MIRAE ASSET Sharekhan

Stock Update

Company Update

Bajaj Finance Ltd

Steady growth with strong return ratios

NBFC	Sharekhan code: BAJFINANCE

Reco/View: Buy	⇔	CMP: **Rs. 1,013**	Price Target: **Rs. 1,150**	↑

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		⇔	

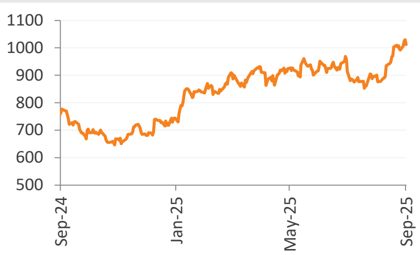
Company details

Market cap:	Rs. 6,35,000 cr
52-week high/low:	Rs. 1036/645
NSE volume: (No of shares)	48.0 lakh
BSE code:	500034
NSE code:	BAJFINANCE
Free float: (No of shares)	264 cr

Shareholding (%)

Promoters	54.7
FII	21.7
DII	14.5
Others	9.0

Price chart



Source: NSE India, Mirae Asset Sharekhan Research

Price performance

(%)	1m	3m	6m	12m
Absolute	12.4	9.1	11.6	32.6
Relative to Sensex	13.0	11.0	7.5	37.3

Source: Mirae Asset Sharekhan Research, Bloomberg

Summary

- We expect a 25% AUM CAGR from FY25-FY27, as Bajaj Finance is a leader in consumer financing. The company is poised to capitalise on key catalysts, including lower GST on consumer durables and autos, successful cross-selling, client acquisition, and increased consumer disposable income.
- NIMs are expected to hold steady at 9.9% (% of average AUM) in FY27 due to reduced borrowing costs. Decline in Opex/AUM from 3.66% in FY25 to 3.44% in FY27 due to better operation efficiencies will help mitigate the impact of lower yields.
- Gross/Net NPAs would slightly increase. The company is proactively mitigating risk by reducing exposure to high-stress segments and riskier clients, hence credit costs are expected to fall in FY27.
- RoA/RoE is to expected to be strong at >4%/20% by FY27. Based on the company's proven execution capabilities, and promising financial outlook, we maintain our Buy rating with a revised price target of Rs. 1,150. The stock currently trades at 4.6x its FY27 BV.

BAF's AUM is expected to grow at 25% (CAGR) for FY25-FY27, driven by favorable government reforms, such as the reduction in GST on auto and consumer durables, which is expected to drive demand. As a market leader in consumer loan financing, the company is uniquely positioned to capitalise on the same, along with lower interest rates, increased cross-selling and digitalization are expected to drive AUM growth. We expect NIMs to reach 9.9% in FY27, consistent with FY25 levels, driven by a reduction in borrowing costs due to cut in repo rates and a higher contribution from low-cost deposits. About 40% of deposits are expected to mature within a year and new deposits are coming in at a lower cost. We expect continued improvement in operational efficiencies as it has already made significant investments for building up IT & AI capabilities. Hence, Opex/AUM is expected to fall to 3.44% in FY27 from 3.66% in FY25. Any impact on NIM side is expected to be offset by lower Opex/AUM. Management is also highly focused for improving asset quality, though we expect a slight increase in GNPAs, rising to 1.3% in FY27 from 0.95% in FY25. However, the company plans to mitigate this by reducing its exposure to higher-stress segments like MSME and auto, and by limiting loans to clients with multiple accounts. These initiatives are expected to lead to a meaningful decline in credit costs to ~1.7% in FY27, down from 1.95% in FY25. With this, the company is expected to generate strong return ratios, with RoA and RoE both >4% and >20% respectively by FY27.

- **Steady AUM Growth:** Following a challenging FY25 and Q1FY26, we expect a steady AUM CAGR of 25% over FY25–FY27 driven by government reforms such as reduction in the GST rate on Auto and consumer durable products. The company has strong expertise and leader in the consumer loan financing, hence , the company is likely to capitalise on it. Besides, increase in the level of personal tax bracket, lower interest rates, cross-selling, a strategic focus on larger-ticket loans for consumer durable products, and digitalization will also drive AUM growth. The consumer durable financing, gold, Auto financing are expected do well in FY26. The management aims to disburse over 50 million new loans and add 14–16 million customers to its franchise in FY26. As per the annual report, it gained market share in FY25, including a remarkable ~420 bps in consumer durables and 120 bps in personal loans (excluding gold loans). Furthermore, growth in EMI card and eCOM products have been strong in FY25, particularly after the removal of restrictions on these products, hence these products are also expected to drive AUM growth.

- **Opex/AUM is expected lower and offset impact of NIM:** Reduction in the borrowing cost due to cut in the repo rate is expected to offset the impact of lower yield. The share of deposits declined to 59% in FY25 from 73% in FY21. Significant portion of deposits (~40%) is expected to mature in a year, hence new deposits are expected to come at a lower cost, thereby reducing borrowing costs. Overall, NIMs are expected to go up for FY27 (9.9%) and likely to mirror FY25. The company is focused on operational efficiency as it incurred significant investments in digitalization and AI capabilities which helped to establish robust IT processes and systems. Hence, reduction in opex relative to AUM is expected to decrease to 3.52% in FY26 and 3.44% in FY27, down from 3.66% in FY25 and 4.18% in FY23. This decline in operating costs is expected to further offset the impact of NIM.

- **Asset quality and credit cost outlook:** We expect a modest deterioration in the asset quality. The gross NPAs/net NPAs are expected to be higher at 1.30%/0.6% in FY27 from 0.95%/0.44% in FY25. This upward trend is primarily attributed to a rise in stress in the unsecured, two and three-wheeler, and MSME segments. In response, management has been proactively moving to mitigate risks such as stopped captive auto financing for two and three-wheelers, also actively reducing its exposure to the MSME sector and focusing on larger ticket size. Hence, the credit cost is expected to decline over the medium-term. Besides, it has taken several actions to improve asset quality across all products such as reduction in exposure of high risk customers who have multiple loans. Overall, credit costs are expected at 1.85%-1.95% in FY26, further a meaningful reduction in it to ~1.7% FY27 from 1.95% in FY25.

Our Call

Valuation – Maintain Buy with revised PT of Rs. 1,150: BAF's AUM is expected to grow at a CAGR of 25% in FY25-27. It is a market leader in consumer durable financing and is uniquely positioned to capitalise on GST reduction on products, also drive growth by auto financing due to same. We expect NIMs to reach 9.9% by FY27, mirroring FY25 levels, thanks to a reduction in borrowing costs from lower repo rates and an anticipated increase in low-cost deposits. Operational efficiencies are expected to continue to improve, with the Opex/AUM ratio consistently declining to a 3.44% in FY27 from 3.66% in FY25 and 4.18% in FY23. Asset quality is expected to remain comfortable, as the company strategically reduces its exposure to high-stress segments, while strengthening collections and recoveries to reduce credit costs. Overall, we expect strong return ratios, with RoA/ROE >4%/>20% by FY27. Based on the company's strong execution and performance track record, we maintain a 'Buy' rating with a revised PT of Rs. 1,150. The stock currently trades at 4.6x its FY27 book value.

Key Risks

Asset quality risk in unsecured segment and MSME segments and slow economic growth may impact AUM growth, Intensifying competition in the retail lending space.

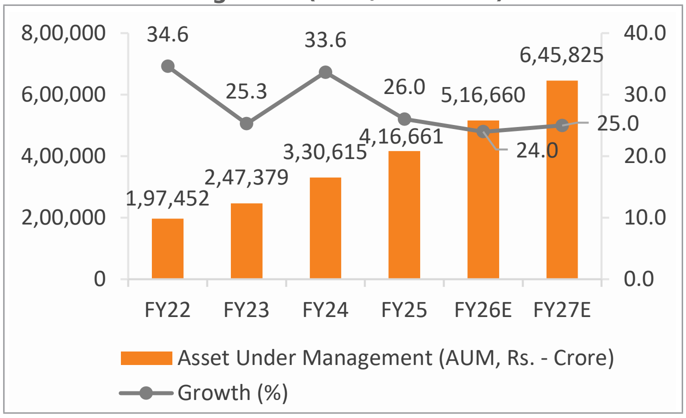
Valuation Rs cr

Particulars	FY23	FY24	FY25	FY26E	FY27E
NII	22,990	29,584	36,393	44,295	56,577
PAT	11,508	14,451	16,780	20,674	26,844
EPS (Rs)	18.5	23.3	27.0	33.3	43.2
RoA (%)	4.7	4.4	4.0	4.0	4.2
RoE (%)	23.5	22.0	19.3	19.5	21.1
P/E (x)	55.6	44.3	38.4	31.0	23.8
P/BV (x)	11.5	8.3	6.6	5.5	4.6

Source: Company; Mirae Asset Sharekhan estimates

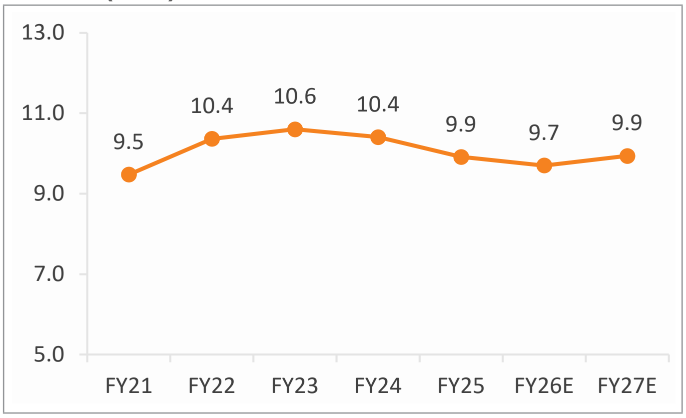
Financials in charts

Asset Under Management (AUM, Rs. - Crore)



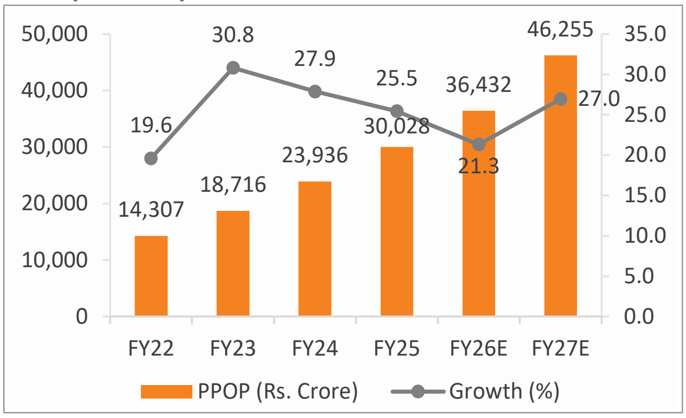
Source: Company; Mirae Asset Sharekhan Research

NIMs on (AUM)



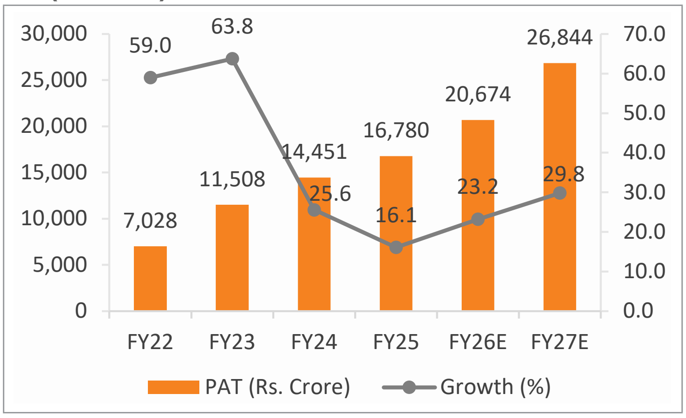
Source: Company; Mirae Asset Sharekhan Research

PPOP (Rs. Crore)



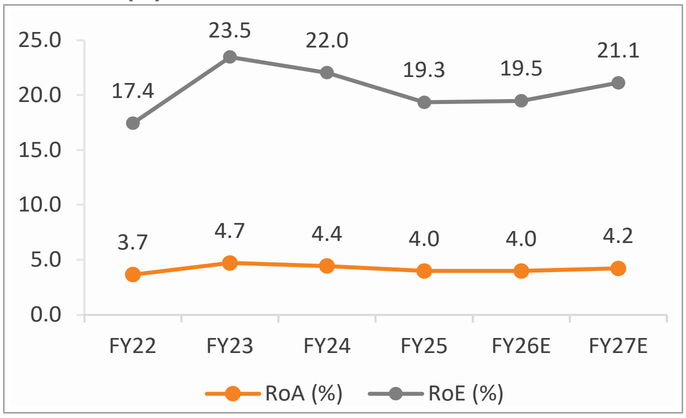
Source: Company; Mirae Asset Sharekhan Research

PAT (Rs. Crore)



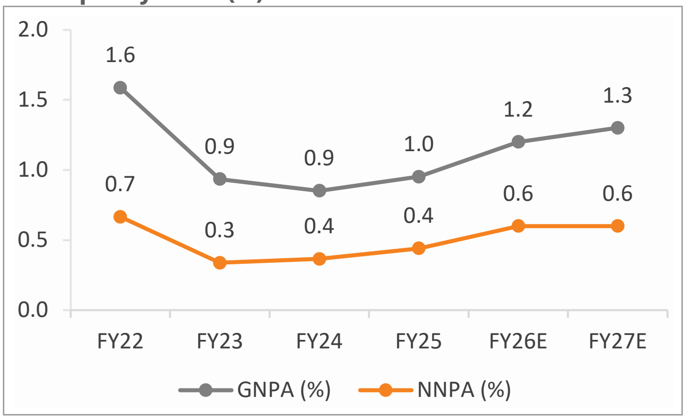
Source: Company; Mirae Asset Sharekhan Research

RoA & RoE (%)



Source: Company; Mirae Asset Sharekhan Research

Asset quality trend (%)



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 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 24-25% 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.

■ Valuation – Maintain Buy with revised PT of Rs. 1,150

BAF's AUM is expected to grow at a CAGR of 25% in FY25-27. It is a market leader in consumer durable financing and is uniquely positioned to capitalise on GST reduction on products, also drive growth by auto financing due to same. We expect NIMs to reach 9.9% by FY27, mirroring FY25 levels, thanks to a reduction in borrowing costs from lower repo rates and an anticipated increase in low-cost deposits. Operational efficiencies are expected to continue to improve, with the Opex/AUM ratio consistently declining to a 3.44% in FY27 from 3.66% in FY25 and 4.18% in FY23. Asset quality is expected to remain comfortable, as the company strategically reduces its exposure to high-stress segments, while strengthening collections and recoveries to reduce credit costs. Overall, we expect strong return ratios, with RoA/ROE >4%/>20% by FY27. Based on the company's strong execution and performance track record, we maintain a 'Buy' rating with a revised PT of Rs. 1,150. The stock currently trades at 4.6x its FY27 book value.

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	1,013	635,000	31.0	23.8	5.5	4.6	4.0	4.2	19.5	21.1
Cholamandalam Investment and Finance Company	1,592	134,000	25.5	20.1	4.6	3.8	2.4	2.6	19.9	20.7

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 4.4 lakh crore at of June 2025, serves more than 100 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

- Asset quality risk in unsecured segment and MSME segments and slow economic growth may impact AUM growth, Intensifying competition in retail lending space.

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	51.3
2	Maharashtra Scooters Ltd	3.1
3	Life Insurance Corp of India	2.6
4	Republic of Singapore	2.4
5	SBI Funds Management Ltd	2.1
6	Vanguard Group Inc/The	1.9
7	Blackrock Inc	1.8
8	UTI Asset Management Co Ltd	1.2
9	FMR LLC	1.1
10	Axis Asset Management Co Ltd/India	1.0

Source: Bloomberg

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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