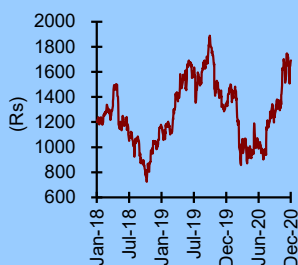


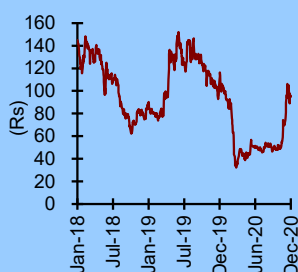
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Sector update

Indigo



SpiceJet



Aviation

Tata increases stake in AirAsia India; key takeaways

AirAsia group, on Dec 29, '20, announced it will be selling 32.67% stake in AirAsia India (AAI) to Tata Sons for a consideration of US\$37.7mn (Rs2.8bn) with a provision to sell its remaining 16.3% stake for US\$18.8mn, which implies an equity valuation of Rs8.5bn for AAI. This deal indicates 1) possible consolidation within the industry, 2) strategic commitment of Tata group towards the aviation sector and 3) likely low valuations for weaker players. AAI stake sale is at a significant valuation discount to listed peers.

AirAsia India was a joint venture between AirAsia group and Tata Sons in 2014 with Tata group owning 51% stake. This transaction will increase Tata Sons' stake to 83.67% in the airline. As per media reports, AirAsia can be used to bid for Air India.

- **Consolidation in the industry:** As per Nov'20, six players held 99% market share in terms of domestic passenger traffic with 6.6% share under AirAsia India. If Tatas successfully acquire Air India and consolidate Vistara and Air Asia India under its brand, the industry will convert from 6 to 4 player industry comprising Tata group, Indigo, SpiceJet and Go Airways.
- **Tata's commitment towards aviation sector:** Tata group has demonstrated that it remains highly committed towards aviation sector as its current portfolio includes majority stakes in Vistara and AirAsia and it remains a possible bidder of Air India. Air India bidding has been divided in two stages. In stage 1, expression of interest has been submitted by the interested bidders, and they will be shortlisted based on eligibility criteria and other terms mentioned in preliminary information memorandum. In stage 2, starting from 5th Jan, 2021, shortlisted bidders will be provided with request for proposal and then there will be a transparent bidding process.
- **Valuation discount of AAI:** Based on estimated debt from last available balance sheet of June 2020 and the equity value of Rs8.6bn on the basis of stake sale of AAI to Tata, the enterprise value of AAI comes to Rs18.5bn as detailed in Table 1. Considering AAI had 7% market share, the valuation is low compared to listed peers, which indicates the underlying stress in the sector. However, the size of operations of AAI was smaller with less attractive slot portfolio.

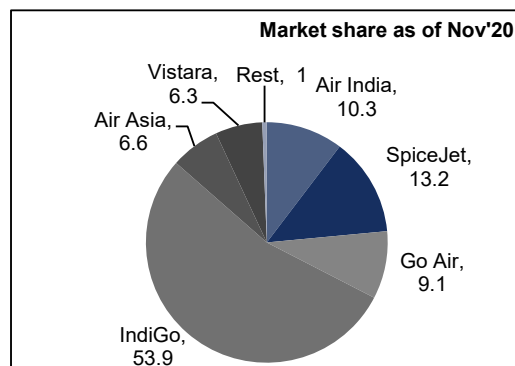
Table 1: EV of AirAsia India

	Rs mn
Sales consideration	2,763
Equity valuation (based on sales consideration for 32.67% stake)	8,458
Distress discount	20%
Equity Valuation (post distress discount)	10,572
Estimated net debt (June'20 net debt stood at Rs5300mn)	8,000
EV	18,572

Source: AirAsia press release

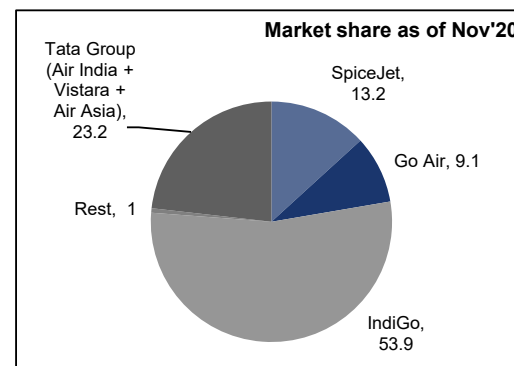
Note: Net debt calculation includes borrowings + net amount due to related parties – cash and short term investments

Chart 1: Current market share based on Nov'20 data



Source: DGCA

Chart 2: Likely market share if Tata group acquires Air India and consolidates it under its brand



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