



## India

## ADD (no change)

Consensus ratings\*: Buy 22 Hold 12 Sell 5

Current price:	Rs959
Target price:	Rs1,100
Previous target:	Rs1,100
Up/downside:	14.7%
InCred Research / Consensus:	14.0%
Reuters:	BJFN.NS
Bloomberg:	BAF IN
Market cap:	US\$68,965m
	Rs5,959,190m
Average daily turnover:	US\$121.4m
	Rs10493.4m
Current shares o/s:	619.0m
Free float:	45.2%

\*Source: Bloomberg

## Key changes in this note

- We tweak down AUM growth and profitability to incorporate any short-term slowdown.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	4.6	3.2	45.3
Relative (%)	5.4	(0.5)	41.5

Major shareholders	% held
Bajaj Finserv Ltd	54.7
LIC	2.6
Government of Singapore	2.4

## Research Analyst(s)

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## Bajaj Finance Ltd

## Determined to grow; known to reroute

- Bajaj Finance (BAF) posted an in-line 1Q PAT of Rs48bn. Rising NIM pressure & high credit costs were offset by higher MTM gains and strong AUM growth.
- AUM grew by 25% yoy/6% qoq led by healthy strong overall demand. However, rising stress was indicated in the overall SME and retail lending in Karnataka.
- We feel that BAF is undeterred in expanding its market share in retail credit, having a proven execution track record. Retain ADD rating with a Rs1,100 TP.

## Long-term growth intact – selective pause to reflect, not to stop

Bajaj Finance or BAF reported an in-line 1QFY26 PAT of Rs48bn, up 22% yoy and 5% qoq, aided by strong AUM growth, and healthy mark-to-market or MTM gains partially offset by rising NIM pressure and higher credit costs. AUM grew at a healthy pace of 25% yoy and 6% qoq led by overall strong demand and healthy customer addition. There was a strong pick-up in B2C lending, SME lending, commercial lending, mortgages, gold financing and rural lending, which had been in a slow mode for the last three quarters. Captive auto finance business continued to decline. We believe that BAF has a strong vintage of early stress recognition which aids in maneuvering through different cycles of stress and growth in core lending segments (for example, the rural stress recognized in mid-FY24). Thus, we believe that rising concerns over the overall SME loan book and the state of Karnataka will not lead to a huge dent to the book and will be offset by improving demand in other states/segments and furthermore, as the repo rate cut seeps in. We expect its assets under management or AUM to grow at a CAGR of 25% over FY25-28F.

## Rising concerns in overall SME and retail loans in Karnataka

Management highlighted the rising stress in the SME loan book, which was largely linked to the broader economic slowdown, although the same is expected to abate in the coming quarters. As a result, BAF restructured SME loans worth Rs2bn in 1QFY26, up from the usual run-rate of Rs500m. There was also rising political stress indicated in retail lending in Karnataka (~11% of AUM). Credit costs inched up by ~5bp qoq to 1.97% (excluding the one-time higher provision in 4QFY25). Management reiterated that credit costs will be 1.85-1.95% in FY26F, with a better 2HFY26F. We believe that in the current uncertain/volatile environment, BAF is better placed with a decent vintage in unsecured loans, well-oiled collection machinery, and stringent underwriting mechanism.

## Outlook and valuation

The return of Mr. Rajiv Jain to the helm is comforting while we await more details about the succession plan to be implemented from Mar 2028. We believe BAF's proactive approach and consistent endeavour to outgrow the system, while keeping risk & profitability at the front-end, provides it an edge over other players. Any correction in the stock price sweetens the risk-reward ratio. We maintain our high-conviction ADD rating on BAF with a target price of Rs1,100, corresponding to ~5.0x FY27F BV & ~24x FY27F EPS. Downside risks: Slowing consumption and a rise in delinquency/credit costs.

Financial Summary	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Net Interest Income (Rsm)	295,905	364,340	443,626	565,294	706,469
Total Non-Interest Income (Rsm)	66,673	85,200	102,918	135,645	177,207
Pre-provisioning Operating Profit (Rsm)	239,326	300,279	367,440	485,906	626,956
Total Provision Charges (Rsm)	(46,307)	(79,660)	(86,899)	(109,941)	(148,978)
Net Profit (Rsm)	144,512	166,378	207,362	278,774	355,117
Core EPS (Rs)	233.84	267.98	66.75	89.74	114.31
Core EPS Growth	23%	15%	(75%)	34%	27%
FD Core P/E (x)	4.10	3.58	14.37	10.69	8.39
DPS (Rs)	36.00	56.00	51.00	66.00	82.00
Dividend Yield	3.75%	5.84%	5.32%	6.88%	8.55%
BVPS (Rs)	1,241.0	1,557.4	369.4	446.0	543.9
P/BV (x)	0.77	0.62	2.60	2.15	1.76
ROE	22.1%	19.2%	19.6%	22.0%	23.1%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCES: INCRED RESEARCH, COMPANY REPORTS

**Figure 1: 1QFY26 quarterly earnings summary**

Rs m	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	YoY (%)	QoQ (%)
<b>Total income</b>	<b>1,04,185</b>	<b>1,09,461</b>	<b>1,16,727</b>	<b>1,19,168</b>	<b>1,26,101</b>	<b>21.0%</b>	<b>5.8%</b>
Operating expenses	34,709	36,390	38,670	39,493	41,230	18.8%	4.4%
<b>Operating profit</b>	<b>69,475</b>	<b>73,071</b>	<b>78,057</b>	<b>79,675</b>	<b>84,871</b>	<b>22.2%</b>	<b>6.5%</b>
Provisions	16,847	19,091	20,433	23,289	21,202	25.9%	-9.0%
CoR (%)	2.0%	2.1%	2.1%	2.3%	2.0%		
<b>Profit before tax</b>	<b>52,654</b>	<b>54,015</b>	<b>57,654</b>	<b>56,474</b>	<b>63,676</b>	<b>20.9%</b>	<b>12.8%</b>
Tax	13,534	13,877	14,572	11,018	16,023	18.4%	45.4%
Tax rate (%)	25.7%	25.7%	25.3%	19.5%	25.2%		
<b>Profit after tax</b>	<b>39,120</b>	<b>40,137</b>	<b>43,082</b>	<b>45,456</b>	<b>47,653</b>	<b>21.8%</b>	<b>4.8%</b>
<b>Total AUM</b>	<b>35,41,920</b>	<b>37,39,240</b>	<b>39,80,430</b>	<b>41,66,610</b>	<b>44,14,500</b>	<b>24.6%</b>	<b>5.9%</b>
Auto finance business	1,96,890	1,89,600	1,89,720	1,73,190	1,57,030	-20.2%	-9.3%
Sales finance business	2,69,750	2,71,690	2,91,490	2,91,090	3,28,390	21.7%	12.8%
Consumer B2C business	7,16,280	7,72,390	8,31,430	8,76,960	9,23,330	28.9%	5.3%
Rural sales finance business	75,530	72,800	79,550	79,440	90,570	19.9%	14.0%
Rural B2C business	1,80,490	1,88,150	2,01,350	2,14,670	2,29,610	27.2%	7.0%
SME lending business	4,07,910	4,43,820	4,69,430	5,03,450	5,25,380	28.8%	4.4%
Securities lending business	2,20,430	2,33,590	2,52,620	2,53,770	2,72,250	23.5%	7.3%
Commercial lending business	2,35,890	2,46,150	2,60,570	2,77,600	2,98,830	26.7%	7.6%
Mortgages	10,96,710	11,58,360	12,20,190	12,94,610	13,63,770	24.4%	5.3%
Car lending	87,100	99,060	1,11,410	1,18,760	1,25,450	44.0%	5.6%
Gold lending	54,940	63,630	72,670	83,070	99,890	81.8%	20.2%
Borrowings	31,38,700	33,06,550	34,39,850	35,70,150	37,99,510	21.1%	6.4%
<b>Gross NPL (%)</b>	<b>0.9%</b>	<b>1.1%</b>	<b>1.1%</b>	<b>1.0%</b>	<b>1.0%</b>		
Net NPL (%)	0.4%	0.5%	0.5%	0.4%	0.5%		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 2: Our revised earnings summary**

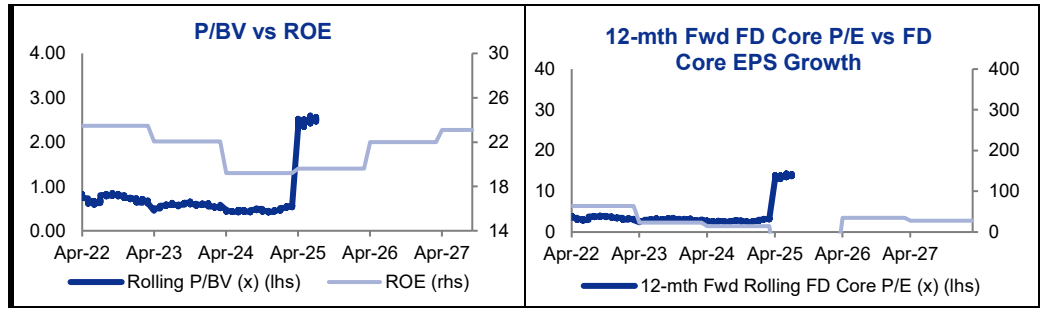
Y/E Mar (Rs m)	FY26F			FY27F			FY28F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net operating income	5,87,076	5,46,545	-6.9%	7,31,495	7,00,939	-4.2%	8,70,354	8,83,676	1.5%
PPOP	3,96,961	3,67,440	-7.4%	5,13,980	4,85,906	-5.5%	6,15,894	6,26,956	1.8%
PAT	2,17,174	2,07,362	-4.5%	2,81,913	2,78,774	-1.1%	3,58,129	3,55,117	-0.8%
EPS (Rs)	35	34	-4.5%	46	45	-1.1%	58	57	-0.8%
BV (Rs)	186	185	-0.8%	225	223	-0.9%	274	272	-0.7%
ABV (Rs)	183	181	-0.8%	220	218	-0.8%	268	266	-0.7%
AUM	51,50,070	50,19,613	-2.5%	65,16,811	63,85,376	-2.0%	80,73,264	80,51,996	-0.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## 1QFY26 earnings call summary ➤

- Bajaj Finance (BAF) is winding down its captive two-wheeler and three-wheeler finance segments.
- The company is steadfast in its vision to become a super app for its customers' needs.
- A step in this direction is the rollout of app-based loans, which is indicated to potentially garner ~2m new loans annually.
- The company's board will informed be about the succession planning details within six months.
- The higher net gains from fair-value changes are on account of capital market profits from mutual fund investments, now parked back into G-Secs.
- Karnataka retail unsecured operations have been scaled back by 35-40%, driven by rising political pressure.
- The cost of funds is expected to decline by 15–20bp over the year.
- Net interest margin (NIM) is projected to widen by ~10bp by the year-end.
- Credit cost guidance for FY26F is 1.85-1.95%.
- The company is optimizing its existing products to gain maximum benefits.
- AUM to grow by 24-26% yoy in FY26F; disbursements are expected to show flat-to-modest growth.
- 85 new gold loan branches were added during the quarter.

## BY THE NUMBERS



### Profit & Loss

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Net Interest Income	295,905	364,340	443,626	565,294	706,469
<b>Total Non-Interest Income</b>	<b>66,673</b>	<b>85,200</b>	<b>102,918</b>	<b>135,645</b>	<b>177,207</b>
Operating Revenue	362,578	449,540	546,545	700,939	883,676
<b>Total Non-Interest Expenses</b>	<b>(63,960)</b>	<b>(75,083)</b>	<b>(94,308)</b>	<b>(122,934)</b>	<b>(157,940)</b>
Pre-provision Operating Profit	239,326	300,279	367,440	485,906	626,956
<b>Total Provision Charges</b>	<b>(46,307)</b>	<b>(79,660)</b>	<b>(86,899)</b>	<b>(109,941)</b>	<b>(148,978)</b>
Operating Profit After Provisions	193,019	220,618	280,541	375,965	477,978
<b>Pretax Income/(Loss) from Assoc.</b>	<b>76</b>	<b>178</b>	<b>30</b>	<b>30</b>	<b>30</b>
Operating EBIT (incl Associates)	193,096	220,796	280,571	375,995	478,008
<b>Non-Operating Income/(Expense)</b>					
Profit Before Tax (pre-EI)	193,096	220,796	280,571	375,995	478,008
<b>Exceptional Items</b>					
Pre-tax Profit	193,096	220,796	280,571	375,995	478,008
Taxation	(48,584)	(53,002)	(70,601)	(94,612)	(120,282)
Consolidation Adjustments & Others					
<b>Exceptional Income - post-tax</b>					
Profit After Tax	144,512	167,795	209,970	281,382	357,726
Minority Interests		(1,417)	(2,608)	(2,608)	(2,608)
Pref. & Special Div					
<b>FX And Other Adj.</b>					
Net Profit	144,512	166,378	207,362	278,774	355,117
Recurring Net Profit					

### Balance Sheet Employment

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits					
Avg Liquid Assets/Avg Assets	89.6%	90.1%	90.6%	89.9%	88.9%
<b>Avg Liquid Assets/Avg IEAs</b>	<b>101.7%</b>	<b>102.2%</b>	<b>101.0%</b>	<b>100.2%</b>	<b>100.2%</b>
Net Cust Loans/Assets	0.8%	0.9%	0.9%	0.8%	0.7%
<b>Net Cust Loans/Broad Deposits</b>					
Equity & Provns/Gross Cust Loans	2,423.0%	2,218.7%	2,272.8%	2,363.5%	2,521.8%
Asset Risk Weighting					
<b>Provision Charge/Avg Cust Loans</b>	<b>1.61%</b>	<b>2.15%</b>	<b>1.91%</b>	<b>1.95%</b>	<b>2.09%</b>
<b>Provision Charge/Avg Assets</b>	<b>1.42%</b>	<b>1.89%</b>	<b>1.71%</b>	<b>1.75%</b>	<b>1.85%</b>
Total Write Offs/Average Assets					

SOURCES: INCRED RESEARCH, COMPANY REPORTS

## BY THE NUMBERS...cont'd

### Balance Sheet

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
<b>Total Gross Loans</b>	<b>3,294,587</b>	<b>4,122,023</b>	<b>4,963,887</b>	<b>6,308,872</b>	<b>7,948,612</b>
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	3,294,587	4,122,023	4,963,887	6,308,872	7,948,612
<b>Total Provisions/Loan Loss Reserve</b>					
Total Net Interest Earning Assets	3,294,587	4,122,023	4,963,887	6,308,872	7,948,612
Intangible Assets					
<b>Other Non-Interest Earning Assets</b>	<b>4,675</b>	<b>9,776</b>	<b>10,895</b>	<b>12,168</b>	<b>13,378</b>
<b>Total Non-Interest Earning Assets</b>	<b>47,750</b>	<b>59,369</b>	<b>68,101</b>	<b>78,288</b>	<b>88,636</b>
Cash And Marketable Securities	106,240	135,435	53,985	82,873	73,716
<b>Long-term Investments</b>	<b>308,839</b>	<b>344,441</b>	<b>386,960</b>	<b>624,938</b>	<b>872,437</b>
Total Assets	3,757,416	4,661,269	5,472,933	7,094,972	8,983,400
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others					
Total Interest-Bearing Liabilities	2,933,458	3,612,487	4,236,141	5,612,511	7,189,586
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	57,004	59,413	64,169	69,462	74,038
Total Liabilities	2,990,463	3,671,900	4,300,310	5,681,973	7,263,624
Shareholders Equity	766,954	966,929	1,147,575	1,385,393	1,689,662
<b>Minority Interests</b>					
Total Equity	766,954	966,929	1,147,575	1,385,393	1,689,662

### Key Ratios

	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Income Growth	28.7%	23.1%	21.8%	27.4%	25.0%
Operating Profit Growth	25.7%	25.4%	20.8%	27.8%	25.6%
Pretax Profit Growth	24%	14%	27%	34%	27%
Net Interest To Total Income	81.6%	81.0%	81.2%	80.6%	79.9%
Cost Of Funds	7.34%	7.57%	6.96%	6.46%	6.48%
Return On Interest Earning Assets	16.8%	16.5%	15.8%	15.7%	15.7%
Net Interest Spread	9.50%	8.94%	8.82%	9.21%	9.25%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	19%	27%	24%	23%	24%
Interest Return On Average Assets	9.09%	8.66%	8.76%	9.00%	8.79%
Effective Tax Rate	25.2%	24.0%	25.2%	25.2%	25.2%
Net Dividend Payout Ratio	15.4%	20.9%	15.3%	14.7%	14.3%
Return On Average Assets	4.44%	3.95%	4.09%	4.44%	4.42%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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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

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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.