

BUY InterGlobe Aviation

Fuel charge supports yields; maintain BUY

Others ▶ Company Update ▶ October 15, 2023

TARGET PRICE (Rs): 3,000

Indigo displayed its dominant position and pricing prowess by introducing fuel charge to counter rising ATF costs, resulting in 8-12% fare hikes, on average. While competition has not followed suit so far, we observe that fares for key airlines, viz. Indigo, Air India and Vistara, remain in a +/-10% or Rs200-300 tolerance band for key sample routes, for many of which Indigo still offers the cheapest fares. We foresee the fuel charge improving Indigo's theoretical yields by ~10% QoQ in Q3FY24E, ceteris paribus, with media reports also quoting unnamed company sources indicating Rs0.9-1.0bn weekly impact. Fuel cost/ASK was turning out to be 8-10% higher than our FY24 estimate, as Brent and jet kero spreads strengthened from August, but the fuel charge offsets this, up to USD90-95/bbl and ~USD30/bbl, respectively, with low risk of FY24 ex-forex earnings downgrade. We retain BUY on Indigo with TP of Rs3,000/share.

InterGlobe Aviation: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	1,46,406	2,59,309	5,44,465	6,34,935	7,05,323
EBITDA	(5,485)	14,711	94,446	1,37,431	1,63,995
Adj. PAT	(58,298)	(61,710)	(3,167)	57,963	78,351
Adj. EPS (Rs)	(151.5)	(160.2)	(8.2)	150.3	203.2
EBITDA margin (%)	(3.7)	5.7	17.3	21.6	23.3
EBITDA growth (%)	(109.8)	0.0	542.0	45.5	19.3
Adj. EPS growth (%)	0.0	0.0	0.0	0.0	35.2
RoE (%)	(196.5)	206.9	5.1	(170.2)	229.7
RoIC (%)	(55.6)	(30.8)	32.0	51.9	60.9
P/E (x)	(17.2)	(16.3)	(317.4)	17.3	12.8
EV/EBITDA (x)	(217.0)	86.5	14.1	9.4	7.5
P/B (x)	1,415.4	(16.6)	(15.9)	(198.3)	13.7
FCFF yield (%)	(0.1)	1.8	9.6	11.7	13.7

Source: Company, Emkay Research

Fares inch upward on fuel charge; yields healthy

Indigo introduced fuel surcharge in the Rs300-1,000 per ticket range wef 6-Oct-23, based on the distance travelled (in kms). This was levied to mainly pass-on the continuous monthly ATF price hikes, cumulating to ~30% from Jul-23 till Oct-23. Media reports indicated similar levy being contemplated by SpiceJet also, but no official announcements were made till date; neither have other airlines. Notably, Air India is not levying a separate fuel charge, though fare built-up for Vistara includes a 'Q surcharge', which implies a carrier-imposed rate to possibly recover additional costs like that of fuel. We conducted sampling on a few of Indigo's routes and observed an 8-12% increase in fares due to introduction of fuel charge. A comparative analysis of current fares across Indigo, Air India and Vistara for the Delhi-Mumbai-Bengaluru route indicates that fares of Air India and Vistara are in a +/-10% band of Indigo's fares, post-fuel charge. We foresee yields improving 10% QoQ in Q3FY24E, partly driven by strong seasonality and fuel charge. This could help to largely offset fuel-cost pressures in the near term.

Fuel cost remains 'joker in the pack', but Indigo protected to a large extent

Brent is currently trading at ~USD90/bbl, though jet fuel spreads have corrected by ~20% from the recent highs, pointing to some respite in the near term. We believe fuel cost/ASK could rise 10-12% H-to-H in H2FY24, if current prices prevail till FY24-end, hinting of an 8-10% increase to our FY24E fuel cost/ASK of Rs1.6. For Indigo, a 5% higher ATF price leads to ~Rs28/share EPS loss, ceteris paribus. Nevertheless, fuel charge was set at recent peak levels of USD90-95/bbl oil and USD29-30/bbl jet fuel spreads; hence, Indigo is protected to that extent. We maintain our ex-forex earning estimates.

Outlook and Valuation

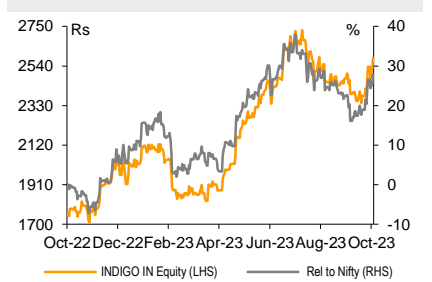
We value Indigo using the DCF methodology, with target price of Rs3,000/share, at 14.8x Mar-25E target P/E (PBT) and ~20x tax-adj. target P/E. Key risks: Adverse currency/fuel prices, recession, stake sale and operational issues.

Target Price – 12M	Mar-24
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	15.0
CMP (13-Oct-23) (Rs)	2,607.5

Stock Data	Ticker
52-week High (Rs)	2,746
52-week Low (Rs)	1,676
Shares outstanding (mn)	385.8
Market-cap (Rs bn)	1,006
Market-cap (USD mn)	12,082
Net-debt, FY24E (Rs mn)	2,79,763
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	3,413.3
ADTV-3M (USD mn)	41.0
Free float (%)	28.0
Nifty-50	19,751
INR/USD	83.3
Shareholding, Jun-23	
Promoters (%)	67.8
FPIs/MFs (%)	19.8/10.4

Price Performance

(%)	1M	3M	12M
Absolute	6.5	(2.9)	50.2
Rel. to Nifty	8.9	(3.9)	30.7

1-Year share price trend (Rs)**Sabri Hazarika**

sabri.hazarika@emkayglobal.com
+91 22 6612 1282

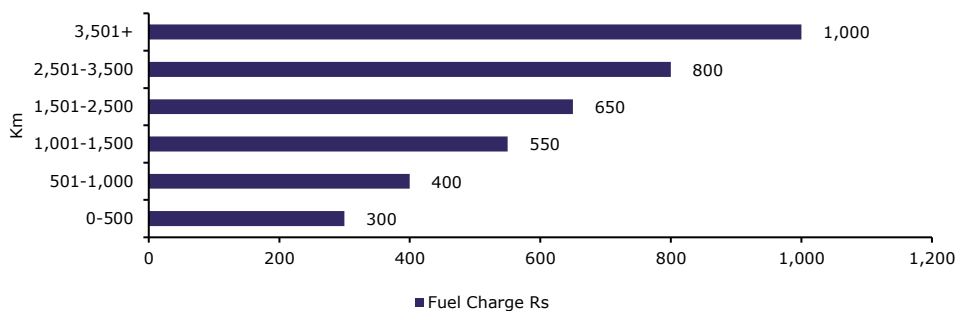
Harsh Maru

harsh.maru@emkayglobal.com
+91 22 6612 1336

Arya Patel

arya.patel@emkayglobal.com
+91 22 6612 1285

Exhibit 1: Fuel charge levied by Indigo wef 6-Oct-23



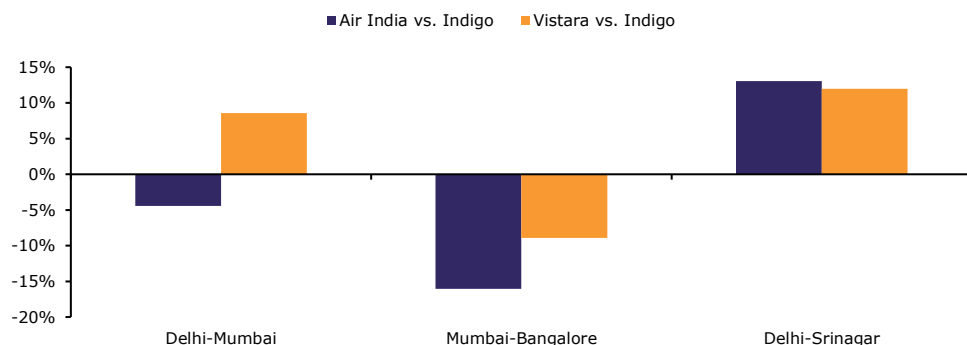
Source: Company

Exhibit 2: Change in Indigo’s fare on sample routes due to fuel charges

Route	Fuel charge (Rs/km)	5-Oct-23 (Rs/ticket)	6-Oct-23 (Rs/ticket)	Change
Delhi-Mumbai	550	4,779	5,357	12%
Mumbai-Bangalore	400	3,330	3,750	13%
Mumbai-Ranchi	550	6,549	7,127	9%
Delhi-Srinagar	400	6,000	6,420	7%
Mumbai-Jorhat	1,050	13,329	14,379	8%

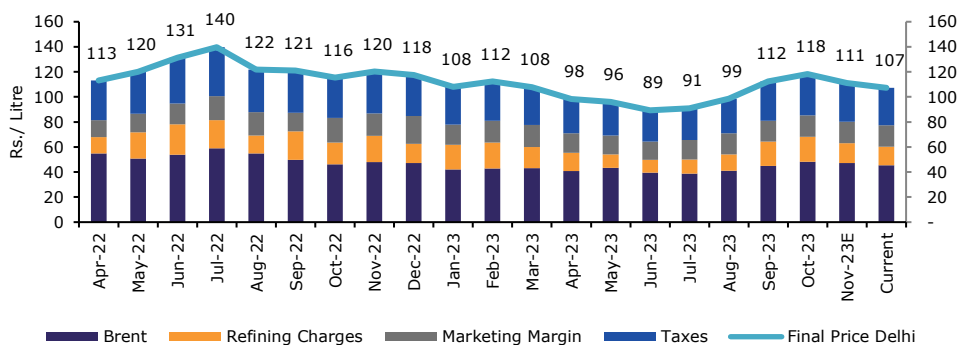
Source: Company, Emkay Research; fares based on travel in a week’s time

Exhibit 3: Sample fare – A comparison: Indigo vs Air India and Vistara



Source: Company, Emkay Research; fares based on travel in a week’s time from 13-Oct-23

Exhibit 4: ATF price trend



Source: IOCL, Bloomberg, Emkay Research

Exhibit 5: DCF-based valuation (Mar-24E)

DCF assumptions		(Rs mn)	
Risk Free Rate	7.0%	NPV of FCF (Mar '25-Mar '34)	4,84,771
Risk Premium	5.3%	Terminal Value	15,91,093
Beta	0.96	PV of TV	5,11,661
Cost Of Equity	12.0%	Total Value	9,96,432
Cost Of Debt	8.3%	Less: Net Debt (Y/E)	-1,60,107
Post Tax Cost Of Debt	6.2%	Equity Value	11,56,540
Average Debt:Equity	0.0%	No. of Shares O/S (mn)	386
WACC	12.0%	Target Price (Rs/share)	3,000
Terminal Growth Rate	3.0%		

Source: Company, Emkay Research

Exhibit 6: PER-based valuation (Mar-25E)

(Rs)	FY20	FY21	FY22	FY23	FY24E	FY25E
EPS	(6.4)	(151.3)	(160.2)	(8.2)	150.3	203.2
Target P/E multiple at nil tax (x)						14.8
Target EV/EBITDA (x)						8.0
DCF-based Target Price/share						3,000

Source: Company, Emkay Research

InterGlobe Aviation: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	1,46,406	2,59,309	5,44,465	6,34,935	7,05,323
Revenue growth (%)	(59.1)	77.1	110.0	16.6	11.1
EBITDA	(5,485)	14,711	94,446	1,37,431	1,63,995
EBITDA growth (%)	(109.8)	0.0	542.0	45.5	19.3
Depreciation & Amortization	46,987	50,678	51,012	59,062	65,745
EBIT	(52,472)	(35,967)	43,434	78,369	98,250
EBIT growth (%)	(425.8)	0.0	0.0	80.4	25.4
Other operating income	0	0	0	0	0
Other income	10,363	7,245	14,314	20,747	24,543
Financial expense	21,420	23,580	31,317	41,153	44,442
PBT	(63,528)	(52,302)	26,431	57,963	78,351
Extraordinary items	0	0	0	0	0
Taxes	0	0	0	0	0
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	(58,298)	(61,710)	(3,167)	57,963	78,351
PAT growth (%)	0.0	0.0	0.0	0.0	35.2
Adjusted PAT	(58,298)	(61,710)	(3,167)	57,963	78,351
Diluted EPS (Rs)	(151.5)	(160.2)	(8.2)	150.3	203.2
Diluted EPS growth (%)	0.0	0.0	0.0	0.0	35.2
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
Dividend payout (%)	0.0	0.0	0.0	0.0	0.0
EBITDA margin (%)	(3.7)	5.7	17.3	21.6	23.3
EBIT margin (%)	(35.8)	(13.9)	8.0	12.3	13.9
Effective tax rate (%)	0.0	0.0	0.0	0.0	0.0
NOPLAT (pre-IndAS)	(52,472)	(35,967)	43,434	78,369	98,250
Shares outstanding (mn)	384.9	385.3	385.5	385.5	385.5

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
PBT	(63,528)	(52,302)	26,431	57,963	78,351
Others (non-cash items)	53,739	76,826	1,02,911	64,068	70,862
Taxes paid	(719)	(1,935)	(3,917)	0	0
Change in NWC	(10,926)	7,460	31,204	29,876	21,230
Operating cash flow	(16,204)	20,641	1,27,031	1,51,907	1,70,444
Capital expenditure	14,638	2,616	1,418	(2,000)	(2,000)
Acquisition of business	0	0	0	0	0
Interest & dividend income	1,367	916	1,568	0	0
Investing cash flow	32,457	15,259	(40,552)	(5,454)	(5,558)
Equity raised/(repaid)	93	277	224	0	0
Debt raised/(repaid)	(17,554)	(30,698)	(84,204)	(89,302)	(94,389)
Payment of lease liabilities	(19,968)	(24,893)	(41,138)	(76,779)	(89,389)
Interest paid	(292)	(457)	(345)	(10,413)	(10,866)
Dividend paid (incl tax)	0	0	0	0	0
Others	5,477	(16,127)	14,786	14,808	51,109
Financing cash flow	(12,276)	(47,006)	(69,539)	(84,907)	(54,146)
Net chg in Cash	3,977	(11,105)	16,940	61,546	1,10,740
OCF	(16,204)	20,641	1,27,031	1,51,907	1,70,444
Adj. OCF (w/o NWC chg.)	(5,278)	13,181	95,827	1,22,031	1,49,213
FCFF	(1,566)	23,257	1,28,449	1,49,907	1,68,444
FCFE	(21,619)	593	98,700	1,08,754	1,24,002
OCF/EBITDA (%)	295.4	140.3	134.5	110.5	103.9
FCFE/PAT (%)	37.1	(1.0)	(3,116.4)	187.6	158.3
FCFF/NOPLAT (%)	3.0	(64.7)	295.7	191.3	171.4

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Share capital	3,849	3,853	3,855	3,855	3,855
Reserves & Surplus	(3,140)	(64,205)	(66,887)	(8,924)	69,427
Net worth	709	(60,353)	(63,031)	(5,069)	73,283
Minority interests	0	0	0	0	0
Deferred tax liability (net)	(2,949)	(2,949)	(2,949)	(2,949)	(2,949)
Total debt	2,98,597	3,68,778	4,48,542	4,59,415	5,12,045
Total liabilities & equity	2,96,356	3,05,476	3,82,561	4,51,397	5,82,379
Net tangible fixed assets	7,961	8,225	10,921	10,385	9,877
Net intangible assets	332	214	214	214	214
Net ROU assets	1,79,862	2,04,381	2,65,365	2,99,610	3,38,030
Capital WIP	717	1,253	208	210	212
Goodwill	0	0	0	0	0
Investments [JV/Associates]	72,902	80,326	1,15,143	1,18,598	1,22,156
Cash & equivalents	1,12,271	1,01,165	1,18,106	1,79,652	2,90,392
Current assets (ex-cash)	52,749	60,087	77,521	87,090	96,147
Current Liab. & Prov.	1,30,437	1,50,176	2,04,916	2,44,361	2,74,649
NWC (ex-cash)	(77,688)	(90,089)	0	0	(1,78,502)
Total assets	2,96,356	3,05,476	3,82,561	4,51,397	5,82,379
Net debt	1,86,326	2,67,613	3,30,436	2,79,763	2,21,653
Capital employed	2,96,356	3,05,476	3,82,561	4,51,397	5,82,379
Invested capital	1,10,466	1,22,732	1,49,104	1,52,938	1,69,619
BVPS (Rs)	1.8	(156.7)	(163.5)	(13.1)	190.1
Net Debt/Equity (x)	262.8	(4.4)	(5.2)	(55.2)	3.0
Net Debt/EBITDA (x)	(34.0)	18.2	3.5	2.0	1.4
Interest coverage (x)	(0.5)	(0.8)	0.5	0.4	0.4
RoCE (%)	(14.5)	(9.5)	16.8	23.8	23.8

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY21	FY22	FY23	FY24E	FY25E
P/E (x)	(17.2)	(16.3)	(317.4)	17.3	12.8
P/CE(x)	(88.7)	(91.1)	21.0	8.6	7.0
P/B (x)	1,415.4	(16.6)	(15.9)	(198.3)	13.7
EV/Sales (x)	8.4	5.0	2.5	2.1	1.8
EV/EBITDA (x)	(217.0)	86.5	14.1	9.4	7.5
EV/EBIT(x)	(22.7)	(35.4)	30.8	16.4	12.5
EV/IC (x)	10.8	10.4	9.0	8.4	7.2
FCFF yield (%)	(0.1)	1.8	9.6	11.7	13.7
FCFE yield (%)	(2.2)	0.1	9.8	10.8	12.3
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
DuPont-RoE split					
Net profit margin (%)	(39.8)	(23.8)	(0.6)	9.1	11.1
Total asset turnover (x)	0.5	0.9	1.6	1.5	1.4
Assets/Equity (x)	9.8	(10.1)	(5.6)	(12.2)	15.2
RoE (%)	(196.5)	206.9	5.1	(170.2)	229.7
DuPont-RoIC					
NOPLAT margin (%)	(35.8)	(13.9)	8.0	12.3	13.9
IC turnover (x)	0.0	0.0	0.0	0.0	0.0
RoIC (%)	(55.6)	(30.8)	32.0	51.9	60.9
Operating metrics					
Core NWC days	(193.7)	(126.8)	(85.4)	(90.4)	(92.4)
Total NWC days	(193.7)	(126.8)	(85.4)	(90.4)	(92.4)
Fixed asset turnover	0.6	0.8	1.4	1.4	1.4
Opex-to-revenue (%)	103.4	93.9	82.1	77.8	76.1

Source: Company, Emkay Research

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Date	CMP (INR)	TP (INR)	Rating	Analyst
15-Sep-23	2,391	3,000	Buy	Sabri Hazarika
03-Aug-23	2,448	3,000	Buy	Sabri Hazarika
19-May-23	2,267	2,700	Buy	Sabri Hazarika
24-Mar-23	1,865	2,600	Buy	Sabri Hazarika
21-Mar-23	1,875	2,600	Buy	Sabri Hazarika
05-Feb-23	2,098	2,600	Buy	Sabri Hazarika
20-Dec-22	2,064	2,560	Buy	Sabri Hazarika

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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