


Strong Quarter; Levers Identified to Drive Next Leg of Growth!
Est. Vs. Actual for Q3FY25: NII – INLINE ; PPOP – INLINE ; PAT – BEAT
Changes in Estimates post Q3FY25
FY25E/FY26E/FY27E (%): NII 1.1/1.3/1.3; PPOP 1.5/1.2/0.7; PAT 2.7/1.2/0.6
Recommendation Rationale

- Credit costs to moderate gradually:** The net increase in Stage 2 and Stage 3 assets has stabilised, with BAF continuing to take proactive risk actions by cutting segments and pruning exposures. BAF has also brought down the share of customers having 3+ live unsecured loans significantly, and as it exits FY25, the share will be at par with pre-COVID levels. BAF has seen an improvement in collection efficiency (CE) across most segments in Dec'24-Jan'25 vs Oct-Nov'24 and expects the trend to continue. **Thus, the management expects credit costs to settle at 2-2.05% in Q4FY25 and the downward trajectory to <2% to continue in FY26, provided Q4FY25 credit costs are within the guided range. BAF's management remains confident of maintaining GNPA/NNPA in a steady range of 1.2-1.4%/0.4-0.5% on a steady state basis.** On a segmental basis, the company continues to witness stress in the 2/3-Wheeler portfolio. Another area of concern has been rising delinquencies in the used car segment, where the company has reduced its business by ~30-35%. However, the delinquency trends in the new car segment continue to remain healthy. The Rural B2C, where stress persisted for the past few quarters, has shown signs of improvement, with CE improving, and the management expects the credit costs to peak out. The company is gradually resuming growth momentum in the rural B2C segment. **BAF will continue to prioritise asset quality over growth.**
- Growth momentum to remain healthy; Airtel partnership to contribute to growth:** In Q3FY25, BAF's AUM growth was broad-based, except for slower growth in the auto finance portfolio. The company is moving away from captive financing, and the book will continue to run down before stabilising in Q4FY26 to form ~3.5-4% of the overall AUM. Going forward, the AUM mix is expected to remain largely unchanged. The management has guided for ~25% AUM growth to continue over FY26. Additionally, the recently announced partnership between BAF and Bharti Airtel (Airtel) offers the company the opportunity to tap into Airtel's customer base. Currently, 9 of BAF's products (incl. personal loans, business loans, gold loans, 2-wheelers loans, instaEMI cards, etc.) will go live by Mar'25, and the company will look to expand its product offerings through FY26. The company has identified a customer base of 200 Mn Airtel customers that does not overlap with BAF. We expect BAF to deliver a healthy ~26 CAGR growth over FY25-27E.

Sector Outlook: Positive

Company Guidance and Outlook: The management has guided AUM/Earnings growth of 25%/20-23% in FY26, with credit costs remaining at <2%. We believe the ambitious target spelt out by the company in its LRS 25-29 would be achievable given the management's impeccable execution prowess. **The decision on the management transition (expected in Q4FY25) would remain a key monitorable.** With CoF having peaked out, we expect NIMs to remain stable until the rate cut cycle, with the management prioritising protecting NIMs over growth. The management expects operating leverage to play out, thereby gradually improving Opex ratios. The company will continue to invest in branches. However, headcount addition would be meaningfully lower. With asset quality stress receding, we expect credit costs to moderate, thereby gradually supporting earnings growth for BAF. We expect RoA/RoE to remain steady between 4.4-4.5%/20-23% over FY25-27E.

Current Valuation: 4.7x Sep'26E ABV Earlier Valuation: 4.0x Sep'26E ABV
Current TP: Rs 9,050/share Earlier TP: Rs 7,655/share
Recommendation: We maintain our **BUY** recommendation on the stock.

Financial Performance:

- Operational Performance:** BAF added ~5 Mn customers (+31/26% YoY/QoQ) during the quarter vs. 3.9/4 Mn customer YoY/QoQ, taking the total customer base to 97.1 Mn customers (+21/5% YoY/QoQ). **The company has guided for new customer additions to be ~17+ Mn customers for FY25, taking the total customer base beyond 100 Mn.** The company booked ~12.1 Mn loans during the Quarter (+22/24% YoY/QoQ). AUM growth was healthy at 28/6% YoY/QoQ, with growth healthy across most segments, except auto financing.
- Financial Performance:** NII grew by 23/6% YoY/QoQ, in line with our expectations. NIMs (calc.) remained steady at 9.72% vs 9.71% QoQ. Non-interest income growth was strong at 39/9% YoY/QoQ, driven by fee income (~1.6% of loan book) which grew by 17/6% YoY/QoQ. Opex grew by 23/6% YoY, with C-I Ratio remaining steady at 33.1% vs 33.2% QoQ. PPOP grew by 27/7% YoY/QoQ. Credit costs increased marginally by 2bps QoQ and stood at 2.12% vs. 2.1% QoQ. Earnings growth was at 18/7% YoY/QoQ.
- Asset Quality** deteriorated with GNPA/NNPA up by 6/2bps QoQ at 1.12/0.48% vs 1.06/0.46% QoQ. PCR stood at 57%, flat QoQ.

Key Financials (Consolidated)

(Rs Cr)	Q3FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Interest Income	9,383	+6.2	+22.6	9,361	+0.2
PPOP	7,806	+6.8	+27.1	7,763	+0.6
Net Profit	4,308	+7.4	+18.4	4,159	+3.6
NNPA (%)	0.5	+2 bps	+14 bps	0.5	-2 bps
RoA (%)	4.5	+6 bps	-38 bps	4.3	+16 bps

Source: Company, Axis Securities Research

 (CMP as of 29th January, 2025)

CMP (Rs)	7,758
Upside /Downside (%)	17%
High/Low (Rs)	7,824/6,190
Market cap (Cr)	4,80,225
Avg. daily vol. (6m) Shrs.	11,23,435
No. of shares (Cr)	62.0

Shareholding (%)

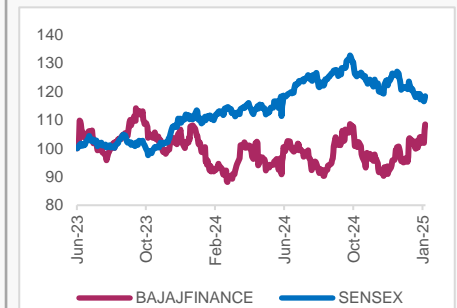
	Jun-24	Sep-24	Dec-24
Promoter	54.7	54.7	54.7
FIIs	21.1	20.8	20.8
MFs / UTI	9.2	9.5	9.5
Others	15.0	15.0	15.0

Financial & Valuations

Y/E Mar (Rs Cr)	FY25E	FY26E	FY27E
NII	36,467	46,017	58,271
PPOP	30,285	37,890	47,626
Net Profit	16,765	21,387	26,880
EPS (Rs)	270.9	345.6	434.4
ABV (Rs)	1,446.6	1,740.5	2,109.9
P/ABV (x)	5.4	4.5	3.7
RoA (%)	4.4	4.5	4.5
NNPA (%)	0.5	0.5	0.5

Change in Estimates (%)

Y/E Mar	FY25E	FY26E	FY27E
NII	1.1	1.3	1.3
PPOP	1.5	1.2	0.7
PAT	2.7	1.2	0.6

Relative performance


Source: AceEquity, Axis Securities Research

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Key Highlights

- NIMs to remain stable:** The management has indicated that CoF is expected to remain stable hereon. **Going into FY26, the management expects a 4-5bps respite on CoF, with or without a rate cut.** On the asset side, the management remains confident of protecting yields despite pricing pressure being visible in certain segments. **However, the company will continue to balance margins and growth while prioritising margins.** We expect margins to remain steady, ranging between 9.7% and 9.8% over FY25-27E.

Outlook

With some recovery in collections and a moderating pace of delinquencies in the pained segments, we expect credit costs to taper gradually going into FY26. Given expectations of NIMs stabilising, improving operational efficiency, enabling cost ratio improvement and gradually improving credit costs, we tweak our NII/Earnings estimates marginally upwards by 1-3% over FY25-27E. We expect BAF to deliver a healthy AUM/NII/Earnings growth of 25-26% each over the medium term while maintaining RoA/RoE of 4.4-4.5%/20-22% over the same period.

Valuation & Recommendation

We maintain our BUY recommendation on the stock. BAF currently trades at 4.0x Sep'26E ABV, and we value the stock at 4.7x Sep'26E ABV to arrive at a target price of Rs 9,050/share, implying an upside of 17% from the CMP.

Key Risks to Our Estimates and TP

- The key risk to our estimates remains a slowdown in overall credit growth, potentially derailing our earnings estimates. The scalability of new products also remains a key monitorable.
- Another risk could potentially emerge from customer behaviour amongst the new-to-franchise customers, impacting the earnings of BAF.

Change in Estimates

(Rs Cr)	Revised			Old			% Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
NII	36,467	46,017	58,271	36,058	45,429	57,522	1.1	1.3	1.3
PBP	30,285	37,890	47,626	29,844	37,450	47,300	1.5	1.2	0.7
PAT	16,765	21,387	26,880	16,319	21,124	26,732	2.7	1.2	0.6

Source: Company, Axis Securities Research

Results Review (Consolidated)

	Q3FY25	Q3FY24	% YoY	Q2FY25	% QoQ	9MFY25	9MFY24	% YoY
Interest Earned	15,768	12,523	25.9	14,987	5.2	44,804	35,078	27.7
Interest Expense	6,386	4,868	31.2	6,149	3.8	18,219	13,508	34.9
Net Interest Income	9,383	7,655	22.6	8,838	6.2	26,586	21,571	23.2
Non-Interest Income	2,290	1,643	39.4	2,108	8.6	6,452	4,970	29.8
Total Income	11,673	9,298	25.5	10,946	6.6	33,037	26,541	24.5
Operating expenses	3,867	3,156	22.5	3,639	6.3	10,977	9,020	21.7
Staff Cost	1,956	1,662	17.7	1,835	6.6	5,565	4,746	17.3
Pre provision profits	7,806	6,142	27.1	7,307	6.8	22,061	17,521	25.9
Provisions and contingencies	2,043	1,248	63.7	1,909	7.0	5,637	3,321	69.8
PBT	5,766	4,896	17.8	5,401	6.7	16,432	14,204	15.7
Provision for Tax	1,457	1,257	16.0	1,388	5.0	4,199	3,578	17.4
PAT	4,308	3,639	18.4	4,013	7.4	12,233	10,627	15.1
Operational Performance								
AUM	3,98,043	3,10,969	28.0	3,73,924	6.5	3,98,043	3,10,969	28.0
Loans Booked (Mn)	12.1	9.9	22.4	9.7	24.5	32.7	28.3	22.4
New customer additions (Mn)	5.0	3.9	30.6	4.0	26.4	13.5	11.3	30.6
Customer Franchise strength (Mn)	97.1	80.4	20.8	92.1	5.5	97.1	80.4	20.8
Cross-sell franchise (Mn)	61.6	49.3	25.0	57.7	6.8	61.6	49.3	25.0
Asset Quality								
Gross NPA (%)	1.1	1.0	17bps	1.1	6bps	1.1	1.0	17bps
Net NPA (%)	0.5	0.3	14bps	0.5	2bps	0.5	0.3	14bps
PCR (%)	57.1	64.2	-707bps	56.5	66bps	57.1	64.2	-707bps
Cost-to-Income Ratio	33.1	33.9	-81bps	33.2	-12bps	35.1	34.6	48bps
Spread Analysis								
Yields on AAuM (%)	16.3	16.7	-32bps	16.5	-13bps	16.4	16.7	-31bps
Yields -incl. fee income (%)	17.9	18.4	-47bps	18.0	-13bps	18.0	18.6	-56bps
CoF (%)	8.0	7.8	20bps	8.0	-1bps	8.0	7.7	28bps
Spread (%)	8.4	8.9	-52bps	8.5	-12bps	8.4	9.0	-58bps
NIM (%)	9.7	10.2	-46bps	9.7	1bps	9.7	10.3	-55bps

Source: Company, Axis Securities Research

Financials (Consolidated)

Profit & Loss					(Rs Cr)
Y/E March	FY24	FY25E	FY26E	FY27E	
Net Interest Income	29,582	36,467	46,017	58,271	
Non-Interest Income	6,676	8,785	10,359	12,190	
Total Income	36,258	45,252	56,376	70,460	
Operating Expenses	12,325	14,967	18,486	22,834	
Pre-Provision Profits	23,933	30,285	37,890	47,626	
Provisions	4,638	7,774	9,327	11,735	
PBT	19,295	22,511	28,563	35,891	
Tax	4,858	5,769	7,209	9,061	
Profit After Tax	14,452	16,765	21,387	26,880	

Source: Company, Axis Securities Research

Balance Sheet					(Rs Cr)
Y/E March	FY24	FY25E	FY26E	FY27E	
LIABILITIES					
Equity Share Capital	124	124	124	124	
Reserves & Surplus	76,572	91,249	1,09,972	1,33,503	
Net Worth	76,695	91,373	1,10,096	1,33,627	
Borrowings	2,93,346	3,74,083	4,68,444	5,94,304	
-- O/W is Deposits	60,151	80,073	1,03,784	1,35,383	
Other Liabilities	5,700	8,614	10,707	13,472	
Total Liabilities	3,75,742	4,74,070	5,89,247	7,41,403	
ASSETS					
Cash & Bank balances	10,624	14,352	17,839	22,446	
Investments	30,881	38,014	41,357	52,036	
Loans	3,26,293	4,11,681	5,17,594	6,51,247	
Fixed Assets & Others	7,944	10,022	12,457	15,674	
Total Assets	3,75,742	4,74,070	5,89,247	7,41,403	

Source: Company, Axis Securities Research

Ratio Analysis
(%)

Y/E March	FY24	FY25E	FY26E	FY27E
VALUATION RATIOS				
EPS	233.8	270.9	345.6	434.4
Earnings Growth (%)	22.8	15.9	27.6	25.7
BVPS	1,241.0	1,476.6	1,779.2	2,159.4
Adj. BVPS	1,222.7	1,446.6	1,740.5	2,109.9
RoA (%)	5.0	4.4	4.5	4.5
ROAE (%)	22.0	20.0	21.2	22.0
P/E (x)	33.2	28.6	22.4	17.9
P/ABV (x)	6.3	5.4	4.5	3.7
OPERATING EFFICIENCY				
NIM (%)	10.2	9.7	9.8	9.8
Cost/Avg. Asset Ratio (%)	3.8	3.5	3.5	3.4
Cost-Income Ratio (%)	34.0	33.1	32.8	32.4
BALANCE SHEET STRUCTURE RATIOS				
AUM Growth (%)	33.6	26.4	25.7	25.8
Borrowings Growth (%)	35.4	27.5	25.2	26.9
Equity/Assets (%)	23.5	22.2	21.3	20.5
Equity/Loans (%)	20.4	19.3	18.7	18.0
Total Capital Adequacy Ratio (CAR)	22.5	21.0	20.1	19.2
ASSET QUALITY				
Gross NPLs (%)	0.8	1.1	1.1	1.1
Net NPLs (%)	0.3	0.5	0.5	0.5
Coverage Ratio (%)	55.2	56.9	56.9	56.8
Provision/Avg. AUM (%)	1.6	2.1	2.0	2.0
ROAA TREE (on Total Assets)				
Net Interest Income	9.1	8.6	8.7	8.8
Non-Interest Income	2.1	2.0	1.9	1.8
Operating Cost	3.8	3.5	3.5	3.4
Provisions	1.4	1.8	1.8	1.8
Tax	1.5	1.3	1.4	1.4
ROAA	4.4	4.0	4.0	4.0
Leverage (x)	5.0	5.1	5.3	5.5
ROAE	22.0	20.0	21.2	22.0

Source: Company, Axis Securities Research

Bajaj Finance Price Chart and Recommendation History



Date	Reco	TP	Research
01-Jan-23	BUY	8,600	Top Picks
30-Jan-23	BUY	7,400	Result Update
01-Feb-23	BUY	7,400	Top Picks
01-Mar-23	BUY	7,400	Top Picks
01-Apr-23	BUY	7,400	Top Picks
27-Apr-23	BUY	7,250	Result Update
27-Jul-23	BUY	8,800	Result Update
18-Oct-23	BUY	9,425	Result Update
30-Jan-24	BUY	8,810	Result Update
26-Apr-24	BUY	8,600	Result Update
12-Jul-24	BUY	8,350	AAA
24-Jul-24	BUY	7,850	Result Update
23-Oct-24	BUY	7,655	Result Update
30-Jan-25	BUY	9,050	Result Update

Source: Axis Securities Research

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