

05 October 2023

India | Equity Research | Q2FY24 Preview

Aviation

Weak Q2, a concoction of seasonality and higher crude price

Q2 has been impacted by higher crude price (ATF up 4.97% QoQ) while being seasonally weak. Additionally, the quarter's highlights include: 1) There has been an issue of Aircraft on Ground, which will likely be partially offset by OEM compensations. IndiGo added 23 aircraft in the first five months of FY24. 2) Lower PLFs – especially for IndiGo – while maintaining ~63.3% domestic pax share as of Aug'23. 3) QoQ rise in jet kero cracks 4) Forex loss from weaker INR (INR depreciated end to end from 82.04 to 83.04). Despite a weaker Q2, we stay positive on IndiGo given its steadily improving business salience in terms of competitive position (63% market share), destination expansion (started 14 new routes in Q2FY24) and overall favourable supply-demand outlook for India.

Q2, seasonally weak quarter; expect near break-even results ex-forex loss

Typically, Q3 and Q1 are seasonally strong quarters with Q3 being even better than Q1. Q4 typically again is better than Q2. Hence, Q2's contribution in the full-year PAT is low (average ~13% in FY16–FY18). We expect Q2FY24 to be a near-breakeven quarter with ASK of 34.5bn and RASK/CASK of 4.3/4.4 in Q2FY23 resulting in ~INR 230mn loss ex forex (INR 4.7bn loss including forex). The main moving parameters are 25% YoY growth in ASK, 500bps QoQ decline in PLFs and 14% QoQ decline in fares. There will also be an element of elevated OEM compensation due to higher grounding of aircraft

Monthly passenger trend remains steady; IndiGo has been able to maintain market share despite lower PLFs

Aug'23 saw growth in total PAX to 12.4mn versus 12.1/12.5mn in Jul/Jun'23. IndiGo's domestic market share remained stable at 63.3% in Aug'23. PLF for IndiGo remained muted for the second consecutive month at 83.6%. IndiGo being able to maintain domestic market share despite lower PLFs indicates better aircraft/pilot availability with it versus other airlines.

September traffic trend shows strong festive season

Sep'23 has seen an increase of 2% MoM in average daily domestic passengers on account of strong festive season. Average daily domestic passengers stood at 409,000 in Sep'23 versus 400,000 in Aug'23.

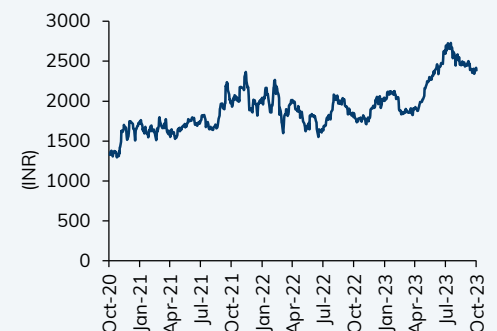
Checking trends of income from OEM compensations

We try to assess OEM compensations reported by IndiGo in revenue (there would be some in the cost also) as a quarterly trend. For doing that, we deduct reported passenger revenue and reported ancillary revenue from reported total operating revenue by the company (this is an estimate). Normally, this number is between INR500mn–1bn per quarter. However, there are surges in some quarters indicating high OEM compensation (like it was INR 3.5bn in Q3FY23). The OEM compensation may be more tied to costs incurred on grounded aircraft. However, some linkage to revenue lost could also be there.

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IndiGo

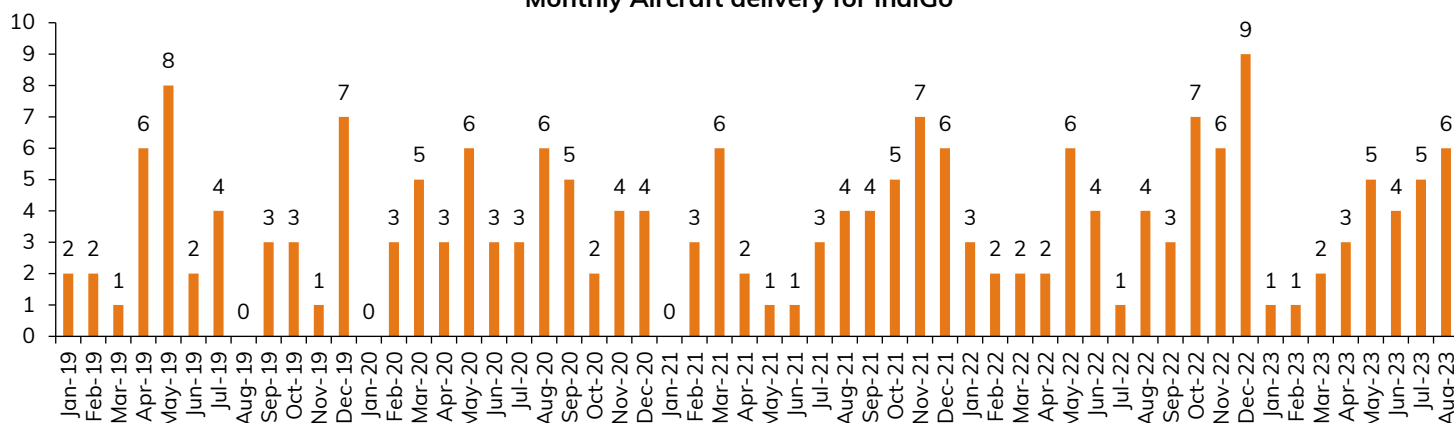


Source: Bloomberg

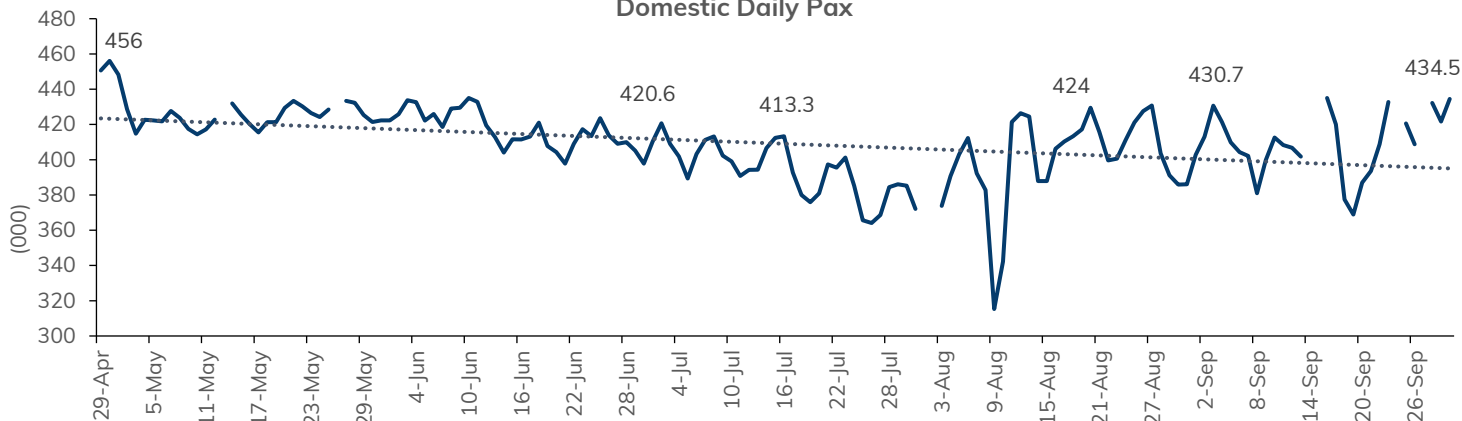
Exhibit 1: Q2FY24 preview IndiGo

	Q2FY24E	Q2FY23	Y-Y(%)	Q1FY24	Q-Q(%)
ASK (bn)	34.5	27.6	25.00%	32.7	5.42%
RPK (bn)	28.9	21.9	31.74%	29.0	-0.51%
PLF (%)	83.7%	79.4%		88.7%	5%
Pax Revenue (INR mn)	1,29,454	1,11,104	16.52%	1,49,956	-13.67%
Ancillary Revenue (INR mn)	18,000	13,872	29.76%	16,875	6.67%
Total Revenue	1,47,454	1,24,976	17.99%	1,66,831	-11.61%
Fuel Cost (INR mn)	59,360	62,579	-5.14%	52,281	13.54%
Non Fuel Cost (INR mn)	73,988	62,124	19.10%	64,805	14.17%
RASK (INR)	4.3	4.5		5.1	
CASK (INR)	4.4	4.8		4.3	
RASK - CASK	-0.2	-0.3		0.8	
Forex (Gain)/Loss (INR mn)	4,500	12,015	-62.55%	(1,161)	-487.67%
Other Income (INR mn)	5,078	3,547	43.17%	4,778	6.28%
PBT (INR mn)	(4,730)	(15,833)	-70.13%	30,907	-115.30%
PAT (INR mn)	(4,730)	(15,833)	-70.13%	30,906	-115.30%
Adjusted PAT (INR mn)	(230)	(3,818)	-93.98%	29,745	-100.77%

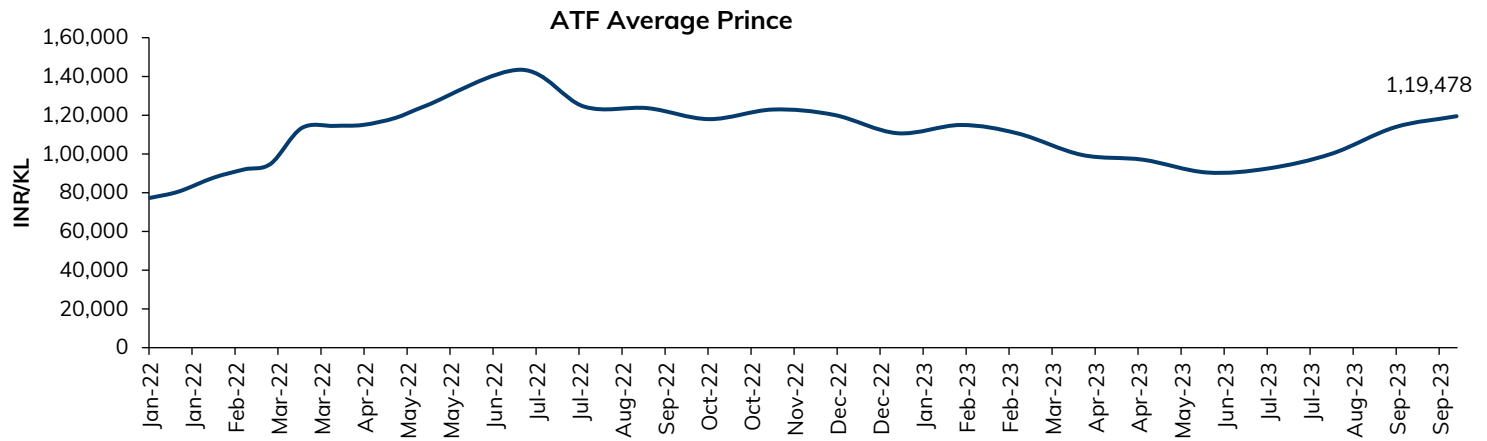
Source: I-Sec research, Company data

Exhibit 2: IndiGo added 23 aircrafts in the first 5 months of FY24**Monthly Aircraft delivery for IndiGo**

Source: Company data, I-Sec research

Exhibit 3: Average daily domestic passengers increased in Sep'23**Domestic Daily Pax**

Source: I-Sec research, Company data

Exhibit 4: ATF prices increased in Q2FY24

Source: I-Sec research, PetrolDiselPrice.com

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