Bajaj Finance (BAJFI)

CMP: ₹1100 | Target ₹ 1290 (17%) | Target Period: 12 months | BUY

July 31, 2026

Deepening Customer Engagement, Sustaining Growth...

About the stock: Bajaj Finance, a strong NBFC with digital footprints, have delivered consistent robust growth with consolidated AUM touching ~₹5.46 lakh crore. Harnessing its large franchise base digitally offers a huge opportunity.

- Bajaj Finance maintained strong operating metrics over long-term leading to ~20.4% RoE, ~4.7% RoA.

Q1FY27 performance: Bajaj Finance delivered a strong Q1FY27 performance, with consolidated AUM growing 24% YoY to ₹5,46,944 crore and customer franchise expanding to 12.44 crore. PBT and PAT increased 28% YoY to ₹8,149 crore and ₹6,081 crore, respectively, while annualised RoA and RoE improved to 4.7% and 20.4%. Asset quality remained healthy, with GNPA/NNPA improving to 0.96%/0.39%, while credit cost moderated to 1.54% (1.31% excluding the ₹296 crore management and macroeconomic overlay).

Investment Rationale:

- **Customer franchise depth and deepening of wallet share remains growth tailwinds:** Bajaj Finance continues to leverage its 12.44 crore customer franchise through higher wallet share, AI enabled cross-selling and expanding digital capabilities, reflected in AUM addition of ₹36,969 crore. Strong momentum in gold loans, rural and urban consumer finance, together with expanding digital platform capabilities and FINAI-led cross-sell, is enhancing customer engagement while diversifying growth drivers. With all major business engines firing and MSME expected to regain growth momentum by Q3FY27, the company remains well positioned to deliver its 22–24% AUM growth guidance.
- **Improving asset quality and prudent provisioning support profitability:** Bajaj Finance continues to strengthen its balance sheet, with GNPA/NNPA improving to 0.96%/0.39% and Stage 2 & 3 contribution declining to 1.87%. Vintage performance across 3MOB, 6MOB and 9MOB remains better than pre-COVID levels, underpinning management's confidence in a structurally improving credit cost trajectory. Despite creating an additional ₹296 crore management and macroeconomic overlay to strengthen balance sheet resilience amid geopolitical and monsoon-related uncertainties, annualised credit cost moderated to 1.54% (1.31% excluding the overlay). With continued improvement in portfolio quality, management expects further moderation in credit cost, supporting sustainable RoA of 4.3–4.7% and RoE of 19–21% over the long term.

Rating and Target Price

- Improving asset quality, structurally moderating credit costs and prudent provisioning strengthen balance sheet resilience. Continued customer franchise monetisation, supported by FINAI-led cross-sell and stable margins, should sustain profitability and support medium-term return.
- Anticipating resilient performance, we upgrade our valuation multiple on standalone business at ~4.4x FY28E BV and ₹119 per share for subsidiaries, maintaining our target at ₹1290 (from ₹1150). Maintain Buy rating

BAJAJ FINANCE LIMITED

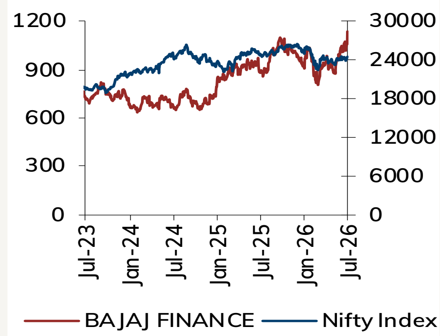
Particulars

Particulars	Amount
Market Capitalisation	₹ 6,53,663 crore
Networth	₹ 1,20,398 crore
52-week H/L	1102 / 788
Face Value	₹ 1
DII Holding (%)	16.3
FII Holding (%)	20.2

Shareholding pattern

(in %)	Sept 25	Dec 25	Mar 26	Jun 26
Promoter	54.7	54.7	54.7	54.7
FII	22.0	21.5	21.3	20.2
DII	14.4	14.9	15.1	16.3
Government	0.1	0.1	0.1	0.1
Public	8.8	8.8	8.7	8.6
Others	0.1	0.1	0.1	0.1

Price Chart



Key risks

(i) Growth margin trade-off

(ii) Volatility in credit cost to impact earnings

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Key Financial Summary

₹ Crore	FY24	FY25	FY26	3-year CAGR (FY23-FY26)	FY27E	FY28E	2-year CAGR (FY26-28E)
NII (₹ crore)	36245	44036	53316	24%	64253	77163	21%
PPP (₹ crore)	23940	29168	35299	25%	42330	50499	20%
PAT (₹ crore)	14451	16779	19332	21%	23409	28168	19%
ABV (₹)	824	767	177		212	252	
P/E	70	81	35		29	24	
P/ABV	13.3	14.3	6.2		5.2	4.4	
RoA	4.4	4.0	3.8		3.8	3.7	

Source: Company, ICICI Direct Research

Concall highlights and outlook

Guidance

- Management retained FY27 guidance of 22–24% AUM growth, stating any revision would be considered after Q2FY27.
- Margin guidance held at 10–15 bps moderation for FY27; cost of funds seen range-bound with slight upward bias, with incremental cost of funds already up 30–60 bps amid West Asia tensions and monsoon-linked inflation risk.
- Leverage stood at 4.9x standalone (trigger level ~5.2–5.3x) and 4.6x consolidated; company does not expect to hit the trigger within FY27.
- Capital raising is not envisaged in near-term; first priority remains diluting the BHFL stake to 75% (from 86.7% currently), with a standalone capital raise considered only if growth momentum continues to accelerate.
- MD Rajeev Jain's term-renewal decision to be taken by January 2028, providing an 18-month runway from the current point.
- Credit cost excluding the management overlay came in at 1.31% for Q1, inside the FY27 guided band; full guidance revision deferred to next quarter.

Business Update

- AUM grew by 24% to ₹ 546,944 crore with addition of ₹36,969 crore during the quarter; 51 lakh new customers added; PBT grew 28% while annualised RoA and RoE improved to 4.7% and 20.4%, respectively.
- Company expects to book 6–6.2 crore new loans, add 1.8–2 crore customers, and open 150–175 new locations during FY27.
- Gold loan book grew 112% YoY, now ~4% of AUM; gold loan branch count guided at 2,700–2,800 (potentially 3,000) and AUM of ₹29,000–31,000 crore by FY27-end, entirely organic. MFI branch network is expected to increase to 520–550 branches by FY27-end.
- Rural and urban consumer finance grew 49% and 38% YoY, respectively, with growth split roughly equal between organic volume growth and SKU price inflation (~20% each on ~40% average growth); further SKU price risk flagged based on OEM commentary.
- MSME grew just 2% YoY as risk-driven pruning continued since July 2025; growth momentum expected to return by Q3FY27.
- Deposit book stood at ₹68,534 crore, contributing 15% of consolidated borrowings. Liquidity buffer remained healthy at ₹17,847 crore, while cost of funds improved 1 bp QoQ to 7.4%.
- Opex-to-NTI came in at 33.4%, a marginal increase driven by accelerated gold loan/MFI branch investments and the new labour code (~10 bps, ₹60 crore impact); management reiterated 25–40 bps improvement guidance for FY27.
- Full-time employee headcount stood at 73,261; 1,648 employees were added during the quarter, with a net addition of 811 excluding Gold Loan and MFI businesses. Employee attrition stood at 12.8%.
- FINAI: AI unit headcount to be expanded from 230 to 400 and digital platforms unit to add another 300 employees. Digital platform business volume guided at ₹45,000–47,000 crore in FY27 (₹50,000 crore next year and ₹1,00,000 crore over time). AI analysed 4.5 crore customer interactions, generating 4 lakh additional offers and ₹517 crore of disbursements. AI voice/text bots generated ₹2,551 crore of disbursements in Q1 (guided at ₹11,000–12,000 crore for FY27), while AI bots handled 71% of DIY customer service volumes. 23 Agentic AI use cases have been deployed (target: 118 in FY27), with custom AI models scheduled to go live in Q2FY27 for B2B (targeting 5 lakh incremental customers) and later in FY27 for B2C.
- BHFL reported its highest-ever quarterly AUM addition; disbursements grew 33% and AUM 24% YoY. Opex-to-NTI improved to 19.6% (from 21%), PBT grew 23%, RoE improved to 12.5%, annualised credit cost remained at 5 bps, while GNPA/NNPA stood at 29 bps/12 bps.
- BFSL continued to report healthy AUM growth, though profit growth moderated to 22% as the business matures.

Asset Quality

- Gross Loan loss to average AUM improved to 1.54% from 1.87% in the same period last year.
- Additional management and macroeconomic overlay provision of ₹296 crore was created during Q1FY27 against geopolitical and monsoon-related uncertainty.
- Stage 2 & Stage 3 contribution improved to 1.87% from 1.94% in Q4FY26 despite an increase in absolute Stage 2 & 3 assets, reflecting faster growth in the loan book; management expects further improvement over the coming quarters.
- Vintage performance across 3/6/9 MOB continued to improve and now remains below the FY20 pre-COVID benchmark across businesses, supporting management's optimistic credit cost outlook for FY27.
- GNPA/NNPA stood at 0.96%/0.39%, while provision coverage ratio remained at 60%, which management intends to maintain structurally.
- Capital adequacy remained strong at 20.9%, with Tier-I capital ratio at 20%.
- Business loan portfolio showed a marginal blip in credit quality metrics, which management attributed to a denominator (vintage mix) effect rather than any deterioration in underlying asset quality.

Exhibit 1: Variance Analysis

	Q1FY27	Q1FY26	YoY (%)	Q4FY26	QoQ (%)	Comments
NII	15223	12606	20.8	14208	7.2	Steady AUM growth YoY aided NII
Staff cost	2645	2103	25.8	2471	7.0	Company has added 1648 employees in Q1FY27
Other Operating Expenses	2442	2020	20.9	2330	4.8	
Opex to NII(%)	33.4	32.7	2.2	33.8	-1.1	Opex to NII has remained stable
PPP	10142	8488	19.5	9417	7.7	
Provision	1993	2120	-6.0	2008	-0.7	Includes a prudent management and macro-economic provision of ₹ 296 crore
PBT	8149	6368	28.0	7410	10.0	
Tax Outgo	2068	1602	29.1	1857	11.4	
PAT	6081	4765	27.6	5553	9.5	PAT grew 28% led by healthy AUM growth
Key Metrics						
GNPA	5241	4518	16.0	5119	2.4	GNPA & NNPA improved to 0.96% and 0.39% respectively
NNPA	2114	2172	-2.7	2062	2.5	
AUM	546944	441450	23.9	509975	7.2	Healthy growth across segments

Source: Company, ICICI Direct Research

Financial summary

Exhibit 2: Profit and loss statement (₹ crore)

(Year-end March)	FY25	FY26	FY27E	FY28E
Interest Earned	68,806	81,982	96,630	118,059
Interest Expended	24,770	28,666	32,377	40,897
Net Interest Income	44,036	53,316	64,253	77,163
Growth (%)	21.5	21.1	20.5	20.1
Non-Interest Income	59.1	23.6	29.0	35.7
Operating Income	44,095	53,340	64,282	77,199
Employee cost	7,508	9,244	11,133	13,583
Other operating Exp.	7,419	8,798	10,818	13,117
Operating Profit	29,168	35,299	42,330	50,499
Provisions	7,088	9,482	10,697	12,434
PBT	22,080	25,817	31,633	38,065
Taxes	5,300	6,484	8,225	9,897
Net Profit	16,779	19,332	23,409	28,168
Growth (%)	16.1	15.2	21.1	20.3
EPS (₹) (Calculated)	135.4	31.1	37.6	45.3

Source: Company, ICICI Research

Exhibit 3: Key Ratios (₹ crore)

(Year-end March)	FY25	FY26	FY27E	FY28E
Valuation				
No. of shares (crore)	124.2	621.8	621.8	621.8
EPS (₹)	135.4	31.1	37.6	45.3
BV (₹)	780.5	183.3	221.0	266.3
ABV (₹)	766.6	177.3	211.7	252.2
P/E	81.2	35.4	29.2	24.3
P/BV	14.1	6.0	5.0	4.1
P/ABV	14.3	6.2	5.2	4.4
Yields & Margins (%)				
Net Interest Margins	9.9	9.6	9.7	9.5
Yield on assets	16.8	16.2	15.9	15.9
Avg. cost on funds	7.6	7.2	6.7	6.9
Yield on average advances	18.9	17.9	17.2	17.1
Quality and Efficiency (%)				
Cost to income ratio	33.2	33.3	34.1	34.6
Cost to assets ratio	3.5	3.5	3.5	3.5
GNPA	1.0	1.2	1.1	1.2
NNPA	0.8	0.5	0.6	0.6
RoE	19.4	18.4	18.6	18.6
RoA	4.0	3.8	3.8	3.7

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet (₹ crore)

(Year-end March)	FY25	FY26	FY27E	FY28E
Sources of Funds				
Capital	124	622	622	622
Reserves and Surplus	96569	113377	136786	164954
Net worth	98937	116986	137408	165576
Borrowings	361249	435112	535188	658282
Other Liabilities & Provisions	5941	7854	9025	11838
Total	466127	559952	681621	835695
Application of Funds				
Fixed Assets	5694	8247	6683	7351
Investments	34441	30578	33636	36999
Advances	409757	500852	620370	761157
Other Assets	16235	20275	20933	30188
Total	466127	559952	681621	835695

Source: Company, ICICI Research

Exhibit 5: Growth ratios

(Year-end March)	FY25	FY26	FY27E	FY28E
Total assets	24.1%	20.1%	21.7%	22.6%
Advances	24.9%	22.2%	23.9%	22.7%
Borrowings	23.1%	20.4%	23.0%	23.0%
Net interest income	21.5%	21.1%	20.5%	20.1%
Operating Income	21.6%	21.0%	20.5%	20.1%
Operating expenses	21.1%	20.9%	21.7%	21.6%
Operating profit	21.8%	21.0%	19.9%	19.3%
Net profit	16.1%	15.2%	21.1%	20.3%
Net worth	29.0%	18.2%	17.5%	20.5%

Source: Company, ICICI Research

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Sell: <-15%

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