

Steady Q2; lower guidance impact valuation

About the stock: Bajaj Finance, a strong NBFC with digital footprints, have delivered consistent robust growth with consolidated AUM touching ~₹4.62 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.

Q2FY26 performance: Bajaj Finance reported a stable Q2FY26 performance with strong AUM (consolidated) growth of 24% YoY to ₹4,62,261 crore, driven by 1.21 crore new loans (up 26% YoY) and a customer addition of 41.3 lakh, taking the franchise to 11.1 crore. Net Interest Income rose 22% YoY to ₹10,785 crore, supported by 27-bps QoQ decline in cost of funds to 7.52%. Consolidated PAT grew 22% YoY to ₹4,948 crore, translating to healthy RoA of 4.5% and RoE of 19.1%. However, credit costs remained elevated at ₹2,269 crore due to pressure in captive 2 & 3-wheeler and MSME business. Asset quality saw mild accretion with GNPA/NNPA inching up to 1.24%/ 0.60%, respectively (vs 1.06%/0.46% YoY).

Investment Rationale

- Asset quality resilient with vigilance in few pockets; cost efficiency to aid steady profitability:** Bajaj Finance's asset quality remains broadly resilient, with GNPA/NNPA at 1.24%/0.60% (vs. 1.03%/0.50% in Q1FY26), driven by continued stress in the MSME and captive 2W/3W portfolios. Management maintained its FY26 credit cost guidance at 1.85–1.95%, indicating expectations of normalization from H2FY26 and meaningful improvement in FY27E. Margin tailwinds, owing to revised cost of funds down to 7.50–7.55% and gradual improvement in operational efficiency underpins a steady RoA at ~4% ahead.
- Calibrated growth amid concerns on customer leverage:** While captive auto finance book is running down and pace of disbursement in SME segment is being calibrated (10-12% growth in FY26), management has lowered credit growth guidance to 22-23% (vs 24-25%), prioritizing asset quality stability. New segments including gold loans, car loans, and rural B2C continue to gain traction, aiding growth. Gold loan is expected to increase from ₹12,000 crore to ₹16,000 crore in FY26 and ₹27,000–30,000 crore by FY27E, supported by geographic expansion while partnerships with regional OEMs in the auto and tractor segments (maintaining a 75:25 new-to-used mix) is seen to aid traction.

Rating and Target Price

- While Q2FY26 performance remained broadly steady, lowering of credit growth guidance and credit cost at higher end of guidance, amid stress in certain pockets, impact valuation. However, anticipated normalization, owing to run down of auto book, could aid uptick in earnings in FY27E.
- We continue to broadly maintain multiple on standalone business at ~4x FY27E BV and ₹124 per share for subsidiaries, revising our target marginally at ₹1040 (earlier ₹1000). Maintain Hold rating.

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%	53998	66824	22%
PPP (₹ crore)	18718	23940	30046	27%	36279	45613	23%
PAT (₹ crore)	11508	14451	16779	21%	20061	26189	25%
ABV (₹)	887	824	767		180	218	
P/E	53	64	74		31	24	
P/ABV	11.3	12.2	13.1		5.6	4.6	
RoA	4.7	4.4	4.0		3.9	4.1	
RoE	23.5	22.1	19.4		18.8	20.3	

Source: Company, ICICI Direct Research

BAJAJ FINANCE LIMITED

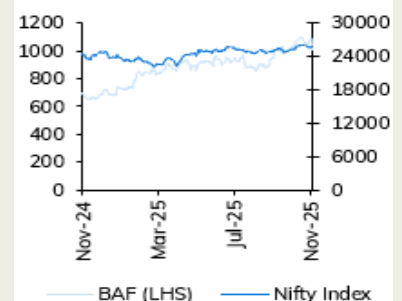
Particulars

Particulars	Amount
Market Capitalisation	₹ 6,25,253 crore
52 week H/L	1102/ 645
Face Value	1
Net worth	₹ 103,213 Crore
DII Holding (%)	14
FII Holding (%)	22

Shareholding pattern

(in %)	Dec-24	Mar-25	Jun-25	Sep-25
Promoter	54.7	54.7	54.7	54.7
FII	20.8	21.5	21.7	22.0
DII	15.1	14.8	14.5	13.4
Government	0.1	0.1	0.1	0.1
Public	9.3	8.8	8.9	8.8
Others	0.0	0.1	0.0	0.1

Price Chart



Key risks

- Higher than expected credit growth
- Elevated level of delinquencies to impact earnings

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Concall highlights and outlook

Guidance – FY26

- AUM growth guidance moderated to 22–23% for FY26 (earlier 24–25%) owing to moderation in growth in housing and MSME segment, amid caution on asset quality
- MSME portfolio growth curtailed to 10–12% for FY26 after a 25% cut in unsecured MSME volumes; restructuring largely completed.
- Management expects FY26 credit cost to remain at the upper end of 1.85–1.95%, but indicated a significant improvement in FY27E as MSME and captive 2W/3W businesses normalize.
- Cost of funds improved by 27 bps QoQ to 7.52%; full-year expectation revised to 7.50–7.55%.
- Fee & other income expected to grow 13–15% for FY26, with flattish bad-debt recoveries

Business Updates

- Assets under management grew 24% YoY to ₹4,62,261 crore, led by broad-based expansion across businesses booked, expanded to 11.06 crore customers, adding 41.3 lakh new customers in Q2; FY26 addition expected at 1.6–1.7 crore.
- Record disbursements of 63 lakh loans (+26% YoY) during the 35-day festive period, adding 23 lakh new customers (52% new-to-credit).
- MSME under stress; growth moderated amid risk containment measures. Gold loans scaled rapidly; expected to grow from ~₹12,000 crore currently to ₹16,000 crore by FY26E and further to ₹27,000–30,000 crore by FY27, with 900 new branches planned. Rural B2C upgraded from “yellow” to “green” status due to improved credit metrics; vintage performance improving. Captive 2W/3W finance is being phased out; contributes 1.5% of AUM but 9% of loan losses, providing FY27E tailwind once run-down completes.
- Geographic footprint stood at 4,039 locations, gold loan branches at 1,272 and MFI branches at 416.
- Cost of funds declined by 27 bps QoQ to 7.52%; expected at 7.50–7.55% for FY26.
- Deposits form 18% of total borrowings, up 5% YoY; measured approach to deposits to optimize funding mix.
- Opex to net total income improved to 32.6% as against 33.2% in Q2FY25. AI implementation across each line of businesses has started and should start to reflect in costs and productivity benefits in the next 12–18 months.
- FINAL transformation: now in its 9th month of implementation, central to long-term strategy. 123 high-impact areas identified; 80 to go live by FY26-end. 442 AI voice bots live, contributing ₹2,000 crore of originations in Q2FY26, 5 AI conversational/text bots live for EMI card, personal loans, insurance, etc. 85% of service resolutions handled through AI bots in Q2FY26. 42% of loan applications underwent AI-led quality checks; capacity target at 85–90%. 42% of digital banners and 100% of videos are AI-generated. Face recognition pilot to go live across 300 points of sale by December 2025.
- Leadership update: Mr. Manish Jain elevated as 4th Deputy CEO, overseeing LAS, commercial lending, and deposit business.

Asset Quality

- Credit cost came in at 2.05% (vs. 2.02% in Q1); full-year to remain at upper end of 1.85–1.95% range driven by concerns in the consumer leverage, 2-wheeler portfolio (12 bps) and MSME segment (6 bps).
- GNPA/NNPA stood at 1.24%/0.60% in Q2FY26 against 1.06%/0.46% in Q2FY26. Seasonality in terms in higher number of days in Q2 led to increase in GNPA.
- In Q2, net increase in stage 2 & 3 assets were at ₹ 162 crore, including ₹ 288 crore of Stage 1 accounts which were restructured. Stage 2 assets declined by ₹ 1,007 crore and stage 3 assets increased by ₹ 1,168 crore.

- Consumer leverage remains an area of concern. Company continues to take ongoing actions to reduce contribution of customers with multiple loans. The vintage credit performance as a result are significantly better except for MSME.

Exhibit 1: Variance Analysis

	Q2FY26	Q2FY25	YoY (%)	Q1FY25	QoQ (%)	Comments
NII	13,168	10,941	20.4	12,606	4.5	Steady AUM growth YoY aided NII
Staff cost	2,154	1,835	17.4	2,103	2.5	Company has added 1,933 employees in Q2FY26.
Other Operating Expenses	2,141	1,804	18.7	2,020	6.0	
Opex to NII(%)	32.6	33.3	-1.9	32.7	-0.2	Opex to NII has remain stable sequentially
PPP	8,877	7,311	21.4	8,488	4.6	
Provision	2,269	1,909	18.8	2,120	7.0	Credit costs continued to remain higher at 2.05%
PBT	6,608	5,401	22.3	6,368	3.8	
Tax Outgo	1,660	1,388	19.6	1,602	3.6	
PAT	4,948	4,014	23.3	4,765	3.8	Growth and steady operational efficiency aided earnings
Key Metrics						
GNPA	5,687	3,953	43.9	4,518	25.9	GNPA & NNPA inched up at 1.24% and 0.6% respectively
NNPA	2,742	1,696	61.7	2,172	26.2	
AUM	462,261	373,924	23.6	441,450	4.7	Healthy growth across segments; gold loans surge while MSME growth witness deceleration

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 2: Profit and loss statement

₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Interest Earned	54969.5	69683.5	82772.8	100867.5
Interest Expended	18724.7	24770.8	28774.8	34043.9
Net Interest Income	36244.8	44912.7	53998.1	66823.6
Growth (%)	25.6	23.9	20.2	23.8
Non Interest Income	20.7	59.1	72.7	89.4
Operating Income	36265.5	44971.8	54070.7	66913.0
Employee cost	6396.0	7508.3	8934.9	10721.9
Other operating Exp.	5929.2	7417.8	8857.3	10578.1
Operating Profit	23940.3	30045.7	36278.5	45613.0
Provisions	4630.7	7966.0	9168.9	10222.5
PBT	19309.6	22079.6	27109.6	35390.4
Taxes	4858.4	5300.2	7048.5	9201.5
Net Profit	14,451.2	16,779.5	20,061.1	26,188.9
Growth (%)	25.6	16.1	19.6	30.5
EPS (₹) (Calculated)	157.0	135.4	32.3	42.2

Source: Company, ICICI Direct Research

Exhibit 3: Key ratios

₹ crore

(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	32.3	42.2
BV (₹)	833	781	187	228
ABV (₹)	824	767	180	218
P/E	64	74	31	24
P/BV	12.1	12.9	5.4	4.4
P/ABV	12.2	13.1	5.6	4.6
Yields & Margins (%)				
Net Interest Margins	10.4	9.9	10.6	10.7
Yield on assets	17.2	16.8	16.3	16.2
Avg. cost on funds	7.3	7.6	7.1	6.9
Yield on average advance	19.3	18.9	18.1	17.8
Quality and Efficiency (%)				
Cost to income ratio	34.0	33.2	32.9	31.8
Cost to assets ratio	3.8	3.5	3.4	3.4
GNPA	1.0	1.0	1.2	1.1
NNPA	0.8	0.8	0.5	0.5
RoE	22.1	19.4	18.8	20.3
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	115611.3	141278.4
Networth	76695.4	98936.9	116232.5	141899.6
Borrowings	293345.8	361248.7	444335.8	546533.1
Other Liabilities & Provisi	5700.4	5941.3	6952.6	9110.3
Total	375,741.6	466,126.8	567,520.9	697,543.0
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	506354.3	629483.1
Other Assets	12204.6	16234.8	17018.3	19496.7
Total	375,741.6	466,126.8	567,520.9	697,543.0

Source: Company, ICICI Direct Research

Exhibit 5: Growth

(%)

(Year-end March)	FY24	FY25	FY26E	FY27E
Total assets	36.5	24.1	21.8	22.9
Advances	34.8	25.2	23.3	24.3
Borrowings	35.4	23.1	23.0	23.0
Net interest income	25.6	23.9	20.2	23.8
Operating Income	25.7	24.0	20.2	23.8
Operating expenses	21.5	21.1	19.2	19.7
Operating profit	27.9	25.5	20.7	25.7
Net profit	25.6	16.1	19.6	30.5
Net worth	41.1	29.0	17.5	22.1
EPS	-17.6	-13.8	-76.2	30.5

Source: Company, ICICI Direct Research

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Sell: <-15%



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