

# Losses to continue

## Loss in the seasonally best qtr; Reiterate Underperform

Despite 3Q being seasonally strongest quarter, SpiceJet posted yet another quarter of loss. Loss for the quarter at Rs393mn (vs. Rs945mn profit in 3QFY11) was less than BofAML estimate of Rs837mn. However despite the surprise, we continue to expect losses for both FY12 & FY13 and expect break-even only in FY14. We have largely left our FY12E-14E forecasts unchanged after tweaking our assumptions of yields and costs and retain our Underperform & PO.

## Yields improve but not enough; load factors remain weak

SpiceJet reported sharp sequential improvement though not enough for break-even. This lower than expected loss was largely on account of better than expected yields. Average ticket prices for the quarter improved 9.5% YoY (BofAML est 2%). However, load factors at 80% (vs. 88% in 3QFY11) continued to remain weak on a YoY basis.

## Demand to weaken even as supply growth stabilizes

Expect supply growth to be more moderate going forward largely on account Kingfisher capacity cuts. However, traffic growth is also expected to moderate due to the slowing economy. We continue to expect that supply growth to be stronger than the traffic growth in FY13. Expect addition of ~35 aircrafts by the industry over the next 12 months.

## Reform newsflow +ve... but near term benefits unlikely

Reform newsflow has been +ve resulting in the strong rally in the stock. Group of Ministers (GoM) is likely to meet on 9<sup>th</sup> Feb to consider reforms. Possible reforms talked are (a) FDI, and (b) allowing ATF import. While FDI is marginally positive, it is not game changer as expected by the street. On the other hand allowing of ATF import will be difficult to implement in near term. Additionally, continuing lack of clarity on international route approvals for private carriers is likely to hurt industry.

## Estimates (Mar)

(Rs)	2010A	2011A	2012E	2013E	2014E
Net Income (Adjusted - mn)	614	1,012	(4,424)	(1,535)	239
EPS	2.4	2.5	(9.9)	(3.4)	0.5
EPS Change (YoY)	NM	1.1%	NM	65.3%	NM
Dividend / Share	0	0	0	0	0
Free Cash Flow / Share	7.0	2.6	(11.1)	(2.4)	6.6

## Valuation (Mar)

	2010A	2011A	2012E	2013E	2014E
P/E	10.1x	10.0x	NM	NM	46.0x
Dividend Yield	0%	0%	0%	0%	0%
EV / EBITDA*	79.85x	32.77x	NM	NM	21.80x
Free Cash Flow Yield*	16.0%	9.8%	-45.3%	-9.9%	26.8%

\* For full definitions of *iQmethod*<sup>SM</sup> measures, see page 6.

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## Stock Data

Price	Rs24.60
Price Objective	Rs18.80
Date Established	8-Jan-2012
Investment Opinion	C-3-9
Volatility Risk	HIGH
52-Week Range	Rs15.35-Rs51.50
Mkt Val / Shares Out (mn)	US\$226 / 446.8
Market Value (mn)	Rs10,990
Average Daily Volume	3,106,105
BofAML Ticker / Exchange	MDLFF / BSE
Bloomberg / Reuters	SJET IN / SPJT.BO
ROE (2012E)	-374.5%
Net Dbt to Eqty (Mar-2011A)	-33.1%
Est. 5-Yr EPS / DPS Growth	15.0% / NA
Free Float	60.0%

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Refer to important disclosures on page 7 to 9. Analyst Certification on Page 4. Price Objective Basis/Risk on page 4. Link to Definitions on page 4. 11134364

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## iQprofile<sup>SM</sup> SpiceJet Ltd

Key Income Statement Data (Mar)	2010A	2011A	2012E	2013E	2014E
<b>(Rs Millions)</b>					
Sales	22,024	29,344	38,550	50,935	60,368
Gross Profit	12,068	14,675	13,792	21,236	26,552
Sell General & Admin Expense	NA	NA	NA	NA	NA
Operating Profit	398	1,068	(4,164)	(716)	1,260
Net Interest & Other Income	336	214	(260)	(819)	(962)
Associates	NA	NA	NA	NA	NA
Pretax Income	734	1,282	(4,424)	(1,535)	299
Tax (expense) / Benefit	(64)	(247)	0	0	(60)
Net Income (Adjusted)	614	1,012	(4,424)	(1,535)	239
Average Fully Diluted Shares Outstanding	252	411	447	447	447

### Key Cash Flow Statement Data

Net Income	670	1,034	(4,424)	(1,535)	239
Depreciation & Amortization	76	89	207	434	479
Change in Working Capital	1,023	(45)	1,170	3,856	2,422
Deferred Taxation Charge	0	0	0	0	0
Other Adjustments, Net	64	247	0	0	60
Cash Flow from Operations	1,833	1,326	(3,047)	2,755	3,199
Capital Expenditure	(69)	(249)	(1,927)	(3,844)	(251)
(Acquisition) / Disposal of Investments	0	0	0	0	0
Other Cash Inflow / (Outflow)	(1,396)	(2,867)	(1,529)	(1,911)	(2,389)
Cash Flow from Investing	(1,466)	(3,116)	(3,456)	(5,755)	(2,640)
Shares Issue / (Repurchase)	0	3,680	1,300	0	0
Cost of Dividends Paid	0	0	0	0	0
Cash Flow from Financing	(566)	106	7,075	2,031	(1,112)
Free Cash Flow	1,764	1,077	(4,974)	(1,089)	2,949
Net Debt	(124)	(1,065)	4,310	8,860	8,653
Change in Net Debt	(306)	(1,841)	5,570	3,970	552

### Key Balance Sheet Data

Property, Plant & Equipment	670	867	2,587	5,997	5,769
Other Non-Current Assets	3,249	6,116	7,645	9,557	11,946
Trade Receivables	190	172	365	965	1,143
Cash & Equivalents	4,507	1,922	2,690	1,140	847
Other Current Assets	1,242	2,020	2,308	2,416	2,407
Total Assets	9,858	11,098	15,595	20,075	22,112
Long-Term Debt	4,150	695	6,650	9,500	9,025
Other Non-Current Liabilities	0	0	0	0	0
Short-Term Debt	233	163	350	500	475
Other Current Liabilities	8,897	7,027	9,445	12,460	14,758
Total Liabilities	13,280	7,885	16,445	22,460	24,258
Total Equity	(3,420)	3,213	(850)	(2,385)	(2,147)
Total Equity & Liabilities	9,859	11,098	15,595	20,074	22,112

### iQmethod<sup>SM</sup> - Bus Performance\*

Return On Capital Employed	46.1%	34.3%	-73.3%	-9.4%	13.5%
Return On Equity	NM	NM	-374.5%	NM	NM
Operating Margin	1.8%	3.6%	-10.8%	-1.4%	2.1%
EBITDA Margin	2.2%	3.9%	-10.3%	-0.6%	2.9%

### iQmethod<sup>SM</sup> - Quality of Earnings\*

Cash Realization Ratio	3.0x	1.3x	NM	NM	13.4x
Asset Replacement Ratio	0.9x	2.8x	9.3x	8.9x	0.5x
Tax Rate (Reported)	8.7%	19.3%	NM	NM	20.0%
Net Debt-to-Equity Ratio	NM	-33.1%	NM	NM	NM
Interest Cover	6.5x	22.1x	-10.2x	-0.7x	1.1x

### Key Metrics

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 6.

### Company Description

SpiceJet is a dedicated 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 fleet of 30 B-737s and 5 Q-400s and has an extensive network between 22 destinations in India and 2 destinations in the South East Asia.

### Investment Thesis

SpiceJet is India's 2nd largest low cost carrier. Its business model exploits the changing preference of price sensitive Indian flyers. Intense competition on the back of higher supply growth and high fuel cost weigh on the overall profitability in the sector, including SpiceJet. We expect SpiceJet to post losses for the next 2 years and return back to profitability only in FY14.

### Stock Data

Price to Book Value NA

## Result Summary

Table 1: Result Summary

Rs. Mn	3QFY12	3QFY11	YoY (%)	2QFY12	QoQ(%)
Operating Revenues	11,758	8,302	41.6%	7,665	53.4%
Non Operating Revenues	63	72	-12.8%	43	45.4%
<b>Total Revenues</b>	<b>11,821</b>	<b>8,374</b>	<b>41.2%</b>	<b>7,708</b>	<b>53.4%</b>
<b>Employees Remuneration &amp; Benefits</b>	<b>1,121</b>	<b>608</b>	<b>84.4%</b>	<b>864</b>	<b>29.7%</b>
<b>Aircraft Fuel Expenses</b>	<b>5,923</b>	<b>3,115</b>	<b>90.1%</b>	<b>4,781</b>	<b>23.9%</b>
Airport Charges	696	474	46.9%	603	15.4%
Aircraft Maintenance	1,190	683	74.2%	961	23.9%
Other Costs	1,419	1,221	16.1%	1,399	1.4%
<b>Total Other Operating Expenses</b>	<b>3,305</b>	<b>2,378</b>	<b>39.0%</b>	<b>2,963</b>	<b>11.5%</b>
<b>EBITDAR</b>	<b>1,410</b>	<b>2,201</b>	<b>-35.9%</b>	<b>(943)</b>	<b>-249.5%</b>
Margin	12.0%	26.5%	-1452 bps	-12.3%	2430 bps
Interest	143	10	1381.5%	89	61.5%
Depreciation	122	23	430.2%	37	228.8%
Aircraft Lease Rental	1,600	1,060	51.0%	1,375	16.4%
Prior period adjustments	-	-		-	
<b>PBT</b>	<b>(393)</b>	<b>1,180</b>	<b>NM</b>	<b>(2,401)</b>	<b>NM</b>
Taxes	-	235	NM	-	NM
<b>Recurring PAT</b>	<b>(393)</b>	<b>945</b>	<b>NM</b>	<b>(2,401)</b>	<b>NM</b>

Source: BofAML Global Research

High fuel costs and weaker INR keeps the total costs high.

Despite 3Q being the seasonally strongest quarter SpiceJet posted its 4<sup>th</sup> consecutive quarterly loss.

Table 2: Operating Metrics

(Rs mn)	3QFY12	3QFY11	YoY (%)	2QFY12	QoQ(%)
EBITDAR Margin	12.0%	26.5%	-1452 bps	-12.3%	2430 bps
RPKs (mns)	2,888	2,398	20.4%	2,170	33.1%
ASKs (mns)	3,606	2,731	32.0%	3,219	12.0%
Load Factor (%)	80.1%	87.8%	-770 bps	67.4%	1270 bps
Revenue Passengers (mn)	3.08	2.39	29.2%	2.31	33.5%
Passenger Yield (Rs per RPK)	4.07	3.46	17.5%	3.53	15.2%
Average Ticket Price (Rs)	3,810	3,478	9.5%	3,317	14.9%

Source: BofAML Global Research

While yields improved significantly, lower load factors led to the losses.

## Price objective basis & risk

### SpiceJet Ltd (MDLFF)

Our PO of Rs.18.8 is based on 10x FY13E EV/EBITDAR, which is in line with the regional airlines with low EBITDAR margins in the trough cycle. Upside risk: sharp decline in fuel prices and faster-than-expected economic growth. Downside risk: further increase in fuel prices and increase in competitive intensity.

## Link to Definitions

### Industrials

Click [here](#) for definitions of commonly used terms.

## Analyst Certification

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**India - General Coverage Cluster**

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Aditya Birla Nu	ADYAF	ABNL IN	Reena Verma Bhasin, CFA
	Anant Raj Industries Ltd	XNRJF	ARCP IN	Gagan Agarwal
	Balrampur Chini	BMPRF	BRCM IN	Sanjaya Satapathy
	Brigade Enterprises	XBDGF	BRGD IN	Gagan Agarwal
	DLF Limited	XVDUF	DLFU IN	Abhishek Kiran Gupta
	Exide Indus Ltd	XEDRF	EXID IN	Sanjaya Satapathy
	Havells	HVLIF	HAVL IN	Sanjaya Satapathy
	Motherson Sumi	XMSUF	MSS IN	Sanjaya Satapathy
	Oberoi Realty Ltd	XRXOF	OBER IN	Abhishek Kiran Gupta
	Opto Circuits	OPOCF	OPTC IN	Sanjaya Satapathy
	SINTEX INDUSTRIES LTD	SIXDF	SINT IN	Prasad Deshmukh
<b>NEUTRAL</b>				
	Chambal Fertilisers & Chemicals	CHBZF	CHMB IN	Prasad Deshmukh
	Coromandel International Ltd	CMDFF	CRIN IN	Prasad Deshmukh
	Grasim	GRSJF	GRASIM IN	Reena Verma Bhasin, CFA
	Grasim -G	GRSJY	GRAS LX	Reena Verma Bhasin, CFA
	Shree Cements	SREEEF	SRCM IN	Reena Verma Bhasin, CFA
	Unitech Ltd	UTKIF	UT IN	Abhishek Kiran Gupta
<b>UNDERPERFORM</b>				
	Ambuja Cements	AMBUF	ACEM IN	Reena Verma Bhasin, CFA
	Assoc. Cement	ADCLF	ACC IN	Reena Verma Bhasin, CFA
	Bajaj Hindusthan	BJJHF	BJH IN	Sanjaya Satapathy
	Container Corp	CIDFF	CCRI IN	Sanjaya Satapathy
	Cummins India	CUIDF	KKC IN	Sanjaya Satapathy
	Housing Development and Infrastructure	XGHSF	HDIL IN	Gagan Agarwal
	India Cements	INIAF	ICEM IN	Reena Verma Bhasin, CFA
	India Cements -G	IAMUY	ICEM LX	Reena Verma Bhasin, CFA
	Indiabulls Real Estate Ltd	IBELF	IBREL IN	Abhishek Kiran Gupta
	Jaypee Infratech	XJAYF	JPIN IN	Gagan Agarwal
	Jet Airways	JTAIF	JETIN IN	Anand Kumar
	Jindal Saw	SWPFF	JSAW IN	Sanjaya Satapathy
	Omaxe Limited	XOMXF	OAXE IN	Gagan Agarwal
	Puravankara Projects Ltd	XPJVF	PVKP IN	Gagan Agarwal
	Renuka Sugars	SRNKF	SHRS IN	Sanjaya Satapathy
	Sobha Developers	SBDRF	SOBHA IN	Gagan Agarwal
	SpiceJet Ltd	MDLFF	SJET IN	Anand Kumar
	Tata Chemicals Ltd	TTCXF	TTCH IN	Prasad Deshmukh
	UltraTech Cemen	XDJNF	UTCEM IN	Reena Verma Bhasin, CFA
	Voltas	VTSJF	VOLT IN	Sanjaya Satapathy
<b>RVW</b>				
	Fortis Healthcare Limited	XFFTf	FORH IN	Prasad Deshmukh

**iQmethod<sup>SM</sup> Measures Definitions**

<b>Business Performance</b>	<b>Numerator</b>	<b>Denominator</b>
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
<b>Quality of Earnings</b>		
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
<b>Valuation Toolkit</b>		
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

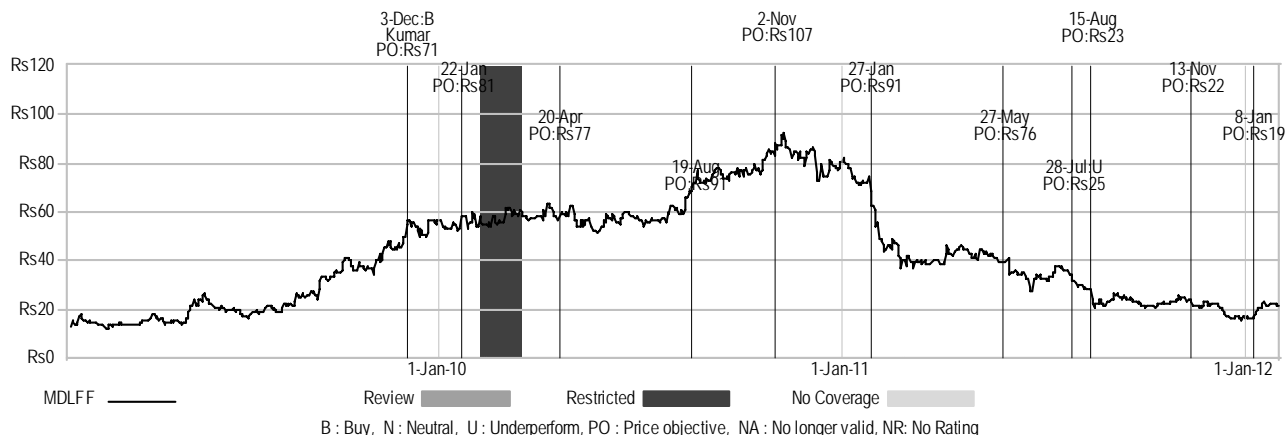
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### Investment Rating Distribution: Transport/Infrastructure Group (as of 01 Jan 2012)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	80	49.69%	Buy	53	67.95%
Neutral	36	22.36%	Neutral	23	65.71%
Sell	45	27.95%	Sell	25	58.14%

### Investment Rating Distribution: Global Group (as of 01 Jan 2012)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	2029	52.00%	Buy	1337	72.11%
Neutral	1009	25.86%	Neutral	657	71.34%
Sell	864	22.14%	Sell	487	60.20%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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