

Bajaj Finance

03 February 2026

Operator: Ladies and gentlemen, good evening and welcome to the Bajaj Finance Limited Q3 FY26 earnings call hosted by Morgan Stanley. This event is not for members of the press. If you are a member of the press, please disconnect and reach out separately. For important disclaimers, please see the Morgan Stanley disclosure website at www.morganstanley.com/researchdisclosures. Please note that this call and your questions will be recorded and may in certain circumstances be distributed to clients and or made publicly available. By participating in this event, you consent to such recording, distribution and publication. All participants' lines will be in a listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. I will now hand the conference over to Mr. Subramanian Iyer with Morgan Stanley. Thank you and over to you, sir.

Subramanian Iyer – Morgan Stanley: Thank you, Emily. Good evening everyone. This is Subramanian Iyer from Morgan Stanley. Thank you very much for joining us for the Bajaj Finance Q3 FY26 earnings call. To discuss the earnings, I am pleased to welcome Mr. Rajiv Jain, Vice Chairman and Managing Director, Mr. Sandeep Jain, CEO and CFO, and other senior members of the management team. On behalf of Morgan Stanley, I would like to thank Bajaj Finance management for giving us the opportunity to host them. I now invite Mr. Rajiv Jain for his opening remarks post which he will open the floor for Q&A.; With that, over to you, Rajiv.

Management: Thank you, Subu. Thank you, Morgan Stanley for hosting this call. I have in the room Sandeep Jain, the three deputy CEOs, and the other operating officers. Good evening and welcome everybody to the earnings call. I would refer you to the investor deck which has been uploaded on our website. I hope you had a chance to go through the same. I will focus on key updates for the quarter before we move to Q&A.; I hope to take 15 or 20 minutes and cover some panels very quickly.

Overall, from a commentary standpoint, the core performance of the company, eliminating one-time charges of the new labor code and the accelerated ECL provision that we have taken in Q3, remains pretty strong. The core performance has been strong across all key metrics: namely AUM growth, where AUM grew by 23,622 crores. OPEX to NTI came in at 32.8%. Core profit growth came in at 23%, and PAT also grew by 23%. ROE at a core operating level, before the one-time accelerated ECL provision and the one-time charge of the new labor code, came in at 19.6%. Net NPA came in at 47 basis points.

The one-time items in the P&L; are principally two. Firstly, to enhance balance sheet resilience amidst a volatile global economic environment, the company has further strengthened its provisioning framework by implementing a minimum Loss Given Default (LGD) floor across all lines of our businesses. I must make an important point that this is purely a proactive and voluntary measure by the company. It is a permanent change to further bulletproof our balance sheet and the resilience of the firm. Going forward, the company will continue to apply the defined LGD floors as we have determined. It will have a small annualized impact as we get into the next fiscal.

The company has made a 1,416 crore provision on an accelerated basis. The stage one PCR, as a result of this, moved from 74 basis points to 98 basis points. This means virtually 1% of assets are now in stage one as acquired, which will have an annualized impact as we get into future years.

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Stage two PCR increased from 31.1% to close to 37%, and stage three moved from 52% to 61%. These changes are permanent in nature and strengthen the balance sheet.

The second impact is the one-time exceptional charge of 265 crores that we have taken towards increasing gratuity liability on account of the new labor code released by the Government of India on November 21. This will also have an annualized impact as we get into the next fiscal, expected to be between 100 to 125 crores annually. These items principally had an impact on both AUM and profit numbers. We are focused on the core operating performance. These two are one-time charges, one being gratuity and another being voluntary in nature.

This takes me to the third important event in the quarter, which is the gain on the sale of BHFL shares. This is another exceptional item in the financials of Q3, recognized in the standalone P&L; statement of BFL. On a consolidated basis, it is a below-the-line item. As far as MPS compliance is concerned, 2% of the BHFL stake was sold by block sale. As a result, the BHFL shareholding by BFL now stands at 86.7%. The resultant gain was 1,416 crores and has been recognized in standalone financials as an exceptional item.

Regarding routine metrics, because of the 1,416 crores, you will see two lines. The reported number is 22% and the core growth number is 23%. We are focused on core operating performance, which showed AUM growth of 22%. New loan books were up 15%. We booked a record 14 million loans in Q3 versus 10 million loans last year. We added 4.76 million customers, virtually adding between 4.2 to 4.5 million new customers every quarter. We now expect 17 to 18 million customers to be added to the franchise in FY26. The overall franchise stood at 115 million, and we are well on course to cross 120 million in the current year. The cross-sell franchise stood at 74 million.

Geographic presence has mostly peaked; it is deepening rather than broadening. This is resulting in operating leverage for the firm. Active distribution is at 241,000. Liquidity buffers stood at 15,100 crores. Cost of funds came in at 7.45%, an improvement of 7 basis points sequentially. Costs are likely to be between 7.55% to 7.6% as we exit the year. The deposit book growth will be slower as we optimize that strategy. Deposits contributed 17% of consolidated borrowing as of December 2025.

In terms of outlook, given that the year is virtually coming to an end, we remain with the view that AUM growth will gravitate between 22% and 23%, but more likely 22% on a full-year basis. Regarding the actions we have taken in the B2C business, we think it will take us two to three more quarters before we are back to 20% growth in that business. Based on the conscious decision to slow it down and the captive two-wheeler financing book winding down, full-year growth will be between 21% and 22%.

Operating efficiencies continued to deliver; NII grew by 21%. NIMs were steady and NTI grew by 19%. OPEX to NTI continued to improve to 32.8%. We are now tracking the implementation of AI and its benefits. We thought it was time to start publishing AI benefit metrics to the street. Full-time employees stood at 69,000, virtually 70,000 including all three companies. Fixed-term contract staff are at 78,000.

Credit cost, an important metric of profit growth, came in at 3,631 crores. The core metric came in at 2,043 crores, a growth of 9%. On a year-on-year basis, loan losses and provisions grew by 9%.

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The annualized number came in at 1.91%. We think from here on, the number will continue to slide down as we get into the next fiscal. In Q3, stage two and three provisions on a net basis were around 93 crores. Stage two decreased by 284 crores and stage three increased by 191 crores. Vintage credit performance since February gives us significant confidence as we get into the next fiscal.

Management: Pre-provision profit grew by 19% and PBT grew by 23% adjusted for one-timers. ROA came at 4.6% at a core level. ROE came at 19.6% and capital efficiency came in at 21.45%.

Regarding transformation, we are attempting to democratize AI implementation data. This covers data for AI, product and service discovery, customer engagement, and point of sale. We are not just testing AI; we are deploying it across the customer lifecycle.

Voice-to-text conversion covered 20 million calls. Text-to-data conversion happened for 5.2 lakh customers, generating 100,000 new offers. We will be able to listen to 100 million calls next year. 100% of our videos and banners are generated using AI. In customer engagement, we have 11 AI text bots live. All 26 products will be live with bots between April and May 2026. At branches, we did 46 million face matches to ensure identity control. Document auto-fill covers 43 different documents with 95-96% accuracy. Auto quality check of documents is at 41%, and we expect it to reach 85-90% over the next 15 months.

Digital disbursement through voice AI call centers came in at 1,600 crores. In technology development, we are seeing 25-45% efficiency. We are investing deep in Gen AI tech and expect to have 800-plus autonomous agents across sales, HR, and IT in the next 6 months. We are building a new consumer AI platform for the app and web. We expect that by June 2027, we will have a completely new consumer AI platform allowing customers to choose between an AI or classic mode.

BHFL already reported results yesterday with AUM growth of 23% and PAT growth of 21% with ROA at 2.3%. Asset quality remains healthy at 27 basis points. BFL Securities had a very good quarter with AUM growth of 63%, profit growth of 72%, and an ROA of 13%.

Our ambition is to be a customer-centric company. We foresee being a 200 million customer company in the next 3 to 4 years. We want to be a technology leader in financial services and the lowest risk business in India. I'm 21 minutes in, so I'm happy to take questions. Before opening for questions, regarding panel 60 and 61, we are principally all green. We are quite optimistic about the credit cost outlook as we step into FY27.

Operator: Thank you. We will now begin the question and answer session. Before asking your question, please introduce yourself by stating your name and your organization name. Please limit yourself to a maximum of two questions. Our first question today comes from Varun Shah with IIFL Capital Services Limited. Please go ahead.

Varun Shah - IIFL Capital Services: Hi, thank you for the opportunity. Rajiv, first with regards to the ECL provisioning. You mentioned a structural change in your commentary, specifically an increase in stage one and two PCR. Does this mean your steady-state credit cost could look higher than it otherwise would have been? If yes, what is your guidance for FY27? Secondly, can you comment on your growth outlook for FY27?

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Management: We will provide FY27 guidance along with Q4 results, which is what we normally do. I will let Sandeep answer the provisioning part.

Management: As Rajiv mentioned, these were voluntary actions. We redefined the loss given default metric by defining a floor across businesses. For example, if we defined an LGD floor at 80%, the moment a customer goes into NPA, we have at least 80% provisioning done. We ensured that this applies to stage one and stage two as well. This will have a cascading impact as the balance sheet grows. However, those numbers would not be significant. Based on our estimates, it could range between 300 to 400 crores of additional provisioning annually, spread across the year.

Varun Shah – IIFL Capital Services: Got it.

Management: We could have taken an overlay given the global environment, but we chose a permanent provisioning change. This was a decision taken after considerable thought and is permanent in nature.

Management: The board and committee approved the change. They were clear that we should make it permanent rather than having judgment coming into play periodically.

Varun Shah – IIFL Capital Services: Understood. Is there a timeline where you re-evaluate if this is the new normal, or is it fixed going forward?

Management: This is a management view, fully supported by the board. We have taken the view that this is how we will look at it for future years.

Operator: The next question comes from Abhijit Tibrewal with Motilal Oswal. Please go ahead.

Abhijit Tibrewal – Motilal Oswal: Good evening. Why was this decision taken now? You spoke about global uncertainty, but as of yesterday, we saw developments like the US tariff deal which might improve things. India has seen credit cycles in various products recently, so what specifically prompted this now?

Management: The recent times have been extremely volatile in the external environment and credit quality behavior for various players. We want to ensure the balance sheet and P&L; are shock-proof. There is never a perfect answer for "why now," but given the volatile macroeconomic environment we were living in, it was important to protect ourselves.

Abhijit Tibrewal – Motilal Oswal: Got it.

Management: Regarding the direction of travel on credit cost, we foresee the number next year could be between 165 to 175 basis points, including this permanent provision. I am chasing a 1.9% to 2% range where we used to be. The annualized number should reflect the several cuts we have taken in the business over the last 12 months.

Management: I think there could not be a better occasion to communicate this and make the team accountable.

Abhijit Tibrewal – Motilal Oswal: A follow-up on the BHFL stake sale. The gain comes below the line in the consolidated financials. Given that you will have to keep reducing your stake to meet listing

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requirements, can we expect these gains to be utilized for further improving the credit resilience of the balance sheet?

Management: Same time last year after the BFL IPO, a similar question was asked. We had a gain of 1,416 crores and made a matching provision through the floor introduction for LGD. As we get more opportunities in the future, we would like to further enhance our provisioning residency to ensure the business model is shock-proof.

Abhijit Tibrewal – Motilal Oswal: One last question on MSME. We have seen pressure due to customer overlap. Do you think things will improve now with the US tariff announcements?

Management: It is not material yet. Over the next two quarters, we think we will be through it. By the June or September quarter, that business should be back to 20% growth. We have taken policy actions that led to a 25-30% reduction in volume. We want to hold the credit policy tight until we see full revival of the portfolio. Early innings look good, but we will wait for full revival, possibly in Q1 or Q2 next year, to go aggressive again.

Operator: Our next question comes from Paran Engineer with CLSA. Please go ahead.

Paran Engineer – CLSA: Thanks for the opportunity. To confirm, you mentioned the treasury gain in the consolidated financials is below the line, so it goes directly to net worth reserves?

Management: Yes, it is written directly to reserves and doesn't come into the consolidated P&L; because we cannot make a profit by selling a stake in ourselves.

Paran Engineer – CLSA: Regarding the LGD floor, does this mean you will accelerate your write-off policy as well?

Management: Our write-off policy is already reasonably prudent. We write off most unsecured loans at six installments overdue, except for mortgages. We defined the floor appropriately by business; for some, it is 75-80%, for others with strong collateral, it may be 40-50%. We will visit it annually and intervene if we need to enhance coverage.

Paran Engineer – CLSA: You mentioned fee income growth of 30%, which is very strong. Is that a one-off or the new normal?

Management: No, that should gravitate closer to 18-20% from the next fiscal. There were some one-timers last year, like 80 crores of gain from the sale of retail loan portfolios, which weren't there this quarter. Core growth for this line should be in the 17-18% range on a year-over-year basis.

Operator: Our next question comes from Abhishek Mararka with HSBC. Please go ahead.

Abhishek Mararka – HSBC: Good evening. First, on the cost of funds, how much scope is there for it to come down further? Second, your market share in vehicle finance is quite low. What is your two-year scale target there, and how do you propose to offset the lower ROEs of vehicle finance compared to your consolidated ROE?

Management: On cost of funds, most of the benefit is already ticking in. For your second question, every business must deliver a sustainable ROE benchmarked within the firm. If a business generates

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profitability, it gets more capital allocation. We are not chasing growth for the sake of it. New car financing will probably grow in the early 30s next year. CV and tractor are small but should grow at 40%. We will not chase growth if it doesn't meet our hurdle rates.

Abhishek Mararka – HSBC: Understood. Is there a specific profitability matrix you target?

Management: It is both ROA and ROE. We give the same amount of leverage and capital to each business, except mortgages, and establish benchmarks to ensure we deliver those returns.

Operator: Our next question comes from Shreya Shivani. Please go ahead.

Shreya Shivani: My first question is on Urban B2C. Growth has come down to about 20%. Is there an increase in competition there? Second, the gold loan branch count has crossed 1,200. What is the plan for next year?

Management: If you refer to panel 91 of our deck, our market share in personal loans is only 8%, while our branch size is 30%. The opportunity is tremendous. We don't have a problem with growth; we just ensure it meets the hurdle rates for risk and profitability. Competitive intensity has magnified significantly as banks have entered this space, but our focus is on sustainable profitability.

Shreya Shivani: Is consumer leverage a concern?

Management: Consumer leverage remains a red flag. The trend line according to bureau data is currently flat on a year-over-year basis for the first eight months, which is a good sign, but it remains an area we watch closely. Regarding gold loans, we will continue expanding distribution. Our existing branches will also convert more into gold loan service points. It is a distribution-led business, and we are committed to growing it as long as it meets our ROA and ROE benchmarks.

Operator: Our final question today comes from an Analyst. Please go ahead.

Analyst: Regarding the ECL, why was the LGD different in stage one and stage two? I would have expected it to be the PD. Also, is the 165 to 175 basis points credit loss guidance a firm outlook or just a general observation because things are looking better?

Management: We are quite optimistic. The 3-month, 6-month, and 9-month MOB metrics give us confidence. Our two-wheeler portfolio, which was a drag on credit cost, will be down to a very small balance sheet by September. This natural wash is happening. Regarding LGD, the floor we apply is uniform across all stages for a specific business line. What moves the provision numbers in stage one and two is the Probability of Default (PD) and Exposure at Default (EAD), which are data-driven.

Analyst: Comparing the two Long Range Strategies (LRS), what was the main positive or negative delta for you?

Management: The big shift is our customer-centric strategy. We are moving from a 60-40 hunting-farming split to a 40-60 split in the next 3 to 4 years. With 100 million customers, it is easier to cross-sell to existing clients. We expect to be doing 100 million loans a year by FY30 and

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have a 200 million customer franchise. This is a fundamental shift in how we run the business.

Subramanian Iyer – Morgan Stanley: Thank you, Rajiv and Sandeep. Any closing remarks?

Management: The focus on core operating performance remains strong and we are quite excited about the medium term. Thank you, Morgan Stanley.

Operator: Thank you. On behalf of Morgan Stanley, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines.

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