

**BUY** InterGlobe Aviation**P&W engine issues aggravate, Indigo still best placed**

Others ▶ Company Update ▶ September 15, 2023

**TARGET PRICE (Rs): 3,000**

The Pratt & Whitney (P&W) engine issues have aggravated, with parent company RTX Corporation expecting over 3,000 engine recalls for inspection (vs. earlier est. of over 1,200 engines). We estimate incremental impact on Indigo, under a worst-case scenario, to be 20-25 more aircraft on ground (AOG) at a time, on an average, for the next 3-4 years, from ~40 as of end of Jun-23. This implies ~20% total AOG on Indigo's current fleet size. As per media reports, Indigo plans to add 20 A320neos on damp lease in view of the upcoming peak travel season. We estimate damp lease margins to be ~10% lower vs. dry lease, although blended impact on net earnings is likely to be moderate at 6-7%. Indigo remains best-placed among peers to tackle the current challenges of engine issues and rising fuel prices. The upcoming travel season, as per our checks, is looking strong and expected yield recovery should offset cost pressures. We retain our BUY rating.

**InterGlobe Aviation: Financial Snapshot (Standalone)**

Y/E March (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	1,46,406	2,59,309	5,44,465	6,34,935	7,05,323
EBITDA	(5,485)	14,711	94,446	1,37,431	1,63,995
Adj. PAT	(58,298)	(61,710)	(3,167)	57,963	78,351
Adj. EPS (Rs)	(151.5)	(160.2)	(8.2)	150.3	203.2
EBITDA margin (%)	(3.7)	5.7	17.3	21.6	23.3
EBITDA growth (%)	NM	NM	542.0	45.5	19.3
Adj. EPS growth (%)	NM	NM	NM	NM	35.2
RoE (%)	NM	NM	NM	NM	229.7
RoIC (%)	NM	NM	32.0	51.9	60.9
P/E (x)	NM	NM	NM	16.4	12.1
EV/EBITDA (x)	NM	82.7	13.6	8.9	7.1
P/B (x)	NM	NM	NM	NM	13.0
FCFF yield (%)	(0.1)	1.9	10.0	12.2	14.4

Source: Company, Emkay Research

**P&W engine issues linger on**

P&W engines were initially impacted by high-pressure turbine hub issues, which resulted in 600 engine recalls by P&W up to CY26, while major recalls are scheduled by early CY24. This problem was further accentuated by powder metal contamination found in certain engine components, which initially necessitated over 1,200 engine recalls, while RTX Corporation's current estimate stands at more than 3,000, spread over CY23-26, taking ~10 months' inspection each. Currently, Indigo has ~136 aircraft using P&W engines, of which 45-50 aircrafts are grounded, as per media reports. We estimate Indigo to have ~65 AOG under the worst-case scenario. However, Indigo's damp leasing plans of ~20 aircraft could provide support in the near term and deliveries from its existing order book with Airbus would also add up. We believe Indigo is better placed among peers through optimal leasing arrangements backed by Rs157bn free cash. The company's dominant position should also aid in compensation.

**Near-term fuel pressures visible**

PSU OMCs have recently hiked domestic ATF price by 14% MoM for Sep-23 due to the increase in crude prices as well as jet fuel spreads. Brent is currently trading higher at ~USD93/bbl, thereby indicating another ~3% MoM hike for Oct-23. We estimate Indigo to report fuel cost/ASK of Rs1.7 in Q2FY24, while our FY24E estimate of Rs1.6 could turn out to be 10-12% higher at ~Rs1.8, assuming current prices prevail in H2FY24, although we believe jet fuel spreads could correct going ahead. For Indigo, a 5% higher ATF price leads to ~Rs28/share EPS loss, ceteris paribus.

**Outlook and Valuation**

Indigo remains well-poised to capture strong air traffic growth in India (12% CAGR over FY24-30), through maximization of destination-route mix as well as capacity additions. Indigo has a strong outstanding order book of over 980 aircraft (incl. the recently placed order for 500 aircraft) with Airbus and a target to double its fleet size by CY30. Further, Indigo is likely to keep benefitting from low competitive intensity. We value Indigo using the DCF method, with a TP of Rs3,000/share (14.8x Mar-25E target P/E (PBT) and ~20x tax-adj. target P/E). Key risks: Adverse currency/fuel prices, recession, stake sale, and operational issues.

Target Price – 12M	Mar-24
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	21.7
CMP (14-Sep-23) (Rs)	2,464.7

Stock Data	Ticker
52-week High (Rs)	2,746
52-week Low (Rs)	1,676
Shares outstanding (mn)	385.8
Market-cap (Rs bn)	951
Market-cap (USD mn)	11,450
Net-debt, FY24E (Rs mn)	2,79,763
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	3,360.6
ADTV-3M (USD mn)	40.5
Free float (%)	28.0
Nifty-50	20,103
INR/USD	83.0
<b>Shareholding, Jun-23</b>	
Promoters (%)	67.8
FPIs/MFs (%)	19.8/10.4

**Price Performance**

(%)	1M	3M	12M
Absolute	(3.3)	4.6	29.4
Rel. to Nifty	(6.5)	(2.4)	15.9

**1-Year share price trend (Rs)****Sabri Hazarika**

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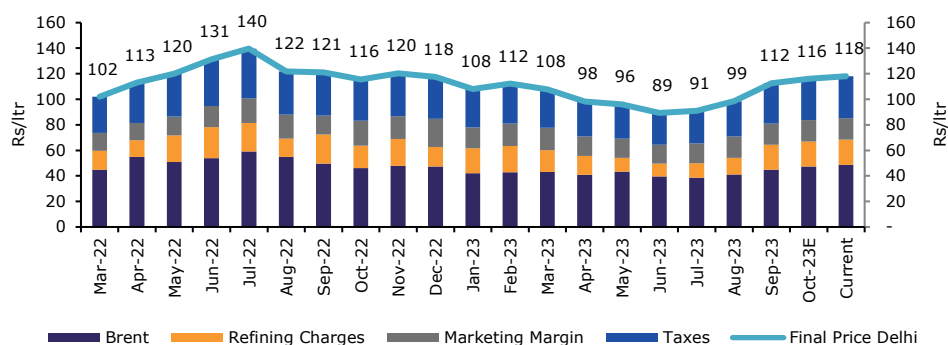
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**Exhibit 1: Indigo's AOG due to P&W engine issue**

Global P&W impacted engines	1,200+	3,000+
Indigo's current total fleet size assumed (316 as of Jun-23)	320	320
Total Indigo's aircraft fitted with P&W engines	136	136
Indigo's total estimated AOG	50	136
Indigo's AOG – Q1FY24-end	40	40
Indigo's balance AOG	10	96
<b>Indigo's estimated AOG under the worst-case scenario</b>	<b>50</b>	<b>65</b>
Incremental AOG from Jun-23 to Mar-24	10	25
Indigo's Balance Potential AOG	0	71

Source: Media Reports, Company, Emkay Research

**Exhibit 2: ATF price trend**

Source: IOCL, Bloomberg, Emkay Research

**Exhibit 3: DCF-based valuation (Mar-24E)**

DCF Assumptions		(Rs mn)	
Risk-Free Rate	7.0%	NPV Of FCF (Mar-25 to Mar-34)	4,84,771
Risk Premium	5.3%	Terminal Value	15,91,093
Beta	0.96	PV Of TV	5,11,661
Cost Of Equity	12.0%	<b>Total Value</b>	<b>9,96,432</b>
Cost Of Debt	8.3%	Less: Net Debt (Y/E)	-1,60,107
Post-Tax Cost Of Debt	6.2%	<b>Equity Value</b>	<b>11,56,540</b>
Average Debt:Equity Ratio	0.0%	No. Of Shares O/S (mn)	386
<b>WACC</b>	<b>12.0%</b>	<b>Target Price (Rs)</b>	<b>3,000</b>
Terminal Growth Rate	3.0%		

Source: Company, Emkay Research

**Exhibit 4: P/E-based valuation (Mar-25E)**

Rs	FY20	FY21	FY22	FY23	FY24E	FY25E
EPS	(6.4)	(151.3)	(160.2)	(8.2)	150.3	203.2
<b>Target P/E Multiple (x) at nil taxes</b>						<b>14.8</b>
Target EV/EBITDA (x)						8.0
<b>DCF Target Price</b>						<b>3,000</b>

Source: Company, Emkay Research

## InterGlobe Aviation : Standalone Financials and Valuations

Profit and Loss					
Y/E March (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
<b>Revenue</b>	<b>1,46,406</b>	<b>2,59,309</b>	<b>5,44,465</b>	<b>6,34,935</b>	<b>7,05,323</b>
Revenue growth (%)	(59.1)	77.1	110.0	16.6	11.1
<b>EBITDA</b>	<b>(5,485)</b>	<b>14,711</b>	<b>94,446</b>	<b>1,37,431</b>	<b>1,63,995</b>
EBITDA growth (%)	(109.8)	0.0	542.0	45.5	19.3
Depreciation & Amortization	46,987	50,678	51,012	59,062	65,745
<b>EBIT</b>	<b>(52,472)</b>	<b>(35,967)</b>	<b>43,434</b>	<b>78,369</b>	<b>98,250</b>
EBIT growth (%)	(425.8)	0.0	0.0	80.4	25.4
Other operating income	0	0	0	0	0
Other income	10,363	7,245	14,314	20,747	24,543
Financial expense	21,420	23,580	31,317	41,153	44,442
<b>PBT</b>	<b>(63,528)</b>	<b>(52,302)</b>	<b>26,431</b>	<b>57,963</b>	<b>78,351</b>
Extraordinary items	0	0	0	0	0
Taxes	0	0	0	0	0
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
<b>Reported PAT</b>	<b>(58,298)</b>	<b>(61,710)</b>	<b>(3,167)</b>	<b>57,963</b>	<b>78,351</b>
PAT growth (%)	0.0	0.0	0.0	0.0	35.2
<b>Adjusted PAT</b>	<b>(58,298)</b>	<b>(61,710)</b>	<b>(3,167)</b>	<b>57,963</b>	<b>78,351</b>
<b>Diluted EPS (Rs)</b>	<b>(151.5)</b>	<b>(160.2)</b>	<b>(8.2)</b>	<b>150.3</b>	<b>203.2</b>
Diluted EPS growth (%)	0.0	0.0	0.0	0.0	35.2
<b>DPS (Rs)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Dividend payout (%)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
EBITDA margin (%)	(3.7)	5.7	17.3	21.6	23.3
EBIT margin (%)	(35.8)	(13.9)	8.0	12.3	13.9
Effective tax rate (%)	0.0	0.0	0.0	0.0	0.0
<b>NOPLAT (pre-IndAS)</b>	<b>(52,472)</b>	<b>(35,967)</b>	<b>43,434</b>	<b>78,369</b>	<b>98,250</b>
Shares outstanding (mn)	384.9	385.3	385.5	385.5	385.5

Source: Company, Emkay Research

Cash Flows					
Y/E March (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
PBT	(63,528)	(52,302)	26,431	57,963	78,351
Others (non-cash items)	53,739	76,826	1,02,911	64,068	70,862
Taxes paid	(719)	(1,935)	(3,917)	0	0
Change in NWC	(10,926)	7,460	31,204	29,876	21,230
<b>Operating cash flow</b>	<b>(16,204)</b>	<b>20,641</b>	<b>1,27,031</b>	<b>1,51,907</b>	<b>1,70,444</b>
Capital expenditure	14,638	2,616	1,418	(2,000)	(2,000)
Acquisition of business	0	0	0	0	0
Interest & dividend income	1,367	916	1,568	0	0
<b>Investing cash flow</b>	<b>32,457</b>	<b>15,259</b>	<b>(40,552)</b>	<b>(5,454)</b>	<b>(5,558)</b>
Equity raised/(repaid)	93	277	224	0	0
Debt raised/(repaid)	(17,554)	(30,698)	(84,204)	(89,302)	(94,389)
Payment of lease liabilities	(19,968)	(24,893)	(41,138)	(76,779)	(89,389)
Interest paid	(292)	(457)	(345)	(10,413)	(10,866)
Dividend paid (incl tax)	0	0	0	0	0
Others	5,477	(16,127)	14,786	14,808	51,109
<b>Financing cash flow</b>	<b>(12,276)</b>	<b>(47,006)</b>	<b>(69,539)</b>	<b>(84,907)</b>	<b>(54,146)</b>
Net chg in Cash	3,977	(11,105)	16,940	61,546	1,10,740
OCF	(16,204)	20,641	1,27,031	1,51,907	1,70,444
Adj. OCF (w/o NWC chg.)	(5,278)	13,181	95,827	1,22,031	1,49,213
FCFF	(1,566)	23,257	1,28,449	1,49,907	1,68,444
FCFE	(21,619)	593	98,700	1,08,754	1,24,002
OCF/EBITDA (%)	295.4	140.3	134.5	110.5	103.9
FCFE/PAT (%)	37.1	(1.0)	(3,116.4)	187.6	158.3
<b>FCFF/NOPLAT (%)</b>	<b>3.0</b>	<b>(64.7)</b>	<b>295.7</b>	<b>191.3</b>	<b>171.4</b>

Source: Company, Emkay Research

Balance Sheet					
Y/E March (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Share capital	3,849	3,853	3,855	3,855	3,855
Reserves & Surplus	(3,140)	(64,205)	(66,887)	(8,924)	69,427
<b>Net worth</b>	<b>709</b>	<b>(60,353)</b>	<b>(63,031)</b>	<b>(5,069)</b>	<b>73,283</b>
Minority interests	0	0	0	0	0
Deferred tax liability (net)	(2,949)	(2,949)	(2,949)	(2,949)	(2,949)
<b>Total debt</b>	<b>2,98,597</b>	<b>3,68,778</b>	<b>4,48,542</b>	<b>4,59,415</b>	<b>5,12,045</b>
<b>Total liabilities &amp; equity</b>	<b>2,96,356</b>	<b>3,05,476</b>	<b>3,82,561</b>	<b>4,51,397</b>	<b>5,82,379</b>
Net tangible fixed assets	7,961	8,225	10,921	10,385	9,877
Net intangible assets	332	214	214	214	214
Net ROU assets	1,79,862	2,04,381	2,65,365	2,99,610	3,38,030
Capital WIP	717	1,253	208	210	212
Goodwill	0	0	0	0	0
Investments [JV/Associates]	72,902	80,326	1,15,143	1,18,598	1,22,156
<b>Cash &amp; equivalents</b>	<b>1,12,271</b>	<b>1,01,165</b>	<b>1,18,106</b>	<b>1,79,652</b>	<b>2,90,392</b>
Current assets (ex-cash)	52,749	60,087	77,521	87,090	96,147
Current Liab. & Prov.	1,30,437	1,50,176	2,04,916	2,44,361	2,74,649
<b>NWC (ex-cash)</b>	<b>(77,688)</b>	<b>(90,089)</b>	<b>0</b>	<b>0</b>	<b>(1,78,502)</b>
<b>Total assets</b>	<b>2,96,356</b>	<b>3,05,476</b>	<b>3,82,561</b>	<b>4,51,397</b>	<b>5,82,379</b>
Net debt	1,86,326	2,67,613	3,30,436	2,79,763	2,21,653
Capital employed	2,96,356	3,05,476	3,82,561	4,51,397	5,82,379
<b>Invested capital</b>	<b>1,10,466</b>	<b>1,22,732</b>	<b>1,49,104</b>	<b>1,52,938</b>	<b>1,69,619</b>
BVPS (Rs)	1.8	(156.7)	(163.5)	(13.1)	190.1
Net Debt/Equity (x)	262.8	(4.4)	(5.2)	(55.2)	3.0
Net Debt/EBITDA (x)	(34.0)	18.2	3.5	2.0	1.4
Interest coverage (x)	(0.5)	(0.8)	0.5	0.4	0.4
<b>RoCE (%)</b>	<b>(14.5)</b>	<b>(9.5)</b>	<b>16.8</b>	<b>23.8</b>	<b>23.8</b>

Source: Company, Emkay Research

Valuations and Key Ratios					
Y/E March	FY21	FY22	FY23	FY24E	FY25E
P/E (x)	(16.3)	(15.4)	(300.0)	16.4	12.1
P/CE(x)	(83.9)	(86.1)	19.9	8.1	6.6
P/B (x)	1,337.9	(15.7)	(15.1)	(187.5)	13.0
EV/Sales (x)	8.0	4.7	2.4	2.0	1.7
EV/EBITDA (x)	(206.9)	82.7	13.6	8.9	7.1
EV/EBIT(x)	(21.6)	(33.8)	29.5	15.7	11.9
EV/IC (x)	10.3	9.9	8.6	8.0	6.9
FCFF yield (%)	(0.1)	1.9	10.0	12.2	14.4
FCFE yield (%)	(2.3)	0.1	10.4	11.4	13.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
<b>DuPont-RoE split</b>					
Net profit margin (%)	(39.8)	(23.8)	(0.6)	9.1	11.1
Total asset turnover (x)	0.5	0.9	1.6	1.5	1.4
Assets/Equity (x)	9.8	(10.1)	(5.6)	(12.2)	15.2
<b>RoE (%)</b>	<b>(196.5)</b>	<b>206.9</b>	<b>5.1</b>	<b>(170.2)</b>	<b>229.7</b>
<b>DuPont-RoIC</b>					
NOPLAT margin (%)	(35.8)	(13.9)	8.0	12.3	13.9
IC turnover (x)	0.0	0.0	0.0	0.0	0.0
<b>RoIC (%)</b>	<b>(55.6)</b>	<b>(30.8)</b>	<b>32.0</b>	<b>51.9</b>	<b>60.9</b>
<b>Operating metrics</b>					
Core NWC days	(193.7)	(126.8)	(85.4)	(90.4)	(92.4)
<b>Total NWC days</b>	<b>(193.7)</b>	<b>(126.8)</b>	<b>(85.4)</b>	<b>(90.4)</b>	<b>(92.4)</b>
Fixed asset turnover	0.6	0.8	1.4	1.4	1.4
Opex-to-revenue (%)	103.4	93.9	82.1	77.8	76.1

Source: Company, Emkay Research

**RECOMMENDATION HISTORY - DETAILS**

Date	CMP (INR)	TP (INR)	Rating	Analyst
03-Aug-23	2,448	3,000	Buy	Sabri Hazarika
19-May-23	2,267	2,700	Buy	Sabri Hazarika
24-Mar-23	1,865	2,600	Buy	Sabri Hazarika
21-Mar-23	1,875	2,600	Buy	Sabri Hazarika
05-Feb-23	2,098	2,600	Buy	Sabri Hazarika
20-Dec-22	2,064	2,560	Buy	Sabri Hazarika

Source: Company, Emkay Research

**RECOMMENDATION HISTORY - TREND**



Source: Bloomberg, Company, Emkay Research

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