



Q2FY26

Bajaj Finance Ltd.



Bajaj Finance Ltd.

Balanced growth with risk tightening; FY27 set up for lower credit costs and operating leverage from AI

CMP* INR 1,009	Target INR 1,050	Potential Upside 4.1%	Market Cap (INR Bn) INR 6,280	Recommendation HOLD	Sector NBFC
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Result Highlights

- In Q2 FY26, Bajaj Finance continued to demonstrate robust business growth. The company booked 12.2 million new loans during the quarter, up 26% from 9.7 million in Q2 FY25. The customer franchise expanded to 110.6 million as of 30 September 2025, compared to 92.1 million a year earlier, marking a 20% increase, with an addition of 4.13 million customers during the quarter.
- Assets Under Management AUM grew by 23.6%, reaching 4,622,610 mn as of 30 September 2025, up from 3,739,240 mn in the previous year. Sequentially, AUM increased by 208,110 mn in Q2 FY26, reflecting healthy loan growth momentum across product segments.
- Net interest income increased by 22% to 107,850 mn (beat our estimate by 11.7%), compared to 88,380 mn in Q2 FY25. Net total income grew 20% to 131,700 mn versus 109,460 mn last year. Operating discipline improved modestly, with the operating expenses to net total income ratio at 32.6%, slightly better than 33.2% in Q2 FY25.
- Pre-provision operating profit rose 21% to 88,769 mn, compared to 73,071 mn in Q2 FY25. Loan losses and provisions increased 19% to 22,688 mn, versus 19,090 mn a year earlier, translating to annualised credit cost of 2.05%.
- Profit before tax grew 22% to 66,081 mn, while profit after tax increased 23% to 49,478 mn, up from 40,140 mn in Q2 FY25.
- Asset quality remained stable though slightly elevated. Gross NPA stood at 1.24% and Net NPA at 0.60%, compared to 1.06% and 0.46% last year. The provision coverage ratio on Stage 3 assets was 52%. The company remained well-capitalised with CRAR at 21.2%, including Tier-I capital of 20.5%.

Outlook & Valuation:

Bajaj Finance delivered a balanced performance in Q2 FY26, marked by steady customer additions but softer AUM growth and higher credit costs amid tightening in select segments. We expect long-term structural gains from proactive risk management and technology integration, though near-term growth will remain moderate with elevated credit costs. Credit costs should improve meaningfully in FY27, aided by the run-down of the stressed captive 2W/3W financing book, while new growth engines like gold loans are expected to scale up significantly by FY27. However, near-term growth is constrained by a lowered FY26 AUM guidance (22–23%) and MSME stress, prompting a 25% cut in unsecured MSME volumes will lead to modest MSME growth of 10–12% in FY26. Consequently, credit costs are likely to stay at the upper end of the 1.85–1.95% guidance range, while other operating income remains flat as recoveries normalize.

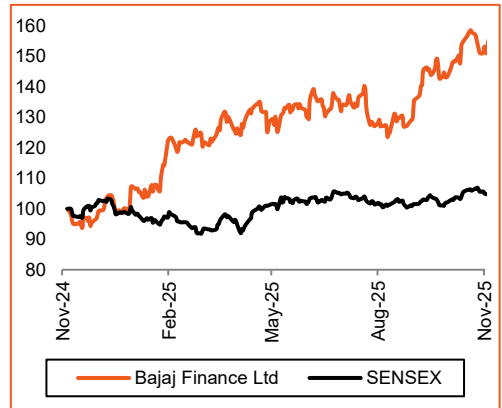
We value Bajaj Finance at 4.8x Mar'27 ABVPS, implying a target price of INR 1,050 per share, and revise our rating from "ACCUMULATE" to "**HOLD**", factoring in the revised lower AUM growth guidance, elevated provisioning from stress in the unsecured portfolio, and the recent run-up in the stock, which limits near-term upside potential.

KEY FINANCIALS

Particulars (INR Mn)	FY24	FY25	FY 26E	FY27E	FY28E
NII	2,95,819	3,63,928	4,50,971	5,72,792	6,97,672
Operating Profit	2,39,326	3,00,279	3,78,172	4,90,768	6,06,202
PAT	1,44,435	1,67,617	2,17,111	2,90,061	3,58,761
EPS	23.4	27.1	34.9	46.7	57.7
NIM	10.4%	9.9%	9.9%	10.2%	10.2%
AUM Growth	33.6%	26.1%	23.0%	22.5%	21.0%

Source: Company, DevenChoksey Research

SHARE PRICE PERFORMANCE



MARKET DATA

Shares outs (# Mn.)	6,215
Mkt Cap (INR Bn.)	6,280
52 Week H/L (INR)	1,103/645

Source: NSE

Note: Market data as of previous day closing

SHARE HOLDING PATTERN (%)

Particulars (%)	Sep-25	Jun-25	Mar-25
Promoters	54.6	54.7	54.7
FIIIs	22.0	21.7	21.4
DIIIs	14.4	14.5	14.8
Others	9.0	9.1	9.1
Total	100.0	100.0	100.0

23.4%

NII CAGR
between FY25-27E

31.5%

PAT CAGR
between FY25-27E

Bajaj Finance Ltd.

Key Con-call Highlights:

Quarter Overview & Financial Performance

- AUM rose 24% YoY to INR 4,622,610 mn, driven by broad-based growth; new lines (gold loans, new car, CV/tractor) contributed ~3% of Q2 AUM accretion. Customer franchise reached 110.6 mn (+4.13 mn in Q2). Profitability remained steady with ROA/ROE broadly unchanged.
- Opex/Net Total Income improved to 32.6% (33.2% in Q2FY25) on execution and early AI benefits. Credit cost to average AUM was elevated at 2.05% (2.02% in Q1). GNPA/NNPA stood at 1.24%/0.60%, with the usual Q2 “two 31-day months” seasonality adding ~18–20 bps to GNPA. Liquidity remained comfortable; cost of funds fell 27 bps QoQ to 7.52%. FY26 CoF guided at 7.50–7.55%; NIM held flat as benefits were passed to customers.

Portfolio Composition & Segmental Updates

- Mortgage and SME growth moderated; MSME AUM growth guided to 10–12% for FY26. Captive 2W/3W financing is being phased out; now ~1.5% of AUM but disproportionately loss-heavy. Newer engines—gold loans, new car, CV/tractor—are scaling well. Rural B2C and MFI tags upgraded to “green” on improved vintages. Tractor finance operates in ~400 towns (north/west heavy) with a 75:25 new:used mix target.
- Management highlighted strong positioning in consumer durables/electronics. Subsidiaries: BHFL delivered 24% AUM growth, ~18% PAT growth, ROA 2.3%, and pristine asset quality (GNPA 26 bps/NNPA 12 bps); BFSL AUM +40%, profit +27%, +94k customers.

Asset Quality & Credit Costs

- Full-year credit cost guided at 1.85–1.95%, with visible FY27 improvement as actions flow through. Stress is concentrated in unsecured MSME and the captive 2W/3W book; the latter is 1.5% of AUM but ~9% of loan losses and is running down.
- Management reports better 3/6/9-MOB vintages since February risk tightening. Stage-2+3 formation was modest (~INR 16.2 bn) management referenced “lowest in long time” at ~INR 16.2 bn equivalent), and restructuring usage is now minimal and customer-aid oriented.

Customer Franchise & Digital Initiatives

- Franchise at 110.6 mn; Q2 additions 4.13 mn; FY26 customer adds guided to 16–17 mn. FinAI transformation (8–9 months in) spans 123 impact areas; 80 slated live by Feb’26. In Q2: 442 AI voice bots originated ~INR 200 bn; five conversational bots live; 85% of service resolutions via AI.
- In B2B, 42% of application QC is AI-performed; peak day saw 650k loans booked with zero ops/compliance compromise. ~42% of banners and all videos are AI-generated. Face-recognition pilots roll out across ~300 PoS/branches. App scale is a moat: 40–45% of monthly gold-loan disbursements come digitally.

Funding Strategy & Margins

- Deposits form ~18% of borrowings; deposit growth is measured, with emphasis on CoF efficiency. NIM held as the CoF gains were passed on. Rate-cut transmission this year won’t materially change FY26 CoF; upside skews to FY27. Mix remains diversified across deposits, NCDs and bank lines; no liquidity tightness indicated.

Guidance & Outlook

- FY26 AUM growth trimmed to 22–23% (from 24–25%) due to MSME risk actions and a lower growth assessment at BHFL. Fee/other income guidance (full-year) unchanged at mid-teens growth.
- FY27 credit costs expected to “significantly” improve (formal number to come in Q4/Q1). Management reiterated prudence in MSME, stable NIM outlook, and a supportive funding environment.

Macro & Industry Context

- MSME stress is broad-based (not regional); peers may differ, but BFL focuses on micro risk signals. Consumption trends—especially electronics—remain strong; competition in housing finance is elevated.

Risk Management & Strategic Actions

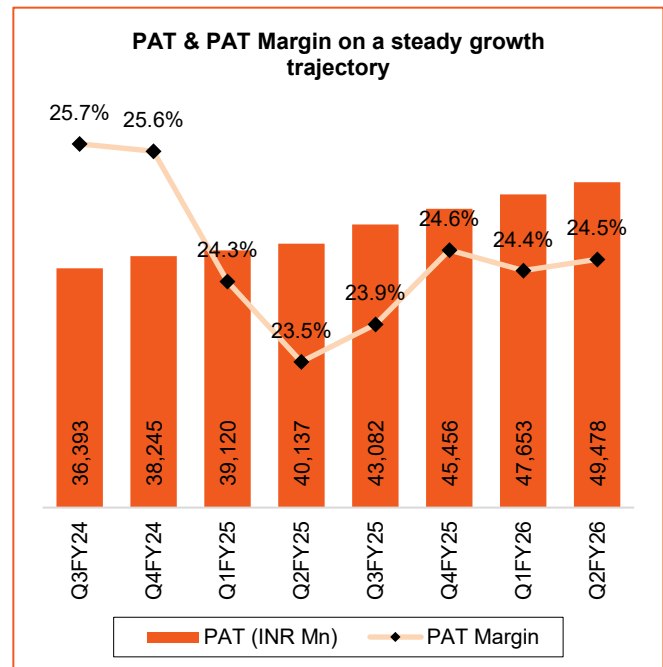
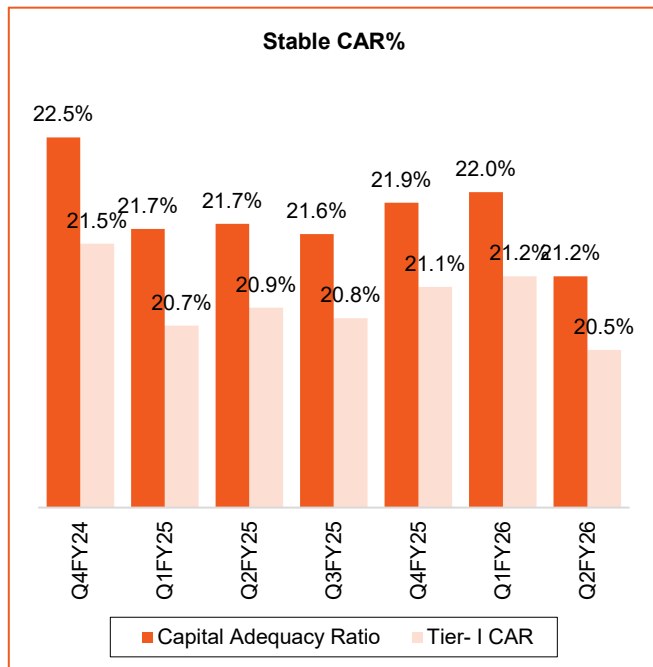
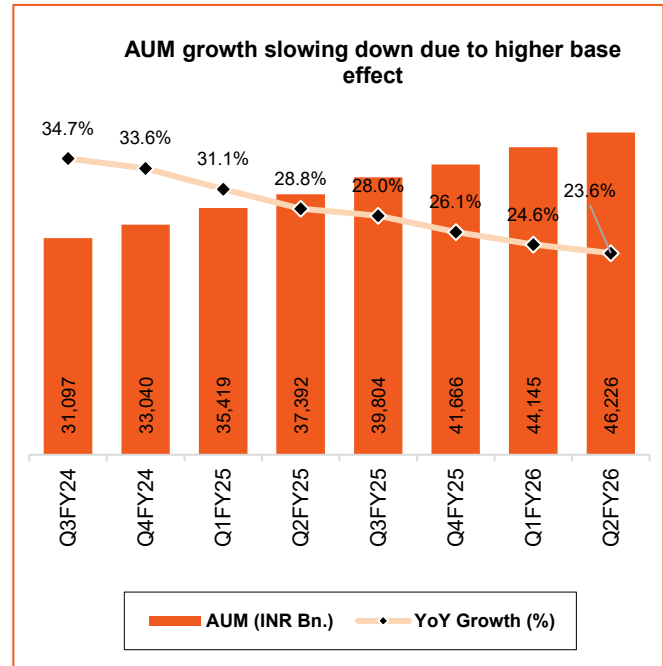
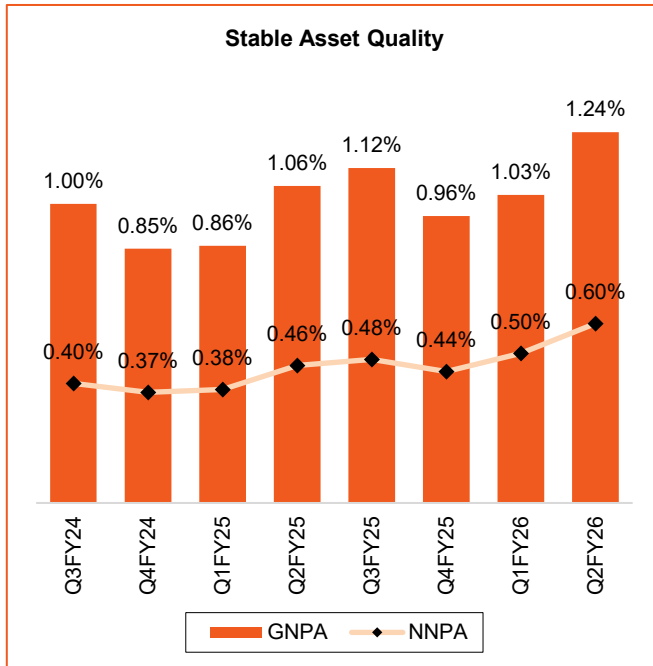
- Unsecured MSME origination cut by ~25%; 3PL tightening across businesses since Feb has reduced incremental risk (with growth trade-off). Captive 2W/3W run-off continues. Vintage metrics are improving; provisioning in MSME front-loaded. Regional overlays not required; approach is pan-India and segment-specific.

Conclusion

- Solid operational execution with disciplined risk moderation. Headline growth is tempered by MSME prudence and the 2W/3W run-off, but franchise expansion, funding efficiency, and FinAI scale-up support earnings resilience. Core narrative: “balanced growth with risk tightening; FY27 set up for lower credit costs and operating leverage from AI.”

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Story in Charts



Source: Company, DevenChoksey Research

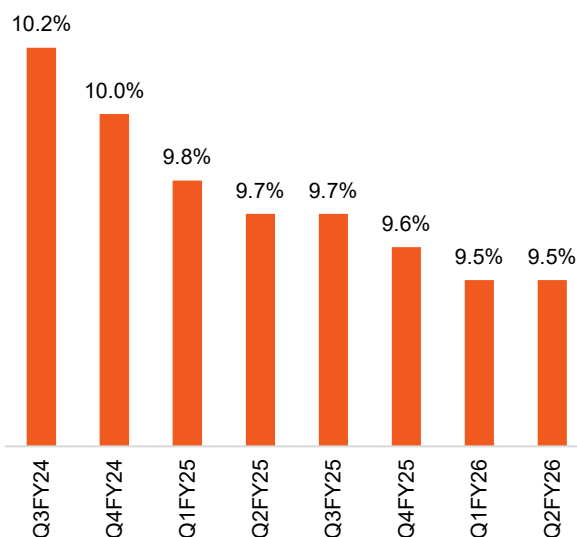
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Result Snapshot

Particulars INR Mn. (Consolidated)	Q2FY26	Q1FY26	Q2FY25	Q-o-Q	Y-o-Y
Income Statement					
Total Revenue from Operations	1,77,960	1,71,447	1,49,870	3.8%	18.7%
Interest expense	70,113	69,177	61,493	1.4%	14.0%
Net Interest Income	1,07,847	1,02,270	88,377	5.5%	22.0%
Other Income	23,848	23,831	21,084	0.1%	13.1%
Total Operating Income	1,31,695	1,26,101	1,09,461	4.4%	20.3%
Employee costs	21,545	21,026	18,348	2.5%	17.4%
Other operating expenses	21,381	20,205	18,041	5.8%	18.5%
Operating expenses	42,926	41,230	36,390	4.1%	18.0%
PPOP	88,769	84,871	73,071	4.6%	21.5%
Loan Losses and Provisions	22,688	21,202	19,091	7.0%	18.8%
Profit before tax	66,081	63,668	53,980	3.8%	22.4%
Tax expense	16,604	16,016	13,852	3.7%	19.9%
Net profit	49,478	47,653	40,128	3.8%	23.3%
Asset quality					
Assets Under Management (AUM)	46,22,610	44,14,500	37,39,240	4.7%	23.6%
GNPA (%)	1.24%	1.03%	1.06%	21bps	18bps
NNPA (%)	0.60%	0.50%	0.46%	10bps	14bps
PCR (%)	51.6%	51.5%	56.6%	16bps	-499bps
Key ratios					
Cost to income ratio (%)	32.6%	32.7%	33.2%	-10bps	-65bps
RoAUM (%) - Not Annualized	1.1%	1.1%	1.1%	-1bps	0bps
NII/AUM	2.3%	2.3%	2.4%	2bps	-3bps

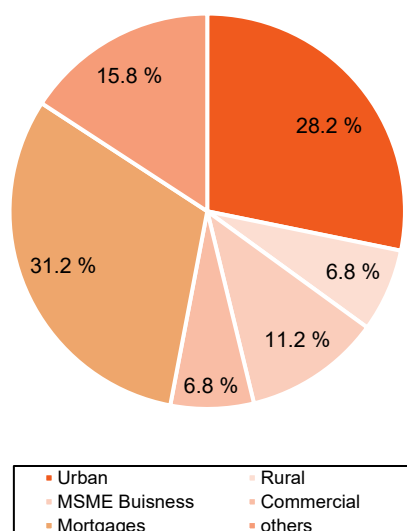
Source: Company, DevenChoksey Research

NIM contracted led by fall in yield



Source: Company, DevenChoksey Research

AUM mix (%) as of Sep 30, 2025



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Financials:

Exhibit 1: Profit & Loss Statement

INR Mn	FY25	FY26E	FY27E	FY28E
Interest Income	6,11,636	7,46,282	9,31,194	11,29,955
Interest Expense	2,47,708	2,95,311	3,58,402	4,32,283
Net Interest Income	3,63,928	4,50,971	5,72,792	6,97,672
Non interest income	85,612	1,02,307	1,25,114	1,53,138
Operating Income	4,49,540	5,53,278	6,97,906	8,50,810
Operating Expense	1,49,261	1,75,106	2,07,137	2,44,608
Operating Profit	3,00,279	3,78,172	4,90,768	6,06,202
Provisions	79,660	88,448	1,04,020	1,27,854
PBT	2,20,618	2,89,724	3,86,748	4,78,348
Tax Expense	53,002	72,613	96,687	1,19,587
PAT	1,67,617	2,17,111	2,90,061	3,58,761
Diluted EPS (INR)	27	35	47	58

Exhibit 2: Balance Sheet

INR Mn	FY25	FY26E	FY27E	FY28E
Source of Funds				
Share capital	1,242	6,214	6,214	6,214
Reserves & Surplus	9,65,687	11,39,298	13,79,645	16,76,264
Networth	9,66,929	11,45,513	13,85,860	16,82,478
Borrowings	36,12,487	44,07,234	53,76,825	65,05,958
Deposits	81,482	86,495	91,853	97,581
Other liabilities & provisions	371	371	371	371
Total Equity & Liabilities	46,61,268	56,39,612	68,54,908	82,86,389
Uses of Funds				
Cash & Bank Balances	1,35,435	5,16,502	6,07,341	7,41,546
Receivables	19,131	2,000	2,000	2,000
Net investments	3,44,408	35,000	36,000	37,000
Deferred Tax Assets	11,412	11,412	11,412	11,412
Loans & advances	40,78,441	50,48,056	61,71,313	74,67,289
Fixed assets	38,069	14,180	14,380	14,680
Other assets	7,459	7,500	7,500	7,500
Total Assets	46,61,268	56,39,612	68,54,908	82,86,389

Exhibit 3: Key Ratios

Key Ratio	FY25	FY26E	FY27E	FY28E
Growth Rates				
AUM (%)	26.1%	23.0%	22.5%	21.0%
Borrowing (%)	23.1%	22.0%	22.0%	21.0%
Total assets (%)	24.1%	21.0%	21.5%	20.9%
NII (%)	23.0%	23.9%	27.0%	21.8%
Pre-provisioning profit (%)	25.5%	25.9%	29.8%	23.5%
PAT (%)	16.1%	29.5%	33.6%	23.7%
B/S Ratios				
Loans/Deposit (%)	112.9%	114.5%	114.8%	114.8%
Advances/Total Assets	87.5%	89.5%	90.0%	90.1%
CAR (%)	21.9%	22.0%	21.8%	21.8%
Tier-I Capital (%)	21.1%	21.3%	21.2%	21.3%
Leverage - Total Assets to Equity	4.8	4.9	4.9	4.9
Operating efficiency				
Cost/income (%)	33.2%	31.6%	29.7%	28.7%
Opex/total assets (%)	3.2%	3.1%	3.0%	3.0%
Opex/total interest earning assets	3.7%	3.5%	3.4%	3.3%
Profitability				
NIM (%)	9.9%	9.9%	10.2%	10.2%
RoA (%)	3.6%	3.8%	4.2%	4.3%
RoE (%)	17.3%	19.0%	20.9%	21.3%
Asset quality				
Gross NPA (%)	1.0%	1.2%	1.3%	1.3%
Net NPA (%)	0.4%	0.6%	0.6%	0.6%
PCR (%)	54.2%	51.2%	53.4%	54.6%
Credit cost (%)	0.2%	2.0%	2.0%	2.0%
Per share data / Valuation				
EPS (INR)	27.1	34.9	46.7	57.7
BVPS (INR)	156.2	184.3	223.0	270.7
ABVPS (INR)	153.2	179.7	217.2	263.7
P/E (x)	33.2	28.9	21.6	17.5
P/BV (x)	5.8	5.5	4.5	3.7
P/ABV (x)	5.9	5.6	4.6	3.8
Profitability				
Return on Capital	4.0%	4.3%	4.7%	4.8%
Return on Equity	17.3%	19.0%	20.9%	21.3%
Spread Analysis				
Yield on loans	16.7%	16.3%	15.9%	15.9%
Cost of borrowings	7.6%	7.4%	7.3%	7.3%
Spread	9.1%	8.9%	8.6%	8.6%

Source: Company, DevenChoksey Research

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Date	CMP (INR)	TP (INR)	Recommendation
12-Nov-25	1,009	1,050	HOLD
05-Sept-25	933	1,040	ACCUMULATE
02-May-25	8,868	9,707	ACCUMULATE
30-Jan-25	7,902	9,451	BUY
24-Oct-24	6,996	8,066	BUY
26-Jul-24	6,648	7,945	BUY
29-Apr-24	6,827	8,000	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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