

BUY

TP: Rs 11,025 | ▲ 21%

BAJAJ FINANCE

| NBFC

| 30 April 2025

Levers for steady growth

- AUM growth healthy at 26% YoY, guided for 24-25% in FY26, aided by new lines of business, gold, and secured business segments
- RoA and RoE to be between 4.4-4.6% and 19-20% respectively in FY26. NIMs to remain stable
- Assume coverage with BUY on BAF with TP of Rs 11,025, assigning FY27E P/BV of 5.5x on standalone entity

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Steady quarter: Bajaj Finance clocked a decent quarter with inline operating performance and steady AUM growth (up 26% YoY). However, credit cost inched up to 2.26% in Q4FY25 vs 2.08% in Q3FY25 vs management guidance of ~2% in Q4FY25. This was primarily due to changes/ redevelopment in the ECL model, which considered additional provisions on stage 1 assets due to elevated credit cost in the past 3 quarters. Further, there was a one-time impact of tax reversal given favourable court decision leading to tax reduction in Q4FY25 and FY25.

Credit cost management a priority: For FY26, the company expects credit cost to be in the 1.85-1.95% range vs credit cost guidance of 1.75- 1.85% in FY25 vs the actual credit cost of 2.33% in FY25. Management expects credit cost to be lower than the pre-Covid levels, given stable macro-economic conditions. Further, management guided for an AUM growth of 24-25% in FY26 vs the actual 26% YoY AUM growth in FY25 vs earlier guidance of 25-27% in FY26E. This was aided by the new lines of business launched in the past 2-3 years, coupled with growth in the gold and secured business segments. The company had reduced pricing on certain select unsecured business segments and the cost of funds is expected to decline by 10-15bps in FY26, aided by potential policy rate cuts. This is likely to aid stable NIMs going forward. With respect to return ratios, RoA is expected to be in the 4.4-4.6% range and RoE is likely to be between 19-20% in FY26 from earlier guidance of 21-23%.

Stable asset quality: Asset quality improved with GNPA and NNPA improving by 17bps QoQ and 4bps QoQ to 0.96% and 0.44% in Q4FY25. The company had earlier expected GNPA and NNPA at <1.2% and <0.4% respectively.

Assume coverage with a BUY: The company delivered stable performance in FY25, indicating healthy AUM growth with strong customer accretion going forward. Tailwinds from potential rate cuts to aid cost of funds coupled with a tight control on opex, will likely aid earnings growth. We expect its AUM to grow at a CAGR of 25% over FY25-FY27. Hence, we assume coverage with BUY on BAF with Target Price of Rs 11,025, assigning FY27E P/BV of 5.5x on standalone entity.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	BAF IN/Rs 9,093
Market cap	US\$ 65.1bn
Free float	44%
3M ADV	US\$ 138.8mn
52wk high/low	Rs 9,660/Rs 6,376
Promoter/FPI/DII	56%/20%/13%

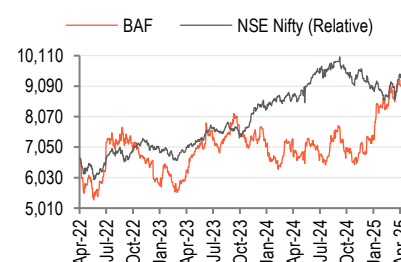
Source: NSE | Price as of 29 Apr 2025

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
NII (Rs mn)	3,63,928	4,66,745	5,93,417
NII growth (%)	23.0	28.3	27.1
Adj. net profit (Rs mn)	1,67,633	2,21,994	2,93,166
EPS (Rs)	273.0	351.5	461.4
Consensus EPS (Rs)	NA	NA	NA
P/E (x)	33.3	25.9	19.7
P/BV (x)	5.8	4.9	4.1
ROA (%)	4.0	4.7	5.4
ROE (%)	19.4	20.7	22.6

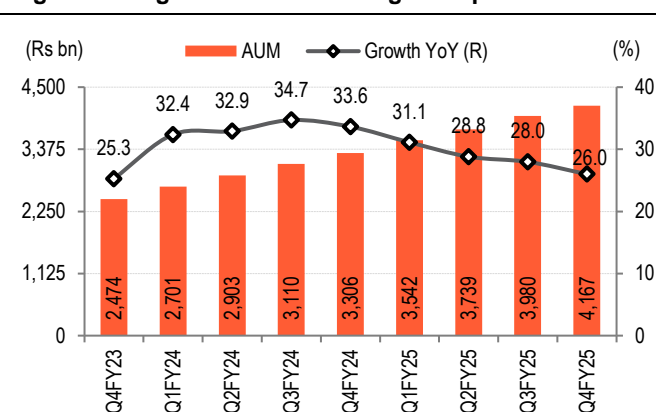
Source: Company, Bloomberg, BOBCAPS Research

Stock performance

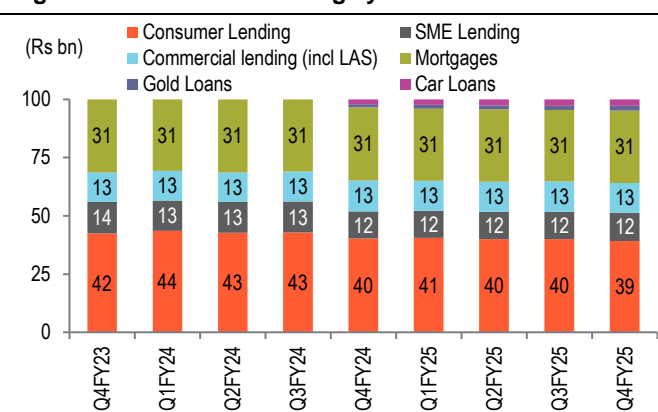


Source: NSE

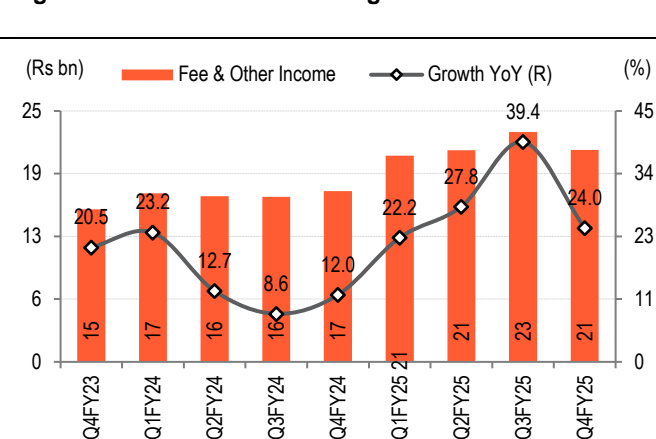


Fig 1 – AUM growth inline with mgmt. expectations

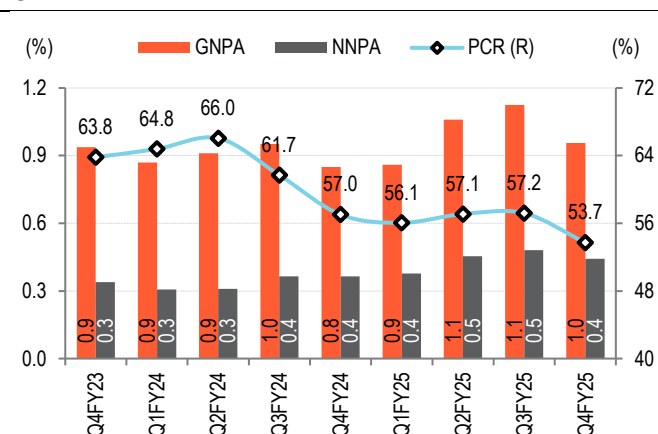
Source: Company, BOBCAPS Research

Fig 2 – AUM mix remains largely stable

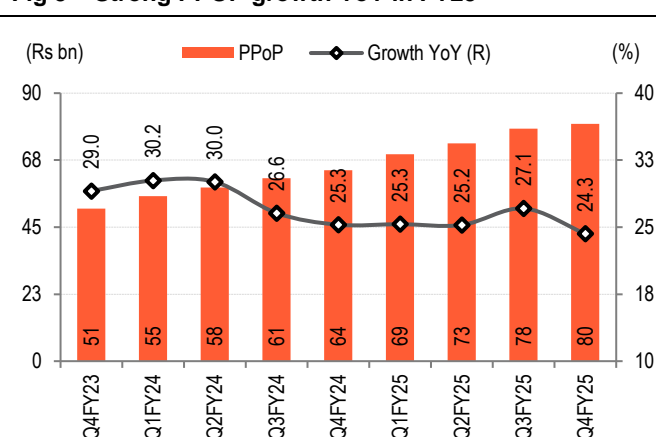
Source: Company, BOBCAPS Research

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

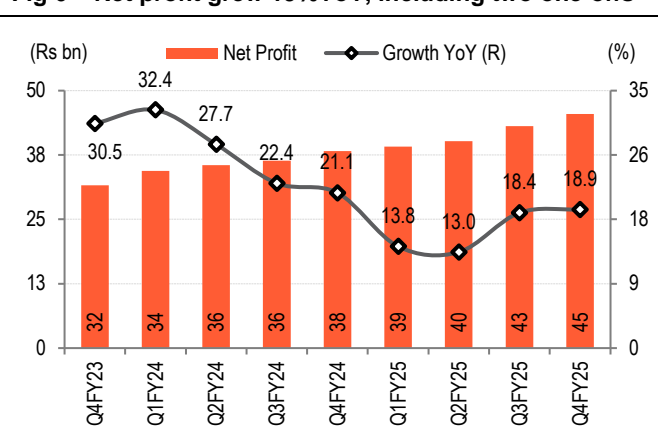
Source: Company, BOBCAPS Research | AUF: Assets under Finance

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)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	YoY (%)	QoQ (%)
Interest Income	1,08,211	1,17,321	1,25,233	1,32,301	1,40,492	1,49,870	1,57,682	1,63,591	23.7	3.7
Interest Expenses	41,025	45,371	48,680	52,171	56,839	61,493	63,856	65,520	25.6	2.6
Net Interest Income (NII)	67,186	71,951	76,553	80,130	83,653	88,377	93,826	98,072	22.4	4.5
Fee and Commission Income	13,380	13,119	12,905	13,244	15,242	14,264	15,106	15,217	14.9	0.7
Net gain on fair value changes	904	711	684	784	1,034	1,484	1,646	1,227	56.5	(25.5)
Sale of services	188	135	89	88	285	92	34	(139)	-	-
Recovery of assets written off	-	-	-	-	437	1,657	1,862	1,565	-	(16.0)
Other Income	2,323	2,531	2,748	2,903	3,533	3,588	4,253	3,227	11.2	(24.1)
Total Income	83,980	88,447	92,980	97,149	1,04,185	1,09,461	1,16,727	1,19,168	22.7	2.1
Employee Costs	14,970	15,875	16,618	16,497	17,748	18,348	19,555	19,432	17.8	(0.6)
Fees & Commission expenses	4,684	4,730	4,706	5,196	5,542	6,292	6,853	7,289	40.3	6.4
Depreciation	1,561	1,585	1,758	1,930	1,998	2,100	2,191	2,520	30.6	15.0
Other expenses	7,329	7,910	8,477	9,405	9,421	9,649	10,070	10,252	9.0	1.8
Total Operating Expenses	28,544	30,100	31,557	33,028	34,709	36,390	38,670	39,493	19.6	2.1
PPOP	55,436	58,347	61,422	64,121	69,475	73,071	78,057	79,675	24.3	2.1
Provisions & Writeoffs	9,953	10,771	12,484	13,100	16,847	19,091	20,433	23,289	77.8	14.0
PBT	45,484	47,576	48,939	51,021	52,628	53,980	57,624	56,386	10.5	(2.1)
Taxes	11,143	12,070	12,566	12,806	13,534	13,877	14,572	11,018	(14.0)	(24.4)
PAT	34,369	35,508	36,390	38,245	39,120	40,137	43,082	45,456	18.9	5.5

Source: Company, BOBCAPS Research

Fig 8 – Key Parameters and Product Mix

Particulars	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	YoY (%)	QoQ (%)
AUM Mix (Rs mn)										
Bajaj Finance	19,95,790	21,48,910	23,20,400	24,48,260	26,18,280	27,50,430	29,33,700	30,88,320	26.1	5.3
Housing	7,41,240	8,12,150	8,59,290	9,13,700	9,70,710	10,25,690	10,83,140	11,46,840	25.5	5.9
Consolidated AUM	27,00,970	29,02,640	31,09,680	33,06,150	35,41,920	37,39,240	39,80,430	41,66,610	26.0	4.7
Consolidated AUM (Rs mn)										
Consumer B2B -Auto Finance	1,47,360	1,65,480	1,93,840	1,97,420	1,96,890	1,89,600	1,89,720	1,73,190	(12.3)	(8.7)
Consumer B2B - Sales Finance	2,23,210	2,29,730	2,44,850	2,34,480	2,69,750	2,71,690	2,91,490	2,91,090	24.1	(0.1)
Consumer B2C	5,48,450	5,81,780	6,17,050	6,60,930	7,16,280	7,72,390	8,31,430	8,76,960	32.7	5.5
Rural B2B - Sales Finance	55,670	55,340	61,660	62,090	75,530	72,800	79,550	79,440	27.9	(0.1)
Rural B2C	2,02,720	2,08,800	2,14,260	1,76,070	1,80,490	1,88,150	2,01,350	2,14,670	21.9	6.6
SME	3,49,640	3,86,730	4,13,960	3,84,700	4,07,910	4,43,820	4,69,430	5,03,450	30.9	7.2
Securities Lending	1,62,380	1,69,860	1,92,050	2,20,380	2,20,430	2,33,590	2,52,620	2,53,770	15.2	0.5
Commercial Lending	1,80,640	1,95,580	2,06,720	2,20,060	2,35,890	2,46,150	2,60,570	2,77,600	26.1	6.5
Mortgages	8,30,900	9,09,340	9,65,290	10,33,160	10,96,710	11,58,360	12,20,190	12,94,610	25.3	6.1
Gold Loans	0	0	0	45,990	54,940	63,630	72,670	83,070	80.6	14.3
Car Loans	0	0	0	70,870	87,100	99,060	1,11,410	1,18,760	67.6	6.6
Total Consolidated AUM	27,00,970	29,02,640	31,09,680	33,06,150	35,41,920	37,39,240	39,80,430	41,66,610	26.0	4.7
GNPA (%)	0.87	0.91	0.95	0.85	0.86	1.06	1.12	0.96	10bps	(17bps)
NNPA (%)	0.31	0.31	0.36	0.37	0.38	0.45	0.48	0.44	7bps	(4bps)
Provision coverage ratio (%)	64.8	66.0	61.7	57.0	56.1	57.1	57.2	53.7	(332bps)	(348bps)
New Loans booked (mn)	9.9	8.5	9.9	7.9	9.7	9.7	12.1	10.7	36.0	(11.3)

Source: Company, BOBCAPS Research

Fig 9 – Management assessment – FY25 update

#	Particulars	What we said	What we did	Status
1	Customer franchise addition	12 - 14 MM	18.18 MM	●
2	AUM growth	26% - 28%	26%	●
3	Net Interest Margin (NIM) moderation	30 - 40 bps	49 bps	●
4	Opex to Net total income (NTI) improvement	20 - 40 bps	80 bps	●
5	Credit cost	1.75% - 1.85%	2.07%*	●
6	Profitability (PAT Growth)	Cautiously optimistic	16%	●
7	ROA	4.6% - 4.8%	4.6%	●
8	ROE	To remain impacted due to surplus capital	19.1%	●
9	GNPA	< 1.2%	0.96%	●
10	NNPA	< 0.4%	0.44%	●

Source: Company, BOBCAPS Research

Fig 10 – Management assessment for FY26

<ul style="list-style-type: none"> • Customer franchise – The Company remains confident of adding 14-16 MM customers in FY26. • AUM – The Company estimates AUM growth of 24-25%, aided by new lines of businesses launched in last 2-3 years. • Net Interest Margin (NIM) – The Company has moderated pricing in select unsecured businesses. Cost of funds is estimated to go down by 10-15 bps in FY26. Overall, we estimate NIM to remain stable in FY26. • Fee and other income – The Company has moderated its fees and charges and stopped its co-branded credit card business. The Company estimates its fees and charges to grow by 13-15% in FY26. • Opex to Net total income (NTI) – Opex to NTI is estimated to improve by 40-50 bps from current levels. • Credit cost – For FY26, the Company estimates loan loss to average AUF in the corridor of 1.85%-1.95%. • Profitability – The Company is optimistic about profit growth in FY26. • Return on assets – Return on assets is estimated to be in the range of 4.4%-4.6%. • Return on equity – Given excess capital, ROE metric is estimated to be between 19%-20% for FY26. • GNPA and NNPA – GNPA and NNPA is estimated to remain lower than long-term guidance. • FINAI – The Company will deploy AI use cases across revenue, cost, customer engagement, underwriting, productivity and controllership. The Company estimates to deploy over 100 AI applications in FY26.
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Source: Company, BOBCAPS Research

Earnings call takeaways

Operational highlights

- NII grew 22% YoY and 5% QoQ in line with our expectations, aided by healthy AUM growth.
- BAF's consolidated AUM grew 26% YoY, aligning with the guided range of 26-28%. This was largely aided by strong growth in B2C business (up 33% YoY), SME (up 31% YoY), rural B2B (up 28% YoY) and commercial lending business - up 26% YoY respectively. The company has strategically decelerated captive auto finance business and moved to open architecture and hence, a de-growth of 12% YoY in the segment.
- NIMs contracted by 49bps in Q4FY25, exceeding the guided 30-40bps due to reduction on delayed interest rate cuts. Moreover, BAF reported lower NIMs in Q4FY25 vs FY25. Going forward, management expects NIMs to stabilise in FY26, as the company reduced the pricing of selected unsecured loans that carry higher yields offset by the estimated CoF, which will reduce by 10-15 bps in FY26. Going forward, management will be taking 3 repo rate cuts.
- Management has moderated its fees and charges and stopped the co-branded credit card business. Management estimates fees and charges to grow by 13-15% in FY26.
- Despite strong asset growth, margin compression and elevated credit costs led to subdued profit growth during the quarter.
- For Q4FY25, PAT rose 19% YoY to Rs 45,460mn while adjusted PAT grew by 17% YoY to Rs 44,670 mn. Q4FY25 PAT included two one-off gains: Rs 3,590 mn resulting from the redevelopment of ECL model, primarily because of Stage 1 assets. Rs 3,480 mn tax benefit, comprising: Rs 2,490 mn from revaluation of prior years' tax liabilities, following favourable court and tribunal rulings and Rs 990 mn reduction in FY25 tax position.
- For FY25, consolidated PAT rose 16% YoY.

Asset quality

- Credit cost came higher than expected at 2.07% in FY25 vs guidance of 1.75%-1.85%, impacting profitability.
- Gross NPA (GNPA) stood at 0.96%, and Net NPA (NNPA) at 0.44%, well within the guidance of <1.2% GNPA and <0.4% NNPA.
- Net increase in Stage 2 & 3 assets was Rs 2,890 mn – of which Stage 2 assets rose by Rs 7,840 mn while Stage 3 assets declined by Rs 4,950 mn.

Funding and Liquidity

- CoF came in at 7.99% in FY25 – a marginal increase of 3 bps. Going ahead, management expects it to decrease to 7.75% - 7.85% by FY26.
- Deposits stood at Rs 714 bn, up 19% YoY, contributing 20% to total borrowings. In Q4, deposits book growth was Rs 26,060 mn.

- Approximately, 75% of total borrowings are at fixed rates.
- Softening in NCD rates of 40bps-45bps and in CP rates of 70bps-80bps has started in last month.

Corporate Actions

- Board of Directors announced: Sub-division of equity shares from a face value of Rs 2 to Rs 1 and the issuance of 4 bonus shares for every 1 equity share of Rs 1 (subject to shareholder approval)
- Bajaj announced special interim dividend of Rs 12 per share, attributable to gains derived from the BHFL IPO listing.
- Moreover, the company announced final dividend of Rs 44 per equity share in FY25.

BHFL Performance Snapshot

- Reported robust AUM numbers growing 26% YoY, reflecting strong lending traction. PAT grew by 54% YoY
- Gross NPA came in at 29 bps and Return on Assets (ROA) stood at a healthy 2.4%

Investments

- Bajaj Finance entered into a strategic agreement to acquire a 12% stake in Protectt.ai Labs Pvt. Ltd for Rs 650 mn, strengthening its capabilities in the cybersecurity domain.

Valuation methodology

Assume coverage with a BUY: The company delivered stable performance in FY25. It indicated a healthy AUM growth with strong customer accretion going forward.

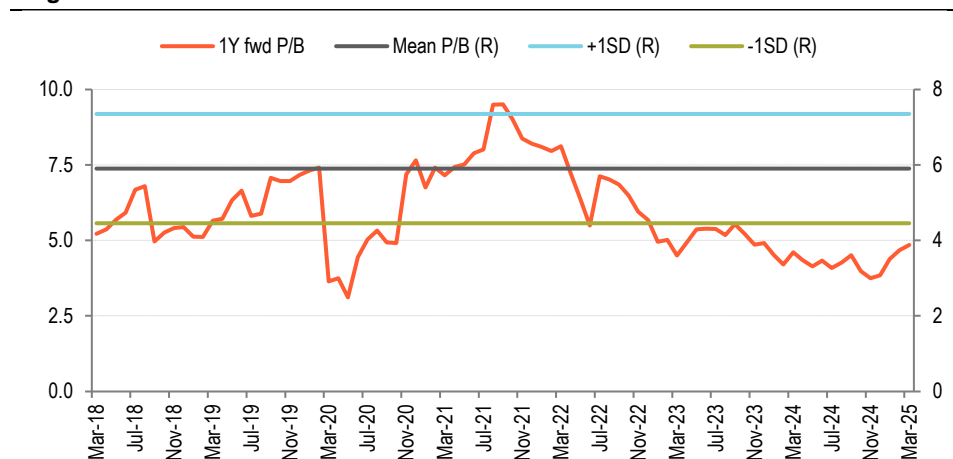
Tailwinds from potential rate cuts to aid cost of funds, coupled with a tight control on opex which is likely to aid earnings growth. We expect AUM to grow at 25% CAGR over FY25-FY27. Hence, we assume coverage with a BUY with TP of Rs11,025, assigning FY27E P/BV of 5.5x on standalone entity.

Fig 11 – Actual vs Estimates

(Rs mn)	Q4FY25A	Q4FY25E	YoY (%)
Net Interest Income	98,072	97,851	0.2
Other Income	21,096	23,437	(10.0)
Operating Expenses	39,493	40,164	(1.7)
Pre-Provisioning Profit (PPoP)	79,675	81,124	(1.8)
PAT	45,456	45,391	0.1
AUM	41,66,610	41,67,500	(0.0)

Source: Company, BOBCAPS Research

Fig 12 – 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)	FY23A	FY24A	FY25A	FY26E	FY27E
Net interest income	2,29,903	2,95,819	3,63,928	4,66,745	5,93,417
NII growth (%)	31.2	28.7	23.0	28.3	27.1
Non-interest income	58,555	66,759	85,612	95,777	1,20,758
Total income	2,88,458	3,62,578	4,49,540	5,62,522	7,14,174
Operating expenses	1,01,300	1,23,252	1,49,261	1,82,085	2,22,538
PPOP	1,87,158	2,39,326	3,00,279	3,80,437	4,91,636
PPOP growth (%)	30.8	27.9	25.5	26.7	29.2
Provisions	31,897	46,307	79,660	85,000	1,04,442
PBT	1,55,279	1,93,036	2,20,635	2,95,454	3,87,194
Tax	40,202	48,584	53,002	73,459	94,029
Reported net profit	1,15,077	1,44,452	1,67,633	2,21,994	2,93,166
Adjustments	0	0	0	0	0
Adjusted net profit	1,15,077	1,44,452	1,67,633	2,21,994	2,93,166

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25A	FY26E	FY27E
Equity capital	1,209	1,236	1,242	1,242	1,242
Reserves & surplus	5,42,511	7,65,718	9,65,687	11,51,674	14,00,761
Net worth	5,43,720	7,66,954	9,66,929	11,52,916	14,02,003
Debt securities	0	0	0	0	0
Borrowings	21,66,905	23,31,949	28,98,455	34,56,604	44,73,073
Other liab. & provisions	41,662	6,58,514	7,95,884	57,590	73,428
Total liab. & equities	27,52,287	37,57,416	46,61,268	46,67,110	59,48,503
Cash & bank balance	41,195	1,06,240	1,35,435	1,51,396	1,84,023
Investments	2,27,518	2,27,518	2,27,518	2,27,518	8,19,873
Advances	21,82,271	32,62,933	40,78,441	37,74,632	48,29,974
Fixed & Other assets	33,276	46,536	64,801	63,548	70,601
Total assets	27,52,287	37,57,416	46,61,268	46,67,110	59,48,503
Total debt growth (%)	31.1	7.6	24.3	19.3	29.4
Advances growth (%)	14.0	49.5	25.0	(7.4)	28.0

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25A	FY26E	FY27E
EPS	189.1	235.1	273.0	351.5	461.4
Dividend per share	30.0	36.0	56.0	54.6	63.7
Book value per share	893.4	1,247.8	1,573.1	1,843.3	2,241.5

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25A	FY26E	FY27E
P/E	48.1	38.7	33.3	25.9	19.7
P/BV	10.2	7.3	5.8	4.9	4.1
Dividend yield (%)	0.3	0.4	0.6	0.6	0.7

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25A	FY26E	FY27E
Net interest income	9.4	9.1	8.6	10.0	11.2
Non-interest income	2.4	2.1	2.0	2.1	2.3
Operating expenses	4.2	3.8	3.5	3.9	4.3
Provisions	1.3	1.4	1.9	1.8	2.0
ROA	4.7	4.4	4.0	4.7	5.4
Leverage (x)	5.1	4.9	4.8	4.0	4.2
ROE	23.5	22.1	19.4	20.7	22.6

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25A	FY26E	FY27E
YoY growth (%)					
Net interest income	31.2	28.7	23.0	28.3	27.1
Pre-provisioning profit	30.8	27.9	25.5	26.7	29.2
EPS	NA	NA	NA	NA	NA
Profitability & Return ratios (%)					
Net interest margin	9.4	9.1	8.6	10.0	11.2
Fees / Avg. assets	2.4	2.1	2.0	2.1	2.3
Cost-Income	35.1	34.0	33.2	32.7	31.8
ROE	23.5	22.1	19.4	20.7	22.6
ROA	4.7	4.4	4.0	4.7	5.4
Asset quality (%)					
GNPA	0.9	0.8	1.0	1.2	1.3
NNPA	0.3	0.4	0.4	0.5	0.5
Slippage ratio	NA	NA	NA	NA	NA
Credit cost	1.4	1.6	2.1	1.9	1.9
Provision coverage	63.8	57.0	53.7	65.9	69.9
Ratios (%)					
Loans to Total debt	NA	NA	NA	NA	NA
CAR	26.5	23.3	22.5	21.5	20.2
Tier-1	24.8	22.0	21.4	20.6	19.4

Source: Company, BOBCAPS Research

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BUY – Expected return >+15%

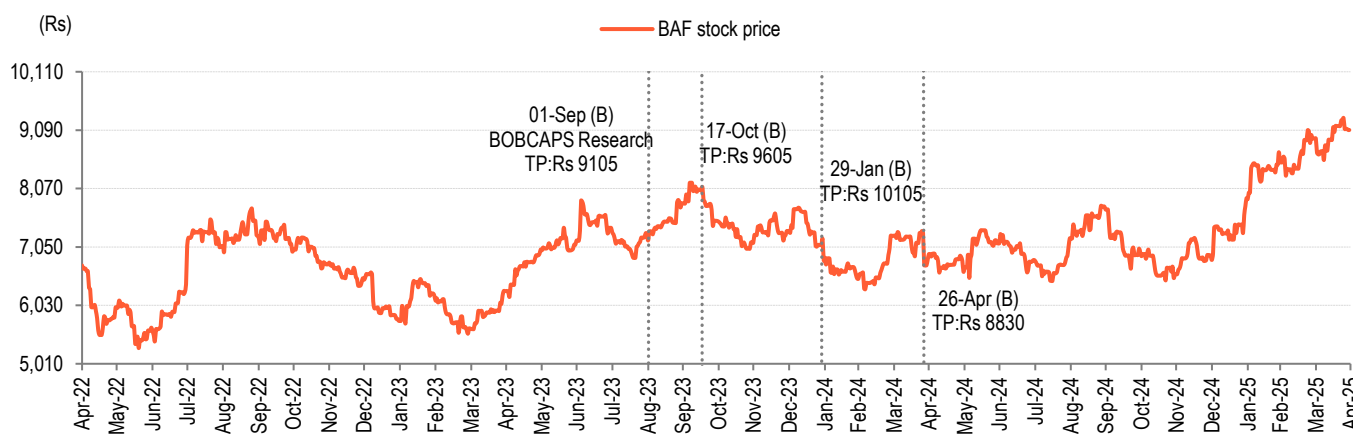
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SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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