



KEY HIGHLIGHTS

1. RESULTS OVERVIEW:

- Due to a seasonally good quarter and retaliation travel, load factor increased to 79.6% from 76.5% sequentially.
- Reduced base and robust ticket prices, revenue increased by 327% year over year. International travel has stabilized and returned to its pre-recession levels, which were expanding more quickly.

2. MANAGEMENT COMMENTARY:

- Corporate travel recovered to pre-COVID levels right now and will further increase in the coming months.
- Cargo industry has historically been quite successful, and it regards this as a steady business. Currently, China is the top freight destination, followed by Bangladesh and Vietnam. A few additional cargo flights are scheduled for the upcoming quarter, and their revenue growth is expected to be in the double digits.
- Company was impacted by currency fluctuations and rising crude prices, however this was partially offset by high yields.
- Nine A321NEO and three fuel-efficient A320neo aircraft were introduced by INDIGO. It returned the six older CEO ones. By December 22, most CEO aircraft will have been returned.

3. BUSINESS OVERVIEW:

- InterGlobe Aviation Ltd is an Indian airline service provider. Through its IndiGo name, the firm operates as a low-cost carrier. Customers may buy plane tickets and trip packages using IndiGo Airlines' official website and the IndiGoGo App. It is divided into two segments: air transportation services and other revenue. The majority of the company's revenue comes from domestic airline passenger ticket sales. As of August 2022, it was India's largest passenger airline, with a market share of 57.7%. We link people all over the world to a network of over 100 locations with a fleet of 279 aircraft and increasing.

4. MANAGEMENT GUIDANCE

- Strong recovery in leisure and business travel was the main driver of load factors. Additionally, foreign travel has stabilized and returned to its pre-recession levels, where it was expanding more quickly.
- The rise in ticket costs worries them nonetheless because there is still a lot of demand despite some passenger resistance. This is still a key factor in the reduced PLF, which was 79% in Q1FY23.
- Due to seasonal sluggish demand, Q2 will continue to be weak, but Q3 will be made up for by the holiday season and business travel demand.

5. BANKING INDUSTRY

- The Indian domestic aviation sector – which clocked 18% CAGR over FY14-19 was impacted in FY20 and FY21 due to COVID-19 pandemic. Looking ahead, expect overall air passenger traffic to record a phenomenal 30% CAGR over FY21-FY26E, due to low base and expected strong revival. Air passenger traffic growth has a strong co-relation with GDP growth with a 1.5x multiplier. With GDP growth expected at ~7% over a long-run, the aviation industry is expected to record double-digit growth of 12-13% over the next decade.

6. VALUATION AND OUTLOOK:

- INDIGO's strong cash position will help it maintain its market share gains and pricing power in the future, driving its total profitability. It is preferable to capitalize on India's fastest-growing aviation sector.
- Civil aviation has become one of the most prominent and fastest growing industries in India. While India already became the world's 3rd largest domestic aviation market.
- We value the company at 88x FY23 EPS to arrive at the target of 1958.

RECOMMENDATION - ACCUMULATE

CMP - 1790

TARGET - 1958 (9%)

Industry	Airlines
NSE CODE	INDIGO
BSE CODE	539448
Market Cap (₹ Cr)	71501.97
Shares Outstanding (in Cr)	38.53
52 wk High/Low (₹)	2380 / 1511.75
P/E	0.00
P/BV	-10.07
Face Value (₹)	10.00
Book Value (₹)	-184.23
EPS (FY22) (₹)	-159.94
Dividend Yield (%)	0.00

SHAREHOLDING PATTERN

	Jun'22	Mar'22	Dec'21
Promoters	74.77	74.77	74.78
Mutual Funds	4.58	3.73	3.14
FII/FPI	16.72	17.70	18.57
Retail & Others	2.13	2.05	1.92
Promoter Pledging	0.00	0.00	0.00

FINANCIAL SNAPSHOT (₹ Cr)

Y/E March	2021A	2022A	2023E
Core			
Net Sales	14641	25931	49250
Net Sales Growth(%)	-59	77.12	90
EBITDA	14	575.25	7388
EBITDA mrg. (%)	7	5.02	1184
Adj. PAT	-5806	-6161.85	857
Adj. EPS	-151	-159.94	22.2
Adj. EPS Growth(%)	-2384	-6.03	-
Ratios			
ROE (%)	-195	0	NA
ROCE (%)	-21	-21	NA
Payout (%)	0	0	0
Valuation			
P/E (x)	0	0	81
P/BV (x)	830	-13	NA

Historical & Industrial Val Ratios

Historical P/E	0.00
Industry P/E	14.40
Historical P/B	-10.07
Industry P/B	3.97



Important Metric (%)	Q1FY23	Q4FY22	Q3FY22	Q2FY22	Q1FY22	Q4FY21	Q3FY21
ASK (billion)	27.5	20.4	23	15.8	11.2	19.2	15.3
RPK (billion)	21.9	15.6	18.3	11.2	6.6	13.5	11
Load factor (%)	79.6%	76.7%	79.7%	71.1%	58.7%	70.2%	72%
Yield (INR)	5.24	4.4	4.41	4.19	3.48	3.7	3.7
RASK (INR)	4.69	3.97	4.09	3.6	2.73	3.26	3.27

QUARTERLY PERFORMANCE (STANDALONE)

(₹ Cr)

Y/E March	FY21			FY22				FY23	FY23E*
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	
Net sales	2,741.0	4,910.0	6,222.9	3,006.9	5,608.5	9,294.8	8,020.7	12,855.3	49250
YoY change (%)	-66.2	-50.6	-25.0	292.2	104.6	89.3	28.9	327.5	90
Expenditure	3,048.7	4,270.0	5,671.4	4,471.7	5,451.7	7,516.2	7,982.9	12,256.7	41862
EBITDA	-307.7	640.0	551.5	-1,464.8	156.8	1,778.6	37.9	598.6	7388
YoY growth (%)	2,064.0	-61.8	-520.9	-9.2	-151.0	177.9	-93.1	-140.9	1184
Depreciation	1,126.6	1,156.7	1,319.6	1,317.3	1,248.1	1,233.8	1,269.5	1,169.8	5300
Interest	562.5	541.5	528.2	555.5	568.8	601.1	632.6	656.6	2624
Other income	801.9	435.1	138.9	163.3	224.4	189.9	186.7	163.5	1680
PBT	-1,194.9	-623.1	-1,157.5	-3,174.2	-1,435.7	133.7	-1,677.5	-1,064.2	1143
Adjusted PAT	-1,194.8	-620.1	-1,147.2	-3,174.2	-1,435.7	129.8	-1,681.8	-1,064.3	857
YoY change (%)	12.5	-225.0	31.7	11.6	20.2	-120.9	46.6	-66.5	-

Source: Company, Hem Securities Research.

Insights into the assumptions:

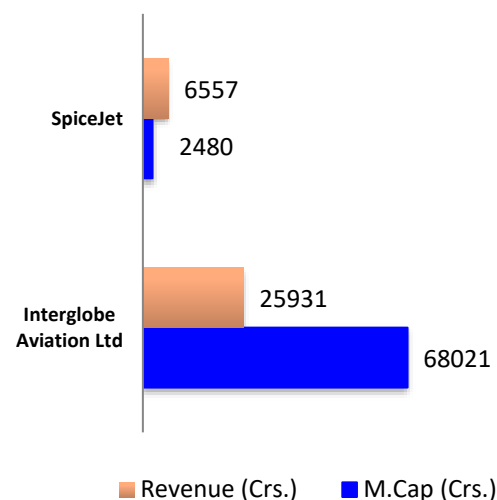
- 1> Dominant player in a rapidly developing industry with high entry hurdles
- 2> Historically, metro airports dominated the aviation sector; however, future development is projected to be driven in part by airports in smaller towns and cities.
- 3> As the difference between train and air fares narrows, a significant transition from rail to air travel is projected during the next decade.
- 4> LCCs are growing market share in India.
- 5> Increased Productivity and Fuel Efficiency with More Seats per Aircraft
- 6> Increased GDP growth and rising GDP per capita will result in double-digit growth.



INDUSTRY OVERVIEW

- Commercial One of the world's aviation markets with the quickest growth is now India. The Ministry of Civil Aviation estimates a 61.0% increase in total traffic in India from 59.01 million passengers in FY 2021 to 94.99 million passengers in FY 2022. There was a 40.2% increase in total freight handled from FY 2021 to FY 2022, from 651.9 thousand tonnes to 913.7 thousand tonnes.
- The percentage of middle-class households is increasing, prominent airports are developing their infrastructure, and there is a favorable governmental environment, all of which have helped the aviation industry. The government's emphasis on privatizing the industry will give it an additional boost.
- As both corporate and leisure travel picks up speed following the pandemic, India's aviation industry is on the road to a steady recovery. However, the continued increase in fuel prices and the depreciation of the rupee present immediate difficulties.
- With greater vaccination rates, pandemic's decline and its onset economic downturn, less travel constraints, as well as the return of foreign flights on schedule, the Indian aircraft industry will once more become a major socioeconomic contributor prosperity. Additionally, in the newly final Federal Aviation Administration (FAA) a review of the Indian Aviation Authority's Indian government officials have had success in keeping FAA Category 1 standing, maintaining Indian carriers can grow more easily internationally.

KEY PLAYERS



PEER PERFORMANCE

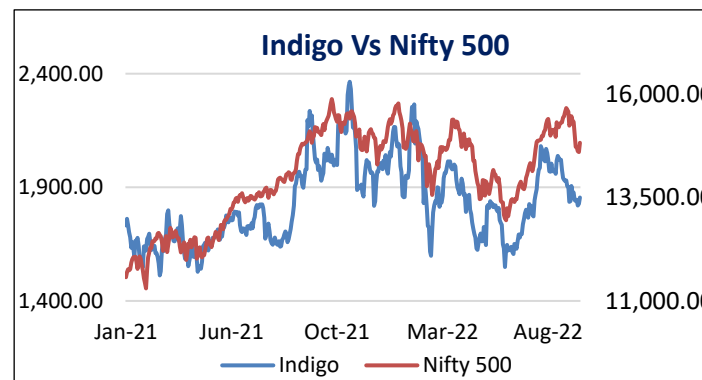
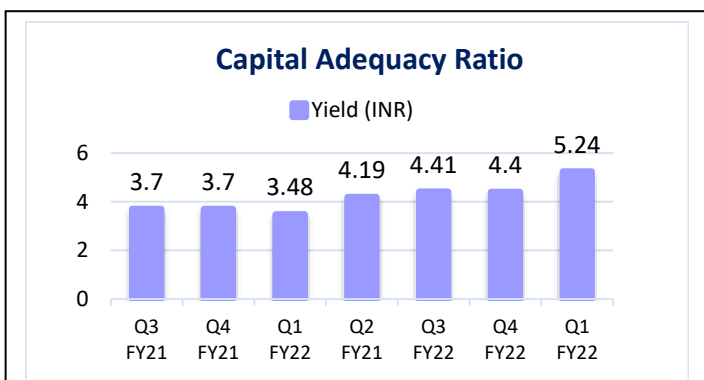
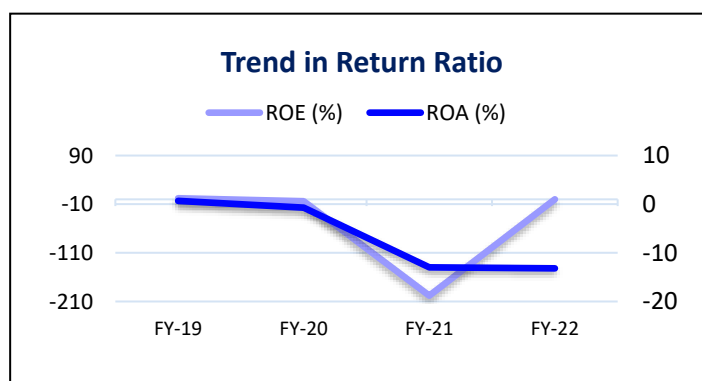
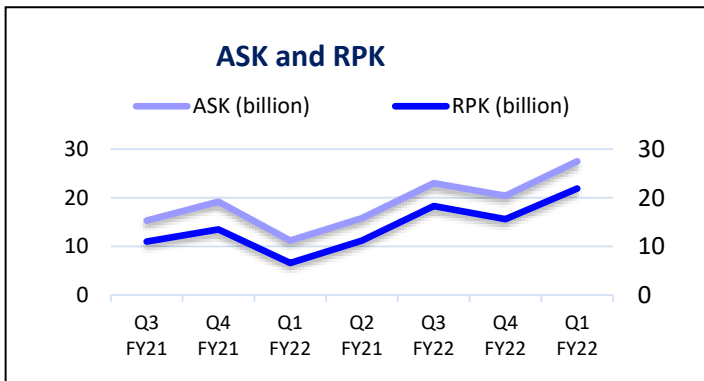
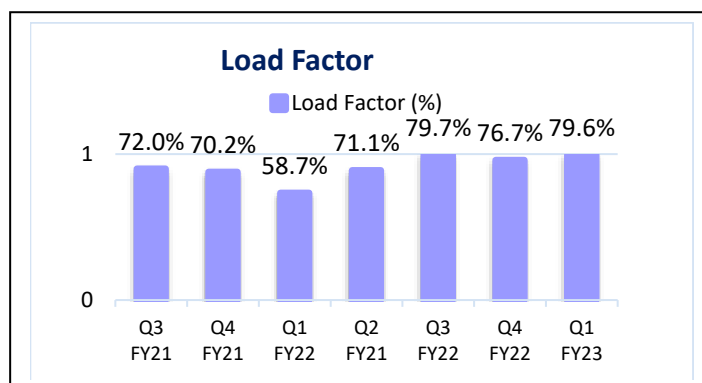
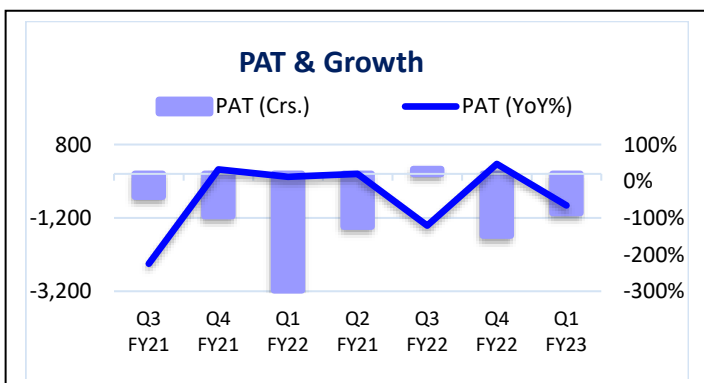
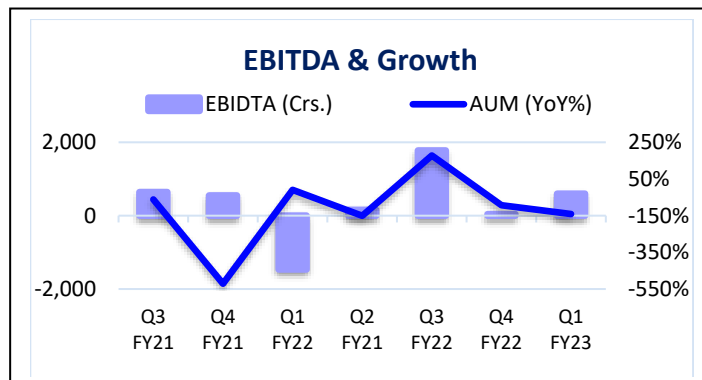
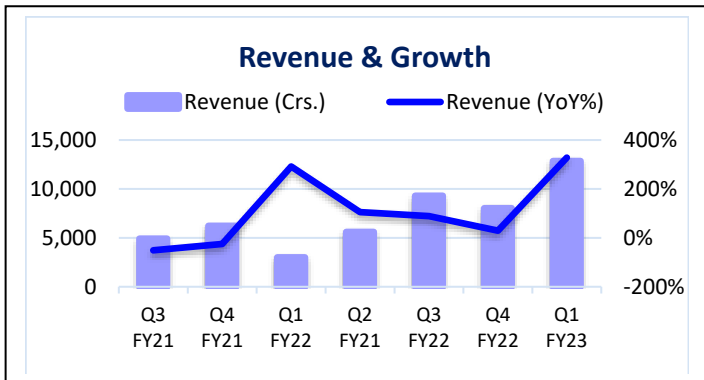
(₹ Cr)

Particulars	Interglobe Aviation Ltd	SpiceJet
Market Cap	68021	2480
Revenue from Operation	25931	6557
Operating Profit	575	-927
PAT	-6162	-1725
EPS(Rs)	-160	-29
ROCE%	-13%	-92%
ROE %	0	0
Fleet Size	281	98
Promoter holding %	74.8%	59.4%
Pledged percentage %	0	44.2%
Sales growth %	112%	38.8%
Profit growth %	34%	-50.6%
Cash Equivalents	10120	60.3

Source: Company, Hem Securities Research.



STORY IN CHARTS





INVESTMENT RATIONALE:

- Due to the COVID-19 epidemic, India's domestic aviation industry, which experienced an 18% CAGR over FY14–19, suffered in FY20 and FY21. Because of the low base and anticipated significant recovery, the entire air passenger traffic is predicted to grow at an astounding 30% CAGR between FY21 and FY26E. Growth in air passenger traffic has a significant, 1.5x multiplier correlation with GDP growth. The aviation industry is anticipated to see double-digit growth of 12–13% during the following ten years, with GDP growth predicted to be 7% over the long term.
- Civil aviation has become one of the most prominent and fastest growing industries in India. While India already became the world's 3rd largest domestic aviation market.
- Metro airports like Delhi, Mumbai, Kolkata, Chennai, Hyderabad, and Bangalore historically had a majority of the aviation market share in India, accounting for 62% of the country's total aviation market. Future expansion is anticipated to be co-driven by other airports in smaller towns and cities due to improved connectivity with smaller communities.
- India's aviation traffic is steadily increasing year after year despite the country's extreme under-penetration. Due to its dominance in the market, IndiGo is the company that will benefit the most from this expansion. The government's UDAN (regional connectivity programme) programme seeks to promote the expansion of India's civil aviation industry and aviation infrastructure.
- In comparison to its competitors in the Indian aviation business, the company has shown to have reduced operational costs. In addition, the preservation of a single fleet type and a younger fleet kept fuel costs low, and strict overhead management helped Indian airlines achieve the lowest CASK, which compares favorably to other global LCCs.
- In addition, business travel is gradually increasing, albeit more slowly than it was before to COVID. Business travel is currently just 25–30% of normal levels, but experts in the field predict that with increased vaccination efforts, that number will rise to 40–50% in 2HFY22E.

RISK FACTORS:

- The price of gasoline has an impact on how profitable airlines are. Airlines significant susceptibility to changes in oil prices will have an impact on overall profitability. Crude prices and operational effectiveness are inversely correlated.
- On its balance sheet, IndiGo has sizable obligations in foreign currencies. Any changes in currency will put it at danger.
- Slower-than-expected growth in air passenger traffic due to adverse macroeconomic scenario.
- Revenue and profitability are likely to be impacted in the Second Quarter, which is often a weak quarter than the First Quarter.

COMPANY RECAP

- InterGlobe Aviation Limited is a public limited company domiciled in India. The company was incorporated on January 13, 2004 as a private limited company in India. Subsequently, the company changed its legal status from a private company to a public company on August 11, 2006. The shares were listed on National Stock Exchange of India Limited (NSE) and BSE Limited (BSE) on November 10, 2015. The company is in the low cost carrier (LCC) segment of the airline industry in India. The principal activities of the company comprise of air transportation which includes passenger and cargo services and providing related allied services including in-flight catering services.
- With just one aircraft, Rahul Bhatia and Rakesh Gangwal established InterGlobe Aviation in 2006. The fleet of the corporation has grown to 287 aircraft as of now (15 owned/finance leased and 272 operating leased). It owns 111 A320ceo, 30 A321neo, and 26 ATR aircraft in addition to 120 A320neo. It uses a low-cost carrier business model and provides straightforward air travel to both domestic and foreign travelers. On regular flights, the firm offers services including freight and mail delivery in addition to passenger transportation. The airline operates 1,500 flights per day, serving 15 foreign and 73 local destinations.
- Indian airline InterGlobe Aviation (INDIGO) has its main office in Gurugram (Haryana). With more than 75 million passengers transported in FY20, it is the sixth largest airline in Asia and the largest airline in India in terms of fleet size and passengers carried. Rakesh Gangwal and Rahul Bhatia of InterGlobe Enterprises established the airline as a private business. In July 2006, it received its first aircraft, and a month later it started operating
- As of the end of FY22, INDIGO had a 55% market share, making it the largest passenger airline in India. The airline offers 1,500 daily flights to 88 locations worldwide, including 15 foreign and 73 domestic destinations. At Delhi's Indira Gandhi International Airport, it has its main hub. It focuses on three pillars: low fares, on-time services, and a pleasant, hassle-free experience. It primarily serves India's domestic air travel market as a low-cost carrier. In 2012, the airline surpassed all other carriers in India in terms of market share of passengers, and in November of that same year, the firm became public.



ANNUAL PERFORMANCE

Financials & Valuations						
Income Statement	₹ Cr)					
	2018	2019	2020	2021	2022	2023E
Net Sales	23021	28497	35756	14641	25931	49250
Total Expenditure	19991	28646	31671	14626	25356	41862
EBITDA	3030	-149	4085	14	575	7388
EBITA Growth (%)	32	-70	378	-81	24	1184
EBITA Margin (%)	17	4	16	7	5	15
Interest Expenses	413	563	1902	2170	2386	2624
Other Income	947	1325	1536	1037	726	1680
Exceptional Items	0	0	0	0	0	0
Net Profit	2242	157	-234	-5806	-6162	857
PAT Growth (%)	35	-93	-249	-2385	-6	-
PAT Margin (%)	10	1	-1	-40	-24	1.7
EPS	58	4	-6	-151	-160	22
EPS Growth (%)	27	-93	-248	-2384	-6	-

Source: Company, Hem Securities Research.

Balance Sheet					
	₹ Cr)				
Y/E March	2018	2019	2020	2021	2022
Share Capital	384	384	385	385	385
Reserves	6,687	6,556	5,487	-280	-6,379
Borrowings	2,254	2,429	22,719	29,860	36,878
Other Liabilities	11,804	15,657	13,510	13,087	15,079
Total Liabilities & Equity	21,129	25,026	42,101	43,051	45,963
Fixed Assets	4,579	5,662	16,779	18,817	21,284
CWIP	32	24	140	72	125
Investments	6,344	6,517	9,499	7,339	8,106
Other Assets	10,174	12,824	15,682	16,823	16,447
Total Assets	21,129	25,026	42,101	43,051	45,963

Source: Company, Hem Securities Research.



Ratios				
Y/E March (Basic (INR)	2019	2020	2021	2022
Operational & Financial Ratios				
Earnings Per Share (Rs)	4.09	-6.07	-150.85	-159.94
CEPS(Rs)	23.85	97.2	-28.76	-28.38
Book Value (Rs)	179.63	152.48	1.97	-156.69
Performance Ratios				
ROA (%)	0.68	-0.67	-12.92	-13.43
ROE (%)	2.26	-3.66	-195.4	0
ROCE (%)	4.4	20.66	-79.48	-1,434.91
Asset Turnover(x)	1.23	1.03	0.33	0.57
Inventory Turnover(x)	144.41	143.72	48.6	71.58
Debtors Turnover(x)	96.8	114.99	61.21	93.97
Fixed Asset Turnover (x)	4.25	2.37	0.58	0.85
Sales/Working Capital (x)	2.82	5.94	7.75	-11.85
Financial Stability Ratios				
Total Debt/Equity(x)	0.35	0.12	33.04	-0.65
Current Ratio(x)	2.26	1.37	1.1	0.9
Quick Ratio(x)	2.24	1.35	1.08	0.88
Interest Cover(x)	0.74	0.87	-1.68	-1.58
Total Debt/Mcap(x)	0.04	0.02	0.04	0.05

Source: Company, Hem Securities Research.



RATING CRITERIA

INVESTMENT RATING	EXPECTED RETURN
BUY	>=15%
ACCUMULATE	5% to 15%
HOLD	0 to 5%
REDUCE	-5% to 0
SELL	<-5%

RECOMMENDATION SUMMARY

DATE	RATING	TARGET
07-October-2022	ACCUMULATE	1958

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