Bajaj Finance Ltd.

Result Update – Q1FY27 || Current Market Price – **INR 1,140** || Target Price – **INR 1,211** || Upside – **6%** || Date: 31st July 2026

Q1FY27 earnings beat driven by benign credit costs…

Bajaj Finance reported clean and broad-based earnings beat, with management describing the quarter as its strongest in six to seven quarters. PAT increased 22.5% YoY to INR 6,081 Cr, while RoA remained stable at 4.7% and RoE exceeded 20% despite the impact of equity dilution. The quarter reinforces our core investment thesis that Bajaj Finance is monetising structural improvements in asset quality through a stronger balance sheet rather than near term earnings, while growth momentum has re accelerated across both secured lending and consumer franchises. Following the sharp post result re-rating, the investment debate is increasingly centred on valuation rather than fundamentals. We continue to maintain a constructive view, supported by three key drivers.

- **Credit Cost:** Loan loss to average AUM improved to 1.54% from 1.87% in the corresponding quarter last year and moderated further to 1.31% excluding the INR 296 Cr management and macroeconomic overlay created against geopolitical and monsoon related uncertainties. Vintage performance continues to track at or below pre COVID benchmarks, while Stage 2 and Stage 3 assets declined to 1.87% from 1.94%. Importantly, management is choosing to retain the benefit of improving credit performance within the balance sheet by strengthening provisioning ahead of scaling the loan book to INR 6.3 lakh Cr to INR 6.5 lakh Cr, rather than allowing it to flow directly into earnings. We believe the underlying credit trajectory remains structurally favourable, with reported credit costs likely to remain aligned with guidance as precautionary overlays continue to build.

- **Growth:** Growth momentum remained broad based across business segments. AUM increased 24% YoY, supported by a record sequential addition of INR 37,000 Cr, while the customer franchise expanded by 5 mn to 124.4 mn. Rural and urban consumer finance businesses delivered growth of 49% and 38%, respectively, while the gold loan portfolio continues to scale towards INR 29,000 Cr to INR 31,000 Cr, supported by an expansion to 2,700 to 3,000 branches. Following portfolio rationalisation over the past year, the MSME business is expected to return to growth by Q3FY27. Management has increased its FY27 customer acquisition target to 18 mn to 20 mn from the earlier 15 mn to 17 mn, although it has deferred a formal revision to AUM growth guidance by one quarter, leaving meaningful upside optionality to the existing 22% to 24% growth corridor.

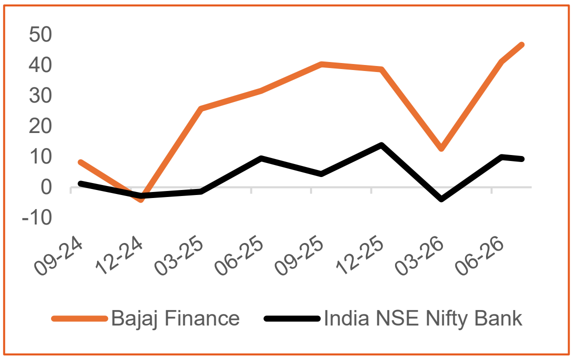
- **Margin and Funding:** Net interest margins remained stable during Q1, supported by a favourable product mix led by consumer durables financing and elevated liquidity levels. Management continues to guide for a measured moderation of 10 bps to 15 bps over FY27, with funding costs expected to remain broadly range bound despite a modest upward bias as incremental market borrowing rates firm. Given resilient asset yields and disciplined funding cost management, we expect margin stability rather than meaningful compression, providing a solid foundation for sustained mid-teens NII growth.

Valuation: We value Bajaj Finance at 4.8x FY28E ABVPS of INR 250 by rolling forward our valuation multiple, supported by best-in-class profitability metrics, including RoA of 4.7% and RoE of 20.4%, structurally improving asset quality and re accelerating growth trajectory. This results in a target price of INR 1,211, implying 5% upside from the current market price of INR 1,140. While the stock continues to warrant a premium valuation given the strength of the franchise and favourable credit outlook, the sharp post result re rating has reduced the available margin of safety. **ACCUMULATE.**

Particulars	
CMP (INR)	1,140
Market Cap (Cr)	7,09,541
Free Float Market Cap (Cr)	3,02,781
52 Week High / Low (INR)	1,151/788
Avg Daily Vol (1Y) shares	88,16,458
No. of Shares (Cr.)	623

Key Financial (INR Mn.)	FY26	FY27E	FY28E
Net Interest Income	4,41,101	5,50,916	6,50,693
PBT	2,60,811	3,59,354	4,27,973
Net Profit	1,95,976	2,69,204	3,20,980
EPS	32	43	52

Holdings	Dec '25 (%)	Mar '26 (%)	Jun '26 (%)
Promoters	54.70	54.71	54.68
FIIs	21.49	21.33	20.20
DIIs	14.68	15.10	16.30
Government	0.08	0.08	0.09
Public	8.77	8.73	8.64
Others	0.10	0.07	0.08
Total	100.00	100.00	100.00



Source: Company Research, Deven Choksey Research

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Key highlights:

- **PAT:** Net profit rose 22.5% YoY to INR 6,081 Cr, ahead of consensus of approximately INR 5,790 Cr, driven largely by a benign credit cost of 1.5% of AUM versus the Street estimate of approximately 1.65%. NII grew 8% YoY to INR 12,571 Cr, while PPOP increased 1.3% YoY to INR 10,142 Cr. Provisions declined 43.7% YoY to INR 1,993 Cr despite 24% AUM growth, reflecting normalising credit costs from the elevated Q1FY26 base. RoA remained stable at 4.7% and RoE improved to 20.4% despite the Bajaj Finserv dilution. The cost to income ratio increased marginally to 33.4%, reflecting front loaded investments in gold loan and MFI expansion and a 10 bps impact from the new labour code, with management expecting operating leverage to improve over FY27.

- **AUM and Disbursement:** AUM grew 24% YoY to INR 5.10 lakh Cr, supported by a record sequential addition of INR 37,000 Cr, well ahead of INR 24,750 Cr in Q1FY26. New loan bookings increased 20% YoY to 16.1 mn, with broad based growth across businesses. Rural and urban consumer finance grew 49% and 38%, respectively, driven equally by volume and higher ticket sizes. Gold loans, now 4% of AUM, continue to scale towards INR 29,000 Cr to INR 31,000 Cr and 2,700 to 3,000 branches, while the MSME portfolio, recalibrated over the past year, is expected to regain growth momentum by Q3FY27.

- **Customer Franchise:** The customer base expanded to 124.4 mn following a net addition of 5 mn customers during the quarter. Management raised its FY27 customer acquisition target to 18 mn to 20 mn from 15 mn to 17 mn, with cross sell and higher product penetration remaining key structural growth drivers.

- **Deposits and Funding:** The deposit book reached INR 68,500 Cr, accounting for approximately 15% of the balance sheet. Funding costs remained well contained, with the sequential decline moderating to approximately 5 bps. Management expects funding costs to remain broadly range bound despite a modest upward bias in incremental market borrowing rates.

- **Asset Quality:** Asset quality remained robust, with GNPA and NNPA at 0.96% and 0.39%, respectively, and provision coverage at 60%. Credit trends remained healthy across portfolios, with vintage performance across the 3 month, 6 month and 9 month on book cohorts continuing to improve and now tracking at or below pre-COVID levels.

Key risks:

- **Macro Overlays and Monsoon:** Geopolitical tensions and an uncertain monsoon could necessitate continued management overlays, keeping reported credit costs above the underlying run rate.

- **Funding Costs:** Incremental market borrowing rates have increased by 30 bps to 60 bps. Any sustained rise beyond management's expectations could result in NIM moderation exceeding the guided 10 bps to 15 bps range.

- **MSME Recovery:** Management expects the MSME portfolio to return to growth by Q3FY27. Any delay in the recovery could weigh on overall AUM growth momentum.

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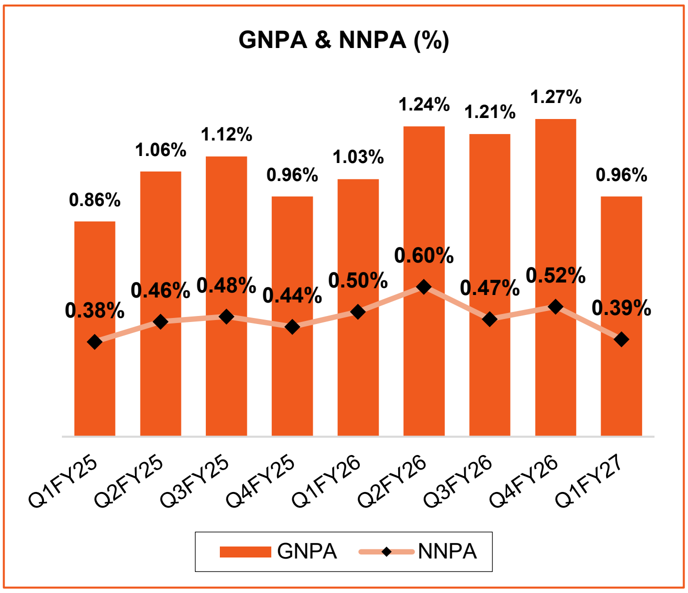
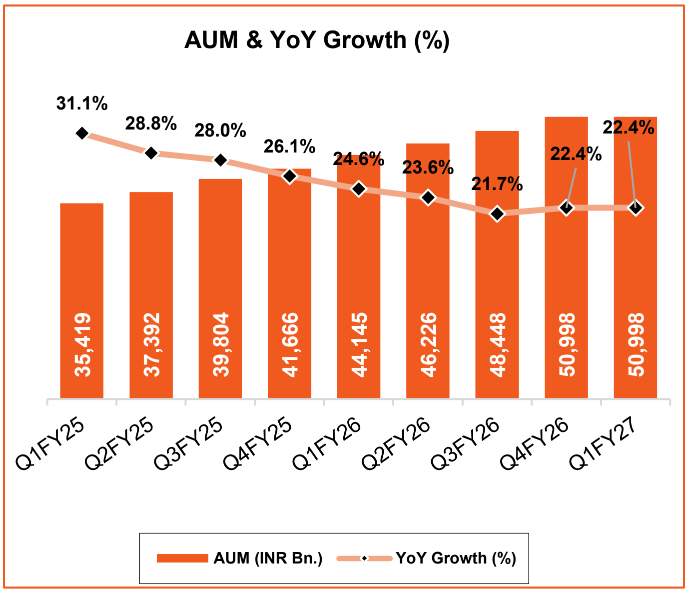
Story in Charts

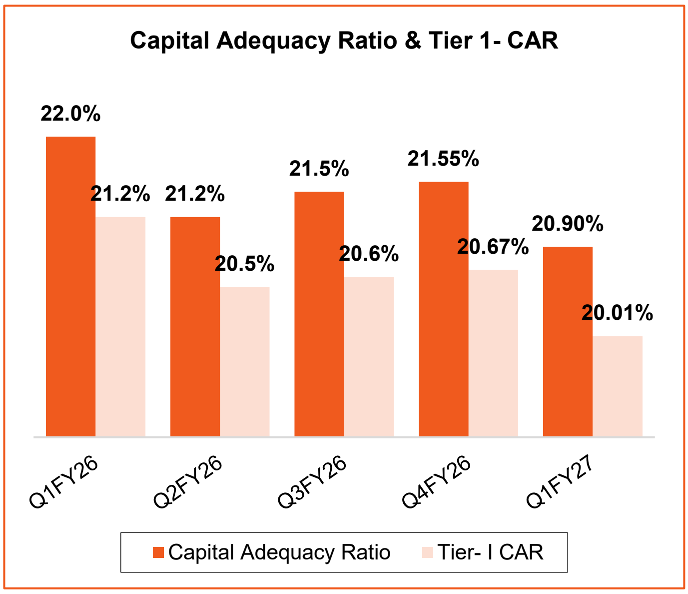
Asset quality improved sequentially, GNPA easing to 0.96% and NNPA to 0.39% in Q1FY27 after the Q2FY26 peak of 1.24%/0.60%.



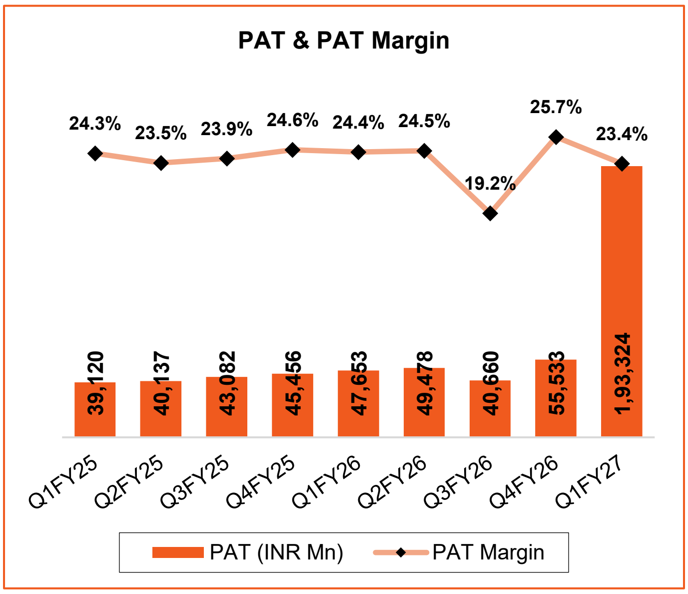
AUM grew 24% YoY to INR 5.10 lakh Cr, with growth re-accelerating from the 21.7% Q2FY26 trough.



CAR moderated to 20.90% and Tier-1 to 20.01% as strong AUM growth consumed capital, still well above regulatory requirements



PAT rose 28% YoY to INR 6,081 Cr with margin rebounding to 23.4%, recovering fully from the Q3FY26 dip to 19.2%.



Result Snapshot

Particulars (In Mn) Income Statement	Q1FY27	Q4FY26	Q1FY26	QoQ	Y-o-Y
Interest Income	3,39,856	3,27,240	3,10,635	3.9%	9.4%
Interest Expense	1,93,395	1,82,669	1,75,038	5.9%	10.5%
Net Interest Income	**1,46,461**	**1,44,571**	**1,35,598**	**1.3%**	**8.0%**
Non-Interest Income	67,354	60,226	72,581	11.8%	-7.2%
Total Income	**2,13,815**	**2,04,797**	**2,08,178**	**4.4%**	**2.7%**
Employee Cost	30,580	31,148	32,618	-1.8%	-6.2%
Other Opex	66,644	73,516	60,409	-9.3%	10.3%
Operating Expenses	97,224	1,04,664	93,027	-7.1%	4.5%
Pre-Provision Profit	**1,16,591**	**1,00,133**	**1,15,152**	**16.4%**	**1.3%**
Provisions	**22,225**	**35,222**	**39,477**	**-36.9%**	**-43.7%**
Profit Before Tax	**94,366**	**64,911**	**75,675**	**45.4%**	**24.7%**
Tax Expense	23,226	-5,801	17,614	-500.4%	31.9%
Net Profit	**71,139**	**70,712**	**58,061**	**0.6%**	**22.5%**

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Key Concall Highlights:

Growth

- Management described Q1 as its strongest quarter in six to seven quarters, with broad based strength across volumes, customer additions, AUM and profitability. While the current trajectory is tracking ahead of its March outlook on AUM, PBT, RoA and RoE, management deferred a formal guidance revision by one quarter. The FY27 new customer target was raised to 18 mn to 20 mn from 15 mn to 17 mn, while the 22% to 24% AUM growth guidance was retained with an upward bias. The MSME business is expected to return to growth by Q3FY27.

Credit

- Management remains constructive on the FY27 credit outlook, with vintage performance now at or below pre-COVID levels and Stage 2 plus Stage 3 assets improving to 1.87% from 1.94%. A prudential INR 296 Cr management and macroeconomic overlay was created against geopolitical and monsoon risks, with underlying credit cost at 1.31% excluding the overlay. The focus remains on strengthening balance sheet resilience ahead of a INR 6.3 lakh Cr to INR 6.5 lakh Cr loan book rather than maximising near term earnings.

Margin and Funding

- NIM remained stable in Q1, supported by a favourable product mix and higher liquidity. Management continues to guide for a 10 bps to 15 bps moderation over FY27, with funding costs expected to remain broadly range bound despite a modest upward bias. Over the medium term, management expects customer centric initiatives to structurally reduce acquisition, operating and credit costs.

Operating Leverage

- The cost to income ratio of 33.4% reflected accelerated investments in gold loan and MFI branches, along with a 10-bps labour code impact of approximately INR 60 Cr. Management expects a 25 bps to 40 bps improvement in the cost to income ratio over FY27 as operating leverage improves. Headcount stood at 73,261 at quarter end.

AI and Digital Transformation

- The dedicated AI team is being expanded from 230 to 400 employees, alongside 300 additions to the digital platforms team. AI is delivering more than 20% underwriting efficiency, while AI driven voice and text bots originated INR 2,500 Cr of disbursements during Q1 and now handle 71% of self service customer interactions. A proprietary AI model is scheduled to be launched in Q2 for B2B, followed by a B2C rollout in October to November.

Subsidiaries

- Bajaj Housing Finance reported its highest ever quarterly AUM addition, with disbursements growing 33%, AUM increasing 24%, and PAT and PBT rising 23%. RoE improved to 12.5%, while asset quality remained robust with GNPA of 0.29% and NNPA of 0.12%. NIM remained under competitive pressure, although the cost to income ratio improved to 19.6% from 21%.

Capital

- Capital adequacy remained strong at 21%, with leverage at 4.9x. Management reiterated that existing capital levels remain comfortable and indicated no immediate requirement for fresh capital, with balance sheet strengthening continuing through higher provisioning and management overlays.

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Key Financials

Income Statement

INR Mn	FY25	FY26	FY27E	FY28E
Interest Income	6,11,636	7,27,760	8,98,866	10,82,190
Interest Expense	2,47,708	2,86,660	3,47,950	4,31,497
Net Interest Income	**3,63,928**	**4,41,101**	**5,50,916**	**6,50,693**
Non-interest income	85,612	97,536	1,12,772	1,31,943
Operating Income	4,49,540	5,38,636	6,63,687	7,82,636
- Employee expense	75,083	89,785	1,13,781	1,34,435
- Other operating expense	74,178	87,820	1,03,090	1,18,446
Operating Expense	1,49,261	1,77,606	2,16,871	2,52,881
Operating Profit	**3,00,279**	**3,61,031**	**4,46,816**	**5,29,754**
Provisions	79,660	1,00,219	87,462	1,01,781
PBT	**2,20,618**	**2,60,811**	**3,59,354**	**4,27,973**
Tax Expense	53,002	64,836	90,150	1,06,993
Share of profit/loss from associates				
PAT	1,67,617	1,95,976	2,69,204	3,20,980
Diluted EPS (INR)	**27**	**32**	**43**	**52**

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Bajaj Finance Ltd.			
Date	CMP (INR)	TP (INR)	Recommendation
31-Jul-26	1,140	1,211	ACCUMULATE
28-Jul-26	1,232	1,617	BUY
21-Apr-26	1,356	1,691	BUY
21-Jan-26	1,381	1,559	ACCUMULATE
20-Oct-25	1,390	1,593	ACCUMULATE
22-Jul-25	1,466	1,776	BUY
22-Apr-25	1,417	1,662	BUY
27-Jan-25	1,228	1,500	BUY
28-Oct-24	1,294	1,500	BUY

Rating Legend (Expected over a 12-month period)	
Our Rating	*Upside*
Buy	*More than 15%*
Accumulate	*5% – 15%*
Hold	*0 – 5%*
Reduce	*-5% – 0*
Sell	*Less than -5%*

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