

IPO Note: Interglobe Aviation Ltd.

Industry: Aviation
Recommendation: Not Rated
Date: October 21, 2015

Issue Snapshot

Company Name	Interglobe Aviation Ltd.
Issue Opens	October 27, 2015 to October 29, 2015
Price Band	Rs. 700 to Rs. 765
Bid Lot	15 Equity Shares and in multiples thereof.
The Offer	Public issue of 3.95 – 4.10 Crores Equity shares of Face value Rs.10 each, (Comprising of fresh issue of 1.66 – 1.82 Crores Equity Shares and Offer for Sale of 2.28 Crores Equity Shares by Selling Shareholder).
Issue Size	Rs. 2870 - 3018 Crore (Public Issue: 2773* Crores + Employee Reservation: 245* Crores)
IPO Process	100% Book Building
Face Value	Rs. 10.00
Exchanges	NSE & BSE
BRLM	Barclays Bank PLC, Kotak Mahindra Capital Company Limited, UBS Securities India Private Limited
Global Coordinators & BRLM	J.P. Morgan India Pvt. Limited , Citigroup Global Markets India Pvt. Limited and Morgan Stanley India Company Pvt. Limited
Registrar	Karvy Computershare Private Limited

Objects of the Offer

Offer for Sale

The Company will not receive any proceeds of the Offer for Sale by the Selling shareholder .

Fresh Issue

- Retirement of certain outstanding lease liabilities and consequent acquisition of aircraft;
- Purchase of ground support equipment for airline operations; and
- General corporate purposes

Issue Break up

Issue Size	Allocation	Equity Shares*
QIB	50%	178,573,033
HNI	15%	53,571,910
RII	35%	125,001,123
Total Public	100%	357,146,065
Employee		3,200,000
Total		360,346,065

* Based on higher price band @ Rs. 765

About the company

Company operate IndiGo, India's largest passenger airline with a 33.9% and 37.4% market share of domestic passenger volume for fiscal 2015 and the five months ended August 31, 2015, respectively, according to the DGCA. The Company operates on a low-cost carrier, or LCC, business model and focus primarily on the domestic Indian air travel market. IndiGo was the seventh largest low-cost carrier globally in terms of seat capacity in fiscal 2015, according to CAPA. Company continuously focus on maintaining their cost advantage and a high frequency of flights while striving to fulfill their simple brand message of providing "low fares, on-time flights and a hassle-free experience" to their passengers.

The company commenced operations in August 2006 with a single aircraft, and has grown their fleet to 97 aircraft as of August 31, 2015, all of which are Airbus A320 aircraft. Currently company has an order book of 430 A320neo aircraft and expects to take delivery of 14 additional aircraft, including nine A320neos, by March 31, 2016. As of August 31, 2015, the average age of aircraft was 3.7 years. As of March 31, 2015, the average age of aircraft was 3.2 years, which, according to CAPA, was the second youngest average fleet age among Indian carriers and one of the youngest fleets of any LCC globally.

As of the week ended August 31, 2015 the company operated scheduled services to 33 airports in India, with a maximum of 603 domestic flights per day. The company operated an average of 570 domestic flights per day, for the month ending March 31, 2015. The company also had the highest market share in each of the top five domestic domestic routes in India by traffic during fiscal 2015, according to CAPA.

From fiscal 2011 to fiscal 2015, domestic passenger volume increased at a CAGR of 25.8% from 9.5 million domestic passengers in fiscal 2011 to 23.7 million domestic passengers in fiscal 2015 and 12.6 million domestic passengers as of August 31, 2015, according to the DGCA. The market share of the company, of domestic passenger volume increased from 17.6% in fiscal 2011 to 33.9% in fiscal 2015, according to the DGCA.

The company had the second highest load factor on domestic scheduled services in fiscal 2015, according to the DGCA and the second lowest level of complaints per 10,000 passengers in fiscal 2015, according to CAPA. It has received industry accolades in recognition of the quality of their airline service, including the award for "Best Low-Cost Airline in Central Asia & India" at the SkyTrax World Airline Awards for six consecutive years from 2010 to 2015.

To meet the funding for retirement of certain outstanding lease liabilities and consequent acquisition of aircrafts, purchase of ground support equipments and meet other corpus funding, the company is coming out with a maiden IPO to raise Rs. 1272.2 crore. It is also having offer for sale of 2.28 Crores shares by existing stakeholders. Thus the overall issue size is for Rs. 3018 crore at the upper price band. IAL reserve 3,200,000 shares for eligible employees and they will be offered discount equivalent to 10% on the final price. Through this IPO, the company is diluting around 12% on the basis of post IPO equity, which means the promoter share holding will come down to 83% from 94.2% and promoter has to further dilute its stake in future for the mandatory less than 75% promoter holding.

But the major concern for the company is the payment of an unusually high dividend to existing investors in June, leaving the company with a negative net worth of Rs.139.4 crore. As of end-March, it had a positive net worth of Rs.426 crore. With the estimated Rs. 2000 cr of profit this year, at the higher price band, IndiGo is asking for a valuation of more than 13 times its estimated earnings for this year. While according to Citi Research, Ryanair Ltd, an Irish low-cost airline, trades at 13.2 times one-year forward earnings; Southwest Airlines, a major US airline, trades at 10.65 times earnings; and major LCCs across the world get an average valuation of 12.8x one-year forward earnings. Thus, it looks this IPO will not leave much for the investors on the table. However looking at the unique business model of the company, strong financial result in the past and lower crude oil price the company is expected to deliver good performance in future.

Financial Statement

(In Rs. Cr)	FY11	FY12	FY13	FY14	FY15	Q1FY16
Share Capital	34	34	34	34	34	344
Net Worth	103	243	389	422	426	-139
Long Term Borrowings	807	906	1,617	3,081	3,588	3,567
Other Long Term Liabilities	583	1,170	1,968	2,751	3,810	3,900
Other Current Liabilities	1,427	1,328	1,878	2,850	2,949	3,248
Fixed Assets	831	886	1,771	3,956	4,876	4,843
Non Current Assets	140	452	1,011	2,233	2,729	2,664
Current Assets	1,949	2,309	3,071	2,915	3,168	3,069
Total Assets	2,919	3,647	5,852	9,103	10,774	10,575
Revenue from Operations	3,833	5,565	9,203	11,117	13,925	4,212
Revenue Growth (%)		45.2	65.4	20.8	25.3	
EBITDA	712	49	894	507	1,870	972
EBITDA Margin (%)	18.6	0.9	9.7	4.6	13.4	23.1
Net Profit	579	141	783	474	1,296	640
Net Profit Margin (%)	15.1	2.5	8.5	4.3	9.3	15.2
Earnings Per Share (Rs.)	16.9	4.1	22.8	13.8	37.7	18.6
Return on Network (%)	584.9%	58.7%	203.3%	113.5%	306.6%	-459.5%
Net Asset Value per Share (Rs.)	3.2	7.8	12.6	13.6	13.8	-4.1

Source: RHP, Ashika Research

Cash Flow Statement

(In Rs. Cr)	FY11	FY12	FY13	FY14	FY15	Q1FY16
Cash flow from Operations Activities	872	896	1,741	1,596	2,384	874
Cash flow from Investing Activities	-608	-47	-1,890	-2,914	-941	217
Cash flow from Financing Activities	-272	-638	36	1,285	-1,308	-1,236
Net increase/(decrease) in cash and cash equivalents	-8	211	-112	-33	135	-145
Cash and cash equivalents at the beginning of the year	54	46	257	145	111	247
Cash and cash equivalents at the end of the year	46	257	145	111	247	104

Source: RHP

Comparison with listed industry peers

Name of the company	Face value (Rs.)	EPS (Rs.)	P/E (x)	NAV per Share (Rs.)	RONW (%)
Jet Airways Ltd.	10	-184.64	n/m	n/m	n/m
SpiceJet Ltd.	10	-13.38	n/m	n/m	n/m

Source: RHP, Ashika Research

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