

InterGlobe Aviation (INDIGO) - BUY

Company Update

Current Market Price (CMP) Rs.4404	Fair Value Rs.5500
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Rationale:

- Crude and its impact of cost and profitability is a difficult call in the near term.
- Underwriting peak FY24 margin of Indigo in post-COVID times is still reasonable.
- Our FY28 operational profitability of ~Rs0.39/ASK is ~20% lower than the Rs0.5 per ASK levels to yield a 10% pre-tax return for peers of Indigo.
- The stock trades at 21x/17x 1/2-year forward EPS on such profitability levels (at normalized tax rate).
- We upgrade Indigo to BUY (from ADD).

👍 Positives:

- The government's role in improving the cost structure of airlines is imponderable.
- In the past, Indigo has been able to eventually pass on cost inflation & increasing fuel costs to higher yields.
- Peers require a much higher unit profitability than Indigo to reach even 10% pre-tax returns.
- Thus, downplaying the competitive intensity to be able to raise yields, even with increased aircraft supply in the coming years.

👎 Negatives:

- We expect FY26E EPS to fall by 32.3% yoy to Rs.127.2/-.

(ATF: Aviation Turbine Fuel. EPS: Earnings Per Share)



The content of this document has been derived from KIE research report. Kotak's PCG Research has summarized the report (Research Team: shrikant.chouhan@kotak.com). Readers who wish to access the complete report are kindly requested to contact their respective Relationship Manager. Further, the recipient of this material should take their own professional advice before investing.

Holding Period: 12 months

RATING SCALE (PRIVATE CLIENT GROUP)

Definitions of ratings

- BUY** – We expect the stock to deliver more than 15% returns over the next 12 months
- ADD** – We expect the stock to deliver 5% - 15% returns over the next 12 months
- REDUCE** – We expect the stock to deliver -5% - +5% returns over the next 12 months
- SELL** – We expect the stock to deliver < -5% returns over the next 12 months
- NR** – **Not Rated.** Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
- SUBSCRIBE** – We advise investor to subscribe to the IPO.
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- NA** – **Not Available or Not Applicable.** The information is not available for display or is not applicable
- NM** – **Not Meaningful.** The information is not meaningful and is therefore excluded.
- NOTE** – Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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