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India | Equity Research | Initiating Coverage

Swiggy

Internet

Bon appétit: High-quality franchise; relatively reasonable valuation

Given the increased competitive intensity in quick commerce, the path to profitability for all incumbents has been delayed. But, on the flipside, the incumbents are swiftly expanding their dark store footprint; thus, fortifying the space against new entrants and keeping their medium-term outlook well-guarded. Alongside, Swiggy has demonstrated its execution prowess with 'Swiggy Bolt', a 10-minute food delivery offering, and 'Swiggy BLCK', a premium loyalty offering. We opine, these should help Swiggy increase market share in food delivery in the near term – evidenced by the incremental mind share noted in our survey data (see our sector note: [link](#)). Additionally, Swiggy offers a more reasonable valuation (15-25% discount on EV/EBITDA and EV/Sales) for each business segment compared to Zomato. We initiate coverage on Swiggy with **BUY** and a TP of INR 740.

Recent innovations could help to gain share in food delivery

Our survey data shows a growing preference (mind share) for Swiggy among restaurant partners. Also, Swiggy has showcased great execution on 'Swiggy BOLT', their 10-min food delivery offering and 'Swiggy BLCK', their premium loyalty offering. Management notes Bolt now forming ~9% of Swiggy's food delivery Gross Order Value (GOV). We think only 200–300bps of this is fresh demand; the rest is replacement demand. In our view, this additional demand could aid in market share gains in the near term.

New entrants unlikely to disrupt quick commerce meaningfully

We believe the swift ramp-up of their dark store footprint is helping incumbents create a barrier to entry into the segment. Our analysis indicates that if they manage to execute their plans properly, top 3 incumbents would control >75% (by FY26) of the potential dark stores that are feasible in India, which would make it very difficult for new entrants to meaningfully disrupt the space.

Well baked: Risk-reward skew (3.8:1) to the upside

We see the Swiggy's stock trading at INR 850 in our bull-case scenario and INR 415 in our bear-case, implying a risk reward skew of 3.8:1 to the upside.

Valuation

We initiate coverage with a BUY rating. We use a three-stage DCF to arrive at a target price of INR740, assuming WACC/terminal growth of 11.5%/5%; initiating coverage with a **BUY** rating.

Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	1,12,474	1,54,949	2,17,261	3,01,558
EBITDA	(22,080)	(23,996)	(15,529)	8,740
EBITDA Margin (%)	(19.6)	(15.5)	(7.1)	2.9
Net Profit	(23,435)	(26,931)	(17,897)	3,304
EPS (INR)	(10.7)	(12.1)	(8.0)	1.4
EPS % Chg YoY	-	12.7	(33.5)	-
P/E (x)	(47.4)	(42.1)	(63.2)	350.8
EV/EBITDA (x)	(48.3)	(44.2)	(69.0)	121.8
RoCE (%)	(30.8)	(31.6)	(21.8)	0.8
RoE (%)	(27.9)	(29.3)	(17.7)	3.2

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Market Data

Market Cap (INR)	1,136bn
Market Cap (USD)	13,230mn
Bloomberg Code	SWIGGY IN
Reuters Code	SWIG.BO
52-week Range (INR)	617 /391
Free Float (%)	9.0
ADTV-3M (mn) (USD)	0.0

Price Performance (%)	3m	6m	12m
Absolute	0.0	0.0	0.0
Relative to Sensex	0.0	0.0	0.0

ESG Score	2023	2024	Change
ESG score	NA	NA	NA
Environment	NA	NA	NA
Social	NA	NA	NA
Governance	NA	NA	NA

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: SES ESG, I-sec research