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INDIA

Aviation

Testing quarter before a promising summer

Reason for report: Quarterly results preview

Q4FY17 is likely to be the bottom for airline margins as cost tailwinds come back from Q1FY18. As such, valuations will not depend on this quarterly performance. Yet, Q4FY17 will provide insights to how airlines fare in a relatively adverse scenario in their ability to pass on higher costs. Aviation Turbine Fuel (ATF) prices increased by 38% Y-Y and 11% Q-Q in Q4FY17. Additionally, cost pressures are on the rise for heads like employee wages, airport charges, Government cess etc. The dependence on higher fares in a higher cost scenario is much larger for Jet Airways (Jet) and SpiceJet (SJet) compared to IndiGo. Accordingly, for Q4FY17, our estimates factor yield profile for IndiGo, SJet and Jet in an increasing order which results in a convergence of EBITDA margins. However, yield performance will tend to converge over time which would result in higher EBITDA margins for IndiGo on account of its lowest cost structure. Maintain IndiGo as the TOP BUY in the space.

- **IndiGo to continue on strong volumes/weak yields.** Bulk of the domestic passenger growth has been captured by IndiGo which is expected to register a passenger growth of 31% based on 25% increase in capacity in Q4FY17 on a Y-Y basis. This is also aided by stronger PLFs of IndiGo at 90%/88% during January/February. **We factor Y-Y decline of ~12% in average fares for IndiGo during Q4FY17**, compared to 16%/14%/11% Y-Y decline in Q3/Q2/Q1FY17. The company mentioned 10% fare decline Y-Y witnessed in January during Q3 concall. Sequentially, relatively lower growth in Available Seat kilometre (ASK) should help yields of IndiGo. However, it will add 6 new cities in Q4, which can put pressure on yields. Other income should improve Q-Q post sale and lease back of 4 owned aircraft. Incentives will also increase post induction of 7neos in Feb-Mar'17.
- **Yield performance of SJet will be tested.** Yields of SJet have been relatively better except for Q3 when it was hit by d'mon. We factor 19%/4% increase in ASK and 18%/2% in Pax on a Y-Y/Q-Q basis in Q4FY17. **We factor 0.5% Y-Y decrease in fares for SJet in Q4FY17;** compared to 3% decline Y-Y in Q1FY17, 5% increase Y-Y in Q2FY17 and 7% decline Y-Y in Q3FY17. Even if we consider a one off d'mon effect in Q3, the ability to show better yield management of SJet will be tested in Q4FY17, especially with a higher volume base. Part of the better yield management of SJet can be explained by its seat distribution as shown in Table 1&2.
- **Jet performance will depend upon int'l segment.** Standalone Jet is likely to record +7% /(2)% change in ASK Y-Y/Q-Q but pax growth is will be strong at +6%/+5% on a Y-Y/Q-Q basis. This is driven by higher PLFs during the quarter in int'l, domestic as well as JetLite. **We factor 2% increase in average fares Y-Y in Q4FY17** compared to 1.6%/4%/6% Y-Y decline witnessed in Q3/ Q2/Q1FY17 respectively. The int'l segment was under extreme pressure in Q3FY17 due to slower demand in Middle East. However, we believe this could improve in Q4 considering that the Dubai airport traffic growth has remained at ~9.5% Y-Y during Nov'16-Jan'17 after a low of 2.7% in Oct'16.

Quarterly estimates

Company	Sales			EBITDA			PAT		
(Rs mn)		% Chg			% Chg			% Chg	
	JFM'17	YoY	QoQ	JFM'17	YoY	QoQ	JFM'17	YoY	QoQ
IndiGo	46,857	14.5	(6.0)	2,192	(73.6)	(64.9)	1,613	(72.4)	(66.9)
SJet	16,778	13.8	2.2	1,070	18.0	(38.8)	721	(33.2)	(60.2)
Jet	55,342	5.5	1.0	2,648	(67.5)	(7.1)	548	(86.2)	(61.5)

JFM'17- January-March'17 Source: Company data, I-Sec research

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Seat share analysis of the domestic air traffic winter schedule

As we near the end of winter traffic, we collate the seat share analysis of the season---split among airlines and the different regions. There has been a disparate performance in yields of major domestic airlines during the three quarters of FY17 and some of the divergence could be attributed to the differences in seat share of these airlines in different regions. We categorise four major regions----Tier I (11 cities), North, South, East and West.

Key takeaways:

- Lower share of Indigo in North and higher share of Indigo in East.
- Higher share of SpiceJet in North and South. This could be helping its aggregate yield.
- Jet had higher share in west.
- Relative higher share of Jet/Air India in Mumbai and Delhi. This is the benefit of smaller volumes overall.
- Inefficient allocation of seats of Air India.
- Relative higher share of Air Asia in Bangalore as it is still not there in most places

Table 1: Geographical breakup of Indian airlines on domestic routes

Total seats weekly (%)	SpiceJet	IndiGo	Air India	Jet	JetLite	Air Asia	Vistara	Go Air
Tier I cities	70.9	73.3	68.2	78.0	62.2	87.2	84.0	74.5
MUMBAI (BOMBAY)	9.7	9.0	16.0	22.8	22.9	-	26.3	18.6
DELHI	14.7	17.4	28.2	19.9	1.4	17.5	25.5	20.2
KOLKATA	7.2	9.0	6.6	4.8	10.7	-	4.7	5.0
CHENNAI(MADRAS)	8.6	6.9	5.2	8.1	2.8	-	-	4.9
AHMEDABAD	4.0	3.3	0.4	2.2	5.6	-	1.8	3.9
GOA	3.5	2.6	1.6	1.2	1.2	12.0	2.9	4.0
PUNE	2.9	2.6	1.8	3.3	2.8	3.5	0.8	4.3
HYDERABAD	7.8	7.1	5.6	3.3	4.4	10.5	1.6	1.1
BANGALORE	8.3	10.7	0.3	8.9	10.5	33.1	4.6	8.5
COCHIN	4.1	2.5	1.1	1.1	-	10.5	2.4	1.6
LUCKNOW		2.3	1.3	2.3	-	-	3.4	2.4
South	9.7	3.2	5.0	3.7	-	-	-	-
East	7.9	13.5	12.6	3.4	23.3	7.0	10.1	14.4
North	9.0	3.9	6.1	4.9	-	1.8	6.0	7.7
West	2.5	6.0	8.1	10.0	14.5	4.0	-	3.4

Sources: DGCA, I-Sec Research

Table 2: Airline wise breakup of major regions in Indian domestic air traffic segment

Region Wise (%)	Tier I	North	South	East	West
Total Seats	100.0	100.0	100.0	100.0	100.0
SpiceJet	12.7	23.0	34.2	9.2	5.5
IndiGo	46.5	35.7	40.3	55.8	46.9
Jet	14.5	13.2	13.5	4.1	22.9
JetLite	2.4	-	-	5.8	6.8
Air Asia	2.8	0.8	-	1.5	1.6
Vistara	5.3	5.4	-	4.1	-
Go Air	7.6	11.3	-	9.5	4.3
Air India	8.2	10.5	12.0	9.9	12.0

Sources: DGCA, I-Sec Research

IndiGo (Buy)

(QoQ chg.: 28.8%; YoY chg.: 15.7%)

Positive drivers to earnings are the 31% Y-Y increase in passengers and increase in incentives, driven by intake of 7 neos in the quarter.

Negative drivers are~12% Y-Y decline in fares and 38% increase in Y-Y average ATF prices.

The company mentioned 10% fare decline Y-Y witnessed in January during Q3 concall.

Sequentially weak ASK numbers should help yields of IndiGo. However, it will add 6 new cities in Q4, which can put pressure on yields.

Financial Highlights

(Rs mn)	Q4FY17E	Q4FY16	YoY (%)	Q3FY17	QoQ (%)
Income from operations	46,457	40,607		49,431	
Other operating Income	400	300		434	
Total operating Income	**46,857**	**40,907**	**14.5**	**49,865**	**(6.0)**
Fuel	18,080	10,236	76.6	16,712	8.2
Net Rentals	8,002	6,789	17.9	8,164	(2.0)
Incentives	1,692	903	87.4	1,514	11.8
Stock	342	325		347	
Change in inventory	17	(0)		(19)	
Employee	5,266	4,923	7.0	5,273	(0.1)
Landing fees and enroute charges	5,103	3,899	30.9	5,056	0.9
Other Expenses	7,855	6,438	22.0	8,086	(2.9)
Total operating Expense	**44,665**	**32,610**	**37.0**	**43,620**	**2.4**
EBITDA	**2,192**	**8,296**	**(73.6)**	**6,245**	**(64.9)**
(Margin %)	4.7	20.3		12.5	
EBITDAR	**10,194**	**15,085**	**(32.4)**	**14,408**	**(29.2)**
(Margin %)	21.8	36.9		28.9	
Other Income	2,000	1,852	8.0	1,719	16.3
Depreciation	1,200	1,249	(3.9)	1,184	1.4
Finance Costs	720	723	(0.4)	759	(5.1)
Exceptional	-	-		-	
EBIT	2,992	8,900	(66.4)	6,780	
PBT	2,272	8,177	(72.2)	6,021	(62.3)
Tax	659	2,339	(71.8)	1,149	
PAT	**1,613**	**5,838**	**(72.4)**	**4,873**	**(66.9)**

Source: Company Data, I-Sec Research

	Q4FY17E	Q4FY16	YoY (%)	Q3FY17	QoQ (%)
ASK-Domestic (000)	12,697,361	10,236,857	24.0	12,953,399	(2.0)
ASK-Int'l (000)	1,476,508	1,131,516	30.5	1,434,253	2.9
Total	14,173,869	11,368,373	24.7	14,387,652	(1.5)
PLF (%)	88.0	85.1		87.3	
PAX Revenue (Rs mn)	40,757	35,345	15.3	43,700	(6.7)
Ancillary revenue (Rs mn)	5,700	5,262	8.3	5,731	(0.5)
PAX RASK	2.9	3.1		3.0	
Fare (Rs)	3,483	3,958	(12.0)	3,695	(5.7)
Passengers(mn)	11.7	8.9	31.0	11.8	(1.1)

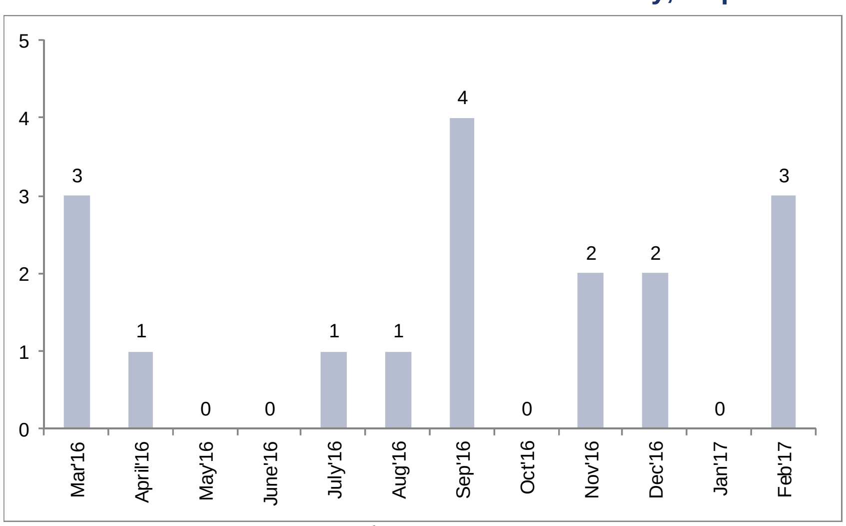
Source: Company Data, I-Sec Research

Other income should improve Q-Q post sale and lease back of 4 owned aircraft by the company.

Sequential decline in ASK in Q4 is a possibility, only to be clear once March numbers are released by DGCA.

3 neos were inducted by IndiGo in February.

Chart 1: IndiGo has inducted 17 neos till February, 20 planned by FY17 end



Source: Company Data, I-Sec Research

SpiceJet (ADD)

(QoQ chg.: 73.1%; YoY chg.: 54.2%)

D'mon was a speed breaker in earnings momentum for SJet in Q3 due to a sharp fall in yields.

Among the two months of data available in Q4, SJet has maintained strong traffic and PLFs, suggesting sustained pressure likely on yields.

How do the fares manage to recover from d'mon in Q4, which is an otherwise weak quarter, will determine the earnings.

The exceptional item in Q3FY17 was related to the write back of provisions related to vendor claims based on management assessment post arbitration proceedings, submissions and legal advice.

Such write backs and provisions need to be settled to gain stability in cost profile.

Financial highlights

(Rs mn)	Q4FY17E	Q4FY16	YoY (%)	Q3FY17	QoQ (%)
Net Sales from operations	16,478	14,487		16,027	
Other operating income	300	263		397	
Total Income from operations	**16,778**	**14,750**	**13.8**	**16,424**	**2.2**
Fuel	5,426	3,287	65.1	4,738	14.5
Lease rentals	2,530	2,492	1.5	2,429	4.2
Airport Charges	1,294	1,089	18.8	1,215	6.5
Maintenance	2,190	3,458	(36.7)	2,114	3.6
Redelivery	44	268		31	
Other operating expense	669	461	45.0	687	(2.6)
Employee	1,904	1,334	42.6	1,827	4.2
Other expense	1,651	1,454	13.6	1,635	1.0
Total operating expense	**15,709**	**13,844**	**13.5**	**14,677**	**7.0**
EBITDA	**1,070**	**906**	**18.0**	**1,747**	**(38.8)**
Margin (%)	6.4	6.1		10.6	
EBITDAR	**3,600**	**3,398**	**5.9**	**4,177**	**(13.8)**
Margin (%)	21.5	23.0		25.4	
Depreciation	524	426	22.8	524	-
Other Income	250	426	(41.3)	280	(10.7)
Finance Costs	75	463	(83.8)	78	(3.9)
Extraordinary	-	637		386	
PBT	721	1,079	(33.2)	1,811	(60.2)
Tax	-	-		-	
PAT	**721**	**1,079**	(33.2)	**1,811**	**(60.2)**

Source: Company Data, I-Sec Research

Operating highlights

Operating parameters	**Q4FY17E**	**Q4FY16**	**YoY (%)**	**Q3FY17**	**QoQ (%)**
ASK-domestic (000)	3,496,495	2,879,795	21.4	3,298,619	6.0
ASK-Int'l (000)	965,361	885,377	9.0	985,066	(2.0)
ASK-Total (000)	4,461,856	3,765,172	18.5	4,283,685	4.2
PLF (%)	92.5	92.1		90.7	
PAX Revenue (Rs mn)	14,678	12,792	14.7	14,358	2.2
Ancillary revenue (Rs mn)	1,800	1,707	5.4	1,717	4.8
PAX RASK	3.3	3.4	(3.2)	3.4	(1.9)
Fare (Rs)	3,582	3,600	(0.5)	3,584	(0.1)
Passengers(mn)-Company	4.10	3.55	15.3	4.01	2.3
Passengers(mn)-DGCA	3.99	3.39	17.7	3.90	2.3

Source: Company Data, I-Sec Research

Jet Airways (HOLD)

(QoQ chg.: 44.9%; YoY chg.: -7.2%)

Topline growth will be muted on account of no significant capacity expansion Q-Q and 2% increase in fares Y-Y.

International segment was under pressure in Q3 on account of Middle East slowdown. However, Dubai airport traffic growth has remained at ~9.5% during Nov'16-Jan'17 after a low of 2.7% in Oct'16.

Lease income will sharply fall in Q4 as the company will end up with one aircraft on lease by FY17 end.

The company has enhanced its B777 deployment for international routes out of Mumbai and also upgraded some domestic routes to A330 in Q4. The economics of the same will have to be watched.

Adoption of component accounting has led to lower maintenance cost and higher depreciation.

Financial highlights (Standalone)

(Rs mn)	Q4FY17E	Q4FY16	YoY (%)	Q3FY17	QoQ (%)
Net Income from Operations	52,742	48,423		50,925	
Other operating Income	2,600	4,030		3,856	
-From leasing of airplanes	100	2,110		1,278	
Total Income	**55,342**	**52,453**	5.5	**54,781**	1.0
Fuel	15,423	9,991	54.4	14,289	7.9
Rentals	6,053	5,447	11.1	5,787	4.6
Employees	6,909	6,677	3.5	7,003	(1.3)
Selling and Distribution	6,269	5,705	9.9	6,386	(1.8)
Repair & Maintenance	4,734	3,457	36.9	4,928	(3.9)
Other Expenses	13,306	13,017	2.2	13,537	(1.7)
Total operational expense	**52,694**	**44,294**	19.0	**51,930**	1.5
EBITDA	**2,648**	**8,158**	(67.5)	**2,851**	(7.1)
Margin (%)	4.8	15.6		5.2	
EBITDAR	**8,701**	**13,606**	(36.1)	**8,638**	0.7
Margin (%)	15.7	25.9		15.8	
Other Income	1,900	2,060		2,904	
-Profit on sale and leaseback of Engine	-	312		1,301	
-Slump Sale from JPPL	800	832		623	
-Receivable from lessor	-	-		-	
Depreciation	2,000	4,187		2,124	
EBIT	**2,548**	**6,031**	(57.8)	**3,632**	(29.8)
Finance Cost	2,000	2,102		2,208	
Exceptional Items	-	43		-	
PBT	**548**	**3,972**		**1,424**	
Tax	-	-		-	
PAT	**548**	**3,972**	(86.2)	**1,424**	(61.5)

Source: Company Data, I-Sec Research

Operational Highlights (Standalone)

Operating parameters	Q4FY17E	Q4FY16	YoY (%)	Q3FY17	QoQ (%)
ASK-Domestic (000)	4,465,536	4,468,543	(0.1)	4,426,314	0.9
ASK-Int'l (000)	8,328,968	7,537,939	10.5	8,606,810	(3.2)
Total Jet Standalone	12,794,504	12,006,482	6.6	13,033,124	(1.8)
PLF (%)	84.7	83.5		79.8	
Fare Standalone (Rs)	7,594	7,373	3.0	7,712	(1.5)
Passengers(mn)	6.37	6.02	5.8	6.09	4.5
Fare Consolidated(Rs)	7,182	7,039	2.0	7,306	(1.7)

Source: Company Data, I-Sec Research

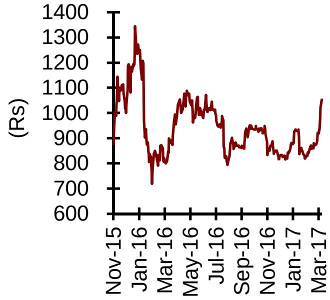
Financial highlights (Consolidated)

Operating parameters	Q3FY17E	Q3FY16	YoY (%)	Q2FY17	QoQ (%)
Revenue	57,745	54,930	5.1	57,839	(0.2)
EBITDAR	9,249	14,453	(36.0)	9,463	(2.3)
EBITDA	2,746	8,599	(68.1)	3,314	(17.1)
PBT	501	4,255	(88.2)	1,563	(68.0)
PAT	**501**	**4,255**	**(88.2)**	**1,563**	**(68.0)**

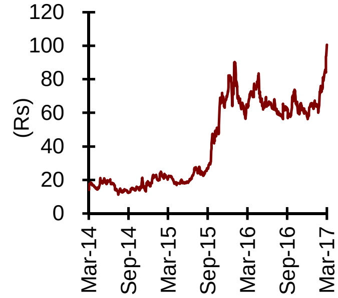
Source: Company Data, I-Sec Research

Price chart

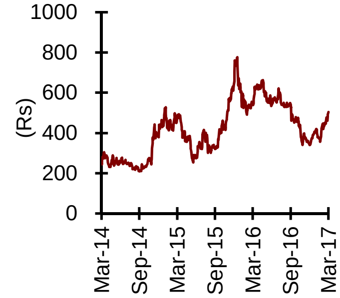
InterGlobe Aviation*



SpiceJet



Jet Airways



*Note: Listed on November 10, 2015
Source: Bloomberg

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