November 06, 2019

InterGlobe Aviation Limited – Update on Material Events

Summary of rated instruments

Instrument	Current Rated Amount (Rs. Crore)	Rating Outstanding
Short Term Fund Based Limits	107.00	[ICRA]A1+
Short Term Non-Fund Based Limits	589.25	[ICRA]A1+
Long Term Non-Fund Based Limits	700.02	[ICRA]A+(Negative)
Long Term/Short Term Non-Fund Based Limits – Standby Letter of Credit	5085.91	[ICRA]A+(Negative)/[ICRA]A1+
Short Term Interchangeable	(245.00)	[ICRA]A1+
Long Term interchangeable	(615.46)	[ICRA]A+(Negative)
Long-term- Unallocated	1517.82	[ICRA]A+(Negative)
Total Bank Line Facilities	**8,000.0**	
Issuer Rating	**NA**	[ICRA]A+(Negative)

Material Events

On October 24, 2019, InterGlobe Aviation Limited (IndiGo) intimated the stock exchanges, regarding its Q2 and H1 FY2020 results. The company reported a quarterly net loss of Rs. 1,062 crore in Q2 FY2020, driven by higher costs relating to reassessment of estimates for future maintenance costs (on older CEO fleet) and forex losses due to rupee depreciation on operating lease liabilities. The financial performance was also impacted due to one-time tax-adjustments during the quarter.

In a separate filing on November 1, 2019, the company informed the stock exchanges that on October 28, 2019, the Directorate General of Civil Aviation (DGCA) had issued a directive to IndiGo that no aircraft with both unmodified Low-pressure turbine (LPT) 3 engines, having flown more than 2,900 hours, to be utilized beyond November 19, 2019. Subsequently, on November 1, 2019, DGCA gave another directive to the company to ensure replacement of all the unmodified engines in the fleet by January 31, 2020.

Impact of the Material Events

In Q2 FY2020, IndiGo reported a 31% YoY increase in revenues driven by capacity expansion (i.e. ASKM up by 24.1% YoY) and higher ticketing yields (up 9.4% YoY). However, the strong revenue performance was off-set by higher non-fuel costs resulting in a 17% YoY increase in the cost per seat per Km excluding fuel (CASK-ex fuel). As a result, the spread viz. revenue per available seat Km less cost (i.e. RASK-CASK), turned negative in Q2 FY2020, after reporting an improvement over the past three quarters. Also, the passenger load factor (PLF) declined by about 100 bps on YoY to 83.5%, impacted by lower than expected slot allocation. The capacity (ASKM) growth was also impacted due to delays in deliveries form Airbus. The company has guided for near-term slowdown in capacity expansion due to delay in deliveries from Airbus and moderation in demand given the macro environment.

ICRA notes that the net losses in the quarter were led by MTM losses on forex liabilities and provision for higher maintenance costs of approximately Rs. 750 crore (large part of which were non-cash in nature at present) and one-time tax adjustments to enable shift to the new corporate tax regime going forward. While the maintenance costs are expected to remain elevated over next two quarters (or till the exit of older CEO fleet), which was unanticipated, IndiGo's healthy free cash reserves (Rs. 8,706.3 crore as at Sep 30, 2019) and cash accruals from operations provide comfort. Barring the one-offs, the performance in H1 FY2020 was largely in line with ICRA expectations.

In line with its long-term growth strategy, the company also recently placed incremental order of 300 A320 family of aircraft. The deliveries for the same are expected post completion of ongoing order of 430 NEOs. Accordingly, the cost implications for the same, viz. pre-delivery-payments, will materialize over the medium term.

With respect to the DGCA directive, the company has clarified that 55% of its fleet (98 NEO aircraft) will require replacement of both the engines. It is in discussions with both Airbus and Pratt & Whitney (P&W) for timely supply of spare engines. Apart from financial implications, the engine change requirements can potentially result in disruption in IndiGo's operations, given the stringent timelines. The ability of P&W and Airbus to arrange for requisite spare engines within stipulated timelines therefore remains a key monitorable.

ICRA will continue to monitor the developments and will take rating action, if required, in future.

The previous detailed rating rationale for Interglobe Aviation Limited is available on the following link: Click here

Analyst Contacts

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

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

Relationship Contact

Jayanta Chatterjee
+91 80 4332 6401
jayantac@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

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

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

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999

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