

NIMs To Expand in FY26, SME Slowdown Could Weigh on Growth!

Est. Vs. Actual for Q1FY26: NII – **INLINE**; PPOP – **INLINE**; PAT – **BEAT**

Changes in Estimates post Q1FY26

FY26E/FY27E (%): NII -1.0/-2.2; PPOP -1.0/-2.2; PAT 0.0/-1.1

Recommendation Rationale

- **NIMs to Benefit From Rate Cut:** BAF's margins are expected to improve by ~10 bps in FY26, driven by a sharp decline in CoF. **The management expects CoF to settle at 7.6-7.65% in FY25, vs. 7.79% reported in Q1.** In order to optimise the CoF, BAF plans to reduce its dependence on Deposits and plans to reduce its mix to 15-16% vs 17-19%. The company has also tweaked its deposit rates sharply (by 70-80 bps), owing to which deposit volumes have declined. Moreover, it will look to increase the share of ECB loans, NCDs, and Bank borrowings, citing better pricing to improve the CoF. **We expect BAF's NIMs (calc.) to remain steady, ranging between 8.9-9% over FY26-28E, driven by faster transmission of rate cuts reflecting in CoF.**
- **Growth Guidance Maintained; More Clarity in Q2:** The company has maintained its guidance of adding 14-16 Mn new customers during FY26, with loan bookings remaining healthy at 50 Mn during the year. Within the portfolio segments, the SME is witnessing emerging signs of stress, with most industries either showing signs of growth contraction or demand slowing down. Thus, BAF has pulled back growth in this segment, and FY26 growth is expected to be significantly lower. **Its diversified loan book should help BAF navigate this stress, thereby delivering a consistently strong AUM growth of ~25% CAGR over FY25-28E.** Along with the existing segments, the company will also look to scale up LAP, Commercial Vehicles, Tractors, Gold, and Affordable Housing. **While the management has maintained its AUM growth guidance of 23-24% for FY26, more clarity would emerge post Q2FY26.**
- **Asset Quality to Improve:** Consumer leverage continues to remain an area of concern, and the company has taken several actions across all products to reduce the contribution of customers with multiple loans. During Q1, credit costs were elevated in 2 and 3-wheeler and MSME businesses (largely unsecured). BAF has taken significant credit actions in both these businesses and expects portfolio growth to remain subdued. It has also restructured standard advances to the tune of Rs 219 Cr and expects another Rs 150 Cr to be restructured in Q2. **BAF is observing improvement in early vintages across all portfolios except MSME and hence remains confident of credit cost gradually tapering. While Q2 credit costs could continue to remain flat, improvement is likely over H2. The management has maintained its credit costs guidance of 185-195 bps for FY26.** The company is facing challenges across multiple product lines in Karnataka (~11% Mix), with political risk emerging. Resultantly, BAF has hacked volumes in the state by 40-50% (in MFI, 2-Wheelers, Rural B2C), in its efforts to trim exposure to the state. **We expect credit costs to gradually taper and range between 1.9-2% over FY26-28E.**

Sector Outlook: Positive

Company Outlook: BAF is set to witness improved margins, supported by faster transmission of the rate cuts in CoF and an optimal borrowing mix. While the majority of the segment continues to deliver healthy growth, emerging stress in the MSME segment could weigh on near-term growth for the company. It continued to adopt a prudent approach by trimming growth and prioritising asset quality. As near-term asset quality challenges subside, we expect credit costs to gravitate to normalised levels, thereby supporting earnings. **The re-designation of Mr Rajeev Jain as VC & MD (post resignation of Mr Anup Saha) and BAF having strengthened its top management team would ensure seamless strategy execution.**

Current Valuation: 5.1x FY27E ABV; Earlier Valuation: 4.9x FY27E ABV

Current TP: Rs 1,100/share; Earlier TP: Rs 1,050/share

Recommendation: We maintain our **BUY** recommendation on the stock.

Financial Performance:

- **Operational Performance:** BAF added ~4.7 Mn customers (+5% YoY/flat QoQ) during the quarter vs 4.5/4.7 Mn customer YoY/QoQ, taking the total customer base to 106.5 Mn customers (+21/5% YoY/QoQ). The company has guided to add 14-16 Mn customers in FY26. The company booked ~13.5 Mn loans during the quarter. (+23/26% YoY/QoQ). AUM growth was healthy at 25/6% YoY/QoQ, with growth healthy across most segments, except auto financing.
- **Financial Performance:** NII grew by 22/4% YoY/QoQ, in line with our expectations. NIMs (calc.) declined ~10 bps QoQ and stood at 9.53% vs 9.63% QoQ. Non-interest income growth was healthy at 16/13% YoY/QoQ. Fee income growth was strong at 17% each YoY/QoQ, despite the company stopping co-branded card issuances. Opex grew by 19/4% YoY/QoQ, with the C-I Ratio improved to 32.7% vs 33.1% QoQ. PPOP grew by 22/7% YoY/QoQ. Credit costs (reported) inched up by 5 bps QoQ and stood at 2.02% vs 1.97% QoQ. Earnings growth was strong at 22/5% YoY/QoQ.
- **Asset Quality** deteriorated marginally with GNPA/NNPA down by 7/6 bps QoQ to stand at 1.03/0.5% vs 0.96/0.44% QoQ. PCR stood at 52% vs 54% QoQ.

Key Financials (Consolidated)

(Rs Cr)	Q1FY26	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Interest Income	10,227	+4.3	+22.3	10,279	-0.5
PPOP	8,487	+6.5	+22.2	8,418	+0.8
Net Profit	4,765	+4.8	+21.8	4,632	+2.9
NNPA (%)	0.5	+6 bps	+12 bps	0.5	+5 bps
RoA (%)	4.4	-2 bps	-13 bps	4.3	+12 bps

Source: Company, Axis Securities Research

(CMP as of 24th July, 2025)

CMP (Rs)	959
Upside /Downside (%)	15%
High/Low (Rs)	979/642
Market cap (Cr)	5,95,950
Avg. daily vol. (6m) Shrs.	26,57,813
No. of shares (Cr)	642.6

Shareholding (%)

	Dec-24	Mar-25	Jun-25
Promoter	54.7	54.7	54.7
FII's	20.8	21.5	21.7
MFs / UTI	9.5	9.0	8.9
Others	15.0	14.8	14.7

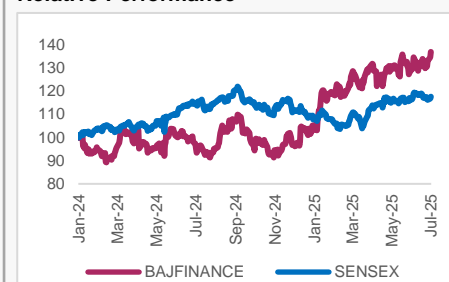
Financial & Valuations

Y/E Mar (Rs Cr)	FY26E	FY27E	FY28E
NII	45,238	56,278	70,059
PPOP	36,952	45,561	56,419
Net Profit	20,909	25,804	31,832
EPS (Rs)	33.7	41.6	51.3
ABV (Rs)	181.4	215.1	257.3
P/ABV (x)	5.3	4.5	3.7
RoA (%)	4.5	4.5	4.4
NNPA (%)	0.5	0.5	0.5

Change in Estimates (%)

Y/E Mar	FY26E	FY27E
NII	-1.0	-2.2
PPOP	-1.0	-2.2
PAT	0.0	-1.1

Relative Performance



Source: AceEquity, Axis Securities Research

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Key Highlights

Leadership Change: Following the recent resignation of Mr Anup Saha as MD, Mr Rajeev Jain has been re-designated as MD and Vice Chairman till Mar'28. The board will be meeting in the next 6 months for a detailed succession planning process. However, the plan would be announced only closer to the end of Mr Jain's tenure in Mar'28.

Outlook

We expect BAF to continue its growth trajectory, reporting a consistent ~25% CAGR in AUM growth over the medium term with contributions from the core existing products and a further push from the scale-up of the new products. We expect BAF to deliver a strong AUM/NII/Earnings growth of 25/24/24% CAGR over the medium term, driven by (i) steady to marginally improving NIMs, (ii) Operating leverage driving cost ratio improvement, and (iii) positive outlook on asset quality keeping credit costs under control. We expect BAF to deliver a RoA/RoE of 4.4-4.5%/19-21%, broadly in line with the management's long-term guidance.

Valuation & Recommendation

We maintain our BUY recommendation on the stock. BAF currently trades at 4.5x FY27E ABV, and we value the stock at 5.1x FY27E ABV to arrive at a target price of Rs 1,100/share, implying an upside of 15% from the CMP.

Key Risks to Our Estimates and TP

- The key risk to our estimates remains that a slowdown in overall credit growth could potentially derail our earnings estimates. The scalability of new products also remains a key monitorable.
- Another risk could potentially emerge from customer behaviour amongst the new-to-franchise customers, impacting the earnings of BAF.

Change in Estimates

(Rs Cr)	Revised			Old			% Change		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
NII	45,238	56,278	70,059	45,703	57,542	-	-1.0	-2.2	-
PBP	36,952	45,561	56,419	37,332	46,588	-	-1.0	-2.2	-
Provisions	9,099	11,192	14,023	9,392	11,750	-	-3.1	-4.7	-
PAT	20,909	25,804	31,832	20,916	26,083	-	0.0	-1.1	-

Source: Company, Axis Securities Research

Results Review (Consolidated)

	Q1FY26	Q1FY25	YoY (%)	Q4FY25	QoQ (%)
Net Interest Income	10,227	8,365	22.3	9,807	4.3
Non-Interest Income	2,383	2,053	16.1	2,110	13.0
Total Income	12,610	10,418	21.0	11,917	5.8
Operating expenses	4,123	3,471	18.8	3,949	4.4
Staff Cost	2,103	1,775	18.5	1,943	8.2
Pre-provision profits	8,487	6,948	22.2	7,968	6.5
Provisions and contingencies	2,120	1,685	25.9	2,329	-9.0
PBT	6,368	5,265	20.9	5,647	12.8
Provision for Tax	1,602	1,353	18.4	1,102	45.4
PAT	4,765	3,912	21.8	4,546	4.8
Operational Performance					
AUM	4,41,450	3,54,192	24.6	4,16,661	5.9
Loans Booked (Mn)	13.5	11.0	23.0	10.7	26.1
New customer additions (Mn)	4.7	4.5	4.9	4.7	-0.2
Customer Franchise strength (Mn)	106.5	88.1	20.9	101.8	4.6
Cross-sell franchise (Mn)	67.8	55.1	22.9	64.5	5.2
Asset Quality					
Gross NPA (%)	1.0	0.9	17bps	1.0	7bps
Net NPA (%)	0.5	0.4	12bps	0.4	6bps
PCR (%)	51.5	55.9	-447bps	54.2	-271bps
Cost-to-Income Ratio	32.7	33.3	-62bps	33.1	-44bps
Spread Analysis					
Yields on AAUM (%)	16.0	16.4	-43bps	16.1	-8bps
Yields -incl. fee income (%)	17.6	18.2	-55bps	17.6	9bps
CoF (%)	0.0	7.9	-794bps	8.0	-799bps
Spread (%)	16.0	8.5	751bps	8.1	791bps
NIM (%)	9.5	9.8	-24bps	9.6	-10bps

Source: Company, Axis Securities Research

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY25	FY26E	FY27E	FY28E
Net Interest Income	36,393	45,238	56,278	70,059
Non-Interest Income	8,561	9,772	11,143	12,839
Total Income	44,954	55,010	67,420	82,898
Operating Expenses	14,926	18,058	21,860	26,479
Pre-Provision Profits	30,028	36,952	45,561	56,419
Provisions	7,984	9,126	11,229	14,070
PBT	22,044	27,827	34,332	42,349
Tax	5,300	6,970	8,601	10,611
Profit After Tax	16,779	20,909	25,804	31,832

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March	FY25	FY26E	FY27E	FY28E
LIABILITIES				
Equity Share Capital	124	621	621	621
Reserves & Surplus	96,569	1,14,342	1,36,274	1,63,329
Net Worth	96,693	1,14,963	1,36,895	1,63,950
Borrowings	3,61,249	4,52,106	5,68,622	7,18,810
-- O/W is Deposits	71,403	92,752	1,20,210	1,56,454
Other Liabilities	8,185	10,136	12,611	15,779
Total Liabilities	4,66,127	5,77,205	7,18,127	8,98,539
ASSETS				
Cash & Bank balances	13,544	14,462	17,993	22,513
Investments	34,441	40,339	46,597	58,304
Loans	4,07,844	5,04,281	6,31,885	7,91,657
Fixed Assets & Others	10,298	18,122	21,652	26,065
Total Assets	4,66,127	5,77,205	7,18,127	8,98,539

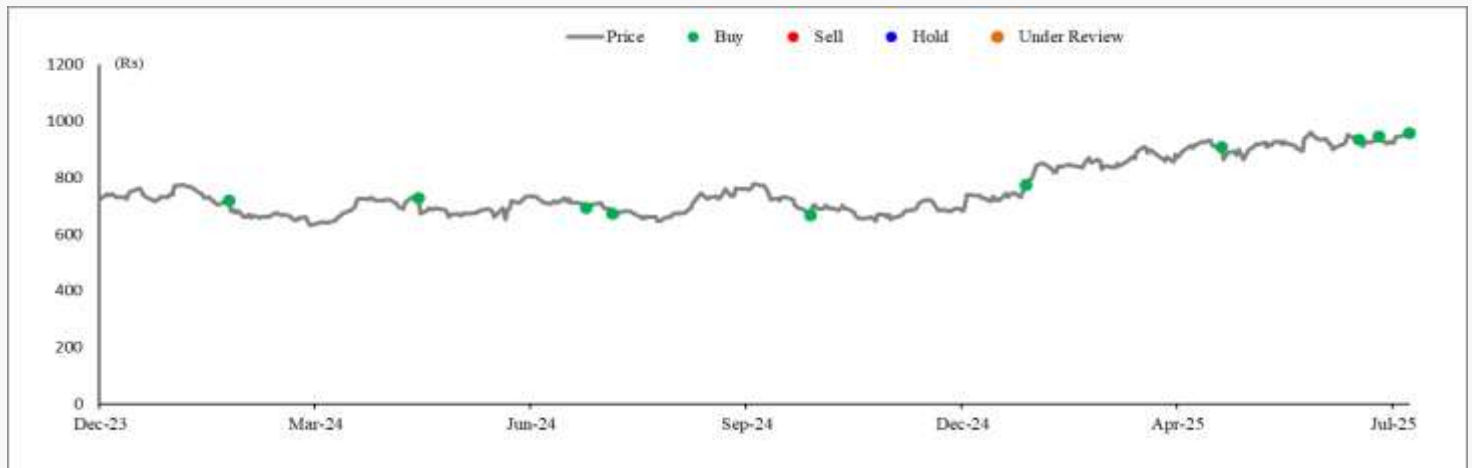
Source: Company, Axis Securities Research

Ratio Analysis
(%)

Y/E March	FY25	FY26E	FY27E	FY28E
VALUATION RATIOS				
EPS	27.0	33.7	41.6	51.3
Earnings Growth (%)	-88.4	24.6	23.4	23.4
BVPS	155.7	185.2	220.5	264.1
Adj. BVPS	153.0	181.4	215.1	257.3
RoA (%)	4.5	4.5	4.5	4.4
ROAE (%)	19.0	19.7	20.4	21.1
P/E (x)	354.8	28.5	23.1	18.7
P/ABV (x)	62.7	5.3	4.5	3.7
OPERATING EFFICIENCY				
NIM (%)	8.8	8.9	9.0	8.9
Cost/Avg. Asset Ratio (%)	3.5	3.5	3.4	3.3
Cost-Income Ratio (%)	33.2	32.8	32.4	31.9
BALANCE SHEET STRUCTURE RATIOS				
AUM Growth (%)	26.0	23.6	25.3	25.3
Borrowings Growth (%)	23.1	25.2	25.8	26.4
Equity/Assets (%)	23.7	22.8	21.7	20.7
Equity/Loans (%)	20.7	19.9	19.1	18.2
Total Capital Adequacy Ratio (CAR)	21.9	21.6	20.5	19.5
ASSET QUALITY				
Gross NPLs (%)	0.9	1.0	1.1	1.1
Net NPLs (%)	0.4	0.5	0.5	0.5
Coverage Ratio (%)	53.7	54.0	54.0	54.0
Provision/Avg. AUM (%)	2.2	2.0	2.0	2.0
ROAA TREE (on Total Assets)				
Net Interest Income	8.6	8.7	8.7	8.7
Non-Interest Income	2.0	1.9	1.7	1.6
Operating Cost	3.5	3.5	3.4	3.3
Provisions	1.9	1.7	1.7	1.7
Tax	1.3	1.3	1.3	1.3
ROAA	3.9	4.0	4.0	3.9
Leverage (x)	4.9	4.9	5.1	5.4
ROAE	19.0	19.7	20.4	21.1

Source: Company, Axis Securities Research

Bajaj Finance Price Chart and Recommendation History



Date	Reco	TP	Research
30-Jan-24	BUY	881	Result Update
26-Apr-24	BUY	860	Result Update
12-Jul-24	BUY	835	AAA
24-Jul-24	BUY	785	Result Update
23-Oct-24	BUY	766	Result Update
30-Jan-25	BUY	905	Result Update
30-Apr-25	BUY	1,050	Result Update
01-Jul-25	BUY	1,050	Top Picks
15-Jul-25	BUY	1,050	AAA
25-Jul-25	BUY	1,100	Result Update

Source: Axis Securities Research

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