

Bajaj Finance

In-line P&L outcome; macro stress testing asset quality

Bajaj Finance's (BAF) Q1FY26 earnings were largely in line with our estimates, with robust AUM growth (+24.6% YoY) and improving operating efficiency, offset by lower other income and high credit costs. Credit costs was marginally higher—2.02% vs. 1.97% (adjusted) in Q4FY25—as the management indicated stress in the MSME portfolio (~12% of AUM) due to broader macroeconomic slowdown. BAF's post-pandemic cross-functional investments are gradually reflecting in increasing throughput and higher efficiency gains (C/I at 33%; opex-to-AUM at 3.8%), which are likely to sustain over FY26E-FY27E. BAF is poised for ~24% AUM CAGR over FY26-FY27E, with the scale-up of new products, while also simultaneously delivering strong profitability. Mr. Rajeev Jain would continue to remain Vice Chairman and MD until Mar-28, with succession more likely toward the end of his tenure. We maintain BUY with a RI-based TP of INR 985 (implied 4.4x Mar-27 ABVPS; 23x FY27 EPS).

- Strong AUM growth, operating efficiency aids steady PPOP growth:** BAF reported steady PPOP growth (+22% YoY), driven by strong AUM growth (+24.6% YoY), strong customer acquisitions, and improving operating efficiency. Cost of funds declined by 20bps QoQ to 7.8% and are expected to decline further, offsetting repricing of floating rate loans, leading to steady NIMs. Other income grew by 16% YoY and is likely to remain under pressure in FY26 due to the termination of co-branded credit cards business and moderation of certain fees and charges across other businesses. BAF's customer acquisition remained steady, along with strong cross-sell engine driving the number of loans disbursed up by 23% YoY.
- Credit costs remain elevated, gradual moderation ahead:** GS-III/NS-III deteriorated QoQ to 1.03%/0.5% (Q4FY25: 0.96%/0.45%), while GS-II remained steady at 1.3%. Credit costs inched up marginally to 2.02% as the credit environment remained challenging. As per management, credit costs were elevated in 2W/3W and MSME segments. Captive 2W/3W business is likely to completely run down by Q1FY26, and non-captive business is likely to have lower loss ratios. MSME segment is witnessing stress due to macroeconomic slowdown across industries, and the asset quality is expected to improve gradually with corrective actions taken in the quarter.
- Multiple levers to drive healthy medium-term growth and profitability:** BAF's newly-launched products including car loans, gold loans, LAP, MFI, and CV financing have reached an inflexion point and will likely drive medium-term AUM CAGR. While headwinds in asset quality have capped the near-term profitability, BAF's relentless focus on throughput and operating efficiencies, coupled with sustained pricing power in key segments, is likely to help drive strong profitability ahead.

Financial summary (consolidated)

Y/E Mar (INR bn)	Q1FY26	Q1FY25	YoY(%)	Q4FY25	QoQ(%)	FY24	FY25	FY26E	FY27E
NII	102.3	83.7	22.3	98.1	4.3	296	364	453	565
PPOP	84.9	69.5	22.2	79.7	6.5	239	300	377	474
PAT	47.0	39.1	20.2	44.8	4.9	145	166	214	270
EPS (INR)	7.6	6.3	19.6	7.2	4.6	23	27	34	43
ROAE (%)						22.1%	18.9%	19.8%	20.9%
ROAA (%)						4.4%	4.0%	4.1%	4.2%
ABVPS (INR)						122	156	184	222
P/ABV (x)						7.9	6.1	5.2	4.3
P/E (x)						41.0	35.8	27.9	22.1

Source: Company, HSIE Research

BUY

CMP (as on 24 Jul 2025)	INR 959
Target Price	INR 985
NIFTY	25,062

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR985	INR 985
EPS %	FY26E	FY27E
	0%	0%

KEY STOCK DATA

Bloomberg code	BAF IN
No. of Shares (mn)	6,214
MCap (INR bn) / (\$ mn)	5,959/68,965
6m avg traded value (INR mn)	10,493
52 Week high / low	INR 979/642

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	3.2	29.1	45.3
Relative (%)	0.3	21.2	42.8

SHAREHOLDING PATTERN (%)

	Mar-25	Jun-25
Promoters	54.7	54.7
FIs & Local MFs	14.9	14.6
FPIs	21.5	21.7
Public & Others	8.8	8.9
Pledged Shares	-	-

Source: BSE

Pledged shares as % of total shares

Deepak Shinde

deepak.shinde@hdfcsec.com
+91-22-6171-7323

Krishnan ASV

venkata.krishnan@hdfcsec.com
+91-22-6171-7314