Aviation

Supply shortage to continue to aid profitability

Manufacturing issues in engines/aircraft across OEMs make for a tight aircraft market globally in CY23/CY24. With fresh issues being discussed in Boeing as well as Airbus, it is more than likely that recovery in aircraft supply will be delayed. Empirically, the aircraft supply models have always underwhelmed in the past for India due to OEM issues (small reason) and weak airline balance sheets (major reason) leading to almost stagnant fleet of ~650-700 aircraft in India for the last four years. Supply shortage should aid profitability and remains our investment thesis on InterGlobe Aviation (IndiGo) notwithstanding any seasonal weakness.

Aircraft technical problems have become incrementally more manageable

From worldwide grounding of B737 Max, incremental issues for Boeing involve fittings in aft fuselage and now improperly drilled fastener holes in a component that helps maintain cabin pressure. For Airbus, there have been P&W GTF engine problems followed by fresh inspection of contaminated powder metal in some of the engines.

However, these issues will continue to impact deliveries and postpone planned delivery schedules as echoed by all OEMs – including Boeing, Airbus and Embraer.

Could there be a structural angle in these aircraft issues?

There have been debates around excessive outsourcing and cost management towards airplane part manufacturers and relative merits/demerits of vertical or spread-out supply chain.

Exhibit 1: List of manufacturing defects leading to delay in aircraft supply

Event	Indian airline impacted	Time
Boeing: Max Aircraft grounding	SpiceJet	2019-2020
Airbus: P&W GTF Engine issue	IndiGo, Go First	Ongoing
Boeing: Problem in Max with fittings in the rear fuselage	Air India, Akasa, SpiceJet	Apr-23
Airbus: Contaminated powder metal in P&W engine parts	IndiGo is managing within stated ASK growth guidance of north of mid-teens in FY24 as of now	Jul-23
Boeing: Improperly drilled fastener holes in some 737 Max aft pressure bulkheads	Air India, Akasa, SpiceJet	Aug-23

Source: I-Sec research, Company data

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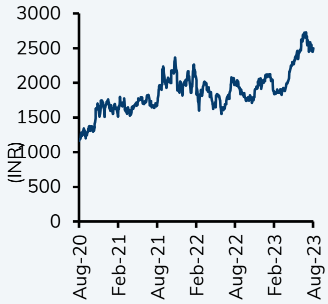
InterGlobe Aviation (BUY)



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