

InterGlobe Aviation

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Mgmt exudes confidence on growth; Indigo well-placed on capacity

Indigo hosted its first-ever Analyst Day in Gurugram, wherein its top management laid out the broad FY24 guidance – of 16-17% ASK growth YoY, 100mn total pax and fleet expansion to 350 aircraft. Management highlighted the potential of the rapidly-growing aviation market and India's need for 1,100 planes by CY27 vs ~700 currently. Indigo remains well placed in the space, with its ongoing order book of ~500 aircraft, and aims to double in terms of both, size and scale, by CY30. Despite supply-side issues likely continuing in CY23, capacity should be supported by steady gross adds, lease extensions, wet-leasing and future engines being CFM. International would be a key growth area for Indigo, with aim of ASK share touching 30% in 2 years vs 23% now. Also, fuel costs have started coming off. While Q4 is seasonally weaker, decline in airfares from the Q3 highs have boosted demand. Yields would fall more than the seasonal trend, albeit remaining strong vs pre-pandemic. While capacity and pax guidance is in line with our assumptions, guidance of net-fleet addition of 46 in FY24 is better than our 30-35 p.a. assumption and points to Indigo's robust position, even amid delivery & engine concerns. We reiterate BUY, with TP of Rs2,600/share.

Key Takeaways from the Analyst Meet:

- FY24 ASK (capacity) growth target is north of mid-teens YoY (as against 18% growth in FY23 vs FY20), while fleet would expand from 306 (as of FY23-end) to 350 (by FY24-end). Pax would touch 100mn next fiscal vs 85mn in FY23 (~15% above FY20's). No. of destinations should increase, from 104 to 115, while employee base would grow by 5,000 (32,000 now).
- Indigo targets a twofold increase in size and scale by CY30. Growth level is on a high base and the last 16-year achievement could now be attained in half the time (i.e. within only 7-8 years). India remains a high-potential market, as it has ~700 commercial passenger aircraft vs 4,000 in China currently. India's requirement is of 1,100 passenger planes by CY27.
- Indigo's international MS has improved to 16% in 9MFY23, with ASK share of 23% (19.2bn) of Indigo's total ASK. It aims to increase its Intl ASK share to 30% in 2 years. International is a natural extension for Indigo, as many destinations are similar to domestic, wrt flight duration. Indigo awaits Airbus' confirmation wrt XLR deliveries which should happen by CY25.
- While supply-side disruptions continue, things are more stable vs 6mths ago; issues would persist in CY23. Indigo's Block Hours ex AOG stand at 12.5 (10.7, incl. AOG), while FY24 should clock >13hrs (ex-AOG/on property flights), buoyed by Intl. Indigo has exhausted its P&W order; all new aircraft now have CFM engines, per a deal made a few years ago.
- A Covid-scare at end Dec-22 subsided by Jan-23, leading to robust pax in Feb-Mar '23. Seasonally-lower ticket prices/yields have also supported demand in Q4. Yield drop is slightly more enhanced this time around, as Q3 yield was quite high; yield would remain strong vs pre-pandemic. Lower costs may lead to yield adjustment; Q1FY24 should be strong, though.

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)	(12.6)	(11.9)	(425.9)	23.2	15.1
EV/EBITDA (x)	(167.7)	68.1	10.2	7.5	5.8
P/BV (x)	1,034.6	(12.2)	(11.8)	(24.1)	40.1

Source: Company, Emkay Research | aurav.narkar@emkayglobal.com use and downloaded at 03/27/2023 12:07 PM

CMP	Target Price
Rs 1,906 as of (March 24, 2023)	Rs 2,600 (■) 12 months
Rating	Upside
BUY (■)	36.4 %

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	(7.1)	92.2
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)	735 / 8.93
Daily Avg Volume (nos.)	10,15,415
Daily Avg Turnover (USD mn)	24.1

Shareholding Pattern Dec '22

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

Price Performance

(%)	1M	3M	6M	12M
Absolute	2	-	3	4
Rel. to Nifty	5	4	5	5

Relative price trend



Source: Bloomberg

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Other Takeaways

- Indigo's ~500 aircraft order-book places it much ahead of peers, in terms of delivery schedule. New players are seeking more planes. Indigo is extending some leases, to 8 years from 6, while going for wet-lease, etc. Global interest rates have gone up, but airline leases are more reflective of 5-10-year yields, which are relatively more stable.
- Indigo currently has 78 domestic destinations (Dharamshala to launch on 26-Mar-2023 as the 78th) and 26 international destinations, with 410 and 75 city pairs, respectively. It has 7 strategic partners. Turkish codeshare is two way, while Qantas would improve brand awareness. Indigo targets improving international brand equity.
- Indigo's fleet will mostly comprise of NEOs (79% NEOs with 23 CEOs, as at end-Q3FY23), with some ATRs and XLRs. Company has further scaled up – pre-Covid, Indigo undertook 1,600 daily flights, which have now increased to 1,800. Indigo saw post-Covid demand boost from Sep-Oct 2022.
- Indigo has 2 freighters as of now, with a third expected by Q3FY24. These have payload of 27-ton each. The loyalty program is an important area and its Kai Ching card users have grown by 4.5x, from FY21 to FY23. Indigo plans to tap its total ~80mn customer-base with the loyalty program.
- Fuel costs are coming down now, and FY24 should see more moderation. The MOPAG formula for ATF has made pricing more transparent and rationalized the structure, with no excessive volatility.
- Company expects the competitive scenario to be healthy, as this drives airlines to improve services. If steady yields are met with healthy PLFs, there is a fairly low chance of any other player pulling them down (through lower ticket prices etc). Indigo intends to increase PLFs to maximize its profits.
- Management did not comment on market share (MS) guidance; even before Covid, Indigo's market share grew to 47-48% in India. International market share would grow on a low base. In India, domestic air-seat per capita is 0.13 vs 0.49 for China and 0.06 for International. The air traffic multiplier is generally 2x GDP, which is strong in India.
- Pieter Elbers accepted the CEO role at Indigo, as the company has a strong track record and ambitious plans. The Indian market has a big youth dividend and zeal to travel and connect. Indigo has always had a defined path, which it has effectively executed. Company remains among the top LCC players globally, in terms of affordability, OTP and courteous & hassle-free services, especially considering its large size.
- Indigo is not facing any pilot shortage as of now, as the order book is ongoing and everything is planned. It has a well-established pilot program, with steady flow of talent. It is also prepared for challenges. While employee cost would normally grow, it should be in-line at the unit level. Employee morale is strong and the company does not see rivals luring away its human resources. A plane generally requires 12 pilots in total and 27-28 crew members.
- The normal annual cost escalation for Indigo wrt OEMs is 3-4%. There is natural inflation in the aviation business. Indigo keeps evaluating currency hedging, but has not seen any benefit from this so far, based on the past trend (6-8-year leases). Company targets having natural hedges, one of its steps being international growth.
- Digitization (app development, CRM tools, crew planning, network optimization, etc.) is a focus area and would lead to lower cost, better customer experience and fast turnaround at airports (which, in a way, improves airport capacity).
- Indigo does have sizeable corporate travelers, though the exact data is awaited, as it includes other categories. Due to strong OTP, corporates prefer Indigo. Further, Indigo is looking at premiumization. It continues to improve services and quality is paramount.
- There are different fare-buckets and booking classes. There are routes with a high ticket price (like Mumbai-Bagdogra), but this cannot be stated as a 'high fare', given the dynamics; also, the company does not indulge in high pricing to avoid flying any route. Q1 is generally strong in terms of both, pricing perception (and resultant yields) and pax demand (holiday season, etc).

- The GoI is supporting the aviation sector by giving a thrust to airport expansions and rationalizing ATF VAT. Airport plans are encouraging (140 currently, to increase to 220 by CY25) and should, more or less, meet the pax traffic demand, though there could be deviations on an annual basis.
- Indigo's gCO2/ASK (emissions) has reduced by 18% from FY16, to 60.6 (lowest in Asia-Pac) in FY23. Fuel usage has seen 15% reduction versus Dec 2017. Indigo is active in CSR, while boasting of having the highest number of woman pilots (>600) in the world. It has an efficient risk-management committee.
- Management did not comment on the ex co-promoter stake sale, on which it has taken feedback though, and would communicate the relevant matter to those concerned.

Valuation

Exhibit 1: DCF-based Valuation (Mar-24E)

DCF assumptions		(Rs mn)	
Risk-Free Rate	7.0%	NPV Of FCF (Mar-25E to Mar-34E)	4,52,860
Risk Premium	5.3%	Terminal Value	14,02,828
Beta	1.09	PV of TV	4,24,433
Cost Of Equity	12.7%	Total Value	8,77,292
Cost Of Debt	8.3%	Less: Net Debt (Y/E)	-1,24,502
Post-Tax Cost Of Debt	6.2%	Equity Value	10,01,795
Average Debt:Equity Ratio	0.0%	No. of Shares O/S (mn)	385
WACC	12.7%	Target Price (Rs/sh)	2,600
Terminal Growth Rate	4.0%		

Source: Company, Emkay Research

Exhibit 2: PER-based valuation

	FY20	FY21	FY22	FY23E	FY24E	FY25E
EPS (Rs)	(6.4)	(151.3)	(160.2)	(4.5)	82.0	126.6
Target P/E (x)						20.5
Target EV/EBITDA (x)						7.2
DCF-based Target Price (Rs/sh)						2,600

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

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

Balance Sheet

Y/E Mar (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
Net worth	709	(60,353)	(62,077)	(30,482)	18,299
Minority Interest	0	0	0	0	0
Loan Funds	2,98,597	3,68,778	4,17,276	4,20,749	4,34,800
Net deferred tax liability	(2,949)	(2,949)	(2,949)	(2,949)	(2,949)
Total Liabilities	2,96,356	3,05,476	3,52,250	3,87,318	4,50,149
Net block	1,88,155	2,12,821	2,37,061	2,63,117	2,90,121
Investment	72,902	80,326	84,342	86,873	89,479
Current Assets	1,65,019	1,61,252	2,49,216	2,90,940	3,44,828
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
Current liabilities & Provision	1,30,437	1,50,176	2,19,636	2,54,891	2,75,570
Net current assets	34,582	11,076	29,580	36,049	69,258
Misc. exp	0	0	0	0	0
Total Assets	2,96,356	3,05,476	3,52,250	3,87,318	4,50,149

Cash Flow

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
PBT (Ex-Other income) (NI+Dep)	(73,892)	(59,547)	13,528	21,970	41,697
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
Operating Cashflow	(16,204)	20,641	1,34,137	1,28,563	1,40,560
Capital expenditure	(66,675)	(75,880)	(75,600)	(91,667)	0
Free Cash Flow	(82,879)	(55,239)	58,537	36,896	36,902
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
Investing Cashflow	32,457	15,259	(6,016)	(4,530)	(4,606)
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)
Financing Cashflow	(12,276)	(47,006)	(65,932)	(90,881)	(90,671)
Net chg in cash	3,977	(11,105)	62,189	33,152	45,283
Opening cash position	1,08,294	1,12,271	1,01,165	1,63,354	1,96,506
Closing cash position	1,12,271	1,01,165	1,63,354	1,96,506	2,41,789

Source: Company, Emkay Research

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Key Ratios

Profitability (%)	FY21	FY22	FY23E	FY24E	FY25E
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

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
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

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	(12.6)	(11.9)	(425.9)	23.2	15.1
P/CEPS	(64.9)	(66.6)	14.8	7.6	5.9
P/BV	1,034.6	(12.2)	(11.8)	(24.1)	40.1
EV / Sales	6.5	3.9	1.8	1.6	1.5
EV / EBITDA	(167.7)	68.1	10.2	7.5	5.8
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Gearing Ratio (x)	FY21	FY22	FY23E	FY24E	FY25E
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)

Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
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

Quarterly (Rs mn)	Q2FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
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
EBITDA Margin (%)	19.1	8.1	15.7	9.8	24.8
PAT	1,284	(16,798)	(10,654)	(15,855)	14,182
EPS (Rs)	3.3	(43.6)	(27.7)	(41.2)	36.8

Source: Company, Emkay Research

Shareholding Pattern (%)	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
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

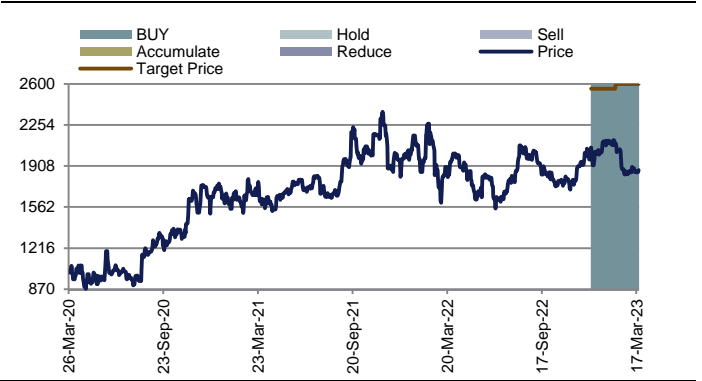
Source: Capitaline

RECOMMENDATION HISTORY - Details

Date	CMP (Rs/sh)	TP (Rs/sh)	Period	Rating	Analyst
21-Mar-23	1,875	2,600	12m	Buy	Sabri Hazarika
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 - Trend



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