August 17, 2021

InterGlobe Aviation Limited: Long-term rating downgraded to [ICRA]A(Negative); Short-term rating reaffirmed at [ICRA]A1

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short Term Fund Based Limits	2,006.00	2826.00	[ICRA] A1; Reaffirmed
Short Term Non-Fund Based Limits	462.50	285.75	[ICRA] A1; Reaffirmed
Long Term Non-Fund Based Limits	766.50	658.04	[ICRA]A (Negative); Downgraded from [ICRA]A+ (Negative)
Long Term/Short Term Non-Fund Based Limits – Standby Letter of Credit	4,406.41	3,753.80	[ICRA]A (Negative); Downgraded from [ICRA]A+ (Negative);/[ICRA] A1; Reaffirmed
Short Term Interchangeable (LC/BC/OD)	(225.00)	(200.00)	[ICRA]A1; Reaffirmed
Long Term interchangeable (BG)	(419.35)	(527.10)	[ICRA]A (Negative); Downgraded from [ICRA]A+ (Negative)
Long-term – Unallocated	358.59	476.41	[ICRA]A (Negative); Downgraded from [ICRA]A+ (Negative)
Total Bank Line Facilities	**8,000.00**	**8,000.00**	
Issuer Rating	NA	NA	[ICRA]A (Negative); Downgraded from [ICRA]A+ (Negative)

**Instrument details are provided in Annexure-1*

Rationale

The revision in long-term rating of InterGlobe Aviation Limited's (IAL, operator of IndiGo airlines) factors in the deterioration in its financial performance–as reflected by cash losses and increase in net debt levels–over the past six quarters (Q4 FY2020-Q1 FY2021) owing to prolonged disruption caused by the Covid-19 pandemic. ICRA expects that the Indian airline industry will continue to remain adversely impacted in the near-term, and the recovery in passenger traffic as well as improvement in yields to pre-pandemic levels will be gradual. The rating action also takes into consideration the expected adverse impact of the significant increase in operating costs of airlines, including IndiGo, due to depreciation of Indian Rupee (INR) against the Dollar and the escalating global crude oil prices, which has led to a 75% increase in domestic Aviation Turbine Fuel (ATF) prices (in 4M FY2022 on a YoY basis) and other costs (operating lease and maintenance payments). Given the competitive intensity in the industry and regulated air fare bands imposed by the Government currently (since reopening of domestic operations in May 2020), the ability to pass on these cost pressures to passengers in the form of increased fares remains limited, leading to sustained pressure on RASKs.

IndiGo reported a nearly 60% YoY decline in revenues in FY2021 to Rs. 14,641 crore, driven by a substantial reduction in passenger demand due to the pandemic and travel-related restrictions. While IndiGo's healthy operating efficiencies and recalibrated cost management strategies, coupled with lower crude prices, helped it in sequentially reducing its cash burn in Q2 and Q3 FY2021, the increase in fuel prices and INR depreciation resulted in higher cash burns in Q4 FY2021 (Rs. 19 crore/day) and Q1 FY2022 (Rs. 33 crore/day). The company reported record net losses of Rs. 5,806 crore in FY2021 and Rs. 3,174 crore in Q1 FY2022. While IndiGo has been able to shore-up incremental liquidity of nearly Rs. 6,500 crore in FY2021 through various cost rationalisation initiatives, monetisation of owned aircraft and engines and additional credit lines from banks, expectation of continuing cost pressures remains an overhang on company's profitability and liquidity position in the near-term. IndiGo has recently further announced total liquidity injection plans of Rs, 5,500 crore for FY2022, out of which liquidity of Rs. 1,400 crore has already been infused during Q1 FY2022; the planned liquidity measures are likely to help IndiGo maintain an adequate liquidity profile and ensure smooth running of operations. Given the challenging operative environment, it remains imperative that both demand and pricing sanity returns in the industry and airlines pass on the increase in input costs to passengers in the form of increased yields to help the industry players sustain operations.

The industry level headwinds are, however, offset to some extent by IndiGo's adequate liquidity position and relatively superior cost structure, both of which are expected to help the company to manage cash burn during the current period, much better relative to most of its peers. As on June 30, 2021, the company had free cash balances and investments in liquid instruments to the tune of Rs. 5,621 crore. The company has also received shareholders' approval to raise up to Rs. 3,000 crore funds from the capital market to augment its liquidity. While it is yet to announce the timing and quantum of the proposed QIP[1], ICRA expects the same is likely in FY2022.

In addition, the ratings continue to factor in favourably IndiGo's position as India's largest airline, with nearly 55% share of the passenger traffic in FY2021. IndiGo consolidated its position and increased its market share from 49% in FY2020 aided by incremental capacity deployment. Despite the near-term uncertainty, IndiGo remains committed to its long-term growth strategy, as it continues to induct fuel-efficient NEO aircrafts in its fleet. The airline's strategic capacity management, through retirement of older CEO fleet, remain a key monitorable in the near-term, apart from its ability to maintain adequate liquidity.

The Negative outlook on IAL's rating reflects ICRA's opinion that passenger traffic recovery is likely to be gradual in the near-term because of risk aversion, subdued demand from corporate travelers, and ongoing restrictions, especially on the international routes. Accordingly, earnings and liquidity profile of airlines, including IndiGo, are likely to remain under pressure over the near-to-medium 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 FY2021, IndiGo grew its fleet steadily from 19 to 285 aircraft and expanded its capacity (in terms of ASKMs) at a CAGR of ~30% (FY2010-FY2020). 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 54% in Q1 FY2022. IndiGo continues to penetrate domestic market by launching operations at new locations and this is likely to help it maintain/further strengthen its hold in the sector.

Healthier liquidity than many airline peers support ability to withstand extended industry slowdown - Despite some deterioration due to the cash losses in FY2021 and Q1FY2021, IndiGo has maintained a healthier liquidity profile than its peers. This is evidenced by its large free cash balance and liquid investments of Rs. 5,621 crore at the end of June 2021 (although it declined from Rs. 8,928 crore as on March 31, 2020, with the onset of the 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 nearly Rs. 6, 500 crore of liquidity in FY2021. IndiGo can also access capital markets for raising funds and has already secured shareholders' approval for raising up to Rs. 3,000 crore through QIP. A comfortable liquidity position is likely to enable it to better withstand the adverse impact of the pandemic on passenger traffic. 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,

[1] *Qualified Institutional Placement*

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 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

Extensive pandemic impact on passenger demand and network operations resulting in significant cash losses - The aviation sector has been one of the worst impacted by the Covid-19 pandemic and is expected to witness a prolonged road to recovery given the risk aversion among air travelers, travel restrictions and corporate travel cuts. The pace and efficacy of the vaccination program–both in India and globally–is the most important factor for the industry and IndiGo's inevitable resurgence. Even as the load factors have remained muted, ATF prices have increased sharply in the last two quarters, aggravating the stress on profitability (cash burn per day increased to Rs. 19 crore/day and Rs. 33 crore/ day in Q4 FY2021 and Q1 FY2022, respectively, from Rs. 15 crore/day). A reduction in operating profits have led to erosion in available liquidity buffer over the past six quarters, despite the stringent cost containment measures. A sustainable recovery in demand and scale-up in operations remains critical for pruning losses and restoring cash flows. ICRA has a Negative outlook on the industry and expects the credit profile of domestic airlines to remain stressed in FY2022.

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 50% of its expenses are related to fuel costs and other operating expenses (i.e., lease rentals, aircraft, and engine maintenance payments), denominated in Dollars. While the benign fuel prices supported margins of airline operators in FY2021, the depreciation of the Rupee vis-à-vis the Dollar, and the limited ability to pass on any unanticipated increase in costs to customers, have been exerting pressure on its earnings and profitability since Q4 FY2021. In addition, IndiGo has significant forex-denominated liabilities on its balance sheet. This mainly includes finance lease and operating lease obligations, and liabilities related to maintenance costs, viz., supplementary rentals, exposing the company to forex fluctuations. Although the capitalisation of operating and finance lease is an accounting change and is cash flow neutral, 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.

Intensely competitive 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. However, this is expected to improve over the long-term as the airline ramps up its international operations, where it would be able to command relatively higher yields.

Liquidity position: Adequate

IAL's liquidity is **adequate** as reflected by a total cash balance of Rs. 17,068 crore, including free cash of Rs. 5,621 crore as on June 30, 2021. The company had already secured short-term fund-based lines of credit of nearly Rs. 3, 800 crore as on June 30, 2021 and is in process of tying up similar lines from more lenders. The SLB transactions of new NEO aircraft getting inducted in the fleet is also expected to continue to augment liquidity. In addition, IndiGo has a board approval to raise up to Rs. 3,000 crore from the capital markets through QIP. As against the same, it has repayment obligations of approximately Rs. 370 crore pertaining to finance leases in FY2022. Despite the expectation of continuing impact of the pandemic on its financial performance 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 – A rating upgrade in the current scenario remains unlikely. Nevertheless, ICRA could review the outlook if IndiGo witnesses a sustained improvement in passenger traffic. An improvement in financial profile demonstrated through a return to steady cash flow generation, improvement in liquidity (free cash) and healthy debt coverage indicators, would be considered favourably for an outlook revision. Specific metrics that could be a key monitorable include, TD (including operating lease liability)/EBDITAR ≤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 with reduced demand; and c) sharp increase in crude oil prices and/or adverse movement in Dollar/Rupee conversion rate. In addition, delay in raising funds through QIP and 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 Consolidation and Rating Approach
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 55% of the domestic market in terms of passengers carried (FY2021). It commenced operations from August 2006 with a single aircraft and as on June 30, 2021, had a fleet of 277 aircraft, comprising 85 Airbus A320 CEOs, 122 Airbus A320 NEOs, 41 Airbus A321 NEOs and 29 ATRs. As of date, these connect 91 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 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*	Q1FY2021*
Operating Income (Rs. crore)	35,756.0	14,640.6	3,006.9
PAT (Rs. crore)	-264.3	-5,806.4	-3,174.2
OPBDIT/OI (%)	11.5%	-0.1%	-49%
RoCE (%)	8.5%	-12.6%	-
Total Outside Liabilities/Tangible Net Worth (times)	6.1	384.6	-
Total Debt/OPBDIT (times)	5.5	-2,192.0	-21.6
Interest Coverage (times)	2.16	-0.0	-2.6

*Source: Company results; ICRA research; *Limited results*

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); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/ (Interest + Repayments made during the Year)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jun 30, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
					Aug 17, 2021	Mar 1, 2021 July 30, 2020	Mar 13, 2020 Nov 6, 2019 Oct 9, 2019 Jul 17, 2019	Oct 17, 2018	Jun 13, 2018
1	Fund Based Limits - Overdraft	Short Term	2826.0	--	[ICRA]A1	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Non-Fund Based Limits- Letter of Credit	Short Term	285.75	--	[ICRA]A1	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Non-Fund Based Limits- Bank Guarantee	Long Term	658.04	--	[ICRA]A (Negative)	[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	3,753.80	--	[ICRA]A (Negative)/ [ICRA]A1	[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	(200.00)	--	[ICRA]A1	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
6	Interchangeable limits	Long Term	(527.10)	--	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]AA (Stable)
7	Unallocated	Long-term	476.41	--	[ICRA]A (Negative)	[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]A+ (Negative)	[ICRA]AA (Stable)

Note: INR/USD conversion rate = Rs. 74.3

Complexity level of the rated instrument

Instrument	Complexity Indicator
Short Term Fund Based Limits- Overdraft	Simple
Short Term Non-Fund Based Limits – Letter of Credit	Very simple
Long-Term Non-Fund Based	Very Simple
Long Term/Short Term Non-Fund Based Limits	Simple
Short-Term Fund/ Non-Fund Based Limits Sub-Limits*	Simple
Long Term Non-Fund Based Sub-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	Short Term Fund Based Limits-Overdraft	Multiple	-	-	2826.0	[ICRA]A1
NA	Short Term Non-Fund Based Limits – Letter of Credit	Multiple	-	-	285.75	[ICRA]A1
NA	Long-Term Non-Fund Based	Multiple	-	-	658.04	[ICRA]A(Negative)
NA	Long Term/Short Term Non-Fund Based Limits	Multiple	-	-	3,753.80	[ICRA]A (Negative) / [ICRA]A1
NA	Short-Term Fund/ Non-Fund Based Limits Sub-Limits*	Multiple	-	-	(200.00)	[ICRA]A1
NA	Long Term Non-Fund Based Sub-Limits*	Multiple	-	-	(527.10)	[ICRA]A (Negative)
NA	Unallocated limits	-	-	-	476.41	[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	Ownership	Consolidation Approach
InterGlobe Aviation Limited	100.00% (Rated entity)	-
Agile Airport Services Private Limited	100.00%	Full Consolidation

Source: Company

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

Ritu Goswami
91 124 4545826
ritu.goswami@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

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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