

March 20, 2023

InterGlobe Aviation Limited: Ratings reaffirmed; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term Fund-based Limits	3,976.00	4,376.50	[ICRA] A1; Reaffirmed
Short-term Non-fund Based Limits	342.50	357.50	[ICRA] A1; Reaffirmed
Long-term Non-fund Based Limits	615.60	632.40	[ICRA]A (Stable); Reaffirmed; outlook revised to Stable from Negative
Long-term/Short-term Non-fund Based Limits – Standby Letter of Credit	3,949.12	3,406.96	[ICRA]A (Stable)/[ICRA] A1; Reaffirmed; outlook revised to Stable from Negative
Short-term Interchangeable (LC/BC/OD)	(200.00)	(200.00)	[ICRA]A1; Reaffirmed
Long-term Interchangeable (BG)	(1,028.68)	(1,057.20)	[ICRA]A (Stable); Reaffirmed; outlook revised to Stable from Negative
Short-term Interchangeable	(110.0)	(610.00)	[ICRA]A1; Reaffirmed
Long-term – Unallocated	116.78	226.64	[ICRA]A (Stable); Reaffirmed; outlook revised to Stable from Negative
Total Bank Line Facilities	9,000.00	9,000.00	
Issuer Rating	NA	NA	[ICRA]A (Stable); Reaffirmed; outlook revised to Stable from Negative

*Instrument details are provided in Annexure-I

Rationale

The change in rating outlook for InterGlobe Aviation Limited (IAL, operator of IndiGo airlines) factors in the improvement in operating environment for the airline industry, aided by a healthy improvement in passenger volumes (both domestic and international) and a moderation in Aviation Turbine Fuel (ATF) prices over the past few months. Even as the passenger volumes had recovered in a swift manner post the Omicron wave (January 2022), an increase in ATF prices and depreciating rupee, impacted the profitability of IAL in H1 FY2023. However, the company 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 price movements. A moderation in ATF prices coupled with robust demand aided IAL in reporting a healthy profit (RASK-CASK spread of 0.5) in Q3 FY2023; an expectation of continuation of healthy passenger volumes coupled with relatively stable operating environment (ATF expected to remain rangebound) provides comfort and raises optimism regarding continuation of a positive spread for the company, going forward.

The ratings continue to factor in IAL's domestic market leadership position, large scale, extensive network, and cost competitive positioning, which are expected to help it generate improved cash flows going forward. The ratings also take in account 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 unforeseen weakening in industry conditions due to subdued passenger traffic, elevated crude prices or Indian Rupee depreciation vis-à-vis the US Dollar.

The company's domestic passenger traffic volumes improved in a swift manner in FY2023 (94% YoY growth in 9M FY2023) after being struck by the pandemic waves. IndiGo, being the largest domestic passenger airline remains relatively strongly placed to benefit from a recovery in air travel. This is reflected in the robust market share of 57% in 9M FY2023 (up from 49% in FY2020, viz. pre-pandemic), healthy load factors (85% in Q3 FY2023) and a ~125% YoY increase in its revenues in 9M FY2023. Going forward, pent-up demand from leisure and business segments, expansion of international operations through codeshare

agreements as well as addition of A321 NEOs and XLRs in its fleet and improving global vaccination coverage are expected to aid higher capacity utilisations and yields.

While there has been a healthy recovery in the passenger traffic, the domestic aviation industry has been facing major challenges on account of the elevated ATF prices (a YoY increase of 76% and 59% in domestic ATF during FY2022 and 10M FY2023, respectively), and rupee depreciation significantly impacting the operating cost structure. With a better pricing discipline and the ability to hold yields, however, IndiGo reported strong net profits during Q3 FY2023, after 10 consecutive quarters of losses (excluding Q3 FY2022). ICRA takes comfort from IAL's demonstrated ability to maintain adequate liquidity, and its strategy to induct fuel-efficient NEO aircraft and retire older CEOs from its active fleet, which would help it partially offset the impact of higher fuel price.

Going forward, ICRA expects a moderate improvement in the company's financial leverage and coverage indicators aided by a sustained track record of operations coupled and a relatively stable operating environment. The company had a fleet size of 302 as of December 2022 (highest for any domestic airline); of which 238 were fuel efficient A320 and A321 NEOs. The management's available seat kilometres (ASKM) enhancement guidance of north of mid-teens on YoY basis for FY2024 reflects continued demand strength. While the company will continue to take deliveries from its remaining ~492 aircraft orders (as of December 31, 2022), the pace of aircraft delivery remains monitorable due to supply challenges being faced by OEMs.

Furthermore, while IndiGo has maintained its market leadership over a long term, the competitive intensity in the domestic airline industry may increase in the near-term with the foray of new players, consolidation among two big players to form an enlarged group as well as sizable fleet addition by incumbent players. This may constrain market share gains for IndiGo; however, the company is expected to continue to benefit through its fixed-cost competitiveness and balance sheet strength versus its peer group.

Key rating drivers and their description

Credit strengths

Leading domestic air carrier in India with nearly 57% 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 FY2023, IndiGo has grown its fleet steadily from 19 to 302 aircraft and expanded its capacity (in terms of ASKMs) at a CAGR of ~6% (FY2018–9M 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% to nearly 57% during this period to emerge as the leading domestic airline. IndiGo continues to penetrate domestic market by launching operations at new locations, particularly non-metro cities, 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 downcycles – Despite some deterioration due to the cash losses in FY2021 and FY2022, IndiGo has maintained a healthier liquidity profile than its peers. This is evidenced by its large free cash balance and liquid investments of Rs 7,763 crore as of March 2022, which increased further to Rs. 10,612 crore at the end of December 2022. 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 has shored up significant liquidity during the past two years. A comfortable liquidity position is likely to enable it to better withstand any subdued 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 that IndiGo has continued to meet its lease related payments (even during the pandemic) in a timely manner and has also 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 bode well for its future 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 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 has 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 26% more seats than CEOs) and a more fuel-efficient fleet, IndiGo is expected to further strengthen 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, as over ~40% of its expenses are related to fuel costs and other operating expenses (i.e. lease rentals, aircraft, and engine maintenance payments), denominated in US Dollars. An increase in ATF prices and depreciating rupee impacted the profitability of the airlines sector in H1 FY2023. However, the sector 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 price movements. A moderation in ATF prices coupled with robust demand (partly led by the festive season) aided the company in reporting a healthy profit in Q3 FY2023. Given the healthy domestic demand, pick-up in international commercial operations and higher proportion of the fuel-efficient A320 NEO aircraft in the fleet, IndiGo is well placed to withstand any adverse fluctuations in ATF prices, going forward. The large forex denominated liabilities relating to lease obligations and maintenance costs (viz., supplementary rentals), expose the company to forex fluctuations; ICRA notes that the company also has inflows in foreign currency (through international flights etc.) which mitigate the risk to an extent. Further, 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 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 intense competition in the industry, the yields have remained at healthy levels in the current fiscal till date, thereby aiding the airline operators to mitigate the impact of high ATF prices. Nonetheless, expected entry/ramp up of operations of new players—Akasa Air and Jet 2.0—along with ongoing consolidation among Air India, Air Asia 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, where it would be able to command relatively higher yields.

Credit metrics weakened by adverse impact of the pandemic – IndiGo's overall debt, including operating lease liabilities, increased by 71% to Rs. 36,878 crore as on March 31, 2022, from Rs. 21,555 in December 31, 2019 (pre-pandemic). Due to losses, IndiGo's net worth turned negative in FY2022 and is likely to remain negative over the medium term, which will keep the capitalisation ratios sub-optimal. ICRA notes that aided by a recovery in EBITDAR, the leverage (TD including lease liabilities/EBITDAR¹; annualised) has improved to 7.7x (31.4x in FY2022) in 9M FY2023 with further improvement expected, going forward.

Liquidity position: Adequate

IAL's liquidity is **adequate** as reflected by a free cash of Rs. 10,612 crore as on December 31, 2022. The liquidity profile can further be augmented by unutilised short-term, fund-based lines of credit of nearly Rs. 3,500-4,000 crore as on December 31, 2022. In addition, the SLB transactions of the new NEO aircraft getting inducted in the fleet are also expected to provide liquidity. As against the same, it has repayment obligations of approximately ~Rs. 339 crore pertaining to finance leases in

¹ TD, including lease liabilities/EBITDAR (adjusted for unrealised forex losses), annualised, is expected to be at levels of ~4.5-4.7 times.

FY2023. Despite the expectation of a volatile operating environment due to fuel price volatility, these cash and liquidity buffers are expected to be adequate to cater to any operational losses and debt servicing requirements.

Rating sensitivities

Positive factors – An improvement in ratings could materialise in case IndiGo continues to witness a sustained improvement in passenger traffic amid a stabilisation 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.

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 costs commensurate during periods of reduced demand; and c) sharp and sustained increase in ATF 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 nearly 57% of the domestic market in terms of passengers carried (9M FY2023). It commenced operations from August 2006 with a single aircraft and as on December 31, 2022 had a fleet of 302 aircraft (14 owned/finance leased and 288 under operating lease). These comprised 23 Airbus A320 CEOs, 160 Airbus A320 NEOs, 78 Airbus A321 NEOs, 39 ATRs and two A321 freighters. As of December 2022, it connected 75 domestic and 22 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 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 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 ~29.8% stake in IndiGo as of February 2023.

Key financial indicators (audited)

IAL Consolidated	FY2021	FY2022	9M-FY2023
Operating income	14,640.6	25,930.9	40,285.8
PAT	-5,806.4	-6,161.8	-1,224.8
OPBDIT/OI	0.1%	2.2%	17.3%
PAT/OI	-39.7%	-23.8%	-3.0%
Total outside liabilities/Tangible net worth (times)	384.6	-8.6	-
Total debt/OPBDIT (times)	2,095.1	64.1	-
Interest coverage (times)	0.0	0.2	-

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore ; balance sheet figures not available for 9M FY2023

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, 2023 (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Mar 20, 2023	Apr 4, 2022			
						Aug 17, 2021	Mar 1, 2021 July 30, 2020	Nov 6, 2019 Oct 9, 2019 Jul 17, 2019	
1	Fund Based Limits – Overdraft/ WCDL / FCDL/STL	Short Term	4,376.50	--	[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+
3	Non-Fund Based Limits- Bank Guarantee	Long Term	632.40	--	[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 (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+
6	Interchangeable limits- Bank Guarantee	Long Term	(1,057.20)	--	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)

Instrument	Type	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Amount rated (Rs. crore)	Amount outstanding as of Feb 28, 2023 (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Mar 20, 2023	Apr 4, 2022			
						Aug 17, 2021	Mar 1, 2021 July 30, 2020	Mar 13, 2020 Nov 6, 2019 Oct 9, 2019 Jul 17, 2019
7 Interchangeable limits-Fund Based	Short Term	(610.00)	--	[ICRA]A1	[ICRA]A1	-	-	-
8 Unallocated	Long-term	226.64	--	[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 (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.

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