

India

Underweight (no change)

Highlighted Companies

InterGlobe Aviation Ltd

REDUCE, TP Rs2000, Rs2914 close

We expect IndiGo's ASK to grow 19% yoy in FY24F but grow 10% p.a. yoy in FY25F-26F. We factor in FY26F gross margin at Rs2.7 (vs. Rs2.77 in 2HFY24-25) and Re0.11 RASK - CASK in FY26F (same as the average in FY17-20).

SpiceJet Ltd

HOLD, TP Rs57, Rs54 close

We factor in a 29% yoy ASK decline in FY24F, but ~30% p.a. yoy growth in FY25F-26F. We expect its RASK-CASK to rise to (-) Re0.3. We factor in that SpiceJet's entire fleet will be operational in FY26F and hence, ownership + maintenance costs/ASK will decline to Rs1.68 (22% above the FY19 level).

Summary Valuation Metrics

P/E (x)	Mar24-F	Mar25-F	Mar26-F
InterGlobe Aviation Ltd	30.2	74.83	53.36
SpiceJet Ltd	-5.49	-6.11	56.71

P/BV (x)	Mar24-F	Mar25-F	Mar26-F
InterGlobe Aviation Ltd	-43.51	-103.97	109.62
SpiceJet Ltd	-0.61	-0.56	-0.56

Dividend Yield	Mar24-F	Mar25-F	Mar26-F
InterGlobe Aviation Ltd	0%	0%	0%
SpiceJet Ltd	0%	0%	0%

Airlines

Market share focus to keep margins in check

- Despite problems, the industry's operating fleet is sufficient to meet demand.
- The second-largest player in Oct 2023 (Tata Group) is at 80% of IndiGo's scale; the gap in CASK between Air India/ Vistara vs. IndiGo has narrowed.
- We believe that pricing will be competitive over FY24F-26F. We maintain our REDUCE rating on InterGlobe Aviation or IndiGo & a HOLD rating on SpiceJet.

15% rise in industry RPK due to a 780bp rise in global market share

Domestic traffic (Sep-Oct 2023) is just 4% above the Sep-Oct 2019 (pre-Covid level). The 21% yoy growth in domestic traffic in Jun-Sep 2023 was due to a low base effect. We expect an 11% yoy rise in domestic RPK in FY25F vs. a 13.4% CAGR (FY10-19). International traffic is 1% below Sep-Oct 2019 (pre-Covid level), but global RPK of Indian carriers is 34% higher than in Sep-Oct 2019. We expect an 8% yoy rise in global RPK in FY25F, like the FY10-19 CAGR.

Despite issues, industry's operating fleet sufficient to meet demand

Total industry fleet (Nov 2023) is 13% more vs. Sep 2019 level, but the operating fleet is similar. The available seats are 7% higher as the newer fleet has more seats than the earlier fleet. The 7% higher seat utilization is due to (a) a 237bp higher PLF (ASK was 12% higher), and (b) a reduction in idle time from 54.7% to 51.7%. Over Sep-Oct 2019 to 2023, the average time between flights for IndiGo declined by 15% to 1.7 hours, while for others it rose by 12% to three hours. As a result, the gap between IndiGo and other airlines has risen from 34% to 76%, implying sub-optimal usage of the fleet (excluding IndiGo).

Tata Group at 80% of IndiGo's scale; AI/Vistara CASK vs. IndiGo dips

Over FY20-Oct 2023, IndiGo's domestic market share rose by 1,070bp because of the exit of GoAir and a 1,000bp fall in SpiceJet's market share. The Tata Group's market share rose by 1,430bp mainly due to the acquisition of Air India (AI: 10.5% market share in Oct 2023). The gap left by the exit of GoAir has been filled to an extent by Akasa. IndiGo's contribution to Indian carriers' total ASK rose from 39% (Oct 2019) to 48% (Oct 2023). The second-largest player now (Tata Group) is 80% of IndiGo vs. 66% in FY20 (Air India or AI). For AI, the gap in RASK-CASK vs. IndiGo reduced from Rs1.4 to Re0.8 (FY20-23) and we expect it to decline to Re0.3 in 2HFY24F. For Vistara, the gap in RASK-CASK vs. IndiGo reduced from Rs1.45 to Re0.6 (FY20-23) and we expect it to reduce to Re0.3 in 2HFY24F.

We believe that pricing will be competitive over FY24F-26F

The operations of AI are more competitive now than earlier. We expect its CASK (ex-fuel) to reduce by 30% (FY20-2QFY24F). Higher PLF boosts profits as revenue from an incremental passenger goes straight to profits. Increase in the scale of operations reduces CASK and boosts margin as a higher market share cuts ownership costs/ASK & overheads/ASK. Thus, we expect a strong focus on market share by all players over FY24F-26F.

Maintain REDUCE rating on IndiGo and HOLD rating on SpiceJet

We roll forward our valuations to Mar 2025F. We retain our REDUCE rating on IndiGo with a target price of Rs2,000 (Rs1,600 earlier) and a HOLD rating on SpiceJet with a target price of Rs57 (Rs42 earlier). The key upside risk is the sudden exit of rivals, which could reduce the competition.

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Figure 1: Valuation summary

	Target Price		EBITDA (Rsbn)			EV/ EBITDA (x)		
	(Rs)	Rating	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
IndiGo	2,000	REDUCE	129.9	119.1	117.2	10.6	11.6	11.8
SpiceJet	57	HOLD	(0.2)	0.4	9.2	(592.9)	226.7	9.7

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Market share focus to keep margins in check

Industry's 15% higher RPK in Sep-Oct 2023 vs. Sep-Oct 2019 is due to higher international market share ➤

Figure 2: Total passengers/ RPK carried by Indian carriers in Sep-Oct 2023 just 7%/ 15% higher, respectively, vs. Sep-Oct 2019 (prior to the Covid-19 pandemic)

	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23
Total passengers - Indian carriers (m)	14.9	14.6	14.9	14.5	15.1
yoy growth (%)	20	24	23	18	12
Change vs. same month FY20 %	8	6	8	9	5
Total RPK - Indian carriers (m)	20,524	20,371	20,620	19,983	20,861
yoy growth (%)	23	24	24	20	16
Change vs. same month FY20 %	15	16	16	17	14

SOURCE: INCRED RESEARCH, COMPANY REPORTS, DIRECTORATE GENERAL OF CIVIL AVIATION (DGCA)

Domestic traffic (Sep-Oct 2023) 4% above Sep-Oct 2019 (pre-Covid) level – a far cry for a sector accustomed to 13-15% p.a. growth before the Covid-19 pandemic. The metro-to-metro airport traffic was 7% below Sep-Oct 2019 due to muted business traffic. Other traffic (ex-metro-to-metro) in the same period was 9% higher vs. Sep-Oct 2019.

Figure 3: Domestic passengers/ RPK in Jun-Oct 2023

	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23
Domestic passengers (m)	12.5	12.1	12.5	12.3	12.7
yoy growth (%)	19	24	22	18	11
Change vs. same month FY20 %	4	2	6	6	3
Metro-to-metro passengers (m)	3.1	3.1	3.2	3.1	3.2
yoy growth (%)	25	26	24	15	12
Change vs. same month FY20 %	(4)	(7)	(6)	(7)	(7)
Others (m)	9.4	9.1	9.2	9.2	9.5
yoy growth (%)	17	24	22	19	10
Change vs. same month FY20 %	7	6	11	12	7
Domestic RPK (m)	12,111	11,627	11,950	11,807	12,328
yoy growth (%)	17	22	22	18	11
Change vs. same month FY20 %	3	2	6	7	4

SOURCE: INCRED RESEARCH, COMPANY REPORTS, DGCA

Air traffic in India comprises (a) tourism (55-60% of domestic traffic prior to Covid), and (b) business travel (40-45% of domestic traffic prior to Covid). Tourism has made a strong recovery.

Figure 4: Domestic traffic at tourist destinations in Oct 2023 was 31% higher vs. Oct 2019

(m pax)	Oct 19	Oct 23	growth %
Goa	0.64	0.86	35
Bhubaneswar	0.29	0.37	28
Srinagar	0.24	0.33	38
Chandigarh	0.20	0.31	51
Varanasi	0.23	0.24	5
Amritsar	0.14	0.15	8
Dehradun	0.12	0.15	25
Udaipur	0.10	0.12	29
Leh	0.06	0.08	30
Jodhpur	0.05	0.09	94
Prayagraj	0.04	0.05	38
Total	2.11	2.76	31

SOURCE: INCRED RESEARCH, COMPANY REPORTS, AIRPORTS AUTHORITY OF INDIA (AAI)

Business travel is still down. The Covid-19 pandemic has driven a shift to online meetings, from air travel for meetings earlier. We believe that if the pandemic was short-lived, people may have reverted to air travel for meetings once normalcy returned. However, the pandemic lasted for ~2.5 years and altered the entrenched habits. Further, online meetings save the cost and time of air travel.

Business travel is more lucrative for airlines (vs. tourism) as tickets are booked close to the date of travel and are more expensive than tickets booked in advance (tourism). Thus, business travel's contribution to airlines' revenue is higher than its contribution to traffic.

The 21% yoy growth in domestic traffic (Jun-Sep 2023) was due to a low base effect. Oct/ Nov 2023 domestic traffic grew just 11%/ 8.5% yoy, respectively. **We expect a 11% yoy rise in domestic RPK in FY25F, lower than the 13.4% CAGR over FY10-19.**

Note: Traffic surged by 23% over Sep-Dec 2022. While Dec is a seasonally strong month and Sep is a seasonally weak month, in 2018 and 2019, the growth was just 12% (Sep to Dec).

Figure 5: Monthly domestic traffic (Sep 2022-Jan 2023)

	Sep 22	Oct 22	Nov 22	Dec 22	Jan 23
Domestic passengers (m)	10.4	11.5	11.7	12.8	12.6
MoM growth (%)		10	2	9	(2)
Metro to Metro passengers (m)	2.7	2.9	2.9	3.2	3.2
MoM growth (%)		7	2	9	(1)
Others (m)	7.7	8.6	8.8	9.6	9.4
MoM growth (%)		11	3	9	(2)

SOURCE: INCRED RESEARCH, COMPANY REPORTS, DGCA

International traffic (Sep-Oct 2023) was 1% below Sep-Oct 2019 (pre-Covid). However, international RPK/ passengers of Indian carriers (Sep-Oct 2023) were 34%/ 20% higher, respectively, than in Sep-Oct 2019. **We expect an 8% yoy rise in international RPK of Indian carriers in FY25F, similar to the FY10-19 CAGR.**

Indian carriers' market share in international passenger traffic rose from 34.8% (Sep-Oct 2019) to 42.6% (Sep-Oct 2023). International RPK, as a percentage of overall RPK, rose from 35.3% (Sep-Oct 2019) to 40.9% (Jun-Oct 2023).

Figure 6: International passengers/ RPK in Jun-Oct 2023

	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23
International passengers (m)	5.6	5.8	5.6	5.3	5.6
yoy growth (%)	26	24	22	20	18
Change vs. same month FY20 %	(1)	1	(2)	(2)	(1)
International passengers - Indian carriers (m)	2.4	2.4	2.4	2.3	2.4
yoy growth (%)	28	24	25	21	22
Change vs. same month FY20 %	30	33	22	21	20
International RPK - Indian carriers (m)	8,414	8,744	8,671	8,176	8,533
yoy growth (%)	32	27	27	24	24
Change vs. same month FY20 %	37	43	33	35	32

SOURCE: INCRED RESEARCH, COMPANY REPORTS, DGCA, AAI

Despite various problems, Indian carriers are handling domestic traffic and have raised their market share in international traffic by 780bp (vs. Sep-Oct 2019) ►

Total industry fleet (Nov 2023) is 13% more vs. Sep 2019. Including GoAir (54 planes), it would be 784 aircraft (22% higher vs. Sep 2019). However, operating fleet (Nov 2023) is similar to Sep 2019 level, as 102 planes are grounded now. This is 13% of the total available seats. **15.4% of IndiGo's seats are grounded now while 7% of the seats are grounded for other players (excl. IndiGo and SpiceJet).**

In 4QFY24F, we expect IndiGo's grounded fleet to rise to 87 (from 52 in Nov 2023) due to engine inspections to resolve the powder metal issue. **As a result, we expect 23-25% of IndiGo's seats to be grounded in 4QFY24F (vs. 15.4% now).**

Figure 7: Grounded and total fleet/seats of Indian carriers in Nov 2023

	Fleet				Seats (000)			
	Total	IndiGo	SpiceJet	Others	Total	IndiGo	SpiceJet	Others
Grounded	102	52	25	25	17.4	10.1	3.2	4.1
Total	730	351	62	317	134.0	65.5	9.5	59.0
Grounded as % of Total	14.0	14.8	40.3	7.9	13.0	15.4	34.4	7.0

SOURCE: INCRED RESEARCH, COMPANY REPORTS, DGCA, PLANESPOTTERS

While the operating fleet is similar to Sep 2019, the available seats are 7% higher as the newer fleet (A320-Neo, A321-Neo, B737-Max 8) have more seats than the earlier planes (A320, B737-700).

RPK in Sep-Oct 2023 was 15% more vs. Sep-Oct 2019 while operating seats were just 7% higher. The higher seat utilization was due to (a) a 237bp higher PLF (ASK was 12% higher), and (b) reduction in idle time from 54.7% to 51.7%.

IndiGo: RPK rose by 42% over Sep-Oct 2019 to Sep-Oct 2023, ahead of operating seats (up 31%). We believe the higher seat utilization was due to market share gain from 47% (Sep-Oct 2019) to 61.7% (Sep-Oct 2023), leading to more concentrated operations. PLF in Sep-Oct 2023 was 80bp lower vs. Sep-Oct 2019.

Other airlines: RPK declined by 2% over Sep-Oct 2019 to Sep-Oct 2023, but operating seats fell by 9%. The relatively lower number of seats could handle more RPK due to a 450bp higher PLF. ASK was 7% lower, similar to the decline in operating seats.

Figure 8: Indian carriers' domestic+ international metrics

	All Indian carriers			IndiGo			All excluding IndiGo		
	Sep-Oct 19	Sep-Oct 23	% Change	Sep-Oct 19	Sep-Oct 23	% Change	Sep-Oct 19	Sep-Oct 23	% Change
Total Fleet #	644	730	13.4	245	351	43.3	399	379	(4.9)
Total seats (000) #	111	134	20.2	42	65	54.7	69	68	(0.9)
Operating Fleet #	631	628	(0.4)	245	299	22.0	386	329	(14.7)
Operating seats (000) #	109	117	6.8	42	55	30.9	67	61	(8.5)
RPK (bn)	35	41	15.3	14	20	41.9	21	21	(2.0)
Average flight duration (hrs)	2.0	2.1	6.2	2.0	1.9	(1.3)	2.1	2.4	16.4
Average flight length (kms)	1,241	1,176	(5.3)	1,049	1,039	(1.0)	1,386	1,360	(1.9)
PLF %	80.9	83.3		83.5	82.7		79.3	83.8	

SOURCE: INCRED RESEARCH, COMPANY REPORTS, DGCA, PLANESPOTTERS

NOTE: WE HAVE CALCULATED FLEET AND SEAT DATA FOR SEP 2019 BASED ON THE AVERAGE OF MAR 2019 AND MAR 2020. WE HAVE TAKEN NOV 2023 DATA FOR FLEET AND SEATS AND USED IT FOR THE SEP-OCT 2023 PERIOD

Over Sep-Oct 2019 to Sep-Oct 2023, the average time between flights for IndiGo declined by 15% to 1.7 hours, while for others it rose by 12% to 3 hours. As a result, the gap between IndiGo and other airlines rose from 34% to 76%, implying sub-optimal usage of the fleet (excluding IndiGo).

Figure 9: Flight duration and time between flights

	Total		IndiGo		Others	
	Sep-Oct 2019	Sep-Oct 2023	Sep-Oct 2019	Sep-Oct 2023	Sep-Oct 2019	Sep-Oct 2023
Operating fleet (avg)	631	628	245	299	386	329
Flying hours (hours/day)	10.9	11.6	11.8	12.7	10.3	10.6
Idle time %	54.7	51.7	50.7	47.1	57.2	56.0
flight duration	2.0	2.1	2.0	1.9	2.0	2.4
Time between flights	2.4	2.3	2.0	1.7	2.7	3.0

SOURCE: INCRED RESEARCH, COMPANY REPORTS, DGCA, PLANESPOTTERS

NOTE: WE HAVE CALCULATED FLEET AND SEAT DATA FOR SEP 2019 BASED ON THE AVERAGE OF MAR 2019 AND MAR 2020. WE HAVE TAKEN NOV 2023 DATA FOR FLEET AND SEATS AND USED IT FOR THE SEP-OCT 2023 PERIOD

Domestic aviation operating metrics: Over Sep-Oct 2019 to Sep-Oct 2023, industry RPK rose by just 5%, IndiGo's RPK rose by 36% and for others, RPK declined by 23%. Industry PLF rose by 50bp, despite IndiGo's PLF declining by 180bp.

Figure 10: Domestic aviation - operating metrics

	All Indian carriers			IndiGo			All excluding IndiGo		
	Sep-Oct 19	Sep-Oct 23	% Change	Sep-Oct 19	Sep-Oct 23	% Change	Sep-Oct 19	Sep-Oct 23	% Change
RPK (bn)	23	24	5.2	11	15	36.0	12	9	(22.7)
Average flight duration (hrs)	1.7	1.7	3.1	1.8	1.7	(1.8)	1.6	1.7	7.5
Average flight length (kms)	917	842	(8.2)	893	869	(2.6)	937	801	(14.5)
PLF %	84.5	85.0		85.8	84.0		83.3	86.8	

SOURCE: INCRED RESEARCH, COMPANY REPORTS, DGCA

Indian carriers' international aviation metrics: Over Sep-Oct 2019 to Sep-Oct 2023, international RPK of Indian carriers rose by 34% (63% rise for IndiGo and 24% rise for other airlines). PLF for Indian carriers rose by 580bp.

Figure 11: Indian carriers' international aviation metrics

	All Indian carriers			IndiGo			All excluding IndiGo		
	Sep-Oct 19	Sep-Oct 23	% Change	Sep-Oct 19	Sep-Oct 23	% Change	Sep-Oct 19	Sep-Oct 23	% Change
RPK (bn)	12	17	33.8	3	5	63.1	9	12	24.3
Average flight duration (hrs)	4.2	4.5	8.4	3.8	3.8	0.0	4.4	5.0	15.3
Average flight length (kms)	3,414	3,197	(6.4)	2,488	2,552	2.6	3,863	3,638	(5.8)
PLF %	75.1	80.9		76.1	79.2		74.8	81.6	

SOURCE: INCRED RESEARCH, COMPANY REPORTS, DGCA

There is more to the sector than just fuel prices ➤

There are three factors that influence the price of domestic air turbine fuel (ATF) – price of crude oil (USD), INR/ USD exchange rate and the ratio of ATF price (Rs) to crude oil price (Rs).

- The price of crude oil (USD) has risen by 43% over FY20 to Dec 2023 and by 24% over FY15 to Dec 2023 (just a 2.5% CAGR).
- INR declined by 18%/ 36% against USD over FY20/ FY15 to Dec 2023, respectively. Thus, the price of crude oil (INR) rose by 69% each over FY20/ FY15 to Dec 2023.
- **The ratio of price of ATF (Rs) to crude oil price (Rs) is 2.62x, similar to that in FY20 (2.66x) and FY15-20 average (2.49x).**

Figure 12: Price of crude oil (USD), USD INR exchange rate, ATF price and IndiGo's RASK-CASK

	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	1QFY24	2QFY24	Oct 23	Nov 23	Latest
Crude oil (USD/ barrel)	105	63	43	50	64	69	55	51	84	95	78	88	91	83	78
USD/ INR exchange rate	61	61	65	67	65	70	71	74	75	80	82	83	83	83	83
Crude oil (INR/ lit) A	40	24	18	21	26	30	24	24	39	48	40	46	47	43	41
Domestic ATF (INR/ lit) B	76	68	48	50	56	68	65	41	79	122	96	102	119	113	107
Multiplier (x) B/A	1.9	2.8	2.7	2.4	2.1	2.3	2.7	1.8	2.0	2.5	2.4	2.2	2.5	2.6	2.6
IndiGo (RASK- CASK) Rs	0.1	0.4	0.6	0.2	0.3	(0.1)	(0.0)	(1.6)	(0.8)	0.1	0.8	(0.1)			

SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG, INDIAN OIL CORPORATION

While it is true that the price of fuel impacts the profits of the aviation sector, there is more to the sector than just the price of fuel.

- We believe that change in competitive intensity has a higher impact on airlines' margins – In FY15, IndiGo's margin rose sharply, despite just a 10% decline in ATF price, as SpiceJet was in distress. Over FY16-17, despite a similar ATF price, IndiGo's margin declined sharply. Over FY17-18, despite a 10% rise in ATF price, IndiGo's margin improved sharply.
- The prices of ATF and crude oil do not always move in tandem: Over FY14-15, while the price of crude oil declined by 39%, the price of ATF fell by just 10%.

The second-largest player in Oct 2023 (Tata Group) stands at 80% of IndiGo's operations vs. 66% in FY20 (AI) ▶

IndiGo: While its market share grew by 670bp (FY20-21) to 55%, since then its market share plateaued till Apr 2023. Over Apr to May 2023, its market share rose by 400bp to 61% because of the exit of GoAir (8.5% market share in FY23).

SpiceJet: Since FY20, it has lost market share, from 15.5% to 5.4% in May 2023. Post-May 2023, its market share has plateaued (5% in Oct 2023).

Tata Group: Over FY20-Oct 2023, the market share of Vistara and Air Asia together rose to 16.3% (up 380bp). Also, Tata Group acquired Air India or AI in 4QFY22. Thus, Tata Group's market share rose to 24% in FY23. Since then, its market share rose further to ~27% in Oct 2023.

The gap left by the exit of GoAir (8.5% market share in FY23) has been filled to an extent by the entry of Akasa Airlines (4.2% market share in Oct 2023).

Figure 13: Market share in domestic aviation: the number of players with a significant market share reduced from five (FY20) to four now; the second-largest player now (Tata Group) stands at 42.8% of IndiGo's domestic operations vs. 32.3% in FY20 (SpiceJet)

	FY19	FY20	FY21	FY22	FY23	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23
IndiGo	42.8	48.1	54.8	55.0	56.4	57.4	61.4	63.3	63.5	63.4	63.4	62.6
SpiceJet	12.6	15.5	13.2	9.9	7.9	5.7	5.4	4.4	4.2	4.3	4.4	5.0
Air India	11.3	11.2	9.2	10.2	8.6	8.6	9.4	9.7	9.9	9.7	9.8	10.5
Air Asia	5.2	6.7	6.8	5.7	6.6	7.6	7.9	8.0	7.4	7.1	6.7	6.6
Vistara	3.9	5.8	6.3	8.0	9.1	8.7	9.0	8.1	8.4	9.8	10.0	9.7
Akasa	-	-	-	-	1.4	4.0	4.7	4.9	5.1	4.2	4.2	4.2
GoAir	9.0	10.8	7.5	9.4	8.5	6.6	0.4	-	-	-	-	-
Jet Airways	12.3	0.1	-	-	-	-	-	-	-	-	-	-
Others	3.0	2.0	2.1	1.8	1.5	1.4	1.7	1.5	1.5	1.5	1.5	1.4

SOURCE: INCRED RESEARCH, COMPANY REPORTS, DGCA

IndiGo's contribution to Indian carriers ASK (domestic + international) rose from 39% (Oct 2019) to 48% (Oct 2023). The second-largest player in Oct 2023 (Tata Group) stands at 80% of IndiGo vs. 66% in FY20 (AI).

Figure 14: Comparison of overall operations of Indian carriers

	Operating seats - Nov 23		Domestic+ International RPK (bn) -			
	Operating seats - Nov 23	% of total	Oct 2019		Oct 2023	
IndiGo	55,422	47.6	7.2	39.2	10.1	48.2
SpiceJet	6,203	5.3	2.6	14.1	1.0	4.8
Air India	24,704	21.2	4.2	23.1	5.2	25.0
Air Asia	4,884	4.2	0.9	4.7	0.8	4.1
Vistara	13,396	11.5	0.8	4.4	2.0	9.5
Akasa	3,780	3.2	-	-	0.5	2.6
GoAir	-	-	1.5	8.4	-	-
Others	8,132	7.0	1.1	6.1	1.2	5.8
Total	1,16,521	100.0	18.3	100.0	20.9	100.0

SOURCE: INCRED RESEARCH, COMPANY REPORTS, DGCA, PLANESPOTTERS

The gap in IndiGo's RASK-CASK with AI and Vistara has reduced while that with SpiceJet has risen ➤

Air India (AI) vs. IndiGo: The gap in RASK-CASK reduced from Rs1.38 to Re0.8 over FY20-23, despite a reduction in AI's RASK. We expect the gap to reduce to Re0.33 in 2HFY24F.

- **ASK** of AI was 66%/ 53% of IndiGo in FY20/ 23, respectively.
- **PLF:** AI's PLF was 596bp lower than that of IndiGo in FY20, but in FY23 it was 76 bp higher.
- **RASK:** AI's RASK was 17% higher than that of IndiGo in FY20, but in FY23 it was just 8% higher.
- **CASK (ex-fuel)** for AI was 76% higher than that of IndiGo in FY20, but just 31% higher in FY23.

We believe the gap in CASK (ex-fuel) would decline to 12% in 2HFY24F as (a) in YTDFY24, AI's fleet/ ASK rose by 4%/ 27% while for IndiGo it rose by 20%/ 22%, respectively, and (b) in 4QFY24F, IndiGo's grounded fleet would rise to 86 (vs. 51 now).

Note: Being a full-service carrier (FSC), AI has ~13% lower seats/plane vs. IndiGo (low-cost carrier – LCC).

Figure 15: Comparison of IndiGo and Air India in FY20

	Air India	IndiGo	Difference (Rs)
ASK (bn)	64	96	
Revenue / RPK	5.5	4.3	1.14
PLF	79.8	85.8	
RASK	4.4	3.7	0.65
Fuel/ ASK	1.5	1.3	0.17
CASK (ex-fuel)	4.3	2.4	1.86
Ownership and maintenance/ ASK	1.81	1.28	0.53
Salary/ ASK	0.51	0.46	0.05
Others/ ASK	2.0	0.7	1.28
RASK- CASK	(1.4)	-0.03	(1.38)

SOURCE: INCRED RESEARCH, COMPANY REPORTS, DGCA

Figure 16: Comparison of IndiGo and Air India in FY23: Over FY20-23, the gap in (a) ownership cost/ ASK reduced by Re0.51; (b) other costs/ ASK reduced by Re0.58

	Air India	IndiGo	Difference (Rs)
ASK (bn)	61	114	
Revenue / RPK	6.2	5.8	0.45
PLF	82.9	82.1	
RASK	5.2	4.7	0.41
Fuel/ ASK	2.5	2.1	0.42
CASK (ex-fuel)	3.4	2.56	0.79
Ownership and maintenance/ ASK	1.48	1.47	0.02
Salary/ ASK	0.45	0.38	0.07
Others/ ASK	1.4	0.7	0.70
RASK- CASK	(0.7)	0.08	(0.80)

SOURCE: INCRED RESEARCH, COMPANY REPORTS, DGCA

Vistara vs. IndiGo: The gap in RASK-CASK has reduced from Rs1.45 to Re0.6 over FY20-23. We expect the gap to reduce further to Re0.3 in 2HFY24F.

- **ASK** of Vistara was 12%/ 19% of IndiGo in FY20/23, respectively.
- **PLF** of Vistara was 504bp lower than that of IndiGo in FY20, but in FY23 it was 376 bp higher.
- **RASK** of Vistara was 10% higher than that of IndiGo in FY20, but in FY23 it was 15% higher. This was despite a reduction in the gap in tariff from 17% (FY20) to 10% (FY23).
- **CASK (ex-fuel)** for Vistara was 76% more than that of IndiGo in FY20, but just 40% more in FY23.

We believe the gap in CASK (ex-fuel) would decline to 25% in 2HFY24 as (a) in YTDFY24, Vistara's fleet/ ASK rose by 18%/ 25% while for IndiGo it rose by 20%/ 22%, respectively, and (b) in 4QFY24F, we expect IndiGo's grounded fleet to rise to 86 (from 51 now).

Note: Being a FSC, Vistara has ~13% lower seats / plane vs. IndiGo (LCC).

Figure 17: Comparison of IndiGo and Vistara in FY20

	Vistara	IndiGo	Difference (Rs)
ASK (bn)	12	96	
Revenue / RPK	5.0	4.3	0.72
PLF	80.7	85.8	
RASK	4.1	3.7	0.36
Fuel/ ASK	1.3	1.3	(0.03)
CASK (ex-fuel)	4.3	2.4	1.84
Ownership and maintenance/ ASK	1.44	1.28	0.16
Salary/ ASK	0.57	0.46	0.12
Others/ ASK	2.3	0.7	1.57
RASK- CASK	(1.5)	-0.03	(1.45)

SOURCE: INCRED RESEARCH, COMPANY REPORTS, DGCA

Figure 18: Comparison of IndiGo and Vistara in FY23: Over FY20-23, the gap in other costs/ ASK reduced by Re0.73

	Vistara	IndiGo	Difference (Rs)
ASK (bn)	21	114	
Revenue / RPK	6.4	5.8	0.61
PLF	85.9	82.1	
RASK	5.5	4.7	0.74
Fuel/ ASK	2.4	2.1	0.32
CASK (ex-fuel)	3.6	2.56	1.02
Ownership and maintenance/ ASK	1.62	1.47	0.15
Salary/ ASK	0.40	0.38	0.03
Others/ ASK	1.6	0.7	0.84
RASK- CASK	(0.5)	0.08	(0.60)

SOURCE: INCRED RESEARCH, COMPANY REPORTS, DGCA

SpiceJet vs. IndiGo: The gap in RASK-CASK rose from Re0.3 to Rs1.4 over FY20-2QFY24.

- **ASK** of SpiceJet was 33%/ 8% that of IndiGo in FY20/ 2QFY24, respectively.
- **PLF** of SpiceJet was 385bp/ 336bp higher than that of IndiGo in FY20/ 2QFY24, respectively.
- **RASK** of SpiceJet was 6% higher than that of IndiGo in FY20, but in 2QFY24 it was 14% higher.
- **CASK (ex-fuel)** for SpiceJet was 15% (Re0.36) higher than that of IndiGo in FY20, but 57% (Rs1.49) higher in 2QFY24. Over FY20-2QFY24, the gap in (a) ownership cost/ ASK rose by Re0.3 as 35%+ of its fleet is grounded while 15% of IndiGo's fleet is grounded, (b) salary/ ASK rose by Re0.26, and (c) other costs/ ASK rose by Re0.56 due to scaled-down operations.

Fund-raising plans: SpiceJet's consolidated net worth (as of end-Sep 2023) was (-) Rs56.7bn, despite (a) a Rs2bn infusion by the promoter (out of the planned Rs4.9bn), and (b) the debt-to-equity conversion with Carlyle Aviation Partners (Rs2.3bn @ Rs48/share), both in 1HFY24. On 12 Dec 2023, the company's board approved the raising of equity capital of over Rs22.5bn (451m shares @ Rs50/share) via private placement, subject to necessary approvals.

This would reduce the ownership cost/ ASK by Re0.2 via lower interest costs. More importantly, it would facilitate a scale-up of operations which, in turn, would (a) reduce salary and overheads/ASK, and (b) reduce ownership costs/ ASK via commencement of operations of the grounded fleet

Figure 19: Comparison of metrics of IndiGo and SpiceJet in FY20

	SpiceJet	IndiGo	Difference (Rs)
ASK (bn)	31	96	
Revenue / RPK	4.4	4.3	0.07
PLF	89.6	85.8	
RASK	3.9	3.7	0.23
Fuel/ ASK	1.5	1.3	0.16
CASK (ex-fuel)	2.8	2.4	0.36
Ownership and maintenance/ ASK	1.49	1.28	0.21
Salary/ ASK	0.49	0.46	0.03
Others/ ASK	0.8	0.7	0.13
RASK- CASK	(0.3)	-0.03	(0.30)

SOURCE: INCRED RESEARCH, COMPANY REPORTS, DGCA

Figure 20: Comparison of IndiGo and SpiceJet in 2QFY24

	SpiceJet	IndiGo	Difference (Rs)
ASK (bn)	3.0	35	
Revenue / RPK	5.6	5.1	0.48
PLF	86.6	83.2	
RASK	4.8	4.2	0.58
Fuel/ ASK	2.2	1.7	0.52
CASK (ex-fuel)	4.12	2.63	1.49
Ownership and maintenance/ ASK	1.98	1.47	0.51
Salary/ ASK	0.68	0.39	0.29
Others/ ASK	1.47	0.78	0.69
RASK- CASK	(1.49)	(0.06)	(1.43)

SOURCE: INCRED RESEARCH, COMPANY REPORTS, DGCA

History shows that supernormal profits after the exit of a player is evanescent ►

During the exit of Jet Airways and Kingfisher, having a market share of 15% each, [twice that of GoFirst in Mar 2023 of 7%], supernormal profits for IndiGo were short-lived.

Figure 21: IndiGo's RASK and RASK – CASK

(Rs)	FY12	FY13	FY14	FY19	1QFY20	2QFY20	3QFY20	4QFY20	4QFY23	1QFY24	2QFY24
RASK	3.1	3.7	3.7	3.5	4.0	3.4	3.9	3.6	4.7	5.1	4.2
Change	0.0	0.6	0.0	(0.1)	0.5	(0.7)	0.5	(0.2)	(0.4)	0.4	(0.9)
Operating PBT/ ASK	(0.05)	0.30	0.06	(0.12)	0.47	(0.42)	0.11	(0.27)	0.07	0.76	(0.06)
Change	(0.5)	0.4	(0.2)	(0.5)	0.6	(0.9)	0.5	(0.4)	(0.4)	0.7	(0.8)
PLF %	82.3	81.1	77.2	86.2	88.9	83.5	87.6	82.9	84.2	88.6	83.2
Change	(2.8)	(1.2)	(3.9)	(1.3)	2.8	(5.4)	4.1	(4.7)	(0.9)	4.4	(5.4)

SOURCE: INCRED RESEARCH, COMPANY REPORTS, DGCA,

- **Jet Airways (exit in Apr 2019; 15% market share [FY18]):** Over FY19-1QFY20, IndiGo's PBT/ASK rose by Re0.6 and PLF rose by 280bp. Post-1QFY20, over the next six months, its PBT/ASK declined to (-) Re0.16 and PLF reverted to the FY19 level.
- **Kingfisher Airlines (exit in Apr 2012; 15% market share [FY12]):** Over FY12-13, IndiGo's PBT/ASK rose by Re0.35 and PLF dipped yoy. Despite rising yoy, its PBT/ASK was lower vs. FY10-11 (Re0.5) and it dipped to Re0.06 in FY14.

GoFirst (exit in May 2023; 7% market share in Mar 2023): Over 4QFY23-1QFY24, IndiGo's PBT/ASK rose by Re0.7 and PLF rose by 440bp. In 2QFY24, its PBT/ASK declined to (-) Re0.06 and PLF declined by 540bp qoq.

We believe that, despite the acquisition of AI by Tata Group and exit of GoAir, pricing will be competitive ►

The second-largest player in Oct 2023 (Tata Group) stands at 80% of IndiGo's operations vs. 66% in FY20 (AI).

Operations of AI are far more competitive now than prior to the acquisition by the Tata Group. We expect its CASK (ex-fuel) to reduce by 30% over FY20-2QFY24.

The gap left by the exit of GoAir (8.5% market share in FY23) has been filled to an extent by the entry of Akasa Airlines (4.2% market share in Oct 2023).

Higher PLF boosts profit as revenue from an incremental passenger goes straight to profit: Passengers choose the cheapest available ticket on the date/time they decide to travel. The costs/ flight (fuel, staff, ownership) for an airline is independent of the number of passengers on the plane.

Increase in scale of operations reduces CASK: Higher market share reduces ownership costs/ ASK and overheads/ ASK.

- **Overheads/ ASK:** Each airline needs at least one check-in counter, an office and ground staff at every airport irrespective of its scale of operations.
- **Ownership costs/ASK:** Concentrated operations help to reduce the turnaround time between flights, thereby increasing active hours and ASK.

IndiGo's 2QFY24 RASK-CASK was similar to FY19 ➤

Over FY19-2QFY24, while revenue / RPK rose by 24%, RASK rose by Re0.71 (20%) because of lower PLF in 2QFY24. CASK rose in tandem (up by Re0.65) with RASK, mainly due to the 34% rise in ownership costs/ ASK.

The rise in ownership costs/ ASK was due to (a) an 18% depreciation in INR vs. USD, (b) ownership costs/ seat (USD) rising by 6%, and (c) ASK/ seat declining by 6% as 15% of its fleet is grounded. ASK/ operating seat rose by 12%.

Figure 22: IndiGo's metrics in FY19 and 2QFY24

	FY19	2QFY24	Difference (Rs)
ASK (bn)	81	35	
Revenue / RPK	4.1	5.1	1.00
PLF	86.2	83.2	
RASK	3.5	4.2	0.71
Fuel/ ASK	1.5	1.7	0.17
CASK (ex-fuel)	2.1	2.6	0.48
Ownership and maintenance/ ASK	1.10	1.47	0.37
Salary/ ASK	0.39	0.39	0.00
Others/ ASK	0.7	0.8	0.11
RASK- CASK	(0.12)	(0.06)	0.06

SOURCE: INCRED RESEARCH, COMPANY REPORTS, DGCA

Figure 23: Ownership costs/ ASK rose by 34% (FY19-2QFY24)

	FY19	2QFY24 annualised	Growth %
ASK (bn)	81	141	74
average fleet	188	325	73
Total seats	32,620	60,729	86
Operating seats	32,620	50,753	56
Ownership cost * (Rs bn)	89	207	133
Ownership cost/ ASK (Rs)	1.10	1.47	34
Ownership cost/ seat pa (Rs m)	2.73	3.42	25
USD/ INR	69.9	82.7	18.3
Ownership cost / seat (USD)	39,007	41,315	5.9

SOURCE: INCRED RESEARCH, COMPANY REPORTS, DGCA

In 4QFY24F, we expect 25% of its fleet to be grounded. Thus, we expect ownership cost/ ASK to rise by another 10% to Rs1.62. **Once all grounded aircraft start flying, we expect ownership costs/ ASK to dip to Rs1.36 (20% above FY19 level).**

Figure 24: Salary cost of IndiGo, SpiceJet, Vistara and Air India

	IndiGo		Growth %	SpiceJet		Growth %	Air India		Growth %	Vistara		Growth %
	FY19	FY23		FY19	FY23		FY19	FY23		FY19	FY23	
Salary cost (Rs m)	31,378	43,247	38	10,570	8,439	(20)	30,052	27,394	(9)	3,953	8,673	119
ASK (m)	81,028	1,14,359	41	22,317	18,252	(18)	62,422	60,899	(2)	7,565	21,491	184
Employees avg	20,796	29,286	41	8,528	na	na	10,440	na	na	2,220	na	na
ASK (m)/ employee	3.9	3.9	0	2.6	na	na	6.0	na	na	3.4	na	na
Salary/ employee (Rs m) pa	1.51	1.48	(2)	1.24	na	na	2.88	na	na	1.78	na	na

SOURCE: INCRED RESEARCH, COMPANY REPORTS, DGCA.

IndiGo's salary/ASK and salary/employee were flat over FY19-2QFY24 and FY19-23. Over FY19-23, salary cost/ ASK dipped by 2% for SpiceJet (despite scaled-down operations), 7% for AI and 23% for Vistara. We believe the Indian aviation sector could witness a salary hike of 10-15% in FY25F.

Engine inspection of ~10% of IndiGo's fleet in 4QFY24 to raise its CASK and dent profit ➤

P&W (Pratt & Whitney) had highlighted the impact of the powder metal issue that affected its geared turbofan (GTF) engines. Globally, 600-700 more engines are being removed for inspection between 2023F-26F and two-thirds are planned for 2023F to early 2024F. IndiGo expects ~35 aircraft to be grounded in 4QFY24F (incremental to current ones).

Out of IndiGo's fleet of 347 planes, 51 are grounded; ~80% of IndiGo's fleet comprise A320/321Neo. P&W's GTF engines are used in A220, A320Neo, Embraer E-Jet E2 and Irkut MC-21. In India, out of the total fleet (ex-IndiGo) of 379 planes (Nov 2023), 30% are A320/321Neos belonging to Vistara (92% of fleet) and AI (30% of fleet). However, both AI and Vistara operate A320Neo aircraft powered by CFM engines (not P&W's GTF). **Thus, IndiGo's competitors are unscathed by P&W engine problems.**

Assuming IndiGo maintains the same operational fleet, its ownership cost is likely to rise by 10-13% (Re0.15). This can raise its CASK by 3-4% and dent operating PBT/ ASK (loss of Re0.06 in 2QFY24).

India

REDUCE (no change)

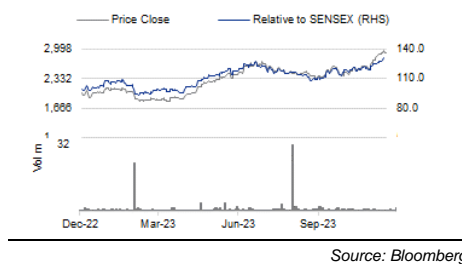
Consensus ratings*: Buy 18 Hold 2 Sell 2

Current price:	Rs2,914
Target price:	Rs2,000 ▲
Previous target:	Rs1,600
Up/downside:	-31.4%
InCred Research / Consensus:	-33.9%
Reuters:	INGL.NS
Bloomberg:	INDIGO IN
Market cap:	US\$13,552m Rs1,124,799m
Average daily turnover:	US\$32.9m Rs2728.8m
Current shares o/s:	384.9m
Free float:	37.0%

*Source: Bloomberg

Key changes in this note

- Raise FY24F/25F EBITDAR estimates by 56%/ 27%, respectively.
- Introduce FY26F estimates and roll forward our target price to Mar 2025F.



Price performance	1M	3M	12M
Absolute (%)	13.5	21.9	48.5
Relative (%)	4.5	15.2	27.4

Major shareholders	% held
Promoter and Promoter Group	63.0
ICICI Prudential Asset management	2.4
SBI Funds management	2.2

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InterGlobe Aviation Ltd

Intense competition may dampen profitability

- We expect its ASK to grow 19% yoy in FY24F but grow ~10% p.a. yoy in FY25F-26F.
- We expect the competition in the sector to be like what it was in FY17-20 & InterGlobe Aviation or IndiGo's RASK-CASK in FY26F to be close to the FY17-20 average levels.
- We roll forward our valuation to Mar 2025F (from Mar 2024F earlier), raising our target price to Rs2,000 (from Rs1,600 earlier) and retaining the REDUCE rating on the stock.

Aviation sector's high yoy growth in YTFY24 is misleading

We expect IndiGo's ASK to grow 19% yoy in FY24F but grow ~10% p.a. yoy in FY25F-26F as (a) the 21% yoy growth in domestic industry traffic (Jun-Sep 2023) was due to the low base effect - we expect a 11% yoy rise in domestic RPK in FY25F (vs. 13.4% CAGR over FY10-19), (b) we expect IndiGo's domestic market share to remain at the current level, and (c) we expect international travel (25% of Oct 2023 RPK) to grow @8% per annum.

Competition seen like in FY17-20, FY26F RASK-CASK ~ FY17-20 avg

Gross profit/ASK (gross margin or GM) in 1HFY24 (Rs3.04) was boosted by a strong 1Q (exit of GoAir). We factor in Rs2.77 GM in 2HFY24F-25F. We believe IndiGo's incremental groundings in 4QFY24 (35 planes due to powder metal issue or 5% of the industry's fleet) would not impact industry tariff as (a) IndiGo would take additional planes on lease to meet its capacity target, (b) the competitors are unscathed by this issue, and (c) the competitors' operating fleet remaining underutilized. We expect ownership + maintenance costs/ ASK at Rs1.54/ Rs1.51 in 2HFY24F/FY25F, respectively, (due to more grounded planes) and a 12% salary hike in FY25F. Thus, we expect RASK-CASK of Re0.06/ Re0.03 in 2HFY24F/ FY25F, respectively. We factor in that IndiGo's entire fleet will be operational in FY26F and hence, ownership + maintenance costs/ ASK will decline to Rs1.36. However, this will increase the supply of planes in the industry by ~14% and dampen the tariff. We factor in that IndiGo would be able to retain 50% of the benefit of the Re0.15 lower ownership costs. Thus, we factor in FY26F GM of Rs2.7 (vs. Rs2.77 in FY25) and Re0.11 RASK - CASK in FY26F (same as the average in FY17-20).

Raise our target price to Rs2,000; retain REDUCE rating on the stock

We increase FY24F EBITDAR by 56% due to a strong 1QFY24 (exit of GoAir). We raise FY25F EBITDAR by 27% (Rs36bn) but increase FY25F PAT by just Rs19bn due to higher ownership costs. We introduce FY26F estimates and roll forward our target price to Mar 2025F from Mar 2024F. We raise our target price to Rs2,000 (Rs1,600 earlier) and retain the REDUCE rating on the stock. We value the business at 8.5x FY26F EV/EBITDAR, 10% discount to the median EV/EBITDAR over Mar 2016-Mar 2019 (9.5x). We believe the discount is warranted as (a) the time for resolution of IndiGo's grounded fleet is uncertain, (b) we expect IndiGo's ASK to grow in line with the industry vs. higher-than-industry earlier, and (c) the reduction in the gap in RASK-CASK between IndiGo vs. Air India/Vistara over FY20 till now. The key upside risk is the sudden exit of rivals, which could reduce the competition.

Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	259,309	541,965	625,205	680,848	738,247
Operating EBITDA (Rsm)	14,712	91,933	129,936	119,059	117,179
Net Profit (Rsm)	(61,710)	(3,180)	37,207	15,017	21,058
Core EPS (Rs)	(141.9)	50.2	96.5	38.9	54.6
Core EPS Growth	(19.6%)	(135.4%)	92.2%	(59.6%)	40.2%
FD Core P/E (x)	(20.54)	58.05	30.20	74.83	53.36
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
Dividend Yield	0.00%	0.00%	0.00%	0.00%	0.00%
EV/EBITDA (x)	89.02	14.55	10.46	11.24	10.37
P/FCFE (x)	34.34	28.40	29.05	17.02	19.72
Net Gearing	(443.4%)	(523.8%)	(1,478.7%)	(3,340.8%)	2,321.5%
P/BV (x)	(18.60)	(17.83)	(43.51)	(103.97)	109.62
ROE	183.2%	(31.4%)	(83.7%)	(82.0%)	0.0%
% Change In Core EPS Estimates			(703.60%)	(519.93%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Intense competition may dampen profitability

Figure 25: Key parameters of IndiGo

(Rs)	FY17	FY18	FY19	FY20	FY21	FY22	FY23	1QFY24	2QFY24	FY24F	FY25F	FY26F
ASK (bn)	54.6	63.5	81.0	96.2	45.4	70.3	114.4	32.7	35.3	136.0	151.0	166.1
yoy growth %		16.4	27.6	18.8	(52.8)	54.9	62.6	18.8	27.7	18.9	11.0	10.0
RASK	3.40	3.62	3.52	3.72	3.22	3.69	4.74	5.10	4.23	4.60	4.51	4.44
Revenue/ passenger km	4.01	4.15	4.08	4.33	4.65	5.01	5.77	5.76	5.08	5.39	5.34	5.26
PLF %	84.8	87.4	86.2	85.8	69.4	73.5	82.1	88.6	83.2	85.3	84.5	84.5
Gross profit / ASK	2.22	2.38	2.03	2.40	2.37	2.29	2.65	3.50	2.57	2.89	2.77	2.70
Salary / ASK	0.38	0.39	0.39	0.46	0.67	0.45	0.38	0.40	0.39	0.40	0.44	0.47
Other ex Maintenance												
cost/ ASK	0.72	0.72	0.66	0.69	0.82	0.70	0.72	0.82	0.78	0.76	0.75	0.77
Maintenance cost/ ASK	0.16	0.24	0.32	0.38	0.57	0.54	0.44			0.46	0.46	0.44
EBITDAR / ASK	0.97	1.04	0.65	0.88	0.31	0.60	1.11			1.27	1.10	1.03
Ownership cost/ ASK	0.72	0.70	0.77	0.90	1.94	1.45	1.03			1.07	1.07	0.92
Ownership+												
Maintenance cost/ ASK	0.88	0.93	1.10	1.28	2.51	1.99	1.47	1.52	1.47	1.53	1.54	1.36
RASK- CASK	0.25	0.34	(0.12)	(0.03)	(1.63)	(0.85)	0.08	0.76	(0.06)	0.20	0.03	0.11

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 26: EV/EBITDAR of IndiGo over Nov 2015 to Mar 2019



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 27: Change in our earnings estimates

(Rs bn)	FY24F		FY25F		FY26F
	Old	New	Old	New	
Sales	570.3	625.2	650.2	680.8	738.2
% change		9.6		4.7	
EBITDAR	110.3	172.5	130.5	166.8	170.7
% change		56.4		27.8	
EBITDA	73.0	129.9	88.3	119.1	117.2
% change		78.0		34.8	
Adj. PAT	(6.2)	37.2	(3.6)	15.0	21.1
% change		na		na	

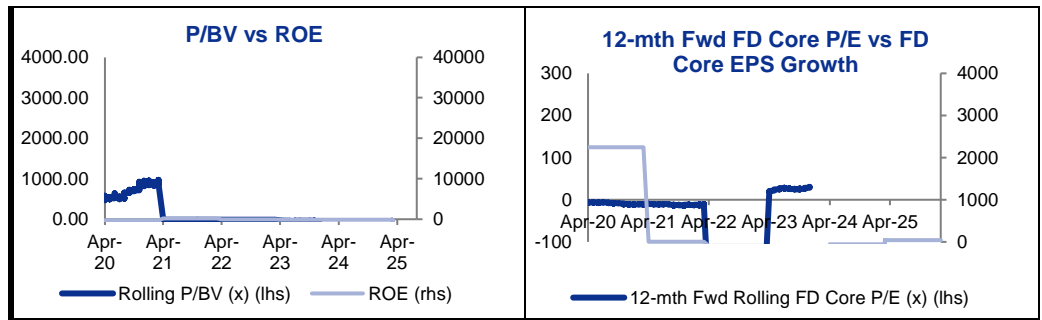
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 28: Target price valuation

	(Rs bn)	(Rs/ share)	Comments
EBITDAR FY26F	170.7		
Target EV	1,453	3,775	Target EV/EBITDAR of 8.5x, 10% below Mar 2016-19 median
Less: Debt (FY25F)	(618)	(1,606)	
Plus: Cash & Investments (FY25F)	358	930	
Less: Capitalised Operating lease	(423)	(1,100)	Capitalised at 8x operating lease
Target Equity Valuation / TP	769	2,000	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	259,309	541,965	625,205	680,848	738,247
Gross Profit	162,357	305,504	396,003	421,684	453,166
Operating EBITDA	14,712	91,933	129,936	119,059	117,179
Depreciation And Amortisation	(50,678)	(51,012)	(62,498)	(69,381)	(60,292)
Operating EBIT	(35,967)	40,921	67,438	49,678	56,888
Financial Income/(Expense)	(23,580)	(31,317)	(40,231)	(44,661)	(38,811)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	4,921	9,746	10,000	10,000	10,000
Profit Before Tax (pre-EI)	(54,626)	19,350	37,207	15,017	28,077
Exceptional Items	(7,084)	(22,530)			
Pre-tax Profit	(61,710)	(3,180)	37,207	15,017	28,077
Taxation					(7,019)
Exceptional Income - post-tax					
Profit After Tax	(61,710)	(3,180)	37,207	15,017	21,058
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	(61,710)	(3,180)	37,207	15,017	21,058
Recurring Net Profit	(54,626)	19,350	37,207	15,017	21,058
Fully Diluted Recurring Net Profit	(54,626)	19,350	37,207	15,017	21,058

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	14,712	91,933	129,936	119,059	117,179
Cash Flow from Invt. & Assoc.					
Change In Working Capital	27,087	23,207	14,926	647	993
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received	(23,580)	(31,317)	(40,231)	(44,661)	(38,811)
Tax Paid					(7,019)
Cashflow From Operations	18,219	83,823	104,631	75,044	72,342
Capex	(53,211)	(98,531)	(154,764)	(77,408)	
Disposals Of FAs/subsidiaries					27,624
Acq. Of Subsidiaries/investments	(7,424)	(35,254)	(31,042)		
Other Investing Cashflow	4,921	9,746	9,410	9,292	9,151
Cash Flow From Investing	(55,714)	(124,039)	(176,395)	(68,116)	36,774
Debt Raised/(repaid)	70,182	79,763	110,444	59,071	(52,135)
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid					
Preferred Dividends					
Other Financing Cashflow	(27,652)	(37,226)			
Cash Flow From Financing	42,529	42,537	110,444	59,071	(52,135)
Total Cash Generated	5,034	2,321	38,680	66,000	56,982
Free Cashflow To Equity	32,686	39,548	38,680	66,000	56,982
Free Cashflow To Firm	(13,915)	(8,898)	(31,533)	51,590	147,927

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	101,174	118,372	177,122	256,998	327,967
Total Debtors	3,329	5,199	7,502	8,170	8,859
Inventories	4,081	5,911	6,252	6,808	7,382
Total Other Current Assets	52,667	66,391	87,529	95,319	103,355
Total Current Assets	161,252	195,872	278,406	367,295	447,563
Fixed Assets	213,800	276,477	368,680	376,631	288,626
Total Investments	80,326	115,580	146,622	146,622	146,622
Intangible Assets	274	314	377	452	543
Total Other Non-Current Assets	2,949	2,949	3,539	4,247	5,097
Total Non-current Assets	297,349	395,320	519,218	527,953	440,887
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors					
Other Current Liabilities	150,176	205,682	264,462	287,999	312,278
Total Current Liabilities	150,176	205,682	264,462	287,999	312,278
Total Long-term Debt	368,778	448,542	558,986	618,057	565,922
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	368,778	448,542	558,986	618,057	565,922
Total Provisions					
Total Liabilities	518,954	654,224	823,448	906,056	878,200
Shareholders Equity	(60,353)	(63,031)	(25,824)	(10,808)	10,250
Minority Interests					
Total Equity	(60,353)	(63,031)	(25,824)	(10,808)	10,250

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	77.1%	109.0%	15.4%	8.9%	8.4%
Operating EBITDA Growth	(368.2%)	524.9%	41.3%	(8.4%)	(1.6%)
Operating EBITDA Margin	5.7%	17.0%	20.8%	17.5%	15.9%
Net Cash Per Share (Rs)	(694.62)	(856.37)	(990.45)	(936.48)	(617.19)
BVPS (Rs)	(156.66)	(163.49)	(66.98)	(28.03)	26.59
Gross Interest Cover	(1.53)	1.31	1.68	1.11	1.47
Effective Tax Rate					25.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	3.89	2.87	3.71	4.20	4.21
Inventory Days	13.64	7.71	9.68	9.20	9.08
Accounts Payables Days					
ROIC (%)	(31.5%)	32.2%	44.5%	23.7%	27.9%
ROCE (%)	(11.8%)	11.8%	14.7%	8.7%	9.6%
Return On Average Assets	(7.0%)	9.7%	11.2%	7.1%	7.5%

Key Drivers					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Av. Seat Km (ASK, Yoy Chg %)	54.9%	62.6%	18.9%	11.0%	10.0%
Rev. Psg Km (RPK, Yoy Chg %)	64.1%	81.5%	23.6%	10.0%	10.0%
Passenger Load Factor (%)	73.5%	82.1%	85.3%	84.5%	84.5%
Pax yld per RPK	5,208.2	6,332.0	N/A	N/A	N/A
Pax rev. per ASK	3.7	4.7	4.6	4.5	4.4
Total Cost Per ATK	4.5	4.6	4.4	4.5	4.3
Fuel Cost Per ATK	1.4	2.1	1.7	1.7	1.7
Non-fuel Cost Per ATK	3.1	2.5	2.7	2.7	2.6
Fleet Size (no. Of Planes)	275	302	N/A	N/A	N/A

SOURCE: INCRED RESEARCH, COMPANY REPORTS

India

HOLD (no change)

Consensus ratings*:	Buy 1	Hold 3	Sell 0
Current price:	Rs54		
Target price:	Rs57 ▲		
Previous target:	Rs42		
Up/downside:	5.6%		
InCred Research / Consensus:	6.3%		
Reuters:	SPJT.BO		
Bloomberg:	SJET IN		
Market cap:	US\$442m		
	Rs36,656m		
Average daily turnover:	US\$2.8m		
	Rs235.4m		
Current shares o/s:	600.1m		
Free float:	43.5%		
*Source: Bloomberg			

Key changes in this note

- Reduce FY24F/25F EBITDAR estimates by 16%/ 40%, respectively.
- Introduce FY26F estimates and roll forward our target price to Mar 2025F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	41.0	39.0	31.8
Relative (%)	29.8	31.5	13.1

Major shareholders	% held
Promoter and Promoter Group	56.5
Sasof III A6 Aviation Ireland	1.3
SASOF II (J) Aviation Ireland	1.2

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SpiceJet Ltd

CMP fully factors in business turnaround

- Raising equity capital could revitalize the company's business by enabling the commencement of operations of its entire fleet (32% seats are grounded currently).
- We have factored in that SpiceJet will retain the entire benefits of lower CASK facilitated by scale-up of its operations.
- We have rolled forward our valuation to Mar 2025F (from Mar 2024F earlier), raising our target price to Rs57 (from Rs42 earlier) and retaining the HOLD rating on the stock.

Raising equity capital could revitalize the business

SpiceJet's consolidated net worth (as of Sep 2023-end) was at (-) Rs56.7bn, despite (a) a Rs2bn infusion by the promoter (out of the planned Rs4.9bn), and (b) the debt-to-equity conversion with Carlyle Aviation Partners (Rs2.3bn @Rs48/ share) in 1HFY24. On 13 Dec 2023, the company's board approved the raising of equity capital of over Rs22.5bn (451m shares @Rs50/share) via private placement, subject to necessary approvals. We believe that equity raising is imperative and could revitalize the company's business by way of commencing operations of its entire fleet (currently, 32% of the seats are grounded). We factor in a 29% yoy ASK decline in FY24F (in line with 1H), but we expect ~30% p.a. yoy growth in FY25F-26F.

We feel it will retain benefits of lower CASK aided by scale-up of ops

Gross profit/ASK (gross margin or GM) in 1HFY24 (Rs3.38) was boosted by a strong 1Q (exit of GoAir). We factor in Rs2.83 GM in 2HFY24F-26F. We believe that a scale-up of its operations could reduce FY26F CASK (ex-fuel) by ~20% vs. 1HFY24 via (a) a 20% decline in other expenses/ASK, (b) a 16% fall in ownership + maintenance costs/ASK driven by optimal usage of the existing fleet, and (c) a 24% dip in salary/ASK. We factor in that SpiceJet will be able to retain the entire benefits of the reduction in CASK. As a result, we expect its RASK-CASK to rise from (-) Rs1.3 to (-) Re0.3. We have factored in that SpiceJet's entire fleet will be operational in FY26F and hence, ownership + maintenance costs/ASK are set to decline to Rs1.68 (22% above the FY19 level).

Raise our target price to Rs57; maintain HOLD rating on the stock

We have reduced our FY24F/25F EBITDAR by 16%/40%, respectively, due to weak 1HFY24 performance. We introduce our FY26F estimates and roll forward our target price to Mar 2025F from Mar 2024F. We increase our target price to Rs57 (from Rs42 earlier) and retain the HOLD rating on the stock. We have valued the company's business at 8x FY26F EV/EBITDAR, in line with the median EV/EBITDAR over Mar 2016-Mar 2019. The downside risk is intense competition which could dampen the company's profitability. The upside risk is the exit of some competitors which may reduce the competition.

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	65,573	88,736	70,068	87,903	116,032
Operating EBITDA (Rsm)	(6,648)	(3,325)	(151)	395	9,220
Net Profit (Rsm)	(17,152)	(15,218)	(6,275)	(5,995)	646
Core EPS (Rs)	(27.3)	(14.0)	(9.8)	(8.8)	0.9
Core EPS Growth	(6.9%)	(49.0%)	(30.0%)	(10.2%)	(110.8%)
FD Core P/E (x)	(1.96)	(3.84)	(5.49)	(6.11)	56.71
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
Dividend Yield	0.00%	0.00%	0.00%	0.00%	0.00%
EV/EBITDA (x)	(17.09)	(31.75)	(598.21)	220.23	8.70
P/FCFE (x)	8.31	4.62	12.75	8.31	6.71
Net Gearing	(189.8%)	(125.3%)	(93.3%)	(76.4%)	(66.9%)
P/BV (x)	(0.75)	(0.55)	(0.61)	(0.56)	(0.56)
ROE	47.9%	16.6%	10.6%	9.5%	(1.0%)
% Change In Core EPS Estimates			(45.59%)	(26.17%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

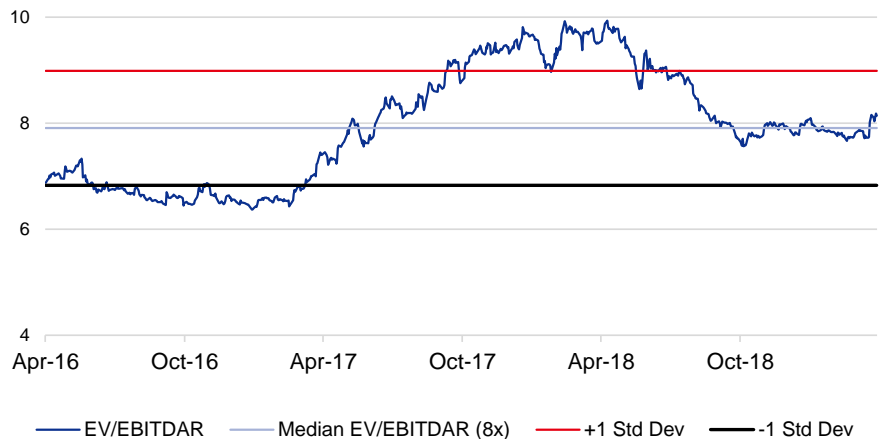
CMP fully factors in business turnaround

Figure 29: Key parameters of SpiceJet

(Rs)	FY17	FY18	FY19	FY20	FY21	FY22	FY23	1QFY24	2QFY24	FY24F	FY25F	FY26F
ASK (bn)	16.4	19.5	22.3	31.3	11.9	13.0	18.3	3.1	3.0	13.0	17.2	21.7
yoy growth %		19	14	40	(62)	10	40	(36)	(30)	(29)	32	26
RASK (incl Cargo)	3.77	3.98	4.08	3.95	4.33	5.03	4.86	6.40	4.81	5.38	5.12	5.35
Revenue/ passenger km	4.11	4.25	4.44	4.40	5.64	6.35	5.59	7.04	5.56	6.05	5.75	5.75
PLF %	91.6	93.6	91.9	89.6	76.8	79.2	86.9	90.9	86.6	89.0	89.0	93.0
Gross profit / ASK	2.64	2.73	2.54	2.47	3.04	2.77	2.25	4.14	2.63	3.10	2.83	3.06
Salary / ASK	0.41	0.44	0.47	0.49	0.57	0.56	0.48	0.68	0.68	0.66	0.55	0.50
Other ex Maintenance cost/ ASK	0.83	0.79	0.81	0.82	1.39	1.42	1.12	1.49	1.47	1.47	1.31	1.18
Maintenance cost/ ASK	0.18	0.24	0.27	0.27	0.36	0.42	0.21			0.34	0.31	0.31
EBITDAR / ASK	1.22	1.26	0.98	0.89	0.73	0.37	0.43			0.62	0.66	1.07
Ownership cost/ ASK	1.04	1.02	1.11	1.22	2.58	2.24	1.45			1.65	1.43	1.37
Ownership+ Maintenance cost/ ASK	1.22	1.26	1.38	1.49	2.93	2.66	1.67	2.16	1.98	2.00	1.74	1.68
RASK- CASK	0.17	0.24	(0.12)	(0.32)	(1.85)	(1.87)	(1.02)	(0.20)	(1.49)	(1.03)	(0.77)	(0.30)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 30: EV/EBITDAR of SpiceJet over Apr 2016 to Mar 2019



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 31: Change in our earnings estimates

(Rs bn)	FY24F		FY25F		FY26F
	Old	New	Old	New	
Sales	96.9	70.1	117.9	87.9	116.0
% change		(28)		(25)	
EBITDAR	9.6	8.1	18.9	11.4	23.1
% change		(16)		(40)	
EBITDA	0.6	(0.2)	8.0	0.4	9.2
% change		na		(95)	
Adj. PAT	(10.8)	(6.3)	(7.1)	(6.0)	0.6
% change		na		na	

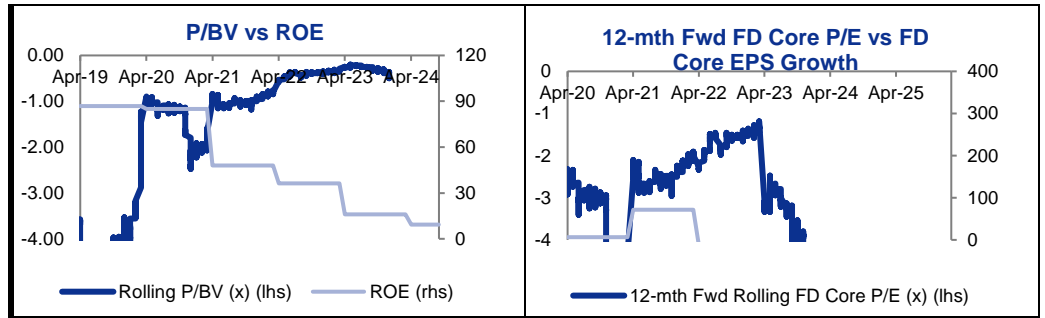
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 32: Target price valuation

	(Rs bn)	(Rs/ share)	Comments
EBITDAR FY26F	23.1		
Target EV	186	310	Target EV/EBITDAR of 8x, in-line with median over FY17-19
Less: Net Debt (FY25F)	(50)	(84)	
Add: estimated receipt from Boeing	9	16	Estimated 50% of booked amount
Less: Capitalised operating Lease	(111)	(185)	Capitalised at 8x operating lease
Target Equity valuation / TP	34	57	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	65,573	88,736	70,068	87,903	116,032
Gross Profit	36,115	41,019	40,327	48,622	66,411
Operating EBITDA	(6,648)	(3,325)	(151)	395	9,220
Depreciation And Amortisation	(12,897)	(10,227)	(8,200)	(8,364)	(9,713)
Operating EBIT	(19,546)	(13,552)	(8,351)	(7,969)	(493)
Financial Income/(Expense)	(4,185)	2,076	2,076	1,974	1,139
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	7,286	3,081			
Profit Before Tax (pre-EI)	(16,444)	(8,395)	(6,275)	(5,995)	646
Exceptional Items	(708)	(6,823)			
Pre-tax Profit	(17,152)	(15,218)	(6,275)	(5,995)	646
Taxation					
Exceptional Income - post-tax					
Profit After Tax	(17,152)	(15,218)	(6,275)	(5,995)	646
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	(17,152)	(15,218)	(6,275)	(5,995)	646
Recurring Net Profit	(16,444)	(8,395)	(6,275)	(5,995)	646
Fully Diluted Recurring Net Profit	(16,444)	(8,395)	(6,275)	(5,995)	646

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	(6,648)	(3,325)	(151)	395	9,220
Cash Flow from Invt. & Assoc.					
Change In Working Capital	12,273	11,377	4,991	2,043	8,775
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received	(4,185)	2,076	2,076	1,974	1,139
Tax Paid					
Cashflow From Operations	1,440	10,128	6,916	4,412	19,135
Capex					(13,673)
Disposals Of FAs/subsidiaries	2,373	4,075	6,749		
Acq. Of Subsidiaries/Investments		20			
Other Investing Cashflow	6,709	2,564	329		
Cash Flow From Investing	9,082	6,659	7,078		(13,673)
Debt Raised/(repaid)	(6,642)	(9,812)	(11,291)		
Proceeds From Issue Of Shares			4,944		
Shares Repurchased					
Dividends Paid					
Preferred Dividends					
Other Financing Cashflow	(3,597)	(7,223)			
Cash Flow From Financing	(10,239)	(17,035)	(6,347)		
Total Cash Generated	282	(248)	7,646	4,412	5,461
Free Cashflow To Equity	3,879	6,975	2,703	4,412	5,461
Free Cashflow To Firm	15,348	21,864	19,071	9,591	11,475

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	7,085	5,355	11,566	17,119	23,819
Total Debtors	12,356	10,994	10,510	10,548	13,924
Inventories	1,451	1,628	1,401	1,758	2,321
Total Other Current Assets	14,243	14,297	13,596	15,845	19,896
Total Current Assets	35,135	32,273	37,074	45,271	59,960
Fixed Assets	59,138	44,850	29,901	21,537	25,497
Total Investments	25	5	5	5	5
Intangible Assets	24	10	10	10	10
Total Other Non-Current Assets	882	1,399	1,070	1,070	1,070
Total Non-current Assets	60,069	46,264	30,986	22,622	26,582
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors					
Other Current Liabilities	49,589	58,353	60,498	66,326	84,328
Total Current Liabilities	49,589	58,353	60,498	66,326	84,328
Total Long-term Debt	88,499	78,687	67,396	67,396	67,396
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	88,499	78,687	67,396	67,396	67,396
Total Provisions					
Total Liabilities	138,088	137,040	127,894	133,722	151,724
Shareholders Equity	(42,884)	(58,503)	(59,834)	(65,829)	(65,182)
Minority Interests					
Total Equity	(42,884)	(58,503)	(59,834)	(65,829)	(65,182)

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	27.7%	35.3%	(21.0%)	25.5%	32.0%
Operating EBITDA Growth	2,036.2%	(50.0%)	(95.5%)	(361.6%)	2,236.0%
Operating EBITDA Margin	(10.1%)	(3.7%)	(0.2%)	0.4%	7.9%
Net Cash Per Share (Rs)	(135.28)	(121.85)	(81.61)	(73.49)	(63.70)
BVPS (Rs)	(71.26)	(97.21)	(87.46)	(96.22)	(95.28)
Gross Interest Cover	(4.05)	(2.67)	(1.64)	(1.54)	(0.08)
Effective Tax Rate					
Net Dividend Payout Ratio					
Accounts Receivables Days	91.16	48.02	56.01	43.72	38.49
Inventory Days	18.64	11.78	18.59	14.68	15.00
Accounts Payables Days					
ROIC (%)	(30.5%)	(35.2%)	(56.3%)	198.8%	3.2%
ROCE (%)	(32.9%)	(19.5%)	(8.6%)	(17.9%)	352.3%
Return On Average Assets	(11.7%)	(12.1%)	(11.4%)	(11.7%)	(0.6%)

Key Drivers					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Av. Seat Km (ASK, Yoy Chg %)	10.0%	40.0%	(28.7%)	32.0%	26.3%
Rev. Psg Km (RPK, Yoy Chg %)	13.5%	53.6%	(27.0%)	32.0%	32.0%
Passenger Load Factor (%)	79.2%	86.9%	89.0%	89.0%	93.0%
Pax yld per RPK	7,139.9	6,965.1	N/A	N/A	N/A
Pax rev. per ASK	3.5	4.5	5.4	5.1	5.3
Total Cost Per ASK	6.3	5.7	5.9	5.5	5.3
Fuel Cost Per ASK	2.3	2.6	2.3	2.3	2.3
Non-fuel Cost Per ASK	4.1	3.1	3.6	3.2	3.0
Fleet Size (No. Of Planes)	90	62	62	62	72

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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