

CMP: ₹ 914

Target: ₹ 1000 (9%)

Target Period: 12 months

July 28, 2025

HOLD**Steady Q1 - well placed to handle volatility ahead**

About the stock: Bajaj Finance, a strong NBFC with digital footprints, have delivered consistent robust growth with consolidated AUM touching ~₹4.41 lakh crore. Harnessing its large franchise base digitally offers a huge opportunity.

- Bajaj Finance maintained strong operating metrics over long-term leading to ~19% RoE, >4% RoA.

Q1FY26 performance: Bajaj Finance reported stable performance with strong AUM growth of 25% YoY to ₹4,41,450 crore, driven by healthy customer addition of 46.9 lakh, taking the franchise to ~10.6 crore. Net Interest Income rose 22% YoY to ₹10,227 crore, supported by 20 bps sequential decline in cost of funds to 7.79%. PAT grew 22% YoY to ₹4,765 crore, translating to healthy RoA of 4.5% and RoE of 19%. However, credit cost remained elevated at ₹2,120 crore, owing to de-growth in 2-wheeler portfolio and pressure in MSME segment. Asset quality saw mild stress with GNPA and NNPA inching up to 1.03% and 0.5% (vs 0.86%/0.38% YoY).

Investment Rationale

- Asset quality resilient; NIMs to normalize, supporting stable outlook:** Bajaj Finance asset quality remains broadly resilient despite a marginal uptick in stress, with GS3 rising to 1.03% (vs. 0.96% QoQ) and NS3 to 0.50% (vs. 0.44% YoY), driven by higher stress in unsecured business loans and auto (2 & 3 wheeler). Meanwhile, MSME loans worth ₹219 crore have been restructured with another ₹100 crore, being underway, though, recoveries are expected to remain healthy. Management's strong risk controls and early DPD monitoring are expected to contain credit cost at 1.85–1.95% in FY26E. Margin tailwind (to the tune of ~10 bps), owing to decline in cost of funds (amid reversal in rate cycle) and gradual improvement in operational efficiency underpins a steady RoA at ~4% ahead.
- Management confident on risk-calibrated growth:** While captive auto finance book is running down and pace of disbursement in SME segment is being calibrated (owing signs of stress), management remains confident to deliver healthy growth (~24-26%) in medium to long term, driven by new segment including car and gold loans. However, in the near term, growth momentum could witness some moderation amid signs of stress in certain pockets, given asset quality remains a priority over business growth.

Rating and Target Price

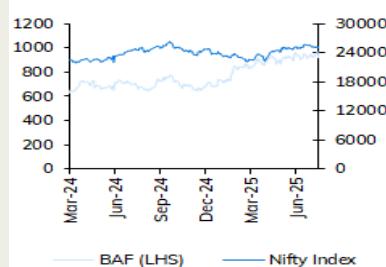
- While growth momentum could witness some moderation over stress in certain pockets, Bajaj Finance remains well placed in terms of sustained growth, margin tailwind and ability to maintain credit cost amid volatility in repayment in certain segments.
- Factoring in continued healthy growth and RoA at ~4%, we continued to value standalone business at ~3.9x FY27E BV and ₹ 124 per share for subsidiaries, maintaining our target price of ₹1000 per share. Maintain Hold rating.

BAJAJ FINANCE LIMITED**Particulars**

Particulars	Amount
Market Capitalisation	₹ 5,69,384 crore
52 week H/L	979/ 642
Face Value	1
Net worth	₹ 101,037 Crore
DII Holding (%)	15
FII Holding (%)	22

Shareholding pattern

(in %)	Sep-24	Dec-24	Mar-25	Jun-25
Promoter	54.7	54.7	54.7	54.7
FII	20.8	20.8	21.5	21.7
DII	15.0	15.1	14.8	14.5
Government	0.1	0.1	0.1	0.1
Public	9.4	9.3	8.8	8.9
Others	0.1	0.0	0.1	0.0

Price Chart**Key risks**

- Delay in anticipated decline in cost of funds
- Elevated level of delinquencies in MSME portfolio to impact earnings

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Key Financial Summary

₹ Crore	FY23	FY24	FY25	2 year CAGR (FY23-FY25)	FY26E	FY27E	2 year CAGR (FY25-27E)
NII (₹ crore)	28850	36245	44913	25%	54467	66970	22%
PPP (₹ crore)	18718	23940	30046	27%	36597	45880	24%
PAT (₹ crore)	11508	14451	16779	21%	20287	26368	25%
ABV (₹)	887	824	767		181	219	
P/E	48	58	67		28	22	
P/ABV	10.3	11.1	11.9		5.1	4.2	
RoA	4.7	4.4	4.0		3.9	4.1	
RoE	23.5	22.1	19.4		19.0	20.4	

Source: Company, ICICI Direct Research

Concall highlights and outlook

Guidance – FY26

- Amid caution on asset quality, growth could take a back seat. Thus, management has given indication of moderation in growth, though clarity to be provided after Q2.
- Fee income growth is guided at 13-15% for FY26.
- Credit cost guidance maintained at 185-195 bps for FY26, with expectations of sideways movement in Q2 and decline from Q3 onwards.
- Cost of funds expected to improve to 7.6%-7.65% in FY26. Thus, NIM guidance updated to 5-10 bps expansion by year-end, versus previous flat guidance.
- Deposit grew 15% YoY to ₹72,109 crore (19% of borrowing) but reliance on them will be reduced in next 12 months to optimize cost.
- MSME disbursement growth remains flat to low single digit amid a cautious approach.

Business Updates

- Q1 saw robust performance across AUM, volumes, profitability, and cost management; however, credit costs continued to remain elevated. AUM rose ₹ 24,789 crore to ₹441,450 crore, booked 1.3 crore new loans and added 46.9 lakh new customers. Customer franchise stood at 10.6 crore. FY26 to be defining year for FINAI transformation with capabilities starting to go live across the company.
- Geographic footprint stood at 4,192 locations, gold loan branches at 1,254 and MFI branches at 337. 85 standalone Gold Loan branches and 4 standalone MFI branches were added in Q1.
- Cost of funds declined 20 bps QoQ to 7.79%, expected to come down to 7.6%-7.65% in FY26E.
- Deposits book rose 15% YoY to ₹ 72,109 crore, accounting for 19% of consolidated borrowings.
- On the liability side, there has been significant rate transmission with NCDs seeing 90 bps improvement, 85% of bank borrowings on external benchmark seeing full transmission, and CPs seeing 80-90bps improvement.
- Opex to net total income improved to 32.7% vs 33.3% YoY, with AI capabilities to aid optimization of operating expenses and improve productivity.
- Leadership update: Mr. Anup Saha resigned as MD and Director of BFL on July 21, 2025, for personal reasons. Based on NRC's recommendation, Mr. Rajeev Jain was re-designated as Vice Chairman and Managing Director to ensure continuity until March 31, 2028.

Asset Quality

- Credit cost remained elevated at ₹2,120 crore, driven by concerns in the consumer leverage, decline in 2-wheeler portfolio and MSME segments.
- Consumer leverage continues to remain an area of concern. Company has taken several actions across all products to reduce contribution of customers with multiple loans. Constant efforts underway to reduce multiple lenders borrower exposure.
- Stage 2 & 3 assets stood at ₹878 crore, which included ₹219 crore from standard accounts that were restructured. Stage 2 assets increased by ₹324 crore, while stage 3 assets rose by ₹554 crore. MSME restructured customers have pull down Stage 3 coverage.

Exhibit 1: Variance Analysis

	Q1FY26	Q1FY25	YoY (%)	Q4FY25	QoQ (%)	Comments
NII	12,606	10,415	21.0	11,905	5.9	Steady AUM growth YoY aided NII
Other Income	5	6	-25.3	-2	-328.9	
Staff cost	2,103	1,775	18.5	1,943	8.2	Company has added 1,436 employees in Q1FY26.
Other Operating Expenses	2,020	1,653	22.2	2,006	0.7	
Opex to NII(%)	32.7	32.9	-0.6	33.2	-1.4	Opex to NII has remain stable sequentially
PPP	8,488	6,950	22.1	7,954	6.7	
Provision	2,120	1,685	25.9	2,329	-9.0	Credit costs continued to remain higher at 2.02%, including additional ECL provision of Q4FY25
PBT	6,368	5,265	20.9	5,625	13.2	
Tax Outgo	1,602	1,353	18.4	1,102	45.4	
PAT	4,765	3,912	21.8	4,523	5.4	Steady growth and operations aid earnings momentum
Key Metrics						
GNPA	4,518	3,054	47.9	3,965	13.9	GNPA & NNPA remain stable at 1.03% and 0.5% respectively
NNPA	2,172	1,342	61.8	1,834	18.4	
AUM	4,41,450	3,54,192	24.6	4,16,661	5.9	Healthy growth driven by customer addition and branch expansion

Financial Summary

Exhibit 2: Profit and loss statement				₹ crore
(Year-end March)	FY24	FY25	FY26E	FY27E
Interest Earned	54969.5	69683.5	83682.2	102106.5
Interest Expended	18724.7	24770.8	29215.5	35136.9
Net Interest Income	36244.8	44912.7	54466.7	66969.6
Growth (%)	25.6	23.9	21.3	23.0
Non Interest Income	20.7	59.1	72.7	89.4
Operating Income	36265.5	44971.8	54539.4	67059.0
Employee cost	6396.0	7508.3	9085.1	10993.0
Other operating Exp.	5929.2	7417.8	8857.3	10185.9
Operating Profit	23940.3	30045.7	36597.0	45880.1
Provisions	4630.7	7966.0	9181.5	10247.9
PBT	19309.6	22079.6	27415.5	35632.2
Taxes	4858.4	5300.2	7128.0	9264.4
Net Profit	14,451.2	16,779.5	20,287.4	26,367.8
Growth (%)	25.6	16.1	20.9	30.0
EPS (₹) (Calculated)	157.0	135.4	32.7	42.4

Source: Company, ICICI Direct Research

Exhibit 3: Key ratios				
(Year-end March)	FY24	FY25	FY26E	FY27E
Valuation				
No. of shares (crore)	123.6	124.2	621.2	621.2
EPS (₹)	157.0	135.4	32.7	42.4
BV (₹)	833	781	187	229
ABV (₹)	824	767	181	219
P/E	58	67	28	22
P/BV	11.0	11.7	4.9	4.0
P/ABV	11.1	11.9	5.1	4.2
Yields & Margins (%)				
Net Interest Margins	10.4	9.9	10.6	10.5
Yield on assets	17.2	16.8	16.3	16.1
Avg. cost on funds	7.3	7.6	7.2	6.9
Yield on average advanc	19.3	18.9	18.2	17.9
Quality and Efficiency (%)				
Cost to income ratio	34.0	33.2	32.9	31.6
Cost to assets ratio	3.8	3.5	3.4	3.3
GNPA	1.0	1.0	1.2	1.1
NNPA	0.8	0.8	0.5	0.5
RoE	22.1	19.4	19.0	20.4
RoA	4.4	4.0	3.9	4.1

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet				₹ crore
(Year-end March)	FY24	FY25	FY26E	FY27E
Sources of Funds				
Capital	123.6	124.2	621.2	621.2
Reserves and Surplus	76571.8	96568.7	115837.6	141683.6
Networth	76695.4	98936.9	116458.9	142304.9
Borrowings	293345.8	361248.7	451560.8	564451.0
Other Liabilities & Provis	5700.4	5941.3	6952.6	9110.3
Total	3,75,741.6	4,66,126.8	5,74,972.2	7,15,866.2
Application of Funds				
Fixed Assets	4629.6	5694.0	6263.4	6889.7
Investments	30880.7	34440.8	37884.9	41673.4
Advances	328026.8	409757.3	507617.2	631036.4
Other Assets	12204.6	16234.8	23206.7	36266.6
Total	3,75,741.6	4,66,126.8	5,74,972.2	7,15,866.2

Source: Company, ICICI Direct Research

Exhibit 5: Growth				
(Year-end March)	FY24	FY25	FY26E	FY27E
Total assets	36.5	24.1	23.4	24.5
Advances	34.8	25.2	23.6	24.3
Borrowings	35.4	23.1	25.0	25.0
Net interest income	25.6	23.9	21.3	23.0
Operating Income	25.7	24.0	21.3	23.0
Operating expenses	21.5	21.1	20.2	18.0
Operating profit	27.9	25.5	21.8	25.4
Net profit	25.6	16.1	20.9	30.0
Net worth	41.1	29.0	17.7	22.2
EPS	-17.6	-13.8	-75.9	30.0

Source: Company, ICICI Direct Research

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Sell: <-15%



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