

Rating matrix

Rating	:	Buy
Target	:	₹ 69
Target Period	:	9-12 months
Potential Upside	:	19%

Annual Performance (₹ Crore)

	FY09	FY10	FY11E	FY12E
Net Sales	1,689	2,181	2,971	3,440
EBITDA	-419	31	210	276
Net Profit	-340	67	224	210

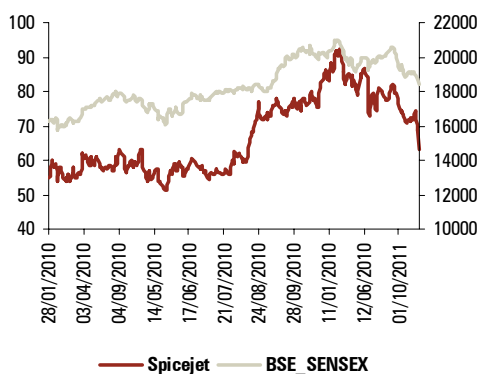
Valuation summary

	FY09	FY10	FY11E	FY12E
PE	-4.1	20.9	10.5	11.2
Target PE	-4.9	24.9	12.5	13.3
EV/EBITDA	-3.8	44.5	8.0	6.4
Price/BV	12.6	2.5	7.9	14.0
RoNW (%)	NA	NA	NA	40.9
RoCE (%)	-137.8	30.6	63.3	41.1

Stock data

Market Capitalisation	₹2,351 Crore
Debt	₹121 Crore
Cash	₹627 Crore
EV	₹1,846 Crore
52 week H/L	88.2/39.5
Equity Capital (Rs crore)	₹405 Crore
Face Value	₹.10
MF Holding % (Sept 10)	18.8
FII Holding % (Sept 10)	14.5

Price movement



Analyst's name

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SpiceJet Ltd (MODLUF)

₹ 58

WHAT'S CHANGED...

PRICE TARGET	Changed to Rs.69
EPS (FY11E)	From ₹ 3.8 to ₹ 5.5
EPS (FY12E)	Unchanged
RATING	Downgraded to Buy

Strong performance on robust traffic...

SpiceJet's revenues beat our expectation with 27.9% YoY growth to ₹ 830.1 crore (I-direct estimate: ₹ 808.4 crore) primarily driven by sustained domestic demand (SpiceJet's pax-traffic grew over 23.9% YoY to ~20 lakh passengers). Also, the airline was able to maintain high yield of ₹ 3.5 (vs. ₹ 3.3 in Q3FY10 and ₹ 3.1 in Q2FY11). In Q3FY11, SpiceJet's load factor increased by 780 bps YoY to 86.7%. However, its operating margin declined by 230 bps YoY to 13.7% in Q3FY11 (I-direct estimate: 13.7%) on higher fuel costs. The company reported net profit of ₹ 94.4 crore (I-direct estimate: ₹ 98.0 crore) that remained marginally below our estimates on higher tax outgo.

▪ **Sustained pax-traffic growth leads to improvement in yields**

SpiceJet reported a load factor of 86.7% (up from 78.9% in Q3FY10) on strong pax traffic (RPKM increased by 23.9% YoY) and limited flight additions (ASKM increased by 12.7% YoY) in the quarter. As a result, the airline was successful in improving its pax-yields to ₹ 3.5 during the quarter (vs. ~₹ 3.3 in Q3FY10).

▪ **Margin declines on rise in fuel costs**

The company's operating margin declined by 221 bps YoY to 13.7% on higher fuel costs (comprising over 40% of total operating costs), that increased by over 50% compared to last year. However, its impact has partially been negated by robust topline growth.

Valuation

We like the company's strategy of utilising its existing capacity optimally and focusing more on new routes that are having good potential in Tier I and Tier II cities. The recent market correction has also placed the stock at a good entry point level for investment. However rising ATF prices remains a concern for the company going forward. At the CMP of ₹ 58, the stock is trading at 8.0x and 6.4x its FY11E and FY12E EV/EBITDA, respectively. We have valued the stock at 8.0x its FY12E EV/EBITDA and arrived at a target price of ₹ 69. We downgrade our rating to BUY.

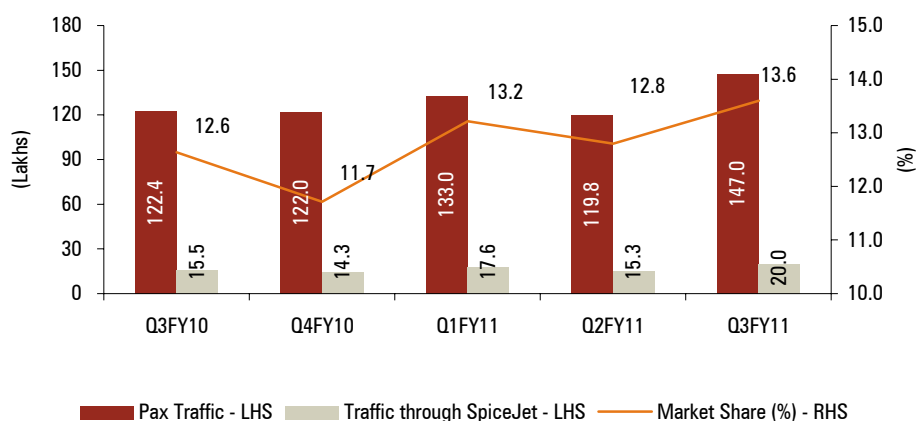
Exhibit 1: Key Financials

Rs Crore	Q3FY11	Q3FY11E	Q3FY10	Q2FY11	YoY Gr(%)	QoQ Gr(%)
Revenues	830.1	808.4	649.1	603.0	27.9	37.7
EBITDA	114.0	110.5	103.5	(21.6)	10.2	LP
EBITDA margin (%)	13.7	13.7	16.0	(3.6)	-221 bps	NA
Depreciation	2.3	2.1	1.9	2.2	18.3	5.0
Interest	1.0	0.8	1.5	1.4	-33.4	-29.4
Net Profit	94.4	98.0	108.9	10.1	-13.3	833.8
Diluted EPS ()	2.3	2.4	2.8	0.3	-17.1	828.0

Source: Company, ICICIdirect.com Research

Exhibit 2: Trend in domestic market share

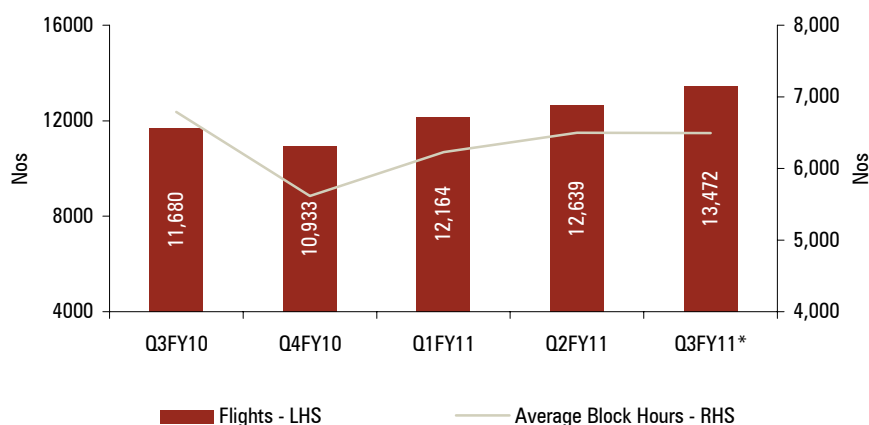
SpiceJet's market share improved to 13.6% in Q3FY11 vs. 12.6% in Q3FY10 and 12.8% in Q2FY11



Source: Company, ICICIdirect.com Research

Exhibit 3: Trend in flights and block hours

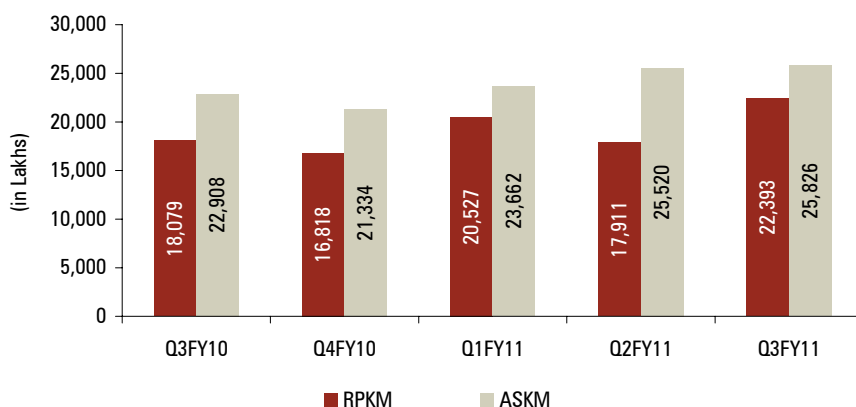
Despite the peak season, growth of domestic flights jumped ~15.3% YoY in Q3FY11 driven by strong pax-traffic growth



Source: Company, ICICIdirect.com Research, *Estimated

Exhibit 4: Demand-supply matrix - SpiceJet

During Q3FY11, SpiceJet's RPKM increased 23.9% YoY while ASKM grew 12.7% YoY

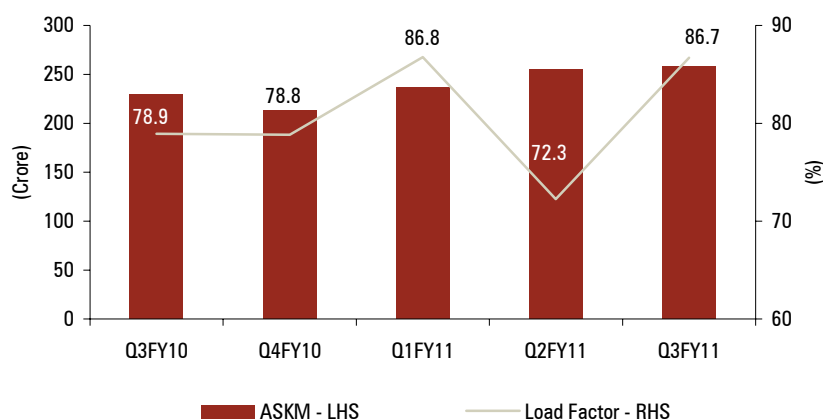


Source: Company, ICICIdirect.com Research, *Estimated

In Q3FY11, SpiceJet's RPKM increased 23.9% YoY driven by the continued growth in pax-traffic to 19.9 lakh passengers (29.2% YoY). With healthy pax traffic, the load factor increased by 780 bps YoY to 86.7%. During the last quarter, SpiceJet added two aircraft in its fleet, taking the total fleet size to 22 aircraft (vs. 20 aircraft in Q1FY11). This also led to robust YoY growth in RPKM.

In Q3FY11, SpiceJet's load factor increased by 780 bps to 86.7%...

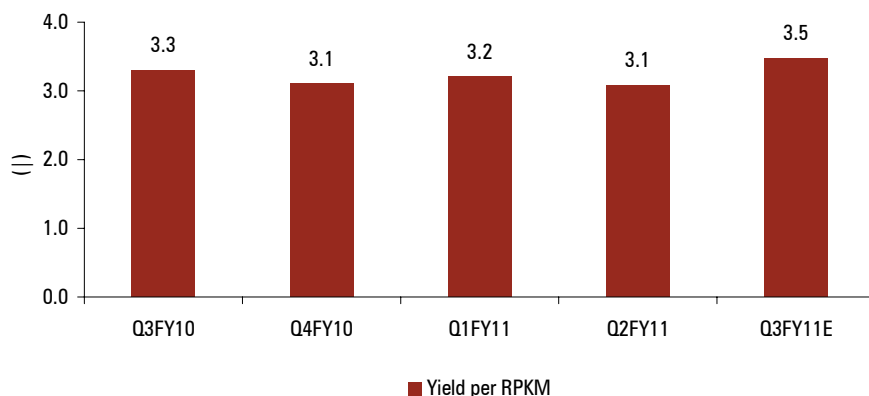
Exhibit 5: Trend in ASKM (in crore) and load factor (%)



Source: Company, ICICIdirect.com Research

SpiceJet was successful in improving its yields by ~5.4% YoY and 12.8% QoQ to ₹ 3.5 aided by strong pax-traffic growth and rising brand presence

Exhibit 6: Trend in yields (₹)

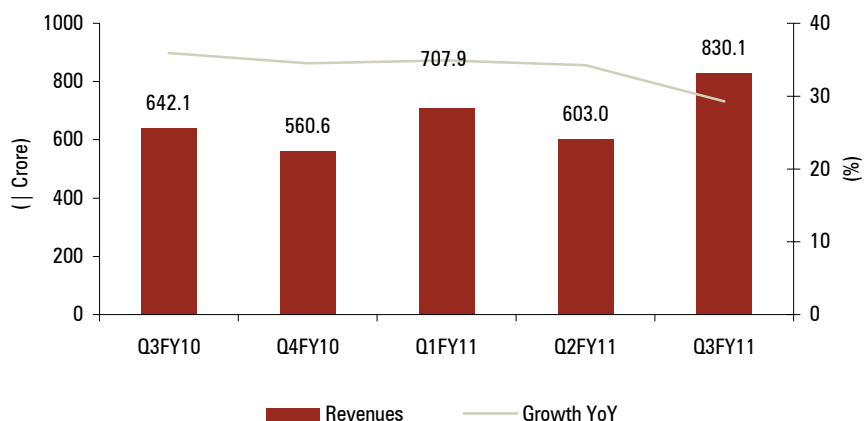


Source: Company, ICICIdirect.com Research

During the quarter, SpiceJet's yields rose ~5.4% YoY, 12.8% QoQ to ₹ 3.1 on account of sustained growth in pax-traffic and improving brand presence of the airline as a low-cost air service provider. As a result, revenues grew 27.9% YoY to ₹ 820 crore in Q3FY11 (vs. 37.7% in Q2FY11). During the quarter, the fuel cost also recorded a sharp jump of over 50% compared to last year. As a result, operating margins declined by 221 bps YoY to 13.7%. However, the same has remained in line with our estimates. At the PBT level, Spicejet reported growth of 8.5% to ₹ 117.9 crore on a robust operating performance while its PAT declined by 13.3% YoY to ₹ 94.4 crore on higher tax outgo. SpiceJet, which did not pay taxes last year due to accumulated losses, has paid MAT of ₹ 23.50 crore in October-December 2010.

The robust revenue growth of 29.3% YoY in Q3FY11 was driven by higher yields and sustained pax traffic growth

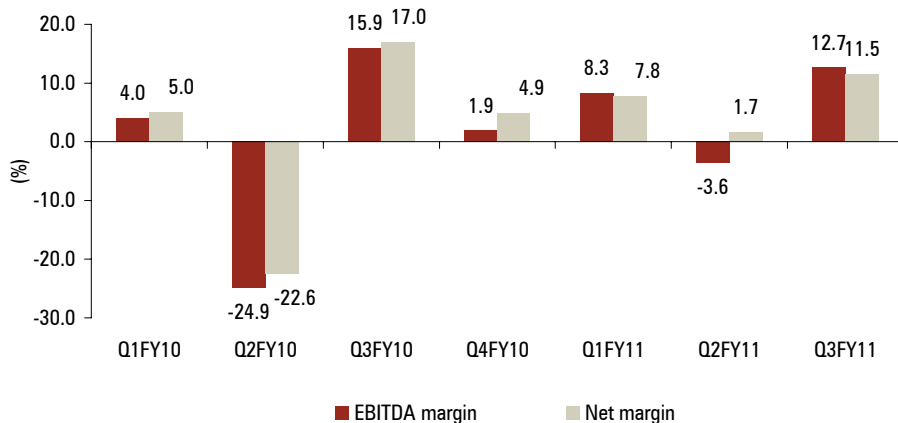
Exhibit 7: Trend in revenue growth



Source: Company, ICICIdirect.com Research

Sustained topline growth and lower operating expenses led to quarterly improvement in EBITDA margins. However, the same has declined by 221 bps YoY due to higher fuel costs

Exhibit 8: Improvement expected in margins in FY11E-12E



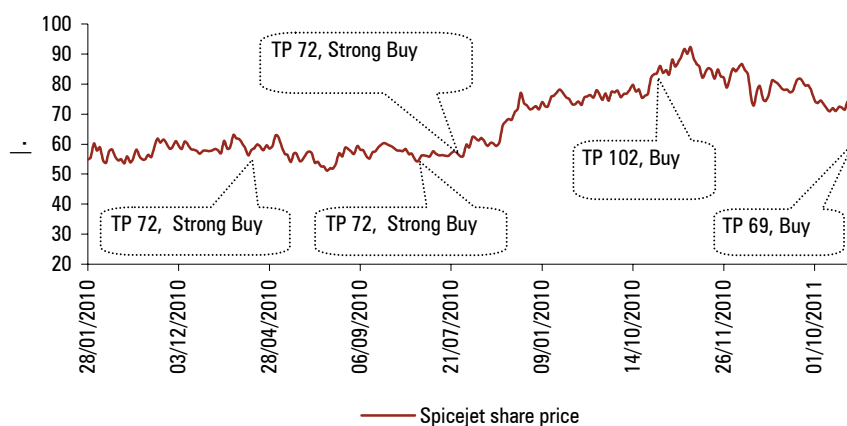
Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (Aviation)

Jet Airways				Sales (₹ Cr)	Sales Gr. (%)	EPS (₹)	PE (x)	*EV/E (x)	RoNW (%)	RoCE (%)	
			FY09	13077.9	27.0	-111.4	NA	-24.4	-30.3	-10.0	
Idirect Code	JETAIR	CMP (₹)	555	FY10	11876.4	-9.2	-48.7	NA	19.1	-21.1	0.5
		Target (₹)	UR	FY11E	14191.0	19.5	43.9	12.6	9.9	19.3	5.6
Mcap (₹.Cr)	6,906	Upside (%)	NA	FY12E	16297.0	14.8	113.5	4.9	8.2	41.3	11.8
Spicejet				Sales (₹ Cr)	Sales Gr. (%)	EPS (₹)	PE (x)	*EV/E (x)	RoNW (%)	RoCE (%)	
			FY09	1689.4	30.5	-13.8	NA	-4.7	NA	NA	NA
Idirect Code	MODLUF	CMP (₹)	60	FY10	2181.0	29.1	2.7	22.2	46.8	NA	62.6
		Target (₹)	71	FY11E	2971.1	36.2	5.5	10.9	8.1	126.8	59.6
Mcap (₹.Cr)	2,473	Upside (%)	18.3%	FY12E	3439.9	15.8	5.2	11.6	6.4	91.5	46.1
Kingfisher				Sales (₹ Cr)	Sales Gr. (%)	EPS (₹)	PE (x)	*EV/E (x)	RoNW (%)	RoCE (%)	
			FY09	5239.0	NA	-80.9	NA	-5.5	NA	NA	NA
Idirect Code	DECAVI	CMP (₹)	51	FY10	5067.8	-3.3	-62.0	NA	-11.1	NA	NA
		Target (₹)	UR	FY11E	6722.8	32.7	-18.6	NA	94.8	NA	4.2
Mcap (₹.Cr)	2,021	Upside (%)	NA	FY12E	8229.0	22.4	-0.2	NA	20.2	NA	9.0

*EV/E = EV/EBITDA

Exhibit 9: Recommendation history



Source: Company, ICICIdirect.com Research

RATING RATIONALE

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Strong Buy: 20% or more;
Buy: Between 10% and 20%;
Add: Up to 10%;
Reduce: Up to -10%
Sell: -10% or more;

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