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Rating: Subscribe for aggressive investors

Issue Offer

Fresh Issue of equity 11,53,58,974 shares up to INR 44,990 Mn and OFS of 17,50,87,863 shares by the Promoters group taking the total issue size at INR 68,284 Mn

Issue Summary

Price Band INR	371-390
Face Value INR	1
Implied Market Cap INR mn.	8,72,986
Market Lot	38
Issue Opens on	Nov 6, 2024
Issue Close on	Nov 8, 2024
No. of share pre-issue	2,12,30,66,748
No. of share post issue	2,23,84,25,722
Listing	NSE, BSE

Issue Break-up %

QIB Portion	≥75
Retail Portion	≤10
NII Portion	≤15

Registrar

Link Intime India Private Ltd

Book Running Lead Managers

Kotak Mahindra Capital, Citigroup global, Jefferies, Avendus Capital, JP Morgan, Bofa Securities, ICICI Securities

Shareholding Pattern

	Pre-Issue	Post-Issue
Promoters	0%	0%
Public & Others	100%	100%

Objects of the issue

- Investment in Scootsy for repayment of borrowings.
- Investment in Scootsy to expand Dark Store network and cover lease/license costs.
- Investment in technology and cloud infrastructure.
- Brand marketing and promotion to boost platform visibility.
- Funding acquisitions and general corporate purposes.

Abhishek Jain

abhishek.jain@arihantcapital.com

022-422548871

Deepali Kumari

deepali.kumari@arihantcapital.com

Swiggy is a leading consumer-first tech company offering a unified app for food delivery, groceries, and household items, alongside services like restaurant reservations, event bookings, and product delivery. Since launching in 2014, The company has become a pioneer in hyperlocal commerce, expanding quickly with innovative solutions. With tools like Swiggy One for discounts, in-app payments, and support for restaurant and merchant partners, it enhances user convenience and loyalty. As India's only unified app for ordering in, dining out, and cooking at home, The company is recognized as one of the top 25 most valuable brands in India, driving strong growth and engagement across its platform.

Investment Rationale:

Retain and Grow User Base by Expanding Offerings and Partner Network: The company is strategically positioned to capitalize on the rapid growth of India's online Food Delivery and Quick Commerce markets, projected to grow at CAGRs of 17-22% and 60-80% through 2028. To enhance user engagement and frequency of interactions, The company plans to introduce innovative solutions that cater to evolving convenience needs while expanding its partner network. Key initiatives include segmented services like PocketHero for budget-friendly meals and Swiggy Gourmet for premium dining options coupled with enhanced advertising tools for partners.

Optimizing Growth and Expanding High-Margin Revenue Streams: The company aims to boost its contribution margin by expanding high-margin offerings and growing revenue streams. They plan to increase ad revenue by enhancing tools for partners to run targeted campaigns using their large, growing user base of 15.99 million MTUs (as of June 2024). The company will reduce delivery discounts as users value convenience more and optimize their product mix with more premium offerings to improve order value. As they scale operations, The company plans to lower delivery costs by improving logistics efficiency and leveraging their unified app and infrastructure for better overall economics.

Strategic Investment in Brand Engagement: The company prioritizes enhancing brand recall and user engagement through targeted marketing campaigns across digital media, sponsorships, and social initiatives. By leveraging data analytics, The company crafts effective advertisements and promotions, significantly increasing customer retention, evidenced by a 2.83x growth in Gross Order Value from users on boarded in FY19. This innovation-driven strategy not only attracts new users and partners but also fosters a loyal customer base, creating a cycle of increased transactions and advertising spend. As the company expands its services geographically and by use case, its commitment to brand building positions it for sustainable growth in the competitive food delivery and quick commerce sectors.

Risks Surrounding Swiggy's Brand and All-in-One App Approach: Although Swiggy is seen as a top brand in its field, there are serious concerns about its all-in-one app. The pressure to keep all its food-related services high-quality could hurt its reputation for convenience and quality. While it may have a big share of consumer spending, this doesn't guarantee that users are happy, especially with growing competition. Relying on a single app to keep users engaged and loyal is risky, as customers might look for other options if their needs aren't met. Additionally, while cross-selling and low-cost ways to attract users sound good, they might not last if the services don't appeal to customers.

Valuation and View:

In Q1FY25, Swiggy reported a revenue of INR 32,222 Mn, growing 34.8% YoY, and negative PAT stood at INR (6,110 Mn) The company's growth strategy faces notable challenges. While it aims to expand services and partnerships, reducing discounts may impact customer loyalty, and relying heavily on advertising and premium offerings might not be sufficient to drive profitability. Despite efforts to improve operational efficiency, the intense competition and current negative financial metrics raise concerns about long-term viability. At the upper band of INR 390, the issue is valued at a P/S of 7.76 by using FY24 sales of INR 1,12,473 Mn. We are recommending "Subscribe for aggressive investors" to this issue.

Arihant Research Desk

Email: instresearch@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri E Mumbai – 400093 Tel: 91-22 42254800 Fax: 91-22 42254880	6 Lad Colony Y.N Road Indore - 452003, M.P. Tel: 0731-4217100 Fax: 91-731 3016199

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	instresearch@arihantcapital.com

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Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri E
Tel. 022-42254800 Fax. 022-42254880