InterGlobe Aviation Ltd

Narnolia™

Industry	AIRLINES
Bloomberg	INDIGO IN
BSE CODE	539448

Leader joys from Jet Airways fall

RATING	NEUTRAL
CMP	1671
Price Target	1808
Potential Upside	8%

Rating Change	⟷
Estimate Change	↑
Target Change	↑

Stock Info

52wk Range H/L	1716/691
Mkt Capital (Rs Cr)	64229
Free float (%)	25%
Avg. Vol 1M (,000)	2664
No. of Shares	38
Promoters Pledged %	0%

4QFY19 Result Update

- The revenue for the company grew by 35.9% YoY to Rs 7883 crores on the back of higher yields at Rs 3.7, up 11.8% YoY.
- ASK growth for Q4 stood at 29.2% taking the yearly ASK capacity growth to 27% for FY19. The grounding of 737 Max aircrafts and Jet Airways in the middle of quarter provided an impetus for the other airlines with INDIGO's load factor coming at 86% for Q4 and its market share rising 46.9% in the month of March 2019. RPK come in line at 1900 crores.
- Lower ATF prices in the quarter led to sharp decrease in CASK fuel by over 20% sequentially to Rs 1.26/ASK. CASK ex-fuel was impacted adversely due to higher aircraft maintenance costs and forex movements and it came at Rs 2.09/ASK.
- Higher yields and lower CASK fuel helped INDIGO to report an EBITDAR margin of 26.1%.
- INDIGO reported a PAT of Rs 590 crores for the quarter.
- Management has guided for a 30% yearly capacity increase for FY20 and for a 30% YoY growth in ASK for Q1FY20.

View and Valuation

The past six months have been quite dynamic in nature for the overall Airline Industry. From INDIGO themselves facing shortage to pilots leading to 300 daily flight cancellations to grounding of Boeing 737 MAXs to grounding of the Jet Airways flights as a whole. INDIGO being the market leader has been the biggest beneficiary of the developments where their market share improved from 43.2% in December to 46.9 in March and further to 49.9% in June. The rise in market share comes from the capability of INDIGO to swiftly expand its capacity which helped them benefit from the extraordinary rise in yields which is said to settle down soon by June. Apart from these, a major positive was a ~17% sequentially fall in ATF prices after a cumulative ~48% rise over preceding five quarters. This further helped INDIGO to reduce its overall operational costs. Amidst the global uncertainty led by US-China trade war and rising US inventory levels, Brent crude continues to trade under pressure below $70/barrel. The management has guided for a 30% rise in ASK annual capacity in FY20 and a 5% unit revenue improvement on a steady state basis. However, staying cautious on the cost side of the operations, we expect INDIGO to report a CAGR growth of 28.8% and 48.3% for Revenue and EBITDAR respectively over FY19-21e with EBITDAR margins at ~22% for both FY20 and FY21. We revise our FY20e for sales and PAT by 8.5% and 74.4% respectively and introduce FY21 estimates. We roll forward our valuation to 10x FY21e EV/EBITDAR to arrive at a price target of Rs 1808. Given the recent rally in stock price, there is very limited upside here and so, we maintain our NEUTRAL rating on the stock.

Key Risks to our rating and target

- Fill up of Jet Airways capacity shortfall resulting into stiff competition returning
- Worsening global cues for crude, rupee depreciation

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	18581	23021	28497	39192	47302
EBITDAR	5269	6567	4794	8662	10553
EBIT	1686	2520	-965	1442	2054
PAT	1659	2242	156	1754	2299
EPS (Rs)	43	58	4	46	60
EPS growth (%)	-17%	35%	-93%	1022%	31%
ROE (%)	51%	41%	2%	23%	24%
ROCE (%)	28%	32%	-10%	14%	17%
BV	98	184	181	221	271
EV/EBITDAR (X)	10.2	9.8	16.1	10.8	9.5
P/E (x)	24.4	22.1	351.3	36.6	28.0

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4QFY19 Results
Better than estimates

Strong Yields

Financials	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	5,799	6,512	6,185	7,916	7,883	**35.9%**	**-0.4%**	23,021	28,497	**23.8%**
Other Income	299	306	329	313	377	**26.1%**	**20.2%**	947	1,325	**39.9%**
Total Revenue	6,098	6,818	6,514	8,229	8,260	**35.5%**	**0.4%**	23,968	29,822	**24.4%**
COGS	30	32	33	38	36	**18.6%**	**-7.3%**	125	139	**11.2%**
Gross Margin	99%	99%	99%	99%	99%	**-0.1%**	**0.0%**	99%	100%	**0.1%**
Aircraft Fuel	2,338	2,716	3,035	3,410	2,781	**19.0%**	**-18.4%**	7,760	11,943	**53.9%**
Employee Cost	657	654	773	835	877	**33.5%**	**5.0%**	2,455	3,138	**27.8%**
Other Expenses	1,693	2,079	2,233	2,037	2,134	**26.0%**	**4.7%**	6,114	8,483	**38.7%**
EBITDAR	1,082	1,031	111	1,595	2,056	**90.0%**	**29%**	6,567	4,794	**-27.0%**
EBITDAR Mar.	19%	16%	2%	20%	26%	**7.4%**	**5.9%**	29%	17%	**-11.7%**
Lease Rentals	993	1,042	1,116	1,376	1,465	**47.5%**	**6.5%**	3,610	4,999	**38.5%**
Depreciation	129	155	182	204	219	**69.9%**	**7.2%**	437	760	**73.9%**
EBIT	(40)	(166)	(1,187)	15	373	**-1041%**	**2318%**	2,520	(965)	**-138%**
Interest	93	109	130	138	133	**43.0%**	**-3.7%**	340	509	**49.8%**
PBT	166	31	(988)	191	617	**271%**	**223%**	3,127	(149)	**-105%**
Exceptional	-	-	-	-	-	**0.0%**	**0.0%**	-	-	**0.0%**
Tax	49	4	(336)	-	27	**-44%**	**NA**	884	(305)	**-135%**
PAT	118	28	(652)	191	590	**401%**	**209%**	2,242	156	**-93.0%**
PAT Margin	2%	0%	-11%	2%	7%	**5.5%**	**5.1%**	10%	1%	**-9.2%**

Operational Matrices	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
Yield (Rs)	3.50	3.83	3.57	3.70	3.31	3.62	3.21	3.83	3.70
RASK (Rs)	3.52	3.82	3.52	3.84	3.40	3.70	3.23	3.70	3.63
CASK (Rs)	3.08	3.08	3.01	3.16	3.30	3.69	3.74	3.61	3.35
CASK ex-fuel (Rs)	1.84	1.91	1.92	1.92	1.96	2.17	2.18	2.04	2.09
LoadFactor (%)	86%	88%	84%	89%	89%	89%	85%	85%	86%

Revenue growth led by strong yields

The revenue for the company grew by 35.9% YoY to Rs 7883 crores against our estimates of Rs 7617 crores riding on the back of higher yields at Rs 3.7 (est. Rs 3.8), up 11.8% YoY. ASK growth for Q4 stood at 29.2% taking the yearly ASK capacity growth to 27% for FY19. The grounding of 737 Max aircrafts and Jet Airways in the middle of quarter provided an impetus for the other airlines with INDIGO's load factor coming at 86% (est. 87%) for Q4 and its market share rising 46.9% in the month of March 2019. RPK came in higher than our expectation of 1767 crores at 1900 crores.

Higher yields, lower CASK boasts profit for the quarter

Lower ATF prices in the quarter led to sharp decrease in CASK fuel by over 20% sequentially to Rs 1.26/ASK (est. Rs 1.36). .CASK ex-fuel came in line with our estimates at Rs 2.09/ASK. A weaker Indian Rupee by ~6% YoY and higher aircraft maintenance costs were the factors leading to ~6.6% YoY rise. Lower aircraft fuel costs resulted in CASK for the quarter to be at Rs 3.35 (est. Rs 3.45). Strong yields, Higher ASK and lower than expected CASK helped the company to report an EBITDAR of Rs 2056 crores in line with our estimates and and EBITDAR margin stood at 26.1%. Higher other income and a 4.4% tax rate for the quarter helped the company to report a PAT of Rs 590 crores, as against our estimate of Rs 284 crores.

Concall Highlights

- The capacity for the quarter increased 29% year over year, with domestic capacity growing at 24% and international capacity growing at 60%. International capacity now represents close to 20% of our total capacity.
- The management is particularly pleased that the international RASK improved at approximately 13.6% year over year as against a domestic RASK improvement of 6.2%.
- The company has optimized the network by reallocating 10% of capacity this quarter. They have also taken some sales initiatives to improve performance on distribution channels. And finally they are ensuring higher connectivity on international flights. All these factors created a 2-3% year over year improvement in our unit revenues for the quarter and on a steady – state basis they expect a boost of 5% unit revenue improvement for the next financial year. This improvement doesn't take into consideration the higher revenue opportunity from cargo and ancillary revenues.
- Grounding of Jet Airways Helped revenue performance in the last week of February and the whole of March which resulted in a 3-4% rise in unit revenue for Q4. April revenues have actually been strongly (than even March) affected by the Jet Airways shutdown. By May, however, as the industry has added capacity to Jet markets, the Jet Airways effect has started to dissipate and by June they think the effect will pretty much disappear except in a few international markets where they overlapped with Jet as in the Middle East markets.
- The capacity added to full up Jet Airways vaccum was rather late without the full benefit of the 90 day booking window. Further, the new capacity so added will impact close in fares which have come down quite appreciably in June.
- For the quarter ending June 2019 and for the full year of fiscal 2020, the company expects total capacity to be up by 30%. The distribution of new capacity would be 50:50 between domestic and international. All new aircrafts coming in would be neos.
- CASK excluding fuel was 2.09 rupees in the current quarter, an increase of 6.7% from the same period last year. Excluding the impact of currency depreciation, the increase was 4% which was primarily driven by an increase in our maintenance cost. The higher maintenance cost continues to be higher due to the visit of older aircrafts to shop for the second time as stated earlier. The impact of this higher maintenance cost should fade away by end of FY20.
- The P&W situation has improved and that can be seen with the Technical Dispatch Reliability at 99.88%.
- The company reassured that they will have sufficient pilots to execute their expansion program. Post the pilot shortage faced about 3-4 months back, the company has caught up. They have about 285 Jet Airways pilot who have already joined and will be online within three to six months. This number is expected to increase further.
- Balance sheet impact due to new IndAS on lease: Rs 140 billion would be added as Lease liability and corresponding Lease Asset would be added to the amount of Rs 130 billion. As regards to P&L for FY20, the impact of accounting change should be neutral. The only impact on P&L would be the M2M on the reporting date as per the exchange rate.
- Owning the aircrafts plan: The Company currently owns 12 ATRs bought outright with cash. Their focus on owning the aircrafts is still on; however it's slower right now due to the challenging financial conditions environment for the industry
- No higher charges in the initial years of lease as their most leases are for 6 year period and this leads to lower average lease period.
- Operational cost of A321 neos is 8-10% cheaper on a unit cost basis than A320 neos.
- The company expects the current lower passenger growth rates trend to fade out over the next 2 months i.e. by July.
- Of the 5.9% improvement in RASK in Q4, 2.5% can be attributed to company initiatives and 3.5% to the Jet cessation.
- The interest income on deposits in foreign currency will start to come down going ahead.
- The company expects to add 53 A320-321 and 11 ATRs in FY20. This would be gross additions

Exhibit: Sales and Sales Growth %

Sales growth continue to remain robust with ASK growing 29.2% YoY and yields rising 11.8% YoY

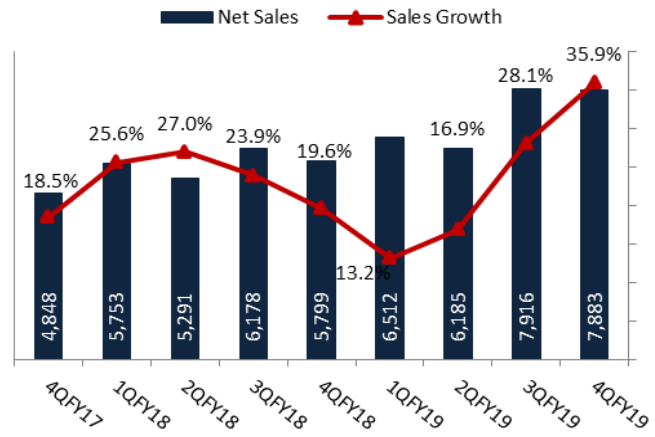


Exhibit: EBITDAR and EBITDAR margin %

EBITDAR margin improves significantly with the rising yields and lower ATF prices

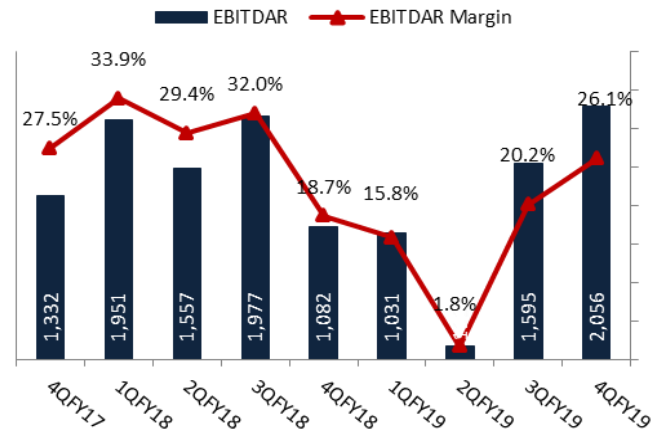


Exhibit: Return Ratios %

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

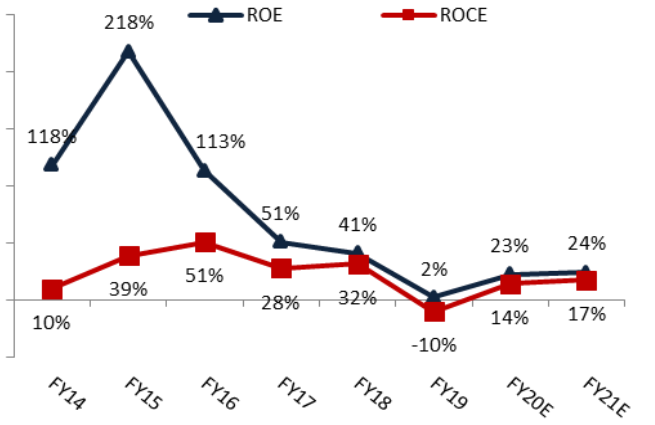


Exhibit: Yields, CASK and Load Factor

Higher load factor of 86% in seasonally weak quarter due to grounding of Jet Airways and 737 Max

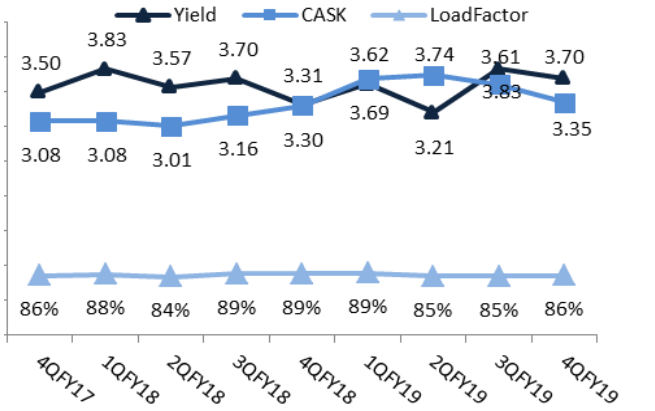


Exhibit: Sales and PAT

High yields & lower CASK helps the company to report a quarterly profit of Rs 590 crores

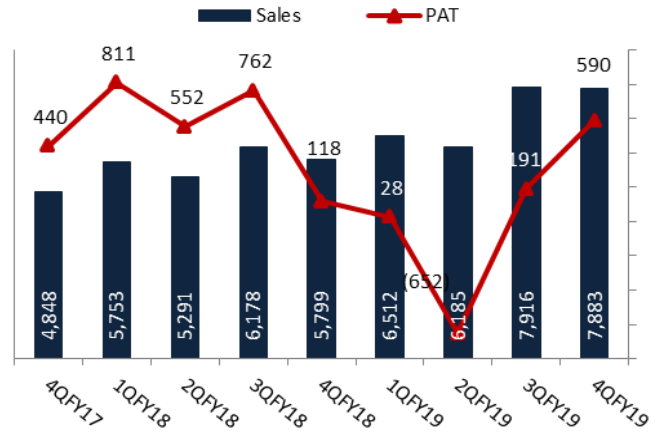
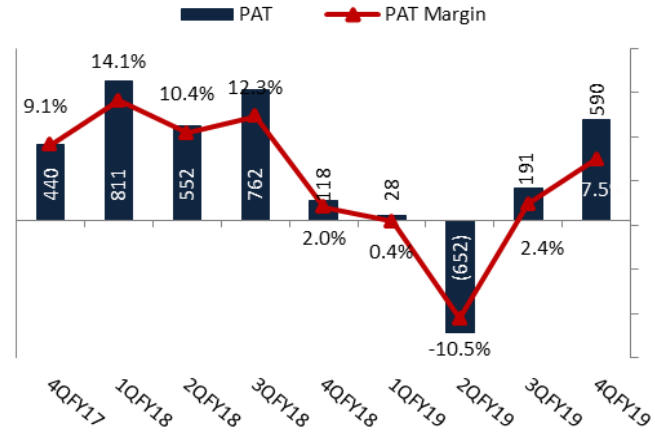


Exhibit: PAT and PAT Margin

Better operational profitability resulted in a PAT margin of 7.5%



Financial Details

Balance Sheet

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	**31**	**360**	**361**	**384**	**384**	**385**	**385**
Reserves	750	2,363	3,418	6,693	6,560	8,092	10,020
Net Worth	**780**	**2,723**	**3,779**	**7,077**	**6,945**	**8,477**	**10,405**
Debt	3,632	3,007	2,396	2,241	2,194	2,094	1,994
Other Non Current Liab	2,661	3,208	4,250	5,688	7,875	7,875	7,875
Total Capital Employed	**7,073**	**8,938**	**10,425**	**15,006**	**17,013**	**18,445**	**20,273**
Net Fixed Assets (incl CWIP)	4,913	4,779	3,819	4,611	5,686	6,779	7,742
Non Current Investments	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Other non-current assets	2,255	2,232	1,944	1,886	1,223	1,223	1,223
Non Current Assets	**7,168**	**7,011**	**5,763**	**6,498**	**6,908**	**8,001**	**8,965**
Inventory	94	76	163	183	211	315	382
Debtors	105	157	159	226	362	499	602
Cash & cash equivalents	1,999	3,719	4,633	6,581	8,606	9,285	9,748
Other Current Assets	970	1,655	4,492	7,641	8,923	10,521	11,938
Current Assets	**3,168**	**5,608**	**9,446**	**14,631**	**18,103**	**20,620**	**22,671**
Creditors	475	741	775	1,000	1,455	2,170	2,631
Provisions	48	57	67	103	164	225	271
Other Current Liabilities	2,740	2,882	3,943	5,020	6,380	7,782	8,460
Curr Liabilities	**3,263**	**3,680**	**4,785**	**6,123**	**7,998**	**10,177**	**11,362**
Net Current Assets	**(95)**	**1,927**	**4,662**	**8,509**	**10,105**	**10,444**	**11,309**
Total Assets	**10,336**	**12,619**	**15,210**	**21,129**	**25,012**	**28,622**	**31,635**

Income Statement

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	**13,925**	**16,140**	**18,581**	**23,021**	**28,497**	**39,192**	**47,302**
Change (%)	25%	16%	15%	24%	24%	38%	21%
Other Income	395	515	789	947	1,325	1,471	1,618
EBITDAR	**3,822**	**5,625**	**5,269**	**6,567**	**4,794**	**8,662**	**10,553**
Change (%)	76%	47%	-6%	25%	-27%	81%	22%
Margin (%)	27%	35%	28%	29%	17%	22%	22%
Aircraft and engine rentals	1,952	2,507	3,125	3,610	4,999	6,312	7,462
Depr & Amor.	302	505	457	437	760	907	1,037
EBIT	**1,567**	**2,613**	**1,686**	**2,520**	**(965)**	**1,442**	**2,054**
Int. & other fin. Cost	116	304	331	340	509	407	388
EBT	**1,847**	**2,824**	**2,144**	**3,127**	**(149)**	**2,506**	**3,284**
Exp Item	-	-	-	-	-	-	-
Tax	542	837	485	884	(305)	752	985
Reported PAT	1,304	1,986	1,659	2,242	156	1,754	2,299
Adjusted PAT	**1,304**	**1,986**	**1,659**	**2,242**	**156**	**1,754**	**2,299**
Change (%)	175%	52%	-16%	35%	-93%	1023%	31%
Margin(%)	9%	12%	9%	10%	1%	4%	5%

Financial Details

Key Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Current Ratio	1.0	1.5	2.0	2.4	2.3	2.0	2.0
Debt-Equity Ratio	4.7	1.1	0.6	0.3	0.3	0.2	0.2
Interest Coverage Ratio	13.6	8.6	5.1	7.4	(1.9)	3.5	5.3
Capital Turnover Ratio	3.2	2.8	3.0	2.5	3.1	3.7	3.8
Fixed Asset Turnover Ratio	3.1	3.4	4.4	5.6	5.6	6.3	6.6
ROCE	39.1%	50.8%	27.8%	31.9%	-10.2%	14.2%	17.5%
ROE	217.7%	113.3%	51.0%	41.3%	2.2%	22.7%	24.3%
FCF per Share	44.5	8.0	11.5	7.0	2.7	2.4	1.8
Price / EPS	25.9	16.9	24.4	22.1	351.3	36.6	28.0
Price / Book Value	43.3	12.3	10.7	7.0	7.9	7.6	6.2
EV/EBITDAR	12.1	8.4	10.2	9.8	16.1	10.8	9.5
EV/Sales	3.3	2.9	2.9	2.8	2.7	2.4	2.1
Div Yield	0.0%	1.7%	3.2%	0.5%	0.4%	0.5%	0.5%

Cash Flow Statement

Y/E March	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
PBT	**1,847**	**2,824**	**2,144**	**3,127**	**(149)**	**2,506**	**3,284**
(inc)/Dec in Working Capital	777	308	2,113	1,510	2,964	1,035	598
Non Cash Op Exp	52	275	(367)	(332)	(432)	(564)	(581)
Int Paid (+)	104	285	315	337	509	407	388
Tax Paid	(395)	(576)	(424)	(738)	-	(446)	(985)
CF from Op. Activities	**2,384**	**3,116**	**3,782**	**3,903**	**2,891**	**2,938**	**2,704**
(inc)/Dec in FA & CWIP	(1,017)	(248)	376	(1,220)	(1,856)	(2,000)	(2,000)
Free Cashflow	1,367	2,867	4,158	2,683	1,035	938	704
(Pur)/Sale of Inv	858	(420)	(2,551)	(2,254)	(173)	(1,000)	(1,000)
others	(782)	(674)	(863)	(686)	1,998	1,471	1,618
CF from Inv. Activities	**(941)**	**(1,343)**	**(3,038)**	**(4,160)**	**(31)**	**(1,529)**	**(1,382)**
inc/(dec) in NW	-	1,214	1	2,508	-	9	-
inc/(dec) in Debt	382	(1,024)	(685)	(188)	(48)	(100)	(100)
Int. Paid	(77)	(83)	(65)	(74)	(509)	(407)	(388)
Div Paid (inc tax)	(1,613)	(1,327)	(653)	(1,480)	(278)	(231)	(370)
others	-	-	-	-	(1,984)	-	-
CF from Fin. Activities	**(1,308)**	**(1,220)**	**(1,401)**	**766**	**(2,818)**	**(729)**	**(859)**
Inc(Dec) in Cash	**137**	**564**	**(648)**	**526**	**42**	**679**	**463**
Add: Opening Balance	111	247	805	153	671	713	1,392
Closing Balance	**247**	**805**	**153**	**671**	**713**	**1,392**	**1,855**

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