

Industry AIRLINES
Bloomberg INDIGO IN
BSE CODE 539448

Higher yields drives profitability in high costs environment

RATING	NEUTRAL
CMP	1109
Price Target	1109
Potential Upside	0%

Rating Change	↔
Estimate Change	↓
Target Change	↔

Stock Info

52wk Range H/L	1520/691
Mkt Capital (Rs Cr)	42642
Free float (%)	25%
Avg. Vol 1M (,000)	1053
No. of Shares	38
Promoters Pledged %	0%

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3Q FY19 Results-

- ❑ The revenue for the company grew by 28.1% YoY to Rs 7916 crores against our estimates of Rs 7598 riding on the back of higher yields at Rs 3.83, up 19% QoQ and 3.5% YoY.
- ❑ ASK growth was marginally lower at 32.5% (estimated 35%). However, higher than expected load factor of 85.3% (estimated 84.5%) helped in RPK to come in line at 1840 crores (estimated 1860 crores). CASK ex-fuel came in much lower than our expectations at Rs 1.98 (calculated) vs Rs 2.19 and thus, CASK at Rs 3.61 (vs. 3.85) helping the company report an EBITDAR margin of 20.2%.
- ❑ Aircraft lease rentals, Depreciation and Interest cost came in higher with the higher pace additions of 19 aircrafts in the quarter.
- ❑ INDIGO reported a quarterly PAT of Rs 191 crores against our estimate of Rs 613 crores loss.
- ❑ Management has guided for a 34% YoY rise in ASK for Q4.
- ❑ INDIGO continues to maintain its market share of 43.2% as of December, 2018.

View and Valuation

INDIGOs Q3FY19 results brought in a positive surprise with the much needed rise in yields in the high costs environment that the industry as a whole had been facing. Not to forget these higher yields come in the best quarter seasonally for airline, especially in the months of November and December as indicated by the management which were the holiday season months of Diwali and Christmas in 2018. The management has indicated that they are witnessing slowdown in January in terms of yields which makes us cautious of the yields going ahead. With the cooling of crude prices from the highs in October to a range of \$60-\$65 now, the slowdown won't hurt as much as in Q2FY19. However, the profits may remain subdued due to this behaviour of yields and volatile crude prices. Rupee continues to trade around 71 against dollar which means the dollar denominated expenses will continue to be high. Lower CASK ex-fuel in Q3FY19 at 2.04 (adjusted for forex gain) brings the run-rate back to pre-FY19 levels. Going ahead, lower CASK would help in earning operational profits even under pressurized yield scenario. Factoring Q3 profits, we improve FY19 PAT by 57% and revise FY20 PAT by -6% on the back of higher depreciation & interest costs and lower other income. INDIGO currently trades at 9.7x FY20e EV/EBITDAR and we maintain our target price of Rs 1109, remain NEUTRAL.

Key Risks to our rating and target

- ❑ Fare environment continue to remain competitive
- ❑ Worsening global cues for crude, rupee depreciation

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	16140	18581	23021	28315	34542
EBITDAR	5625	5269	6567	4266	8186
EBIT	2613	1686	2520	-1468	1050
PAT	1986	1659	2242	-518	1280
EPS (Rs)	52	43	58	-13	33
EPS growth (%)	52%	-17%	35%	-123%	347%
ROE (%)	113%	51%	41%	-8%	18%
ROCE (%)	51%	28%	32%	-16%	10%
BV	71	98	184	163	197
EV/EBITDAR (X)	8.4	10.2	9.8	16.6	9.7
P/E (x)	16.9	24.4	22.1	-82.3	33.3

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3Q FY 19 Results Better than estimates

Strong Yields

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	6,178	5,799	6,512	6,185	7,916	28.1%	28.0%	18,581	23,021	23.9%
Other Income	231	258	306	329	313	35.5%	-4.8%	789	947	20.0%
Total Revenue	6,409	6,057	6,818	6,514	8,229	28.4%	26.3%	19,370	23,968	23.7%
COGS	31	30	32	33	38	25.5%	16.6%	124	125	1.3%
Gross Margin	100%	99%	99%	99%	99%	-0.1%	0.0%	99%	99%	0.1%
Aircraft Fuel	2,016	2,338	2,716	3,035	3,410	69.2%	12.3%	6,342	7,760	22.4%
Employee Cost	614	657	654	773	835	36.0%	8.0%	2,048	2,455	19.9%
Other Expenses	1,541	1,652	2,079	2,233	2,037	32.2%	-8.8%	4,799	6,114	27.4%
EBITDAR	1,977	1,123	1,031	111	1,595	-19.3%	1336%	5,269	6,567	24.6%
EBITDAR Mar.	32%	19%	16%	2%	20%	-11.8%	18.4%	28%	29%	0.2%
Lease Rentals	944	993	1,042	1,116	1,376	45.7%	23.3%	3,125	3,610	15.5%
Depreciation	107	129	155	182	204	89.8%	12.0%	457	437	-4.5%
EBIT	925	1	(166)	(1,187)	15	-98%	-101%	1,686	2,520	49.4%
Interest	84	93	109	130	138	63.0%	5.9%	331	340	2.7%
PBT	1,072	166	31	(988)	191	-82%	-119%	2,144	3,127	45.8%
Exceptional	-	-	-	-	-	0.0%	0.0%	-	-	0.0%
Tax	310	49	4	(336)	-	-100%	-100%	485	884	82.3%
PAT	762	118	28	(652)	191	-75%	-129%	1,659	2,242	35.1%
PAT Margin	12%	2%	0%	-11%	2%	-9.9%	13.0%	9%	10%	0.8%

Operational Matrices	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Yield (Rs)	3.48	3.50	3.83	3.57	3.70	3.31	3.62	3.21	3.83
RASK (Rs)	3.48	3.52	3.82	3.52	3.84	3.40	3.70	3.23	3.70
CASK (Rs)	3.06	3.08	3.08	3.01	3.16	3.30	3.69	3.74	3.61
CASK ex-fuel (Rs)	1.90	1.84	1.91	1.92	1.92	1.94	2.17	2.18	2.04
LoadFactor (%)	87%	86%	88%	84%	89%	89%	89%	85%	85%

Revenue growth led by strong yields

The revenue for the company grew by 28.1% YoY to Rs 7916 crores against our estimates of Rs 7598 riding on the back of higher yields at Rs 3.83, up 19% QoQ and 3.5% YoY. However, RASK came in lower at Rs 3.7, down 3.6% YoY due to lower load factor witnessed at 85.3% from 88.5% in the year ago period. However, the load factor is higher than our estimated 84.5% which resulted in RPK to come in line at 1840 crores (estimated 1860 crores) even after a slower ASK growth of 32.5% against estimated 35%.

Higher yields, lower CASK ex-fuel help to overcome high costs environment

On a YoY basis, fuel prices are still 31% higher and the Indian rupee is weaker by 11% and both these factors have impacted the profitability compared to the same period last year. CASK ex-fuel came in much lower than our expectations at Rs 1.98 (calculated) vs Rs 2.19 with the management capitalising the maintenance costs on 2nd shop visit this quarter. With fuel costs rising 69% YoY (33% adjusted for volumes), CASK came at Rs 3.61 for the quarter. Our expectation of higher CASK ex-fuel of 2.19 and higher fuel costs (expected 81% YoY) led to our expected CASK to be Rs 3.85. Strong yields and lower than expected CASK helped the company to report an EBITDAR of Rs 1595 crores (estimated Rs 405 crores), margin at 20.2%. Higher than expected lease rentals, higher depreciation due to capitalisation of maintenance costs and higher interest costs with the ramp in deliveries led to a profit of Rs 191 crores against our estimate of Rs 613 crores loss.

Concall Highlights

- Added 19 aircrafts taking fleet total to 208. Added 6 new international destinations & added 22 international routes and entered into codeshare agreement with Turkish Airlines.
- 0-15 day booking window witnessed improvement in November & December.
- Company guided for a 34% YoY ASK growth in Q4FY19
- Growth in tier 2 and tier 3 cities was encouraging with no impact faced in unit revenue.
- The 2 ATRs this quarter was taken on lease as it is always prudent to hold on cash in uncertain times.
- Market share of cargo stands at 27% against 24% in April.
- The company has successfully covered 80% of its supplementary rentals and is on its path of converting its cash into dollar denomination with the impact of lower yields on Cash in future.

Exhibit: Sales and Sales Growth %

Sales growth continue to remain robust with RASK growing 28% YoY and yields rising 3.5% YoY

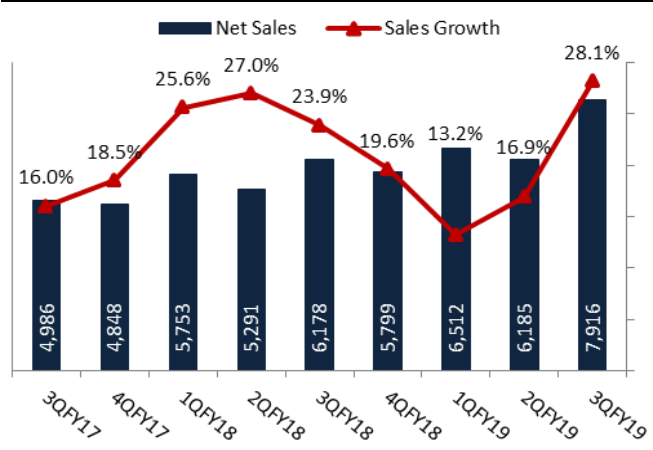


Exhibit: EBITDAR and EBITDAR margin %

EBITDAR margins improves significantly with the rising yields covering the high costs

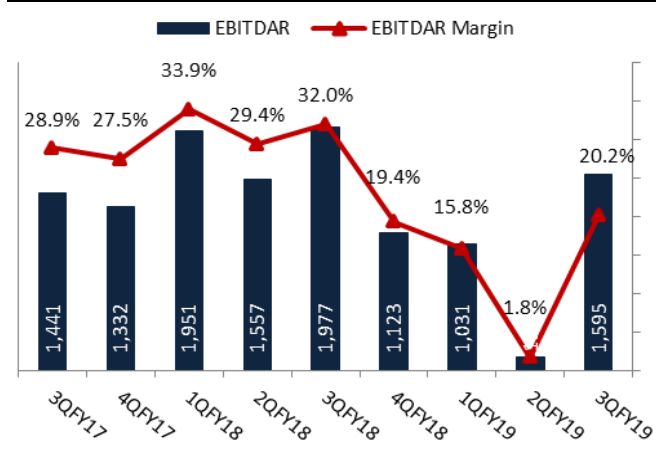


Exhibit: Return Ratios %

Return ratios have been adversely affected in a tough industry environment.

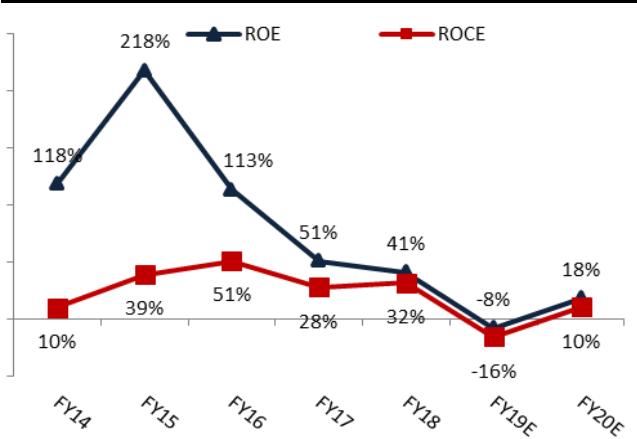


Exhibit: Yields, CASK and Load Factor

Seasonally best quarter reported higher yields at Rs 3.83 and load factors coming at 85.3%

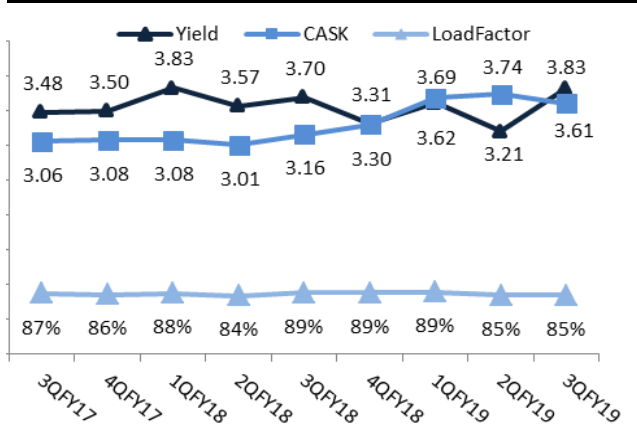


Exhibit: Sales and PAT

High yields helps the company to report a quarterly profit of Rs 191 crores

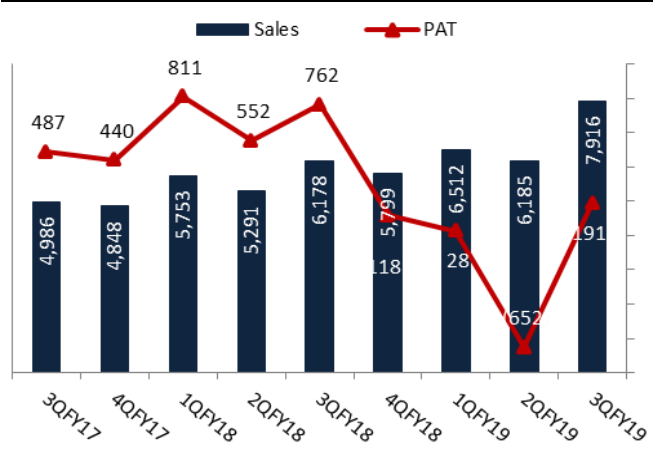
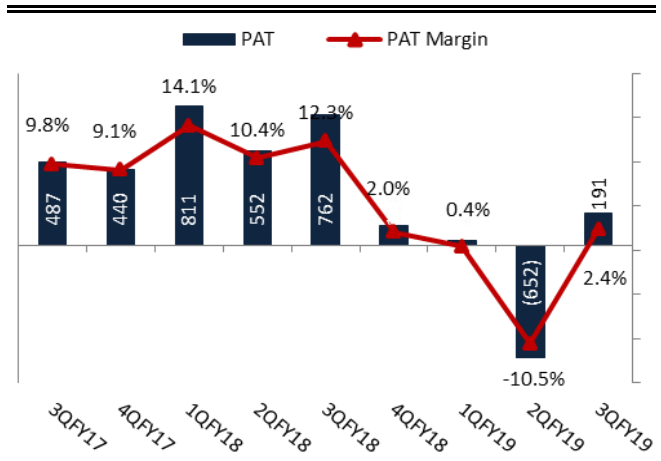


Exhibit: PAT and PAT Margin

Better operational profitability resulted in a PAT margin of 2.4%



Financial Details
Balance Sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	31	31	360	361	384	384	384
Reserves	387	750	2,363	3,418	6,693	5,897	7,178
Net Worth	418	780	2,723	3,779	7,077	6,282	7,562
Debt	3,084	3,632	3,007	2,396	2,241	2,741	3,241
Other Non Current Liab	2,751	2,661	3,208	4,250	5,688	5,688	5,688
Total Capital Employed	6,253	7,073	8,938	10,425	15,006	14,710	16,491
Net Fixed Assets (incl CWIP)	3,956	4,913	4,779	3,819	4,611	7,757	9,348
Non Current Investments	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Other non-current assets	2,233	2,255	2,232	1,944	1,886	1,886	1,886
Non Current Assets	6,189	7,168	7,011	5,763	6,498	9,644	11,234
Inventory	67	94	76	163	183	205	269
Debtors	89	105	157	159	226	278	340
Cash & cash equivalents	1,102	1,999	3,719	4,633	6,581	6,627	6,500
Other Current Assets	1,657	970	1,655	4,492	7,641	4,662	5,791
Current Assets	2,915	3,168	5,608	9,446	14,631	11,772	12,899
Creditors	383	475	741	775	1,000	1,119	1,467
Provisions	465	48	57	67	103	106	130
Other Current Liabilities	2,003	2,740	2,882	3,943	5,020	5,481	6,045
Curr Liabilities	2,850	3,263	3,680	4,785	6,123	6,706	7,642
Net Current Assets	65	(95)	1,927	4,662	8,509	5,066	5,257
Total Assets	9,103	10,336	12,619	15,210	21,129	21,416	24,133

Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	11,117	13,925	16,140	18,581	23,021	28,315	34,542
Change (%)	21%	25%	16%	15%	24%	23%	22%
Other Income	316	395	515	789	947	1,225	1,348
EBITDAR	2,177	3,822	5,625	5,269	6,567	4,266	8,186
Change (%)	-3%	76%	47%	-6%	25%	-35%	92%
Margin (%)	20%	27%	35%	28%	29%	15%	24%
Aircraft and engine rentals	1,670	1,952	2,507	3,125	3,610	4,979	6,226
Depr & Amor.	226	302	505	457	437	754	910
EBIT	281	1,567	2,613	1,686	2,520	(1,468)	1,050
Int. & other fin. Cost	123	116	304	331	340	498	568
EBT	474	1,847	2,824	2,144	3,127	(740)	1,829
Exp Item	-	-	-	-	-	-	-
Tax	(1)	542	837	485	884	(222)	549
Reported PAT	474	1,304	1,986	1,659	2,242	(518)	1,280
Adjusted PAT	474	1,304	1,986	1,659	2,242	(518)	1,280
Change (%)	-39%	175%	52%	-16%	35%	-123%	-347%
Margin(%)	4%	9%	12%	9%	10%	-2%	4%

Financial Details
Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Current Ratio	1.0	1.0	1.5	2.0	2.4	1.8	1.7
Debt-Equity Ratio	7.4	4.7	1.1	0.6	0.3	0.4	0.4
Interest Coverage Ratio	2.3	13.6	8.6	5.1	7.4	(2.9)	1.8
Capital Turnover Ratio	3.2	3.2	2.8	3.0	2.5	3.1	3.2
Fixed Asset Turnover Ratio	3.9	3.1	3.4	4.4	5.6	4.6	4.1
ROCE	10.1%	39.1%	50.8%	27.8%	31.9%	-15.7%	10.4%
ROE	118.1%	217.7%	113.3%	51.0%	41.3%	-7.8%	18.5%
FCF per Share	(23.7)	44.5	8.0	11.5	7.0	(11.5)	(1.1)
Price / EPS	71.2	25.9	16.9	24.4	22.1	(82.3)	33.3
Price / Book Value	80.8	43.3	12.3	10.7	7.0	6.8	5.6
EV/EBITDAR	20.2	12.1	8.4	10.2	9.8	16.6	9.7
EV/Sales	4.0	3.3	2.9	2.9	2.8	2.5	2.3
Div Yield	0.0%	0.0%	1.7%	3.2%	0.5%	0.0%	0.7%

Cash Flow Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	474	1,847	2,824	2,144	3,127	(740)	1,829
<i>(inc)/Dec in Working Capital</i>	1,120	777	308	2,113	1,510	211	461
<i>Non Cash Op Exp</i>	7	52	275	(367)	(332)	(472)	(438)
<i>Int Paid (+)</i>	102	104	285	315	337	498	568
<i>Tax Paid</i>	(108)	(395)	(576)	(424)	(738)	-	(327)
CF from Op. Activities	1,596	2,384	3,116	3,782	3,903	(503)	2,093
<i>(inc)/Dec in FA & CWIP</i>	(2,324)	(1,017)	(248)	376	(1,220)	(3,900)	(2,500)
<i>Free Cashflow</i>	(728)	1,367	2,867	4,158	2,683	(4,403)	(407)
<i>(Pur)/Sale of Inv</i>	(69)	858	(420)	(2,551)	(2,254)	3,500	(1,000)
<i>others</i>	(521)	(782)	(674)	(863)	(686)	1,225	1,348
CF from Inv. Activities	(2,914)	(941)	(1,343)	(3,038)	(4,160)	825	(2,152)
<i>inc/(dec) in NW</i>	-	-	1,214	1	2,508	-	-
<i>inc/(dec) in Debt</i>	1,364	382	(1,024)	(685)	(188)	500	500
<i>Int. Paid</i>	(79)	(77)	(83)	(65)	(74)	(498)	(568)
<i>Div Paid (inc tax)</i>	-	(1,613)	(1,327)	(653)	(1,480)	(278)	-
<i>others</i>	-	-	-	-	-	-	-
CF from Fin. Activities	1,285	(1,308)	(1,220)	(1,401)	766	(276)	(68)
Inc(Dec) in Cash	(34)	137	564	(648)	526	46	(127)
<i>Add: Opening Balance</i>	145	111	247	805	153	671	717
Closing Balance	111	247	805	153	671	717	590

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