

Aviation Sector Update

Increased domestic PLF across players driven by low capacity addition

Domestic passengers carried witnessed moderate growth of 17% in Nov'17. Domestic capacity addition (ASK) growth stood low at c.10.2%, driven by de-growth in distance flown, even as fleet addition continued. Indigo, a market leader, witnessed a YoY decline in market share, driven by muted ASK growth of c.3%, as growth in fleet addition was offset by the decline in distance flown. SpiceJet maintained market share, driven by record high PLF (95.5%). During the month, domestic PLF increased YoY across players, driven by low capacity addition. At the current crude price of USD 64/bbl and INR/USD rate of 64, aviation stocks have limited upside from CMP. Sensitivity of EBITDAR and fair value for Indigo/SpiceJet are outlined in this report (exhibits 23 to 26).

- **Domestic passenger growth at 16.9% YoY in Nov'17:** India's Domestic passengers (PAX) carried increased 16.9% YoY to 10.5mn passengers in Nov'17. Domestic passenger carried in CY17 crossed the 100 million mark in Nov'17. Indigo's domestic PAX growth has slowed down to 9.5% YoY in Nov'17, and carried 4.1mn passengers, while SpiceJet carried 1.3mn PAX (+15% YoY), Jet Airways and Jet Lite carried 1.8mn PAX (17.7% YoY), and Air India carried 1.3mn PAX (19% YoY).
- **Indigo's domestic ASK growth moderates significantly:** In Nov'17, domestic ASK growth moderated significantly at c.10.2% to 11.1bn, driven 5.3% YoY de-growth in distance flown per aircraft, even as fleet addition continued at 17.2% YoY. Indigo and SpiceJet's domestic ASK increased 2.9% and 13.3% YoY to 4.5bn and 1.2bn, respectively. Jet Airways + Jet Lite's domestic ASK increased 11.1% YoY to 1.9bn and Air India's domestic ASK increased 7.9% YoY to 1.4bn. Indigo's ASK growth declined significantly to 2.9% YoY, as a 27.1% YoY increase in fleet was partially offset by c.18.9% YoY decrease in distance flown, while SpiceJet's 13.3% YoY growth in ASK was driven by a 17% YoY increase in aircraft, partially offset by 1.7%/1.4% decrease in distance flown/seats per aircraft, respectively.
- **Domestic RPK increased 16.4% YoY in Nov'17:** Domestic RPK increased 16.4% YoY to 9.9bn in Nov'17. Indigo's domestic RPK increased 6.1% YoY to 4.0bn, while SpiceJet's domestic RPK increased 16.9% YoY to 1.2bn, driven by record high PLF of 95.5%; Jet Airways + Jet Lite's domestic RPK increased 22.3% YoY to 1.7bn and Air India's domestic RPK increased 16.4% YoY to 1.2bn.
- **Indigo lost YoY market share driven by low capacity addition:** Indigo, a market leader, reported 2.7ppt YoY loss in domestic market share (by PAX carried) to 39.5% in Nov'17, driven by slowdown in capacity addition. SpiceJet's market share decreased marginally by 0.2ppt to 12.6%. Jet Airways + Jet Lite (market share of 17.1%), Go Air (8.9%) and Air India (11.7%) gained 0.1pppt/0.9pppt/0.2ppt YoY market share, respectively.
- **Multi-year high industry domestic PLF @ 89.2%, SpiceJet reports record high domestic PLF @ 95.5% in Nov'17:** In Nov'17, industry PLF (domestic) recorded a multi-year of 89.2%, driven by low capacity addition during the same month and increased tourist in the festive season. In Nov'17, SpiceJet reported a record high domestic load factor of 95.5% (vs. 92.5% in Nov'16). SpiceJet's load factor has remained above 90% for over 2 and half years now. Indigo and Go Air reported 90%+ domestic PLF at 90.7% and 90%, respectively. Jet Airways and Air India increased load factor significantly by 6.9ppt/8.9ppt YoY to 87.3%/84.1% respectively.

Industry's operational performance remains top-notch: In Nov'17, Indigo and SpiceJet maintained a low cancellation of 0.1% and 0.6%, respectively vs. the industry avg. of 0.5%. In terms of PAX complaints, both Indigo/SpiceJet performed better than the industry average and reported 0.2/0.3 complaints per 10,000 PAX, respectively. Indigo/SpiceJet reported 80.4%/81.9% on-time performance at the four metros.

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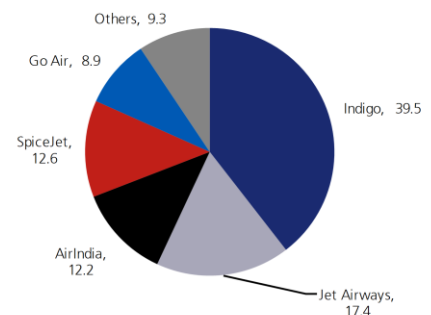
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Domestic demand/supply

%	FY 17	Nov-17	Oct-17	Nov-16
ASK (mn)	116.9	11.1	11.7	10.1
YoY (%)	19.7	10.2	15.6	20.4
Pax (mn)	103.8	10.5	10.4	8.9
YoY (%)	21.9	16.9	20.6	22.7

Source: DGCA, JM Financial; Note: Includes only domestic ASK and PAX

Domestic mkt share by PAX – Nov'17 (%)



Source: DGCA, JM Financial; Note: Represents only domestic PLF

SpiceJet's target price sensitivity to crude/INR

		Crude (USD/bbl)		
		45	50	55
INR (INR/USD)	63	166	138	109
	65	154	125	96
	67	142	112	82

Source: JM Financial

Indigo's target price sensitivity to crude/INR

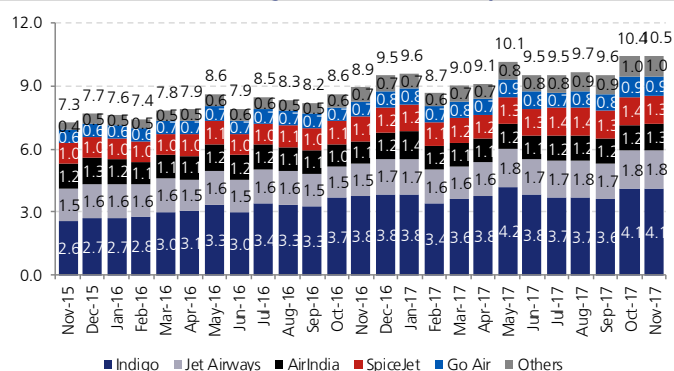
		Crude (USD/bbl)		
		45	50	55
INR (INR/USD)	63	1,312	1,164	1,016
	65	1,232	1,080	928
	67	1,152	996	839

Source: JM Financial

JM Financial Research is also available on: Bloomberg - JMFR <GO>, Thomson Publisher & Reuters S&P Capital IQ and FactSet

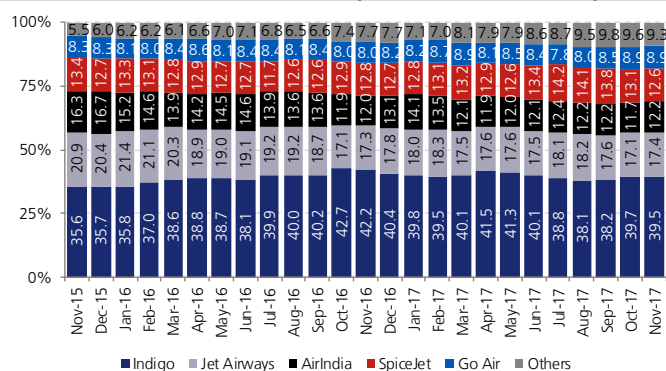
Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Exhibit 1. Domestic Passengers Carried - monthly (mn)



Source: DGCA, JM Financial; Note: Jet airways includes Jet Lite

Exhibit 2. Domestic market share by PAX carried – monthly (%)



Source: DGCA, JM Financial; Note: Jet airways includes Jet Lite

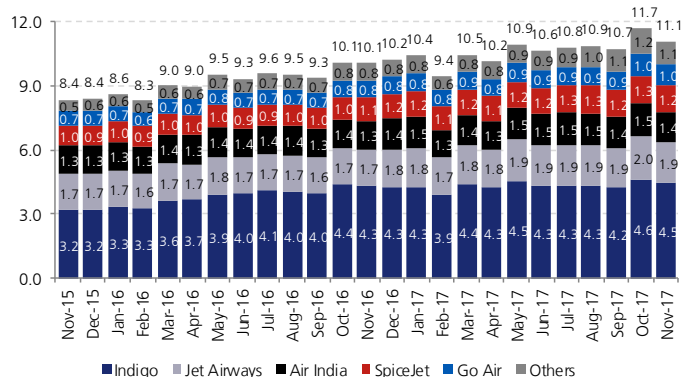
Exhibit 3. Domestic passenger growth (YoY) (%)

	FY14	FY15	FY16	FY17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17
Air India	6.9	13.2	14.0	4.0	0.2	3.7	4.0	18.0	19.0
Jet Airways	(3.1)	5.4	6.9	4.5	6.4	9.6	9.9	21.0	17.7
SpiceJet	3.3	(6.6)	(0.4)	24.1	36.6	29.0	28.1	22.0	15.0
Go Air	19.7	24.3	9.6	20.7	3.6	15.1	17.7	34.3	29.8
Indigo	15.3	31.2	32.6	32.3	9.3	10.1	10.6	11.9	9.5
Total Domestic	4.8	15.5	21.6	21.9	12.5	15.7	16.5	20.6	16.9

Source: DGCA, JM Financial; Note: Jet airways includes Jet Lite

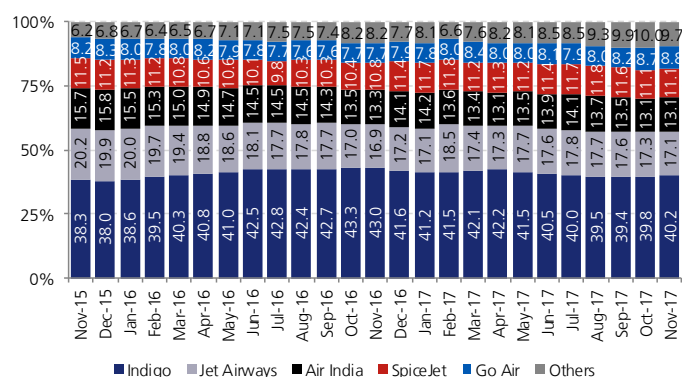
Domestic passenger traffic increased 16.9% YoY to 10.5mn in Nov'17

Exhibit 4. Domestic ASK – monthly (mn)



Source: DGCA, JM Financial; Note: Jet airways includes Jet Lite

Exhibit 5. Domestic market share by ASK – monthly (%)



Source: DGCA, JM Financial; Note: Jet airways includes Jet Lite

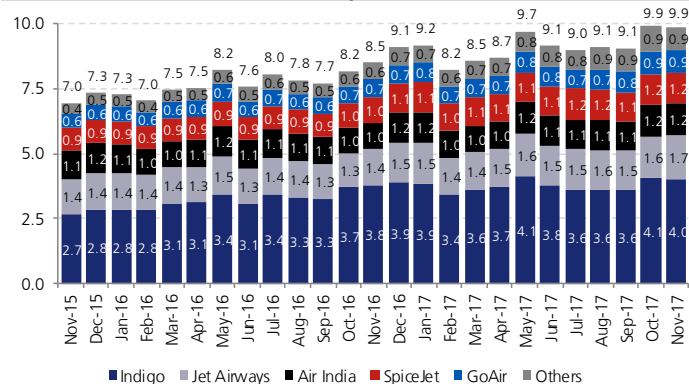
Exhibit 6. Domestic ASK growth (YoY) (%)

	FY14	FY15	FY16	FY17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17
Air India	2.9	1.6	3.5	6.8	9.6	8.1	8.1	12.2	7.9
Jet Airways	(2.1)	(6.1)	22.2	4.5	14.1	13.6	14.3	17.7	11.1
SpiceJet	3.1	(19.6)	(18.7)	24.0	34.7	30.7	28.9	23.8	13.3
Go Air	22.0	16.3	2.9	13.4	15.9	21.0	23.6	31.3	27.0
Indigo	21.2	22.0	22.3	28.1	5.9	6.4	5.8	6.3	2.9
Total Domestic	6.0	5.1	15.2	19.7	13.1	14.2	14.8	15.6	10.2

Source: DGCA, JM Financial; Note: Jet airways includes Jet Lite

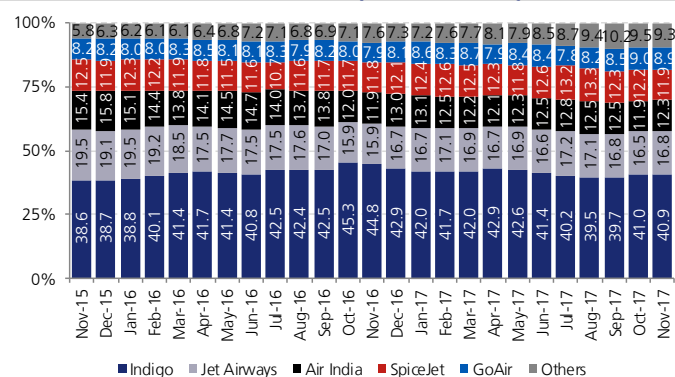
Slowdown of growth in domestic capacity to 10.25 YoY in Nov'17, driven by muted growth by Indigo

Exhibit 7. Domestic RPK - monthly (mn)



Source: DGCA, JM Financial; Note: Jet airways includes Jet Lite

Exhibit 8. Domestic market share by RPK – monthly (%)



Source: DGCA, JM Financial; Note: Jet airways includes Jet Lite

Exhibit 9. Domestic RPK growth (YoY) (%)

	FY14	FY15	FY16	FY17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17
Air India	6.6	10.6	6.3	6.8	2.3	5.4	7.1	19.7	20.7
Jet Airways	(4.8)	3.9	24.9	5.4	9.8	13.1	15.7	25.0	22.3
SpiceJet	0.0	(8.9)	(8.5)	25.3	38.2	32.5	24.0	26.3	16.9
Go Air	20.6	23.9	8.8	20.0	5.9	20.1	22.4	36.3	31.0
Indigo	14.7	26.7	29.5	29.8	5.9	8.2	9.8	9.3	6.1
Total Domestic	4.3	13.3	20.8	21.8	11.9	16.0	17.5	20.9	16.4

Source: DGCA, JM Financial; Note: Jet airways includes Jet Lite

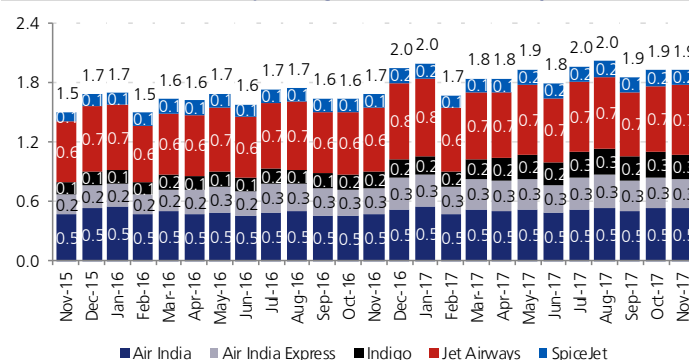
Domestic RPK increased 16.4% YoY in Nov'17 to 9.9bn

Exhibit 10. Domestic passenger load factor (%)

	FY14	FY15	FY16	FY17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17
Air India	70.9	77.2	79.2	79.2	79.8	74.7	78.7	81.1	77.0	75.4	76.1	78.6	76.6	84.1
Jet Airways	71.1	78.7	80.4	81.0	86.8	79.8	82.8	85.3	81.0	80.2	80.7	80.2	80.5	87.3
SpiceJet	72.2	81.8	92.0	92.9	93.7	91.4	93.4	94.3	94.5	94.4	94.5	94.2	93.7	95.5
Go Air	74.3	79.1	83.7	88.5	90.9	84.8	84.7	93.0	89.4	82.5	85.4	88.5	87.6	90.0
Indigo	76.5	79.4	84.1	85.2	87.7	81.6	86.9	91.1	87.8	83.7	83.6	85.2	87.3	90.7
Total Domestic	73.3	79.0	82.8	84.3	87.2	81.8	85.5	88.9	85.9	83.2	83.5	84.5	84.8	89.2

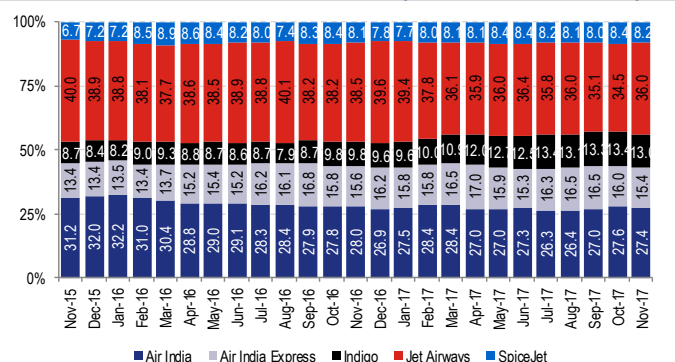
Source: DGCA, JM Financial; Note: Jet airways includes Jet Lite

Exhibit 11. International passengers carried – monthly (mn)



Source: DGCA, JM Financial; Note: Jet airways includes Jet Lite

Exhibit 12. International market share by PAX carried - monthly (%)



Source: DGCA, JM Financial; Note: Jet airways includes Jet Lite

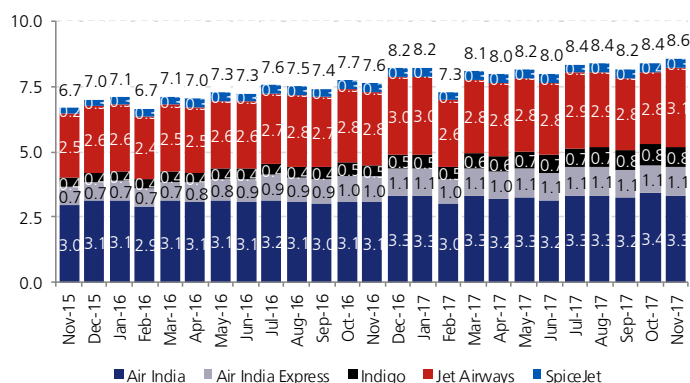
Exhibit 13. International passengers carried - growth (YoY)

	FY14	FY15	FY16	FY17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17
Air India	12.2	9.6	3.6	2.3	5.0	7.4	9.0	16.7	12.6
Air India Express	19.0	3.4	10.1	25.6	14.2	18.5	10.5	19.0	13.6
Indigo	24.0	(2.5)	13.6	17.1	73.7	92.8	72.5	61.4	52.2
Jet Airways	5.6	20.6	5.8	9.0	4.5	3.9	3.7	6.2	7.4
SpiceJet	97.5	(13.5)	26.4	35.0	15.6	26.0	8.5	18.1	16.4
Total International	14.8	9.9	7.5	11.8	13.1	15.9	12.7	17.5	14.9

Source: DGCA, JM Financial

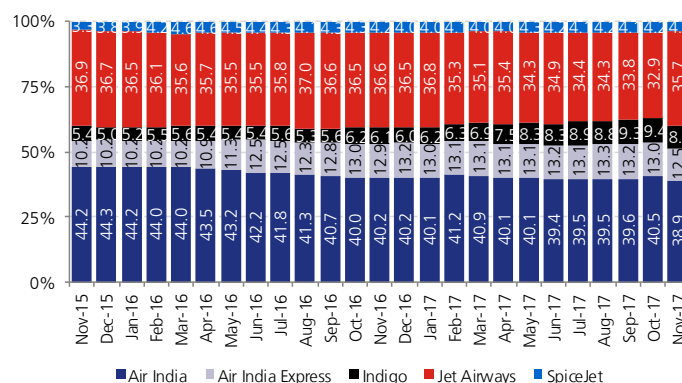
The number of international passengers carried increased 14.9% YoY in Nov'17 to 1.9mn; Indigo continued to witness significant intl. PAX growth of 52.2% YoY

Exhibit 14. International ASK - monthly (mn)



Source: DGCA, JM Financial; Note: Jet airways includes Jet Lite

Exhibit 15. International market share by ASK - monthly (%)



Source: DGCA, JM Financial; Note: Jet airways includes Jet Lite

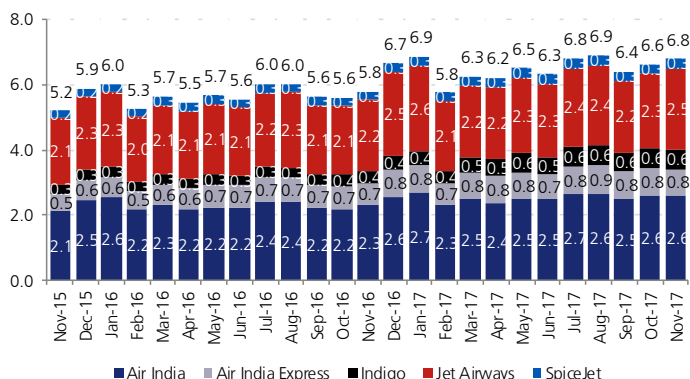
Exhibit 16. International ASK growth (YoY)

	FY14	FY15	FY16	FY17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17
Air India	17.6	10.0	6.1	5.7	4.5	7.1	7.1	10.2	8.9
Air India Express	16.3	3.6	7.9	33.1	16.3	20.9	13.6	9.3	8.7
Indigo	13.3	(7.1)	12.8	21.7	76.1	85.2	82.2	64.5	64.6
Jet Airways	1.7	15.5	6.0	8.5	6.2	3.7	1.7	(1.9)	9.8
SpiceJet	178.3	(30.6)	33.7	39.1	6.0	13.8	5.5	6.0	5.5
Total International	13.6	8.5	7.3	11.7	10.7	12.0	10.1	8.9	12.5

Source: DGCA, JM Financial

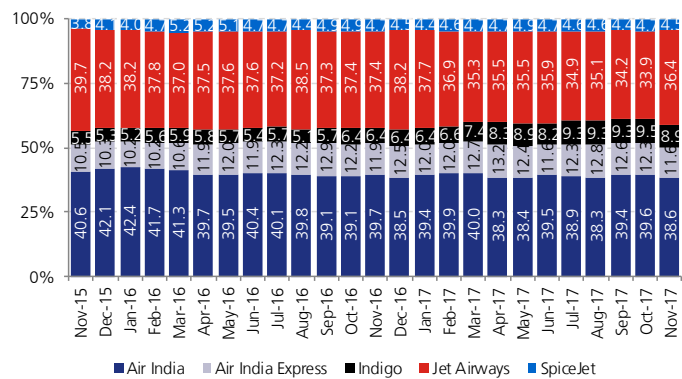
International ASK increased 12.5% YoY to 8.6bn in Nov'17; 64.6% growth for Indigo

Exhibit 17. International RPK - monthly (mn)



Source: Source: DGCA, JM Financial; Note: Jet airways includes Jet Lite

Exhibit 18. International market share by RPK -monthly (%)



Source: Source: DGCA, JM Financial; Note: Jet airways includes Jet Lite

Exhibit 19. International RPK growth (YoY)

	FY14	FY15	FY16	FY17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17
Air India	17.5	6.9	7.8	7.5	9.5	10.0	14.4	19.6	13.9
Air India Express	20.9	6.9	9.0	22.8	12.2	19.2	11.0	19.6	14.6
Indigo	11.4	(6.2)	13.4	19.1	84.7	108.3	85.9	74.2	63.9
Jet Airways	1.7	18.4	5.3	5.2	5.8	4.1	4.1	7.1	14.1
SpiceJet	157.1	(24.7)	44.6	42.0	10.2	20.0	2.9	12.3	12.9
Total International	13.3	9.1	8.3	10.2	12.7	14.3	13.6	18.0	17.2

Source: DGCA, JM Financial

International RPK increased 17.2% YoY to 6.8bn in Nov'17; Indigo nearly doubles its RPK YoY

Exhibit 20. International passenger load factor**(%)**

	FY14	FY15	FY16	FY17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17
Air India	74.8	72.7	73.9	75.2	76.5	75.5	74.7	76.4	79.4	80.3	79.8	77.9	77.0	78.7
Air India Express	79.0	81.5	82.4	76.1	72.4	74.5	78.6	75.6	69.8	76.0	79.0	75.1	74.7	73.9
Indigo	81.6	82.4	82.8	81.0	82.9	83.0	86.7	85.7	78.9	84.8	86.2	78.5	79.6	79.4
Jet Airways	82.2	84.3	83.7	81.2	82.7	78.0	78.5	82.5	81.5	82.7	84.0	79.4	81.2	81.0
SpiceJet	72.8	79.0	85.4	87.2	87.9	90.8	92.3	91.6	87.0	90.5	90.5	84.2	88.3	90.0
Total International	78.22	78.64	79.32	78.3	79.0	77.4	78.2	79.8	79.2	81.4	82.2	78.3	78.8	79.4

Source: DGCA, JM Financial

Exhibit 21. Break up of domestic + International ASK growth for industry**(%)**

	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17
Growth in ASK (%)	14%	12%	12%	13%	13%	13%	11%
Breakup of ASK growth							
Growth in seat (%)	3%	2%	1%	1%	1%	1%	0%
Growth in no of aircrafts (%)	12%	13%	14%	15%	16%	16%	17%
Growth in km flown/ aircraft (%)	-1%	-2%	-3%	-2%	-3%	-4%	-5%

Source: DGCA, JM Financial

In Nov'17, industry's YoY ASK growth was driven by an increase in the number of aircrafts

Exhibit 22. Hours flown per aircraft per day

	FY14	FY15	FY16	FY17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17
Indigo	11.4	11.4	11.9	12.6	12.2	11.8	11.3	12.1	11.5
SpiceJet	8.7	8.3	9.5	9.3	10.6	10.6	10.0	10.3	9.8
Industry	10.1	10.2	10.8	11.0	11.4	11.3	10.9	11.5	11.1

Source: DGCA, JM Financial; Note: Represents hours flown per aircraft per day for Domestic + International

Indigo's hours flown per aircraft per day is above the industry average

Exhibit 23. SpiceJet – FY19E EBITDAR sensitivity to crude and INR/USD**(INR mn)**

		Avg. price of Brent crude (USD per barrel)				
		40	45	50	55	60
Avg. INR/USD	61	37,427	35,095	32,762	30,429	28,096
	63	36,678	34,268	31,859	29,450	27,040
	65	35,928	33,442	30,956	28,470	25,985
	67	35,178	32,616	30,053	27,491	24,929
	69	34,428	31,789	29,150	26,512	23,873

Source: JM Financial

Exhibit 24. SpiceJet – Target price sensitivity to crude and INR/USD**(INR/share)**

		Avg. price of Brent crude (USD per barrel)				
		40	45	50	55	60
Avg. INR/USD	61	205	178	150	123	96
	63	194	166	138	109	81
	65	183	154	125	96	67
	67	172	142	112	82	52
	69	160	130	99	68	37

Source: JM Financial

Exhibit 25. Indigo – FY19E EBITDAR sensitivity to crude and INR/USD**(INR mn)**

		Avg. price of Brent crude (USD per barrel)				
		40	45	50	55	60
Avg. INR/USD	61	116,063	108,621	101,180	93,738	86,297
	63	113,671	105,985	98,300	90,614	82,929
	65	111,279	103,349	95,420	87,490	79,561
	67	108,887	100,713	92,540	84,366	76,193
	69	106,495	98,077	89,660	81,242	72,825

Source: JM Financial

Exhibit 26. Indigo – Target price sensitivity to crude and INR/USD (INR/share)

		Avg. price of Brent crude (USD per barrel)				
		40	45	50	55	60
Avg. INR/USD	61	1,534	1,391	1,248	1,105	962
	63	1,459	1,312	1,164	1,016	869
	65	1,384	1,232	1,080	928	775
	67	1,309	1,152	996	839	682
	69	1,235	1,073	911	750	588

Source: JM Financial

Exhibit 27. Comparative valuation

Companies	EV/ EBITDAR		EBITDAR CAGR FY17- FY19E	P/E		EPS CAGR FY17- FY19E	RoE		RoCE		Net Debt/EBITDA	
	FY18E	FY19E		FY18E	FY19E		FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
LOW COST CARRIER												
Asia Pacific												
Air Asia Bhd	6.4	6.4	8.6	7.6	8.4	-26.6	20.8	15.4	NA	NA	2.9	3.0
North America												
JetBlue	5.2	5.0	-9.5	12.2	11.6	-10.3	13.8	12.4	10.7	10.7	0.8	0.6
Southwest	8.1	7.1	-1.0	18.5	14.6	12.1	24.4	26.4	14.9	14.9	0.2	-0.1
Spirit Airlines	6.7	6.2	-0.1	14.3	13.8	-7.7	14.3	12.9	10.9	10.9	3.0	2.8
Eurasia & ME												
Ryanair	8.3	7.9	6.0	12.5	11.6	10.4	29.6	26.4	16.5	16.5	0.2	0.0
EasyJet	7.6	6.5	14.2	15.2	12.2	22.7	11.9	15.3	9.8	9.8	0.5	0.6
Norwegian	11.3	7.6	9.7	NA	NA	-	-4.4	-3.1	NA	NA	60.0	14.7
India												
Spice Jet	8.6	7.0	24.8	14.0	10.9	47.6	173.2	69.1	55.4	53.6	0.2	-0.9
Indigo	8.5	7.3	36.7	16.4	12.0	50.1	34.7	34.8	21.5	24.1	-1.5	0.1
Average	7.6	6.7		13.4	12.0							
FULL SERVICE CARRIER												
Singapore Airlines	5.6	5.5	5.7	22.0	24.0	20.7	4.4	3.9	NA	NA	0.1	0.9
Cathay Pacific	10.2	8.2	14.5	NA	NA	-	-2.7	1.3	NA	NA	7.6	5.8
Turkish Airlines	7.0	6.6	54.2	15.3	10.3	-	7.4	10.5	NA	NA	4.6	4.2
Qantas Airways	4.1	4.1	5.1	8.8	8.5	16.2	27.4	26.0	12.2	12.2	0.8	0.7
Lufthansa	2.9	3.2	8.0	7.0	7.5	4.3	25.7	19.1	11.1	11.1	0.5	0.4
Jet Airways	9.0	8.2	-2.4	19.3	15.6	10.1	-8.5	-11.1	NA	NA	7.6	6.0
Average	6.5	6.0		14.5	13.2							

Source: Bloomberg, JM Financial; Note: Low Cost Carrier average does not include SpiceJet and Indigo, Valuations as of 20/12/2017

APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U65192MH1995PLC092522

Member of BSE Ltd. and National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.

SEBI Registration Nos.: BSE - INZ010012532, NSE - INZ230012536 and MSEI - INZ260012539, Research Analyst – INH000000610

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 15%. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 15% upside from the current market price.
Sell	Price expected to move downwards by more than 10%

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