`

Equity Research

Equity Research Report Consumer Services

Date: Dec 16, 2024

Swiggy

Analyst Recommendation: BUY

BSE Code: 544285 **NSE: SWIGGY**

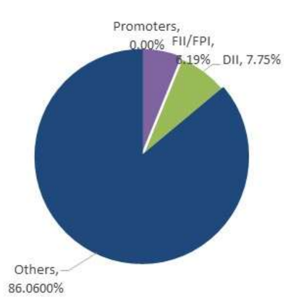
Investor's Rationale

CMP:	**Rs 532**
2 Year Target -	**Rs 640**

Face Value	1.00
Market Cap (USD Million)	14,057
EV/Sales	10.2
Dividend Yield	0
Shares O/S (Million)	2238
Book Value per Share (Rs)	35.5
Nifty	23587

eseeses

Shareholding pattern as on 15th Dec 2024



Massive opportunity in q-com; food delivery penetration can still improve

We believe the q-com market GOV should touch ~USD 6.8 bn GOV in FY25E (in only 5 yrs) With blurred lines between q-com/horizontal-com and the ongoing shift in user behavior, our bottom-up analysis using MOSPI's PFCE data suggests that the q-com GOV should touch ~USD 32 bn by FY30E. Our channel checks show players not being disruptive, aware that this is an assortment and not a pricing play. Swiggy will benefit from accelerated dark store expansion and improving assortment. Food delivery, as a duopoly, also remains underpenetrated. Pickup in quick food delivery through 'Bolt' would be a further kicker.

Profitability sees improvement; quick fixes should aid margin expansion

Instamart's rising scale should drive better brand commissions and ad revenue. Swiggy has also shown improvement in fixed/variable costs; the trend should sustain. Food delivery is more mature; we expect lesser improvement vs q-com. Optimizing delivery cost and containing fixed costs are the low hanging fruits in both the segments.

Valuation

Swiggy presents a compelling investment opportunity as India's second-largest q-com/food-delivery player. We initiate with BUY, as (1) food-delivery/q-com businesses remain underpenetrated, with a long growth runway; (2) Swiggy's ambitious store expansion targets in q-com should aid its GOV/top line growth; also, its cost-control is improving; (3) food delivery is a duopoly in India, with healthy growth and scope for margin improvement; and (4) Swiggy's ideation/innovation abilities and strengthened leadership team should help it stay a market leader. We expect a 38% revenue CAGR (FY24-27E) with food/q-com at 23/84%, adj. EBITDA at Rs 3.9 bn in FY27E (-Rs 18.4 bn in FY24). SoTP based TP (Mar'27E) at Rs 640; food/q-com at 10/20% disc. to Zomato/Blinkit.

Y/E March	FY24	FY25E	FY26E	FY27E
Net sales	112474	150311	214435	292205
EBITDA	-22080	-21907	-11834	2826
Profit after tax	-23130	-24865	-16964	-5540
EV/ Net sales (x)	10.2	7.5	5.3	3.9
EV/ EBITDA (x)	-52	-51.3	-96.2	405.2
RoE (%)	-27.9	-26.7	-16.2	-5.5
RoCE (%)	-24.3	-22.8	-13.1	-3.2

Investor's Rationale

- Our BUY rating on Swiggy is based on the following factors:
  (1) Swiggy's key segments – food delivery and q-com remain relatively underpenetrated and have a long runway of growth.
  (2) Swiggy Instamart, its q-com business, has set ambitious targets for footprint expansion, which should help it meaningfully accelerate GOV/top line growth. It is also seeing improving cost- control.
  (3) Food delivery, being a duopoly India, should see healthy growth with improving profitability through operating leverage.
  (4) Recent onboarding of industry veterans from retail and e-com, especially in q-com, should aid further improvement of business performance.
  (5) Swiggy has the propensity to innovate. An 'ideator' persona with improving execution should help it remain one of the leaders across its operating segments

- Q-com: Vast opportunities with growing TAM, blurring lines across e-com and fresh innovations; food delivery remains underpenetrated
  Q-com has seen massive user traction, with an annual GOV of USD 3.7 bn/6.8 bn in four/five years of launch (FY24/25E), thanks to its value proposition of immediate fulfilment, decent assortment across multiple categories, and good user experience. However, this is just the beginning, with penetration of only 6% of the estimated USD 63 bn (FY24) TAM.

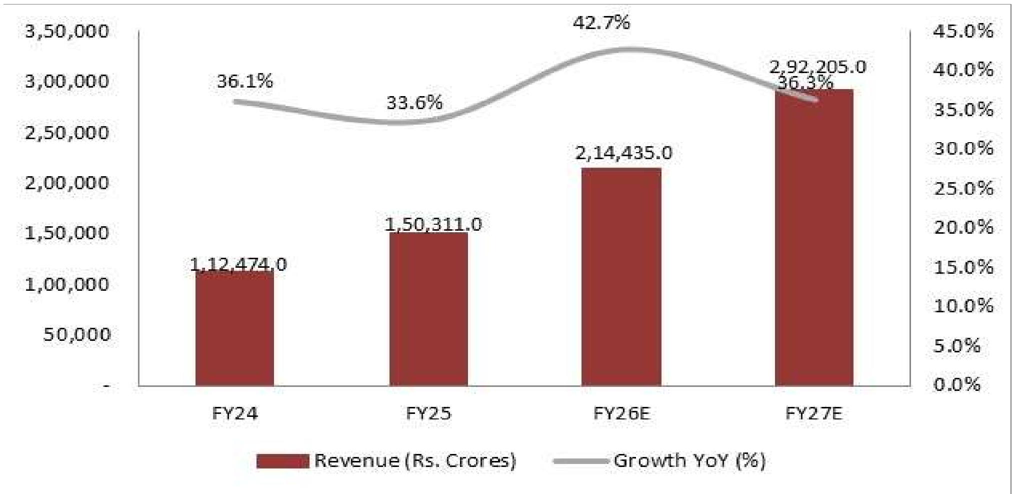
- Profitability seeing directional improvement; quick fixes should aid margin expansion
  Instamart's rapid growth, helped by its accelerated store expansion and improved assortment would further bolster its scale. With larger scale, we believe it will be able to drive better brand commissions and ad revenue – this explains the bulk of its take-rate differential with Blinkit currently.

- Swiggy's top management sees expansion as retail/internet veterans join; should aid execution and business improvement
  Swiggy has been a good ideator, amongst the first in the food delivery and q-com segments in India. However, it subsequently ceded market leadership in both these segments to Zomato, which can be attributed to the latter's superior execution.

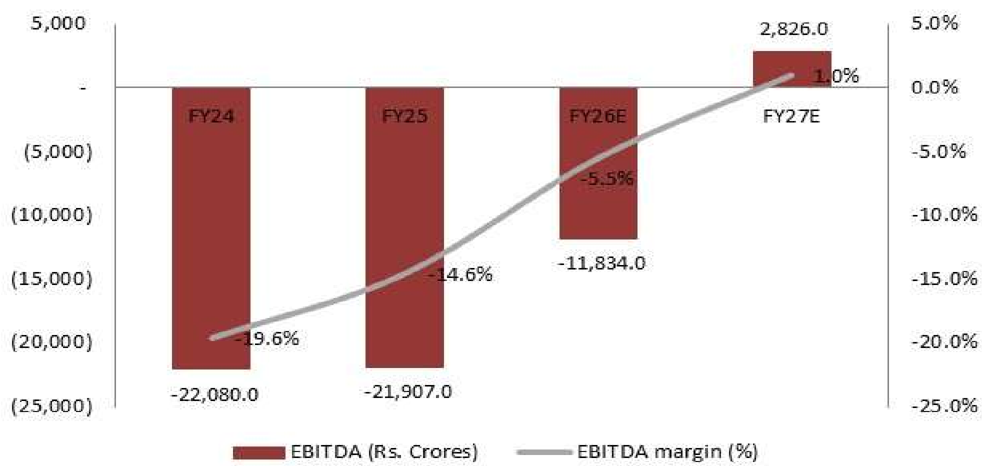
- Swiggy's innovation propensity coupled with improved execution should help it gain first-mover advantage going ahead
  Zomato and Swiggy have closely competed since 2015. Zomato started off as a restaurant- discovery-and-listing platform, while Swiggy began as an online food-delivery platform. Eventually, Zomato (seeing traction in food delivery) pivoted to online food delivery in 2015, while Swiggy recently acquired Dine-out to match Zomato's restaurant-discovery prowess. Both platforms also have q-com businesses, with Swiggy again being ahead, building it in-house (and starting out before Zomato), while Zomato delved into it by acquiring Grofers and pivoting it.

`

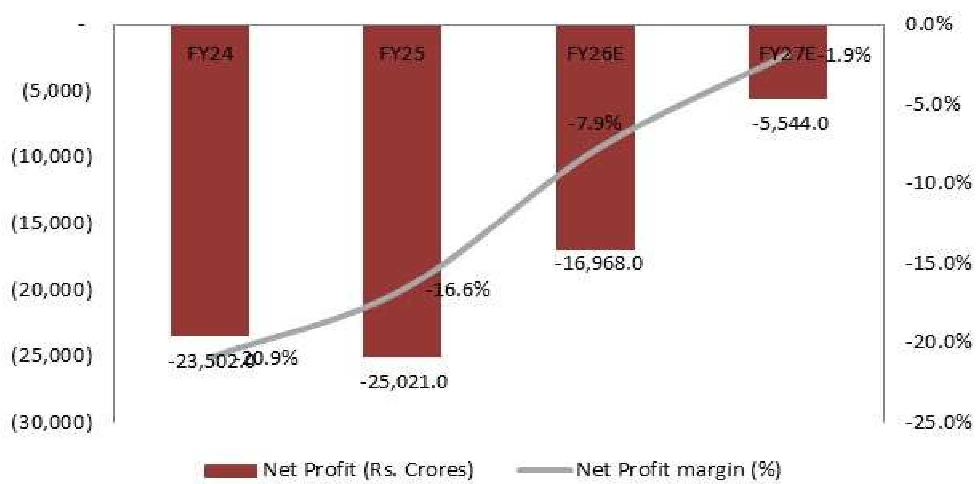
Revenue will triple in 3 Years



EBITDA to turn Positive by FY27



Net profit scenarios will improve



`

Outlook and Valuation

Swiggy presents a compelling investment opportunity as India's second-largest q- com/food-delivery player. We initiate with BUY, as (1) food-delivery/q-com businesses remain underpenetrated, with a long growth runway; (2) Swiggy's ambitious store expansion targets in q-com should aid its GOV/top line growth; also, its cost-control is improving; (3) food delivery is a duopoly in India, with healthy growth and scope for margin improvement; and (4) Swiggy's ideation/innovation abilities and strengthened leadership team should help it stay a market leader. We expect a 38% revenue CAGR (FY24-27E) with food/q-com at 23/84%, adj. EBITDA at Rs 3.9 bn in FY27E (-Rs 18.4 bn in FY24). SoTP based TP (Mar'27E) at Rs 640; food/q-com at 10/20% disc. to Zomato/Blinkit.

Swiggy - Company Overview

Swiggy operates a diversified hyperlocal commerce platform through its unified app - ''SWIGGY'' The company, known for pioneering hyperlocal commerce in India, offers a range of services through five main segments:

Food Delivery-Launched in 2014, this core segment enables users to browse, order, and have meals delivered from a wide network of restaurant partners. Swiggy monetizes this by charging fees from restaurants, delivery charges, and platform-based advertising opportunities.
Gross Order Value: Food Delivery GOV reached ₹247,174.41 million in fiscal 2024.
Average Order Value Rs.408 in FY24
Delivery Fee collected as a % of GOV : 3.11%
Cost of Delivery as a % GOV: 14.31%

Out-of-Home Consumption- Includes services for dining and events, such as Dineout (for restaurant reservations and promotions) and SteppinOut (events management). Swiggy leverages its established restaurant partnerships to extend user engagement beyond home deliveries.

Quick Commerce- Instamart, launched in 2020, offers fast delivery of groceries and household items, leveraging a network of "dark stores" to achieve rapid delivery times. This segment is expanding with new product categories and cities

`

Equity Research

Balance sheet (Consolidated)

Y/E March	FY24	FY25E	FY26E	FY27E
Paid-up capital	30	30	30	30
Reserves & surplus	77885	109323	100315	100171
Net worth	77915	109354	100345	100201
Borrowing	8642	11583	15625	18746
Other non-current liabilities	681	785	789	793
Total liabilities	87238	121722	116759	119740
Gross fixed assets	29666	40679	55559	72352
Less: Depreciation	-9253	-14637	-22240	-32331
Net fixed assets	**20414**	**26042**	**33319**	**40021**
Add: Capital WIP	-	-	-	-
Total fixed assets	20414	26042	33319	40021
Total Investment	57645	57645	57645	57645
Inventory	487	2113	2607	3190
Debtors	9639	12881	18376	25041
Cash & bank	8909	37061	25189	21917
Loans & advances	-	-	-	-
Current liabilities	18056	22361	28863	36713
Net current assets	9179	38034	25795	22074
Other non-current assets	-	-	-	-
Total assets	87238	121722	116759	119740

Profit & Loss Account (Consolidated)

Y/E March	FY24	FY25E	FY26E	FY27E
Net sales	112474	150311	214435	292205
Other operating income	-	-	-	-
Total operating income	112474	150311	214435	292205
Cost of goods sold	-46042	-57901	-85103	-121816
Gross profit	66432	92410	129332	170388
Gross margin (%)	59	61	60	58
Total operating expenses	-88512	-114318	-141165	-167562
EBITDA	-22080	-21907	-11834	2826
EBITDA margin (%)	-20	-15	-6	1
Depreciation	-4206	-5384	-7603	-10091
EBIT	-26286	-27291	-19437	-7264
Net interest	-714	-1025	-1385	-1755
Other income	3870	3451	3858	3479
Profit before tax	-23130	-24865	-16964	-5540
Tax rate (%)	-	-	-	-
Profit after tax	-23130	-24865	-16964	-5540
Minorities	-66	-4	-4	-4
Profit/ Loss associate co(s)	-306	-152	-	-
Adjusted net profit	-23502	-25021	-16968	-5544
Adj. PAT margin (%)	-21	-17	-8	-2

`

Cash Flow (Consolidated)

Y/E March	FY24	FY24	FY25E	FY26E
Profit before tax	-23502	-25017	-16964	-5540
Depreciation & Amortisation	4206	5384	7603	10091
Chg in working capital	1988	-599	371	453
Cash flow from operations	-13127	-11192	-3507	8676
Capital expenditure	-3517	-6012	-7880	-9793
Cash flow from investing	14585	-2562	-4023	-6313
Equity raised/ (repaid)	0	44990	0	0
Debt raised/ (repaid)	1076	0	0	0
Dividend paid	0	0	0	0
Cash flow from financing	-1228	41906	-4343	-5634
Net chg in cash	229	28153	-11872	-3272

Key Ratios & Valuations (Consolidated)

Y/E March	FY24	FY25	FY26E	FY27E
Total debt/ equity (x)	0.1	0.1	0.1	0.2
Net debt/ equity (x)	-0.5	-0.7	-0.5	-0.5
Current ratio (x)	1.5	2.7	1.9	1.6
Interest cover (x)	-36.8	-26.6	-14	-4.1
RoE (%)	-27.9	-26.7	-16.2	-5.5
RoCE (%)	-24.3	-22.8	-13.1	-3.2
PE (x)	-49.8	-52.9	-78	-238.6
EV/ EBITDA (x)	-52	-51.3	-96.2	405.2
EV/ Net sales (x)	10.2	7.5	5.3	3.9
PB (x)	15	12.1	13.2	13.2

`

Equity Research

Large Cap.	Return	Mid/Small Cap.	Return
Buy	More than equal to 10%	**Buy**	More than equal to 15%
Hold	Between 10% & -5%	**Accumulate***	Upside between 10% & 15%
Reduce	Less than -5%	**Hold**	Between 0% & 10%
		Reduce/sell	Less than 0%

** To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.*

Member: BSE, NSE, MCX, MCX-SX, CDSL

Reg. office: PG-4, Rotunda Bldg, Bombay Samachar Marg, Fort, Mumbai-400001, Maharashtra, India

Corp Office: 24/26 Cama Bldg, 3rd Floor, Dalal Street, Fort Mumbai-400001, Maharashtra India

Tel: 91-22-67378001 Fax: 91-22-22646410

Dealing: 91-22-67378011 **Institutional Dealing:** 91-22-6737833

Email: research@mjpdirect.com **Website:** www.mjpdirect.com

Registration Number: SEBI- INZ000218338