

Aviation



Engine woes intensify; 2Q profitability to decline amidst lower yields

Passenger traffic for Aug'23 marginally increased by ~3.0% MoM to 12.4mn. Sep'23 passenger traffic run rate implies ~12.2mn flat MoM. Last reported domestic PLF for Jul'23 witnessed a decline MoM across airlines with Indigo's PLF at ~83.7% (-7.2ppt MoM) while Air India's PLF stood at ~84.2% (-4.0ppt MoM). Indigo continued to gain market share during Jul'23 with its share at 63.4% (63.2% in Jun'23). Yields for airlines are witnessing a significant decline in 2Q given a seasonally strong base with airfares down ~10% QoQ (as per JM fare tracker). Further, recent rally in crude price is likely to result in higher ATF prices (up ~6% QoQ) for airline companies during 2Q. PLF's for the quarter are also expected to decline from 1Q avg of 90.3% with spot PLF's averaging ~85%.

Go-first's revival has slowed down post Delhi high court's order to allow aircraft leasing companies to access the aircraft leased to Go First for inspections and maintenance work. The NCLT has now granted Go First's resolution professional a week to file a reply to applications by aircraft lessor DAE (SY22) 13 Ireland further slowing the revival process. Indian airlines' engine woes continue to deepen with phased inspection of engines by P&W. Consequently, Indigo is looking to induct up to 22 aircraft from the secondary lease markets. Recent CCI approval for the Air India – Vistara merger will ensure the airline becomes the number two airlines in the domestic space. This can likely lead to increased competitive intensity from Air India adversely impacting Indigo's domestic stronghold. Further, Indigo's ex promoter Rakesh Gangwal recent ~5% stake sale in the company via a block deal is in line with his strategy to reduce stake in the company over the coming years. Gangwal's stake post the recent sale stands at ~25%. Impending stake sale by Gangwal besides slowing earning trajectory in 2Q is likely to weigh on Indigo's stock price.

- **PLF's across airlines witness a decline:** Indigo reported a market share of 63.4% for the month of Jul'23, flat MoM. Domestic Pax of ~12.4mn in Aug'23 implies a 3% growth vs pre pandemic level. While Sep'23 passenger traffic run rate implies ~12.2mn PAX flat MoM. Reported PLF's for most airlines declined MoM in Jul'23.
- **Go First revival hits a snag:** Go First's revival plan has slowed down post Delhi high court's order to allow aircraft leasing companies to access aircrafts leased to Go First for inspections and maintenance work. The NCLT has now granted Go First's resolution professional a week to file a reply to applications by aircraft lessor DAE (SY22) 13 Ireland. The aircraft lessor has argued that the insolvency petition filed by Wadia's was not in 'good faith'.
- **Spicejet – Credit Suisse case heats up:** Supreme Court directs Mr Ajay Singh, MD SpiceJet, to make payment of US\$500k towards an instalment due to Credit Suisse by 22nd Sep'23 along with US\$1mn towards defaulted amount. The court has further threatened with jail sentence if the payment is not made. The company recently paid INR1bn to former promoter Kalanithi Maran towards an arbitral award and is committed to complying with all court directives and obligations in the Credit Suisse case.
- **Indigo to lease 22 aircrafts given grounding of aircrafts due to engine issues:** Indigo is looking to induct up to 22 aircraft (received DGCA approval for 11 aircrafts) from the secondary lease markets as it faces grounding of several aircrafts due to P&W engine issues. P&W will inspect 1,200 engines with 200 engines expected by mid-September. The engine manufacturer will likely recall 600-700 engines from CY23-CY26. Currently ~45 Indigo aircrafts are grounded.
- **Air India – Vistara merger gets CCI approval:** CCI recently approved the merger of Air India and Vistara. The merged entity will become the number two airlines in the domestic space. Air India now seeks approval from the competition regulators in some other jurisdictions, including Singapore.
- **Indigo ex-promoters stake sale to weigh on stock performance:** Rakesh Gangwal recently sold 5% stake in the company via a block deal. Post the recent sale, Gangwal's stake currently stands at ~25%. Impending stake sale by Gangwal is likely to weigh on the stock price.

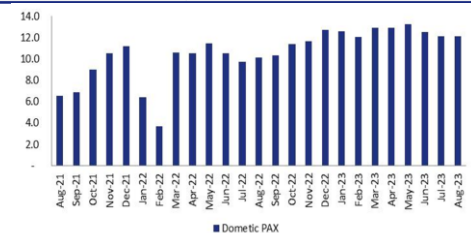
Ashutosh Somani

ashutosh.somani@jmfli.com | Tel: (91 22) 66303083

Heet Vora

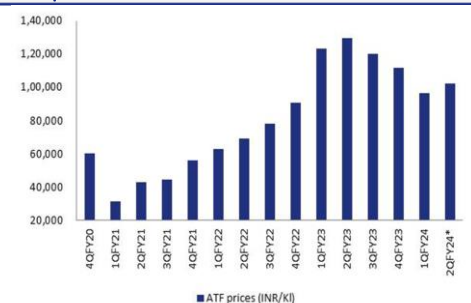
heet.vora@jmfli.com | Tel: (91 22) 66303018

Domestic – monthly PAX (mn)



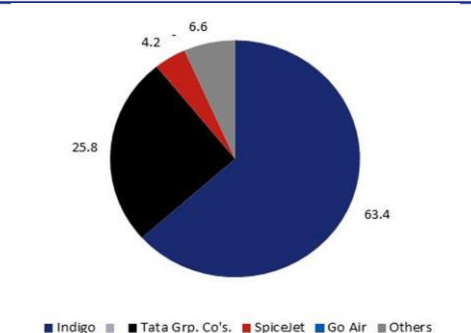
Source: DGCA, JM Financial

ATF prices (INR/kl)



Source: IOCL, JM Financial;

Domestic mkt share by PAX – Jul'23 (%)

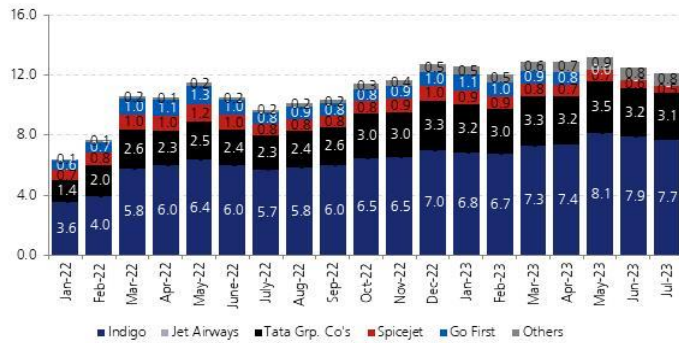


Source: DGCA, JM Financial Note: Tata Grp. Co's incl. Air India, Air Asia and Vistara

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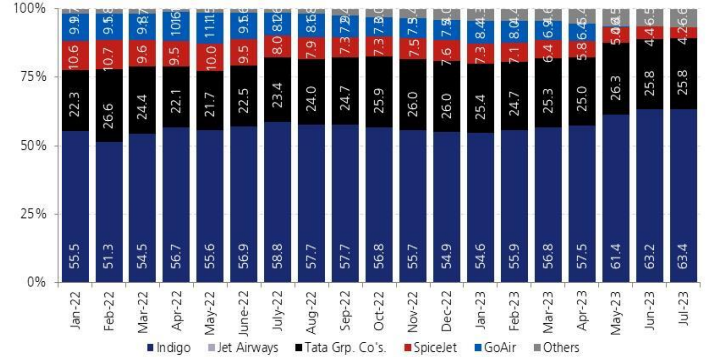
Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst

Exhibit 1. Domestic Passengers Carried - monthly (mn)



Source: DGCA, JM Financial; Note: Jet airways incl. Jet Lite, Tata Grp. Co's incl. Air India, Air Asia and Vistara

Exhibit 2. Domestic market share by PAX carried – monthly (%)



Source: DGCA, JM Financial; Note: Jet airways incl. Jet Lite, Tata Grp. Co's incl. Air India, Air Asia and Vistara

Exhibit 3. Domestic Passenger Traffic (In million)

Particulars (mn)	4QFY23	1QFY24	May'23	Jun'23	Jul'23	Aug'23	Sep'23
PAX	37.4	38.6	13.2	12.5	12.1	12.4	12.2
PAX – Pre-Covid	35.4	35.1	12.2	12.0	11.9	11.8	11.5
% of Pre-Covid times	106%	110%	108%	104%	102%	106%	106%

Source: Ministry of Civil Aviation, Note: Sep'23 numbers are calculated using the run-rate for 09 days reported

Exhibit 4. Domestic passenger growth (YoY) (%)

	FY20	FY21	FY22	FY23	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23
Air India	(0.2)	(67.3)	69.2	40.8	12.4	25.1	76.1	25.8	21.6	34.7	51.2	54.8	51.2
Air Asia	29	(62)	32.6	87.8	42.1	38.5	215.2	89.9	39.7	65.7	51.7	70.2	103.8
Vistara	50	(59)	98.4	86.6	47.1	35.9	130.9	40.7	20.2	24.1	21.6	2.0	0.7
Jet Airways	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
SpiceJet	24.9	(67.9)	18.3	28.2	(18.8)	(16.3)	34.4	4.6	(19.0)	(25.9)	(37.5)	(44.6)	(35.0)
Go Air	21.7	(73.7)	98.4	43.0	(24.7)	(20.3)	65.7	31.2	(14.3)	(25.3)	(96.2)	(100.0)	(100.0)
Indigo	13.6	(56.9)	58.9	64.6	13.9	14.0	92.5	70.7	26.5	24.3	27.2	31.9	34.4
Total Domestic	0.8	(62.2)	57.8	61.4	11.5	14.2	95.6	59.8	21.4	22.7	15.2	18.8	24.7

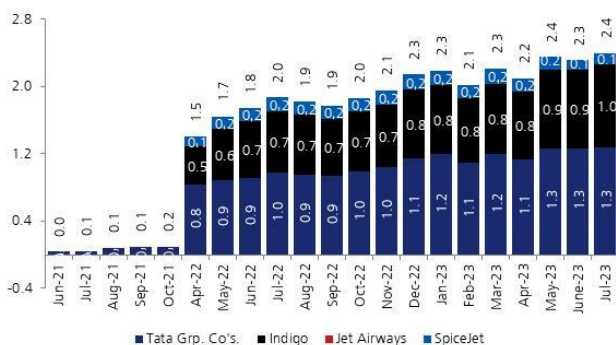
Source: DGCA, JM Financial; Note: Jet airways include Jet Lite;

Exhibit 5. Domestic passenger load factor (%)

	FY20	FY21	FY22	FY23	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23
Air India	78.6	65.6	68.6	81.8	79.6	82.7	85.7	89.3	87.5	89.0	85.1	87.9	90.1	88.2	84.2
Air Asia	84.5	64.1	70.1	83.1	77.0	84.2	87.3	89.8	87.0	89.5	88.6	89.4	92.8	91.8	82.3
Vistara	81.6	67.2	73.2	87.4	85.4	85.5	91.7	91.9	89.4	92.8	91.6	92.1	93.2	93.1	87.0
Jet Airways	76.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SpiceJet	92.0	75.7	80.4	88.8	85.8	88.1	92.0	92.7	91.0	94.1	92.3	92.2	94.8	93.6	88.9
Indigo	87.1	68.7	73.5	82.3	81.4	82.1	86.9	87.5	82.0	86.5	84.0	87.4	91.5	90.9	83.7
Total Domestic	86.2	68.6	73.4	83.2	81.7	83.2	87.7	88.8	82.3	88.4	85.7	88.3	91.7	90.8	NA

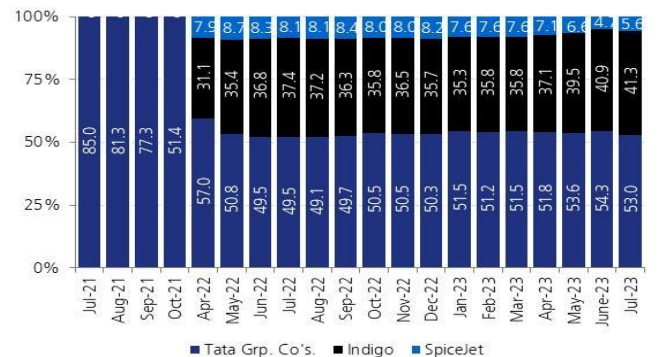
Source: DGCA, JM Financial; Note: Jet airways includes Jet Lite

Exhibit 6. International passengers carried – monthly



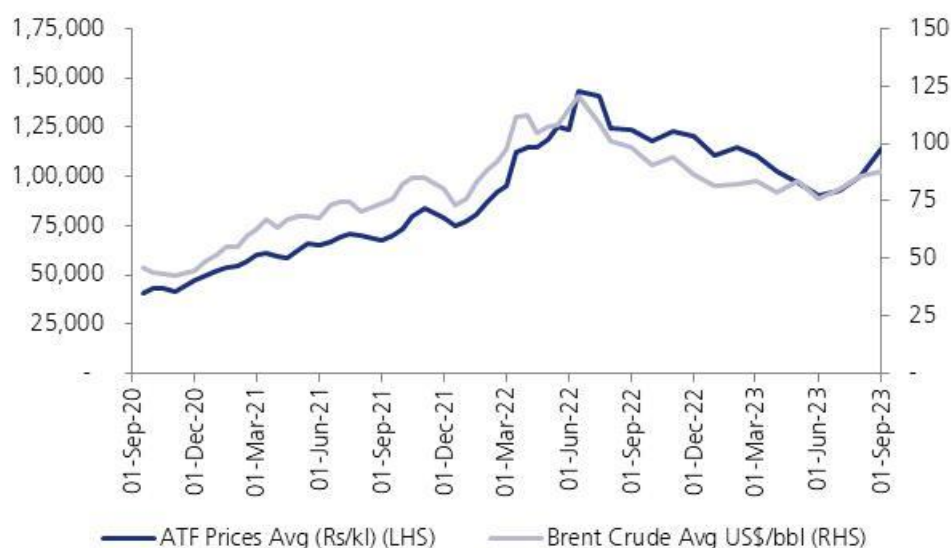
Source: DGCA, JM Financial; Note: Tata Grp. Co's incl. Air India, Air India Express Air Asia and Vistara.

Exhibit 7. International market share by PAX carried - monthly (%)



Source: DGCA, JM Financial; ; Note: Tata Grp. Co's incl. Air India, Air India Express Air Asia and Vistara

Exhibit 8. ATF prices have seen an increase recently



Source: IOCL, JM Financial

Exhibit 9. Indigo – FY25E EBITDAR sensitivity to PAX yield and ATF (INR bn)

Crude (USD/bbl)	PAX Yield (INR)				
	4.4	4.4	4.5	4.6	4.7
65	134.6	146.1	157.5	169.0	180.5
70	121.1	132.6	144.1	155.5	167.0
75	107.6	119.1	130.6	142.0	153.5

Source: JM Financial

Exhibit 10. Indigo – Target price sensitivity to PAX yield and ATF (INR/sh.)

Crude (USD/bbl)	PAX Yield (INR)				
	4.4	4.4	4.5	4.6	4.7
65	1,902	2,348	2,795	3,241	3,688
70	1,377	1,823	2,270	2,716	3,163
75	852	1,298	1,745	2,191	2,638

Source: JM Financial

Exhibit 11. Comparative valuation

Companies	EV/ EBITDAR			P/E			ROE		
	FY23/ CY22	FY24E/ CY23E	FY25E/ CY24E	FY23/ CY22	FY24E/ CY23E	FY25E/ CY24E	FY23/ CY22	FY24E/ CY23E	FY25E/ CY24E
LOW COST CARRIER									
North America									
JetBlue	5.7	4.5	3.6	NA	11.2	4.1	0.5	5.4	11.9
Southwest	5.2	4.1	3.5	14.8	10.6	8.3	11.7	15.5	17.6
Spirit Airlines	16.2	10.9	7.5	NA	36.5	8.6	NA	7.5	22.8
Eurasia & ME									
Ryanair	5.8	4.8	4.4	10.4	8.2	7.3	26.7	26.1	23.3
EasyJet	3.0	2.8	2.4	9.2	8.0	6.4	13.4	13.9	15.1
India									
Spice Jet	NA	NA	NA	-3.3	6.6	NA	NA	NA	NA
Indigo	19.6	8.4	6.6	NA	15.4	16.3	NA	NA	NA
Average	9.3	5.9	4.7	NA	13.8	8.5			
FULL SERVICE CARRIER									
Singapore Airlines	4.6	6.5	NA	9.0	15.4	18.5	13.7	8.5	6.4
Turkish Airlines	5.3	3.0	1.8	6.3	6.0	5.6	19.2	16.2	15.6
Lufthansa	3.4	3.2	3.1	6.2	5.8	5.3	16.8	16.0	16.5
Average	4.6	3.8	3.3	20.3	10.2	8.0			

Source: Bloomberg, JM Financial; Note: Low Cost Carrier average does not include SpiceJet and Indigo, Valuations as of 13/09/2023

APPENDIX I

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Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH000000610

Registered Office: 7th Floor, Cnergy, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India.

Board: +9122 6630 3030 | Fax: +91 22 6630 3488 | Email: jmfinancial.research@jmfl.com | www.jmfl.com

Compliance Officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: sahil.salastekar@jmfl.com

Grievance officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: instcompliance@jmfl.com

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