

Retail Equity Research (South India Focus)

Inter Globe Aviation Ltd

Aviation

BSE CODE : 539448 NSE CODE: INDIGO
BLOOMBERG CODE: INDIGO:IN SENSEX : 49,751

Buy

12M Investment Period Rating as per Large Cap

CMP Rs1,530 TARGET Rs1,804 RETURN 18% ↑
(Closing: 23-02-21)

KEY CHANGES:

TARGET ↑

RATING ↑

EARNINGS ↑

Near term concerns to stay...long term positives to out-weigh
InterGlobal Aviation Ltd (Indigo) is one of the most efficient low cost carriers (LCC) with a market share of 43% in Indian aviation sector.

- Revenue declined by 51% YoY, but on sequential basis revenue grew by 79% QoQ, led by improvement in passenger growth.
- Resumption of flight operations, cost rationalization and healthy cash positions is helping the company in tiding over crisis situation.
- With passenger traffic gradually reaching to pre-Covid levels, revenue growth to normalize in FY22 led by better utilization of fleet and relaxation in price caps.
- Management focus expansion of international footprints and deeper penetration into Tier 2-3 cities, to drive growth in near future. While replacement of old aircraft with 15% more fuel efficient fleets will improve profitability in the medium term.
- Strong balance sheet position compare to its peers, focus on route optimization & cost rationalization and likely market share gains, we remain constructive on the stock in the long term.
- We roll forward to FY23E and value Indigo at P/E of 18x with a target price of Rs1,804 and upgrade to Buy.

FY22 expected to better...

Q3FY21 Revenue declined by 51% YoY given operation of ~70% capacity and lower load factor. Indigo's passengers traffic de-grew by 47% YoY, while the passenger load factor (PLF) was at 72%. With capacity deployment restrictions in place the seat capacity was lower by 41% YoY. Having said that, revenue growth saw a strong jump of 79% QoQ as the domestic passenger growth witnessed significant improvement, grew by 97% QoQ indicating likely recovery in near future. Passenger traffic across major metros and urban centres has already reached pre-Covid levels. Currently, management is in process of replacing older aircraft with new cost efficient ones within 2 years which is expected to improve operational efficiency. During the Q3, Indigo has taken delivery of 11 new aircrafts. However, net addition was only 5 aircrafts, as 6 older aircrafts were replaced with better fuel efficient planes. Currently, total aircraft under operations is 287. With resumption of aircraft operations, we believe that passenger traffic is expected to normalise gradually over a period of time and starting from FY22 the revenue growth is expected to normalise. Going ahead, with Government easing of restriction of seat capacity deployment to 80% and relaxation of price caps on air fares, we expect revenue growth to improve. Management has guided deploying of 80% capacity in Q4FY21. We expect revenue to grow to by xxx% CAGR over FY21E-23E.

Profitability to normalise starting from FY22E ...

Q3FY21, the reported loss was Rs628cr, QoQ the losses has halved. Yields declined by 4.7% YoY due to higher capacity addition in the industry and weak pricing. Further, employee & other cost increased on account of increase in capacity addition while revenue growth was sub-optimal. Going ahead, rise in crud price and seasonally weak quarter will continue to impact near term profitability. However, there is significant improvement in passenger growth leading to normalisation of revenue growth. While easing of fare cap is expected to cushion increase in fuel cost. Further, replacement of older aircrafts is likely to improve operating efficiency in the medium term.

Outlook and Valuation

We remain constructive on indigo over long term, given its strong balance sheet position which is expected to help the company in tiding over weak operational environment and expanding its market share. Replacement of older aircraft with cost efficient ones and lower fuel cost is expected to improve profitability. We believe that near term headwinds has been already factored in the stock prices. We roll forward to FY23E and value Indigo at P/E of 18x on FY23E, and upgrade to Buy with a target price of Rs1,804.

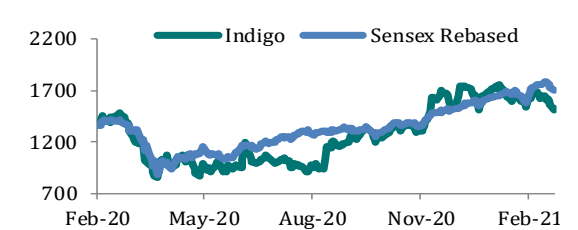
Company Data

Market Cap (cr)	Rs.58,887
Enterprise Value (cr)	Rs.88,141
Outstanding Shares (cr)	38.4
Free Float	25.1%
Dividend Yield	0.0%
52 week high	Rs.1,787
52 week low	Rs.765
6m average volume (cr)	0.1
Beta	0.8
Face value	Rs.10.0

Shareholding (%)	Q1FY21	Q2FY21	Q3FY21
Promoters	74.9	74.9	74.9
FII's	14.8	14.8	17.3
MFs/Institutions	7.5	7.7	5.6
Public	1.6	1.5	1.2
Others	1.2	1.2	1.0
Total	100.0	100.0	100.0

Price Performance	3 month	6 Month	1 Year
Absolute Return	-3.8%	29.1%	6.0%
Absolute Sensex	13.5%	27.2%	23.3%
Relative Return*	-17.3%	1.9%	-17.3%

over or under performance to benchmark index



Standalone	FY21E	FY22E	FY23E
Sales	14,159	31,115	39,854
Growth (%)	(60.4)	119.8	28.1
EBITDA	992	6959	9,992
EBITDA Margin(%)	7.0	22.4	25.1
Adjusted PAT.	(4616)	1633	3,852
Growth (%)	-	135.4	136.0
Adjusted EPS	(120.1)	42.5	100.2
Growth (%)	-	135.4	136.0
P/E	-12.7	36.0	15.3
P/B	60.6	24.8	9.8
EV/EBITDA	91.9	13.5	9.5
ROE (%)	-	-	-

Anil R
Research Analyst

Quarterly Financials

Profit & Loss

	Q3FY21	Q3FY20	YoY Growth %	9MFY21	9MFY20	YoY Growth %
Sales	4910	9932	<i>(51.0)</i>	8,417	27,457	<i>(69.3)</i>
EBITDA	839	1670	<i>(50.0)</i>	(575)	4,173	<i>(113.8)</i>
EBITDA margins	17.1	16.8	+30bps	(6.8)	15.2	<i>(22.0)</i>
Depreciation	1156	1038	11.4	3,379	2967	14.0
EBIT	(318)	632	<i>(150.2)</i>	(3,954)	1206	<i>(428.0)</i>
Interest	541	480	12.7	1,614	1,388	16.3
Other Income	233	399	<i>(42.0)</i>	897	1,200	<i>(25.3)</i>
Exceptional Items	-	-	-	-	-	-
PBT	(627)	550	<i>(214.0)</i>	(4,671)	1,018	<i>(559.0)</i>
Tax	2	60	<i>(97.1)</i>	2	393	<i>(100.0)</i>
Share of profit from Associate	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-
Reported PAT	(628)	490	<i>(228.1)</i>	(4,673)	625	<i>(847.3)</i>
Adjustments	-	-	-	-	-	-
Adjusted PAT	(628)	490	<i>(228.1)</i>	(4,673)	625	-
No. of Shares	38.4	38.4	-	38.4	38.4	-
EPS (Rs)	(16.3)	12.8	<i>(228.1)</i>	(121.6)	16.3	<i>(847.3)</i>

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	14,387	35,284	14,159	31,115	<i>(1.6)</i>	<i>(11.8)</i>
EBITDA	(88)	7,740	992	6,959	31.4	<i>(10.1)</i>
Margins (%)	0.6	21.9	7.0	22.4	-	+50bps
Adj. PAT	(3,457)	2,398	(4,616)	1,633	33.5	32.0
EPS	(89.9)	62.4	(120.1)	42.5	33.5	32.0

Standalone Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY19A	FY20A	FY21E	FY22E	FY23E
Sales	28,497	35,756	14,159	31,115	39,854
% change	23.8	25.5	(60.4)	119.8	28.1
EBITDA	(205)	4,038	992	6909	9,992
% change	(107)	2065.6	(75.4)	-	43.6
Depreciation	732	3,946	4,632	4,658	4,789
EBIT	(985)	(65)	(3,639)	2,302	5,203
Interest	509	1876	2,164	2,178	2,163
Other Income	1325	1536	1,321	1,690	1,775
PBT	(149)	(275)	(4,482)	1,814	4,814
% change	(105.0)	84.6	-	140.5	165.4
Tax	(305)	(27)	134	181	963
Tax Rate (%)	205.0	9.8	(-3.0)	10.0	20.0
Reported PAT	156	(248)	(4,616)	1,633	3,852
Adj.*	-	-	-	-	-
Adj. PAT	156	(248)	(4,616)	1,633	3,852
% change	(93.0)	(259.0)	-	135.4	136.0
No. of shares (cr)	38.4	38.5	38.5	38.5	38.5
Adj EPS (Rs)	4.1	(6.5)	(120.1)	42.5	100.2
% change	(93.0)	(259.0)	-	135.4	136.0
DPS (Rs)	7.2	6.0	6.0	6.0	6.0
CEPS (Rs)	23.8	96.8	0.4	163.5	224.6

BALANCE SHEET

Y.E March (Rs Cr)	FY19A	FY20A	FY21E	FY22E	FY23E
Cash	713	676	656	218	1192
Accounts Receivable	362	260	105	230	295
Inventories	211	286	101	225	277
Other Cur. Assets	11,523	14,114	13,190	23,869	32,211
Investments	6,517	9,499	9,499	9,499	9,619
Gross Fixed Assets	7,460	22,408	23,908	25,908	28,208
Net Fixed Assets	5,632	16,745	13,613	10,955	8,466
CWIP	22	129	50	50	50
Intangible Assets	32	45	45	45	45
Def. Tax (Net)	(64)	295	45	27	75
Other Assets	-	-	-	-	-
Total Assets	24,947	42,048	37,303	45,118	52,230
Current Liabilities	4,981	4,308	3,048	6,790	8,091
Provisions	437	1,948	310	682	874
Debt Funds	2,194	15,926	15,926	15,926	15,926
Other Liabilities	10,931	14,004	17,004	19,304	21,304
Equity Capital	384	385	385	385	385
Reserves & Surplus	6,560	5,478	630	2,031	5,650
Shareholder's Fund	6,945	5,862	1,015	2,415	6,035
Total Liabilities	24,947	42,048	37,303	45,118	52,230
BVPS	181	153	26	63	157

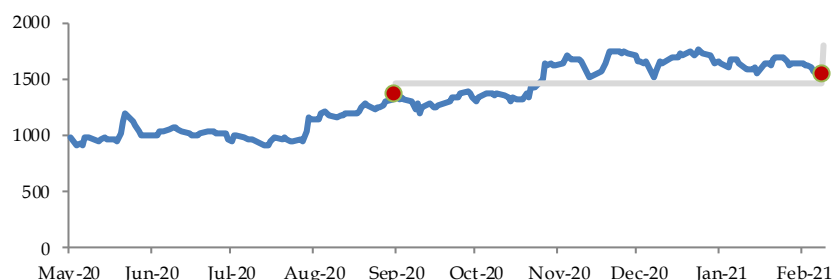
CASH FLOW

Y.E March (Rs Cr)	FY19A	FY20A	FY21E	FY22E	FY23E
Net inc. + Deprn.	916	3,725	16	6,291	8,641
Non-cash adj.	(634)	1,625	798	506	340
Changes in W.C	2,879	1,593	(1,663)	(6,815)	(6,967)
C.F. Operation	3,160	6,943	(820)	(19)	2,015
Capital exp.	(1,706)	(1,060)	(1,421)	(2,000)	(2,300)
Change in inv.	(1,331)	(3,876)	-	-	(120)
Other invest.CF	501	369	1,321	1,690	1,775
C.F - Investment	(2,536)	(4,567)	(99)	(310)	(645)
Issue of equity	-	24	-	-	-
Issue/repay debt	(208)	(829)	3,000	2,300	2,000
Dividends paid	(278)	(232)	(232)	(232)	(232)
Other finance.CF	(106)	(1,371)	(2,164)	(2,178)	(2,168)
C.F - Finance	(592)	(2,407)	605	(109)	(395)
Chg. in cash	42	(37)	(20)	(439)	974
Closing cash	713	676	656	218	1,192

RATIOS

Y.E March	FY19A	FY20A	FY21E	FY22E	FY23E
Profitab & Return					
EBITDA margin (%)	-0.7	11.3	7.0	22.4	25.1
EBIT margin (%)	-3.4	0.2	-25.7	7.4	13.1
Net profit mgn.(%)	0.5	-0.7	-32.6	5.2	9.7
ROE (%)	2.2	-3.9	-134.2	95.2	91.2
ROCE (%)	3.7	5.9	-6.8	10.1	13.7
W.C & Liquidity					
Receivables (days)	3.8	3.2	4.7	2.0	2.4
Inventory (days)	3.3	4.1	9.2	3.5	4.3
Payables (days)	76.1	77.4	175.0	105.0	128.7
Current ratio (x)	2.4	2.5	4.2	3.3	3.8
Quick ratio (x)	0.1	0.2	0.2	0.1	0.2
Turnover & Leverage					
Gross asset T.O (x)	4.3	2.4	0.6	1.2	1.5
Total asset T.O (x)	1.2	1.1	0.4	0.8	0.9
Int. covge. ratio (x)	-1.9	0.0	-1.7	1.1	2.4
Adj. debt/equity (x)	1.8	5.1	32.5	14.6	6.2
Valuation					
EV/Sales (x)	2.5	2.5	6.4	3.0	2.4
EV/EBITDA (x)	-344.1	21.8	91.9	13.5	9.5
P/E (x)	376.8	-237.1	-12.7	36.0	15.3
P/BV (x)	8.5	10.1	60.6	24.8	9.8

Recommendation summary



Dates	Rating	Target
22-November-2017	Buy	1,426
07-May-2018	Buy	1,438
01-August-2018	Buy	1,104
30-October-2018	Accumulate	1,018
25-January-2019	Accumulate	1,313
29-May-2019	Buy	1,925
11-July-2019	Accumulate	1,507
05-November-2019	Accumulate	1,596
13-May-2020	Drop coverage	-
15-September-2020	Accumulate	1,465
24-February-2021	Buy	1,804

Source: Bloomberg, Geojit Research.

Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated	-	-	-

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated : The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Neutral- The analyst has no investment opinion on the stock under review

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