

Pine Labs Ltd. – Investment BUY Call Thesis

Dear Bajaj Capital Investors,

New Stock Recommendations for BUY on 17 Sept 2026

CMP -> 185

Buying Range -> up to 190

Upside Potential-> 13%

Investment Horizon -> 6 to 9 Months

Target price -> 210

1. Business Model Transformation: Full-Stack Commerce OS and Geographic Diversification

- **Transition to Transaction and Information Revenue:** Pine Labs has evolved from a payment acceptance infrastructure provider into a full-stack digital commerce operating system operating across offline and online payment acceptance, flow-based transaction services and fintech infrastructure. The company's strategic roadmap first establishes digital infrastructure, layers domain-specific merchant solutions and monetises transaction volumes and data insights, explicitly shifting revenue away from pure terminal infrastructure toward flow-based and information-based streams.
- **Issuing, Acquiring and Stored-Value Ecosystem (IAP):** The Issuing & Acquiring Platform (IAP) contributes approximately 30% of consolidated revenues, expanding the business beyond terminal acceptance into prepaid cards, gift cards, transaction processing and brand distribution. While distribution grants access to major brands and creates client-migration opportunities up the value chain, the processing vertical carries near-100% contribution margins on incremental flow-through volume.
- **Diversified End-Markets and Asset-Light International Reach:** The business serves merchants, enterprises, banks, NBFCs, brands, airlines and consumers across retail, e-commerce, quick commerce, petroleum, consumer electronics and automotive sectors in India, Malaysia, Singapore, UAE, Philippines, Australia and the US. The international model exports existing payments, EMI/instalments, issuing and processing software technology without replicating the capital intensity of physical infrastructure.

2. Financial Performance & Guidance: Robust Top-Line Growth and Profitability Baseline

- **FY26 Financial Baseline and Scale:** In FY26, Pine Labs reported a 19% YoY revenue increase to INR 2,711 Cr, accompanied by a 57% YoY growth in adjusted EBITDA to INR 559 Cr (up from INR 357 Cr in FY25) and a 500 bps expansion in adjusted EBITDA margin. PAT reached INR 113 Cr, while full-year payment processing volume crossed USD 200 billion across its footprint.
- **Q1 FY27 Financial Performance and Guidance Alignment:** Q1 FY27 revenue grew approximately 20% YoY, aligning with management's full-year FY27 revenue growth guidance of 21–23.5%. Q1 FY27 adjusted EBITDA reached INR 126 Cr, PBT stood at INR 38 Cr and PAT was INR 20 Cr, with management reiterating that Q1 represents the seasonally weaker quarter of the fiscal year.
- **Proactive Growth Investments and EBITDA Resilience:** While Q1 adjusted EBITDA was slightly below management's internal benchmark of INR 135–140 Cr, this moderation reflected deliberate front-loaded growth investments—including INR 10–12 Cr QoQ in cloud infrastructure and INR 10 Cr QoQ in network investments—rather than pricing pressure. Management reaffirmed an EBITDA margin floor that will not fall below FY26 levels.

3. Policy Tailwinds: Revenue Monetisation from the 2026 Regulatory MDR Framework

- **Creation of a Regulated Monetisation Pool on High-Ticket UPI:** Finance Ministry & NPCI regulatory framework announced on 15 Sept 2026 (effective 15 Oct 2026) establishes a 0.4% Merchant Discount Rate (MDR) on eligible P2M UPI transactions above INR 2K, capped at INR 300 for transactions of INR 75K and above. While 96% of small-ticket merchant transactions remain zero-MDR, this policy creates a regulated, monetizable revenue pool shared among payment service providers, acquiring banks and application platforms.
- **Direct Economic Lift for Online Payment Processing:** Pine Labs' online payment business, which grew 56% YoY in FY26 and processed platform GTV of roughly USD 48 billion in Q4 FY26, gains a direct monetisation mechanism. High-ticket UPI online transactions now yield regulated processing revenues alongside cards, EMI, BNPL and net banking on its unified online checkout stack.
- **Enhanced Monetisation Across POS and Merchant Footprint:** Applied across Pine Labs' 20.3 lakh digital checkout points (DCPs) and 11 lakh merchant base, the MDR policy increases revenue generation per terminal. Higher-ticket UPI flows on existing physical and dynamic QR/POS infrastructure can be monetised without requiring additional hardware capital expenditure.

4. Policy Tailwinds: Structural Segment Benefits and Market Expansion under MDR

- **Commercial Acceleration in Fuel and Specialized Verticals:** The policy framework applies a flat INR 5 MDR on eligible transactions above INR 2,000 in specialized sectors including fuel, railways, telecom, insurance and agriculture, alongside a 0.02% rate (capped at INR 300) for capital markets. This directly enhances the economics of Pine Labs' petroleum presence, where it targets 125,000–130,000 OMC outlets and controls over 50% of card-based fuel payment processing.
- **Merchant Base Expansion via the 5% UPI Adoption Fund:** The regulatory framework mandates that 5% of total MDR collections be allocated to a dedicated fund for promoting UPI adoption among small merchants. This structural initiative expands the addressable market for Pine Labs' broader merchant infrastructure, driving demand for POS devices, reconciliation tools, merchant software and loyalty solutions.
- **Transformation of UPI into a Sustainable Commercial Ecosystem:** By establishing ecosystem compensation without charging consumers, the policy transforms UPI from a zero-margin volume rail into a commercially viable infrastructure stack. This transition allows Pine Labs to layer higher-margin processing, analytics and software services onto expanding payment flows.

5. Balance Sheet Strength, Cash Flow Conversions and Capital Discipline

- **Liquidity Cushion and Zero External Equity Dependence:** Pine Labs closed FY26 with a cash balance of approximately INR 2,700 Cr, providing total financial self-sufficiency. Management explicitly stated it has no requirement or intention to raise external equity funding, choosing to fund expansion, technology and sales infrastructure entirely through internal cash generation.
- **Cash Flow Conversion Trajectory Across Financial Metrics:** Cash flow conversion performance has demonstrated structural resilience. CFO to PAT percentages stood at 67%, -34% and 351% over the last 3 financial years respectively. CFO to EBITDA percentages were recorded at 918%, 23% and 110% over the last 3 FYs, while CFO to Operating Profits ratios reached 872%, 5% and 112% over the same period. Operating cash flow reached INR 395 Cr in FY26 and INR 676 Cr in Q4 FY26.
- **Working Capital Discipline and Asset-Light Capital Allocation:** Working capital stood at 16% in Q1 FY27, in line with management's full-year target of ~15% and down from seasonal highs of 22%. Capital deployment remains disciplined, focusing on cloud infrastructure, AI platforms, network expansion and a 500-person sales expansion, while avoiding balance-sheet-heavy hardware models in international deployments.

6. Strategic Initiatives, Acquisitions and Operational Milestones

- **Shopflo D2C Acquisition and Wallet Share Expansion:** In June 2026, Pine Labs acquired Shopflo, a product-led D2C checkout platform serving over 1,000 brands and 60 million consumers. Designed to sustain 50–60% growth in online payments, Shopflo improves checkout conversions and enables Pine Labs to monetise payments, merchant offers and engagement tools within a single stack.
- **Tech Collaborations with OpenAI, SignalIQ and Banking Partners:** The company partnered with OpenAI to develop agentic-commerce applications capable of executing automated payments via UPI mandates. Concurrently, its SignalIQ underwriting platform signed 6 banks and NBFCs to monetise Account Aggregator data, while its Credit Line on UPI feature went live with J&K Bank.
- **Leadership Elevation and Key Enterprise Deliverables:** Pine Labs appointed Jayaram Karthik as Chief Operations Officer on 2 September 2026 to strengthen operational architecture across risk, analytics and scaling. Operationally, the company secured the Indian Oil XTRAPOWER loyalty contract valued at INR 60–65 Cr over 5 years and added marquee enterprise accounts including IRCTC, Zepto, Croma, Reliance Digital and Lenskart.com.

7. Operating Leverage Levers and Margin Expansion Potential

- **Sales Force Capacity Monetisation:** During the six months preceding Q1 FY27, Pine Labs added 500 sales personnel to expand offline mid-market and online enterprise merchant coverage. As these cohorts reach full productivity over a standard 6-to-12-month incubation cycle, incremental sales capacity is expected to drive higher volume capture without linear overhead growth.
- **Structural Margin Optimization via Upfront Hardware Funding:** Digital Infrastructure and Technology Platform (DITP) contribution margins adjusted from 84.4% to 81.7% due to a strategic shift where 25–30% of merchants now pay upfront for POS devices and network upgrades. This upfront model reduces balance-sheet exposure, lowers depreciation charges and decreases merchant churn.
- **High-Margin Mix Shift and H2 FY27 Cost Normalisation:** Contribution margins are guided to recover toward 73–74% in FY27, supported by seasonal H2 transaction volumes and a shift in IAP from prepaid distribution (30–40% contribution margin) to payment processing (near-100% contribution margin). Operating leverage will be further aided as one-off cloud and network setup expenses stabilize.

8. Growth Catalysts: Enterprise Online Payments, OMC Rollout and Affordability

- **Accelerating Online Payment Traction and Enterprise Wins:** Following a 60% YoY revenue increase in FY26, Pine Labs' online payment business gains momentum by servicing India's top three e-commerce and top three quick-commerce platforms. Adding major clients such as Zepto, IRCTC, Reliance Digital and Croma positions the online platform for sustained multi-quarter volume expansion.
- **OMC Terminal Rollout and Forecourt Monetisation Visibility:** Pine Labs is deploying 125,000–130,000 petroleum POS terminals across oil marketing companies, with 90,000–100,000 already operational. Having captured 60–70% of full-term contract value, the remaining 30–35% deployment through Q2–Q3 FY27 provides clear revenue visibility and is projected to contribute 30–40 bps to FY27 growth.
- **Affordability Expansion and Terminal Activation Scaling:** The company is broadening its EMI/affordability solutions beyond consumer electronics into non-electronics and electric vehicles (EVs), while onboarding additional NBFC partners. Active flow-based terminals increased from 21% to 30% of the installed base, expanding transaction monetisation across existing merchant touchpoints.

9. Growth Catalysts: Asset-Light International Expansion and IAP Processing Shift

- **Southeast Asian Market Dominance and Scale:** Malaysia has become Pine Labs' largest international EMI market, partnering with 8 to 9 leading banks as a dominant instalment provider. In the Philippines, the company deployed 30,000 terminals for GCash in 9 months via a software and processing model that avoids physical terminal capex.
- **Multi-Year Runway in Emerging International Geographies:** Expansion into Singapore and UAE/Dubai replicates the EMI/instalment playbook, with management targeting regional break-even within 1 to 2 years. International revenues grew 21% YoY in Q1 FY27, representing ~16% of consolidated revenue and offering geographically diversified growth.
- **IAP Value-Chain Migration from Distribution to Processing:** Pine Labs utilizes prepaid card distribution to establish brand relationships across international markets, subsequently migrating clients to transaction processing. This structural shift elevates IAP contribution margins from 30–40% on distribution to near-100% on incremental processing flows.

10. Growth Catalysts: AI Innovation, Agentic Commerce and Data Monetisation

- **Agentic Commerce and UPI Mandate Integration:** Pine Labs demonstrated end-to-end agentic payment processing using UPI mandate functionality. Collaborating with OpenAI, the company is building commerce layers where AI agents execute parameters-bound transactions, creating a automated payment architecture for online merchants.
- **Recurring Monetisation via SignallIQ and Growth Hub:** SignallIQ utilizes Account Aggregator data to deliver underwriting risk signals to financial institutions, signed by 6 banks and NBFCs in Q1 FY27. Simultaneously, the Growth Hub analytics platform converts merchant and consumer transaction data into recurring insights-based revenue streams.
- **Internal Operating Leverage via AI Code Generation:** Management reported that approximately 90% of new software code across four primary technology divisions is generated using AI tools. Combined with AI deployment across back-office operations and call centers, automated workflows are curbing operational costs and expanding core operating margins.

11. Short-Term Macro Risks, Geopolitical Volatility and Medium-Term BUY Thesis

- **Operational and Regional Headwinds:** Near-term execution risks include softer transaction volumes in Middle Eastern markets, cross-border trade friction and temporary segment weakness in airlines. In-store hardware risks have abated, as management confirmed that the semiconductor supply chain shortage that caused a 2-lakh POS backlog in Q4 FY26 is fully resolved.
- **Geopolitical Uncertainty and External Macro Risks:** Operating across multi-national corridors exposes the business to global geopolitical volatility, regional conflicts, shifting central bank interest rate policies, regulatory modifications in digital payment monetization and potential fluctuations in merchant payment instrument mix that could temporarily delay sales force productivity or international timelines.
- **Medium-Term BUY Recommendation and Investment Horizon:** Over a 6-to-9-month investment horizon, Pine Labs presents a compelling BUY thesis. The company combines strong FY27 revenue guidance (21–23.5%), expanding operating leverage, a INR 2,700 Cr cash reserve and positive regulatory tailwinds from the September 2026 MDR framework. With FY26 adjusted EBITDA advancing 57% YoY to INR 559 Cr and multiple high-margin growth catalysts maturing across H2 FY27, the risk-reward profile favors significant capital appreciation.

Q1FY27 Financial Performance:

	YoY	QoQ	Jun 2026	Mar 2026	Jun 2025
Revenue Cr	19.6%	5.2%	737	701	616
Operating Profit Cr ^	112.2%	-10.8%	95	106	45
OPM %			12.9	15.2	7.3
PAT Cr ^	308.6%	-67.0%	20	59	5
NPM %			2.7	8.5	0.8
EPS ₹	240.0%	-67.3%	0.2	0.5	0.1

Recommendation Timeline & Performance Summary:

- 1. 9 July 2026 – Initial BUY Recommendation:** The BUY call was initiated at a price of 144 with a target price of 165, implying an upside potential of 15% over a 6 to 9 months investment horizon.
- 2. 27 Aug 2026 – Target Achieved:** The stock achieved our target price of 165 on 27 Aug 2026 and generated a return of 20% (stock price touched to 173 on 27 Aug 2026) within 2 months of investment duration from our recommendation, significantly ahead of our envisaged 6 to 9 months investment horizon.
- 3. 3 Sept 2026 – Re-Initiation of BUY Call:** We have re-initiate the BUY call at the CMP of 157 with a target price of 180, indicating an envisaged upside potential of 15 % over the next 6 to 9 months.
- 4. 11 Sept 2026 – Revised Target Achieved:** The stock achieved our re-initiated target price of 180 on 11 Sept 2026 and delivered a return of 31% in one week's duration (CMP is 206 as of 11 Sept 2026) from our re-initiated BUY recommendation, significantly ahead of our envisaged 6 to 9 months investment horizon.
- Moreover, stock delivered a cumulative return of 43% in 2 months recommendation (CMP is 206 as of 11 Sept 2026) of initial BUY recommendation, significantly outperforming our envisaged 6 to 9 months investment horizon.
- 6. 17th Sept 2026 – Re-Initiation of BUY Call:** We have re-initiate the BUY call at the CMP of 185 with a target price of 210, indicating an envisaged upside potential of 13% over the next 6 to 9 months.

Happy Investing!

Thank you and best regards,

On behalf of Bajaj Capital's Research Team