

A background image of an IndiGo airplane on a runway, with the name 'IndiGo' and the registration 'VT-ITC' visible on the fuselage. The image is overlaid with a semi-transparent blue filter.

# INDIGO

**Moving to Greater Heights!**

# Industry Dynamics

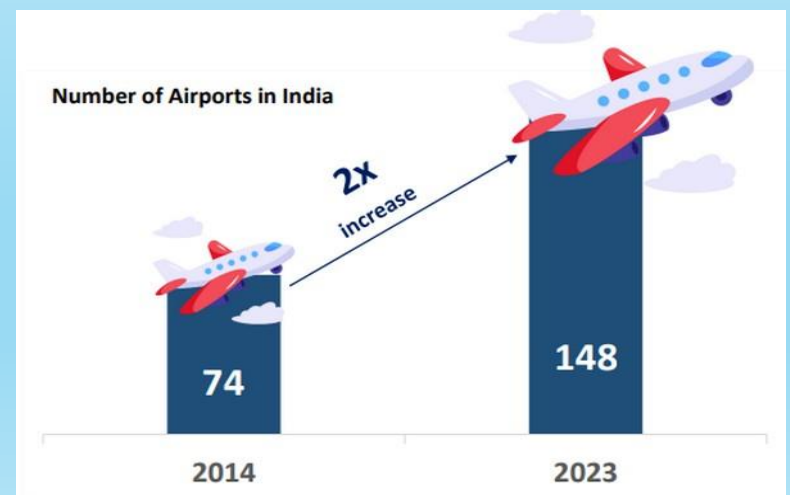
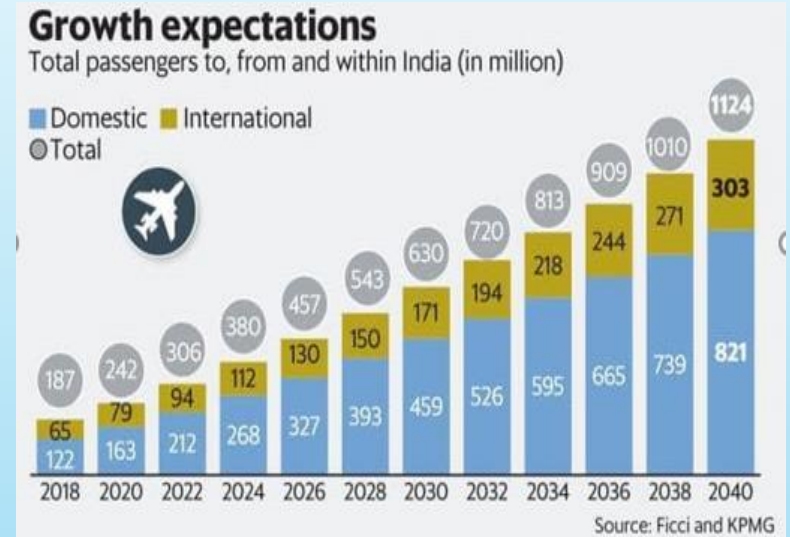
Historically, Airline industry has not made money on consistent basis :

- ❑ **High operating leverage & the extended cost of leasing** eats into the profitability, hence any downturn creates debt trap
- ❑ **Volatility in cost and revenue:** Crude is a big cost and volatility in it creates volatility in margin
- ❑ **Given high fixed cost on per flight basis,** all airlines first try to recover cost via early bookings, which is why as capacity gets filled the price goes up. Our analysis suggest profitability starts only above 75%-80% of utilisation in any sector
- ❑ **As there is volatility in revenue & cost both,** the valuation and ability to raise equity has been a challenge for this sector in India and globally
- ❑ Over the last 2 decades number of players have come down, reducing competition, while demand has increased

List of Domestic Airlines				
Name of Airline	Status	Domestic	International	Comments
Air India	Operational	Y	Y	Acquired by Tatas
Akasa	Operational	Y	N	New player
AirAsia	Operational	Y	Y	Low cost player
Kingfisher	Shutdown	Y	Y	
Jet Airways	Shutdown	Y	Y	
Sahara	Shutdown	Y	N	Merged with Jet
Indian airlines	Merged	Y	N	Merged with Air India
Indigo	Operational	Y	Y	
Go Air	Shutdown	Y	N	Liquidity Issue
Spicejet	Operational	Y	N	Fighting for survival
Vistara	Operational	Y	Y	
Air Deccan	Shutdown	Y		Acquired by Kingfisher

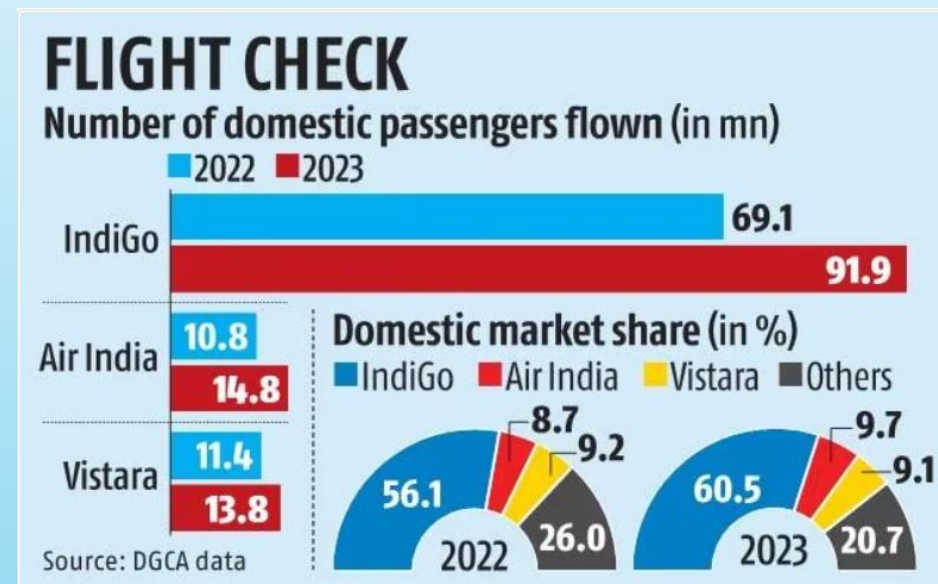
# We see an Opportunity

- ❑ We believe that India Airline space is offering a strong opportunity for existing players to grow.
- ❑ The growth in no. of Airports, Air passenger traffic data clearly highlights the same.
- ❑ We believe that in spite of the opportunity only the fittest will survive as the complexities of the sector is high due to volatility in pricing and cost.
- ❑ In this industry, one needs a lot of capital to become a formidable player and given the scale, payback for any new player will be quite steep, adding to the risk and uncertainty in this scenario. Only those with experience, scale and USP will survive and grow.
- ❑ This is where we see a replica of Telecom sector, two of the major players Tata group and Indigo having lion share and making money, while others will remain marginal players.
- ❑ With Indigo being the only listed play, we see a strong case of novelty premium increasing for the same



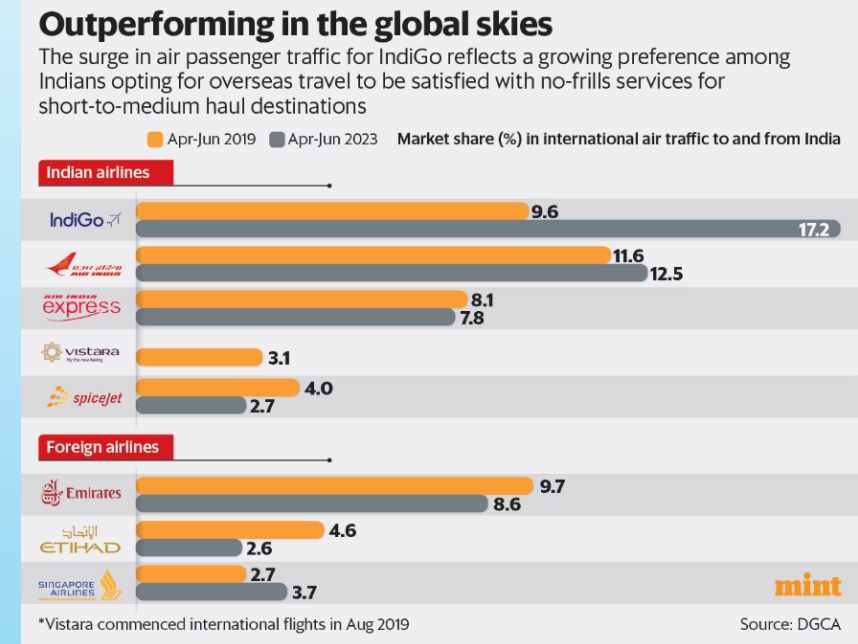
# Domestic travel: Heading to Duopoly

- ❑ When we look at domestic Airline Industry, we see 2 major players in form of Indigo and Tata group (Vistara, Air India and AirAsia) along with marginal players like SpiceJet and Akasa
- ❑ We believe given the fate of players in the past, entry of any new player is difficult, given the growth opportunity and expansion plans by current players. We see strong revenue and profitability
- ❑ With Duopoly nature and growth comes pricing power and better margins and multiples for the stock



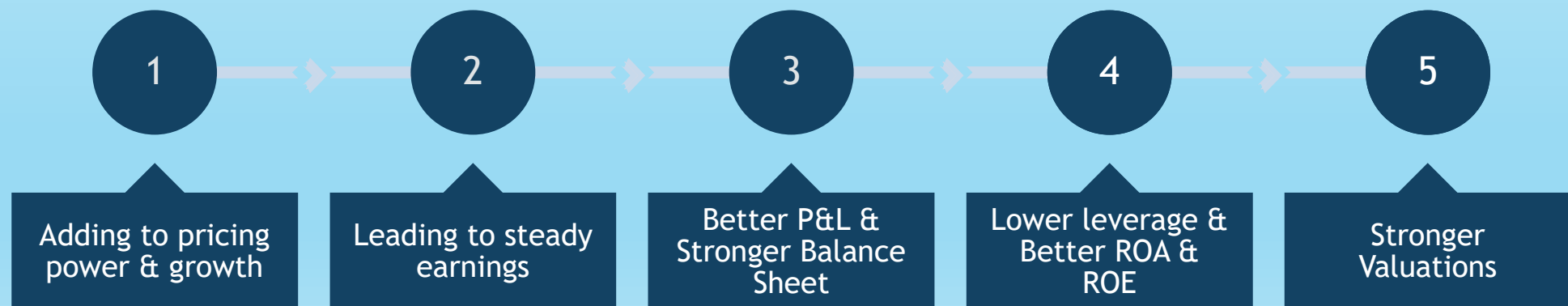
# International Operations - Buyer's game

- ❑ It is observed that international operations has been the biggest reason of volatility in earnings for Airline industry in India. Be it Kingfisher, Air India or Jet Airways
- ❑ The reason is when we try to book any international ticket, we get options from more than 20 airlines for any popular location. This results in lack of pricing power and low margins for Airlines
- ❑ Then why Airlines operate in International Sector?
  - The basic aim is to get connectivity and hence higher wallet share from current loyal flyers and also tap inbound foreign travellers
  - The typical mistake we have notice is the lack of balance between the two. The trade-off is to focus on domestic with slow expansion in International sectors. Joining Alliances have helped domestic players to tap a part of the market and avoid competition
- ❑ Because of lack of pricing power and higher cost in terms of crude and inflight services, margins are thin in this segment. Though with growth in Indian economy and increase in trade, the demand creation should lead to better visibility in future



# Why Indigo?

- ❑ Among the quality airline player, indigo is the only listed player.
- ❑ Indigo has shown ability to increase margin without losing market share
- ❑ Company has started converting revenue into OCF, leading to stronger balance sheet
- ❑ The era of ticket discounting is gone now implying stronger liquidity and better health of the industry
- ❑ Stock currently trades at 2xRevenue and 10x EV/EBITDA



# Earnings over the years

Indigo									
Particulars	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	TTM
Revenue	16,140	18,580	23,021	28,497	35,756	14,641	25,931	54,446	65,240
Operating Profit	3,164	2,219	3,030	-151	4,069	2	558	6,521	15,057
EBITDA	2,326	1,733	2,145	154	4,097	3	558	6,521	15,057
PAT	1,986	1,659	2,242	156	-248	-5,830	-6,171	-317	7,190
Debt	3,245	2,596	2,453	2,429	22,719	29,860	36,878	44,854	49,392

Figures in Rs. Crores

Particulars	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
Revenue	9,295	8,021	12,855	12,498	14,933	14,161	16,683	14,944	19,452
Operating Profit	1,778	36	597	25	3,114	2,748	4,968	2,196	5,144
EBITDA	1,778	36	599	26	3,113	2,748	4,968	2,196	5,143
PAT	128	-1,680	-1,065	-1,585	1,418	916	3,087	188	2,998

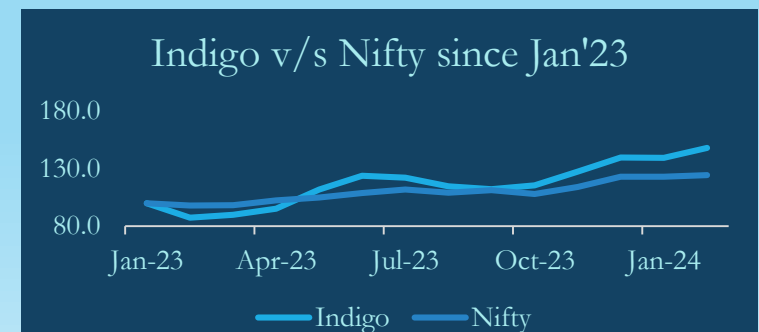
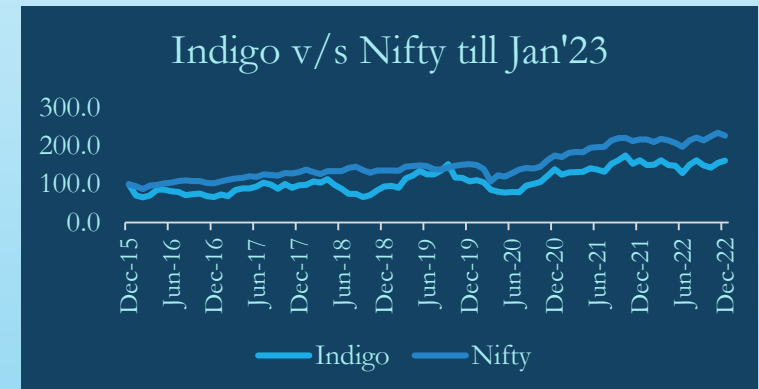
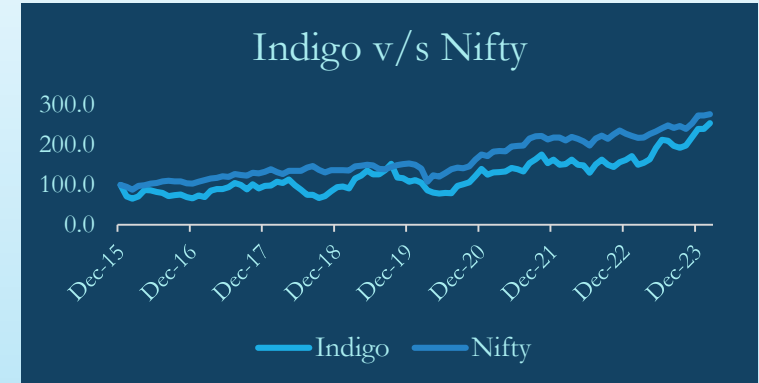
Figures in Rs. Crores

Particulars	TTM
Market Cap	1,20,078
EV	1,53,732
EV/Revenue	2.36
EV/EBITDA	10.21

Figures in Rs. Crores

# Stock Performance

- ❑ While the stock was underperforming Nifty since listing till 2021-2022 due to slowdown in industry & lower financials
- ❑ Recovery started post covid Jan'23 which can be seen in financials
- ❑ Slowly stock geared up taking off from Jan'23 which resulted in outperformance as compared to Nifty
- ❑ We believe as earnings flow, the outperformance will only increase going forward





# Our View

- ❑ Indigo is our tactical bet as we see changes in fortune for the company and sector both, with the worst behind in terms of both revenue and cost headwinds
- ❑ We believe that over the next few quarters we will see higher than expected revenue growth and with cost pressure easing, we could see a sharp jump in FCF and earnings
- ❑ Couple of years back the Promoters parted ways, since then the outgoing promoter (Gangwal Family) have been selling their stake periodically via block deals, any correction due to these blocks are good entry points

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IndiGo

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VT-ITC