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Steady Q3; execution on track...

About the stock: Bajaj Finance, a strong NBFC with digital footprints, have delivered consistent robust growth with consolidated AUM touching ~₹4.84 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.

Q3FY26 performance: Bajaj Finance reported a resilient Q3FY26 performance, with consolidated AUM rising 22% YoY to ₹4,84,477 crore, driven by healthy loan bookings of 1.39 crore and addition of 47.6 lakh customers, taking customer franchise to 11.54 crore. Net interest income grew 21% YoY to ₹11,317 crore, while NIM remained stable, supported by a 7-bps sequential decline in cost of funds to 7.45%. Consolidated PAT (including accelerated ECL and one-time labour code charge) fell 6% YoY to ₹4,066 crore, translating into RoA of 4.3% and RoE of 18.5%. Asset quality remained largely stable, with GNPA/NNPA at 1.21%/0.47%.

Investment Rationale

- Customer-centric and AI-led strategy to sustain growth:** Bajaj Finance is accelerating its shift to a customer-centric model, focused on increasing wallet share across its 11.5 crore-strong franchise through deeper engagement and cross-sell. Calibrated growth in MSME and the run-down of captive 2W/3W portfolios is being offset by traction in gold loans, car loans and rural B2C, supporting portfolio diversification and steady AUM expansion. Improved consumption trends, aided by policy-led affordability, position Bajaj Finance to sustain ~22-23% AUM growth with stable returns, despite near-term moderation in select segments.
- Asset quality resilience with improving credit cost trajectory:** AI deployment across underwriting, operations and customer engagement is shortening decision cycles, enhancing risk controls and driving productivity gains. Stress remains largely confined to MSME and legacy captive 2W/3W portfolios, while vintage performance across consumer books continues to improve. Management's proactive adoption of a permanent minimum LGD framework and accelerated ECL provisioning in Q3FY26 strengthens balance sheet resilience and de-risks earnings volatility. Excluding one-offs, credit costs have moderated to sub-2% levels, with disciplined underwriting and gradual run-down of higher-loss books supporting a medium-term credit cost trajectory of ~165-175 bps.

Rating and Target Price

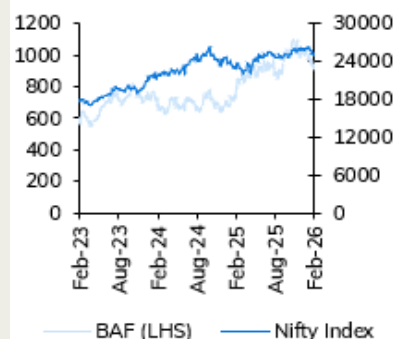
- While growth momentum remains strong across consumer, MSME and rural segments, near-term profitability will continue to be influenced by provisioning strategy and portfolio seasoning. Overall, improving asset quality indicators and stable margins underpin earnings visibility.
- We continue to broadly maintain multiple on standalone business at ~3.8x FY28E BV and ₹119 per share for subsidiaries, revising our target to ₹1150 (earlier ₹1180). Maintain Buy rating.

BAJAJ FINANCE LIMITED**Particulars**

Particulars	Amount
Market Capitalisation	₹ 6,00,158 crore
52 week H/L	1,102/ 802
Face Value	1
Net worth	₹ 1,08,352 Crore
DII Holding (%)	15
FII Holding (%)	21

Shareholding pattern

(in %)	Mar-25	Jun-25	Sep-25	Dec-25
Promoter	54.7	54.7	54.7	54.7
FII	21.5	21.7	22.0	21.5
DII	14.8	14.5	14.4	14.9
Government	0.1	0.1	0.1	0.1
Public	8.8	8.9	8.8	8.8
Others	0.1	0.0	0.1	0.1

Price Chart**Key risks**

- Growth margin trade-off
- Delinquencies volatility to impact credit cost and thus earnings

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Key Financial Summary

₹ Crore	FY24	FY25	2 year CAGR (FY23-FY25)	FY26E	FY27E	FY28E	3 year CAGR (FY25-28E)
NII (₹ crore)	36245	44913	25%	53230	65255	78612	21%
PPP (₹ crore)	23940	30046	27%	35248	43568	52451	20%
PAT (₹ crore)	14451	16779	21%	18586	24341	29596	21%
ABV (₹)	824	767		179	214	256	
P/E	62	72		33	25	20	
P/ABV	11.8	12.7		5.4	4.6	3.8	
RoA	4.4	4.0		3.6	3.9	3.8	
RoE	22.1	19.4		17.6	19.2	19.3	

Source: Company, ICICI Direct Research

Concall highlights and outlook

Guidance

- AUM growth guidance reiterated at ~22% (lower end of 22–23%), reflecting continued moderation in MSME and run-down of captive 2W/3W portfolio.
- Customer additions for FY'26 are expected to be 1.7–1.8 crore, with the overall franchise on track to exceed 12 crore customers in the current year.
- MSME growth to remain muted for 2–3 more quarters; management expects normalization and return to ~20% growth trajectory from H2FY27.
- Fee income growth is expected to normalize between 17% and 20% YoY from next fiscal year onwards.
- Cost of funds expected to exit FY26 at 7.55–7.60%; largely sideways from current levels.
- Management guided towards medium-term credit cost of ~165–175 bps, driven by run-down of captive 2-wheeler book and improving vintage performance.

Business Updates

- Assets under management grew 22% YoY to ₹4,85,883 crore (before accelerated ECL), led by broad-based expansion across businesses; customer franchise expanded to 11.54 crore, adding 47.6 lakh new customers in Q3. FY26 customer addition expected at 1.7–1.8 crore. New loans booked were 1.39 crore in Q3FY26 (+15% YoY).
- Deposits formed ~17% of consolidated borrowings; growth deliberately moderated to optimize funding mix.
- MSME portfolio remains under stress; growth moderated amid continued risk containment measures. Gold loans continued strong growth with branch network crossing 1,200+ branches and further expansion planned. Vintage performance across consumer portfolios improved. Captive 2W/3W finance continues to be phased out, contributing disproportionately to loan losses and providing structural credit cost tailwind once run-down completes. New car finance growing faster (~30%+), while used-car remains cautious due to credit discipline. CV and tractor finance expected to grow 30–40%, subject to profitability thresholds.
- Geographic footprint stood at 4,052 locations with active distribution of 2.41 lakh points.
- NIMs remained steady, aided by 7 bps decline in cost of funds to 7.45%; expected at 7.55–7.6% for FY26.
- Opex to net total income improved to 32.8% as against 33.1% in Q3FY25, reflecting operating leverage and productivity gains. AI implementation across businesses is accelerating and expected to drive further cost and efficiency benefits.
- The company took a one-time exceptional charge of ₹ 265 crore towards increase in gratuity liabilities arising from past service cost on account of the new labour codes. Annual impact is estimated at ₹100–125 crore going ahead.
- FINAI transformation: Entered implementation phase and remains central to long-term strategy. 2 crore calls converted to voice-to-text; 2.7 lakh AI-generated videos and 1.2 lakh AI banners produced. 11 AI conversational bots live. 41% of loan applications processed through AI-led quality checks (target 85–90%). Loan disbursement through AI bots was ~₹1,600 crore in Q3FY26.

Asset Quality

- Company implemented minimum Loss Given Default floor across all businesses, applied uniformly across Stage 1, 2 and 3 assets. Accordingly,

accelerated ECL provisioning of ~₹1,600 crore was undertaken as a proactive and permanent measure to strengthen balance sheet resilience.

- Stage 1 PCR increased to ~1% of assets; Stage 2 PCR raised to ~37% (from ~30%); Stage 3 PCR to ~61% (from ~52%). Incremental annual impact estimated at ₹300–400 crore, spread across quarters.
- Annualized credit cost stood at ~1.91%, GNPA/NNPA stood at 1.21% / 0.47%.
- All unsecured loans are written off once they pass 6 months past due

Exhibit 1: Variance Analysis

	Q3FY26	Q3FY25	YoY (%)	Q2FY25	QoQ (%)	Comments
NII	13875	11650	19.1	13168	5.4	Steady AUM growth YoY aided NII
Staff cost	2250	1956	15.1	2154	4.4	Company has added 2,363 employees in Q3FY26.
Other Operating Expenses	2306	1911	20.7	2141	7.7	
Opex to NII(%)	32.8	33.2	-1.1	32.6	0.7	Opex to NII has remain stable sequentially
PPP	9322	7809	19.4	8877	5.0	
Provision	3891	2043	90.4	2269	71.5	Accelerated ECL provision of ₹ 1,406 crore was made in Q3 across stages
PBT	5431	5766	-5.8	6608	-17.8	
Tax Outgo	1365	1457	-6.3	1660	-17.8	
PAT	4066	4308	-5.6	4948	-17.8	PAT grew 23% excluding accelerated ECL provision and ₹265 crore one-time charge of New Labour Codes
Key Metrics						
GNPA	5880	4460	31.8	5687	3.4	GNPA & NNPA stable at 1.21% and 0.47% respectively
NNPA	2273	1909	19.1	2742	-17.1	
AUM	485883	398043	22.1	462261	5.1	Healthy growth across segments

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 2: Profit and loss statement ₹ crore

(Year-end March)	FY25	FY26E	FY27E	FY28E
Interest Earned	69,684	82,004	99,299	120,513
Interest Expended	24,771	28,775	34,044	41,901
Net Interest Income	44,913	53,230	65,255	78,612
Growth (%)	23.9	18.5	22.6	20.5
Non Interest Income	59.1	72.7	89.4	109.9
Operating Income	44,972	53,302	65,344	78,722
Employee cost	7,508	8,935	10,722	12,866
Other operating Exp.	7,418	9,119	11,054	13,404
Operating Profit	30,046	35,248	43,568	52,451
Provisions	7,966	10,132	10,675	12,457
PBT	22,080	25,117	32,893	39,994
Taxes	5,300	6,530	8,552	10,398
Net Profit	16,779	18,586	24,341	29,596
Growth (%)	16.1	10.8	31.0	21.6
EPS (₹) (Calculated)	135.4	29.9	39.2	47.6

Source: Company, ICICI Direct Research

Exhibit 3: Key ratios ₹ crore

(Year-end March)	FY25	FY26E	FY27E	FY28E
Valuation				
No. of shares (crore)	124.2	621.2	621.2	621.2
EPS (₹)	135.4	29.9	39.2	47.6
BV (₹)	780.5	184.7	223.1	269.9
ABV (₹)	766.6	178.7	213.8	255.8
P/E	71.8	32.5	24.8	20.4
P/BV	12.5	5.3	4.4	3.6
P/ABV	12.7	5.4	4.6	3.8
Yields & Margins (%)				
Net Interest Margins	9.9	10.5	10.5	10.3
Yield on assets	16.8	16.2	16.0	15.8
Avg. cost on funds	7.6	7.1	6.9	6.9
Yield on average advanc	18.9	18.0	17.7	17.4
Quality and Efficiency (%)				
Cost to income ratio	33.2	33.9	33.3	33.4
Cost to assets ratio	3.5	3.5	3.5	3.4
GNPA	1.0	1.2	1.1	1.2
NNPA	0.8	0.5	0.6	0.6
RoE	19.4	17.6	19.2	19.3
RoA	4.0	3.6	3.9	3.8

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet ₹ crore

(Year-end March)	FY25	FY26E	FY27E	FY28E
Sources of Funds				
Capital	124	621	621	621
Reserves and Surplus	96569	114137	137956	167030
Networth	98937	114758	138577	167651
Borrowings	361249	444336	546533	672236
Other Liabilities & Provis	5941	6953	9110	11944
Total	466127	566046	694221	851831
Application of Funds				
Fixed Assets	5694	6263	6890	7579
Investments	34441	37885	41673	45841
Advances	409757	502230	621436	762697
Other Assets	16235	19667	24222	35714
Total	466127	566046	694221	851831

Source: Company, ICICI Direct Research

Exhibit 5: Growth (%)

(Year-end March)	FY25	FY26E	FY27E	FY28E
Total assets	24.1	21.4	22.6	22.7
Advances	25.2	22.3	23.7	22.7
Borrowings	23.1	23.0	23.0	23.0
Net interest income	23.9	18.5	22.6	20.5
Operating Income	24.0	18.5	22.6	20.5
Operating expenses	21.1	21.0	20.6	20.6
Operating profit	25.5	17.3	23.6	20.4
Net profit	16.1	10.8	31.0	21.6
Net worth	29.0	16.0	20.8	21.0

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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