

## Retail Equity Research (South India Focus)

# InterGlobe Aviation Ltd

## Aviation

BSE CODE : 539448

NSE CODE: INDIGO

BLOOMBERG CODE: INDIGO:IN

SENSEX : 54,530

## Buy

12Months Investment Period

Rating as per Large Cap

**CMP Rs. 1,833 TARGET Rs. 2,188 RETURN 19% ↑**  
 (Closing: 24-02-22)

**KEY CHANGES:**
**TARGET ↓**
**RATING ↔**
**EARNINGS ↑**

### Earnings recovery in sight...

InterGlobal Aviation Ltd (Indigo) is one of the most efficient low cost carriers (LCC) with a market share of 54% in Indian aviation sector.

- Revenue grew by 89% YoY, was better than expected led by strong passenger growth & higher ancillary revenues.
- Strong EBITDA & Profitability due to strong utilization owing to recovery in passenger growth and better yields.
- Improved vaccination drive and decline in infections led to higher passenger load factor.
- Replacement of old aircraft with fuel efficient fleet is at an accelerated pace, which is expected to be completed by FY24, will bring down operating cost.
- Passenger traffic growth to pick-up at higher pace starting from FY23 given lower risk of infections, acceleration in vaccination and recovery in tourism & corporate travel.
- Capacity expansion, penetration into Tier 2-3 cities, focus on route optimization and likely market share gains post Covid era are key positives.
- Rise in ATF price is a key risk, but considering higher capacity utilization, cost rationalization, removal of capacity restrictions, relaxation in fare cap and healthy cash position, will limit the downside risk.
- We value Indigo at P/E of 15x (7.0x EV/EBITDA) and upgrade to Buy with a target price of Rs2,188.

### Strong revenue growth

Q3FY22 Revenue grew by 89% YoY, was better than expected supported by 80% load factor and higher fares. Q3 passengers grew by 35% YoY & 30% on a sequential basis. Strong capacity addition was witnessed, as ASK grew by 51% on YoY basis. During the quarter, Indigo has returned 16 older A320ceo aircrafts and added 10 new A320neo. Currently, total aircrafts under operations are 283. Increased vaccination drive, lowering of Covid infections and pick in corporate & revival tourism led to strong revenue growth. Further, relaxation of capacity also supported this growth. However, in January-22, industry passenger traffic witnessed a decline of 17% MoM given impact of Omicron. Going forward, we expect passenger traffic to gather pace led by lower infections, restart of international traffic, revival in corporate, festive & holiday travel. We expect capacity utilisation and revenue growth to pick-up stating from FY23.

### Profitability to improve...Fuel cost to remain elevated

After 7 consecutive quarter of loss, in Q3FY22 Indigo reported profit of Rs.128cr and EBITDA was up by 112%. Despite higher ATF cost, profitability was maintained on account of higher load factors led by strong passenger growth. Passenger yields improved by 19% YoY to 4.41 led by higher fares. Going ahead, higher ATF price is expected to increase operational cost. January of 2022 witnessed 17% decline in domestic passenger growth, which is likely to have some impact on Q4FY22. However, given full removal of capacity cap, relaxation of fares and improved passenger growth on account festive and corporate travel, we may see accelerated recovery starting from FY23. Further, replacement of older aircrafts is likely to improve operating efficiency in the medium term.

### Outlook and Valuation

In Q3FY22 aviation sector reported profit after 7 consecutive quarters of losses. With risk of Covid-19 declining, the sector is showing green shoots of revival. We continue to maintain positive view on Indigo considering its strong liquidity position and cost efficient fleet operations. Further, cost efficient fleet, ability leverage its network, market leadership position and healthy cash position will drive growth. Revenue & profitability situation to improve on an accelerated pace starting from FY23E. Key risk to this ATF prices. We value Indigo at P/E of 15x on FY24E, (7.0x EV/EBITDA) and upgrade to Buy with a target price of Rs.2,188.

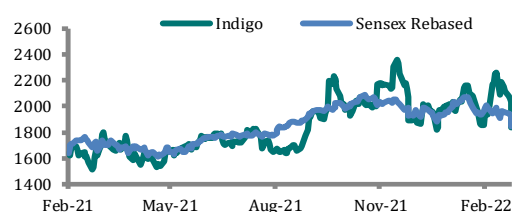
### Company Data

Market Cap (cr)	Rs.70,544
Enterprise Value (cr)	Rs.90,698
Outstanding Shares (cr)	38.4
Free Float	25.1%
Dividend Yield	0.0%
52 week high	Rs.2,379
52 week low	Rs.1,503
6m average volume (cr)	0.1
Beta	0.8
Face value	Rs.10.0

Shareholding (%)	Q1FY22	Q2FY22	Q3FY22
Promoters	74.9	74.8	74.8
FII's	17.3	18.3	18.6
MFs/Institutions	5.6	4.8	4.7
Public	1.2	1.2	1.3
Others	1.0	0.9	0.6
Total	100.0	100.0	100.0

Price Performance	3 month	6 Month	1 Year
Absolute Return	-11.5%	3.2%	19.8%
Absolute Sensex	-7.3%	-2.8%	9.6%
Relative Return*	-4.3%	6.0%	10.2%

over or under performance to benchmark index



Standalone	FY22E	FY23E	FY24E
Sales	23,546	41,832	50,606
Growth (%)	60.8	77.7	21.0
EBITDA	108	12,087	13,834
EBITDA Margin(%)	-	-	14.5
Adjusted PAT.	(6,626)	4,511	5,680
Growth (%)	(13.7)	168.1	24.3
Adjusted EPS	(172.4)	117.4	145.9
Growth (%)	(13.7)	168.1	24.3
P/E	(10.6)	15.6	12.6
P/B	(10.7)	(33.8)	20.0
EV/EBITDA	-	6.9	5.6
ROE (%)	-	-	-

## Quarterly Financials

### Profit & Loss

	Q3FY22	Q3FY21	YoY growth %	9MFY22	9MFY21	YoY growth %
<b>Sales</b>	<b>9,295</b>	<b>4,910</b>	105.0	<b>17,910</b>	<b>8,417</b>	113.0
<b>EBITDA</b>	<b>1778</b>	<b>839</b>	112.0	<b>495</b>	<b>(575)</b>	-
EBITDA margins	<b>19.1</b>	<b>17.1</b>	(200bps)	<b>2.8</b>	<b>(6.8)</b>	9.6
Depreciation	1,234	1,156	6.7	3,799	3,379	12.4
<b>EBIT</b>	<b>544</b>	<b>(318)</b>	-	<b>(3,304)</b>	<b>(3,954)</b>	-
Interest	601	541	11.0	1,725	1,614	7.0
Other Income	185	233	(20.4)	538	897	(40.0)
Exceptional Items	-	-	-	-	-	-
<b>PBT</b>	<b>128</b>	<b>(627)</b>	-	<b>(4,491)</b>	<b>(4,671)</b>	-
Tax	-	-	-	-	-	-
Associate share	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-
<b>Reported PAT</b>	<b>128</b>	<b>(627)</b>	-	<b>(4,491)</b>	<b>(4,673)</b>	-
Adjustments			-			-
<b>Adjusted PAT</b>	<b>128</b>	<b>(627)</b>	-	<b>(4,491)</b>	<b>(4,673)</b>	-
No. of Shares	<b>38.4</b>	<b>38.4</b>	-	<b>38.4</b>	<b>38.4</b>	-
<b>EPS (Rs)</b>	<b>3.3</b>	<b>(16.3)</b>	-	<b>(116.8)</b>	<b>(121.6)</b>	-

### Change in Estimates

Year / Rs cr	Old estimates			New estimates			Change %		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	23,448	41,627	50,030	23,546	41,832	50,606	0.4	0.5	1.2
EBITDA	1,366	10,917	13,418	108	12,807	13,834	(92.1)	10.7	3.1
Margins (%)	5.8	26.2	26.8	0.5	28.9	27.3	(530bps)	(270bps)	(50bps)
Adj. PAT	(5,367)	3,217	4630	(6,626)	4,511	5,608	23.5	40.1	21.1
EPS	(140.0)	83.7	120.5	(172.4)	117.4	145.9	23.5	40.1	21.1

## Standalone Financials

### PROFIT & LOSS

Y.E March (Rs Cr)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Sales</b>	<b>35,756</b>	<b>14,641</b>	<b>23,546</b>	<b>41,832</b>	<b>50,606</b>
% change	25.5	(59.1)	60.8	77.7	21.0
<b>EBITDA</b>	<b>4,038</b>	<b>(25)</b>	<b>108</b>	<b>12,087</b>	<b>13,834</b>
% change	2,065.6	(100.6)	524.2	11,092.3	14.5
Depreciation	3,946	4,678	5,111	5,460	5,675
<b>EBIT</b>	<b>(65)</b>	<b>(4,724)</b>	<b>(5,003)</b>	<b>6,627</b>	<b>8,160</b>
Interest	1,876	2,142	2,304	2,329	2,638
Other Income	1,536	1,036	681	502	709
<b>PBT</b>	<b>(275)</b>	<b>(5,830)</b>	<b>(6,626)</b>	<b>4,799</b>	<b>6,231</b>
% change	84.6	2,019.2	(13.7)	172.4	29.8
Tax	(27)	-	-	288	623
Tax Rate (%)	9.8%	0.0%	0.0%	6.0%	10.0%
<b>Reported PAT</b>	<b>(248)</b>	<b>(5,830)</b>	<b>(6,626)</b>	<b>4,511</b>	<b>5,608</b>
Adj.*	-	-	-	-	-
<b>Adj. PAT</b>	<b>(248)</b>	<b>(5,830)</b>	<b>(6,626)</b>	<b>4,511</b>	<b>5,608</b>
% change	(259)	2,249	(14)	168	24
No. of shares (cr)	38	38	38	38	38
<b>Adj EPS (Rs)</b>	<b>(6.5)</b>	<b>(151.7)</b>	<b>(172.4)</b>	<b>117.4</b>	<b>145.9</b>
% change	(258.9)	2,249.2	(13.7)	168.1	24.3
DPS (Rs)	6.0	-	-	-	-
CEPS (Rs)	97	(29)	(39)	259	293

### BALANCE SHEET

Y.E March (Rs Cr)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash	676	508	5,759	7,612	13,979
Accounts Receivable	260	219	323	573	693
Inventories	286	316	331	338	421
Other Cur. Assets	14,114	15,458	7,870	13,868	16,915
Investments	9,499	7,290	7,290	7,290	7,290
Gross Fixed Assets	22,408	27,670	33,170	38,670	44,170
Net Fixed Assets	16,745	18,782	19,172	19,212	19,037
CWIP	129	66	50	50	50
Intangible Assets	45	39	39	39	39
Def. Tax (Net)	295	295	295	967	1,590
Other Assets	1	-	-	-	-
<b>Total Assets</b>	<b>42,049</b>	<b>42,974</b>	<b>41,128</b>	<b>49,947</b>	<b>60,015</b>
Current Liabilities	4,308	3,354	6,624	7,879	9,834
Provisions	1,948	2,144	1,355	2,407	2,912
Debt Funds	15,926	20,662	20,662	20,662	20,662
Other Liabilities	14,004	16,743	19,043	21,043	23,043
Equity Capital	385	385	385	385	385
Reserves & Surplus	5,478	(314)	(6,940)	(2,429)	3,179
Shareholder's Fund	5,863	71	(6,555)	(2,044)	3,564
<b>Total Liabilities</b>	<b>42,049</b>	<b>42,974</b>	<b>41,128</b>	<b>49,947</b>	<b>60,015</b>
BVPS	153	2	(171)	(53)	93

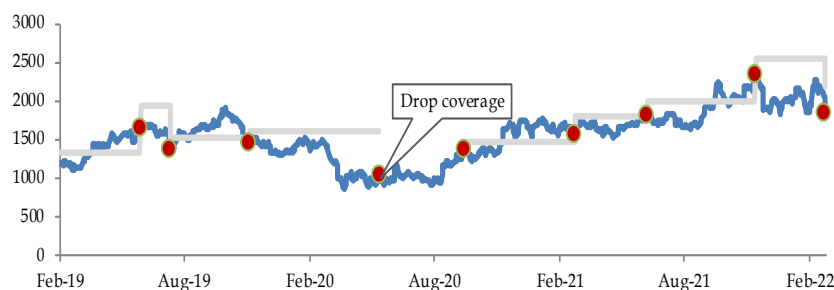
### CASH FLOW

Y.E March (Rs Cr)	FY20A	FY21A	FY22E	FY23E	FY24E
Net inc. + Depn.	3,725	489	(1,515)	9,971	11,282
Non-cash adj.	1,625	(1,414)	1,623	1,156	1,306
Changes in W.C	1,593	(1,093)	9,950	(3,947)	(792)
<b>C.F. Operation</b>	<b>6,943</b>	<b>(1,620)</b>	<b>10,058</b>	<b>7,180</b>	<b>11,796</b>
Capital exp.	(1,060)	(420)	(5,484)	(5,500)	(5,500)
Change in inv.	(3,876)	1,645	-	-	-
Other invest.CF	369	137	681	502	709
<b>C.F - Investment</b>	<b>(4,567)</b>	<b>3,246</b>	<b>(4,803)</b>	<b>(4,998)</b>	<b>(4,791)</b>
Issue of equity	24	9	-	-	-
Issue/repay debt	(829)	(153)	2,300	2,000	2,000
Dividends paid	(232)	-	-	-	-
Other finance.CF	(1,371)	(29)	(2,304)	(2,329)	(2,638)
<b>C.F - Finance</b>	<b>(2,407)</b>	<b>(1,775)</b>	<b>(4)</b>	<b>(329)</b>	<b>(638)</b>
Chg. in cash	(37)	(168)	5,251	1,852	6,367
Closing cash	676	508	5,759	7,612	13,979

### RATIOS

Y.E March	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Profitab &amp; Return</b>					
EBITDA margin (%)	11.3	(0.2)	0.5	28.9	27.3
EBIT margin (%)	0.2	(32.3)	(21.2)	15.8	16.1
Net profit mgn.(%)	(0.7)	(39.8)	(28.1)	10.8	11.1
ROE (%)	(3.9)	(196.5)	204.4	(104.9)	738.0
ROCE (%)	5.9	(10.1)	(12.2)	17.5	17.8
<b>W.C &amp; Liquidity</b>					
Receivables (days)	3.2	6.0	4.2	3.9	4.6
Inventory (days)	4.1	11.0	6.8	5.9	5.4
Payables (days)	77.4	140.2	105.4	128.8	126.1
Current ratio (x)	2.5	3.0	1.8	2.2	2.5
Quick ratio (x)	0.2	0.2	0.9	1.0	1.5
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	2.4	0.6	0.8	1.2	1.2
Total asset T.O (x)	1.1	0.3	0.6	0.9	0.9
Int. covge. ratio (x)	0.0	(2.2)	(2.2)	2.8	3.1
Adj. debt/equity (x)	5.1	527.5	(6.1)	(20.4)	12.3
<b>Valuation</b>					
EV/Sales (x)	2.4	6.2	3.6	2.0	1.5
EV/EBITDA (x)	21.2	(3,562.9)	791.2	6.9	5.6
P/E (x)	(283.9)	(12.1)	(10.6)	15.6	12.6
P/BV (x)	12.1	2,181.8	(10.7)	(33.8)	20.0

## Recommendation summary ( Last 3 Years)



Dates	Rating	Target
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
09-June-2021	Accumulate	1,984
25-February-2022	Buy	2,188

Source: Bloomberg, Geojit Research.

## Investment Criteria

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

### 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 /Neutral:** 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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Not Rated/Neutral- The analyst has no investment opinion on the stock under review

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