MIRAE ASSET Sharekhan

Bajaj Finance Ltd

Mixed bag Q2, Outlook stays healthy

Stock Update

Result Update

NBFC	Sharekhan code: BAJFINANCE	
Reco/View: Buy ⇔	CMP: **Rs. 1,018**	Price Target: **Rs. 1,125** ↓

3R MATRIX

	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		⇔	
RQ		⇔	
RV		⇔	

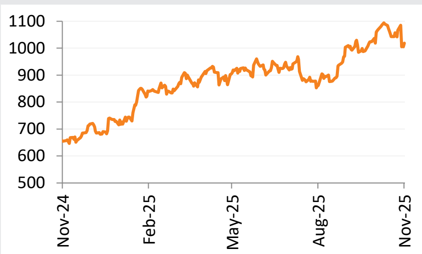
Company details

Market cap:	Rs. 6,34,000 cr
52-week high/low:	Rs. 1102/645
NSE volume: (No of shares)	63.0 lakh
BSE code:	500034
NSE code:	BAJFINANCE
Free float: (No of shares)	264 cr

Shareholding (%)

Promoters	54.7
FII	21.9
DII	14.4
Others	9.0

Price chart



Source: NSE India, Mirae Asset Sharekhan Research

Price performance

(%)	1m	3m	6m	12m
Absolute	-0.1	18.2	12.1	54.9
Relative to Sensex	-3.2	13.3	8.1	45.9

Source: Mirae Asset Sharekhan Research, Bloomberg

Summary

- Net earnings met estimates at Rs. 4,947 crore, up by 23.5%.
- Credit cost stayed high at 1.96% (% of AUM). GS-3 assets rose 18/21 bps (y-o-y/q-o-q) to 1.24% on stress across segments; upper end of FY26 credit cost guidance is at 1.85-1.95% for FY26.
- AUM grew 23.6%/4.7% (y-o-y/q-o-q); FY26 guidance slashed to 22-23% for FY26 due to slow down in SME segments that offset higher growth in other segments.
- Stock trades at 4.6x and 3.8x of its FY27 and FY28 BV; we maintain a Buy rating with a slightly revised PT of Rs. 1,125. Company is expected to continue clocking a profitability CAGR of 24.5% over FY25-28 and maintain RoA of >4.2% and RoE at >21% by FY28.

Q2FY26 Snapshot

- Net earnings met estimates at Rs. 4,947 crore, rising 23.5%, led by PPOP growth (of 21.4%/4.6% y-o-y/q-o-q); this was in turn driven by a 17 bps y-o-y and 2 bps q-o-q fall in Opex/ AUM ratio.
- NII fell in line with estimates, up 22.5%/5.5% (y-o-y/q-o-q) to Rs. 10,785 crore.
- NIM (as a % of AUM) fell 12 bps y-o-y / rose 6 bps q-o-q to 9.33%, while other income grew by 13.1% y-o-y to Rs. 2,385 crore.
- AUM grew 23.6%/4.7% (y-o-y/q-o-q) led by mortgages, loan against securities, commercial lending, gold loan and consumer durables.
- Asset quality deteriorated, with GS-3 rising by 18/21 bps (y-o-y/q-o-q) to 1.24% and subsequently, credit cost rose 4 bps to 1.96% (as a % of AUM).
- Captive two-wheeler & three-wheeler loan books saw significant stress, while MSME book asset quality also worsened. Two & three-wheeler books' AUM plunged 25% y-o-y and 9% q-o-q as company cut exposure to these segments.

Key positives

- Annualised Opex/AUM came in at 3.72% vs 3.74% in Q1FY26 and 3.89% in Q2FY25.
- Consumer durables, gold loans, commercial lending, loan against securities and mortgages saw strong growth of 25.1%/4.6%, 85.3%/18.0%, 27.4%/4.9%, 26.3%/4.9%, 24.7%/5.9% (y-o-y/q-o-q).

Key negatives

- SME lending grew 16.5% y-o-y and fell 1.6% q-o-q.
- Other income (as % of AUM) fell 19 bps/10 bps y-o-y/q-o-q to 2.06%.

Management Commentary (Guidance)

- **AUMs:** This has been lowered from 24–25% to 22–23%, reflecting proactive risk actions in the MSME segment and a revision in BHFL's growth projections. MSME business growth expected to slow to 10-12% for FY26. The company expects to add 17 million customers in FY26. It expects robust growth in gold loans.
- **NIMs:** The company eyes stable NIMs by passing on benefits of reduced cost of funds tocustomers. FY26 CoF seen at 7.5-7.55%.
- **Credit costs:** These are seen at the higher end of 1.85-1.95% due to stress observed in captive two-wheeler, three-wheeler, and MSME segments.
- A 13-15% growth in combined NI (Net Interest Income) and fee revenue is expected

Our Call

Valuation – Maintain Buy with revised PT of Rs. 1,125: Q2FY26 numbers were a mixed bag. FY26 AUM growth guidance has been cut to 22-23% (from 24-25% earlier). This revision is primarily driven by rundown of captive two-wheeler and three-wheeler loan books, SME segment slowdown, offsetting growth of consumer durables, car and gold loans, etc. Asset quality too worsened. Yet, the long-term outlook remains strong, with PAT expected to clock a CAGR of 24.5% over FY25-FY28. RoA and RoE are expected to exceed 4% and 21%, respectively, by FY28. We maintain a Buy with revised PT of Rs. 1,125 from Rs. 1,150. The stock trades at 4.6x and 3.8x of its FY27 and FY28 BV.

Key Risks

Asset quality risks and continued weak demand from MSME segments.

Valuation (Consolidated) Rs cr

Particulars	FY24	FY25	FY26E	FY27E	FY28E
NII	29,584	36,393	44,248	55,404	68,908
PAT	14,451	16,780	20,265	25,914	32,412
EPS (Rs)	23.3	26.8	32.6	41.7	52.2
RoA (%)	4.4	4.0	3.9	4.1	4.2
RoE (%)	22.0	19.3	19.2	20.7	21.6
P/E (x)	43.2	37.5	30.8	24.1	19.3
P/BV (x)	8.1	6.5	5.5	4.6	3.8

Source: Company; Mirae Asset Sharekhan estimates

Key result highlights

- **AUM and Growth:** AUM grew by 23.6%/4.7% (y-o-y/q-o-q) mainly driven by mortgages, loan against securities, commercial lending, gold loan and consumer durables. Two & three-wheeler AUMs plunged 25% y-o-y and 9% q-o-q due to rundown loan books in these segments. FY26 AUM growth guidance has been lowered from 24–25% to 22–23%, reflecting proactive risk actions taken in the MSME segment and a revision in BHFL's growth projections. MSME business growth expected to slow to 10-12% for current fiscal year. Besides, the company expects to add ~17 million customers in FY26 and eyes a robust growth in gold loans.
- **NII & NIM:** NII met estimates, growing by 22.5%/5.5% (y-o-y/q-o-q) to Rs. 10,785 crore. NIM (as a % of AUM) stood at 9.33% down by 12 bps y-o-y though up by 6.6 bps q-o-q. The company expects to keep NIM stable by strategically passing the benefits of reduced cost of funds to customers and expects FY26 cost of funds at 7.5-7.55%.
- **Asset quality:** It deteriorated, with GS-3 assets rising 18/21 bps (y-o-y/q-o-q) at 1.24% driven by rise across the board, except in commercial lending. Two-wheeler/three-wheeler abd MSME loan books were significantly stressed. Hence, FY26 credit costs are seen at the higher end of 1.85-1.95%.

Results (Consolidated) Rs cr

Particulars	Q2FY25	Q1FY26	Q2FY26	Y-o-Y	Q-o-Q
Interest Earned	14,987	17,145	17,796	18.7%	3.8%
Interest Expended	6,149	6,918	7,011	14.0%	1.4%
NII	8,838	10,227	10,785	22.0%	5.5%
Other Income	2,108	2,383	2,385	13.1%	0.1%
Total Income	10,946	12,610	13,169	20.3%	4.4%
Operating Expenditures	3,639	4,123	4,296	18.1%	4.2%
Pre- Prov Operating Profit	7,307	8,487	8,874	21.4%	4.6%
P&C	1,909	2,120	2,269	18.8%	7.0%
PBT	5,398	6,367	6,605	22.4%	3.7%
Tax	1,388	1,602	1,661	19.7%	3.6%
Net Profit	4,007	4,765	4,947	23.5%	3.8%
AUM	3,73,924	4,41,450	4,62,261	23.6%	4.7%

Source: Company; Mirae Asset Sharekhan Research

Actual vs Estimates

Particulars	Q2FY26E	Q2FY26	Var %
NII	10,770	10,785	0.13%
PPOP	8,864	8,874	0.11%
PAT	4,911	4,947	0.73%

Source: Company; Mirae Asset Sharekhan Research

Key Ratio (annualised)

Particulars	Q2FY25	Q1FY26	Q2FY26	bps Y-o-Y	bps Q-o-Q
NII as % of AUM	9.45%	9.27%	9.33%	-12.2	6.5
Fee income % of AUM	2.26%	2.16%	2.06%	-19.2	-9.6
Opex as % of AUM	3.89%	3.74%	3.72%	-17.5	-1.9
Prov as % of AUM	2.04%	1.92%	1.96%	-7.9	4.2
Tax Rate	1.48%	1.45%	1.44%	-4.8	-1.5
Net Profit % of AUM	**4.29%**	**4.32%**	**4.28%**	**-1.0**	**-4.0**

Source: Company; Mirae Asset Sharekhan Research

Asset

Asset quality	Q2FY25	Q1FY26	Q2FY26	bps Y-o-Y	bps Q-o-Q
GS-3	1.06%	1.03%	1.24%	18.0	21.0
NS-3	0.46%	0.50%	0.60%	14.0	10.0

Source: Company; Mirae Asset Sharekhan Research

Outlook and Valuation

■ Sector Outlook

NBFCs have become important constituents of India's financial sector and have been recording higher credit growth than scheduled commercial banks (SCBs) over the past few years. They continue to leverage their superior understanding of regional dynamics and customised products and services to expedite financial inclusion. Systemically-important NBFCs have demonstrated agility, innovation and frugality to provide formal financial services to millions of Indians. FY25 has been a tough year for NBFCs due to margin pressures, a moderation in disbursement growth and elevated credit costs. Within this, 2-3 wheelers and MSMEs sector are posing challenges due to macro headwinds. Regulatory pressures also weighed on the sector, marked by higher risk weights on unsecured personal loans & bank term loans to NBFCs. The regulator's clear focus was on ensuring long-term stability. We see the operational landscape for NBFCs improving in FY26E, which will support healthy loan growth and gradual improvement in asset quality led by a change in the monetary policy, improving system wide liquidity, stress peaking out in unsecured retail loans, relaxation in norms in terms of lowering risk weights for bank finance to NBFCs and microfinance loans. Some NBFCs have also asserted that the underlying environment seems to be improving. We see a lot of value in the NBFC sector, given that they will continue to offer healthy loan growth at reasonable valuations. Operating performance is expected to improve, and asset quality stress will also ease by H2FY26.

■ Company Outlook – Remain constructive on franchise

Bajaj Finance continues to derive benefits from a diverse loan portfolio, wide distribution network, effective execution and a strong management team. BAF has significantly strengthened its technology, digital platforms and product offerings. The management expects a 22-23% AUM growth driven by existing and new businesses, along with stable margin, and peaking out stress. It is leading player in the NBFC space, which is expected to get benefit of policy tailwinds in the short term and of strong portfolio with wide network in the medium to long term. We expect continue healthy return ratios.

■ Valuation – Continue to maintain buy ratings with PT of Rs.1,125

Q2FY26 numbers were a mixed bag. FY26 AUM growth guidance has been cut to 22-23% (from 24-25% earlier). This revision is primarily driven by rundown of captive two-wheeler and three-wheeler loan books, SME segment slowdown, offsetting growth of consumer durables, car and gold loans, etc. Asset quality too worsened. Yet, the long-term outlook remains strong, with PAT expected to clock a CAGR of 24.5% over FY25-FY28. RoA and RoE are expected to exceed 4% and 21%, respectively, by FY28. We maintain a Buy with revised PT of Rs. 1,125 from Rs. 1,150. The stock trades at 4.6x and 3.8x of its FY27 and FY28 BV.

Peer valuation

Particulars	CMP (Rs / Share)	MCAP (Rs Cr)	P/E(x)		P/BV(x)		RoA (%)		RoE (%)	
			FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Bajaj Finance	1,018	6,34,000	24.1	19.3	4.6	3.8	4.0	4.1	19.4	20.5
Cholamandalam Investment and Finance Company	1,714	1,44,000	27.1	21.6	5.0	4.1	2.5	2.6	20.3	20.8

Source: Company; Mirae Asset Sharekhan Research

About company

BAF is one of India's largest and well-diversified NBFC. The company provides loans for two wheelers, consumer durables, housing, SME & MSME businesses etc. BAF undertook business and organisational restructuring in FY2008 and re-defined small business loans and consumer financing as its key niches. BAF has an AUM of ~Rs 4.0 lakh crore at of December 2025, serves more than 97.12 million clients and offers a wide range of lending services to retail, SME and commercial customers across urban and rural India. BAF continues to be the largest consumer durables lenders in India. As a business entity, BAF continues to deliver steady performance and superior asset-quality performance.

Investment theme

BAF enjoys a dominant position in the retail finance space. BAF's dominance in the market is seen in its consistent growth and steady operational performance that has been maintained by the company across cycles. Superior asset quality is indicative of the company's high focus on risk management and robust credit underwriting capability and collections.

Key Risks

- Intensifying competition in retail lending space; Asset quality risk; Regulatory headwinds.

Additional Data

Key management personnel

Name	Designation
Mr. Rajeev Jain	Managing Director (Vice Chairman)
Mr. Sandeep Jain	CFO

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Bajaj Finserv Ltd	51.32
2	Maharashtra Scooters Ltd	3.05
3	Republic of Singapore	2.50
4	Life Insurance Corp of India	2.35
5	SBI Funds Management Ltd	2.29
6	Vanguard Group Inc/The	1.93
7	Blackrock Inc	1.76
8	FMR LLC	1.33
9	UTI Asset Management Co Ltd	1.14
10	NPS Trust A/c Uti Retirement Solut	1.07

Source: Bloomberg

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Understanding the Mirae Asset Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Mirae Asset Sharekhan Research

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Registered Office: 1st Floor, Tower No. 3, Equinox Business Park, LBS Marg, Off BKC, Kurla (West), Mumbai 400 070, Maharashtra, India. Tel: 022-67502000.

Correspondence/Administrative Office Address - Gigaplex IT Park, Unit No 1001, 10th floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400708. Tel: 022 61169000 / 61150000.

Registration and Contact Details: Name of Research Analyst - Sharekhan Limited - (AMFI-registered Mutual Fund Distributor), Research Analyst Regn No.: INH000006183. CIN: U99999MH1995PLC087498.

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Compliance Officer: Mr. Joby John Meledan; Tel: 022-4657 3809; email id: complianceofficer@sharekhan.com

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