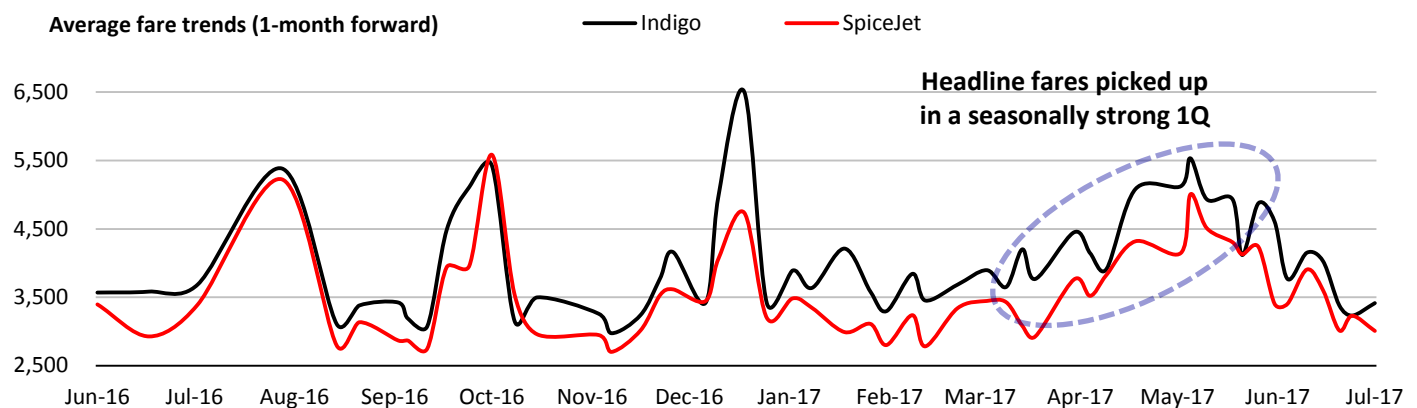


Fare uptick visible in a seasonally strong 1Q

Sequentially lower ATF prices, strong INR to support profitability further

- Fare uptick visible:** Our one-month forward fare tracker for 11 routes shows an upward trend in fares over a seasonally strong 1Q. We believe yields for airlines (IndiGo and SpiceJet) would improve QoQ in 1QFY18. In 4QFY17, airlines' fares faced downward pressure due to seasonal weakness; IndiGo's yield declined ~5% YoY and SpiceJet's yield declined ~8% YoY.
- Domestic passenger growth slipped below 20% YoY; industry at peak PLFs:** Domestic passenger growth rate slipped below 20% YoY recently, primarily due slower capacity addition in the domestic market. Average passenger growth for April-May was 16.4% YoY (v/s 22% in FY17), driven by 14.8% YoY growth in ASK (v/s 20% in FY17). Average RPK grew ahead of ASK at 16.7% YoY (v/s 22% in FY17) due to increased PLF at 87.2% (84.4% in FY17). We believe slower domestic capacity addition and peak load factor in a seasonally strong period should allow airlines to exercise some pricing power.
- Lower ATF prices and strong INR to support profitability:** In 1QFY18, ATF price declined 5% QoQ (from INR55.4/liter in 4QFY17) and increased 16% YoY (from INR45.4/liter in 1QFY17) to INR52.7/liter. INR appreciation along with lower ATF prices and increased air ticket fares should result in sequentially higher profitability for airlines.
- Airlines' profitability to improve in 1QFY18:** As expected, headline fares have picked up in a seasonally strong 1Q. IndiGo's slower capacity addition in the domestic market (17% in April-May 2017 v/s 25% earlier) gives a breather for yields in the domestic market. We believe increased air ticket fares along with lower ATF prices (down ~6% QoQ) and INR appreciation would further support airlines' profitability in 1QFY18.

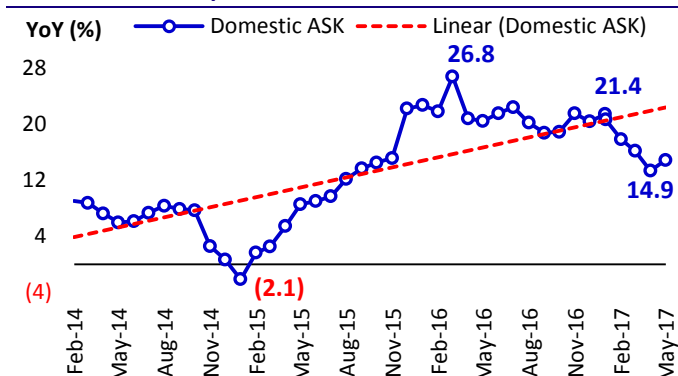
Exhibit 1: Average fare trends of 11 major routes*: 1-month forward fares on major routes since February 2016



*Note: Not a reflection of company-level averages

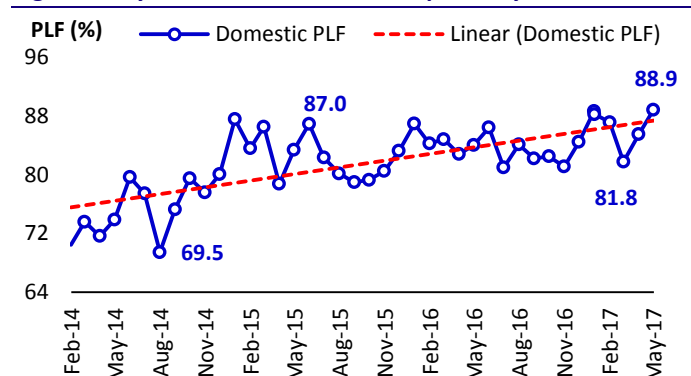
Source: MOSL

Exhibit 2: Domestic ASK addition growth has slipped below 20% in the recent period



Source: DGCA, MOSL

Exhibit 3: Domestic passenger load factor has increased significantly; clocked 85.5/88.9% in April/May 2017



Source: DGCA, MOSL

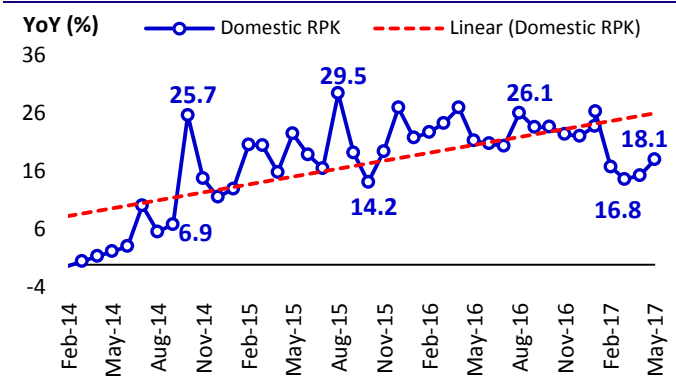
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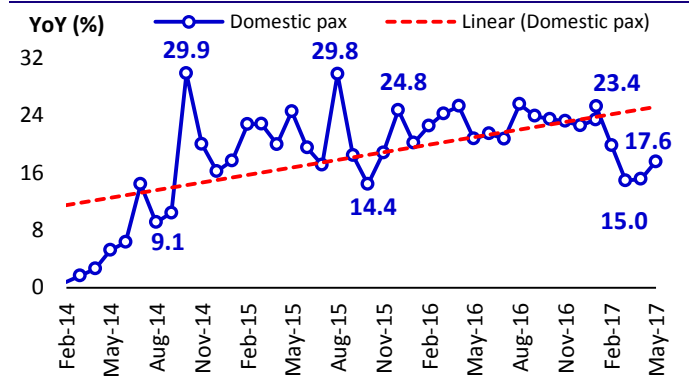
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Exhibit 4: RPK growth was ahead of ASK due to increased industry PLF



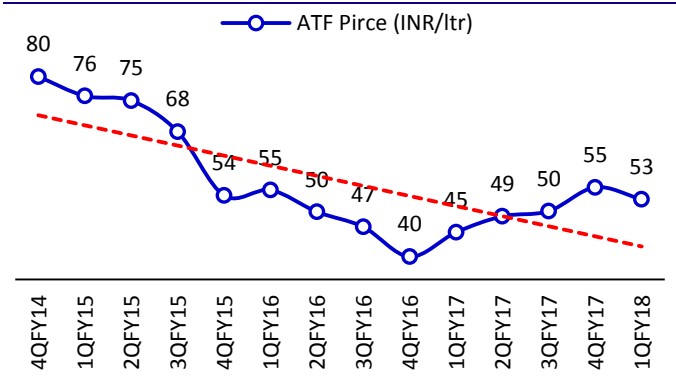
Source: DGCA, MOSL

Exhibit 5: Robust domestic passenger growth – 34 consecutive months of double-digit growth



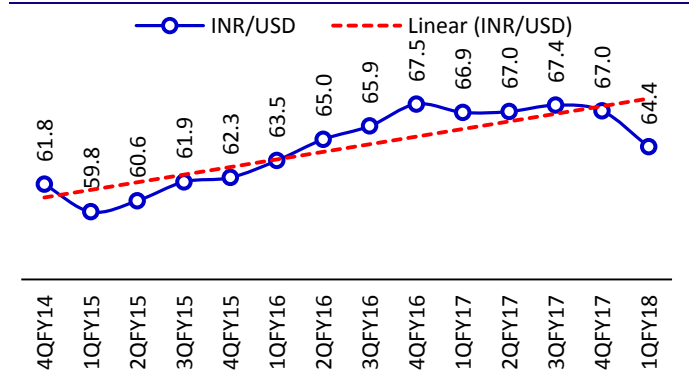
Source: DGCA, MOSL

Exhibit 6: ATF prices declined QoQ (up YoY); should support airlines' profitability



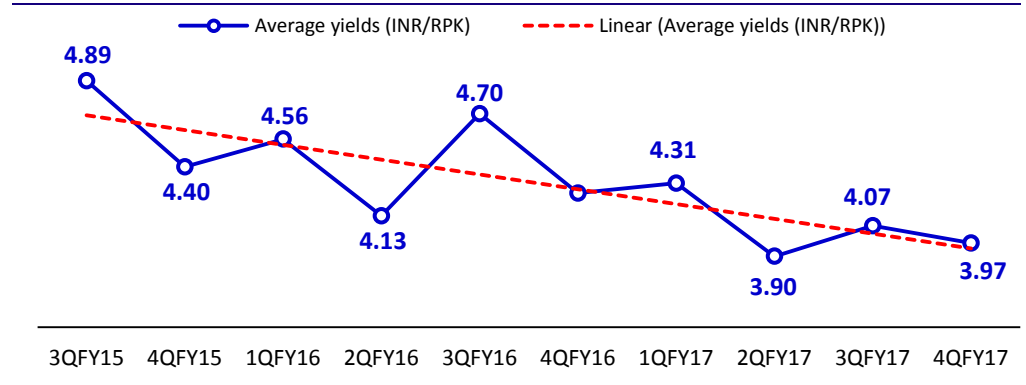
Source: Company, MOSL

Exhibit 7: INR has appreciated against USD; INR64.4/USD in 1QFY18 v/s ~INR67/USD in 4QFY17 and 1QFY17



Source: IOCL, MOSL

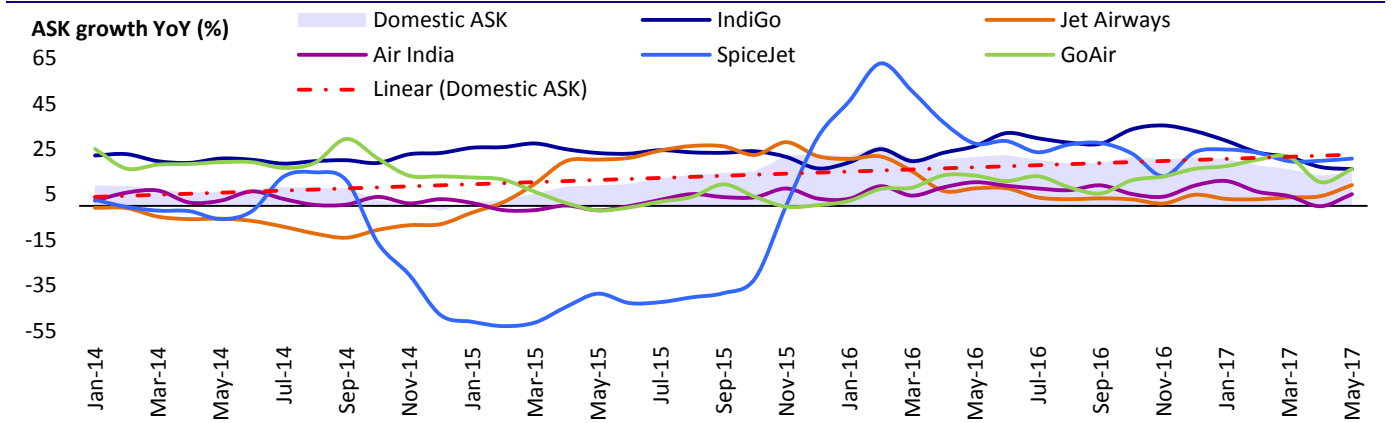
Exhibit 8: Passenger growth continues, but at the cost of yields; average yields (Indigo, SpiceJet) declining



Source: Company, MOSL

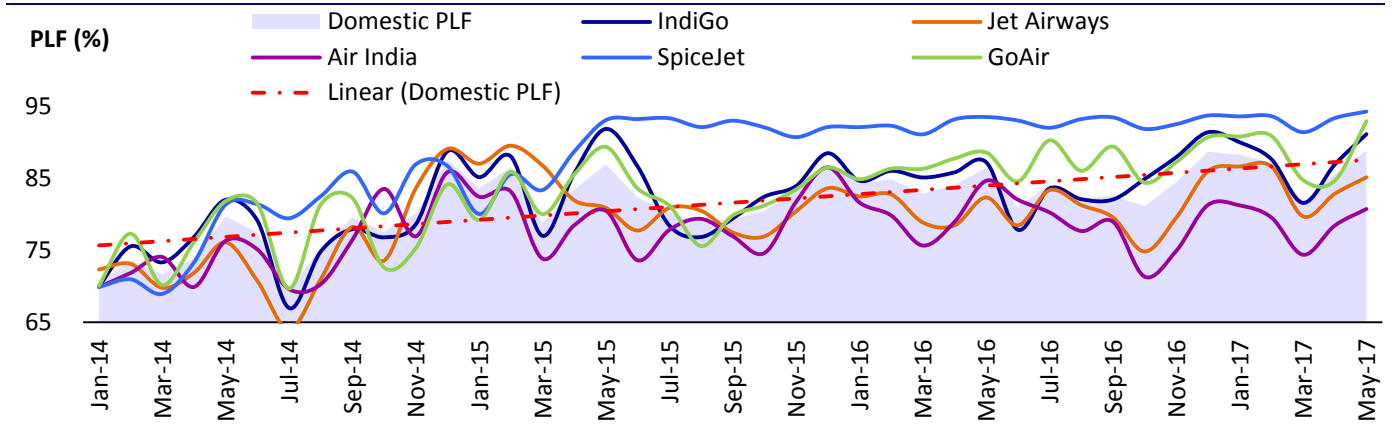
Annexure

Exhibit 9: Favorable macros embolden airlines to add capacity – 23 consecutive months of double-digit growth



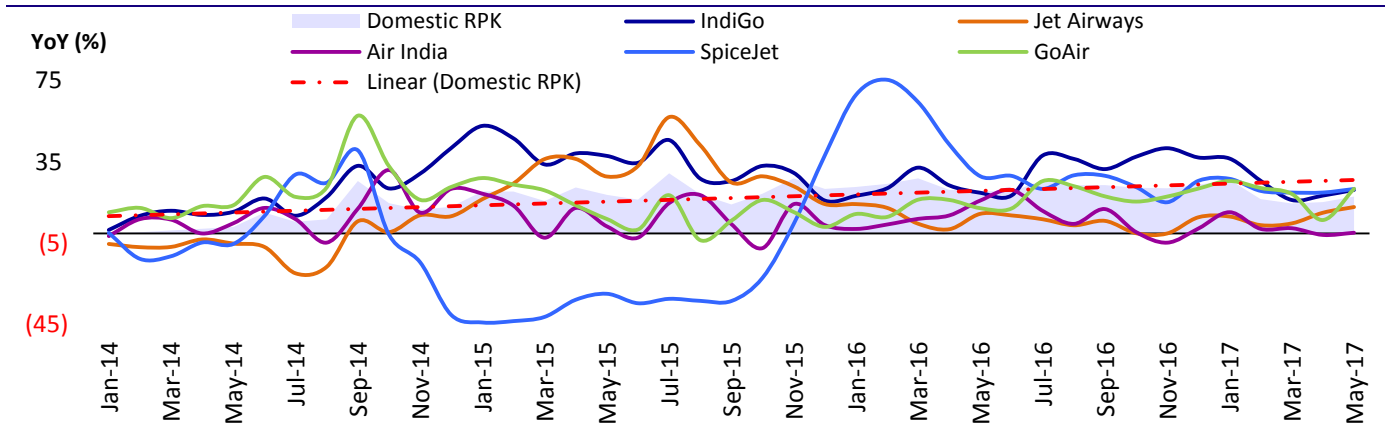
Source: MOSL, Company

Exhibit 10: Domestic PLFs have significantly improved since January 2015; SpiceJet maintained +90% PLF for last 25 months



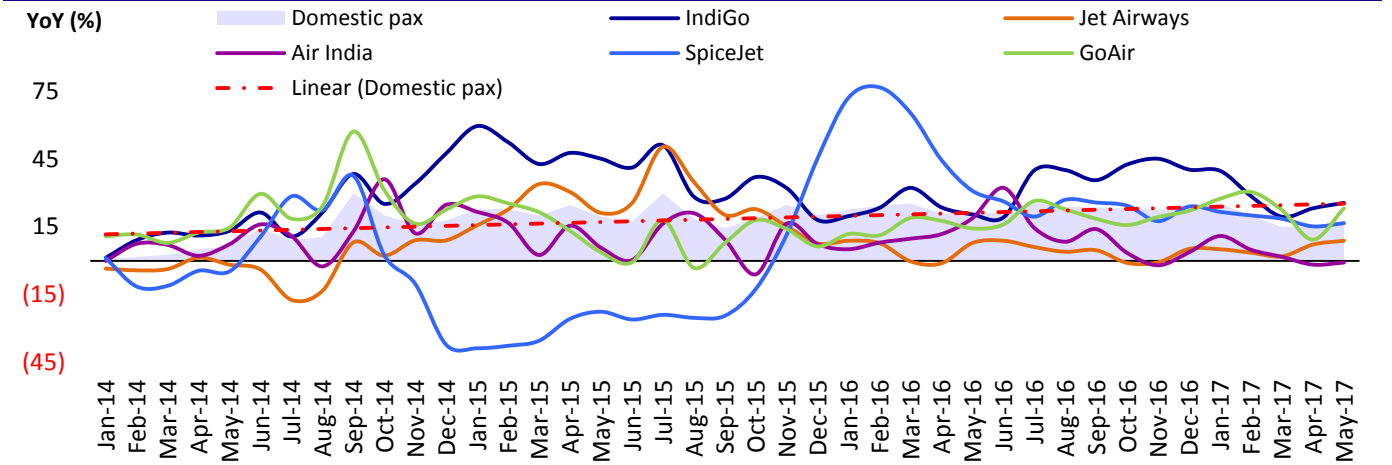
Source: MOSL, Company

Exhibit 11: Industry RPKs grew on higher ASKs, led by improved industry PLFs



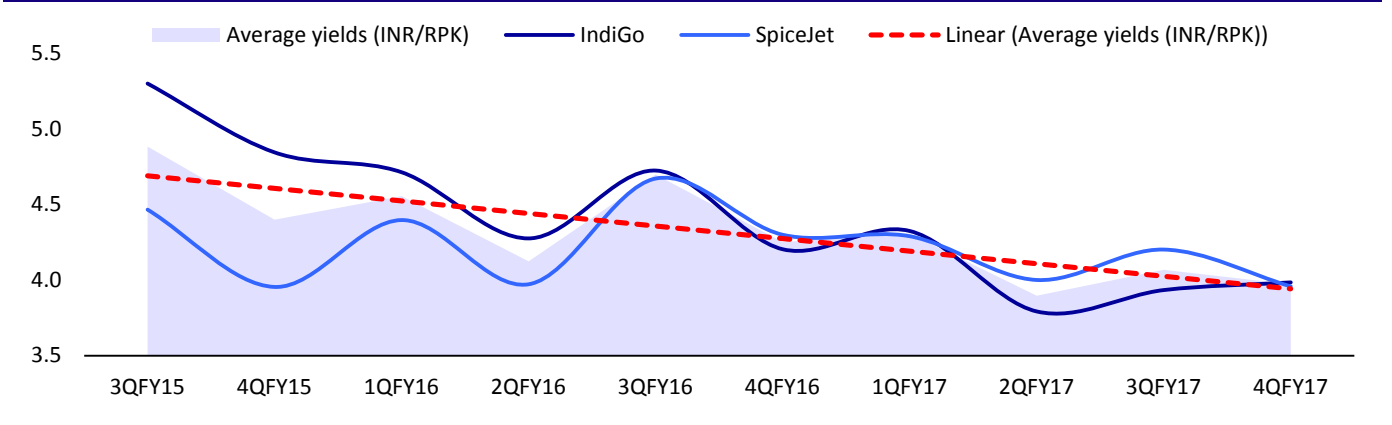
Source: MOSL, Company

Exhibit 12: Robust domestic passenger growth; May 2017 was the 34th consecutive month of double-digit growth



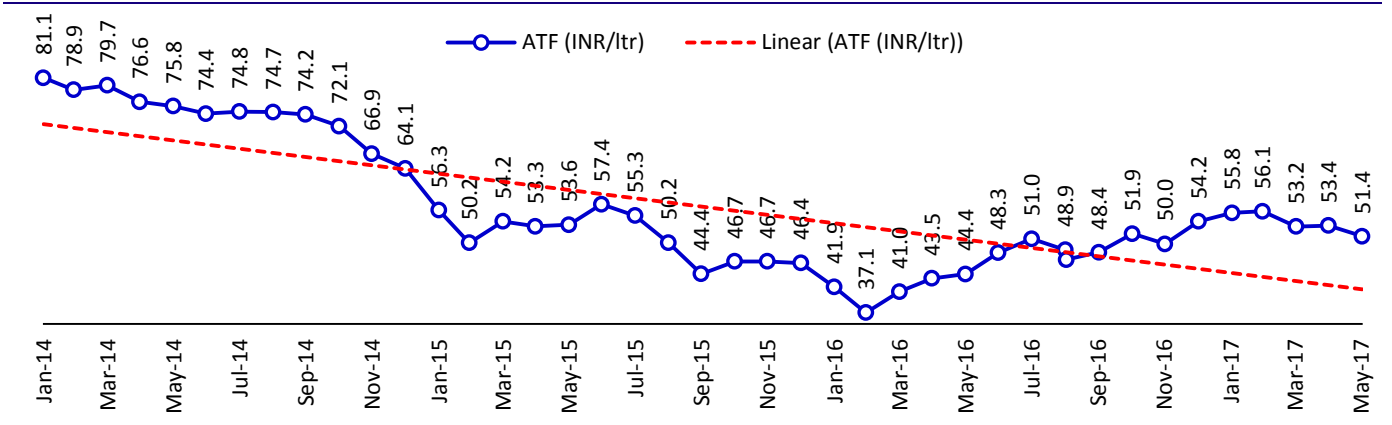
Source: MOSL, Company

Exhibit 13: Strong passenger growth came in at the cost of yields; average yields have declined significantly



Source: MOSL, Company

Exhibit 14: ATF prices have increased recently, but still remain benign



Source: MOSL, Company

Key terms used throughout the report

ASK: Available Seat Kilometer - The Basic Measure of Capacity: One seat (empty or filled) flying one kilometer is an ASK. A 180-seat A320 flying 100 kilometers creates 18,000 ASKs.

RPK: Revenue Passenger Kilometer - The Basic Measure of Revenue: A paying passenger flying one kilometer creates an RPK. 150 passengers flying 100 kilometers generate 15,000 RPKs.

Load Factor: Production Compared to Capacity: To calculate the load factor, divide RPKs by ASKs. An individual flight generating 15,000 RPKs and 18,000 ASKs will have a load factor of 83%. Higher load factors are desirable but how much each passenger pays is also important.

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