

CMP (INR): (Nov 02, 2017)	1248.00
Revised Target (INR)	1,477.00
Upside(%)	18.00%
Recommendation :	Buy

BSE Code	539448
NSE Code	INDIGO
Reuters Ticker	INGL.NS
Bloomberg Ticker	INDIGO:IN

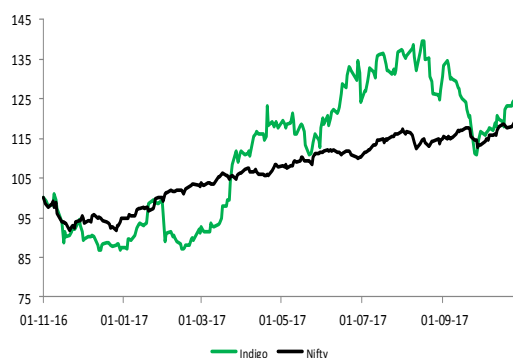
Stock Scan

Market cap (INR Cr.)	47042.83
Paid-up Eq. Capital (INR Cr.)	384.10
Outstanding Shares (Cr.)	38.41
Face Value (INR)	10.00
Dividend Yield(%)	2.78
P/E (x)	28.35
Industry P/E (x)	23.65
Debt/Equity	0.70
Beta vs. Sensex	0.36
52 Week High/ Low (INR)	806.50/1346.35
Avg. Daily Volume (NSE)	494191

Shareholding Pattern (%)

	Sept-2017	June-2017	Mar-2017
Promoters	77.91	85.85	85.88
Institutions	17.19	8.61	8.06
Non-institutions	4.90	5.54	6.06

Indigo vs. Nifty



Company Overview

Interglobe Aviation Limited operates “IndiGo”, India’s largest passenger airline with 38.20% market share. The company operates on a low-cost carrier (LCC) business model and focuses on the domestic Indian air travel market. IndiGo has one of the largest fleet catering to domestic markets. Interglobe Aviation is the only airline in India to be consistently profitable over the past five years – a distinction achieved through its consistent focus on reducing costs.

Q2 FY2018: Indigo reports blockbuster results

- In Q2 FY18, Indigo reported blockbuster results. Its revenues from operations grew 27% YoY to INR5,291, ahead of estimates driven primarily by higher yields.
- It’s EBITDA grew 277% YoY to INR738 Crore, while it’s PAT grew 294% YoY to INR552 Crore compared to estimates of INR320 Crore. The robust performance was driven by better fares (up 11% YoY) and credits received from Pratt & Whitney for aircraft grounding and delivery delays.
- In Q2 FY18, while ATF price grew 2% YoY, Indigo’s fuel cost per ASK declined 4% YoY, increased contribution of fuel-efficient A320Neo (17% of fleet) resulted in fuel cost benefit for the airline.
- The Company witnessed robust volume growth of 15% YoY. This was a positive surprise especially due to the fact the Indigo had to ground most of its recently delivered 24 A320Neo aircrafts. This indicates domestic aviation industry is supply constrained.
- The Company reported an increase of 35% in its other income 33.50% which stood at INR215 Crore in Q2 FY18.
- On the operational front, Indigo reported an on time performance of 87.0%, technical dispatch reliability was 99.84% and flight cancellation rate was 0.37%.
- It successfully completed an Institutional Placement Programme (IPP) of 3.36 Crore shares; fresh issue of 2.24 Crore shares and offer for sale of 1.12 Crore shares
- The Company ended the quarter with a fleet of 141 aircraft including 24 A320neos.

Operational metrics

Particulars	Q2 FY18	Q2 FY17	Change
ASK	15.10	13.37	13.00%
RPK	12.68	10.98	15.40%
Load Factor	84.00%	82.20%	180 bps

Source: Company

Research Analyst: Aditya Jaiswal

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Financial Analysis for the quarter ending September 30, 2017

Particulars (in INR Crore)	Quarter Ended					Half year ended		
	Q2 FY18	Q2 FY17	YoY %	Q1 FY18	QoQ %	H1 FY18	H1 FY17	YoY
Revenue from operations	5290.98	4166.93	26.98%	5752.91	-8.03%	11043.89	8745.78	26.28%
Aircraft fuel	1647.25	1552.38	6.11%	1759.16	-6.36%	3406.41	2919.79	16.67%
Aircraft and engine rentals	819.29	772.09	6.11%	853.69	-4.03%	1672.98	1484.79	12.67%
Purchase of stock	29.43	31.73	-7.25%	31.76	-7.34%	61.20	66.47	-7.93%
Change in inventory	1.43	1.63	12.27%	2.01	-28.86%	3.43	1.30	163.85%
Employee benefit expenses	600.40	508	18.19%	584.27	2.76%	1184.68	986.930	20.04%
Other expenses	1455.00	1105.47	31.62%	1424.99	2.11%	2879.99	2275.63	26.56%
Total Expenses	4552.8	3971.3	14.64%	4655.88	-2.21%	9208.69	7734.91	19.05%
EBITDA	738.18	195.63	277.33%	1097.03	-32.71%	1835.20	1010.87	81.55%
EBITDA margin (%)	13.95%	4.69%	926 bps	19.07%	-512 bps	16.62%	11.56%	506 bps
Other income	214.58	160.76	33.48%	202.63	5.90%	417.21	323.36	29.02%
Depreciation & ammortization	102.52	118.86	-13.75%	98.34	4.25%	200.86	233.69	-14.05%
EBIT	850.24	237.53	257.95%	1201.32	-29.22%	2051.55	1100.54	86.41%
EBIT Margin (%)	16.07%	5.70%	1037 bps	20.88%	-481 bps	18.58%	12.58%	600 bps
Interest cost	85.66	60.96	40.52%	76.97	11.29%	162.64	177.27	-8.25%
Profit before tax	764.58	176.57	333.02%	1124.35	-32.00%	1888.91	923.27	104.59%
PBT margin (%)	14.45%	4.24%	1021 bps	19.54%	-509 bps	17.10%	10.56%	654 bps
Tax	212.98	36.7	480.33%	313.18	-31.99%	526.17	191.63	174.58%
Profit after tax	551.6	139.87	294.37%	811.17	-32.00%	1362.74	731.64	86.26%
PAT margin (%)	10.43%	3.36%	707 bps	14.10%	-367 bps	12.34%	8.37%	397 bps
EPS	15.19	3.87	292.51%	22.44	-32.31%	37.61	20.28	85.45%

Source: Bloomberg, SMIFS Research

Q1 FY18 Conference call highlights

- Passenger load factor was up 179bps to 84%. Ticket yields were up by 9% to INR3.57.
- Management explained that profitability was favorably impacted by better revenue management and credits received from manufacturers related to aircraft grounding and delivery delays.
- The Company has booked part of the credits received from manufacturers on revenue side and part on cost side. Indigo's fuel cost per ASK was lower at INR1.11, despite an increase in ATF prices during the same period.

Financials

Q1 FY18 Conference call highlights (Cont'd)

- The management guided that the first ATR fleet operation will start from December 2017 from Tirupati, Rajahmundry and Vijayawada. Indigo would add 21 ATR aircrafts till January 2019.
- Indigo has started receiving spare P&W engines for A320Neo and presently no A320 Neo aircrafts are grounded.
- Engine repairs are subject to 5% GST. Indigo paid GST of about INR78 Crore of aircraft maintenance expenses in Q2FY18 under protest, which company shown as receivables in balance sheet.
- Company will use most of the IPP proceeds and Free Cash Flow to buy ATR aircrafts in future.

Financial Performance at a glance (Standalone)

Particulars (INR Cr)	FY 2015	FY 2016	FY 2017	FY 2018E	FY 2019E
Revenue (INR Crore)	13866.40	16042.49	18440.00	23318.53	28229.08
Growth (%)	24.61	15.69	14.94	26.46	21.06
EBITDA (INR Crore)	1869.69	3117.97	2143.30	3325.32	4078.71
EBITDA margins (%)	13.48	19.44	11.62	14.26	14.45
Net profit (INR Crore)	1227.85	1955.88	1537.05	2391.96	2943.62
Net Profit Margin (%)	8.85	12.19	8.34	10.26	10.43
EPS	N/A	55.53	42.47	62.98	77.78
BVPS	N/A	75.57	104.55	142.73	169.59
P/E	N/A	15.04	22.89	19.78	16.02
P/BV	N/A	11.55	10.06	8.73	7.35
EV/EBITDA	N/A	9.62	15.05	10.69	8.72
ROE (%)	305.58	126.13	51.03	62.28	51.14

Source: Bloomberg, SMIFS Research

*Bloomberg adjusted figures

Valuation: Market leadership, strong revenue visibility coupled with stellar profitability renders Indigo the best bet in the Indian aviation industry. We maintain BUY with a target price of INR1,477 (INR1,470 earlier) based on P/E multiple 19x to its FY19(E) EPS.

Aviation terminologies:

- Passenger Load Factor (PLF):** Measures the capacity utilization of public transport services like airlines and passenger railways.
- Air Turbine Fuel (ATF):** Aviation fuel is a specialized type of petroleum-based fuel used to power aircraft.
- Available Seat Kilometer (ASK):** The basic measure of capacity, one seat (empty or filled) flying one kilometer is an ASK.
- Revenue Passenger Kilometer (RPK):** The Basic measure of revenue. A paying passenger flying one kilometer creates an RPK.

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Technical Research

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Stock Recommendation	Expected absolute returns (%) over 12 months
Strong Buy	>20%
Buy	between 10% and 20%
Hold	between 0% and 10%
Sell	0 to <-10%
Neutral	No Rating

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