

BUY**TP: Rs 1,193 | ▲ 24%****BAJAJ FINANCE**

| NBFC

| 04 February 2026

Credit cost rises amid accelerated provisioning

- PAT below expectations (down 6% YoY, 18% QoQ) due to accelerated ECL provisioning; foresees higher credit cost
- Consolidated AUM grew 22% YoY and 5% QoQ. The company now expects loan growth at ~22% in FY26
- Maintain BUY on BAF with TP of Rs 1,193 (earlier Rs 1,329), assigning Dec'27E P/BV of 4.6x on a standalone entity

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Profitability impacted by accelerated ECL provisions: In Q3FY26, PAT declined 6% YoY (down 18% QoQ) to Rs 40.7 bn — its first-ever decline in PAT vs ~20% YoY growth expectations for Q3. This was primarily on account of accelerated ECL provisioning which the company undertook across all stages of assets to the tune of Rs 14.1 bn. In addition, a one-time impact of Rs 2.7 bn was also there during the quarter, owing to New Labour Codes, which weighed on the profitability. Excluding the one-time impact, the underlying business performance remained healthy. Consolidated AUM grew 22% YoY and 5% QoQ. The company now expects loan growth at ~22% in FY26 vs the earlier growth guidance range of 22-23%; largely reflecting a slowdown in MSME and retail home loans; indicated by the management this quarter as well.

Credit costs: Due to the increase in provisions, credit cost increased to 3.1% vs. 2% in Q2FY26 vs. 2.1% in Q3FY25. ECL provisioning increased to 1.31% vs. 1.05% in Q2FY26. Likewise, coverage ratio for stage 3 assets increased significantly to 61.3% vs 51.8% in Q2FY26. The company expects an impact of ~Rs 4bn of credit cost (on an annualised basis), going ahead. Further, management sounded optimistic about the normalisation of credit costs in FY27. MSME segment is still witnessing a decline in volumes, on account of strict underwriting policy and the business is expected to pick up in the ensuing quarters of Q1 and Q2 FY27. Credit cost is expected to be in the 165-175 bps range in FY27, including the impact of ECL changes.

Maintain BUY: The company's Q3 performance came in below our expectations, primarily due to additional provisions during Q3. Credit cost is expected to remain at elevated levels of 1.8-1.9%. However, we believe that the company's 'risk-first' approach to preserving asset quality and long-term sustainability is likely to bode well for growth. Hence, we have tweaked our estimates accordingly and would like to watch the management guidance on loan growth in Q4 and the reassess the loan book growth and margins trajectory. We maintain BUY on BAF with TP of Rs 1,193 (earlier Rs 1,329), assigning a multiple of 4.6x to its Dec'27E P/BV.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	BAF IN/Rs 964
Market cap	US\$ 6.5bn
Free float	44%
3M ADV	US\$ 78.6mn
52wk high/low	Rs 9,366/Rs 803
Promoter/FPI/DII	56%/20%/13%

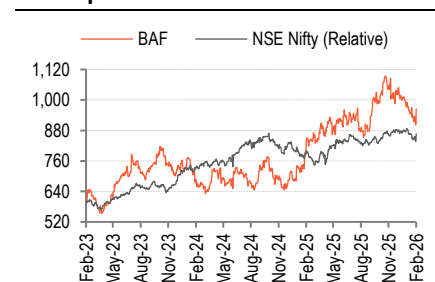
Source: NSE | Price as of 3 Feb 2026

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
NII (Rs mn)	3,63,928	4,37,167	5,48,702
NII growth (%)	23.0	20.1	25.5
Adj. net profit (Rs mn)	1,67,617	1,90,945	2,39,789
EPS (Rs)	27.0	30.5	38.1
Consensus EPS (Rs)	27.0	32.6	41.0
P/E (x)	35.7	31.6	25.3
P/BV (x)	6.2	5.2	4.3
ROA (%)	4.0	3.8	4.0
ROE (%)	19.4	17.9	18.6

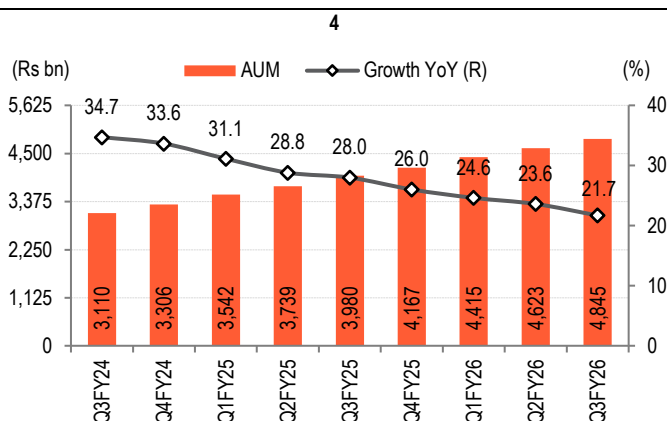
Source: Company, Bloomberg, BOBCAPS Research

Stock performance

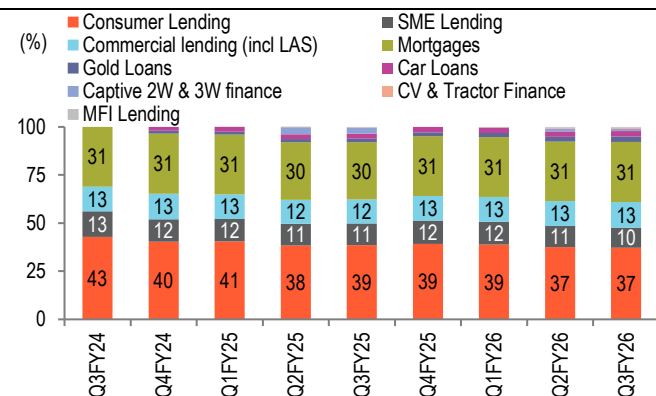


Source: NSE

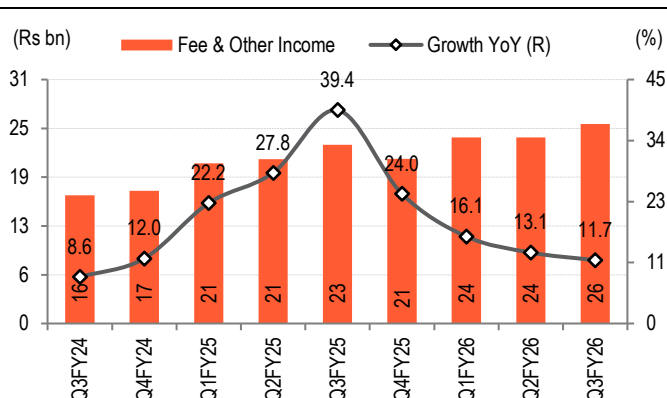


Fig 1 – AUM grew 21.7% at Rs 4,845 bn in Q3FY26

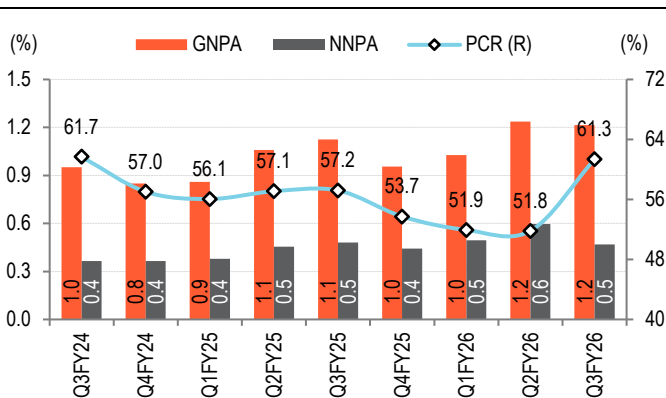
Source: Company, BOBCAPS Research

Fig 2 – AUM mix remains largely stable

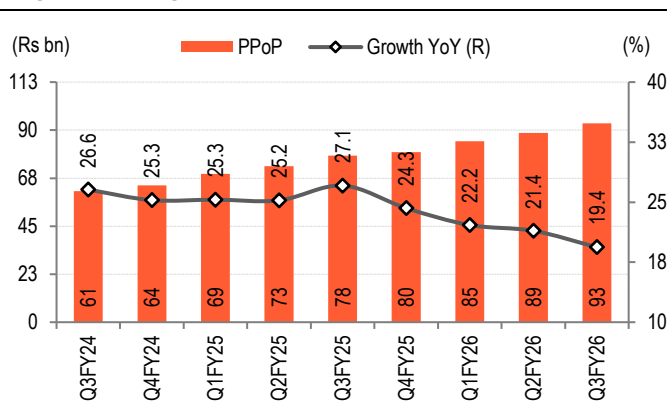
Source: Company, BOBCAPS Research

Fig 3 – Fees and other income grew at 11.7% YoY

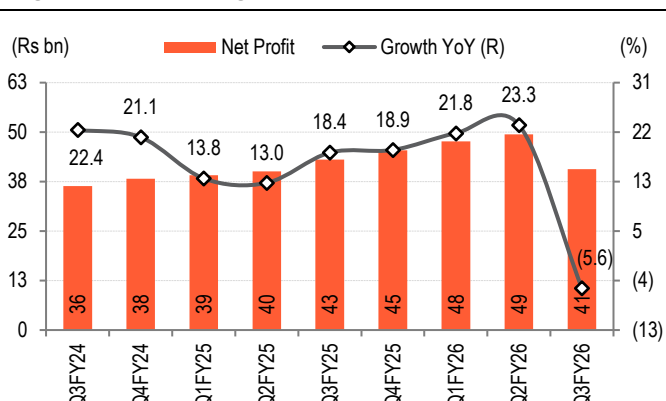
Source: Company, BOBCAPS Research | AUF: Assets under Finance

Fig 4 – GNPA remained at similar levels as of last quarter

Source: Company, BOBCAPS Research

Fig 5 – PPOP grew 19.4% in Q3FY26 at Rs 93.2 bn

Source: Company, BOBCAPS Research

Fig 6 – Net profit degrew 5.6%YoY in Q3FY26

Source: Company, BOBCAPS Research

Fig 7 – Profit and Loss Account

Consolidated (Rs mn)	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26	3QFY26	YoY (%)	QoQ (%)
Interest Income	1,32,301	1,40,492	1,49,870	1,57,682	1,63,591	1,71,447	1,77,960	1,86,565	18.3	4.8
Interest Expenses	52,171	56,839	61,493	63,856	65,520	69,177	70,113	73,387	14.9	4.7
Net Interest Income (NII)	80,130	83,653	88,377	93,826	98,072	1,02,270	1,07,847	1,13,178	20.6	4.9
Fee and Commission Income	13,244	15,242	14,264	15,106	15,217	17,840	17,800	19,616	29.9	10.2
Net gain on fair value changes	784	1,034	1,484	1,646	1,227	2,253	948	1,394	(15.3)	47.1
Sale of services	88	285	92	34	(139)	98	33	21	(37.5)	(34.7)
Recovery of assets written off	-	437	1,657	1,862	1,565	915	1,935	1,244	(33.2)	(35.7)
Other Income	2,903	3,533	3,588	4,253	3,227	2,726	3,133	3,306	(22.3)	5.5
Total Income	97,149	1,04,185	1,09,461	1,16,727	1,19,168	1,26,101	1,31,695	1,38,759	18.9	5.4
Employee Costs	16,497	17,748	18,348	19,555	19,432	21,026	21,545	22,501	15.1	4.4
Fees & Commission expenses	5,196	5,542	6,292	6,853	7,289	7,675	8,357	10,093	47.3	20.8
Depreciation	1,930	1,998	2,100	2,191	2,520	2,515	2,581	2,439	11.3	(5.5)
Other expenses	9,405	9,421	9,649	10,070	10,252	10,015	10,477	10,529	4.6	0.5
Total Operating Expenses	33,028	34,709	36,390	38,670	39,493	41,230	42,959	45,563	17.8	6.1
PPOP	64,121	69,475	73,071	78,057	79,675	84,871	88,736	93,196	19.4	5.0
Provisions & Writeoffs	13,100	16,847	19,091	20,433	23,289	21,202	22,688	36,255	77.4	59.8
PBT	51,021	52,628	53,980	57,624	56,386	63,668	66,048	56,941	(1.2)	(13.8)
Taxes	12,806	13,534	13,877	14,572	11,018	16,023	16,604	13,651	(6.3)	(17.8)
PAT	38,245	39,120	40,137	43,082	45,456	47,653	49,478	40,660	(5.6)	(17.8)

Source: Company, BOBCAPS Research

Fig 8 – Key Parameters and Product Mix

Particulars	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26	3QFY26	YoY (%)	QoQ (%)
AUM Mix (Rs mn)										
Bajaj Finance	24,48,260	26,18,280	27,50,430	29,33,700	30,88,320	32,54,380	33,81,210	35,37,650	20.6	4.6
Housing	9,13,700	9,70,710	10,25,690	10,83,140	11,46,840	12,04,200	12,67,490	13,34,120	23.2	5.3
Consolidated AUM	33,06,150	35,41,920	37,39,240	39,80,430	41,66,610	44,14,500	46,22,610	48,44,770	21.7	4.8
Consolidated AUM (Rs mn)										
Consumer B2B - Auto Finance	1,97,420	1,96,890	1,89,600	1,89,720	1,73,190	1,57,030	1,42,630	1,35,760	(28.4)	(4.8)
Consumer B2B - Sales Finance	2,34,480	2,69,750	2,71,690	2,91,490	2,91,090	3,28,390	3,35,500	3,56,430	22.3	6.2
Consumer B2C	6,60,930	7,16,280	7,72,210	8,31,180	8,76,960	9,23,330	9,66,080	9,98,780	20.2	3.4
Rural B2B - Sales Finance	62,090	75,530	72,800	79,550	79,440	90,570	88,380	95,310	19.8	7.8
Rural B2C	1,76,070	1,77,700	1,82,650	1,92,480	2,14,670	2,14,050	2,26,460	2,37,300	23.3	4.8
SME	3,84,700	4,07,910	4,39,620	4,59,080	5,03,450	5,25,380	5,17,180	5,11,360	11.4	(1.1)
Securities Lending	2,20,380	2,20,430	2,33,590	2,52,620	2,53,770	2,72,250	2,95,080	3,17,060	25.5	7.4
Commercial Lending	2,20,060	2,35,890	2,46,150	2,60,570	2,77,600	2,98,830	3,13,590	3,31,840	27.4	5.8
Mortgages	10,33,160	10,96,710	11,58,360	12,20,190	12,94,610	13,63,770	14,44,120	15,27,470	25.2	5.8
Gold Loans	45,990	54,940	63,630	72,670	83,070	99,890	1,17,890	1,41,030	94.1	19.6
Car Loans	70,870	87,100	99,240	1,11,660	1,18,760	1,25,450	1,31,630	1,40,910	26.2	7.1
Captive 2W & 3W finance	-	-	1,40,000	1,27,630	-	-	70,860	55,420	(56.6)	(21.8)
CV & Tractor finance	-	-	4,200	10,350	-	-	26,620	32,200	211.1	21.0
MFI Lending	-	2,790	5,500	8,870	-	15,560	17,450	19,320	117.8	10.7
Total Consolidated AUM	33,06,150	35,41,920	37,39,240	39,80,430	41,66,610	44,14,500	46,22,610	48,44,770	21.7	4.8
GNPA (%)	0.85	0.86	1.06	1.12	0.96	1.03	1.24	1.21	8bps	(3bps)
NNPA (%)	0.37	0.38	0.45	0.48	0.44	0.49	0.60	0.47	(2bps)	(13bps)
Provision coverage ratio (%)	57.0	56.1	57.1	57.2	53.7	51.9	51.8	61.3	414bps	955bps
New Loans booked (mn)	7.9	11.0	9.7	12.1	10.7	13.5	12.2	13.9	15.3	14.2

Source: Company, BOBCAPS Research

Earnings Call Takeaways

Operational highlights

- Consolidated AUM grew 21.7% YoY (up 4.8% QoQ) at Rs 4,844.8 bn in Q3FY26. However, AUM before the accelerated ECL provision grew by 22% to Rs 4,858.8 bn.
- NII grew 20.6% YoY and 4.9% QoQ to Rs 113.2 bn in Q3FY26.
- Fee & Commission income is expected to grow at 17-20% YoY in FY27.
- Bajaj Finance PAT (before accelerated ECL provision, one-time charge of New Labour Codes, gain on sale of BHFL shares, and tax thereon) grew by 24% to Rs 46.1 mn in Q3FY26.
- The company took a one-time exceptional charge of Rs 2.7 bn towards the increase in gratuity liabilities, arising from past service cost on account of the New Labour Codes
- CoF came in at 7.45%- a 7bps improvement over Q2FY26 and is expected to be in the range of 7.55%-7.6% in FY26, with an improvement in FY27.
- Deposits book came in at Rs 710.4 bn and currently constitute 17% of consolidated borrowings as of Q3FY26.
- The company has implemented a minimum Loss Given Default (LGD) floor across all businesses. Accordingly, an accelerated ECL provision of Rs 14.1 bn was made in Q3FY26 across stages. Due to this, Stage 1 PCR moved to 98 bps from 74 bps.

Business Segments

- The company anticipates B2B business to grow in mid-teens.
- Management expects gold loan business to grow strongly led by sustained distribution expansion.
- New car financing business is projected to grow in lower 30s.
- Used car financing is expected to see slower growth in H1FY27, before picking up in H2FY27.
- CV & Tractor business, however, constitute smaller portion is expected to growth at 30-40%.
- MFI is expected to normalise in FY27.

BHFL performance snapshot

- BHFL reported robust AUM growth of 23.2% YoY to Rs 1,334.1 bn, driven by a strong momentum in disbursements amidst higher portfolio attrition. Within this, loan against property and lease rental discounting AUM grew 32% and 39% respectively.
- Disbursement grew 32% YoY from Rs 125.7 bn to Rs 165.45 bn in Q3FY26
- Loan losses and provisions were Rs 560 mn as against Rs 350 mn in Q3FY25.
- GNPA and NNPA for BHFL stood at 0.27% and 0.11% respectively, as against 0.29% and 0.13% in Q3FY25.

FinAI

- AI implementation has begun accelerating and is expected to deliver improvement in operating efficiencies.
- Management highlighted 100% of videos (2,70,000 videos) and banners (1,20,000 banners) are generated via AI.
- The company has 11 live text bot AIs to respond to customers' queries.
- The company has 26 products that will be live from April-May 2026.

Others

- The company received a gain of Rs 14.2 bn on the sale of equity shares of one of its subsidiaries viz. Bajaj Housing Finance Ltd. (BHFL), through open market mechanism, by executing a bulk deal in secondary market. The proceeds from the stake sale have been transferred to reserves in the consolidated balance sheet.
- Bajaj Finance added 4.76 mn new customers in Q3FY26 and expects an addition of 17-18 mn new customers in FY26.
- The movement in the provisioning of Stage 1 and Stage 2 is led by the probability of default and exposure at default.

Valuation Methodology

Maintains BUY: BAF's Q3 performance came in below our expectations, primarily due to additional provisions during Q3. Credit cost is expected to remain at the elevated level of 1.8-1.9%. However, the core business for the company was steady. Consolidated AUM grew 22% YoY and 5% QoQ. The company now expects loan growth at ~22% in FY26. We believe that the AUM growth will normalise going forward in the 23-24% range in FY26-FY28. NII increased 21% YoY (5% QoQ). PPOP rose 19% YoY and 5% QoQ.

However, near-term headwinds persist in the form of asset quality stress in the MSME and 2W/3W financing portfolios, which is likely to keep credit costs elevated. Additionally, the company remains cautious on the growth of these segments. Accordingly, we have tweaked our estimates accordingly and would closely monitor the management guidance on loan growth in Q4, following which, we will re-access the loan book growth and margins trajectory. Hence, we have revised our target multiple 4.6x vs. earlier multiple of 5.1x.

Nonetheless, we believe that the company's 'risk-first' approach to preserve asset quality and long-term sustainability is likely to bode well for growth going forward. We maintain BUY on BAF with TP of Rs 1,193 (earlier Rs 1,329), assigning a multiple of 4.6x to its Dec'27E P/BV.

Fig 9 – Revised estimates

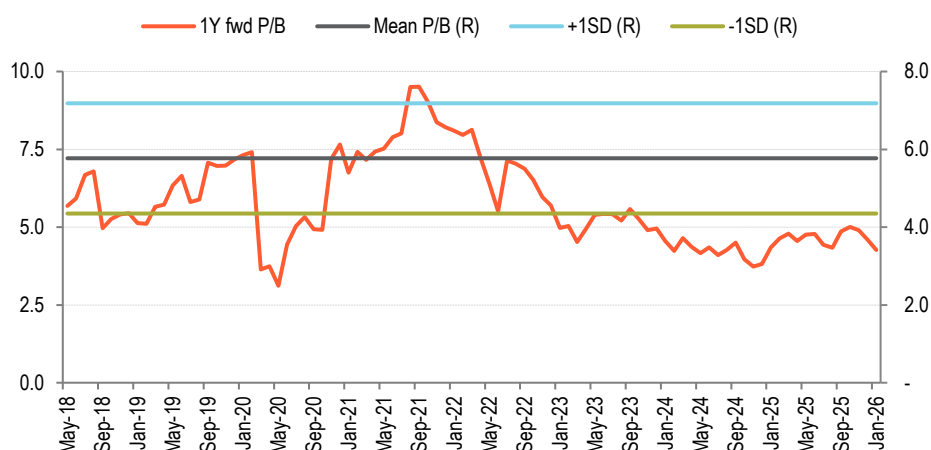
(Rs mn)	New			Old			Change (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
NII	4,37,167	5,48,702	6,90,943	4,38,700	5,50,033	6,95,812	(0.3)	(0.2)	(0.7)
PPOP	3,62,817	4,36,916	4,92,703	3,61,107	4,44,904	5,58,786	0.5	(1.8)	(11.8)
PAT	1,90,945	2,39,789	2,64,736	2,04,905	2,54,113	3,14,367	(6.8)	(5.6)	(15.8)

Source: BOBCAPS Research

Fig 10 – Actual vs Estimates

(Rs mn)	Q3FY26A	Q3FY26E	Variance (%)
Net Interest Income	1,13,178	1,12,350	0.7
Other Income	25,581	24,779	3.2
Operating Expenses	45,563	45,012	1.2
Pre-Provisioning Profit (PPoP)	93,196	92,118	1.2
PAT	40,660	51,862	(21.6)
AUM	48,44,770	48,12,974	0.7

Source: Company, BOBCAPS Research

Fig 11 – P/B Band

Source: Company, BOBCAPS Research

Key Risks

- **Intensifying competition:** Based on a wide product suite, solid execution capabilities, and robust demand for credit in its target industries, we expect BAF to achieve 20%+ loan growth in the medium term. However, above-expected competition, particularly from banks and other financial institutions, could weigh on performance, affecting earnings, margin and valuation assumptions.
- **Deteriorating asset quality:** Between FY19 and FY24, BAF's GNPA and NNPA averaged just 1.4% and 0.6% respectively. Asset quality may decline because of slow economic growth or the recurrence of a pandemic (such as Covid) or a particular business segment.
- **Higher delinquency in new segments:** The company entering the higher risk microfinance and tractor financing markets could pose risks to asset quality.
- **Regulatory headwinds:** According to the RBI's scale-based NBFC framework published in 2022, BAF (along with 15 others) has been classified as an upper layer NBFC that must adhere to enhanced regulation. It cannot, for instance, lend more than 20% to one entity and more than 25% to a group of entities. In future, the RBI may even direct the company to transition from an NBFC into a bank, which would entail maintaining CRR, SLR and PSL – strictures that NBFCs aren't subject to and which would impact profitability, in our view.

Glossary

Glossary of Abbreviations			
AUF	Assets Under Finance	LRD	Lease Rental Discounting
AUM	Assets Under Management	MDR	Merchant Discount Rate
CIF	Cards in Force	MSME	Micro, Small & Medium Enterprises
CRR	Cash Reserve Ratio	PSL	Priority Sector Lending
ECL	Expected Credit Loss	SLR	Statutory Liquidity Ratio
EMI	Equated Monthly Installment	UPI	Unified Payment Interface
LAP	Loan Against Property		

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Net interest income	2,95,819	3,63,928	4,37,167	5,48,702	6,90,943
NII growth (%)	28.7	23.0	20.1	25.5	25.9
Non-interest income	66,759	85,612	99,253	1,22,677	1,52,178
Total income	3,62,578	4,49,540	5,36,420	6,71,379	8,43,121
Operating expenses	1,23,252	1,49,261	1,73,603	2,34,463	3,50,418
PPOP	2,39,326	3,00,279	3,62,817	4,36,916	4,92,703
PPOP growth (%)	27.9	25.5	20.8	20.4	12.8
Provisions	46,307	79,660	1,03,463	1,10,375	1,34,959
PBT	1,93,019	2,20,618	2,59,354	3,26,541	3,57,744
Tax	48,584	53,002	68,409	86,751	93,008
Reported net profit	1,44,435	1,67,617	1,90,945	2,39,789	2,64,736
Adjustments	0	0	0	0	0
Adjusted net profit	1,44,435	1,67,617	1,90,945	2,39,789	2,64,736

Balance Sheet

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Equity capital	1,236	1,242	6,209	6,209	6,209
Reserves & surplus	7,65,718	9,65,687	11,51,746	13,84,347	16,40,750
Net worth	7,66,954	9,66,929	11,57,955	13,90,556	16,46,959
Debt securities	-	-	-	-	-
Borrowings	23,31,949	28,98,455	38,04,645	47,45,587	51,57,416
Other liab. & provisions	6,58,514	7,95,884	-	-	-
Total liab. & equities	37,57,416	46,61,268	52,73,390	65,64,926	72,23,768
Cash & bank balance	1,06,240	1,35,435	1,24,458	1,49,555	1,56,633
Investments	3,08,807	3,44,408	5,18,872	6,04,705	(2,60,356)
Advances	32,62,933	40,78,441	45,12,422	56,80,495	71,93,858
Fixed & Other assets	46,536	64,801	78,078	86,612	88,933
Total assets	37,57,416	46,61,268	52,73,390	65,64,926	72,23,768
Total debt growth (%)	7.6	24.3	31.3	24.7	8.7
Advances growth (%)	34.7	25.0	10.6	25.9	26.6

Per Share

Y/E 31 Mar (Rs)	FY24A	FY25A	FY26E	FY27E	FY28E
EPS	23.4	27.0	30.5	38.1	42.1
Dividend per share	36.0	56.0	0.6	0.7	0.8
Book value per share	124.1	155.8	186.5	224.0	265.3

Valuations Ratios

Y/E 31 Mar (x)	FY24A	FY25A	FY26E	FY27E	FY28E
P/E	41.2	35.7	31.6	25.3	22.9
P/BV	7.8	6.2	5.2	4.3	3.6
Dividend yield (%)	3.7	5.8	0.1	0.1	0.1

DuPont Analysis

Y/E 31 Mar (%)	FY24A	FY25A	FY26E	FY27E	FY28E
Net interest income	9.1	8.6	8.8	9.3	10.0
Non-interest income	2.1	2.0	2.0	2.1	2.2
Operating expenses	3.8	3.5	3.5	4.0	5.1
Provisions	1.4	1.9	2.1	1.9	2.0
ROA	4.4	4.0	3.8	4.0	3.8
Leverage (x)	4.9	4.8	4.6	4.7	4.4
ROE	22.1	19.4	17.9	18.6	17.2

Ratio Analysis

Y/E 31 Mar	FY24A	FY25A	FY26E	FY27E	FY28E
YoY growth (%)					
Net interest income	28.7	23.0	20.1	25.5	25.9
Pre-provisioning profit	27.9	25.5	20.8	20.4	12.8
EPS	23.7	15.6	13.0	24.9	10.3
Profitability & Return ratios (%)					
Net interest margin	9.1	8.6	8.8	9.3	10.0
Fees / Avg. assets	2.1	2.0	2.0	2.1	2.2
Cost-Income	34.0	33.2	32.6	35.4	42.0
ROE	22.1	19.4	17.9	18.6	17.2
ROA	4.4	4.0	3.8	4.0	3.8
Asset quality (%)					
GNPA	0.8	1.0	1.2	1.3	1.3
NNPA	0.4	0.4	0.5	0.5	0.5
Slippage ratio	-	-	-	-	-
Credit cost	1.6	2.1	2.2	1.9	1.9
Provision coverage	57.0	53.7	61.3	61.4	61.4
Ratios (%)					
Loans to Total debt	0.0	0.0	0.0	0.0	0.0
CAR	23.3	22.5	22.5	16.6	10.6
Tier-1	22.0	21.4	21.6	15.8	9.9

Source: Company, BOBCAPS Research

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Brand Name: **BOBCAPS**

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

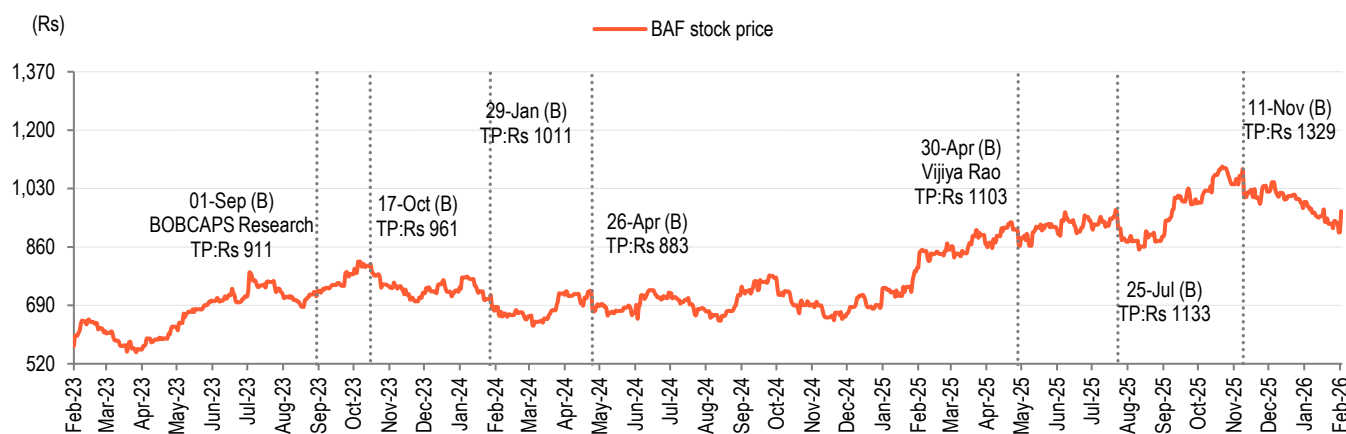
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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Ratings and Target Price (3-year history): BAJAJ FINANCE (BAF IN)



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