



1QFY26 Result Update

Bajaj Finance

Stable quarter; management maintains cautious stance on MSME, 2W/3W and MFI segment

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CMP (Rs): 959

Market cap. (Rs bn): 5,959

Target price (Rs): 876

Maintain Hold

Performance summary/What stood out

- ▶ Bajaj Finance (BAF) reported a largely in line set of numbers on net revenues and PPOP, but reported a marginal 2.5% beat on PAT, aided by slightly lower credit costs. AUM growth remained robust at 24.6% YoY/5.9% for the quarter, although management expects it to moderate to 23-24% in FY26 led by winding down of two-wheeler and three-wheeler book and being cautious on MSME and MFI Business. Margins are likely to stay stable at current levels with a positive bias of 5-10 bps, as lower borrowing costs are expected to be offset by moderation in yields and fee income. Asset quality deteriorated marginally with GNPA/NNPA increasing to 1.03%/0.5% from 0.96%/0.44% in 4QFY25. The company has reiterated its credit cost guidance at 185-195 bps. Overall, a stable quarter with slight miss on asset quality front. Management maintained its guidance across all parameters.

Outlook and Valuation

- ▶ We continue to expect AUM growth of 24.0% in FY26 and 22.0% in FY27, in line with management's guidance. However, we marginally revise our margin estimates upwards to 9.7% for FY26/27E, factoring in a sharper-than-expected decline in the cost of borrowings during 1QFY26, with further improvement anticipated. We retain our credit cost assumption at 1.75% for FY26-27E, as the company continues to streamline its MSME and MFI portfolios, effectively managing forward flows. Consequently, we expect RoA to remain at 4.0-4.1%, with RoE at ~20% over FY26-27E. Given the healthy growth and return profile, we value the company at 4.0x FY27E P/BV, resulting in an unchanged target price of Rs 876. However, we continue to maintain our Hold rating on the stock, given the limited upside from current levels.

What has changed in estimates

We have tweaked our margins slightly higher resulting in an EPS upgrade of 2.3% and 1.0% for FY26E and FY27E, respectively.

Financial highlights (Consolidated)

(Rs mn)	1QFY25	1QFY26	YoY (%)	4QFY25	QoQ (%)
Interest Earned	140,492	171,447	22.0	163,591	4.8
Interest Expended	(56,839)	(69,177)	21.7	(65,520)	5.6
NII	83,653	102,270	22.3	98,072	4.3
Other Income	20,531	23,831	16.1	21,096	13.0
Total Net Income	104,185	126,101	21.0	119,168	5.8
Staff Expenses	(17,748)	(21,026)	18.5	(19,432)	8.2
Other Operating Expense	(14,964)	(17,690)	18.2	(17,541)	0.8
Operating Profit	69,475	84,871	22.2	79,675	6.5
Provisions	(16,847)	(21,202)	25.9	(23,289)	(9.0)
Provision for tax	(13,534)	(16,023)	18.4	(11,018)	45.4
Reported Profit	39,095	47,646	21.9	45,368	5.0

Key variables

	Improvement on (%)		
	B&K est.	Consensus	
Net Interest Income	(1.1)	(1.7)	
Operating Profit	1.4	1.0	
Adjusted PAT	2.5	2.1	
Valuations	FY25	FY26E	FY27E
P/BV (x)	6.2	5.2	4.4
P/ABV (x)	6.3	5.3	4.5
P/E (x)	35.5	27.9	23.3
Key Ratio			
Spreads (%)	9.1	9.2	9.1
RoA (%)	4.0	4.1	4.0
RoE (%)	19.4	20.2	20.3
Book Value (Rs)	156	185	220
Adj. Book Value (Rs)	153	181	214

Detailed highlights**P&L and Key metrics**

- ▶ Net interest income stood at Rs 102.3 bn and grew by 4.3% QoQ/22.3% YoY; in line with our estimates.
- ▶ Calculated NIMs for the quarter declined by 10 bps and stood at 9.5% as it booked the interest income on investment under net gain on fair value changes. Adjusted for the same, NIMs were stable QoQ. Management expects NIMs to remain largely stable at current levels with a positive bias of 5-10 bps.
- ▶ Operating profit at Rs 84.87 bn grew by 6.5% QoQ/22.2% YoY; in line with our estimates.
- ▶ Credit costs during the quarter came in marginally lower at 2.0% as against our expectation of 2.1%. Marginally lower credit costs resulted in PAT being 2.5% higher versus our estimates. PAT stood at Rs 47.65 bn, which was up 5.0% QoQ/21.9% YoY.

Balance Sheet

- ▶ AUM during the quarter grew by 5.9% QoQ/24.6% YoY to Rs 4.41 trn.
- ▶ AUM growth remained robust for Commercial lending (up 17.8% QoQ/26.7% YoY) followed by Rural B2B (up 14.0% QoQ/19.9% YoY) and Consumer B2B (up 12.8% QoQ/21.7% YoY).
- ▶ The mortgage portfolio also recorded healthy growth of 5.3% QoQ and 24.4% YoY and now contributes 31% in the AUM.
- ▶ Gold loans and Car loans (off-low base) registered robust sequential growth of 20.0% and 6.0%, and now contribute to 2.3% and 2.8% of the AUM, respectively.
- ▶ Two-wheeler/three-wheeler segment (4% of AUM) declined by 9.3% on QoQ and 20.2% on a YoY basis, as these loans are now financed by Bajaj Auto's captive NBFC subsidiary.
- ▶ The management has guided for 23-24% growth for FY26. We expect AUM to grow at a CAGR of 23.0% over FY26-27E.
- ▶ Asset quality deteriorated marginally with Gross Stage 3/Net Stage 3 increasing by 7 bps/5 bps, respectively, to 1.03%/0.5%. PCR on Stage 3 stands at 52% versus 54% in 4QFY25.

Earnings call highlights**Business**

- ▶ AUM growth guidance for FY26 at 23-24%.
- ▶ **Macro:** Higher consumer leverage continues to remain a concern.
- ▶ **MSME:** The company tracks 17 industries in MSME segment, of which 13 industries are exhibiting signs of slowdown and other industries are witnessing contractions. Pre-Covid, the monthly disbursements used to be around Rs 30 bn, which increased to Rs 110 bn and now again contracting to Rs 70 bn.

Margins

- ▶ Cost of borrowings witnessed 20 bps decline on a sequential basis to 7.8% and is expected to reduce further. Management expects the cost of borrowings at 7.6-7.65% for FY26.
- ▶ Fixed deposits which accounts for 20% of borrowings will come down to 15-16% over FY26 end, as the mix will shift towards NCD, Banks ECB loans.
- ▶ Incremental cost of borrowings for NCDs is at 7-7.1% versus 8% earlier.
- ▶ 85% of the banks borrowings are linked to EBLR.

- ▶ The management expects flattish NIMs trajectory in FY26, with a positive bias of 5-10 bps.
- ▶ Fee income growth which grew by 17.0% on YoY basis will come down to 12-13% in FY26.

Asset quality

- ▶ Credit costs guidance maintained at 185-195 bps for FY26.
- ▶ Increase in the Stage 2 assets was primarily on account of MSME business. The company has done Rs 2.2 bn worth of restructuring and might do Rs 1.5 bn worth of restructuring of loans. These customers are classified as Stage 3 assets.
- ▶ MSME business has shown some strain since February and credit costs for this business remains elevated at 2% levels.
- ▶ Asset quality in terms of GNPA/NNPA and credit costs seems optically elevated for 2W&3W business as it is winding down.
- ▶ MFI business: Karnataka accounts for 11% of the total AUM. The company has cut business by 40-50% in this state.

Others

- ▶ Mr Anup Saha has tendered his resignation citing personal reasons and resultantly Mr Rajeev Jain has been re-appointed as the MD of Bajaj Finance until March 2028, and succession planning will commence over the next six months.

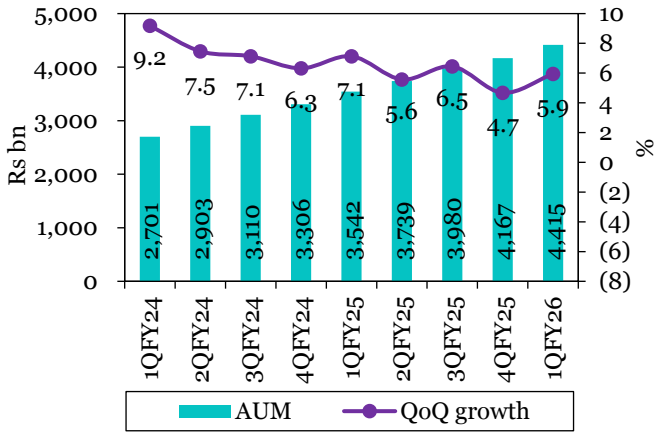
Change in estimates

(Rs mn)	Old estimates		New estimates		Change (%)	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
NII	452,458	551,698	457,585	553,426	1.1	0.3
Net revenues	552,427	674,553	558,903	677,939	1.2	0.5
Operating profit	370,058	450,434	376,534	453,820	1.8	0.8
PAT	208,736	253,275	213,580	255,808	2.3	1.0
BV (Rs)	184	219	185	220	0.4	0.5
EPS (Rs)	33.6	40.8	34.4	41.2	2.3	1.0

Key ratios and trends

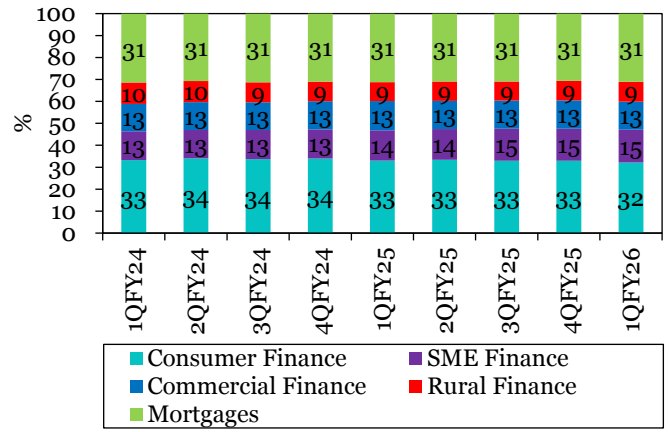
	1Q FY23	2Q FY23	3Q FY23	4Q FY23	1Q FY24	2Q FY24	3Q FY24	4Q FY24	1Q FY25	2Q FY25	3Q FY25	4Q FY25	1Q FY26
AUM													
AUM (Rs bn)	2,040	2,184	2,308	2,474	2,701	2,903	3,110	3,306	3,542	3,739	3,980	4,167	4,415
YoY (%)	28.3	30.8	27.4	25.3	32.4	32.9	34.7	33.6	31.1	28.8	28.0	26.0	24.6
QoQ (%)	3.3	7.0	5.7	7.2	9.2	7.5	7.1	6.3	7.1	5.6	6.5	4.7	5.9
AUM portfolio mix (%)													
Consumer B2B Auto Finance	4.9	4.7	5.1	5.2	5.5	5.7	6.2	6.0	5.6	5.1	4.8	4.2	3.6
Consumer B2B Sales Finance	8.1	7.4	7.2	7.2	8.3	7.9	7.9	7.1	7.6	7.3	7.3	7.0	7.4
Consumer B2C Businesses	20.2	20.2	20.2	20.8	20.3	20.0	19.8	20.0	20.2	20.7	20.9	21.0	20.9
Rural B2B Business	2.2	2.0	2.0	1.8	2.1	1.9	2.0	1.9	2.1	1.9	2.0	1.9	2.1
Rural B2C Business	8.2	8.2	8.0	7.9	7.5	7.2	6.9	6.7	6.6	6.7	6.9	7.1	7.5
SME Business	5.3	13.2	13.4	13.1	12.9	13.3	13.3	13.8	14.0	14.5	14.6	14.9	14.7
Securities lending Business	13.0	5.6	5.7	6.1	6.0	5.9	6.2	6.7	6.2	6.2	6.3	6.7	6.2
Commercial lending Business	5.9	6.1	6.4	6.4	6.7	6.7	6.6	6.7	6.7	6.6	6.5	6.1	6.8
Mortgages	32.2	32.6	31.8	31.4	30.8	31.3	31.0	31.2	31.0	31.0	30.7	31.1	30.9
Capital adequacy (%)													
Total CAR	26.2	25.1	25.1	24.9	24.6	23.2	23.9	22.5	21.7	21.7	21.6	21.9	22.0
Tier I	23.8	23.1	23.3	23.1	23.0	21.9	22.8	21.5	20.7	20.9	20.8	21.1	21.2
Tier II	2.3	2.0	1.9	1.8	1.6	1.3	1.1	1.0	0.9	0.8	0.8	0.8	0.8
Asset quality (%)													
GNPA	1.3	1.2	1.1	0.9	0.9	0.9	1.0	0.9	0.9	1.1	1.1	1.0	1.0
NNPA	0.5	0.5	0.4	0.7	0.3	0.3	0.4	0.4	0.4	0.5	0.5	0.4	0.5
PCR	59.9	60.1	64.2	63.8	64.8	66.0	61.7	57.0	56.1	57.1	57.2	53.7	52.0

Healthy AUM growth



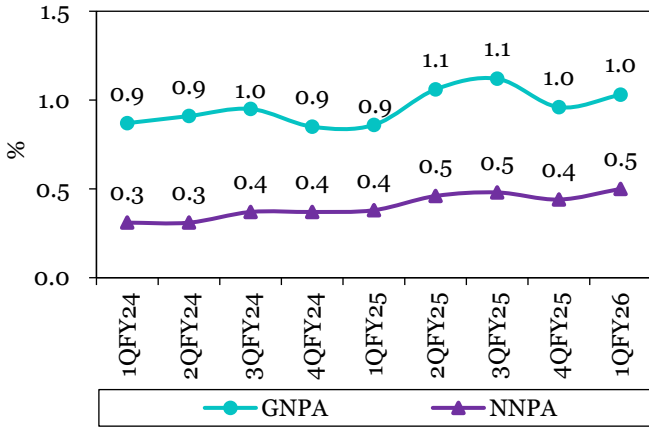
Source: Company, B&K Research

AUM mix largely stable



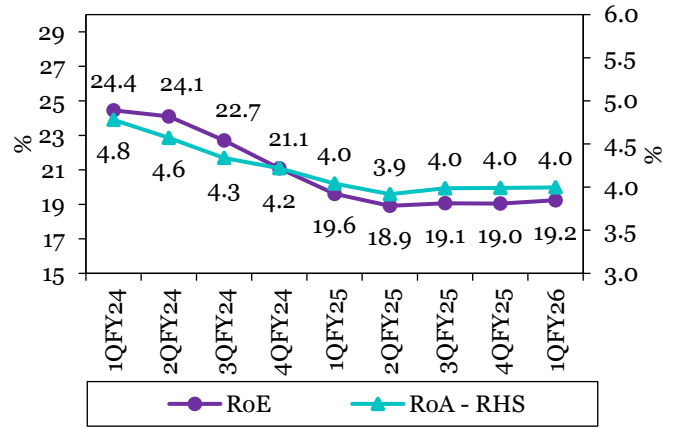
Source: Company, B&K Research

Asset quality marginally deteriorates



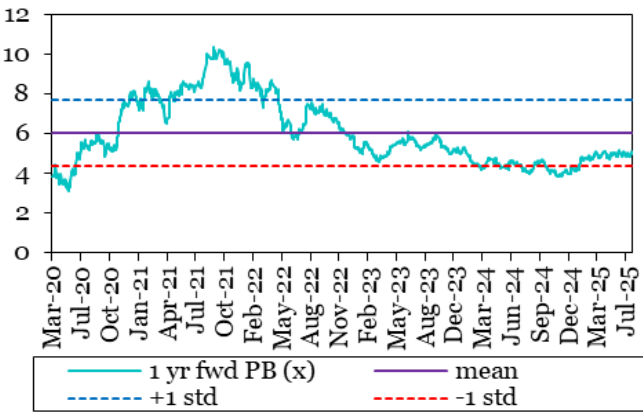
Source: Company, B&K Research

Stable return profile



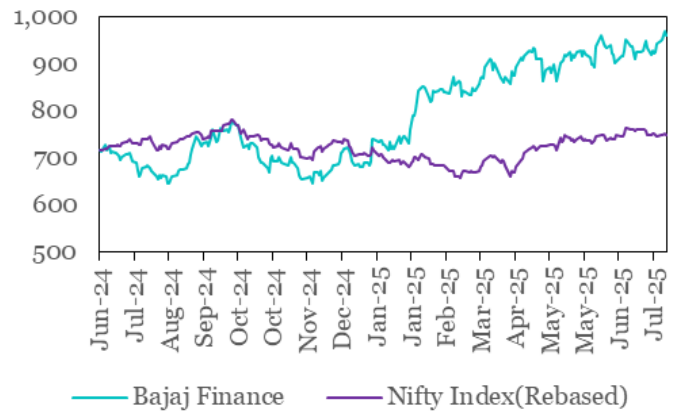
Source: Company, B&K Research

One-year forward PB



Source: B&K Research

Relative performance - 3 months

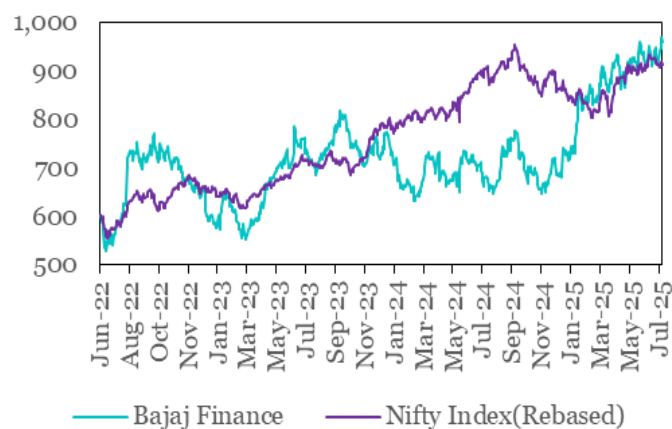


Source: B&K Research

Major shareholders (%)

	Dec-24	Mar-25	Change
Promoters	54.7	54.7	0.0
GOI	0.0	0.0	0.0
FII's	20.8	21.6	0.7
MFs	9.5	9.0	(0.5)
BFSI's	5.7	5.9	0.2
Public & Others	9.3	8.8	(0.5)
Pledge	0.0	0.0	0.0

Relative performance – 3 years



Financial summary (Consolidated)

Income Statement

Y/E (Rs mn)	FY24	FY25	FY26E	FY27E
Interest Income	483,066	611,636	756,223	917,363
Interest Expended	(187,247)	(247,708)	(298,638)	(363,937)
Net Interest Income	295,819	363,928	457,585	553,426
Growth %	28.7	23.0	25.7	20.9
Other Income	66,759	85,612	101,318	124,513
Total net income	362,578	449,540	558,903	677,939
Growth %	25.6	24.0	24.3	21.3
Operating expenses	(116,419)	(140,452)	(171,241)	(210,443)
(Staff Expenses)	(63,960)	(75,083)	(89,599)	(110,111)
(Other Expenses)	(52,459)	(65,368)	(81,642)	(100,333)
Depreciation	(6,833)	(8,810)	(11,128)	(13,676)
Pre-Provision Profit	239,326	300,279	376,534	453,820
Provisions & Contingencies	(46,307)	(79,660)	(90,999)	(111,831)
Profit before tax	193,019	220,618	285,535	341,989
Provision for tax	(48,584)	(53,002)	(71,955)	(86,181)
Adjusted Net profit	144,435	167,617	213,580	255,808
Growth %	25.5	16.0	27.4	19.8

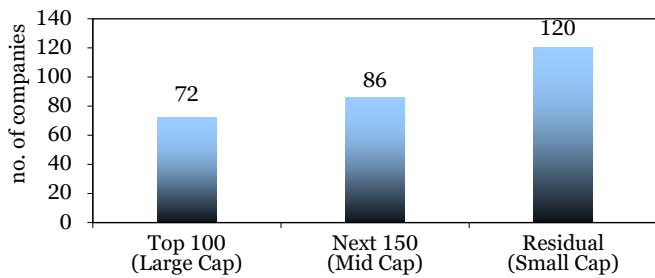
Balance Sheet

Y/E (Rs mn)	FY24	FY25	FY26E	FY27E
Capital	1,236	1,242	1,242	1,242
Reserves & Surplus	765,718	965,687	1,147,230	1,364,667
Net worth	766,954	966,929	1,148,472	1,365,909
Borrowings	2,933,458	3,612,487	4,515,608	5,554,198
Other Liab. & Provisions	57,004	81,853	111,826	121,252
Total Liabilities	3,757,416	4,661,269	5,775,907	7,041,359
Advances	3,262,933	4,078,442	5,053,201	6,159,659
Investments	308,807	344,408	427,066	521,021
Fixed assets	32,934	38,215	47,386	57,811
Other Assets	152,743	200,204	248,253	302,868
Total Assets	3,757,416	4,661,269	5,775,907	7,041,359

Key Ratios

Y/E	FY24	FY25	FY26E	FY27E
Operational & Financial Ratios (Rs)				
EPS	23.3	27.0	34.4	41.2
BV	123.5	155.7	185.0	220.0
ABV	121.6	152.8	180.8	214.4
DPS	3.5	5.6	5.2	6.2
Valuation Ratios (x)				
P/BV	7.8	6.2	5.2	4.4
P/ABV	7.9	6.3	5.3	4.5
P/E	41.2	35.5	27.9	23.3
Yield (%)	0.4	0.6	0.5	0.6
Spread Analysis (%)				
Yield on Advances	17.0	16.7	16.6	16.4
Cost of funds	7.3	7.6	7.3	7.2
Spread	9.7	9.1	9.2	9.1
Net Interest Margin	10.2	9.7	9.8	9.7
Profitability Ratios (%)				
RoAA	4.4	4.0	4.1	4.0
RoAE	22.1	19.4	20.2	20.3
Int Expended / Int Earned	38.8	40.5	39.5	39.7
Asset Quality Ratios (%)				
GNPA	0.8	1.0	1.1	1.2
NNPA	0.4	0.4	0.5	0.6
NNPA / Net worth	1.6	1.9	2.3	2.5
Credit Cost	1.6	2.1	2.0	2.0
Provision Coverage	57.0	53.7	54.0	54.0
Capitalisation Ratios (%)				
Tier I capital adequacy	21.5	21.1	20.8	20.7
Total capital adequacy	22.5	21.9	21.4	21.3
Total assets/Equity (x)	5.0	4.9	4.9	5.1
Loans/Assets (x)	86.8	87.5	87.5	87.5
Borrowings/Assets (x)	78.1	77.5	78.2	78.9
Efficiency Ratios (%)				
Cost/Income	34.0	33.2	32.6	33.1
Cost/AUM	4.3	4.0	3.9	3.9
Productivity Ratios (Rs mn)				
Assets per employee	69.9	72.7	80.5	87.6
Staff cost per employee	1.2	1.2	1.2	1.4

B&K Universe Profile – by AMFI Definition



B&K Investment Ratings

	LARGE CAP (Market Cap > US\$ 2 bn)	MID & SMALL CAP (Market Cap < US\$ 2 bn)
BUY	>+15%	>+20%
HOLD	+15% to -10 %	+20% to -15 %
SELL	<-10%	<-15%

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