July 30, 2020

InterGlobe Aviation Limited – Long-term rating reaffirmed; Short-term rating downgraded; outlook continues to be Negative

Summary of rating action

Instrument	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. Crore)	Rating Action
Short Term Fund Based Limits	107.00	7.00	[ICRA]A1; Downgraded from [ICRA]A1+
Short Term Non-Fund Based Limits	589.25	468.68	[ICRA]A1; Downgraded from [ICRA]A1+
Long Term Non-Fund Based Limits	700.02	898.42	[ICRA]A+(Negative); reaffirmed
Long Term/Short Term Non-Fund Based Limits	5085.91	4776.05	[ICRA] A+(Negative) reaffirmed; ST ratings downgraded to [ICRA]A1 from [ICRA]A1+
Short Term Interchangeable	(245.00)	(225.00)	[ICRA]A1; Downgraded from [ICRA]A1+
Long Term interchangeable	(615.46)	(521.70)	[ICRA] A+(Negative); reaffirmed
Long-term- Unallocated	1517.82	1849.85	[ICRA] A+(Negative); reaffirmed
Total Bank Line Facilities	**8,000.0**	**8,000.00**	
Issuer Rating	**NA**	**NA**	[ICRA] A+(Negative) reaffirmed

**Instrument details are provided in Annexure-1*

Rationale

The revision in short-term rating outstanding on InterGlobe Aviation Limited (IAL), operator of IndiGo airlines, reflects the unprecedented disruption caused by the novel coronavirus pandemic and the likelihood of its extended impact on global demand for air travel. While IndiGo's healthy operating efficiencies and recalibrated cost management strategies, coupled with lower crude prices, would mitigate some of the downside, a substantial reduction in passenger demand, estimated by ICRA at about 45-50% from FY2020 levels, would result in sharp losses in the near-term and impair its relatively strong liquidity profile. Nonetheless, while reaffirming the long-term rating ICRA has factored in IndiGo's strong market position in the Indian airline industry, its cost leadership and relatively comfortable liquidity position.

In the current environment, ICRA expects its liquidity profile to weaken. While IndiGo intends to create additional buffer, of up to Rs. 5,000 crore, by raising debt against unencumbered assets, renegotiating contracts with lessors and vendors and other cost rationalisation initiatives, the extent of the cash burn would hinge on the severity and duration of the pandemic, a cure or vaccine becoming available and the company's ability to curtail costs in the interim.

The airline sector will witness a prolonged road to recovery, given the increased risk aversion among air travelers, the likelihood of extended travel restrictions across countries and corporate travel cuts. The substantial contraction in passenger traffic during the current fiscal will prompt airlines to significantly reduce capacity to stay afloat, besides looking for opportunities to curtail costs. While the Government has allowed airlines to commence domestic operations in a limited manner from May 25, 2020 onwards, demand for air travel will only return gradually, resulting in much lower load factors and pressure on yields over the next few quarters. Accordingly, given the high fixed operating structure of airlines, primarily comprising aircraft lease rentals, manpower costs, airport charges and maintenance costs, the sector is likely to report substantial losses during the current fiscal.

The Negative outlook on the rating reflects the continued uncertainty caused by the global pandemic on the airline industry, with risks of extended disruption to travel causing further strain on the company's liquidity and credit profile. In addition, the delay in resolution of differences between the founding promoters on various aspects could have an impact on strategic decision making. The same, including any governance-related concerns, remain a key monitorable.

Despite the above, the rating continues to reflect IndiGo's position as India's largest airline with nearly 50% share of the passenger traffic (in FY2020), 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. 8,928 crore as on March 31, 2020) relative to its peers in the airline sector. These factors mitigate downward pressure on its long-term ratings. While the company remains committed to its long-term growth strategy and intends to induct fuel-efficient NEO aircraft, strategic capacity management, through retirement of older CEO fleet, would be a key monitorable, apart from its ability to maintain adequate liquidity.

Key rating drivers and their description

Credit strengths

Comfortable liquidity compared to many airline peers supports ability to withstand extended industry slowdown - Despite the demand contraction and Rupee depreciation in Q4 FY2020, IndiGo has maintained a strong liquidity profile compared to its peers. This is evident from its large free cash balance and liquid investments of Rs. 8,928 crore at the end of March 2020 (PY: Rs. 6,080 crore). The company can also leverage its unencumbered fleet or tap into capital markets to raise funds. With the ongoing pandemic and resultant grounding of operations from March 2020 onwards, as well as uncertainty of passenger demand in upcoming quarters, IndiGo has also initiated several cost rationalisation measures to conserve liquidity. A comfortable liquidity position would enable it to better withstand the adverse impact of the pandemic on passenger traffic. ICRA believes that IndiGo will take timely steps to augment its liquidity and would maintain an adequate buffer over and above its routine business requirements.

Largest domestic air carrier in India with nearly 50% market share – The low-cost carrier (LCC) IndiGo is, at present, 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 50% during this period to emerge as the leading domestic airline. In FY2020, after discontinuation of operations by Jet Airways, IndiGo further consolidated its position. With the onslaught of Covid-19 and likelihood of demand remaining constrained, its weaker airline peers may be forced to curtail capacity. This may lead to further consolidation of IndiGo's position the domestic market.

Strong focus on cost competitiveness – Aided by large orders placed with Airbus and competitive terms negotiated with its vendors for maintenance/operations, IndiGo has demonstrated lower cost of operations (including cost of ownership) compared to 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 to impact financial performance in the near to medium term – The aviation sector has been one of the most impacted by the pandemic and will also witness the most prolonged road to recovery given the increased risk aversion among air travelers, likelihood of extended travel restrictions and corporate travel cuts. ICRA expects substantial contraction in domestic passenger traffic during the current fiscal (viz. 45-50% YoY) and significant decline in earnings, which will prompt airlines to significantly reduce capacity to stay afloat, besides looking for opportunities to contain costs. Furthermore, even post resumption of operations from May 25, 2020 in a phased manner, the airlines have been operating only a fraction of their fleet, and that too at dismal load factors, 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. A sustainable recovery in demand and scale-up in operations would, thus, remain critical for pruning losses and restoring cash flow generation.

Susceptible to volatility in crude oil prices and fluctuation in exchange rate – With jet fuel prices accounting for 35-40% of its total operating expenses and a considerable proportion of expenses (i.e., lease rentals, aircraft and engine maintenance payments) being denominated in Dollar terms, IndiGo's earnings remain susceptible to volatility in crude oil prices and fluctuations in foreign exchange rates. While the benign fuel prices are likely to support margins in the near-term, the depreciation of the Rupee vis-à-vis the Dollar, and the limited ability to pass on any unanticipated increase in costs to customers, given the intense competition, have significant bearings on earnings of airline companies. In addition, IndiGo has significant forex-denominated liabilities on its balance sheet. This mainly includes finance 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 over the last few years with multiple instances of aircraft grounding and delayed aircraft deliveries because of technical snags faced with the Pratt & Whitney (P&W) engines in the latest generation of A320 NEO aircraft. In FY2020 as well, there were delays in delivery from Airbus. Also, engine issues resulted in several flight disruptions and passenger safety concerns, due to which the regulator - Directorate General of Civil Aviation (DGCA)- had ordered replacement of all faulty engines by January 2020 (later extended to May 2020 and then to August 2020). While the company has taken initiatives to diversify its supplier base by placing orders with CFM International, P&W is expected to remain its key supplier in the medium term. With a vast and expanding fleet, the overall impact on capacity, due to grounding of a few aircraft, has now become marginal. Nonetheless, any severe regulatory intervention by DGCA leading to grounding of IndiGo's entire NEO fleet remains an event risk.

Liquidity position: Adequate

IAL's liquidity is adequate as reflected by a free cash of Rs. 8,928 crore as on March 31, 2020, up from Rs. 6,080 crore as on March 31, 2019. Despite expectation of adverse impact on financial performance in FY2021 due to the pandemic, the cash buffers are expected to be adequate to take care of operational losses and debt servicing requirements. The company has repayment obligations of approximately Rs. 550-600 crore finance leases and forex loan in FY2021. With its cost rationalisation initiatives underway and leverage of its unencumbered assets, IndiGo would be able to generate incremental liquidity buffer of approximately Rs. 3,000-4,000 crore. The company can also access capital markets to raise funds, if required.

Rating sensitivities

Positive triggers – Given the Negative outlook, a rating upgrade is unlikely in the near-term. ICRA could revise the outlook to Stable, 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, restoration of adequate liquidity buffer and healthy debt coverage indicators, as indicated by TD (including operating lease liability)/EBDITAR ≤3x on a sustained basis, among others, could be a few triggers for an outlook revision.

Negative triggers – 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 will be a monitorable. Furthermore, any adverse developments due to alleged differences between the founding promoters also remain a key 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 consolidated financial statements of the issuer. The list of entities consolidated is shared in Annexure-2.

About the company

InterGlobe Aviation Limited (IAL) 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 both in the domestic as well as international sectors. At present, the company commands nearly 50% of the domestic market in terms of passengers carried. It commenced operations from August 2006 with a single aircraft and as on March 31, 2020, had a fleet of 262 aircraft, comprising 123 Airbus A320 CEOs, 100 Airbus A320 NEOs, 14 Airbus A321 NEOs and 25 ATRs. As of March 2020, these connected 86 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)

Consolidated	FY2019	FY 2020*
Operating Income (Rs. crore)	28,496.8	35,756.0
PAT (Rs. crore)	157.3	-233.7
OPBDIT/OI (%)	1.1%	15.7%
RoCE (%)	4.3%	8.6%
Total Outside Liabilities/Tangible Net Worth+ Minority Interest (times)	2.6	6.2
Total Debt/OPBDIT (times)	7.5	4.0
Interest Coverage (times)	0.6	3.0
DSCR (times)	1.8	3.4

Source: Company; ICRA research; * Limited results, Ind-AS 116 applicable w.e.f. April 1, 2019. YoY results may not be strictly comparable.

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);

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

S. No.	Instrument	Current Rating (FY2021) Type	Amount Rated (Rs. crore)	Amount O/S as of 13-Mar-20 (Rs. crore)	Date & Rating 30-Jul-20	Chronology of Rating History for the past 3 years: Date & Rating in FY2020 13-Mar-20 9-Oct-19 17-Jul-19	Date & Rating in FY2019 17-Oct-18	13-Jun-18	Date & Rating in FY2018 -
1	Fund Based Limits - Overdraft	Short Term	7.00	--	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-
2	Non-Fund Based Limits- Letter of Credit	Short Term	468.68	-	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-
3	Non-Fund Based Limits- Bank Guarantee	Long Term	898.42	--	[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	4776.05	--	[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	(521.70)	--	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]AA (Stable)	-
7	Unallocated	Long-term	1849.85	--	[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. 75.47

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	-	-	-	7.00	[ICRA]A1
NA	Short Term Non-Fund Based Limits – Letter of Credit	-	-	-	468.68	[ICRA]A1
NA	Long-Term Non-Fund Based	-	-	-	898.42	[ICRA]A+(Negative)
NA	Long Term/Short Term Non-Fund Based Limits	-	-	-	4776.05	[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*	-	-	-	(521.70)	[ICRA]A+ (Negative)
NA	Unallocated limits	-	-	-	1849.85	[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	IAL Ownership	Consolidation Approach
InterGlobe Aviation Limited	100.00% (Rated entity)	-
Agile Airport Services Private Limited	100.00%	Full Consolidation (Subsidiary)

Source: Company Annual Report 2019

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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.

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