AVIATION MONTHLY

SECTOR UPDATE

SpiceJet, IndiGo gain at Air India's cost

We capture monthly PAX, capacity-adds, market shares and upcoming flight schedules.

Highlights: i) Oct-24: Total PAX grew 9% YoY (IndiGo: +10% YoY) led by a 15% YoY rise in international travel (IndiGo: +20% YoY). ii) ASKM grew 10% YoY (IndiGo +9% YoY). iii) SpiceJet (SJ)/IndiGo scheduled flights up 25%/27% MoM in Dec-24. SJ/IndiGo gained 45bp/32bp at the cost of Air India group's share falling by 65bp. iv) IndiGo ranked 103/109 according to AirHelp survey for 2024, indicating huge room for improvement. The company has refuted the ranking. vi) We maintain a 'HOLD' each on IndiGo and SJ given near-term weakness in the industry as well as promoter-selling overhang for IndiGo.

IndiGo, SpiceJet gain share at the cost of Air India sequentially

IndiGo's domestic market share in Oct-24 stood at 63%, up 52bp YoY led by better PLF. The aircraft-grounding situation remains an impediment to capacity additions. SJ's market share rose by 45bp MoM to 2.4% with the recent INR30bn QIP providing some much-needed short-term respite and the ability to re-induct grounded aircraft. IndiGo's share also rose by 32bp MoM, whereas that of the Air India group dropped by 65bp MoM. ATF prices fell 15% YoY on lower crude.

PAX +9% YoY; capacity +10% YoY; PLF -206bp (IndiGo -127bp) YoY

PAX travelled grew 9% YoY in Oct-24 to 16.5mn (IndiGo +10% YoY to 10mn) on strong international travel demand (+15% YoY) alongside steady domestic travel demand. ASKM grew by 10% YoY, whereas PLF fell by 127bp YoY to 83% (IndiGo: 82%).

Scheduled flights +25% MoM in Dec-24; SJ, IndiGo pip Air India

Scheduled flights in Dec-24 stand at ~114k, up 25% MoM as SJ and IndiGo upped the ante with a 25% and 27% increase, respectively, which are likely to translate to market share gains; scheduled flight increase for Air India was lower at 23% MoM. The Indian aviation industry is set to grow with domestic/international air passenger traffic likely to rise 6–8% to 162–165mn/9–11% to 75–78mn in FY25E.

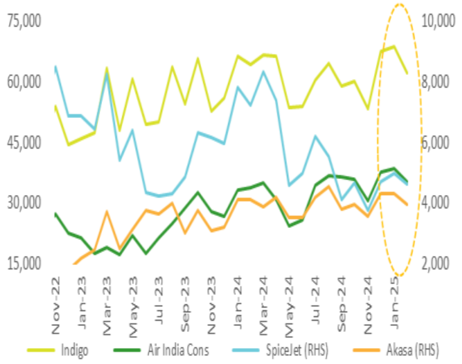
IndiGo ranks 103rd among global airlines; international foray risky

According to AirHelp's survey for 2024 (Jan–Oct), IndiGo ranked 103/109 (Air India ranked 61st) among global airlines, indicating significant room for improvement. IndiGo has refuted the finding, citing non-disclosure of sample size from India and oversight of compensation guidelines used by the global aviation industry. We believe reviews mostly come from international segments, wherein IndiGo has codeshare agreements with airlines, and that is likely to have caused operational inefficiencies. IndiGo's own wide-bodied aircraft are due for delivery from 2027, resulting in IndiGo largely operating narrow body aircraft on international routes. In a survey by Skytrax for 2024, IndiGo ranked 52/100, nine places lower than 43rd in 2023. We argue IndiGo's international foray is fraught due to inexperience and relatively high competition vis-à-vis India's domestic aviation market—a duopoly.

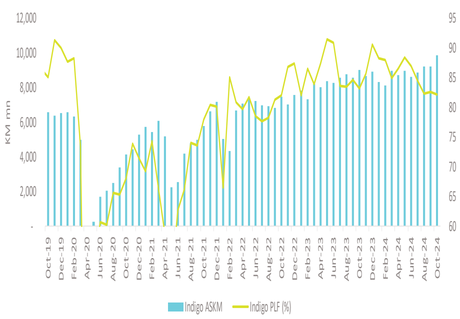
Oct: Total PAX +9% YoY (IndiGo 10%); PLF: -206bp

Particulars	Industry (Oct'24) YoY %	Industry (Oct'24) MoM %	IndiGo (Oct'24) YoY %	IndiGo (Oct'24) MoM %
PAX (in Mn)	9%	4%	10%	5%
Dom PAX (in Mn)	8%	5%	9%	5%
Intl PAX (in Mn)	15%	4%	20%	6%
ASKM (Bn KMs)	10%	7%	9%	7%
PLF(%)	-206 bps	-68 bps	-127 bps	-228 bps

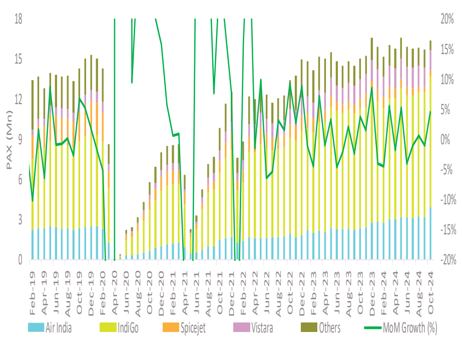
Scheduled flights, Dec-24: +25% MoM: IndiGo +27%, Air India +23%, Akasa +21%, SJ +25%



ASKM Oct-24: IndiGo +9%YoY versus sector +10%



PAX Oct-24: Total +9% YoY/Int'l +15%



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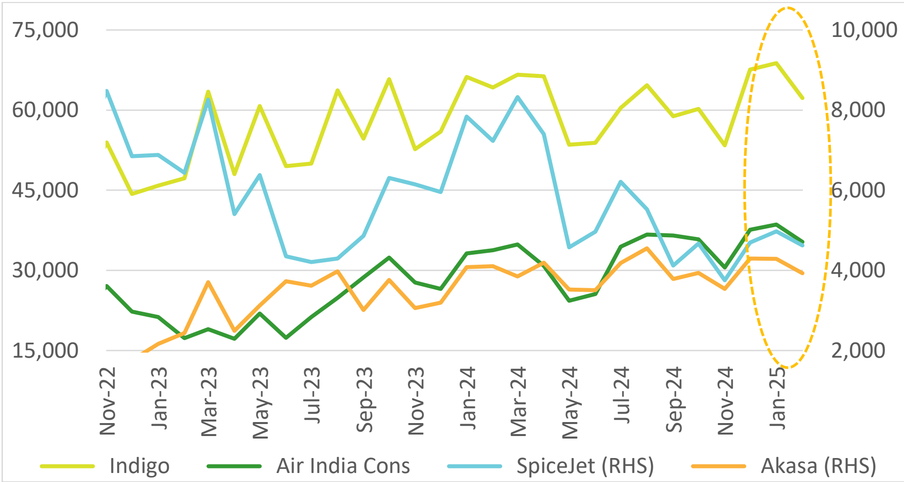
Trends: IndiGo, SJ scheduled flights +25–27% MoM in Dec-24; Air India at +23%

Exhibit 1: Industry overview: Total PAX +9% YoY (IndiGo 10%); PLF: -206bp YoY in Oct-24

Particulars	Industry (Oct'24)	Industry (Oct'24) YoY %	Industry (Oct'24) MoM %	IndiGo (Oct'24)	IndiGo (Oct'24) YoY %	IndiGo (Oct'24) MoM %
PAX (in Mn)	16.5	9%	4%	9.8	10%	5%
Dom PAX (in Mn)	13.7	8%	5%	8.6	9%	5%
Intl PAX (in Mn)	2.8	15%	4%	1.2	20%	6%
ASKM (Bn KMs)	16.1	10%	7%	9.9	9%	7%
PLF(%)	83	-206 bps	-68 bps	82	-127 bps	-228 bps

Source: DGCA, Nuvama Research

Exhibit 2: Scheduled flights up 25% MoM

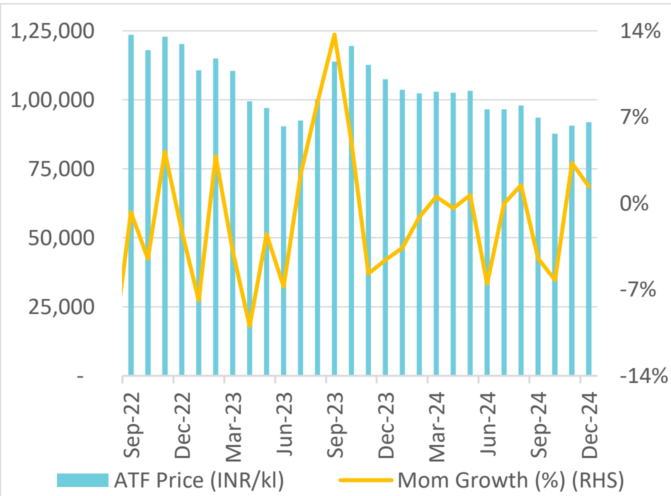


Source: Bloomberg

Bearish outlook for crude to support margins; ATF demand +27% YoY

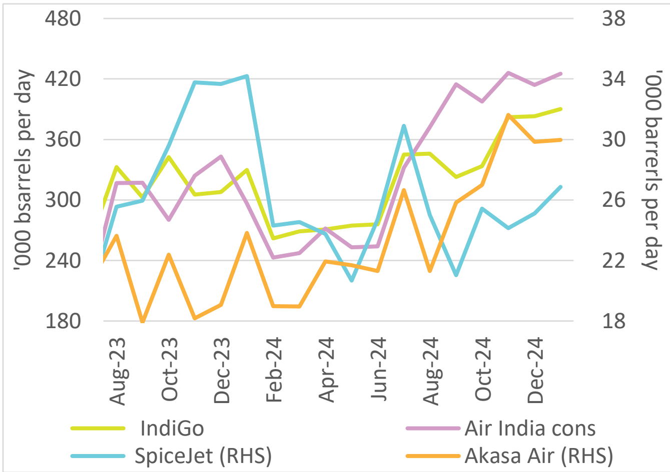
A bearish outlook for crude is likely to result in lower ATF prices for airlines, thereby supporting margins. ATF demand in India is set to expand by an impressive 27% YoY to ~870kbpd in Jan-25 led by a 5% rise in scheduled flights and introduction of new routes.

Exhibit 3: ATF prices down 15% YoY; up 1% MoM in Dec-24



Source: Company, Nuvama Research

Exhibit 4: ATF consumption set to rise 27% YoY in Jan-25*

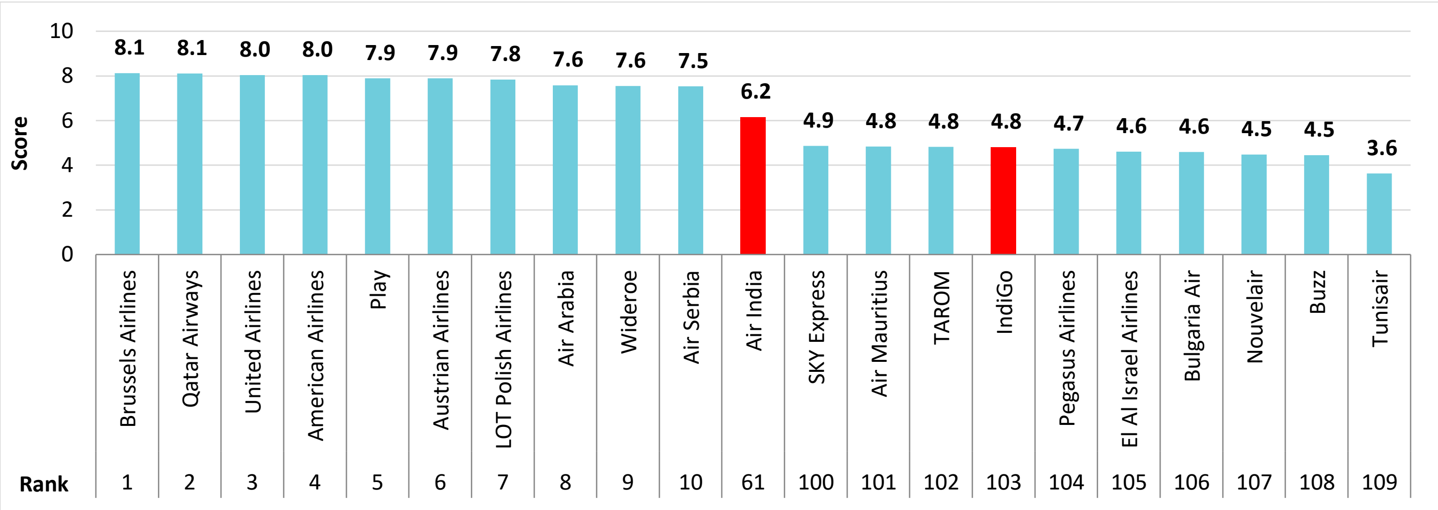


Source: Bloomberg
**on introduction of new routes and increase in flights*

IndiGo ranks among bottom 10 for 2024

According to AirHelp's survey for 2024 (Jan–Oct), IndiGo ranked 103/109 (Air India ranked 61st) among global airlines based on processing of customer claims, on-time performance and passenger feedback on service quality. Around 20,000 passenger reviews were collected with ratings for food options, aircraft comfort, cabin crew, cleanliness and on-board entertainment. IndiGo has refuted the same, citing non-disclosure of sample size from India and oversight of compensation guidelines used by the global aviation industry. In another survey by Skytrax for 2024, IndiGo ranked 52/100, nine places lower than 43rd in 2023.

Exhibit 5: IndiGo ranks 103rd out of 109 ranked airlines; Air India ranks 61st



Source: AirHelp, Nuvama Research

We believe reviews mostly from international passengers, for whom IndiGo has codeshare agreements with airlines, and that is likely to have caused operational inefficiencies. That said, deliveries of IndiGo's own wide-bodied aircraft are due 2027 onwards, resulting in the LCC largely operating narrow body aircraft on international routes. The company has a firm commitment for the purchase of 30 Airbus A350-900 aircraft along with Purchase Rights for an additional 70 Airbus A350 Family aircraft, at its discretion, for possible future needs under certain conditions.

We reckon IndiGo's international foray to be fraught with risk due to inexperience and relatively high degree of competition vis-à-vis India's domestic aviation market, which is a duopoly.

Key news highlights

- India's aviation sector faces headwinds with 102 grounded aircraft due to global supply chain disruptions. Minister of State for Civil Aviation, Murlidhar Mohol, informed the Lok Sabha that these groundings stem from difficulties in procuring necessary parts and consumables. While 822 aircraft are registered for scheduled air transport, 105 are currently out of service. *(refer to **The Economic Times**)*

- IndiGo, Air India, SpiceJet and Air India Express have sought more time for the phased implementation of the revised flight duty norms as they flagged increased crew requirements and emphasised the need to put in place fatigue risk management system to monitor fatigue among the pilots. However, with the implementation horizon still not clear for the norms, which were initially to come into effect from June this year, three pilots' bodies have told aviation watchdog DGCA to ensure that the new regulations be fully implemented from February 15 at the earliest. *(refer to **Business Standard**)*

- Air India has announced plans to bolster pilot training by acquiring 34 trainer aircraft for its upcoming Flying Training Organisation (FTO) in Amravati, Maharashtra which is set to be the largest of its kind in South Asia, and is expected to commence operations by the latter half of 2025, subject to regulatory clearances, reports ANI. The project is part of a collaboration with the Maharashtra Airport Development Company (MADC) and has received authorization from the Directorate General of Civil Aviation (DGCA). *(refer to **Financial Express**)*

- SpiceJet, one of India’s leading airlines, has successfully resolved its long-standing $16 million dispute with Genesis through an amicable settlement. As per the agreement, SpiceJet will pay Genesis $6 million in cash and Genesis will acquire $4 million in equity in SpiceJet at a valuation of Rs 100 per share. This resolution represents a significant financial saving for the airline, aligning with its strategic focus on long-term growth and stability. *(refer to **Financial Express**)*

Exhibit 6: Domestic carriers to add 84 aircraft in FY25

Indian airlines are projected to have a registered fleet of more than 800 aircraft by the end of FY2025, an increase of 84 aircraft over FY2024

Aircraft induction projections, Apr-2023–Mar-2024

Airline	Fleet size in Mar-2024 (including AoG)	Net inductions expected in Mar-2024 by end Mar-2025	Projected fleet for Mar-2025	Current fleet	Current projection for Mar-2025
IndiGo	367	33	400	395	410 • Includes wet leased fleet • Expect 777 wet leases to continue
AIR INDIA	270	45	315	300-304	315-319 • Air India Express: 120 • Air India: 195-199
SpiceJet	66	–	66	56	56
Akasa Air	24	7	31	25	25-26
Total	**728**	**84**	**812**	**776-780**	**806-811**

'Air India Group includes Air India, Vistara, Air India Express and AirAsia India
Source: CAPA India research and analysis

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Indicative only for strategic reasons

CAPA

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Source: CAPA

Exhibit 7: Grounded aircraft set to reduce, increasing capacities

Around 120 aircraft are still expected to be grounded by Mar-2025, due to supply chain and other issues. This will be down from 150+ in Mar-2024.

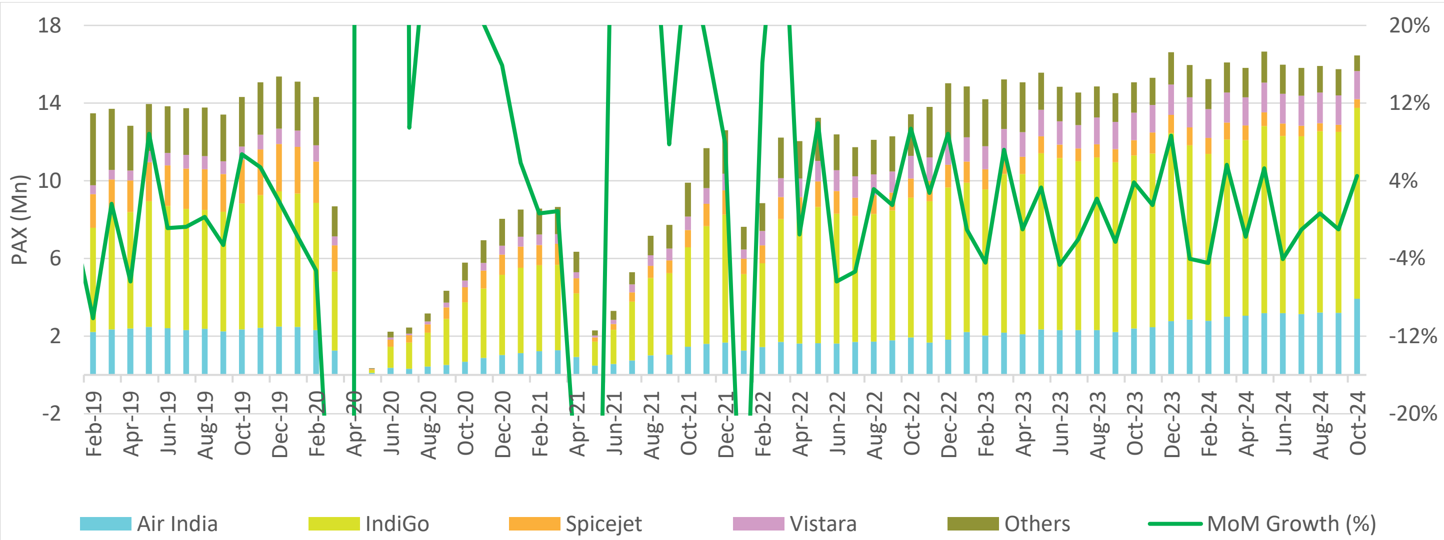
Airline	Estimated grounded aircraft Mar-2024	Estimated grounded aircraft Mar-2025	Comments
IndiGo	75–80	70+	▪ Aircraft grounded primarily due to supply chain issues. These are our estimates and actuals may vary. ▪ Marginal improvement in the supply of engines.
Air India	25–30	30	▪ Aircraft grounded due to engine supply and spare parts issues.
SpiceJet	34	20+	▪ Expect around half of the current ~40 grounded aircraft to be returned to service by the end of the FY
Total Operating fleet (excluding aircraft on ground)	584–594	686-691	▪ Limited change in the grounded fleet, the increase in the operating fleet is largely due to induction of aircraft by IndiGo and Air India Express.

Note: Based on CAPA India estimates, actuals may vary
Source: CAPA India research and analysis

CAPA

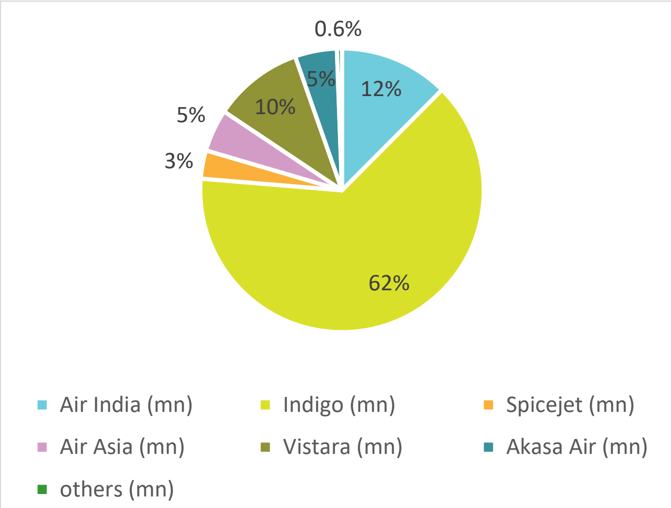
Source: CAPA

Exhibit 8: Total PAX +9% YoY/+5% MoM in Oct-24



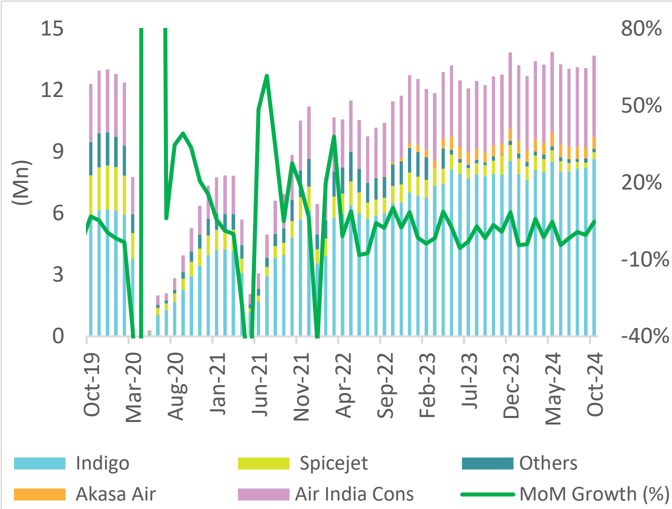
Source: DGCA, Company, Nuvama Research

Exhibit 9: IndiGo leads with 63% domestic market share



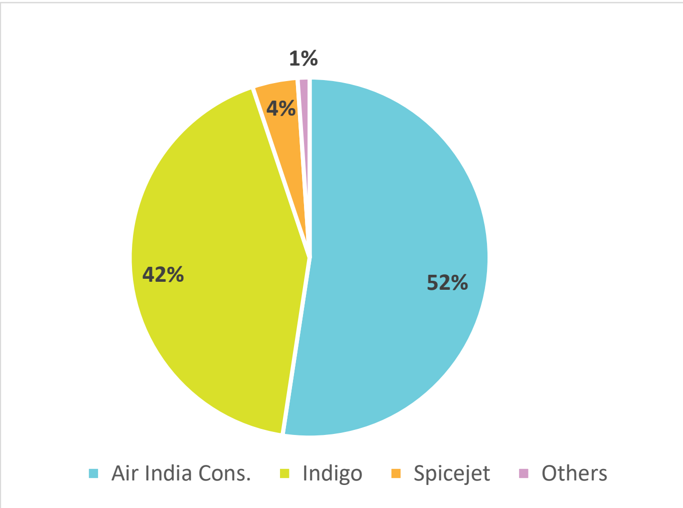
Source: DGCA, Company, Nuvama Research

Exhibit 10: Domestic PAX up 8% YoY/5% MoM in Oct-24



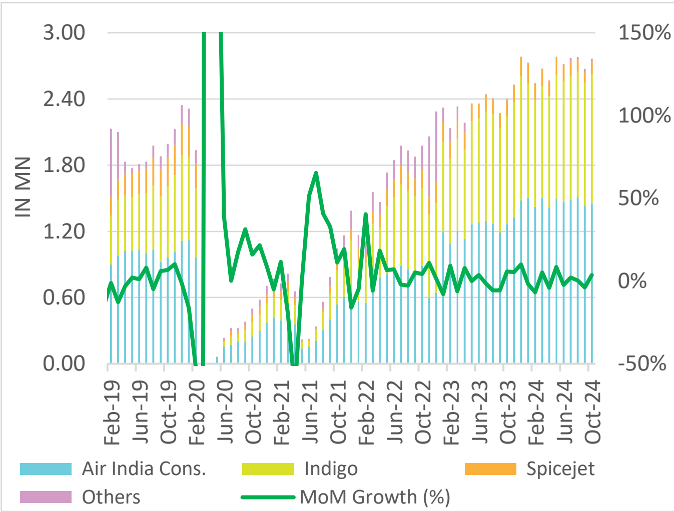
Source: DGCA, Company, Nuvama Research

Exhibit 11: Air India group leads international market share*



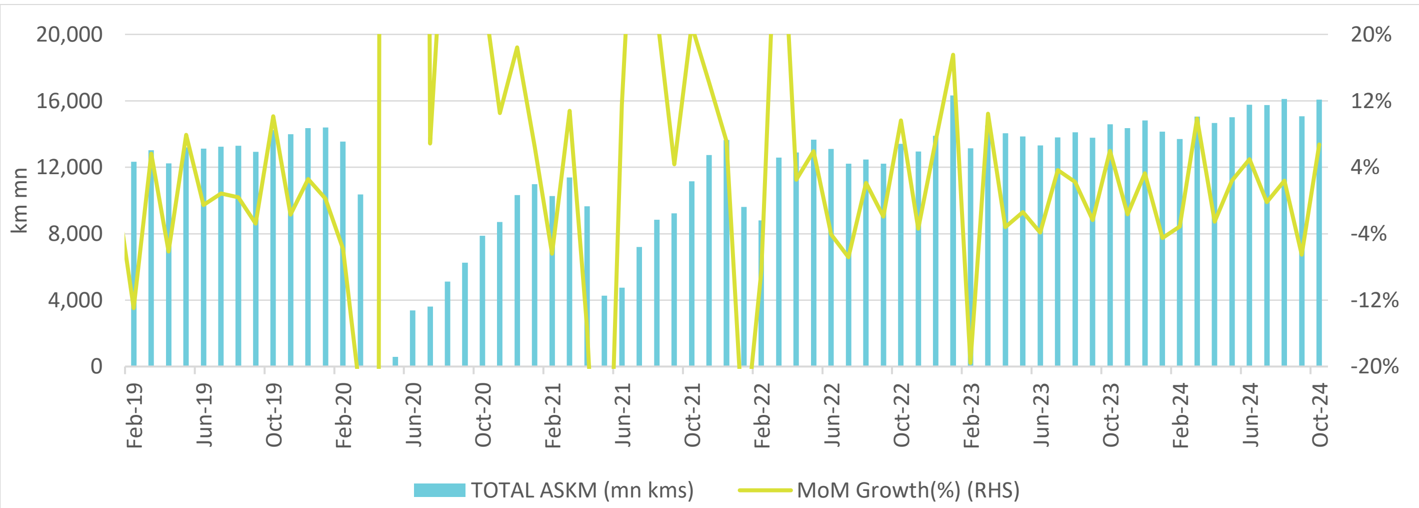
Source: DGCA, Company, Nuvama Research
**among Indian airlines with a 52% share*

Exhibit 12: International PAX up 15% YoY in Oct-24



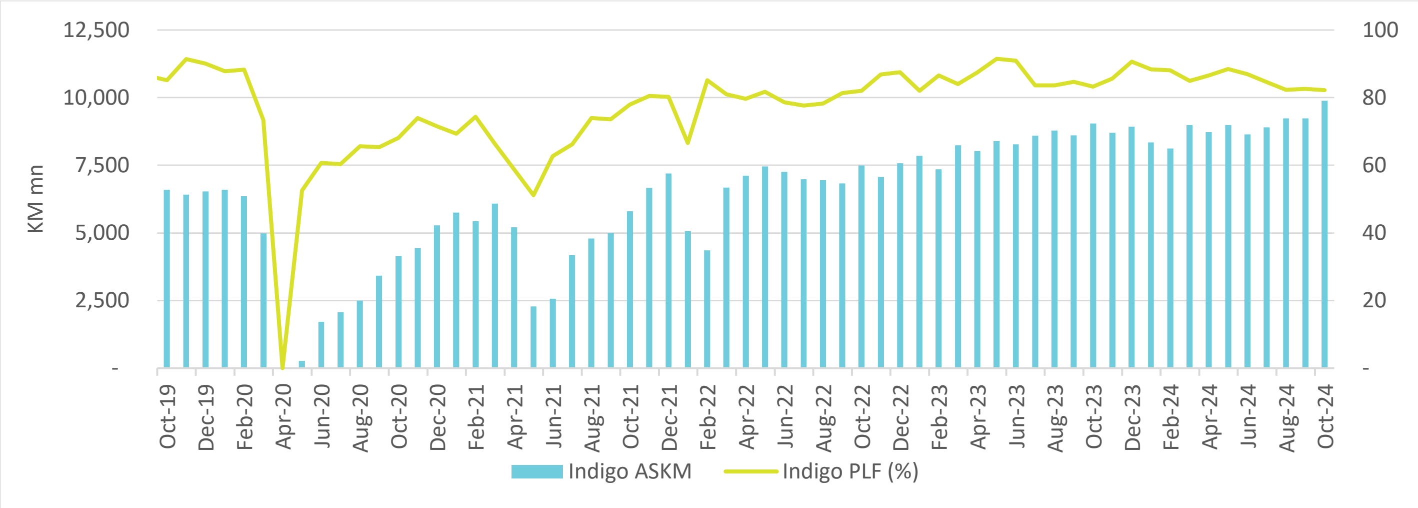
Source: DGCA, Company, Nuvama Research

Exhibit 13: Total Indian aviation ASKM up 10% YoY/7% MoM in Oct-24



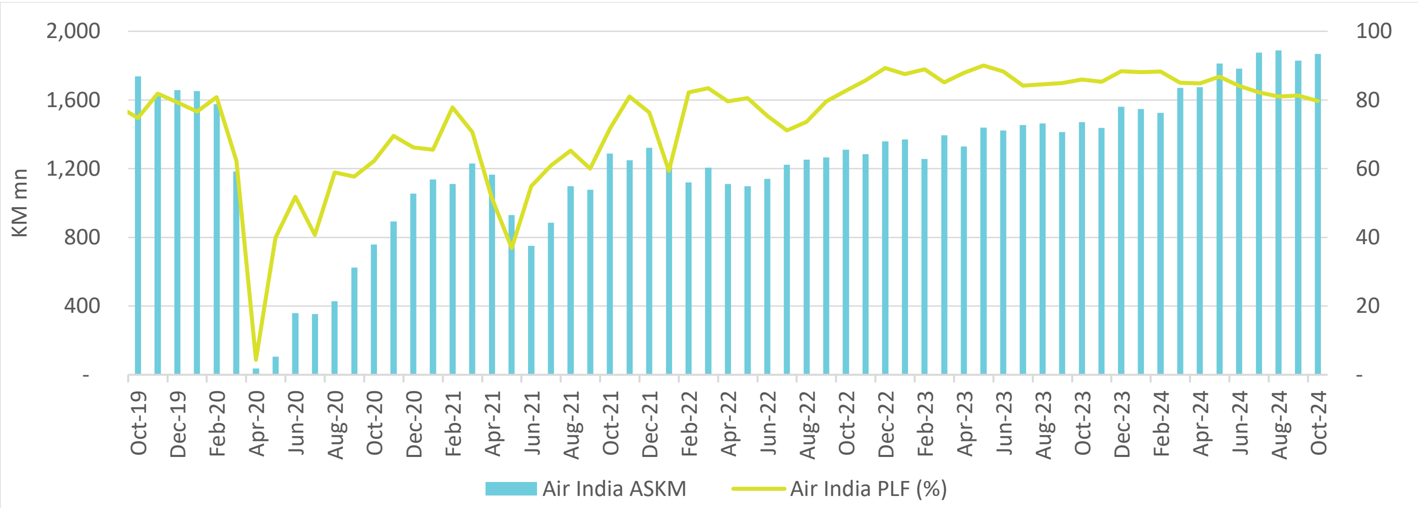
Source: Company, Nuvama Research, DGCA

Exhibit 14: IndiGo ASKM rises 9% YoY led by introduction of new routes and fleet; PLF at 82% (-34bp MoM) in Oct-24



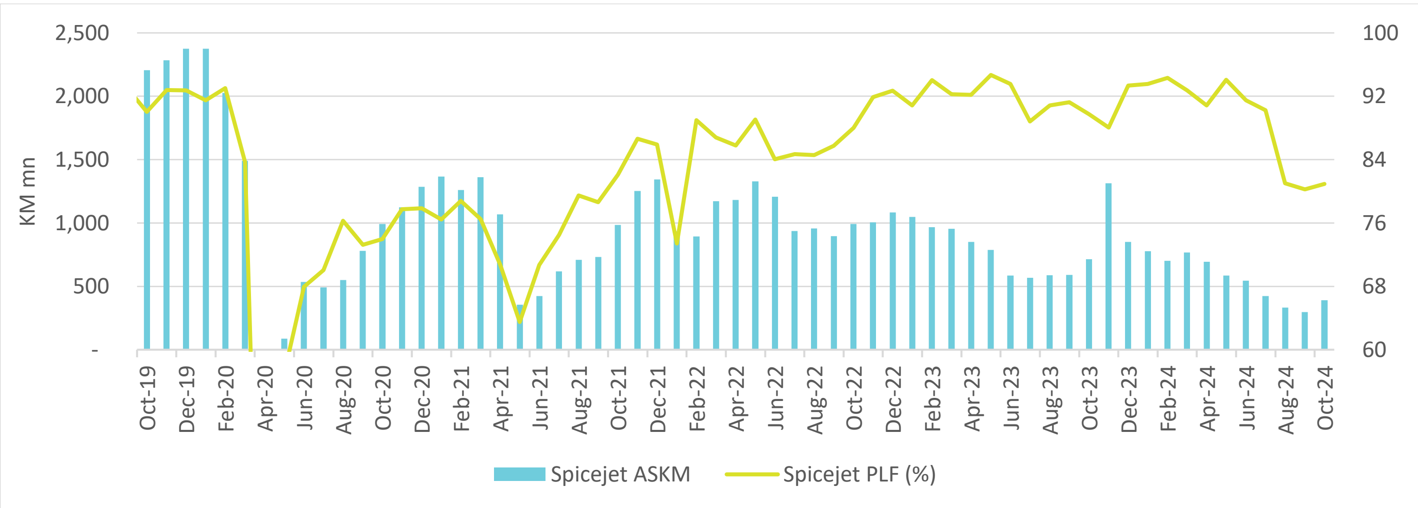
Source: Company, Nuvama Research, DGCA

Exhibit 15: Air India ASKM up 27% YoY/up 17% MoM; PLF at 80% (-2bp MoM) in Oct-24



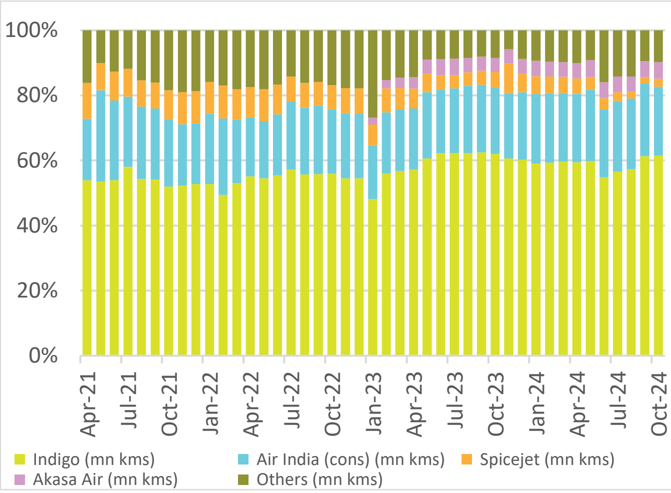
Source: Company, Nuvama Research, DGCA

Exhibit 16: SpiceJet ASKM down 45% YoY/up 32% MoM; PLF at 81% (+70bp MoM) in Oct-24



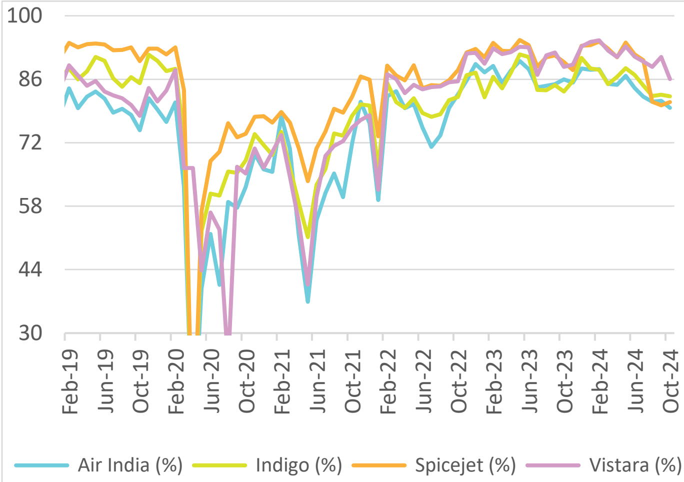
Source: Company, Nuvama Research, DGCA

Exhibit 17: Domestic ASKM share by airline; IndiGo tops*



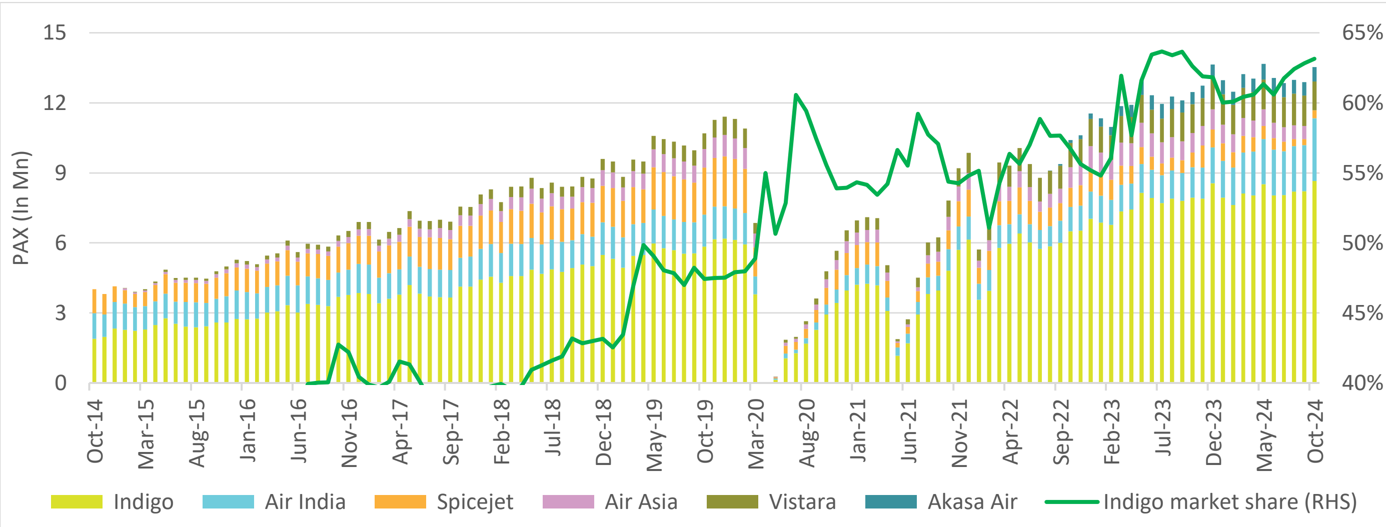
Source: DGCA, Company, Nuvama Research
**in Oct-24*

Exhibit 18: PLFs dip in Oct-24: Air India PLF down 6bp*



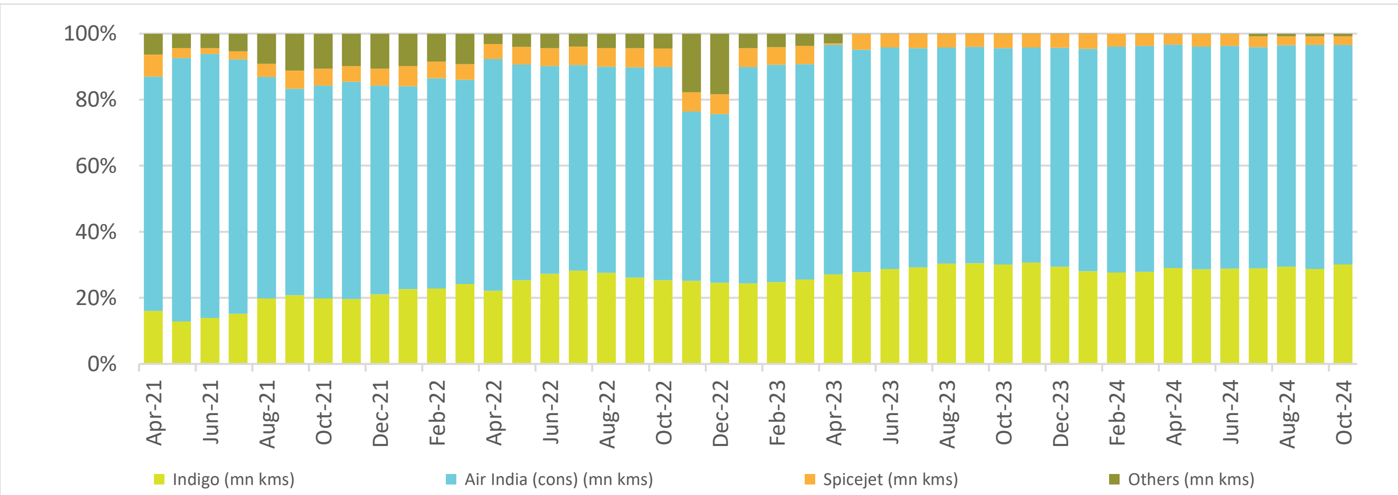
Source: DGCA, Company, Nuvama Research
**along with IndiGo/SJ/Vistara PLFs by 1bp/9bp/3bp YoY in Oct-24*

Exhibit 19: IndiGo's domestic market share up 52bp YoY to 63% in Oct-24



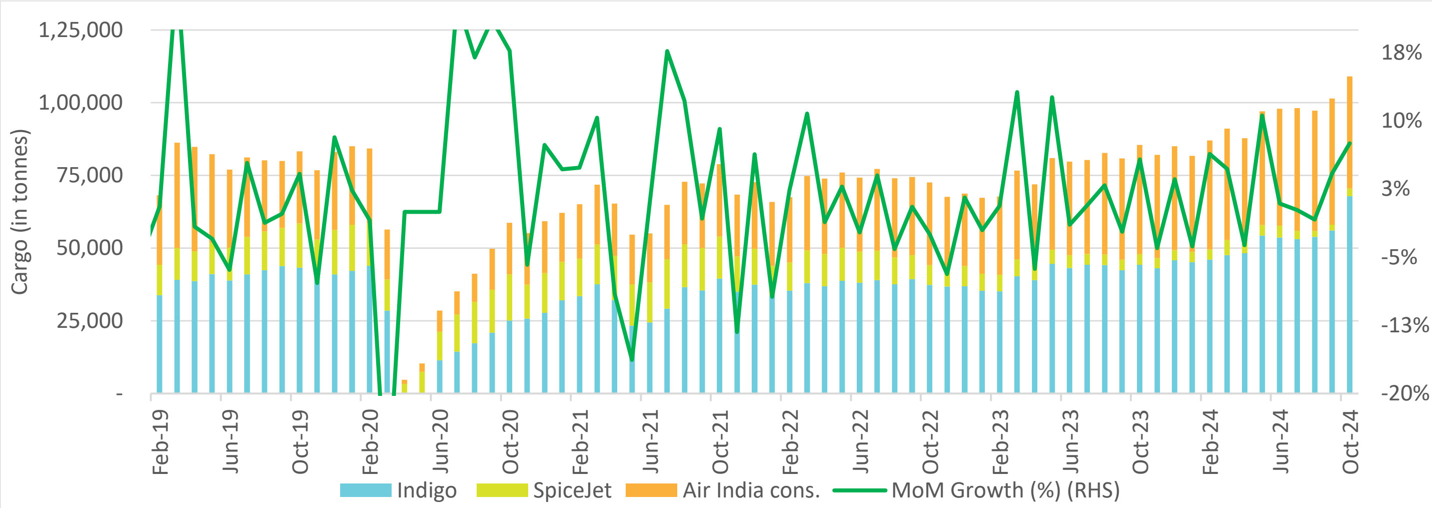
Source: Company, Nuvama Research, DGCA

Exhibit 20: International ASKM share by airline; Air India group maintains lead in Oct-24



Source: Company, Nuvama Research

Exhibit 21: Air cargo up 27% YoY in Oct-24



Source: DGCA, Company, Nuvama Research

Exhibit 22: Domestic peer comparison in Indian market

	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24
PAX (Mn)																	
Indigo	7.92	7.70	7.89	7.80	7.93	7.90	8.56	7.93	7.63	8.11	8.03	8.51	8.04	8.05	8.20	8.22	8.65
Spicejet	0.56	0.50	0.54	0.55	0.63	0.94	0.78	0.74	0.66	0.70	0.62	0.55	0.50	0.41	0.30	0.26	0.34
Air India	3.23	3.12	3.31	3.24	3.37	3.36	3.70	3.69	3.62	3.82	3.81	3.94	3.89	3.78	3.90	3.84	3.94
Vistara	1.01	1.02	1.22	1.23	1.23	1.20	1.32	1.30	1.26	1.28	1.22	1.28	1.28	1.29	1.35	1.31	1.24
Akasa	0.62	0.62	0.53	0.52	0.52	0.54	0.60	0.60	0.57	0.59	0.58	0.66	0.63	0.60	0.59	0.57	0.62
RPKM (Mn Km)																	
Indigo	7,522	7,195	7,345	7,288	7,539	7,453	8,098	7,377	7,157	7,631	7,557	7,950	7,515	7,532	7,603	7,627	8,132
Spicejet	547	503	534	539	640	1,156	795	727	661	710	630	549	499	381	268	238	315
Air India	1,255	1,225	1,237	1,200	1,264	1,225	1,380	1,363	1,346	1,420	1,420	1,573	1,499	1,541	1,530	1,486	1,489
Vistara	1,112	1,111	1,318	1,330	1,321	1,288	1,407	1,393	1,334	1,376	1,281	1,370	1,373	1,387	1,430	1,398	1,324
Akasa	589	602	544	527	541	545	620	611	571	598	603	708	692	659	650	635	714
ASKM (Mn Km)																	
Indigo	8,275	8,600	8,786	8,605	9,050	8,703	8,930	8,351	8,127	8,984	8,730	8,990	8,640	8,903	9,236	9,235	9,887
Spicejet	585	567	587	590	713	1,313	851	777	700	766	693	584	546	422	331	296	390
Air India	1,422	1,455	1,463	1,414	1,471	1,436	1,561	1,547	1,525	1,671	1,675	1,813	1,783	1,875	1,889	1,829	1,868
Vistara	1,195	1,277	1,444	1,447	1,489	1,444	1,509	1,478	1,410	1,491	1,409	1,469	1,509	1,541	1,611	1,537	1,538
Akasa	646	694	624	598	625	611	660	661	620	676	686	784	772	763	760	739	834
PLF (%)																	
Indigo	91	84	84	85	83	86	91	88	88	85	87	88	87	85	82	83	82
Spicejet	94	89	91	91	90	88	93	94	94	93	91	94	91	90	81	80	81
Air India	88	84	85	85	86	85	88	88	88	85	85	87	84	82	81	81	80
Vistara	93	87	91	92	89	89	93	94	95	92	91	93	91	90	89	91	86
Akasa	91	87	87	88	87	89	94	92	92	88	88	90	90	86	86	86	86

Source: DGCA, Nuvama Research

Exhibit 23: Global valuation comps

Company	Mcap	EV	EBITDAR (LC mn)			EV/EBITDAR (x)			ROE (%)		
	(USD mn)	(LC mn)	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
India Aviation											
Indigo	20,133	1,945,249	176,405	183,345	217,565	11.0	10.6	8.9	NM	NM	NM
Spicejet	924	130,231	20,415	24,119	21,863	6.4	5.4	6.0	NM	NM	NM
India Aviation-Mean						**8.7**	**8.0**	**7.4**			
US Aviation											
Delta Airlines	37,994	58,405	9,135	9,089	10,019	6.4	6.4	5.8	44.3	32.5	27.3
American Airlines	10,823	41,524	7,225	6,233	7,158	5.7	6.7	5.8	-6.7	-20.2	-99.7
South West Airlines	19,473	19,186	2,430	2,171	3,021	7.9	8.8	6.4	7.6	4.7	9.7
US Aviation-Mean						**6.7**	**7.3**	**6.0**	**15.1**	**5.7**	**-20.9**
Europe Aviation											
Ryanair	21,531	20,095	3,125	2,835	3,345	6.4	7.1	6.0	28.4	20.2	23.5
Lufthansa	7,673	12,477	5,832	4,620	5,436	2.1	2.7	2.3	19.3	10.8	13.5
Europe Aviation-Mean						**4.3**	**4.9**	**4.2**	**23.8**	**15.5**	**18.5**
APAC Aviation											
Singapore Airlines	13,926	22,890	4,968	4,219	3,981	4.6	5.4	5.7	14.5	13.5	8.8
Air China	17,651	336,468	29,463	30,956	37,494	11.4	10.9	9.0	-0.6	3.4	12.9
Cathay Pacific Airways Ltd	7,870	118,890	28,066	26,256	26,517	4.2	4.5	4.5	14.6	13.2	13.4
Japan Airlines Co Ltd	7,074	1,328,283	283,643	316,418	331,444	4.7	4.2	4.0	10.7	10.6	10.7
APAC Aviation-Mean						**6.2**	**6.3**	**5.8**	**9.8**	**10.2**	**11.4**

Source: Bloomberg

Headwinds of change

We downgraded IndiGo to 'HOLD' recently. Refer to the complete downgrade report *Headwinds of Change.*

Following a 108–133% outperformance to US/European peers since Jan-22, we are downgrading IndiGo to 'HOLD' on 1.5x+ valuations to global peers and valuation premium to global LCCs ~2SD above average, slowing domestic demand and overcapacity concerns. Sep-Nov'24 flight schedules imply a domestic share loss as well. Relentless promoter selling while IndiGo shifts from LCC to a hybrid model raises risk. We are cutting FY25E/26E EBITDAR by 14%/7%, TP to INR4,415.

IndiGo's Q2FY25 EBITDAR fell 2% YoY, with EBITDA missing consensus by 46% owing to a surprise net loss of INR10bn. CASK rose 12% YoY led by AoG-related costs. RPKM grew 8% YoY; PLF fell 57bp YoY. Management expects a low-to-mid single-digit % YoY fall in Q3 PRASK.

Downgrade to 'HOLD': valuation high, demand weak and overcapacity

The reasons for downgrade are: i) premium valuations versus global peers and other LCCs (low-cost carriers); ii) industry PRASK (passenger revenue per available seat kilometre) is likely to deteriorate on capacity-adds outpacing passenger growth; iii) slower rate of capacity addition at IndiGo than competition, driving market share loss; iv) actual passenger growth lagging growth implied by historical real GDP multiplier; and v) continued promoter stake sales acting as an overhang on the stock. Even so, we argue downside is limited given: i) a bearish outlook for crude shall keep ATF (aviation turbine fuel) prices in check; ii) IndiGo's focus on margin-accretive international segment; iii) as per CAPA, short-term operational issues at aircraft and engine OEMs are likely to slow down fleet and capacity additions in the near term.

RPKM rises on ASKM increase; inflationary pressures lift CASK

RPKM rose 8% YoY, in line with capacity-adds (+8% YoY to 36.2bn km)—fleet expanded by 76 aircraft YoY/28 QoQ while PLF fell 57bp YoY to 82.7%. PAX carried increased 6% YoY to 27.8mn. Potential Q3FY25 ASKM growth of low-to-mid single-digit % YoY and PRASK moderation by low to mid-single-digit % YoY on a high base. Overall CASK rose 12% YoY led by CASK ex-fuel and ex-forex jumping 23% YoY on AoG costs, related mitigation measures and general inflation. Fuel CASK grew 4% YoY on a change in fleet mix, VAT increase in some states and higher OMC charges.

Outlook, valuation: Near-term pain, valuation lofty; down to 'HOLD'

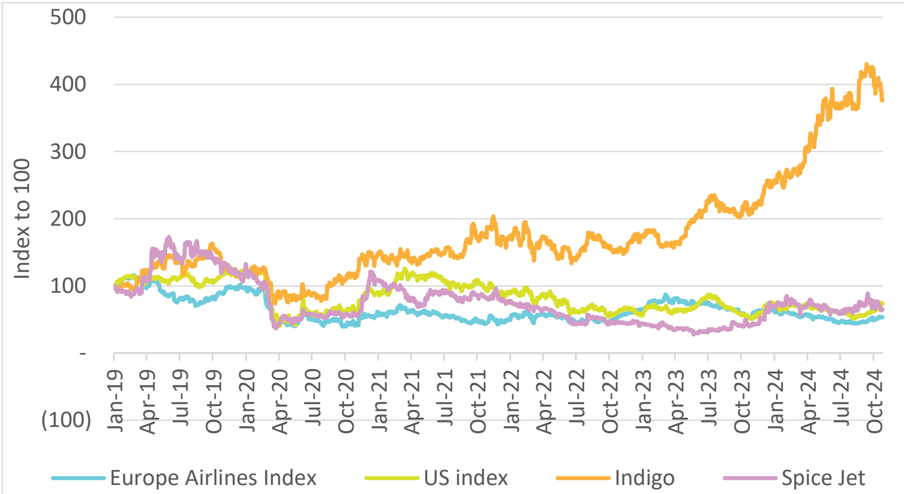
Near-term outlook looks challenging as capacity growth outpaces demand growth, affecting PRASK. Current valuations are unsupportive, but positive factors make risk-reward balanced. We are cutting FY25E/26E EBITDAR by 14%/7% as we moderate our yield forecasts, revise down the EV/EBITDAR to 8x (from 9x) and roll forward the valuation to Sep-26E, yielding a 17% cut in TP to INR4,415. Downgrade to **'HOLD'**.

Downgrade follows excessive valuations

Valuations at a 1.5–2.3x times global peers

Since Jan-22, IndiGo's stock price has rallied ~116%, resulting in valuations trading at a hefty premium to global LCCs and other aviation peers. Furthermore, IndiGo's stock price has been the best performing by a major airline in the world since January 2019. Currently, on FY26E EV/EBITDAR, IndiGo is trading at a premium of 51%/126%/57% to its major US/European/APAC peers.

Exhibit 24: IndiGo outperform European, US airline indices by 108–133% in last 12M



Source: Bloomberg, Nuvama Research

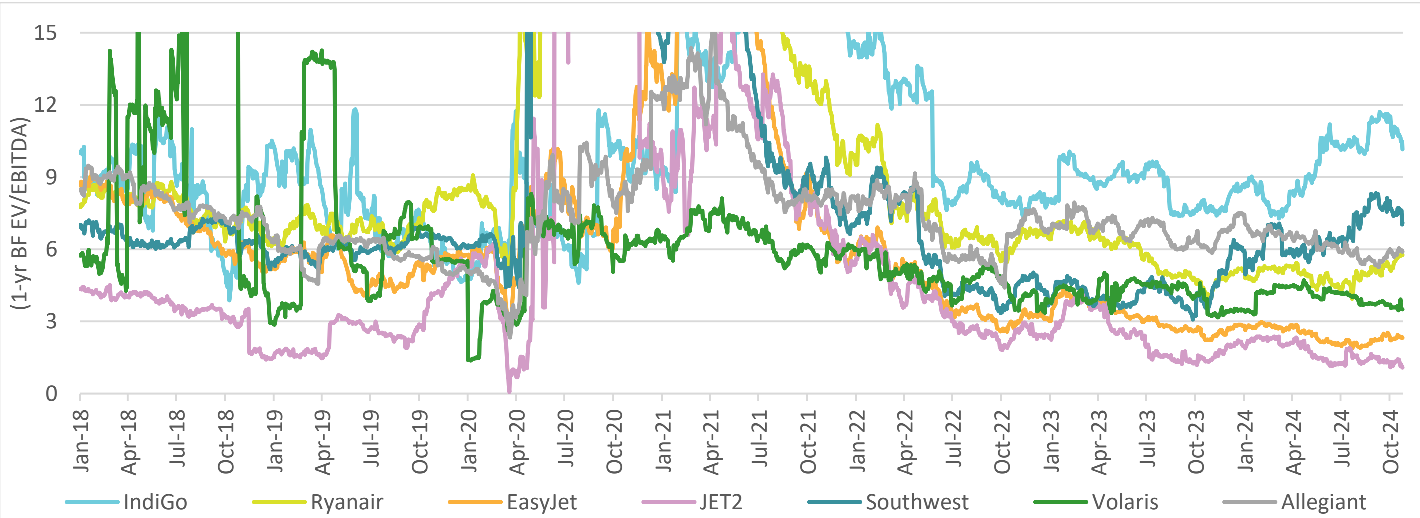
Exhibit 25: Global valuation comps

Company	Mcap	EV	EBITDAR (LC mn)			EV/EBITDAR (x)			ROE (%)		
	(USD mn)	(LC mn)	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
India Aviation											
Indigo	20,054	1,918,478	175,939	185,861	217,472	10.9	10.3	8.8	NM	NM	NM
Spicejet	867	124,514	20,415	21,382	21,863	6.1	5.8	5.7	NM	NM	NM
India Aviation-Mean						**8.5**	**8.1**	**7.3**			
US Aviation											
Delta Airlines	34,923	55,334	9,135	9,070	9,832	6.1	6.1	5.6	44.3	32.9	27.0
American Airlines	8,641	39,342	7,225	5,918	6,771	5.4	6.6	5.8	-1.1	-8.9	-113.7
South West Airlines	17,633	17,346	2,430	2,023	2,837	7.1	8.6	6.1	7.6	4.5	9.2
US Aviation-Mean						**6.2**	**7.1**	**5.9**	**16.9**	**9.5**	**-25.8**
Europe Aviation											
Ryanair	20,903	17,615	3,125	2,844	3,300	5.6	6.2	5.3	28.4	20.5	22.3
Lufthansa	8,706	13,711	5,832	4,638	5,576	2.4	3.0	2.5	19.3	10.8	14.2
Europe Aviation-Mean						**4.0**	**4.6**	**3.9**	**23.8**	**15.6**	**18.3**
APAC Aviation											
Singapore Airlines	14,556	22,851	4,968	4,346	4,056	4.6	5.3	5.6	14.5	13.1	9.4
Air China	14,126	315,617	29,463	29,300	35,359	10.7	10.8	8.9	-0.6	-0.9	12.5
Cathay Pacific Airways Ltd	6,695	109,748	28,066	26,249	25,826	3.9	4.2	4.2	14.6	13.2	12.8
Japan Airlines Co Ltd	6,867	1,211,507	283,643	309,483	324,146	4.3	3.9	3.7	10.7	10.5	10.8
APAC Aviation-Mean						**5.9**	**6.0**	**5.6**	**9.8**	**8.9**	**11.4**

Source: Company, Bloomberg, Nuvama Research

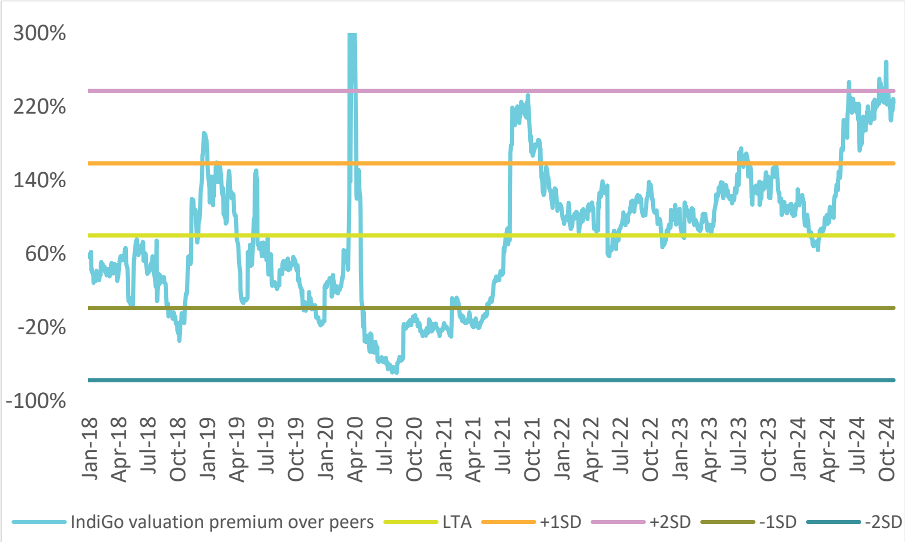
When comparing IndiGo's valuations versus other global LCCs, multiples are the highest amongst peers with the premium expanding to >2x of peer average. This makes current valuation premium at ~2SD above its long-term average, measured on a 1-yr blended forward EV/EBITDA basis.

Exhibit 26: IndiGo trades at a premium to LCCs globally (1Y BF EV/EBITDA) with premium expanding post-recent stock price rally



Source: Bloomberg, Nuvama Research

Exhibit 27: Valuation premium to global LCCs: ~2SD above LTA on 1Y BF EV/EBITDA

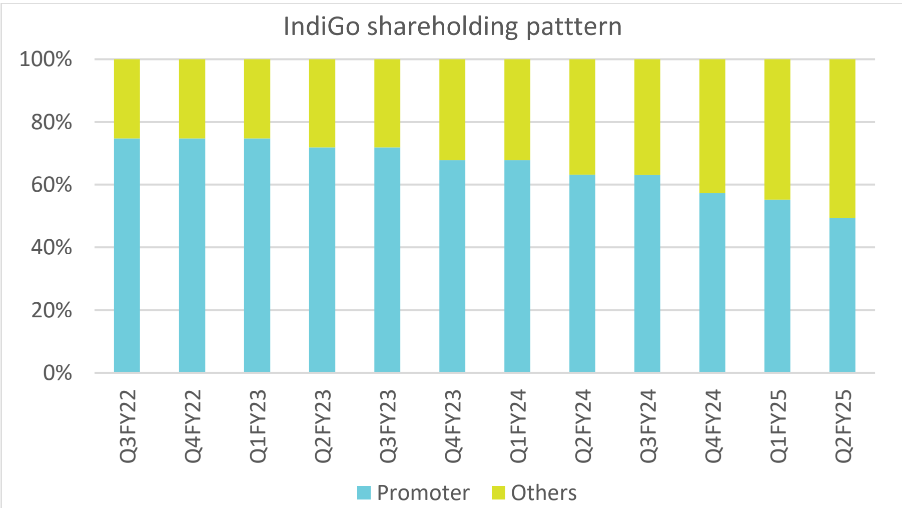


Source: Bloomberg, Nuvama Research

Continued promoter stake sales an overhang on the stock

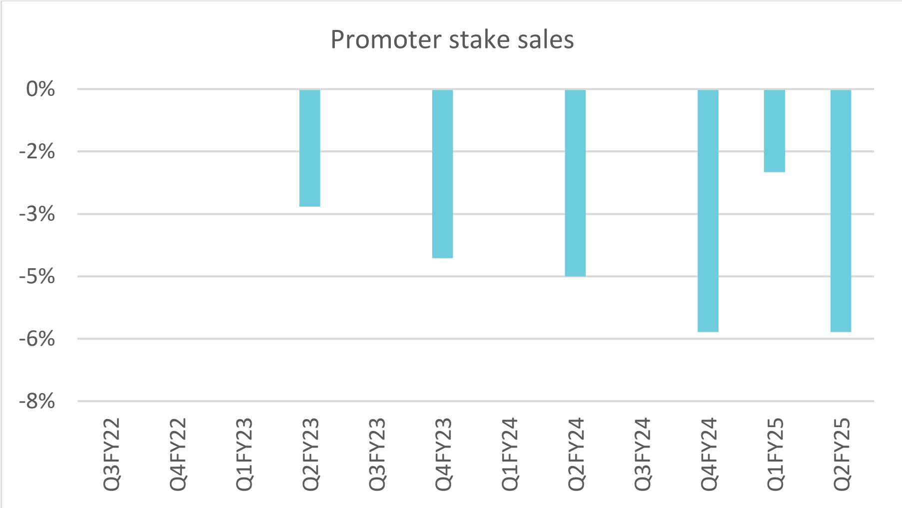
In the wake of a disagreement among promoters, one of the major promoters has been continuously trimming stake in the company—with the final objective of exiting the company. At Q3FY22, the exiting promoter's stake stood at 36.6%, which has reduced to 13.5%. We observe the exiting promoter has been paring stake every six months or so since the Sep-22 quarter. As a surprise to the market, the other promoter sold a 2% stake in Q1FY25 (first time since the company's listing), which raised speculation of both promoters exiting the company. However, a clarification from the other promoter alleviated those concerns given the intended objective of the sale being primarily to fund other business ventures of the promoter group.

Exhibit 28: Promoter stake has been continuously falling in recent quarters



Source: Company, Nuvama Research

Exhibit 29: Exiting promoter has been selling stakes every six months or so



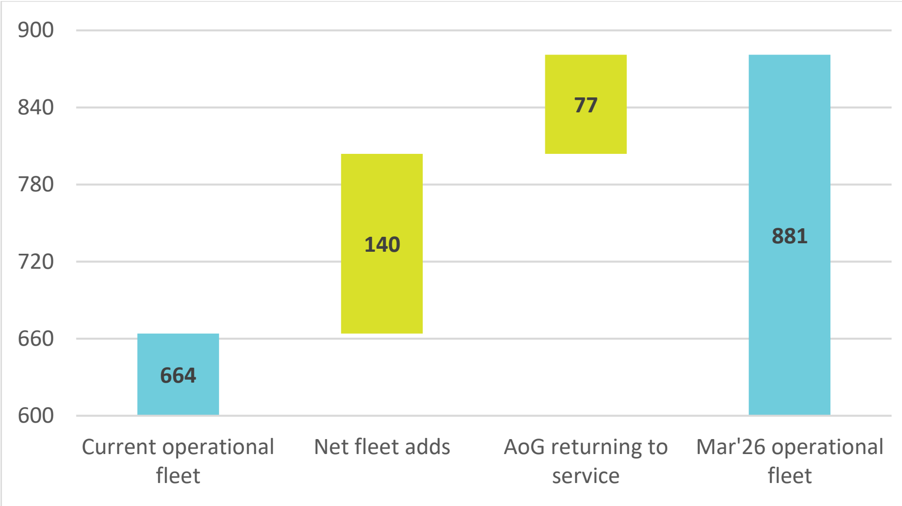
Source: Company, Nuvama Research

Industry outlook: Headwinds

Capacity growth > demand = Falling PRASK

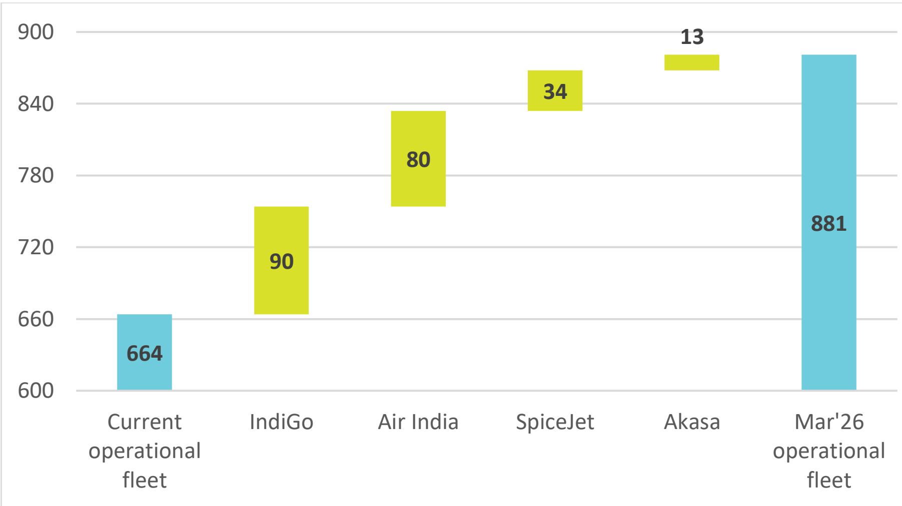
According to our analysis, the airline industry in India is adding capacity at breakneck speed, which is likely to outpace passenger growth, leading to a fall in PRASK. We estimate operational fleet to rise by ~217 aircraft by Mar-26 with net fleet-adds amounting to ~140 with AoG returning to service numbering about 77. According to our forecasts, IndiGo and Air India are expected to add to majority of operational fleet, followed by the recently recapitalised SpiceJet and Akasa Air.

Exhibit 30: Operational fleet expected to rise by ~217 aircraft by Mar-26



Source: CAPA, Nuvama Research

Exhibit 31: IndiGo and Air India expected to lead fleet-adds by Mar-26



Source: CAPA, Nuvama Research

Exhibit 32: We expect operational fleet to rise to ~933 aircraft by Mar-26

Particulars	IndiGo	Air India Group	SpiceJet	Akasa	Industry
Current fleet	410	302	56	25	793
Less: Current AoG	68	27	34	0	129
Operational fleet	342	275	22	25	664
Net adds by Mar'25	15	17	0	1	33
Add: AoG returning to service	20	-2	14	0	32
Operational fleet by Mar'25	377	290	36	26	729
Add: Net adds by Mar'26	40	55	0	12	107
Add: AoG returning to service	15	10	20	0	45
Operational fleet by Mar'26	432	355	56	38	881
Total fleet by Mar'26	465	374	56	38	933

Source: Company, CAPA, Nuvama Research

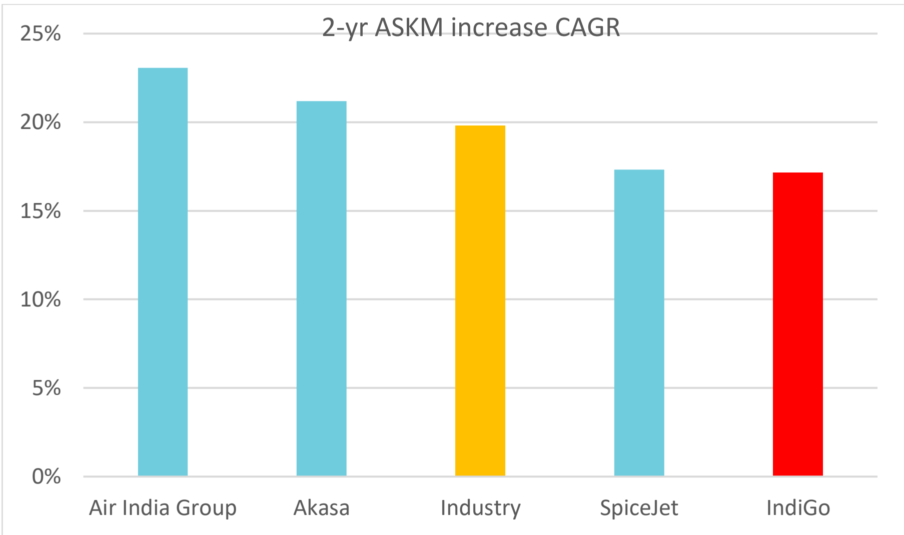
Based on new aircraft inducted and AoG returning to service, we estimate FY26E industry ASKM at ~401bn, rising at a CAGR of 20% over FY24. Among major airlines in India, we reckon Air India would grow the fastest based on its estimated fleet-adds and operational measures followed by Akasa, SpiceJet and, lastly, IndiGo. As a result, IndiGo might cede market share to competition as its capacity-adds are likely to be slower than the competition and the industry as a whole.

Exhibit 33: Based on our fleet addition estimates, we reckon industry ASKM CAGR at 20%

Particulars	IndiGo	Air India Group	SpiceJet	Akasa	Industry
Avg. FY26 operational fleet (A)	404	323	46	32	805
Avg. annual departures/aircraft (Last 9 quarters) (B)	2,525	1,588	2,106	1,836	2,014
Avg. ASKM ('000)/departures (Last 9 quarters) (C)	187	350	200	188	231
Estimated ASKMs in FY26 (bn) (A*B*C/10^6)	191	180	19	11	401
ASKMs in FY24 (bn)	139	119	14	8	279
2-yr CAGR (%)	17%	23%	17%	21%	20%

Source: Nuvama Research

Exhibit 34: IndiGo's capacity growth to be slowest in the industry



Source: Nuvama Research

Compared to a 20% CAGR in ASKM, passenger growth is expected to lag with 5MFY25 growth at 7%. CAPA estimates FY25 domestic passenger growth would be 6–8% with international passenger growth between 9–11%. Furthermore, as per our analysis, we estimate the historical average real GDP multiplier for overall passenger growth at ~2.2x. Considering real GDP growth estimate of 7.2% for FY25 and 7% for FY26, the implied passenger growth for FY25 and FY26 stands at ~16%. This figure is much higher than 5MFY25 growth (7%) and CAPA passenger growth estimates for domestic passengers (6–8%) and the high-growth international passenger segment (9–11%). This indicates a weak demand environment as the multiplier is expected to reduce, in line with actual passenger growth trajectory.

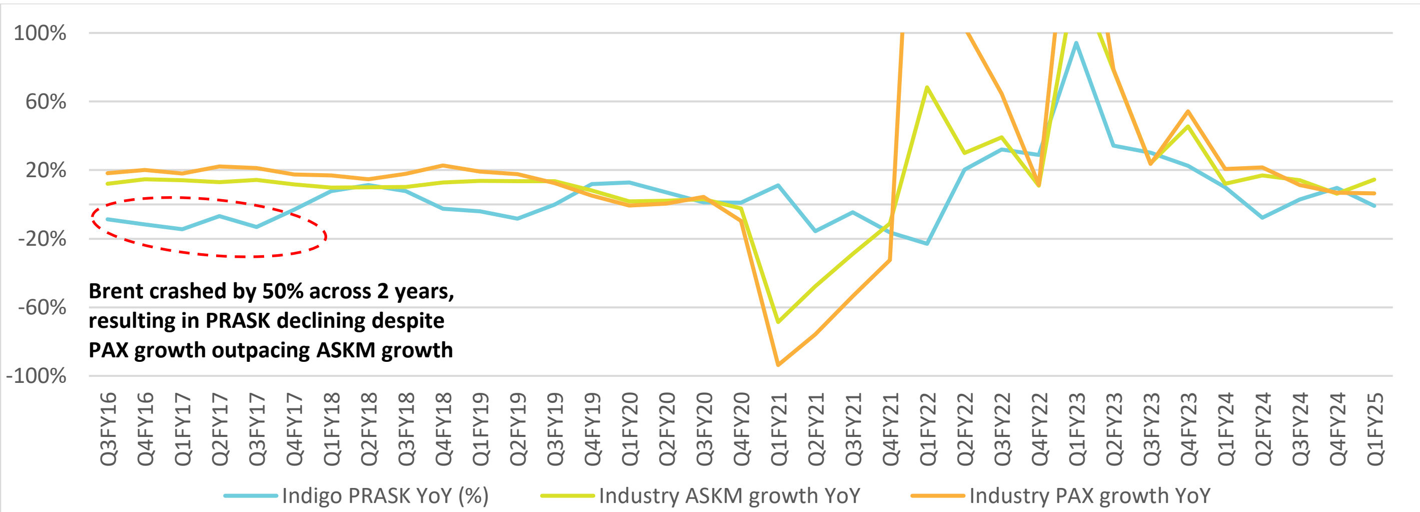
Exhibit 35: PAX implied growth of 16% given 2.2x GDP multiplier*

Source: DGCA, RBI, Nuvama Research

, much above 5MFY25 run-rate of 7% and CAPA estimate of 6–8% for FY25

According to our observation, PRASK growth is muted and even declines in periods where ASKM growth outpaces passenger growth. Based on our analysis above, we expect ASKM CAGR at 20% over FY24–26E, above CAPA estimate for passenger growth and implied growth as per real GDP multiplier. Consequently, PRASK growth is expected to be muted/negative.

Exhibit 36: PRASK growth is muted/negative when capacity growth outpaces passenger growth

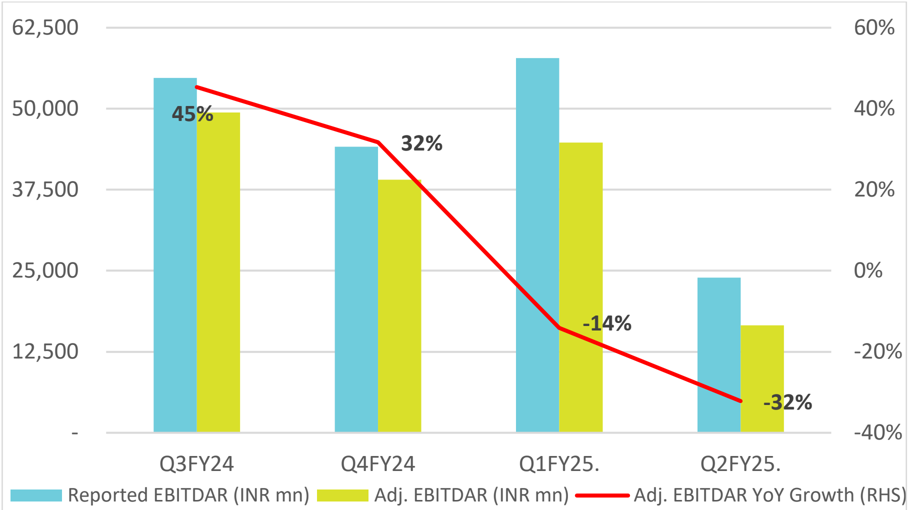


Source: Company, DGCA, Nuvama Research

Reported EBITDAR: Does not show the entire picture

IndiGo has been accruing compensation from OEMs (Pratt & Whitney) related to AoG as part of other operating income since Q3FY24. Stripping off the same to calculate adjusted EBITDAR, YoY growth has been tailing off considerably. We attribute this primarily to increased CASK given an inflationary environment in the industry and PRASK growth unable to cover the same. We believe the industry is struggling to pass on additional costs due to a weak demand environment, impacting margins.

Exhibit 37: EBITDAR ex-OEM compensation has been declining YoY



Source: Company, Nuvama Research

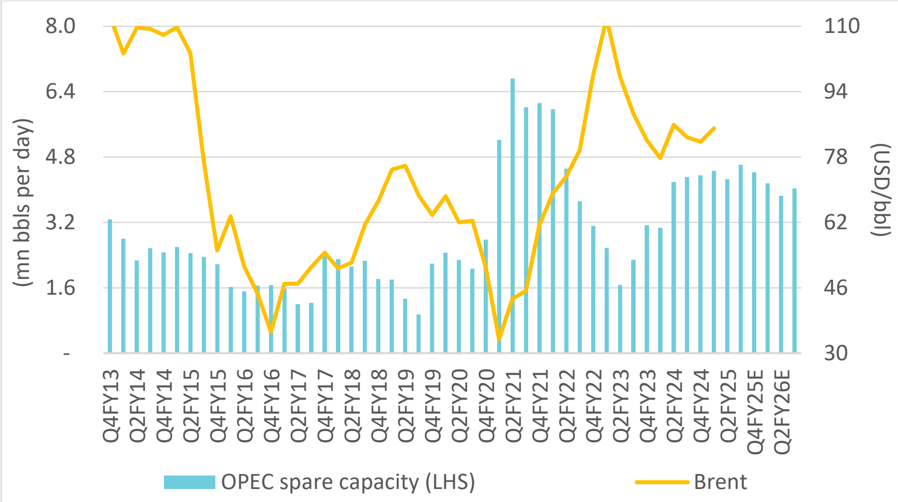
Shift to hybrid model from LCC fraught with risks

IndiGo is set to receive wide-bodied Airbus A350s in 2027 to expand its international operations. Furthermore, the company is also launching business class options on 12 metro routes by the end of 2025. This signals a shift away from the tried and trusted LCC model and more towards a hybrid model with a focus on better service on certain routes offered by the airline. Historically, we have seen full-service carriers such as Jet Airways and Kingfisher go bust, not to mention Air India suffering continuous losses. Partial business model shift to wide-bodied aircraft and full service increases risk profit erosion from the LCC model.

Bearish crude outlook augurs lower ATF prices

Crude outlook turned bearish over the last few weeks on concerns of: i) slowdown in global crude demand; ii) increased probability of Saudi Arabia to cease balancing the market by cutting output and focusing on regaining lost market share; iii) increased production from non-OPEC countries; and iv) elevated OPEC spare capacity. Lower global crude demand is attributable to fuel substitution and economic slowdown in China.

Exhibit 38: OPEC spare capacity and Brent prices

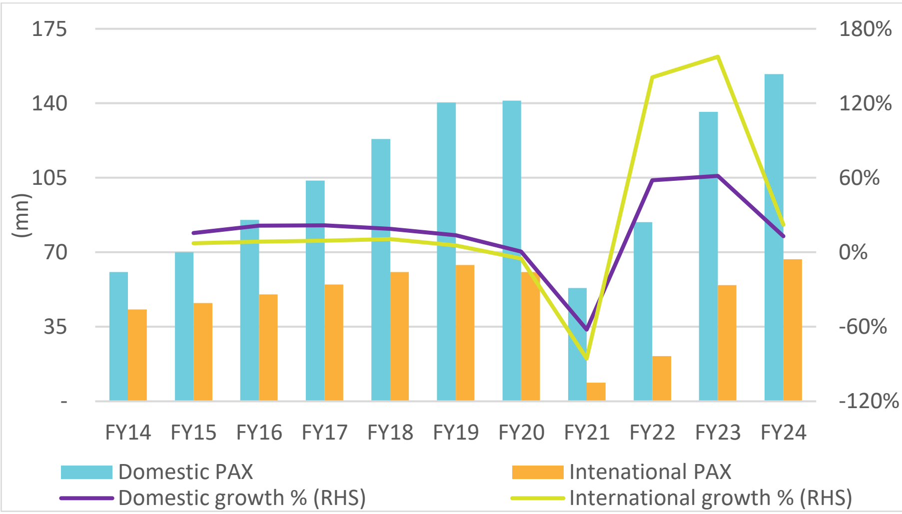


Source: US EIA, Bloomberg, Nuvama Research

International segment to provide downside support

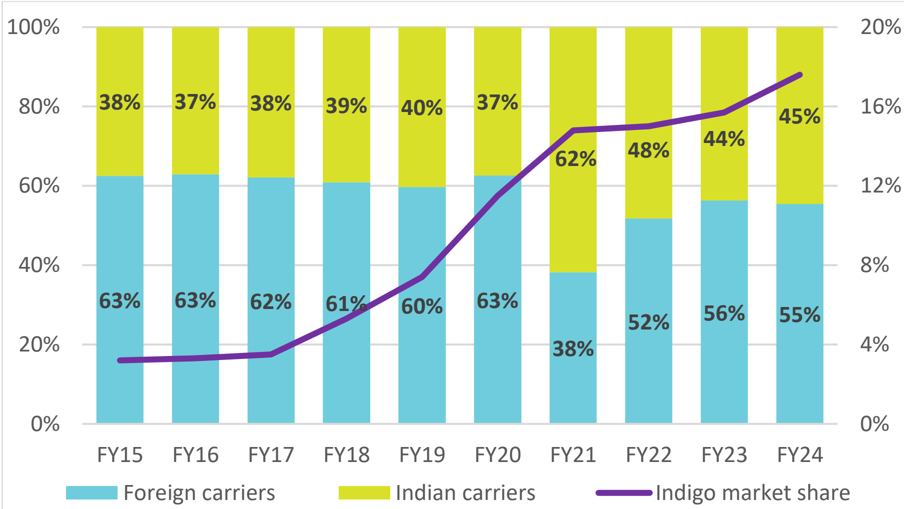
IndiGo has been focusing on international in recent years by increasing its destinations and introducing new routes due to its relatively better yields than the domestic market and faster recent growth in passengers. The company is set to receive wide-bodied aircraft and increase its fleet in the medium term to improve its operations on international routes. Indian carriers have the ability to offer lower fares than foreign carriers on account of a lower-cost structure. As a result, Indian carriers have been gaining market share in recent years.

Exhibit 39: International segment growth has recently outpaced domestic market



Source: DGCA, Nuvama Research

Exhibit 40: Indian carriers, IndiGo: Consistent MS uptick in recent years (ex-covid)



Source: DGCA, Nuvama Research

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