

# Aviation Sector

## PAX growth moderates; high crude price & dollar a concern

Domestic passenger growth witnessed moderation at c.17% YoY in May'18, after increasing at 20%+ YoY in the past four months. Domestic capacity (ASK) growth stood at c.17%, in-tandem with c.19% increase in industry fleet. Indigo lost 0.3ppt market share to 41.1%, driven by low capacity addition. Indigo's domestic ASK growth remained low (c.12% YoY) as there have been no deliveries of A320 neos since Jan'18. Industry continued to report a high PLF of 88%. Jet Airways has recently placed an order to purchase additional 75 Boeing 737 MAX aircraft taking the total order book to 225 aircraft now. Movement in yields, in a rising fuel cost environment and substantial supply addition (industry order book of 1,100+ aircraft), will be a key monitorable. At the current crude price of USD 78/bbl and INR/USD rate of 68.5, aviation stocks have limited upside from CMP. Sensitivity of EBITDAR and fair value for Indigo/SpiceJet are outlined in this report (exhibits 26 to 29).

- **Domestic passenger growth moderates at 16.6% YoY in May'18:** Airlines carried 11.8mn domestic passengers (PAX) in May'18, implying a growth of 16.6% YoY. The growth witnessed moderation after increasing at 20%+ YoY in the past four months. Indigo's domestic PAX increased 15.8% YoY to 4.9mn in May'18, while SpiceJet carried 1.5mn PAX (+14.1% YoY), Jet Airways and Jet Lite carried 1.8mn PAX (0.7% YoY), and Air India carried 1.3mn PAX (9.3% YoY). Go Air witnessed the highest PAX growth at 19.8% YoY to 1mn.
- **Indigo's ASK growth impacted by delayed delivery:** In May'18, domestic ASK growth increased 17.3% to 12.8bn, driven c.18.8%/1% YoY growth in aircraft and distance flown per aircraft, respectively, partially offset by c.2.1% YoY de-growth in no of seats. In the same month, Indigo's domestic ASK increased at 13.3% YoY to 5.1bn. The growth rate was impacted driven by zilch delivery of A320 neos in the past five months. SpiceJet's domestic ASK increased 14.2% to 1.4bn. Jet Airways + Jet Lite's domestic ASK increased 7.5% YoY to 2.1bn and Air India's domestic ASK increased 9.2% YoY to 1.6bn. GoAir reported the highest ASK growth of 28.2% to 1.1mn. Indigo's ASK growth of 13.3% YoY, was driven by 22% YoY increase in fleet, partially offset by c.5.7%/1.4% YoY decrease in distance flown and no. of seats, respectively. While SpiceJet's 14.2% YoY growth in ASK was driven by a 26.9% YoY increase in aircraft, partially offset by 3.2% decrease in seats per aircraft and 6.2% decrease in distance flown.
- **Domestic RPK increased 16% YoY in May'18:** Domestic RPK increased 16% YoY to 11.3bn in May'18. Indigo's domestic RPK increased 17.3% YoY to 4.9bn. SpiceJet's domestic RPK increased 14.8% YoY to 1.3bn, driven by high PLF of 94.8%; Jet Airways + Jet Lite's domestic RPK increased 1.5% YoY to 1.7bn and Air India's domestic RPK increased 14.8% YoY to 1.3bn.
- **Indigo lose market share driven by lower capacity addition:** Indigo, a market leader, lost 0.3ppt YoY domestic market share (by PAX carried) to 41.1% in May'18. During the same month, SpiceJet's lost 0.3ppt YoY market share to 12.3%. Jet Airways + Jet Lite (market share of 15.2%) and Air India (11.3%) lost 2.4ppt/0.7ppt market share, respectively, due to their restricted aircraft addition plans. GoAir gained 0.2ppt YoY market share to 8.8%, driven by 28.2% YoY increase in capacity addition.
- **Domestic industry PLF remains high @ 87.8:** In May'18, industry reported a high PLF (domestic) of 87.8%. SpiceJet's PLF declined below 95% for the first time in past seven months, but remained high at 94.8% in May'18. During the same month, Indigo too reported high PLF of 91%. Go Air reported domestic PLF at 89.2%. Jet Airways witnessed significant drop of 4.9ppt in PLF to 80.4%, while Air India witnessed 0.6ppt increase in PLF to 81.7%.

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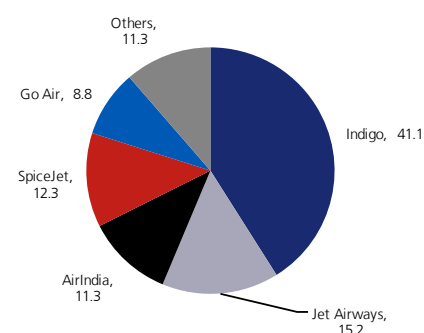
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### Domestic demand/supply

%	FY 18	May-18	Apr-18	May-17
ASK (mn)	134.5	12.8	12.2	10.9
YoY (%)	15.1	17.3	20.0	14.8
Pax (mn)	123.3	11.8	11.5	10.1
YoY (%)	18.8	16.6	26.1	17.6

Source: DGCA, JM Financial; Note: Includes only domestic ASK and PAX

### Domestic mkt share by PAX – Apr'18 (%)



Source: DGCA, JM Financial; Note: Represents only domestic PLF

### SpiceJet's target price sensitivity to crude/INR

		Crude (USD/bbl)		
		60	65	70
INR (INR/USD)	64	194	153	112
	66	172	130	88
	68	150	107	63

Source: JM Financial

### Indigo's target price sensitivity to crude/INR

		Crude (USD/bbl)		
		60	65	70
INR (INR/USD)	64	1,388	1,212	1,035
	66	1,282	1,100	918
	68	1,176	988	800

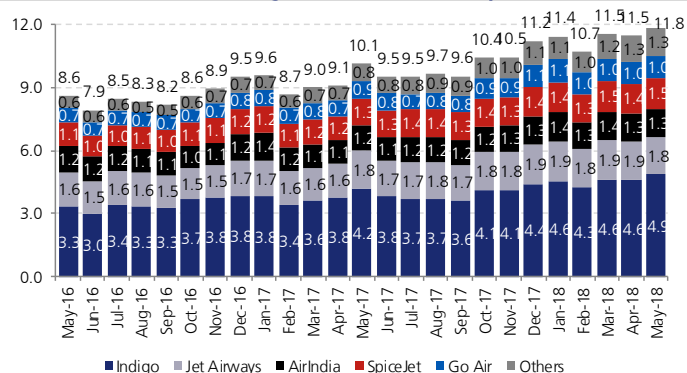
Source: JM Financial

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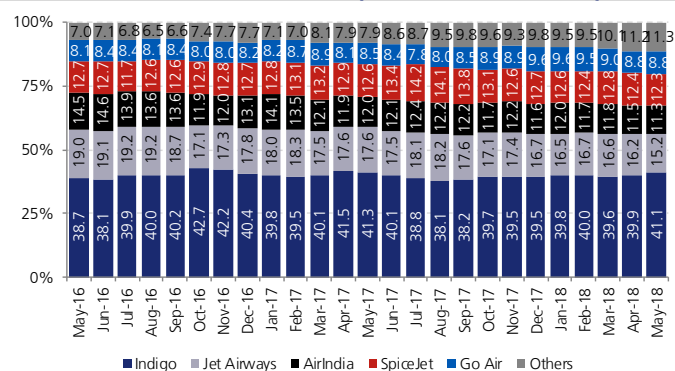
Click [here](#) to see the JM Financial team.

JM Financial Research is also available on: Bloomberg - JMFR <GO>, Thomson Publisher & Reuters S&P Capital IQ and FactSet

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

**Exhibit 1. Domestic Passengers Carried - monthly (mn)**

Source: DGCA, JM Financial; Note: Jet airways includes Jet Lite

**Exhibit 2. Domestic market share by PAX carried – monthly (%)**

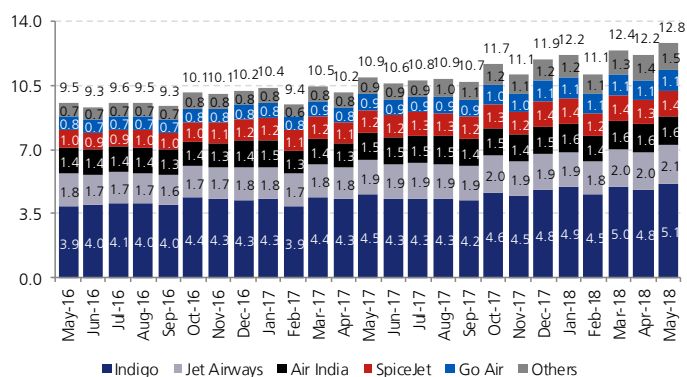
Source: DGCA, JM Financial; Note: Jet airways includes Jet Lite

**Exhibit 3. Domestic passenger growth (YoY) (%)**

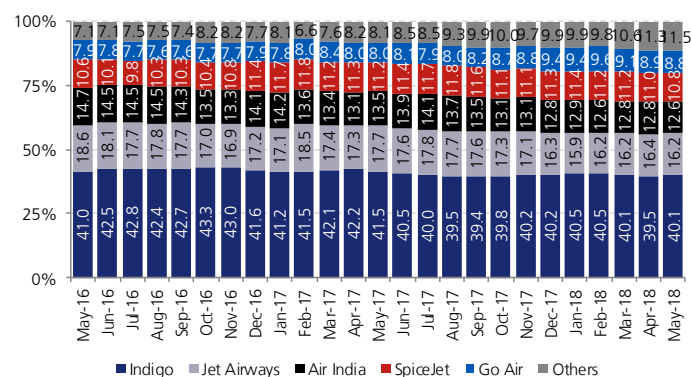
	FY15	FY16	FY17	FY18	May-17	Mar-18	Apr-18	May-18
Air India	13.2	14.0	4.0	6.1	(2.1)	25.4	21.4	9.3
Jet Airways	5.4	17.4	4.5	12.1	8.9	21.5	15.8	0.7
SpiceJet	(6.6)	(0.4)	24.1	21.9	16.6	23.5	21.3	14.1
Go Air	24.3	9.6	20.7	25.3	23.2	29.7	36.6	19.8
Indigo	31.2	32.6	32.3	17.6	25.6	26.7	21.2	15.8
<b>Total Domestic</b>	<b>15.5</b>	<b>21.6</b>	<b>21.9</b>	<b>18.8</b>	<b>17.6</b>	<b>28.2</b>	<b>26.1</b>	<b>16.6</b>

Source: DGCA, JM Financial; Note: Jet airways includes Jet Lite

Domestic passenger traffic increased 16.6% YoY to 11.8 million in May'18

**Exhibit 4. Domestic ASK – monthly (mn)**

Source: DGCA, JM Financial; Note: Jet airways includes Jet Lite

**Exhibit 5. Domestic market share by ASK – monthly (%)**

Source: DGCA, JM Financial; Note: Jet airways includes Jet Lite

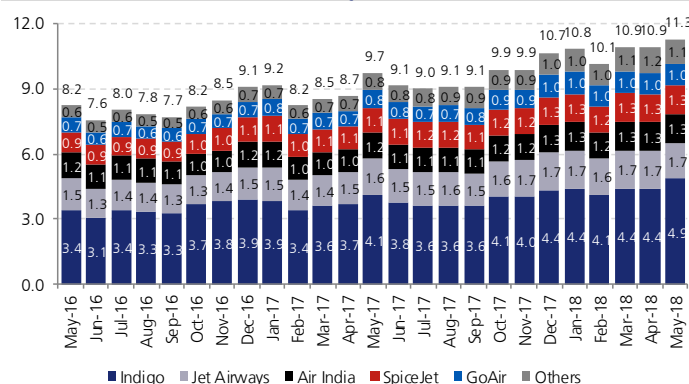
**Exhibit 6. Domestic ASK growth (YoY) (%)**

	FY15	FY16	FY17	FY18	May-17	Mar-18	Apr-18	May-18
Air India	1.6	3.5	6.8	7.8	5.3	13.1	17.6	9.2
Jet Airways	(6.1)	22.2	4.5	10.8	9.2	11.1	14.2	7.5
SpiceJet	(19.6)	(18.7)	24.0	21.3	20.8	19.4	17.6	14.2
Go Air	16.3	2.9	13.4	26.5	16.2	29.6	34.9	28.2
Indigo	22.0	22.3	28.1	10.3	16.2	12.9	12.2	13.3
<b>Total Domestic</b>	<b>5.1</b>	<b>15.2</b>	<b>19.7</b>	<b>15.1</b>	<b>14.8</b>	<b>18.7</b>	<b>20.0</b>	<b>17.3</b>

Source: DGCA, JM Financial; Note: Jet airways includes Jet Lite

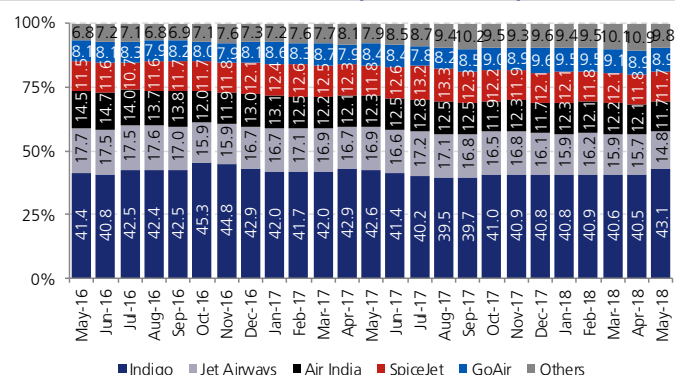
Domestic ASK increased 17.3% YoY to 12.8 billion in May'18

Exhibit 7. Domestic RPK - monthly (mn)



Source: DGCA, JM Financial; Note: Jet airways includes Jet Lite

Exhibit 8. Domestic market share by RPK – monthly (%)



Source: DGCA, JM Financial; Note: Jet airways includes Jet Lite

Exhibit 9. Domestic RPK growth (YoY) (%)

	FY15	FY16	FY17	FY18	May-17	Mar-18	Apr-18	May-18
Air India	10.6	6.3	6.8	9.5	0.3	27.1	25.7	10.1
Jet Airways	3.9	24.9	5.4	15.4	12.9	20.3	17.9	1.5
SpiceJet	(8.9)	(8.5)	25.3	23.2	21.8	24.1	20.3	14.8
Go Air	23.9	8.8	20.0	26.7	21.9	34.6	42.6	23.0
Indigo	26.7	29.5	29.8	14.2	21.4	23.3	18.7	17.3
<b>Total Domestic</b>	<b>13.3</b>	<b>20.8</b>	<b>21.8</b>	<b>18.7</b>	<b>18.0</b>	<b>27.7</b>	<b>25.6</b>	<b>16.0</b>

Source: DGCA, JM Financial; Note: Jet airways includes Jet Lite

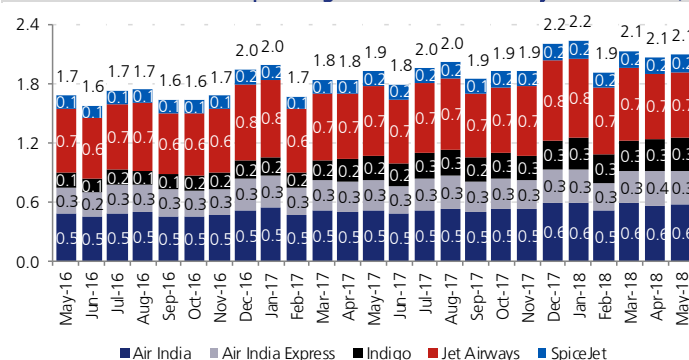
Domestic RPK increased 16% YoY in May'18 to 11.3 billion

Exhibit 10. Domestic passenger load factor (%)

	FY14	FY15	FY16	FY17	FY18	May-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18
Air India	70.9	77.2	79.2	79.2	80.5	81.1	84.1	81.8	84.8	87.0	84.0	84.4	81.7
Jet Airways	71.1	78.7	80.4	81.0	84.4	85.3	87.3	88.5	88.8	90.5	86.2	85.6	80.4
SpiceJet	72.2	81.8	92.0	92.9	94.4	94.3	95.5	95.6	95.0	96.3	95.0	95.5	94.8
Go Air	74.3	79.1	83.7	88.5	88.6	93.0	90.0	92.0	90.0	90.4	88.0	89.5	89.2
Indigo	76.5	79.4	84.1	85.2	88.2	91.1	90.7	90.8	89.7	91.8	89.0	91.9	91.0
<b>Total Domestic</b>	<b>73.3</b>	<b>79.0</b>	<b>82.8</b>	<b>84.3</b>	<b>87.0</b>	<b>88.9</b>	<b>89.2</b>	<b>89.5</b>	<b>89.1</b>	<b>91.0</b>	<b>88.0</b>	<b>89.5</b>	<b>87.8</b>

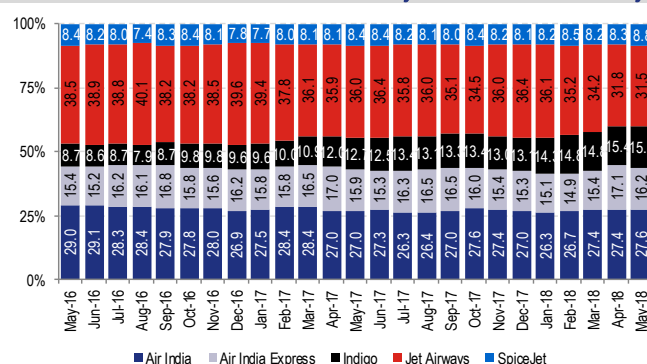
Source: DGCA, JM Financial; Note: Jet airways includes Jet Lite

Exhibit 11. International passengers carried – monthly (mn)



Source: Source: DGCA, JM Financial; Note: Jet airways includes Jet Lite

Exhibit 12. International market share by PAX carried - monthly (%)



Source: Source: DGCA, JM Financial; Note: Jet airways includes Jet Lite; market share among domestic carriers only

**Exhibit 13. Top 10 airlines with highest market share (by international PAX carried) in FY17**

Airline name	International PAX market share (%)
Jet Airways	14.5
Air India	10.6
Emirates Airlines	9.9
Air India Express	6.0
Etihad airlines	5.0
Qatar Airways	3.9
Indigo	3.5
Air Arabia	3.2
Oman Air	3.2
SpiceJet	3.1
Others	37.1

Source: DGCA, JM Financial; Note: Market share among domestic plus international carriers

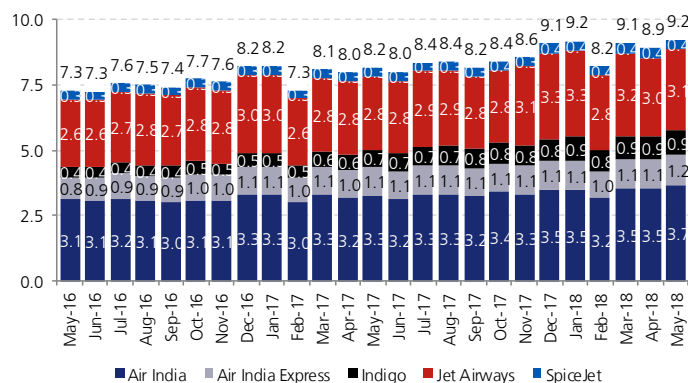
Indian LCC have low international PAX carried market share

**Exhibit 14. International passengers carried - growth (YoY) (%)**

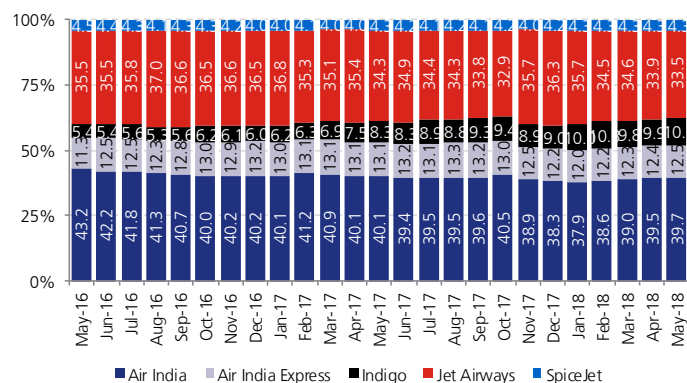
	FY15	FY16	FY17	FY18	May-17	Mar-18	Apr-18	May-18
Air India	9.6	3.6	2.3	9.4	6.8	11.9	14.1	11.0
Air India Express	3.4	10.1	25.6	13.5	17.9	7.7	13.3	11.0
Indigo	-2.5	13.6	17.1	65.1	67.2	57.3	44.2	36.5
Jet Airways	20.6	5.8	9.0	5.7	6.8	9.7	-0.3	-4.7
SpiceJet	-13.5	26.4	35.0	16.7	14.0	17.6	16.2	13.4
<b>Total International</b>	<b>9.9</b>	<b>7.5</b>	<b>11.8</b>	<b>14.4</b>	<b>14.4</b>	<b>15.8</b>	<b>12.5</b>	<b>8.8</b>

Source: DGCA, JM Financial

The number of international passengers carried increased 8.8% YoY in May'18 to 2.1 million; Indigo witnessed intl. PAX growth of 36.5% YoY

**Exhibit 15. International ASK - monthly (mn)**

Source: DGCA, JM Financial; Note: Jet airways includes Jet Lite

**Exhibit 16. International market share by ASK - monthly (%)**

Source: DGCA, JM Financial; Note: Jet airways includes Jet Lite; market share among domestic carriers only

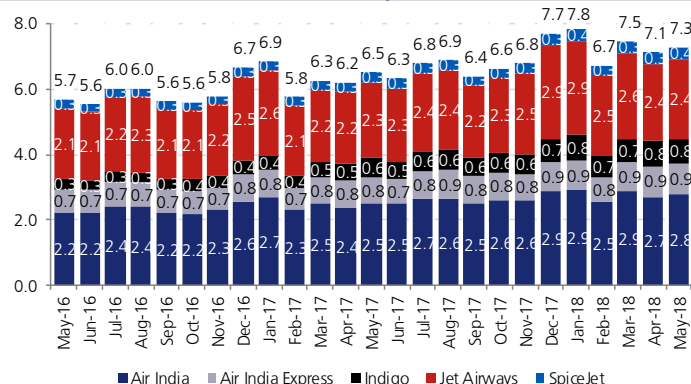
**Exhibit 17. International ASK growth (YoY) (%)**

	FY15	FY16	FY17	FY18	May-17	Mar-18	Apr-18	May-18
Air India	10.0	6.1	5.7	6.1	4.3	6.9	10.5	11.8
Air India Express	3.6	7.7	33.1	13.0	29.7	5.3	6.3	7.9
Indigo	-7.1	12.8	21.7	71.5	70.5	60.5	47.0	38.8
Jet Airways	15.5	6.0	8.5	7.3	8.6	10.9	7.4	10.4
SpiceJet	-30.6	33.7	39.1	10.2	5.1	21.9	20.3	13.3
<b>Total International</b>	<b>8.5</b>	<b>7.3</b>	<b>11.7</b>	<b>11.4</b>	<b>12.3</b>	<b>12.4</b>	<b>12.0</b>	<b>13.1</b>

Source: DGCA, JM Financial

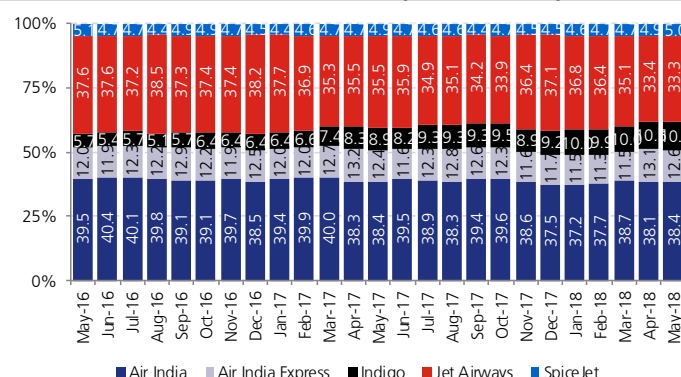
International ASK increased 13.1% YoY to 9.2 billion in May'18; 38.8% growth for Indigo

Exhibit 18. International RPK - monthly (mn)



Source: DGCA, JM Financial; Note: Jet Airways includes Jet Lite

Exhibit 19. International market share by RPK -monthly (%)



Source: DGCA, JM Financial; Note: Jet Airways includes Jet Lite; market share among domestic carriers only

Exhibit 20. International RPK growth (YoY) (%)

	FY15	FY16	FY17	FY18	May-17	Mar-18	Apr-18	May-18
Air India	6.9	7.8	7.5	12.1	11.4	15.3	14.0	11.7
Air India Express	6.9	8.9	22.8	13.6	18.0	8.3	14.4	13.3
Indigo	-6.2	13.4	19.1	75.2	77.3	61.1	44.4	35.1
Jet Airways	18.4	5.3	5.2	9.8	8.2	18.4	7.6	5.0
SpiceJet	-24.7	44.6	42.0	13.0	10.3	18.6	18.7	14.5
<b>Total International</b>	<b>9.1</b>	<b>8.3</b>	<b>10.2</b>	<b>15.3</b>	<b>14.7</b>	<b>19.0</b>	<b>14.5</b>	<b>11.7</b>

Source: DGCA, JM Financial

International RPK increased 11.7% YoY to 7.3 billion in May'18

Exhibit 21. International passenger load factor (%)

	FY15	FY16	FY17	FY18	May-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18
Air India	72.7	73.9	75.2	79.4	76.4	78.7	82.9	83.7	80.1	81.5	77.1	76.3
Air India Express	81.5	82.4	76.1	76.5	75.6	73.9	80.9	81.3	75.7	76.7	84.5	79.4
Indigo	82.4	82.8	81.0	82.8	85.7	79.4	86.9	84.8	79.0	83.4	85.2	83.4
Jet Airways	84.3	83.7	81.2	83.0	82.5	81.0	86.4	87.8	86.5	83.2	78.7	78.5
SpiceJet	79.0	85.4	87.2	89.4	91.6	90.0	90.9	90.8	88.8	88.4	91.1	92.6
<b>Total International</b>	<b>78.6</b>	<b>79.3</b>	<b>78.3</b>	<b>81.0</b>	<b>79.8</b>	<b>79.4</b>	<b>84.6</b>	<b>85.3</b>	<b>82.1</b>	<b>82.0</b>	<b>79.9</b>	<b>78.8</b>

Source: DGCA, JM Financial

Exhibit 22. Break up of domestic + International ASK growth for industry (%)

	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18
Growth in ASK (%)	11%	14%	14%	16%	16%	17%	16%
<b>Breakup of ASK growth</b>							
Growth in seat (%)	0%	0%	-1%	-1%	-1%	-1%	-1%
Growth in no of aircrafts (%)	15%	16%	17%	17%	18%	18%	19%
Growth in km flown/ aircraft (%)	-4%	-2%	-1%	0%	0%	0%	-1%

Source: DGCA, JM Financial

In May'18, industry's YoY ASK growth was driven by an increase in the number of aircrafts

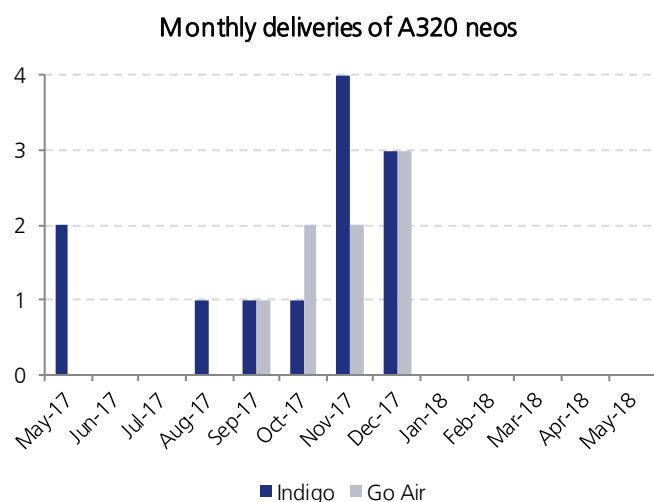
Exhibit 23. Hours flown per aircraft per day

	FY15	FY16	FY17	FY18	May-17	Mar-18	Apr-18	May-18
Indigo	11.4	11.9	12.9	12.4	13.3	13.0	12.5	13.3
SpiceJet	8.3	9.5	9.7	9.9	10.3	10.2	9.6	9.7
<b>Industry</b>	<b>10.3</b>	<b>10.9</b>	<b>11.5</b>	<b>11.5</b>	<b>12.0</b>	<b>12.1</b>	<b>11.8</b>	<b>12.2</b>

Source: DGCA, JM Financial; Note: Represents hours flown per aircraft per day for Domestic + International

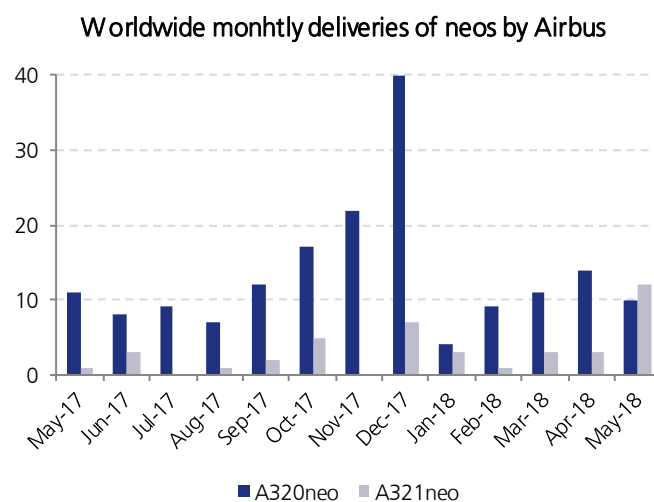
Indigo's hours flown per aircraft per day is above the industry average

Exhibit 24. No deliveries of A320 neos in past five months



Source: Airbus, JM Financial

Exhibit 25. Worldwide delivery of A320 neos remain stable



Source: Airbus, JM Financial

Exhibit 26. SpiceJet – FY20E EBITDAR sensitivity to crude and INR/USD (INR mn)

		Avg. price of Brent crude (USD per barrel)				
		55	60	65	70	75
Avg. INR/USD	62	48,324	44,907	41,490	38,073	34,657
	64	46,863	43,336	39,809	36,282	32,754
	66	45,401	41,764	38,127	34,490	30,852
	68	43,940	40,193	36,445	32,698	28,950
	70	42,479	38,621	34,763	30,906	27,048

Source: JM Financial

Exhibit 27. SpiceJet – Target price sensitivity to crude and INR/USD (INR/share)

		Avg. price of Brent crude (USD per barrel)				
		55	60	65	70	75
Avg. INR/USD	62	255	215	176	137	97
	64	234	194	153	112	71
	66	214	172	130	88	46
	68	193	150	107	63	20
	70	173	128	84	39	-

Source: JM Financial

Exhibit 28. Indigo – FY20E EBITDAR sensitivity to crude and INR/USD (INR mn)

		Avg. price of Brent crude (USD per barrel)				
		55	60	65	70	75
Avg. INR/USD	62	127,380	118,476	109,573	100,669	91,765
	64	123,572	114,381	105,190	95,999	86,808
	66	119,764	110,286	100,808	91,330	81,851
	68	115,956	106,191	96,425	86,660	76,894
	70	112,148	102,096	92,043	81,990	71,938

Source: JM Financial

Exhibit 29. Indigo – Target price sensitivity to crude and INR/USD (INR/share)

		Avg. price of Brent crude (USD per barrel)				
		55	60	65	70	75
Avg. INR/USD	62	1,666	1,495	1,324	1,152	981
	64	1,565	1,388	1,212	1,035	858
	66	1,464	1,282	1,100	918	735
	68	1,363	1,176	988	800	612
	70	1,263	1,069	876	683	490

Source: JM Financial

## Exhibit 30. Comparative valuation

Companies	EV/ EBITDAR		EBITDAR CAGR FY18E- FY20E	P/E		EPS CAGR FY18E- FY20E	RoE		RoCE		Net Debt/EBITDA	
	FY19E	FY20E		FY19E	FY20E		FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
LOW COST CARRIER												
North America												
JetBlue	5.1	4.2	-7.7	11.1	9.1	-23.1	10.9	12.0	NA	NA	0.8	0.2
Southwest	6.7	5.9	-3.8	11.8	10.0	-6.4	23.3	23.4	NA	NA	0.2	-0.3
Spirit Airlines	6.7	5.7	-0.8	11.2	8.7	-18.3	12.0	12.3	NA	NA	4.1	2.5
Eurasia & ME												
Ryanair	8.5	8.0	1.5	13.5	12.4	2.3	27.0	24.9	16.4	16.4	0.1	-0.1
EasyJet	7.3	6.6	18.3	14.5	12.5	31.9	15.1	17.3	14.5	14.5	0.0	0.2
Norwegian	13.8	9.6	47.6	NA	NA	NA	-3.0	-26.0	NA	NA	-290.4	25.7
India												
Spice Jet	6.4	6.1	28.7	7.6	7.5	24.8	75.1	43.4	51.6	35.7	0.0	-0.8
Indigo	8.2	7.0	23.9	13.6	10.7	32.8	31.7	29.7	20.2	21.3	-0.1	0.5
Average	8.0	6.7		12.4	10.5							
FULL SERVICE CARRIER												
Singapore Airlines	5.4	5.0	5.0	15.4	14.5	-0.9	6.1	6.4	5.9	5.9	0.9	1.7
Turkish Airlines	6.1	4.7	8.9	7.2	5.8	127.0	13.6	13.8	5.3	5.3	3.9	3.6
Qantas Airways	4.3	4.3	5.7	9.6	9.4	19.1	30.7	27.2	12.4	12.4	0.8	0.6
Lufthansa	2.5	2.5	2.2	4.8	4.6	-4.5	19.2	17.9	15.4	15.4	0.7	0.5
Jet Airways	7.9	6.4	43.4	NA	6.4	-	0.2	-11.9	NA	NA	17.6	7.4
Average	5.8	5.0		9.3	8.1							

Source: Bloomberg, JM Financial; Note: Low Cost Carrier average does not include SpiceJet and Indigo, Valuations as of 29/6/2018



## APPENDIX I

**JM Financial Institutional Securities Limited**

(formerly known as JM Financial Securities Limited)

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd., National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst – INH000000610

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Hold	Price expected to move in the range of 10% downside to 15% upside from the current market price.
Sell	Price expected to move downwards by more than 10%

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