

Credit Cost Improvement in H2; Growth Guidance for FY26 Cut!
Est. Vs. Actual for Q2FY26: NII – **INLINE** ; PPOP – **INLINE**; PAT – **INLINE**
Changes in Estimates post Q2FY26
FY26E/FY27E/FY28E (%): NII -1.8/-1.8/-1.6; PPOP -1.2/-1.3/-1.4; PAT -1.5/0.0/+0.2

Recommendation Rationale

- **Festive Cheer Spurs Growth:** BAF reported a robust festive season (Navratri – Diwali) business growth driven by a strong consumption-led growth. This was supported by the structural reforms in income tax and GST, lifting consumer sentiment and spurring consumption. The company disbursed a record 6.3 Mn consumer loans, recording a growth of 27% YoY in volume and 29% YoY in value terms. Overall disbursement volume during this period was 7.4 Mn loans, recording a growth of 26% YoY, compared to the previous festive period. During the same period, the company added 2.3 Mn new customers, with ~52% being NTC. BAF not only witnessed a surge in disbursements, but also a premiumization trend with consumers shifting to higher-quality products (mainly TVs and ACs) for better lifestyles.
- **Growth Guidance Cut Due to Captive 2/3 Wheeler and MSME:** BAF has been witnessing stress in the SME and Captive 2/3 Wheeler business (book running down). Taking corrective measures, BAF has cut 25% of its unsecured MSME volumes in the SME business and expects growth to settle at 10-12% in FY26. The management has guided for the worst to be behind by Q4FY26/Q1FY27, post which the company will look to recalibrate growth in the segment. Resultantly, **driven by slower growth guidance in the Mortgage business (BHFL) and the SME segment (collectively contributing 42% of the portfolio), the management has cut its growth guidance to 22-23% for FY26. However, the strong traction in the newer segments of Gold, New Car Financing, LAP, and Tractor loans should partially offset the impact of slowdown from these 2 segments. We expect BAF's growth momentum to revert to its normalized growth rate of ~24-25% CAGR over the medium term as the SME book resumes its growth trajectory.**
- **Asset Quality and Credit Costs to Improve Over H2:** During Q2, credit costs were elevated in 2 & 3-wheeler and MSME business. **The management indicated that the increase in GNPA is a seasonal phenomenon; however, a higher contribution was from MSME (+6bps) and Captive business (+12bps).** However, BAF has taken significant credit actions in the MSME business and expects credit costs to gradually taper over H2. The captive 2/3 Wheeler business has been running down and expects the contribution to credit costs to be meaningfully lower in H2 (vs 9% currently) and further lower in FY27. The portfolio quality in the other segments continues to remain pristine. The company also restructured standard advances to the tune of Rs 288 Cr (vs Rs 219 Cr QoQ) and does not expect any significant restructuring in H2. **The management has maintained its credit costs guidance of 185-195bps for FY26, with credit costs settling at the upper end of the guidance. However, with improvement in the troubled portfolios, BAF expects FY27 credit costs to be materially lower.** Our credit cost estimates are largely in line with guidance, and we pencil in credit costs to range between 1.8-2% over FY26-28E.

Sector Outlook: Positive

Company Outlook: The slower growth delivery in FY26 is in line with the company's principle of pulling back growth while prioritizing asset quality. However, with strong traction continuing in the newer segments and normalcy returning in the SME book from Q4/Q1FY27, we expect growth delivery of 24-25% to resume from FY27 onwards. NIMs are expected to remain steady as the company intends to pass on the benefit of the rate cut to customers. Improving operational efficiency should gradually drive down Opex ratios. With meaningful improvement in credit costs from FY27 onwards, we expect BAF to revert to RoA/RoE delivery of 4.5%/20-22% over FY27-28 vs 4.4/19.5% in FY26.

Current Valuation: 5.1x Sep'27E ABV Earlier Valuation: 5.2x FY27E ABV
Current TP: Rs 1,200/share. Earlier TP: Rs 1,160/share
Recommendation: We maintain our **BUY** recommendation on the stock.

Financial Performance:

- **Operational Performance:** BAF added ~4.1 Mn customers (+4% YoY/-12% QoQ) during the qtr. vs 4.0/4.7 Mn customer YoY/QoQ, taking the total customer base to 110.6 Mn customers (+20/4% YoY/QoQ). The company booked ~12.2 Mn loans during the quarter. (+26/-10% YoY/QoQ). AUM growth was healthy at 24/5% YoY/QoQ, with growth healthy across most segments, except auto financing (winding down captive business) and SME Business (+18/-2% YoY/QoQ).
- **Financial Performance:** NII grew by 22/5% YoY/QoQ, in line with our expectations. NIMs (calc.) were flat QoQ and stood at 9.55% vs 9.53% QoQ. Non-interest income grew by 13%/flat YoY/QoQ. Opex grew by 18/4% YoY/QoQ with C-I Ratio steady at 32.6% vs 32.7% QoQ. PPOP grew by 21/5% YoY/QoQ. Credit costs stood at 201bps vs 198bps QoQ. Earnings growth was strong at 23/4% YoY/QoQ.
- **Asset Quality** deteriorated with GNPA/NNPA up 21/10bps QoQ to stand at 1.24/0.6% vs 1.03/0.5% vs QoQ. PCR stood at 52% vs 51% QoQ.

Key Financials (Consolidated)

(Rs Cr)	Q2FY26	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Interest Income	10,785	+5.5	+22.0	10,797	-0.1
PPOP	8,874	+4.6	+21.4	8,883	-0.1
Net Profit	4,948	+3.8	+23.3	4,953	-0.1
NNPA (%)	0.6	+10 bps	+14 bps	0.5	+6 bps
RoA (%)	4.4	-6 bps	-3 bps	4.4	0 bps

Source: Company, Axis Securities Research

 (CMP as of 10th November, 2025)

CMP (Rs)	1,085
Upside /Downside (%)	11%
High/Low (Rs)	1,102/645
Market cap (Cr)	6,75,389
Avg. daily vol. (6m) Shrs.	64,46,787
No. of shares (Cr)	622.2

Shareholding (%)

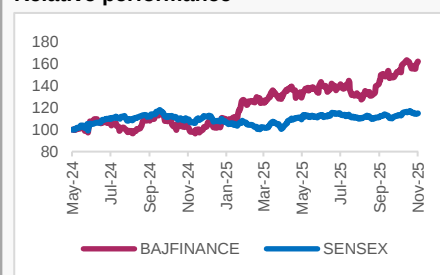
	Mar-25	Jun-25	Sep-25
Promoter	54.7	54.7	54.7
FII's	21.5	21.7	22.0
MFs / UTI	9.0	8.9	8.9
Others	14.8	14.7	14.4

Financial & Valuations

Y/E Mar (Rs Cr)	FY26E	FY27E	FY28E
NII	44,439	55,252	68,949
PPOP	36,492	44,946	55,650
Net Profit	20,594	25,799	31,882
EPS (Rs)	33.1	41.5	51.3
ABV (Rs)	180.3	214.5	256.8
P/ABV (x)	5.9	4.9	4.1
RoA (%)	4.4	4.5	4.5
NNPA (%)	0.5	0.5	0.5

Change in Estimates (%)

Y/E Mar	FY26E	FY27E	FY28E
NII	-1.8	-1.8	-1.6
PPOP	-1.2	-1.3	-1.4
PAT	-1.5	0.0	0.2

Relative performance


Source: AceEquity, Axis Securities Research

Results Gallery
[Q1FY26](#)
[Q4FY25](#)
[Q3FY25](#)
[Q2FY25](#)
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Key Highlights

- **NIMs to remain steady:** The management expects to maintain NIMs at current levels as it intends to pass on the benefit of the rate cut to its customers. Thus, NIMs are expected to remain in a tight range of 8.8-8.9% over FY26-28E. While BAF has not factored in an incremental rate cut, the management does not expect any material impact on FY26 CoF following a potential rate cut in Dec'25/Feb'26. Given the sharp improvement of 27bps in CoF in Q2, the company expects CoF to settle at 7.5-7.55% in FY26.
- **Leadership Change:** The board has approved the elevation of Mr. Manish Jain as the Deputy CEO of the Company. In addition to his current role as Managing Director of BFSL, Mr Jain will also be responsible for the company's **Loan against Securities, Commercial Lending, and Deposits businesses**.
- **FIN-AI transformation Update:** FINAI remains central to BAF's long-term vision, and the company remains on track to become a future-ready financial services leader. Presently, **FINAI implementation is underway across each line of business and should start to reflect in costs and productivity benefits in the next 12-18 months**. The company has identified 123 high-impact use cases across businesses and functions, with 80 of them planned to go live by the end of Feb'26. Currently, key use cases which are already live include (1) 442 AI voice BOT agents, contributed to Rs 1,980 Cr of Personal Loan disbursements. This accounts for 18% of total Personal Loan call centre disbursements; (2) 5 AI conversational text BOTs are LIVE for EMI card, Extended Warranty, Personal Loan, Health Insurance and Life Insurance, wherein conversion rates are quite encouraging; (3) 85% of customer service resolutions in Q2 were resolved via AI-powered service BOTs; (4) In B2B, Quality Check (QC) of 42% loan applications are performed by AI. In the current festive season, BAF processed ~6.5 Lc loan applications in a single day with zero compromise on operational and compliance risks, and (5) Content Generation for digital platforms is now powered by AI. 42% of digital banners and 100% of videos are now AI-generated. **All the 27 lines of business have completed business process re-engineering to identify FINAI opportunities, and their deployment will be completed by Mar'26.**

Outlook

We expect BAF to continue its growth trajectory, reporting a consistent ~24-25% CAGR AUM growth over the medium term, with growth resuming from FY27 onwards, with contribution 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 25/25/24% CAGR over FY27-28E, driven by (i) steady NIMs, (ii) Operating leverage driving cost ratio improvement, and (iii) downward trending credit costs backed by asset quality improvement. We expect BAF to deliver a RoA/RoE of 4.4-4.5%/19-22% over FY26-28E, broadly in line with the management's long-term guidance.

Valuation & Recommendation

We maintain our BUY recommendation on the stock. The stock has run up sharply by ~23% over the last 3 months and currently trades at 4.6x Sep'27E ABV. We value the stock at 5.1x Sep'27E ABV to arrive at a target price of Rs 1,200/share, implying an upside of 11% 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	44,439	55,252	68,949	45,238	56,278	70,059	-1.8	-1.8	-1.6
PBP	36,492	44,946	55,650	36,952	45,561	56,419	-1.2	-1.3	-1.4
Provisions	8,980	10,487	13,072	9,099	11,192	14,023	-1.3	-6.3	-6.8
PAT	20,594	25,799	31,882	20,909	25,804	31,832	-1.5	0.0	0.2

Source: Company, Axis Securities Research

Results Review (Consolidated)

Rs Cr	Q2FY26	Q2FY25	% YoY	Q1FY26	% QoQ	H1FY26	H1FY25	% YoY
Interest Earned	17,796	14,987	18.7	17,145	3.8	34,941	29,036	20.3
Interest Expense	7,011	6,149	14.0	6,918	1.4	13,929	11,833	17.7
Net Interest Income	10,785	8,838	22.0	10,227	5.5	21,012	17,203	22.1
Non-Interest Income	2,385	2,108	13.1	2,383	0.1	4,768	4,162	14.6
Total Income	13,169	10,946	20.3	12,610	4.4	25,780	21,365	20.7
Operating expenses	4,296	3,639	18.1	4,123	4.2	8,419	7,110	18.4
Staff Cost	2,154	1,835	17.4	2,103	2.5	4,257	3,610	17.9
Pre-provision profits	8,874	7,307	21.4	8,487	4.6	17,361	14,255	21.8
Provisions and contingencies	2,269	1,909	18.8	2,120	7.0	4,389	3,594	22.1
PBT	6,608	5,401	22.3	6,368	3.8	12,976	10,667	21.6
Provision for Tax	1,660	1,388	19.6	1,602	3.6	3,263	2,742	19.0
PAT	4,948	4,013	23.3	4,765	3.8	9,713	7,925	22.6
Operational Performance								
AUM	4,62,261	3,73,924	23.6	4,41,450	4.7	4,62,261	3,73,924	23.6
Loans Booked (Mn)	12.2	9.7	25.6	13.5	-9.8	25.7	20.7	25.6
New customer additions (Mn)	4.1	4.0	3.8	4.7	-11.9	8.8	8.5	3.8
Customer Franchise strength (Mn)	110.6	92.1	20.1	106.5	3.9	110.6	92.1	20.1
Cross-sell franchise (Mn)	71.3	57.7	23.6	67.8	5.2	71.3	57.7	23.6
Asset Quality								
Gross NPA (%)	1.2	1.1	18bps	1.0	21bps	1.2	1.1	18bps
Net NPA (%)	0.6	0.5	14bps	0.5	10bps	0.6	0.5	14bps
PCR (%)	51.6	56.5	-487bps	51.5	16bps	51.6	56.5	-487bps
Cost-to-Income Ratio								
Cost-to-Income Ratio	32.6	33.2	-62bps	32.7	-8bps	35.1	34.6	48bps
Spread Analysis								
Yields on AAuM (%)	15.8	16.5	-71bps	16.0	-23bps	15.9	16.4	-57bps
Yields -incl. fee income (%)	17.3	18.0	-70bps	17.6	-32bps	17.5	18.1	-63bps
CoF (%)	7.5	8.0	-45bps	7.8	-27bps	7.7	8.0	-30bps
Spread (%)	8.2	8.5	-26bps	8.2	4bps	8.2	8.5	-27bps
NIM (%)	9.5	9.7	-16bps	9.5	1bps	9.5	9.7	-20bps

Source: Company, Axis Securities Research

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY25	FY26E	FY27E	FY28E
Net Interest Income	36,393	44,439	55,252	68,949
Non-Interest Income	8,561	9,962	11,460	13,176
Total Income	44,954	54,402	66,712	82,126
Operating Expenses	14,926	17,909	21,766	26,476
Pre-Provision Profits	30,028	36,492	44,946	55,650
Provisions	7,984	9,001	10,519	13,116
PBT	22,044	27,491	34,427	42,534
Tax	5,300	6,938	8,692	10,741
Profit After Tax	16,779	20,594	25,799	31,882

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March	FY25	FY26E	FY27E	FY28E
LIABILITIES				
Equity Share Capital	124	622	622	622
Reserves & Surplus	96,569	1,14,074	1,36,003	1,63,103
Net Worth	96,693	1,14,695	1,36,625	1,63,724
Borrowings	3,61,249	4,50,228	5,66,065	7,10,769
-- O/W is Deposits	71,403	78,635	96,037	1,20,587
Other Liabilities	8,185	10,098	12,560	15,631
Total Liabilities	4,66,127	5,75,021	7,15,250	8,90,124
ASSETS				
Cash & Bank balances	13,544	14,407	17,921	22,302
Investments	34,441	38,174	46,768	58,203
Loans	4,07,844	5,03,791	6,28,257	7,82,849
Fixed Assets & Others	10,298	18,649	22,304	26,769
Total Assets	4,66,127	5,75,021	7,15,250	8,90,124

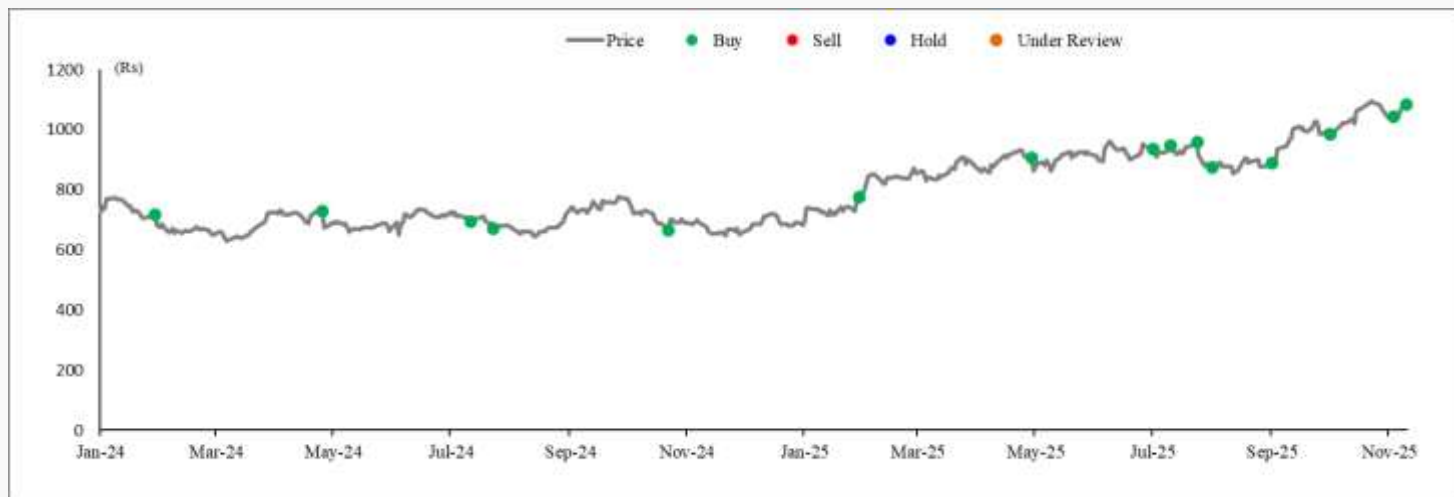
Source: Company, Axis Securities Research

Ratio Analysis
(%)

Y/E March	FY25	FY26E	FY27E	FY28E
VALUATION RATIOS				
EPS	27.0	33.1	41.5	51.3
Earnings Growth (%)	-88.4	22.6	25.3	23.6
BVPS	155.7	184.5	219.8	263.4
Adj. BVPS	153.0	180.3	214.5	256.8
RoA (%)	4.5	4.4	4.5	4.5
ROAE (%)	19.0	19.5	20.5	21.2
P/E (x)	40.1	32.7	26.1	21.2
P/ABV (x)	7.1	6.0	5.1	4.2
OPERATING EFFICIENCY				
NIM (%)	8.8	8.8	8.8	8.9
Cost/Avg. Asset Ratio (%)	3.5	3.4	3.4	3.3
Cost-Income Ratio (%)	33.2	32.9	32.6	32.2
BALANCE SHEET STRUCTURE RATIOS				
AUM Growth (%)	26.0	23.5	24.7	24.6
Borrowings Growth (%)	23.1	24.6	25.7	25.6
Equity/Assets (%)	23.7	22.8	21.7	20.9
Equity/Loans (%)	20.7	19.9	19.1	18.4
Total Capital Adequacy Ratio (CAR)	21.9	21.5	20.6	19.6
ASSET QUALITY				
Gross NPLs (%)	0.9	1.1	1.1	1.1
Net NPLs (%)	0.4	0.5	0.5	0.5
Coverage Ratio (%)	53.7	52.5	52.5	52.5
Provision/Avg. AUM (%)	2.2	2.0	1.9	1.9
ROAA TREE (on Total Assets)				
Net Interest Income	8.6	8.5	8.6	8.6
Non-Interest Income	2.0	1.9	1.8	1.6
Operating Cost	3.5	3.4	3.4	3.3
Provisions	1.9	1.7	1.6	1.6
Tax	1.3	1.3	1.3	1.3
ROAA	3.9	4.0	4.0	4.0
Leverage (x)	4.9	4.9	5.1	5.3
ROAE	19.0	19.5	20.5	21.2

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
15-Jul-25	BUY	1,050	AAA
25-Jul-25	BUY	1,100	Result Update
01-Aug-25	BUY	1,100	Top Picks
01-Sep-25	BUY	1,100	Top Picks
01-Oct-25	BUY	1,100	Top Picks
03-Nov-25	BUY	1,160	Top Picks
11-Nov-25	BUY	1,200	Result Update

Source: Axis Securities Research

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Ratings	Expected absolute returns over 12 – 18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward-looking estimates for the stock, but we refrain from assigning a valuation and recommendation.
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events.
NO STANCE	We do not have any forward-looking estimates, valuations or recommendations for the stock.

Note: Returns stated in the rating scale are our internal benchmark.