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Aviation

Company update, reco
and TP change

Target price: Rs1,650

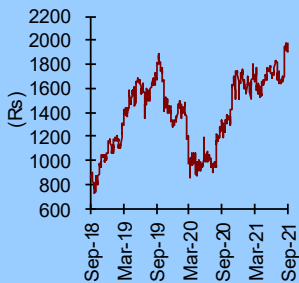
Target price revision

Rs1,650 from Rs1,800

Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	74.9	74.9	74.8
Institutional investors	22.9	23.2	23.1
MFs and others	3.9	3.4	2.6
FIs/Banks	1.4	1.2	1.0
FII	17.6	18.6	19.5
Others	2.2	2.0	2.1

Price chart



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INDIA

ICICI Securities

InterGlobe Aviation

SELL

Downgrade from **ADD**

Supply outlook and rising fuel prices to limit spreads;
risk-reward unfavourable

Rs2,139

Rising Brent crude prices and no major structural capacity cuts may limit the spreads of InterGlobe Aviation (IndiGo) to Rs0.34 in FY23, as per our estimates. Our spreads include depreciation and interest cost. Entry of new players, delay in recovery of international travel, longer absence of high yielding corporate travel and low cash balance do not provide any rationale for increase in multiples. Downgrade to SELL from ADD with revised target price of Rs1,650 (earlier: Rs1,800) based on 20x FY23E EPS of Rs82.4 (earlier: Rs90). Our earnings cut is driven by higher Brent crude prices of US\$65/bbl in FY23 compared to US\$60/bbl earlier and current Brent crude prices of US\$78/bbl.

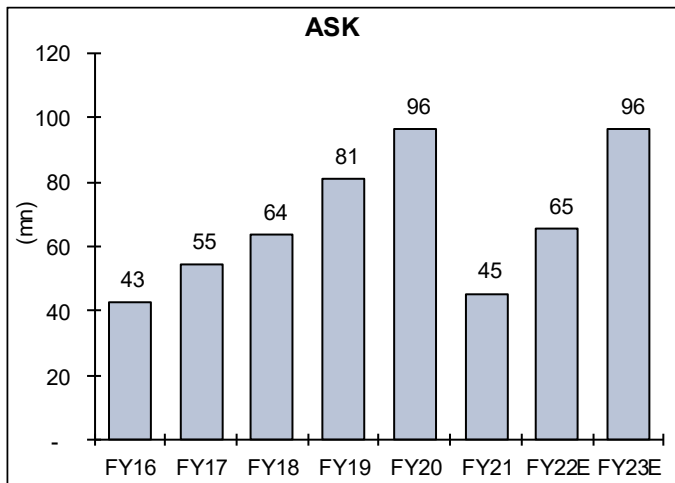
- ▶ **There are incremental positives on traffic recovery** with daily passenger count improving from 62k in May'21 to 231k in late Sep'21. Additionally, the government has also increased the allowable flying capacity to 85% in Sep'21 from 50% in June'21. These have been well backed up by improving PLFs of 70%/72% in Aug/Sep'21 as festive season firms up. Improving vaccination count, controlled covid cases and pent up travel demand remain macro positives. IndiGo has been able to reach new highs of domestic market share at 56% in FY22-TD compared to 48/55% in FY20/FY21.
- ▶ **However, there are multiple headwinds** including (1) high Brent crude prices (currently at US\$78/bbl), (2) no sight of international travel recovery. This segment was supposed to be ~25% of total capacity of most Indian airlines by FY23 and hence, create an oversupply in the domestic market and (3) most airlines are being able to work with lessors on lease payment restructuring and hence, no structural supply cuts are in the offing. Short-term capacity cuts remain tactical measures.
- ▶ **IndiGo's RASK is unlikely to charter beyond Rs4.3 in FY23** considering there is no structural capacity cut and there are new players entering the market. This is also seen empirically as IndiGo's RASK has never crossed Rs4 historically. Sharp increase in RASK is also difficult considering the delay in recovery of corporate travel where there is relatively higher price inelasticity. Leisure travel can be dampened by higher prices and beyond a certain price, alternate modes like rail and road become more attractive. **Fuel/ASK is unlikely to go below Rs1.25 in FY23 if we factor Brent crude at US\$65/bbl (currently prices are US\$78/bbl)**. This is post factoring 15% efficiency from a complete neo fleet and possible gain from using A321s. **Cost ex-fuel/ASK is likely to achieve efficiency and hence, estimated to grow only at 5% CAGR between FY19-23E. Hence, the best case spread (also our estimate) for IndiGo remains at Rs0.34bps per ASK in FY23E.**

ASK: Available Seat Kilometre, RASK: Revenue / ASK, CASK: Cost per ASK (which includes depreciation and interest expense, RPK: Revenue Passenger Kilometers, PAX: Passenger).

Market Cap	Rs824bn/US\$11.2bn	Year to March	FY20	FY21	FY22E	FY23E
Reuters/Bloomberg	INGL.BO/INDIGO IN	Revenue (Rs mn)	3,57,560	1,46,406	2,41,913	4,12,997
Shares Outstanding (mn)	385.2	Net Income (Rs mn)	(2,337)	(58,064)	(46,480)	31,713
52-week Range (Rs)	2306/1183	EPS (Rs)	(6.1)	(150.9)	(120.8)	82.4
Free Float (%)	25.2	% Chg YoY	(24.7)	2,384.8	(20.0)	(168.2)
FII (%)	19.5	P/E (x)	(352.2)	(14.2)	(17.7)	26.0
Daily Volume (US\$'000)	21,635	CEPS (Rs)	97.2	(28.8)	22.6	233.1
Absolute Return 3m (%)	23.7	EV/E (x)	11.5	(125.7)	30.4	6.2
Absolute Return 12m (%)	72.2	Dividend Yield (%)	-	-	-	-
Sensex Return 3m (%)	13.8	RoCE (%)	9.4	(12.0)	(8.3)	22.1
Sensex Return 12m (%)	62.3	RoE (%)	(4.0)	(5,237.7)	102.4	(232.2)

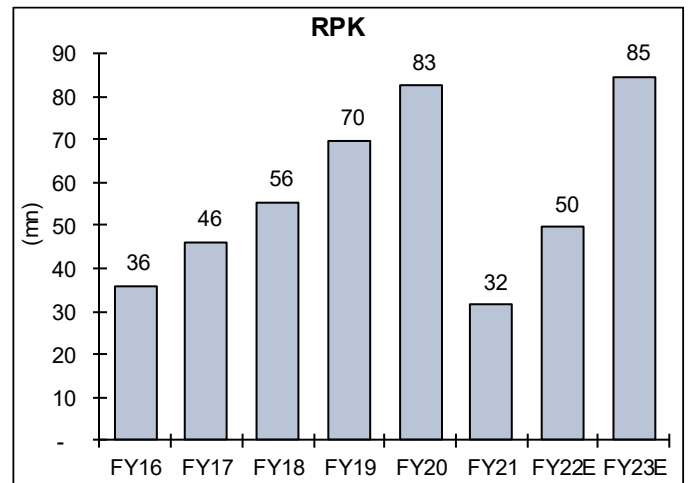
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Chart 1: Indigo's ASK are expected to normalize to in FY23 to FY20 levels



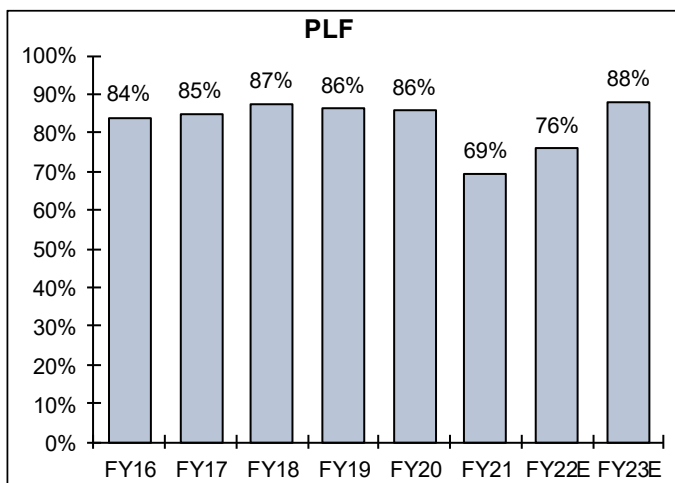
Source: Company data, I-Sec research.

Chart 2: RPK is expected to improve in FY23...



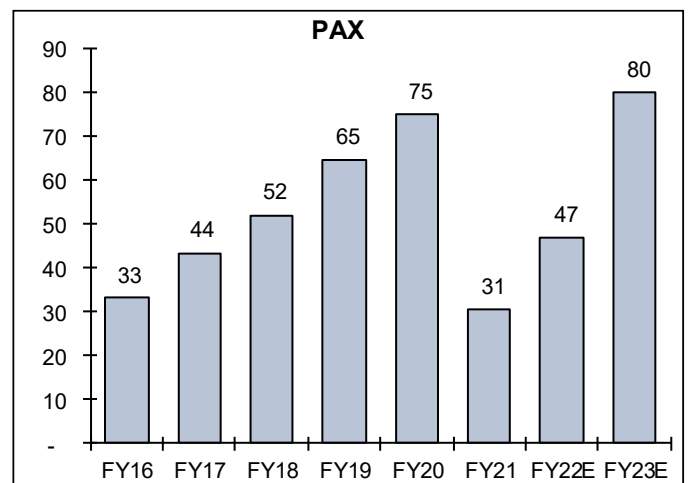
Source: Company data, I-Sec research.

Chart 3: ... on account of improvement in PLF...



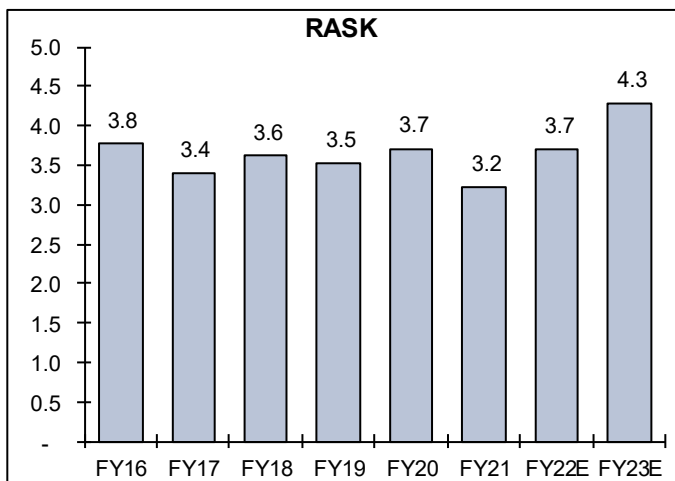
Source: Company data, I-Sec research.

Chart 4: ...due to better PAX count



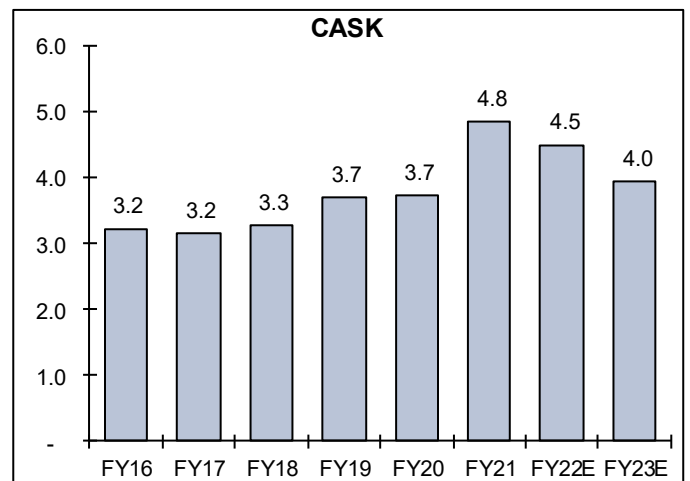
Source: Company data, I-Sec research.

Chart 5: RASK is expected to increase to Rs4.3



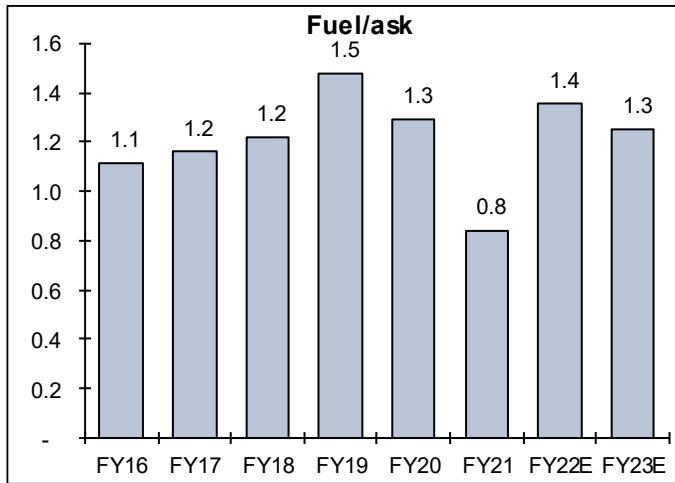
Source: Company data, I-Sec research.

Chart 6: CASK is expected to decline to Rs4



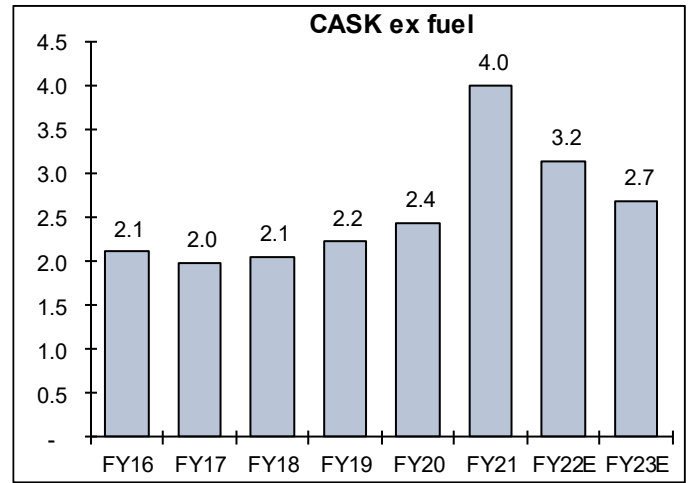
Source: Company data, I-Sec research.

Chart 7: Fuel/ASK is expected to decline on account of efficiency gains



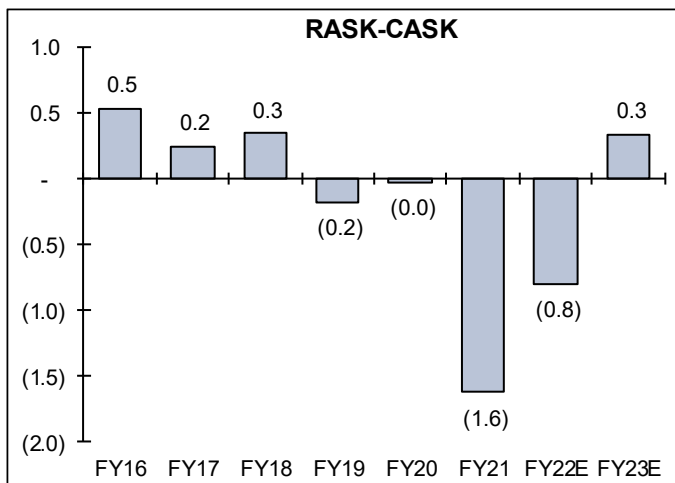
Source: Company data, I-Sec research.

Chart 8: Cask-ex-fuel is expected to show robust improvement



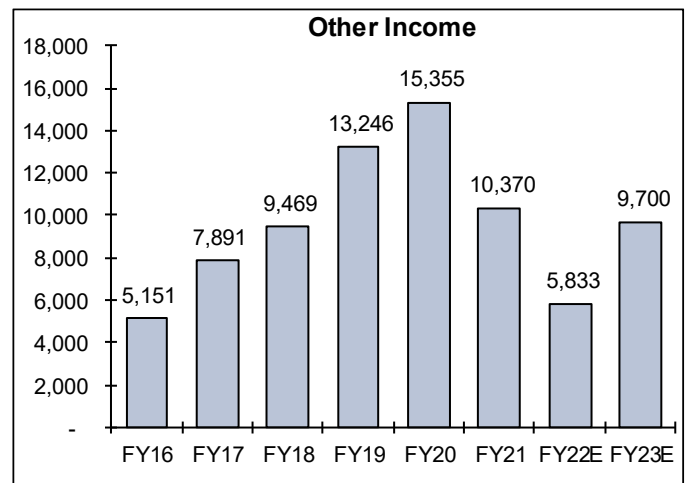
Source: Company data, I-Sec research.

Chart 9: Spreads are expected to be negligible in FY23



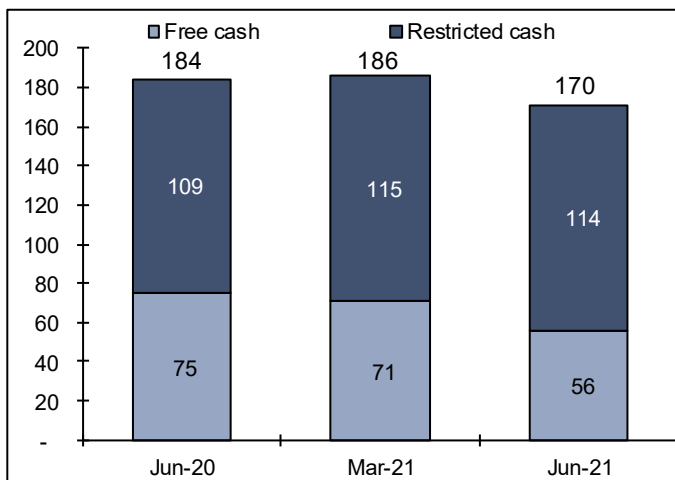
Source: Company data, I-Sec research.

Chart 10: Lower other income is expected going forward



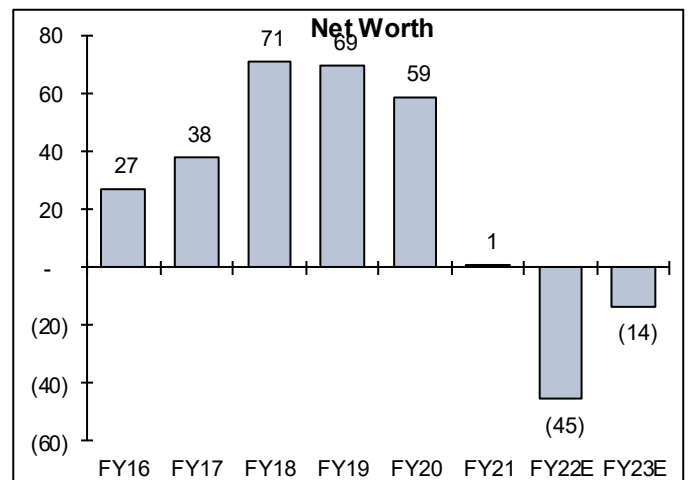
Source: Company data, I-Sec research.

Chart 11: Free cash available with Indigo has declined in Q1FY22



Source: Company data, I-Sec research.

Chart 12: Net-worth is expected to remain negative in FY23



Source: Company data, I-Sec research.

Financial summary

Table 1: Profit & loss statement
(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Operating Income	3,57,560	1,46,406	2,41,913	4,12,997
Operating Expenses	3,01,512	1,51,773	2,16,684	2,97,300
EBITDA	56,048	(5,366)	25,228	1,15,698
% margins	15.7	(3.7)	10.4	28.0
EBITDAR	61,015	(2,562)	28,151	1,19,059
% margins	17.1	(1.7)	11.6	28.8
Depreciation & Amortization	39,739	46,994	55,173	58,000
Gross Interest	18,759	21,420	22,519	25,000
Other Income	15,355	10,370	5,833	9,700
Recurring PBT	12,905	(63,411)	(46,630)	42,398
Add: Extra ordinaries	15,462	(5,230)	-	-
Less: Taxes	(220)	(116)	(150)	10,684
Less: Minority	-	-	-	-
Adjusted Net Income#	(2,337)	(58,064)	(46,480)	31,713

Source: Company data, I-Sec research

#does not include MTM impact.

Table 2: Balance sheet
(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Assets				
Total Current Assets	2,20,013	2,05,400	1,11,841	1,70,298
<i>Cash and Current Investments</i>	<i>2,03,716</i>	<i>1,85,671</i>	<i>93,764</i>	<i>1,40,951</i>
Total Current Liabilities	85,868	81,178	30,301	74,024
Net Current Assets	1,34,146	1,24,221	81,541	96,275
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	1,71,684	1,72,482
Total Assets	3,35,143	3,49,333	2,89,452	3,04,985
Liabilities				
Borrowings	34,225	51,347	51,347	51,347
Deferred Tax Liability	-	-	-	-
Lease Liability	2,20,335	2,73,540	2,60,140	2,43,959
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)	(49,221)	(17,507)
Net Worth	58,779	1,109	(45,372)	(13,658)
Total Liabilities	3,35,143	3,49,333	2,89,452	3,04,985

Source: Company data, I-Sec research

Table 3: Cash flow statement
(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Operating Cash flow ex WC	53,616	(5,214)	(11,678)	52,274
Working Capital Changes	16,102	(10,928)	(43,599)	28,223
Capital Commitments	10,883	4,369	2,000	2,000
Free Cash flow	58,835	(20,510)	(57,277)	78,497
Cash flow from Investing Activities	(45,680)	31,970	3,833	7,700
Issue of Share Capital	245	93	-	-
Inc. (Dec) in Borrowings	421	18,342	-	-
Dividend paid	(2,318)	-	-	-
Cash from financing	(24,131)	(17,931)	(40,463)	(41,010)
Chg. in Cash & Bank balance	(94)	(2,102)	(91,907)	47,186

Source: Company data, I-Sec research

Table 4: Key ratios
(Year ending March 31)

	FY20	FY21E	FY22E	FY23E
Per Share Data (in Rs.)				
EPS(Basic Recurring)	(6.1)	(150.9)	(120.8)	82.4
Diluted Recurring EPS	(6.1)	(150.9)	(120.8)	82.4
Recurring Cash EPS	97.2	(28.8)	22.6	233.1
Dividend per share (DPS)	-	-	-	-
Book Value per share	152.8	2.9	(117.9)	(35.5)
	152.9	(53.3)	(148.9)	204.0
Growth Ratios (%)				
EBITDA	NM	NM	NM	358.6
EBITDAR	27.2	NM	NM	322.9
Recurring Net Income	(24.7)	NM	NM	NM
Revenue	25.5	(59.1)	65.2	70.7
Valuation Ratios (x)				
P/E	NM	NM	NM	26.0
P/CEPS	22.0	NM	94.7	9.2
P/BV	14.0	742.7	NM	NM
EV / EBITDA	11.5	NM	30.4	6.2
EV / EBITDAR	10.5	NM	27.2	6.0
EV / FCF	10.9	NM	NM	9.2
Adjusted EV/EBITDAR	15.0	NM	27.9	6.2
FCF yield	7.1	NM	NM	9.5
Operating Ratios (%)				
Fuel/Sales	34.8	26.2	36.6	29.2
Net Rentals/Sales	1.4	1.9	1.2	0.8
Other Income / PBT	119.0	(16.4)	(12.5)	22.9
Effective Tax Rate	25.2	25.2	25.2	25.2
NWC / Total Assets	40.0	35.6	28.2	31.6
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)	NM	NM	NM	NM
Return Ratios (%)				
Recurring Net Income Margins	(0.7)	(39.7)	(19.2)	7.7
RoCE	9.4	(12.0)	(8.3)	22.1
RoNW	(4.0)	NM	NM	NM
Dividend Payout Ratio	-	-	-	-
EBITDA Margins	15.7	(3.7)	10.4	28.0

Source: Company data, I-Sec research

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