

Bajaj Finance | BUY

In-line quarter with strong outlook; upgrade to BUY

Bajaj Finance reported an inline quarter. PAT was down ~6%/18% YoY/QoQ (~22% lower than JMFe) driven by ~51% higher than expected provision and a one-time labour code charge (~INR 2.7bn). Higher provision was driven by accelerated ECL provision coming from the gain from subsidiary stake sale leading to inch up in ECL/EAD to 2.04% (~1.67% in 2Q). Adjusting for these two one-offs, PAT grew +23%/7% YoY/QoQ (+2% vs. JMFe), driven by healthy and in-line operating profits. AUM grew +22%/+5% YoY/QoQ with NII growing at 21%/5% YoY/QoQ as NIM was stable. Asset quality trends were encouraging with gross/net stage 3 improved 2bps/13bps QoQ and sharp decline in net slippages/write-offs. Management guided for ~22% AUM growth in FY26 and expects credit costs to trend lower to ~1.65–1.75% over FY27, despite higher provisioning buffers. The stock has corrected in the last 4 months by ~12% and now trades at ~3.7x of FY28 BVPS; thus, the downside looks limited for ~22% loan CAGR over FY26-28E and avg. RoA/RoE of ~4.2%/21% during FY27/28E. We have broadly maintained our FY27/28E EPS estimates and upgrade this stock to BUY with a revised TP of INR 1,125, valuing the stock at 4.3x FY28 P/BV.

- **Growth remains franchise-led despite calibrated MSME stance:** AUM expanded +22%/+5% YoY/QoQ, supported by robust traction across consumer B2C, rural B2C, vehicle finance and gold loans. Customer franchise crossed 115mn with ~4.8mn additions, while new loans booked rose to ~13.9mn, indicating healthy demand and cross-sell momentum. MSME growth moderated due to deliberate tightening of underwriting and reduction in unsecured volumes to protect asset quality. However, MSME growth recovery to 20%+ expected in 2–3 quarters post tighter underwriting actions. Management guided for FY26 AUM growth of ~22%, implying steady growth with improved quality. **We model loan CAGR of 22% over FY26-28E.**
- **Margins steady; operating leverage offsets one-offs:** Core operating metrics remained healthy with NIMs and CoF broadly stable. Management expects exit CoF near ~7.55–7.60%. C/I ratio improved by 22bps YoY to ~32.8% reflecting scale benefits and early gains from AI-led automation across sourcing, collections and servicing. Operating profit grew +19%/+5% YoY/QoQ, while PAT was muted YoY as provisions were elevated by INR 14.6bn due to accelerated ECL provision prepared from the gain from subsidiary stake sale and a one-time labour code charge (~INR 2.7bn). Adjusted to this, PAT grew +23%/8% YoY/QoQ (+2.3% vs. JMFe) and RoA/RoE stood at ~4.1%/20%, among the best in the sector. **We build avg. RoA/RoE of 4.2%/21% over FY27E/28E.**
- **Asset quality stabilises; provisioning buffers strengthened:** Credit performance improved with Stage 2+3 pools declining by 13bps QoQ, signalling lower forward delinquencies. gross/net stage 3 improved 2bps/13bps QoQ and ECL cover increased by 9.5% to 61.3%. Management guided for credit costs to trend down to ~1.65–1.75% over the next year. This approach increases near-term provisions but materially reduces future volatility and tail risk, positioning the portfolio for a smoother credit cycle ahead. **We model avg. credit costs of 1.8% over FY27E/28E.**
- **Valuation and view:** Strong franchise scale, sustained 20%+ growth, industry-leading RoA/RoE, improving credit trajectory and proactive provisioning provide high earnings visibility and lower risk. Secured mix expansion should further support margins and costs. **We have broadly maintained our FY27/28E EPS estimates and upgrade this stock to BUY, valuing the stock at 4.3x FY28 P/BV with a revised TP of INR 1,125.**



Ajit Kumar

ajit.k@jmfl.com | Tel: (91 22) 66303489

Raghvesh

raghvesh@jmfl.com | Tel: (91 22) 66303099

Pratik Matkar

pratik.matkar@jmfl.com | Tel: (91 22) 66301881

Shubham Karvande

shubham.karvande@jmfl.com | Tel: (91 22) 66303696

Arun Nalkara

arun.nalkara@jmfl.com | Tel: (91 22) 39533640

Sunita Nayak

sunita.nayak@jmfl.com | Tel: (91 22) 66301889

Aryan Singhal

aryan.singhal@jmfl.com | Tel: (91 22) 66303253

Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	ADD
Current Price Target (12M)	1,125
Upside/(Downside)	16.7%
Previous Price Target	1,100
Change	2.3%

Key Data – BAF IN

Current Market Price	INR964
Market cap (bn)	INR6,001.0/US\$66.5
Free Float	41%
Shares in issue (mn)	6,180.0
Diluted share (mn)	
3-mon avg daily val (mn)	INR7,266.0/US\$80.5
52-week range	1,103/787
Sensex/Nifty	83,739/25,728
INR/US\$	90.3

Price Performance

%	1M	6M	12M
Absolute	-2.6	10.1	14.6
Relative*	-0.3	6.0	5.6

* To the BSE Sensex

Financial Summary

(INR mn)

Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Profit	144,512	167,795	197,855	260,352	327,921
Net Profit (YoY) (%)	25.6%	16.1%	17.9%	31.6%	26.0%
Assets (YoY) (%)	36.5%	24.1%	20.2%	22.8%	21.1%
ROA (%)	4.4%	4.0%	3.9%	4.2%	4.3%
ROE (%)	22.1%	19.4%	18.8%	21.0%	22.0%
EPS	23.4	27.0	31.8	41.9	52.8
EPS (YoY) (%)	22.8%	15.6%	17.8%	31.6%	26.0%
P/E (x)	41.2	35.7	30.3	23.0	18.3
BV	124	156	182	218	262
BV (YoY) (%)	38.0%	25.5%	17.0%	19.4%	20.7%
P/BV (x)	7.77	6.19	5.29	4.43	3.67

Source: Company data, JM Financial. Note: Valuations as of 03/Feb/2026

JM Financial Research is also available on: Bloomberg - JMFR <GO>, FactSet, LSEG and S&P Capital IQ.

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

BAF - 3QFY26 Conference call KTAs

Guidance

- FY26 AUM growth expected at ~22%, slightly moderated due to calibrated MSME and captive book run-down.
- Cost of funds likely to exit FY26 at ~7.55-7.60%; broadly stable from here.
- Credit costs expected to trend lower to ~1.65-1.75% over next year despite higher provisioning buffers.
- Incremental provisioning impact from new LGD floor estimated at ~INR 3-4 bn annually.
- MSME growth recovery to 20%+ expected in 2-3 quarters post tighter underwriting actions.
- Fee income growth to normalize at ~17-20% YoY.
- Gold loans and vehicle finance to scale through distribution expansion while maintaining ROE hurdles.
- AI-led operating efficiencies and cost leverage to improve further over FY27.

Growth

- Core AUM grew ~22-23% YoY with INR 23,600+ crore incremental additions.
- New loans booked at ~14 mn vs ~12 mn last year; strong customer acquisition momentum.
- Added ~4.7 mn customers in Q3; FY26 additions guided at 17-18 mn; franchise at 115 mn+.
- Cross-sell franchise expanded to ~74 mn, supporting higher farming-led growth.
- MSME growth slowed (~11%) due to deliberate tightening; expected rebound as asset quality stabilizes.
- Vehicle finance and secured businesses growing 25-35%+, supported by low market share runway.
- Gold loan scaling via branch expansion and conversion of existing branches.
- Deposit mix optimization continues; deposits ~17% of borrowings.

Profitability

- Core PAT growth ~23% ex one-offs; operating performance remains strong.
- Core ROE ~19.6% and ROA ~4.6% sustained despite conservative provisioning.
- NIMs broadly steady; deposit repricing benefits partly offset asset-side pressure.
- Opex-to-NTI improved to ~32.8% reflecting operating leverage.
- AI deployment delivering 25-45% productivity gains in tech, sourcing, and servicing.
- Pre-provision profit grew ~19%, supporting resilience.
- One-time charges: accelerated ECL provisioning and labour code actuarial hit; underlying profitability intact.

Asset Quality

- Stage 2+3 assets declined sequentially; improving delinquency formation trends.
- Vintage pools (3/6/9 MOB) showing steady improvement, indicating lower forward credit cost risk.
- Implemented permanent LGD floor across products ? higher PCR across stages to strengthen resilience.
- Stage 1/2/3 PCRs increased materially, creating structural buffers.
- Credit costs trending sub-2% and expected to decline further with AF run-down and tighter underwriting.
- MSME incipient stress addressed via policy tightening and lower volumes.

Others

- Sold 2% stake in housing subsidiary; gain recognized as exceptional, strengthening reserves.
- Liquidity buffer strong (~INR 15,100 cr); capital adequacy comfortable (~21%+).
- 20 mn calls processed via AI; digital engagement and cross-sell improving.
- Strategic shift toward "farming" existing 115-200 mn franchise to lower acquisition cost and lift wallet share.
- Long-term focus: technology leadership, low-risk balance sheet, sustainable ROE.

BAF – 3QFY26 trends

Exhibit 1. Bajaj Finance – Q3FY26 Results Snapshot

Earnings (INR bn)	3QFY25	2QFY26	3QFY26	YoY (%)	QoQ (%)	3QFY26F	A/F (%)
NII	93.8	107.8	113.2	21%	5%	113.5	-0.3%
Non-Interest income	22.9	23.8	25.6	12%	7%	25.4	0.9%
Total income	116.7	131.7	138.8	19%	5%	138.8	-0.1%
Employee cost	19.6	21.5	22.5	15%	4%		
Total Operating Expenses	38.7	43.0	45.6	18%	6%	45.4	0.4%
Operating Profit	78.1	88.7	93.2	19%	5%	93.5	-0.3%
Provisions	20.4	22.7	36.3	77%	60%	24.1	50.7%
PBT	57.7	66.1	54.3	-6%	-18%	69.5	-21.8%
Tax	14.6	16.6	13.7	-6%	-18%	17.5	-21.8%
Reported Profit	43.1	49.5	40.7	-6%	-18%	52.0	-21.8%

Ratio analysis

Cost to income (%)	33.1%	32.6%	32.8%	-29 bps	22 bps
Effective tax rate (%)	25.3%	25.1%	25.1%	-14 bps	1 bps

Credit quality

GS3 (%)	1.1%	1.2%	1.2%	9 bps	-2 bps	1.2%	6 bps
NS3 (%)	0.5%	0.6%	0.5%	-1 bps	-13 bps	0.6%	-9 bps
ECL on stage 3 (%)	57.2%	51.8%	61.3%	415 bps	956 bps	51.8%	956 bps
Credit costs (on AUM) %	2.1%	2.0%	3.1%	95 bps	106 bps	2.0%	103 bps

Capital Adequacy

Tier 1 (%)	20.8%	20.5%	20.6%	-19 bps	6 bps
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Du-pont Analysis (%)

NII / Avg. Assets (%)	8.8%	8.7%	8.7%	-3 bps	5 bps
Non-Interest Inc. / Assets (%)	2.1%	1.9%	2.0%	-17 bps	5 bps
Op. Cost / Assets (%)	3.6%	3.5%	3.5%	-10 bps	6 bps
PPP / Assets (%)	7.3%	7.2%	7.2%	-10 bps	5 bps
Provisions / Assets (%)	1.9%	1.8%	2.8%	89 bps	97 bps
Reported ROA (%)	4.0%	4.0%	3.1%	-89 bps	-85 bps

AUM Mix (%)

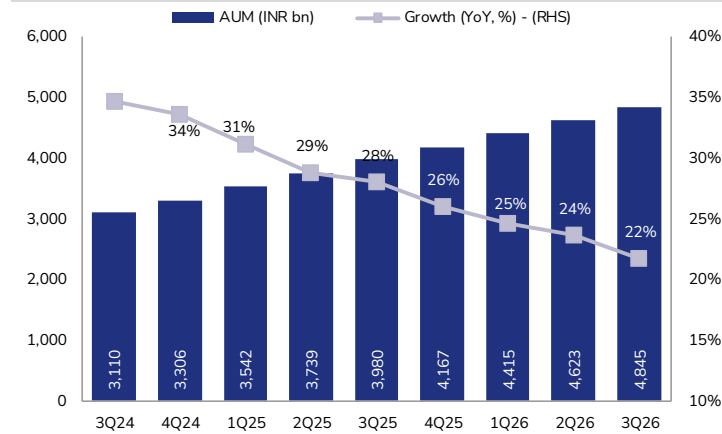
Consumer B2B -Auto Finance Business	4.8%	3.1%	2.8%	-195 bps	-28 bps
Consumer B2B - Sales Finance Businesses	7.3%	7.3%	7.4%	5 bps	10 bps
Consumer B2C Businesses	20.8%	20.9%	20.6%	-23 bps	-28 bps
Rural B2B Business	2.0%	1.9%	2.0%	-3 bps	6 bps
Rural B2C Business	7.1%	7.8%	8.2%	112 bps	38 bps
SME Business	14.6%	14.6%	14.1%	-43 bps	-48 bps
Securities Lending Business	6.3%	6.4%	6.5%	21 bps	16 bps
Commercial Lending Business	6.5%	6.8%	6.8%	32 bps	7 bps
Mortgages	30.6%	31.2%	31.5%	94 bps	29 bps

Margins

Yield on AAUM (%)	16.3%	15.8%	15.8%	-58 bps	1 bps	15.8%	-2 bps
Cost of borrowings (%)	7.6%	7.1%	7.1%	-45 bps	2 bps	7.1%	9 bps
Spread (%)	8.8%	8.6%	8.6%	-13 bps	-1 bps	8.7%	-10 bps
NIM (%)	9.7%	9.5%	9.6%	-16 bps	2 bps	9.6%	-1 bps

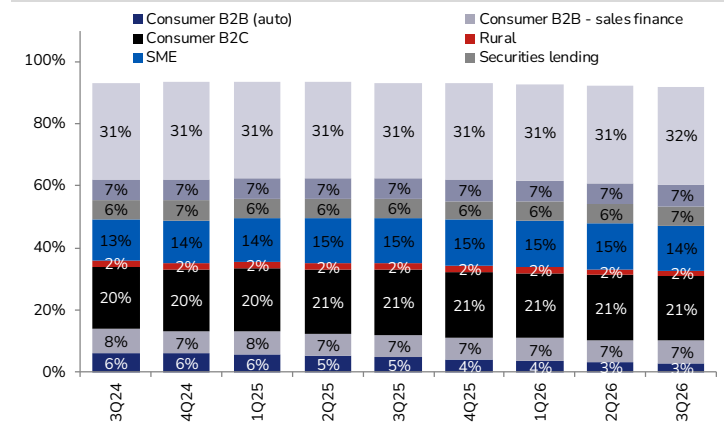
Source: Company, JM Financial

Exhibit 2. BAF: Trend in AUM growth



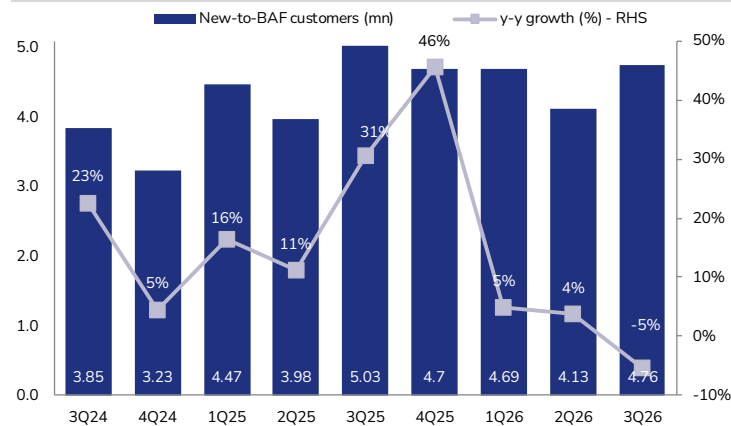
Source: Company, JM Financial

Exhibit 3. BAF: Trend in AUM composition



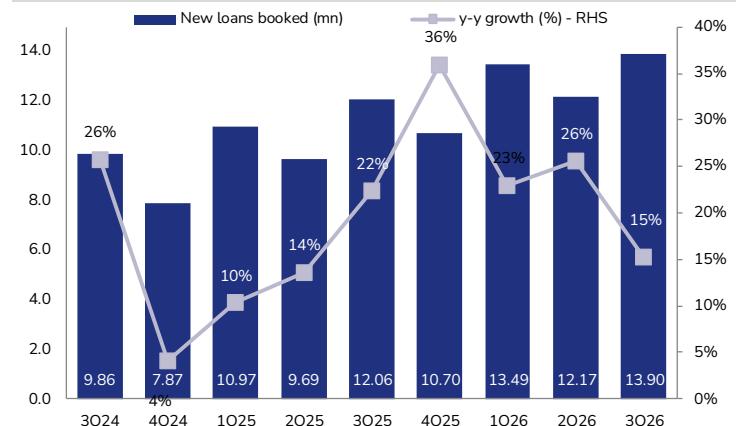
Source: Company, JM Financial

Exhibit 4. Trend in new-to-Bajaj customers



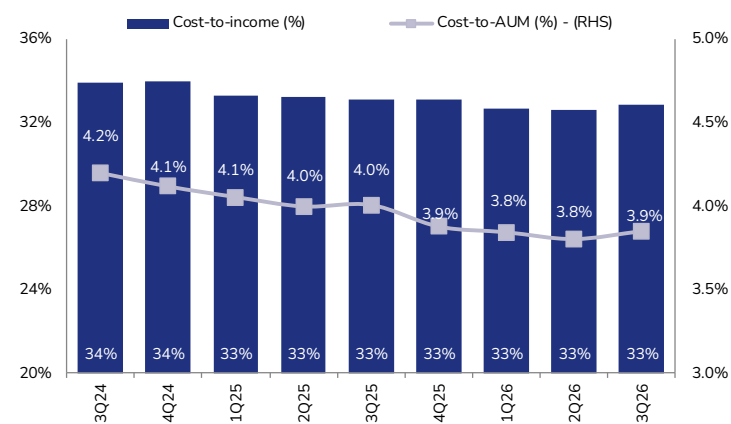
Source: Company, JM Financial

Exhibit 5. Continued traction in new loans booked



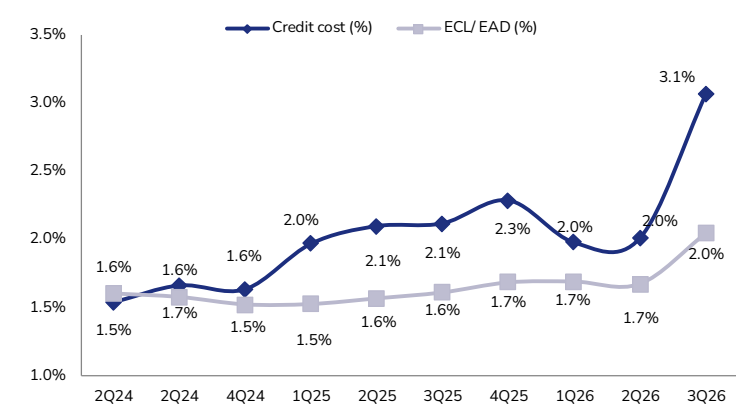
Source: Company, JM Financial

Exhibit 6. BAF: Cost-to-AUM ratio steady



Source: Company, JM Financial

Exhibit 7. BAF: Credit costs elevated due to one-off



Source: Company, JM Financial

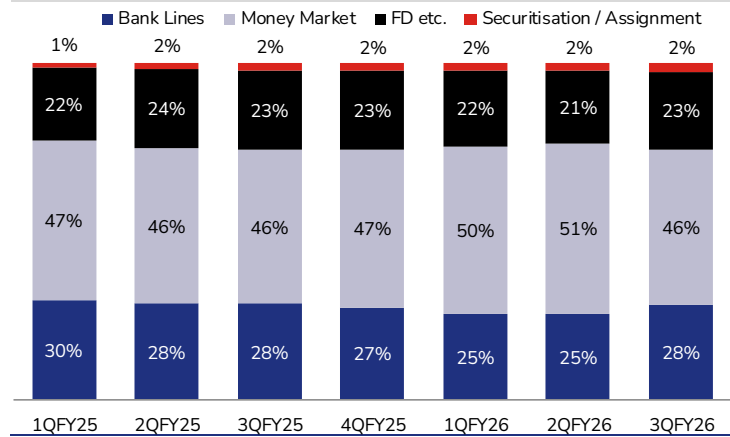
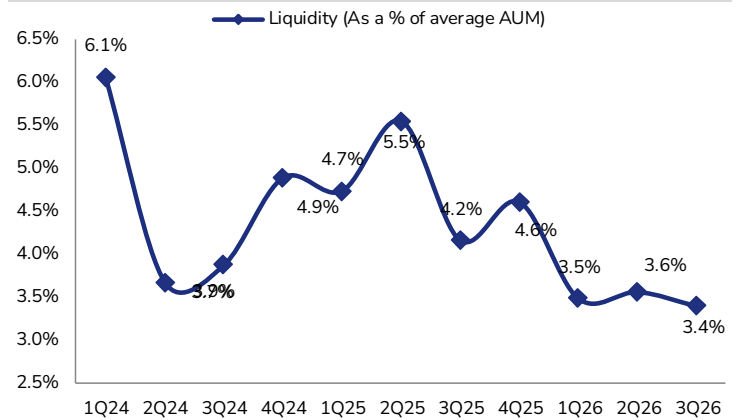
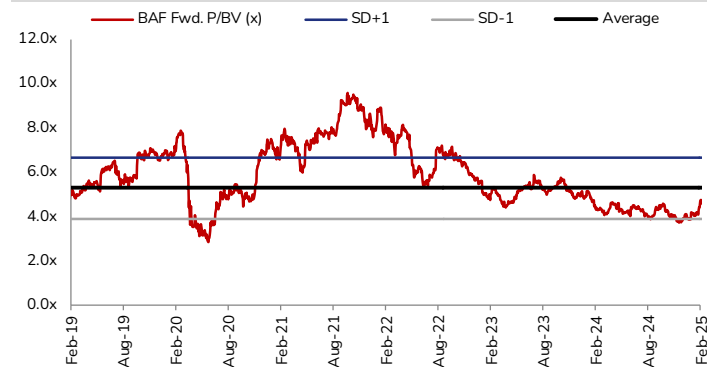
Exhibit 8. BAF: Deposits mix increases**Exhibit 9. BAF: Steady liquidity position****Exhibit 10. BAF: 1 year forward P/B chart****Exhibit 11. BAF: 1 year forward P/E chart**

Exhibit 12. Bajaj Finance – Change in our estimates

Particulars	New estimates			Old estimates			Change in estimates		
	FY26F	FY27F	FY28F	FY26F	FY27F	FY28F	FY26F	FY27F	FY28F
Recommendation	BUY			ADD					
Target price (INR)	1,125			1,100			2%		
Assumptions									
AUM (INR bn)	5,078	6,216	7,556	5,104	6,255	7,608	0%	-1%	-1%
YoY AUM growth	21.9%	22.4%	21.6%	22.5%	22.6%	21.6%	(61)bps	(16)bps	(7)bps
Net interest margins (calculated)	9.6%	9.5%	9.6%	9.6%	9.6%	9.6%	(0)bps	(10)bps	0 bps
Opex/AUM	3.8%	3.7%	3.5%	3.8%	3.7%	3.5%	3 bps	1 bps	1 bps
Credit cost	2.2%	1.8%	1.8%	2.0%	1.9%	1.7%	23 bps	(7)bps	7 bps
Output									
Net interest income (INR bn)	442	536	661	443	545	665	0%	-2%	-1%
Other income (INR bn)	99	120	145	99	119	146	1%	1%	-1%
Total income (INR bn)	541	656	805	542	664	811	0%	-1%	-1%
Operating profit (INR bn)	365	449	562	367	456	566	0%	-2%	-1%
Consol. PAT (INR bn)	198	260	328	206	262	334	-4%	-1%	-2%
EPS (INR)	32	42	53	33	42	54	-4%	-1%	-2%
BVPS (INR)	182	218	262	183	219	265	-1%	-1%	-1%
RoA	3.8%	4.1%	4.2%	3.9%	4.1%	4.3%	(13)bps	1 bps	(5)bps
RoE	18.8%	21.0%	22.0%	19.5%	21.0%	22.2%	(70)bps	(1)bps	(24)bps

Source: Company, JM Financial

Financial Tables (Standalone)

Income Statement (INR mn)					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Interest Income (NII)	295,819	363,928	441,916	535,555	660,694
Non Interest Income	66,836	85,790	99,578	120,499	144,841
Total Income	362,655	449,718	541,493	656,055	805,535
Operating Expenses	123,252	149,261	176,181	207,015	243,567
Pre-provisioning Profits	239,403	300,457	365,312	449,039	561,968
Loan-Loss Provisions	46,307	79,660	101,857	101,440	124,156
Others Provisions	0	0	0	0	0
Total Provisions	46,307	79,660	101,857	101,440	124,156
PBT	193,096	220,796	263,456	347,599	437,812
Tax	48,584	53,002	65,600	87,247	109,891
PAT (Pre-Extra ordinaries)	144,512	167,795	197,855	260,352	327,921
Extra ordinaries (Net of Tax)	0	0	0	0	0
Reported Profits	144,512	167,795	197,855	260,352	327,921
Dividend	22,248	34,768	32,423	40,738	48,586
Retained Profits	122,264	133,027	165,432	219,613	279,335

Source: Company, JM Financial

Balance Sheet (INR mn)					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Equity Capital	12,360	12,417	12,430	12,430	12,430
Reserves & Surplus	754,594	954,512	1,119,938	1,339,551	1,618,886
Stock option outstanding	0	0	0	0	0
Borrowed Funds	2,933,458	3,612,487	4,398,890	5,432,591	6,603,494
Deferred tax liabilities	0	0	0	0	0
Preference Shares	57,004	81,853	71,678	98,108	101,731
Current Liabilities & Provisions	0	0	0	0	0
Total Liabilities	3,757,416	4,661,268	5,602,936	6,882,680	8,336,541
Net Advances	3,262,933	4,078,441	4,970,746	6,084,501	7,395,913
Investments	308,807	344,408	419,760	513,812	624,556
Cash & Bank Balances	106,240	135,435	99,415	146,028	147,918
Loans and Advances	0	0	0	0	0
Other Current Assets	0	0	0	0	0
Fixed Assets	32,934	38,215	43,947	53,794	65,388
Miscellaneous Expenditure	0	0	0	0	0
Deferred Tax Assets	0	0	0	0	0
Total Assets	3,757,416	4,661,268	5,602,936	6,882,680	8,336,541

Source: Company, JM Financial

Key Ratios					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Growth (YoY) (%)					
Borrowed funds	35.4%	23.1%	21.8%	23.5%	21.6%
Advances	34.7%	25.0%	21.9%	22.4%	21.6%
Total Assets	36.5%	24.1%	20.2%	22.8%	21.1%
NII	28.7%	23.0%	21.4%	21.2%	23.4%
Non-interest Income	13.9%	28.4%	16.1%	21.0%	20.2%
Operating Expenses	21.5%	21.1%	18.0%	17.5%	17.7%
Operating Profits	27.9%	25.5%	21.6%	22.9%	25.1%
Core Operating profit	0.0%	0.0%	0.0%	0.0%	0.0%
Provisions	45.2%	72.0%	27.9%	-0.4%	22.4%
Reported PAT	25.6%	16.1%	17.9%	31.6%	26.0%
Yields / Margins (%)					
Interest Spread	9.37%	8.80%	8.60%	8.54%	8.70%
NIM	10.24%	9.74%	9.56%	9.48%	9.59%
Profitability (%)					
ROA	4.44%	3.99%	3.86%	4.17%	4.31%
ROE	22.1%	19.4%	18.8%	21.0%	22.0%
Cost to Income	34.0%	33.2%	32.5%	31.6%	30.2%
Asset quality (%)					
Gross NPA	0.85%	0.96%	1.16%	0.97%	1.15%
LLP	1.60%	2.13%	2.20%	1.80%	1.80%
Capital Adequacy (%)					
Tier I	21.51%	21.09%	23.51%	23.39%	23.78%
CAR	22.52%	21.93%	24.29%	24.03%	24.30%

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
NII / Assets	9.09%	8.65%	8.61%	8.58%	8.68%
Other Income / Assets	2.05%	2.04%	1.94%	1.93%	1.90%
Total Income / Assets	11.14%	10.68%	10.55%	10.51%	10.59%
Cost / Assets	3.79%	3.55%	3.43%	3.32%	3.20%
PPP / Assets	7.36%	7.14%	7.12%	7.19%	7.38%
Provisions / Assets	1.42%	1.89%	1.98%	1.62%	1.63%
PBT / Assets	5.93%	5.25%	5.13%	5.57%	5.75%
Tax rate	25.2%	24.0%	24.9%	25.1%	25.1%
ROA	4.44%	3.99%	3.86%	4.17%	4.31%
Leverage	5.0	4.9	4.9	5.0	5.1
ROE	22.1%	19.4%	18.8%	21.0%	22.0%

Source: Company, JM Financial

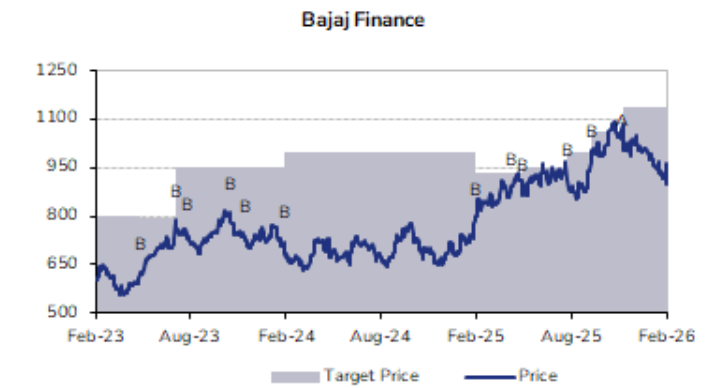
Valuations					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Shares in Issue	6,180.0	6,208.5	6,215.1	6,215.1	6,215.1
EPS (INR)	23.4	27.0	31.8	41.9	52.8
EPS (YoY) (%)	22.8%	15.6%	17.8%	31.6%	26.0%
P/E (x)	41.2	35.7	30.3	23.0	18.3
BV (INR)	124	156	182	218	262
BV (YoY) (%)	38.0%	25.5%	17.0%	19.4%	20.7%
P/BV (x)	7.77	6.19	5.29	4.43	3.67
DPS (INR)	3.6	5.6	5.2	6.6	7.8
Div. yield (%)	0.4%	0.6%	0.5%	0.7%	0.8%

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
27-Oct-21	Buy	900	
19-Jan-22	Buy	900	0.0
4-Mar-22	Buy	900	0.0
27-Apr-22	Buy	900	0.0
11-Jul-22	Buy	900	0.0
27-Jul-22	Buy	900	0.0
21-Oct-22	Buy	900	0.0
27-Jan-23	Buy	800	-11.1
27-Apr-23	Buy	793	-0.9
5-Jul-23	Buy	950	19.9
26-Jul-23	Buy	950	0.0
17-Oct-23	Buy	950	0.0
16-Nov-23	Buy	950	0.0
29-Jan-24	Buy	1,000	5.3
30-Jan-25	Buy	935	-6.5
8-Apr-25	Buy	935	0.0
30-Apr-25	Buy	950	1.6
25-Jul-25	Buy	1,000	5.3
10-Sep-25	Buy	1,060	6.0
11-Nov-25	Add	1,140	7.5

Recommendation History



APPENDIX I

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

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Rating	Meaning
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ADD	Expected return \geq 5% and $<$ 15% over the next twelve months.
REDUCE	Expected return \geq -10% and $<$ 5% over the next twelve months.
SELL	Expected return $<$ -10% over the next twelve months.

Note: For REITs (Real Estate Investment Trust) and InvIT (Infrastructure Investment Trust) total expected returns include dividends or DPU (distribution per unit)

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SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH0000000610

Registered Office: 7th Floor, Cnergy, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India.

Board: +91 22 6630 3030 | Fax: +91 22 6630 3488 | Email: jmfinancial.research@jmfl.com | www.jmfl.com

Compliance Officer: Ms. Ashley Johnson | Tel: +91 22 6224 1862 | Email: ashley.johnson@jmfl.com

Grievance Officer: Ms. Ashley Johnson | Tel: +91 22 6224 1862 | Email: instcompliance@jmfl.com
