

INDIGO: Competition escalates



Elara Diet Report—Your Swift and Savvy Guide to a ‘Breaking News or a Development’

22 February 2024

Aviation

INDIGO’s competitors turn aggressive on fleet addition

In the past four months, through September 2023–January 2024, InterGlobe Aviation (INDIGO IN) lost domestic market share from the peak of 63.4% to 60.2%, which mirrored the strong fleet addition by competitors at 26 narrow body aircraft (20 by Air India, three by Vistara and three by Akasa), versus 12 by INDIGO. In contrast, INDIGO strongly gained market share in H1FY24, from 56.8% in March 2023 to 63.4% in September 2023, due to its leadership in narrow body fleet addition (at 28 versus nine by competitors). Thus, INDIGO was able to capture most of the market share of grounded GoFirst airline as well as declining capacity of SpiceJet (from 45 fleet in March 2023 to 33 in September 2023) during H2FY24. But SpiceJet’s capacity has stabilized at ~34 fleet since the past four months and it may add fleet going forward, led by equity fund raising of INR 23bn in phases from Q4FY24.

P&W engine issues to hit fleet, near term

Around 75 planes of INDIGO have been grounded (of total 136 Pratt & Whitney [PW] engine-fitted fleet) versus ~40 in Q3FY24, as P&W continues with engine inspection that may take 8-10 months. Per our estimates, 75 grounded planes hit 10% of domestic aviation capacity. And the remaining ~60 P&W planes of INDIGO are nearing lease expiry. Expect domestic-demand-supply to be mostly balanced in H1FY25, post which domestic market may witness oversupply in H2 when these 75 grounded aircraft of INDIGO may fly again while competitors may continue to add fleet @10% of the total domestic capacity.

Easing capacity constraints in key metros in FY26 to be the key to drive future demand

Per CRISIL Ratings and Airport Authority of India, most key metro terminals (Delhi, Mumbai, Bengaluru, Hyderabad, Chennai, Kolkata, and Ahmedabad) are operating near or above terminal current capacity. Timely progress towards planned capacity expansion of such airport capacity is the key to spur strong demand growth, as these top seven airports accounted for 66% of the total passenger traffic in 9MFY24. Notably, current capacity for top seven airports is 261mn passengers per annum (mppa), and may be ~320mppa by FY28E, excluding the upcoming greenfield airports in Delhi and Mumbai by FY26 with initial capacity at 12mppa in Delhi (30mppa in the next five years) and 20mppa in Mumbai (60mppa in the next five years).

Despite near-term hiccups, long-term aviation story intact

Expect FY23-28E domestic passenger traffic CAGR at ~12-15%, driven by:

- government focus on improving air connectivity beyond tier 1 /2 cities,
- large order book of domestic carriers (1,606 outstanding order book as on December 2023) – ~350 net deliveries are expected in the next five years (~600 new deliveries less ~175 old fleet retirements) and
- higher capacity at existing key metro airports.

Retain Reduce on INDIGO

We retain **Reduce**, given the anticipated pause in market share growth and potential margin decline in H2FY25 with TP at INR 3,005 based on 8.0x FY26E EV/EBITDA. We expect a 19% passenger volume CAGR in FY23-26E.

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