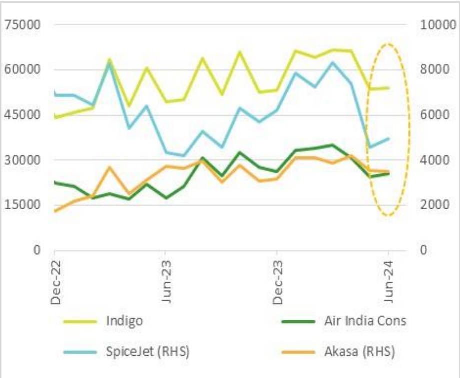
AVIATION MONTHLY

SECTOR UPDATE

Total PAX +8% YoY; Indigo 9%; PLF: -150bp YoY

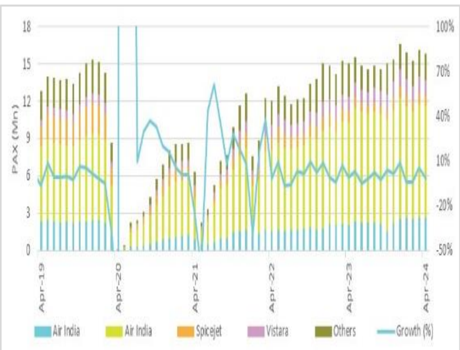
Particulars	Industry (Apr'24)	Industry (Apr'24') YoY %	Industry (Apr'24) MoM%	IndiGo (Apr'24)	IndiGo (Apr'24 YoY %)	IndiGo (Apr'24 MoM%)
PAX (in Mn)	15.3	7.5%	-2.0%	9.0	9.3%	-0.4%
Dom PAX (in Mn)	12.6	6.1%	-2.0%	8.0	8.0%	-1.0%
Intl PAX (in Mn)	2.7	14.8%	5.1%	1.0	21.3%	4.7%
ASKM (Bn KMs)	14.7	4.5%	-2.5%	8.7	8.7%	-2.8%
PLF(%)	86.8	-150bp	+76bp	86.6	-85bp	+163bp

Indigo scheduled flights up 9% YoY in Jun-24



Indian airlines to add 150-plus aircraft in CY24

PAX up 8% YoY/down 2% MoM in Apr-24



Resilient demand; Indigo ups strategy

We capture monthly PAX, fares, capacity adds and market shares.

Highlights: i) Apr-24: Total PAX grew 8% YoY (Indigo: up 9% YoY) led by 15% YoY surge in international travel. Capacity grew 5% YoY (Indigo up 9% YoY) while PLFs fell 150bp YoY to 86.8% (Indigo 87%). ii) Scheduled flights up 8% YoY in Jun-24 (Indigo: up 9%). iii) Go First's resumption of operations stays unclear as DCGA acted to de-register all of its 54 aircraft. iv) ATF prices rise 6% on rising oil prices. v) IndiGo's enhanced strategy – adding 100 smaller aircraft to expand its regional network and 30-plus wide body aircraft to drive its international business; also adding business class on key routes. Duopolistic nature of industry to ensure pricing discipline and drive yields higher. BUY Indigo.

PAX +8% YoY; capacity +5% YoY, PLF -150bp; (Indigo -85bp) YoY

PAX travelled grew 8% YoY in Apr-24 to 15mn (Indigo +9% YoY to 9mn) led by strong international travel demand alongside steady domestic travel demand. ASKM grew 5% YoY while PLFs fell 150bp YoY to 86.8% (Indigo: 87%). However, Indigo expects RASK to stay pressurised in Q1FY25E led by aircraft groundings and high cost. Still, Indigo sustained its share at 60%. Moreover, Vistara's pilot crisis (10% of operations affected; 25-plus flights/day) could further strengthen Indigo's market share. Domestic/International PAX up 6%/15% YoY to 12.6mn/2.7mn in Apr-24.

Scheduled flights up 8% YoY in Jun-24 (Indigo up 9% YoY)

Total scheduled flights in Jun-24 were at 0.09mn; up 8% YoY (Indigo: +9% YoY) primarily due to the pickup in international travel partially offset by aircraft groundings. Demand reflected in the daily average PAX with ~510,000 PAX (7% YoY) in Apr-24. The Indian aviation industry is set for growth with domestic air passenger traffic expected to rise 8–13% in FY25, reaching 150–155mn, surpassing pre-Covid levels with improved yields.

Permanent capacity reduction as Go First's 54 aircrafts deregistered

With a sizable part of its fleet grounded on engine shortages, Go First's resumption of operations stays unclear. Despite IPO plans and efforts to raise funds, challenges persist, including delays in engine deliveries and financial strains. The airline's market share continues to fall and operational hurdles pose obstacles to its revival. Moreover, after the third prolongation effort by the NCLT tribunal, the DGCA acted to de-register all of its 54 leased aircraft further dimming its chance for a revival.

IndiGo's regional rendezvous: Transforming air connectivity

IndiGo is in talks to procure 100 smaller aircraft (ATR-72, A220, and E-175) as part of its strategy to expand its regional network to enhance connectivity to more destinations efficiently. This initiative follows its recent order for 30 Airbus A350-900s, signalling its foray into operating wide-body aircraft. Indigo is launching business class seats on some prominent domestic and international routes too.

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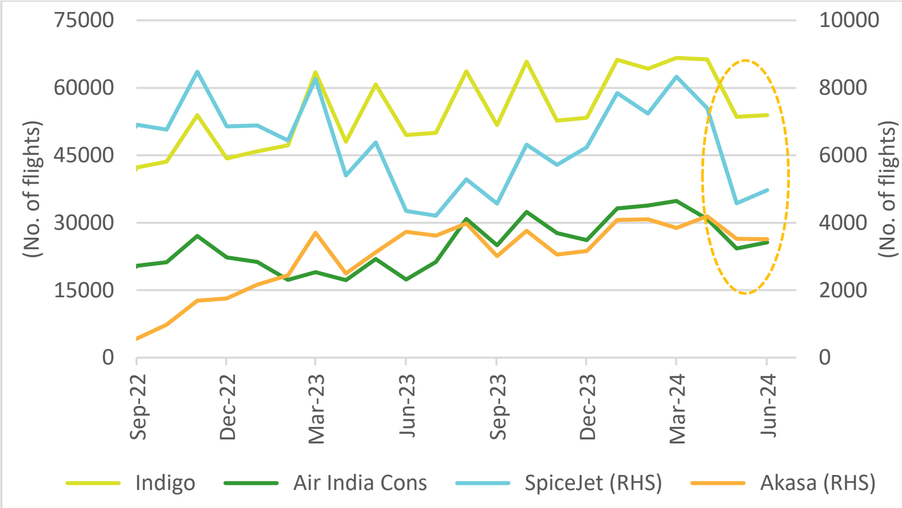
Trends: Indigo scheduled flights +9% YoY in Jun-24

Exhibit 1: Industry overview - Total PAX +8%YoY; Indigo 9%; PLF: -150bpYoY

Particulars	Industry (Apr'24)	Industry (Apr'24') YoY %	Industry (Apr'24) MoM%	IndiGo (Apr'24)	IndiGo (Apr'24 YoY %)	IndiGo (Apr'24 MoM%)
PAX (in Mn)	15.31	7.5%	-2.0%	9.04	9.3%	-0.4%
Dom PAX (in Mn)	12.64	6.1%	-2.0%	8.03	8.0%	-1.0%
Intl PAX (in Mn)	2.68	14.8%	5.1%	1.01	21.3%	4.7%
ASKM (Bn KMs)	14.7	4.5%	-2.5%	8.7	8.7%	-2.8%
PLF(%)	86.8	-150bp	+76bp	87	-85bp	+163bp

Source: Nuvama Research

Exhibit 2: Scheduled flights up 8% YoY (IndiGo: up 9% YoY) in Jun-24

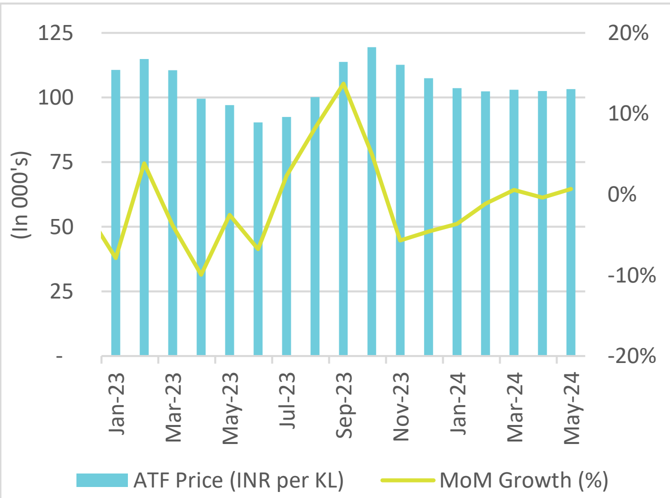


Source: Company, Nuvama Research, Bloomberg

Rise in ATF prices and cost inflationary pressures to weigh on margins

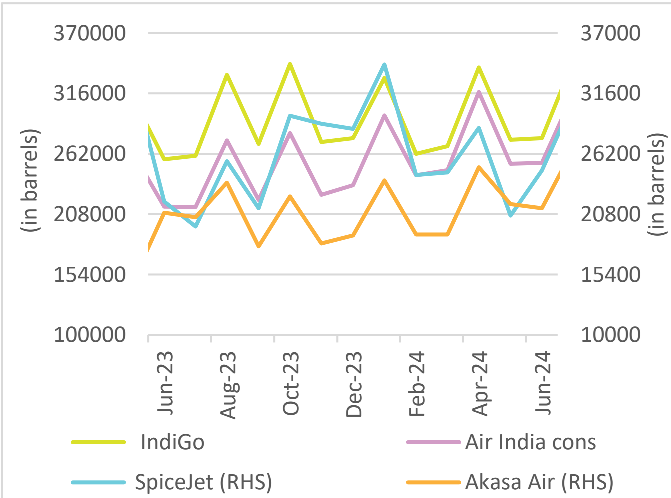
ATF demand rose 12% YoY in Jun-24 due to increased number of scheduled flights. Rise in ATF prices coupled with cost inflationary pressures shall drive CASK upwards thereby impacting margins. In Jun-24, ATF demand was 0.6mn barrels per month (up 12% YoY) due to higher number of scheduled flights as travel picks up.

Exhibit 3: ATF prices surge 6% YoY to INR0.10mn/KL



Source: Company, Nuvama Research

Exhibit 4: ATF consumption rises 12% YoY in Mar-24



Source: Company, Nuvama Research

Key highlights of month

- Michael Koish, Chief Investment Officer of Challenges Airlines, which won the bid for three of Jet Airways' Boeing 777-300 aircraft, says that the bankrupt airline's monitoring committee has become unresponsive despite court orders to hand over possession of the aircraft. (refer to **Jet Airways**).

- Vietnam Airlines, the flag carrier of Vietnam, is looking to expand its presence in the Indian market. The airline is considering adding more routes between India and Vietnam. In an exclusive interview with CNBC-TV18, Le Hong Ha, President & CEO of Vietnam Airlines, said, "We started our operations in India in 2022 with services to New Delhi. We are focusing more on India by starting wide body aircraft operations. The Indian market has huge potential, and the traffic is huge." (refer to **Vietnam Airlines**).

- Air passenger traffic in the country is projected to touch record levels in the range of 407-418 million in the current financial year and the revenues of select airport operators together are estimated to rise 15-17% during the same period, rating agency ICRA said on Thursday, May 16. Surpassing the pre-Covid level by 10%, the traffic reached 376.4 million in the fiscal ended March 2024. (refer to **Indian Aviation**).

- Singapore Airlines Ltd. will reward staff with a bonus payout worth almost eight months of salary, according to a person familiar with the matter, after delivering a second consecutive record annual profit. (Refer to **Singapore Airlines.**).

- Emirates, owned by Dubai’s government, announced revenues of ₹33 billion, compared to ₹29.3 billion the year before. Profit the year prior had been ₹2.9 billion. (refer to **Emirates**).

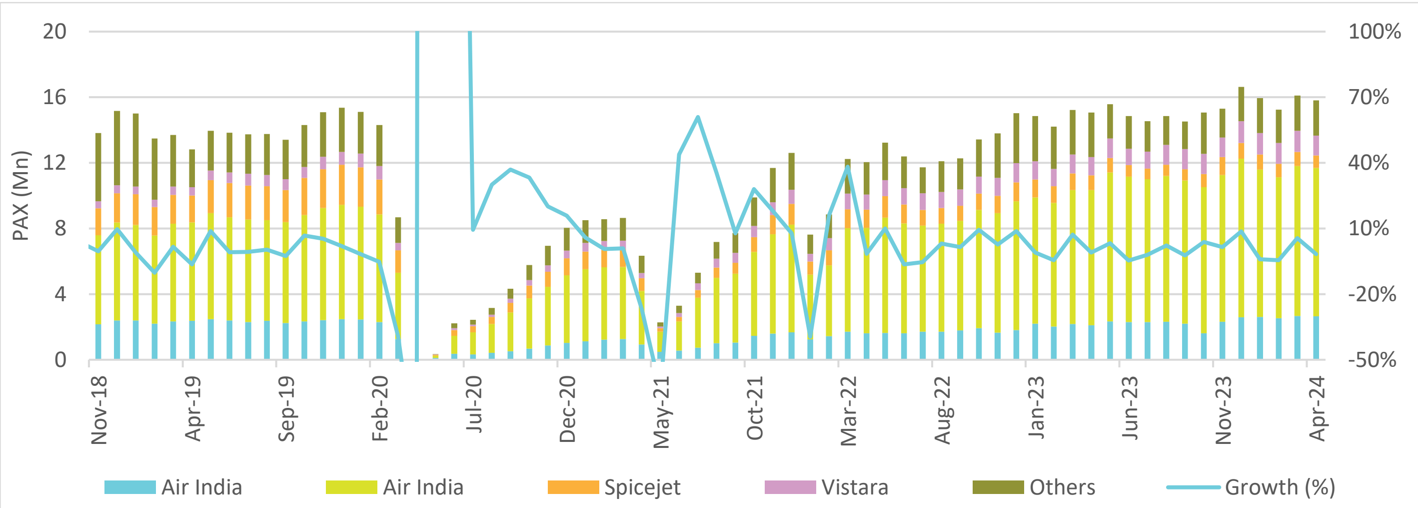
- Air India and Vistara CEOs held a townhall on May 13 to discuss their merger, aiming to create India's largest carrier. Employee integration is based on merit, with over 7,000 assessed. During the townhall, it was revealed that the organisational structure for the merged entity has been finalised, focusing on merit and competency for the fitment of existing employees into the new system. The companies have committed to maintaining transparency with employees regarding the criteria used for designing the organizational structure and the fitment process. (refer to **AI-Vistara**).

- IndiGo, India’s largest airline by fleet size and market share, carried 80 lakh domestic passengers, maintaining its lead with a 60.6% market share, up 0.1% from the previous month. IndiGo, India’s largest airline by fleet size and market share, carried 80 lakh domestic passengers, maintaining its lead with a 60.6% market share, up 0.1% from the previous month. Air India held the second spot, carrying 18.80 lakh passengers with a market share of 14.2%, up 1.1% month-on-month. (refer to **IndiGo**).

Exhibit 5: Domestic carriers poised to add 150-plus aircraft in CY24 (up 37% YoY)

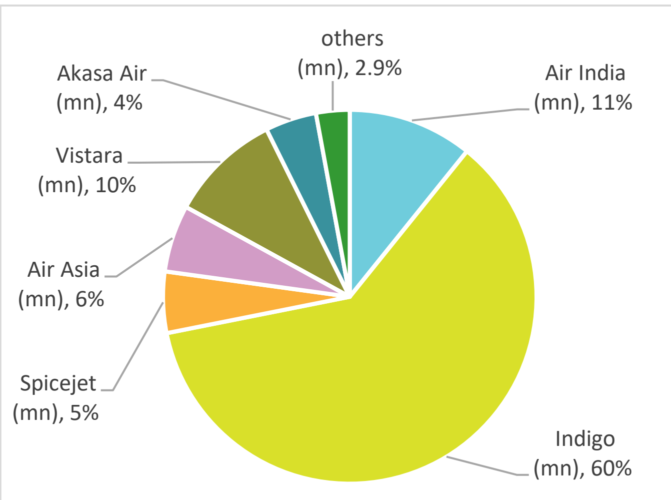
Source: Company, Nuvama Research

Exhibit 6: Total PAX up 8% YoY/down 2% MoM in Apr-24



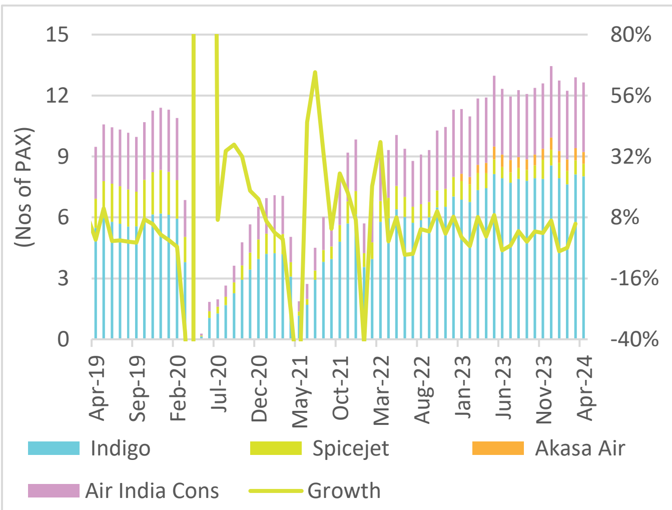
Source: Nuvama Research, DGCA

Exhibit 7: IndiGo leads with 60% domestic market share



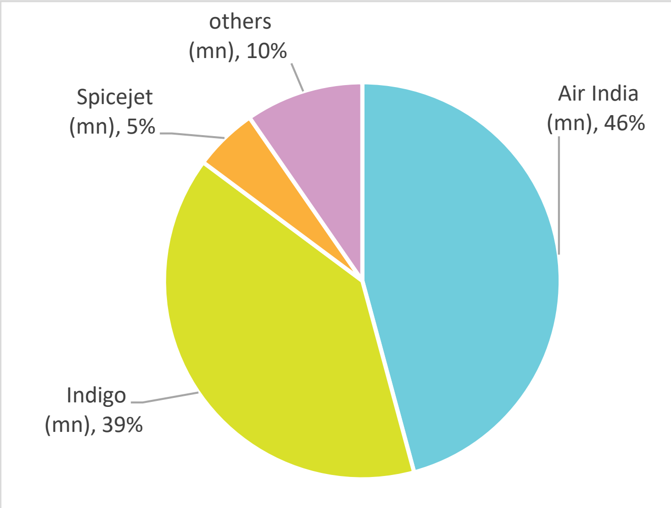
Source: Company, Nuvama Research, DGCA

Exhibit 8: Domestic PAX up 6% YoY in Apr-24



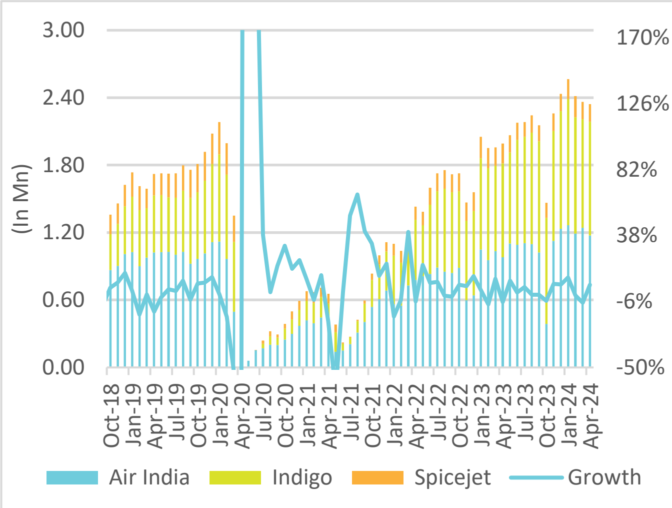
Source: Company, Nuvama Research, DGCA

Exhibit 9: International MS of Indian airlines stays stable MoM



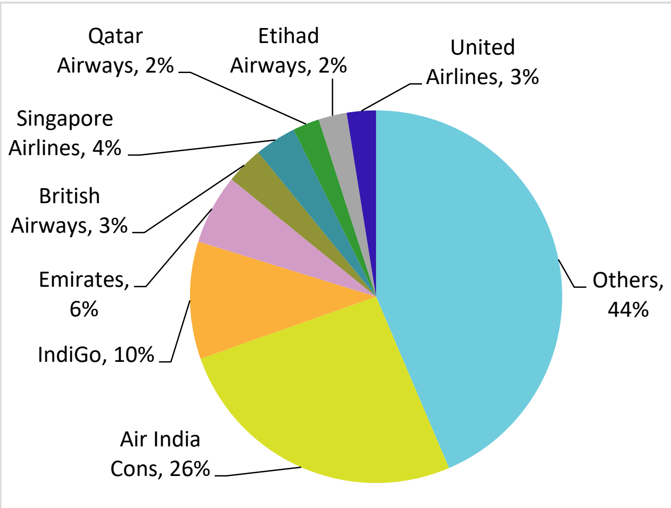
Source: Company, Nuvama Research, DGCA

Exhibit 10: International PAX growth at 15% YoY in May-24



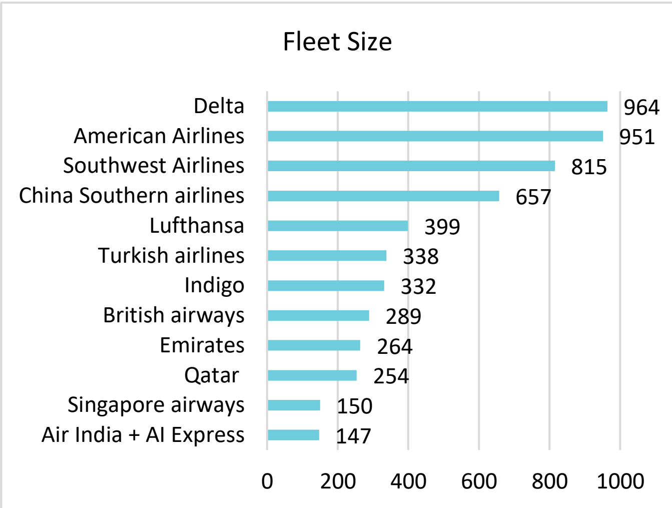
Source: Company, Nuvama Research

Exhibit 11: Air India leads international share with 44%



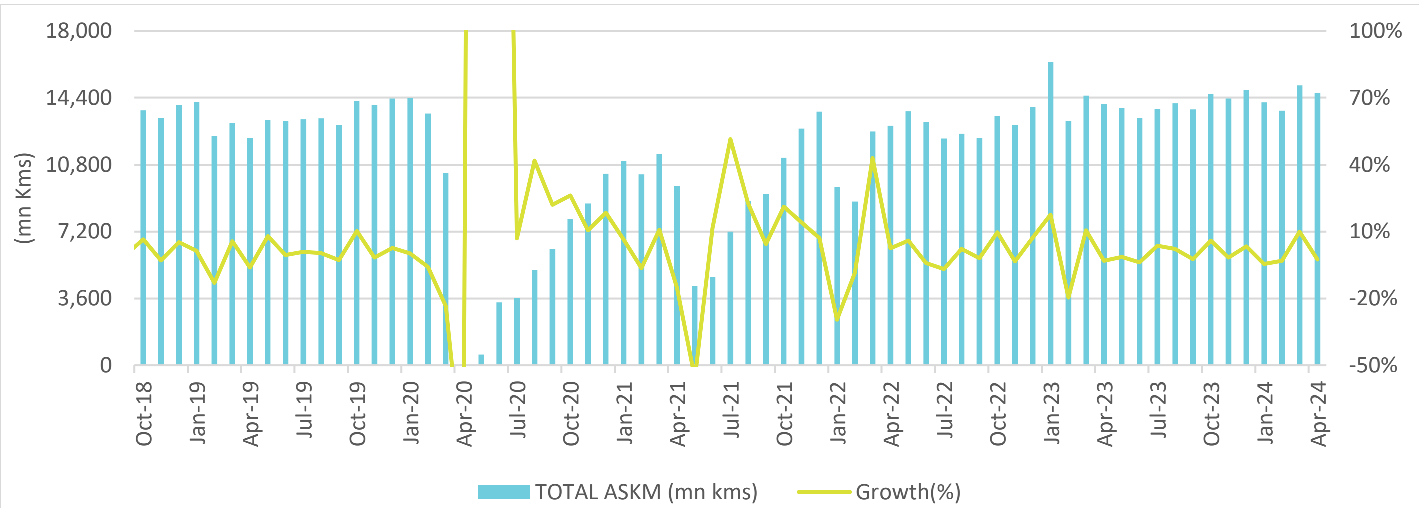
*Source: Company, Nuvama Research; *based on scheduled flights*

Exhibit 12: Total fleet size of major airlines



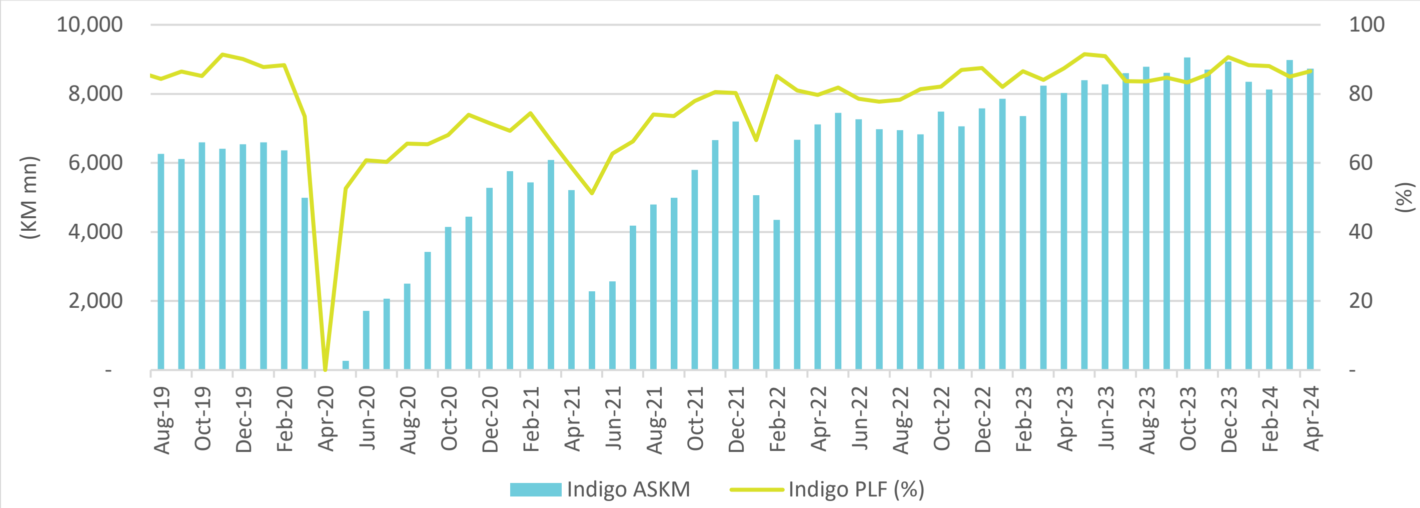
Source: Company, Nuvama Research

Exhibit 13: Total Indian aviation ASKM down 3%MoM / up 4%YoY with PLF at 87% (up 76bp MoM) in Apr-24



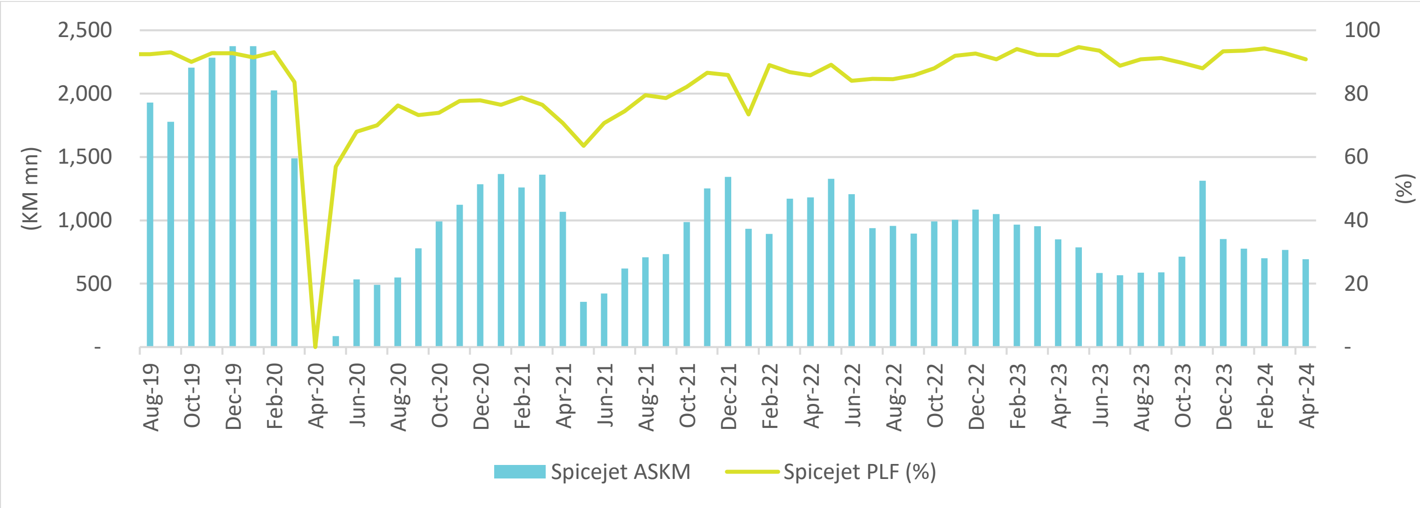
Source: Company, Nuvama Research, DGCA

Exhibit 14: Indigo ASKM grows 9% YoY led by capacity additions; PLF at 86.56% (up 162bp MoM) in Apr-24



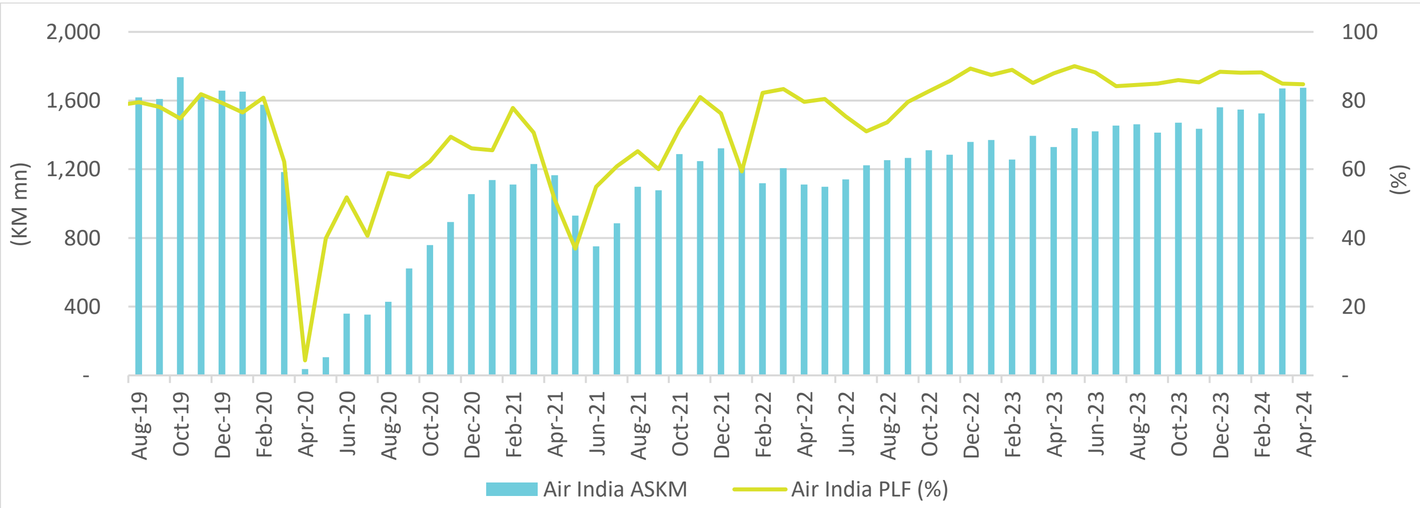
Source: Company, Nuvama Research, DGCA

Exhibit 15: SpiceJet ASKM down 9%MoM/20% YoY on grounding of fleet; PLF at 90.9% (down 188bp MoM) in Mar-24



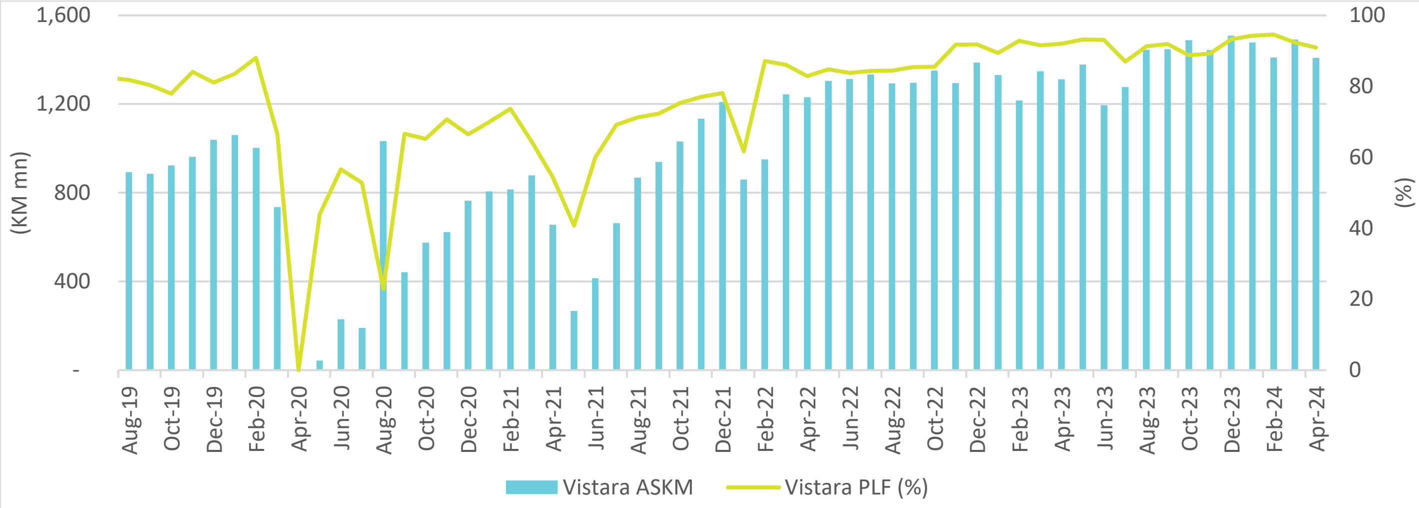
Source: Company, Nuvama Research, DGCA

Exhibit 16: Air India ASKM flat MoM (up 26% YoY); PLF at 85% (down 19bpMoM) in Apr-24



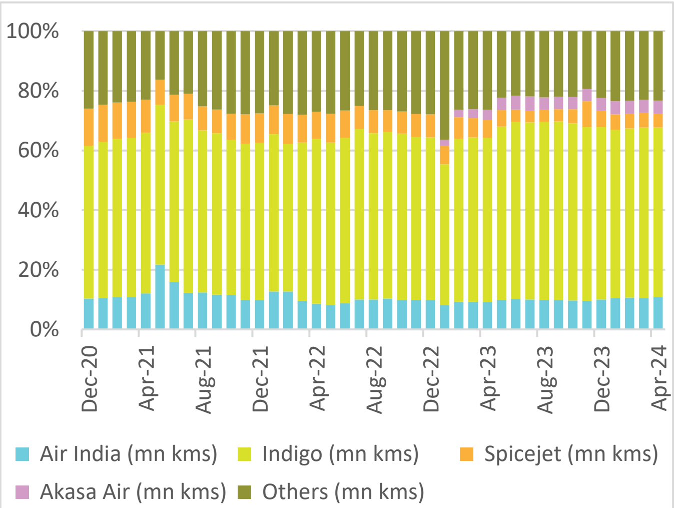
Source: Company, Nuvama Research, DGCA

Exhibit 17: Vistara ASKM down 5%MoM (up 7%YoY); PLF at 91% (down 103bpYoY) in Mar-24



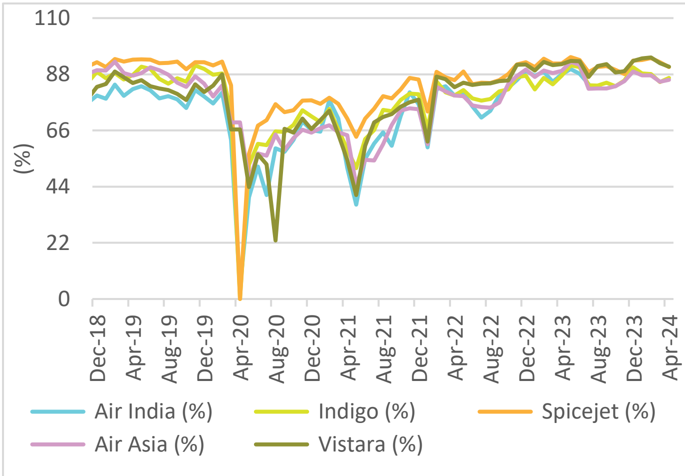
Source: Company, Nuvama Research, DGCA

Exhibit 18: ASKM by airline; Indigo leads the way in Apr-24



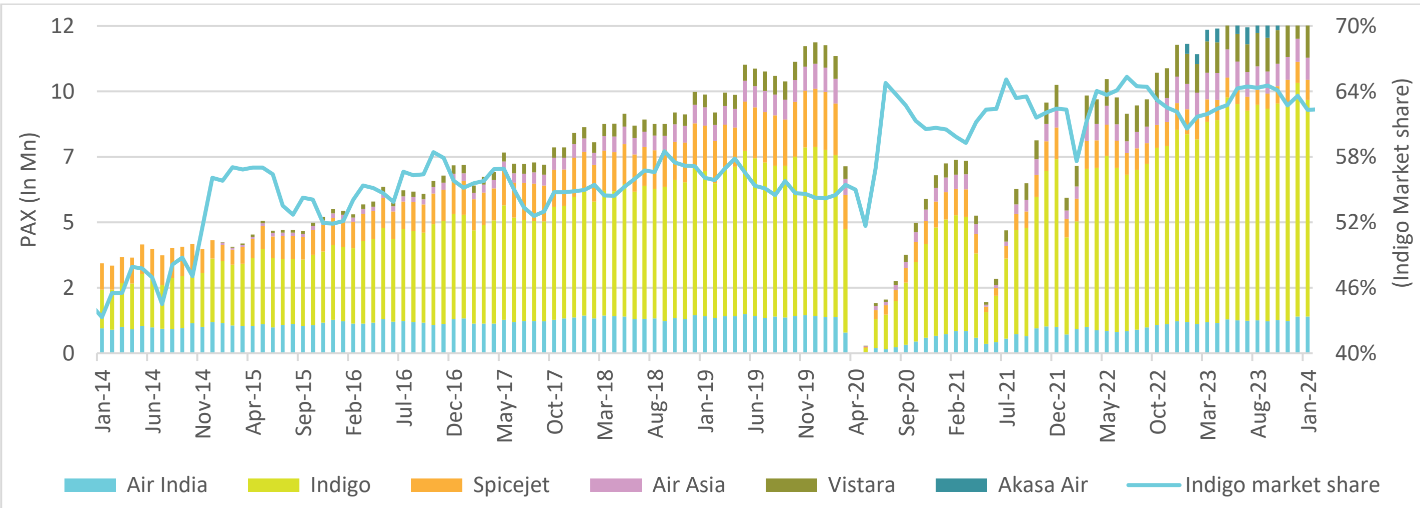
Source: Company, Nuvama Research, DGCA

Exhibit 19: Air India and AirAsia PLF down 3%YoY; other airlines' PLF flat YoY in Apr-24



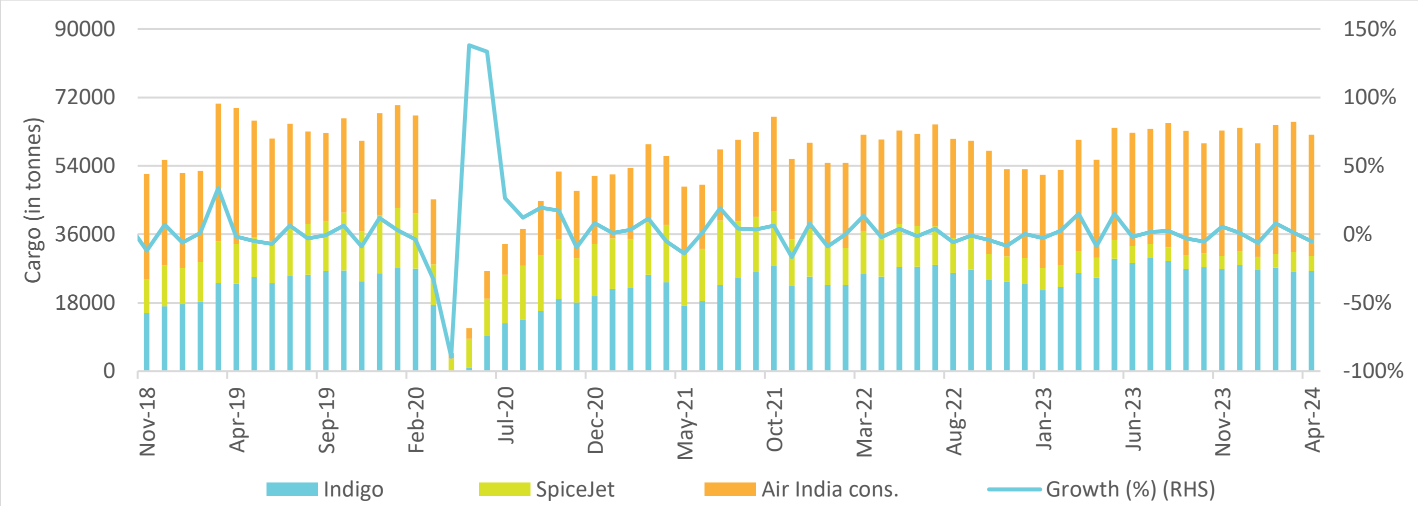
Source: Company, Nuvama Research, DGCA

Exhibit 20: Indigo's domestic market share up 2%YoY at 64% in Apr-24



Source: Company, Nuvama Research

Exhibit 21: Air cargo up 12% YoY in Apr-24



Source: Company, Nuvama Research, DGCA

Exhibit 22: Domestic Peer Comparison in Indian market

	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24
PAX (Mn)																
Indigo	6.87	6.77	7.35	7.43	8.14	7.92	7.70	7.89	7.80	7.93	7.90	8.56	7.93	7.63	8.11	8.03
Spicejet	0.92	0.86	0.83	0.74	0.72	0.56	0.50	0.54	0.55	0.63	0.94	0.78	0.74	0.66	0.70	0.62
Air India	3.19	2.98	3.26	3.22	3.48	3.23	3.12	3.31	3.22	3.29	3.23	3.52	3.46	3.37	3.49	3.41
Vistara	1.11	1.05	1.15	1.12	1.20	1.01	1.02	1.22	1.23	1.23	1.20	1.32	1.30	1.26	1.28	1.22
Akasa	0.36	0.36	0.42	0.51	0.63	0.62	0.62	0.53	0.52	0.52	0.54	0.60	0.60	0.57	0.59	0.58
RPKM (Mn Km)																
Indigo	6,442	6,365	6,923	7,018	7,683	7,522	7,195	7,345	7,288	7,539	7,453	8,098	7,377	7,157	7,631	7,557
Spicejet	953	908	880	783	745	547	503	534	539	640	1,156	795	727	661	710	630
Air India	3,110	1,191	1,255	1,239	1,379	1,325	1,287	1,298	1,260	1,328	1,284	1,441	1,421	1,404	1,481	1,475
Vistara	1,190	1,129	1,234	1,207	1,284	1,112	1,111	1,318	1,330	1,321	1,288	1,407	1,393	1,334	1,376	1,281
Akasa	282	279	332	429	551	589	602	544	527	541	545	620	611	571	598	603
ASKM (Mn Km)																
Indigo	7,853	7,357	8,239	8,028	8,398	8,275	8,600	8,786	8,605	9,050	8,703	8,930	8,351	8,127	8,984	8,730
Spicejet	1,049	966	954	850	787	585	567	587	590	713	1,313	851	777	700	766	693
Air India	1,371	1,256	1,394	1,329	1,439	1,422	1,455	1,463	1,414	1,471	1,436	1,561	1,547	1,525	1,671	1,675
Vistara	1,331	1,216	1,348	1,312	1,378	1,195	1,277	1,444	1,447	1,489	1,444	1,509	1,478	1,410	1,491	1,409
Akasa	340	333	451	506	605	646	694	624	598	625	611	660	661	620	676	686
PLF (%)																
Indigo	82	87	84	87	91	91	84	84	85	83	86	91	88	88	85	87
Spicejet	91	94	92	92	95	94	89	91	91	90	88	93	94	94	93	91
Air India	87	89	85	88	90	88	84	85	85	86	85	88	88	88	85	85
Vistara	89	93	92	92	93	93	87	91	92	89	89	93	94	95	92	91
Akasa	83	84	74	85	91	91	87	87	88	87	89	94	92	92	88	88

Source: Company, Nuvama Research

Exhibit 23: Global valuation comps

Company	CMP (LC)	Mcap (USD mn)	EV (USD Mn)	EBITDAR (USD Mn) FY24	FY25E	FY26E	EV/EBITDAR (x) FY24	FY25E	FY26E	ROE (%) FY24	FY25E	FY26E
India Aviation												
Indigo	4400	14,580	25,443	186	224	271	12.9	10.5	8.7	NA	NA	NA
Spicejet	62	590	2,012	7	59	8	27.3	8.4	0.0	NA	NA	NA
India Aviation-Mean							20.1	9.4	4.4	NA	NA	NA
US Aviation												
Delta Airlines	52	33,285	79,411	7,226	9,129	9,741	11.0	8.7	8.2	44.3	34.0	8.9
American Airlines	14	9,215	74,127	6,982	7,230	7,230	10.6	10.3	10.3	-1.1	-12.8	-12.8
South West Airlines	28	16,685	29,355	2,699	2,313	2,260	10.9	12.7	13.0	7.6	6.9	1.2
US Aviation-Mean							10.8	10.5	10.5	16.9	9.4	-0.9
Europe Aviation												
Ryanair	1604	23,275	21,800	2,473	3,125	3,125	NA	7.0	7.0	28.4	27.9	0.9
Lufthansa	6	8,416	19,074	3,446	5,972	5,972	NA	3.2	3.2	19.3	14.5	3.7
Europe Aviation-Mean							NA	5.1	5.1	23.8	21.2	2.3
APAC Aviation												
Singapore Airlines	7	14,803	17,462	5,008	4,997	4,576	3.5	NA	3.8	NA	14.5	12.7
Air China	8	15,089	42,960	-14,503	29,076	NA	-3.0	1.5	N.A	-0.6	19.6	2.8
Cathay Pacific Airways Ltd	8	6,877	14,882	2,988	3,116	3,116	5.0	4.8	4.8	14.6	13.6	1.2
Japan Airlines Co Ltd	2688	7,499	9,123	2,743	3,001	3,001	3.3	3.0	3.0	10.7	11.2	0.5
APAC Aviation-Mean			21,106.7			3,564.5	2.2	3.1	3.9	8.3	14.7	4.3

Source: Company, Nuvama Research, Bloomberg

Clearer skies; eying greater height

We recently attended Indigo's Investor Day. Takeaways: i) Demand remains robust, but is impacted due to short-term supply chain constraints. PAX traffic to grow 2.3x by FY30E to 510mn (225mn in FY24E). ii) Indigo expects PAX traffic and capacity (ASKMs) to grow in low-double digits in FY25E despite 70-plus grounded aircraft. iii) It continues to expand aggressively in the international segment, which shall contribute 30% to ASKM by FY25E (27% currently) led by codeshares and new destinations. iv) Indigo boasts among the lowest CASK globally ex fuel-and-forex of USD3.13.

Refer report - Clearer skies; eying greater heights

Indigo's unparalleled network coupled with a duopoly-like industry structure will drive its profitability. Hiking TP by 5% to INR3,953; 'BUY'.

PAX to grow 2x-plus by 2030; one aircraft a week addition to sustain

Indigo expects demand to remain robust with PAX traffic likely to grow 2.3x by FY30E to 510mn (~225mn in FY24E) led by a shift in traffic from railways to airlines, accelerated airport expansion (Navi Mumbai and Delhi airports), rise in passport holding passengers (only 6.5% Indians hold passports) and increase in connectively to neighbouring countries. Indigo expects early double-digit PAX growth in FY25E, and plans to raise capacity (ASKM) by 11–13% YoY in FY25E (to add more than one aircraft a week) despite the rise in grounded aircraft (~70-plus currently). However, with capacity addition and the mitigation measures undertaken such as damp leases, lease extension and re-induction of old aircraft, Indigo does not expect much impact from the grounding of aircraft. Additionally, its unparalleled network shall enable Indigo to maximise any upcoming opportunities and hence enhance profitability.

Increased focus on International; to make up 30% of ASKM by FY25E

Indigo is in the process of adding A321 XLRs (wide body aircraft) with an aim to cover Mid-Long haul markets; these aircraft are expected to be in service over the next two years. Furthermore, the company expects its international segment's share to rise to ~30% by FY25E (~27% currently). Indigo has increased its codeshare destinations to 49 (35 within Europe and seven within Australia) and 6E destination to 121 with 33 being in Asia and 88 in India.

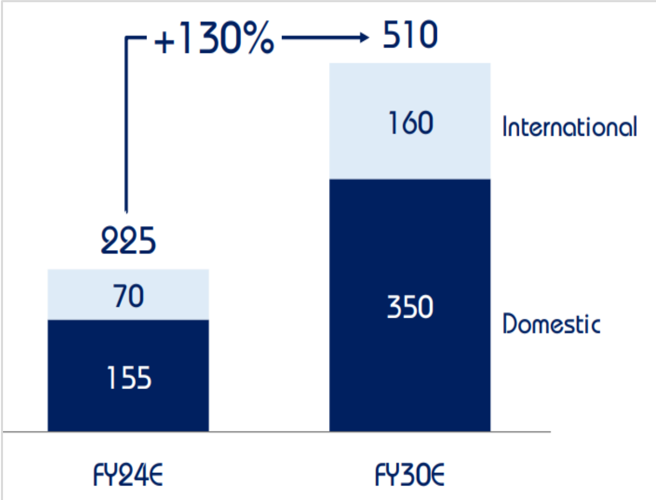
Lowest CASK among LCCs; cost rationalisation to continue

Indigo continues with its cost rationalisation process; its CASK ex-fuel-and-forex of USD3.13 is one of the lowest of the top nine LCCs in the world. This enables Indigo to provide affordable and competitive fares in the domestic market, thereby maintaining its high market share of 60%-plus.

Outlook and valuation: Duopolistic structure bodes well; retain 'BUY'

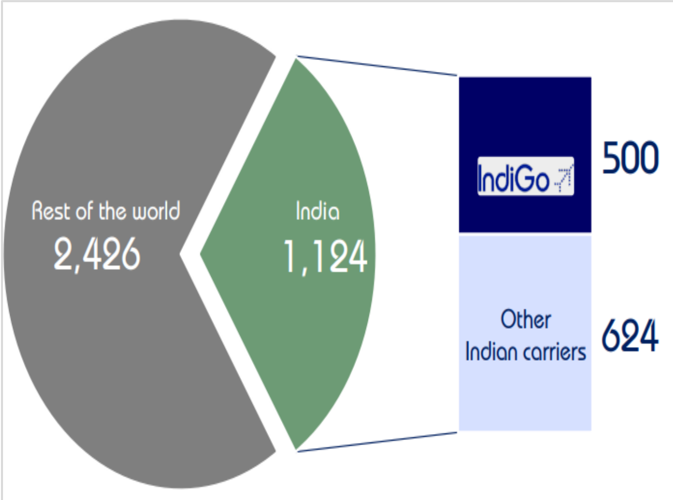
A likely duopolistic industry structure dominated by Indigo and Air India bodes well. This shall spur pricing discipline, thereby driving yields up over long term. Aggressive capacity addition and robust demand shall drive PAX growth; We are raising FY25E/26E EBITDAR by 1%/3% and TP by 5% to INR3,953 (earlier INR3,774).

Exhibit 24: India's PAX traffic to double by 2030E



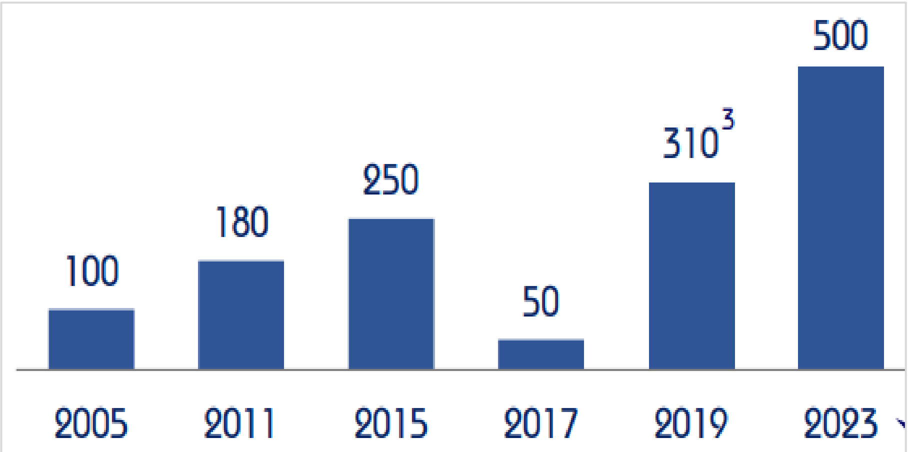
Source: Company, Nuvama Research

Exhibit 24: India made up > 30% of total aircraft orders in 2023



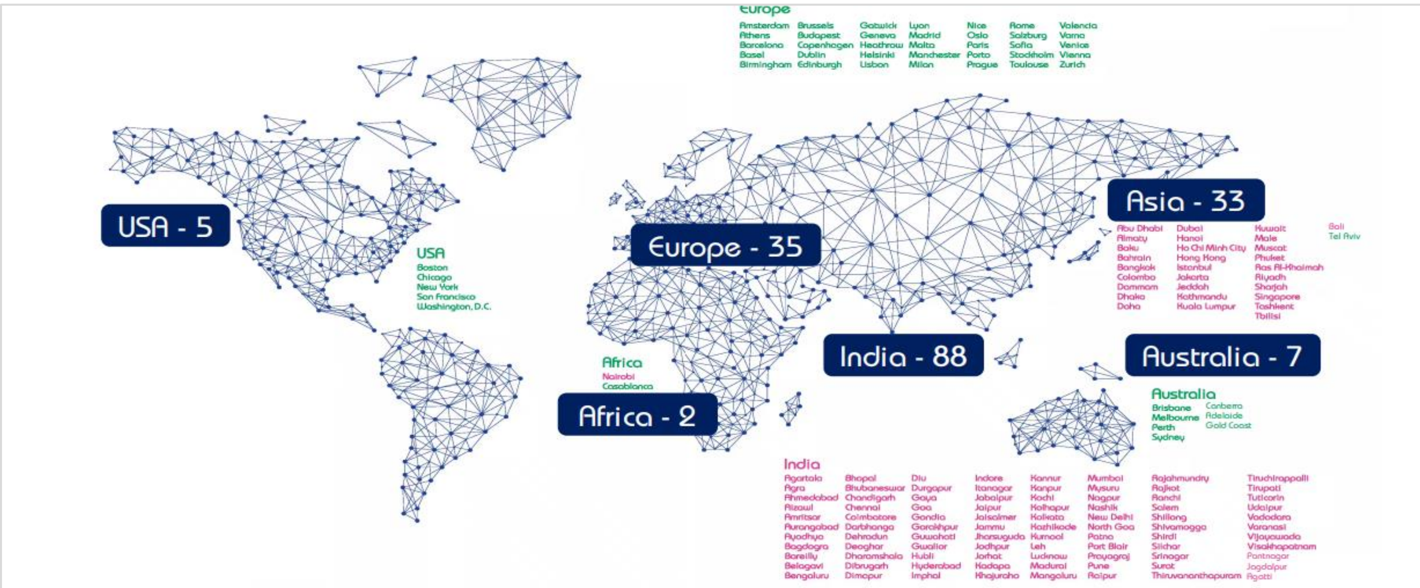
Source: Company, Nuvama Research

Exhibit 25: Total ~960 aircraft on order at end-CY23; current fleet size at 366 aircraft



Source: Company, Nuvama Research

Exhibit 26: Indigo enhances codeshare destinations in Europe and Australia to 35 and 7, respectively



Source: Company, Nuvama Research

Growth on; engine snags a headwind

Excerpt from our previous note: Growth on; Engine snags a headwind

We hosted CAPA India, a specialist aviation consulting, research, and knowledge practice. CAPA India believes the growth momentum in India's aviation industry will sustain despite supply chain challenges.

Highlights: i) Domestic traffic to grow 15%+ to 155mn/International to 70mn in FY24 as demand stays high. ii) PLFs to stay high at ~85% due to limited capacity inductions. iii) Yields to dip 3% YoY led by a ~13% YoY fall in airfares in Q2FY24. iii) Overall, losses to persist (USD1.6–1.8bn in FY24) led by FSCs; LCC Indigo an outlier (to post record profit). iv) Aircraft groundings shall rise to 200 by Mar-24E (165 now), hurting capacity and lifting cost as airlines look to secure interim capacity (~30 wet leases). Air India plus Indigo share: 86% YTD-23–a cosy duopoly.

PAX traffic to grow 15%+ in FY24; losses to persist as yields fall 3%

Domestic PAX traffic is likely to grow 15%-plus YoY in FY24 to 155mn passengers while international traffic is likely to increase steadily to 70mn PAX despite headwinds—including aircraft groundings, worsening of supply chain issues, scaling down of SpiceJet's and Go First's operations. PLFs are expected to remain high at ~85% for H2FY24 while yields are likely to decrease 3% YoY in FY24 due to normalisation of airfares (average fare in H2FY24 declined 12.7% YoY to INR4,291) and further aircraft groundings. Overall, airlines are likely to report consolidated losses of USD1.6–1.8bn driven by the losses at FSC (USD1.4–1.5bn), primarily due to ongoing aggressive expansion and restructuring of Air India. Securing interim capacity due to aircraft grounding shall further increase costs across airlines.

Grounded fleet to rise to 200 aircraft; net fleet uptick of only 12 YoY

The total number of fleet on register at end-FY24 is expected to be ~790 aircraft, an uptick of 100 aircraft YoY primarily led by Air India and Indigo. Air India is expected to add 30 aircraft, Air India Express 20 and Vistara ten-plus. However, operational fleet shall be constrained and increase by only 12 aircraft to ~588 (versus 576 aircraft YoY). Total grounded aircraft are expected to increase to ~200 from ~165 aircraft currently, primarily due to supply chain issues, P&W engine snag and operational weakness at SpiceJet (SJ) and suspension of Go First and SJ. Indigo and SJ have resorted to inducting aircraft on wet lease to bridge the capacity shortfall. Up to 30 wet-leased aircraft (Indigo – 11) are expected to operate by Mar-24E.

Outlook: Industry heading towards a cosy duopoly

Since the entire fleet of Go First is expected to stay grounded (54 aircraft) and SJ's operational capacity is also likely to fall by 70% by Mar-24E, the industry shall have two large players with a combined domestic market share of ~75%-plus. IndiGo is likely to benefit from market share gains across categories amid weakening of small players such as Go First and SJ. The industry could consolidate to two–three players, critically impacting consumer interest and competition in the near term. Reiterate **'BUY'** on IndiGo (TP: INR2,907) and **'HOLD'** on SJ (TP: INR52).

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