April 04, 2022

InterGlobe Aviation Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short Term Fund Based Limits	2,826.00	3,976.00	[ICRA] A1; Reaffirmed
Short Term Non-Fund Based Limits	285.75	342.50	[ICRA] A1; Reaffirmed
Long Term Non-Fund Based Limits	658.04	615.60	[ICRA]A (Negative); Reaffirmed
Long Term/Short Term Non-Fund Based Limits	3,753.80	3,949.12	[ICRA]A (Negative)/[ICRA] A1; Reaffirmed
Short Term Interchangeable Limits (Non-Fund Based)	(200.00)	(200.00)	[ICRA]A1; Reaffirmed
Short-term Interchangeable Limits (Fund-Based)	-	(110.00)	[ICRA]A1; Reaffirmed
Long Term Interchangeable Limits	(527.10)	(1,028.68)	[ICRA]A (Negative); Reaffirmed
Long-term – Unallocated Limits	476.41	116.78	[ICRA]A (Negative); Reaffirmed
Total Bank Line Facilities	**8,000.00**	**9,000.00**	
Issuer Rating	NA	NA	[ICRA]A (Negative); Reaffirmed

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of ratings for InterGlobe Aviation Limited's (IAL, operator of IndiGo airlines) factors in the expectation of improvement in passenger volumes (both domestic and international) that, given the company's scale, extensive network, low-cost and cost competitive positioning, will likely translate into improved cash flows starting FY2023. It also reflects IndiGo's strong liquidity position, with sizable free cash balances and access to undrawn lines of credit, which provides it healthy flexibility to absorb some short-term weakening in industry conditions due to elevated crude prices and transient Covid-variant waves.

The passenger traffic volumes improved in a swift manner post the abatement of infections during the second wave and led to an improved performance of the aviation sector in Q3 FY2022. Even as the industry was impacted by the Omicron wave during December 2021-January 2022, the recovery in demand following the decline in infections has been swift and raises confidence about the efficacy of vaccination and reduced travel averseness among the populace. IndiGo, being the largest domestic passenger airline remains relatively strongly placed to benefit from a recovery in air travel. This is reflected in the sustained market share of 55% in 10M FY2022 (up from 49% in FY2020, viz. pre-pandemic), healthy load factors (averaged at 80% in Q3 FY2022) and a 113% YoY increase in its revenues in 9M FY2022. Going forward, with international operations opening- up (scheduled to commence from March 27, 2022), pent-up demand from leisure and business segments, improving global vaccination coverage and easing international travel restrictions, are expected to aid higher capacity utilisations and yields.

Despite the muted demand due to the pandemic, IndiGo's healthy operating efficiencies and recalibrated cost management strategies have aided it in sequentially reducing its cash burn; the company reported net profits in Q3 FY2022, a first after seven consecutive quarters of losses on account of increased capacity deployment (as DGCA lifted domestic capacity restrictions from October 18, 2021), improved load factors observed due to swift pickup in air travel demand and stronger yields. It was able to shore-up incremental liquidity of nearly Rs. 6,600 crore in FY2021 and Rs. 2,600 crore in H1 FY2022 through various cost rationalisation initiatives, monetisation of owned aircraft and engines and additional credit lines from banks. The company had received shareholders' approval to raise up to Rs. 3,000 crore from the capital market to augment liquidity in Q1 FY2022 in case required; however, the faster than expected recovery in demand led to improved cash flows and mitigated any need to do so in FY2022. Nevertheless, the sharp surge in aviation turbine fuel (ATF) prices in CY2022, due to the ongoing geopolitical crisis, is expected be an overhang on the company's profitability and liquidity position in the near-term. However, ICRA takes comfort from IndiGo demonstrated ability to maintain adequate liquidity, and its strategy to induct fuel-efficient NEO aircraft and retire older CEOs from its active fleet will partially offset the impact of higher fuel price.

The competitive intensity in the domestic airline industry is expected to increase in the near-term, with entry of new players and sizable fleet addition by incumbent players. While the recovery in passenger traffic to pre-pandemic levels could be faster in FY2023 with opening-up of commercial international operations, industry cashflows are likely to remain impacted due to the record high ATF prices and limited ability to pass on the cost pressures to passengers in the form of increased fares. While the positive trend in yields, as observed in Q3 FY2022 gives hope of industry maintaining some pricing sanity, sustainability of the same going forward remains to be seen. Additionally, the muted demand over the past two years led to extensive cash losses for IndiGo (and the industry) since the onset of the pandemic, thereby weakening company's credit metrices. While ICRA expects a modest improvement in the company's financial leverage and coverage indicators as the operations ramp-up (and cash flows turn positive), the high fuel prices and possible INR depreciation may keep the metrices stretched in FY2023 and will remain a monitorable.

The Negative outlook on IAL's rating reflects ICRA's view that while passenger traffic recovery is expected to witness a pick-up in FY2023, the elevated ATF prices, uncertainty regarding crude prices and increased competition will keep the credit metrics of airline players, including IndiGo, under pressure. A reversal in ATF prices to more sustainable levels would be a key rating sensitivity in the near-term.

Key rating drivers and their description

Credit strengths

Leading domestic air carrier in India with nearly 55% market share - At present, the low-cost carrier (LCC), IndiGo, is India's leading domestic air carrier in terms of domestic passengers flown. Between FY2010 and 9M FY2022, IndiGo has grown its fleet steadily from 19 to 283 aircraft and expanded its capacity (in terms of ASKMs) at a CAGR of ~30% (FY2010-FY2020, i.e., pre-pandemic). Driven by its track record 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 FY2021, due to the subdued demand caused by the pandemic, other weaker airlines were forced to curtail capacity. This led to further consolidation in IndiGo's position in the domestic market, as reflected in its increased domestic market share of 55% for FY2021 and 10M FY2022. IndiGo continues to penetrate domestic market by launching operations at new locations and this is likely to help it maintain/ further strengthen its market position in the sector.

Healthier liquidity than its airline peers support ability to withstand elongated industry revival cycle - Despite some deterioration due to the cash losses in FY2021 and H1 FY2022, IndiGo has maintained a healthier liquidity profile than its peers. This is evidenced by its large free cash balance and liquid investments of nearly Rs. 7,800 crore at the end of December 2021 (lower than ~Rs. 9,400 crore as on December 31, 2019, viz. pre-pandemic). By implementing several cost rationalisation measures, securing incremental credit lines from banks, sale, and lease back (SLB) of its unencumbered engines and aircraft and taking deliveries of new NEO aircraft, the company shored up significant liquidity during the past 1.5 years. IndiGo can also access capital markets for raising funds, if required. A comfortable liquidity position is likely to enable it to better withstand the slow and erratic recovery in passenger traffic and inflationary fuel cost pressures. 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. ICRA also factors in favourably that IndiGo has, since the onset of pandemic, continued to meet its lease related payments in a timely manner and has also been able to tie up financing by way of operating lease arrangements for aircraft deliveries scheduled over the next 12 months; this is likely to help the airline maintain its strong relationships with lessors and bode well for its future growth prospects. IndiGo also continues to make all other payments and timely service its debt obligations.

Sustained cost competitiveness; changing fleet-mix could potentially help improve cost metrics further - 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 an industry, which is highly competitive and characterised by high taxation on airline fuel and other services. 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. In recent years, it has increasingly been replacing its older CEO fleet with more fuel-efficient NEO aircraft. With higher capacity (A321 NEOs offer 26% more seats) and a more fuel-efficient fleet, IndiGo is expected to further strengthen is cost competitiveness over the medium term.

Credit challenges

Exposed to volatility in crude oil prices and fluctuation in exchange rate – In line with the industry, profitability of IndiGo is highly vulnerable to volatility in fuel prices and foreign exchange (forex), as over 50% of its expenses are related to fuel costs and other operating expenses (i.e., lease rentals, aircraft, and engine maintenance payments), denominated in Dollar terms. With the increasing trend in ATF prices (sharp 50% hike in domestic ATF between January–March 2022) and depreciating Rupee over the past few months, the profitability of the pandemic weakened airlines has again come under pressure. This may deteriorate further over the near-term, given the heightened uncertainty regarding crude supply due to the ongoing geopolitical crisis. However, healthy domestic demand, opening-up of international commercial operations and higher proportion of the fuel-efficient A320 NEO aircraft in the fleet are expected to mitigate the impact of these higher costs to some extent. The large forex denominated liabilities relating to lease obligations and maintenance costs (viz., supplementary rentals), expose the company to forex fluctuations. Although the capitalisation of operating and finance lease is an accounting change and is cash flow neutral, in case of IndiGo, even the mark-to market 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.

Intense competition within the 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. Additionally, expected entry of new players—Akasa Air and Jet 2.0—along with capacity additions by incumbent players may put pressure on yields in the near term. However, this is expected to improve over the long-term as IndiGo ramps up its international operations (scheduled to open from March 27, 2022 in line with Government directions), where it would be able to command relatively higher yields. Concurrently, this would also aid IndiGo to enhance aircraft utilization (from 10.7 hours per day to over 13-13.5 hours per day) and increase capacity deployment, which in turn improves cost competitiveness.

Credit metrices weakened by adverse impact of the pandemic - IndiGo's overall debt, including operating lease liabilities, has increased by 63% to Rs. 35,153 crore as on December 31, 2021, from Rs. 21,555 in December 31, 2019 (pre-pandemic). The debt excluding operating lease liabilities has jumped 87% in the same period (from Rs. 2,351 crore in December 2019 to Rs. 4,389 crore in December 2021). Due to cash losses, the IndiGo's net worth turned negative in 9M FY2022 and leverage (TD including lease liabilities/EBITDAR; annualised) and coverage ratios (EBDITAR/ Gross interest) have deteriorated to 27x and 0.6x in 9M FY2022. While these metrices are expected to witness improvement in FY2023, on account of recovery in EBITDAR, these may remain sub-pre-pandemic levels.

Liquidity position: Adequate

IAL's liquidity is **adequate** as reflected by a free cash of Rs. 7,814 crore as on December 31, 2021. The liquidity profile is augmented by short-term fund-based lines of credit of nearly Rs. 1,050 crore (net of margin requirement) as on December 31, 2021. In addition, the SLB transactions of new NEO aircraft getting inducted in the fleet are also expected to provide liquidity. Against the same, it has repayment obligations of approximately ~Rs. 375 crore pertaining to finance leases in FY2023. Despite the expectation of a volatile operating environment due to the pandemic and fuel price volatility in the near-term, these cash and liquidity buffers are expected to be adequate to cater to any operational losses and debt servicing requirements.

Rating sensitivities

Positive factors – ICRA could review the ratings if IndiGo witnesses a sustained improvement in passenger traffic and some stabilization in ATF prices, translating into an improvement in financial profile, demonstrated through a return to steady cash flow generation, improvement in liquidity (free cash) and healthy debt coverage indicators. Specific metrics that could be a key monitorable include, TD (including operating lease liability) / EBDITAR less than or equal to 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) continued impact of Covid-19 leading to subdued passenger traffic resulting in sustained losses from operations; b) inability to cut costs commensurate during periods of reduced demand; and c) sharp and sustained increase in crude oil prices and/or adverse movement in Dollar/Rupee conversion rate. In addition, 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
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 ~55% of the domestic market in terms of passengers carried (11M FY2022). It commenced operations from August 2006 with a single aircraft and as on December 31, 2021, had a fleet of 283 aircraft. These comprised 56 Airbus A320 CEOs, 140 Airbus A320 NEOs, 52 Airbus A321 NEOs and 35 ATRs. At full capacity, these connect 97 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 (IPO) in FY2016, wherein its shares were listed on the BSE and the NSE. IndiGo is the key investee company of the 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)	FY2020	FY2021	9M FY2022*
Operating Income (Rs. crore)	35,756.0	14,640.6	17,910.2
PAT (Rs. crore)	-233.7	-5,806.4	-4,480.1
OPBDIT/OI (%)	11.4%	0.1%	2.8%
PAT/ OI (%)	-0.7%	-39.7%	-25.0%
Total Outside Liabilities/Tangible Net Worth (times)	6.1	384.6	-8.0
Total Debt/OPBDIT (times)	5.6	2,095.1	51.8
Interest Coverage (times)	2.2	0.0	0.3

*Source: Company results; ICRA Research; *Abridged quarterly results*

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Feb 28, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Apr 4, 2022	Aug 17, 2021	Mar 1, 2021 July 30, 2020	Mar 13, 2020 Nov 6, 2019 Oct 9, 2019 Jul 17, 2019
1	Fund Based Limits – Overdraft/ WCDL / FCDL/ STL	Short Term	3,976.0	--	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1+
2	Non-Fund Based Limits- Letter of Credit	Short Term	342.50	--	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1+
3	Non-Fund Based Limits- Bank Guarantee	Long Term	615.60	--	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)
4	Non-Fund Based Limits – Standby Letter of Credit (SBLC)	Long Term / Short Term	3,949.12	--	[ICRA]A (Negative)/ [ICRA]A1	[ICRA]A (Negative)/ [ICRA]A1	[ICRA]A+ (Negative)/ [ICRA]A1	[ICRA]A+ (Negative)/ [ICRA]A1+
5	Interchangeable limits – Letter of Credit	Short Term	(200.00)	--	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1+
6	Interchangeable limits – Fund Based	Short Term	(110.00)	--	[ICRA]A1	--	--	--

7	Interchangeable limits - Bank Guarantee	Long Term	(1,028.68)	--	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)
8	Unallocated Limits	Long-term	116.78	--	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)
9	Issuer Rating	Long-term	-	--	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)

Complexity level of the rated instrument

Instrument	Complexity Indicator
Short Term Fund Based Limits- Overdraft/ WCDL/ FCDL/STL	Simple
Short Term Non-Fund Based Limits – Letter of Credit	Very simple
Long-Term Non-Fund Based – Bank Guarantee	Very Simple
Long Term/Short Term Non-Fund Based Limits - SBLC	Simple
Short-Term Interchangeable limits (Fund/Non-Fund based)	Very Simple
Long Term Non-Fund Based Sub-Limits (interchangeable limits)	Very simple
Long-term- Unallocated	Not applicable
Issuer Rating	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's 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	Fund Based Limits – Overdraft/ WCDL / FCDL/ STL	Multiple	-	-	3,976.0	[ICRA]A1
NA	Non-Fund Based Limits- Letter of Credit	Multiple	-	-	342.50	[ICRA]A1
NA	Non-Fund Based Limits- Bank Guarantee	Multiple	-	-	615.60	[ICRA]A (Negative)
NA	Non-Fund Based Limits – SBLC	Multiple	-	-	3,949.12	[ICRA]A (Negative) / [ICRA]A1
NA	Interchangeable limits – Letter of Credit	Multiple	-	-	(200.00)	[ICRA]A1
NA	Interchangeable limits – Fund Based	Aug 31, 2021	-	-	(110.00)	[ICRA]A1
NA	Interchangeable limits - Bank Guarantee	Multiple	-	-	(1,028.68)	[ICRA]A (Negative)
NA	Unallocated limits	-	-	-	116.78	[ICRA]A (Negative)
NA	Issuer Rating	-	-	-	NA	[ICRA]A (Negative)

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

Please click here to view details of lender-wise facilities rated by ICRA

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

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