

ADD

TP: Rs 2,000 | ▲ 12%

INTERGLOBE AVIATION

Aviation

09 June 2021

Strong balance sheet, leadership premium – upgrade to ADD

- IndiGo's Q4FY21 RASK came in at Rs 3.3, EBITDAR at Rs 7.3bn was hit by rising fuel costs and the company suffered a Rs 11.6bn net loss
- IndiGo looks poised for a strong revenue recovery given its leadership, ready capacity, sound balance sheet and firm footing vis-à-vis peers
- We raise FY23 EPS and value the stock at 9x FY23E adj. EV/EBITDAR for a new TP of Rs 2,000 (vs. Rs 1,100) – upgrade from SELL to ADD

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Disappointing Q4: IndiGo's Q4 revenue plunged 25% YoY to Rs 62.2bn. RASK was in line with our estimate at Rs 3.3 (excluding other income). Rising fuel costs amidst the ongoing pandemic reduced EBITDAR YoY to Rs 7.3bn, yielding a margin of 11.8% vs. 14.3% reported in Q3FY21. Lower other income, higher interest cost and depreciation induced an adjusted net loss of Rs 11.6bn, translating to negative EPS of Rs 30 for the quarter.

Strong growth recovery expected: A benign USDINR, the vulnerability of most of its peers (negative net worth and massive cash burn), and a strong balance sheet are some of the key factors that put IndiGo in a sweet spot for growth in FY23. Though rising crude cost will impact its profitability in the near-to-mid-term, we believe cost headwinds will immensely weaken the competition, thus giving IndiGo a leadership advantage. Our current FY22-FY23 assumptions for crude stand at US\$ 65/bbl and for the USDINR stand at Rs 73/USD.

FY23 earnings to rebound: We cut our FY22 revenue estimate by 24% owing to the pandemic-linked slowdown but maintain FY23 numbers as normalcy is likely to return by FY22-end. As a result, our EPS for FY22 turns negative at Rs 102 (earlier -Rs 17). IndiGo's decision to maintain its fleet size at 285 but upgrade to more fuel-efficient aircraft will augment earnings in FY23. Accordingly, we revise our FY23 EBITDA estimate upward by 26% and our EPS to 79 (Rs 38 earlier). We are 8% higher than consensus on revenue but 4% lower on EPS for FY23.

Upgrade to ADD: We believe demand recovery for the industry will be postponed to FY23, at which time IndiGo is likely to emerge as the biggest beneficiary given its market leadership (~55% share) over peers, ready capacity and sound balance sheet to tide over the pandemic. Given these positives, we now value the stock at 9x FY23E adj. EV/EBITDAR (from 6.5x earlier), revise our Mar'22 TP from Rs 1,100 to Rs 2,000 and upgrade our rating from SELL to ADD.

Key changes

Target	Rating
▲	▲

Ticker/Price	INDIGO IN/Rs 1,784
Market cap	US\$ 9.4bn
Free float	25%
3M ADV	US\$ 21.8mn
52wk high/low	Rs 1,850/Rs 875
Promoter/FPI/DII	75%/15%/7%

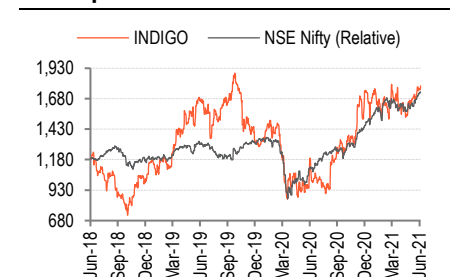
Source: NSE | Price as of 8 Jun 2021

Key financials

Y/E 31 Mar	FY21P	FY22E	FY23E
Total revenue (Rs mn)	146,406	253,899	437,222
EBITDA (Rs mn)	(5,485)	19,487	81,940
Adj. net profit (Rs mn)	(58,298)	(39,373)	30,560
Adj. EPS (Rs)	(151.5)	(102.3)	79.4
Consensus EPS (Rs)	(151.0)	(61.0)	83.0
Adj. ROAE (%)	(8221.5)	101.8	(255.7)
Adj. P/E (x)	(11.8)	(17.4)	22.5
EV/EBITDA (x)	(108.0)	31.0	7.7
Adj. EPS growth (%)	NA	NA	-

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE



Fig 1 – Quarterly performance

(Rs mn)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
ASK (mn)	19,100	22,980	(16.9)	15,300	24.8	45,400	96,240	(52.8)
RASK (Rs)	3.3	3.6	(9.8)	3.2	1.5	3.2	3.7	(13.2)
Net Revenues	62,230	82,990	(25.0)	49,100	26.7	146,406	357,560	(59.1)
Total Income (A)	62,230	82,990	(25.0)	49,100	26.7	146,406	357,560	(59.1)
Operating Expenses:								
Aircraft Fuel Cost	19,440	29,112	(33.2)	11,610	67.4	38,868	126,316	(69.2)
Employee Expenses	7,352	11,455	(35.8)	8,021	(8.3)	31,603	47,100	(32.9)
Other Expenses	28,772	43,948	(34.5)	23,069	24.7	76,940	143,761	(46.5)
Total Expenditure (B)	55,564	84,515	(34.3)	42,700	30.1	147,412	317,178	(53.5)
EBITDA (A-B)	6,665	(1,524)	NA	6,400	4.2	(1,005)	40,382	NA
Other Income	221	3,362	(93.4)	4,351	(94.9)	11,221	15,362	(27.0)
Depreciation	13,195	10,062	31.1	11,567	14.1	46,991	39,736	18.3
EBIT	(6,308)	(8,224)	NA	(816)	NA	(36,775)	16,008	NA
Finance Costs	5,282	4,877	8.3	5,415	(2.4)	21,420	18,758	14.2
PBT before excep items	(11,590)	(13,101)	NA	(6,231)	NA	(58,195)	(2,751)	NA
Tax expense	-	(4,239)	NA	(30)	(100.0)	(13)	(269)	NA
Reported PAT	(11,590)	(8,862)	NA	(6,202)	NA	(58,182)	(2,481)	NA
Adjusted PAT	(11,590)	(8,862)	NA	(6,202)	NA	(58,182)	(2,481)	NA
EPS (Rs)	(30.1)	(23.0)	NA	(16.1)	NA	(151)	(6)	NA

Source: Company, BOBCAPS Research

Valuation methodology

We cut our FY22 revenue estimate by 24% owing to the pandemic-linked slowdown but maintain FY23 numbers as normalcy is likely to return by FY22-end. As a result, our EPS for FY22 turns negative at Rs 102 (earlier -Rs 17). IndiGo's decision to maintain its fleet size at 285 but upgrade to more fuel-efficient aircraft will augment earnings in FY23. Accordingly, we revise our FY23 EBITDA estimate upward by 26% and our EPS to 79 (Rs 38 earlier). We are 8% higher than consensus on revenue but 4% lower on EPS for FY23.

We believe demand recovery for the airlines industry will be postponed to FY23, at which time IndiGo is likely to emerge as the biggest beneficiary given its market leadership (~55% share), ready capacity and sound balance sheet to tide over the pandemic. The sharp increase in crude costs will adversely impact profitability in the near-to-mid- term but also give the company a further advantage over peers (owing to their inability to sustain losses). Given these positives, we now value the stock at 9x FY23E adj. EV/EBITDAR (from 6.5x earlier), revise our Mar'22 TP from Rs 1,100 to Rs 2,000 and upgrade our rating from SELL to ADD.

Fig 2 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenues	253,899	437,222	332,082	427,555	(23.5)	2.3
EBITDA	19,487	81,940	42,059	65,151	(53.7)	25.8
OPM (%)	7.7	18.7	12.7	15.2	(499bps)	350bps
Adj. PAT	(39,373)	30,560	(6,675)	14,636	NA	108.8
EPS (Rs)	(102.3)	79.4	(17.3)	38.0	NA	108.9

Source: BOBCAPS Research

Fig 3 – Key assumptions

Parameter	FY22E	FY23E
Industry passenger traffic (mn)	85.6	141.2
Indigo passenger traffic (mn)	47.1	77.6
Market share (%)	55	55
Load factor (%)	69	77
ASK (mn)	77,168	118,961
RASK (Rs)	3.3	3.7
Crude cost (US\$/bbl)	65.0	65.0
INR/USD (Rs)	73.0	73.0
Fuel CASK (Rs)	1.06	1.01
EBITDAR per ASK (Rs)	0.31	0.75

Source: Company, BOBCAPS Research

Fig 4 – Peer comparison

Company	Rating	Target Price (Rs)	Revenue CAGR FY21-23E (%)	EPS (Rs)		Target EV/EBITDAR (x)
				FY22E	FY23E	
InterGlobe Aviation	ADD	2,000	73	(102)	79.4	9.0
SpiceJet	SELL	70	70	(2.4)	10.7	4.5

Source: BOBCAPS

Key risks

Key downside risks to our estimates are:

- a sudden rise in crude prices and rupee depreciation,
- lower-than-expected passenger traffic growth, and
- any loss in market share.

Fig 5 – Sector recommendation snapshot

Stock	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
InterGlobe Aviation	INDIGO IN	9	1,784	2,000	ADD
SpiceJet	SJET IN	1	80	70	SELL

Source: BOBCAPS Research, NSE | Price as of 8 Jun 2021

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue	284,968	357,560	146,406	253,899	437,222
EBITDA	(5,354)	40,382	(5,485)	19,487	81,940
Depreciation	7,596	39,736	46,987	54,890	60,279
EBIT	300	16,008	(36,878)	(15,852)	52,612
Net interest inc./(exp.)	(5,634)	(18,759)	(21,420)	(23,522)	(22,052)
Other inc./(exp.)	13,249	15,362	15,594	19,551	30,951
Exceptional items	0	0	0	0	0
EBT	(5,334)	(2,751)	(58,298)	(39,373)	30,560
Income taxes	(3,052)	(269)	0	0	0
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	(2,283)	(2,482)	(58,298)	(39,373)	30,560
Adjustments	0	0	0	0	0
Adjusted net profit	(2,283)	(2,482)	(58,298)	(39,373)	30,560

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Accounts payables	14,552	15,655	15,561	19,849	24,878
Other current liabilities	61,408	134,469	157,359	222,875	274,834
Provisions	1,669	13,982	16,098	16,067	16,067
Debt funds	24,292	3,466	3,816	3,816	3,816
Other liabilities	78,104	194,289	236,199	236,199	206,199
Equity capital	3,844	3,848	3,849	3,849	3,849
Reserves & surplus	65,604	54,777	(3,140)	(42,513)	(15,802)
Shareholders' fund	69,448	58,625	709	(38,664)	(11,953)
Total liab. and equities	249,473	420,485	429,743	460,142	513,842
Cash and cash eq.	86,064	108,294	112,271	102,438	115,031
Accounts receivables	3,625	2,596	2,192	4,174	5,989
Inventories	2,114	2,861	3,164	4,869	7,187
Other current assets	24,065	15,371	15,626	24,347	35,936
Investments	65,167	94,992	72,900	132,900	192,900
Net fixed assets	56,620	167,446	189,276	160,049	125,434
CWIP	236	1,738	1,050	1,050	1,050
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(644)	2,950	2,949	0	0
Other assets	12,226	24,236	30,316	30,316	30,316
Total assets	249,473	420,485	429,743	460,142	513,842

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Cash flow from operations	27,135	196,590	12,647	29,809	49,103
Capital expenditures	(18,340)	(152,064)	(68,128)	(25,664)	(25,664)
Change in investments	(1,727)	(29,825)	22,092	(60,000)	(60,000)
Other investing cash flows	13,249	15,362	15,594	19,551	30,951
Cash flow from investing	(6,817)	(166,526)	(30,443)	(66,113)	(54,713)
Equities issued/Others	0	447	1	0	0
Debt raised/repaid	(235)	(20,826)	350	0	0
Interest expenses	(5,634)	(18,759)	(21,420)	(23,522)	(22,052)
Dividends paid	(2,306)	(2,318)	0	0	(3,849)
Other financing cash flows	(3,052)	(3,594)	0	2,949	0
Cash flow from financing	(11,228)	(45,049)	(21,068)	(20,572)	(25,901)
Chg in cash & cash eq.	9,091	(14,985)	(38,863)	(56,875)	(31,510)
Closing cash & cash eq.	86,064	108,294	112,271	102,438	115,031

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21P	FY22E	FY23E
Reported EPS	(5.9)	(6.4)	(151.5)	(102.3)	79.4
Adjusted EPS	(5.9)	(6.4)	(151.5)	(102.3)	79.4
Dividend per share	6.0	5.0	0.0	0.0	10.0
Book value per share	180.7	152.4	1.8	(100.4)	(31.1)

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21P	FY22E	FY23E
EV/Sales	2.2	1.7	4.0	2.4	1.4
EV/EBITDA	(116.6)	14.9	(108.0)	31.0	7.7
Adjusted P/E	(300.5)	(276.7)	(11.8)	(17.4)	22.5
P/BV	9.9	11.7	968.6	(17.8)	(57.5)

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21P	FY22E	FY23E
Tax burden (Net profit/PBT)	42.8	90.2	100.0	100.0	100.0
Interest burden (PBT/EBIT)	(1780.2)	(17.2)	158.1	248.4	58.1
EBIT margin (EBIT/Revenue)	0.1	4.5	(25.2)	(6.2)	12.0
Asset turnover (Rev./Avg TA)	177.9	167.0	58.9	114.9	218.9
Leverage (Avg TA/Avg Equity)	2.3	3.3	8.4	(11.6)	(7.9)
Adjusted ROAE	(3.3)	(3.9)	(196.5)	207.5	(120.8)

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
YoY growth (%)					
Revenue	23.8	25.5	(59.1)	73.4	72.2
EBITDA	NA	NA	NA	NA	320.5
Adjusted EPS	NA	NA	NA	NA	
Profitability & Return ratios (%)					
EBITDA margin	(1.9)	11.3	(3.7)	7.7	18.7
EBIT margin	0.1	4.5	(25.2)	(6.2)	12.0
Adjusted profit margin	(0.8)	(0.7)	(39.8)	(15.5)	7.0
Adjusted ROAE	(3.3)	(4.2)	(8221.5)	101.8	(255.7)
ROCE	0.1	6.7	(14.8)	(7.2)	26.3
Working capital days (days)					
Receivables	4	3	6	5	4
Inventory	3	3	8	6	5
Payables	37	44	147	79	68
Ratios (x)					
Gross asset turnover	0.3	0.5	1.7	1.1	0.7
Current ratio	1.5	0.8	0.7	0.5	0.5
Net interest coverage ratio	(0.1)	(0.9)	1.7	0.7	(2.4)
Adjusted debt/equity	1.5	3.4	338.5	(6.2)	(17.6)

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

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

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

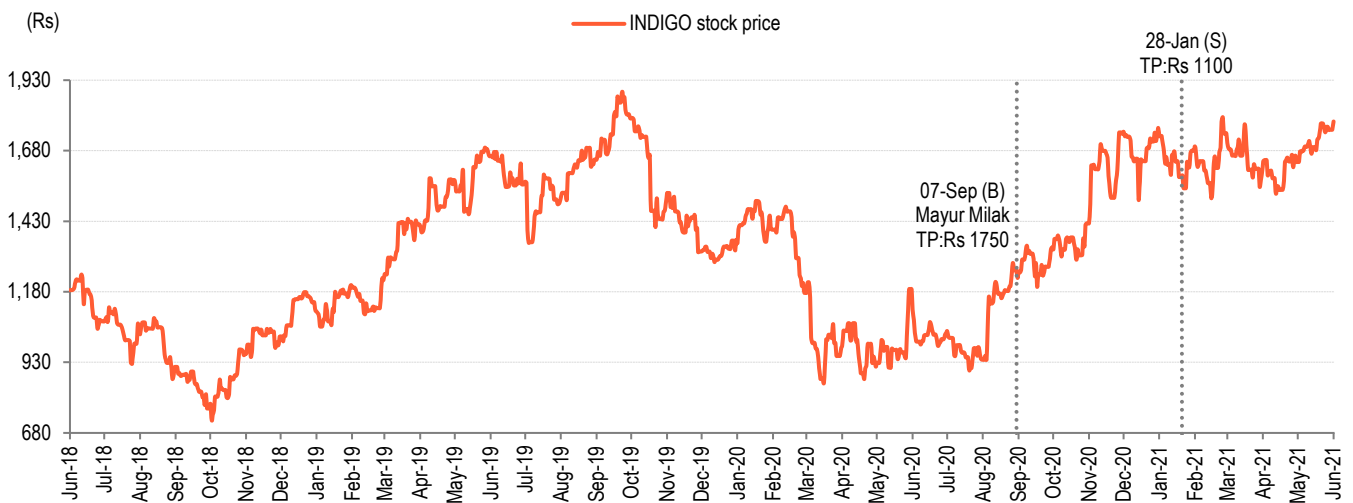
REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

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

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): INTERGLOBE AVIATION (INDIGO IN)



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

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