

InterGlobe Aviation (INDIGO) - BUY

Company Update

Current Market Price (CMP) Rs.4288	Fair Value Rs.5500
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Rationale:

- Crude volatility is not as bad for airlines.
- Volatile crude has aided profitability in the past two instances.
- Peers require a much higher unit profitability than IndiGo to reach even a 10% pre-tax return, thus requiring the industry to increase yields to earn better returns.
- Regulatory risk appears to be on the mend, making the crude spike a key hurdle.
- We presently assume a nil increase in FY28 yields linked to the crude movement, as we envisage crude stabilizing at sub-US\$80 levels from H2FY27.
- Stock trades at a reasonable 19x on discounted FY28 EPS at a normalized tax rate.

👍 Positives:

- IndiGo and other airlines will try to upfront the impact of high crude in domestic by capitalizing on the low base of volumes and pricing of FY26.
- History suggests airlines sustaining or further raising pricing on the potential crude deflation in FY28, an upside risk to our estimates.
- IndiGo has typically benefited from crude volatility with the initial shock on fuel spread being limited.

👎 Negatives:

- We expect FY27 PAT for IndiGo to be severely impacted by weak Q1.

(EPS: Earnings Per Share; PAT: Profit After Tax)



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

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- 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
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- 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.
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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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