

Company update

INDIA

Swiggy

Unrated

Impressive diversification into adjacencies

We hosted Mr. Rahul Bothra, CFO, Swiggy, on an investor call that received overwhelming participation from marquee global and domestic fund houses. Key takeaways: (1) robust medium-term growth expectation for the industry (30-40% CAGR) in steady state; (2) sustainability of current take rates; and (3) impressive progress on diversification into adjacencies (currently accounting for ~25% of revenues, expected to be ~50% in 3-4 years). In the near term, Swiggy intends to focus on furthering its market leadership in top metros, which would contribute more to its growth. Nevertheless, over the longer term, the company believes Next-500 towns will be key growth drivers. Of the addressable market, Swiggy is of the view that a mere third is currently penetrated. Company looks forward to drive further penetration with investments. However, given the duopoly, management does not see the need for hyper-discounting. Since two-thirds of restaurants are unorganised and there is high churn among them, Mr. Bothra flagged off supply-side challenges. However, in the company's view, these should be mitigated given the structural innovation underway on this front.

For the reasons highlighted in our food-tech thematic ([link](#)), we have a constructive view on the industry. While we like both Swiggy and Zomato, we prefer Swiggy's diversification / super-app endeavours given the virtuous cycle it can trigger on – user stickiness, retention and profitability.

- ▶ **Expects 50% of revenues to come from non-food delivery in 3-4 years.** Company's commentary hints at significant progress on its diversification endeavours. Use cases, outside the food delivery, are currently contributing to ~25% of revenues. Swiggy expects this share to inch up to 50% in 3-4 years. Outside the food delivery, the company called out strong traction – in *Super daily*, *Instamart* and *Genie*

In the *Instamart* offering, Swiggy has now reduced the delivery time from 30-45 minutes earlier to 15-30 minutes. Mr. Bothra indicated this segment is witnessing strong traction with better access to customer base than even food delivery. Swiggy currently sees very low e-commerce penetration in the grocery segment.

Unlike BigBasket or Grofers, which focus on driving monthly purchase behaviour, Swiggy intends to replicate the 'mom and pop' purchase behaviour involving regular top-up purchases. Over time, the company expects to have a low AOV (~US\$7-9), but high frequency of purchases (4-5 times per month).

- ▶ **Strong bounce-back post covid. Expect some softness in AOV going forward.** Unlike in case of global food delivery companies, lockdowns in India posed a bigger challenge to operations. However, Swiggy witnessed a V-shaped recovery and is now ahead of pre-covid orders and gross order value. As office work resumes and employees return to metros from their home towns, Swiggy expects the top-10 cities to be key growth drivers in the near term.

AOV increase during FY21 was driven by a shift of mix away from single meal orders to consolidated orders. As the economy opens up, Swiggy expects this to normalise resulting in AOV softness going ahead. However, structural tailwinds of inflation, and premium restaurant onboarding, should support this metric, as per the company.

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- ▶ **99% of restaurant partners are happy with aggregators. Take rates are sustainable.** Swiggy indicated that ~99% of restaurant partners are happy with aggregators and see great value in the delivery services provided vs commissions charged. Mr. Bothra said that comparing the aggregator take rates in India with those of China is misleading given the differential supply dynamic. When benchmarked against Western countries, the company sees Indian take rates to be relatively low and accordingly sustainable.

Given the significant under-penetration in the addressable market, Swiggy considers the need for investments to drive user addition and transaction frequency. At the same time, in the context of duopoly, it does not see the need for hyper-discounting.

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