

InterGlobe Aviation

Cloudy skies

We downgrade IndiGo to ADD (from BUY earlier). The management is shifting focus from growth to conserving cash and is revising its full year capacity guidance to factor in the weaker demand environment. While we believe that IndiGo is better placed to withstand the downturn due to its dominant market share/scale, a healthier balance sheet (as compared to competition) and cost cutting initiatives (phasing out of older CEO planes), the overall demand outlook is challenging.

- 4QFY20 Financials:** Revenues grew marginally to Rs 82.9bn (+5% YoY). While yields were flat YoY at Rs 3.7, the ancillary revenue grew by over 30%, driven by higher cargo vols. The airline reported an EBITDAR loss at Rs 127mn due to the adverse environment and forex loss of Rs 10.1bn. Correspondingly, the net loss in the quarter came in at Rs 8.73bn.
- Call & other takeaways:** (1) The domestic corporate segment and international segment are expected to recover with a lag, while leisure travel may recover sooner. (2) Mgmt is reducing unit costs and ensuring that the capacity is right sized to the market. (3) IndiGo is reducing fixed costs, which are 40% of total expenses. There has been a 5-25% salary cut. Further, to preserve cash, IndiGo will skip dividends this year. As the older CEO planes are phased out, the airline will make savings in supplementary rentals (Rs 16.8bn in 4Q). According to mgmt, these measures would result in additional liquidity of Rs 30-40 bn over the year. The cash balance as of FY20 is Rs 203.7bn (4) The mgmt clarified that they do not intend to either buy any airline or sell out their airline. (5) Amidst a challenging environment, IndiGo will benefit from its market dominance as well as its focus on cost control.
- Indigo is revising full year capacity guidance:** The airline currently has 262 aircraft and will be revising its full year fleet targets shortly based on their demand assessments. The carrier will be retiring its 120 CEOs over the next 2 years while the airline can have a phased addition of the A320 NEO's as per their negotiation with Airbus.
- We are lowering our EBITDAR estimates by 75/43% for FY21/22E to factor in the changed demand environment. We roll forward our TP to Mar-22 and set a revised TP of Rs 1,110 (we continue to value the stock on 6x EV/EBITDAR). **Key risks:** Any resolution of promoter differences on the upside, an increase in oil prices on the downside.

Financial Summary

YE March (Rs mn)	4Q FY20	4Q FY19	% YoY	3Q FY20	% QoQ	FY18	FY19	FY20P	FY21E	FY22E
Net Sales	82,990	78,833	5.3	99,317	(16.4)	230,209	284,968	357,560	279,803	330,140
EBITDAR	(127)	16,980	(100.8)	18,042	(100.7)	65,667	47,940	45,348	24,827	75,281
APAT	(8,735)	5,896	(248.2)	4,905	(278.1)	22,423	1,562	(2,481)	(19,258)	21,547
Adj. EPS (Rs)	(22.7)	15.3	(248.2)	12.8	(278.1)	58.3	4.1	(6.5)	(50.1)	56.1
P/E (x)						17.6	NA	NA	NA	18.3
EV/EBITDAR						8.2	12.8	9.8	17.7	5.6
RoE (%)						41.3	2.2	(3.9)	(39.0)	43.8

Source: Company, HSIE Research

ADD

CMP (as on 03 June 2020)	Rs 1,023
Target Price	Rs 1,110
NIFTY	10,062

KEY CHANGES	OLD	NEW
Rating	BUY	ADD
Price Target	Rs 1,750	Rs 1,110
EPS %	FY21E	FY22E
	NA	-51%

KEY STOCK DATA

Bloomberg code	INDIGO IN
No. of Shares (mn)	385
MCap (Rs bn) / (\$ mn)	394/5,218
6m avg traded value (Rs mn)	2,517
52 Week high / low	Rs 1,911/765

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(16.7)	(26.9)	(39.5)
Relative (%)	(5.0)	(10.8)	(24.2)

SHAREHOLDING PATTERN (%)

	Dec-19	Mar-20
Promoters	74.9	74.9
FIs & Local MFs	5.7	9.2
FPIs	15.3	13.6
Public & Others	4.2	2.4
Pledged Shares	0.0	0.0

Source : BSE

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Quarterly Financial Snapshot

Particulars (Rs mn)	4QFY20	4QFY19	% YoY	3QFY20	% QoQ
Net Sales	82,991	78,833	5.3	99,317	(16.4)
Fuel cost	28,604	27,813	2.8	33,419	(14.4)
Supplementary rentals	16,808	9,570	75.6	16,331	2.9
Airport fees & charges	7,234	6,693	8.1	7,831	(7.6)
Other input costs	508	355	42.9	450	12.9
Employee cost	10,509	8,766	19.9	11,645	(9.8)
Forex gain/(loss)	10,142	(105)	NA	1,250	711.4
Other expenses	9,313	8,760	6.3	10,348	(10.0)
Total expenses	83,117	61,852	34.4	81,275	2.3
EBITDAR	(127)	16,980	NA	18,042	NA
Aircraft and engine rentals	1,226	11,067	(88.9)	1,343	(8.7)
EBITDA	(1,353)	5,914	NA	16,699	NA
Depreciation	10,063	2,185	360.5	10,377	(3.0)
EBIT	(11,415)	3,728	NA	6,322	NA
Other income	3,359	3,765	(10.8)	3,986	(15.8)
Interest	4,877	1,326	267.9	4,805	1.5
PBT	(12,934)	6,168	NA	5,504	NA
Tax expense	(4,200)	272	NA	599	NA
PAT	(8,735)	5,896	NA	4,905	NA
EPS	(22.7)	15.3	NA	12.8	NA

Source: Company, HSIE Research

Revenues were driven by higher ancillary income, (over 30% YoY) as the airline converted 10 planes to freighters

Employee cost increased ~20% YoY. However, there has been a 5-25% salary cut across the organisation, except for certain employees with lower pay grade

The supplementary rentals were elevated at Rs.16.8bn and are likely to moderate from hereon

Stabilizing fuel costs aided in expansion of gross margins

Quarterly Performance Analysis

As % of sales	4QFY20	4QFY19	YoY (bps)	3QFY20	QoQ (bps)
Fuel cost	34.5	35.3	(81)	33.6	82
Supplementary rentals	20.3	12.1	811	16.4	381
Airport fees & charges	8.7	8.5	23	7.9	83
Other input costs	0.6	0.5	16	0.5	16
Employee cost	12.7	11.1	154	11.7	94
Forex gain/(loss)	12.2	(0.1)	NA	1.3	NA
Other expenses	11.2	11.1	11	10.4	80
Total expenses	100.2	78.5	2,169	81.8	1,832
EBITDAR Margin	(0.2)	21.5	NA	18.2	NA
Aircraft and engine rentals	1.5	14.0	(1,256)	1.4	12
EBITDA Margin	(1.6)	7.5	NA	16.8	NA
Tax Rate	32.5	4.4	NA	10.9	NA
PAT Margin	(10.5)	7.5	NA	4.9	NA

Source: Company, HSIE Research

Operating Metrics

Operating Metrics	4QFY20	4QFY19	% YoY	3QFY20	% QoQ
ASKM (in mn)	23,011	22,100	4.1	25,800	(10.8)
RPKM (in mn)	19,100	19,000	0.5	22,600	(15.5)
Load Factor (%)	83.0	86.0	-297 bps	87.6	-459 bps
Yield (Rs)	3.7	3.7	0.5	3.9	(3.8)
RASK (Rs)	3.61	3.57	1.1	3.85	(6.3)
Aircraft Fuel/ASKM	1.24	1.26	(1.2)	1.30	(4.0)
Gross Margin	2.36	2.31	2.4	2.55	(7.5)
Employee Cost/ASKM	0.46	0.40	15.1	0.45	1.2
Ownership cost/ASKM	0.70	0.66	6.5	0.64	9.7
Other Operating Exp./ASKM	1.91	1.14	67.2	1.40	36.3
Non-Fuel Op.Exp/ASKM	3.07	2.20	39.6	2.50	23.1
CASK	4.31	3.46	24.8	3.79	13.8
CASK net of Other Income	4.17	3.29	26.8	3.64	14.6
RASK-CASK with other income	(0.71)	0.11	NA	0.06	NA
Fleet	262	217	20.7	257	1.9

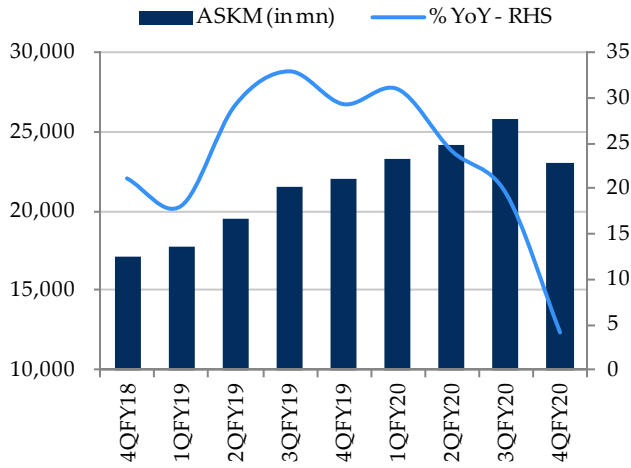
Source: Company, HSIE Research

While IndiGo's Fleet has increased to 262 aircraft, the mgmt is in the process of reassessing its fleet plans

IndiGo will benefit from the ongoing transition to the NEO planes.

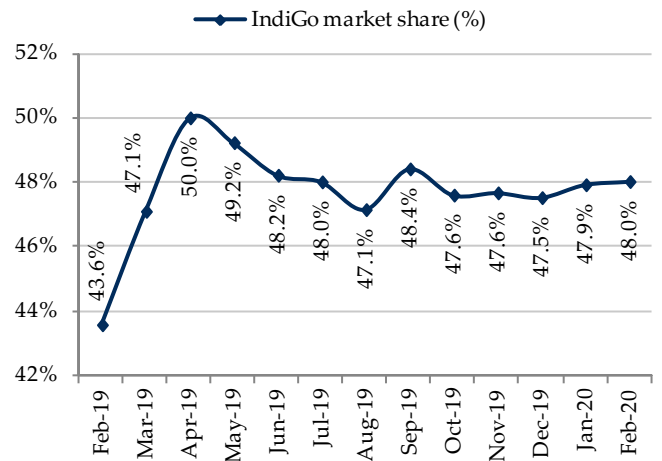
The older CEO planes will be phased out in the next 2 years

ASKM growth moderated in 4QFY20



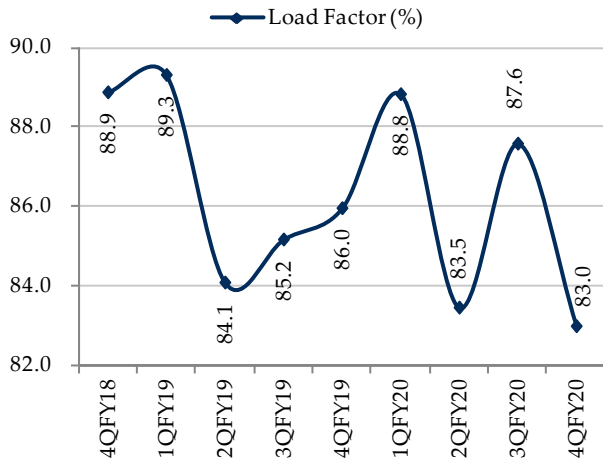
Source: Company, HSIE Research

Market share remains elevated at +45% levels



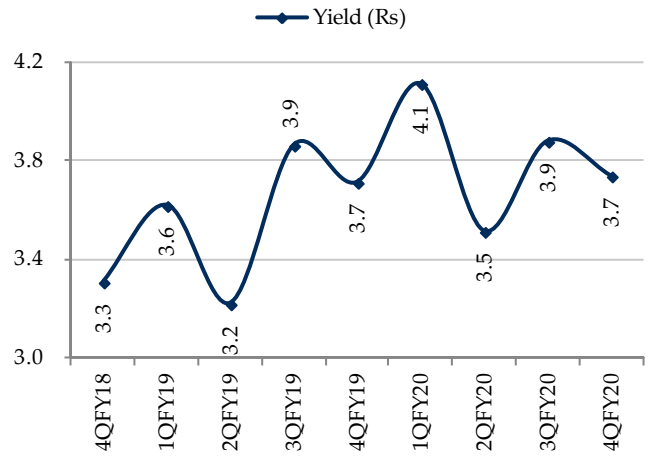
Source: DGCA, HSIE Research

Load factor were affected due to COVID scenario



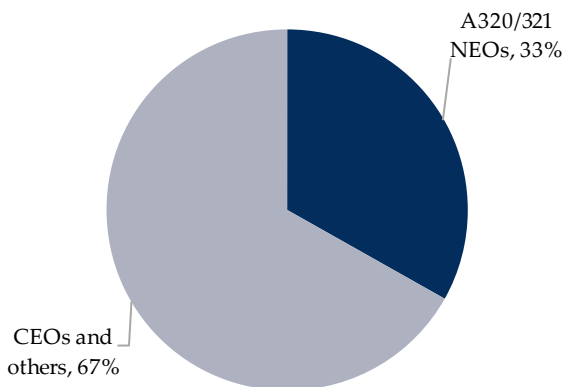
Source: Company, HSIE Research

Yields were flat YoY



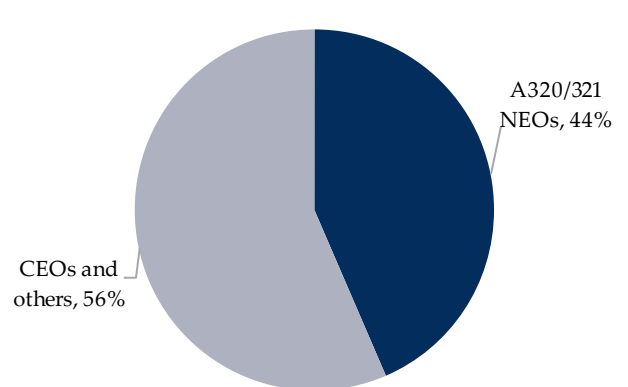
Source: Company, HSIE Research

Fleet break-up in 4QFY19



Source: Company, HSIE Research

In 4QFY20, NEOs now contributed +40% to the fleet



Source: Company, HSIE Research

Key Assumptions

	FY17	FY18	FY19	FY20P	FY21E	FY22E
Fleet Size	131	159	217	262	262	265
ASKM (in mn)	54,583	63,538	81,000	96,200	78,884	88,350
YoY Growth (%)	27.5	16.4	27.5	18.8	(18.0)	12.0
RPKM (in mn)	46,288	55,539	69,700	82,600	67,567	77,026
YoY Growth (%)	28.7	20.0	25.5	18.5	(18.2)	14.0
Load Factor %	85	87	86	86	86	87
Yield (Rs)	3.5	3.6	3.6	3.8	3.7	3.8
YoY Growth (%)	(10.5)	2.7	1.4	4.8	(4.0)	3.5
Operating Revenue (Rs mn)	185,805	230,209	284,968	357,560	279,803	330,140
YoY Growth (%)	15.1	23.9	23.8	25.5	(21.7)	18.0
Unit Economics (In Rs)						
RASK	3.40	3.62	3.52	3.72	3.55	3.74
Aircraft Fuel/ASKM	1.16	1.22	1.47	1.29	1.23	1.25
Employee Cost/ASKM	0.38	0.39	0.39	0.46	0.53	0.49
Ownership cost/ASKM	0.72	0.69	0.77	0.66	0.82	0.77
Other Operating Exp./ASKM	0.88	0.96	1.05	1.48	1.46	1.12
CASK	3.13	3.26	3.68	3.89	4.03	3.63
RASK-CASK (w/o other income)	0.27	0.36	(0.16)	(0.17)	(0.49)	0.11

Source: Company, HSIE Research

Valuation

(Rs mn)	FY22
EBITDAR	75,281
EV/EBITDAR multiple (x)	6.0
Target EV	451,684
Net Debt (including capitalised lease)	25,977
Equity Value	425,707
No. of equity shares (mn)	384
Mar-22 Target Price (Rs)	1,110

Source: HSIE Research

Change in Estimates

	NEW		OLD		% Change	
	FY21	FY22	FY21	FY22	FY21	FY22
Revenues	279,803	330,140	451,246	511,811	(38.0)	(35.5)
EBITDAR	24,827	75,281	100,151	131,710	(75.2)	(42.8)
Adj. PAT	(19,258)	21,547	28,751	44,091	NA	(51.1)
EPS	(50.1)	56.1	74.8	114.7	NA	(51.1)

Source: HSIE Research

Financials

Standalone Income Statement

Year ending March	FY17	FY18	FY19	FY20P	FY21E	FY22E
Net Revenues	185,805	230,209	284,968	357,560	279,803	330,140
<i>Growth (%)</i>	<i>15.1</i>	<i>23.9</i>	<i>23.8</i>	<i>25.5</i>	<i>(21.7)</i>	<i>18.0</i>
Aircraft Fuel	63,415	77,601	119,428	124,538	96,812	110,597
Other input costs	1,235	1,251	1,391	1,779	1,679	1,981
Employee Expenses	20,482	24,550	31,378	43,954	41,691	42,918
Other Operating Expenses	47,986	61,139	84,830	141,942	114,795	99,364
EBITDAR	52,687	65,667	47,940	45,348	24,827	75,281
<i>EBITDAR Margin (%)</i>	<i>28.4</i>	<i>28.5</i>	<i>16.8</i>	<i>12.7</i>	<i>8.9</i>	<i>22.8</i>
<i>EBITDAR Growth (%)</i>	<i>(6.3)</i>	<i>25</i>	<i>(27)</i>	<i>(5)</i>	<i>(45)</i>	<i>203</i>
Aircraft and engine rentals (net)	31,254	36,102	49,994	4,967	5,066	5,218
EBITDA	21,433	29,565	(2,054)	40,382	19,761	70,063
<i>EBITDA Margin (%)</i>	<i>11.5</i>	<i>12.8</i>	<i>(0.7)</i>	<i>11.3</i>	<i>7.1</i>	<i>21.2</i>
<i>EBITDA Growth (%)</i>	<i>(28.9)</i>	<i>38</i>	<i>(107)</i>	<i>(2,066)</i>	<i>(51)</i>	<i>255</i>
Depreciation	4,573	4,369	7,596	39,736	40,133	41,739
EBIT	16,860	25,196	(9,650)	646	(20,372)	28,324
Other Income (Incl. EO Items)	7,891	9,469	13,249	15,362	14,322	15,038
Interest	3,308	3,398	5,090	18,759	19,697	20,681
PBT	21,443	31,266	(1,490)	(2,751)	(25,746)	22,681
Tax (Incl. Deferred)	4,852	8,843	(3,052)	(269)	(6,488)	1,134
RPAT	16,591	22,423	1,562	(2,481)	(19,258)	21,547
APAT	16,591	22,423	1,562	(2,481)	(19,258)	21,547
<i>APAT Growth (%)</i>	<i>(11.8)</i>	<i>35.2</i>	<i>(93.0)</i>	<i>(258.9)</i>	<i>676.2</i>	<i>(211.9)</i>
Adjusted EPS (Rs)	43.2	58.3	4.1	(6.5)	(50.1)	56.1
<i>EPS Growth (%)</i>	<i>(11.8)</i>	<i>35.2</i>	<i>(93.0)</i>	<i>(258.9)</i>	<i>676.2</i>	<i>(211.9)</i>

Source: Company, HSIE Research

Standalone Balance Sheet

Year ending March	FY17	FY18	FY19	FY20P	FY21E	FY22E
SOURCES OF FUNDS						
Share Capital - Equity	3,615	3,844	3,844	3,844	3,844	3,844
Reserves	34,177	66,930	65,604	55,123	35,864	54,825
Total Shareholders' Funds	37,792	70,774	69,448	58,967	39,708	58,670
Total Debt	25,962	22,414	21,937	227,011	230,667	245,786
Deferred Tax (net)	1,618	3,695	644	644	645	646
Other Long Term Liabilities, Provisions	23,984	32,602	36,961	56,178	62,510	66,925
Deferred Incentives	16,900	20,578	41,144	8,229	8,311	8,394
TOTAL SOURCES OF FUNDS	106,256	150,064	170,133	351,029	341,842	380,421
APPLICATION OF FUNDS						
Net Block	37,938	45,788	56,620	167,366	134,018	138,676
CWIP	252	325	236	260	286	315
LT Loans & Advances	5,480	8,746	10,509	11,560	12,716	13,987
Other non-current assets	14,003	12,033	6,387	7,026	7,729	8,502
Total Non-current Assets	57,673	66,892	73,753	186,212	154,748	161,479
Inventories	1,632	1,832	2,114	2,841	2,376	4,070
Debtors	1,587	2,263	3,625	2,939	3,066	4,522
Cash & Equivalents	83,463	129,246	151,231	210,998	222,069	256,334
Other Current Assets	7,746	11,059	19,395	24,490	20,123	24,930
Total Current Assets	94,428	144,401	176,365	241,268	247,635	289,857
Creditors	7,746	10,002	14,552	13,715	10,732	12,663
Other Current Liabilities, Provns & Incentives	38,099	51,228	65,432	62,736	49,809	58,252
Total Current Liabilities	45,844	61,230	79,984	76,451	60,541	70,915
Net Current Assets	48,583	83,171	96,380	164,817	187,094	218,942
TOTAL APPLICATION OF FUNDS	106,256	150,064	170,133	351,029	341,842	380,421

Source: Company, HSIE Research

Standalone Cash Flow

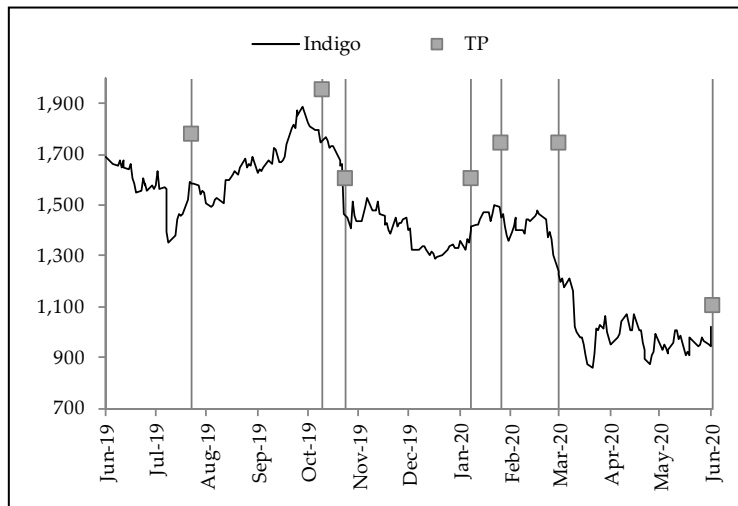
Year ending March	FY17	FY18	FY19	FY20P	FY21E	FY22E
Reported PBT	21,443	31,266	(1,490)	(2,751)	(25,746)	22,681
Non-operating & EO items	(7,891)	(9,469)	(13,249)	(15,362)	(14,322)	(15,038)
Interest expenses	3,308	3,398	5,090	18,759	19,697	20,681
Depreciation	4,573	4,369	7,596	39,736	40,133	41,739
Working Capital Change	6,610	11,195	8,775	(8,670)	(11,205)	2,417
Tax Paid	(8,413)	(6,766)	1	269	6,489	(1,133)
OPERATING CASH FLOW (a)	19,630	33,994	6,722	31,982	15,045	71,346
Capex	4,512	(12,291)	(18,340)	(150,506)	(6,811)	(46,426)
Free cash flow (FCF)	24,141	21,703	(11,618)	(118,524)	8,234	24,921
Investments	10,999	11,000	28,807	(15,387)	4,556	2,454
Non-operating Income	7,891	9,469	13,249	15,362	14,322	15,038
INVESTING CASH FLOW (b)	23,401	8,177	23,717	(150,530)	12,067	(28,933)
Debt Issuance/(Repaid)	(6,046)	(3,548)	(477)	205,074	3,656	15,118
Interest Expenses	(3,308)	(3,398)	(5,090)	(18,759)	(19,697)	(20,681)
FCFE	14,787	14,757	(17,184)	67,792	(7,806)	19,358
Share Capital Issuance	17,650	13,335	(569)	(8,000)	-	-
Dividend	(14,792)	(2,776)	(2,319)	-	-	(2,586)
FINANCING CASH FLOW (c)	(6,496)	3,613	(8,455)	178,316	(16,040)	(8,149)
NET CASH FLOW (a+b+c)	36,535	45,784	21,984	59,767	11,072	34,265
Closing Cash & Equivalents	83,463	129,247	151,231	210,998	222,070	256,334

Key Ratios

	FY17	FY18	FY19	FY20P	FY21E	FY22E
PROFITABILITY (%)						
EBITDAR Margin	28.4	28.5	16.8	12.7	8.9	22.8
EBITDA Margin	11.5	12.8	(0.7)	11.3	7.1	21.2
APAT Margin	8.9	9.7	0.5	(0.7)	(6.9)	6.5
RoE	59.1	41.3	2.2	(3.9)	(39.0)	43.8
RoIC (or Core RoCE)	38.0	82.9	50.9	0.7	(11.7)	22.1
RoCE	19.2	19.4	(2.4)	5.5	(1.3)	11.4
EFFICIENCY						
Tax Rate (%)	22.6	28.3	204.8	9.8	NA	5.0
Fixed Asset Turnover (x)	4.9	5.0	5.0	2.1	2.1	2.4
Inventory (days)	3.2	2.9	2.7	2.9	3.1	4.5
Debtors (days)	3.1	3.6	4.6	3.0	4.0	5.0
Payables (days)	15.2	15.9	18.6	14.0	14.0	14.0
Debt/EBITDA (x)	7.5	4.9	(107.4)	1.3	2.2	0.4
Net D/E (x)	4.3	2.1	3.2	0.9	1.1	0.4
Interest Coverage (x)	5.1	7.4	(1.9)	0.0	(1.0)	1.4
PER SHARE DATA (Rs)						
EPS	43.2	58.3	4.1	(6.5)	(50.1)	56.1
CEPS	55.1	69.7	23.8	96.9	54.3	164.6
Dividend	34.0	6.0	5.0	-	-	5.6
Book Value	98	184	181	153	103	153
VALUATION						
P/E (x)	23.8	17.6	252.5	(158.9)	(20.5)	18.3
P/BV (x)	10.4	5.6	5.7	6.7	9.9	6.7
EV/EBITDA (x)	24.8	18.3	(299.3)	11.0	22.2	6.0
EV/EBITDAR (x)	10.1	8.2	12.8	9.8	17.7	5.6
EV/Revenues (x)	2.9	2.3	2.2	1.2	1.6	1.3
OCF/EV (%)	3.7	6.3	1.1	7.2	3.4	17.0
FCF/EV (%)	4.5	4.0	(1.9)	(26.6)	1.9	5.9
FCFE/Mkt Cap (%)	4.0	3.7	(4.4)	17.2	(2.0)	4.9
Dividend Yield (%)	3.3	0.6	0.5	-	-	0.5

Source: Company, HSIE Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
24-Jul-19	1,595	BUY	1,785
11-Oct-19	1,750	BUY	1,960
28-Oct-19	1,468	BUY	1,610
9-Jan-20	1,353	BUY	1,610
28-Jan-20	1,493	BUY	1,750
2-Mar-20	1,300	BUY	1,750
3-Jun-20	1,023	ADD	1,110

From 2nd March 2020, we have moved to new rating system

Rating Criteria

- BUY: >+15% return potential
 ADD: +5% to +15% return potential
 REDUCE: -10% to +5% return potential
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