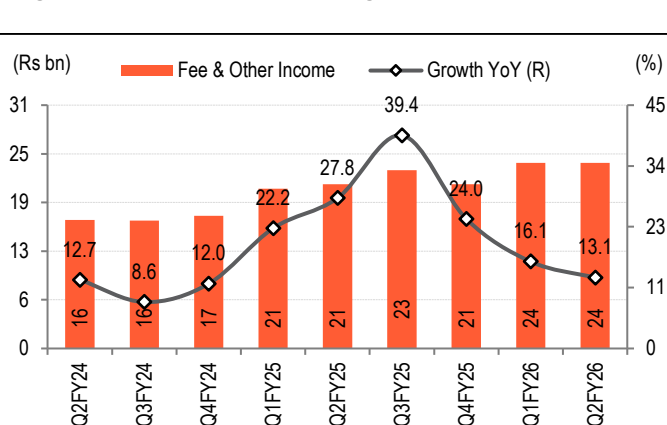


Fig 1 – AUM growth expected to be 22-23% in FY26

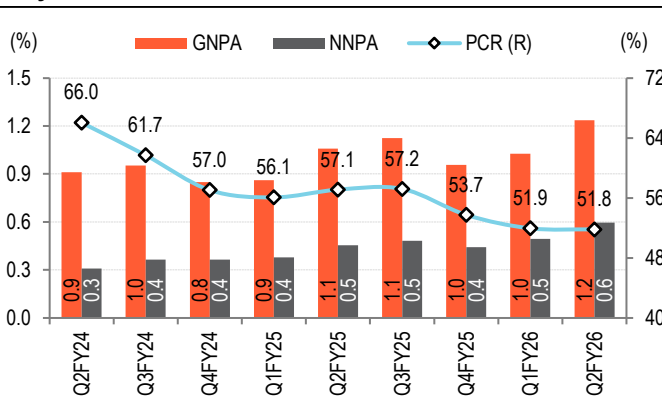
Source: Company, BOBCAPS Research

Fig 2 – AUM mix remains largely stable

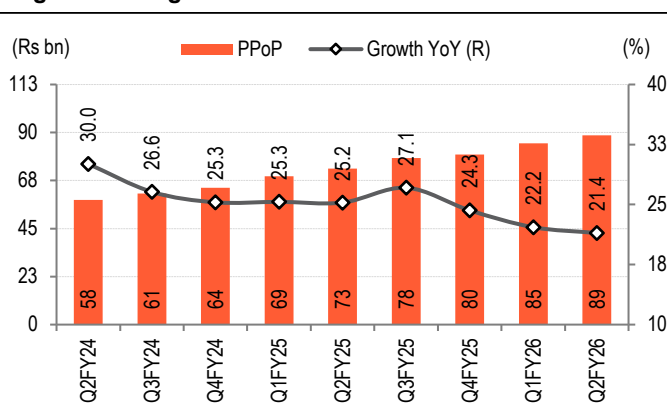
Source: Company, BOBCAPS Research

Fig 3 – Fees and other income grew at 13% YoY

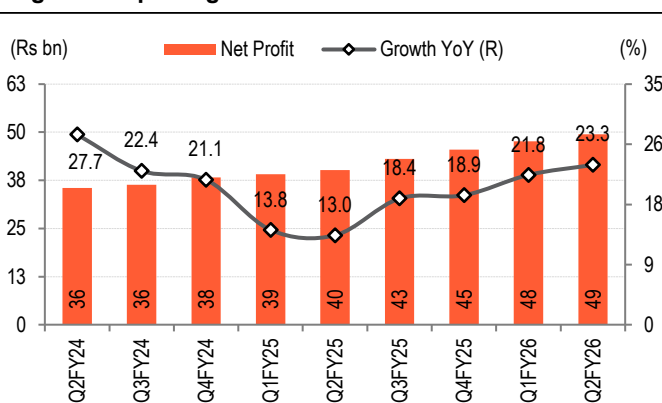
Source: Company, BOBCAPS Research | AUF: Assets under Finance

Fig 4 – GNPA higher in Q2FY26 vs Q1FY26 due to longer days count in Q2FY26

Source: Company, BOBCAPS Research

Fig 5 – PPOP grew 21.4% in Q2FY26

Source: Company, BOBCAPS Research

Fig 6 – Net profit grew 23.3%YoYin Q2FY26

Source: Company, BOBCAPS Research

Fig 7 – Profit and Loss Account

Consolidated (Rs mn)	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26	YoY (%)	QoQ (%)
Interest Income	1,25,233	1,32,301	1,40,492	1,49,870	1,57,682	1,63,591	1,71,447	1,77,960	18.7	3.8
Interest Expenses	48,680	52,171	56,839	61,493	63,856	65,520	69,177	70,113	14.0	1.4
Net Interest Income (NII)	76,553	80,130	83,653	88,377	93,826	98,072	1,02,270	1,07,847	22.0	5.5
Fee and Commission Income	12,905	13,244	15,242	14,264	15,106	15,217	17,840	17,800	24.8	(0.2)
Net gain on fair value changes	684	784	1,034	1,484	1,646	1,227	2,253	948	(36.1)	(57.9)
Sale of services	89	88	285	92	34	(139)	98	33	(64.4)	(66.6)
Recovery of assets written off	-	-	437	1,657	1,862	1,565	915	1,935	16.8	111.4
Other Income	2,748	2,903	3,533	3,588	4,253	3,227	2,726	3,133	(12.7)	15.0
Total Income	92,980	97,149	1,04,185	1,09,461	1,16,727	1,19,168	1,26,101	1,31,695	20.3	4.4
Employee Costs	16,618	16,497	17,748	18,348	19,555	19,432	21,026	21,545	17.4	2.5
Fees & Commission expenses	4,706	5,196	5,542	6,292	6,853	7,289	7,675	8,357	32.8	8.9
Depreciation	1,758	1,930	1,998	2,100	2,191	2,520	2,515	2,581	22.9	2.6
Other expenses	8,477	9,405	9,421	9,649	10,070	10,252	10,015	10,477	8.6	4.6
Total Operating Expenses	31,557	33,028	34,709	36,390	38,670	39,493	41,230	42,959	18.1	4.2
PPOP	61,422	64,121	69,475	73,071	78,057	79,675	84,871	88,736	21.4	4.6
Provisions & Writeoffs	12,484	13,100	16,847	19,091	20,433	23,289	21,202	22,688	18.8	7.0
PBT	48,939	51,021	52,628	53,980	57,624	56,386	63,668	66,048	22.4	3.7
Taxes	12,566	12,806	13,534	13,877	14,572	11,018	16,023	16,604	19.6	3.6
PAT	36,390	38,245	39,120	40,137	43,082	45,456	47,653	49,478	23.3	3.8

Source: Company, BOBCAPS Research

Fig 8 – Key Parameters and Product Mix

Particulars	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26	YoY (%)	QoQ (%)
AUM Mix (Rs mn)										
Bajaj Finance	23,20,400	24,48,260	26,18,280	27,50,430	29,33,700	30,88,320	32,54,380	33,81,210	22.9	3.9
Housing	8,59,290	9,13,700	9,70,710	10,25,690	10,83,140	11,46,840	12,04,200	12,67,490	23.6	5.3
Consolidated AUM	31,09,680	33,06,150	35,41,920	37,39,240	39,80,430	41,66,610	44,14,500	46,22,610	23.6	4.7
Consolidated AUM (Rs mn)										
Consumer B2B - Auto Finance	1,93,840	1,97,420	1,96,890	1,89,600	1,89,720	1,73,190	1,57,030	71,770	(62.1)	(54.3)
Consumer B2B - Sales Finance	2,44,850	2,34,480	2,69,750	2,71,690	2,91,490	2,91,090	3,28,390	3,35,500	23.5	2.2
Consumer B2C	6,17,050	6,60,930	7,16,280	7,72,390	8,31,430	8,76,960	9,23,330	9,66,080	25.1	4.6
Rural B2B - Sales Finance	61,660	62,090	75,530	72,800	79,550	79,440	90,570	88,380	21.4	(2.4)
Rural B2C	2,14,260	1,76,070	1,80,490	1,88,150	2,01,350	2,14,670	2,29,610	2,43,910	29.6	6.2
SME	4,13,960	3,84,700	4,07,910	4,43,820	4,69,430	5,03,450	5,25,380	5,17,180	16.5	(1.6)
Securities Lending	1,92,050	2,20,380	2,20,430	2,33,590	2,52,620	2,53,770	2,72,250	2,95,080	26.3	8.4
Commercial Lending	2,06,720	2,20,060	2,35,890	2,46,150	2,60,570	2,77,600	2,98,830	3,13,590	27.4	4.9
Mortgages	9,65,290	10,33,160	10,96,710	11,58,360	12,20,190	12,94,610	13,63,770	14,44,120	24.7	5.9
Gold Loans	-	45,990	54,940	63,630	72,670	83,070	99,890	1,17,890	85.3	18.0
Car Loans	-	70,870	87,100	99,060	1,11,410	1,18,760	1,25,450	1,31,630	32.9	4.9
Captive 2W & 3W finance	-	-	-	-	-	-	-	70,860	-	-
CV & Tractor finance	-	-	-	-	-	-	-	26,620	-	-
Total Consolidated AUM	31,09,680	33,06,150	35,41,920	37,39,240	39,80,430	41,66,610	44,14,500	46,22,610	23.6	4.7
GNPA (%)	0.95	0.85	0.86	1.06	1.12	0.96	1.03	1.24	17bps	20bps
NNPA (%)	0.36	0.37	0.38	0.45	0.48	0.44	0.49	0.60	14bps	10bps
Provision coverage ratio (%)	61.7	57.0	56.1	57.1	57.2	53.7	51.9	51.8	(532bps)	(15bps)
New Loans booked (mn)	9.9	7.9	11.0	9.7	12.1	10.7	13.5	12.2	25.6	(9.8)

Source: Company, BOBCAPS Research

Earnings Call Takeaways

Operational highlights

- AUM grew 23.6% YoY (up 4.7% QoQ), primarily driven by gold loans (up 85% YoY and 18% QoQ) and car loans (up 33% YoY and 5% QoQ) on a lower base.
- Management expects AUM growth to be around 22%-23% for FY26, lower than the earlier guidance of 24%-25%, due to revised estimates for the BHFL business and emerging stress in MSME business.
- NII grew 22% YoY and 5% QoQ to Rs 107.8 bn vs our estimate of Rs 108.1 bn in Q2FY26.
- NIMs are expected to remain at similar levels, with the company passing on any incremental benefits to customers. Management highlighted a 27-bps improvement which was fully passed on to the customers in Q2FY26.
- The company witnessed strong momentum in consumption finance during the festive period (Navratri to Diwali), disbursing 6.3 mn consumer loans and recording 27% growth in volume and 29% growth in value vs the same period last year.
- Other operating income softened, mainly due to the flattening of bad debt recoveries, as Covid-period write-offs have been largely cleaned up through the recovery process over the last three years.
- Deposits book grew 5% YoY to Rs 69.8 bn as of Q2FY26, contributing 18% to consolidated borrowings. The company is reducing reliance on deposits in FY26 to optimise CoF.
- CoF came in at 7.52% and is expected to remain in the range of 7.55%-7.6% in FY26, with significant improvement expected in FY27.
- Management mentioned they have already factored in a 100-bps rate cut for CoF, and any further cuts in December or February are unlikely to have a material impact.
- Management expects MSME business to grow by 10%-12% in FY26.
- The company expects gold loan business to reach around Rs 160 bn by the end of FY26 from the current Rs 117.9 bn.
- Opex to net total income improved to 32.6% from 33.2% in Q2FY25.

Asset quality and credit cost

- GNPA for Q2FY26 stood at 1.59%, with management highlighting a seasonal rise due to longer day count in the quarter (two 31-day months), leading to an 18-20 bps increase in GNPA. Of this, captive 2W and 3W portfolios contributed around 12 bps, and the MSME segment contributed 6 bps. GNPA tends to be higher in Q2, due to longer day counts, while it is typically lower in Q4.
- Management guided credit costs to remain around 1.85%-1.95% levels.

BHFL performance snapshot

- BHFL reported robust AUM growth of 24% YoY to Rs 1,267.5 bn. Within this, mortgages AUM grew 24%, while urban B2C loans AUM and MSME lending AUM declined by 2% and 13% respectively.
- Loan losses and provisions were Rs 500 mn as against Rs 50 mn in Q2FY25.
- GNPA and NNPA for BHFL stood at 0.26% and 0.12% respectively, as against 0.29% and 0.12% in Q2FY25.

Others

- AI implementation has begun across all business lines and is expected to deliver cost and productivity benefits over the next 12-18 months.
- Around 40%-45% of monthly disbursements are now sourced through the app.
- Bajaj Finance added 4.13 mn new customers in Q2FY26 and aims to add 17 mn new customers by FY26.
- Board approved the elevation of Mr. Manish Jain as the 4th Deputy CEO, and he will be responsible for loans against securities, commercial lending, and the deposit business.

Valuation Methodology

Maintains BUY: The company reported performance below our expectations with continued deterioration in the asset quality in MSME and 2W and 3W finance portfolio, thereby raising concerns in the near term. However, we believe that the company's 'risk-first' approach to preserve asset quality and long-term sustainability is likely to bode well for growth going forward. Hence, we have largely maintained our estimates and would like to wait for its long-term guidance in Dec'25 to reassess. We maintain BUY on BAF with TP of Rs 1,329, assigning a multiple of 5.1x to its Sept'27E P/BV on standalone entity.

Fig 9 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
NII	4,38,700	5,50,033	4,47,031	5,67,729	(1.9)	(3.1)
PPOP	3,61,107	4,44,904	3,63,200	4,55,832	(0.6)	(2.4)
PAT	2,04,905	2,54,113	2,06,556	2,61,073	(0.8)	(2.7)

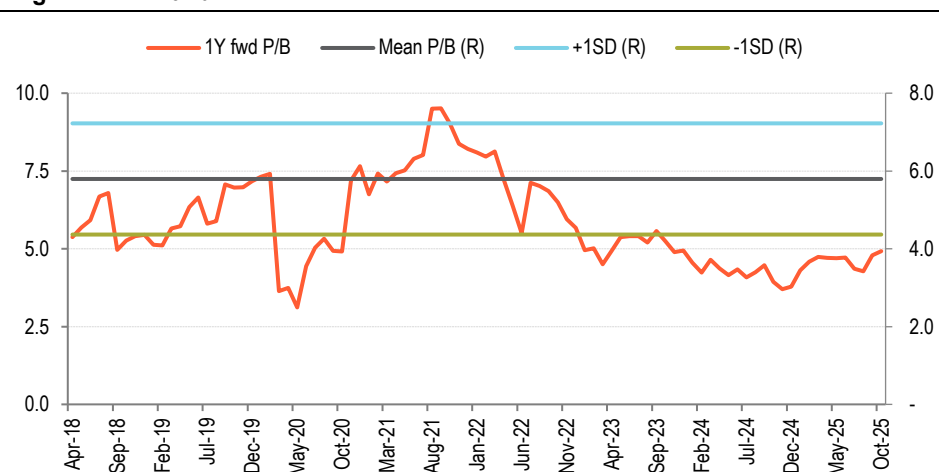
Source: BOBCAPS Research

Fig 10 – Actual vs Estimates

(Rs mn)	Q2FY26A	Q2FY26E	Variance (%)
Net Interest Income	1,07,847	1,08,150	(0.3)
Other Income	23,848	24,136	(1.2)
Operating Expenses	42,959	42,458	1.2
Pre-Provisioning Profit (PPoP)	88,736	89,828	(1.2)
PAT	49,478	50,289	(1.6)
AUM	46,22,610	46,68,080	(1.0)

Source: Company, BOBCAPS Research

Fig 11 – 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 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	4,38,700	5,50,033	6,95,812
NII growth (%)	28.7	23.0	20.5	25.4	26.5
Non-interest income	66,759	85,612	96,869	1,14,584	1,39,842
Total income	3,62,578	4,49,540	5,35,570	6,64,617	8,35,653
Operating expenses	1,23,252	1,49,261	1,74,463	2,19,712	2,76,867
PPOP	2,39,326	3,00,279	3,61,107	4,44,904	5,58,786
PPOP growth (%)	27.9	25.5	20.3	23.2	25.6
Provisions	46,307	79,660	89,320	1,10,375	1,34,959
PBT	1,93,019	2,20,618	2,71,786	3,34,529	4,23,827
Tax	48,584	53,002	66,881	80,417	1,09,460
Reported net profit	1,44,435	1,67,617	2,04,905	2,54,113	3,14,367
Adjustments	0	0	0	0	0
Adjusted net profit	1,44,435	1,67,617	2,04,905	2,54,113	3,14,367

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	11,65,103	14,11,142	17,16,196
Net worth	7,66,954	9,66,929	11,71,312	14,17,351	17,22,405
Debt securities	0	0	0	0	0
Borrowings	23,31,949	28,98,455	37,99,227	47,38,682	51,49,923
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	1,24,458	1,49,555	1,56,633
Investments	3,08,807	3,44,408	5,21,781	5,92,167	(2,84,261)
Advances	32,62,933	40,78,441	45,09,513	56,93,033	72,17,763
Fixed & Other assets	46,536	64,801	78,078	86,612	88,933
Total assets	37,57,416	46,61,268	52,73,390	65,64,926	72,23,768
Total debt growth (%)	7.6	24.3	31.1	24.7	8.7
Advances growth (%)	34.7	25.0	10.6	26.2	26.8

Per Share

Y/E 31 Mar (Rs)	FY24A	FY25A	FY26E	FY27E	FY28E
EPS	23.4	27.0	32.8	40.4	50.0
Dividend per share	36.0	56.0	-	-	-
Book value per share	124.1	155.8	188.6	228.3	277.4

Valuations Ratios

Y/E 31 Mar (x)	FY24A	FY25A	FY26E	FY27E	FY28E
P/E	46.4	40.1	33.1	26.9	21.7
P/BV	8.7	7.0	5.8	4.8	3.9
Dividend yield (%)	3.3	5.2			

DuPont Analysis

Y/E 31 Mar (%)	FY24A	FY25A	FY26E	FY27E	FY28E
Net interest income	9.1	8.6	8.8	9.3	10.1
Non-interest income	2.1	2.0	2.0	1.9	2.0
Operating expenses	3.8	3.5	3.5	3.8	4.1
Provisions	1.4	1.9	1.8	1.9	2.0
ROA	4.4	4.0	4.1	4.2	4.5
Leverage (x)	4.9	4.8	4.5	4.6	4.2
ROE	22.1	19.4	19.0	19.4	19.8

Ratio Analysis

Y/E 31 Mar	FY24A	FY25A	FY26E	FY27E	FY28E
YoY growth (%)					
Net interest income	28.7	23.0	20.5	25.4	26.5
Pre-provisioning profit	27.9	25.5	20.3	23.2	25.6
EPS	0.0	0.0	0.0	0.0	0.0
Profitability & Return ratios (%)					
Net interest margin	9.1	8.6	8.8	9.3	10.1
Fees / Avg. assets	2.1	2.0	2.0	1.9	2.0
Cost-Income	34.0	33.2	32.8	33.6	33.6
ROE	22.1	19.4	19.0	19.4	19.8
ROA	4.4	4.0	4.1	4.2	4.5
Asset quality (%)					
GNPA	0.8	1.0	1.2	1.3	1.3
NNPA	0.4	0.4	0.5	0.5	1.2
Slippage ratio	0.0	0.0	0.0	0.0	0.0
Credit cost	1.6	2.1	1.9	1.9	1.9
Provision coverage	57.0	53.7	53.3	53.3	53.3
Ratios (%)					
Loans to Total debt	0.0	0.0	0.0	0.0	0.0
CAR	23.3	22.5	22.6	16.8	10.8
Tier-1	22.0	21.4	21.6	16.0	10.1

Source: Company, BOBCAPS Research

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SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

Brand Name: **BOBCAPS**

Trade Name: **www.barodaetrade.com**

CIN: **U65999MH1996GOI098009**



Investments in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

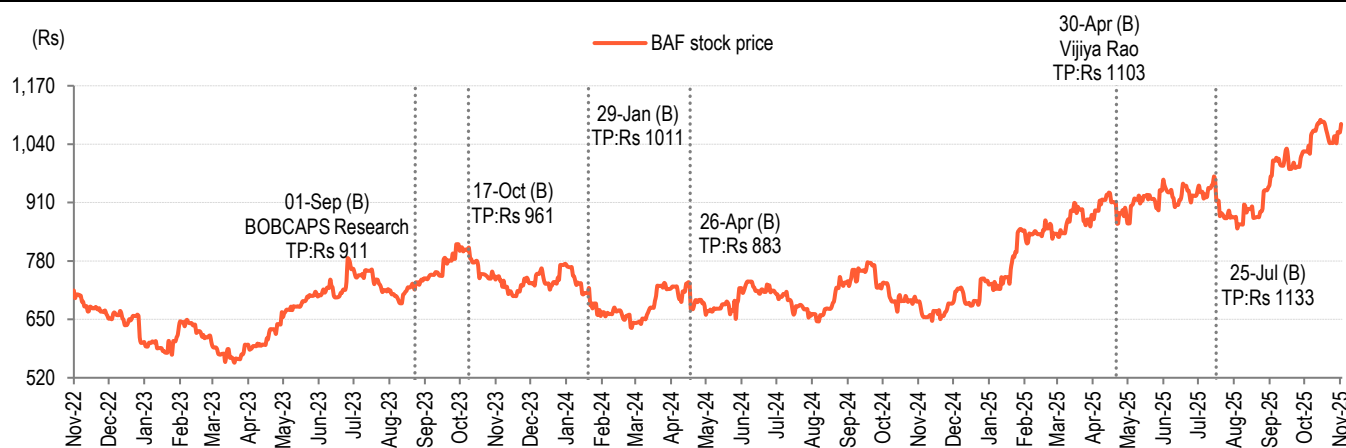
HOLD – Expected return from -6% to +15%

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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