

Retail Equity Research (South India Focus)

**Inter Globe Aviation Ltd**

Aviation

BSE CODE : 539448 NSE CODE: INDIGO  
BLOOMBERG CODE: INDIGO:IN SENSEX : 52,276

**Accumulate**

12 Months Investment Period Rating as per Large Cap  
CMP Rs. 1,783 TARGET Rs. 1,984 RETURN 11% ↑  
(Closing: 08-06-21)

**KEY CHANGES:**

**TARGET** ↑

**RATING** ↓

**EARNINGS** ↑

**Second Covid wave...hurts recovery**

InterGlobal Aviation Ltd (Indigo) is one of the most efficient low cost carriers (LCC) with a market share of 54% in Indian aviation sector.

- Revenue declined by 25% YoY, but on sequential basis revenue grew by 27% QoQ, led by recovery in passenger growth.
- Profitability was impacted by higher fuel cost, depreciation, lease rentals, & lower other income.
- Q1FY22 profitability is likely to be impacted by Covid second wave given sharp drop in passenger growth in April & May.
- However, we expect passenger traffic to pick-up gradually starting from Q2FY22 & expect revenue growth to normalize in H2FY22 led by acceleration in vaccination and as impact of Covid second wave subsides.
- Faster replacement of old aircrafts with 15% more fuel efficient fleets will improve profitability in the medium term.
- Sale & lease back operations, cost rationalization and healthy cash position will help in tiding over the crisis situation. Further, the board has approved fund raising plans through QIP.
- We remain positive on the stock in the long term, given expansion of capacities, penetration into Tier 2-3 cities, focus on route optimization and likely market share gains post Covid era.
- We value Indigo at P/E of 18x on FY23E, however given near term earnings volatility and sharp movement of share prices, we downgrade Indigo to Accumulate with a target price of Rs. 1,984.

**H2FY22 expected to be better...**

Q4FY21 Revenue declined by 25% YoY, was better than expected supported by 70.2% load factor and higher fares. Q4 passengers was traffic was down by 46% YoY. But on a sequential basis revenue grew by 27% QoQ. Strong capacity addition was witnessed, as ASK grew by 26% on QoQ basis. During Q4, Indigo has taken delivery of 9 A321neo new aircrafts, while replaced 11 older A320ceo aircrafts. Currently, total aircraft under operations is 285. With out break of Covid second wave, travel restrictions was placed in April & May leading to disruption in passenger traffic. The capacity deployment cap was reduced to 50% from 80% from December 2020. Considering this, Q1FY22 is expected to be weak. However, there is marginal improvement in passenger traffic in June. Currently, management is replacing older aircraft with new cost efficient ones, which is expected to improve operational efficiency. Going ahead, we expect strong revival in passenger traffic in H2FY22 led by increased vaccination drive and reduction in Covid cases.

**Revival in H2FY22 expected...**

Q4FY21, the reported loss was Rs1,159cr, while on a QoQ losses widened. EBITDA was impacted by higher fuel cost, supplementary rentals and higher other expenses. While profitability was impacted by higher depreciation expenses, (up by 31% YoY) and lower other income (-60% YoY). Passenger yields was steady on a QoQ basis at 3.7. Going ahead, rise in crude prices and weak Q1FY22 will impact near term profitability. However, we expect passenger growth to revive starting from Q2FY22 and we may see accelerated recovery in H2FY22. Further, replacement of older aircrafts is likely to improve operating efficiency in the medium term.

**Outlook and Valuation**

We continue to maintain positive view on Indigo considering its strong liquidity position and cost efficient fleet operations, which will help Indigo in tiding over weak operational environment. Further, company has ability to infuse fresh capital to face any eventuality which may arise in near future. We expect revival in fortunes of domestic aviation industry in H2FY22E as the impact of Covid second wave subsides. We value Indigo at P/E of 18x on FY23E, however given sharp movement in stock prices, we downgrade to Accumulate with a target price of Rs1,984.

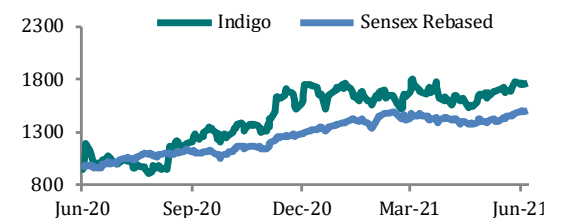
**Company Data**

Market Cap (cr)	Rs.68,629
Enterprise Value (cr)	Rs.88,803
Outstanding Shares (cr)	38.4
Free Float	25.1%
Dividend Yield	0.0%
52 week high	Rs.1,860
52 week low	Rs.873
6m average volume (cr)	0.1
Beta	0.8
Face value	Rs.10.0

Shareholding (%)	Q2FY21	Q3FY21	Q4FY21
Promoters	74.9	74.9	74.8
FII's	14.8	17.3	18.3
MFs/Institutions	7.7	5.6	4.8
Public	1.5	1.2	1.2
Others	1.2	1.0	0.9
Total	100.0	100.0	100.0

Price Performance	3 month	6 Month	1 Year
Absolute Return	3.8%	1.3%	57.0%
Absolute Sensex	2.6%	13.5%	52.2%
Relative Return*	1.2%	-12.2%	4.7%

**over or under performance to benchmark index**



Standalone	FY21A	FY22E	FY23E
Sales	14,641	22,250	39,479
Growth (%)	(59.1)	52.0	77.4
EBITDA	(25)	1,696	11,741
EBITDA Margin(%)	(2.0)	7.6	29.7
Adjusted PAT.	(5,830)	(3,530)	4,237
Growth (%)	-	-	220.0
Adjusted EPS	(151.7)	(91.8)	110.2
Growth (%)	-	-	220.0
P/E	(11.8)	(19.4)	16.2
P/B	-	(18.4)	248.5
EV/EBITDA	-	63.4	9.3
ROE (%)	-	-	-

## Quarterly Financials

### Profit & Loss

	Q4FY21	Q4FY20	YoY Growth %	Q3FY21	QoQ Growth %
<b>Sales</b>	<b>6,223</b>	<b>8,299</b>	<i>(25.0)</i>	<b>4910</b>	26.7
<b>EBITDA</b>	<b>549</b>	<b>(135)</b>	<i>(506.2)</i>	<b>839</b>	<i>(34.5)</i>
EBITDA margins	<b>8.8</b>	<b>(1.6)</b>	<i>(10.4)</i>	<b>17.1</b>	<i>(8.3)</i>
Depreciation	1,359	1006	31.1	1156	14.1
<b>EBIT</b>	<b>(770)</b>	<b>(1,142)</b>	<i>(32.5)</i>	<b>(318)</b>	-
Interest	528	488	8.3	541	<i>(2.4)</i>
Other Income	139	336	<i>(58.6)</i>	233	<i>(40.2)</i>
Exceptional Items	-	-	-	-	-
<b>PBT</b>	<b>(1,159)</b>	<b>(1,293)</b>	<i>(10.4)</i>	<b>(627)</b>	<i>(85.0)</i>
Tax	0	(420)	<i>(32.7)</i>	2	-
Share of profit from Associate	-	-	-	-	-
Minority Interest	-	-	-	-	-
<b>Reported PAT</b>	<b>(1,159)</b>	<b>(873)</b>	<i>(32.7)</i>	<b>(628)</b>	<i>(84.5)</i>
Adjustments			-		-
<b>Adjusted PAT</b>	<b>(1,159)</b>	<b>(873)</b>	<i>(32.7)</i>	<b>(628)</b>	<i>(84.5)</i>
No. of Shares	<b>38.4</b>	<b>38.4</b>	-	<b>38.4</b>	-
<b>EPS (Rs)</b>	<b>(30.2)</b>	<b>(22.7)</b>	<i>(32.7)</i>	<b>(16.3)</b>	<i>(84.5)</i>

### Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	31,115	39,854	22,250	39,479	<i>(28.5)</i>	<i>(0.9)</i>
EBITDA	6,959	9,992	1,696	11,741	<i>(73.1)</i>	10.0
Margins (%)	22.4	25.1	7.6	29.7	<i>(14.7)</i>	4.7
Adj. PAT	1633	3852	(3,530)	4,237	<i>(316.2)</i>	10.0
EPS	42.5	100.2	(91.8)	110.2	<i>(316.2)</i>	10.0

## Standalone Financials

### PROFIT & LOSS

Y.E March (Rs Cr)	FY19A	FY20A	FY21A	FY22E	FY23E
<b>Sales</b>	<b>28,497</b>	<b>35,756</b>	<b>14,641</b>	<b>22,250</b>	<b>39,479</b>
% change	23.8	25.5	(59.1)	52.0	77.4
<b>EBITDA</b>	<b>(205)</b>	<b>4,038</b>	<b>(25)</b>	<b>1,696</b>	<b>11,741</b>
% change	(107)	2065.6	(75.4)	-	-
Depreciation	732	3,946	4,632	5,007	5,011
EBIT	(985)	(65)	(4,724)	(3,312)	6,730
Interest	509	1876	2,142	2,213	2,434
Other Income	1325	1536	1,036	1,000	871
<b>PBT</b>	<b>(149)</b>	<b>(275)</b>	<b>(5,830)</b>	<b>(4,525)</b>	<b>5,167</b>
% change	(105.0)	84.6	-	-	214.2
Tax	(305)	(27)	-	(996)	930
Tax Rate (%)	205.0	9.8	(-3.0)	22.0	18.0
<b>Reported PAT</b>	<b>156</b>	<b>(248)</b>	<b>(5,830)</b>	<b>(3,530)</b>	<b>4,237</b>
Adj.*	-	-	-	-	-
<b>Adj. PAT</b>	<b>156</b>	<b>(248)</b>	<b>(5,830)</b>	<b>(3,530)</b>	<b>4,158</b>
% change	(93.0)	(259.0)	-	-	220.0
No. of shares (cr)	38.4	38.5	38.5	38.5	38.5
<b>Adj EPS (Rs)</b>	<b>4.1</b>	<b>(6.5)</b>	<b>(151.7)</b>	<b>(91.8)</b>	<b>110.2</b>
% change	(93.0)	(259.0)	-	-	220.0
DPS (Rs)	7.2	6.0	-	6.0	6.0
CEPS (Rs)	23.8	96.8	(29.4)	38.4	240.2

### BALANCE SHEET

Y.E March (Rs Cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash	713	676	508	896	1,610
Accounts Receivable	362	260	219	226	249
Inventories	211	286	316	288	316
Other Cur. Assets	11,523	14,114	15,458	15,849	21,470
Investments	6,517	9,499	7,290	5,790	4,290
Gross Fixed Assets	7,460	22,408	29,145	34,645	42,445
Net Fixed Assets	5,632	16,745	18,782	19,275	22,064
CWIP	22	129	66	50	50
Intangible Assets	32	45	39	39	39
Def. Tax (Net)	(64)	295	295	91	194
Other Assets	-	-	-	-	-
<b>Total Assets</b>	<b>24,947</b>	<b>42,048</b>	<b>42,974</b>	<b>42,503</b>	<b>50,281</b>
Current Liabilities	4,981	4,308	3,326	5,973	7,369
Provisions	437	1,948	2,144	488	865
Debt Funds	2,194	15,926	20,686	20,686	20,686
Other Liabilities	10,931	14,004	16,747	19,047	21,047
Equity Capital	384	385	385	385	385
Reserves & Surplus	6,560	5,478	(314)	(4,075)	(70)
Shareholder's Fund	6,945	5,862	71	(3,690)	314
<b>Total Liabilities</b>	<b>24,947</b>	<b>42,048</b>	<b>42,974</b>	<b>42,503</b>	<b>50,281</b>
BVPS	<b>181</b>	<b>153</b>	<b>2</b>	<b>(96)</b>	<b>8</b>

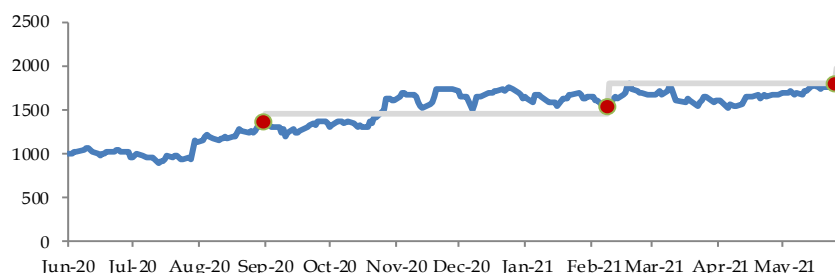
### CASH FLOW

Y.E March (Rs Cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Net inc. + Depn.	916	3,725	489	1,478	9,247
Non-cash adj.	(634)	1,625	1,414	1,123	1,460
Changes in W.C	2,879	1,593	(1,093)	621	(3,899)
<b>C.F. Operation</b>	<b>3,160</b>	<b>6,943</b>	<b>(1,620)</b>	<b>3,222</b>	<b>6,809</b>
Capital exp.	(1,706)	(1,060)	(420)	(5484)	(7,800)
Change in inv.	(1,331)	(3,876)	1,645	1,500	1,500
Other invest.CF	501	369	137	1,000	871
<b>C.F - Investment</b>	<b>(2,536)</b>	<b>(4,567)</b>	<b>3,246</b>	<b>(2,984)</b>	<b>(5,429)</b>
Issue of equity	-	24	9	63	-
Issue/repay debt	(208)	(829)	(153)	2,300	2,300
Dividends paid	(278)	(232)	-	-	(232)
Other finance.CF	(106)	(1,371)	(29)	(2,213)	(2,434)
<b>C.F - Finance</b>	<b>(592)</b>	<b>(2,407)</b>	<b>(1,775)</b>	<b>150</b>	<b>(666)</b>
Chg. in cash	42	(37)	(168)	388	714
Closing cash	713	676	508	896	1,610

### RATIOS

Y.E March	FY19A	FY20A	FY21A	FY22E	FY23E
<b>Profitab &amp; Return</b>					
EBITDA margin (%)	-0.7	11.3	-0.2	7.6	29.7
EBIT margin (%)	-3.4	0.2	-32.3	-14.9	17.0
Net profit mgn.(%)	0.5	-0.7	-39.8	-15.9	10.7
ROE (%)	2.2	-3.9	196.5	195.0	-251.0
ROCE (%)	3.7	5.9	-10.1	-4.8	15.8
<b>W.C &amp; Liquidity</b>					
Receivables (days)	3.8	3.2	6.0	3.6	2.2
Inventory (days)	3.3	4.1	11.0	112.9	126.7
Payables (days)	76.1	77.4	139.7	112.9	126.7
Current ratio (x)	2.4	2.5	3.0	2.7	2.9
Quick ratio (x)	0.1	0.2	0.2	0.2	0.3
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	4.3	2.4	0.6	0.7	1.0
Total asset T.O (x)	1.2	1.1	0.3	0.5	0.9
Int. covge. ratio (x)	-1.9	0.0	-2.2	-1.5	2.8
Adj. debt/equity (x)	1.8	5.1	527.9	-10.8	132.7
<b>Valuation</b>					
EV/Sales (x)	2.8	2.7	7.2	4.8	2.8
EV/EBITDA (x)	-	24.2	-	63.4	9.3
P/E (x)	-	-	-11.8	-19.4	16.2
P/BV (x)	9.9	11.8	-	-18.4	-

## Recommendation summary



Dates	Rating	Target
07-May-2018	Buy	1,438
01-August-2018	Buy	1,104
30-October-2018	Accumulate	1,018
25-January-2019	Accumulate	1,313
29-May-2019	Buy	1,925
11-July-2019	Accumulate	1,507
05-November-2019	Accumulate	1,596
13-May-2020	Drop coverage	-
15-September-2020	Accumulate	1,465
24-February-2021	Buy	1,804
09-June-2021	Accumulate	1,984

Source: Bloomberg, Geojit Research.

## Investment Criteria

Ratings	Large caps	Midcaps	Small caps
<b>Buy</b>	Upside is above 10%	Upside is above 15%	Upside is above 20%
<b>Accumulate</b>	-	Upside is between 10% - 15%	Upside is between 10% - 20%
<b>Hold</b>	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
<b>Reduce/sell</b>	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
<b>Not rated</b>	-	-	-

### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.

**Accumulate:** Partial buying or to accumulate as CMP dips in the future.

**Hold:** Hold the stock with the expected target mentioned in the note.

**Reduce:** Reduce your exposure to the stock due to limited upside.

**Sell:** Exit from the stock.

**Not rated :** The analyst has no investment opinion on the stock.

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

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Neutral- The analyst has no investment opinion on the stock under review

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