

Bajaj Finance (BAF)

Diversified Financials

ADD

CMP(₹): 1,085

Fair Value(₹): 1,125

 Sector View: **Attractive**

NIFTY-50: 25,574

November 10, 2025

In a good place

Bajaj Finance's 2QFY26 earnings were strong and in line with mixed operating trends. Tailwinds in consumer businesses that dominate the loan book, falling funding costs, peaking stress in most segments and continuous productivity improvements will offset risks to MSME loans. While valuations leave limited room, earnings have more tailwinds than headwinds at the current juncture, as the 25% growth story continues. Retain ADD; FV Rs1,125.

Bajaj is levered to consumption story; MSME loans at 12% of AUMs

Bajaj Finance has heavily leveraged the consumer cycle with 42% loan book exposed to consumer (B2B/B2C) loans in rural and urban India and 31% to mortgages. Stress in consumer loans is reducing with improving collections reported in the rural B2C loans during the quarter. Even as higher leverage levels are a concern, the company has tightened screens for a few quarters and maintains a cautiously optimistic view while leveraging the booming post-GST-cut demand. Bajaj called out stress in unsecured MSME loans last quarter; while restructuring-led credit cost peaks out, loan growth in the segment will be a drag. We do not rule out further incremental risks in this book; low (12% of AUM) share of MSME (ex-car) loans will cap the impact on its overall performance.

Multiple levers to earnings

Bajaj Finance has moderated loan growth guidance to 22-23% from 24-25% earlier, largely reflecting slowdown in MSME and retail home loans. We expect earnings to track loan growth with improving productivity initiatives and marginally improving credit costs, offsetting lower fees/NII. Going forward, increasing share of consumer businesses and peaking of credit costs provide tailwinds. The company has moved rapidly with its AI initiatives in 123 identified high-impact areas, taking 10-15% of senior management bandwidth; according to management, this will improve scale, velocity, controllership and lower operating expenses ratio—all of which is difficult to quantify at this stage. We are modelling a 10-20 bps yoy improvement in the opex/AUM ratio, acknowledging the potentially higher multi-year impact of these initiatives.

Retain ADD; FV Rs1,125

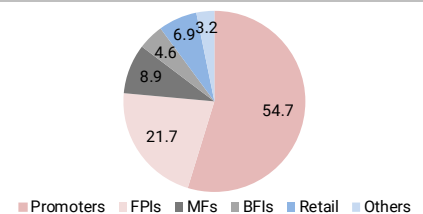
We are tweaking our estimates by (-)0.6% to +1% to reflect lower growth, lower credit costs and operating expenses. We model 23% near-term loan and earnings growth, followed by 25% loan growth and marginally higher earnings. The company will likely leverage productivity improvements to invest in new segments and gradually moderate yields. This will, over time, increase the potentially addressable market, providing higher visibility for multi-year growth and hence command premium valuations despite its large size. We increase medium-term growth assumptions and retain ADD with a revised FV of Rs1,125 (up from Rs1,025).

Company data and valuation summary

Stock data

CMP(Rs)/FV(Rs)/Rating	1,085/1,125/ADD
52-week range (Rs) (high-low)	1,103-644
Mcap (bn) (Rs/US\$)	6,751/76.1
ADTV-3M (mn) (Rs/US\$)	7,559/85.2

Shareholding pattern (%)



Price performance (%)	1M	3M	12M
Absolute	6	24	58
Rel. to Nifty	5	19	52
Rel. to MSCI India	5	19	53

Forecasts/Valuations	2026E	2027E	2028E
EPS (Rs)	32.8	41.4	52.8
EPS growth (%)	23.2	26.4	27.3
P/E (X)	33.1	26.2	20.6
P/B (X)	6.1	5.1	4.3
BVPS (Rs)	178.0	210.8	252.5
RoE (%)	19.7	21.1	22.6
Div. yield (%)	0.6	0.8	1.0
NII (Rs bn)	541	666	836
PPOP (Rs bn)	366	455	577
Net profits (Rs bn)	206	261	332

Source: Bloomberg, Company data, Kotak Institutional Equities estimates

Prices in this report are based on the market close of November 10, 2025

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In-line results

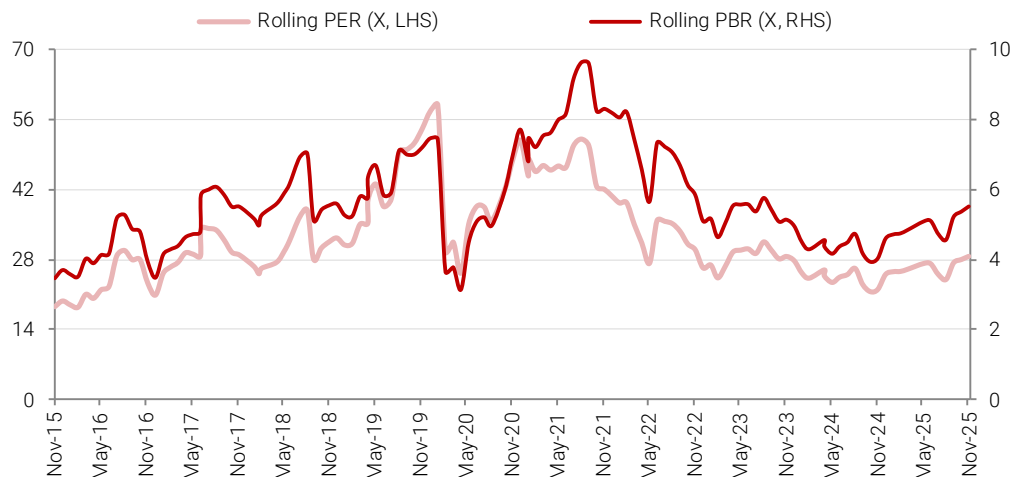
Exhibit 1: Bajaj Finance – quarterly summary, March fiscal year-ends, 2025-27E (Rs mn)

	(% chg.)															
	2QFY26	2QFY26E	2QFY25	1QFY26	2QFY26E	2QFY25	1QFY26	1HFY26	1HFY25	(% chg.)	2026E	2025	(% chg.)	2027E		
Revenue from operations	201,789	202,543	170,903	195,239	(0)	18	3	397,028	331,889	20	833,640	696,809	20	1,026,772		
Interest income	177,960	180,740	149,870	171,447	(2)	19	4	349,406	290,362	20	735,315	611,636	20	908,594		
Fees and commission	17,800	16,403	14,264	17,840	9	25	(0)	35,640	29,506	21	72,004	59,828	20	89,265		
Net gain on fair value change	948	1,500	1,484	2,253	(37)	(36)	(58)	3,201	2,517	27	6,500	5,390	21	6,500		
Sale of services	33	100	92	98	(67)	(64)	(67)	130	376	(65)	300	271	11	500		
Others (recoveries and assignment income)	5,049	3,800	5,194	3,602	33	(3)	40	8,651	9,128	(5)	19,520	19,684	(1)	21,914		
Interest expenses	70,113	71,254	61,493	69,177	(2)	14	1	139,290	118,332	18	292,654	247,708	18	360,418		
Nil	107,847	109,486	88,377	102,270	(1)	22	5	210,117	172,030	22	442,661	363,928	22	548,176		
Other income	19	50	51	39	NM	(64)	(52)	57	88	(35)	527	439	20	632		
Total income	131,695	131,339	109,461	126,101	0	20	4	257,795	213,645	21	541,513	449,540	20	666,986		
Impairment of financial instruments	22,688	22,818	19,091	21,202	(1)	19	7	43,890	35,938	22	87,910	79,660	10	103,617		
Nil (post impairments)	85,159	86,668	69,286	81,068	(2)	23	5	166,227	136,093	22	354,751	284,267	25	444,559		
Operating expenses	42,959	43,165	36,390	41,230	(0)	18	4	84,189	71,099	18	175,750	149,261	18	212,442		
Employee expenses	21,545	22,018	18,348	21,026	(2)	17	2	42,570	36,096	18	87,848	75,083	17	106,296		
Fees and commission expenses	8,357	7,551	6,292	7,675	11	33	9	16,032	11,835	35	32,471	25,977	25	40,588		
Depreciation expenses	2,581	2,500	2,100	2,515	3	23	3	5,096	4,099	24	10,131	8,810	15	11,651		
Other expenses	10,477	11,096	9,649	10,015	(6)	9	5	20,491	19,070	7	45,300	39,392	15	53,907		
PPOP	88,736	88,174	73,071	84,871	1	21	5	173,606	142,546	22	365,763	300,279	22	454,544		
PBT	66,081	65,358	54,015	63,676	1	22	4	129,757	106,668	22	277,853	220,796	26	350,927		
Tax expense	16,604	16,340	13,877	16,023	2	20	4	32,627	27,411	19	71,408	53,002	35	90,188		
PAT	49,478	49,019	40,137	47,653	1	23	4	97,131	79,257	23	206,445	167,795	23	260,739		
Core PBT	82,707	82,774	66,302	78,918	(0)	25	5	161,624	130,525	24	358,963	274,933	31	447,544		
Tax rate (%)	25	25	26	25	13 bps	-57 bps	-4 bps	25	26	-55 bps	26	24	170 bps	26		
AUM (Rs bn)																
Consolidated AUM	4,623	4,167	3,739	4,415	11	24	5	1,808	3,739	(52)	5,124	4,167	23	6,394		
Consumers B2B	505		461	485		9	4	461	461	-	511	464	10	624		
Consumers B2C	966		772	923		25	5	-	772	(100)	1,178	877	34	1,527		
SME	666		543	651		23	2	543	543	-	696	622	12	835		
Commercial	609		480	571		27	7	480	480	-	664	531	25	797		
Rural	433		325	420		33	3	325	325	-	502	377	33	657		
Mortgage	1,444		1,158	1,364		25	6	-	1,158	(100)	1,573	1,295	22	1,954		
Key ratios																
Yield (incl fees) on loans (% of AUM)	17.3	17.5	18.0	17.6	-12 bps	-70 bps	-32 bps	17.5	18.2	-64 bps	17.4	18.0	-59 bps	17.3		
Yield on loans (% of AUM)	15.8	16.0	16.5	16.0	-25 bps	-71 bps	-23 bps	15.9	16.5	-58 bps	15.8	16.4	-54 bps	15.8		
Cost of funds (%)	7.2	7.5	7.8	7.5	-25 bps	-57 bps	-30 bps	7.3	7.7	-37 bps	7.2	7.6	-37 bps	7.1		
Spreads (%)	8.5	8.5	8.6	8.4	1 bps	-14 bps	7 bps	8.6	8.8	-22 bps	8.6	8.8	-17 bps	8.7		
NIM (% of AUM)	9.5	9.7	9.7	9.5	-15 bps	-16 bps	1 bps	9.6	9.8	-20 bps	9.5	9.7	-21 bps	9.5		
NIM- (including non-int,%)	11.7	11.6	12.0	11.8	3 bps	-36 bps	-10 bps	11.7	12.1	-39 bps	11.6	12.0	-37 bps	11.6		
Cost/income (%)	32.6	32.9	33.2	32.7	-25 bps	-62 bps	-8 bps	32.7	33.3	-62 bps	32.5	33.2	-75 bps	31.9		
Cost/average AUM (%)	3.8	3.8	4.0	3.8	-2 bps	-20 bps	-4 bps	3.8	4.0	-21 bps	3.8	4.0	-21 bps	3.7		
Credit cost (%)	2.0	2.0	2.1	2.0	-1 bps	-9 bps	3 bps	2.0	2.0	-4 bps	1.9	2.1	-24 bps	1.8		
Asset Quality																
Gross stage-3 (%)	1.3		1.1	1.0		23 bps	26 bps				1.0	1.0	0 bps	1.0		
Gross stage-1 and 2 (%)	98.7		98.9	99.0		-23 bps	-26 bps				99.0	99.0	0 bps	99.0		
ECL coverage on stage-3 (%)	51.8		57.1	51.9		-531 bps	-14 bps				62.0	53.7	828 bps	62.0		
ECL coverage on stage-1 and 2 (%)	1.1		1.0	1.2		12 bps	-8 bps				1.6	1.2	44 bps	1.6		
Overall ECL coverage (%)	1.7		1.6	1.7		18 bps	6 bps				2.2	1.7	52 bps	2.2		

Source: Company, Kotak Institutional Equities estimates

Bajaj Finance is trading at 5.5X one-year forward book value

Exhibit 2: One-year forward rolling PER and PBR, November 2015-November 2025 (X)



Source: Company, Kotak Institutional Equities estimates

2QFY26 highlights

- ▶ Bajaj Finance reported PAT of Rs49 bn in 2QFY26, up 23% yoy and in line with our estimates. Core PBT at Rs83 bn was up 25% yoy and in line with our estimates.
- ▶ NII was up 22% yoy, driven by 24% AUM growth.
- ▶ Despite weakness in auto finance (down 11% yoy), overall AUM growth remained strong at 24% yoy. Gold loans were up 85% yoy on a low base. Car loans also grew 33% yoy.
 - Urban B2C (personal loans) were up 25% yoy and rural B2C was up 20% yoy.
 - SME loan book growth tapered down to 20% from 30% earlier, likely due to tightening of credit screens.
 - Mortgages were up 25% yoy, while commercial businesses were up 27% yoy.
- ▶ NIM was flat qoq and down 16 bps yoy, largely due to moderation in yields (down 32 bps qoq and 70 bps yoy). Cost of funds was down 30 bps qoq and 57 bps yoy to 7.2%.
- ▶ Operating expense growth was moderate at 18%, leading to 20 bps yoy moderation in cost-to-AAUM ratio to 3.8%.
- ▶ Credit cost remained elevated at 2% (2.1% in 2QFY25 and 2% in 1QFY26) due to elevated write-offs of 2.8% during the quarter (1.6% in 2QFY25 and 1.7% in 1QFY26). Overall ECL coverage also inched up 6 bps qoq to 1.8%.
- ▶ Captive 2W, car and SME loans reported elevated stress, while the rest of the segments either reported flat trends or improvement in collections.
 - Captive 2W, car and SME loans reported sharp 21-134 bps qoq decline in collection efficiency during the quarter.
 - Open market 2W, digital product finance and rural B2C reported 9-19 bps qoq improvement in collection efficiency.
 - LAP, home loans, rural B2B, urban B2C and consumer durables reported qoq stable collection efficiencies.

Growth driven by unsecured and new businesses

- ▶ **Gold and car loans continue to scale up on a low base (up 33-85% yoy).** Bajaj Finance remains bullish on both these segments and plans to scale them up on a low base (2.6-2.8% of AUM). The company plans to grow the gold loan book to Rs160 bn by the end of FY2026E (Rs118 bn in 2QFY26), driven by expansion of the product to 500 more branches during 2HFY26E. Car loans consist of both used and new vehicle loans and operate out of 50 cities.
- ▶ **Unsecured segments growth to pick up.** Growth in personal loans in both urban and rural areas was in line with the long-term guidance of 24-25% yoy. Growth in consumer durables was a tad lower at 21-23% yoy in 2QFY26, likely due to postponement of demand in anticipation of GST cuts. The company has called out that festive season sales were up 27% in volume and 29% in value.
- ▶ **Mortgage disbursements moderate, competition elevated.** Moderation in disbursements and higher portfolio attrition on account of competition from banks led to moderate 19% yoy AUM growth in home loans. Higher growth in LAP, LRD and developer book (25-35% yoy) led to 25% growth in the mortgage book for Bajaj Finance.
- ▶ **Captive 2W finance running down.** The two and three-wheeler loans offered to Bajaj Finance's customers have performed poorly; the company is running down this business (down 49% yoy),
- ▶ **Open market 2W picking up.** The open market 2W business sourced from non-Bajaj OEMs has now scaled up to 1.6% of AUM (up 45% yoy). Credit costs in this business are one-thirds of the captive business, auguring well for profitability of the product.
- ▶ **MSME tapers down.** Growth in the SME segment has tapered down to 18% yoy in 2QFY26 from ~30% in the previous four quarters. The rise in stress in the segment has prompted the company to tighten

credit screens and cut exposure to this segment. These loans are largely unsecured and have average ticket size of Rs1.5-1.8 mn.

- **CV, tractor and MFI scale up on a low base.** Bajaj Finance has recently entered these sub-prime segments, which contribute 0.4-0.6% of AUM in 2QFY26. The growth has been strong in these segments at 217-534% yoy.
- **Commercial lines grew at a faster pace.** Commercial lending and loan against securities also grew at a faster pace of 27-28% yoy in 2QFY26.

Car and gold loans grow fast on a low base

Exhibit 3: Segment-wise AUM growth yoy, March fiscal year-ends, 2024-26 (%)

	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26
Overall AUM	33	35	34	7	29	28	26	25	24
Consumer	39	40	35	8	26	24	23	19	19
Consumer B2B	50	54	41	8	17	10	7	4	9
Auto finance	63	64	52	(0)	15	(2)	(12)	(20)	(11)
Sales finance	41	47	33	15	18	19	24	22	23
Consumer B2C	32	32	32	8	33	35	33	29	25
Rural	19	19	17	9	23	28	33	35	33
Rural B2B	28	32	29	22	32	29	28	20	21
Rural B2C	17	16	14	6	21	28	34	40	37
Rural B2C (ex-gold loan)	NA	NA	6	(5)	9	16	22	27	20
Gold loans	NA	NA	64	75	74	81	81	82	85
SME and mortgage	30	32	34	7	31	31	29	27	24
SME business	34	34	35	9	40	40	37	31	23
SME (ex-car loan)	NA	NA	24	(3)	29	31	31	29	20
Car loans	NA	NA	156	157	128	97	68	44	33
Mortgage business	28	31	33	6	27	26	25	24	25
Commercial business	42	42	42	4	31	29	21	25	27
Securities lending	38	45	46	0	38	32	15	24	26
Commercial lending	46	39	39	7	26	26	26	27	27

Source: Company, Kotak Institutional Equities

Growth in secured loans holds on well

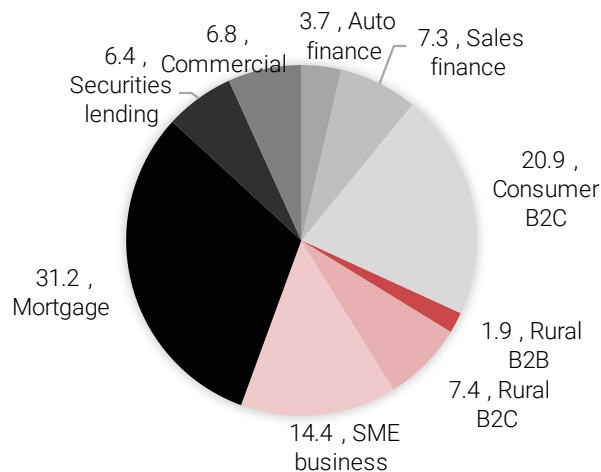
Exhibit 4: Segment-wise AUM growth qoq, March fiscal year-ends, 2024-26 (%)

	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26
Overall AUM	(12.2)	7.1	6.3	7.1	5.6	6.5	4.7	5.9	4.7
Consumer	(10.6)	8.1	3.5	8.2	4.3	6.4	2.2	5.0	4.4
Consumer B2B	(8.5)	11.0	(1.5)	8.0	(1.1)	4.3	(3.5)	4.6	4.0
Auto finance	(16.2)	17.1	1.8	(0.3)	(3.7)	0.1	(8.7)	(9.3)	7.8
Sales finance	(2.0)	6.6	(4.2)	15.0	0.7	7.3	(0.1)	12.8	2.2
Consumer B2C	(12.0)	6.1	7.1	8.4	7.8	7.6	5.5	5.3	4.6
Rural	(7.0)	4.5	3.0	9.4	4.4	8.9	6.7	11.4	3.0
Rural B2B	(10.9)	11.4	0.7	21.6	(3.6)	9.3	(0.1)	14.0	(2.4)
Rural B2C	(6.0)	2.6	3.6	6.0	6.9	8.8	8.7	10.7	4.5
Rural B2C (ex-gold loan)	(9.7)	1.1	1.2	2.5	4.2	7.0	6.6	7.0	(1.4)
Gold loans	16.5	9.9	14.4	19.5	15.8	14.2	14.3	20.2	18.0
SME and mortgage	(12.9)	6.4	7.9	6.9	6.9	5.9	6.4	5.1	4.8
SME business	(15.1)	7.0	10.1	8.7	9.7	7.0	7.1	4.6	2.4
SME (ex-car loan)	(18.6)	4.1	7.6	6.0	8.8	5.8	7.2	4.4	1.8
Car loans	28.2	30.0	25.3	22.9	13.7	12.5	6.6	5.6	4.9
Mortgage business	(12.0)	6.2	7.0	6.2	5.6	5.3	6.1	5.3	5.9
Commercial business	(17.0)	9.1	10.4	3.6	5.1	7.0	3.5	7.5	6.6
Securities lending	(22.9)	13.1	14.8	0.0	6.0	8.1	0.5	7.3	8.4
Commercial lending	(11.1)	5.7	6.5	7.2	4.3	5.9	6.5	7.6	4.9

Source: Company, Kotak Institutional Equities

Diversified AUM mix of Bajaj Finance

Exhibit 5: AUM mix, March fiscal year-end, 2026 (%)



Source: Company, Kotak Institutional Equities

AUM growth of 23-25% over the medium term

Management has cut its AUM growth guidance to 22-23% for FY2026E from 24-25% earlier, driven by a sharp moderation in MSME lending and elevated competition in mortgages from PSU banks. We bake in a 23% AUM growth in FY2026E picking up to 25% over FY2027-28E, driven by strong 26-33% CAGR in consumer B2C, rural B2C loans and sales finance. Mortgage growth will likely remain lower at 23% CAGR over FY2025-28E. Growth in auto finance and SME business will lag at overall AUM growth of 6-18% CAGR over FY2025-28E.

- ▶ **Unsecured growth to pick up.** Collections have stabilized in unsecured loans and growth will likely pick up in these segments. We bake in 34-35% growth in these segments during FY2026E, moderating to 30-32% over FY2027-28E.
- ▶ **Despite high growth potential in mortgages, competition drags down near-term growth.** We find high growth potential for Bajaj in secured segments such as mortgages (31% of AUM), which typically earn low yields and margins. While elevated competition will drag down growth to 22% in FY2026E, it will likely inch up to 24% over FY2027-28E. Bajaj has headroom due to its low market share (~1.2%) in the business.
- ▶ **SME growth to moderate.** Growth in SME business will likely decline to 12% in FY2026E from 37% in FY2025, as the company rejigs the credit filters. In later years, we bake in moderate 20-21% loan growth for the segment.
- ▶ **Auto finance contribution to remain low.** Auto finance (2W and 3W) will likely decline further (down 15% yoy) in FY2026E, driven by run-down of the captive book. In later years, as the non-captive business scales up, growth will gradually pick up to ~20% and contribution to overall AUM will remain range-bound at ~3%.
- ▶ We bake in a moderate 19-20% AUM growth in commercial lines.

24% AUM CAGR over FY2025-28E

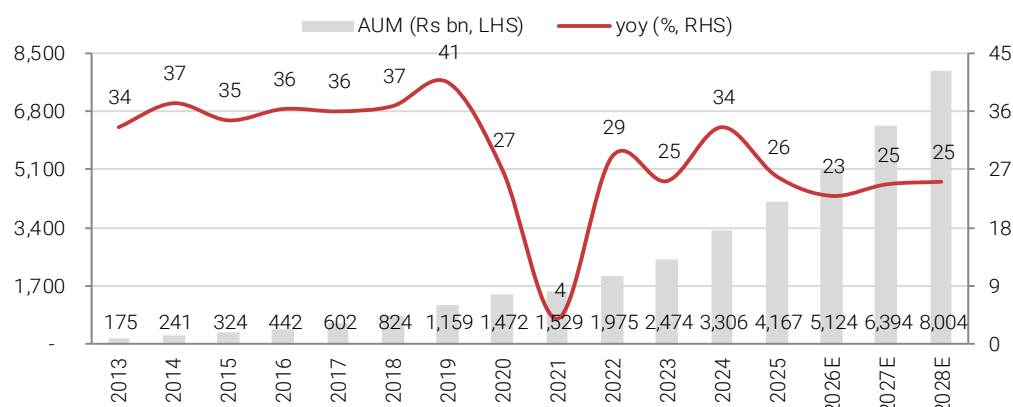
Exhibit 6: AUM growth yoy, March fiscal year-ends, 2020-28E (%)

	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E
Overall AUM	27	4	29	25	34	26	23	25	25
Consumer	27	(5)	18	26	35	23	26	27	28
Consumer B2B	17	(8)	6	22	41	7	10	22	24
Auto finance	35	(7)	(16)	27	52	(12)	(15)	15	21
Sales finance	3	(9)	30	18	33	24	25	25	25
Consumer B2C	36	(3)	27	29	32	33	34	30	30
Rural	44	10	32	25	17	33	33	31	31
Rural B2B	25	8	43	16	29	28	26	26	26
Rural B2C	50	11	29	27	14	34	35	32	32
SME and mortgage	32	6	24	29	34	29	18	23	23
SME business	23	4	24	35	35	37	12	20	21
Mortgage business	36	7	24	26	33	25	22	24	24
Commercial business	(7)	28	91	13	42	21	25	20	19
Securities lending	(24)	26	163	(5)	46	15	25	20	18
Commercial lending	13	29	39	38	39	26	25	20	20

Source: Company, Kotak Institutional Equities estimates

AUM growth of 23-25% over the medium term

Exhibit 7: AUM of Bajaj Finance and yoy growth, March fiscal year-ends, 2013-28E



Source: Company, Kotak Institutional Equities estimates

Share of unsecured segments to inch up

Exhibit 8: AUM mix, March fiscal year-ends, 2019-28E (%)

	2019	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E
Consumer	39	39	35	32	33	33	32	33	34	34
Consumer B2B	19	17	15	13	12	13	11	10	10	10
Auto finance	8	9	8	5	5	6	4	3	3	3
Sales finance	11	9	8	8	7	7	7	7	7	7
Consumer B2C	20	21	20	20	20	20	21	23	24	25
Rural	8	9	10	10	10	9	9	10	10	11
Rural B2B	2	2	2	2	2	2	2	2	2	2
Rural B2C	6	7	8	8	8	7	7	8	8	9
SME and mortgage	43	45	46	44	45	45	46	44	44	43
SME business	14	13	13	13	14	14	15	14	13	13
Mortgage business	29	31	32	31	31	31	31	31	31	30
Commercial business	10	8	9	14	13	13	13	13	12	12
Securities lending	5	3	4	8	6	7	6	6	6	6
Commercial lending	5	4	5	6	6	7	7	7	7	6

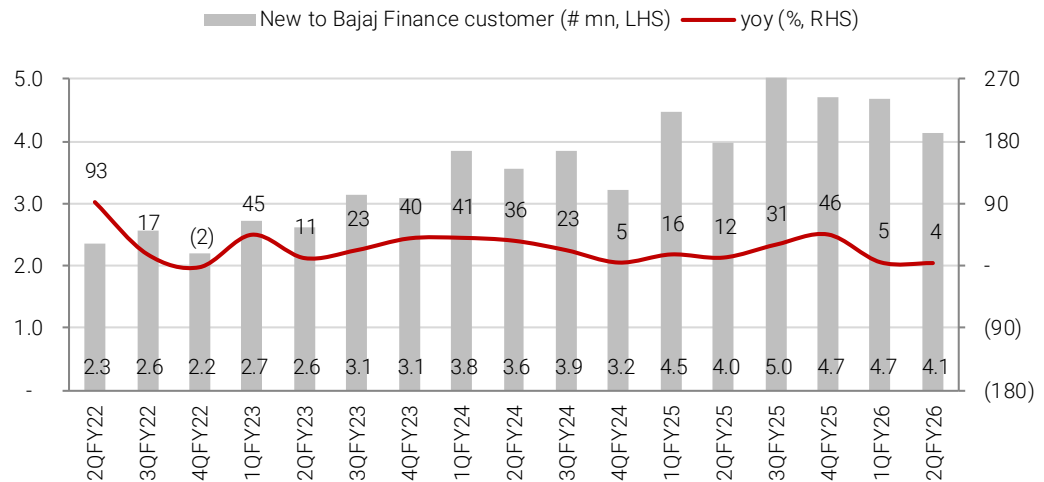
Source: Company, Kotak Institutional Equities estimates

Customer additions to remain steady

Customer addition growth dipped to 5% yoy from 12-46% during 1QFY25-4QFY25. Management remains confident of scaling up the customer franchise to 120 mn by the end of FY2026E (up 20%). As the strategic partnership with Bharti Airtel scales up from two products to nine products, the additions will flow through. New loans booked were up 27% yoy in 2QFY26.

Customer addition up 4% yoy

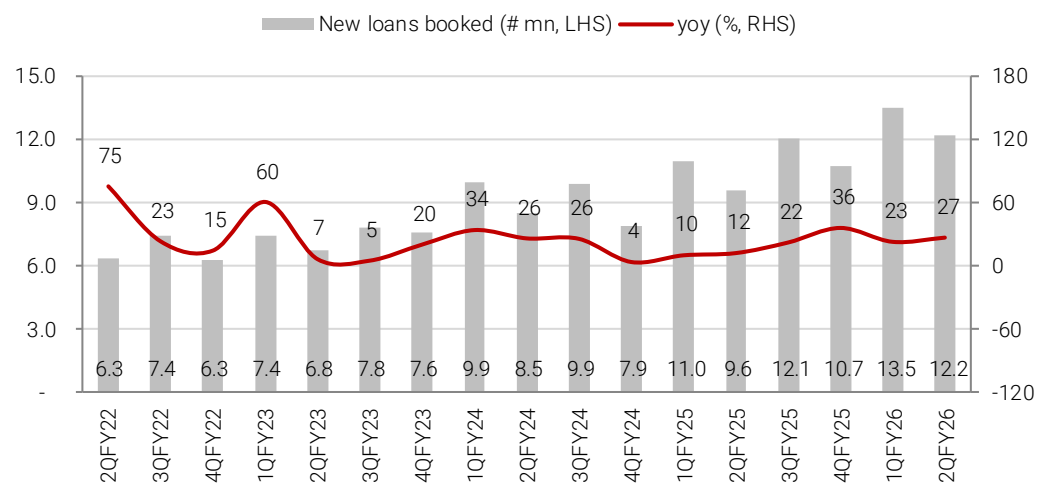
Exhibit 9: New to Bajaj Finance customers, March fiscal year-ends, 2022-26



Source: Company, Kotak Institutional Equities

New loans up 27% yoy in 2QFY26

Exhibit 10: New loans booked, March fiscal year-ends, 2022-26



Source: Company, Kotak Institutional Equities

Spreads to remain range-bound

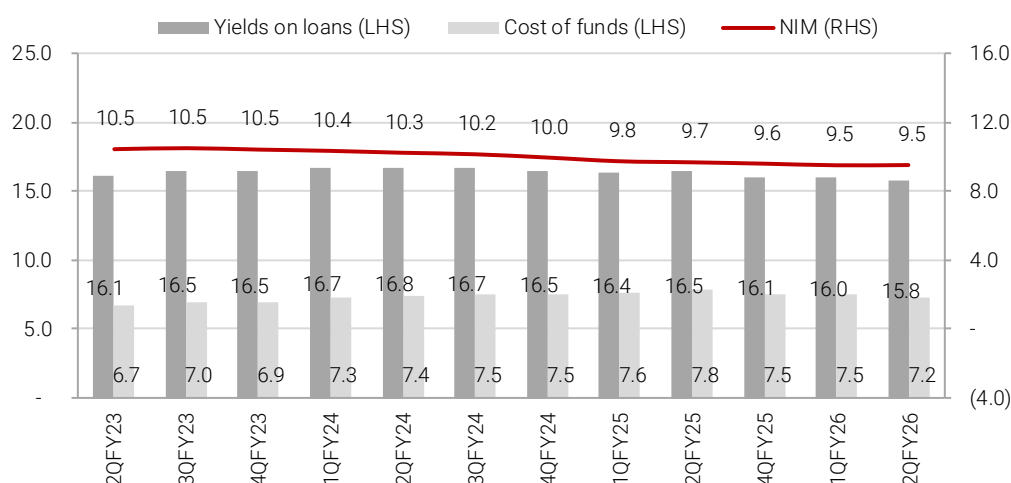
Stable margins in 2QFY26. Calculated NIM was flat qoq at 9.5%, as the 32 bps qoq moderation in yields to 17.3% was offset by 30 bps decline in cost of borrowings to 7.3%. Management expects the cost of funds to remain stable over 2HFY26E, as it has already accrued benefit of ~60 bps of the liability side.

NIM to remain stable in 2HFY26E. NIM will likely remain stable sequentially at 9.5% in 2HFY26E, driven by sequentially stable yields (17.3%) and cost of borrowings (7.2%). Faster growth in unsecured segments will likely offset yield pressure in secured segments, leading to stable yields. The consumer book (41% of AUM) carries fixed-rate yields and hence will buoy margins.

Spreads to inch up in later years. Gradual moderation in cost of borrowings of 10 bps per year over FY2027-28E will likely lead to expansion of spread to 8.3% by FY2028E (8.2% in FY2025). Increase in leverage will to stable NIM of 9.5-9.6% over FY2027-28E (9.5% in 1HFY26).

NIM stable qoq at 9.5%

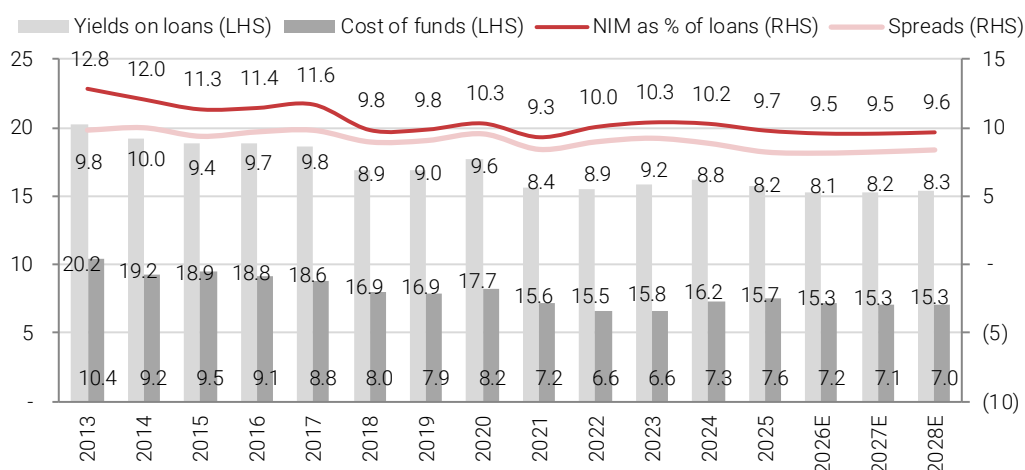
Exhibit 11: Calculated yields, cost of borrowings and NIM, March fiscal year-ends, 2023-26 (%)



Source: Company, Kotak Institutional Equities

We model range-bound spreads over the medium term

Exhibit 12: Calculated yields, cost of borrowings and NIM, March fiscal year-ends, 2013-28E (%)



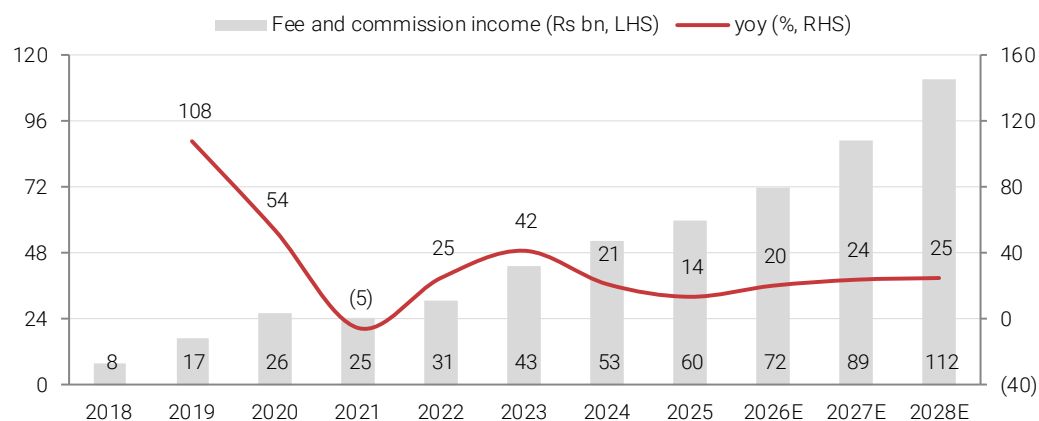
Source: Company, Kotak Institutional Equities estimates

Fee income growth to pick up

Bajaj Finance's growth in fee income will be driven by (1) strong disbursement momentum, (2) higher cross-sell fees and (3) fees garnered from the omni-channel framework.

We model 23% CAGR in fee income over FY2025-28E

Exhibit 13: Fee and commission income, March fiscal year-ends, 2018-28E



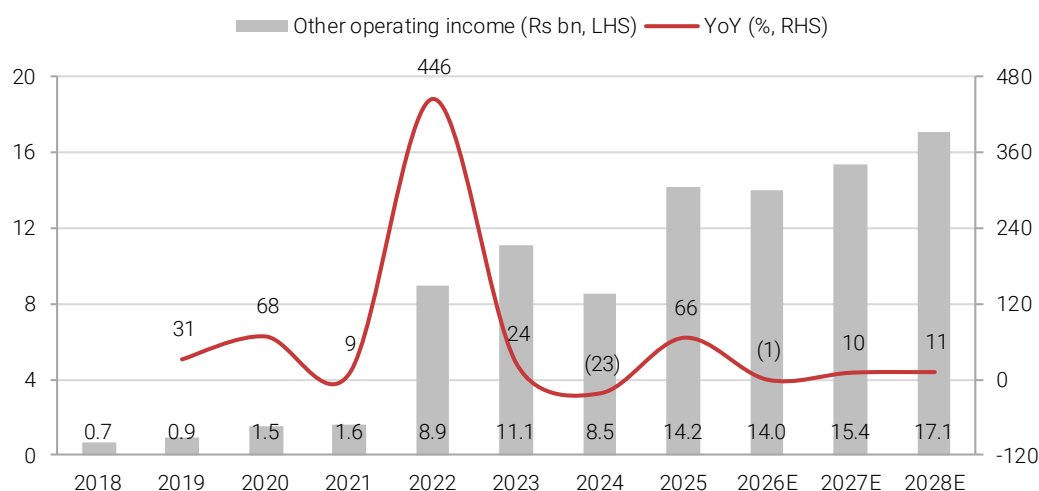
Source: Company, Kotak Institutional Equities estimates

Other operating income remains challenging to forecast

Covid-related stress led to higher write-offs during FY2021-22; the reversals from these written-off accounts have inflated the other operating income of about Rs11 bn in FY2023, Rs9 bn in FY2024 and Rs14 bn in FY2025.

Other operating income remains challenging to forecast

Exhibit 14: Other operating income, March fiscal year-ends, 2018-28E



Source: Company, Kotak Institutional Equities estimates

Sharp rise in stressed loans

- ▶ **Stressed loans up 112 bps qoq.** Elevated write-offs (2.8% versus 1.7% in 1QFY26) led to sharp rise in stressed loans during the quarter. Gross stage-3 ratio was up 26 bps qoq to 1.3%, while stage-2 ratio was down 23 bps qoq to 1.1%.
- ▶ **Elevated stress in captive and MSME loan books.** Management called out elevated stress in captive 2W and SME loans as the main driver of rise in credit costs during the quarter. Captive and MSME loans contributed 12 bps and 6 bps qoq rise in gross stage-3 ratio, respectively. Collection efficiency in the captive book was down 800 bps yoy and 134 bps qoq to 82.4%; this book is being run down (1.5% of overall AUM). MSME collection efficiency declined 60 bps yoy and 21 bps qoq to 98%; management had previously highlighted stress in the segment and has tightened the credit screens.
- ▶ **Collections have held on in most segments.** Collection efficiency was either stable qoq or up in most other segments. Open market 2W, digital product finance and rural B2C reported 9-19 bps qoq rise in collections.
- ▶ **Credit cost remains elevated.** Reported credit cost was elevated at 2.0% in 2QFY26 (2.1% in 2QFY25 and 2.0% in 1QFY26). Bajaj Finance maintained qoq stable overall ECL coverage of 1.8%.

Credit cost range-bound

Credit cost will likely remain elevated at 1.8-1.9% over FY2026-28E, higher than 1.4-1.6% reported during FY2023-24 and 1.2-1.5% during FY2013-19, although lower than 2.1% in FY2025. Expansion into sub-prime segments such as MFI and MSME will likely result in higher provisioning expenses for Bajaj Finance. Credit cost will be an interplay of (1) moderation in stress in unsecured segments, (2) faster growth in unsecured segments with higher credit cost and (3) higher share of sub-prime segments.

Stressed loans up 112 bps qoq to 5.1%

Exhibit 15: Stressed loans, March fiscal year-ends, 2021-25 (%)

	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26	change (bps)		2021	2022	2023	2024	2025	yoy (bps)
							2QFY25	1QFY26						
Gross stage-2	1.4	1.2	1.2	1.3	1.3	1.1	(14)	(23)	4.5	2.0	1.2	1.2	1.3	9
Gross stage-3	0.9	1.1	1.1	1.0	1.0	1.3	23	26	1.8	1.6	0.9	0.8	1.0	11
Write-offs	1.5	1.6	1.6	1.7	1.7	2.8	115	109	3.6	2.7	1.5	1.4	1.6	24
Stressed loans	3.8	3.9	3.8	4.0	4.0	5.1	124	112	9.8	6.3	3.6	3.4	3.9	44

Source: Company, Kotak Institutional Equities

Car and small business loans report decline in collection efficiency

Exhibit 16: Collection efficiency, March fiscal year-ends, 2024-26 (%)

	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26	Change (bps)	
										yoy	qoq
Consumer durable and lifestyle	99.5	99.4	99.4	99.5	99.5	99.4	99.4	99.5	99.5	2	2
Captive 2W and 3W	94.7	94.7	93.3	91.6	90.5	89.2	86.5	83.8	82.4	(804)	(134)
Open market 2W and 3W				98.7	97.8	97.1	97.4	97.6	97.7	54	9
Digital product finance	99.4	99.4	99.3	99.1	99.2	99.3	99.2	99.2	99.4	17	15
Urban B2C loans	98.7	98.6	98.5	98.3	98.3	98.3	98.3	98.2	98.3	(7)	4
Car loans	99.4	99.3	99.3	99.0	98.8	98.7	98.6	98.6	98.3	(53)	(38)
Gold loans	96.0	97.8	97.9	96.1	95.4	97.9	98.9	99.0	98.8	340	(18)
Small business	99.3	99.1	98.8	98.7	98.6	98.7	98.6	98.2	98.0	(60)	(21)
Loan against property	99.1	99.1	99.1	99.1	99.0	98.7	98.9	98.9	98.9	(12)	(3)
Home loans	99.5	99.5	99.5	99.4	99.6	99.3	99.4	99.3	99.3	(30)	(3)
Rural B2C	98.3	98.0	98.0	97.8	97.9	98.0	98.1	97.9	98.1	27	19
Rural B2B	99.6	99.6	99.6	99.6	99.5	99.5	99.5	99.5	99.5	1	(1)

Source: Company, Kotak Institutional Equities

Overall ECL coverage was flat qoq

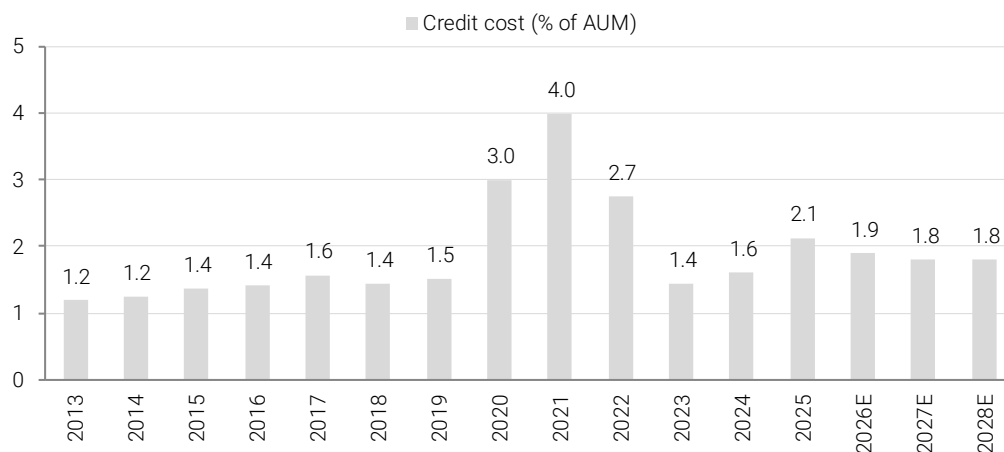
Exhibit 17: Asset quality of Bajaj Finance (consol.), March fiscal year-ends, 2024-26 (Rs mn)

	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26
Asset classification (Rs bn)									
Gross stage-1	2,847	3,049	3,245	3,472	3,649	3,875	4,055	4,296	4,307
Gross stage-2	31	34	40	49	45	46	54	57	47
Gross stage-3	26	30	28	31	40	45	40	45	57
Gross AUM	2,904	3,113	3,313	3,551	3,733	3,966	4,148	4,399	4,411
Asset classification (%)									
Gross stage-1	98.0	98.0	97.9	97.8	97.7	97.7	97.7	97.7	97.6
Gross stage-2	1.1	1.1	1.2	1.4	1.2	1.2	1.3	1.3	1.1
Gross stage-3	0.9	1.0	0.8	0.9	1.1	1.1	1.0	1.0	1.3
ECL provision (Rs bn)									
ECL provision on stage-1	20	21	22	23	24	25	31	32	33
ECL provision on stage-2	9	10	1	14	12	13	17	19	14
ECL provision on stage-3	17	18	16	17	23	26	21	23	29
Overall ECL provision	47	49	50	54	58	64	70	74	77
ECL coverage (%)									
ECL coverage on stage-1	0.7	0.7	0.7	0.7	0.6	0.7	0.8	0.7	0.8
ECL coverage on stage-2	30.3	28.7	3.0	29.4	27.0	27.9	32.4	32.6	30.1
ECL coverage on stage-3	66.0	61.7	57.0	56.1	57.1	57.2	53.7	51.9	51.8
Overall ECL coverage	1.6	1.6	1.5	1.5	1.6	1.6	1.7	1.7	1.7

Source: Company, Kotak Institutional Equities

Credit cost to remain elevated at 1.8-1.9%

Exhibit 18: Credit cost, March fiscal year-ends, 2013-28E



Source: Company, Kotak Institutional Equities estimates

Credit cost to remain elevated at 1.8-1.9%

Exhibit 19: Gross loans and provision mix, March fiscal year-ends, 2018-28E

	2018	2019	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E
Gross loans (Rs bn)											
Gross stage-1 and 2	794	1,128	1,427	1,483	1,927	2,443	3,285	4,109	5,046	6,300	7,891
Gross stage 3	12	18	24	27	31	23	28	40	49	61	76
Overall gross loans	806	1,146	1,451	1,510	1,958	2,466	3,313	4,148	5,095	6,361	7,968
Gross loans mix (%)											
Gross stage 3	1.5	1.6	1.6	1.8	1.6	0.9	0.8	1.0	1.0	1.0	1.0
ECL provisions (Rs mn)											
ELCL on stage-1 and 2	7	10	23	27	26	29	34	49	82	102	128
ECL provisions on stage 3	8	11	14	16	18	15	16	21	30	38	47
Overall ECL provisions	15	21	37	43	44	44	50	70	112	140	175
ECL coverage (%)											
ECL coverage on stage-1 and 2	0.91	0.87	1.61	1.83	1.34	1.18	1.05	1.18	1.62	1.62	1.62
ECL coverage on stage 3	67.5	59.4	60.3	58.4	58.0	63.8	57.0	53.7	62.0	62.0	62.0
Overall ECL coverage	1.9	1.8	2.6	2.9	2.2	1.8	1.5	1.7	2.2	2.2	2.2
Credit cost											
Overall credit cost	1.4	1.5	3.0	4.0	2.7	1.4	1.6	2.1	1.9	1.8	1.8
Write-offs		1.0	1.7	3.6	2.5	2.0	1.3	1.6	1.0	1.3	1.3
Provision for loans		0.5	1.3	0.4	0.3	(0.5)	0.3	0.5	0.9	0.5	0.5

Source: Company, Kotak Institutional Equities estimates

Operating leverage and increase in share of secured loans to drive moderation in cost ratios

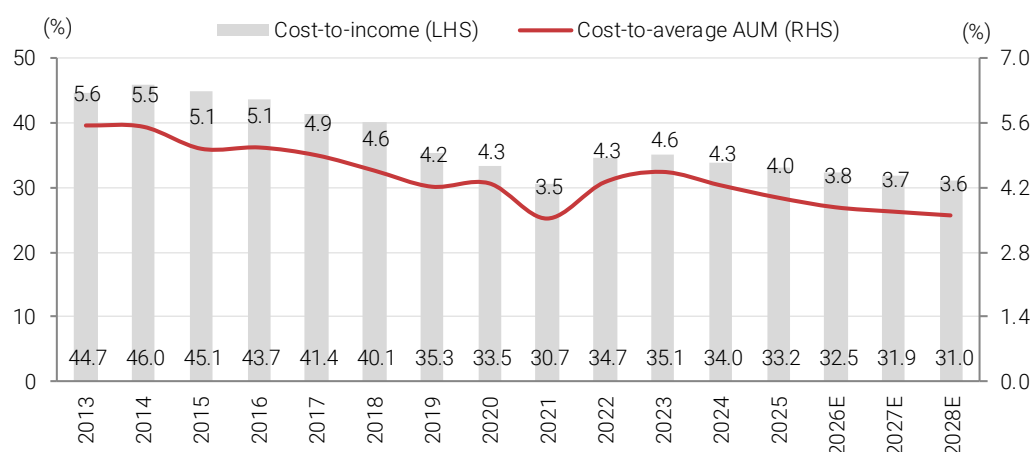
Tapering of investments led to moderation in the cost-to-AAUM ratio to 4.0% in FY2025. In further years, the increased share productivity gains from AI initiatives and operating leverage will lead to a moderation in the cost-to-AAUM ratio to 3.6% by FY2028E. The company is focusing on multiple initiatives to manage expenses. Apart from controlling new hires in the near term, its Gen-AI initiatives will augur well over the medium term, offsetting pressure on margins.

AI to augment. Management spends ~15% of their time on AI transformation as they expect significant breakthrough in terms of cost and process efficiencies to flow through over the next 15-18 months. Some significant use cases of AI in the business are:

- ▶ 442 AI voice BOT agents, contributed Rs20 bn of personal loan disbursements (18% of total PL call center disbursements).
- ▶ 85% of customer service resolutions in 2QFY26 were resolved by AI service BOTs.
- ▶ In the B2B business, quality check of 42% loan applications were performed by AI; during the festive season, ~0.65 mn loan applications were processed in a single day.

We model moderation in cost ratios over the medium term

Exhibit 20: Cost ratios, March fiscal year-ends, 2013-28E



Source: Company, Kotak Institutional Equities estimates

We tweak our estimates

Exhibit 21: Change in estimates, March fiscal year-ends, 2026-28E

	New estimates			Old estimates			New versus Old (%)		
	2026E	2027E	2028E	2026E	2027E	2028E	2026E	2027E	2028E
AUM	5,124,292	6,393,731	8,003,630	5,180,711	6,480,703	8,132,361	(1.1)	(1.3)	(1.6)
AUM growth yoy (%)	23	25	25	24	25	25	-135 bps	-32 bps	-31 bps
Net interest income	442,661	548,176	692,018	448,856	557,297	694,783	(1.4)	(1.6)	(0.4)
NIM (%)	9.5	9.5	9.6	9.6	9.6	9.5	-8 bps	-4 bps	10 bps
NPL provisions	87,910	103,617	130,005	88,517	108,983	135,018	(0.7)	(4.9)	(3.7)
Other operational income	98,325	118,179	143,490	97,425	117,475	144,191	0.9	0.6	(0.5)
Other income	527	632	758	527	632	758	-	-	-
Operating expenses	175,750	212,442	259,582	178,827	216,603	262,452	(1.7)	(1.9)	(1.1)
Employee	87,848	106,296	129,681	89,349	108,113	130,816	(1.7)	(1.7)	(0.9)
Others	87,902	106,147	129,901	89,478	108,491	131,636	(1.8)	(2.2)	(1.3)
PBT	277,853	350,927	446,681	279,464	349,818	442,263	(0.6)	0.3	1.0
Tax	71,408	90,188	114,797	71,822	89,903	113,662	(0.6)	0.3	1.0
PAT	206,445	260,739	331,884	207,642	259,915	328,601	(0.6)	0.3	1.0
Core PBT	358,963	447,544	569,685	361,180	451,801	570,281	(0.6)	(0.9)	(0.1)
Fee-to-AAUM (%)	1.6	1.6	1.6	1.5	1.5	1.5	5 bps	5 bps	3 bps
Cost-to-income (%)	32.5	31.9	31.0	32.7	32.1	31.3	-25 bps	-22 bps	-21 bps
Cost-to-AAUM (%)	3.8	3.7	3.6	3.8	3.7	3.6	0 bps	-4 bps	-3 bps
Credit cost (% of AUM)	1.9	1.8	1.8	1.9	1.9	1.9	0 bps	-7 bps	-4 bps
RoA (%)	4.0	4.1	4.2	4.0	4.0	4.1	0 bps	6 bps	10 bps
RoE(%)	19.7	21.1	22.6	19.8	21.1	22.4	-11 bps	8 bps	21 bps
EPS (Rs)	33	41	53	33	41	52	(0.6)	0.3	1.0
BVPS (Rs)	178	211	252	178	211	252	(0.1)	(0.0)	0.1

Source: Kotak Institutional Equities estimates

RoE to inch up to 22-23%

Exhibit 22: Bajaj Finance – key growth rates and ratios, March fiscal year-ends, 2020-28E

	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E
YoY growth in key P&L items (%)									
Revenue from operations	42.6	1.1	18.6	30.8	32.8	26.8	19.6	23.2	24.6
Net interest income	38.8	2.9	26.2	31.2	28.7	23.0	21.6	23.8	26.2
Total income	42.4	2.1	26.8	31.7	25.7	24.0	20.5	23.2	25.4
Operating expense	34.9	(6.2)	42.9	33.5	21.7	21.1	17.7	20.9	22.2
PPOP	46.5	6.3	19.6	30.8	27.9	25.5	21.8	24.3	26.9
PAT	31.8	(16.0)	59.0	63.7	25.6	16.1	23.0	26.3	27.3
Core PBT	44.7	5.9	24.0	31.9	28.5	16.6	30.6	24.7	27.3
PAT after minority interest	44.7	5.9	24.0	31.9	28.5	14.4	23.2	26.4	27.3
YoY growth in key balance sheet items (%)									
Loans	25.7	3.8	30.5	26.6	34.7	25.0	24.9	24.9	25.3
Investment	104.0	4.9	(33.4)	85.8	35.7	11.5	11.5	11.5	11.5
Net assets	32.3	4.3	23.9	29.5	36.2	24.4	23.0	23.2	23.8
Borrowings	27.8	1.4	25.5	31.1	35.4	23.1	25.0	24.8	25.0
Total liabilities	26.3	1.9	25.4	30.8	35.0	24.0	24.6	24.4	24.7
Reserves and surplus	64.5	14.3	18.5	24.5	41.1	26.1	16.9	18.3	19.7
Total shareholder funds	64.1	14.2	18.4	24.4	41.1	26.1	16.9	18.3	19.7
Networth post minority interest	64.1	14.2	18.4	24.4	41.1	23.1	17.3	19.0	20.6
Key ratios (%)									
Yield on loans on balance sheet	17.9	15.8	15.8	16.1	16.9	16.5	15.9	15.9	15.9
Cost of borrowings	8.2	7.2	6.6	6.6	7.3	7.6	7.2	7.1	7.0
Core NIM	10.4	9.2	9.9	10.1	9.6	9.1	8.9	9.0	9.1
NII (% of AUM)	10.3	9.3	10.0	10.3	10.2	9.7	9.5	9.5	9.6
Cost-to-income	33.5	30.7	34.7	35.1	34.0	33.2	32.5	31.9	31.0
Cost-to-average AUM	4.3	3.5	4.3	4.6	4.3	4.0	3.8	3.7	3.6
Credit cost	3.0	4.0	2.7	1.4	1.6	2.1	1.9	1.8	1.8
Tax rate	28.1	26.2	26.0	25.9	25.2	24.0	25.7	25.7	25.7
Dividend payout ratio	11.4	13.6	17.2	15.8	15.4	20.7	20.7	20.7	20.7
Du Pont analysis									
% of average assets and off-balance sheet loans									
Net interest income	9.2	8.2	9.0	9.3	9.0	8.6	8.5	8.5	8.7
Net operational income	11.5	10.1	11.3	11.7	11.1	10.6	10.4	10.4	10.5
Other income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total income	11.5	10.1	11.3	11.7	11.1	10.6	10.4	10.4	10.5
Operating expense	3.8	3.1	3.9	4.1	3.8	3.5	3.4	3.3	3.3
Employee expense	1.7	1.5	1.9	2.1	2.0	1.8	1.7	1.7	1.6
Provisions	2.7	3.5	2.5	1.3	1.4	1.9	1.7	1.6	1.6
(1- tax rate)	0.7	0.7	0.7	0.7	0.7	0.8	0.7	0.7	0.7
ROA	3.6	2.6	3.7	4.7	4.4	4.0	4.0	4.1	4.2
Average assets+off-balance sheet/average equity	5.5	4.9	4.8	5.0	5.0	4.8	5.0	5.2	5.4
ROE	20.2	12.8	17.4	23.5	22.0	19.3	19.7	21.1	22.6
ROA (post-minority interest)	3.6	2.6	3.7	4.7	4.4	3.9	3.9	4.0	4.1
ROE (post-minority interest)	20.2	12.8	17.4	23.5	22.0	19.3	20.0	21.2	22.6

Source: Company, Kotak Institutional Equities estimates

We expect Bajaj Finance to deliver 26% earnings CAGR over FY2025-28E

Exhibit 23: Bajaj Finance – financial summary, March fiscal year-ends, 2020-28E

	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E
Income statement									
Operating income	263,739	266,681	316,405	413,981	549,716	696,809	833,640	1,026,772	1,279,418
Interest income	229,704	233,034	272,772	355,502	483,066	611,636	735,315	908,594	1,135,928
Fee and commission income	25,910	24,524	30,673	43,429	52,672	59,828	72,004	89,265	111,580
Net gain on fair value change	5,375	5,912	3,277	3,343	3,083	5,390	6,500	6,500	6,500
Assignment income	1,243	1,575	750	382	500	271	300	500	500
Other operational income	1,508	1,636	8,933	11,325	10,395	19,684	19,520	21,914	24,911
Interest expense	94,732	94,140	97,537	125,599	187,247	247,708	292,654	360,418	443,909
Net interest income	134,972	138,894	175,235	229,903	295,819	363,928	442,661	548,176	692,018
Net operational income	169,007	172,541	218,868	288,382	362,469	449,101	540,986	666,355	835,509
Other income	118	150	76	83	130	439	527	632	758
Total income	169,124	172,691	218,944	288,458	362,578	449,540	541,513	666,986	836,267
Operating expense	56,608	53,082	75,872	101,300	123,252	149,261	175,750	212,442	259,582
Employee expense	25,491	24,987	35,924	50,591	63,960	75,083	87,848	106,296	129,681
Other expense	31,117	28,095	39,947	50,708	59,292	74,178	87,902	106,147	129,901
PPOP	112,516	119,608	143,072	187,158	239,326	300,279	365,763	454,544	576,685
Provisions	39,295	59,686	48,034	31,897	46,307	79,660	87,910	103,617	130,005
PBT pre extraordinary items	73,221	59,923	95,038	155,262	193,019	220,618	277,853	350,927	446,681
PBT	73,221	59,923	95,038	155,279	193,096	220,796	277,853	350,927	446,681
Tax	20,584	15,724	24,756	40,202	48,584	53,002	71,408	90,188	114,797
PAT	52,638	44,198	70,282	115,077	144,512	167,795	206,445	260,739	331,884
Minority interest	—	—	—	—	—	2,433	2,778	3,401	4,244
PAT after minority interest	52,638	44,198	70,282	115,077	144,512	165,362	203,667	257,338	327,640
Core PBT	105,898	112,121	139,045	183,433	235,744	274,933	358,963	447,544	569,685
Balance sheet									
Loans	1,413,761	1,466,869	1,914,233	2,422,689	3,262,933	4,078,441	5,094,655	6,361,100	7,967,603
Investment	175,439	183,969	122,455	227,518	308,807	344,408	384,115	428,399	477,788
Deferred tax assets (net)	8,501	9,459	9,511	9,371	10,174	11,412	11,412	11,412	11,412
Property plant and equipment	10,973	10,417	12,826	16,766	23,583	26,889	30,922	35,561	40,895
Other intangible assets	2,205	2,205	4,513	6,930	9,064	10,880	10,880	10,880	10,880
Others assets	33,036	42,350	61,516	69,012	132,855	189,238	200,204	213,968	231,290
Net assets	1,643,914	1,715,269	2,125,054	2,752,287	3,747,416	4,661,268	5,732,187	7,061,320	8,739,868
Borrowings	1,298,064	1,316,454	1,652,320	2,166,905	2,933,458	3,612,487	4,516,795	5,635,818	7,047,300
Provisions	812	1,377	1,669	2,704	4,219	5,143	6,429	8,036	10,045
Other liabilities	21,761	28,254	33,938	38,958	42,786	76,710	78,366	80,156	82,097
Total liabilities	1,320,637	1,346,085	1,687,927	2,208,567	2,980,463	3,694,340	4,601,590	5,724,009	7,139,441
Share capital	1,200	1,203	1,207	1,209	1,236	1,242	1,242	1,242	1,242
Reserves and surplus	322,076	367,981	435,920	542,511	765,718	965,687	1,129,356	1,336,069	1,599,185
Total shareholder funds	323,276	369,184	437,127	543,720	766,954	966,929	1,130,597	1,337,310	1,600,427
Total liabilities and equity	1,643,914	1,715,269	2,125,054	2,752,287	3,747,416	4,661,268	5,732,187	7,061,320	8,739,868
Minority interest	—	—	—	—	—	22,440	25,218	28,619	32,863
Net worth after minority interest	323,276	369,184	437,127	543,720	766,954	944,489	1,105,379	1,308,691	1,567,564
AUM (Rs bn)	1,472	1,529	1,975	2,474	3,306	4,167	5,124	6,394	8,004

Source: Company, Kotak Institutional Equities estimates

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ADD. We expect this stock to deliver 5-15% returns over the next 12 months.

REDUCE. We expect this stock to deliver -5+5% returns over the next 12 months.

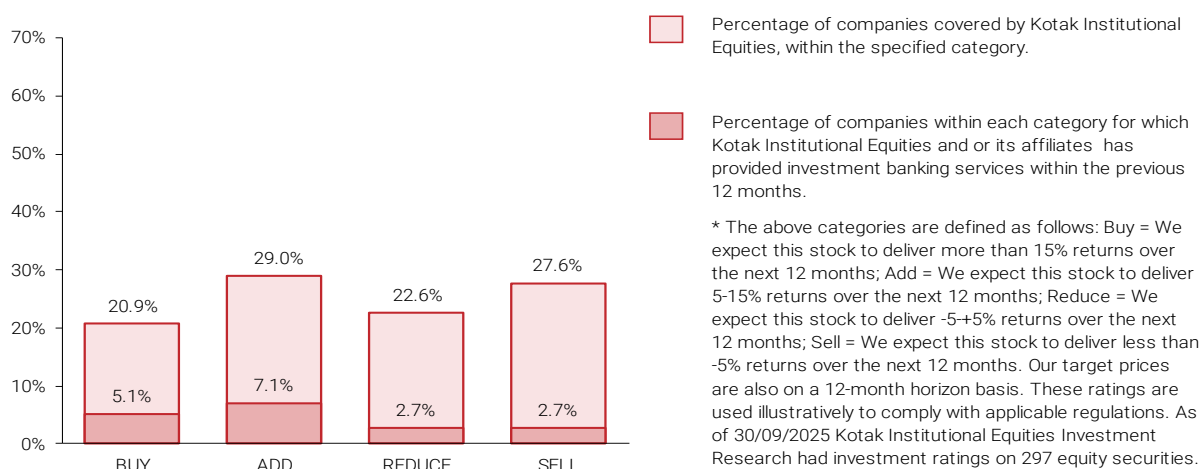
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