March 01, 2021

InterGlobe Aviation Limited: Change in limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short Term Fund Based Limits	7.00	2,006.00	[ICRA] A1; Outstanding
Short Term Non-Fund Based Limits	468.68	462.50	[ICRA]A1; Outstanding
Long Term Non-Fund Based Limits	898.42	766.50	[ICRA]A+(Negative); Outstanding
Long Term/Short Term Non-Fund Based Limits – Standby Letter of Credit	4,776.05	4,406.41	[ICRA]A+(Negative)/[ICRA]A1; Outstanding
Short Term Interchangeable (LC/BC/OD)	(225.00)	(225.00)	[ICRA]A1; Outstanding
Long Term interchangeable (BG)	(521.70)	(419.35)	[ICRA]A+(Negative); Outstanding
Long-term – Unallocated	1,849.85	358.59	[ICRA]A+(Negative); Outstanding
Total Bank Line Facilities	**8,000.00**	**8,000.00**	
Issuer Rating	**NA**	NA	[ICRA]A+(Negative); Outstanding

**Instrument details are provided in Annexure-1*

Rationale

The rating outstanding on InterGlobe Aviation Limited (IAL), operator of IndiGo airlines, continues to reflect IndiGo's position as India's largest airline with nearly 55% share of the passenger traffic (in 10M FY2021), its strong competitive position in terms of superior cost structure, comfortable leverage (on lease adjusted basis, its TD/TNW stood at 3.9x as of March 31, 2020) and comfortable liquidity position (free cash of Rs. 7,445 crore as on December 31, 2020) relative to its peers in the airline sector. These factors mitigate downward pressure on its long-term ratings.

Despite the above, ICRA has a negative outlook of the Indian aviation industry, driven by the unprecedented disruption caused by the novel coronavirus pandemic and the likelihood of its extended impact on global demand for air travel. While the Government has allowed airlines to commence domestic operations in a limited manner from May 25, 2020 onwards, the demand for air travel has revived rather gradually over the recent months, resulting in low load factors. The current trends indicate that daily passenger movement has improved to only ~55% of the average traffic in FY2020, indicating that revival to pre-pandemic levels is likely to be prolonged. Accordingly, given the high fixed operating expenses, primarily comprising aircraft lease rentals, manpower costs and airport charges, the airline sector has reported substantial losses during the current fiscal. Furthermore, with a major portion of the costs denominated in Dollar terms, the Rupee depreciation (by 6% on a YoY basis over 9M FY2021) has further added to the industry's woes. The only silver lining has been the relatively lower aviation turbine fuel (ATF) prices, which although on an increasing trend, remains lower on a YoY basis so far (33% lower vis-à-vis FY2020).

Despite a substantial reduction in passenger demand in YTD FY2021, IndiGo's healthy operating efficiencies and recalibrated cost management strategies, coupled with lower crude prices, helped it in sequentially reducing its average cash burn (from Rs. 30 crore per day in Q1 FY2021 to Rs. 15 crore per day in Q3 FY2021). While overall the company reported sharp losses in 9M FY2021, it was able to improve share of revenues from ancillary businesses (charter, cargo operations) and shore-up incremental liquidity of nearly Rs. 5,400 crore through various cost rationalisation initiatives, monetisation of owned aircraft and securing additional credit lines from banks.

IndiGo increased its market share from 49% in FY2020 to 55% in 10M FY2021, indicating that it outperformed its peers in terms of percentage capacity deployed. Despite near-term demand uncertainties, IndiGo has remained committed to its long-term growth strategy and continued to induct fuel-efficient NEO aircraft in its fleet in YTD FY2021. However, strategic capacity management, through retirement of older CEO fleet, remain a key monitorable in the near-term, apart from its ability to maintain adequate liquidity.

The Negative outlook on IAL's rating reflects ICRA's opinion that passenger traffic is likely to recover gradually because of risk aversion, subdued demand from corporate travelers, and ongoing restriction, especially on the international routes. Accordingly, earnings and liquidity profile of airlines, including IndiGo, are likely to remain under pressure over the near-to-medium term. In addition, the delay in resolution of differences between IndiGo's founding promoters on various aspects, which could have an impact on strategic decision making, remain an event risk.

Key rating drivers and their description

Credit strengths

Largest domestic air carrier in India with over 50% market share - At present, the low-cost carrier (LCC), IndiGo, is India's largest domestic air carrier, in terms of domestic passengers flown. Between FY2010 and FY2020, IndiGo grew its fleet steadily from 19 to 262 aircraft and expanded its capacity (in terms of ASKMs) at a CAGR of ~30%. Driven by its brand image of delivering high on-time performance, competitive pricing and phasing out of operations by other airlines, IndiGo expanded its market share from 14% to nearly 50% during this period to emerge as the leading domestic airline. In YTD FY2021, due to the subdued demand caused by the pandemic, its weaker airline peers have been forced to curtail capacity. This led to further consolidation of IndiGo's position the domestic market, as reflected in its increased domestic market share of 55% (in 10M FY2021).

Comfortable liquidity compared to many airline peers supports ability to withstand extended industry slowdown - Despite the sharp demand contraction in YTD FY2021, IndiGo has maintained a stronger liquidity profile than its peers. This is evidenced by its large free cash balance and liquid investments of Rs. 7,445 crore at the end of December 2020 (Rs. 8,928 crore as on March 31, 2020). By implementing several cost rationalisation measures, securing incremental credit lines from banks (Rs. 600 crore), sale (and lease back) of its unencumbered fleet and taking deliveries of new NEO aircraft, the company shored up nearly Rs. 5,400 crore liquidity in 9M FY2021. IndiGo can also access capital markets for raising funds, if required. A comfortable liquidity position would enable it to better withstand the adverse impact of the pandemic on passenger traffic. ICRA believes that IndiGo would continue taking timely steps to augment its liquidity and would maintain an adequate buffer over and above its routine business requirements.

Strong focus on cost competitiveness - Aided by large orders placed with Airbus and competitive terms negotiated with Original Equipment manufacturers (OEMs) and maintenance providers , IndiGo has demonstrated lower cost of operations (including cost of ownership) than its peers in the Indian airlines industry. This has aided IndiGo to steadily scale-up its operations in a profitable manner in an industry, which is highly competitive and characterised by high taxation on airline fuel. Additionally, maintenance of a single fleet and tight control on overheads led to the lowest CASK among Indian airlines, which compares favourably with other global LCCs.

Credit challenges

Unprecedented stress caused by Covid-19 pandemic to impact revenue growth; high operating leverage to constrain profitability - The aviation sector has been severely impacted by the pandemic and is expected to witness a prolonged road to recovery given the risk aversion among air travelers, travel restrictions and corporate travel cuts. ICRA has a Negative outlook on the industry and expects the credit profile of domestic airlines to weaken over the near-term. Even post resumption of operations from May 2020 in a phased manner, the load factors remained sub-optimal, indicating that the stress on earnings would continue over a longer period. A sharp reduction in revenues would put pressure on operating profits of the airlines and lead to erosion in available liquidity buffers. While IndiGo has been able to successfully reduce its average cash-burn in 9M FY2021 (from Rs. 30 crore per day in Q1 FY2021 to Rs. 15 crore per day in Q3 FY2021) through stringent cost containment measures, a sustainable recovery in demand and scale-up in operations remain critical for pruning losses and restoring cash flow generation.

Earnings susceptible to volatility in crude oil prices and fluctuation in foreign exchange rates - The profitability of airlines is highly vulnerable to fuel cost and foreign exchange risks as over 50% of its expenses is related to fuel costs and other operating expenses (i.e., lease rentals, aircraft and engine maintenance payments) are denominated in Dollars. While the benign fuel prices supported margins of airline operators in YTD FY2021, the depreciation of the Rupee vis-à-vis the Dollar, and the limited ability to pass on any unanticipated increase in costs to customers, can exert pressure on their earnings and profitability. In addition, IndiGo has significant forex-denominated liabilities on its balance sheet. This mainly includes finance lease and operating lease obligations, and liabilities related to maintenance costs, viz., supplementary rentals, exposing the company to forex fluctuations. However, this risk is largely mitigated by maintenance of part of its liquid funds (i.e., collateral against stand-by letter of credit, or SBLC, limits for supplemental rent payments) in foreign-denominated deposits. Going forward, expansion of overseas operations is expected to increasingly provide natural hedge against the forex risk.

Concentration risks associated with dependence on single type of aircraft and engine supplier - Although IndiGo derives significant cost advantage over other airlines by operating a fleet of single type of aircraft, the company is exposed to concentration risks from its high dependence on a single OEM and engine supplier. This has been visible in the last few years with several instances of aircraft grounding because of technical snags faced with the Pratt & Whitney (P&W) engines and delayed aircraft deliveries. However, IndiGo has taken initiatives to diversify its supplier base by placing engine orders with CFM International in FY2020, which is likely to balance its supplier dependence in the long run.

Intensely competitive industry; price-sensitive nature of domestic aviation market restricts pricing power – Despite being the market leader in the domestic aviation industry, IndiGo's ability to command a pricing premium remains restricted. This is due to the cost sensitive nature of the market and the intensely competitive pricing among LCCs. However, this is expected to improve over the long-term as the airline ramps up its international operations, where it would be able to command relatively higher yields.

Liquidity position: Adequate

IAL's liquidity is adequate as reflected by a free cash of Rs. 7,445 crore as on December 31, 2020. Despite the expectation of continuing impact of the pandemic on its financial performance in the near-term, the cash buffers are expected to be adequate to take care of any operational losses and debt servicing requirements. The company has repayment obligations of approximately Rs. 350 crore finance leases and forex loan in FY2022. Furthermore, backed by the sequential improvement in operations, continued cost rationalisation initiatives along with sale and lease-back transactions of new aircraft and cash accruals are expected to improve in FY2022. The company can also access capital markets to raise funds, if required.

Rating sensitivities

Positive factors – A rating upgrade in the current scenario remains unlikely. Nevertheless, ICRA could review the outlook if the aviation industry witnesses sustained improvement in passenger traffic. For IndiGo, improvement in financial profile demonstrated through a return to steady cash flow generation, improvement in liquidity (free cash) and healthy debt coverage indicators, would be considered favourably for an outlook revision. Specific metrics that could be a key monitorable include, TD (including operating lease liability)/EBDITAR ≤3x on a sustained basis.

Negative factors – Negative pressure on IndiGo's rating could emanate from significant decline in its liquidity buffers due to - a) prolonged impact of covid-19 leading to decline in passenger traffic well beyond FY2021, resulting in losses from operations; b) inability to cut costs commensurate with reduced demand and c) any increase in crude oil prices and/or adverse movement in Dollar/Rupee conversion rate. In addition, any material increase in IndiGo's net debt levels, on a sustained basis, will be a monitorable.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Consolidation and Rating Approach
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the consolidated financial statements of the issuer. The list of entities consolidated is shared in Annexure-2.

About the company

InterGlobe Aviation Limited is the operating company for IndiGo, India's largest passenger airline in terms of domestic market share. The airline operates on an LCC business model, offering no-frills air-commute to passengers in the domestic as well as international sectors. At present, the company commands nearly 55% of the domestic market in terms of passengers carried (10M FY2021). It commenced operations from August 2006 with a single aircraft and as on December 31, 2020, had a fleet of 287 aircraft, comprising 111 Airbus A320 CEOs, 120 Airbus A320 NEOs, 30 Airbus A321 NEOs and 26 ATRs. As of date, these connect 87 destinations worldwide.

Promoted by Mr. Rahul Bhatia and Mr. Rakesh Gangwal, the company was originally incorporated in January 2004 as a private limited company and converted into a public limited company in June 2006 as InterGlobe Aviation Limited. Subsequently, IndiGo proceeded with its Initial Public Offering in FY2016, wherein its shares were listed on the BSE and the NSE. IndiGo is the flagship company of InterGlobe Group, which has diverse business interests across the aviation, hospitality, real estate, travel commerce, airline management, pilot training, aircraft maintenance and IT/BPO spaces.

Key financial indicators (audited)

IAL (Consolidated)	FY2019	FY2020	9m FY2021*
Operating Income (Rs. crore)	28,496.8	35,756.0	8,417.7
PAT (Rs. crore)	157.2	-233.7	-4,659.4
OPBDIT/OI (%)	1.1%	15.8%	-6.7%
RoCE (%)	4.3%	8.7%	--
Total Outside Liabilities/Tangible Net Worth (times)	2.6	6.1	--
Total Debt/OPBDIT (times)	7.5	4.0	--
Interest Coverage (times)	0.6	3.0	-0.4
DSCR (times)	1.8	3.1	--

*Source: Company results; ICRA research; *Limited Quarterly results*

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/ (Interest + Repayments made during the Year)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2020 (Rs. crore)	Date & Rating in	Date & Rating in FY2020	Date & Rating in FY2019		Date & Rating in FY2018
					Mar 1, 2021 July 30, 2020	Mar 13, 2020 Nov 6, 2019 Oct 9, 2019 Jul 17, 2019	Oct 17, 2018	Jun 13, 2018	-
1	Fund Based Limits - Overdraft	Short Term	2,006.00	--	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-
2	Non-Fund Based Limits- Letter of Credit	Short Term	462.50	--	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-
3	Non-Fund Based Limits- Bank Guarantee	Long Term	766.50	--	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]AA (Stable)	-
4	Non-Fund Based Limits – Standby Letter of Credit	Long Term / Short Term	4406.41	--	[ICRA]A+ (Negative)/ [ICRA]A1	[ICRA]A+ (Negative)/ [ICRA]A1+	[ICRA]A+ (Negative)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	-
5	Interchangeable limits	Short Term	(225.00)	--	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-
6	Interchangeable limits	Long Term	(419.35)	--	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]AA (Stable)	-
7	Unallocated	Long-term	358.59	--	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]AA (Stable)	-
8	Issuer Rating	Long-term	-	--	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]AA (Stable)	-

Note: INR/USD conversion rate = Rs. 73.0

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Short Term Fund Based Limits-Overdraft	-	-	-	2,006.00	[ICRA]A1
NA	Short Term Non-Fund Based Limits – Letter of Credit	-	-	-	462.50	[ICRA]A1
NA	Long-Term Non-Fund Based	-	-	-	766.50	[ICRA]A+(Negative)
NA	Long Term/Short Term Non-Fund Based Limits	-	-	-	4406.41	[ICRA]A+ (Negative) / [ICRA]A1
NA	Short-Term Fund/ Non-Fund Based Limits Sub-Limits*	-	-	-	(225.00)	[ICRA]A1
NA	Long Term Non-Fund Based Sub-Limits*	-	-	-	(419.35)	[ICRA]A+ (Negative)
NA	Unallocated limits	-	-	-	358.59	[ICRA]A+ (Negative)
NA	Issuer Rating	-	-	-	NA	[ICRA]A+ (Negative)

**Sub-limits of other facilities; Source: Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
InterGlobe Aviation Limited	100.00% (Rated entity)	-
Agile Airport Services Private Limited	100.00%	Full Consolidation

Source: Company annual report FY2020

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545 300
shamsherd@icraindia.com

Ritu Goswami
91 124 4545826
ritu.goswami@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches