

Aviation

Engine woes to continue; 3Q profitability to improve amidst higher yields

Passenger traffic for Oct'23 increased by ~3.2% MoM to 12.6mn. Nov'23 passenger traffic run rate implies ~13.2mn up 7.5% MoM. Last reported domestic PLF for Oct'23 witnessed a decline across airlines with Indigo's PLF at ~83.3% (down 140bps MoM) while Air India's PLF stood at ~85.5% (up 80bps MoM). Indigo lost market share during Oct'23 with its share now at 62.6% (63.4% in Sep'23). Yields for airlines are witnessing a significant jump in 3Q given a seasonally strong quarter with airfares up ~20%+ QoQ (as per JM fare tracker). Further, recent rally in crude price in Oct'23 is likely to result in higher ATF prices (up ~14% QoQ) for airline companies during 3Q. PLF's for the quarter are also expected to increase marginally from 2Q avg of 86% with spot PLF's averaging ~86.4%.

Go first's revival hits a snag given lack of interest by bidders, lenders are likely to vote for liquidation and could be given fortnight for submission of final votes. Indian airlines' engine woes continue to deepen with inspection of engines by P&W - Indigo expecting ~35 planes to be grounded in 4Q. Consequently, to maintain its guidance of 25%YoY ASK growth in 3Q along with FY24 guidance of increasing capacity by mid-teens company is deploying 12 aircraft from the secondary lease markets with deliveries to commence from 4Q. Air India - Vistara merger to continue as planned with revival of Air India operations being priority. This can lead to increased competitive intensity from Air India and can adversely impacting Indigo's domestic stronghold. Further, Air India has received 2 Boeing 737 Max out of its mega order of 470 aircraft. Going forward tailwinds in terms of a) improving PAX yields b) increasing capacity despite P&W inspection related groundings c) ATF prices cool-off from Nov'23 likely to aid Indigo's performance in 3Q.

- **PLF's across airlines witness a decline in Oct'23:** Indigo reported a market share of 62.6% for the month of Oct'23, down 80bps MoM. Domestic Pax of ~12.6mn in Oct'23 implies a 3.2% growth sequentially. While Nov'23 passenger traffic run rate implies ~13.2mn PAX up 7.5% MoM. Reported PLF's for most airlines declined MoM in Oct'23.
- **Go First revival hits a snag:** Go First's revival plan witnessed a roadblock post tracking lack of interest by bidders in revival process. Consequently, lenders are likely to vote on proposal for liquidation and are given 10-15 days for submission of their final votes.
- **Spicejet to boost its network ahead of winter:** Company in Nov'23 informed about adding 44 flights to their new as well existing routes ahead of winter schedule. Company has also inducted eight Boeing 737 including Boeing 737 Max.
- **Indigo continue to focus on capacity addition despite on-going grounding issues:** Indigo remained committed towards increasing capacity by mid-teens during FY24 is deploying 12 aircrafts in secondary lease market with deliveries expected to commence in 4Q and expects new aircraft addition every week. Company expects ~35 more aircrafts to be grounded due to P&W inspection in addition to current 40-45 aircrafts.
- **Air India to expand fleet by placing order with Boeing and Airbus:** Air India earlier placed 470 aircraft order which included (i) 40 A350s (ii) 20 Boeing 787 Dreamliners (iii) 10 Boeing 777Xs (iv) 140 A320 neos (v) 70 A321 neos (vi) 190 Boeing 737 Maxs. Out of above order company has received two 737 Max and expects six A350-900 to be delivered by March'24.
- **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.



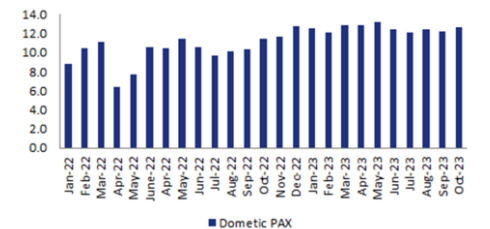
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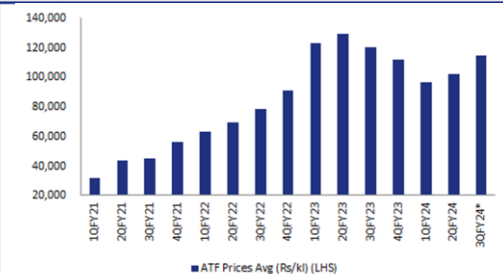
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Domestic – monthly PAX (mn)



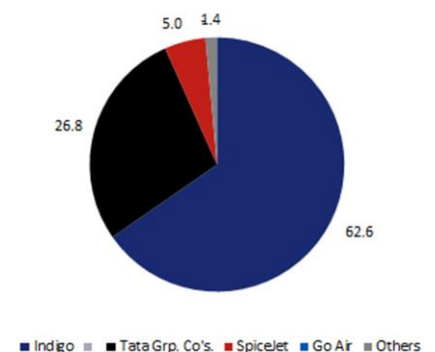
Source: DGCA, JM Financial

ATF prices (INR/k)



Source: IOCL, JM Financial;

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

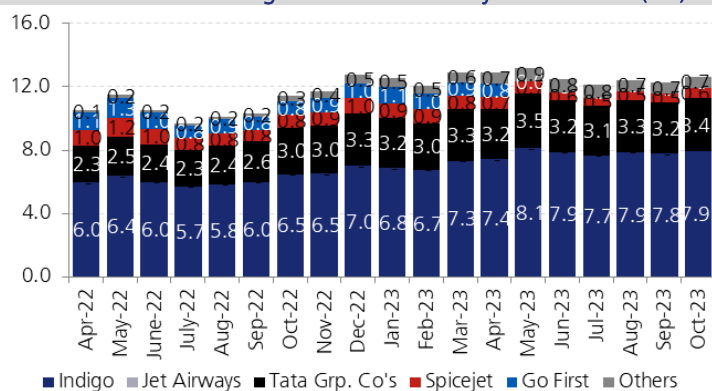


Source: DGCA, JM Financial Note: Tata Grp. Co's incl. Air India, Air Asia and Vistara

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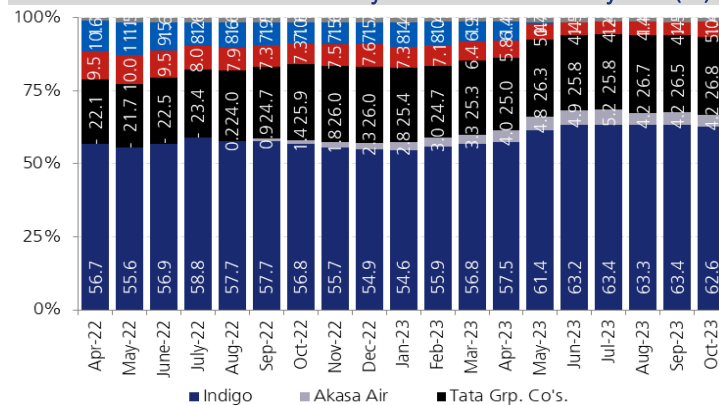
Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst

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	Jul'23	Aug'23	Sep'23	Oct'23	Nov'23
PAX data	38.6	36.9	12.1	12.4	12.3	12.2	12.6
PAX data- Pre Covid	35.1	35.1	11.9	11.8	11.5	12.3	12.9
% of Pre-Covid times	110%	105%	102%	106%	107%	100%	97%

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

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

	FY20	FY21	FY22	FY23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23
Air India	(0.2)	(67.3)	69.2	40.8	25.8	21.6	34.7	51.2	54.8	47.2	40.7	26.2	27.9
Air Asia	29	(62)	32.6	87.8	89.9	39.7	65.7	51.7	70.2	103.8	49.4	32.9	(4.0)
Vistara	50	(59)	98.4	86.6	40.7	20.2	24.1	21.6	2.0	0.6	24.1	23.3	17.3
Jet Airways	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
SpiceJet	24.9	(67.9)	18.3	28.2	4.6	(19.0)	(25.9)	(37.5)	(44.6)	(35.0)	(32.2)	(27.7)	(24.2)
Go Air	21.7	(73.7)	98.4	43.0	31.2	(14.3)	(25.3)	(96.2)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)
Indigo	13.6	(56.9)	58.9	64.6	70.7	26.5	24.3	27.2	31.9	34.4	34.9	30.1	22.2
Total Domestic	0.8	(62.2)	57.8	61.4	59.8	21.4	22.7	15.2	18.8	24.7	22.8	18.4	10.8

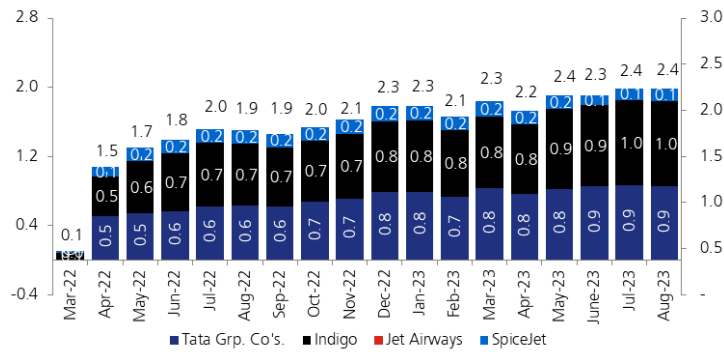
Source: DGCA, JM Financial; Note: Jet airways include Jet Lite;

Exhibit 5. Domestic passenger load factor (%)

	FY20	FY21	FY22	FY23	Sep-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23
Air India	78.6	65.6	68.6	81.8	79.6	87.5	89.0	85.1	87.9	90.1	88.2	84.2	84.5	84.7	85.5
Air Asia	84.5	64.1	70.1	83.1	77.0	87.0	89.5	88.6	89.4	92.8	91.8	82.3	82.4	82.5	83.4
Vistara	81.6	67.2	73.2	87.4	85.4	89.4	92.8	91.6	92.1	93.2	93.1	87.0	91.3	92.0	89.2
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	91.0	94.1	92.3	92.2	94.8	93.6	88.9	90.9	91.4	90.1
Indigo	87.1	68.7	73.5	82.3	81.4	82.0	86.5	84.0	87.4	91.5	90.9	83.7	83.6	84.7	83.3
Total Domestic	86.2	68.6	73.4	83.2	81.7	82.3	88.4	85.7	88.3	91.7	90.8	NA	NA	NA	NA

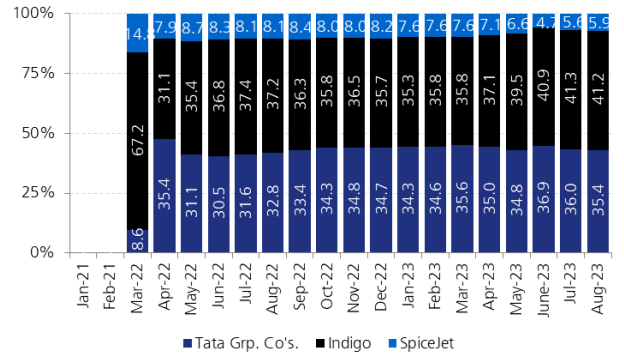
Source: DGCA, JM Financial; Note: Jet airways includes Jet Lite

Exhibit 6. Innational passengers carried – monthly



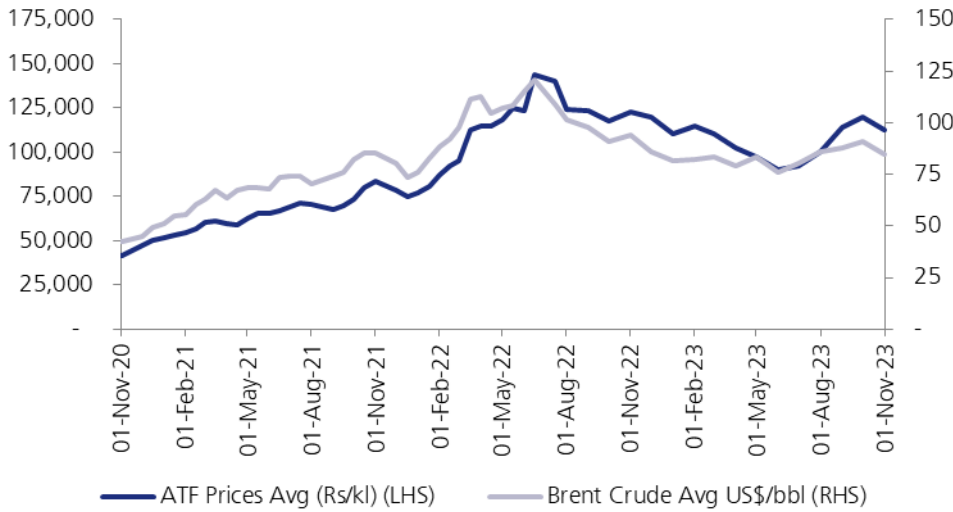
Source: DGCA, JM Financial; Note: Tata Grp. Co's incl. Air India, Air India Express Air Asia and Vistara.

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		
	FY23/ CY22	FY24E/ CY23E	FY25E/ CY24E	FY23/ CY22	FY24E/ CY23E	FY25E/ CY24E	FY23/ CY22	FY24E/ CY23E	FY25E/ CY24E
LOW COST CARRIER									
North America									
JetBlue	8.6	7.5	5.0	NA	-5.2	13.6	-6.6	-3.9	2.3
Southwest	5.7	5.6	4.1	18.1	15.1	10.7	7.4	10.6	12.8
Spirit Airlines	27.5	17.3	10.1	NA	-3.6	-22.2	NA	-26.7	-19.9
Eurasia & ME									
Ryanair	5.9	5.1	4.6	10.1	8.6	7.8	27.9	26.8	23.7
EasyJet	3.2	2.9	2.5	9.2	8.0	6.7	13.0	13.5	14.3
India									
Spice Jet	NA	NA	NA	7.0	4.7	NA	NA	NA	NA
Indigo	19.6	8.4	7.5	-310.2	15.4	16.3	NA	NA	NA
Average	10.5	7.0	5.1	NA	6.1	5.5			
FULL SERVICE CARRIER									
Singapore Airlines	3.7	5.8	NA	7.7	14.0	15.6	13.8	8.2	6.7
Turkish Airlines	3.5	0.7	3.0	5.1	5.7	4.7	22.0	18.4	16.1
Lufthansa	3.7	3.7	3.4	5.4	5.3	4.7	18.9	16.7	16.6
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 20/11/2023

APPENDIX I

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