

Aviation



Festive cheers likely to boost sector profitability

Passenger traffic for Nov'23 registered a marginal growth MoM to 12.7mn. Dec'23 passenger traffic run rate implies ~13.9mn up 8% MoM. Industry PLF clocked 86.3% - up 170 bps MoM. Indigo's PLF stood at ~85.6% (up 230bps MoM) while Air India's PLF stood at ~84.8% (down 70bps MoM). Indigo lost market share during Nov'23, with its share at 61.8% (vs. 62.6% in Oct'23). Spicejet's market share stood at 6.2% (vs. 5% in Oct'23). Airline fares witnessed a significant jump in 3Q given a seasonally strong quarter - up ~25%+ QoQ (as per JM fare tracker). ATF has begun experiencing price correction starting Nov'23. During Jan'24 price was further cut by ~INR4k. Despite this, overall ATF price during 3Q to remain elevated (up ~10.8% QoQ) owing to peak attained in Oct'23. PLF's for the quarter are also expected to increase marginally from 2Q avg of 85% with spot PLF's averaging at ~86%.

Engine woes continue to deepen with inspection called by P&W - Indigo expecting ~35 planes to be grounded in 4Q in addition to current ~40 groundings. The company is deploying 12 aircraft from the secondary lease markets to maintain its FY24 guidance of increasing capacity by mid-teens. Deliveries are likely to commence from 4Q. Air India is likely to re-configure 250 aircraft order with Airbus as per media articles - mix now in favour of higher number of A321neos and lesser A320neos owing to business requirements. Further, as per media articles Akasa air is expected to place order for 150 Boeing 737 Max. Improving PAX yields and recent down trend in ATF price is likely to aid Indigo's performance starting 3Q.

- **PLF's across airlines witness a growth in Nov'23:** PLF for month of Nov'23 stood at 86.3% (up 170 bps MoM). This was led by all airlines except Air India where PLF came in at 84.8% (down 70 bps MoM). Indigo reported a market share of 61.8% for the month of Nov'23, down 80bps MoM, which was eaten up by spice jet whose market share was up 120bps MoM at 6.2%. Domestic Pax for Nov'23 came in at ~12.7mn up ~1% MoM. While Dec'23 passenger traffic run rate implies ~13.9mn PAX up 8% MoM.
- **Cooling-off in ATF signalling relief to operators:** ATF which forms major chunk of operating cost (i.e. ~45-50%) has begun experiencing price cut starting Nov'23, following a surge from Jul'23. During Jan'24 price was further cut by ~INR4k. Despite this, overall ATF price during 3Q to remain elevated sequentially.
- **Indigo continues to focus on capacity addition despite engine woes:** Indigo remained committed towards increasing capacity by mid-teens during FY24 and is deploying 12 aircrafts in secondary lease market with deliveries expected to commence in 4Q and expects new aircraft addition every week. Additionally, company anticipates aircraft grounding to fall within the mid-thirties range during 4Q owing to P&W issues, on top of the current count of ~40 grounded aircraft.
- **Air India to re-configure its 250 aircraft order with Airbus:** Air India has rejigged its order with greater number of A321neo and A350-900 keeping overall order size constant. Air India's revised order now stands at (i) 140 A321neo aircraft (against 70 earlier) (ii) 70 A320neo planes (against 140 earlier).
- **Akasa Air likely to expand its fleet with Boeing:** Akasa Air a newer player in aviation industry with ~4% market share is likely to place an order for 150 Boeing 737 Max narrow body planes. The deal is likely to be announced at Wings India event to be held on 18th-22nd Jan'24. Current order book for company stands at 72 aircraft.
- **Indigo's 3Q profitability to be aided by positive macros:** Indigo's profitability is expected to improve tracking a) revival of PAX yields b) Positive rub-off of higher ATF prices in terms of distance based 'fuel charge' charged from customers.

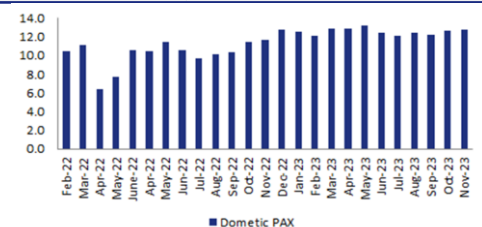
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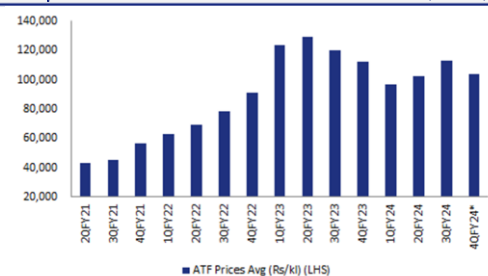
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Domestic – monthly PAX (mn)



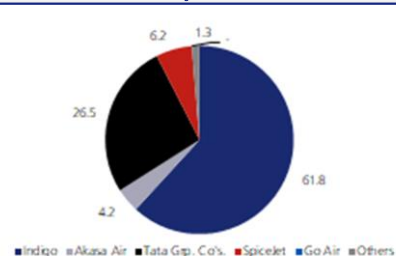
Source: DGCA, JM Financial

ATF prices (INR/kl)



Source: IOCL, JM Financial;

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

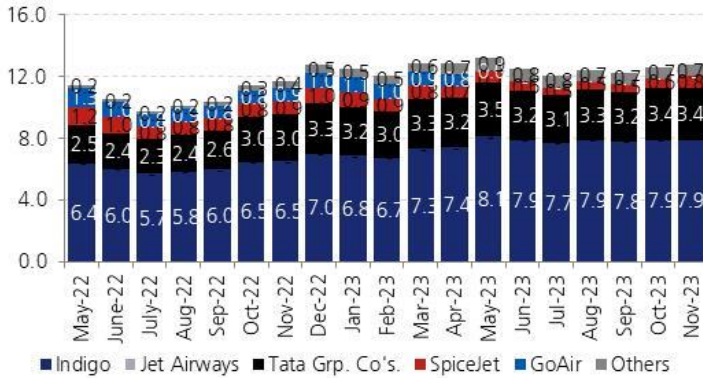


Source: DGCA, JM Financial Note: Tata Grp. Co's incl. Air India, Air Asia and Vistara

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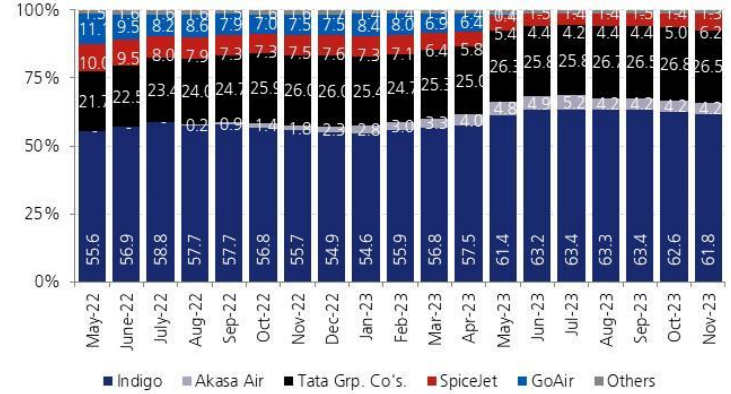
Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst

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)	1QFY24	2QFY24	3QFY24	Sep'23	Oct'23	Nov'23	Dec'23	Jan'24
PAX data	38.6	36.9	39.4	12.3	12.7	12.8	13.9	13.1
PAX data- Pre Covid	35.1	35.1	38.2	11.5	12.3	12.9	13.0	12.5
% of Pre-Covid times	110%	105%	103%	107%	103%	100%	107%	104%

Source: Ministry of Civil Aviation, Note: Jan'24 numbers are calculated using the run-rate for 02 days reported

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

	FY20	FY21	FY22	FY23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23
Air India	(0.2)	(67.3)	69.2	40.8	21.6	34.7	51.2	54.8	47.2	40.7	26.2	27.9	25.6
Air Asia	29	(62)	32.6	87.8	39.7	65.7	51.7	70.2	103.8	49.4	32.9	(4.0)	(5.5)
Vistara	50	(59)	98.4	86.6	20.2	24.1	21.6	2.0	0.6	24.1	23.3	17.3	10.1
SpiceJet	24.9	(67.9)	18.3	28.2	(19.0)	(25.9)	(37.5)	(44.6)	(35.0)	(32.2)	(27.7)	(24.2)	(10.4)
Go Air	21.7	(73.7)	98.4	43.0	(14.3)	(25.3)	(96.2)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)
Indigo	13.6	(56.9)	58.9	64.6	26.5	24.3	27.2	31.9	34.4	34.9	30.1	22.2	21.2
Total Domestic	0.8	(62.2)	57.8	61.4	21.4	22.7	15.2	18.8	24.7	22.8	18.4	10.8	9.1

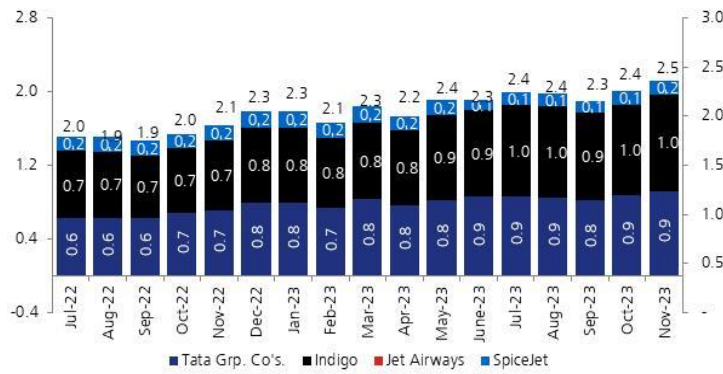
Source: DGCA, JM Financial

Exhibit 5. Domestic passenger load factor (%)

	FY20	FY21	FY22	FY23	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23
Air India	78.6	65.6	68.6	81.8	87.5	89.0	85.1	87.9	90.1	88.2	84.2	84.5	84.7	85.5	84.8
Air Asia	84.5	64.1	70.1	83.1	87.0	89.5	88.6	89.4	92.8	91.8	82.3	82.4	82.5	83.4	85.3
Vistara	81.6	67.2	73.2	87.4	89.4	92.8	91.6	92.1	93.2	93.1	87.0	91.3	92.0	89.2	89.4
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	91.0	94.1	92.3	92.2	94.8	93.6	88.9	90.9	91.4	90.1	90.8
Indigo	87.1	68.7	73.5	82.3	82.0	86.5	84.0	87.4	91.5	90.9	83.7	83.6	84.7	83.3	85.6
Akasa Air	NA	NA	NA	NA	82.9	83.7	73.6	84.9	91.1	91.1	86.6	87.3	88.1	86.6	89.2
Total Domestic	86.2	68.6	73.4	83.2	82.3	88.4	85.7	88.3	91.7	90.8	84.1	84.7	85.6	84.6	86.3

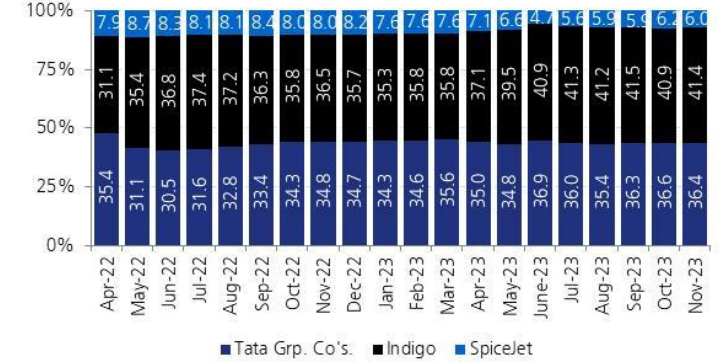
Source: DGCA, JM Financial; Note: Jet airways includes Jet Lite; Akasa Air PLF available from Aug-22

Exhibit 6. Innational passengers carried – monthly



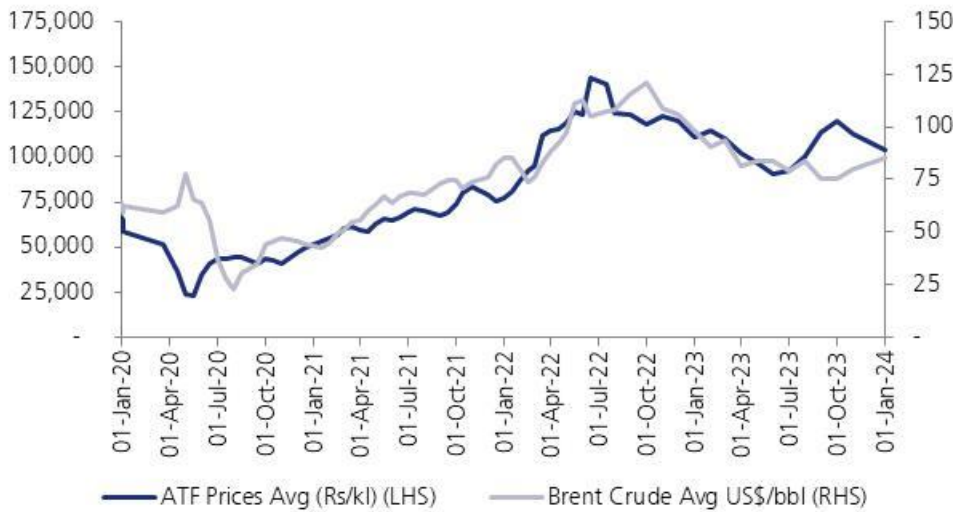
Source: DGCA, JM Financial; Note: Tata Grp. Co's incl. Air India, Air India Express Air Asia and Vistara.

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 – FY26E EBITDAR sensitivity to PAX yield and ATF (INR bn)

Crude (USD/bbl)	PAX Yield (INR)				
	4.3	4.4	4.5	4.6	4.7
65	150.1	163.2	176.2	189.2	202.2
70	134.9	147.9	160.9	173.9	186.9
75	119.6	132.6	145.6	158.6	171.6

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	2,070	2,543	3,015	3,488	3,960
70	1,515	1,988	2,460	2,933	3,405
75	960	1,433	1,905	2,378	2,850

Source: JM Financial

Exhibit 11. Comparative valuation

Companies	EV/ EBITDAR			P/E			ROE		
	FY24E/ CY23E	FY25E/ CY24E	FY26E/ CY25E	FY24E/ CY23E	FY25E/ CY24E	FY26E/ CY25E	FY24E/ CY23E	FY25E/ CY24E	FY26E/ CY25E
LOW COST CARRIER									
North America									
JetBlue	9.1	8.3	5.6	NA	-8.0	146.4	-6.2	-4.5	0.9
Southwest	6.5	6.0	4.7	20.2	17.5	12.6	7.8	10.2	12.9
Spirit Airlines	28.9	19.3	11.5	NA	-5.0	-14.1	NA	-26.7	-19.9
Eurasia & ME									
Ryanair	6.2	5.2	4.8	10.7	8.7	8.0	28.7	27.3	24.2
EasyJet	2.9	2.6	2.4	8.5	7.4	6.8	14.6	15.2	14.6
India									
Spice Jet	NA	NA	NA	-8.7	80.1	NA	NA	NA	NA
Indigo	9.8	9.0	7.2	18.7	19.8	17.1	NA	101.2	54.0
Average	9.4	7.5	5.5	9.9	17.2	29.5			
FULL SERVICE CARRIER									
Singapore Airlines	3.7	5.9	NA	7.5	13.7	15.4	13.8	8.2	6.7
Turkish Airlines	2.7	-0.2	2.7	4.2	4.3	4.6	24.1	16.6	14.7
Lufthansa	3.3	3.3	3.0	5.0	5.0	4.6	18.9	16.4	16.1
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 03/01/2024

APPENDIX I

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