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Aviation

Q4FY21 result review,
reco and TP change

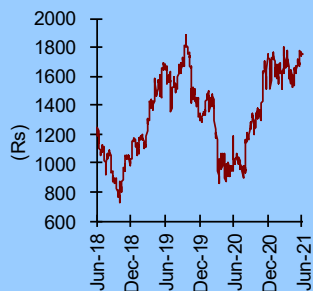
Target price: Rs2,000

Target price revision
Rs2,000 from Rs1,515

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	74.9	74.9	74.9
Institutional investors	22.5	22.9	23.1
MFs and others	5.9	3.9	3.3
FIs/Banks	1.5	1.4	1.2
Fills	15.1	17.6	18.6
Others	2.6	2.2	2.0

Price chart



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INDIA

InterGlobe Aviation

BUY

Upgrade from *Hold*

Strengthening balance sheet a long-term positive **Rs1,755**

InterGlobe Aviation (IndiGo) will remain one of the biggest beneficiaries of the eventual recovery of air traffic from the covid-induced depression. Confidence in balance sheet has been significantly restored with availability of funds from QIP (Rs30bn), SLB and credit lines (Rs45bn) and the already-existing free cash of Rs71bn totalling to Rs146bn. This should help IndiGo sail through another challenging year in the event of a strong covid hit akin to FY21. The cost structure remains competitive with induction of neos (42%/14% of fleet is A320/321 neos as of FY21 and total neo share could rise to 90% by FY23-end). The cargo freighter initiative (A321ceos) diversifies the revenue stream and can contribute total revenues in FY23. Upgrade to BUY (from Hold) with a revised target price of Rs2,000 based on 20x FY23E EPS of Rs100.

- **Confidence in balance sheet restored.** Cash burn reduced from Rs300mn per day in Q1FY21 to Rs250mn in Q2FY21, Rs150mn in Q3FY21 and Rs190mn in Q4FY21. However, there will be higher cash burn in Q1FY22 due to the impact of covid second wave. There are signs of the second wave receding and there is pick-up in vaccination efforts. Even if there were to be a covid impact in FY22 similar to FY21, IndiGo remains well placed in terms of cash on balance sheet. The combination of fund-raising through QIP (Rs30bn), SLB and credit lines (Rs45bn) and existing free cash (Rs71bn) gives available cash resource of Rs146bn.
- **We factor-in a covid-hit FY22E and a normal FY23E.** Compared to 46bn ASK in FY21, we factor-in 72/96bn ASK in FY22E/FY23E (FY20 ASK was 96bn) with PLFs of 80%/88% in FY22E/FY23E. We factor-in RASK/CASK (including depreciation / interest) to move from Rs3.72/3.74 in FY20 to Rs4.24/3.89 in FY23E. We expect CASK (ex-fuel) to move from Rs2.45 in FY20 to Rs2.67 in FY23E. Ancillary revenues are likely to reach 18% of total revenues in FY23E driven by cargo initiatives, which has lifted our FY23 RASK estimates. While crude (factored-in at US\$60/bbl for FY22E/FY23E) remains a risk, there could be higher RASK considering pent-up demand and no major aircraft addition over next 3 years in the overall system.
- **Upgrade to BUY with a target price of Rs2,000 (Rs1,515 earlier) based on 20x (unchanged) FY23E EPS (core EPS earlier) of Rs100 (unchanged).** We now base multiples on normal earnings and not core income (this excludes investment income). This is due to the strategic importance of cash in the business (even more after covid) and the fact that SLB gains will largely flow through other income in the P&L apart from lower depreciation.
- **Successive covid waves and increase in crude prices pose risk to earnings.**

Market Cap	Rs676bn/US\$9.3bn	Year to March	FY20	FY21	FY22E	FY23E
Reuters/Bloomberg	INGL.BO/INDIGO IN	Revenue (Rs mn)	3,57,560	1,46,406	2,76,571	4,08,349
Shares Outstanding (mn)	384.9	Net Income (Rs mn)	(2,337)	(58,064)	(27,197)	38,498
52-week Range (Rs)	1799/902	EPS (Rs)	(6.1)	(150.9)	(70.7)	100.0
Free Float (%)	25.2	% Chg YoY	NM	NM	NM	NM
FII (%)	18.6	P/E (x)	NM	NM	NM	17.5
Daily Volume (US\$'000)	28,357	CEPS (Rs)	97.2	(28.8)	52.7	224.7
Absolute Return 3m (%)	0.8	EV/E (x)	10.1	NM	19.8	5.6
Absolute Return 12m (%)	47.5	Dividend Yield (%)	-	-	-	-
Sensex Return 3m (%)	4.1	RoCE (%)	9.4	(12.0)	(0.7)	20.4
Sensex Return 12m (%)	54.5	RoE (%)	(4.0)	NM	NM	NM

Please refer to important disclosures at the end of this report

Table 1: Q4FY21 result review

QIP awaits shareholder approval.

Apart from QIP of Rs30bn, the company has available liquidity of Rs45bn from SLB profits plus open credit lines.

Pure debt, apart from finance lease and capitalised leases, is Rs25bn as at FY21.

Company had cash loss of Rs190mn per day in Q4FY21. This translates to breakeven PLF for Q4FY21 at ~90%.

Company expects to operate at 80% of pre-covid domestic capacity by Q3FY22 and international operations to start by Q4FY22 based on expected recovery.

IndiGo will have dedicated freighter fleet of A321ceos from H1CY22. This would be in addition to the current 10 A320 aircraft, which have been converted to carry freight in seats.

There was Rs3.5bn additional revenue apart from passenger and ancillary in Q4FY21. This would be in the nature of OEM compensation.

(Rs mn)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)
Total operating Income	62,229	82,991	(25.0)	49,100	26.7
Fuel	19,145	28,604	(33.1)	11,429	67.5
Net Rentals	662	1,226	(46.0)	642	3.0
Supplementary Rentals	14,575	16,808		11,523	
Stock	319	488		197	
Change in inventory	(23)	19		(16)	
Employee	8,095	11,455	(29.3)	8,021	0.9
Other Expenses	12,772	15,559	(17.9)	10,904	17.1
Foreign Exchange (gain)/loss	1,171	10,142		(2,023)	
Total operating Expense	56,714	84,301	(32.7)	40,677	39.4
EBITDA	5,515	(1,310)		8,422	
Margin (%)	8.9	(1.6)		17.2	
EBITDAR	6,177	(84)	nm	9,065	
Margin (%)	9.9	(0.1)		18.5	
Other Income	1,389	3,356	(58.6)	2,328	(40.4)
Depreciation	13,196	10,066	31.1	11,567	14.1
Finance Costs	5,282	4,877	8.3	5,415	(2.4)
Exceptional	-	-		-	
EBIT	(6,293)	(8,020)	(21.5)	(817)	
PBT	(11,575)	(12,898)	(10.3)	(6,231)	
Tax	(104)	(4,190)		(30)	
PAT	(11,472)	(8,708)		(6,201)	
Adjusted PAT	(10,301)	1,433		(8,224)	

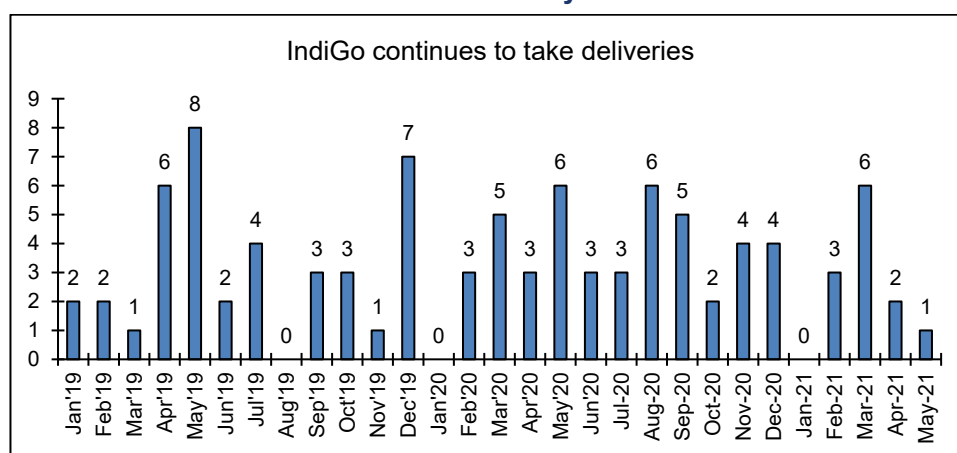
Source: Company data, I-Sec research, * estimate

Table 2: Quarterly operating parameters

	Q4FY21	Q4FY20	Y-Y (%)	Q3FY21	Q-Q (%)
Total ASK ('000)	1,92,00,000	2,30,00,000	(16.5)	1,53,00,000	25.5
PLF (%)	70.3	82.8		0.7	
PAX Revenue (Rs mn)	49,741	71,309	(30.2)	40,693	22.2
Ancillary revenue (Rs mn)	12,488	11,682	6.9	8,407	48.6
PAX RASK	2.59	3.10	(16)	2.66	(2.6)
Fare (Rs)	3,826	4,195	(8.8)	3,876	(1.3)
Passengers(mn)*	13.0	17.0	(23.5)	10.5	23.8

Source: Company data, I-Sec research; *Note: Passenger traffic is estimated.

Chart 1: 12 deliveries taken in 2021 till May



Source: I-Sec research

Financial summary

Table 3: Profit & Loss statement
(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Operating Income	3,57,560	1,46,406	2,76,571	4,08,349
Operating Expenses	3,01,512	1,51,773	2,43,918	2,97,741
EBITDA	56,048	(5,366)	32,653	1,10,608
% margins	15.7	(3.7)	11.8	27.1
EBITDAR	61,015	(2,562)	36,159	1,14,990
% margins	17.1	(1.7)	13.1	28.2
Depreciation & Amortization	39,739	46,994	47,500	48,000
Gross Interest	18,759	21,420	25,000	28,000
Other Income	15,355	10,370	12,500	16,860
Recurring PBT	12,905	(63,411)	(27,347)	51,468
Add: Extra ordinaries	15,462	(5,230)	-	-
Less: Taxes	(220)	(116)	(150)	12,970
Less: Minority	-	-	-	-
Adjusted Net Income#	(2,337)	(58,064)	(27,197)	38,498

Source: Company data, I-Sec research

#does not include MTM impact.

Table 4: Balance sheet
(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Assets				
Total Current Assets	2,20,013	2,05,400	1,56,247	2,16,388
<i>Cash and Current Investments</i>	<i>2,03,716</i>	<i>1,85,671</i>	<i>1,35,659</i>	<i>1,87,292</i>
Total Current Liabilities	85,868	81,178	49,728	73,196
Net Current Assets	1,34,146	1,24,221	1,06,519	1,43,192
Deferred tax asset (net)	2,993	3,027	3,027	3,027
Long-term loans and advances	17,311	17,093	17,093	17,093
Other non-current assets	11,498	14,654	14,654	14,654
Non-Current Investments	1	1	1	1
Net Fixed Assets	1,69,195	1,88,884	1,81,838	2,10,483
Total Assets	3,35,143	3,49,333	3,24,584	3,89,903
Liabilities				
Borrowings	34,225	51,347	51,347	51,347
Deferred Tax Liability	-	-	-	-
Lease Liability	2,20,335	2,73,540	2,75,989	3,02,809
Provisions and Incentives	21,804	23,337	23,337	23,337
Equity Share Capital	3,848	3,849	3,849	3,849
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus	54,931	(2,741)	(29,938)	8,561
Net Worth	58,779	1,109	(26,088)	12,410
Total Liabilities	3,35,143	3,49,333	3,24,584	3,89,903

Source: Company data, I-Sec research

Table 5: Cash flow statement
(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Operating Cash flow ex WC	53,616	(5,214)	(7,200)	41,932
Working Capital Changes	16,102	(10,928)	(13,314)	35,884
Capital Commitments	10,883	4,369	2,000	2,000
Free Cash flow	58,835	(20,510)	(22,514)	75,816
Cash flow from Investing Activities	(45,680)	31,970	10,500	14,860
Issue of Share Capital	245	93	-	-
Inc. (Dec) in Borrowings	421	18,342	-	-
Dividend paid	(2,318)	-	-	-
Cash from financing	(24,131)	(17,931)	(39,997)	(41,044)
Chg. in Cash & Bank balance	(94)	(2,102)	(50,011)	51,632

Source: Company data, I-Sec research

Table 6: Key ratios
(Year ending March 31)

	FY20	FY21E	FY22E	FY23E
Per Share Data (in Rs.)				
EPS(Basic Recurring)	(6.1)	(150.9)	(70.7)	100.0
Diluted Recurring EPS	(6.1)	(150.9)	(70.7)	100.0
Recurring Cash EPS	97.2	(28.8)	52.7	224.7
Dividend per share (DPS)	-	-	-	-
Book Value per share	152.8	2.9	(67.8)	32.2
Growth Ratios (%)				
EBITDA	NM	NM	NM	238.7
EBITDAR	NM	NM	NM	218.0
Recurring Net Income	NM	NM	NM	NM
Revenue	25.5	(59.1)	88.9	47.6
Valuation Ratios (x)				
P/E	NM	NM	NM	17.5
P/CEPS	18.0	NM	33.2	7.8
P/BV	11.5	NM	NM	54.3
EV / EBITDA	10.1	NM	19.8	5.6
EV / EBITDAR	9.3	NM	17.9	5.4
EV / FCF	9.7	NM	NM	8.2
Adjusted EV/EBITDAR	9.9	NM	18.6	5.7
FCF yield	8.7	NM	NM	11.2
Operating Ratios (%)				
Fuel/Sales	34.8	26.2	31.7	28.6
Net Rentals/Sales	1.4	1.9	1.3	1.1
Other Income / PBT	119.0	(16.4)	(45.7)	32.8
Effective Tax Rate	25.2	25.2	25.2	25.2
NWC / Total Assets	40.0	35.6	32.8	36.7
Inventory Days	3.5	7.6	7.6	7.6
Receivables (days)	2.6	5.5	5.5	5.5
Payables (days)	16.0	38.7	15.0	15.0
Net D/E Ratio (x)	(1.81)	(79.58)	1.05	(4.42)
Return Ratios (%)				
Recurring Net Income Margins	(0.7)	(39.7)	(9.8)	9.4
RoCE	9.4	(12.0)	(0.7)	20.4
RoNW	(4.0)	NM	NM	NM
Dividend Payout Ratio	-	-	-	-
EBITDA Margins	15.7	(3.7)	11.8	27.1

Source: Company data, I-Sec research

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