

INTERGLOBE AVIATION (INDIGO)

AVIATION

BUY

Target Price: Rs 1,446

Records highest ever profit

InterGlobe Aviation (Indigo) reported its highest ever PAT of Rs 8.1 bn, driven by strong traffic growth (RPK growth of 25% YoY), improved load factor (88% vs. 83% in Q1FY17) and firming up of yields (up 2% YoY).

Management lowered its guidance for ASK growth in FY18 to 20% (22% earlier) on account of unavailability of sufficient replacement engines from P&W and delay in the delivery of A320 neos. However, the management is confident that P&W will be able to resolve the engine issues over the next 1 year.

Indigo is well placed to capture market share (currently at ~40%) led by its capacity expansion. Moreover, yields have stabilized, which should ease pressure on margin (which we saw in FY17) for the industry and more so for Indigo due to its lowest cost and fuel efficient aircrafts.

CMP : Rs 1,291
Potential Upside : 12%

MARKET DATA

No. of Shares : 362 mn
Free Float : 14%
Market Cap : Rs 467 bn
52-week High / Low : Rs 1,317 / Rs 790
Avg. Daily vol. (6mth) : 596,457 shares
Bloomberg Code : INDIGO IB Equity
Promoters Holding : 86%
FII / DII : 6% / 3%

Key highlights

- ◆ Indigo added 4 planes (including 3 A320neos) in Q1 to close at fleet size of 135 (of which 22 are A320neos)
- ◆ Update on engine issues with P&W: Issues pertain to wearing of combustor chamber lining and no.3 bearing seal. However, sufficient engine replacements are not available (from P&W) on account of which A320 neos need to be grounded which is impacting operational reliability. Further, there continues to be a delay in the delivery time line for A320 neos; as a result, the company expects to close at less than 170 aircrafts by Mar '18 as guided earlier
- ◆ Update on Turboprop operations: The documentation work for the purchase agreements with the aircraft and engine manufacturers is in progress and expects to launch commercial operations by end of CY17
- ◆ Update on Air India acquisition: Management highlighted it will only venture if it is EPS accretive. It is awaiting clarity on the steps to be undertaken by the government for the divestment
- ◆ Indigo would look at purchasing aircrafts in future (vs. the current sale and lease back model) as it believes the ownership cost would be lower with no risk of technology obsolescence and no impact on profitability

Financial summary (Consolidated)

Y/E March	FY16	FY17	FY18E	FY19E
Revenue (Rs mn)	161,399	185,805	223,879	278,473
EBITDA (Rs mn)	31,180	21,433	32,112	41,509
PAT (Rs mn)	19,862	16,591	23,309	30,351
EPS (Rs.)	54.9	45.9	64.5	84.0
Change YOY (%)	52.3	(16.5)	40.5	30.2
RoCE (%)	37.4	25.4	32.2	37.1
RoE (%)	175.7	59.1	54.8	56.9
EV/E (x)	14.4	19.1	12.2	8.9
P/E (x)	23.5	28.1	20.0	15.4
DPS (Rs)	30.5	23.0	32.2	42.0

Source: Company, Axis Capital

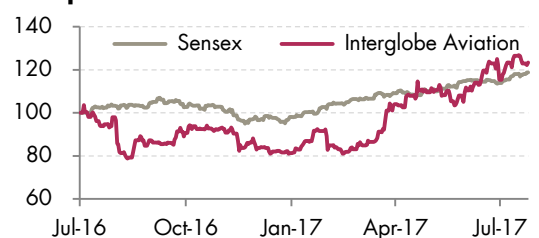
ASK – Available Seat Kilometer; RPK – Revenue Passenger Kilometer

EBITDAR – EBITDA before lease rentals

Key drivers

	Q1'18	Q1'17	%YoY	Q4'17	% QoQ
RPK (bn)	13.3	10.6	25%	12.2	9%
Load factor (%)	88.0%	83.3%	-	86.1%	-
Yield (Rs/ KM)	3.83	3.75	2%	3.50	9%
CASK (Rs)	3.08	3.04	1%	3.08	0%

Price performance



Estimates and valuation

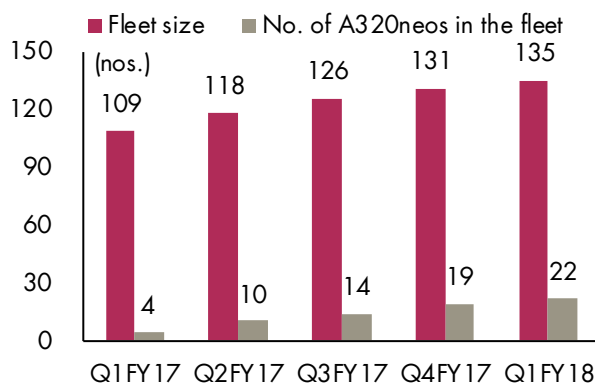
We make changes to our assumptions for yields (1% YoY increase in FY18/FY19 vs. decline of 2%/ flat in FY18/FY19 earlier), fuel prices (lowered by ~10% in FY18 and FY19) and INR/ USD (65 vs. 67 earlier). Consequently, our EPS for FY18/ FY19 stand revised to Rs 64.5/ 84 (vs. Rs 56/ 71 earlier). Additionally, we marginally lower our fleet addition estimates to 162 by Mar '18 (from 170 earlier). **Our revised TP stands at Rs 1,446 (Rs 1,318 earlier). Maintain BUY.**

Exhibit 1: Results update

(Rs mn)	Quarter ended					12 months ended		
	Jun-17	Jun-16	% Chg	Mar-17	% Chg	FY18E	FY17	% Chg
Net Sales	57,529	45,789	25.6	48,482	18.7	223,879	185,805	20.5
EBITDAR	13,322	15,085	(11.7)	14,408	(7.5)	67,966	52,686	29.0
EBIDTA	10,970	8,152	34.6	5,080	115.9	32,112	21,433	49.8
Other income	2,026	1,626	24.6	2,938	(31.0)	8,060	7,891	2.1
PBIDT	12,997	9,778	32.9	8,018	62.1	40,172	29,323	37.0
Depreciation	983	1,148	(14.4)	1,052	(6.5)	4,872	4,573	6.5
Interest	770	1,163	(33.8)	777	(0.9)	2,926	3,308	(11.5)
PBT	11,243	7,467	50.6	6,190	81.7	32,374	21,443	51.0
Tax	3,132	1,549	102.2	1,786	75.3	9,065	4,852	-
Adjusted PAT	8,111	5,918	37.1	4,403	84.2	23,309	16,591	40.5
No. of shares (mn)	361	361	-	361	-	361	361	-
EBIDTAR margin (%)	23.2	32.9	-	29.7	-	30	28	-
EBIDTA margin (%)	19.1	17.8	-	10.5	-	14.3	11.5	-
PBIDT margin (%)	22.6	21.4	-	16.5	-	17.9	15.8	-
EPS - annualized (Rs.)	89.8	65.5	37.1	48.7	84.2	64.5	45.9	40.5

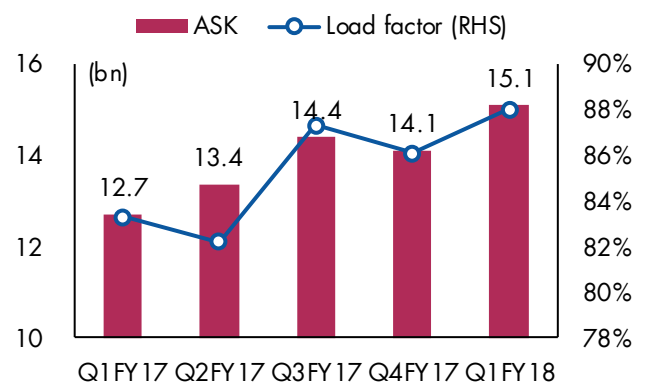
Source: Company, Axis Capital

Exhibit 2: Fleet growth



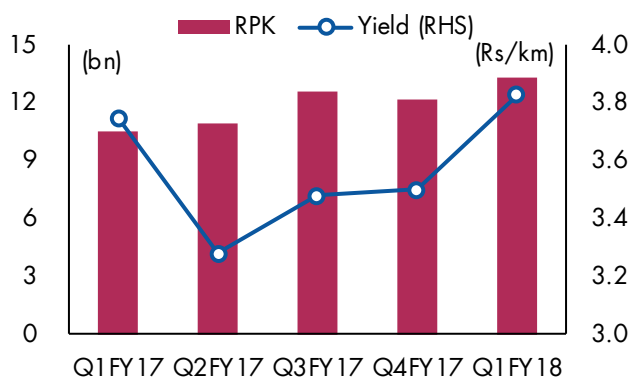
Source: Company

Exhibit 3: Capacity and volume growth



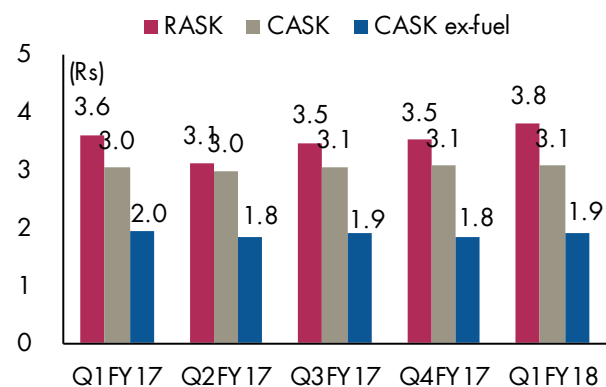
Source: Company

Exhibit 4: Trend in passengers and yields



Source: Company

Exhibit 5: Trend in unit profitability



Source: Company

Financial summary (Consolidated)

Profit & loss (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Net sales	160,644	185,805	222,891	277,498
Other operating income	755	-	988	975
Total operating income	161,399	185,805	223,879	278,473
Cost of goods sold	(48,930)	(64,651)	(79,174)	(97,591)
Gross profit	112,469	121,154	144,704	180,881
<i>Gross margin (%)</i>	<i>70.0</i>	<i>65.2</i>	<i>64.9</i>	<i>65.2</i>
Total operating expenses	(81,290)	(99,722)	(112,592)	(139,372)
EBITDA	31,180	21,433	32,112	41,509
<i>EBITDA margin (%)</i>	<i>19.4</i>	<i>11.5</i>	<i>14.4</i>	<i>15.0</i>
Depreciation	(5,055)	(4,573)	(4,872)	(5,184)
EBIT	26,125	16,860	27,241	36,325
Net interest	(3,041)	(3,308)	(2,926)	(3,221)
Other income	5,151	7,891	8,060	9,050
Profit before tax	28,235	21,443	32,374	42,155
Total taxation	(8,373)	(4,852)	(9,065)	(11,803)
<i>Tax rate (%)</i>	<i>29.7</i>	<i>22.6</i>	<i>28.0</i>	<i>28.0</i>
Profit after tax	19,862	16,591	23,309	30,351
Minorities	-	-	-	-
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	19,862	16,591	23,309	30,351
<i>Adj. PAT margin (%)</i>	<i>12.4</i>	<i>8.9</i>	<i>10.5</i>	<i>10.9</i>
Net non-recurring items	-	-	-	-
Reported net profit	19,862	16,591	23,309	30,351

Balance sheet (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Paid-up capital	3,604	3,615	3,615	3,615
Reserves & surplus	14,739	34,177	43,617	55,910
Net worth	18,343	37,792	47,232	59,524
Borrowing	29,499	25,962	27,242	31,314
Other non-current liabilities	41,680	41,278	39,653	39,813
Total liabilities	89,522	105,032	114,128	130,651
Gross fixed assets	59,442	54,998	58,573	62,219
Less: Depreciation	(12,487)	(17,060)	(21,931)	(27,116)
Net fixed assets	46,955	37,938	36,642	35,104
Add: Capital WIP	320	252	252	252
Total fixed assets	47,274	38,190	36,893	35,356
Other Investment	-	-	-	-
Inventory	1,267	1,632	2,553	3,178
Debtors	1,571	1,587	3,063	3,814
Cash & bank	46,928	83,460	101,535	127,596
Loans & advances	2,249	4,141	4,141	4,141
Current liabilities	40,669	47,065	57,146	66,523
Net current assets	15,338	47,399	57,791	75,852
Other non-current assets	26,908	19,443	19,443	19,443
Total assets	89,522	105,032	114,128	130,651

Source: Company, Axis Capital

Cash flow (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Profit before tax	28,235	21,443	32,374	42,155
Depreciation & Amortisation	5,055	4,573	4,872	5,184
<i>Chg in working capital</i>	<i>3,497</i>	<i>21,886</i>	<i>6,058</i>	<i>8,160</i>
Cash flow from operations	30,991	38,468	29,106	37,865
<i>Capital expenditure</i>	<i>(2,318)</i>	<i>4,512</i>	<i>(3,575)</i>	<i>(3,647)</i>
Cash flow from investing	(13,262)	12,402	4,485	5,404
<i>Equity raised/ (repaid)</i>	<i>12,138</i>	<i>8</i>	<i>-</i>	<i>-</i>
<i>Debt raised/ (repaid)</i>	<i>(10,241)</i>	<i>(3,537)</i>	<i>1,280</i>	<i>4,072</i>
<i>Dividend paid</i>	<i>(13,271)</i>	<i>(9,872)</i>	<i>(13,869)</i>	<i>(18,059)</i>
Cash flow from financing	(12,200)	(16,708)	(15,515)	(17,208)
Net chg in cash	5,529	34,162	18,076	26,061

Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
OPERATIONAL				
FDEPS (Rs)	54.9	45.9	64.5	84.0
CEPS (Rs)	68.9	58.6	78.0	98.3
DPS (Rs)	30.5	23.0	32.2	42.0
Dividend payout ratio (%)	55.5	50.0	50.0	50.0
GROWTH				
Net sales (%)	15.9	15.7	20.0	24.5
EBITDA (%)	66.8	(31.3)	49.8	29.3
Adj net profit (%)	52.3	(16.5)	40.5	30.2
FDEPS (%)	52.3	(16.5)	40.5	30.2
PERFORMANCE				
RoE (%)	175.7	59.1	54.8	56.9
RoCE (%)	37.4	25.4	32.2	37.1
EFFICIENCY				
Sales/ total assets (x)	1.4	1.3	1.4	1.5
Working capital/ sales (x)	(0.2)	(0.2)	(0.2)	(0.2)
Receivable days	3.6	3.1	5.0	5.0
DEBT & EQUITY				
Total debt/ equity (x)	2.6	0.9	0.6	0.6
Net debt/ equity (x)	(1.5)	(2.0)	(1.7)	(1.8)
Current ratio (x)	1.4	2.0	2.0	2.1
Interest cover (x)	8.6	5.1	9.3	11.3
VALUATION				
PE (x)	23.5	28.1	20.0	15.4
EV/ EBITDA (x)	14.4	19.1	12.2	8.9
EV/ Net sales (x)	2.8	2.2	1.8	1.3
PB (x)	25.4	12.3	9.9	7.8
Dividend yield (%)	2.4	1.8	2.5	3.3
Free cash flow yield (%)	0.1	0.1	0.1	0.1

Source: Company, Axis Capital

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HOLD	Between 10% and -10%
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