



IndiGo™

SpiceJet-Indigo Merger

Prepared by:



Nishant Mundeja
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Problem statement

Assume that Spicejet Ltd. and Interglobal Aviation Ltd. are considering an option to merge. First decide with justifications which of the two companies should remain listed and which should lose its existence. Prepare a comprehensive report in support of your decision covering all the related aspects included in the guidelines for this project assignment.

Indigo

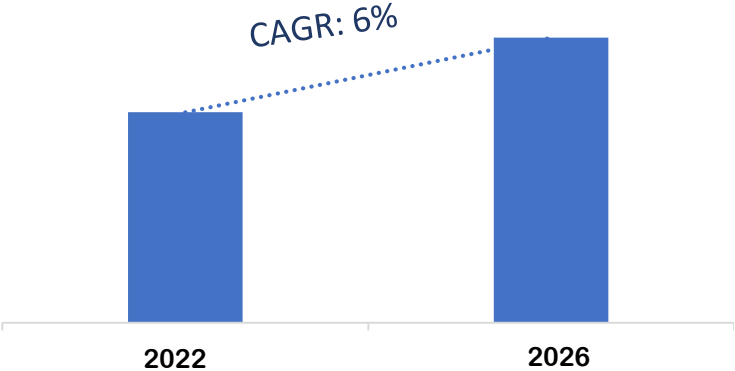
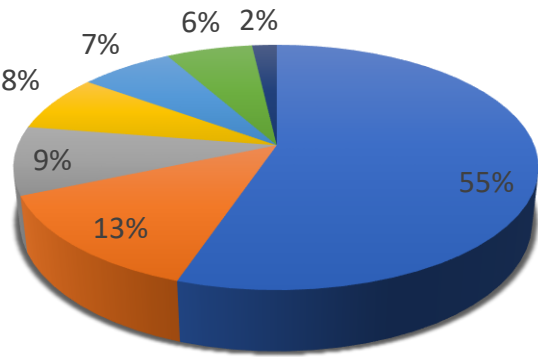


- **Vision:** Its vision is to be the most admired low-cost airline in the world, by offering low fares, on-time flights, and a hassle-free experience to its customers
- **Mission :** IndiGo is on a mission to boost economic growth and social cohesion in India. It will do so by providing air connectivity and affordable air fares across and to international destinations, thereby promoting trade, tourism and mobility.
- **Type:** Low-cost airlines
- **Differentiation:** On-time performance at lowest prices, Single type of aircraft , hence less maintenance cost
- **Fleet Size:** Largest fleet size of 280+ aircrafts in India

SpiceJet



- **Vision:** To ensure that flying is not only restricted to CEOs and business travelers
- **Mission :** To become India's favorite low-cost airline, providing tickets to customers at the lowest possible prices with the highest consumer value
- **Type:** Low-cost airlines
- **Differentiation:** Lowest price tickets with efficient services
- **Fleet size** of 98 with 66 mainline Boeing fleets for key destinations, 32 Q400 for regional connectivity, and 16 freighters for cargo services.

Deal Thesis	Industry attractiveness	Competitive Positioning	Strength and Stability	Business Plan and P&L forecast	Synergies	Deal Integration	Recommendation
CAGR			Market size		Business models		
 <p>CAGR: 6%</p>			<ul style="list-style-type: none"> Contributed USD 30billion to India's GDP 121 M domestic & 41 M international passengers 		<ul style="list-style-type: none"> Full service network carriers Low cost carriers Charter Airlines Regional airlines Cargo airlines 		
Market Share FY'21			Growth drivers		Major cost drivers		
 <p>55% 13% 9% 8% 7% 6% 2%</p> <p>■ Indigo ■ Spicejet ■ Air India ■ Go Air ■ Air Asia ■ Vistara ■ Others</p>			<ul style="list-style-type: none"> Robust demand from rising working group and middle class Growing private sector participation through PPP Growth in aviation infrastructure 9th largest in civil aviation market and expected to become 3rd largest in next 10 years Supportive policy 		<ul style="list-style-type: none"> Fuel cost Maintenance cost Ownership cost Employee cost Other expenses 		

Deal
Thesis

Industry
attractiveness

Competitive
Positioning

Strength and
Stability

Business Plan
and P&L forecast

Synergies

Deal
Integration

Recommendation

Investment thesis

1. Achieve great market power
2. Reduce cost of operation
3. Reduce competition
4. Achieving economies of scale

Strength and stability

1. Target invests huge in safety and gives rigorous training
2. Good market presence and tie ups with tourism industry

Synergies

1. Reduce operational cost
2. Improve ability to negotiate with manufacturers



Industry attractiveness

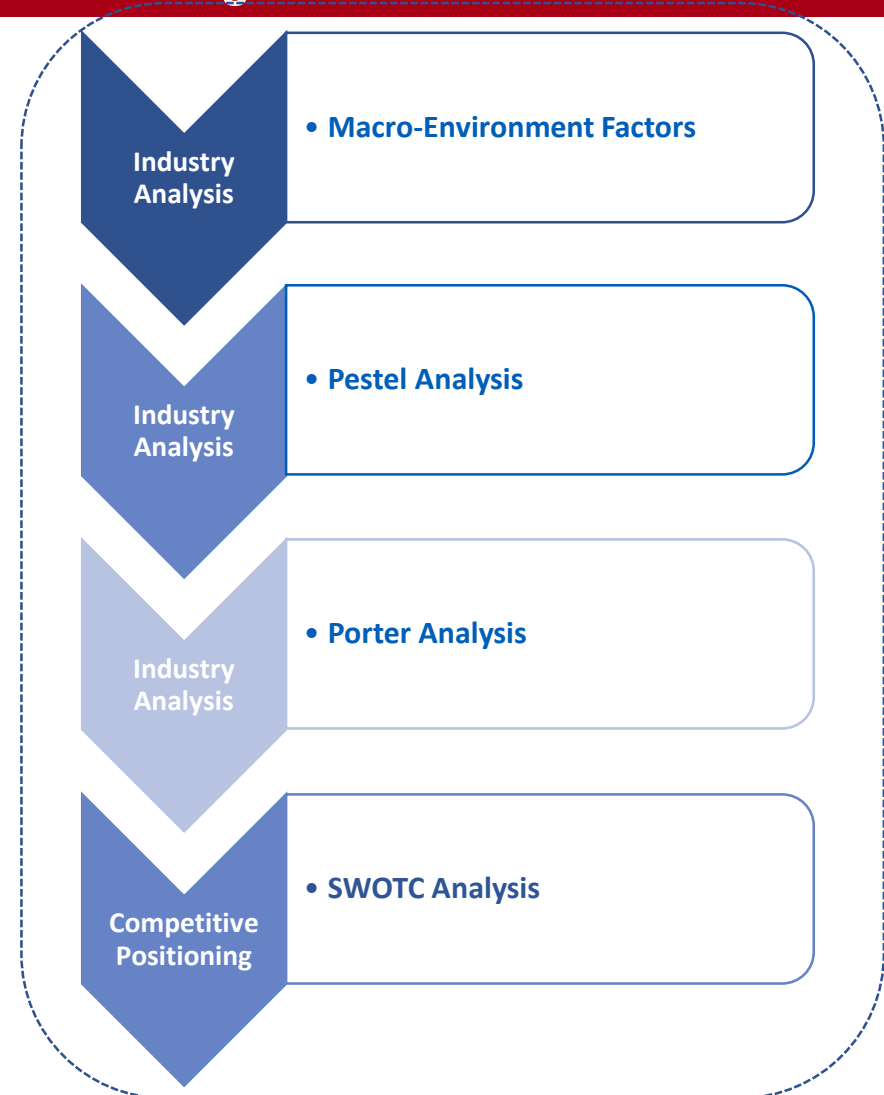
1. Industry is fast growing post covid, CAGR of FY'26 is 6%
2. Growing middle class getting inclined to airlines instead of substitutes
3. Avoiding delay is primary criteria for customer

Business plan and P&L forecast

Owing to duplication of functional & operational aspects. Cashflow will increase.



Approach for in-depth analysis of Industry attractiveness and Competitive Positioning



Industry Analysis | Macro-environmental factors

Factors	Outcome	Impact on Airlines
Increase in crude oil prices	Increases Aviation Turbine Fuel (ATF) prices (40% of the fare)	<ul style="list-style-type: none">• Increase in fares leads to low demand• If fares are fixed, then it affects profits.
Implementation of FDI in Aviation	<ul style="list-style-type: none">• New Entrants (Joint Ventures)• Mergers with International players• Increases operational efficiency	<ul style="list-style-type: none">• Increases competition in LCC segment<ul style="list-style-type: none">• Price War• Reduces operating costs
Increase in fares of AC and First Class tickets in Railways	<ul style="list-style-type: none">• Middle Class segment will prefer airlines as it takes less time to travel	<ul style="list-style-type: none">• Increases profits as airlines will travel with full capacity
Recession: Indian Airline Industry Growth Rate = 1.8 times GDP	<ul style="list-style-type: none">• People will reduce their frequency of travel or will prefer low-priced transportation mediums like Railways etc.	<ul style="list-style-type: none">• Decreases profits<ul style="list-style-type: none">• Incurs huge expenses as the flights will be grounded• Low demand

Industry Analysis

PESTEL Analysis

Legal

- Employability contracts ensure a healthy relation between all parties involved, and also ensures that there is no misunderstanding or colluding



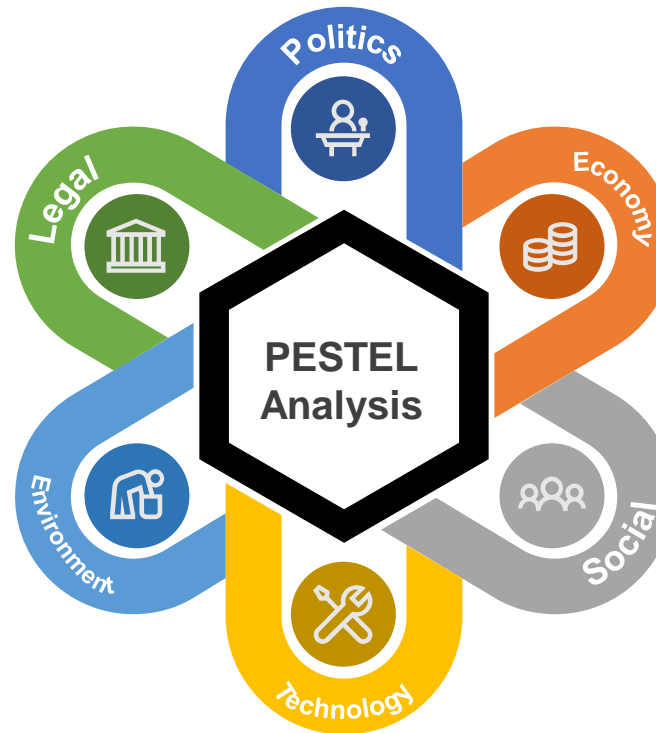
Environment

- Fuel is a major expenditure of the industry and airlines are required to invest more in environmental friendly and fuel-efficient aircraft
- Impact of climate change and required to practice 'green flying' practices which are expensive



Technology

- There is high rate of innovation across all industries, which makes companies competitive as well as progressive



Politics



- Government has subsidies and favorable tax rates will also allow airlines to maintain competitiveness by controlling its costs of doing business. The costs of doing business, in turn, will also not be passed on to the consumers – thereby allowing consumers to enjoy favorable and competitive pricing

Economy



- Recession and unstable economic condition – number of passengers decrease and cost of raw material increase
- Pandemic – economies of all countries faced depression

Social



- A higher portion of the younger population is beneficial for airlines as it will allow businesses a larger consumer base. In addition a younger population will also promise airlines with more skilled and educated workers and human resources, thereby adding breadth and depth to the talent pool

Industry Analysis

Airline Porter's 5 Forces Analysis

Supplier Power : Low

- Few suppliers – Boeing and Airbus
- Long term contracts, loan agreements
- Manufacturing costs are high

Threat of Substitution: Moderate

- Indian Railways
- Busses and local transportation
- Car rentals and aggregators such as Ola and Uber



Threat of New Entry: Low

- Huge capital investment
- Strong competition
- Economies of scale for profitability
- Regulations and need for licensing

Buyer Power: High

- Low switching cost for customers
- Airlines emphasize individual customer's safety and convenience
- Airlines focus on brand building, brand positioning

Competitive Positioning | SpiceJet SWOTC Analysis

Strengths

- Safety features
- The power to fly
- Fare strategy
- Good reachability
- Tourism partnership

Opportunities

- Having international partnership
- Growing interest in tourism
- Tax holiday on leasing of aircraft
- More routes and destinations
- Increase in Domestic tourism



Weaknesses

- Limited destinations
- Wrong decisions
- Frequent offers
- High airport and fuel cost

Threats

- Increase in Fuel price
- High competition
- Pandemic situations
- Government regulations

Challenges:

- Increase in oil prices and adverse exchange rates
- Continued restrictions imposed by government to prevent newer outbreak- effect on international expansion plan
- Revenue risk- fluctuation in demand
- Employee related risk- talent crunch

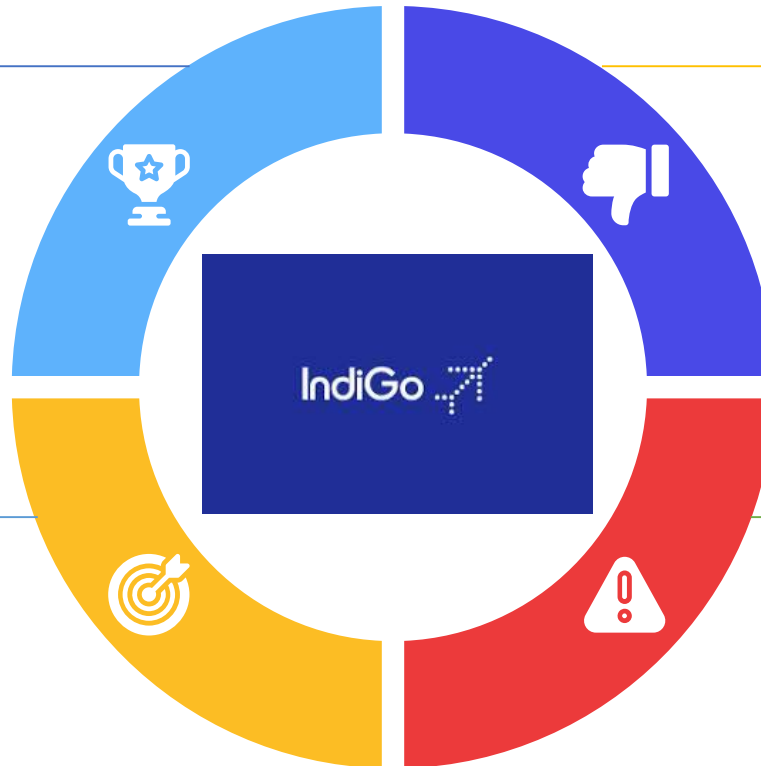
Competitive Positioning | Indigo SWOTC Analysis

Strengths

- Positive Image
- Services
- High Stakeholders engagement
- Corporate Social responsibility
- Fleet strategy

Opportunities

- Globalization
- Increase the demand
- Increasing Partnership
- Increase in Domestic tourism
- Growing demand for foreign travel



Weaknesses

- Sustaining Profits
- Grounding of Aircraft
- Over-dependence on volume

Threats

- Costing
- Terrorist attack
- High competition
- Pandemic situations
- Government regulations

Challenges:

- Geopolitical tensions causing shocks in commodity and energy sector fueling to inflation
- Operational issues with aircraft and engines-failure to obtain on time deliveries
- Breaches in IT/Cybersecurity
- Revenue risk- fluctuation in demand
- Airline safety
- Employee related risk

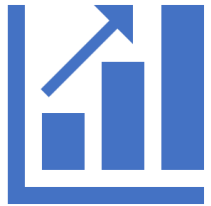


Parameters	Spicejet Ltd	Indigo Ltd
Market capitalization	2314.1	78812.25
No. of shares	60.18	38.52
Market price per share	38.45	2044.55
P/E ratio	-1.12	-18.72
EPS (MPS ÷ P/E Ratio)	-34.33035714	-109.217415
Profit (No. of shares x EPS)	-2065.989272	-4207.05481
Share Capital	601.796615	385.2
Reserve and surplus	-4,894.25	-6,474.98
Total (Share Capital + Reserve and Surplus)	-4,292.45	-6,089.78
Book value per share (Total ÷ No. of shares)	-71.32731022	-158.093977
PB ratio	-0.539064208	-12.9324977
SWAP Ratio		
EPS	-34.33035714	-109.217415
	1	3.181365521
Weightage	0.4	
Book Value	-71.32731022	-158.093977
	1	2.216457857
Weightage	0.35	
Market Price	38.45	2044.55
	1	53.17425228
Weightage	0.25	
Swap ratio	0.288343	

Parameters	Details
Valuation of Indigo	58,671 Cr
Valuation of Spicejet	1,978.78 Cr
Estimated value of share of Indigo	1523.14
Estimated share value of Spicejet	32.88
Post integration	
Total Share	55.8724
Expected EPS	-112.2745
Expected Market price of Indigo post merger	2101.778
Expected Market price of Market capitalization	117431.4



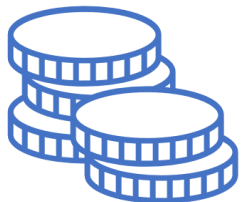
Merger Synergies



Top-line
growth,
commercial
optimization



Operations
Productivity
improvement



Asset and
capital
investment

Top-line growth, commercial optimization

- Increase in airline industry market share and power
- Increase in customer base because of increase in airport slots and frequencies of both together would offer passengers an array of options
- Availability of profitable slots and increasing in number of destinations
- Tourism partnership of SpiceJet for selling holiday packages by using platforms leverage in product development and sales capabilities

Operations Productivity improvement

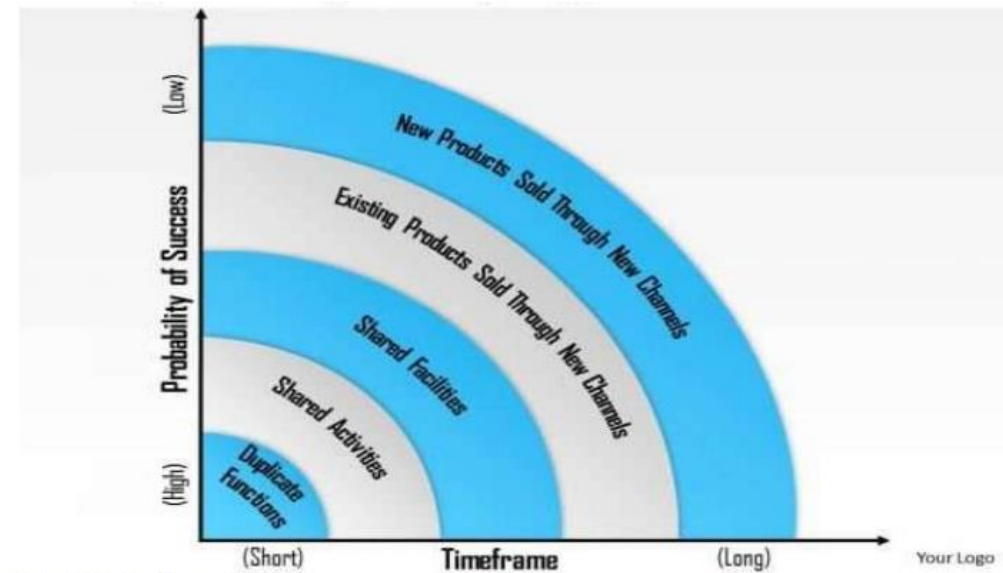
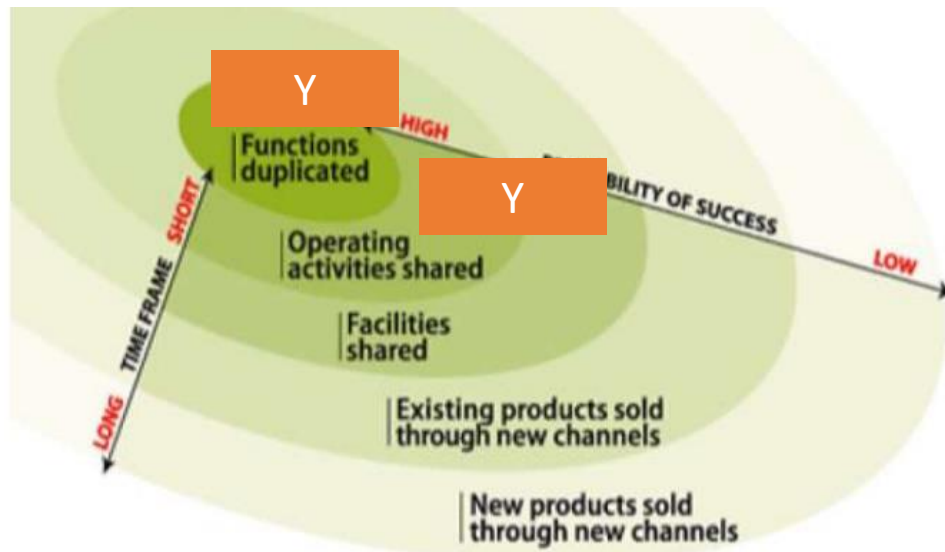
- Ability to negotiate with manufacturer for aircrafts
- Improved on time arrival performance
- Reduction in operational cost: cost of airplanes, cost of purchasing airport space, rebounding oil prices, employee cost, cost of compliance with high safety regulation
- sales and marketing cost reduction due to consolidation

Asset and capital investment

- Head office for both airlines at Gurgaon: office consolidation
- Cheaper ground handling, engineering and infrastructure facilities requirement reduces due to consolidation
- Working capital reduction
- Reduction in debt and sales of rationalized assets

Synergies

Type of synergies and effort and chances to achieve synergies



This is an exclusive teaching material of Dr. Paritosh Basu

In this case, synergy exists in Functional duplicates and operation activities. Activities are closer to the center requires less effort and more chances of success

Deal Thesis

Industry attractiveness

Competitive Positioning

Strength and Stability

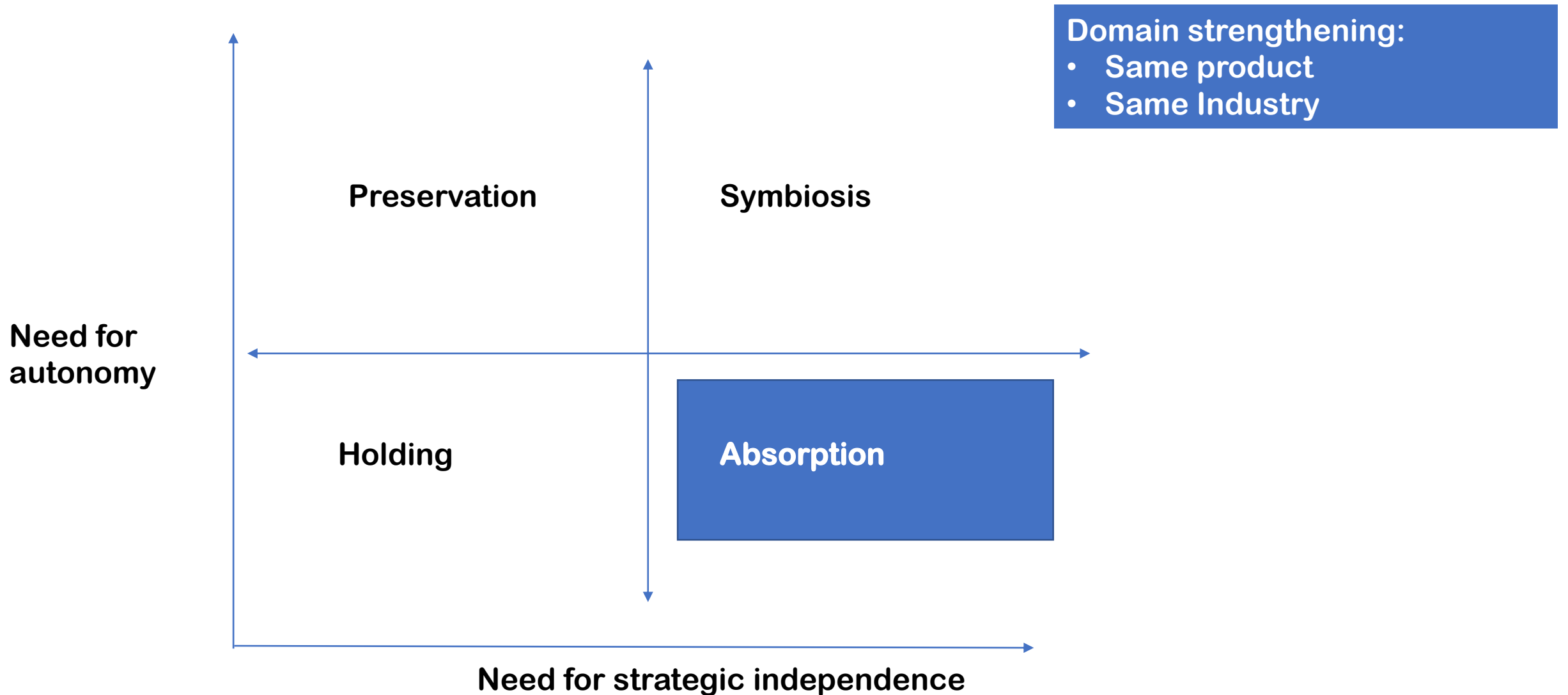
Business Plan and P&L forecast

Synergies

Deal Integration

Recommendation

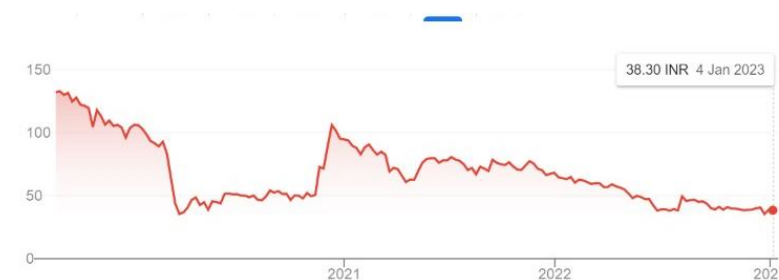
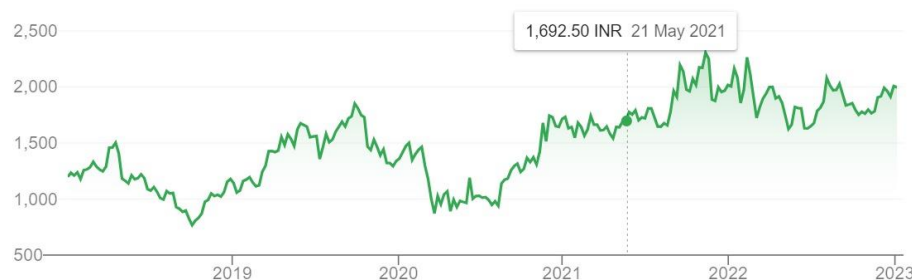
Deal Integration | Categories of acquisition



Final recommendation

- *When SpiceJet merge into Indigo, SpiceJet will not be listed and absorbed into Indigo owing to market capitalization, assets, C&CE limitation*
- *In this case, from the point of CCI (competition commission of India), this project may not get approval due to the lessening of competition.*

1. **Market capitalization:** As Indigo Market capitalization(78,812 Cr) is 40 times the SpiceJet (2314 Cr), hence spiceJet will not be listed considering the huge size of indigo
2. **EBITDA:** Earning of Indigo is 6 times Spicejet and future projection is also promising.
3. **Assets:** Indigo owns assets (45,860.11) 5 times the spicejet (9520 Cr.), hence indigo has capacity to absorb and generate capital for the merger
4. **Cash and Cash equivalent:** Spicejet has C&CE of 60.2 Cr as compared to indigo (10,116 Cr). Indigo has enough cash to purchase spicejet.
5. **Market share:** Indigo has market share of 55% and brand more popular among the people.
6. **Synergy benefits:** Operation, productivity improvement, and asset and capital investment synergies, Top-line growth, commercial optimization.
7. **Both stocks are overpriced in market as per our valuation**
8. **It will be cash deal with deal size of 2106 Cr at maximum share price of 35 Rs (start discussion with 32.88 Rs)**



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