Pine Labs

Operator: Pine Labs Ltd. Q2 FY27 earnings call. Please note that all participants will be in listen-only mode and that this call is being recorded. Joining us from the Pine Labs management team are Mr. Amrish Rau, CEO, and Mr. Sameer Kamath, Group CFO. We will begin the call with opening remarks from Mr. Amrish Rau, followed by a question-and-answer session. Before we begin, please note that some of the statements made during this discussion may be forward-looking in nature. Actual results may vary significantly due to various external factors. The Zoom conference call is intended solely for investors and analysts, so if you are joining from a media organization, we request that you disconnect. Please reach out to the company's Investor Relations team with any questions. With that, I now hand over the call to Mr. Rau. Over to you, sir.

Amrish Rau – CEO: Thank you very much. Welcome, everyone, to our earnings call. I wanted to give a very quick overview of what is happening in the market, how we are looking at the business, how we feel we performed in Q2, and then we will move into the question-and-answer section.

I thought there was good execution across Pine Labs in Q2. Every one of our lines of business continued to deliver very well, and we were able to drive the growth that we were targeting. As you know, we delivered approximately 24% growth on the revenue side and, as far as adjusted EBITDA is concerned, we delivered approximately 27% growth on a year-on-year basis.

There was good execution across the company. I think what was most interesting for me across the company, whether it was the offline side of the business, the issuing side of the business, or the online side, was that each of these segments actually grew faster than the market. We gained market share in all the various businesses in which we have been operating. I would like to give you a little bit of a breakdown of each business and what is happening in each of them.

On the offline side of the business, with enterprise accounts, we continue to hold on to 100% of our business there. Our net revenue retention is extremely strong on the enterprise side of the business, and every one of our logos and brands is intact. What I would say is that we have gone ahead and added very strong brands. One great example is Tanishq, where we did not have any presence for a long period of time, and through Q2, we are now deployed across all Tanishq stores. We have also continued to increase our market share with another large retailer, where they are clearly seeing the value that Pine Labs is delivering. Therefore, in the enterprise segment, we have a moat and have been able to protect our base.

What is interesting is the mid-market segment. Mid-market includes apparel brands, coffee shops, restaurants, duty-free stores, and airports. In those segments, we have continued to gain market share, and on a trailing 12-month basis, we have deployed close to 100,000 terminals in the mid-market segment. Therefore, in the mid-market segment, we are acquiring new logos.

Why is that happening? It comes down to a few simple points. Even on the mid-market side, merchant requirements are becoming more complex. They want us to be fully integrated either into their ERP or into their invoicing and billing systems. Pine Labs is the only company investing in the complex technology changes required there, and merchants are seeing the differentiation and wanting to work with us. That is the reason why we have been able to win there.

Report is AI-generated and may contain inaccuracies.

The second part is that we have also started providing a lot of value-added services that bring footfall to these mid-market merchants. These mid-market merchants appreciate the fact that we are bringing partnerships that can potentially bring consumers into their stores. Therefore, they are partnering with us, and in turn, we are earning a small share of flow-based income in those mid-market segments as well. Because of our distribution in the enterprise and mid-market segments, we have also been able to drive flow-based income at Pine Labs.

Coming to flow-based income, flow-based income at Pine Labs grew by approximately 25% on a year-on-year basis. Volumes grew at a higher rate and came in at approximately 50% because we again gained market share on the UPI side. That is the reason why volumes are almost at 50%, while flow-based income grew by 25% on a year-on-year basis.

We have added new revenue streams to our flow-based income. A lot of people are asking us about installment payment services, which is obviously more than what people used to ask us about POS. However, our flow-based income is now developing more revenue streams associated with data-related services, marketing-related services, and the distribution of marketing-related products. All of these have gone into our flow-based income, and that has resulted in a healthy rise on a year-on-year basis.

On the issuing side of the business, we have again grown significantly, both on the processing side and in the distribution of prepaid cards and gift cards. In the distribution of prepaid cards and gift cards, we have again grown faster than the market. We have gained market share on the distribution front. On the processing side, as you know, we already have approximately 80-85% of the market.

This growth has come on the back of new products that we have taken to the market. To highlight two products, first, we have brought in some gaming-related brands into our distribution of prepaid cards and gift cards. Second, the mass-transit program associated with NCMC, which is called Bharat Yatra, has seen significant distribution. For example, we have now distributed approximately 25 to 30,000 cards on a monthly basis under the Bharat Yatra prepaid card, which is being used for daily transit. We are now effectively distributing almost 1,000 NCMC cards daily. These cards are distributed largely through Blinkit and Zepto, which are the channels for this distribution.

What I am most excited about on the issuing side of the business is that we are seeing new use cases emerge, and we will be launching them in November. I think I have discussed this before, but I wanted to share it again. By the end of November, we will have an employee tax-benefit card in the market. That will effectively allow us to go back to the corporates with which we have already been working and give them a solution in the employee tax-benefit area. That should come toward the end of November or early December.

Talking a little more about the online and bill-payments business, on the online side of the business, four leading Q-commerce companies are now using our payment gateway for daily transactions. We are also providing installment payment services on our online platform for these Q-commerce businesses, especially for electronics, mobile phones, and consumer durables that they may be selling.

Report is AI-generated and may contain inaccuracies.

During Flipkart's Big Billion Day, we were one of the payment gateways that they had enabled. This shows me that we are making progress with products through which the largest retailers continue to use Pine Labs in the online world as well. I also wanted to share very quickly that one of the largest consumer billers in the country has signed up with Pine Labs and will go live in Q3. Therefore, we are again winning new deals on the bill-payment side as well.

Very quickly touching upon the international markets, some of you have asked us what we have been doing in the UAE and Dubai. I have told you that we have partnered with Emirates NBD and Wio Bank, where we are providing the entire technology services for both offline and online payments to both banks.

To highlight how large those businesses have become, in the UAE, we are now starting to process 1 lakh transactions a day. That is the size and scale at which we are operating in the UAE market. I also want to tell you that we are now approaching 1 lakh POS terminals deployed in the Malaysian market. In the Philippines, we now have 50,000 POS machines operating entirely on the Pine Labs platform.

Therefore, contrary to what people believed, that international is a small bet for Pine Labs, we are not merely present in those markets; we are actually winning in those markets. As I just told you, these are numbers at scale at which we are operating. We are now present in approximately 22 countries and continue to have very good wins in many of those markets.

Finally, I wanted to very quickly touch upon my outlook for H2. We have had a very good H1. We have been able to prove that there is enough opportunity in the market. We are seeing more opportunities emerging in the market, especially in offline, online, bill-payment services, and the issuing area.

We want to continue investing on the sales side. During H1, we invested heavily in salespeople. We are also deploying more salespeople in the international markets because of the wins that we have created there. We are quite happy with what we have delivered in H1, and we are going to continue investing so that we can continue to increase our revenues in H2 as well.

Some of the things to look forward to are that, in the second half of this year, we should be able to scale our gaming distribution in gift cards. The employee tax-benefit card is another initiative to watch. Data-related services and marketing- and advertising-related revenues will continue to increase. Affordability is an area on which we are absolutely focused and are expanding. You will see a lot more of that in Q3, where we are going much beyond the electronics segment.

The final piece is the entire emerging opportunity around UPI. We provided some numbers relating to our UPI transactions in the earnings report that we sent out. I have nothing more to add regarding when UPI MDR will go live. It is now completely in NPCI's hands. That is more or less what is happening in the market. I am happy to take any questions. [pause] Operator, you can take the questions.

Operator: Thank you. Thank you, sir. Ladies and gentlemen, we will now begin the question-and-answer session. Anyone who has a question may click on the raise-hand button on the bottom toolbar. The operator will announce your turn in the queue. Ladies and gentlemen, we

Report is AI-generated and may contain inaccuracies.

will wait for a moment for the question queue to assemble.

We will take the first question from Vijit Jain of Citi. Please go ahead.

Sameer Kamath – Group CFO: Yes, Vijit.

Operator: Mr. Vijit Jain?

Vijit Jain – Citi: Am I audible now?

Operator: Yes, you are audible now.

Vijit Jain – Citi: Great, thank you. It is good to see the growth in India in the issuing and acquiring platform business sustaining in the second quarter. Within the India business, I see that it is up 40% year-on-year. I know this is a quarter without Big Billion Day sales, and most of the sales events would have happened in Q3. I am wondering, despite that base, if this grew 40%, is it likely to grow even faster in Q3 because the entire festive season is concentrated in Q3 this year? That is my first question. I will come back with—

Sameer Kamath – Group CFO: Maybe I can take that first, Amrish, and then—

Amrish Rau – CEO: Sure, go ahead. Go ahead.

Sameer Kamath – Group CFO: Thanks, Vijit. Our prepaid business has multiple use cases, and it is not only linked to the festive season or otherwise. If you see, our core business continues to do well with some of our large players that renewed their contracts with us. There is a core base, as well as new use cases coming in.

We have found a lot of new use cases, as Amrish was also saying, across multiple lines, apart from just the core use case that we had with some of the e-commerce companies. For example, the refund wallet is a very large use case that has built significant traction across existing clients and new clients. Gaming is a new platform that has given us better take rates as well.

A lot of the use cases that we have been discussing and building over time have started seeing traction across segments, and that is why you are seeing some of these growth rates. There is nothing specific to a season in these businesses, and that is what we are trying to build going forward as well.

Amrish Rau – CEO: I will add a little more to that, Vijit. October is almost over. During that period, we went through Navratri and Dussehra. Navratri and Dussehra were extremely strong. As far as the Navratri-Dussehra period is concerned, I have nothing to worry about regarding what happened during those days.

However, when it comes to Diwali, I think we will know in the next 2 weeks. We have deployed our people in the field, and they are in various stores, but we will have a better picture in approximately 2 weeks.

Vijit Jain – Citi: Correct. Amrish, just following up on that, within your affordability business, now that October is behind us and we know that consumer-electronics prices have been rising sharply

Report is AI-generated and may contain inaccuracies.

this year, that generally brings to mind the question of whether EMI on cards will see higher penetration this time. Are you seeing that in October, and how do you think about that particular business? Whatever colour you can provide on the affordability business during the festive season so far would be very helpful.

Amrish Rau – CEO: Vijit, I am going to restrict my comments on the festive season to the period up to Dussehra. As far as Dussehra is concerned, it has been a good start to the quarter. Again, I am not ready to say much about Diwali because I [trails off]

Amrish Rau – CEO: I think it also depends heavily on what the banks are going to do and how the overall mood develops during the Diwali period.

Vijit Jain – Citi: Understood, thank you. My next question is on UPI. Thank you for the disclosures in the letter on the eligible GTV for '27 and '28 as well. I believe the '28 number represents a good 60% year-on-year increase over FY27, and I am trying to understand the key drivers of that. If I look at your net device additions, and I know that you have an aggressive plan for 1 million device additions, are you looking at your device-count aspirations and then projecting that 32 to 33,000 crores, or is it something else? Whatever you can tell me would be very helpful.

Sameer Kamath – Group CFO: So, Suvijit—

Amrish Rau – CEO: No, Suvijit, first let me tell you what is happening in the market. If you are in organized retail, the retailer wants reconciliation to be completely automated, including for a UPI-based transaction. Nobody is turning around and saying that they will keep UPI as a separate, independent device or sticker outside.

I said this in the last quarter as well: 75–77% of the transactions on our POS machines are now UPI transactions. Only 25% are card-based transactions. Those 75% of transactions have grown at approximately 68% compounded over the last 2 years, and all we have done is say that we think another year of approximately 70% growth is coming.

In other words, organized retailers are also moving toward device-based UPI. As a company that has not really tried to do much more in terms of having soundboxes or screen-based boxes at merchant locations, if we make a little effort, I do not think we should be short of 70% growth in the next year and at least for 1 more year.

I think we will be able to capture that, and that is one of the things that led me to say that we will deploy at least 10 lakh more soundboxes in the market.

Vijit Jain – Citi: Understood, Amrish. That is very helpful. One last point within that: since these are large enterprise merchants, for you to pass on the 40 bps MDR to them, will that be an automatic process, or will you have to approach the merchants one by one with your bank partners to work this out?

Amrish Rau – CEO: Just to clarify, from a technical standpoint, we do not need to do anything more. From a commercial standpoint, I absolutely believe that, when it comes to the largest merchants we have, there will certainly be a commercial conversation to be had.

Report is AI-generated and may contain inaccuracies.

Sameer Kamath – Group CFO: Suvijit, let me also add that we are seeing two levels of growth: the number of transacting POS terminals is increasing, and the value per transacting POS terminal is also increasing. A large part of our base now also comes from the mid-market segment, where we are growing at 40% and are present on the transaction rails. Therefore, a large part of our volumes now also comes from the mid-market and not only from the large segment. It is a well-diversified pool generating UPI volumes.

Vijit Jain – Citi: Understood. Very helpful, as always. Thank you.

Sameer Kamath – Group CFO: Thank you, Suvijit.

Operator: Thank you. Our next question is from Pranav Kshatriya of Emkay Global. Please go ahead.

Pranav Kshatriya – Emkay Global: Hi.

Sameer Kamath – Group CFO: Hi, Pranav.

Pranav Kshatriya – Emkay Global: Thank you for the opportunity. I want to dwell a little on the UPI MDR that you commented on. Thank you for the numbers you have provided. Of the 65% or so of transaction value above 2,000, there will be certain categories that will be excluded from MDR or will have a very low MDR of 5 rupees capped. What would be the addressable GMV, and what should we consider as the take rate on that, just to get a sense of how this will develop financially?

Amrish Rau – CEO: Pranav, there is a reason why we presented it in the way we did. I think it will take a little longer to calculate what the net take rate will be across our entire UPI base. Everyone has heard about the 40 bps that is going to come out. It is fairly clear that, out of the 40 bps, the pool for the acquirer will be approximately 11 bps.

We wanted to give you the volumes associated with it. We did not want to hazard a guess regarding what comes through from commercial negotiations or what comes through in terms of the split between some of the changes that could potentially arise from MCC-based pricing.

Pranav Kshatriya – Emkay Global: No worries, thank you. I will move to the next question. I want to understand the growth in transaction-based revenue. It is good to see growth of more than 25%, and I am trying to understand what exactly is driving that growth. I would assume that affordability is the largest part of it, but this time the festive season falls in Q3. Electronics prices have also been higher, and some media reports say that GMV in electronics was down during Big Billion Day. I assume that will affect Pine Labs' affordability business to some extent. What exactly are the drivers? Could you highlight the top 2 or 3 products? If affordability has not been affected, that would also be useful.

Amrish Rau – CEO: Pranav, to be honest, we have been very clear in explaining this for a long period of time. Under flow-based income, anything we earn through DCC, which is dynamic currency conversion as a payment transaction, goes into that line.

Anything we earn as aggregator-based revenue, such as transaction-based revenue of 10 bps, 15 bps, or 20 bps on our regular payment transactions, is included in flow-based services. Anywhere we provide access to consumer internet companies so that they can close a transaction at a

Report is AI-generated and may contain inaccuracies.

merchant location, whatever fees we earn associated with that transaction are also booked in this line item.

That is the third component. Fourth, we have a lot of data-related, marketing-related, and advertising-related services in our portfolio. Those revenues also sit in the same flow-based bucket.

Finally, there is the affordability side. We are trying to grow all of these services. Some of these other services have now become a larger part of our overall flow-based income, and that has effectively driven the 25% year-on-year growth.

I do want all of you to think of this business as much broader than just a one-trick pony focused on affordability.

Pranav Kshatriya – Emkay Global: Thank you for that explanation. I assume that affordability was not affected at all by seasonality or by electronics prices.

Amrish Rau – CEO: [pause] Sorry, can you—

Sameer Kamath – Group CFO: There are 2 or 3 things—

Amrish Rau – CEO: Yes, sorry, go ahead. Go ahead.

Sameer Kamath – Group CFO: Pranav, to be candid, whatever macro factors exist are macro factors, and they are here to stay. However, there are 2 or 3 things to keep in mind. The festive season actually started early, in late September, and there was a GST cut.

If you adjust for the one-off effects arising from these movements in the festive period, we would have seen more or less reasonable numbers. Across segments, there are 2 or 3 things to keep in mind. Affordability has predominantly been in CDIT in the past, but we have seen volumes grow across non-CDIT as well.

Non-CDIT and some of the other initiatives have helped us build the overall affordability portfolio. Any short-term shock that we are seeing in any of these segments is being more than compensated for by all the other segments.

Pranav Kshatriya – Emkay Global: Fantastic. My next question is around capex and some of the indirect costs. Capex has increased quite significantly, to 240-odd crore rupees in H1. How should we view this in the context of higher chip prices driving higher device costs, as well as your aspiration to deploy many more soundboxes?

Sameer Kamath – Group CFO: Pranav, I will take that question. If you remember, in Q4 we said that there was a global crisis that resulted in delayed procurements and some orders slipping. Approximately 35-40 crores of capex actually slipped from Q4 to Q1 because of these chip problems.

Therefore, what you see this year includes the carryover from last year, of approximately 35 crores. In addition, we now have to pay almost 80% in advance to lock in prices, given that chip shortages continue. Vendors previously worked with a 20% advance but now want higher advances.

Report is AI-generated and may contain inaccuracies.

Approximately 20–25 crores of advances for which deployments have not yet occurred and procurements are still pending are included in the capex that you are seeing. Adjusted for that, we are broadly within the range, considering 2 things.

In the mid-market space, we are growing at approximately 39–40%. Some of the capex relates to that growth, and some relates to devices sold. In addition, we are going to deploy a lot of soundboxes given the UPI opportunity, so there will be some procurement for that as well.

Adjusted for these factors, there will be a normalized increase in the business given the opportunity we see. Otherwise, I think you will see more or less steady-state numbers across the 2 years.

Pranav Kshatriya – Emkay Global: Thank you for that. My last question is on indirect costs. You spoke about investment in marketing and hiring more marketing professionals, especially in overseas geographies. How should we think about this? Is 425-odd crore or 426 crore rupees of indirect cost the new normal, or can it increase further?

It was very steady until Q4 FY26, then Q1 showed an increase, and Q2 again shows a sharp increase. Should we expect this run rate to continue going forward?

Amrish Rau – CEO: Sameer, do you want to take that?

Sameer Kamath – Group CFO: Yes. There are 2 things. Cloud and data costs are real costs, and we have always guided that, when looking at indirect expenses, you should distinguish between expenses linked to the top line and those that are variable.

Cloud and data costs, as you see, have always been trending at 8.5–9%, including cloud infrastructure. We have put many initiatives in place to optimize and modernize this because we are now leveraging AI, and the resulting tokenization cost is a real cost that will remain. Therefore, that cost will remain variable at approximately 8–9% of the top line.

The other cost within indirect costs relates to outsourced employees required for ground-level execution across multiple initiatives. For example, we have won large OMC contracts, we want to penetrate the non-CDIT segment, and initiatives involving investment in salespeople, both off-role and on-role, also come under indirect costs.

Those expenses are variable, but they are revenue-accretive costs, and that is where they will remain.

Secondly, one item that should be called out on a quarter-by-quarter basis is that we are a large sponsor of GFF. GFF occurred in Q3 last year and in Q2 this year, so that cost has shifted between quarters.

Given the size of the event and the showcasing we can do for our products, it is an important spend for us to showcase our capabilities. Based on those capabilities, we are able to monetize many of those opportunities.

Therefore, one has to keep that calibrated and view it from a long-term perspective. We are judicious about our costs. All of these costs are going toward either a new geography, a new

Report is AI-generated and may contain inaccuracies.

opportunity, or ground-level presence to build the rails for monetizing the flow-based businesses.

Pranav Kshatriya – Emkay Global: Thank you for your answer. I wish you all the best.

Sameer Kamath – Group CFO: Thank you.

Operator: Thank you. Our next question is from Nitin Agarwal of Motilal Oswal. Please go ahead.

Nitin Agarwal – Motilal Oswal: Thank you for the opportunity, and congratulations, Amrish and Sameer, on a good set of results. I have a couple of questions. One is on international business revenue. The mix had been gradually increasing slightly every quarter. This quarter, there is a slight decline, and if I look at it quarter-on-quarter, this implies only 2-3% quarter-on-quarter growth. How should we look at that?

Sameer Kamath – Group CFO: Overall, if you see, the international businesses are growing in cohorts. Our oldest business, Malaysia, continues to grow at a faster pace than the overall business. Some new businesses are building up.

While the proportion is one way to look at it, we are looking at all engines of growth. There are many vectors within our India business, as Amrish said, that are also becoming large and significant. Therefore, mix is a long-term guidance point; it is not something that can be tracked on a quarter-on-quarter basis.

The good part is that, across each geography, we are seeing progress. As Amrish mentioned, whether we are working in the Philippines, where the business is becoming large, or processing 1 lakh transactions a day in the UAE, these are proof points that these geographies have accepted Pine Labs as a preferred partner for their payment and e-commerce solution business and overall commerce infrastructure.

Amrish Rau – CEO: Sameer, I want to give one very specific reason associated with this. One of the things we do in the international market, especially in Singapore, is distribute gift cards and prepaid cards for some large brands.

Without being specific, one of the largest retailers in the world has decided to exit the Singapore market. Therefore, the distribution of those cards in the Singapore market is a business that was specifically reduced for us in Q2.

If we use Q2 as the base for the change that has occurred from a merchant standpoint, you should be able to see that continued growth return to the business.

Nitin Agarwal – Motilal Oswal: The reason I asked is also because our profitability in the overseas market and the tax rate [cut off]

Nitin Agarwal – Motilal Oswal: will be a function of the revenue line, the revenue-growth number, or the absolute business size that we reach.

Amrish Rau – CEO: Correct.

Report is AI-generated and may contain inaccuracies.

Nitin Agarwal – Motilal Oswal: It may take longer if the business does not grow rapidly to a certain optimum size. It may take longer for the business to deliver its full profitability.

Amrish Rau – CEO: Nitin, just to clarify, when you look at this international business of ours, except for the distribution of these gift cards and the accounting policy associated with it, most of our other businesses are largely what we call net-revenue businesses, or businesses with a very high contribution margin.

As far as those businesses are concerned, and this is what we are doing in the UAE, Australia, and the Philippines, those businesses are continuing to scale very well and revenues are continuing to grow.

The distribution of this e-commerce retailer's cards, which was a low-contribution-margin business, was actually reduced in Q2, so some of that revenue has gone away. However, you are not seeing any material impact from that on the EBITDA line.

Sameer Kamath – Group CFO: Also, if you see, the effective tax rate has declined compared with the earlier quarter, and we have provided some medium- to long-term guidance, as you would have seen this quarter as well. Keep that in mind when considering our growth trajectory.

Nitin Agarwal – Motilal Oswal: Understood. My second question is on the GTV of the issuing and acquiring business. It has been running in a very range-bound manner for the last few quarters, while this quarter we have seen an improvement in the revenue line, probably because take rates have improved. How should we look at that, and how do you view the underlying GTV growth as well?

Amrish Rau – CEO: Some of our businesses have a certain level of cyclicality in terms of the use cases through which we are working. You could have some brands running many promotions associated with specific programs in their businesses. For example, the following year they may not have the budget for those programs and may not invest in them. That has a direct impact on the GTV flowing through our platforms.

However, when you look at what we are able to bring in at the net-revenue level, that impact is not very large. I understand what you are saying when you look at the GTV level, but because of the cyclicality of the businesses with which we work, GTV sometimes does not accurately capture the revenue associated with that business.

Sameer Kamath – Group CFO: If you look at it from a trend perspective, H1 GTV has grown by approximately 20%, after adjusting for that. H1 GTV has grown by more than 20%.

Nitin Agarwal – Motilal Oswal: Okay. My last question is on employee-expense growth. It has been running at low double digits—sorry, at low single digits. How should one look at this? What is the total employee count, and how do we plan to ramp that up as we now want to focus more on DCP installations?

Amrish Rau – CEO: Sameer can provide the specifics, but at a high level, yes, we have increased our salespeople across the board, whether in POS sales, the issuing side of the business, sales in the online segment, or what is happening in global markets.

Report is AI-generated and may contain inaccuracies.

We have invested in salespeople, which will result in an increase from the numbers you would have seen in Q1 and Q2 in terms of salespeople and the overall wage bill. We are not providing guidance on where that could go. Sameer, do you want to add to that?

Sameer Kamath – Group CFO: We have approximately 5,200 people. Year-on-year, we have added approximately 675–680 people on a net basis. Almost all of those people are in sales and, to some extent, field operations that support sales through incremental deployments.

Across the back office and technology functions, we have seen very minimal incremental hiring compared with the past, and we are in line with what we have been telling the Street.

Nitin Agarwal – Motilal Oswal: Understood. Thank you, Amrish and Sameer. I wish you all the best.

Sameer Kamath – Group CFO: Thank you, Nitin.

Amrish Rau – CEO: Thank you very much.

Operator: Thank you. Our next question is from Jayanth Kharote of Axis Capital. Please go ahead.

Jayanth Kharote – Axis Capital: Congratulations, Amrish and Sameer, on a great set of results. First, I will ask about MDR on UPI. If we take this 20,000 current run rate and assume that, out of the 11 bps accruing to the acquiring group, we are able to retain 9–10 bps, we are looking at at least an approximately 140 crore increase. We aspire to take it to a 4 lakh crore run rate, where at its peak it appears to be approximately 230 crores.

Some of it may not be fully at the fixed rates, including the 5-rupee transactions and capital-markets transactions, although I do not know whether we have much of that. This means that, at the lower end, if we take 5 or 6 bps, we are looking at 80–120 crores. I am trying to build a spectrum of outcomes from 80 to 230 crores. Do all these numbers sound correct, or am I off?

Amrish Rau – CEO: Jayanth, the numbers are correct, but I will tell you a funny backstory. When we were a private company, for anything related to government handouts, PIDF, and some of these items, until the money came into the bank account, we did not book anything. We said, “First let it come into the bank account, and then we will know that everything is working fine.” I run my business that way.

Similarly, as far as MDR and the income associated with it are concerned, while your number and spectrum are absolutely right, we have built a resilient, strong business on its own. When that income comes in, only then should you start counting it. The numbers and the calculation you have shown are generally correct.

Having said that, we want to focus on what is under our control, and we will wait until this entire MDR mechanism is implemented.

Jayanth Kharote – Axis Capital: I will take it to the second level. Let us assume that this is correct and that MDR on UPI is implemented. Then there is the plan for 10 lakh deployments. I assume that A feeds into B. This is probably indicating that the company is entering more of an investment phase, or perhaps I am reading too much into it. Is that the thought process, or is this something

Report is AI-generated and may contain inaccuracies.

that was going to happen anyway and MDR on UPI has simply made it more positive?

Amrish Rau – CEO: I would put it this way. If you look at soundboxes today, a soundbox costs 500 rupees, 600 rupees, or even less than that. Honestly, 10 lakh is not a material number from a capital-expenditure standpoint.

What is material is the number of salespeople and other people who will be going out and signing up merchants. I think that is the more material number to look at. I have called that out by saying that we have already been hiring for it and have already built some strength.

In terms of pure soundbox-related expenses and capex, I still think the number is immaterial.

Jayanth Kharote – Axis Capital: The reason for my slight concern is that, over the last 2 quarters, and I had asked you this last quarter as well, our EBITDA margins have been tracking somewhat below last year. In Q1, we were told there were some one-offs. In Q2, and when I compare H1 with H1, we are probably still tracking lower on EBITDA margins.

Clearly, you have done a great job on growth. However, the concern is whether the incremental growth is coming at slightly dilutive margins for us. Do you want to revise your full-year EBITDA-margin guidance?

Amrish Rau – CEO: No, not at all, on either topic. I am in the camp that believes the payments business should generally be an EBITDA-expanding business. I have been doing this for many years. It should be a significant cash-generating machine over a long period because, as you increase the number of transactions processed on your platforms, there should not be a direct incremental cost associated with them. Therefore, EBITDA should generally continue to expand, and at the same time, you should be able to generate cash in the business.

From my standpoint, I completely believe that you will have a business in which EBITDA continues to expand. However, what happens in the payments business is that, when you expand the sales team, the sales team becomes productive and remunerative only over a 9-month period.

Therefore, for the first 9 months, the salespeople do not really recover the expenses related to their salaries and costs. That is the so-called pain that we have to work through. We do this when we see enough opportunity in the market.

Right now, we are seeing enough opportunity in the market. Therefore, we are increasing the number of salespeople so that, in 9 months, they can drive revenue growth in the business. That is how I am thinking about it.

By no means am I saying that my EBITDA guidance will be lowered. As we drive more flow-based income through our platforms, our EBITDA will continue to expand. I expect H2 EBITDA to be at a much higher level than it was in H1.

Jayanth Kharote – Axis Capital: It is fair to assume that you were at 21% last year and are tracking at 18%, which means that the second half should be such that, for the full year, you still expect to be above 21%.

Report is AI-generated and may contain inaccuracies.

Amrish Rau – CEO: I expect to come in at 21% at least.

Jayanth Kharote – Axis Capital: Great. Congratulations once again, and all the best.

Amrish Rau – CEO: Thank you, Jayanth.

Operator: Thank you. Our next question is from Pranav Gupta of Axis MF. Please go ahead.

Pranav Gupta – Axis MF: Am I audible?

Amrish Rau – CEO: Yes, Pranav. How are you doing?

Pranav Gupta – Axis MF: Just a clarification on one of the previous questions. The 1 million deployments that you are discussing—would it be fair to understand that a large part of it relates to soundboxes rather than full-service machines, or am I misunderstanding the comment?

Amrish Rau – CEO: We have already taken care of full-service machines. That is in our plan. I am not calling that out separately.

Whatever our natural growth in deployments is, our natural deployments in the market will continue in exactly the same way. What we felt was that we were missing transactions from our existing merchant base because we did not have a soundbox at the same merchant location. Therefore, we said we would deploy approximately 10 lakh more POS machines in that market.

I want to clarify that I am not saying we will go after a lower segment of the market or sign up merchants that have not traditionally been within Pine Labs' target area. That is not our idea.

Our idea is that, wherever we are already present, if we are losing UPI transactions, we should capture those transactions. That is where the 10 lakh soundbox deployment number came from.

Pranav Gupta – Axis MF: As a follow-up, would it not be fair to assume that merchants already using your full-service machines would have UPI capabilities embedded in those machines? What am I missing here?

Amrish Rau – CEO: This is a nuance that, honestly, you and I do not notice every day as common consumers. What happens is that a merchant may have a POS machine, and there may also be another soundbox on the corner of the table.

While the POS machine, which is fully integrated into the merchant's billing system, may process 80-85% of the transactions, another 10%, 15%, or 20% of the transactions may be going only to the soundbox.

Until now, we had taken the approach that we did not want to bother with this. Since UPI was not monetizable, we allowed those transactions to go wherever they went. Now I am saying that I want that 20% also to come to us, so we might as well put up a soundbox there.

Without getting very specific about the merchant name, there is, for example, a large merchant that has POS machines from Pine Labs and soundboxes from another provider. I tell them that they can conduct the same QR-code transaction on our POS machine and do not need soundboxes, but they

Report is AI-generated and may contain inaccuracies.

still have the soundboxes.

These are the transactions we have been missing, and we have decided to capture them.

Pranav Gupta – Axis MF: I am sorry to belabour this point, but is this not more a lack of understanding or awareness on the merchant's side, which could be solved simply by educating the merchants?

Amrish Rau – CEO: I do not disagree with you, Pranav, that it could happen on the platform. However, we are seeing enough such use cases where these transactions are being missed, and I have said that we should bring those transactions in.

Sameer Kamath – Group CFO: An important point is that it is also a second interface. Think about the consumer as well. If, on a crowded day, a consumer sees that it takes a little more time, the consumer would want to swipe a QR code easily on a soundbox, and that is the volume we were previously willing to miss because it was non-monetizable.

Now that it is monetizable, we can obtain the full wallet share. Also keep in mind the behaviour of the consumer who comes into a large-format store and uses that service.

Pranav Gupta – Axis MF: Understood. That is the first question. The second point was on the UPI GMV, and I think you have partially answered it. Could you give us a sense of the non-CDIT split? How has the mix moved, and what is the mix in terms of the type or category of merchants, specifically regarding the UPI TAM that you discussed?

Some of it would be CDIT, but within non-CDIT, what would the mix look like?

Amrish Rau – CEO: I am not understanding the question. Can you explain it again?

Pranav Gupta – Axis MF: You mentioned that 75% or 77% of transactions on all devices are UPI transactions. What I am trying to understand is, for non-CDIT GMV—

Amrish Rau – CEO: [inaudible]

Pranav Gupta – Axis MF: What is the mix of merchants or merchant categories for UPI?

Amrish Rau – CEO: For example, you have DMart, Trent, Shoppers Stop, and Reliance's grocery business. All of these businesses conduct both UPI and card transactions on our terminals. Even there, we are seeing more than 50% of transactions, at a minimum, being conducted through UPI.

Pranav Gupta – Axis MF: Okay, perhaps my question was a little different. I will take it offline, {? by the way ?}. Thank you.

Amrish Rau – CEO: All right. Thank you.

Sameer Kamath – Group CFO: Thank you, Pranav.

Operator: Thank you. Our next question is from {? Avneesh Dhavale ?} of {? Antique Capital ?}. Please go ahead.

Report is AI-generated and may contain inaccuracies.

Avneesh Dhavale – {? Antique Capital ?}: Hi, Amrish.

Amrish Rau – CEO: Hi, Avneesh.

Avneesh Dhavale – {? Antique Capital ?}: My first question is that your peer highlighted that, at least online, there is profitability pressure on the merchant side and that they have let go of some business. You are growing quite well in your merchant business. I assume it is mostly offline, while online is a category that you are building.

In either of these 2 businesses, are you experiencing profitability pressure, either because of competition or because of customers' bargaining power? Please highlight any such incremental pressure. I know the Q2 numbers are good, but are you experiencing any of those pressures underneath?

Amrish Rau – CEO: Across the offline side of our business, I highlighted last quarter that there appears to be pricing power coming into the business, so I am not seeing any pressure on that side.

On the online side of the business, I appreciate that a sensible approach has been taken, with price increases occurring in the market. The way I look at it is that, if businesses are increasing prices, it creates a level playing field.

It allows Pine Labs to gain market share from other competitors. In our case, that becomes entirely new revenue coming to us. Therefore, I am not seeing any pricing pressure on the online side of the business.

Avneesh Dhavale – {? Antique Capital ?}: My second question is for Sameer. If I look at your margins, they have improved. Whether it is IIP, or the mix that affected you early last quarter, this quarter has become better. Even the cash flow you report has been very strong this quarter compared with last quarter.

You have also grown well. Could you articulate what you are tracking for the year from a cash-flow perspective? Are you experiencing a positive, neutral, or negative bias?

Sameer Kamath – Group CFO: We have explained this, and fortunately we now have 1 full year of being listed to demonstrate it. Cash flows will be cyclical between quarters, but we have always guided, and I think we have given firm guidance, that our net working capital will be between 13% and 15%, or 16%, of our net top line.

We have also mentioned early settlement, which again follows the cycle of the festive period. We are within that range. Last year, the first quarter was negative, the second quarter was positive, and the third quarter again resulted in high cash flow, but it evens out, and for the full year, we remain within that range.

This quarter provides evidence of that. Having said that, we are constantly working to improve our collection efficiency and our systems and processes, and we are seeing some benefits from that.

I would not extrapolate this quarter. I would say that we performed well in this quarter, but it should not be extrapolated. On a full-year basis, we remain guided to the range of approximately 13-15%.

Report is AI-generated and may contain inaccuracies.

That is where we are on cash flows.

You also mentioned margins. Are you referring to CM margins? Which margins?

Avneesh Dhavale – {? Antique Capital ?}: Yes, CM margins.

Sameer Kamath – Group CFO: We have always guided that CM margins are driven by a mix change between the issuing business and the DITP business.

Within those businesses, the DITP business continues to maintain healthy margins of between 81%, 82%, and 83%. The issuing business has seen strength develop in the distribution business, especially internationally, and we are now building new use cases as well, so that compensates for it.

We have always guided that CM margins will be in the range of 52–56%. We will remain in that range. This is also because we have ramped up distribution and are operating as an integrated player for some of our use cases.

We do not merely create a backend; we also create a use case to bring consumers to these brands. Therefore, distribution is a very important part of the strategy.

We have ramped up a significant amount of that distribution on the domestic side, and we are also building it internationally. I would say that 52–55% is the range we would provide. We will remain in that range, and the mix will determine where the overall numbers fall, which is between 72% and 75%.

Avneesh Dhavale – {? Antique Capital ?}: As a clarification, seasonally speaking, will Q3 have negative cash flow and Q4 again have positive cash flow? Apart from that seasonality, is the trailing 12-month figure the right benchmark?

Sameer Kamath – Group CFO: Yes, absolutely. A large part depends on how the festive season progresses. Early settlements and offers occur during that period, and many offers will come during the Diwali season. All of that will lead to that cycle, but it is something we have already planned for.

The Street is now looking at us every quarter, and I think this is moving in that trend. Internally, we are also working extensively to improve our overall efficiency within the working-capital cycle.

Avneesh Dhavale – {? Antique Capital ?}: Great. Thank you, and I wish you the very best.

Sameer Kamath – Group CFO: Thank you.

Operator: Thank you. Our next question is from Prakhar Sharma of Jefferies. Please go ahead.

Prakhar Sharma – Jefferies: Thank you, and congratulations, Amrish, Sameer, and the team, on the great numbers and disclosures. I have 2 questions.

Regarding the investments in this soundbox network, what is the thought process in terms of the types of merchants with which you want to work? Are these merchants already mapped within the system?

Report is AI-generated and may contain inaccuracies.

If that is the case, will there be a rental charge? A company such as Paytm, for example, recovers 50 or 60 rupees as a monthly rental. Should we think of this as rental plus MDR, or only MDR, with the device included?

Amrish Rau – CEO: First, we are not going after a new merchant segment. Therefore, I expect this to be consumed within the base in which we operate today. There may be some expansion into an adjacent merchant base, but we will not enter another segment because that is not of interest to us.

We want to be in organized retail, where there is a technology requirement. That is the first point.

Second, for the soundboxes, our approach will not be to charge 125 or 130 rupees. I do not see both things happening at the same time. I do not see a merchant paying 130 rupees and also paying 40 bps, or the net 10 bps, on every transaction.

One of the two will remain, and we would rather remain on the transaction than on the base soundbox number. A merchant cannot afford to pay 125 rupees and also pay 40 bps on every transaction. It is simply price-prohibitive for them.

Therefore, we think that the market going forward will have one of the two commercial models attached to it. From our standpoint, it will be more focused on the transaction side.

Prakhar Sharma – Jefferies: Would it be fair to assume that 70-80% of the people who ultimately take your soundboxes would be people who already have your EDC machines?

Amrish Rau – CEO: Yes.

Sameer Kamath – Group CFO: Yes.

Amrish Rau – CEO: Yes.

Prakhar Sharma – Jefferies: You have this as part of VAS revenue, where QR-code generation is included in your VAS line. Are these machines unable to generate dynamic QR codes, or is that a costly process, which is why you want to move to standardized QR codes?

Amrish Rau – CEO: Prakhar, we just explained that in the earlier call.

Sameer Kamath – Group CFO: We just explained that point earlier.

Prakhar Sharma – Jefferies: [crosstalk] Okay, I will take it offline.

Sameer Kamath – Group CFO: I will quickly explain it. While everything can be done, there are sometimes 10-15% of the volumes at our existing counters where we may have a soundbox from another provider. We have currently let it go because it was not a monetizable event and was only a cost event.

At the same counters, this could happen for various reasons, including what we discussed earlier: a customer may want it, it may be more convenient, or there may be a need for merchant education. Today, we want to capture 100% of that.

Report is AI-generated and may contain inaccuracies.

It is a captive base, so it is not as though we have to go hunting for merchants. We simply have to go and harvest those clients for the additional volume so that we obtain 100% of the wallet share.

That is the simple strategy we are pursuing: identify the merchants, obtain a better wallet share, and move more toward transaction-based revenue instead of pure rental revenue. We see a certain scale-up in volumes across the business.

Prakhar Sharma – Jefferies: Regarding the Singapore client insight you provided, assuming it is Metro, is the effect of that discontinuation already included in this quarter's numbers, or should we expect to see the full-quarter effect from next quarter onward?

Amrish Rau – CEO: It is already reflected in the quarter. I also want to highlight that, from a distribution standpoint, this was revenue being booked there. However, in terms of materiality from an EBITDA standpoint, it was still immaterial to our business.

It is already reflected in Q2, and now that you have mentioned it, it is not Metro.

Prakhar Sharma – Jefferies: Understood. Thank you, and best wishes.

Amrish Rau – CEO: Thank you, Prakhar.

Operator: Thank you. Our next question is from Divyansh Thakur of {? Finterest Capital ?}. Please go ahead.

Amrish Rau – CEO: We can make this the last question of the call.

Divyansh Thakur – {? Finterest Capital ?}: Hello. Am I audible?

Operator: Yes, sir.

Amrish Rau – CEO: Yes. Go ahead, Divyansh.

Divyansh Thakur – {? Finterest Capital ?}: We saw in your presentation and press release that 89% of the code changes are being done by AI agents. We have seen significant interest and growth in AI agents across the United States, with the launch of Muse collaborating with Shopify and similar developments.

I wanted to get your view on how you see this space developing going forward. There will be many regulatory guardrails. How do you view the space, and what is your perspective on it?

Amrish Rau – CEO: I want to point you to 2 artifacts that we have already published. You should look up an artifact called agentic.org on the internet, and the second is called grantex.dev.

At agentic.org, we have open-sourced a set of agents. At grantex.dev, we have again open-sourced the guardrails required to manage agents. We created the enabling infrastructure for agentic commerce and agentic payments.

Second, during GFF, the Global FinTech Fest, we demonstrated a transaction in which 2 agents were transacting with each other—a buyer agent and a seller agent. No human was involved, and we

Report is AI-generated and may contain inaccuracies.

were able to complete those transactions.

As you rightly said, in the future there could be more transactions originating from Muse or Instinct, and from a technology standpoint, we are fully ready to power that.

The final piece is that consumers are still extremely uncomfortable giving their card and bank-account information to personal agents. We have been working on a solution, and over the next 2 months, I am looking forward to what we will deploy in terms of payment services from a consumer standpoint.

Divyansh Thakur – {? Finterest Capital ?}: That is really great to hear, and I look forward to learning more about the progress. Thank you very much.

Operator: Thank you. With that, I hand the floor back to Mr. Amrish Rao for closing comments.

Amrish Rau – CEO: Thank you very much. As I covered in my opening remarks, we have had a fairly strong Q2 in the business. The most important takeaway I wanted to leave with all of you is that we are seeing enough opportunities opening up in the market, not only around UPI but also in our core businesses around issuing services and acquiring services.

We feel that this is the reason why we are confident that we will deliver revenue growth higher than the 23%, 23.5% that we discussed at the start of this year. To do some of these things, we do want to invest in salespeople, and that is something we have already committed to.

In general, we feel good about what we can see as far as 2 quarters out from today. Thank you very much for joining us.

Operator: Thank you.

Management: Thank you.

Operator: On behalf of the leadership team, I would like to thank you for your time and for your continued interest in Pine Labs. Should you have any follow-up queries that were not addressed, please feel free to reach out to the Investor Relations team. Thank you, everyone, and goodbye.

Note: {? ... ?} indicates a figure or name where audio clarity was insufficient for confident transcription. Verify against the source audio or the company's published filings.

Report is AI-generated and may contain inaccuracies.