

JULY 08, 2021

UPDATE

Sector view: **Attractive**

CMP (₹): **1,810**

Fair Value (₹): **2,400**

BSE-30: **53,055**

Domestic swap boost to demand. Recovery in demand for Indian carriers can receive a major boost if international travelers swap prospects of international travel by domestic, as has happened in the case of China. Among Indian carriers, Indigo is the one that continues to add capacities and may have a disproportionate share in the swap volumes. While transitorily, such swap volumes would obviate the mismatch of demand and supply starting FY2023. BUY on Indigo with revised FV of Rs2,400 from Rs2,200.

InterGlobe Aviation				Forecasts/valuations		
Stock data				2021	2022E	2023E
CMP(Rs)/FV(Rs)/Rating	1,810/2,400/BUY			EPS (Rs)	(152.3)	134.1
52-week range (Rs) (high-low)	1,860-873			EPS growth (%)	(2,249.3)	223.2
Mcap (bn) (Rs/US\$)	697/9.4			P/E (X)	(11.9)	13.5
ADTV-3M (mn) (Rs/US\$)	1,303/17			P/B (X)	976.9	66.7
Shareholding pattern (%)				EV/EBITDA (X)	(2,103.7)	4.1
Promoters	74.8			RoE (%)	(196.5)	(335.9)
FPIs/MFs/BFIs	18.3/3.3/1.2			Div. yield (%)	0.0	0.0
Price performance (%)				Sales (Rs bn)	146	435
Absolute	1M	3M	12M	EBITDA (Rs bn)	0	130
Rel. to BSE-30	3.1	13.1	74.9	Net profits (Rs bn)	(58)	51
	1.7	5.9	20.9			

Domestic swap for international can help Indian carriers breach FY2020 volumes in FY2023

We note prospects of FY2023 volumes for Indian carriers breaching pre-Covid levels in FY2023. Such optimism is based on international travelers from India swapping for domestic trips. This can expand the addressable market for Indian carriers by mid-high single digits. We estimate that international leisure travel by Indian travelers at ~12% of pre-Covid levels where Indian carriers had a 40% market share. Such traffic completing shifting to domestic can lead to the 7% boost to the market size for Indian carriers. We had seen instances of this shift boosting recovery in the months of January and February, when select base airports for tourist destinations had breached pre-Covid levels of demand (Chandigarh, Jammu).

Benefits may be disproportionate for the incumbent, the only one adding supply

Among Indian carriers, Indigo Airlines stands out in terms of adding capacity and thus is well-placed to grow market share in FY2023. We note that Indigo has a meaningfully higher 67% share in incremental supply of aircrafts ordered versus its current 54% share in domestic. Such boost to volumes in FY2023 for Indigo will smoothen the transition to a higher overall volume trajectory for Indigo. We note prospects of Indigo gaining market share in international from CY2023 as it starts flying directly into Europe after getting the long-range A321XLR aircrafts. Please refer to the November 2020 note on the airlines titled "International: Time for bolder moves", where we highlight 35% of international volumes involving India being with carriers having financial difficulties even prior to Covid. This gives us confidence for healthy prospects of Indigo to improve its 11% share in international over time.

Benefits of vaccination drive to be front-ended for air travel

Unlike other sectors, the population of air travelers is concentrated potentially to the 5% of the population in terms of income levels. The current vaccination drive would thus potentially start reflecting in sharp recovery in air travel in India from 3QFY22.

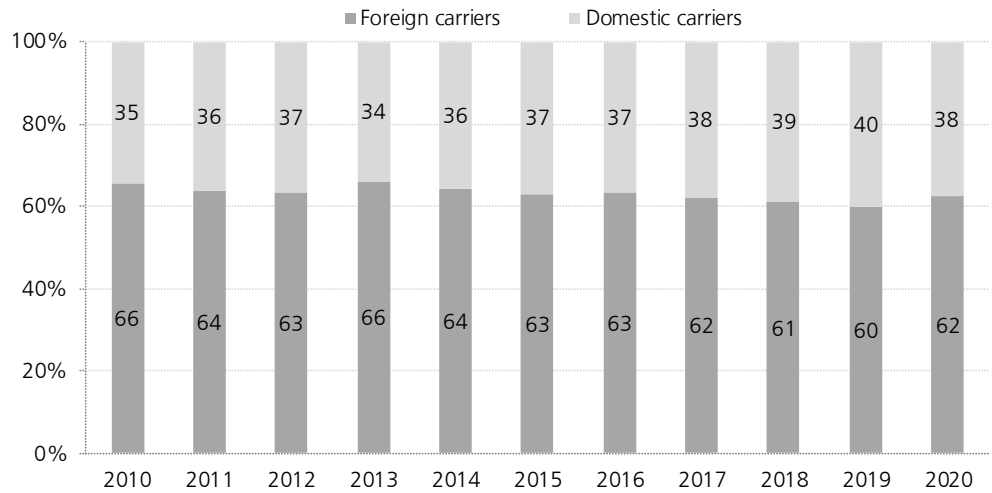
Indigo remains our preferred pick in the sector; revise FV to Rs2,400 on 5% higher revenues

A responsible price leader, Indigo is well-placed to benefit from healthy spreads starting 4QFY22. Its strategy of matching the lowest fares coupled with its healthy cash balance and aftermath of Covid on peer' balance sheets should yield durable spreads for the sector.

Aditya Mongia

Teena Virmani

Exhibit 1: Indian carriers account for 40% share in international and 100% share in domestic
Market share split of international air travel involving India, March fiscal year-ends, 2010-20 (%)



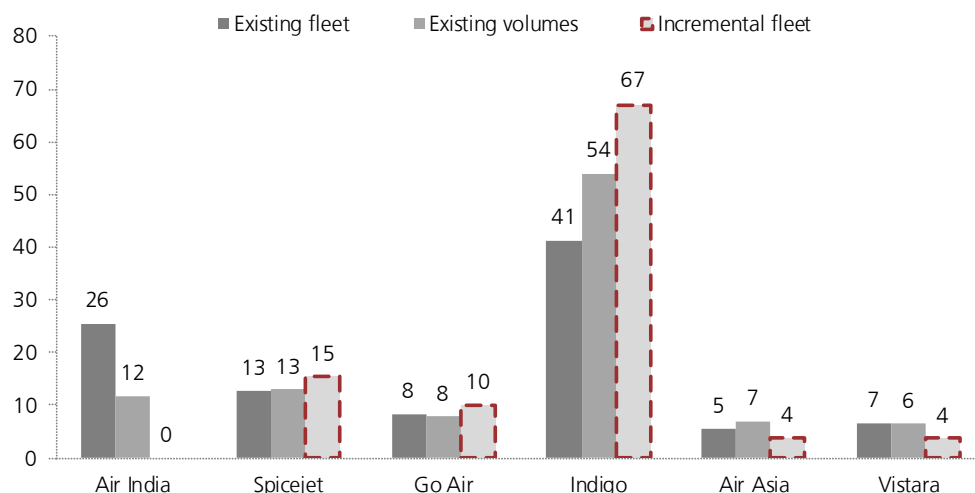
Source: DGCA, Kotak Institutional Equities

Exhibit 2: We note prospects of pre-Covid levels of domestic air travel demand to get breached by FY2023
Assessment of demand for domestic air travel in FY2023, March fiscal year-ends

	Quantum	Unit	Comment
Potential gain in volumes in air travel from new routes and share gain from rail			
Growth in base of air volumes due to new routes over FY2017-21	8	%	Actuals
Pre-Covid (FY2020) domestic air volumes	140	mn	Actuals
Potential increase in volumes on account of new routes over FY2020-23	8	mn	Assuming proportionate increase
Potential increase in volumes on account of new routes of shift of traffic from rail	6	mn	Assuming a 4% of related related long-distance air-conditioned volumes coming to air
Potential gain in volumes in air travel for domestic carriers from shift of international leisure travel to domestic			
Base international leisure travel in overall travel involving India	16	mn	Based on 40% share of leisure in international travel
Market share of Indian carriers in international	40	%	Actuals
Potential gain of volumes for Indian carriers if international leisure swaps for domestic	10	mn	Implied
Total increase in volumes over FY2020-23 for Indian carriers	24	mn	
Potential loss in volumes in air travel due to Covid-19			
Share of business travel in air volumes	50	%	Based on assessment of market leader
Share of corporate travel within air business travel	30	%	Based on assessment of market leader
Reduction in instances of corporate business travel due to Covid	50	%	Based on our interactions with employees in key services sectors
Implied loss of air volumes due to Covid-19	11	mn	

Source: Kotak Institutional Equities estimates

Exhibit 3: Indigo is well placed to gain market share in domestic
Market split of capacity/volumes of various airlines (%)



Source: Go Air prospectus, Airbus, companies, Kotak Institutional Equities

Exhibit 4: We factor in 5% higher revenues and pass on the impact of higher crude in yields
Change in estimates for Indigo Airlines, March fiscal year-ends, 2022E-24E

	New estimates			Old estimates			Change (%)		
	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
Financials									
Revenues (Rs mn)	222,305	435,335	495,628	218,030	409,045	470,402	2	6	5
EBITDAR (Rs mn)	29,408	136,207	150,617	34,505	131,419	143,137	(15)	4	5
EBITDA (Rs mn)	22,987	129,787	143,915	28,085	124,998	136,435	(18)	4	5
PAT (Rs mn)	(41,651)	51,326	64,867	(36,553)	47,754	59,287	NM	7	9
EPS (Rs)	(109)	134	169	(96)	125	155	NM	7	9
Operating metrics									
ASKs (mn)	65,176	116,643	134,139	65,176	110,630	127,225	—	5	5
Yield (Rs/RPK)	3.90	3.86	3.82	3.83	3.83	3.83	2	1	(0)
Load factor (%)	76.0	84.0	84.0	76.0	84.0	84.0	—	—	—
Fuel CASK	1.18	1.00	0.92	1.03	0.92	0.92	14	9	(0)
RASK-CASK (Rs/ASK)	(0.80)	0.46	0.50	(0.72)	0.44	0.47	NM	4	7
Other assumptions									
Exchange rate (US\$/INR)	74	74	74	74	74	74	—	—	—
Brent crude price (US\$/bbl)	65	60	55	57	55	55	14.0	9.1	—

Source: Company, Kotak Institutional Equities estimates

Exhibit 5: Key assumptions for Indigo, March fiscal year-ends (Rs mn)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E
USD/INR rate	48	54	61	61	66	67	65	70	71	74	74	74	74
Crude price, Dated Brent (US\$/bbl)	114	111	108	86	47	49	57	70	61	43	65	60	55
Indigo's fleet size	55	66	77	94	107	131	159	218	262	285	275	285	295
Indigo's ASKs (mn units)	18,006	24,977	29,968	35,327	42,826	54,583	63,510	81,028	96,200	45,481	65,176	116,643	134,139
Yoy growth (%)	44	39	20	18	21	27	16	28	19	(53)	43	79	15
Indigo RPKs (mn units)	14,826	20,260	23,135	28,177	35,968	46,288	55,524	69,811	82,500	31,600	49,533	97,980	112,677
Yoy growth (%)	39	37	14	22	28	29	20	26	18	(62)	57	98	15
Load factor (%)	82	81	77	80	84	85	87	86	86	69	76	84	84
Average ticket price (Rs)	3,911	4,895	5,071	4,882	4,248	3,721	3,825	3,886	4,190	4,041	4,202	4,160	4,119
Yoy growth (%)	9	25	4	(4)	(13)	(12)	3	2	8	(4)	4	(1)	(1)
Yield (Rs per RPK)	3.4	4.1	4.3	4.4	3.9	3.5	3.6	3.6	3.8	3.8	3.9	3.9	3.8
Yoy growth (%)	5	21	5	2	(10)	(10)	3	0	6	(2)	4	(1)	(1)
Ancillary revenues (as % of ticket revenues)	11.6	11.3	12.0	13.3	14.8	14.7	15.4	13.3	13.7	22.0	15.0	15.0	15.0
RASK-CASK (Rs)	(0.04)	0.30	0.05	0.41	0.54	0.25	0.34	(0.12)	(0.03)	(1.62)	(0.80)	0.46	0.50
EBITDAR margins ex-fuel cost (%)	66.9	71.3	69.2	68.7	64.5	62.5	62.2	58.7	47.5	27.9	47.5	57.9	55.0

Source: Company, Kotak Institutional Equities estimates

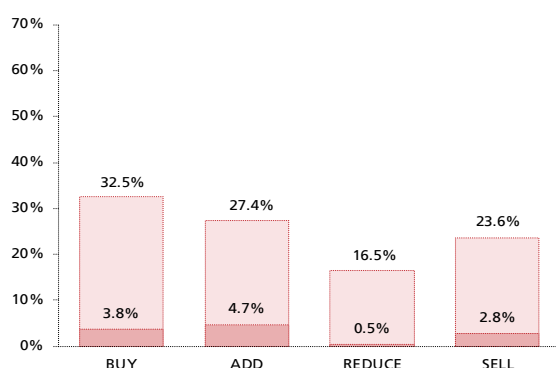
Exhibit 6: Profit and loss model for Indigo, March fiscal year-ends (Rs mn)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E
Profit model (Rs mn)													
Sales	55,647	92,031	111,166	139,253	161,399	185,805	230,209	284,968	357,560	146,406	222,305	435,335	495,628
EBITDAR	8,496	22,498	21,769	38,219	56,247	52,687	65,667	47,940	45,348	2,550	29,408	136,207	150,617
EBITDA	489	8,936	5,066	18,697	30,125	21,432	29,565	(2,054)	40,382	(255)	22,987	129,787	143,915
Other income	1,440	2,371	3,155	3,838	5,151	7,891	9,469	13,249	15,362	10,363	10,435	13,664	18,815
Interest	(514)	(578)	(1,226)	(1,155)	(3,041)	(3,308)	(3,398)	(5,090)	(18,759)	(21,420)	(25,042)	(25,421)	(25,612)
Depreciation	(665)	(856)	(2,260)	(3,022)	(5,055)	(4,573)	(4,369)	(7,596)	(39,736)	(46,987)	(50,032)	(50,420)	(51,357)
Profit before tax	749	9,873	4,736	18,357	27,181	21,443	31,267	(1,490)	(2,751)	(58,299)	(41,651)	67,610	85,761
Tax expense	657	(2,040)	9	(5,402)	(8,373)	(4,852)	(8,843)	3,052	269	—	—	(16,284)	(20,894)
Extraordinary items	—	—	—	—	—	—	—	—	—	—	—	—	—
PAT	1,406	7,834	4,744	12,956	18,807	16,591	22,424	1,561	(2,482)	(58,299)	(41,651)	51,326	64,867
Year-end number of shares	307	307	307	307	360	360	383	383	383	383	383	383	383
Fully diluted number of shares	344	344	344	344	351	360	383	383	383	383	383	383	383
EPS-fully diluted (Rs)	4	23	14	38	54	46	59	4	(6)	(152)	(109)	134	169
Balance sheet (Rs mn)													
Equity	2,433	3,890	4,076	4,207	27,232	37,792	70,774	69,448	58,624	709	(40,942)	10,385	75,252
Total borrowings	10,156	18,004	33,462	39,262	30,071	23,957	22,414	21,937	3,466	25,056	25,056	25,056	25,056
Deferred incentives	11,804	15,304	17,533	17,516	15,832	21,838	26,017	51,883	2,682	2,206	8,382	11,882	15,382
Other long term liabilities	2,952	8,004	13,869	24,784	20,302	25,602	36,297	37,605	256,627	305,204	308,329	314,262	320,287
Current liabilities and provisions	9,126	13,322	22,075	21,914	32,750	42,908	55,791	69,245	99,085	96,567	106,223	116,846	128,530
Total liabilities	36,471	58,525	91,015	107,682	126,187	152,098	211,293	250,117	420,485	429,742	407,050	478,431	564,507
Net fixed assets	8,860	17,713	39,560	48,765	47,794	38,190	46,113	56,857	169,184	188,872	189,434	189,996	190,558
Investments	4,523	10,105	22,309	27,237	22,318	19,443	18,865	12,228	27,186	34,718	33,228	34,718	36,208
Cash & cash equivalent	18,322	24,789	23,730	25,161	47,048	83,459	129,245	151,229	203,286	185,171	152,769	191,800	267,248
Loans and advances/other current assets	4,765	5,917	5,417	6,519	9,027	11,005	17,070	29,804	20,829	20,982	31,618	61,918	70,493
Total assets	36,471	58,525	91,015	107,682	126,187	152,098	211,293	250,117	420,485	429,742	407,050	478,431	564,507
Free cash flow (Rs mn)													
Operating cash flow	217	7,595	4,646	16,074	28,076	16,686	23,935	2,814	53,506	(5,214)	22,987	113,503	123,021
Working capital changes	8,740	9,819	11,309	7,765	3,081	21,135	15,097	28,786	15,927	(10,928)	5,327	(16,308)	6,478
Capital expenditure	(332)	(9,156)	(23,242)	(10,171)	(2,486)	(2,372)	(12,202)	(17,116)	(10,872)	(4,369)	(500)	(500)	(500)
Free cash flow	8,625	8,257	(7,287)	13,668	28,671	35,448	26,829	14,485	58,561	(20,511)	27,815	96,695	128,999
Ratios (%)													
EBITDAR	15.3	24.4	19.6	27.4	34.8	28.4	28.5	16.8	12.7	1.7	13.2	31.3	30.4
EBITDA margin	0.9	9.7	4.6	13.4	18.7	11.5	12.8	(0.7)	11.3	(0.2)	10.3	29.8	29.0
Net debt/equity (X)	(0.0)	0.8	4.1	6.6	0.3	(0.5)	(0.7)	(1.0)	(2.4)	(140.1)	1.6	(10.2)	(2.4)
Book value (R/share)	7.1	11.3	11.9	12.2	77.7	104.9	184.9	181.5	153.2	1.9	(107.0)	27.1	196.6
ROAE	0.0	247.8	119.1	312.8	126.4	51.0	41.3	2.2	NM	NM	NM	NM	151.5
ROACE	20.7	85.6	13.4	32.3	51.4	68.9	72.4	NM	NM	NM	NM	NM	NM
Year-end no of shares	97	97	97	97	97	97	97	97	97	97	97	97	97
Fully diluted no of shares	97	97	97	97	97	97	97	97	97	97	97	97	97

Source: Company, Kotak Institutional Equities estimates

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Source: Kotak Institutional Equities

As of March 31, 2021

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