

# Bajaj Finance | BUY

## MSME lending in focus

Bajaj Finance (BAF) reported PAT growth of ~22%/5% YoY/QoQ, +5% JMFe driving RoA/RoE of ~4.0%/19.1%. The beat was mainly due to lower credit costs (2.0% vs. 2.3% QoQ) and higher fee income (+17% YoY/QoQ both). AUM growth was healthy at ~25%/6% YoY/QoQ which along with ~10bps NIM (calc.) compression led to ~22%/4% YoY/QoQ NII growth. Adjusting for mutual fund investment income which doesn't get recognised in NII, NIM was flat QoQ. Credit cost was lower at ~2.0% with PCR on stage-3 declining by ~180bps QoQ driven by restructuring done for accounts worth ~INR2.2bn; mainly in MSME loans. Management highlighted slowdown and emerging stress related concerns in MSME/Auto loans (as also highlighted in our note – [link](#)) leading to slight cautiousness on FY26 AUM growth guidance of ~24%-25% (2Q to give more clarity). Further, management guided for NIM improvement of ~10bps YoY and maintained its earlier guidance on fee income growth of ~13%-15% and credit cost in the range of ~1.85%-1.95 in FY26. While we continue to like BAF given its ability to deliver sector leading growth/RoE on cross-cycle basis; near term concerns around growth/asset quality and rich valuations might limit upside. We broadly maintain our estimates and BUY rating with a revised TP of INR 1,000 (valuing at ~4.5x/23x FY27E BVPS/EPS).

- **Strong AUM growth in 1Q; slight cautiousness on FY26 growth guidance:** AUM growth remained healthy at +25% YoY/ +6% QoQ, led primarily by strong traction in urban B2C and MSME lending loans (both +29% YoY), followed by commercial lending (+27% YoY), mortgages and loan against securities (both +24% YoY), urban sales B2B (+22% YoY), and rural B2C loans (+20% YoY). Growth in gold loans (+82% YoY) and car loans (+44% YoY) was particularly strong, due to lower base. In contrast, the 2-wheeler and 3-wheeler finance segment saw a YoY steep decline of 20% due to rundown of the segment. Mgmt. has maintained its AUM guidance for FY26 24–25% (further clarity in 2Q). Customer addition momentum remained healthy, with total customer franchise expanding to 106.5mn (+21% YoY / +5% QoQ). Cross-sell franchise stood at 67.8mn (+23% YoY / +5% QoQ). Further, new loans booked increased sequentially to 13.5mn (vs 10.7mn in Q4FY25). Mgmt. remains confident of adding over 50mn customers in FY26. We build in AUM CAGR of 24% over FY25–27E. **Further, Mr. Anup Saha (ex. MD of BFL) resigned effective from 21<sup>st</sup> Jul'25 and Mr Rajeev Jain was re-designated as Vice Chairman and Managing Director till Mar'28, which revives confidence on execution capabilities of the company. BAF will submit detailed succession planning in next 6 months to the board.**
- **Broadly In-line operating performance:** NII growth was healthy at +22% YoY/ +4% QoQ, however, NIM declined by -10bps QoQ to 9.5% as the company re-priced select unsecured loan segments. Calc. CoFs was steady at 7.4% (+2bps QoQ, with mgmt. guiding for 7.6%-7.65% in FY26 (vs reported CoFs 7.8% in Q1FY25). The company plans to reduce its reliance on deposits (from 19% currently to 15-16%) and increase mix of NCD and bank borrowing. Other income grew +16% YoY/ +13% QoQ led by revision in fees and charges while opex grew 19%YoY/ 4% QoQ leading to PPop growth of +22%



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(We acknowledge the support services of **Dev Jogani** in preparation of this report)

### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,000
Upside/(Downside)	4.6%
Previous Price Target	985
Change	1.5%

### Key Data – BAF IN

Current Market Price	INR956
Market cap (bn)	INR5,959.2/US\$69.0
Free Float	40%
Shares in issue (mn)	6,180.0
Diluted share (mn)	
3-mon avg daily val (mn)	INR9,161.0/US\$106.0
52-week range	979/642
Sensex/Nifty	82,184/25,062
INR/US\$	86.4

### Price Performance

%	1M	6M	12M
Absolute	4.6	29.1	45.3
Relative*	5.4	19.7	41.5

\* To the BSE Sensex

JM Financial Research is also available on:  
Bloomberg - JMFR <GO>,  
Thomson Publisher & Reuters,  
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

### Financial Summary

(INR mn)

Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Profit	1,44,512	1,67,795	2,11,966	2,67,367	3,32,812
Net Profit (YoY) (%)	25.6%	16.1%	26.3%	26.1%	24.5%
Assets (YoY) (%)	36.5%	24.1%	22.1%	23.3%	21.9%
ROA (%)	5.0%	4.5%	4.5%	4.6%	4.7%
ROE (%)	24.0%	22.2%	22.2%	22.9%	23.8%
EPS	23.4	27.0	34.1	43.1	53.6
EPS (YoY) (%)	22.8%	15.6%	26.3%	59.3%	57.0%
P/E (x)	41.0	35.5	28.1	22.3	17.9
BV	124	156	184	221	266
BV (YoY) (%)	38.0%	25.5%	18.3%	41.7%	44.5%
P/BV (x)	7.73	6.16	5.20	4.35	3.60

Source: Company data, JM Financial. Note: Valuations as of 24/Jul/2025

YoY/ +7% QoQ. Mgmt. expects fee income to grow by 13–15% in FY26, supported by continued customer additions and cross-sell momentum. Lower than expected credit costs of 2% (vs 2.3% QoQ) led to a PAT (+22%, +5%), beat of +5%.

- **Marginal deterioration in asset quality:** GS3 and NS3 moved up marginally by +7bps/+5 bps QoQ to 1.03% and 0.5% respectively, with total ECL cover remaining stable QoQ at 1.7%. Credit costs continues to remain elevated at 2.0%, however it was down -31bps QoQ during the quarter. The elevated credit costs was mainly in 2/3W and MSME businesss and the management highlighted that the stress in these segments continue to persist. Normalization is expected to come in 2HFY26. Mgmt. continue to guide for credit costs of 1.85%–1.95% in FY26. We build in avg. credit costs of ~1.9% over FY26E-27E.
- **Valuations and view:** While we continue to like BAF given its ability to deliver sector leading growth/RoE on cross-cycle basis; near term concerns around growth/asset quality and rich valuations might limit upside. We broadly maintain our estimates and BUY rating with a revised TP of INR 1,000 (valuing at ~4.5x/23x FY27E BVPS/EPS)

## BAF – 1QFY26 trends

## Exhibit 1. 1QFY26 Performance Highlights

Earnings Table (INR bn)	1Q'25	4Q'25	1Q'26	YoY (%)	QoQ(%)
Interest Income (a)	140.5	163.6	171.4	22%	5%
Interest Expenses (b)	56.8	65.5	69.2	22%	6%
<b>Net Interest Income (ex fee income)</b>	<b>83.7</b>	<b>98.1</b>	<b>102.3</b>	<b>22%</b>	<b>4%</b>
Total Non-interest Income	20.5	21.1	23.8	16%	13%
<b>Total Income</b>	<b>104.2</b>	<b>119.2</b>	<b>126.1</b>	<b>21%</b>	<b>6%</b>
Total Operating Expenses	34.7	39.5	41.2	19%	4%
<b>Operating Profit (PPP)</b>	<b>69.5</b>	<b>79.7</b>	<b>84.9</b>	<b>22%</b>	<b>7%</b>
Provisions & Write Offs	16.8	23.3	21.2	26%	-9%
Share of profit/(loss) from associates	0.03	0.09	0.01	-71%	-92%
<b>PBT</b>	<b>52.7</b>	<b>56.5</b>	<b>63.7</b>	<b>21%</b>	<b>13%</b>
Tax	13.5	11.0	16.0	18%	45%
<b>Reported Profit</b>	<b>39.1</b>	<b>45.5</b>	<b>47.7</b>	<b>22%</b>	<b>5%</b>
 <b>AUM (INR bn)</b>	 <b>3,542</b>	 <b>4,167</b>	 <b>4,415</b>	 <b>25%</b>	 <b>6%</b>
 <b>Credit Quality</b>					
Gross NPA (%)	0.9%	1.0%	1.0%	17 bps	7 bps
Net NPA (%)	0.4%	0.4%	0.5%	12 bps	5 bps
Credit costs (%)	2.0%	2.3%	2.0%	1 bps	-31 bps
Coverage Ratio - Stage 3 (%)	56.1%	53.7%	51.5%	-460 bps	-226 bps
Total ECL (%)	1.5%	1.7%	1.7%	17 bps	1 bps
Net slippages (%)	1.8%	1.2%	2.1%	26 bps	86 bps
 <b>Capital Adequacy (%)</b>					
Tier I (%)	20.7%	21.1%	21.2%	46 bps	10 bps
CAR (%)	21.7%	21.9%	22.0%	3 bps	31 bps
 <b>Du-pont Analysis (%)</b>					
NII / Avg. Assets (%)	8.7%	8.7%	8.6%	-11 bps	-9 bps
Non-Interest Inc. / Assets (%)	2.1%	1.9%	2.0%	-13 bps	14 bps
Op. Cost / Assets (%)	3.6%	3.5%	3.5%	-15 bps	-3 bps
PPP / Assets (%)	7.3%	7.1%	7.2%	-10 bps	8 bps
Provisions / Assets (%)	1.8%	2.1%	1.8%	3 bps	-28 bps
Reported ROA (%)	4.1%	4.0%	4.0%	-7 bps	-2 bps

Source: Company, JM Financial

**Bajaj Finance 1QFY26 concall takeaways:****Growth:**

- Management maintains previous assessment of 24-25% AUM growth in FY26, however, clarity will be achieved only post Q2.
- 13 key industries out of 17 in SME segment are exhibiting signs of slowdown.
- In mortgage business, company is facing higher competition and higher employee attrition (16.9% in Q1FY26, +100bps YoY).
- Company plans to wind down its captive business to INR 35-40bn by Mar'26 due to higher stress in the segment. MSME too has started showing stress since Feb'25. Thus, MSME and 2-wheeler financing are expected to show slower growth going forward, thus impacting overall AUM growth.
- Company took 5 years to reach INR 3bn per month of growth in new cars while it only took 1.5 yrs for used cars. Thus the distribution in this segment is large. The aim is to make 13-14% RoEs in total in its car loans segment.

**Margins:**

- For FY26, company expects CoFs to come in at 760-765bps, with deposit contribution declining to 15-16% from current 19%.
- There was 10 bps decline in NIMs due to shift of funds from GSecs to MFs where income from GSecs is recognized in interest income while MTM gains from mutual funds are recorded in non-interest income. Adjusting for this, NIMs was largely flat sequentially.
- Company expects 10bps expansion in NIMs.
- There was a significant rate cut on the liabilities side as NCD rates went down 90bps to 7-7.1%, 85% of bank borrowings which are EBLR linked were re-priced immediately and CP rates too went down by 90bps. The assets too re-priced corresponding to respective liabilities.
- The company is reducing retail deposit rates to match NCD/bank borrowing rates, which has reduced its deposit volumes to one-third of previous levels.

**Operational performance:**

- Fee income growth is guided at 13-15% for FY26, with credit costs expected between 185-195bps
- There was an NPA sale in Q1FY25 due to which fee income was higher then. The growth was slower during the quarter also due to RBI embargo.

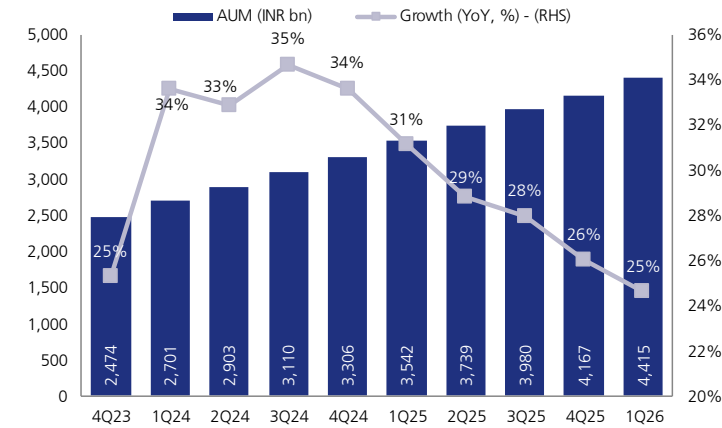
**Asset quality:**

- The net increase in stage 2 & 3 assets was INR ~9bn, which included INR 2bn of standard accounts which were restructured.
- Management expects improvement in asset quality from stage 3 onwards and believes that the scale down of auto driver will itself offer 5-10bps of improvement in credit costs.
- Karnataka is 11% of total BS. Company has lowered its business activities by ~50% in Karnataka. And on the overall basis, company has cut MFI business by 35-40%. Company remains watchful on Rural B2B and B2C segments.
- 4% of the customers currently have 3 or more lender exposure.

**Other highlights:**

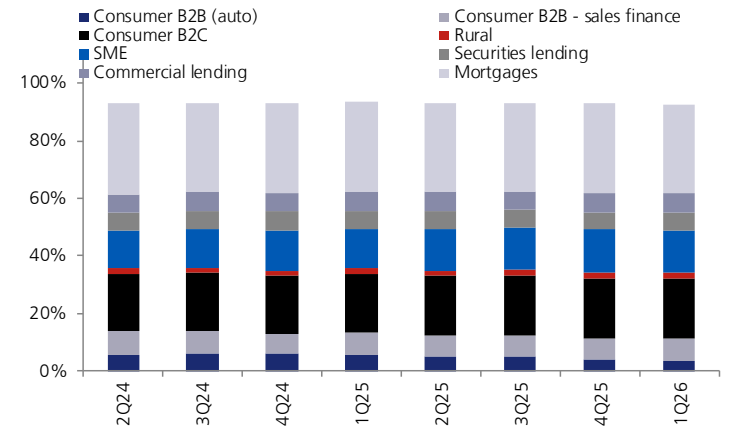
- Company has a dedicated 150 people focused on AI initiatives and has started deploying AI capabilities to improve productivity.
- The company will take a view on succession planning once the company nears Mar'28.
- Businesses are facing higher working capital requirements while credit supply is shrinking.

Exhibit 2. BAF: Trend in AUM growth



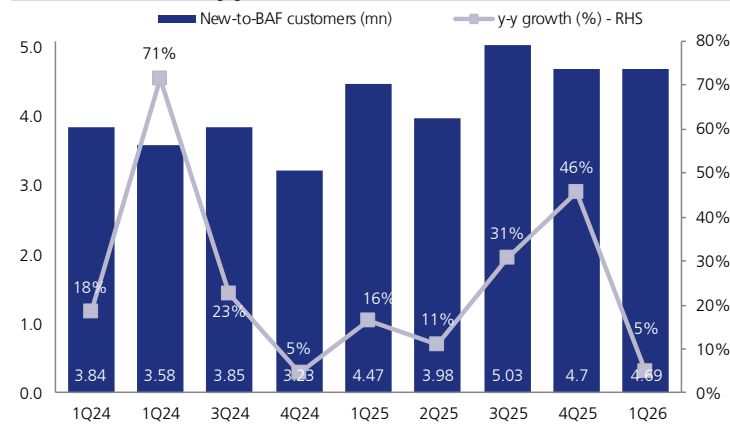
Source: Company, JM Financial

Exhibit 3. BAF: Trend in AUM composition



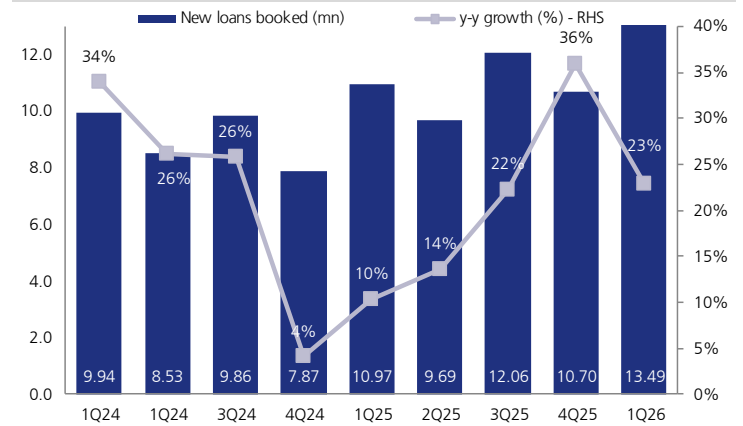
Source: Company, JM Financial

Exhibit 4. New to Bajaj customers



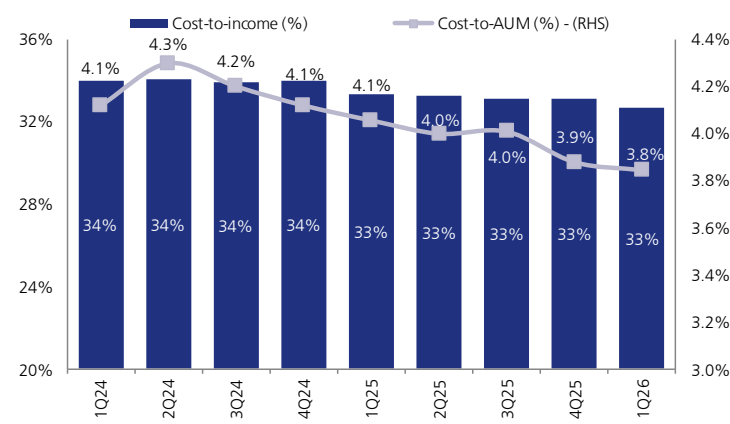
Source: Company, JM Financial

Exhibit 5. New loans booked



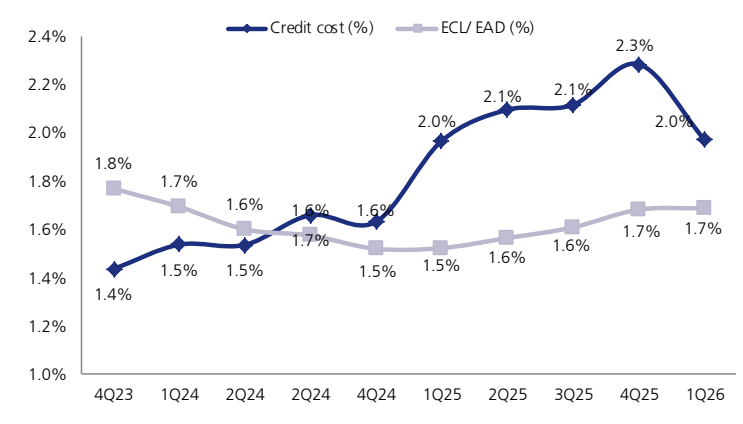
Source: Company, JM Financial

Exhibit 6. BAF: Trend in Cost ratios



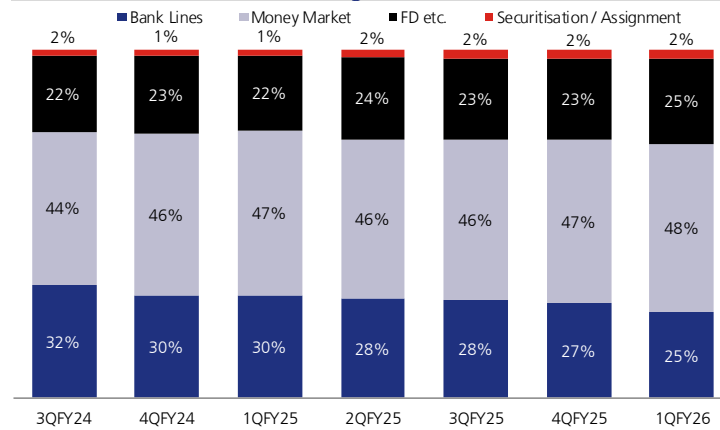
Source: Company, JM Financial

Exhibit 7. BAF: Trend in asset quality (%)



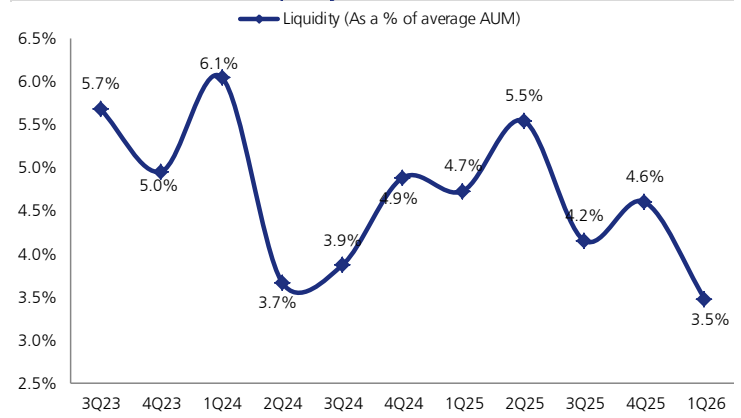
Source: Company, JM Financial

Exhibit 8. BAF: Trend in borrowing mix (%)



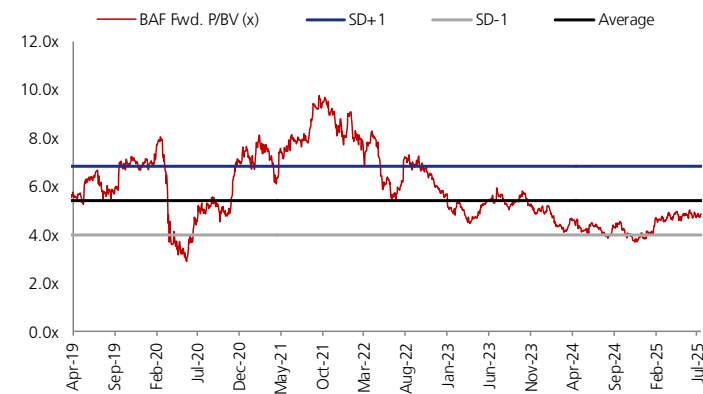
Source: Company, JM Financial

Exhibit 9. BAF: Trend in liquidity (%)



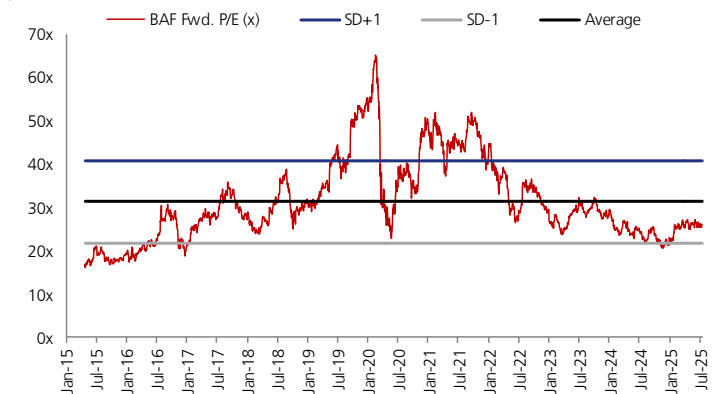
Source: Company, JM Financial

Exhibit 10. BAF: 1 year forward P/B chart



Source: Company, JM Financial

Exhibit 11. BAF: 1 year forward P/E chart



Source: Company, JM Financial

## Financial Tables (Standalone)

Income Statement (INR mn)					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Interest Income (NII)	2,95,819	3,63,928	4,57,129	5,59,920	6,82,631
Non Interest Income	66,836	85,790	1,01,601	1,23,603	1,51,819
<b>Total Income</b>	<b>3,62,655</b>	<b>4,49,718</b>	<b>5,58,730</b>	<b>6,83,523</b>	<b>8,34,450</b>
Operating Expenses	1,23,252	1,49,261	1,83,010	2,19,692	2,60,532
<b>Pre-provisioning Profits</b>	<b>2,39,403</b>	<b>3,00,457</b>	<b>3,75,721</b>	<b>4,63,831</b>	<b>5,73,918</b>
Loan-Loss Provisions	46,307	79,660	92,344	1,06,388	1,28,982
Others Provisions	0	0	0	0	0
<b>Total Provisions</b>	<b>46,307</b>	<b>79,660</b>	<b>92,344</b>	<b>1,06,388</b>	<b>1,28,982</b>
<b>PBT</b>	<b>1,93,096</b>	<b>2,20,796</b>	<b>2,83,377</b>	<b>3,57,442</b>	<b>4,44,936</b>
Tax	48,584	53,002	71,411	90,075	1,12,124
<b>PAT (Pre-Extra ordinaries)</b>	<b>1,44,512</b>	<b>1,67,795</b>	<b>2,11,966</b>	<b>2,67,367</b>	<b>3,32,812</b>
Extra ordinaries (Net of Tax)	0	0	0	0	0
<b>Reported Profits</b>	<b>1,44,512</b>	<b>1,67,795</b>	<b>2,11,966</b>	<b>2,67,367</b>	<b>3,32,812</b>
Dividend	22,248	34,768	34,735	41,836	49,311
<b>Retained Profits</b>	<b>1,22,264</b>	<b>1,33,027</b>	<b>1,77,231</b>	<b>2,25,531</b>	<b>2,83,502</b>

Source: Company, JM Financial

Key Ratios					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
<b>Growth (YoY) (%)</b>					
Borrowed funds	35.4%	23.1%	23.2%	24.6%	22.4%
Advances	34.7%	25.0%	23.3%	23.5%	22.4%
Total Assets	36.5%	24.1%	22.1%	23.3%	21.9%
NII	28.7%	23.0%	25.6%	22.5%	21.9%
Non-interest Income	13.9%	28.4%	18.4%	21.7%	22.8%
Operating Expenses	21.5%	21.1%	22.6%	20.0%	18.6%
Operating Profits	27.9%	25.5%	25.0%	23.5%	23.7%
Core Operating profit	0.0%	0.0%	0.0%	0.0%	0.0%
Provisions	45.2%	72.0%	15.9%	15.2%	21.2%
Reported PAT	25.6%	16.1%	26.3%	26.1%	24.5%
<b>Yields / Margins (%)</b>					
Interest Spread	9.37%	8.80%	8.88%	8.85%	8.80%
NIM	10.24%	9.74%	9.83%	9.76%	9.68%
<b>Profitability (%)</b>					
ROA	5.02%	4.51%	4.51%	4.62%	4.69%
ROE	24.0%	22.2%	22.2%	22.9%	23.8%
Cost to Income	34.0%	33.2%	32.8%	32.1%	31.2%
<b>Asset quality (%)</b>					
Gross NPA	0.85%	0.96%	1.07%	1.11%	1.09%
LLP	1.60%	2.13%	1.99%	1.85%	1.83%
<b>Capital Adequacy (%)</b>					
Tier I	21.51%	21.09%	23.42%	23.27%	23.50%
CAR	22.52%	21.93%	24.18%	23.89%	24.01%

Source: Company, JM Financial

Balance Sheet (INR mn)					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Equity Capital	12,360	12,417	12,417	12,417	12,417
Reserves & Surplus	7,54,594	9,54,512	11,31,743	13,57,273	16,40,775
Borrowed Funds	29,33,458	36,12,487	44,49,510	55,42,028	67,81,431
Preference Shares	57,004	59,413	98,376	1,08,986	1,25,790
<b>Total Liabilities</b>	<b>37,57,416</b>	<b>46,38,828</b>	<b>56,92,046</b>	<b>70,20,705</b>	<b>85,60,413</b>
Net Advances	32,62,933	40,78,441	50,27,946	62,07,072	75,95,203
Investments	3,08,807	3,44,408	4,24,590	5,24,163	6,41,385
Cash & Bank Balances	1,06,240	1,35,435	1,25,699	1,48,970	1,51,904
Fixed Assets	32,934	38,215	43,947	54,253	66,386
<b>Total Assets</b>	<b>37,57,416</b>	<b>46,61,268</b>	<b>56,92,046</b>	<b>70,20,705</b>	<b>85,60,413</b>

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
NII / Assets	9.09%	8.65%	8.83%	8.81%	8.76%
Other Income / Assets	2.05%	2.04%	1.96%	1.94%	1.95%
Total Income / Assets	11.14%	10.68%	10.79%	10.75%	10.71%
Cost / Assets	3.79%	3.55%	3.54%	3.46%	3.34%
PPP / Assets	7.36%	7.14%	7.26%	7.30%	7.37%
Provisions / Assets	1.42%	1.89%	1.78%	1.67%	1.66%
PBT / Assets	5.93%	5.25%	5.47%	5.62%	5.71%
Tax rate	25.2%	24.0%	25.2%	25.2%	25.2%
ROA	4.44%	3.99%	4.09%	4.21%	4.27%
Leverage	5.4	5.6	5.4	5.4	5.6
ROE	24.0%	22.2%	22.2%	22.9%	23.8%

Source: Company, JM Financial

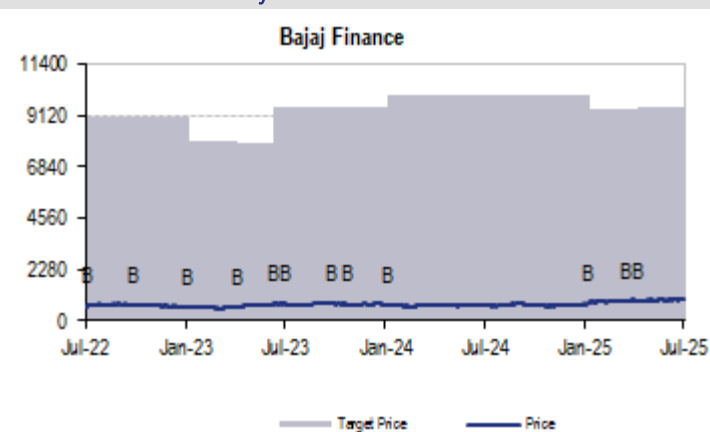
Valuations					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Shares in Issue	6,180.0	6,208.5	6,208.5	6,208.5	6,208.5
EPS (INR)	23.4	27.0	34.1	43.1	53.6
EPS (YoY) (%)	22.8%	15.6%	26.3%	59.3%	57.0%
P/E (x)	41.0	35.5	28.1	22.3	17.9
BV (INR)	124	156	184	221	266
BV (YoY) (%)	38.0%	25.5%	18.3%	41.7%	44.5%
P/BV (x)	7.73	6.16	5.20	4.35	3.60
DPS (INR)	3.6	5.6	5.6	6.7	7.9
Div. yield (%)	0.4%	0.6%	0.6%	0.7%	0.8%

Source: Company, JM Financial

## History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
20-Jan-21	Buy	6,050	
28-Apr-21	Buy	5,750	-5.0
21-Jul-21	Buy	6,850	19.1
27-Oct-21	Buy	9,000	31.4
19-Jan-22	Buy	9,000	0.0
4-Mar-22	Buy	9,000	0.0
27-Apr-22	Buy	9,000	0.0
11-Jul-22	Buy	9,000	0.0
27-Jul-22	Buy	9,000	0.0
21-Oct-22	Buy	9,000	0.0
27-Jan-23	Buy	8,000	-11.1
27-Apr-23	Buy	7,925	-0.9
5-Jul-23	Buy	9,500	19.9
26-Jul-23	Buy	9,500	0.0
17-Oct-23	Buy	9,500	0.0
16-Nov-23	Buy	9,500	0.0
29-Jan-24	Buy	10,000	5.3
30-Jan-25	Buy	9,350	-6.5
8-Apr-25	Buy	9,350	0.0
30-Apr-25	Buy	9,500	1.6

## Recommendation History





## APPENDIX I

## JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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