

# InterGlobe Aviation (INDIGO IN)

Rating: ACCUMULATE | CMP: Rs908 | TP: Rs965

July 29, 2020

## Q1FY21 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	965		995	
Sales (Rs. m)	3,07,413	3,45,651	3,15,963	3,52,666
% Chng.	(2.7)	(2.0)		
EBITDAR (Rs. m)	75,082	85,051	81,098	94,005
% Chng.	(7.4)	(9.5)		
EPS (Rs.)	50.0	61.7	54.3	69.8
% Chng.	(7.9)	(11.6)		

### Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	3,57,560	1,24,487	3,07,413	3,45,651
EBITDAR (Rs. m)	45,348	(3,670)	75,082	85,051
Margin (%)	12.7	(2.9)	24.4	24.6
PAT (Rs. m)	(2,482)	(52,773)	19,239	23,744
EPS (Rs.)	(6.4)	(137.1)	50.0	61.7
Gr. (%)	NM	NM	NM	23.4
DPS (Rs.)	5.0	-	-	-
Yield (%)	0.6	-	-	-
RoE (%)	(3.9)	NM	124.4	64.2
RoCE (%)	0.4	NM	12.3	13.2
EV/Sales (x)	0.4	1.9	0.7	0.5
EV/EBITDAR (x)	10.7	NM	7.7	6.8
PE (x)	NM	NM	18.2	14.7
P/BV (x)	6.0	59.7	13.9	7.2

### Key Data

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52-W High / Low	Rs.1,911 / Rs.765
Sensex / Nifty	38,071 / 11,203
Market Cap	Rs.349bn/ \$ 4,669m
Shares Outstanding	385m
3M Avg. Daily Value	Rs.5951.36m

### Shareholding Pattern (%)

Promoter's	74.86
Foreign	14.80
Domestic Institution	6.81
Public & Others	3.53
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(10.1)	(37.9)	(42.6)
Relative	(17.4)	(32.8)	(43.1)

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## Focus on optimizing cost & liquidity

### Quick Pointers:

- After a strong start to July, demand has tapered off in the last few days due to localized lockdowns
- Capacity utilization in 2Q to be at 40%; target to operate at 60-70% in 3Q
- Fixed cash burn reduced from Rs400mn in March to Rs300mn in June

**We cut IndiGo's FY22/FY23 EBITDAR by 7.4% and 9.5% respectively as scaling up of operations remains sluggish given 1) localized lockdowns 2) low consumer confidence due to rising incidence of Covid-19 cases**

**With the demand environment likely to remain challenging in the near to medium term, IndiGo is focused on optimizing costs and enhance liquidity by 1) Exploring new networks and revenue model (Charter, Cargo etc) 2) Reducing unit costs by cutting down all possible discretionary expenses 3) efficient utilization of fleet 4) 30% reduction in employee bill through mix of salary cuts, leave without pay and layoffs and 5) Monetizing owned aircrafts through SLB. Through these initiatives, the management aims to generate liquidity to the tune of Rs50-60bn over the year. IndiGo's plan of returning 123 less efficient A320ceo's over the next 2 years while continuing to induct fuel-efficient A320neo family will further help reduce unit costs. We expect FY21 capacity to decline by 57% YoY while FY22/FY23 capacity is likely to be 86%/95% of FY20 capacity. Although the near term looks hazy, IndiGo continues to remain better placed than its peers and is likely to emerge stronger from the current crisis given 1) strong balance sheet with Rs184bn cash & equivalents (Rs75bn in free cash) 2) industry leading cost structure and 3) strong management team. We value the stock at 7.5x Sept-22 adj. EV/EBITDAR. Maintain Accumulate with a TP of Rs965/-.**

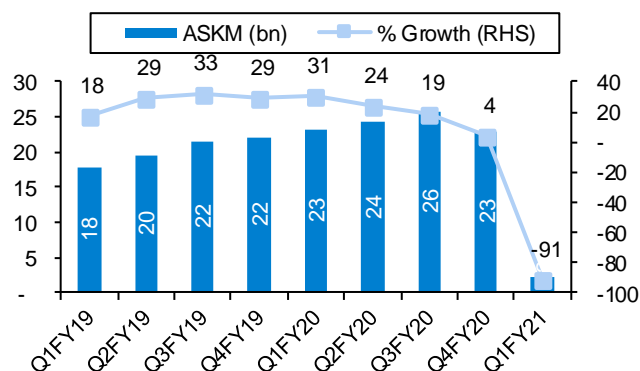
**Sales down by 91.9%; RASK up by 2.2%:** Revenues declined by 91.9% YoY to Rs7.6bn with Passenger revenue/Ancillary revenues declining by at 93%/81% respectively. EBITDAR excl other income came in at (Rs15.4bn) as non-Fuel CASK increased 8x to Rs17.1 impacted by reduce scale of operations. Aided by Rs3.8bn in other income (12 net inductions, IndiGo's loss was limited to Rs28.5bn. RASK grew by 2.2% YoY to Rs4.2 helped by 11.1% growth in yields. CASK grew by 5.1x to Rs17.7

**Concall Takeaways:** 1) At the close of June, was operating at 1/4<sup>th</sup> capacity, operating over 400 daily flights 2) Trend continued to remain strong in July, however due to localized lockdowns, demand started tapering off in the last few days 3) Cargo operations continue to perform well. Have dedicated 10 aircrafts for cargo operations. 4) All operating flights are significantly contribution positive thereby helping fixed cost burn reduction from Rs400mn in March to Rs300mn in June 5) Looking to generate Rs20bn in liquidity by monetizing (SLB) owned aircrafts in addition to the Rs30-40bn liquidity measures identified 6) Employee cost to reduce by 30% Pre-Covid levels.7) Lease liability as on June 30<sup>th</sup> stands at Rs211bn.

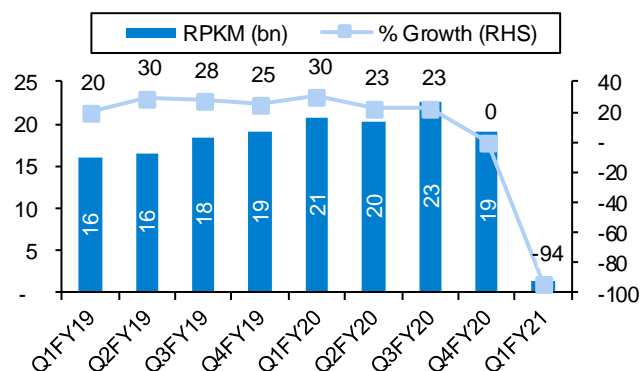
**Exhibit 1: Revenues declined by 91.9% YoY; IndiGo reported loss of Rs28.5bn**

Y/e March	Q1FY21	Q1FY20	YoY gr.	Q4FY20	FY21E	FY20	YoY gr.
<b>Revenue from Operations (Rs mn)</b>	<b>7,667</b>	<b>94,201</b>	<b>-91.9%</b>	<b>82,991</b>	<b>1,24,487</b>	<b>3,57,560</b>	<b>-65.2%</b>
Aircraft fuel expenses	1,275	31,361	-95.9%	28,604	30,095	1,24,538	-75.8%
Employee Cost	8,765	10,488	-16.4%	10,509	31,978	43,954	-27.2%
Other expenses	13,070	25,830	-49.4%	44,005	66,083	1,43,720	-54.0%
<b>EBITDAR</b>	<b>-15,443</b>	<b>26,522</b>	<b>NM</b>	<b>-127</b>	<b>-3,670</b>	<b>45,348</b>	<b>NM</b>
<i>EBITDAR margin %</i>	<i>-201.4%</i>	<i>28.2%</i>		<i>-0.2%</i>	<i>-2.9%</i>	<i>12.7%</i>	
Aircraft & engine rentals	757	1,288	-41.2%	1,226	4,208	4,967	-15.3%
Other Income	3,768	3,670	2.7%	3,359	13,555	15,362	-11.8%
Depreciation & Amortization	10,964	9,009	21.7%	10,063	41,038	39,736	3.3%
Finance Cost	5,097	4,842	5.3%	4,877	17,411	18,759	-7.2%
<b>PBT</b>	<b>-28,494</b>	<b>15,053</b>	<b>NM</b>	<b>-12,934</b>	<b>-52,773</b>	<b>-2,751</b>	<b>NM</b>
Tax Expense	0	3,048	NM	-4,200	0	-269	NM
<b>Adj PAT</b>	<b>-28,494</b>	<b>12,005</b>	<b>NM</b>	<b>-8,735</b>	<b>-52,773</b>	<b>-2,482</b>	<b>NM</b>
<i>PAT margin %</i>	<i>-371.6%</i>	<i>12.7%</i>		<i>-10.5%</i>	<i>-42.4%</i>	<i>-0.7%</i>	
<b>Reported PAT</b>	<b>-28,494</b>	<b>12,005</b>	<b>NM</b>	<b>-8,735</b>	<b>-52,773</b>	<b>-2,482</b>	<b>NM</b>
<b>Key Operating Metrics</b>							
ASKM (mn)	2	23	-90.9%	23	41	96	-57.4%
RPKM (mn)	1	21	-93.7%	19	27	83	-67.0%
Load Factor %	61	89	-27.6	83	67	86	-19.3
Yield (Rs)	4.5	4.1	11.1%	3.7	4.0	3.8	5.0%
RASK (Rs)	4.2	4.1	2.2%	3.6	3.4	3.8	-10.7%
Fuel CASK (Rs)	0.6	1.3	-55.2%	1.2	0.7	1.3	-43.6%
Non-Fuel CASK (Rs)	17.1	2.1	710.0%	3.0	3.9	2.5	56.7%
CASK (Rs)	17.7	3.5	412.8%	4.2	4.7	3.8	22.4%
RASK - CASK (Rs)	-13.5	0.6		-0.6	-1.3	-0.0	

Source: Company, PL

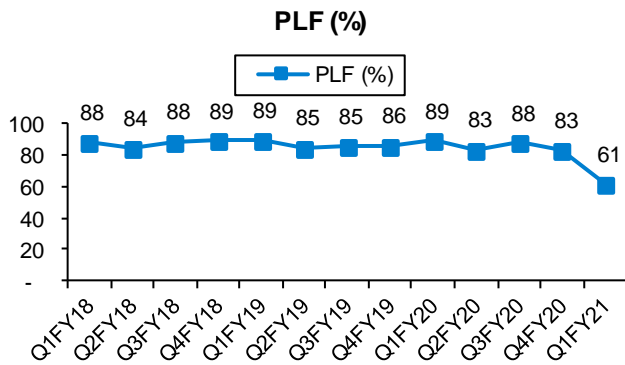
**Exhibit 2: ASKM declined by 91% YoY**


Source: Company, PL

**Exhibit 3: RPKM declined by 94%YoY**


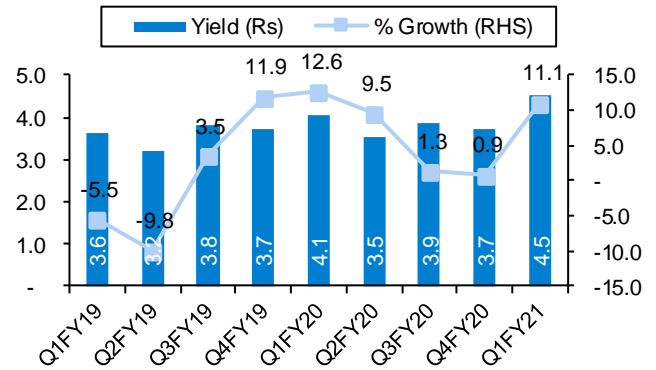
Source: Company, PL

Exhibit 4: PLFs declined by 27% to 61%



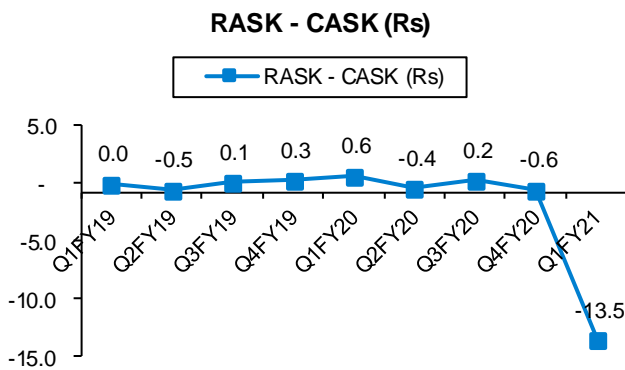
Source: Company, PL

Exhibit 5: 11.1% YoY increase in Yield (Pax rev/RPKM)



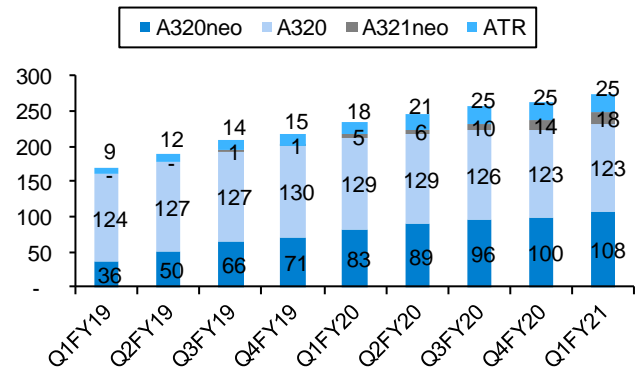
Source: Company, PL

Exhibit 6: Limited scale of operations impact Unit costs



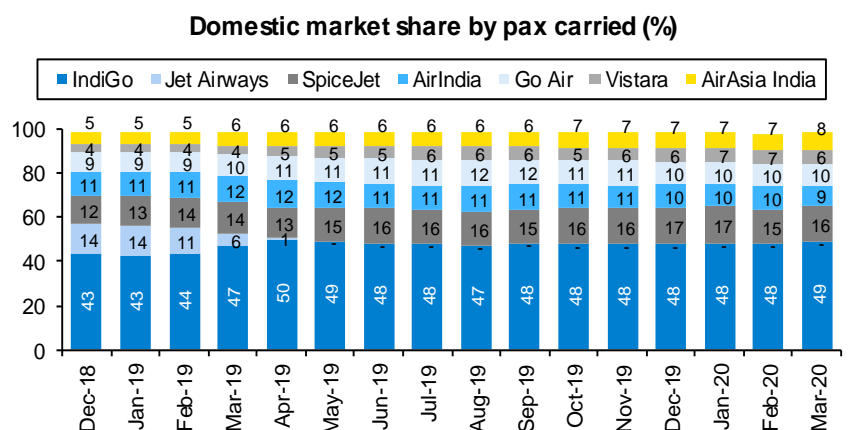
Source: Company, PL

Exhibit 7: Inducted 12 new aircrafts in the quarter



Source: Company, PL

Exhibit 8: IndiGo has steadily gained market share post Jet's grounding



Source: Company, DGCA, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Net Revenues</b>	<b>3,57,560</b>	<b>1,24,487</b>	<b>3,07,413</b>	<b>3,45,651</b>
YoY gr. (%)	25.5	(65.2)	146.9	12.4
Aircraft Fuel Expenses	1,24,538	30,095	91,473	1,01,320
Employee Cost	43,954	31,978	34,426	41,100
Other Expenses	1,41,942	65,399	1,04,976	1,16,569
<b>EBITDAR</b>	<b>45,348</b>	<b>(3,670)</b>	<b>75,082</b>	<b>85,051</b>
YoY gr. (%)	24.1	NM	NM	13.3
Margin (%)	12.7	(2.9)	24.4	24.6
Aircraft Lease Rentals	4,967	4,208	4,313	4,685
Depreciation and Amortization	39,736	41,038	42,071	45,368
<b>EBIT</b>	<b>645</b>	<b>(48,916)</b>	<b>28,699</b>	<b>34,999</b>
Margin (%)	0.2	NM	9.3	10.1
Net Interest	18,759	17,411	19,157	20,602
Other Income	15,362	13,555	13,920	14,559
<b>Profit Before Tax</b>	<b>(2,751)</b>	<b>(52,773)</b>	<b>23,462</b>	<b>28,956</b>
Margin (%)	NM	NM	7.6	8.4
Total Tax	(269)	-	4,223	5,212
Effective tax rate (%)	9.8	-	18.0	18.0
<b>Profit after tax</b>	<b>(2,482)</b>	<b>(52,773)</b>	<b>19,239</b>	<b>23,744</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>(2,482)</b>	<b>(52,773)</b>	<b>19,239</b>	<b>23,744</b>
YoY gr. (%)	NM	NM	NM	23.4
Margin (%)	(0.7)	(42.4)	6.3	6.9
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>(2,482)</b>	<b>(52,773)</b>	<b>19,239</b>	<b>23,744</b>
YoY gr. (%)	NM	NM	NM	23.4
Margin (%)	(0.7)	(42.4)	6.3	6.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	(2,482)	(52,773)	19,239	23,744
<b>Equity Shares O/s (m)</b>	<b>385</b>	<b>385</b>	<b>385</b>	<b>385</b>
<b>EPS (Rs)</b>	<b>(6.4)</b>	<b>(137.1)</b>	<b>50.0</b>	<b>61.7</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>2,34,246</b>	<b>3,37,268</b>	<b>3,79,427</b>	<b>4,38,311</b>
Tangibles	2,32,351	3,35,023	3,76,832	4,35,067
Intangibles	1,895	2,245	2,595	3,245
<b>Acc: Dep / Amortization</b>	<b>66,464</b>	<b>1,07,502</b>	<b>1,49,573</b>	<b>1,94,940</b>
Tangibles	64,905	1,05,494	1,47,046	1,91,765
Intangibles	1,559	2,008	2,527	3,176
<b>Net fixed assets</b>	<b>1,67,782</b>	<b>2,29,766</b>	<b>2,29,854</b>	<b>2,43,371</b>
Tangibles	1,67,446	2,29,529	2,29,786	2,43,302
Intangibles	336	237	68	69
Capital Work In Progress	1,402	300	300	300
Goodwill	-	-	-	-
Non-Current Investments	12,802	5,044	6,304	7,088
Net Deferred tax assets	2,949	2,949	2,949	2,949
Other Non-Current Assets	11,434	6,782	7,685	10,370
<b>Current Assets</b>				
Investments	94,992	32,367	64,557	79,500
Inventories	2,861	1,023	2,527	2,841
Trade receivables	2,596	1,279	2,948	3,314
Cash & Bank Balance	1,08,294	84,165	88,775	1,04,251
Other Current Assets	4,589	4,357	5,072	9,505
<b>Total Assets</b>	<b>4,20,485</b>	<b>3,76,123</b>	<b>4,20,655</b>	<b>4,77,316</b>
<b>Equity</b>				
Equity Share Capital	3,848	3,848	3,848	3,848
Other Equity	54,776	2,003	21,242	44,986
<b>Total Network</b>	<b>58,624</b>	<b>5,851</b>	<b>25,090</b>	<b>48,834</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	1,59,257	2,15,381	2,20,608	2,37,695
Provisions	5,533	5,477	5,841	6,049
Other non current liabilities	2,576	33,908	36,683	39,808
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	15,655	8,527	13,476	15,152
Other current liabilities	1,48,451	76,219	86,020	96,068
<b>Total Equity &amp; Liabilities</b>	<b>4,20,485</b>	<b>3,76,123</b>	<b>4,20,655</b>	<b>4,77,316</b>

Source: Company Data, PL Research

### Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	(2,751)	(52,773)	23,462	28,956
Add. Depreciation	39,736	41,038	42,071	45,368
Add. Interest	18,759	17,411	19,157	20,602
Less Financial Other Income	15,362	13,555	13,920	14,559
Add. Other	825	-	-	-
Op. profit before WC changes	56,569	5,677	84,689	94,926
Net Changes-WC	15,927	(73,282)	9,271	2,468
Direct tax	(3,062)	-	(4,223)	(5,212)
<b>Net cash from Op. activities</b>	<b>69,433</b>	<b>(67,605)</b>	<b>89,737</b>	<b>92,181</b>
Capital expenditures	(10,605)	(1,01,920)	(42,158)	(58,885)
Interest / Dividend Income	3,693	-	-	-
Others	(38,757)	98,644	(38,771)	(31,729)
<b>Net Cash from Invt. activities</b>	<b>(45,669)</b>	<b>(3,276)</b>	<b>(80,929)</b>	<b>(90,614)</b>
Issue of share cap. / premium	245	-	-	-
Debt changes	(21,661)	56,124	5,227	17,087
Dividend paid	(2,318)	-	-	-
Interest paid	(340)	(17,411)	(19,157)	(20,602)
Others	-	31,647	5,315	4,106
<b>Net cash from Fin. activities</b>	<b>(24,075)</b>	<b>70,360</b>	<b>(8,614)</b>	<b>591</b>
<b>Net change in cash</b>	<b>(367)</b>	<b>(521)</b>	<b>193</b>	<b>2,158</b>
Free Cash Flow	58,828	(1,69,525)	47,579	33,296

Source: Company Data, PL Research

### Quarterly Financials (Rs m)

Y/e Mar	Q2FY20	Q3FY20	Q4FY20	Q1FY21
<b>Net Revenue</b>	<b>81,052</b>	<b>99,317</b>	<b>82,991</b>	<b>7,667</b>
YoY gr. (%)	31.0	25.5	5.3	(91.9)
Aircraft Fuel Expenses	31,154	33,419	28,604	1,275
Employee Expenses	11,311	11,645	10,509	8,765
Other Expenses	37,676	36,210	44,005	13,070
<b>EBITDAR</b>	<b>911</b>	<b>18,042</b>	<b>(127)</b>	<b>(15,443)</b>
Margin (%)	1.1	18.2	(0.2)	(201.4)
Aircraft Lease Rentals	1,110	1,343	1,226	757
Depreciation / Depletion	10,287	10,377	10,063	10,964
<b>EBIT</b>	<b>(10,486)</b>	<b>6,322</b>	<b>(11,415)</b>	<b>(27,164)</b>
Margin (%)	(12.9)	6.4	(13.8)	(354.3)
Net Interest	4,235	4,805	4,877	5,097
Other Income	4,347	3,986	3,359	3,768
<b>Profit before Tax</b>	<b>(10,374)</b>	<b>5,504</b>	<b>(12,934)</b>	<b>(28,494)</b>
Margin (%)	(12.8)	5.5	(15.6)	(371.6)
Total Tax	283	599	(4,200)	-
Effective tax rate (%)	(2.7)	10.9	32.5	0.0
<b>Profit after Tax</b>	<b>(10,656)</b>	<b>4,905</b>	<b>(8,735)</b>	<b>(28,494)</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>(10,656)</b>	<b>4,905</b>	<b>(8,735)</b>	<b>(28,494)</b>
YoY gr. (%)	NM	156.9	NM	NM
Margin (%)	(13.1)	4.9	(10.5)	(371.6)
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>(10,656)</b>	<b>4,905</b>	<b>(8,735)</b>	<b>(28,494)</b>
YoY gr. (%)	NM	156.9	NM	NM
Margin (%)	(13.1)	4.9	(10.5)	(371.6)
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>(10,656)</b>	<b>4,905</b>	<b>(8,735)</b>	<b>(28,494)</b>
Avg. Shares O/s (m)	385	385	385	385
<b>EPS (Rs)</b>	<b>-27.7</b>	<b>12.7</b>	<b>-22.7</b>	<b>-74.0</b>

Source: Company Data, PL Research

### Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Per Share(Rs)</b>				
EPS	(6.4)	(137.1)	50.0	61.7
CEPS	96.8	(30.5)	159.3	179.6
BVPS	152.4	15.2	65.2	126.9
FCF	152.9	(440.6)	123.6	86.5
DPS	5.0	-	-	-
<b>Return Ratio(%)</b>				
RoCE	0.4	NM	12.3	13.2
ROIC	0.3	NM	10.7	11.9
RoE	(3.9)	NM	124.4	64.2
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.8)	16.9	2.7	1.1
Net Working Capital (Days)	(10)	(18)	(10)	(10)
<b>Valuation(x)</b>				
PER	NM	NM	18.2	14.7
P/B	6.0	59.7	13.9	7.2
P/CEPS	9.4	NM	5.7	5.1
EV/EBITDAR (Adj)	10.7	NM	7.7	6.8
EV/Sales	0.4	1.9	0.7	0.5
Dividend Yield (%)	0.6	-	-	-

Source: Company Data, PL Research

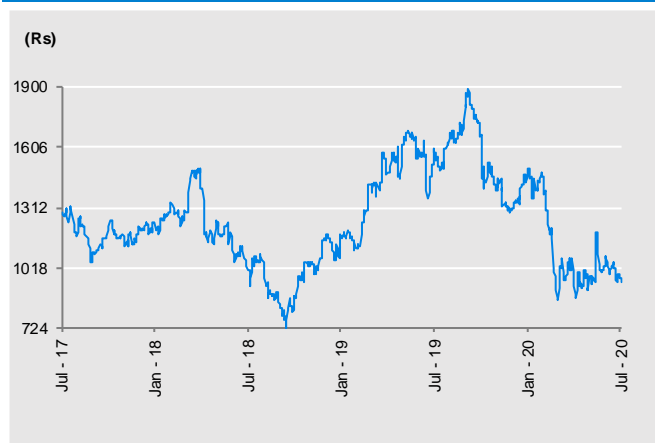
### Key Operating Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
EBITDAR (Rs mn)	45,348	(3,670)	75,082	85,051
EBITDAR %	12.7	(2.9)	24.4	24.6
ASK (bn)	96	41	82	91
RPK (bn)	83	27	68	77
PLF %	86	67	83	84
RASK (Rs)	3.9	3.4	3.9	4.0
CASK (Rs)	3.9	4.7	3.6	3.6
RASK-CASK (Rs)	0.0	(1.3)	0.3	0.3
Fleet Size	259.0	232.0	237.0	260.0

Source: Company Data, PL Research

## Price Chart

## Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	10-Jul-20	Accumulate	995	1,020
2	03-Jun-20	Accumulate	995	946
3	14-Apr-20	Accumulate	1,200	1,068
4	27-Jan-20	Hold	1,547	1,496
5	03-Jan-20	Hold	1,553	1,361
6	24-Oct-19	Hold	1,553	1,665
7	03-Oct-19	BUY	1,729	1,826

## Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	InterGlobe Aviation	Accumulate	995	1,020
2	SpiceJet	Hold	48	51

## PL's Recommendation Nomenclature (Absolute Performance)

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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