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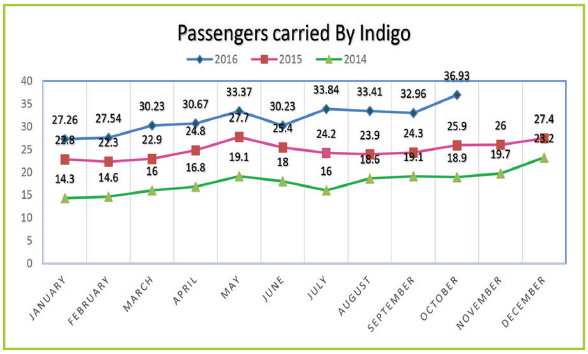
UPSTREAM PICK

Company Name	:	**Interglobe Aviation**
BSE Code	:	**539448**
Time Duration	:	**2 year**
CMP	:	**₹848 (as on 08 December, 2016)**
Target Price	:	**₹1352**

Our Upstream Pick for the month of Dec,16 is Interglobe Aviation Ltd. Interglobe Aviation (Indigo) is continuously gaining market share since last two years at the expense of Jet Airways. Indigo ranks first in domestic airlines report card and maintains market leadership with highest market share in domestic 'Revenue per Kilometre' (RPK) and domestic 'Available Seat Kilometre' (ASK) at 42.46 per cent and 42.66 per cent, respectively. It has also been sucessfull in maintaining load factor at ~82.59 per cent. The company achieved growth at CAGR of 24 per cent over the last five years to reach sales of Rs 16,140 crore in FY16. Its passenger ticket revenue grew at 41 per cent CAGR and ancillary revenue grew at 53 per cent CAGR over FY12-16. Indigo achieved this growth due to continuous improvement in ASK and RPK along with investment in fleet every year. It has fleet of 122 in its runway as on date and it is planning to increase it to 136 by next year. We expect CAGR growth in topline and bottomline at 14 per cent and 24 per cent, respectively, over FY16-18E owing to improved ASK, RPK and lower fuel cost. We see 55 per cent upside in the stock from current level.

Gaining Market Leader Position

Indigo is a market leader garnering 42.65 per cent market share as compared to other airline players such as Jet Airways (17.70 per cent) and Air India (14.91 per cent). Indigo's Low Cost Carrier (LCC) business model helps it to increase footfalls, which resulted in growth of passenger ticket revenue by 12 per cent over FY4-FY16 and we expect it to grow at 14 per cent CAGR over FY16-18E. Indigo has beaten its own benchmark by increasing number of passengers. The total number of passengers carried for the period of January to October, 2016 stood at 316.4 lakh as compared to 244.6 lakh during the same month of the previous year, resulting in growth of 29.58 YoY. Overall, the count of passengers carried till Oct. 2016 is 813.7 lakh in which Indigo has 39 per cent share.

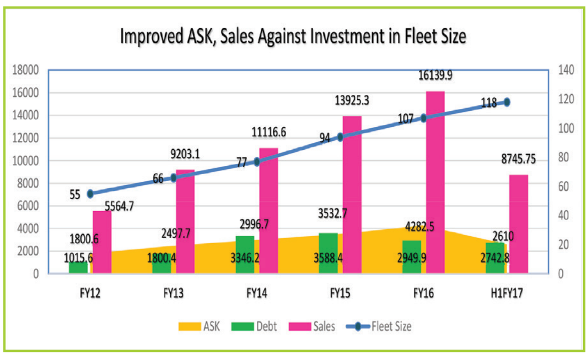


As on Q2FY17, it has load factor of 82.6 per cent with flight cancellation rate of 0.58 per cent. It has also registered strong traffic growth of 32.7 per cent RPK against capacity expansion of 26.7 per cent.

Investment For Improving Fleet Size

Indigo increased its capacity by 19 per cent CAGR over FY12-16. It has a fleet of 122 aircrafts as on 8 November, 2016 and expect to have 136 aircrafts by FY17. It added 9 aircrafts, including 6 new A320 neos and 3 used A320 ceos on short term lease in Q2FY17. It has registered Available Seat Kilometre (ASK) growth of 26.7 per cent to Rs 1340 crore in Q2FY17 as compared to Rs 1060 crore in Q2FY16 and expects to grow by ~30 per cent in Q3 and Q4 of FY17 each.

Brent crude has exhibited declining trend since last one year. The Aviation Turbine Fuel (ATF) prices are also closely correlate with Brent Crude and show similar trend which reduced its fuel cost significantly. Overall reduction in fuel prices (Rs 48.96 per litre) enables airlines to reduce fares and attract more fliers. This also helps to improve cash flows to augment fleet size.



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Indigo has a total cash of Rs 6857.2 crore, out of which Rs 2386.5 crore is free cash against total debt of Rs 2742.8 crore. The company has reduced its debt by 23 per cent from Rs 3522.7 crore in FY15 to Rs 2742.8 crore in H1FY17. The entire debt is aircraft related.

Q2FY17 Highlight - Adding routes

Indigo has added Port Blair as 36th domestic destination and 41st destination during the quarter. The company also entered its first agreement with Travelport as its global distribution partner to distribute its fares and ancillary products to portal's customers. The company indicates that it is facing operational issues in neo because of software hiccups which adversely impacted technical despatch reliability of 99.91 per cent, time performance of 82.6 per cent and flight cancellation rate of 0.58 per cent. Indigo is planning to offset delay in any neo by induction of used aircrafts on short term leases.

Q2FY17 Financial Performance

The company's overall revenue grew by 18.9 per cent to Rs 4327.7 crore YoY. Passenger ticket revenue segment grew 18 per cent to Rs 3597.9 crore and ancillary revenue grew by 17.7 per cent to Rs 558.4 crore on a yearly basis. Other income rose 62 per cent to Rs 106.8 crore YoY, driven by increase in finance income. RASK and yield declined by 6.9 per cent and 11.1 per cent, respectively, due to pressure on fares and revenue environment. Meanwhile, RPK rose by 32.7 per cent which is more than ASK growth of 26.7 per cent. Its PAT registered growth of 23.6 per cent to Rs 140 crore YoY due to reduction in finance cost by 23.5 per cent and rise in other income by 62.6 per cent.

Valuation

Indigo is trading at TTM P/E of 15.57x with TTM EPS of Rs 54.45. It has improved D/E from 1.81x in FY16 to 0.91x in H1FY17. It also delivered healthy ROE and ROCE at 182 per cent and 64 per cent, respectively. Considering rising revenue and RPK due to LCC business model; low fuel prices and market leadership, we recommend investors to BUY this scrip in the range of Rs 810-890 per share (CMP- 850) with a target price of Rs 1352.

Financial Performace (₹/Crore)

	FY12	FY13	FY14	FY15	FY16	H1FY17
Total Revenue	5564.70	9203.20	11116.60	13925.30	16139.90	8745.75
Total Expenditure	4715.10	6954.25	8940.31	10103.73	10522.54	6250.30
EBITDAR	849.60	2248.95	2176.29	3821.57	5617.36	2495.45
EBITDA	48.90	892.85	505.99	1869.37	3005.16	1010.85
Other Income	144.00	237.10	315.50	394.60	461.40	323.40
PAT	140.70	782.55	473.79	1307.57	1989.36	731.65
EPS	3.90	21.70	13.20	36.30	55.20	20.28
P/E	--	--	70.30	25.50	16.80	15.57
EBITDAR margin (%)	15.27	24.44	19.58	27.44	34.80	28.53
EBITDA margin	0.88	9.70	4.55	13.42	18.62	11.56
PAT margin	2.53	8.50	4.26	9.39	12.33	8.37