

SELL

TP: Rs 1,100 | ▼ 31%

INTERGLOBE AVIATION | Airlines

28 January 2021

Rising fuel costs to burn earnings; cut to SELL

InterGlobe Aviation's (IndiGo) Q3FY21 RASK stood at Rs 3.2. EBITDA was at Rs 6.4bn but higher interest & depreciation led to a net loss of Rs 6.2bn. While IndiGo is poised for a revenue rebound given the easing of lockdowns, its market leadership (~55% share), ready capacity, sound balance sheet and firmer footing vis-à-vis peers, we believe the surge in crude costs will dent profits. We downgrade the stock from BUY to SELL as we cut FY23 PAT 45%, reset our EV/EBITDAR multiple down to 6.5x and roll over to a new Mar'22 TP of Rs 1,100 (vs. Rs 1,750).

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Disappointing Q3: Revenue plunged 51% YoY to Rs 49.1bn in Q3. RASK was in line with our estimate at Rs 3.2 (excluding other income). Management mentioned that while the earlier part of the quarter reported strong RASK, the latter period saw some pressure which impacted profitability. EBITDA totalled Rs 6.4bn but IndiGo reported an adjusted net loss of Rs 6.2bn owing to higher interest and depreciation costs.

Ticker/Price	INDIGO IN/Rs 1,593
Market cap	US\$ 8.4bn
Shares o/s	385mn
3M ADV	US\$ 39.0mn
52wk high/low	Rs 1,787/Rs 771
Promoter/FPI/DII	75%/15%/7%

Source: NSE

Expect steady growth recovery but rising fuel costs to erode profits: We believe IndiGo is in a sweet spot for growth over the next two years given a benign USDINR, the vulnerability of most of its peers (in terms of negative net worth and massive cash burn), and a strong balance sheet. Nevertheless, the sharp jump in crude cost is expected to severely erode profitability in the near-to-mid-term.

STOCK PERFORMANCE



Source: NSE

Cut to SELL: Despite assuming sharp traffic growth and improvement in RASK, surging crude prices prompt us to slash our FY23 PAT estimate by 45%. We now value IndiGo at 6.5x adj. EV/EBITDAR (earlier 9x) and roll valuations forward to Mar'23, translating to a reduced target price of Rs 1,100 (earlier Rs 1,750). Downgrade from BUY to SELL.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	284,968	357,560	150,742	332,082	427,555
EBITDA (Rs mn)	(5,354)	40,382	(1,555)	42,059	65,151
Adj. net profit (Rs mn)	(2,283)	(2,482)	(52,717)	(6,675)	14,636
Adj. EPS (Rs)	(5.9)	(6.4)	(137.0)	(17.3)	38.0
Adj. EPS growth (%)	NA	NA	NA	NA	
Adj. ROAE (%)	(3.3)	(4.2)	(892.4)	78.9	(272.5)
Adj. P/E (x)	(268.2)	(247.0)	(11.6)	(91.8)	41.9
EV/EBITDA (x)	(102.8)	13.0	(333.5)	14.2	9.8

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
ASK (mn)	15,300	25,800	(40.7)	8,900	71.9	26,300	73,260	(64.1)
RASK (Rs)	3.2	3.8	(16.6)	3.1	4.2	3.3	3.7	(11.6)
Net Revenues	49,100	99,317	(50.6)	27,410	79.1	84,177	274,570	(69.3)
Total Income (A)	49,100	99,317	(50.6)	27,410	79.1	84,177	274,570	(69.3)
Operating Expenses:								
Aircraft Fuel Cost	11,610	33,869	(65.7)	6,505	78.5	19,429	97,205	(80.0)
Employee Expenses	8,021	12,501	(35.8)	6,786	18.2	24,251	35,645	(32.0)
Other Expenses	23,069	36,184	(36.2)	12,055	91.4	48,168	99,813	(51.7)
Total Expenditure (B)	42,700	82,554	(48.3)	25,346	68.5	91,848	232,664	(60.5)
EBITDA (A-B)	6,400	16,762	(61.8)	2,063	210.2	(7,671)	41,906	NA
Other Income	4,351	3,985	9.2	2,878	51.2	11,000	12,000	(8.3)
Depreciation	11,567	10,377	11.5	11,264	2.7	33,797	29,674	13.9
EBIT	(816)	10,370	NA	(6,322)	NA	(30,467)	24,232	NA
Finance Costs	5,415	4,805	12.7	5,625	(3.7)	16,138	13,881	16.3
PBT before excep items	(6,231)	5,565	NA	(11,948)	NA	(46,605)	10,351	NA
Tax expense	(30)	606	NA	-	NA	(46,605)	10,351	NA
Reported PAT	(6,202)	4,960	NA	(11,948)	NA	(13)	3,970	NA
Adjusted PAT	(6,202)	4,960	NA	(11,948)	NA	(46,592)	6,381	NA
EPS (Rs)	(16.1)	12.9	NA	(31.1)	NA	(46,592)	6,381	NA

Source: Company, BOBCAPS Research

Valuation methodology

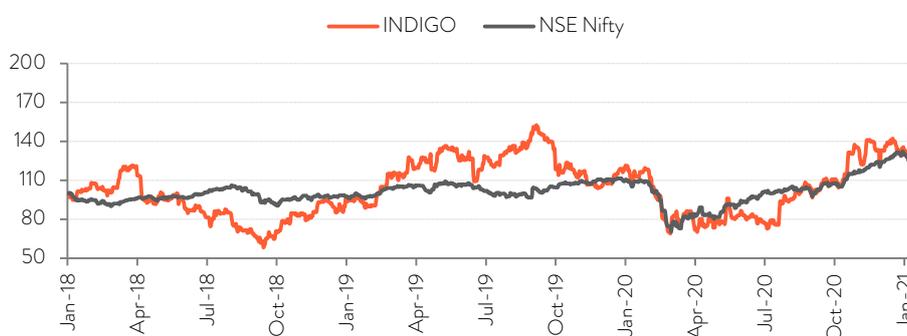
We believe IndiGo is poised for steady revenue recovery given easing of Covid lockdowns, its market leadership (~55% share), ready capacity, sound balance sheet and firmer footing vis-à-vis peers. Despite assuming sharp traffic growth and improvement in RASK, we believe surging crude prices will erode profitability in the near-to-mid-term – this prompts us to slash our FY23 PAT estimate by 45%. We now value IndiGo at 6.5x adj. EV/EBITDAR (earlier 9x) and roll valuations forward to Mar’23, translating to a reduced target price of Rs 1,100 (earlier Rs 1,750). Downgrade from BUY to SELL.

FIG 2 – REVISED ESTIMATES

(Rs mn)	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenues	150,742	332,082	427,555	239,237	390,358	487,167	(37.0)	(14.9)	(12.2)
EBITDA	(1,555)	42,059	65,151	7,507	54,552	74,335	NA	(22.9)	(12.4)
OPM (%)	(1.0)	12.7	15.2	3.1	14.0	15.3	(417bps)	(130bps)	(2bps)
Adj. PAT	(52,717)	(6,675)	14,636	(36,973)	9,014	26,630	NA	NA	(45.0)
EPS (Rs)	(137)	(17)	38	(96)	23	69	NA	NA	(45.0)

Source: BOBCAPS Research

FIG 3 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- Sudden fall in crude prices and rupee appreciation
- Faster-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	150,742	332,082	427,555
EBITDA	(5,354)	40,382	(1,555)	42,059	65,151
Depreciation	7,596	39,736	45,691	48,218	50,093
EBIT	300	16,008	(32,047)	10,415	33,506
Net interest income/(expenses)	(5,634)	(18,759)	(20,653)	(17,089)	(13,939)
Other income/(expenses)	13,249	15,362	15,199	16,574	18,449
Exceptional items	0	0	0	0	0
EBT	(5,334)	(2,751)	(52,700)	(6,675)	19,567
Income taxes	(3,052)	(269)	17	0	4,931
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	(2,283)	(2,482)	(52,717)	(6,675)	14,636
Adjustments	0	0	0	0	0
Adjusted net profit	(2,283)	(2,482)	(52,717)	(6,675)	14,636

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	14,552	15,655	11,630	9,907	15,395
Other current liabilities	61,408	134,469	114,990	163,719	184,918
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	2,059	(12,311)	(9,219)
Shareholders' fund	69,448	58,625	5,907	(8,463)	(5,371)
Total liabilities and equities	249,473	420,485	324,233	326,869	326,648
Cash and cash eq.	86,064	108,294	44,879	42,993	57,882
Accounts receivables	3,625	2,596	1,652	3,184	3,514
Inventories	2,114	2,861	1,239	2,456	2,928
Other current assets	24,065	15,371	9,499	18,196	21,085
Investments	65,167	94,992	94,992	99,992	104,992
Net fixed assets	56,620	167,446	143,048	131,123	107,323
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	324,233	326,869	326,648

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	5,313	37,255	(7,027)	41,543	64,729
Interest expenses	(5,634)	(18,759)	(20,653)	(17,089)	(13,939)
Non-cash adjustments	(13,249)	(15,362)	(15,199)	(16,574)	(18,449)
Changes in working capital	37,342	199,626	(35,096)	5,559	(7,003)
Other operating cash flows	3,364	(6,169)	0	0	0
Cash flow from operations	27,135	196,590	(77,974)	13,439	25,338
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	15,199	16,574	18,449
Cash flow from investing	(6,817)	(166,526)	(6,094)	(24,719)	(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)	(17,089)	(13,939)
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)	(24,785)	(25,483)
Changes in cash and cash eq.	9,091	(14,985)	(104,721)	(36,065)	(12,989)
Closing cash and cash eq.	86,064	108,294	44,879	42,993	57,882

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	(5.9)	(6.4)	(137.0)	(17.3)	38.0
Adjusted EPS	(5.9)	(6.4)	(137.0)	(17.3)	38.0
Dividend per share	6.0	5.0	0.0	20.0	30.0
Book value per share	180.7	152.4	15.4	(22.0)	(14.0)

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	1.9	1.5	3.4	1.8	1.5
EV/EBITDA	(102.8)	13.0	(333.5)	14.2	9.8
Adjusted P/E	(268.2)	(247.0)	(11.6)	(91.8)	41.9
P/BV	8.8	10.5	103.8	(72.4)	(114.1)

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	42.8	90.2	100.0	100.0	74.8
Interest burden (PBT/EBIT)	(1780.2)	(17.2)	164.4	(64.1)	58.4
EBIT margin (EBIT/Revenue)	0.1	4.5	(21.3)	3.1	7.8
Asset turnover (Revenue/Avg TA)	177.9	167.0	68.5	205.7	339.8
Leverage (Avg TA/Avg Equity)	2.3	3.3	6.8	(126.3)	(18.2)
Adjusted ROAE	(3.3)	(3.9)	(163.4)	522.2	(211.6)

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	(57.8)	120.3	28.8
EBITDA	NA	NA	NA	NA	54.9
Adjusted EPS	NA	NA	NA	NA	
Profitability & Return ratios (%)					
EBITDA margin	(1.9)	11.3	(1.0)	12.7	15.2
EBIT margin	0.1	4.5	(21.3)	3.1	7.8
Adjusted profit margin	(0.8)	(0.7)	(35.0)	(2.0)	3.4
Adjusted ROAE	(3.3)	(4.2)	(892.4)	78.9	(272.5)
ROCE	0.1	6.7	(14.6)	6.4	19.9
Working capital days (days)					
Receivables	4	3	5	3	3
Inventory	3	3	5	2	2
Payables	37	44	115	36	33
Ratios (x)					
Gross asset turnover	0.3	0.5	1.3	0.7	0.6
Current ratio	1.5	0.8	0.4	0.4	0.4
Net interest coverage ratio	(0.1)	(0.9)	1.6	(0.6)	(2.4)
Adjusted debt/equity	1.5	3.4	30.1	(17.5)	(21.9)

Source: Company, BOBCAPS Research

Disclaimer

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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