

1QFY12: Another loss making quarter

Cut PO on higher cost assumptions; Maintain Underperform

We have cut our EBITDAR estimates by 4%/1% for FY12E/13E on account of higher employee cost and aircraft maintenance cost assumptions. This is largely due to stronger capacity addition. We also raise our traffic assumptions by 4%-5% over FY12-13E on account of stronger capacity addition. We marginally tweak our yield assumption while keeping the load factors unchanged. We cut our PO to Rs23 (from Rs25) which is based on an unchanged target multiple of 9x FY13E EV/EBITDAR on our lower EBITDAR estimate.

High fuel cost & lower load factors spoil 1Q results

On account of higher fuel cost and lower utilization, SpiceJet reported net loss of Rs720mn in Q1FY12 (vs. Rs552mn profit in Q1FY11). Q1FY12 load factor was down 890bps YoY (-210bps QoQ) on account of strong capacity addition (~37% YoY ASKMs growth). On account of stronger capacity growth we expect SpiceJet to show 350bps drop in load factor in FY12E & further 150bps drop in FY13E.

Yields improve...but not enough yet

Yields for the quarter showed a ~7% YoY improvement on account of increase in fuel surcharges. A large portion of SpiceJet's traffic growth comes from the price sensitive non-corporate leisure travelers. This, coupled with aggressive capacity addition by the LCCs, restricts SpiceJet from significantly improving yields despite higher costs. We expect 3%-5% yield growth over FY11-13E which is not expected to enable break-even for SpiceJet.

Industry outlook remains bleak

Outlook for Indian domestic aviation remains weak on account of (a) moderating traffic growth, (b) stronger capacity growth, (c) restricted yield growth, (d) falling load factors and (e) high fuel cost.

Estimates (Mar)

(Rs)	2010A	2011A	2012E	2013E	2014E
Net Income (Adjusted - mn)	614	1,012	(1,153)	(413)	474
EPS	2.4	2.5	(2.8)	(1.0)	1.2
EPS Change (YoY)	NM	1.1%	NM	64.2%	NM
Dividend / Share	0	0	0	0	0
Free Cash Flow / Share	7.0	3.0	3.5	4.2	6.3

Valuation (Mar)

	2010A	2011A	2012E	2013E	2014E
P/E	11.6x	11.4x	NM	NM	24.4x
Dividend Yield	0%	0%	0%	0%	0%
EV / EBITDA*	81.05x	33.26x	NM	NM	55.40x
Free Cash Flow Yield*	15.3%	10.7%	12.4%	14.9%	22.3%

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

Bank of America Merrill Lynch

Anand Kumar >> +91 22 6632 8683

Research Analyst
DSP Merrill Lynch (India)
anand.k.kumar@baml.com

S.Arun >> +91 22 6632 8657

Research Analyst
DSP Merrill Lynch (India)
s.arun@baml.com

Stock Data

Price	Rs28.15
Price Objective	Rs23.00
Date Established	16-Aug-2011
Investment Opinion	C-3-9
Volatility Risk	HIGH
52-Week Range	Rs26.90-Rs97.45
Mkt Val / Shares Out (mn)	US\$255 / 410.6
Market Value (mn)	Rs11,560
Average Daily Volume	3,764,435
BofAML Ticker / Exchange	MDLFF / BSE
Bloomberg / Reuters	SJET IN / SPJT.BO
ROE (2012E)	-43.7%
Net Dbt to Eqty (Mar-2011A)	-33.1%
Est. 5-Yr EPS / DPS Growth	15.0% / NA
Free Float	60.0%

Key Changes

(Rs)	Previous	Current
Price Obj.	25	23
2012E EPS	-1.9	-2.8
2013E EPS	-0.4	-1.0
2014E EPS	1.4	1.2

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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. 11080415

16 August 2011

iQprofileSM SpiceJet Ltd

Key Income Statement Data (Mar)	2010A	2011A	2012E	2013E	2014E
(Rs Millions)					
Sales	22,024	29,344	39,878	47,346	55,043
Gross Profit	12,068	14,675	16,640	20,318	24,431
Sell General & Admin Expense	NA	NA	NA	NA	NA
Operating Profit	398	1,068	(1,210)	(435)	585
Net Interest & Other Income	336	214	58	22	7
Associates	NA	NA	NA	NA	NA
Pretax Income	734	1,282	(1,153)	(413)	592
Tax (expense) / Benefit	(64)	(247)	0	0	(118)
Net Income (Adjusted)	614	1,012	(1,153)	(413)	474
Average Fully Diluted Shares Outstanding	252	411	411	411	411

Key Cash Flow Statement Data

Net Income	670	1,034	(1,153)	(413)	474
Depreciation & Amortization	76	89	96	103	110
Change in Working Capital	1,023	(45)	2,670	2,226	2,093
Deferred Taxation Charge	0	0	0	0	0
Other Adjustments, Net	64	247	0	0	118
Cash Flow from Operations	1,833	1,326	1,613	1,916	2,795
Capital Expenditure	(69)	(94)	(180)	(197)	(216)
(Acquisition) / Disposal of Investments	0	0	0	0	0
Other Cash Inflow / (Outflow)	(1,396)	(3,052)	(1,575)	(1,969)	(2,461)
Cash Flow from Investing	(1,466)	(3,146)	(1,755)	(2,166)	(2,678)
Shares Issue / (Repurchase)	0	3,680	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Cash Flow from Financing	(566)	106	0	122	(143)
Free Cash Flow	1,764	1,232	1,433	1,719	2,578
Net Debt	(124)	(1,065)	(489)	725	1,050
Change in Net Debt	(306)	(1,811)	285	378	26

Key Balance Sheet Data

Property, Plant & Equipment	670	682	766	860	967
Other Non-Current Assets	3,249	6,301	7,876	9,845	12,307
Trade Receivables	190	172	378	897	1,042
Cash & Equivalents	4,507	1,922	1,489	525	201
Other Current Assets	1,242	2,020	2,318	2,358	2,322
Total Assets	9,858	11,098	12,827	14,486	16,838
Long-Term Debt	4,150	695	950	1,188	1,188
Other Non-Current Liabilities	0	0	0	0	0
Short-Term Debt	233	163	50	63	63
Other Current Liabilities	8,897	7,027	9,768	11,589	13,467
Total Liabilities	13,280	7,885	10,768	12,839	14,718
Total Equity	(3,420)	3,213	2,060	1,647	2,120
Total Equity & Liabilities	9,859	11,098	12,827	14,486	16,838

iQmethodSM - Bus Performance*

Return On Capital Employed	46.1%	34.3%	-30.6%	-13.1%	14.9%
Return On Equity	NM	NM	-43.7%	-22.3%	25.1%
Operating Margin	1.8%	3.6%	-3.0%	-0.9%	1.1%
EBITDA Margin	2.2%	3.9%	-2.8%	-0.7%	1.3%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	3.0x	1.3x	NM	NM	5.9x
Asset Replacement Ratio	0.9x	1.1x	1.9x	1.9x	2.0x
Tax Rate (Reported)	8.7%	19.3%	NM	NM	20.0%
Net Debt-to-Equity Ratio	NM	-33.1%	-23.7%	44.0%	49.5%
Interest Cover	6.5x	22.1x	-8.5x	-3.4x	4.1x

Key Metrics

* For full definitions of iQmethodSM 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 single-aircraft-type fleet of 30 B-737s 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 5.6x

Revision in estimates & assumptions

Cut EBITDAR estimates by 4%/1% for FY12E/13E due to higher employee cost and aircraft maintenance cost assumption. This is largely on account of faster capacity addition than earlier expected. We also raise our traffic assumptions by 4%-5% over FY12-13E on account of stronger capacity addition. We marginally tweak our yield assumption while keeping the load factors unchanged.

Table 1: Key assumptions

	Previous		Revised		Revision	
	FY12	FY13	FY12	FY13	FY12	FY13
ASKM (Mn)	13,921	16,009	14,130	16,603	1.5%	3.7%
Load	79.0%	77.5%	79.0%	77.5%	0 bps	0 bps
Pax (Mn)	11.2	13.0	11.6	13.6	3.5%	4.9%
Yield- (Rs/KM)	3.5	3.6	3.6	3.7	0.9%	1.1%
CASK	2.9	2.9	2.9	2.9	1.0%	1.2%
JetKero (\$/bbl)	120	120	120	120	0.0%	0.0%

Source: BofA Merrill Lynch Global Research

Table 2: Revision in estimates

Rs Mn	Previous		Revised		Revision	
	FY12	FY13	FY12	FY13	FY12	FY13
Revenues	39,118	45,464	40,078	47,496	2.5%	4.5%
EBITDAR	4,546	6,173	4,336	6,141	-4.6%	-0.5%
Margins	11.6%	13.6%	10.9%	13.0%	-75 bps	-61 bps
PBT	(796)	(154)	(1,153)	(413)	NM	NM
Net Profit	(796)	(154)	(1,153)	(413)	NM	NM
EPS	(1.9)	(0.4)	(2.8)	(1.0)	NM	NM

Source: BofA Merrill Lynch Global Research

Quarterly performance

Table 3: SpiceJet quarterly performance

Rs. Mn	1QFY12	1QFY11	YoY (%)	4QFY11	QoQ(%)
Operating Revenues	9,456	7,169	31.9%	7,588	24.6%
Non Operating Revenues	33	76	-55.8%	25	32.5%
Total Revenues	9,490	7,244	31.0%	7,613	24.6%
Employees Remuneration & Benefits	769	620	24.1%	654	17.6%
Aircraft Fuel Expenses	5,052	2,591	94.9%	3,948	28.0%
Airport Charges	563	392	43.7%	489	15.1%
Aircraft Maintenance	995	745	33.6%	823	20.9%
Other Costs	1,426	1,191	19.7%	1,177	21.2%
Total Other Operating Expenses	2,984	2,327	28.2%	2,489	19.9%
EBITDAR	652	1,630	-60.0%	497	31.2%
Margin	6.9%	22.7%	-1584 bps	6.5%	34 bps
Interest	60	13	352.7%	12	412.1%
Depreciation	25	20	27.1%	24	4.1%
Aircraft Lease Rental	1,319	960	37.5%	1,223	7.9%
Prior period adjustments	-	23	-	-	-
PBT	(720)	712	-201.0%	(737)	-2.3%
Taxes	-	137	NM	(150)	NM
Recurring PAT	(720)	552	-230.3%	(586)	22.8%
Operating Metrics					
(Rs mn)	1QFY12	1QFY11	YoY (%)	4QFY11	QoQ(%)
Operating Revenue	9,456	7,169	31.9%	7,588	24.6%
EBITDAR	652	1,630	-60.0%	497	31.2%
EBITDAR Margin	7%	23%	-1584 bps	7%	34 bps
RPKs (mns)	2,553	2,078	22.8%	2,344	8.9%
ASKs (mns)	3,235	2,367	36.7%	2,894	11.8%
Load Factor (%)	78.9%	87.8%	-8.9%	81.0%	-2.1%
Revenue Passengers (mn)	2.58	2.06	25.0%	2.35	9.9%
Passenger Yield (Rs per RPK)	3.70	3.45	7.4%	3.24	14.4%

Source: BofA Merrill Lynch Global Research

Price objective basis & risk

SpiceJet Ltd (MDLFF)

Our PO of Rs.23 is based on 9x FY13E EV/EBITDAR, which is in line with the regional airlines with low EBITDAR margins in the low 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.

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SEBI Regn no. : BSE - INB/INF 011348134 NSE – INB/INF 231348138

Address – Mafatlal Centre, 8th Floor, Nariman Point, Mumbai, India. 400021

Tel : +91 22 6632 8000

India - General Coverage Cluster

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

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

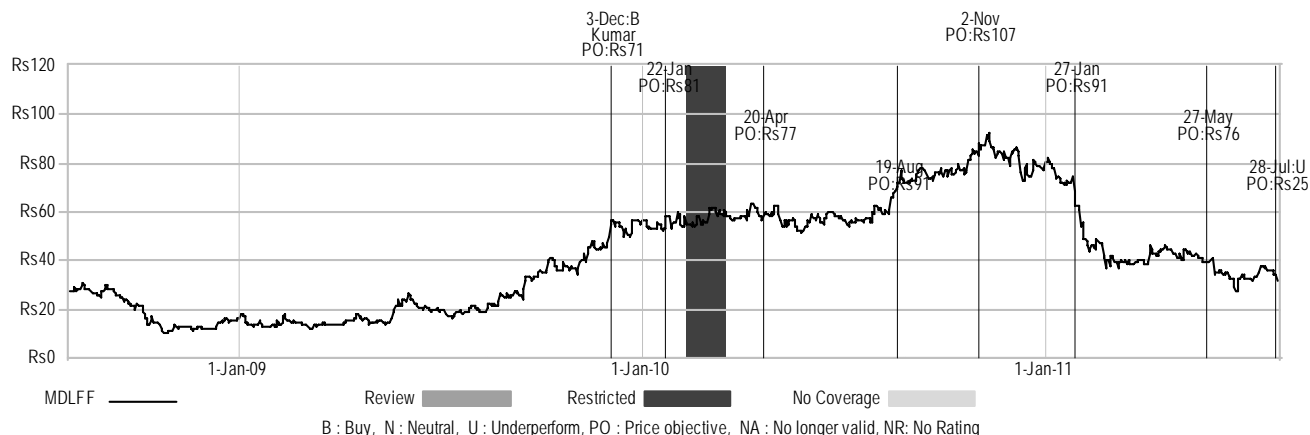
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Investment Rating Distribution: Transport/Infrastructure Group (as of 01 Jul 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	82	52.23%	Buy	39	48.15%
Neutral	33	21.02%	Neutral	11	33.33%
Sell	42	26.75%	Sell	14	34.15%

Investment Rating Distribution: Global Group (as of 01 Jul 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	2024	53.94%	Buy	935	50.68%
Neutral	944	25.16%	Neutral	442	51.64%
Sell	784	20.90%	Sell	273	37.24%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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