

## India

### Underweight *(no change)*

#### Highlighted Companies

##### InterGlobe Aviation Ltd

###### REDUCE, TP Rs1165, Rs2012 close

We estimate total traffic for Indian carriers in FY23F to be similar to FY20 due to our estimated 37% decline in domestic business travel over FY20-23F. We factor in a 7% decline in EBITDAR/ASK in FY23F (vs. FY20) due to downward pressure on tariff on account of weak industry volumes.

##### SpiceJet Ltd

###### REDUCE, TP Rs58, Rs74 close

We value the business at 6.8x FY23F EV/EBITDAR, at a 20% discount to our FY23F target multiple for IndiGo (8.5x) due to SpiceJet's relatively weak balance sheet and a tad lower than its three-year median EV/EBITDAR of 7.5x.

#### Summary Valuation Metrics

P/E (x)	Mar21-A	Mar22-F	Mar23-F
InterGlobe Aviation Ltd	-18.43	-29.03	975.57
SpiceJet Ltd	-3.09	-3.09	-7.72

P/BV (x)	Mar21-A	Mar22-F	Mar23-F
InterGlobe Aviation Ltd	46.62	-76.92	-83.51
SpiceJet Ltd	-1.47	-1	-0.88

Dividend Yield	Mar21-A	Mar22-F	Mar23-F
InterGlobe Aviation Ltd	0%	0%	0%
SpiceJet Ltd	0%	0%	0%

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# Aviation - Overall

## Aviation expert meet: Key takeaways

- Air traffic likely to stage a slow recovery, cautious capacity control is required.
- Tata Group's acquisition of AI, AI's debt reduction and synergies with other Tata Group airlines (Vistara, AirAsia) may increase competition in aviation sector.
- Good time for new entrants as incumbents' finances have been negatively impacted by Covid pandemic. Maintain Reduce on IndiGo and SpiceJet.

### What lies ahead post Covid pandemic?

We hosted a call with aviation sector expert Mr K. G. Vishwanath for investors. Prior to Covid, the passenger mix in India's domestic aviation sector between business and tourism was 45%/ 55%. Post-pandemic, he believes that the mix between business and tourism is likely to become 30%/ 70%. We concur with his view. He believes that airlines are likely to defer delivery of new planes and reduce the existing fleet by not renewing their operating leases (usually leased for five to six years) till passenger demand revives. He believes that cooperation between airlines is unlikely, and it has not been witnessed in the past.

### LCCs for domestic aviation and FSCs for international aviation

Mr. Vishwanath believes that while low-cost carriers (LCCs) have succeeded in domestic aviation where the typical flight duration is two to three hours, in international aviation for flights beyond five to six hours, full-service carriers (FSCs) are needed. However, for short haul international flights (less than five-six hours), LCC is a viable business model (IndiGo, SpiceJet, GoAir). While it is possible for 1 FSC in domestic aviation to have a profitable business, LCCs are likely to dominate domestic aviation market. We concur with this view.

### Implications of Tata Group's takeover of Air India (AI) on the sector

Mr. Vishwanath believes that debt reduction of AI from Rs622bn to Rs154bn (as per transaction) will reduce interest costs by Rs37bn pa (Rs0.5/ASK), thereby increasing competition in the sector. However, more needs to be done to turn around AI. Tata's three airlines (Vistara, Air Asia and AI) have different cultures and there could be difficulties consolidating the businesses. Restructuring of AI's employee costs will be key to the plan. Mr Vishwanath expects the integration of AI by Tatas into its existing aviation business, and it could take two to three years. We believe that restructuring of AI's employee costs, reducing loss-making routes and exploiting synergies of three airlines (Vistara, Air Asia and Air India) to reduce overheads is critical to turn around Air India.

### Good time to enter for entities like Akasa and Jet Airways

Incumbents have got pummeled over the last five quarters due to Covid and suffered massive losses. The question arises as to whether this is a good time for new entrants to enter the market. Mr. Vishwanath expects two to three new entrants in India's domestic aviation over the next two years. However, the entry of a new player in Indian international aviation is likely to be more difficult. On the comeback by Jet Airways, he believes this is essentially a new avatar with some existing assets (technical inventory, stake in Jet Privilege). Bulk of Jet Airway's airport slots and planes have been taken up by other players. On the reasons for the failure of Jet Airways, he mentioned multiple reasons – purchase of Air Sahara, rapid expansion in the international segment and not raising equity. at appropriate time.

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## Aviation expert meet: Key takeaways

### Profile of speaker: Mr K. G. Vishwanath >

Mr. Vishwanath is a qualified Chartered Accountant with over 23 years of airline experience in Strategy/Merger & Acquisitions/Management Accounting and Capital Raising. He was Head of Commercial Strategy, Corporate Finance and Investor Relations at Jet Airways. In his last role, he was the Chief Financial Officer of TruJet Airways.

### What lies ahead after the Covid pandemic? >

With passengers gradually returning to airlines (Sep 2021: Domestic/ international passengers were ~65%/~25%, respectively, of pre-Covid level), the question that remains is what the permanent demand destruction is due to Covid (video/ audio call vs. in-person meetings prior to the pandemic). Further, how will airlines deal with soft passenger demand and whether cooperation between airlines can lead to strong pricing?

**Expert speak:** Prior to Covid, the passenger mix in India's domestic aviation between business and tourism was 45%/ 55%. Post-pandemic, he believes that the mix between business and tourism is likely to become 30%/ 70%. We concur with this view. He believes that airlines are likely to defer taking delivery of new planes and reduce their existing fleet by not renewing operating leases (usually leased for five to six years) till passenger demand revives. He believes that cooperation between airlines is unlikely, and it has not been witnessed in the past. Quick ramp-up of staff in case of a surge in demand is achievable, with the only constraint being trained pilots.

### Low-cost carriers (LCCs) for domestic flights and full-service carriers (FSCs) for international aviation >

**Expert speak:** While LCCs have succeeded in domestic aviation where the typical flight duration is two to three hours, in international aviation for flights beyond five to six hours, FSCs are required. However, for short-haul international flights (less than five to six hours), LCC is a viable business model (IndiGo, SpiceJet, GoAir). While it is possible for 1 FSC in domestic aviation, LCCs are likely to dominate the domestic aviation market. We concur with this view.

### Implications of Tata group's takeover of Air India on the sector >

**Expert speak:** Debt reduction of AI from Rs622bn to Rs154bn (as per transaction) will reduce interest costs by Rs37bn pa (Rs0.5/ASK), thereby increasing competition in the sector. However, more needs to be done to turn around AI. Tata Group's three airlines (Vistara, Air Asia and AI) have different cultures and there could be difficulties consolidating the businesses. Restructuring of AI's employee costs will be key to the plan. Mr. Vishwanath expects the integration of AI by Tata Group into its existing aviation business could take two to three years.

We believe that restructuring of AI's employee costs, reducing loss-making routes and exploiting synergies of three airlines (Vistara, Air Asia and AI) to reduce overheads is critical to turn around AI.

## Good time to enter the sector for entities like Akasa and Jet Airways ➤

Incumbents have got pummeled over the last five quarters due to Covid and have suffered massive losses. The question is whether this is a good time for new entrants to enter the market.

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#### Corporate Governance Report:

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CGS-CIMB Thailand does not confirm nor certify the accuracy of such survey result.

<b>Score Range:</b>	90 - 100	80 – 89	70 - 79	Below 70	No Survey Result
<b>Description:</b>	Excellent	Very Good	Good	N/A	N/A



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## Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2020, Anti-Corruption 2020

**ADVANC** – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BCP** - Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BH** - Good, n/a, **BJC** – Very Good, n/a, **BLA** – Excellent, Certified, **BTS** - Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – n/a, n/a, **CENTEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Very Good, Certified, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** - Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Very Good, n/a, **DELTA** - Excellent, Certified, **DDD** – Very Good, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, n/a, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** - Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** - Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Very Good, n/a, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, n/a, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** - Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – Excellent, Declared, **JMT** – Very Good, Declared, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KEX** – n/a, n/a, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – n/a, n/a, **OR** – n/a, n/a, **ORI** – Excellent, Certified, **OSP** – Very Good, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, n/a, **PSH** – Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, Certified, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RBF** – Good, n/a, **RS** – Excellent, n/a, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – n/a, n/a, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** - Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – n/a, n/a, **SHR** – Very Good, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** - Excellent, Declared, **SPRC** – Excellent, Certified, **SSP** - Good, Declared, **STEC** – n/a, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, n/a, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIDLOR** – n/a, n/a, **TISCO** - Excellent, Certified, **TKN** – Very Good, n/a, **TMB** - Excellent, Certified, **TOP** - Excellent, Certified, **TRUE** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

- CG Score 2020 from Thai Institute of Directors Association (IOD)

- Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of January 30, 2021) are categorised into: companies that have declared their intention to join CAC, and companies certified by CAC.

### Recommendation Framework

#### Stock Ratings

Definition:

<b>Add</b>	The stock's total return is expected to exceed 10% over the next 12 months.
<b>Hold</b>	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
<b>Reduce</b>	The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

#### Sector Ratings

Definition:

<b>Overweight</b>	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
<b>Neutral</b>	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
<b>Underweight</b>	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

#### Country Ratings

Definition:

<b>Overweight</b>	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
<b>Neutral</b>	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
<b>Underweight</b>	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.