

# InterGlobe Aviation

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## Right ingredients in place for profitable growth

India's air passenger traffic growth continues to be resilient with Q4FY23 showing strong numbers despite being a seasonally lean quarter. Domestic pax in FY23 would be ~136mn, slightly above our earlier estimate of 135mn; while going by Mar-23 run-rate, FY24 could easily hit our 165mn estimate with a high chance of bettering it. Against our 15% medium-term pax CAGR, net fleet addition (despite Air India's mega order) should be 10-11%, thereby keeping theoretical supply lower than demand, which would support PLFs and yields. Fuel costs have come down further with crude as well as jet kero prices correcting, while improving diesel margins of Indian OMCs could lower ATF marketing margins as well. The recent commentary by airlines, industry bodies, and MoCA officials implies a strong outlook for the Indian aviation sector, as is evident from new order announcements, regulatory approvals w.r.t. wet-leasing, and airport infra development. Indigo, with its dominant position, low-cost leadership, and running order book of 487 aircraft, is best-positioned to capture the sectoral drivers. The summer schedule with ~20% lower flights YoY for other airlines as a whole vs. 3% growth for Indigo implies the latter is well placed in terms of near-term capacity availability, despite 34 AOGs (102 for the industry). We reiterate Buy with a TP of Rs2,600.

**Indian passenger traffic growth relentless:** Domestic pax recovery continued in Q4FY23 despite it being a seasonally lean quarter with Jan/Feb/Mar recording 0.41/0.43/0.44mn daily pax. Hence, the quarter would see a 9% QoQ increase (up 54% YoY) in pax. This also implies Q1FY24 to be even more robust, led by the holiday season. Going by historical March versus succeeding fiscal year run-rate, FY24 could at-least be ~161mn (near our 165mn estimate) and can reach up to ~177mn pax. International pax growth should be even better. Based on our GDP multiplier approach, we estimate total five-year pax CAGR of 15%+, i.e., by FY28.

**Capacity to be under control, supporting PLFs and yields:** We note that Air India's 470 aircraft order coupled with 40-50 additional near-term leased planes implies ~50 gross additions annually, based on a 10-year delivery period. However, the sizeable mega order of narrow-body deliveries could take a couple of years at least, while the existing fleet of Air India, AI Express, and Air Asia (166 total) is 10+ years old, which requires replacement. Hence, net additions are likely to be lower (we expect 30 net addition p.a. in the near term and 40-50 afterwards). Indigo, in turn, should see 30-40 p.a. – although depending on demand, it could delay re-deliveries. Assuming other airlines are also adding up, we estimate India's total fleet to grow from ~680 currently to ~1,150 by FY28, registering an 11% CAGR. This should support PLFs and yields, amid a better demand CAGR.

**Fuel cost pressures continue to ease:** Based on the recent cool-down in Brent and jet kero refining margins, we estimate ATF prices to fall further by 5% in Apr-23 (could be higher if OMCs reduce their ATF margins, given healthy diesel income now). While the recent quick fall could be attributed to global markets, ATF prices spiked last year due to the Russia-Ukraine war and we expect its impact to subside. For Indigo, a 5% lower ATF price leads to Rs22/share EPS gain, *ceteris paribus*.

### Financial Snapshot (Standalone)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	1,42,099	2,56,540	5,34,770	5,88,112	6,36,217
EBITDA	(5,485)	14,711	96,698	1,27,385	1,59,055
EBITDA Margin (%)	(3.7)	5.7	17.8	21.4	24.7
APAT	(58,298)	(61,710)	(1,724)	31,595	48,780
EPS (Rs)	(151.5)	(160.2)	(4.5)	82.0	126.6
EPS (% chg)	0.0	0.0	0.0	0.0	54.4
ROE (%)	(196.5)	206.9	2.8	(68.3)	(800.8)
P/E (x)	(12.4)	(11.7)	(418.8)	22.9	14.8
EV/EBITDA (x)	(165.5)	67.3	10.1	7.4	5.8
P/BV (x)	1,017.6	(12.0)	(11.6)	(23.7)	39.5

Source: Company, Emkay Research

CMP	Target Price
Rs 1,875 as of (March 21, 2023)	Rs 2,600 (■) 12 months
Rating	Upside
BUY (■)	38.7 %

### Change in Estimates

EPS Chg. FY23E/FY24E (%)	-/-
Target Price change (%)	-
Target Period (Months)	12
Previous Reco	BUY

### Emkay vs. Consensus

EPS Estimates		
	FY23E	FY24E
Emkay	(4.5)	82.0
Consensus	(7.9)	100.1
Mean Consensus TP (12M)	Rs 2,443	

### Stock Details

Bloomberg Code	INDIGO IN
Face Value (Rs)	10
Shares outstanding (mn)	386
52-Week H/L	2,194 / 1,512
M Cap (Rs bn/USD bn)	723 / 8.74
Daily Avg. Volume (nos.)	10,52,777
Daily Avg. Turnover (US\$ mn)	25.0

### Shareholding Pattern Dec-22

Promoters	71.9%
FIIs	17.8%
DIIIs	8.3%
Public and Others	2.0%

### Price Performance

(%)	1M	3M	6M	12M
Absolute	1	(7)	-	3
Rel. to Nifty	5	(1)	3	3

### Relative price chart



Source: Bloomberg

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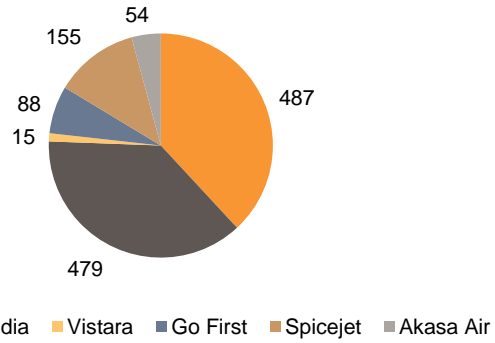
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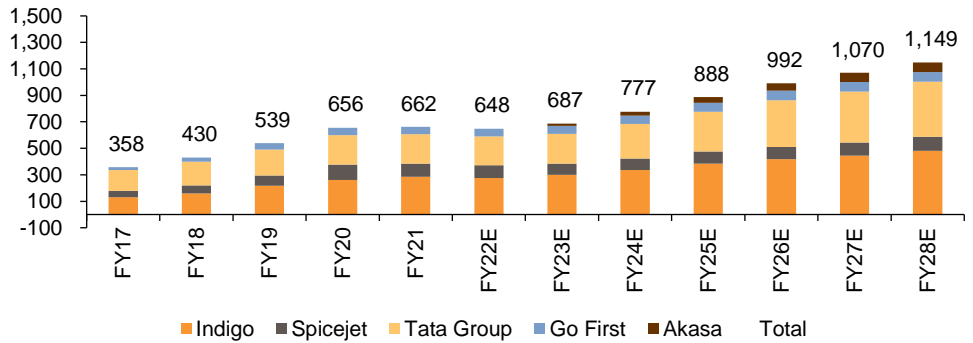
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**Exhibit 1: Current outstanding order book of Indian airlines is 1,278 aircrafts**



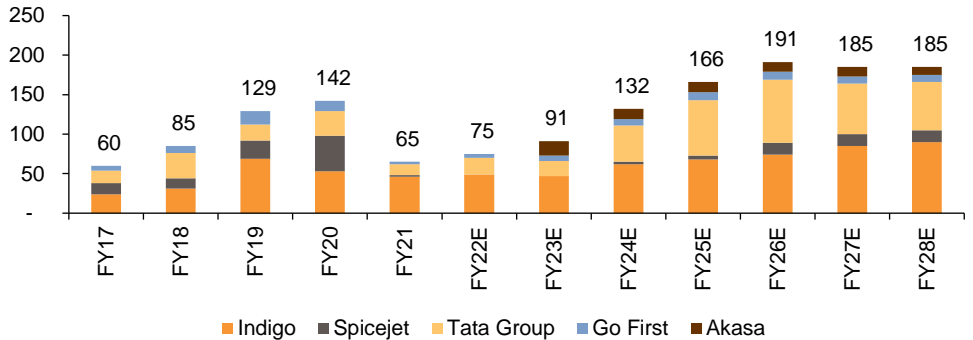
Source: Media Reports, Industry, Emkay Research; 9/15 aircraft of Air India/Vistara are old pending orders.

**Exhibit 2: Indian commercial aircraft fleet size estimated to touch the 1,150 mark by FY28E**



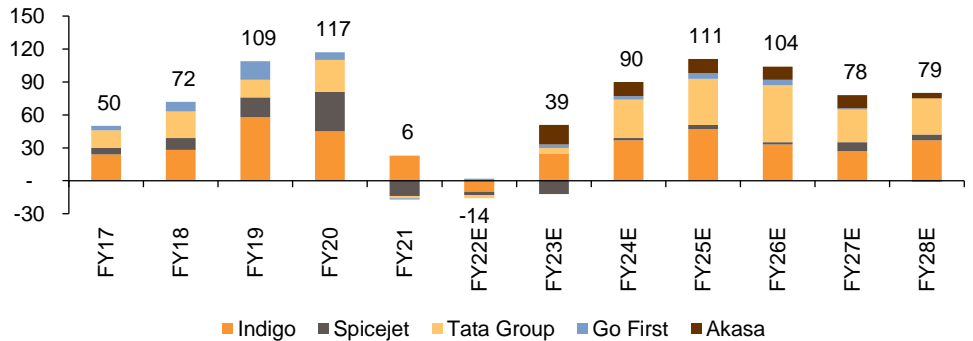
Source: Industry, DGCA, Company, Emkay Research

**Exhibit 3: Indigo and Tata Group are likely to add 50-90 (gross) aircraft p.a. each in the next 5 years**



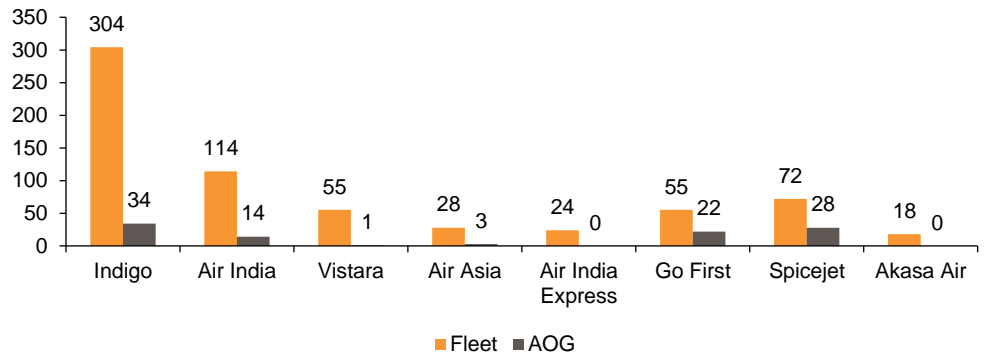
Source: Industry, DGCA, Company, Emkay Research

**Exhibit 4: Net aircraft additions estimated at 30-50 p.a. each for Indigo and Tata Group**



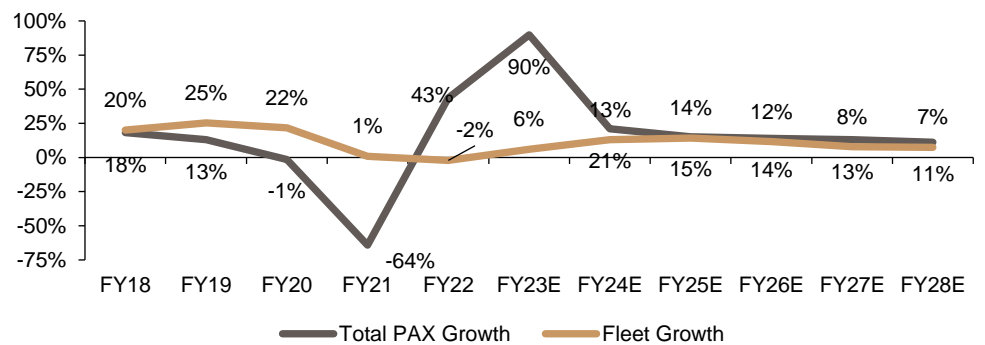
Source: Industry, DGCA, Company, Emkay Research

**Exhibit 5: Industry-wide AOG is 102 against a fleet of ~680 aircraft**



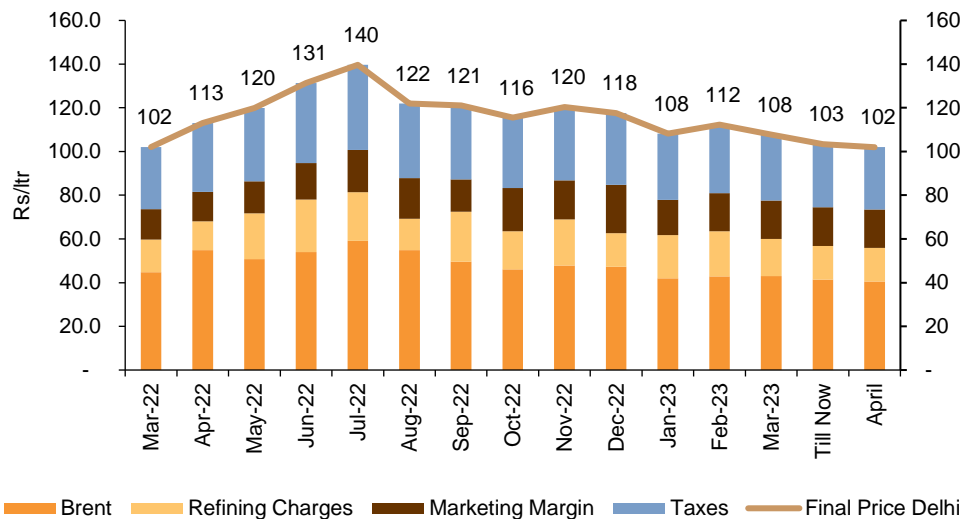
Source: Media Reports, Company, Emkay Research

**Exhibit 6: Industry pax CAGR for the next 5 years should exceed capacity (fleet) CAGR**



Source: DGCA, Industry, Emkay Research

**Exhibit 7: Going by current prices, Delhi ATF prices should fall by 5% in April-23**

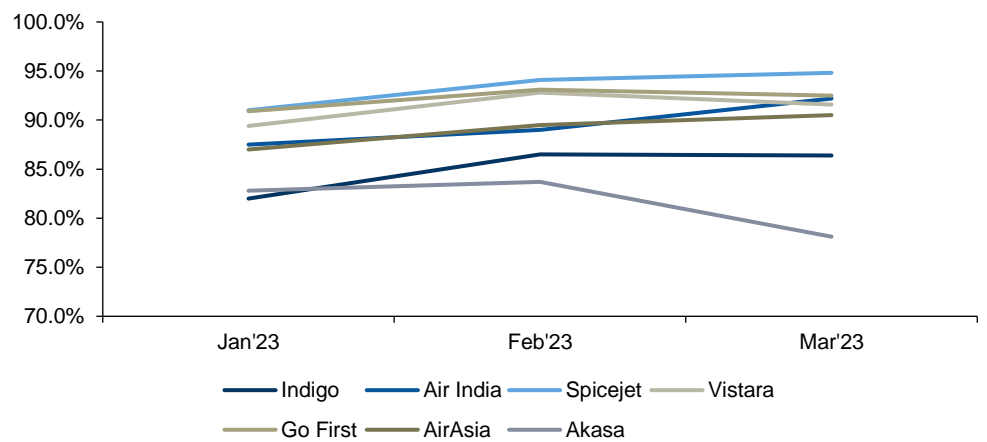


Source: IOCL, Industry, Bloomberg, Emkay Research

**Exhibit 8: Domestic Summer Schedule (SS) implies Indigo is better off fleet-wise in the near term**

Flights/week	SS 2023	SS 2022	YoY	WS 2022	Sequential
<b>Indigo</b>	<b>11,465</b>	<b>11,130</b>	<b>3%</b>	<b>10,085</b>	<b>14%</b>
Tata Group	5,490	5,798	-5%	5,393	2%
Air India	2,178	2,456	-11%	1,990	9%
Vistara	1,856	1,741	7%	1,941	-4%
Air Asia	1,456	1,601	-9%	1,462	0%
SpiceJet	2,240	4,192	-47%	3,193	-30%
Go First	1,538	2,557	-40%	1,390	11%
Alliance Air	887	982	-10%	1,034	-14%
Akasa Air	751	0	NM	479	57%
Others	536	650	-18%	367	46%
<b>Total</b>	<b>22,907</b>	<b>25,309</b>	<b>-9%</b>	<b>21,941</b>	<b>4%</b>

Source: DGCA, Emkay Research; WS is winter schedule 2022, which was from Oct-22 end to Mar-23 end

**Exhibit 9: Domestic PLFs are stable**

Source: Ministry of Civil Aviation, Emkay Research

**Key Financials (Standalone)****Income Statement**

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
<b>Net Sales</b>	<b>1,42,099</b>	<b>2,56,540</b>	<b>5,34,770</b>	<b>5,88,112</b>	<b>6,36,217</b>
<b>Expenditure</b>	<b>1,51,891</b>	<b>2,44,598</b>	<b>4,45,075</b>	<b>4,68,382</b>	<b>4,85,404</b>
<b>EBITDA</b>	<b>(5,485)</b>	<b>14,711</b>	<b>96,698</b>	<b>1,27,385</b>	<b>1,59,055</b>
Depreciation	46,987	50,678	51,347	65,598	76,642
<b>EBIT</b>	<b>(52,472)</b>	<b>(35,967)</b>	<b>45,351</b>	<b>61,787</b>	<b>82,413</b>
Other Income	10,363	7,245	14,548	17,524	19,279
Interest expenses	21,420	23,580	31,823	39,817	40,716
<b>PBT</b>	<b>(63,528)</b>	<b>(52,302)</b>	<b>28,076</b>	<b>39,494</b>	<b>60,976</b>
Tax	0	0	0	7,899	12,195
Extraordinary Items	5,230	(9,408)	(29,800)	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
<b>Reported Net Income</b>	<b>(58,298)</b>	<b>(61,710)</b>	<b>(1,724)</b>	<b>31,595</b>	<b>48,780</b>
<b>Adjusted PAT</b>	<b>(58,298)</b>	<b>(61,710)</b>	<b>(1,724)</b>	<b>31,595</b>	<b>48,780</b>

**Balance Sheet**

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity share capital	3,849	3,853	3,853	3,853	3,853
Reserves & surplus	(3,140)	(64,205)	(65,930)	(34,334)	14,446
<b>Net worth</b>	<b>709</b>	<b>(60,353)</b>	<b>(62,077)</b>	<b>(30,482)</b>	<b>18,299</b>
<b>Minority Interest</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Loan Funds</b>	<b>2,98,597</b>	<b>3,68,778</b>	<b>4,17,276</b>	<b>4,20,749</b>	<b>4,34,800</b>
Net deferred tax liability	(2,949)	(2,949)	(2,949)	(2,949)	(2,949)
<b>Total Liabilities</b>	<b>2,96,356</b>	<b>3,05,476</b>	<b>3,52,250</b>	<b>3,87,318</b>	<b>4,50,149</b>
<b>Net block</b>	<b>1,88,155</b>	<b>2,12,821</b>	<b>2,37,061</b>	<b>2,63,117</b>	<b>2,90,121</b>
<b>Investment</b>	<b>72,902</b>	<b>80,326</b>	<b>84,342</b>	<b>86,873</b>	<b>89,479</b>
<b>Current Assets</b>	<b>1,65,019</b>	<b>1,61,252</b>	<b>2,49,216</b>	<b>2,90,940</b>	<b>3,44,828</b>
Cash & bank balance	1,12,271	1,01,165	1,63,354	1,96,506	2,41,789
Other Current Assets	30,302	31,784	47,399	52,130	56,815
<b>Current liabilities &amp; Provision</b>	<b>1,30,437</b>	<b>1,50,176</b>	<b>2,19,636</b>	<b>2,54,891</b>	<b>2,75,570</b>
<b>Net current assets</b>	<b>34,582</b>	<b>11,076</b>	<b>29,580</b>	<b>36,049</b>	<b>69,258</b>
Misc. exp	0	0	0	0	0
<b>Total Assets</b>	<b>2,96,356</b>	<b>3,05,476</b>	<b>3,52,250</b>	<b>3,87,318</b>	<b>4,50,149</b>

**Cash Flow**

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
<b>PBT (Ex-Other income) (NI+Dep)</b>	<b>(73,892)</b>	<b>(59,547)</b>	<b>13,528</b>	<b>21,970</b>	<b>41,697</b>
Other Non-Cash items	926	405	(6,246)	(17,606)	(18,374)
Chg in working cap	(11,975)	12,401	43,684	26,683	12,074
<b>Operating Cashflow</b>	<b>(16,204)</b>	<b>20,641</b>	<b>1,34,137</b>	<b>1,28,563</b>	<b>1,40,560</b>
Capital expenditure	(66,675)	(75,880)	(75,600)	(91,667)	0
<b>Free Cash Flow</b>	<b>(82,879)</b>	<b>(55,239)</b>	<b>58,537</b>	<b>36,896</b>	<b>36,902</b>
Investments	22,150	(7,424)	(4,016)	(2,530)	(2,606)
Other Investing Cash Flow	66,618	91,318	59,052	72,143	82,380
<b>Investing Cashflow</b>	<b>32,457</b>	<b>15,259</b>	<b>(6,016)</b>	<b>(4,530)</b>	<b>(4,606)</b>
Equity Capital Raised	1	3	0	0	0
Loans Taken / (Repaid)	71,405	70,182	48,498	3,473	14,051
Dividend paid (incl tax)	0	0	0	0	0
Other Financing Cash Flow	(62,263)	(93,611)	(82,606)	(54,537)	(64,006)
<b>Financing Cashflow</b>	<b>(12,276)</b>	<b>(47,006)</b>	<b>(65,932)</b>	<b>(90,881)</b>	<b>(90,671)</b>
<b>Net chg in cash</b>	<b>3,977</b>	<b>(11,105)</b>	<b>62,189</b>	<b>33,152</b>	<b>45,283</b>
Opening cash position	1,08,294	1,12,271	1,01,165	1,63,354	1,96,506
<b>Closing cash position</b>	<b>1,12,271</b>	<b>1,01,165</b>	<b>1,63,354</b>	<b>1,96,506</b>	<b>2,41,789</b>

Source: Company, Emkay Research

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**Key Ratios**

<b>Profitability (%)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
EBITDA Margin	(3.7)	5.7	17.8	21.4	24.7
EBIT Margin	(35.8)	(13.9)	8.4	10.4	12.8
Effective Tax Rate	0.0	0.0	0.0	20.0	20.0
Net Margin	(43.4)	(20.2)	5.2	5.3	7.6
ROCE	(14.5)	(9.5)	18.2	21.4	24.3
ROE	(196.5)	206.9	2.8	(68.3)	(800.8)
RoIC	(55.6)	(30.8)	40.1	48.0	59.9

<b>Per Share Data (Rs)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
EPS	(151.5)	(160.2)	(4.5)	82.0	126.6
CEPS	(29.4)	(28.6)	128.8	252.3	325.6
BVPS	1.8	(156.7)	(161.1)	(79.1)	47.5
DPS	0.0	0.0	0.0	0.0	0.0

<b>Valuations (x)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
PER	(12.4)	(11.7)	(418.8)	22.9	14.8
P/CEPS	(63.8)	(65.5)	14.6	7.4	5.8
P/BV	1,017.6	(12.0)	(11.6)	(23.7)	39.5
EV / Sales	6.4	3.9	1.8	1.6	1.4
EV / EBITDA	(165.5)	67.3	10.1	7.4	5.8
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

<b>Gearing Ratio (x)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
Net Debt/ Equity	262.8	(4.4)	(4.1)	(7.4)	10.5
Net Debt/EBIDTA	(34.0)	18.2	2.6	1.8	1.2
Working Cap Cycle (days)	(193.7)	(126.8)	(90.1)	(98.3)	(97.7)

<b>Growth (%)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
Revenue	(59.8)	80.5	108.5	10.0	8.2
EBITDA	(109.8)	0.0	557.3	31.7	24.9
EBIT	(425.8)	0.0	0.0	36.2	33.4
PAT	0.0	0.0	0.0	0.0	54.4

<b>Quarterly (Rs mn)</b>	<b>Q2FY22</b>	<b>Q4FY22</b>	<b>Q1FY23</b>	<b>Q2FY23</b>	<b>Q3FY23</b>
Revenue	92,948	80,207	1,28,553	1,24,976	1,49,330
EBITDA	17,734	6,480	20,220	12,269	37,001
<b>EBITDA Margin (%)</b>	<b>19.1</b>	<b>8.1</b>	<b>15.7</b>	<b>9.8</b>	<b>24.8</b>
PAT	1,284	(16,798)	(10,654)	(15,855)	14,182
<b>EPS (Rs)</b>	<b>3.3</b>	<b>(43.6)</b>	<b>(27.7)</b>	<b>(41.2)</b>	<b>36.8</b>

Source: Company, Emkay Research

<b>Shareholding Pattern (%)</b>	<b>Dec-21</b>	<b>Mar-22</b>	<b>Jun-22</b>	<b>Sep-22</b>	<b>Dec-22</b>
Promoters	74.8	74.8	74.8	71.9	71.9
FIs	18.6	17.7	16.7	18.1	17.8
DIs	4.7	5.5	6.4	7.8	8.3
Public and Others	1.9	2.1	2.1	2.2	2.0

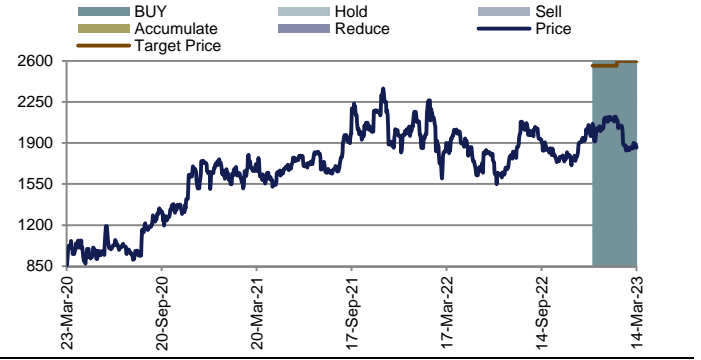
Source: Capitaline

**RECOMMENDATION HISTORY TABLE**

Date	Closing Price	TP	Period (months)	Rating	Analyst
05-Feb-23	2,098	2,600	12m	Buy	Sabri Hazarika
20-Dec-22	2,064	2,560	12m	Buy	Sabri Hazarika

Source: Company, Emkay Research

**RECOMMENDATION HISTORY CHART**



Source: Bloomberg, Company, Emkay Research

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