IDFC INSTITUTIONAL SECURITIES
India Research

Jet Airways

Rs519
OUTPERFORMER

RESULT NOTE

Mkt Cap: Rs44.8bn; US$981m

Analyst: **Nikhil Vora (91-22-6622 2567; nikhil.vora@idfc.com)**
Varun Kejriwal (91-22-6622 2685; varun.kejriwal@idfc.com)

Result: **Q3FY11**

Comment: **'Crude' Pressure**

Key valuation metrics

Rs Mn	Net profit *	yoy chg (%)	EPS (Rs)	yoy chg (%)	PER (x)	EV/E (x)
FY09	(9,945)	NA	(115.2)	NA	(4.4)	106.2
FY10	(3,669)	NA	(42.5)	NA	(12.0)	16.8
FY11E	2,237	NA	25.9	NA	19.7	8.1
FY12E	5,321	138	61.6	138	8.3	6.6

**post exceptional items*

Highlights of Q3FY11 results and interaction with management

- Revenues came in line with expectation at Rs 39.6bn (20% growth as against Q3FY10). However, EBITDA margins came in lower at 17% (expectations at 22%) resulting in an EBITDA at Rs6.7bn and PAT at Rs1.4bn.
- Lower than expected EBITDA is behind a 24% increase in fuel costs and other operating expenses and a 13% increase in selling and distribution expenses.
- The quarter also includes an unexpected deferred tax liability of Rs1bn (almost 50% of PBT). The management has indicated that this is a onetime provision and has guided a 33% tax rate on a going basis.
- For Jet airways, the total RPKMs improved by 11.5%, yield improved 7.4% and cost per ASKM increased by 2.1%. For Jetlite while total RPKM's increased by 12.1% and cost per ASKM increased 2%, yields improved by 5%.
- Jet domestic, Jet international and Jet lite, reported an EBITDA of Rs2.5bn, Rs3.8bn and Rs382m respectively.
- Domestic demand is growing faster than supply with overall passenger traffic growth at 19% against capacity increase of 12%. Jet has kept up with supply increase at 12% but a slower passenger growth at 15%. Market share for the quarter stands at 25.9%.
- We expect capacity to remain calibrated over the next year with ~10% increase in industry capacity. Jet Airways is expected to add 8-10 aircrafts during the year.(4-6 domestic and 3-4 international).
- The new international routes- Johannesburg and Milan are expected to break even in Q4FY11 or Q1FY12. Unlike the past where it took 18-24 months to break even, this represents a much faster turnaround.(Milan route was introduced less than six months ago).
- The company expects the two leased aircrafts to Turkish airlines to be brought back into its fleet by Q2FY12. We believe the company will use these additional aircrafts for new international routes.
- Total debt stands at Rs130bn. Jet Airways has converted about 22.3bn of Indian debt into US dollar loans and should result in a 5% saving in interest costs. We expect the company to repay about Rs10bn of debt every year.
- Fuel costs have been the big worry in the quarter with an increase of over 20% as against last year. While the average ATF rate for the quarter was ~Rs43/litre, it has already spiked up to Rs50/litre currently. In response, Jet has taken up

ticket prices by Rs100-200 (~3% of average ticket price) in the last week of December and plans to raise prices further if these rates sustain. In light of these fuel hikes, we revise our EPS downwards to 25.9 for FY11 and 61.6 for FY12.

With air travel in India at a nascent stage, high double digit passenger growth (19% in Q3FY11 and ~17% in CY10) is likely to sustain over the next couple of years. About 40% of the industry is still unable to add capacity, and we expect to see a calibrated supply increase (~10%) over the next year. With demand growth robust, and supply calibrated, Jet Airways, (with a stronger balance sheet than in the past with Rs5.8bn cash) is well placed to leverage on the Indian aviation opportunity- both domestic and international. However, the 8th consecutive fuel hike since October (20% increase in ATF price) has caused a sharp impact on profitability and resulted in a rundown in aviation stocks. We expect profitability to improve as Jet airways passes on most of the fuel hikes without materially impacting demand and expect profitability to see a sharp uptick once oil prices moderate. At an EV/EBITDA of 6.6 and 8xFY12E Earnings, we maintain outperformer with a revised price target of Rs700 over the next 12 months.

Domestic - Operational parameters

	Q3FY11	Q3Y10	yoy%
Revenue Passengers (m)	2.73	2.40	13.8
Revenue/RPKMS	5.69	5.35	6.3
Cost/ASKMS	4.06	3.77	7.8
Passenger Load Factor (%)	76.9	75.4	2.0
Break Even S.F (%)	71.4	70.5	1.3
ASKMs (m)	3,101	2,729	13.6
RPKMs (m)	2,384	2,058	15.9

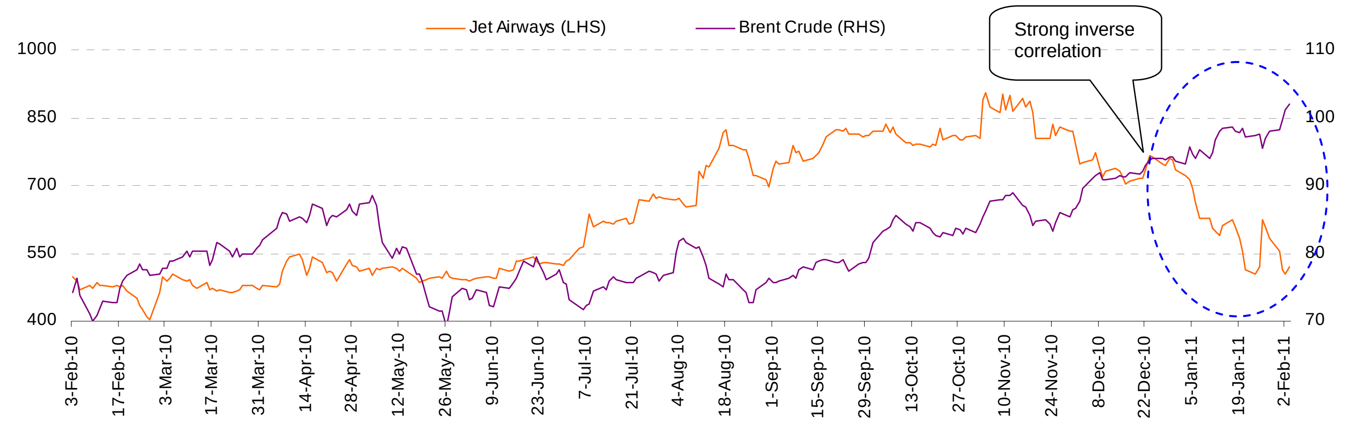
International – Operational parameters

	Q3FY11	Q3FY10	yoy%
Revenue Passengers (m)	1.21	1.01	18.8
Revenue/RPKMS	3.0	2.8	6.5
Cost/ASKMS	2.27	2.34	(3.1)
Passenger Load Factor (%)	80.6	82.5	(2.2)
Break Even S.F (%)	75.4	82.9	(9.1)
ASKMs (m)	5,765	5,151	11.9
RPKMs (m)	4,647	4,248	9.4

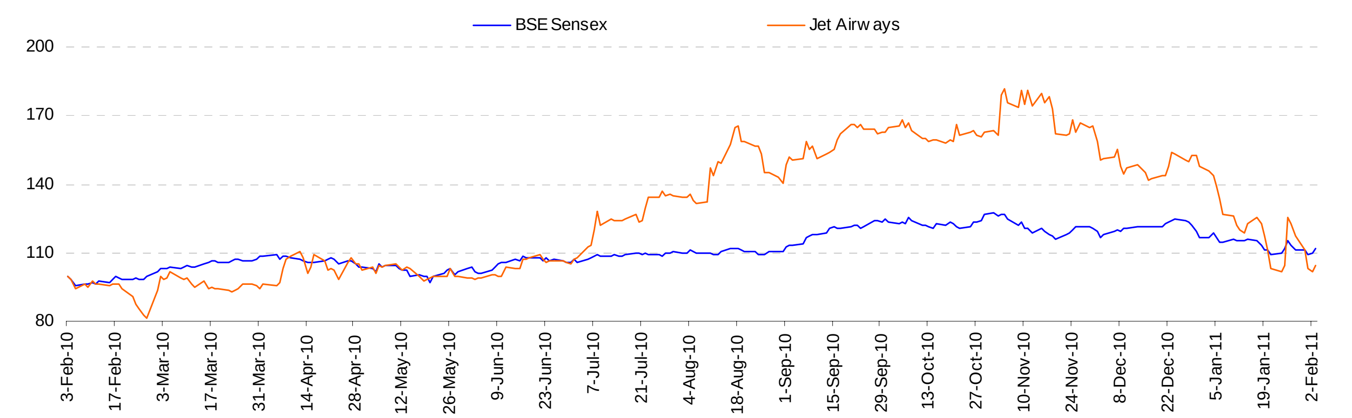
Key financials (quaterly standalone, annual consolidated)

Rs Mn	Q3FY10	Q4FY10	FY10	Q1FY11	Q2FY11	Q3FY11	FY11E	FY12E
Net Sales	**28,856**	**27,779**	**118,786**	**29,650**	**31,050**	**34,746**	**146,233**	**164,904**
%yoy	-5	13	-9	25	32	20	23	13
EBITDAR	7,136	6,351	22,240	6,042	6,866	8,511	32,217	36,268
EBITDAR (%)	25	23	19	20	22	24	22	22
EBITDA	**5,085**	**4,193**	**10,649**	**4,022**	**4,709**	**6,335**	**21,103**	**25,025**
EBITDA (%)	18	15	9	14	15	18	14	15
Depreciation	2,438	2,360	9,283	2,264	2,340	2,305	9,934	9,975
EBIT	2,647	1,833	1,366	1,758	2,369	4,030	11,169	15,050
Interest	2,481	2,649	10,474	2,745	2,493	2,506	10,863	10,789
Other Income	509	993	3,716	582	356	406	3,231	3,341
Profit before tax	675	177	(5,392)	(405)	232	1,929	3,537	7,602
Tax	-	-	103	-	-	996	1,300	2,281
PAT	**675**	**177**	**(5,495)**	**(405)**	**232**	**933**	**2,237**	**5,321**
PAT post exceptional items	**1,057**	**587**	**(3,669)**	**34**	**125**	**1,182**	**2,237**	**5,321**

Relation between crude prices and stock performance



Relative price performance



Analyst	Sector/Industry/Coverage	E-mail	Tel. +91-22-6622 2600
Pathik Gandotra	Head of Research; Financials, Strategy	pathik.gandotra@idfc.com	91-22-662 22525
Shirish Rane	Construction, Power, Cement	shirish.rane@idfc.com	91-22-662 22575
Nikhil Vora	FMCG, Media, Mid Caps, Education, Exchanges	nikhil.vora@idfc.com	91-22-662 22567
Nitin Agarwal	Pharmaceuticals, Real Estate	nitin.agarwal@idfc.com	91-22-662 22568
Chirag Shah	Metals & Mining,Telecom, Pipes, Textiles	chirag.shah@idfc.com	91-22-662 22564
Bhoomika Nair	Logistics, Engineering	bhoomika.nair@idfc.com	91-22-662 22561
Hitesh Shah, CFA	IT Services	hitesh.shah@idfc.com	91-22-662 22565
Bhushan Gajaria	Automobiles, Auto ancillaries, Retailing	bhushan.gajaria@idfc.com	91-22-662 22562
Salil Desai	Construction, Power, Cement	salil.desai@idfc.com	91-22-662 22573
Ashish Shah	Construction, Power, Cement	ashish.shah@idfc.com	91-22-662 22560
Probal Sen	Oil & Gas	probal.sen@idfc.com	91-22-662 22569
Chinmaya Garg	Financials	chinmaya.garg@idfc.com	91-22-662 22563
Abhishek Gupta	Telecom, Metals & Mining	abhishek.gupta@idfc.com	91-22-662 22661
Ritesh Shah	Pharmaceuticals	ritesh.shah@idfc.com	91-22-662 22571
Saumil Mehta	Metals, Pipes	saumil.mehta@idfc.com	91-22-662 22578
Vineet Chandak	Real Estate	vineet.chandak@idfc.com	91-22-662 22579
Kavita Kejriwal	Strategy, Financials	kavita.kejriwal@idfc.com	91-22-662 22558
Anamika Sharma	IT Services	anamika.sharma@idfc.com	91-22-662 22680
Varun Kejriwal	FMCG, Mid Caps	varun.kejriwal@idfc.com	91-22-662 22685
Swati Nangalia	Media, Education, Exchanges, Midcaps	swati.nangalia@idfc.com	91-22-662 22576
Nikhil Salvi	Construction, Power, Cement	nikhil.salvi@idfc.com	91-22-662 22566
Dharmendra Sahu	Database Analyst	dharmendra.sahu@idfc.com	91-22-662 22580
Rupesh Sonawale	Database Analyst	rupesh.sonawale@idfc.com	91-22-662 22572
Dharmesh R Bhatt, CMT	Technical Analyst	dharmesh.bhatt@idfc.com	91-22-662 22534
Equity Sales/Dealing	**Designation**	**E-mail**	**Tel. +91-22-6622 2500**
Naishadh Paleja	MD, CEO	naishadh.paleja@idfc.com	91-22-6622 2522
Paresh Shah	MD, Dealing	paresh.shah@idfc.com	91-22-6622 2508
Vishal Purohit	MD, Sales	vishal.purohit@idfc.com	91-22-6622 2533
Nikhil Gholani	MD, Sales	nikhil.gholani@idfc.com	91-22-6622 2529
Sanjay Panicker	Director, Sales	sanjay.panicker@idfc.com	91-22-6622 2530
Rajesh Makharia	Director, Sales	rajesh.makharia@idfc.com	91-22-6622 2528
Nirbhay Singh	SVP, Sales	nirbhay.singh@idfc.com	91-22-6622 2595
Suchit Sehgal	AVP, Sales	suchit.sehgal@idfc.com	91-22-6622 2532
Pawan Sharma	MD, Derivatives	pawan.sharma@idfc.com	91-22-6622 2539
Jignesh Shah	AVP, Derivatives	jignesh.shah@idfc.com	91-22-6622 2536
Suniil Pandit	Director, Sales trading	suniil.pandit@idfc.com	91-22-6622 2524
Dipesh Shah	Director, Sales trading	dipesh.shah@idfc.com	91-22-6622 2693
Mukesh Chaturvedi	SVP, Sales trading	mukesh.chaturvedi@idfc.com	91-22-6622 2512
Viren Sompura	SVP, Sales trading	viren.sompura@idfc.com	91-22-6622 2527
Rajashekhar Hiremath	VP, Sales trading	rajashekhar.hiremath@idfc.com	91-22-6622 2516

Explanation of Ratings:

1. Outperformer: More than 5% to Index
2. Neutral: Within 0-5% to Index (upside or downside)
3. Underperformer: Less than 5% to Index

Disclosure of interest:

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