

On a higher plane; Raise PO

Results surprise; new PO implies 38% upside

SpiceJet reported its 3QFY10 results well ahead of our expectations. This surprise was largely due to lower-than-expected fuel cost and better utilization leading to lower operating costs. While revenues were largely in line with estimates at Rs. 6.42bn, EBITDAR came in well ahead of our estimates at Rs. 1.99bn (+29% ahead of BofA-MLe) and net profit at Rs1.09bn (+55% ahead of BofA-MLe). We believe this strong operational recovery is sustainable and thus we raise our PO to Rs. 81 (earlier Rs.71).

Raise estimates on strong passenger traffic growth

SpiceJet reported 62% YoY (10% QoQ) growth in passenger traffic for 3QFY10. We have increased our traffic assumptions of SpiceJet by 2-3% for FY11-12E. Thus, we have raised FY11-FY12 EBITDAR by 6%-7% and EPS by 11-15%. We expect SpiceJet to be the first listed airline in India to post profits in FY10.

Yields expected to remain firm

With most airlines either cutting or maintaining capacity, we expect the domestic demand-supply to remain favorable. Sequentially yields improved 34%. We expect yields to remain stable on pricing discipline and curtailed supply, even as traffic improves. We have maintained our yields assumptions at Rs.3.2/RPKs for both FY11E (+10% YoY) and FY12E.

Valuations attractive

SpiceJet trades at FY11E EV/EBITDAR of 7.8x, which represents a 5% discount to Jet Airways and other regional airlines. We value SpiceJet at early cycle multiple of 9.0x EV/EBITDAR FY11E (same as earlier), which is consistent with regional airlines at respective PO.

Estimates (Mar)

(Rs)	2008A	2009A	2010E	2011E	2012E
Net Income (Adjusted - mn)	(1,335)	(3,338)	452	2,590	3,216
EPS	(5.5)	(13.9)	1.9	6.7	8.3
EPS Change (YoY)	-88.7%	-149.7%	NM	255.4%	24.2%
Dividend / Share	0	0	0	0	0
Free Cash Flow / Share	(17.1)	(6.4)	0	4.8	0.8

Valuation (Mar)

	2008A	2009A	2010E	2011E	2012E
P/E	NM	NM	31.3x	8.8x	7.1x
Dividend Yield	0%	0%	0%	0%	0%
EV / EBITDA*	NM	NM	314.02x	18.08x	14.06x
Free Cash Flow Yield*	-29.1%	-10.9%	0.1%	13.2%	2.3%

* For full definitions of *iQmethod*SM measures, see page 6.

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Stock Data

Price	Rs58.65
Price Objective	Rs81.00
Date Established	22-Jan-2010
Investment Opinion	C-1-9
Volatility Risk	HIGH
52-Week Range	Rs11.90-Rs63.25
Mrkt Val / Shares Out (mn)	US\$307 / 241.0
Average Daily Volume	3,252,790
BofAML Ticker / Exchange	MDLFF / BSE
Bloomberg / Reuters	SJET IN / SPJT.BO
ROE (2010E)	NA
Net Dbt to Eqty (Mar-2009A)	NA
Est. 5-Yr EPS / DPS Growth	15.0% / NA
Free Float	70.0%

Key Changes

(Rs)	Previous	Current
Price Obj.	71	81
2010E EPS	0.7	1.9
2011E EPS	5.8	6.7
2012E EPS	7.6	8.3

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Refer to important disclosures on page 7 to 9. Analyst Certification on Page 5. Price Objective Basis/Risk on page 5.

22 January 2010

iQprofileSM SpiceJet Ltd

Key Income Statement Data (Mar)	2008A	2009A	2010E	2011E	2012E
(Rs Millions)					
Sales	12,950	16,894	22,354	28,685	31,948
Gross Profit	4,521	5,892	12,116	15,474	17,328
Sell General & Admin Expense	NA	NA	NA	NA	NA
Operating Profit	(2,645)	(4,306)	55	2,246	2,897
Net Interest & Other Income	1,346	934	406	423	488
Associates	NA	NA	NA	NA	NA
Pretax Income	(1,299)	(3,372)	462	2,670	3,385
Tax (expense) / Benefit	(24)	(33)	(9)	(80)	(169)
Net Income (Adjusted)	(1,335)	(3,338)	452	2,590	3,216
Average Fully Diluted Shares Outstanding	241	241	241	388	388

Key Cash Flow Statement Data

Net Income	(1,324)	(3,405)	452	2,590	3,216
Depreciation & Amortization	78	73	80	96	115
Change in Working Capital	(2,605)	1,857	(357)	(718)	(2,984)
Deferred Taxation Charge	0	0	0	0	0
Other Adjustments, Net	(15)	21	9	80	169
Cash Flow from Operations	(3,865)	(1,455)	184	2,048	516
Capital Expenditure	(244)	(93)	(174)	(182)	(192)
(Acquisition) / Disposal of Investments	809	4	0	0	0
Other Cash Inflow / (Outflow)	1,954	3,136	0	0	0
Cash Flow from Investing	2,519	3,047	(174)	(182)	(192)
Shares Issue / (Repurchase)	0	0	0	3,680	0
Cost of Dividends Paid	0	0	0	0	0
Cash Flow from Financing	904	(547)	(351)	(6)	(539)
Free Cash Flow	(4,109)	(1,548)	10	1,865	324
Net Debt	(679)	1,808	1,271	(3,413)	(6,363)
Change in Net Debt	1,436	(1,474)	61	(5,467)	(285)

Key Balance Sheet Data

Property, Plant & Equipment	651	676	769	858	942
Other Non-Current Assets	4,993	1,853	1,853	1,853	1,853
Trade Receivables	16	124	180	255	312
Cash & Equivalents	5,995	3,080	3,337	4,413	6,863
Other Current Assets	1,852	1,776	1,997	2,277	2,571
Total Assets	13,507	7,508	8,137	9,656	12,540
Long-Term Debt	3,564	4,555	4,375	837	386
Other Non-Current Liabilities	0	0	0	0	0
Short-Term Debt	1,752	333	233	163	114
Other Current Liabilities	7,911	6,914	7,371	8,437	8,605
Total Liabilities	13,227	11,802	11,979	9,437	9,105
Total Equity	280	(4,295)	(3,843)	219	3,435
Total Equity & Liabilities	13,507	7,508	8,137	9,656	12,540

iQmethodSM - Bus Performance*

Return On Capital Employed	-40.5%	-125.2%	7.3%	203.7%	101.2%
Return On Equity	-125.6%	NM	NM	NM	176.0%
Operating Margin	-20.4%	-25.5%	0.2%	7.8%	9.1%
EBITDA Margin	-19.8%	-25.1%	0.6%	8.2%	9.4%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	NM	NM	0.4x	0.8x	0.2x
Asset Replacement Ratio	3.1x	1.3x	2.2x	1.9x	1.7x
Tax Rate (Reported)	NM	NM	2.0%	3.0%	5.0%
Net Debt-to-Equity Ratio	-242.6%	NM	NM	-1,557.9%	-185.3%
Interest Cover	-29.3x	-36.2x	0.8x	28.6x	NM

Key Metrics

* For full definitions of iQmethodSM measures, see page 6.

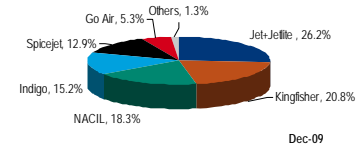
Company Description

SpiceJet is a pure low cost domestic carrier which has rapidly gained market share in the last and is now in top-5 domestic carriers. It began its services in May-2005. Currently it has a single-aircraft-type fleet of 19 B-737s and has an extensive network between 19 destinations in India.

Investment Thesis

SpiceJet is one of India's leading low-cost carriers. We expect the company to turn around in FY10 following strong passenger growth over FY10E-12E, stable yields, and efficient cost structure. Its business model exploits the changing preference of price-sensitive Indian flyers.

Chart 1: Market share of domestic airlines



Source: BofA Merrill Lynch Research Estimates

Stock Data

Price to Book Value NA

Key result takeaways

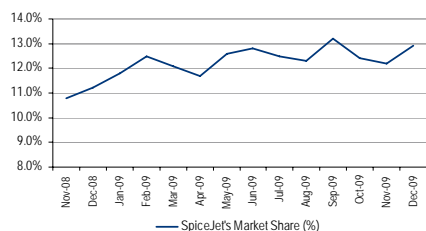
SpiceJet reported 3QFY10 results well ahead of our expectations. EBITDAR margin at 31% in a seasonally strong quarter well was ahead of our expectation of 23.3%.

Table 1: SpiceJet- Quarterly results

	3QFY10	3QFY09	2QFY10	YoY	QoQ
Operating Revenues	6,421	4,723.5	4,492	35.9%	43.0%
Non Operating Revenues	113	556.6	161	-79.7%	-29.9%
Total Revenues	6,534	5,280	4,653	23.7%	40.4%
Employees Remuneration & Benefits	493	376	418	31.2%	18.0%
Aircraft Fuel Expenses	2,078	2,272	2,098	-8.5%	-0.9%
Airport Charges	379	274	363	38.3%	4.4%
Aircraft Maintenance	527	451	820	16.8%	-35.7%
Other Operating Costs	597	448	589	33.2%	1.2%
Rent	54	76	54	-28.6%	0.6%
Legal & Professional Expenses / Charges	20	104	9	-80.7%	135.0%
Other Expenditure	284	227	277	25.0%	2.7%
Total Other Operating Expenses	1,861	1,580	2,111	17.8%	-11.8%
EBITDAR	1,988	496	(136)	301.2%	NM
Margin	31.0%	10.5%	-3.0%	20.5%	34.0%
Interest	17	71	15	-76.2%	11.2%
Depreciation	19	18	19	7.1%	2.4%
Aircraft Lease Rental	965	940	982	2.6%	-1.8%
Extraordinary Items - Gain/ (Loss)	-	(188)	-		
PBT	1,089	(168)	(1,020)	NM	NM
Taxes	-	11	-6.9		
Recurring PAT	1,089.5	8.2	(1,013)	13218.9%	NM
Reported PAT	1,089	(180)	(1,013)	NM	NM

Source: BofA Merrill Lynch Research Estimates

Chart 2: Rising market share



Source: BofA Merrill Lynch Research Estimates

Strong operational recovery

- Operating revenues was at Rs. 6.4bn rising sharply by 36% YoY on account of good load factors and improving yields.
- Load factors at 80% continue to show improvement on both sequential (+5%) and annual basis (+13.9%). At current yields breakeven load factor is at 69%.
- Yields were sequentially higher at Rs.3.4/RPK showing a 39% sequential improvement. Average seat revenue was also up 37% QoQ.
- In a seasonally strong quarter, passenger carried during the quarter was at 1.8mn vs. 1.1mn in Q3FY09 and 1.56mn in Q2FY10.
- Cost/ASK has declined 19% YoY and 9% QoQ while Revenue/ASK increased 6% YoY and 35% QoQ.

Table 2: SpiceJet operating metrics

(Rs mn)	3QFY10	3QFY09	YoY (%)	QoQ(%)	2QFY10
Operating Revenue	6,421	4,724	35.9%	43.0%	4,492
EBITDAR	1,988	496	301.2%	NM	(136)
EBITDAR Margin	31.0%	10.5%	20.5%	34.0%	-3.0%
RPKs (mns)	1,833	1,179	55.4%	12.7%	1,627
ASKs (mns)	2,291	1,785	28.3%	5.6%	2,169
Load Factor (%)	80.0%	66.1%	13.9%	5.0%	75.0%
Revenue Passengers (mn)	1.80	1.11	61.7%	15.0%	1.56
Passenger Yield (Rs per RPK)	3.43	3.96	-13.2%	39.4%	2.46

Source: BofA Merrill Lynch Research Estimates

Table 3: SpiceJet- Summary P&L and operating metrics

	FY08	FY09	FY10E	FY11E	FY12E
Operating Revenues	12,950	16,894	22,354	28,685	31,948
Non Operating Revenues	1,436	1,241	478	502	527
Total Revenues	14,386	18,135	22,832	29,186	32,474
Employees Remuneration & Benefits	1,404	1,551	1,884	1,978	2,176
Aircraft Fuel Expenses	7,025	9,452	8,354	11,232	12,444
Total Other Operating Expenses	4,562	6,536	7,954	8,517	9,098
EBITDAR	(41)	(644)	4,162	6,957	8,229
Margin	-0.3%	-3.8%	18.6%	24.3%	25.8%
Interest	90	119	71	78	39
Depreciation	78	73	80	96	115
Aircraft Lease Rental	2,526	3,589	4,027	4,615	5,217
Extraordinary Items - Gain/ (Loss)	-	(188)	-	-	-
PBT	(1,299)	(3,372)	462	2,670	3,385
Taxes	24	33	9	80	169
Recurring PAT	(1,335)	(3,338)	452	2,590	3,216
Reported PAT	(1,335)	(3,150)	452	2,590	3,216
Operating Metrics					
RPKs (mns)	4,397	4,820	6,918	8,268	9,209
ASKs (mns)	6,010	7,227	9,103	10,668	12,278
Load Factor (%)	73.2%	66.7%	76.0%	77.5%	75.0%
Revenue Passengers (mn)	4.5	4.6	6.7	8.0	9.0
Passenger Yield (Rs per RPK)	2.7	3.3	3.0	3.2	3.2
Cost/ASK (Rs.)	2.6	3.0	2.5	2.5	2.4
Revenue/ASK (Rs.)	2.2	2.3	2.5	2.7	2.6

Source: BofA Merrill Lynch Research Estimates

Price objective basis & risk

SpiceJet Ltd (MDLFF)

Our PO of Rs.81 is based on 9x FY11E EV/EBITDAR which is in-line with the regional airlines with similarly high EBITDAR growth in the early cycle. Downside risks to our price objective: Rising fuel costs and an increase in competition. Upside risks would be a decline in fuel prices and faster-than-expected economic recovery.

Analyst Certification

I, Anand Kumar, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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India - General Coverage Cluster

Investment rating	Company	BofAML ticker	Bloomberg symbol	Analyst
BUY	Bajaj Hindusthan	BJJHF	BJH IN	Sanjaya Satapathy
	Balrampur Chini	BMPRF	BRCM IN	Sanjaya Satapathy
	Chambal Fertilisers & Chemicals	CHBZF	CHMB IN	Prasad Deshmukh
	Container Corp	CIDFF	CCRI IN	Sanjaya Satapathy
	Cummins India	CUIDF	KKC IN	Sanjaya Satapathy
	DLF Limited	XVDUF	DLFU IN	Unmesh Sharma, CFA
	Exide Indus Ltd	XEDRF	EXID IN	Sanjaya Satapathy
	Housing Development and Infrastructure	XGHSF	HDIL IN	Unmesh Sharma, CFA
	Indiabulls Real Estate Ltd	IBELF	IBREL IN	Unmesh Sharma, CFA
	Jet Airways	JTAIF	JETIN IN	Anand Kumar
	Motherson Sumi	XMSUF	MSS IN	Sanjaya Satapathy
	Renuka Sugars	SRNKF	SHRS IN	Sanjaya Satapathy
	SpiceJet Ltd	MDLFF	SJET IN	Anand Kumar

22 January 2010

India - General Coverage Cluster

Investment rating	Company	BofAML ticker	Bloomberg symbol	Analyst
	Triveni Engg	TVIEF	TRE IN	Sanjaya Satapathy
	Voltas	VTSJF	VOLT IN	Sanjaya Satapathy
NEUTRAL				
	Aditya Birla Nu	ADYAF	ABNL IN	Reena Verma Bhasin, CFA
	Jain Irrigation Systems Ltd	JNIDF	JI IN	Prasad Deshmukh
	Shree Cements	SREEF	SRCM IN	Reena Verma Bhasin, CFA
	Unitech Ltd	UTKIF	UT IN	Unmesh Sharma, CFA
UNDERPERFORM				
	Ambuja Cements	AMBUF	ACEM IN	Reena Verma Bhasin, CFA
	Assoc. Cement	ADCLF	ACC IN	Reena Verma Bhasin, CFA
	India Cements	INIAF	ICEM IN	Reena Verma Bhasin, CFA
	India Cements -G	IAMZY	ICEM LX	Reena Verma Bhasin, CFA
	Nagarjuna Fertilizers & Chemicals Ltd	NFACF	NFCL IN	Prasad Deshmukh
	Tata Chemicals Ltd	TTCXF	TTCH IN	Prasad Deshmukh
RSTR				
	Grasim	GRSJF	GRASIM IN	Reena Verma Bhasin, CFA
	Grasim -G	GRSJY	GRAS LX	Reena Verma Bhasin, CFA
	UltraTech Cemen	XDJNF	UTCEM IN	Reena Verma Bhasin, CFA
RVW				
	APIL	ANSFF	APIL IN	Gagan Agarwal
	Omaxe Limited	XOMXF	OAXE IN	Gagan Agarwal
	Puravankara Projects Ltd	XPJVF	PVKP IN	Gagan Agarwal

iQmethodSM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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MDLFF Price Chart



B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

*Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of December 31, 2009 or such later date as indicated.

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Investment Rating Distribution: Transport/Infrastructure Group (as of 01 Jan 2010)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	88	61.11%	Buy	43	51.19%
Neutral	23	15.97%	Neutral	11	47.83%
Sell	33	22.92%	Sell	12	40.00%

Investment Rating Distribution: Global Group (as of 01 Jan 2010)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1699	50.78%	Buy	904	58.82%
Neutral	841	25.13%	Neutral	491	65.03%
Sell	806	24.09%	Sell	368	49.80%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofAML Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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