

INTERGLOBE AVIATION (INDIGO)

AVIATION

Short-term hiccups; structurally well placed

On DGCA's order, InterGlobe Aviation (Indigo) has grounded 8 A320 neo aircrafts (with engine serial number of beyond 450) until further notice (Go Air also to ground 3 aircrafts). Aircrafts with these engines have faced mid-air engine failure and, DGCA has asked Indigo (and Go Air) not to refit these engines, which are spare in their inventory.

Any shortfall in the revenue would be compensated by Pratt & Whitney (P&W). While P&W expects to resolve these issues by Q2CY18, any delay could impact delivery timelines of A320 neos. While we await clarity from management (on plane deliveries), we believe, any delay in plane deliveries could be met through short-term leases. We continue to believe Indigo, being the largest domestic airline (~40% market share) and one of the most efficient operators globally, is best placed to capitalize on strong domestic traffic growth (~17% YoY). Maintain **BUY**.

19 MAR 2018

Flash Note

BUY

Target Price: Rs 1,481

CMP : Rs 1,277
Potential Upside : 16%

MARKET DATA

No. of Shares : 384 mn
Free Float : 25%
Market Cap : Rs 491 bn
52-week High / Low : Rs 1,359 / Rs 875
Avg. Daily vol. (6mth) : 693,887 shares
Bloomberg Code : INDIGO IB Equity
Promoters Holding : 75%
FII / DII : 11% / 8%

Key highlights

- ♦ **New issue with engine:** The problem pertains to a 'knife-edge seal' on the engine's high-pressure compressor that was introduced as a modification late last year. It is different from the performance issues with the engine's carbon seal and combustion chamber witnessed by operators last year, which led to grounding of number of aircrafts
- ♦ **Indigo cancels 47 flights:** Due to the grounding of 8 neos, Indigo has cancelled 47 flights/ day. We believe the revenue loss due to these cancellations will be compensated by P&W
- ♦ **P&W to resolve issues by Q2CY18:** P&W has already begun to deliver production engines with upgraded configuration. While DGCA believes there is no concrete proposal in place to address the issue, P&W is working to mitigate the aircraft on ground situation by end of Q2CY18
- ♦ **Will this impact capacity addition plans?** While we await clarity from management, Indigo in past year added aircrafts on short-term leases to counter slower induction of neos in its fleet. While this strategy impacts margin (short-term leases are 20-25% expensive), it ensures volume growth remains strong and the company is able to maintain/ gain market share

Financial summary (Consolidated)

Y/E March	FY17	FY18E	FY19E	FY20E
Revenue (Rs mn)	185,805	231,153	293,766	374,993
EBITDA (Rs mn)	21,433	36,712	43,374	52,857
PAT (Rs mn)	16,591	27,427	31,657	38,703
EPS (Rs.)	45.9	71.5	82.5	100.8
Change YOY (%)	(16.5)	55.7	15.4	22.3
RoCE (%)	25.4	33.6	30.8	32.8
RoE (%)	59.1	49.0	39.3	40.8
EV/E (x)	32.2	18.6	17.5	15.9
P/E (x)	27.8	17.9	15.5	12.7
DPS (Rs)	15.0	35.7	41.2	50.4

Source: Company, Axis Capital

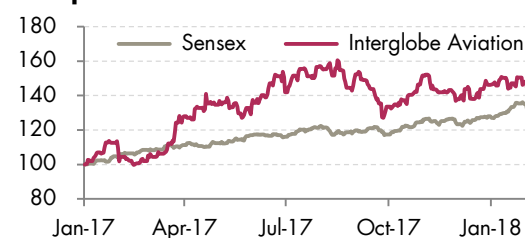
CMP as on 12 Mar 2018

RPK – Revenue Passenger Kilometer; EBITDAR – EBITDA before lease rentals

Key drivers

	FY17	FY18E	FY19E	FY20E
Fleet size (nos.)	131	158	201	246
RPK (bn)	46	54	64	78
Load factor (%)	85%	85%	85%	85%
EBITDAR margin	28.4%	31.2%	30.8%	30.5%

Price performance



Financial summary (Consolidated)

Profit & loss (Rs mn)

Y/E March	FY17	FY18E	FY19E	FY20E
Net sales	185,805	229,671	292,245	374,167
Other operating income	-	1,481	1,521	826
Total operating income	185,805	231,153	293,766	374,993
Cost of goods sold	(64,651)	(75,499)	(103,273)	(136,230)
Gross profit	121,154	155,654	190,493	238,763
<i>Gross margin (%)</i>	<i>65.2</i>	<i>67.8</i>	<i>65.2</i>	<i>63.8</i>
Total operating expenses	(99,722)	(118,942)	(147,119)	(185,906)
EBITDA	21,433	36,712	43,374	52,857
<i>EBITDA margin (%)</i>	<i>11.5</i>	<i>16.0</i>	<i>14.8</i>	<i>14.1</i>
Depreciation	(4,573)	(4,216)	(5,193)	(6,591)
EBIT	16,860	32,495	38,181	46,266
Net interest	(3,308)	(3,342)	(3,876)	(4,879)
Other income	7,891	9,477	10,282	13,125
Profit before tax	21,443	38,630	44,587	54,511
Total taxation	(4,852)	(11,203)	(12,930)	(15,808)
<i>Tax rate (%)</i>	<i>22.6</i>	<i>29.0</i>	<i>29.0</i>	<i>29.0</i>
Profit after tax	16,591	27,427	31,657	38,703
Minorities	-	-	-	-
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	16,591	27,427	31,657	38,703
<i>Adj. PAT margin (%)</i>	<i>8.9</i>	<i>11.9</i>	<i>10.8</i>	<i>10.3</i>
Net non-recurring items	-	-	-	-
Reported net profit	16,591	27,427	31,657	38,703

Balance sheet (Rs mn)

Y/E March	FY17	FY18E	FY19E	FY20E
Paid-up capital	3,615	3,839	3,839	3,839
Reserves & surplus	34,177	70,357	83,178	98,853
Net worth	37,792	74,196	87,016	102,691
Borrowing	25,962	31,667	45,852	51,737
Other non-current liabilities	41,278	38,595	37,351	37,702
Total liabilities	105,032	144,458	170,219	192,130
Gross fixed assets	54,998	64,703	84,593	104,663
Less: Depreciation	(17,060)	(21,276)	(26,469)	(33,060)
Net fixed assets	37,938	43,427	58,124	71,603
Add: Capital WIP	252	252	252	252
Total fixed assets	38,190	43,679	58,376	71,854
Other Investment	-	-	-	-
Inventory	1,632	1,809	2,750	3,983
Debtors	1,587	2,171	3,300	4,779
Cash & bank	83,460	124,452	145,581	169,829
Loans & advances	4,141	4,141	4,141	4,141
Current liabilities	47,065	54,882	67,017	85,544
Net current assets	47,399	81,336	92,400	100,833
Other non-current assets	19,443	19,443	19,443	19,443
Total assets	105,032	144,458	170,219	192,130

Source: Company, Axis Capital

Cash flow (Rs mn)

Y/E March	FY17	FY18E	FY19E	FY20E
Profit before tax	21,443	38,630	44,587	54,511
Depreciation & Amortisation	4,573	4,216	5,193	6,591
<i>Chg in working capital</i>	<i>21,135</i>	<i>4,372</i>	<i>8,820</i>	<i>16,167</i>
Cash flow from operations	37,821	29,881	39,264	53,216
<i>Capital expenditure</i>	<i>3,760</i>	<i>(9,705)</i>	<i>(19,890)</i>	<i>(20,070)</i>
Cash flow from investing	(30,379)	(228)	(9,608)	(6,945)
<i>Equity raised/ (repaid)</i>	<i>11</i>	<i>25,296</i>	<i>-</i>	<i>-</i>
<i>Debt raised/ (repaid)</i>	<i>(6,850)</i>	<i>5,705</i>	<i>14,185</i>	<i>5,885</i>
<i>Dividend paid</i>	<i>(6,526)</i>	<i>(16,319)</i>	<i>(18,836)</i>	<i>(23,028)</i>
Cash flow from financing	(14,012)	11,339	(8,527)	(22,023)
Net chg in cash	(6,570)	40,992	21,129	24,249

Key ratios

Y/E March	FY17	FY18E	FY19E	FY20E
OPERATIONAL				
FDEPS (Rs)	45.9	71.5	82.5	100.8
CEPS (Rs)	58.6	82.4	96.0	118.0
DPS (Rs)	15.0	35.7	41.2	50.4
Dividend payout ratio (%)	32.7	50.0	50.0	50.0
GROWTH				
Net sales (%)	15.7	23.6	27.2	28.0
EBITDA (%)	(31.3)	71.3	18.1	21.9
Adj net profit (%)	(16.5)	65.3	15.4	22.3
FDEPS (%)	(16.5)	55.7	15.4	22.3
PERFORMANCE				
RoE (%)	59.1	49.0	39.3	40.8
RoCE (%)	25.4	33.6	30.8	32.8
EFFICIENCY				
Sales/ total assets (x)	1.3	1.3	1.3	1.5
Working capital/ sales (x)	(0.2)	(0.2)	(0.2)	(0.2)
Receivable days	3.1	3.5	4.1	4.7

Total debt/ equity (x)	0.9	0.6	0.6	0.5
Net debt/ equity (x)	7.1	3.4	3.3	3.7
Current ratio (x)	2.0	2.5	2.4	2.2
Interest cover (x)	5.1	9.7	9.9	9.5

VALUATION

PE (x)	27.8	17.9	15.5	12.7
EV/ EBITDA (x)	32.2	18.6	17.5	15.9
EV/ Net sales (x)	3.7	3.0	2.6	2.2
PB (x)	12.2	6.6	5.6	4.8
Dividend yield (%)	1.2	2.8	3.2	3.9
Free cash flow yield (%)	0.1	-	-	0.1

Source: Company, Axis Capital

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Ratings	Expected absolute returns over 12-18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%

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