July 28, 2023

InterGlobe Aviation Limited: Ratings upgraded to [ICRA]A+(Stable)/[ICRA]A1+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term Fund-based Limits	4,376.50	4,376.50	[ICRA]A1+; upgraded from [ICRA]A1
Short-term Non-fund Based Limits	357.50	357.50	[ICRA]A1+; upgraded from [ICRA]A1
Long-term Non-fund Based Limits	632.40	632.40	[ICRA]A+(Stable); upgraded from [ICRA]A (Stable)
Long-term/Short-term Non-fund Based Limits – Standby Letter of Credit	3,406.96	3,406.96	[ICRA]A+(Stable)/ [ICRA]A1+ upgraded from [ICRA]A (Stable)/ [ICRA]A1
Short-term Interchangeable (LC/BC/OD)	(200.00)	(200.00)	[ICRA]A1+; upgraded from [ICRA]A1
Long-term Interchangeable (BG)	(1,057.20)	(1,057.20)	[ICRA]A+(Stable); upgraded from [ICRA]A (Stable)
Short-term Interchangeable	(610.00)	(610.00)	[ICRA]A1+; upgraded from [ICRA]A1
Long-term – Unallocated	226.64	226.64	[ICRA]A+(Stable); upgraded from [ICRA]A (Stable)
Total Bank Line Facilities	**9,000.00**	**9,000.00**	
Issuer Rating	NA	NA	[ICRA]A+(Stable); upgraded from [ICRA]A (Stable)

**Instrument details are provided in Annexure-I*

Rationale

The rating upgrade for InterGlobe Aviation Limited's (IAL, operator of IndiGo airlines) bank facilities and Issuer rating factors in the sustained improvement in passenger volumes (both domestic and international). Given the company's scale, extensive network, low-cost positioning and healthy improvement in yields over the last one year, the same is expected to continue to help IAL report improved cash flows, going forward, and aid improvement in its credit metrics. The rating action also favourably factors in IndiGo's strong liquidity position, with sizable free cash balances and access to undrawn lines of credit, which provides it healthy flexibility to absorb any short-term weakening in industry conditions.

The passenger traffic volumes improved in a swift manner over FY2022-FY2023 after the pandemic disruptions. The company posted a healthy YoY growth of 59% and 65% in its domestic passenger traffic during FY2022 and FY2023, respectively, even surpassing pre-Covid levels in FY2023. Further, IndiGo being the largest domestic passenger airline remains strongly placed, as reflected in its sustained market share of 60.7% in Q1 FY2024 (up from 48% in FY2020), healthy load factors (averaged at ~82% in FY2023) and a 110% YoY increase in its revenues in FY2023. Going forward, healthy demand from leisure and business segments, expansion of international operations through launch of new destinations where IndiGo will operate directly as well as its codeshare agreements with other airlines supported by addition of A321 NEOs and XLRs in the fleet, are expected to aid higher capacity utilisation and yields.

Given IndiGo's large order book (of ~480 A320/A321 NEOs and 11 ATRs under the previous order—delivery till 2030—as well as its recent 500-fleet order with Airbus—delivery over 2030-2035 in a phased manner), ICRA believes that the company will be well positioned to maintain (and consolidate) its strong market position in the long run. With the planned addition of new aircraft, going forward; a proportionate growth in passenger traffic, number of routes, and airport infrastructure, etc, remain critical for healthy load factors. Further, as demand remains robust, IndiGo has been taking wet leases and lease extensions, to partially offset global supply chain disruptions in the supply of spare engines.

Furthermore, the industry has witnessed a sequential decline in aviation turbine fuel (ATF) pricing over the last few quarters. ICRA continues to take comfort from IAL's demonstrated ability to maintain adequate liquidity, and its strategy to induct fuel-efficient NEO aircraft which helps it partially offset the impact of higher fuel price. While ICRA expects an improvement in the company's financial leverage and coverage indicators as the operations scale up further, the impact of unfavourable movements in fuel prices and INR depreciation against the USD over the company's credit metrices, will remain a monitorable.

The Stable outlook on IAL's rating reflects ICRA's view that a healthy growth in passenger traffic is expected to continue in the near term, which along with better pricing discipline and relatively stable ATF prices, will result in improved RASK-CASK spread, and help the airline gradually improve its credit metrics.

Key rating drivers and their description

Credit strengths

Leading domestic air carrier in India – At present, the low-cost carrier (LCC), IndiGo, is India's leading domestic air carrier in terms of domestic passengers flown. Between FY2010 and FY2023, IndiGo has grown its fleet steadily from 19 to 304 aircraft and expanded its capacity (in terms of ASKMs) at a CAGR of ~21% (FY2010–FY2023). Driven by its track record of delivering high on-time performance, competitive pricing and phasing out of operations by other airlines, IndiGo has expanded its market share from 14% in FY2010 to nearly 61% in Q1 FY2024, emerging as the leading domestic airline. IndiGo continues to penetrate the domestic market by launching operations to new locations, particularly non-metro cities, which is likely to help it maintain/further strengthen its market position in the sector.

Healthier liquidity than its airline peers support ability to withstand downcycles – Despite some deterioration due to the cash losses in FY2021 and FY2022, IndiGo has maintained a healthier liquidity profile at present than its peers, led by a strong demand in FY2023. This is evidenced by its large free cash balance of ~Rs. 12,195 crore as of March 2023 (Rs. 7,763 crore as of March 2022). A comfortable liquidity position is likely to enable it to better withstand any subdued passenger traffic, inflationary fuel cost pressures and adverse exchange rate. 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 how IndiGo has continued to meet its lease related payments (even during pandemic) in a timely manner and has been able to tie up financing by way of operating lease arrangements for aircraft deliveries scheduled in the near term. This is likely to help the airline maintain its strong relationships with lessors, and will bode well for its growth prospects.

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 it, engine suppliers and maintenance providers, IndiGo has demonstrated lower cost of operations (including cost of ownership) than its peers in the Indian airlines industry. Additionally, maintenance of a single fleet and tight control on overheads have helped it maintain 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 29% more seats than CEOs) and a more fuel-efficient fleet, IndiGo is expected to maintain its 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 40% of its expenses related to fuel costs and other operating expenses (i.e., supplementary lease rentals, aircraft and engine maintenance), are denominated in USD. The large forex denominated liabilities relating to lease obligations also expose the company to forex fluctuations. An increase in ATF prices and depreciating rupee sharply impacted the profitability of the airline sector in H1 FY2023. However, the airline was able to increase yields to pass on the cost increase to an extent, without impacting demand, which helped cushion the impact of the adverse forex/fuel prices. Moreover, an easing in ATF prices has been witnessed over the last few quarters, as it declined to Rs. 90/L in June 2023 from Rs. 121/L in FY2023 (Rs. 65/L in FY2020), although still higher than pre-Covid levels.

ICRA notes that the company's inflows in foreign currency (through international flights) mitigates its forex risk to an extent. A pick-up in international operations and higher proportion of the fuel-efficient NEO aircraft in the fleet will help partially compensate the adverse fluctuations in ATF prices, going forward. Further, the capitalisation of operating and finance lease is an accounting change and is cash flow neutral. In the case of IndiGo, even the mark-to-market risk is mitigated to an extent 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.

Intense competition in industry; price-sensitive nature of domestic aviation market may restrict pricing power – Despite being the market leader in the domestic aviation industry, IndiGo's ability to command a pricing premium remains limited. This is due to the cost sensitive nature of the market and the intensely competitive pricing among LCCs. ICRA notes that despite the same, the yields have remained at healthy levels in FY2023, thereby aiding it to mitigate the impact of high ATF prices. Nonetheless, expected entry/ramp up of operations of new players—Akasa Air along with ongoing consolidation among Air India and Vistara—may exert pressure on yields in the near term. However, this is expected to improve over the long-term as IndiGo expands its international operations.

Credit metrices weakened by adverse impact of pandemic; improved cash flows to aid gradual recovery in the same, going forward – IndiGo's overall debt, including operating lease liabilities, increased to Rs. 44,854 crore as on March 31, 2023, from Rs. 21,555 on December 31, 2019 (pre-pandemic), on account of increasing fleet and higher lease term. Due to losses, IndiGo's net worth turned negative in FY2022 and is likely to remain negative over the short to medium term, which will keep the capitalisation ratios sub-optimal. ICRA notes that aided by a recovery in EBITDAR, the leverage (total debt including lease liabilities/EBITDAR[1]) has improved to ~4.3x (19.0x in FY2022) in FY2023 with further improvement expected, going forward.

ESG Risks

Environmental considerations: IndiGo's exposure to environmental risk emanates primarily from being an operator in the passenger airline industry, which is subject to future regulations regarding carbon emissions. The global airline industry currently accounts for about 2% of the world's carbon emissions, which will likely grow significantly based on expected average annual passenger growth over the next decade. One of the most significant ways to reduce emissions is by operating a modern and efficient fleet. In this regard, IndiGo's current order book with Airbus consists of aircraft with the newest engine technology, would help lower carbon and noxious gas emissions by upwards of 15%, and is likely to help mitigate some of the future costs that may be due pursuant to international treaties. As per Airbus, 80% of IndiGo's fleet is new generation (NEOs) against the world average of 20%. IndiGo is one of the lowest CO2 emitting airline per ASK amongst some of the key airlines across the world. IndiGo is also actively working with multiple stakeholders to operationalise Sustainable Aviation Fuel (SAF) as a bridge solution until the introduction of hydrogen powered jet engines. Even as passengers are expected to bear a portion of any airline's costs of carbon through higher fares, the ability of the company to pass on cost increases in India, a highly competitive market, remains to be seen.

Social considerations: The passenger airline industry was one of the sectors most significantly affected by the pandemic, given its exposure to travel restrictions and sensitivity of consumer demand. Such outbreaks have substantial implications for public health and safety. However, the company's safety policy follows Safety Management System (SMS) manual and DGCA guidelines. The industry also has a healthy dependence on highly specialised human capital in the form of pilots and mechanics; as such retaining human capital, maintaining healthy employee relations as well as supplier ecosystem remain essential for disruption free operations. Another social risk that the airline industry faces pertains to product safety and quality, wherein instances of major accidents may not only lead to a financial implication but could also harm the reputation and create a more long-lasting adverse impact on demand. In this regard, IndiGo's established track record and focus on aircrafts technical certification, operations and safety policies mitigates this risk to an extent. The company operates ifly training institute, which

[1] *EBITDAR calculated by adjusting for unrealised forex losses*

is amongst the biggest in-house corporate training academy in the world, having 70+ specialized training rooms, running long training programs where each of its cabin crew member, pilot, engineer and operational team member undergoes required training. IndiGo has also been focused on maintaining relatively higher diversity and inclusion among pilots and its other workforce.

Liquidity position: Adequate

IAL's liquidity is **adequate** as reflected by a free cash of ~Rs. 12,195 crore as on March 31, 2023. The liquidity profile is further augmented by unutilised short-term, fund-based lines of credit of nearly Rs. ~3,500 crore as on March 31, 2023. In addition, the SLB transactions of the new NEO aircraft joining the fleet are also expected to provide liquidity. Against the same, it has repayment obligations of ~Rs. 858 crore pertaining to finance leases and long-term ECB borrowings in FY2024. These cash and liquidity buffers are expected to be adequate to cater to any operational losses and its debt servicing/operating lease requirements.

Rating sensitivities

Positive factors – A demonstrated track record of sustainable improvement in the company's profitability indicators along with strong liquidity profile could lead to a rating improvement. A healthy capital structure and debt coverage indicators, as indicated by Total debt (including Operating lease obligations)/EBITDAR less than 2.75x, on a sustained basis remains key for a rating improvement.

Negative factors – Negative pressure on IndiGo's rating could emanate from significant decline in its liquidity buffers due to— a) subdued passenger traffic resulting in sustained losses from operations; b) inability to cut commensurate costs during periods of reduced demand; and c) sharp and sustained increase in ATF prices and/or adverse movement in the USD/INR conversion rate. In addition, a 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-II.

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. The company commands nearly 61% of the domestic market in terms of passengers carried in Q1 FY2024. It commenced operations from August 2006 with a single aircraft and as on March 31, 2023 had a fleet of 304 aircraft (14 own/finance leased, 289 under operating lease and one under damp lease). These comprised 21 Airbus A320 CEOs, 162 Airbus A320 NEOs, 79 Airbus A321 NEOs, 39 ATRs, two A321 freighters and one B777. As of March 2023, it connected 78 domestic and 26 international destinations.

Promoted by Mr. Rahul Bhatia, the company was originally incorporated in January 2004 as a private limited company and converted into a public limited company in June 2006. 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. The other co-founder of the company, Mr. Rakesh Gangwal, had stepped down from the airline's board in February 2022 with an intention to slowly reduce his stake in the company. The Gangwal family owned ~29.7% stake in IndiGo as of June 2023.

Key financial indicators (audited)

IAL Consolidated	FY2022	FY2023*
Operating income	25,930.9	54,446.5
PAT	(6,161.8)	(305.8)
OPBDIT/OI	2.2%	17.4%
PAT/OI	-23.8%	-0.6%
Total outside liabilities/Tangible net worth (times)	(8.6)	(10.4)
Total debt/OPBDIT (times)	64.1	6.9
Interest coverage (times)	0.2	2.1
TD/EBITDAR**	19.0	4.3

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; *Limited; **EBITDAR calculated by adjusting for unrealised forex losses*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	
					Jul 28, 2023	Mar 20, 2023	Apr 4, 2022	Aug 17, 2021	Mar 1, 2021	July 30, 2020
1	**Fund Based Limits – Overdraft/ WCDL/ FCDL/ STL**	Short Term	4,376.50	-	**[ICRA]A1+**	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**
2	**Non-Fund Based Limits- Letter of Credit**	Short Term	357.50	-	**[ICRA]A1+**	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**
3	**Non-Fund Based Limits- Bank Guarantee**	Long Term	632.40	-	**[ICRA]A+ (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Negative)**	**[ICRA]A (Negative)**	**[ICRA]A+ (Negative)**	**[ICRA]A+ (Negative)**
4	**Non-Fund Based Limits – Standby Letter of Credit**	Long Term / Short Term	3,406.96	-	**[ICRA]A+ (Stable)/ [ICRA]A1+**	**[ICRA]A (Stable)/ [ICRA]A1**	**[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**	**[ICRA]A1**	**[ICRA]A1**
6	**Interchangeable limits- Bank Guarantee**	Long Term	(1,057.20)	-	**[ICRA]A+ (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Negative)**	**[ICRA]A (Negative)**	**[ICRA]A+ (Negative)**	**[ICRA]A+ (Negative)**

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	
					Jul 28, 2023	Mar 20, 2023	Apr 4, 2022	Aug 17, 2021	Mar 1, 2021	July 30, 2020
7	**Interchangeable limits-Fund Based**	Short Term	(610.00)	-	**[ICRA]A1+**	**[ICRA]A1**	**[ICRA]A1**	-	-	-
8	**Unallocated**	Long-term	226.64	-	**[ICRA]A+ (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Negative)**	**[ICRA]A (Negative)**	**[ICRA]A+ (Negative)**	**[ICRA]A+ (Negative)**
9	**Issuer Rating**	Long-term	-	-	**[ICRA]A+ (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Negative)**	**[ICRA]A (Negative)**	**[ICRA]A+ (Negative)**	**[ICRA]A+ (Negative)**

Complexity level of the rated instruments

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 - Standby Letter of Credit	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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Short Term Fund Based Limits-Overdraft	Multiple	-	-	4,376.50	[ICRA]A1+
NA	Short Term Non-Fund Based Limits – Letter of Credit	Multiple	-	-	357.50	[ICRA]A1+
NA	Long-Term Non-Fund Based-bank guarantee	Multiple	-	-	632.40	[ICRA]A+ (Stable)
NA	Long Term/Short Term Non-Fund Based Limits-SBLC	Multiple	-	-	3,406.96	[ICRA]A+ (Stable) / [ICRA]A1+
NA	Short-Term Non-Fund Based (interchangeable-Limits) *- LC	Multiple	-	-	(200.00)	[ICRA]A1+
NA	Long-Term Non-Fund Based (interchangeable-Limits) *- BG	Multiple	-	-	(1,057.20)	[ICRA]A+ (Stable)
NA	Short Term Fund Based (interchangeable limits) *	Multiple			(610.00)	[ICRA]A1+
NA	Unallocated limits	-	-	-	226.64	[ICRA]A+ (Stable)
NA	Issuer Rating	-	-	-	NA	[ICRA]A+ (Stable)

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

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

Annexure II: List of entities considered for consolidated analysis

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

Source: company; Note: ICRA has taken a consolidated view of the parent (IAL), its subsidiaries while assigning the ratings.

ANALYST CONTACTS

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

Srikumar Krishnamurthy
+91 44 45964318
ksrikumar@icraindia.com

Rohan Kanwar Gupta
+91 124 4545808
rohan.kanwar@icraindia.com

Astha Bansal
+91 124 4545342
astha.bansal@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

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.