After solid Q1, IndiGo's troubles may mount in Q2

Lower fares in a seasonally weak September qtr, higher fuel prices may hit airline's profitability, say experts

NIKITA VASHISHT
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Despite the best ever quarterly net profit of ₹3,091 crore during April-June of financial year 2023-24 (Q1FY24), challenges are mounting for InterGlobe Aviation-run IndiGo in the near term, said analysts on Friday.

Given this, most brokerages have retained their ratings from 'buy to underperform', as well as their target price for the stock.

For instance, Motilal Oswal Financial Services has retained its 'neutral' rating on the scrip as it believes the low-cost airline is facing teething issues at present.

"Despite the positive outlook and strong current demand in India's aviation industry, we see several challenges, making it not yet a perfect picture for IndiGo," the brokerage said.

On the BSE, shares of the airline settled 2.72 per cent higher at ₹2,513 a piece on Friday. In comparison, the Sensex ended 0.74 per cent higher at 65,721.25.

Turbulence ahead?

According to analysts, IndiGo's profitability may be affected in the July-September quarter (Q2) owing to lower fares in a seasonally weak quarter and higher fuel prices. The management said this would affect yields by 10-15 per cent in Q2FY24.

According to estimates, the average 30-day domestic forward prices (for the industry) are down 15 per cent sequentially in Q2, while 15-day prices are down 15 per cent quarter-on-quarter (Q-o-Q). For IndiGo, the prices are down 10 per cent for 30-day domestic forward booking and 11 per cent for 15-day domestic forward booking.

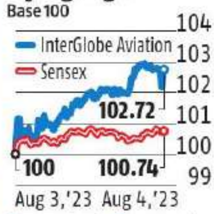
In Q1FY24, InterGlobe Aviation reported an all-time high revenue and profit after tax (PAT).

EXCESS BAGGAGE

Brokerage	Recommendation	Target price (₹)
Jefferies	Underperform	2,070
JM Financial	Hold	2,270
Motilal Oswal	Neutral	2,630
Prabhudas Lilladher	Buy	2,855
Nuvama Institutional Equities	Buy	2,907
Emkay Global	Buy	3,000

Sources: Brokerage reports, Bloomberg   Compiled by BS Research Bureau

Flying high
Base 100



Share price in ₹		Chg
2,446	2,513	2.7%
65,241	65,721	0.7%

This was aided by a strong load factor of 88.7 per cent and yield of ₹5.1, coupled with 26.6 per cent year-on-year (YoY) decline in fuel cost per available seat km (CASK) to ₹1.6 amid fall in crude prices. Ebitdar (earnings before interest, tax, depreciation, amortisation, and rent) jumped over 7-fold to ₹5,210.9 crore

Aviation turbine fuel (ATF) prices, however, have risen by 10.7 per cent to ₹100.1 per litre so far in Q2FY24. Analysts said this rise may put pressure on IndiGo's spreads in the September quarter. "We cut our Ebitdar estimates by 7 per cent each for FY24/FY25 as yields are witnessing higher pressure on a sequential basis (compared to the past). We expect revenue CAGR (compound annual growth rate) of 15 per cent over the next two years with Ebitdar margin of 25.4 per cent and 28.1 per cent, respectively, in FY24 and FY25," said analysts at Prabhudas Lilladher. The brokerage has retained its 'buy' call with a target price of ₹2,855.

Analysts also warn of competitive intensity increasing in the coming months with SpiceJet receiving funds through promoter infusion (₹500 crore), likely resumption of Go First and Jet Airways receiving the air operators' permit.

Amid this, IndiGo is seeing higher fleet grounding due to the inspection of Pratt and Whitney (P&W) engines.

Detailed investigations are being carried out on these aircraft, which could potentially impact nine aircraft along with 35 already on ground.

P&W will inspect 1,200 engines with 200 engines expected by mid-September and the rest over the next year.

Analysts at JM Financial, who have maintained a 'hold' rating (target price of ₹2,270), believe the concerns will weigh on the stock in the near term.

Long-term view

Analysts believe a likely duopolistic industry structure, dominated by IndiGo and Air India, bodes well for IndiGo.

This is because robust demand and growing international business will drive passenger growth. Also, addition of extra-long-range fleet and improved cargo business will raise competitiveness in the long term. "We raise FY24/25 net profit by 31 per cent/38 per cent, factoring in the tax-loss benefit and higher other income. IndiGo's 1,000-plane order book positions it well in the long run," said Emkay Global. It has a 'buy' call and ₹3,000 price target.