

November 7, 2022

Q2FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	ACCUMULATE		HOLD	
Target Price	2,015		1,985	
Sales (Rs. m)	5,76,938	6,17,425	5,27,367	5,65,726
% Chng.	9.4	9.1		
EBITDA (Rs. m)	1,28,515	1,46,173	1,24,905	1,42,945
% Chng.	2.9	2.3		
EPS (Rs.)	121.1	152.7	119.1	149.2
% Chng.	1.7	2.3		

Key Financials - Standalone

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	2,59,309	5,15,997	5,76,938	6,17,425
EBITDAR (Rs. m)	8,420	47,424	1,28,515	1,46,173
Margin (%)	3.2	9.2	22.3	23.7
PAT (Rs. m)	(61,710)	(19,597)	46,657	58,822
EPS (Rs.)	(160.2)	(50.9)	121.1	152.7
Gr. (%)	5.8	(68.2)	(338.1)	26.1
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	206.9	27.9	(82.4)	(1,515.2)
RoCE (%)	(2,072.1)	10.3	(394.5)	295.1
EV/Sales (x)	2.1	1.2	0.9	0.7
EV/EBITDAR (x)	117.6	23.2	8.1	6.8
PE (x)	(11.2)	(35.3)	14.8	11.8
P/BV (x)	(11.5)	(8.7)	(20.8)	27.1

Key Data

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52-W High / Low	Rs.2,380 / Rs.1,512
Sensex / Nifty	60,950 / 18,117
Market Cap	Rs.693bn/ \$ 8,406m
Shares Outstanding	385m
3M Avg. Daily Value	Rs.2033.19m

Shareholding Pattern (%)

Promoter's	74.77
Foreign	17.70
Domestic Institution	5.48
Public & Others	2.05
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(2.9)	(0.2)	(17.2)
Relative	(7.5)	(8.9)	(18.4)

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Profitability to improve in 2H

Quick Pointers:

- Yields (Rs 5.07 vs Rs 5.24 QoQ) and load factor (79.1%, -50bps QoQ) holding up, despite higher capacity (+1% QoQ).
- Profitability to improve in 3QFY23 from festive season demand and strong recoveries in corporate travel.

We upgrade to 'Accumulate' from Hold with a revised TP of Rs 2,015 (earlier 1,985) at 8x EV/EBITDAR of Sep-24E. IndiGo reported positive EBITDAR of Rs 757mn despite seasonal weakness, forex losses of Rs 12bn and record high fuel prices (\$130 in 2Q vs \$123 in 1Q). Yields were held up at Rs 5.07 (-3% QoQ). Load factors declined 50 bps QoQ to 79.1% (considerably below pre-COVID levels of 89%), impacted by price hikes against rising fuel costs. 3Q is expected to witness improvement in profitability led by oil prices tapering off, peak season demand and corporate travel recovery, in our view. However, capacity addition is likely to be slower as global supply chain issues may impact new plane/engines deliveries. To deal with this issue the company has been extending some of its leases, postponing re-deliveries and actively looking for wet lease.

We believe IndiGo (with ~55% market share) is better placed than its peers to strongly benefit from (1) demand recovery along with capacity deployment, (2) network expansions in domestic as well as international, (3) crude-prices tapering off, (4) better than industry cost structure and (5) superior balance sheet (Rs 82bn free cash). Upgrade to 'Accumulate', given company's new and improved outlook. In the near-term, inflationary cost environment and INR depreciation could continue to be a drag on profitability.

2QFY23 performance: Revenue at Rs 125mn (-3% QoQ) came in-line with our estimates, impacted by seasonal weakness. Yields came in at Rs 5.07 vs Rs 5.24, sequentially. Load factors were healthy at 79.1% (-50bps QoQ), however still below pre-COVID levels. Pax revenue declined 3% QoQ, whereas ancillary revenue remained flat. IndiGo reported positive EBITDAR (Rs 757mn, margin 0.6%), despite Rs 12bn forex losses and record high fuel prices (\$130 in 2Q vs \$123 in 1Q). Fuel CASK grew to Rs 2.26 vs Rs 2.18 last quarter. Net loss widened sequentially to Rs 15.8bn vs Rs 10.6bn QoQ.

Key takeaways: (1) **Supply chain disruptions:** Global supply issues impacted aircraft manufacturing and also led to shortage on spare engines. Due to this, airlines are unable to fully deploy capacity productively. To deal with this issue, IndiGo has been extending some of its leases, postponing re-deliveries and actively looking for wet lease. (2) **Demand outlook:** Management expects yields to be higher in 3Q compared to 1Q (Rs 5.24). The company is witnessing strong demand, led by festive season and good recovery from corporate business. With oil prices now tapering off, profitability should improve in 2H. (3) **International operations witnessing recovery:** International operations have demonstrated strong recoveries and grown at 20% QoQ. Currently, 25% of IndiGo's flying is international. The company is strengthening its international network by introducing new flights & frequencies and codeshare agreements. (4) **Increasing focus on cargo business:** In 2Q, IndiGo introduced the first Airbus A321 freighter in its fleet. It plans to add one more by Dec-22 and two more next year. The freighters will initially be deployed for international operations.

Exhibit 1: Q2FY23 Result Overview (Rs m)

Y/e March	2QFY23	2QFY22	YoY gr. (%)	1QFY23	QoQ gr. (%)	1HFY23	1HFY22	YoY gr. (%)
Net Sales	124,976	56,085	122.8	128,553	(2.8)	253,529	86,154	194.3
Fuel cost	62,579	19,894	214.6	59,901	4.5	122,480	32,054	282.1
Supplementary rentals	18,393	14,620	25.8	18,853	(2.4)	37,246	25,685	45.0
Airport fees & charges	8,516	5,194	64.0	8,514	0.0	17,030	8,913	91.1
Other input costs	625	173	261.8	715	(12.5)	1,340	257	420.5
Employee cost	11,537	7,261	58.9	10,583	9.0	22,120	15,259	45.0
Forex (gain)/loss	12,015	(342)	NA	14,246	NA	26,261	3,331	NA
Other expenses	10,553	6,772	55.8	9,103	15.9	19,656	12,318	59.6
Total expenses	124,219	53,572	131.9	121,914	1.9	246,133	97,817	151.6
EBITDAR	757	2,513	(69.9)	6,639	(88.6)	7,396	(11,663)	(163.4)
Aircraft and engine rentals	485	649	(25.3)	653	(25.8)	1,137	1,171	(2.9)
EBITDA	273	1,864	(85.4)	5,986	(95.4)	6,259	(12,834)	NA
Depreciation	12,376	12,479	(0.8)	11,698	5.8	24,074	25,650	(6.1)
EBIT	(12,104)	(10,615)	NA	(5,712)	NA	(17,815)	(38,484)	NA
Other income	3,547	1,899	86.8	1,635	116.9	5,182	3,530	46.8
Interest	7,276	5,688	27.9	6,566	10.8	13,842	11,243	23.1
PBT	(15,833)	(14,404)	NA	(10,642)	NA	(26,475)	(46,197)	NA
Tax expense	-	-	-	-	-	-	-	-
PAT	(15,833)	(14,404)	NA	(10,642)	NA	(26,475)	(46,197)	NA
EPS	(41.1)	(37.4)	NA	(27.7)	NA	(68.8)	(120.1)	NA

Source: Company, PL

Exhibit 2: Operating Metrics

Particulars	2QFY23	2QFY22	YoY gr. (%)	1QFY23	QoQ gr. (%)	1HFY23	1HFY22	YoY gr. (%)
ASKM (in mn)	27,700	15,810	75.2	27,507	0.7	55,207	27,030	104.2
RPKM (in mn)	21,900	11,245	94.8	21,900	-	43,800	17,837	145.6
Load Factor (%)	79.1	71.1	794 bps	79.6	-55 bps	79.3	66.0	1335 bps
Yield (Rs)	5.1	4.2	21.0	5.2	(3.1)	5.2	3.9	31.1
RASK (Rs)	4.51	3.55	27.2	4.67	(3.5)	4.59	3.19	44.1
Aircraft Fuel/ASKM	2.26	1.26	79.5	2.18	3.7	2.22	1.19	87.1
Gross Margin	2.25	2.29	(1.6)	2.50	(9.7)	2.37	2.00	18.6
Employee Cost/ASKM	0.42	0.46	(9.3)	0.38	8.3	0.40	0.56	(29.0)
Ownership cost/ASKM	0.73	1.19	(38.9)	0.69	5.7	0.71	1.41	(49.8)
Other Operating Exp./ASKM	1.81	1.67	8.2	1.87	(3.3)	1.84	1.87	(1.6)
Non-Fuel Op.Exp/ASKM	2.95	3.32	(11.1)	2.94	0.3	2.95	3.84	(23.3)
CASK	5.21	4.58	13.8	5.12	1.8	5.17	5.03	2.8
CASK net of Other Income	5.08	4.46	14.0	5.06	0.5	5.07	4.90	3.6
RASK-CASK with other income	(0.70)	(1.03)	(32.2)	(0.45)	56.7	(0.57)	(1.84)	(68.8)
Fleet	279	279	-	281	(0.7)	285	275	3.6

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	2,59,309	5,15,997	5,76,938	6,17,425
YoY gr. (%)	77.1	99.0	11.8	7.0
Aircraft Fuel Expenses	96,952	2,42,663	2,18,041	2,21,061
Employee Cost	31,517	45,709	53,718	61,265
Other Expenses	1,21,256	1,77,540	1,74,397	1,86,635
EBITDAR	8,420	47,424	1,28,515	1,46,173
YoY gr. (%)	230.2	463.3	171.0	13.7
Margin (%)	3.2	9.2	22.3	23.7
Aircraft Lease Rentals	3,117	2,580	4,616	4,939
Depreciation and Amortization	50,678	48,071	48,345	50,964
EBIT	(45,376)	(3,226)	75,555	90,269
Margin (%)	(17.5)	(0.6)	13.1	14.6
Net Interest	23,580	26,733	28,423	29,990
Other Income	7,245	10,362	7,759	8,923
Profit Before Tax	(61,710)	(19,597)	54,891	69,202
Margin (%)	(23.8)	(3.8)	9.5	11.2
Total Tax	-	-	8,234	10,380
Effective tax rate (%)	-	-	15.0	15.0
Profit after tax	(61,710)	(19,597)	46,657	58,822
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	(61,710)	(19,597)	46,657	58,822
YoY gr. (%)	5.9	(68.2)	(338.1)	26.1
Margin (%)	(23.8)	(3.8)	8.1	9.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	(61,710)	(19,597)	46,657	58,822
YoY gr. (%)	5.9	(68.2)	(338.1)	26.1
Margin (%)	(23.8)	(3.8)	8.1	9.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	(61,710)	(19,597)	46,657	58,822
Equity Shares O/s (m)	385	385	385	385
EPS (Rs)	(160.2)	(50.9)	121.1	152.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	3,52,166	3,66,252	4,02,878	4,43,165
Tangibles	3,52,166	3,66,252	4,02,878	4,43,165
Intangibles	-	-	-	-
Acc: Dep / Amortization	1,39,559	1,87,630	2,35,975	2,86,939
Tangibles	1,39,559	1,87,630	2,35,975	2,86,939
Intangibles	-	-	-	-
Net fixed assets	2,12,821	1,78,858	1,67,162	1,56,511
Tangibles	2,12,607	1,78,623	1,66,903	1,56,226
Intangibles	214	235	259	285
Capital Work In Progress	1,253	1,253	1,253	1,253
Goodwill	-	-	-	-
Non-Current Investments	1	1	1	1
Net Deferred tax assets	2,949	3,097	3,252	3,414
Other Non-Current Assets	19,213	20,366	21,588	22,883
Current Assets				
Investments	80,325	96,390	1,10,848	1,27,476
Inventories	4,081	4,241	4,742	5,075
Trade receivables	3,329	4,241	4,742	5,075
Cash & Bank Balance	1,01,165	41,168	1,10,444	1,82,230
Other Current Assets	12,571	35,342	31,613	33,832
Total Assets	4,58,601	4,07,940	4,80,925	5,65,558
Equity				
Equity Share Capital	3,853	3,853	3,853	3,853
Other Equity	(64,205)	(83,803)	(37,146)	21,676
Total Networkth	(60,353)	(79,950)	(33,293)	25,529
Non-Current Liabilities				
Long Term borrowings	4,162	4,162	4,162	4,162
Provisions	5,662	5,945	6,243	6,555
Other non current liabilities	33,436	33,436	33,436	33,436
Current Liabilities				
ST Debt / Current of LT Debt	34,806	34,806	31,806	28,806
Trade payables	31,519	24,033	26,871	28,757
Other current liabilities	79,558	97,355	1,08,117	1,15,425
Total Equity & Liabilities	4,58,601	4,07,940	4,80,925	5,65,558

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	(61,710)	(19,597)	54,891	69,202
Add. Depreciation	50,678	48,071	48,345	50,964
Add. Interest	23,580	26,733	28,423	29,990
Less Financial Other Income	7,245	10,362	7,759	8,923
Add. Other	(7,245)	(10,362)	(7,759)	(8,923)
Op. profit before WC changes	5,303	44,845	1,23,900	1,41,233
Net Changes-WC	13,948	(13,546)	16,316	6,297
Direct tax	-	(147)	(8,388)	(10,543)
Net cash from Op. activities	19,251	31,151	1,31,827	1,36,988
Capital expenditures	(75,880)	(14,108)	(36,649)	(40,314)
Interest / Dividend Income	-	-	-	-
Others	5,698	7,416	4,549	5,425
Net Cash from Inv. activities	(70,182)	(6,692)	(32,100)	(34,889)
Issue of share cap. / premium	648	-	-	-
Debt changes	70,182	(41,657)	12,430	16,305
Dividend paid	-	-	-	-
Interest paid	(23,580)	(26,733)	(28,423)	(29,990)
Others	-	-	-	-
Net cash from Fin. activities	47,250	(68,390)	(15,993)	(13,686)
Net change in cash	(3,681)	(43,932)	83,734	88,413
Free Cash Flow	(56,629)	17,043	95,178	96,674

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Net Revenue	92,948	80,207	1,28,553	1,24,976
YoY gr. (%)	89.3	28.9	327.5	122.8
Raw Material Expenses	371	536	715	625
Gross Profit	92,576	79,672	1,27,838	1,24,351
Margin (%)	99.6	99.3	99.4	99.5
EBITDA	19,053	1,030	6,639	757
YoY gr. (%)	111.0	(83.3)	(146.8)	(69.9)
Margin (%)	20.5	1.3	5.2	0.6
Depreciation / Depletion	12,336	12,693	11,698	12,376
EBIT	5,444	(12,336)	(5,712)	(12,104)
Margin (%)	5.9	(15.4)	(4.4)	(9.7)
Net Interest	6,011	6,326	6,566	7,276
Other Income	1,851	1,864	1,635	3,547
Profit before Tax	1,285	(16,798)	(10,642)	(15,833)
Margin (%)	1.4	(20.9)	(8.3)	(12.7)
Total Tax	-	-	-	-
Effective tax rate (%)	-	-	-	-
Profit after Tax	1,285	(16,798)	(10,642)	(15,833)
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,285	(16,798)	(10,642)	(15,833)
YoY gr. (%)	(120.5)	44.9	(66.5)	9.9
Margin (%)	1.4	(20.9)	(8.3)	(12.7)
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,285	(16,798)	(10,642)	(15,833)
YoY gr. (%)	(120.5)	44.9	(66.5)	9.9
Margin (%)	1.4	(20.9)	(8.3)	(12.7)
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,285	(16,798)	(10,642)	(15,833)
Avg. Shares O/s (m)	385	385	385	385
EPS (Rs)	3.3	(43.7)	(27.7)	(41.1)

Source: Company Data, PL Research

Key Financial Metrics

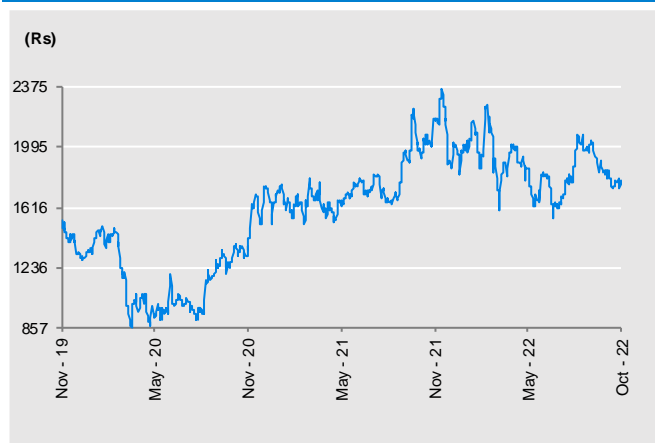
Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	(160.2)	(50.9)	121.1	152.7
CEPS	(28.6)	73.9	246.6	285.0
BVPS	(156.7)	(207.5)	(86.4)	66.3
FCF	(147.0)	44.2	247.1	250.9
DPS	-	-	-	-
Return Ratio(%)				
RoCE	(2,072.1)	10.3	(394.5)	295.1
ROIC	(16.4)	(1.2)	29.1	35.3
RoE	206.9	27.9	(82.4)	(1,515.2)
Balance Sheet				
Net Debt : Equity (x)	2.4	1.2	5.6	(10.8)
Net Working Capital (Days)	(34)	(11)	(11)	(11)
Valuation(x)				
PER	(11.2)	(35.3)	14.8	11.8
P/B	(11.5)	(8.7)	(20.8)	27.1
P/CEPS	(62.8)	24.3	7.3	6.3
EV/EBITDAR (Adj)	117.6	23.2	8.1	6.8
EV/Sales	2.1	1.2	0.9	0.7
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
EBITDAR (Rs mn)	8,420	47,424	1,28,515	1,46,173
EBITDAR %	3.2	9.2	22.3	23.7
ASK (bn)	70	113	126	135
RPK (bn)	52	89	101	108
PLF %	74	79	80	80
RASK (Rs)	3.7	4.6	4.6	4.6
CASK (Rs)	4.6	4.8	4.2	
RASK-CASK (Rs)	(1.0)	(0.2)	0.4	4.6
Fleet Size	275.0	285.0	300.0	310.0

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Oct-22	Hold	1,985	1,851
2	04-Aug-22	Hold	1,900	1,977
3	11-Jul-22	Hold	1,800	1,678
4	26-May-22	Hold	1,800	1,646
5	04-Feb-22	Hold	2,050	1,974
6	10-Jan-22	Hold	1,950	2,005
7	16-Dec-21	Hold	1,950	1,966

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	200	156
2	Bajaj Auto	Hold	3,865	3,571
3	Bharat Forge	BUY	875	707
4	CEAT	Accumulate	1,700	1,561
5	Eicher Motors	BUY	4,225	3,548
6	Endurance Technologies	BUY	1,590	1,412
7	Exide Industries	UR	-	157
8	Hero Motocorp	BUY	3,175	2,598
9	InterGlobe Aviation	Hold	1,985	1,851
10	Mahindra & Mahindra	BUY	1,500	1,262
11	Maruti Suzuki	BUY	10,230	9,493
12	Tata Motors	BUY	570	408
13	TVS Motors	BUY	1,085	1,036

PL's Recommendation Nomenclature (Absolute Performance)

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



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