Pine Labs Ltd. – Investment BUY Call Thesis

Dear Bajaj Capital Investors,
New Stock Recommendations for BUY on 3 Sept 2026

CMP -> 157
Buying Range -> up to 160
Upside Potential-> 15%
Investment Horizon -> 6 to 9 Months
Target price -> 180

1. Business Model Transformation: From Payments Infrastructure to a Full-Stack Commerce OS

Digital infrastructure and transaction platform: Pine Labs operates across offline and online payment acceptance, payment infrastructure, flow-based transaction services and fintech infrastructure. Its strategic model is to first establish infrastructure, then layer domain-specific solutions, transaction/flow revenues and eventually monetise data and insights. Management explicitly described the transition from an infrastructure-specific revenue model toward transaction/flow-based and information-based revenue streams.

Issuing, acquiring and stored-value ecosystem: Issuing & Acquiring Platform (IAP) contributes around 30% of revenues and extends Pine Labs beyond payment acceptance into prepaid cards, gift cards, processing and distribution. Processing carries very high flow-through economics, while distribution provides access to large brands and creates opportunities to subsequently migrate customers up the value chain into processing.

Diversified end markets and geographies: The company serves merchants, enterprises, banks, NBFCs, brands, airlines and consumers across India and international markets including Malaysia, Singapore, UAE/Dubai, Philippines, Australia and the US. Its applications span retail, e-commerce, quick commerce, fuel/petroleum, restaurants, airlines, consumer electronics, non-electronics, automotive/wheels, financial services, employee benefits and digital commerce. The international strategy is particularly attractive because Pine Labs can export its existing payments, instalment, issuing and processing technology without replicating the capital intensity of physical infrastructure.

2. Financial Performance: Strong Growth Despite Deliberate Front-Loaded Investments

FY26 established a substantially stronger earnings base: Pine Labs reported approximately 19% revenue growth in FY26, while adjusted EBITDA increased to INR 559 Cr from INR 357 Cr, implying roughly 57% YoY growth, accompanied by approximately 500 bps improvement in EBITDA margin. PAT stood at INR 113 Cr, while full-year payment volume reached approximately USD 200 billion, demonstrating increasing transaction scale across markets.

Q1 FY27 maintained the growth trajectory: Q1 FY27 revenue growth was approximately 20% YoY, broadly consistent with management's FY27 guidance of 21–23.5%, with management reiterating that Q1 is normally the weaker quarter and should therefore be viewed as the lower end of the annual growth trajectory. Q1 adjusted EBITDA was approximately INR 126 Cr, PAT around INR 20 Cr and PBT approximately INR 38 Cr.

Profitability should improve as investments mature: Management acknowledged that it would have preferred Q1 adjusted EBITDA closer to INR 135–140 Cr, but deliberately front-loaded investments to capture growth. Incremental cloud expenditure was approximately INR 10–12 Cr QoQ and network expenditure approximately INR 10 Cr, with management indicating that a meaningful portion of the cloud increase is one-time and around 50% of network costs are recurring. Crucially, management stated that there was no pricing pressure and that the EBITDA moderation reflected proactive investments rather than competitive deterioration.

3. Online Payments, Shopflo and Digital Commerce: High-Growth Near-Term Catalyst

Online payments are a major incremental growth engine: The online payments business grew approximately 60% YoY in FY26, with management highlighting that the top three e-commerce and top three quick-commerce players are already on Pine Labs' gateway platform. In Q1 FY27, the company added important relationships including IRCTC, Zepto, Croma, Reliance Digital and Lenskart.com, strengthening its enterprise customer base.

Shopflo expands Pine Labs' share of the digital-commerce wallet: The June 2026 acquisition of Shopflo adds a D2C checkout platform serving more than 1,000 brands and 60 million consumers, strengthening Pine Labs' online proposition. Management has positioned Shopflo as a product-led acquisition designed to support sustained 50–60% online growth, rather than as a material near-term contributor to consolidated revenue. Its checkout and conversion capabilities can increase monetisation per merchant by integrating payments, offers and customer-engagement capabilities.

Online consolidation provides an additional structural tailwind: Management noted that market consolidation is encouraging merchants to seek alternative payment partners, creating an opportunity for Pine Labs to win enterprise accounts. The company's ability to combine online acceptance with offline infrastructure, affordability, issuing, loyalty and merchant analytics creates a stronger proposition than a standalone payment gateway. Over the next 2–4 quarters, continued enterprise wins and higher transaction flows should therefore remain key contributors to consolidated growth.

4. OMC Rollout, Affordability and Flow-Based Monetisation: Visible Revenue Upside

Petroleum/OMC deployment offers substantial revenue visibility: Pine Labs is targeting approximately 125,000–130,000 petroleum POS terminals, with around 90,000–100,000 already completed. Management indicated that approximately 60–70% of the full-term contract value has already been captured, with another roughly 30–35% expected through Q2–Q3 FY27. This creates relatively visible incremental revenue as the remaining deployments become operational.

The OMC relationship extends beyond terminal deployment: Pine Labs' OMC opportunity encompasses forecourt-controller integration, payment acceptance, transaction/flow revenues, loyalty programmes and potential IoT-related tenders. The Indian Oil XTRAPOWER loyalty programme carries a disclosed value of approximately INR 60–65 Cr over five years, separately from terminal revenues. Management estimated already-bagged OMC deals could contribute approximately 30–40 bps to FY27 growth.

Affordability provides another scalable flow-based opportunity: Management is expanding beyond electronics into categories such as non-electronics and EV-related affordability programmes, while increasing NBFC partnerships so consumers can access their preferred credit provider. Approximately 25–30% of growth in the affordability segment has historically come from merchant/store activation, while terminals activated for flow/transaction services improved from 21% to 30%. This creates scope for higher monetisation of Pine Labs' existing merchant base without proportionate incremental infrastructure investment.

5. International Expansion and IAP: Asset-Light Growth with Potential Margin Upside

Malaysia and Southeast Asia demonstrate product-market fit: Malaysia has emerged as Pine Labs' largest instalment-payments market, with the company serving approximately eight or nine banks and positioning itself as the single-largest instalment payments provider. In the Philippines, Pine Labs deployed approximately 30,000 terminals for GCash within 9 months, with the proposition primarily involving software and processing rather than Pine Labs-funded terminal capex.

New geographies provide a multi-year runway: Singapore is being developed around the successful EMI/instalment playbook, while Dubai/UAE represents another emerging market for instalments. Management expects newer geographies such as Singapore and Dubai to reach break-even over approximately one to two years. International revenue grew 21% YoY in Q1 FY27 and represented roughly 16% of consolidated revenue, providing diversification while maintaining an asset-light model.

IAP creates a pathway from lower-margin distribution to higher-margin processing: Internationally, Pine Labs often enters through prepaid/gift-card distribution and then moves customers into processing. Management highlighted processing contribution margins approaching 100%, compared with approximately 30–40% for distribution. As international customers migrate up the value chain and as processing volumes increase during the second half, the mix should support IAP margin improvement. Management expects consolidated contribution margin to recover toward approximately 73–74% in FY27, with higher contribution margin anticipated in H2.

6. AI, Agentic Commerce, SignalIQ and Data Monetisation: Emerging Higher-Margin Businesses

Agentic commerce creates a potentially new transaction architecture: Pine Labs has demonstrated an end-to-end agentic payment transaction in which buyer and seller agents communicate using UPI mandate capabilities. Its collaboration with OpenAI provides an opportunity to develop agentic-commerce applications where AI agents can execute transactions within user-defined parameters. Management has linked early agentic-payment momentum directly with traction in the online-payments business.

SignalIQ can convert transaction/data infrastructure into recurring analytics revenue: SignalIQ uses Account Aggregator data to identify signals that can improve credit underwriting, with six banks/NBFCs signed according to the latest Q1 FY27 update. Credit Line on UPI is also live with J&K Bank. These products are strategically important because they move Pine Labs toward higher-value financial infrastructure and data monetisation rather than pure payment processing.

AI should also provide internal operating leverage: Management stated that approximately 90% of new code in at least four divisions is being written using AI, while AI is being deployed aggressively in call centres and back-office operations. The company is simultaneously building Growth Hub capabilities around merchant and consumer insights, which management expects to become a meaningful revenue stream on a full-year basis. Thus, AI has a dual economic impact: lower technology/operational costs over time and incremental revenue from new merchant and financial-institution products.

7. Operating Leverage, Margin Expansion and Execution: Stronger Earnings Potential in H2 FY27

Front-loaded sales investment should translate into productivity: Pine Labs added approximately 500 salespeople during the six months preceding Q1 FY27, primarily targeting offline enterprise/mid-market merchants and online merchant acquisition. Management expects sales productivity to ramp over 6 to 12 months, implying that a substantial portion of the newly added capacity should become productive over the next several quarters.

Contribution-margin compression is largely strategic rather than structural: DITP contribution margin declined from approximately 84.4% to 81.7%, but management attributed this mainly to the deliberate shift toward merchants paying upfront for devices and network upgrades rather than pricing pressure. Approximately 25–30% of deployments involve merchants paying upfront, reducing Pine Labs' balance-sheet exposure, depreciation and merchant attrition.

H2 FY27 provides several margin levers: IAP margins should benefit from greater processing mix, festive-season volumes and increasing flow-based revenues. Cloud costs should partially normalise after one-time expenditure, while network investments associated with OMC and global rollouts should begin generating revenue. Management has not provided an explicit EBITDA-margin target but gave an important floor, stating that it does not expect the business to fall below the previous year's margin level.

8. Balance Sheet, Cash Flow, Investments & Capital Allocation: Financial Flexibility Supports Growth

Strong liquidity reduces funding risk: At FY26 year-end, management cited approximately INR 2,700 Cr of cash and explicitly stated that it had no interest in raising funds, preferring to finance growth organically. This provides Pine Labs with significant flexibility to continue investing in technology, international expansion, AI, sales infrastructure and strategic opportunities without immediate dependence on external capital.

Cash conversion and working-capital discipline have improved: FY26 operating cash flow was approximately INR 395 Cr, while Q4 FY26 operating cash flow was INR 676 Cr. Management acknowledged historical working-capital concerns but indicated that normal working capital is approximately 14–15%, compared with a temporary 22% level during the festive cycle. Q1 FY27 operating cash flow was approximately 16%, broadly consistent with management's full-year intention to maintain it around 15%.

Investment programme is focused on technology and distribution capacity: The recent investment cycle has centred on network upgrades, cloud infrastructure, AI capabilities and approximately 500 incremental salespeople rather than conventional manufacturing capacity. While the provided company material does not disclose a separate quantified traditional capex programme, these investments are intended to support higher transaction volumes, OMC deployments, international mandates and online-payment growth. Importantly, management's model remains relatively asset-light, including international deployments where Pine Labs provides software/processing without funding equivalent terminal infrastructure.

9. Strategic Developments, Industry Tailwinds, Risks and BUY Conclusion

Strategic execution remains encouraging: The Shopflo acquisition, OpenAI collaboration, SignalIQ expansion, Credit on UPI, Growth Hub, OMC rollout, international processing mandates and expansion of the sales organisation collectively demonstrate that management is executing on its stated strategy of moving from infrastructure toward transaction, data and information-based monetisation. The appointment of Jayaram Karthik as Chief Operations Officer on 2 September 2026, with extensive experience across operations, risk, analytics and technology, further strengthens the company's operating architecture as it scales across India and international markets.

Key short-term and macro risks: The principal near-term risks are slower-than-expected international ramp-up, Middle East and airline weakness, temporary contribution-margin pressure from distribution-heavy international expansion, elevated cloud/network costs, sales-force productivity taking longer than expected and volatility in payment mix. Management has specifically acknowledged geopolitical effects on cross-border trade and bank decision-making, Middle East softness, airline weakness and hardware supply-chain risks. A highly volatile global environment involving wars, geopolitical fragmentation, regulatory changes, payment-system policies, RBI/regulatory actions or changes in the economics of digital payments could also affect transaction volumes, international expansion and margins. Importantly, the previous chip shortage that created a backlog of nearly 2 lakh POS machines in Q4 FY26 has been described by management as resolved, with the supply chain now in place.

BUY conclusion for 6 to 9 months: We view Pine Labs favourably because the next 2–4 quarters have multiple identifiable growth drivers rather than dependence on a single product: 21–23.5% FY27 revenue guidance, online payments, Shopflo, OMC terminal monetisation, affordability, IAP, international expansion, SignalIQ, agentic commerce and Growth Hub. The earnings trajectory could improve disproportionately if the recently front-loaded sales, cloud and network investments translate into higher transaction volumes and operating leverage. With FY26 adjusted EBITDA already rising approximately 57% YoY to INR 559 Cr, Q1 FY27 maintaining approximately 20% revenue growth, strong liquidity and management guiding for better growth from Q2 onward, the risk-reward profile supports a BUY for a 6 to 9 months medium-term investment horizon, subject to monitoring international execution, margin recovery and regulatory developments around digital-payment monetisation.

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 delivered 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.

Happy Investing!

Thank you and best regards,

On behalf of Bajaj Capital's Research Team