



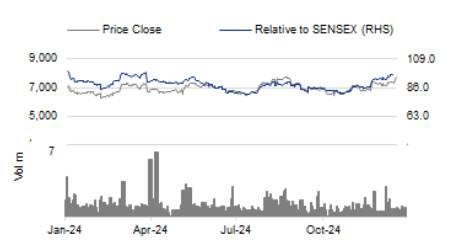
India

ADD (no change)

Consensus ratings*: Buy 28 Hold 5 Sell 4	
Current price:	Rs7,760
Target price: ▲	Rs9,750
Previous target:	Rs9,000
Up/downside:	25.6%
InCred Research / Consensus:	20.7%
Reuters:	BJFN.NS
Bloomberg:	BAF IN
Market cap:	US\$55,493m
	Rs4,803,207m
Average daily turnover:	US\$91.6m
	Rs7928.4m
Current shares o/s:	619.0m
Free float:	45.3%
*Source: Bloomberg	

Key changes in this note

- Keeping risk & profitability at the front end along with integrating AI across all processes, diversified product roll out & dominated reach will set the stage for accelerated growth



Source: Bloomberg

<b>Price performance</b>	1M	3M	12M
Absolute (%)	12.3	10.5	7.9
Relative (%)	14.9	15.4	0.3

<b>Major shareholders</b>	% held
Bajaj Finserv Ltd	54.7
Government of Singapore	3.0
LIC	2.8

Research Analyst(s)



**Jignesh SHIAL**  
T (91) 22 4161 1547  
E jignesh.shial@incredresearch.com  
**Meghna LUTHRA**  
T (91) 22 4161 1553  
E meghna.luthra@incredresearch.com  
**Rishabh JOGANI**  
T (91) 22 4161 1569  
E rishabh.jogani@incredresearch.com

# Bajaj Finance Ltd

## Yeh Dil Maange More...

- BAF posted in-line 3Q PAT of Rs43.1bn as credit costs (~212bp) in the guided range, with fresh delinquencies stabilizing & growth prospects improving.
- With normalcy in fresh delinquencies, BAF, aided by its superior technology, diversified products & dominant reach, is all set for accelerated growth
- With stability in margin, normalization of credit costs & improved clarity on management transition, BAF is attractively priced. Retain ADD; TP Rs9,750.

### The stage is set to accelerate retail market share to ~4% by FY28F

Bajaj Finance (BAF) has added ~13.5m customers in 9MFY25 & has already revised its new customer addition target to ~17m (from ~15m) for FY25F. The cross-sell franchise increased to ~61.6m customers, which is ~63.4% of the total customers, against ~60.7% in Mar 2024. BAF has reported ~28% yoy AUM growth at Rs3.98tr in 3QFY25, with the retail market share at ~2.75% and aims to reach ~4% by FY28F. Management is targeting ~200m customers through BAF's recent tie-up with Bharti Airtel. We believe the company's constant greed to outgrow the system, while keeping risk & profitability at the front-end seen in its intention to integrate artificial intelligence or AI across all its processes to improve customer engagement & enhance productivity, along with a diversified product rollout & dominant reach, will set the stage for accelerated growth.

### Asset quality trend: The worst is already behind

BAF's management is witnessing normalcy in fresh delinquencies, leading to stability in incremental credit costs. Management has cautiously reduced BAF's exposure to overleveraged customers (with more than three unsecured loans) within a single digit (from mid-teen), close to the pre-Covid levels. Additionally, BAF has moderated its used car portfolio (mainly refinancing) as well as reduced the average ticket size for rural unsecured loans. Management indicated that the overall EMI bounce rate continues to remain low, with moderating flows, reiterating its optimism towards managing 4QFY25F credit costs at current levels, aided by plateauing of incremental credit costs. We believe that in the current uncertain/volatile times, BAF is better placed with a decent vintage in unsecured loans, well-oiled collection machinery and a stringent underwriting mechanism.

### Outlook & valuation

Though the clarity over management transition is due next quarter, MD Rajiv Jain's desire to stay within BAF's ecosystem is a major sentimental booster. The company does not intend to convert itself into a bank, nor is there any communication from the Reserve Bank of India in this regard, which provides further comfort. With the pain in margin & credit costs already behind, BAF is attractively priced at current levels. We retain our high-conviction ADD rating on BAF with a higher target price of Rs9,750 (Rs9,000 earlier), corresponding to ~5.5x FY26F BV & ~26.6x FY26F EPS. Downside risks: Slowing consumption and a rise in delinquency/credit costs.

Financial Summary	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income (Rsm)	229,968	295,949	375,881	483,325	616,671
Total Non-Interest Income (Rsm)	58,616	66,509	78,687	94,752	114,824
Pre-provisioning Operating Profit (Rsm)	187,158	239,206	304,226	396,961	513,980
Total Provision Charges (Rsm)	(31,897)	(46,307)	(78,874)	(98,366)	(123,083)
Net Profit (Rsm)	115,060	144,315	167,887	223,349	292,391
Core EPS (Rs)	190.72	233.52	271.66	361.41	473.12
Core EPS Growth	64%	22%	16%	33%	31%
FD Core P/E (x)	40.69	33.23	28.56	21.47	16.40
DPS (Rs)	30.00	36.00	50.00	65.00	85.00
Dividend Yield	0.39%	0.46%	0.64%	0.84%	1.10%
BVPS (Rs)	901.2	1,241.0	1,462.7	1,760.0	2,148.2
P/BV (x)	8.61	6.25	5.31	4.41	3.61
ROE	23.5%	22.0%	20.1%	22.4%	24.2%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 1: Quarterly earnings summary**

Rs m	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	YoY (%)	QoQ (%)
<b>Total income</b>	<b>83,980</b>	<b>88,447</b>	<b>92,989</b>	<b>97,149</b>	<b>1,04,185</b>	<b>1,09,461</b>	<b>1,16,727</b>	<b>25.5%</b>	<b>6.6%</b>
Operating expenses	28,544	30,100	31,567	33,028	34,709	36,390	38,670	22.5%	6.3%
<b>Operating profit</b>	<b>55,437</b>	<b>58,347</b>	<b>61,423</b>	<b>64,121</b>	<b>69,475</b>	<b>73,071</b>	<b>78,057</b>	<b>27.1%</b>	<b>6.8%</b>
Provisions	9,953	10,771	12,484	13,100	16,847	19,091	20,433	63.7%	7.0%
CoR (%)	1.5%	1.5%	1.7%	1.6%	2.0%	2.1%	2.1%		
<b>Profit before tax</b>	<b>45,512</b>	<b>47,578</b>	<b>48,956</b>	<b>51,051</b>	<b>52,654</b>	<b>54,015</b>	<b>57,654</b>	<b>17.8%</b>	<b>6.7%</b>
Tax	11,143	12,070	12,566	12,806	13,534	13,877	14,572	16.0%	5.0%
Tax rate (%)	24.5%	25.4%	25.7%	25.1%	25.7%	25.7%	25.3%		
<b>Profit after tax</b>	<b>34,369</b>	<b>35,508</b>	<b>36,390</b>	<b>38,245</b>	<b>39,120</b>	<b>40,137</b>	<b>43,082</b>	<b>18.4%</b>	<b>7.3%</b>
<b>AUMs</b>	<b>27,00,970</b>	<b>29,02,640</b>	<b>31,09,680</b>	<b>33,06,150</b>	<b>35,41,920</b>	<b>37,39,240</b>	<b>39,80,430</b>	<b>28.0%</b>	<b>6.5%</b>
Borrowings	23,78,286	26,10,524	26,36,727	29,33,458	31,38,700	33,06,550	34,39,850	30.5%	4.0%
<b>Gross NPL (%)</b>	<b>0.9%</b>	<b>0.9%</b>	<b>1.0%</b>	<b>0.9%</b>	<b>0.9%</b>	<b>1.1%</b>	<b>1.1%</b>		
Net NPL (%)	0.3%	0.3%	0.4%	0.4%	0.4%	0.5%	0.5%		
Provision coverage ratio (%)	64.4%	65.9%	61.1%	56.5%	55.8%	56.6%	57.1%		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 2: Our revised earnings estimates**

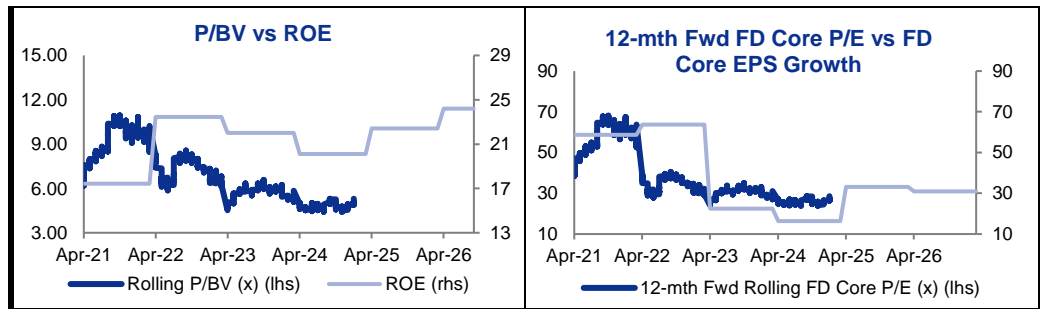
Y/E Mar (Rs m)	FY25F			FY26F			FY27F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net operating income	4,56,715	4,54,569	-0.5%	5,86,210	5,78,076	-1.4%	7,41,828	7,31,495	-1.4%
PPOP	3,07,713	3,04,226	-1.1%	4,04,463	3,96,961	-1.9%	5,18,335	5,13,980	-0.8%
PAT	1,73,596	1,67,887	-3.3%	2,33,242	2,23,349	-4.2%	3,00,562	2,92,391	-2.7%
EPS (Rs)	285	276	-3.3%	383	367	-4.2%	493	480	-2.7%
BV (Rs)	1,486	1,476	-0.6%	1,797	1,776	-1.1%	2,197	2,168	-1.3%
ABV (Rs)	1,467	1,453	-0.9%	1,770	1,743	-1.5%	2,161	2,121	-1.9%
AUM	42,57,155	42,05,699	-1.2%	54,94,615	53,91,027	-1.9%	71,01,414	69,17,292	-2.6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Highlights from 3QFY25 earnings call

- BAF's management is aiming at ~17m customer addition in FY25F.
- Geographic location has peaked out – adding more branches will continue; however, new location is difficult to explore.
- Employee headcount addition will be less in FY26F as AI implementation will save costs.
- The company estimates loan loss to average AUF in the range of 2.00-2.05% in 4QFY25F.
- Cutting down exposure to customers with more than three unsecured loans. Will be back to the pre-Covid levels by FY26F.
- Two products are already live, while nine products will be live by Mar 2025F through Bharti Airtel – 200m customer base is targeted – starting with business loans, trading products, gold loans, etc. (nine products).
- Co-branded cards have been discontinued; however, commission on the existing customer base will not change.
- Two-wheeler loans should continue to decline as Bajaj Auto has set up its own non-banking finance company or NBFC. It should stabilize to 4% by FY26F.
- Used cars/2W/rural B2C segments have been painful, exposure trimmed already. Collection efficiency-wise, Oct 2024 was OK, Nov 2024 was weak, and Dec 2024 was far better – if in 4QFY25F, it is 2-2.05%, then FY26F should be sub ~2%.
- Clarity on management transition likely by 4QFY25F.
- Rural B2C comprises small-ticket loans with an average ticket size of Rs1,20,000 against Rs1,60,000 earlier.
- Gold loan is a branch-led business – will reach 1,000 branches by FY26F – Tier-3 and Tier-4 towns are the preferred geographies amid intense competition and the idea is to become a dominant player.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income	229,968	295,949	375,881	483,325	616,671
<b>Total Non-Interest Income</b>	<b>58,616</b>	<b>66,509</b>	<b>78,687</b>	<b>94,752</b>	<b>114,824</b>
Operating Revenue	288,584	362,458	454,569	578,076	731,495
<b>Total Non-Interest Expenses</b>	<b>(51,002)</b>	<b>(63,960)</b>	<b>(76,752)</b>	<b>(91,335)</b>	<b>(107,775)</b>
Pre-provision Operating Profit	187,158	239,206	304,226	396,961	513,980
<b>Total Provision Charges</b>	<b>(31,897)</b>	<b>(46,307)</b>	<b>(78,874)</b>	<b>(98,366)</b>	<b>(123,083)</b>
Operating Profit After Provisions	155,262	192,899	225,352	298,595	390,897
<b>Pretax Income/(Loss) from Assoc.</b>					
Operating EBIT (incl Associates)	155,262	192,899	225,352	298,595	390,897
<b>Non-Operating Income/(Expense)</b>					
Profit Before Tax (pre-EI)	155,262	192,899	225,352	298,595	390,897
<b>Exceptional Items</b>					
Pre-tax Profit	155,262	192,899	225,352	298,595	390,897
Taxation	(40,202)	(48,584)	(57,465)	(75,246)	(98,506)
Consolidation Adjustments & Others					
<b>Exceptional Income - post-tax</b>					
Profit After Tax	115,060	144,315	167,887	223,349	292,391
Minority Interests					
Pref. & Special Div					
<b>FX And Other Adj.</b>					
Net Profit	115,060	144,315	167,887	223,349	292,391
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits					
Avg Liquid Assets/Avg Assets	90.7%	89.6%	90.3%	91.4%	92.6%
<b>Avg Liquid Assets/Avg IEAs</b>	<b>101.1%</b>	<b>101.7%</b>	<b>101.5%</b>	<b>100.7%</b>	<b>100.4%</b>
Net Cust Loans/Assets	0.8%	0.8%	0.9%	0.9%	0.9%
<b>Net Cust Loans/Broad Deposits</b>					
Equity & Provns/Gross Cust Loans	2,568.3%	2,423.0%	2,196.7%	2,033.3%	1,909.0%
Asset Risk Weighting					
<b>Provision Charge/Avg Cust Loans</b>	<b>1.46%</b>	<b>1.61%</b>	<b>2.10%</b>	<b>2.05%</b>	<b>2.00%</b>
<b>Provision Charge/Avg Assets</b>	<b>1.31%</b>	<b>1.42%</b>	<b>1.87%</b>	<b>1.86%</b>	<b>1.84%</b>
Total Write Offs/Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rsm)</b>	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
<b>Total Gross Loans</b>	<b>2,443,859</b>	<b>3,294,587</b>	<b>4,204,792</b>	<b>5,390,611</b>	<b>6,917,662</b>
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	2,443,859	3,294,587	4,204,792	5,390,611	6,917,662
<b>Total Provisions/Loan Loss Reserve</b>					
Total Net Interest Earning Assets	2,443,859	3,294,587	4,204,792	5,390,611	6,917,662
Intangible Assets					
<b>Other Non-Interest Earning Assets</b>	<b>4,595</b>	<b>4,675</b>	<b>6,077</b>	<b>7,900</b>	<b>10,271</b>
<b>Total Non-Interest Earning Assets</b>	<b>37,808</b>	<b>47,750</b>	<b>57,140</b>	<b>68,606</b>	<b>82,662</b>
Cash And Marketable Securities	43,067	106,240	76,618	87,098	89,275
<b>Long-term Investments</b>	<b>227,551</b>	<b>308,839</b>	<b>331,634</b>	<b>352,250</b>	<b>357,472</b>
Total Assets	2,752,285	3,757,416	4,670,184	5,898,566	7,447,070
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others					
Total Interest-Bearing Liabilities	2,166,905	2,933,458	3,684,823	4,696,663	5,957,864
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	41,662	57,004	81,420	114,193	161,635
Total Liabilities	2,208,567	2,990,463	3,766,243	4,810,855	6,119,499
Shareholders Equity	543,718	766,954	903,941	1,087,711	1,327,572
<b>Minority Interests</b>					
Total Equity	543,718	766,954	903,941	1,087,711	1,327,572

<b>Key Ratios</b>					
	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
Total Income Growth	31.2%	28.7%	27.0%	28.6%	27.6%
Operating Profit Growth	29.8%	25.6%	26.6%	28.8%	28.1%
Pretax Profit Growth	63%	24%	17%	33%	31%
Net Interest To Total Income	79.7%	81.7%	82.7%	83.6%	84.3%
Cost Of Funds	6.58%	7.34%	7.50%	6.95%	6.50%
Return On Interest Earning Assets	16.2%	16.8%	16.6%	16.1%	15.6%
Net Interest Spread	9.67%	9.50%	9.14%	9.19%	9.15%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	17%	19%	26%	25%	24%
Interest Return On Average Assets	9.43%	9.09%	8.92%	9.15%	9.24%
Effective Tax Rate	25.9%	25.2%	25.5%	25.2%	25.2%
Net Dividend Payout Ratio	15.7%	15.4%	18.4%	18.0%	18.0%
Return On Average Assets	4.72%	4.43%	3.98%	4.23%	4.38%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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#### **InCred Research Services Private Limited**

##### **Research Analyst SEBI Registration Number: INH000011024**

Registered Office: Unit No 1203, 12th Floor, B Wing, The Capital, C-70, G Block, BKC, Bandra (E), Mumbai – 400051

Phone: +91-22-6844-6100

Corporate Office: 05<sup>th</sup> floor, Laxmi Towers, Plot No. C-25, G Block, Bandra – Kurla Complex, Bandra (East), Mumbai – 400051

Phone: +91-22-4161-1500

Name of the Compliance Officer: Mr. Yogesh Kadam

Email ID: compliance@incredresearch.com, Phone No: +91-22-41611539

For any queries or grievances, you may contact the Grievance Officer.

Name of the Grievance Officer: Mr. Rajarshi Maitra

Phone no. +91-022-41611546

Email ID: rajarshi.maitra@incredresearch.com

CIN: U74999MH2016PTC287535



**Recommendation Framework****Stock Ratings**

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

**Sector Ratings**

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

**Country Ratings**

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.