

BUY

TP: Rs 1,750 | ▲ 31%

INTERGLOBE AVIATION | Airlines

29 October 2020

Weak Q2 as expected; macro uptick to support growth

InterGlobe Aviation's (IndiGo) Q2FY21 RASK was in line at Rs 3.1. EBITDA stood at Rs 2.1bn but higher interest and depreciation led to a net loss of Rs 12bn. We believe the company is poised for strong growth given market leadership (>55% share), ready capacity, a sound balance sheet and firmer footing vis-à-vis peers. Easing of Covid lockdowns, benign crude and a stable INR will aid profitability. We cut fleet addition estimates based on guidance, which lowers revenue but improves margins (as fixed costs ease). Maintain BUY; TP Rs 1,750.

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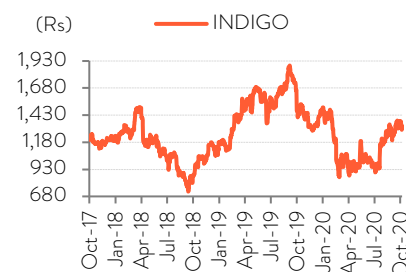
Weak Q2: Revenue plunged 66% YoY to Rs 27.4bn in Q2 but RASK was in line with our estimate at Rs 3.1 (excluding other income). The company reported EBITDA of Rs 2.1bn led by the sharp decline in fuel costs and a reduction in staff expenses. Lower other income and higher interest and depreciation costs induced an adjusted net loss of Rs 12bn, translating to negative EPS of Rs 31 for the quarter.

Ticker/Price	INDIGO IN/Rs 1,331
Market cap	US\$ 6.9bn
Shares o/s	385mn
3M ADV	US\$ 42.9mn
52wk high/low	Rs 1,542/Rs 771
Promoter/FPI/DII	75%/15%/7%

Source: NSE

Favourable macroeconomic conditions to boost position: Benign crude prices along with a stable INR, vulnerability of most of its peers (negative net worth and massive cash burn), a strong balance sheet, and cost-benefit advantage over the railways are some of the key factors that put IndiGo in a sweet spot for growth over the next three years.

STOCK PERFORMANCE



Source: NSE

Maintain BUY: Management intends to add ~80 aircraft to its fleet over FY20-FY23 vs. 117 expected earlier. We thus cut our revenue estimates by ~15% for FY21 and ~8% each for FY22 and FY23. However, due to lower capacity utilisation and the high fixed-cost nature of business, the reduction in fleet size turns beneficial for IndiGo by way of improving its operating margins – our EPS estimates thus remain largely intact. We maintain our Sep'21 TP at Rs 1,750 and continue to value the stock at 9x Sep'22E adj. EV/EBITDAR.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	284,968	357,560	239,237	390,358	487,167
EBITDA (Rs mn)	(5,354)	40,382	7,507	54,552	74,335
Adj. net profit (Rs mn)	(2,283)	(2,482)	(36,973)	9,014	26,630
Adj. EPS (Rs)	(5.9)	(6.4)	(96.1)	23.4	69.2
Adj. EPS growth (%)	NA	NA	NA	NA	195.4
Adj. ROAE (%)	(3.3)	(4.2)	(170.8)	39.2	70.0
Adj. P/E (x)	(224.1)	(206.4)	(13.9)	56.8	19.2
EV/EBITDA (x)	(84.0)	10.6	55.7	8.5	6.5

Source: Company, BOBCAPS Research

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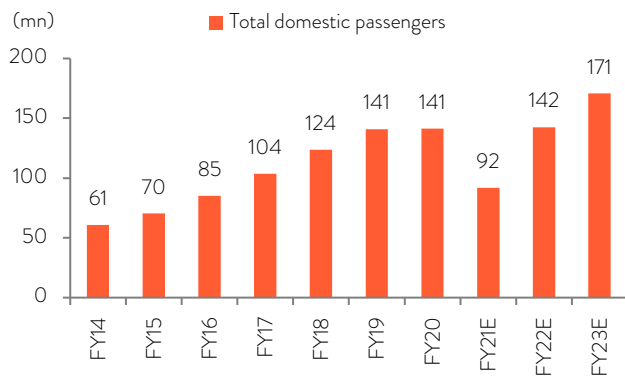


FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
ASK (mn)	8,900	24,200	(63.2)	2,100	323.8	11,000	47,460	(76.8)
RASK (Rs)	3.1	3.3	(8.0)	3.7	(15.6)	2.2	2.5	(9.0)
Net Revenues	27,410	81,052	(66.2)	7,667	257.5	35,077	175,253	(80.0)
Total Income (A)	27,410	81,052	(66.2)	7,667	257.5	35,077	175,253	(80.0)
Operating Expenses:								
Aircraft Fuel Cost	6,505	31,557	(79.4)	1,313	395.3	7,819	63,336	(87.7)
Employee Expenses	6,786	12,063	(43.7)	9,444	(28.1)	16,230	23,144	(29.9)
Other Expenses	12,055	37,574	(67.9)	13,043	(7.6)	25,098	63,629	(60.6)
Total Expenditure (B)	25,346	81,194	(68.8)	23,801	6.5	49,147	150,109	(67.3)
EBITDA (A-B)	2,063	(142)	NA	(16,134)	NA	(14,070)	25,144	NA
Other Income	2,878	4,346	(33.8)	3,771	(23.7)	6,649	8,015	(17.0)
Depreciation	11,264	10,287	9.5	10,966	2.7	22,230	19,296	15.2
EBIT	(6,322)	(6,084)	NA	(23,328)	NA	(29,651)	13,862	NA
Finance Costs	5,625	4,235	32.8	5,097	10.4	10,723	9,077	18.1
PBT before excep items	(11,948)	(10,318)	NA	(28,426)	NA	(40,373)	4,786	NA
Tax expense	-	302	NA	17	(100.0)	17	3,364	(99.5)
Reported PAT	(11,948)	(10,620)	NA	(28,443)	NA	(40,390)	1,422	NA
Adjusted PAT	(11,948)	(10,620)	NA	(28,443)	NA	(40,390)	1,422	NA
EPS (Rs)	(31.1)	(27.6)	NA	(73.9)	NA	(105.0)	3.7	NA

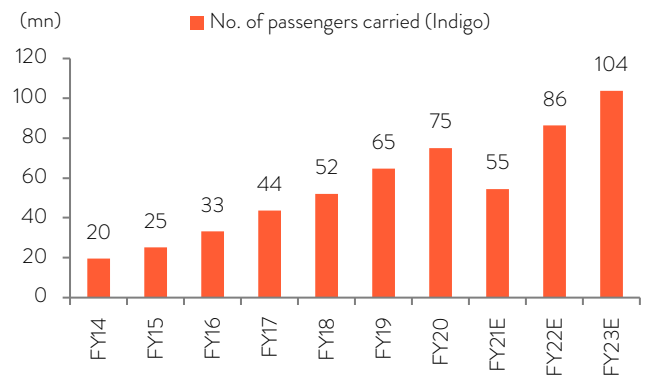
Source: Company, BOBCAPS Research

FIG 2 – DOMESTIC PASSENGER GROWTH EXPECTED AT 7% CAGR DURING FY20-FY23E



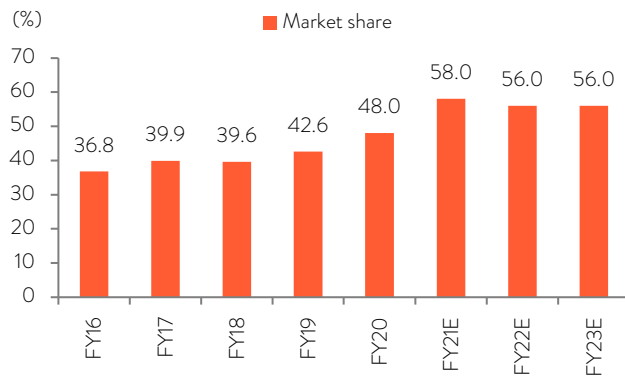
Source: DGCA, BOBCAPS Research

FIG 3 – INDIGO EXPECTED TO OUTPERFORM INDUSTRY GROWTH DURING FY20-FY23E AT 11%



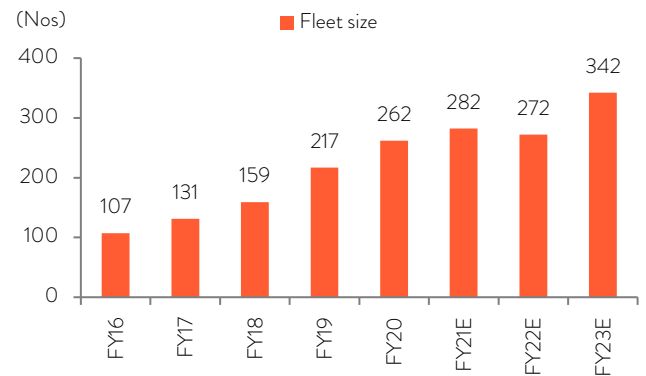
Source: DGCA, BOBCAPS Research

FIG 4 – INDIGO CONSISTENTLY GAINING MARKET SHARE



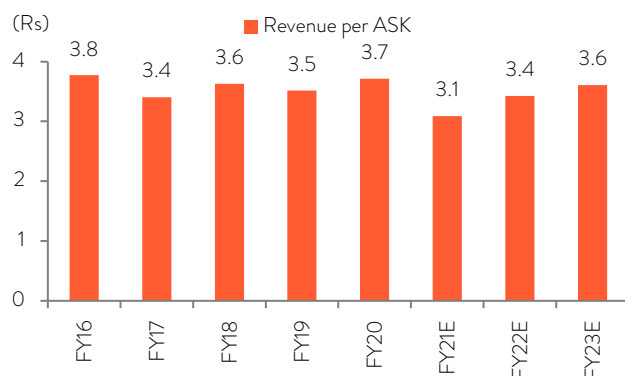
Source: DGCA, BOBCAPS Research

FIG 5 – ADDING SIGNIFICANT CAPACITY TO CAPTURE GROWTH



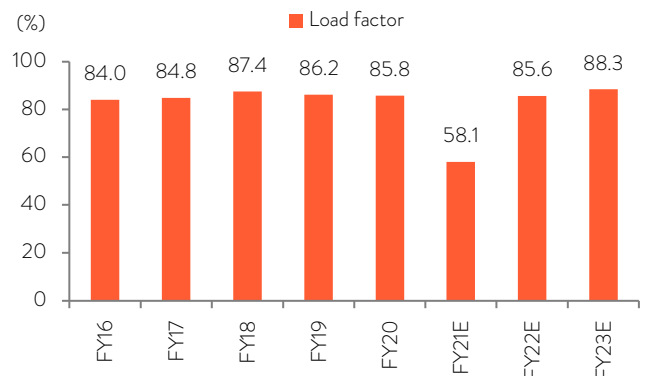
Source: Company, BOBCAPS Research | Note: Year-end fleet size

FIG 6 – REVENUE PER AVAILABLE SEAT KM (ASK) EXPECTED TO IMPROVE



Source: Company, BOBCAPS Research

FIG 7 – HIGHER CAPACITY UTILISATION TO BOLSTER PROFITABILITY



Source: Company, BOBCAPS Research

Valuation methodology

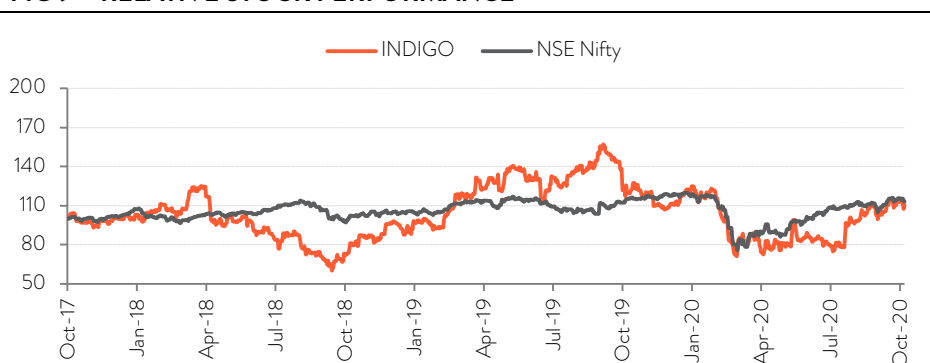
Management intends to add ~80 aircraft to its fleet over FY20-FY23 vs. 117 expected earlier. We thus cut our revenue estimates by ~15% for FY21 and ~8% each for FY22 and FY23. However, due to lower capacity utilisation and the high fixed-cost nature of business, the reduction in fleet size turns beneficial for IndiGo by way of improving its operating margins – our EPS estimates thus remain largely intact. We maintain our Sep’21 TP at Rs 1,750 and continue to value the stock at 9x Sep’22E adj. EV/EBITDAR.

FIG 8 – REVISED ESTIMATES

(Rs mn)	FY21E	FY22E	FY23E
New estimates			
Revenues	239,237	390,358	487,167
EBITDA	7,507	54,552	74,335
OPM (%)	3.1	14.0	15.3
Adj. PAT	(36,973)	9,014	26,630
EPS (Rs)	(96)	23	69
Old estimates			
Revenues	280,996	424,002	524,066
EBITDA	(45,829)	46,516	71,842
OPM (%)	9.4	10.3	10.6
Adj. PAT	(59,704)	9,001	26,939
EPS	(155)	23	70
Change (%)			
Revenues	(14.9)	(7.9)	(7.0)
EBITDA	NA	17.3	3.5
OPM (bps)	(66.7)	35.7	43.9
Adj. PAT	NA	0.1	(1.1)
EPS	NA	0.1	(1.1)

Source: BOBCAPS Research

FIG 9 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- Sudden jump in crude prices and rupee depreciation
- Slower-than-expected passenger traffic growth

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	284,968	357,560	239,237	390,358	487,167
EBITDA	(5,354)	40,382	7,507	54,552	74,335
Depreciation	7,596	39,736	38,076	41,643	42,579
EBIT	300	16,008	(16,320)	28,508	50,205
Net interest income/(expenses)	(5,634)	(18,759)	(20,653)	(17,903)	(14,603)
Other income/(expenses)	13,249	15,362	14,249	15,599	18,449
Exceptional items	0	0	0	0	0
EBT	(5,334)	(2,751)	(36,973)	10,605	35,602
Income taxes	(3,052)	(269)	0	1,591	8,972
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	(2,283)	(2,482)	(36,973)	9,014	26,630
Adjustments	0	0	0	0	0
Adjusted net profit	(2,283)	(2,482)	(36,973)	9,014	26,630

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	14,552	15,655	13,932	12,265	16,205
Other current liabilities	61,408	134,469	144,702	190,653	211,172
Provisions	1,669	13,982	13,951	13,951	13,951
Debt funds	24,292	3,466	3,466	3,466	3,466
Other liabilities	78,104	194,289	174,289	144,289	114,289
Equity capital	3,844	3,848	3,848	3,848	3,848
Reserves & surplus	65,604	54,777	17,804	19,122	34,208
Shareholders' fund	69,448	58,625	21,652	22,970	38,056
Total liabilities and equities	249,473	420,485	371,992	387,594	397,138
Cash and cash eq.	86,064	108,294	77,749	85,344	102,830
Accounts receivables	3,625	2,596	2,622	3,743	4,004
Inventories	2,114	2,861	1,966	2,888	3,337
Other current assets	24,065	15,371	15,075	21,389	24,025
Investments	65,167	94,992	94,992	99,992	104,992
Net fixed assets	56,620	167,446	150,663	145,313	129,027
CWIP	236	1,738	1,738	1,738	1,738
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(644)	2,950	2,950	2,950	2,950
Other assets	12,226	24,236	24,236	24,236	24,236
Total assets	249,473	420,485	371,992	387,594	397,138

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	5,313	37,255	1,103	50,656	69,209
Interest expenses	(5,634)	(18,759)	(20,653)	(17,903)	(14,603)
Non-cash adjustments	(13,249)	(15,362)	(14,249)	(15,599)	(18,449)
Changes in working capital	37,342	199,626	(10,355)	5,927	(8,887)
Other operating cash flows	3,364	(6,169)	0	0	0
Cash flow from operations	27,135	196,590	(44,154)	23,082	27,271
Capital expenditures	(18,340)	(152,064)	(21,293)	(36,293)	(26,293)
Change in investments	(1,727)	(29,825)	0	(5,000)	(5,000)
Other investing cash flows	13,249	15,362	14,249	15,599	18,449
Cash flow from investing	(6,817)	(166,526)	(7,044)	(25,694)	(12,844)
Equities issued/Others	0	447	0	0	0
Debt raised/repaid	(235)	(20,826)	0	0	0
Interest expenses	(5,634)	(18,759)	(20,653)	(17,903)	(14,603)
Dividends paid	(2,306)	(2,318)	0	(7,696)	(11,544)
Other financing cash flows	(3,052)	(3,594)	0	0	0
Cash flow from financing	(11,228)	(45,049)	(20,653)	(25,599)	(26,147)
Changes in cash and cash eq.	9,091	(14,985)	(71,851)	(28,211)	(11,721)
Closing cash and cash eq.	86,064	108,294	77,749	85,344	102,830

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	(5.9)	(6.4)	(96.1)	23.4	69.2
Adjusted EPS	(5.9)	(6.4)	(96.1)	23.4	69.2
Dividend per share	6.0	5.0	0.0	20.0	30.0
Book value per share	180.7	152.4	56.3	59.7	98.9

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	1.6	1.2	1.7	1.2	1.0
EV/EBITDA	(84.0)	10.6	55.7	8.5	6.5
Adjusted P/E	(224.1)	(206.4)	(13.9)	56.8	19.2
P/BV	7.4	8.7	23.7	22.3	13.5

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	42.8	90.2	100.0	85.0	74.8
Interest burden (PBT/EBIT)	(1780.2)	(17.2)	226.6	37.2	70.9
EBIT margin (EBIT/Revenue)	0.1	4.5	(6.8)	7.3	10.3
Asset turnover (Revenue/Avg TA)	177.9	167.0	105.0	210.9	298.4
Leverage (Avg TA/Avg Equity)	2.3	3.3	5.7	8.3	5.4
Adjusted ROAE	(3.3)	(3.9)	(92.1)	40.4	87.3

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	23.8	25.5	(33.1)	63.2	24.8
EBITDA	NA	NA	NA	NA	36.3
Adjusted EPS	NA	NA	NA	NA	195.4
Profitability & Return ratios (%)					
EBITDA margin	(1.9)	11.3	3.1	14.0	15.3
EBIT margin	0.1	4.5	(6.8)	7.3	10.3
Adjusted profit margin	(0.8)	(0.7)	(15.5)	2.3	5.5
Adjusted ROAE	(3.3)	(4.2)	(170.8)	39.2	70.0
ROCE	0.1	6.7	(7.2)	13.1	23.0
Working capital days (days)					
Receivables	4	3	4	3	3
Inventory	3	3	4	2	2
Payables	37	44	70	42	35
Ratios (x)					
Gross asset turnover	0.3	0.5	0.8	0.6	0.5
Current ratio	1.5	0.8	0.6	0.5	0.6
Net interest coverage ratio	(0.1)	(0.9)	0.8	(1.6)	(3.4)
Adjusted debt/equity	1.5	3.4	8.2	6.4	3.1

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

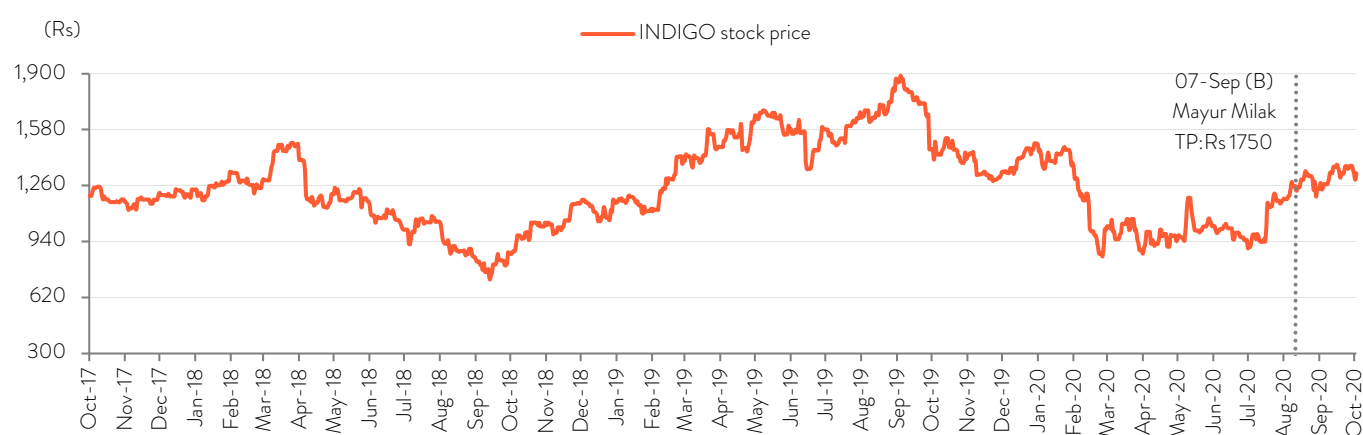
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): INTERGLOBE AVIATION (INDIGO IN)



B – Buy, A – Add, R – Reduce, S – Sell

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