Kingfisher Airlines Limited

On a recovery path

Initiation
Overweight
KING.BO, KAIR IN
Price: Rs66.80
Price Target: Rs83.00

India
Airlines

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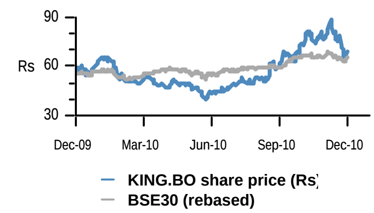
- **Initiate with Overweight, PT of Rs83:** Our PT implies 24% upside from the current share price. KAIR is the second-largest full service airline in India with passenger market share of 19%. We expect a sharp turnaround in earnings driven by an improved operating environment, restructuring of operations, and conversion of debt into equity.
- **Redeployment and operational restructuring to drive earnings turnaround:** KAIR has recently reached an agreement with AIA for the recovery of its grounded fleet by 2Q FY12. Four of the 14 grounded planes have been deployed, and KAIR expects to deploy another three by 4Q FY11. The restructuring of operating costs should help reduce operating (ex-oil) CASK by 8.5% in FY11E and 8.2% in FY12E.
- **Debt restructuring to ease cash flows:** Conversion of debt to equity should drive Rs4.5B interest savings per annum and reduce gearing from 17.1x in FY10 to 1.8x in FY12E. Easing of cash flows will have operational benefits, as KAIR will be able to negotiate better terms for fuel and airport charges. KAIR is also looking to raise US$300MM of additional equity (not factored into our estimates), which could help further reduce interest costs. We expect KAIR to achieve EBITDA breakeven in FY11 and PAT breakeven by FY12.
- **Price target, valuation, key risks:** Our Sep-11 price target of Rs83 is based on 8x FY12E EV/EBITDAR, at a premium of 14% to the Asian airline peer group and a 10% discount to Chinese airlines. We believe the premium to Asian airlines is justified given KAIR's stronger growth prospects, debt restructuring, and better long-term growth potential offered by the Indian market. Key risks include an increase in fuel prices, slowdown in passenger traffic growth and delay or inability to restructure debt, further delays in redeployment of grounded aircraft, depreciation of rupee and adverse changes in regulations.

Price Performance



	YTD	1m	3m	12m
Abs	6.0%	-10.7%	11.5%	23.4%
Rel	-7.0%	-8.2%	2.5%	8.0%

Kingfisher Airlines Limited (Reuters: KING.BO, Bloomberg: KAIR IN)

Rs in mn, year-end Mar	FY09A	FY10A	FY11E	FY12E	FY13E
Adjusted EPS (Rs)	-81.03	-52.96	-15.20	5.61	8.44
EPS growth (%)	445.5%	-34.6%	-71.3%	-136.9%	50.6%
Revenue	52,390	50,679	65,094	82,343	87,262
Net Profit	-21,468.2	-12,393.5	-8,326.2	3,691.2	5,244.0
DPS (Rs)	0.00	0.00	0.00	0.00	0.00
Revenue growth (%)	263.5%	-3.3%	28.4%	26.5%	6.0%
EBITDA	-18,067	-8,994	1,490	11,085	13,778
EBITDA margin	-34.5%	-17.7%	2.3%	13.5%	15.8%
P/E (x)	-0.7	-1.5	-4.6	10.3	7.3
P/BV (x)	3.3	3.9	1.2	1.2	1.2
EV/EBITDA (x)	-4.2	-10.9	50.6	6.6	5.5
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%

Shares O/S (mn)	266
Market cap (Rs mn)	17,763
Market cap ($ mn)	391
Price (Rs)	66.80
Date Of Price	30 Nov 10
Free float (%)	29.4%
3-mth trading value (Rs mn)	317.6
3-mth trading value ($ mn)	7.0
3-mth trading volume (mn)	5.7
BSE30	19,850
Exchange Rate	45.38
Fiscal Year End	Mar

Source: Company data, Bloomberg, J.P. Morgan estimates.

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Company Description

Kingfisher Airlines Limited is an Indian air taxi service operator engaged in the transportation of people, cargo and other related services. The company operates over 370 flights daily to 71 destinations within India and overseas. Kingfisher Airlines is one of six airlines in the world to have a 5-star rating from Skytrax. Kingfisher operates with a fleet of 66 aircraft, which includes 25 ATR 72-500 aircrafts, 23 Airbus A320 aircraft (with single and dual cabin), 8 Airbus A321, 5 Airbus A330 and 3 Airbus A319 aircrafts. Kingfisher has placed orders for further 67 aircrafts from the Airbus family to be delivered through 2016.

P&L sensitivity metrics

FY11E	EBITDAR impact (%)	PAT impact (%)
Load factors (%)	78%	
Impact of each +1% increase	5%	18%
Yields (Rs/RPKM)	5.09	
Impact of each +1% increase	4%	14%
Fuel prices (Rs/litre)	43.1	
Impact of each +1% increase	-1%	-5%

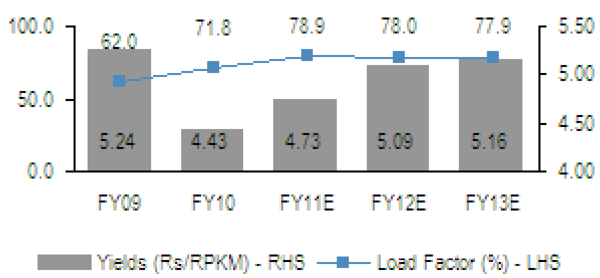
Source: J.P. Morgan estimates.

Fuel sensitivity analysis

	EBITDAR (Rs MM)	% Change	PAT (Rs MM)	% Change
-5%	21217.2	*7.0*	4658.3	*26.2*
-4%	20939.6	*5.6*	4462.7	*20.9*
-3%	20662.0	*4.2*	4270.7	*15.7*
-2%	20384.4	*2.8*	4078.8	*10.5*
-1%	20106.8	*1.4*	3883.2	*5.2*
Base Case - Rs43.1/litre	***19829.2***	***0.0***	***3691.2***	***0.0***
1%	19551.6	*-1.4*	3499.3	*-5.2*
2%	19274.0	*-2.8*	3303.6	*-10.5*
3%	18996.3	*-4.2*	3111.7	*-15.7*
4%	18718.7	*-5.6*	2919.7	*-20.9*
5%	18441.1	*-7.0*	2724.1	*-26.2*

Source: J.P. Morgan estimates.

Load Factor (%) and Yields (Rs/RPKM)



Source: J.P. Morgan estimates.

EPS: J.P. Morgan vs consensus

Rs	J. P. Morgan	Consensus	vs. Cons
FY11E	(15.2)	(15.0)	1%
FY12E	5.6	(0.2)	-2903%
FY13E	8.4	NA	

Source: Bloomberg and J.P. Morgan

PT and valuation analysis

Our price target of Rs83 is based on EV/EBITDAR of 8.0x on FY12E EBITDAR, at a premium of 14% to the Asian airlines peer group and a 10% discount to Chinese airlines.
KAIR currently trades at 7.4x FY12E EV/EBITDAR, at a 7% premium to the Asian peer group multiple.

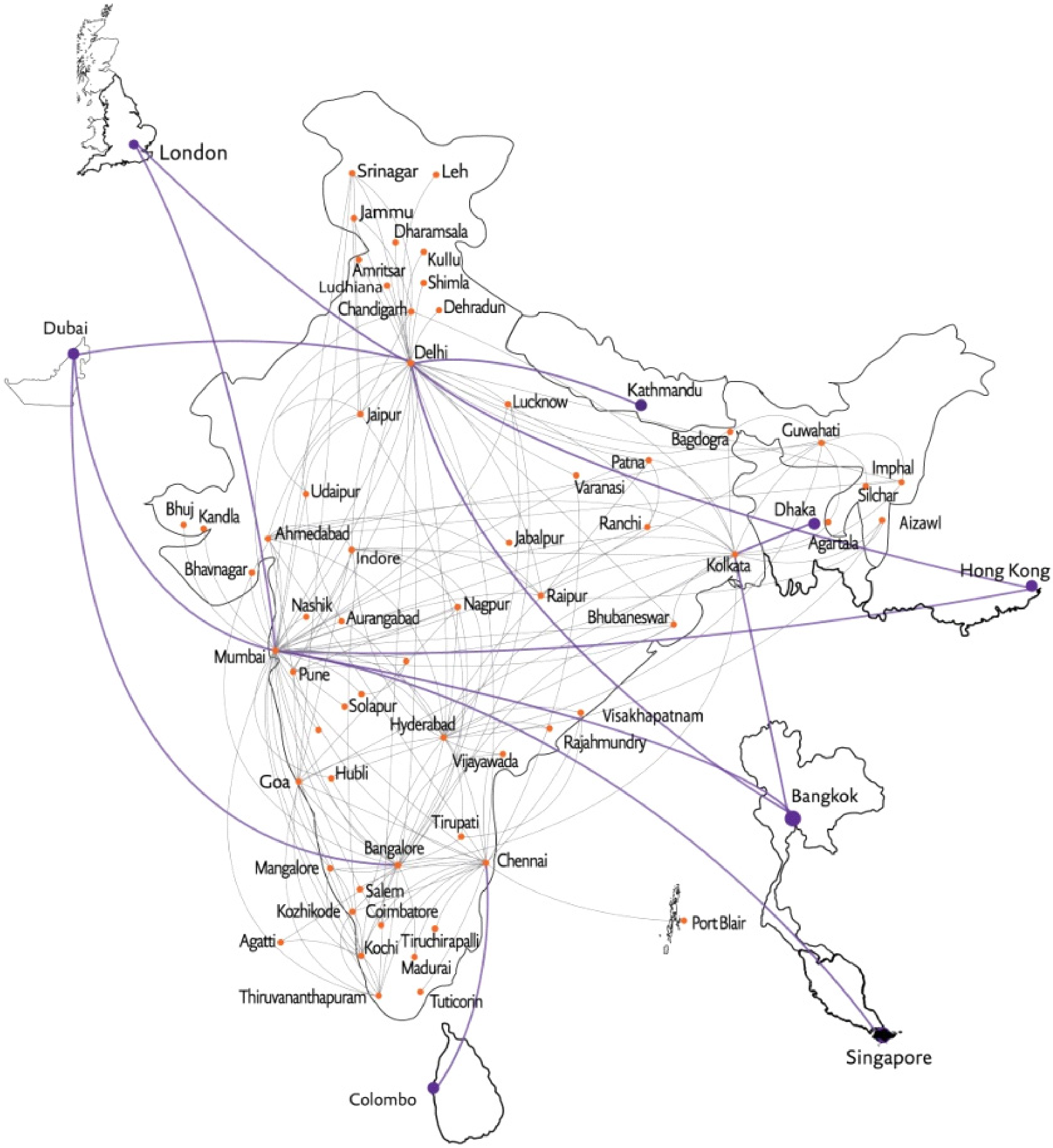
Key risks include a slowdown in passenger demand, Singapore Jet fuel prices over $100/bbl, the inability or delay in debt restructuring, delays in plane deployment/further problems with engines, weaker Rupee and adverse changes in regulations.

Table 1: India airlines vs. Asian valuation comparison

Airline	Rtg	Ccy	Price	P/E (x) 2010E	P/E (x) 2011E	P/BV (x) 2010E	P/BV (x) 2011E	EV/EBITDA (x) 2010E	EV/EBITDA (x) 2011E	EV/EBITDAR (x) 2010E	EV/EBITDAR (x) 2011E	EPS growth (%) 2010E	EPS growth (%) 2011E	ROE (%) 2010E	ROE (%) 2011E
Jet	OW	INR	805.4	26.6	8.6	3.5	2.5	9.7	7.4	8.6	7.5	130%	575%	7.7%	24.1%
Kingfisher	OW	INR	66.8	nm	11.9	nm	nm	46.8	6.3	13.0	7.4	nm	nm	nm	12.0%
Spicejet	OW	INR	82.2	12.4	12.5	3.4	3.4	11.8	8.6	8.5	6.3	325%	-1%	36.5%	26.9%
Asian sector Average				11.4	10.6	2.1	1.7	8.4	6.8	8.1	6.9	177%	21%	22.5%	18.5%

Source: Bloomberg, company reports, J.P. Morgan estimates. Consensus estimates for non-rated companies. *EV/EBITDAR has been adjusted for the capitalization of aircraft operating leases.
**For Spicejet, Jet Airways and Kingfisher, 2010E indicates year ending Mar-2011 and 2011E indicates year ending Mar-2012. Valuations are as on COB 30/11/2010.

Figure 1: Kingfisher Airlines domestic and international route map



Source: Company presentation

Investment thesis

Initiate coverage with Overweight rating and price target of Rs85. KAIR started its operations in 2005 and has rapidly expanded market share since then

We initiate coverage on Kingfisher Airlines (KAIR) with an Overweight rating and a price target of Rs85 based on 8x FY12E EV/EBITDAR. KAIR is a leading full service private carrier covering 60 domestic and 8 international routes. Since its inception in 2005, it has built a strong brand and is widely recognized as a premium service provider. In addition KAIR has rapidly increased its market share – it had a 23% domestic passenger share in FY10. KAIR acquired erstwhile LCC operator Air Deccan in FY08 and executed a reverse merger of KAIR into Air Deccan in FY09. KAIR has subsequently re-braded Air Deccan's low cost fleet as 'Kingfisher Red'.

Grounding of aircraft, Air Deccan acquisition and losses in international business have led to accumulated losses of Rs42B and high gearing levels

In the process of rapid expansion KAIR has accumulated heavy losses, accentuated by one-off events such as grounding of aircraft due to engine related issues. Decline in passenger traffic (due to economic slowdown) immediately after the acquisition of Air Deccan (for which KAIR paid Rs9.7B for a 46% stake) further stressed the balance sheet. In addition, KAIR's international operations (started in FY09) are in an investment phase and making losses. KAIR had accumulated losses of Rs42B and debt of Rs79.2B in FY10 (gearing of 17.6x).

KAIR is on the road to recovery, in our view, and we expect an earnings turnaround by FY12. Grounded aircraft are being redeployed, which should arrest cash burn

We believe that KAIR is now on a path to recovery, and we expect earnings to turn around by FY12. Its grounded fleet is being redeployed, which should arrest the cash burn and enhance margins. KAIR has recently reached an agreement with AIA for recovery of its grounded fleet by 2Q FY12. Four out of the 14 grounded planes have already been deployed and KAIR expects to deploy another three by 4Q FY11. Its entire grounded fleet is expected to be operational by 2Q FY12, boding well for earnings.

Cost and operations are being restructured which should drive reduction in operating CASK (ex-oil) of 8.5% in FY11 and 8.2% in FY12E

KAIR has recently hired Mr. Sanjay Aggarwal, who is the erstwhile CEO of LCC Spicejet, which is one of the most efficient airline operators in India. Mr. Aggarwal and the KAIR management team are in the process of rationalization the cost structures and operations. International expansion has been put on hold and focus has shifted towards consolidating the international operations before embarking on further expansion. We estimate that KAIR will be able to reduce its operating CASK (ex-oil) by 8.5% in FY11E and by 8.2% in FY12E.

Debt restructuring will drive significant interest savings and reduction in gearing

KAIR is restructuring its debt, which entails conversion of part of its debt into equity and reduction in interest rates. The debt recast proposal has been approved by KAIR's board as well as SBI, which is leading the consortium of KAIR's lenders. We expect the debt restructuring exercise to be concluded by the end of FY11. We estimate Rs4.5B savings in interest costs per annum and expect gearing to decline from 17.1x in FY10 to 1.8x in FY12 as a result of the debt restructuring. We estimate EBITDA profit of Rs1.5B in FY11, Rs11.1B in FY12, and Rs13.8B in FY13, compared to an EBITDA loss of Rs8.9B in FY10. We estimate PAT of Rs3.7B in FY12 compared to a PAT loss of Rs8.3B in FY10.

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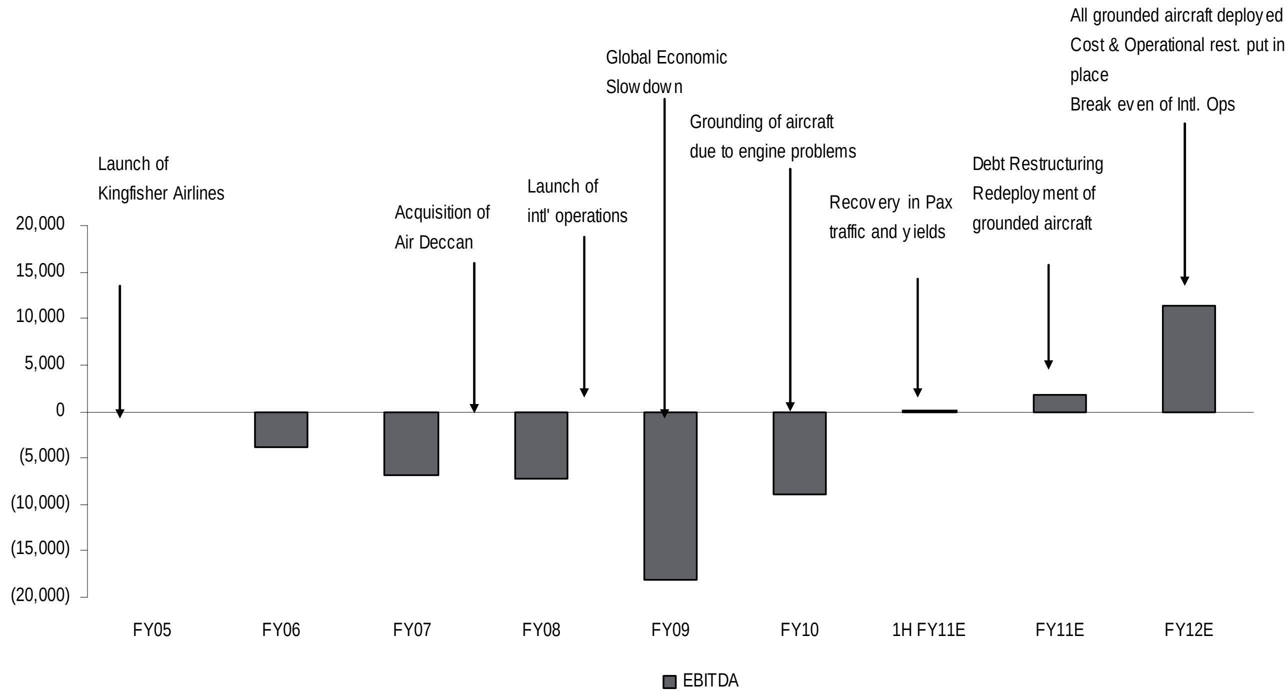
Figure 2: Kingfisher: Path to recovery - EBITDA (Rs MM)



Source: company reports, press articles, J.P. Morgan estimates

Table 2: Key assumptions and earnings sensitivities

	Base Case Assumption	Change in assumption	Impact on FY12E net profit (%)
Domestic load factor (%)	78.0	+/-1%	+/-16.6%
Domestic Yields (Rs/RPKM)	5.78	+/-1%	+/-12.9%
International load factor (%)	78.0	+/-1%	+/-4.5%
International Yields (Rs/RPKM)	3.5	+/-1%	+/-3.3%
Fuel price (Rs/litre)	43.1	+/-1%	+/-5.2%
Group unit cost per ASK (Rs)	4.1	+/-1%	+/-21.2%
Aircraft maintenance cost (Rs/flying hour)	17784	+/-1%	+/-1.1%
Aircraft, landing, navigation charges (Rs/departure)	25000	+/-1%	+/-0.9%
Ground Handling charges (Rs/departure)	11178	+/-1%	+/-0.4%
Average Interest cost (%)	11.0	+/-1%	+/-13.1%
USSD/INR FX rate (Rs)	44.5	+/-1%	+/-13.7%
Effective tax rate (%)	10.0	+/-1%	+/-1.1%

Source: J.P. Morgan estimates

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Positive drivers

Redeployment of grounded aircraft to aid turnaround in earnings

14 aircraft were grounded due to engine related issues

KAIR's 14 out of 34 A-320 family aircraft have been grounded since 1Q FY10 on account of engine-related issues. IAE engines deployed in KAIR's Airbus fleet experienced premature issues, as a result of which KAIR grounded 14 aircraft starting April 2009. We estimate a cash burn of Rs200MM per annum on each grounded aircraft. Based on our estimates, KAIR had a cash burn of Rs2B on account of the grounded aircraft in FY10 and about Rs800MM in IH FY11. In addition, there is a significant opportunity cost for KAIR on account of its grounded aircraft – it is losing out on potential revenues and profits on routes that have been discontinued.

Figure 3: KAIR domestic aircraft deployment (nos.)

	Nov'10	4Q FY11E	1Q FY12	2Q FY12
A320 family	25	28	30	34
ATRs	27	27	27	27
Total	52	55	57	61

Source: Company presentation, J.P. Morgan estimates

Agreement with AIA reached for fleet recovery, all grounded aircraft likely to be deployed by 2Q FY12

KAIR recently reached an agreement with AIA for recovery of its grounded fleet by 2Q FY12. Four of the 14 grounded planes have already been deployed and KAIR expects to deploy another three by 4Q FY11. Its entire grounded fleet is expected to be operational by 2Q FY12. In addition, IAE will reduce maintenance charges for impacted engines and will provide free replacement of the broken drums in the engines. In addition, for future overhauls, Kingfisher has signed an agreement for a fixed price overhaul and guaranteed hours between overhauls. Deployment of grounded aircraft should curtail cash burn and aid in a sharp turnaround in earnings. KAIR achieved EBITDA breakeven in 1H FY11 and we expect a sharp pick-up in EBITDA going forward.

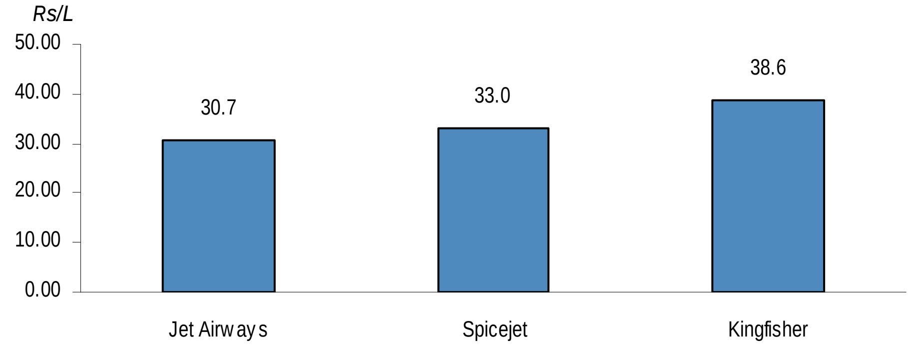
Rationalization of costs and operations underway

Cost reduction initiatives being put in place

KAIR has recently hired Mr. Sanjay Aggarwal, who is the erstwhile CEO of LCC Spicejet, which is one of the most efficient airline operators in India. Mr. Aggarwal and the KAIR management team are in the process of rationalization the cost structures and operations. The key cost reduction initiatives include 1) employee rationalization, 2) reduction of distribution costs through review of distribution channels and re-negotiation of GDS contracts, 3) reduction in discretionary expenditure, and 4) renegotiation of aircraft lease rentals as the come up for renewal.

KAIR also has high outstanding credit on aviation fuel and airport charges, as a result of which it is unable to avail of discounts offered for lower credit periods. Discounts offered on fuel can be as high as 10% of listed prices, as per our estimates, while KAIR could have a 15% benefit on airport charges if it were to pay within the stipulated credit period. We are not accounting for these benefits fully into our cost estimates. We believe that KAIR would be able to receive these benefits once its debt restructuring is put in place – which will reduce its cash flow stress and allow it to put in place better terms with its vendors.

Figure 4: Kingfisher vs. Jet Airways vs. Spicejet average fuel cost (Rs/liter)

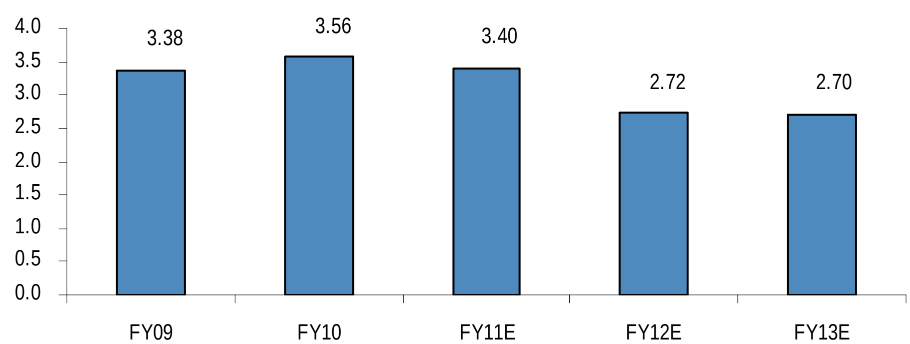


Source: Company presentations, J.P. Morgan estimates. Jet Airways and Kingfisher fuel cost also includes international operations where fuel cost is cheaper due to absence of sales tax.

Reconfiguration of airline seats will add 150 extra seats to the total seating capacity of fleet. We estimate 8.5% reduction in operating ex-oil CASK for KAIR in FY11E and 8.2% reduction in operating ex-oil CASK in FY12E

In addition, airline seats are being re-configured in line with recent shift in demand – while on some routes more business seats are being added, on some other routes business seats are being reduced. On a net basis, this should lead to an addition of about 150 economy seats to the total seating capacity of its fleet the next 3-4 months. We estimate that the seat rationalization exercise will reduce CASK by 3%, ceteris paribus. Overall we estimate 8.5% reduction in operating ex-oil CASK for KAIR in FY11E and 8.2% reduction in operating ex-oil CASK in FY12E.

Figure 5: Kingfisher CASK ex-oil trend (Rs/ASKM)



Source: company presentations, J.P. Morgan estimates

Debt restructuring entails conversion of debt into equity. We estimate interest cost savings of Rs4.5B per annum on account of the restructuring

Debt restructuring to remove stress on cash flows

KAIR' debt restructuring exercise is underway and has been approved by the RBI and SBI, which is leading a consortium of its lenders. We expect the debt restructuring to be put in place by end FY11E. According to our estimates, the restructuring would result in per annum saving of Rs4.5B in interest costs. This bodes well for KAIR as it would ease stress on cash flows and would help aid faster recovery in earnings.

The debt restructuring entails the following:

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1. Term loans of R44B rescheduled with a nine-year tenure with a two-year moratorium and reduction of interest rate on term loans from 14% to 11%;

2. 30% of term loans to be converted to equity capital – 15% common equity and 15% into preferential equity with a coupon of 8% per annum;

3. Interest rate on PDP borrowings to be reduced from 13% to 11% and on working capital borrowings to be reduced from 14% to 11%;

4. Promoter debt to be converted into common equity;

5. 90% of inter-corporate deposits to be converted into common equity.

Table 3: Kingfisher debt restructuring package (Rs MM)

Rupees MM	Principal Outstanding	Interest Accrued	Total Outstanding	Outstanding Post Restructuring	Reduction in annual Interest	Comment
Short Term Loans	5,220	90	5,310	3,717	335	1)Term Loans rescheduled with 9 year tenure including a 2 year moratorium period, 2)Reduction in interest rate to 11% from current avg of 14%, 3)Conversion of 30% debt into capital, 4)Interest from Jul-10 - Mar-11 to be converted into Funded interest Term Loan
Long Term Loans	38,790	675	39,465	27,626	2,486	
Fund Based Working Capital	7,155	0	7,155	7,155	215	Reduction in int. rate from 14% to 11%
PDP Borrowings	2,115	45	2,160	2,160	65	Reduction in int. rate from 14% to 13%. Repayment as per delivery schedule of aircraft
Promoter Loans	7,380	315	7,695	0	770	Conversion into equity
Intercorporte Deposit	5,805	360	6,165	617	666	90% of ICDs (~125MMUSD) to be converted into equity
Other Short Term Loans	1,620	45	1,665	1,665	0	
Finance Leases	6,705	0	6,705	6,705	0	
Hire Purchase	990	0	990	990	0	
Total	75,780	1,530	77,310	50,634	4,536	

Source: company presentation, J.P. Morgan estimates

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Key risks to our rating and price target

Key risks include slowdown in travel demand, increase in oil prices, inability to restructure debt and delays in redeployment of grounded aircraft

Lower than expected passenger demand

KAIR has seen a strong pick-up in load factors over the last few months, driven by rise in traffic demand and tight supply. We expect load factors to remain high, but higher-than-expected supply could result in load factors declining. In addition, any one-off events such as terrorist attacks could lead to a sharp fall in passenger traffic. According to our estimates, every 1% decline in load factors for KAIR would adversely impact FY12E EBITDAR by 5% and net profit by 18%.

Jet kerosene price increase over US$105/bbl could adversely impact our estimates

KAIR's earnings are highly sensitive to oil prices. Our fuel assumptions for KAIR are based on Singapore jet kerosene US$100/bbl for FY11E and US$105/bbl for FY12E. Higher oil prices will have an adverse impact on earnings. We estimate that every 1% increase in ATF prices will adversely impact KAIR's FY12E EBITDAR by 1% and net profit by 5%.

Inability to successfully restructure debt

Debt restructuring is critical to sustainability of KAIR's operations. If it is unable to restructure its debt, this is likely to have a material adverse impact on KAIR ongoing operations.

Delays in plane redeployment / further trouble with aircraft engines

We are assuming that all of KAIR's grounded aircraft will be redeployed by 2QFY12E. Any potential delays in redeployment or further problems with engines would have an adverse impact on our earnings estimates and price target.

Weaker Rupee, given US$-denominated costs and debt

Large part of KAIR's costs such as ATF, lease rentals and aircraft maintenance charges are US$-denominated. In addition, its debt for purchase of new aircraft will also likely be US$-denominated. Depreciation of the rupee against the US dollar would result in foreign-exchange-related losses and have an adverse impact on our earnings estimates.

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Valuation and share price analysis

KAIR is currently trading at 7.4x FY12E EV/EBITDAR, at a 7% premium to the Asian airline peer group

KAIR is currently trading at 7.4x FY12E EV/EBITDAR, at a 7% premium to the Asian airline peer group. On an EV/EBITDA basis, it is trading at 6.3x FY12E, at a 8% discount to the Asian peer group.

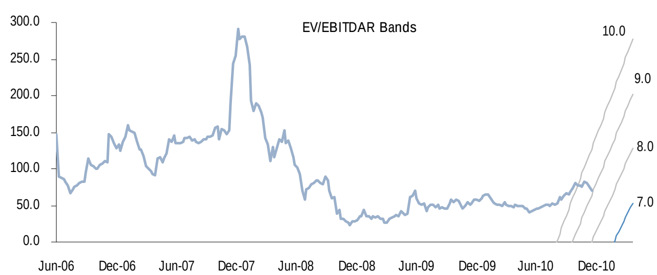
We base our price target on 8x FY12E EV/EBITDAR at a premium of 14% to the Asian airline peer group and a 10% discount to Chinese airlines. We believe the premium is justified given the strong long-term growth potential offered by the Indian market. Our valuation methodology is enumerated below:

Table 4: Kingfisher Airlines valuation based on EV/EBITDAR multiples

FY12E EBITDAR (Rs MM)	19,829.2	
Target EV/EBITDAR Multiple (x)	8.0	At 14% premium to Asian airlines peer group
Enterprise Value (Rs MM)	158,633.4	
(-) 7x Lease Rental Capitalisation (Rs MM)	61,212.2	FY12E
(-) Net Debt /(Cash) (Rs MM)	51,931.3	FY12E after conversion Rs26.4B in equity in FY11E at conversion price of Rs70
Equity (Rs MM)	45,490	
NOSH (MM)	548	266MM current count + dilution of 282MM on account of conversion of debt
Target price (Rs)	*83*	

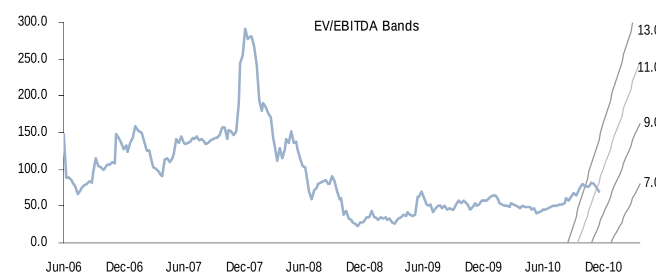
Source: J.P. Morgan estimates

Figure 6: KAIR: EV/EBITDAR bands



Source: Company reports, J.P. Morgan estimates

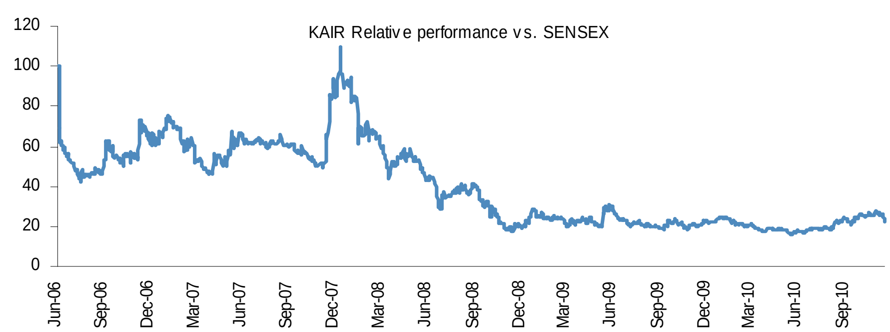
Figure 7: KAIR: EV/EBITDA bands



Source: Company reports, J.P. Morgan estimates

Figure 8: KAIR: Relative stock performance vs. BSE SENSEX

KAIR has outperformed the Sensex by 31% YTD FY11



Source: Bloomberg

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Table 5: Asian airline valuation comparison

	Rtg	Ccy	Price	P/E (x)		P/BV (x)		EV/EBITDA (x)		EV/EBITDAR (x)		EPS Growth (%)		ROE (%)	
Airline				2010E	2011E	2010E	2011E	2010E	2011E	2010E	2011E	2010E	2011E	2010E	2011E
Jet	OW	INR	805.4	26.6	8.6	3.5	2.5	9.7	7.4	8.6	7.5	130%	575%	7.7%	24.1%
Kingfisher	OW	INR	66.8	nm	11.9	nm	nm	46.8	6.3	13.0	7.4	nm	nm	nm	12.0%
Spicejet	OW	INR	82.2	12.4	12.5	3.4	3.4	11.8	8.6	8.5	6.3	325%	-1%	36.5%	26.9%
Indian Average				19.5	11.0	3.4	2.9	22.8	7.4	10.0	7.1	227%	287%	22%	21%
Air Arabia	NR	AED	0.78	11.8	9.9	0.7	0.7	7.9	5.9	7.5	6.4	-32%	20%	6.3%	6.8%
AirAsia	NR	MYR	2.65	9.5	8.4	2.2	1.7	8.7	7.3	8.6	7.3	25%	13%	26.3%	22.4%
Air China - H	OW	HKD	10.12	10.2	10.0	2.8	2.3	10.0	8.9	9.7	8.7	nm	3%	31.8%	23.7%
Air New Zealand	NR	NZD	1.38	13.1	8.7	0.9	0.9	3.1	2.6	4.3	3.8	nm	50%	6.9%	10.5%
All Nippon Airways	N	JPY	296.0	nm	24.8	1.5	1.4	9.0	6.7	8.5	6.8	nm	nm	-1.7%	6.3%
Asiana	NR	KRW	9400	4.7	4.6	1.5	1.2	5.5	5.4	5.9	5.8	nm	3%	40.0%	27.7%
CAL	N	TWD	24.35	8.3	10.4	2.1	1.8	9.0	8.5	8.6	8.2	nm	-20%	27.8%	20.0%
Cathay	OW	HKD	22.65	8.2	9.1	1.7	1.6	6.4	6.4	6.4	6.5	nm	-10%	24.3%	17.7%
Cebu Air, Inc	OW	PHP	125.50	12.7	10.0	4.7	3.2	9.7	7.7	9.2	7.6	nm	28%	54.2%	39.5%
China East - H	N	HKD	4.58	9.7	10.2	3.8	2.7	9.4	9.1	9.0	8.8	nm	-4%	70.1%	28.8%
China Sthn - H	UW	HKD	5.67	9.4	11.2	1.9	1.6	10.0	9.9	9.2	9.1	nm	-17%	25.1%	15.1%
EVA	N	TWD	34.70	7.8	9.0	2.3	1.8	8.2	8.2	8.0	8.0	nm	-13%	34.0%	23.7%
KAL	N	KRW	71000	8.1	7.5	1.5	1.2	7.4	7.3	7.4	7.3	nm	8%	19.8%	18.1%
MAS	NR	MYR	2.09	nm	16.1	1.9	1.7	16.8	7.9	16.8	7.9	nm	nm	4.9%	12.8%
Qantas	OW	AUD	2.63	16.6	8.7	0.9	0.9	4.1	3.9	4.7	4.4	nm	90%	5.7%	10.3%
SIA	OW	SGD	15.42	16.8	11.4	1.3	1.2	4.7	3.9	5.0	4.3	nm	48%	7.7%	10.8%
THAI	NR	THB	55.00	10.0	10.1	1.5	1.3	6.1	5.0	6.2	5.1	nm	-1%	16.9%	13.2%
Tiger	NR	SGD	1.89	18.6	12.7	5.2	3.7	17.7	11.3	12.3	9.8	480%	47%	nm	32.9%
Virgin Blue	N	AUD	0.43	18.3	8.8	1.0	0.9	5.4	4.2	5.9	5.0	235%	109%	5.6%	10.3%
Asian sector Average				11.4	10.6	2.1	1.7	8.4	6.8	8.1	6.9	177%	21%	22.5%	18.5%

Source: Bloomberg, company reports, J.P. Morgan estimates. Consensus estimates for non-rated companies. *EV/EBITDAR has been adjusted for the capitalization of aircraft operating leases.
**For Spicejet, Jet Airways and Kingfisher , 2010E indicates year ending Mar-2011 and 2011E indicates year ending Mar-2012. Valuations are as on COB 30/11/2010.

Company description

KAIR is the second-largest private airline operator in India. It operates over 370 flights daily to 71 destinations within India and overseas. KAIR (together with Kingfisher Red) had a domestic market share of 23.2% and international market share of 4.6% in FY10. It operates with a fleet of 66 aircraft, which includes 25 ATR 72-500 aircrafts, 23 Airbus A320 aircraft (with single and dual cabin), eight Airbus A321, five Airbus A330 and three Airbus A319 aircraft.

KAIR acquired erstwhile LCC operator Air Deccan in FY08 and executed a reverse merger of KAIR into Air Deccan in FY09. KAIR has subsequently re-braded Air Deccan’s low cost fleet as ‘Kingfisher Red’.

Management background

KAIR, owned by United Breweries Group, was founded by UB Chairman Mr. Vijay Mallya. UB group’s other interest include liquor and real estate. UB group operated United Spirits and United Breweries, which are the largest liquor and beer players in the Indian market. KAIR recently hired Mr. Sanjay Aggarwal as its CEO. Previously, Mr. Agarwal was the CEO of Spicejet, a leading low-cost carrier in India.

Shareholding trend

As at the end of Sep-2010, promoter shareholding in the company was 66%, and FII holdings were 6%. Shareholding trends over past three years are enumerated below:

Table 6: KAIR shareholding trend (%)

	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
Promoter holding	66.1	67.0	49.7	66.3	66.3	66.3	66.3	66.3	66.3	66.3	66.3	66.3
Public shareholding												
Institutions	14.8	13.1	11.9	6.0	6.2	6.4	6.4	8.5	12.4	11.0	10.2	12.4
Mutual Funds	9.0	10.0	9.5	4.9	5.2	5.3	4.4	4.5	6.8	6.1	4.6	6.3
Financial Insti.	0.9	0.8	0.8	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Insurance Co	1.0	0.9	0.9	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.4
FIIs	3.9	1.4	0.6	0.3	0.5	0.6	1.5	3.5	5.1	4.4	5.1	5.5
Non-Institutions	13.8	15.6	34.1	22.6	21.6	21.7	23.0	20.9	19.1	21.3	22.1	19.0
Corporates	7.0	8.3	8.5	8.8	8.2	7.8	8.8	10.7	9.8	10.5	10.0	8.4
Individuals	6.8	7.3	25.6	13.8	13.4	14.0	14.3	10.3	9.4	10.7	12.1	10.6
Others	5.3	4.3	4.3	5.2	6.0	5.6	4.4	4.3	2.2	1.4	1.4	2.3
Total	100	100	100	100	100	100	100	100	100	100	100	100

Source: BSE website.

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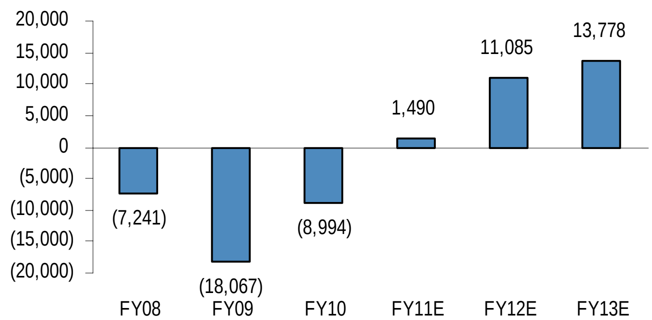
Financial analysis

Earnings set for a turnaround

EBITDA and PAT look set to turnaround by FY12E

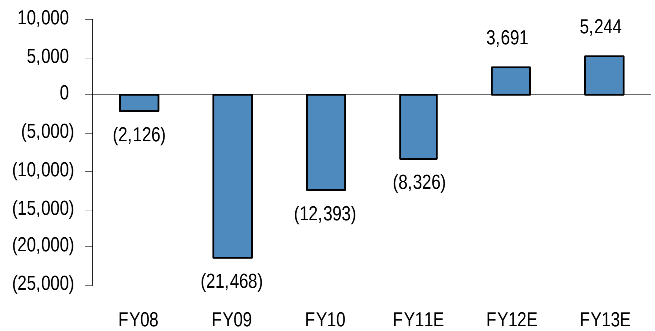
KAIR has achieved EBITDA breakeven in 1H FY11 and we estimate a PAT breakeven in FY12. We estimate EBITDA profit of Rs1.5B in FY11, Rs11.1B FY12, and Rs13.8B in FY13, compared to an EBITDA loss of Rs8.9B in FY10. We estimate PAT of Rs3.7B in FY12 compared to a PAT loss of Rs8.3B in FY10. We expect the earnings turnaround to be driven by redeployment of grounded fleet, restructuring of costs and operations, lower interest costs on account of debt restructuring, and improvement in yields.

Figure 9: KAIR EBITDA trends FY08-FY13E (Rs MM)



Source: Company reports, J.P. Morgan estimates

Figure 10: KAIR PAT trends FY08-FY13E (Rs MM)



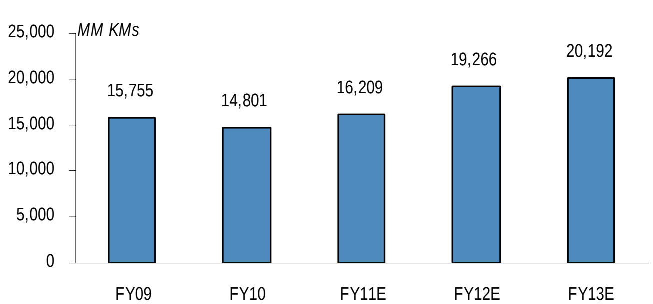
Source: Company reports, J.P. Morgan estimates

Revenue growth to be driven by redeployment of grounded fleet and higher yields

Revenue CAGR of 20% over FY10-FY13E

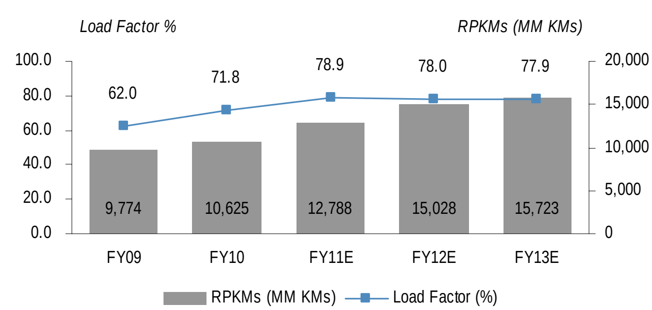
We forecast a revenue CAGR of 20% over FY10-FY13. We expect revenue growth to be driven by a 14% CAGR in RPKMs and a 5.2% CAGR in yields over the same period. We estimate ASKMs to increase from 14,801MM in FY10 to 20,192MM by FY13 on account redeployment of the grounded fleet and better fleet utilization. We estimate RPKMs to increase at 14% CAGR over FY10-FY13E, assuming load factors of 79% in FY11, 78% in FY12, and 78% in FY13. We expect most of the revenue growth to be driven by the domestic operations.

Figure 11: KAIR: ASKM trend FY09-FY13E



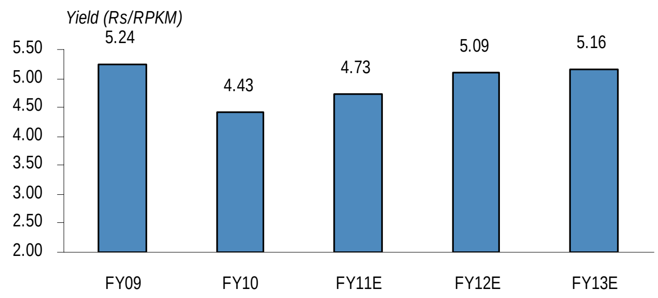
Source: company reports and presentations, J.P Morgan estimates

Figure 12: KAIR: RPKM and load factor trend FY09-FY13E



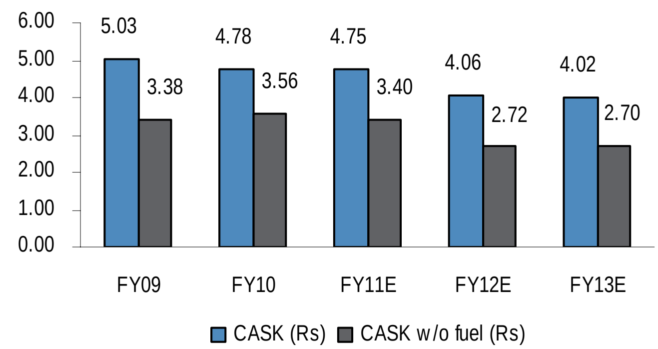
Source: company reports and presentations, J.P Morgan estimates

Figure 13: KAIR: Yield (Rs / RPKM) trends FY06-FY13E



Source: company reports and presentations, J.P Morgan estimates

Figure 14: KAIR: CASK/ CASK w/o fuel trends FY06-FY13E



Source: company reports and presentations, J.P Morgan estimates

We forecast EBITDAR CAGR of 125% over FY10-FY13 driven by higher yields and reduction in costs

EBITDAR margins to improve by 2150bp by FY13E

We forecast EBITDAR CAGR of 125% over FY10-FY13 and forecast margins to improve by 2150bp to 25.3% over the same period. We estimate margin improvement to be driven through curtailment of losses from grounded aircrafts as they get re-deployed and higher yields. We are also factoring in benefits from recent cost cutting measures undertaken by KAIR, in addition to benefits discounts on fuel and airport charges. Our key margin assumptions are enumerated below:

Table 7: Key revenue and costs assumptions

Rs/ASKM	FY09	FY10	FY11E	FY12E	FY13E
Passenger Revenues	3.16	3.18	3.73	3.97	4.02
% YoY		*0.8*	*17.3*	*6.4*	*1.1*
Other Operating revenues	0.17	0.24	0.28	0.30	0.30
Total Revenues	3.33	3.42	4.02	4.27	4.32
% YoY		*3.0*	*17.3*	*6.4*	*1.1*
Operating Costs	4.47	4.03	3.92	3.70	3.64
% YoY		*(9.8)*	*(2.7)*	*(5.7)*	*(1.6)*
Lease Rentals	0.75	0.74	0.60	0.45	0.41
Employee expenses	0.52	0.47	0.42	0.40	0.42
Fuel Cost	1.65	1.22	1.35	1.34	1.31
Aircraft maintenance cost	0.28	0.28	0.24	0.24	0.24
Landing, navigation & other airport charges	0.22	0.27	0.21	0.19	0.19
Ground Handling	0.09	0.10	0.09	0.09	0.08
Other Operating Costs	0.95	0.96	1.01	0.99	0.99
Costs including depreciation & Net Interest	5.03	4.78	4.75	4.06	4.02
% YoY		*(5.0)*	*(0.7)*	*(14.5)*	*(1.1)*

Source: company reports and presentations, J.P Morgan estimates

Earnings highly sensitive to load factors, yields and oil prices

We enumerate below our earnings sensitivity analysis for KAIR to load factors, yields and oil prices.

We estimate that every 1% change in load factors would impact FY12E EBITDAR and PAT by 5% and 18% respectively.

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Table 8: FY12 EBITDAR and FY12 PAT sensitivity to changes in passenger load factors

		EBITDAR (Rs MM)	% Change	PAT (Rs MM)	% Change
	-5%	15109.8	*-23.8*	417.1	*-88.7*
	-4%	16041.8	*-19.1*	1070.5	*-71.0*
	-3%	16993.6	*-14.3*	1727.5	*-53.2*
	-2%	17945.4	*-9.5*	2380.8	*-35.5*
	-1%	18877.4	*-4.8*	3037.9	*-17.7*
Base Case - 78%		*19829.2*	*0.0*	*3691.2*	*0.0*
	1%	20781.0	*4.8*	4344.6	*17.7*
	2%	21712.9	*9.5*	5001.6	*35.5*
	3%	22664.7	*14.3*	5654.9	*53.2*
	4%	23616.5	*19.1*	6312.0	*71.0*
	5%	24548.5	*23.8*	6965.3	*88.7*

Source: J.P. Morgan estimates

Every 1% change in yields would impact FY12E EBITDAR and PAT by 4% and 14% respectively.

Table 9: FY12 EBITDAR and FY12 PAT sensitivity to changes in yields (Rs/RPKM)

		EBITDAR (Rs MM)	% Change	PAT (Rs MM)	% Change
	-5%	16140.9	*-18.6*	1136.9	*-69.2*
	-4%	16874.6	*-14.9*	1650.0	*-55.3*
	-3%	17628.1	*-11.1*	2159.4	*-41.5*
	-2%	18361.8	*-7.4*	2668.7	*-27.7*
	-1%	19095.5	*-3.7*	3181.8	*-13.8*
Base Case - Rs5.09/RPKM		*19829.2*	*0.0*	*3691.2*	*0.0*
	1%	20562.9	*3.7*	4200.6	*13.8*
	2%	21296.5	*7.4*	4713.7	*27.7*
	3%	22030.2	*11.1*	5223.1	*41.5*
	4%	22783.7	*14.9*	5732.4	*55.3*
	5%	23517.4	*18.6*	6245.5	*69.2*

Source: J.P. Morgan estimates

Every 1% change in oil price would impact FY12E EBITDAR and PAT by 1% and 5% respectively.

Table 10: FY12 EBITDAR and FY12 PAT sensitivity to changes in fuel price

		EBITDAR (Rs MM)	% Change	PAT (Rs MM)	% Change
	-5%	21217.2	*7.0*	4658.3	*26.2*
	-4%	20939.6	*5.6*	4462.7	*20.9*
	-3%	20662.0	*4.2*	4270.7	*15.7*
	-2%	20384.4	*2.8*	4078.8	*10.5*
	-1%	20106.8	*1.4*	3883.2	*5.2*
Base Case - Rs43.1/l		*19829.2*	*0.0*	*3691.2*	*0.0*
	1%	19551.6	*-1.4*	3499.3	*-5.2*
	2%	19274.0	*-2.8*	3303.6	*-10.5*
	3%	18996.3	*-4.2*	3111.7	*-15.7*
	4%	18718.7	*-5.6*	2919.7	*-20.9*
	5%	18441.1	*-7.0*	2724.1	*-26.2*

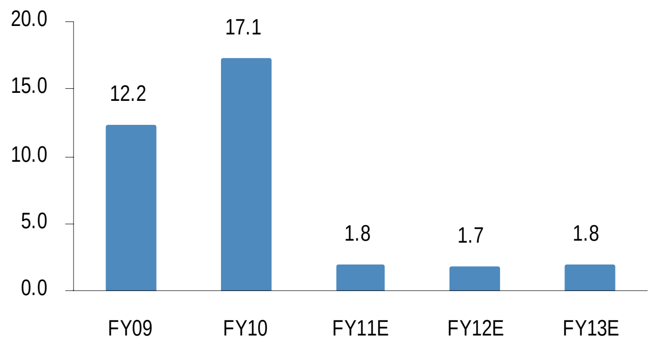
Source: J.P. Morgan estimates

Gearing to decline on debt conversion to equity

We estimate gearing to decline from 17.1x in FY10 to decline to 1.8x in FY11E on account of conversion of debt to equity

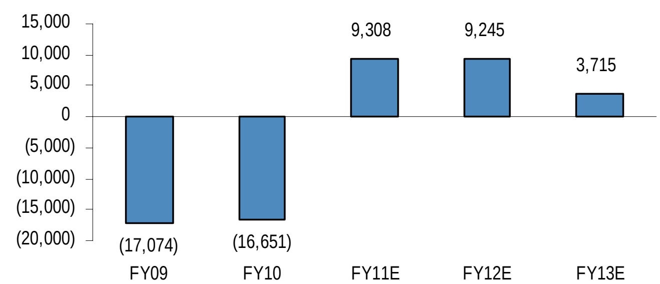
KAIR has a net gearing of 17.1x in FY10. We estimate this to decline to 1.8x in FY11E on account of conversion of large amount of KAIR's debt to equity. Of the total debt of Rs79.2B of debt, we estimate about Rs26.4B is likely to be converted to common equity and preferential equity. We assume the conversion to take place in early FY12. In addition, we expect operating cash flows to pick up from FY11E, which should further aid debt reduction. We forecast operating cash flow of Rs9.3B in FY11E compared to operating cash loss of Rs16B in FY10.

Figure 15: KAIR: Net debt to equity trend (x)



Source: Company reports, J.P. Morgan estimates

Figure 16: KAIR: Operating cash flow trend (Rs MM)



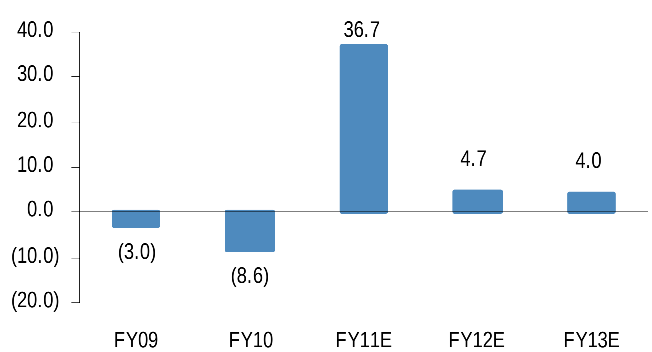
Source: Company reports, J.P. Morgan estimates

We estimate annual interest savings of Rs4.5B on account of debt restructuring

Significant interest cost savings going forward

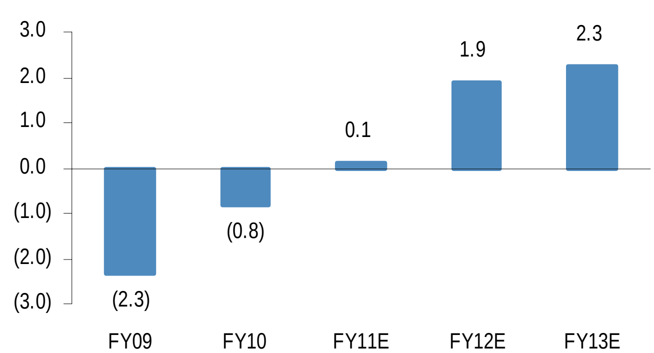
We estimate annual interest savings of Rs4.5B on account of debt restructuring. As a result, we forecast total interest payments to reduce from Rs13.3B in FY11E to Rs5.9B in FY12E. Interest cover is still likely to improve from 0.1x in FY11 to 2.3x by FY13E, in our view.

Figure 17: KAIR: Net debt to EBITDA (x)



Source: Company reports, J.P. Morgan estimates

Figure 18: KAIR: Interest coverage ratio



Source: Company reports, J.P. Morgan estimates

Conversion of debt to equity will likely lead to 52% dilution in equity

We estimate 52% equity dilution on account of debt conversion

We estimate that conversion of debt to equity will add 282M common equity shares to the existing share count of 266M, implying a common equity dilution of 51.5%. We have incorporated this dilution to our earnings estimates. Our estimates are based on an assumption of conversion price of Rs70 per share. If the conversion price is higher than Rs70, then the potential dilution will be less than our estimates and vice versa. We enumerate below potential dilution across various conversion price bands.

Table 11: KAIR: Potential equity dilution and EPS for range of conversion prices

Debt Conversion price (Rs/Share)	Additional shares issued (MM)	Potential Equity Dilution (%)	FY12E EPS Rs/Share)	% EPS Change from Base Case
60	329	55.3	5.16	-8.0
65	303.7	53.3	5.39	-3.9
(Base Assumption)70	*282*	*51.5*	*5.61*	*0.0*
75	263.2	49.7	5.81	3.6
80	246.7	48.1	5.99	6.8

Source: J.P. Morgan estimates

Proposed GDR of US$250-300MM could lead to further reduction in gearing. We have not factored this into our estimates

GDR issue could potentially lead to a further decline in gearing and interest

KAIR has recently announced capital raising US$250-US$300MM of equity through a potential GDR issue. We have not factored this into our estimates for KAIR. However, if KAIR were to be able to successfully raise this equity, its gearing levels would decline further. We enumerate below potential changes to our earnings forecasts and forecasted gearing levels assuming infusion of an additional US$250MM into KAIR. We are assuming funds will be raised in 4Q FY11.

Table 12: KAIR - Net debt, Net debt/equity and FY12E EPS post GDR issuance

GDR Issue price (Rs/Share)	Additional shares issued (MM)	FY12E Net Debt (Rs MM)	FY12E Net Debt to Equity (x)	FY12E EPS Rs/Share)	% EPS change*
65	173.1	42596.4	1.0	5.8	3.6
70	160.7	42596.4	1.0	5.9	5.3
75	150.0	42596.4	1.0	6.0	7.0
80	140.6	42596.4	1.0	6.1	8.4

Source: J.P. Morgan estimates, * % EPS change from JPM FY12E EPS of Rs5.61

Capital efficiency to improve as earnings turn around

We forecast 10.5% ROCE and 12.0% ROE in FY12E

We expect turnaround in capital efficiency as earnings pick up. We forecast 10.5% ROCE and 12.0% ROE in FY12, improving to 12.2% and 17% respectively in FY13.

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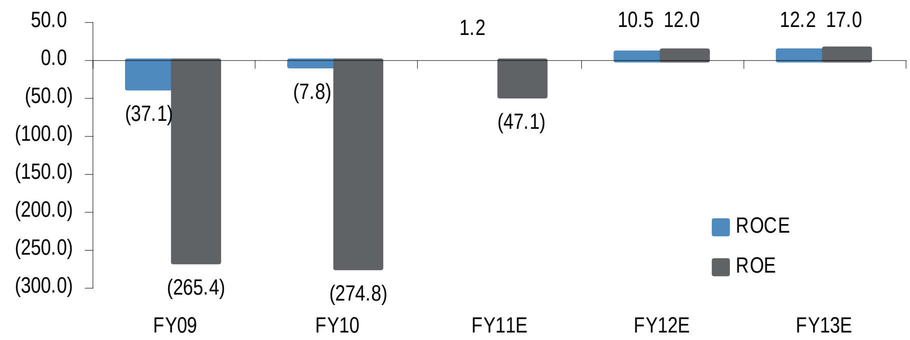
Figure 19: KAIR: ROCE and ROE trend



Source: company reports, J.P. Morgan estimates

Scope for more conservative accounting

We see scope for more conservative accounting policies with respect to certain expenses that have been capitalized

Our analysis of the FY10 annual report of KAIR suggests that some accounting standards warrant more conservative treatment. We enumerate below the key accounting measures adopted by KAIR, where we believe there is scope for more conservatism:

1. **In FY10, KAIR changed its method for accounting of costs incurred on major repairs and maintenance of engines of aircrafts taken on operating leases**. While the exposure draft on Accounting Standard - 10 (Revised) 'Tangible Fixed Assets' allows such costs on major repairs and maintenance incurred to be amortized over the incremental life of *owned assets*, KAIR has extended this treatment to leased aircraft as well, which does not seem to been accordance with accounting standards. Auditors have qualified this in the FY10 annual report: "*Had the Company not changed its method of accounting, the loss before and after tax for the year would have been higher by Rs1.6Band Rs1.09B respectively.*"

2. **Capitalization of maintenance costs**: Payments made to lessors for major maintenance expenditure as per the related maintenance agreements, comprising fixed period-based amounts and variable activity-based amounts are initially considered as maintenance deposits and expensed as and when maintenance expenditure is incurred. We believe that it would be more prudent to expense the maintenance costs from the P&L as and when the payments are made.

3. **Capitalization of foreign exchange losses**. Auditors have qualified this in the FY10 annual report "*Until the previous year, the Company complied with the procedures prescribed in Accounting Standard 11 in respect of foreign exchange differences by recognizing the same as income or expense in the period in which they arose. During the year, the Company has changed its accounting policy with regard to the treatment of foreign exchange differences in respect of long term monetary assets and liabilities by following the provisions prescribed in notification (No. G.S.R. 225(E), dated March 31, 2009) issued by the Ministry of Corporate Affairs. The Company has been legally advised that it is open to it to*

exercise the option provided by the said notification, during the current year. The underlying principle behind the issuance of the aforesaid notification is to allow recognition of an appropriate charge in financial statements for foreign exchange differences, by eliminating excessive fluctuation differences that arise in respect of long term monetary assets and liabilities. b) Unrealized foreign exchange differences in respect of long term monetary liabilities on account of depreciable assets as at March 31, 2010 recognized in the Profit and Loss Account during the year ended March 31, 2009 has been adjusted in the cost of the relevant asset and the opening debit balance in the profit and loss account of the current year. Depreciation on the same has been prospectively adjusted over a period of three years. c) Unrealized foreign exchange differences in respect of long term monetary assets and liabilities on account of non depreciable assets as at March 31, 2010 and recognized in the Profit and Loss Account during the year ended March 31, 2009 (net of amortization for the year 2008 - 2009) has been transferred to a 'Foreign Currency Monetary Items Translation Difference Account' by adjusting the same against the opening debit balance in the profit and loss account of the current year."

Key financial tables

Table 13: Kingfisher Airlines: Consolidated income statement

Rs MM, YE March	FY09	FY10	FY11E	FY12E	FY13E
Revenues	52,389.8	50,679.2	65,094.5	82,343.0	87,262.1
Operating Expenses	(58,605.0)	(48,734.7)	(53,852.0)	(62,513.8)	(65,176.3)
EBITDAR	(6,215.2)	1,944.5	11,242.4	19,829.2	22,085.8
EBITDAR Margin	*(11.9)*	*3.8*	*17.3*	*24.1*	*25.3*
Lease Rentals	(11,851.3)	(10,938.2)	(9,752.8)	(8,744.6)	(8,307.4)
EBITDA	(18,066.5)	(8,993.7)	1,489.7	11,084.6	13,778.4
EBITDA Margin	*(34.5)*	*(17.7)*	*2.3*	*13.5*	*15.8*
Depreciation	(1,332.0)	(1,628.0)	(1,707.5)	(1,786.9)	(1,866.4)
Interest	(7,785.6)	(10,965.1)	(13,300.0)	(5,923.1)	(6,088.1)
Other Income	252.2	1,486.3	1,623.1	726.8	345.5
Profit Before tax	(26,931.9)	(20,100.4)	(11,894.6)	4,101.3	6,169.4
Tax (expense)/Income	5,463.8	7,706.9	3,568.4	(410.1)	(925.4)
PAT	(21,468.2)	(12,393.5)	(8,326.2)	3,691.2	5,244.0
Exceptionals	5,379.9	(4,078.8)	0.0	0.0	0.0
PAT (Reported)	(16,088.3)	(16,472.2)	(8,326.2)	3,691.2	5,244.0
FD EPS	*(72.3)*	*(61.9)*	*(15.2)*	*5.6*	*8.4*
Pre-exceptional EPS	*(81.0)*	*(53.0)*	*(15.2)*	*5.6*	*8.4*

Source: Company reports, J.P. Morgan estimates

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Table 14: Kingfisher Airlines: Consolidated balance sheet

Rs MM, YE March	FY09	FY10	FY11E	FY12E	FY13E
Shareholders Funds	4,512.4	4,506.1	30,885.7	30,885.7	30,885.7
Share Capital	3,629.1	3,629.1	6,267.0	6,267.0	6,267.0
ESOPs (Net of deferred costs)	81.1	74.8	74.8	74.8	74.8
Reserves and Surplus	802.2	802.2	24,543.9	24,543.9	24,543.9
Loan Funds	56,655.6	79,226.0	55,846.4	53,846.4	55,346.4
Secured Loans	26,225.2	48,424.3	28,686.3	28,686.3	29,686.3
Unsecured Loans	30,430.4	30,801.7	27,160.1	25,160.1	25,660.1
TOTAL	61,168.0	83,732.1	86,732.1	84,732.1	86,232.1
Fixed Assets	32,064.6	25,351.2	23,663.1	21,993.6	20,332.9
Gross Block	18,918.0	20,481.4	21,481.4	22,481.4	23,481.4
Less: Depreciation	3,162.9	4,936.2	6,643.7	8,430.6	10,297.1
Net Block	15,755.2	15,545.1	14,837.7	14,050.7	13,184.3
CWIP	16,309.5	9,806.1	8,825.4	7,942.9	7,148.6
Investments	0.5	0.5	0.5	0.5	0.5
Foreign currency Translation Diff. A/C	0.0	279.8	279.8	279.8	279.8
Net Deferred Tax Assets	16,697.3	24,343.7	27,912.0	25,120.8	22,608.8
Current Assets, Loans and Advances	20,332.3	24,571.0	23,522.6	26,769.5	24,283.0
Inventories	1,472.5	1,648.8	1,783.4	2,256.0	2,390.7
Sundry Debtors	2,742.3	3,224.9	3,566.8	4,511.9	4,781.5
Cash and Bank Balance	1,718.7	2,064.7	1,199.3	1,915.0	334.4
Other current assets	39.7	23.9	30.7	38.8	41.1
Loans & Advances	14,359.1	17,608.9	16,942.4	18,047.8	16,735.2
Less: Current Liabilities & Provisions	35,402.2	35,481.3	41,493.8	39,077.3	26,175.4
Current Liabilities	34,946.8	35,013.6	40,979.3	38,511.4	25,553.0
Provisions	455.5	467.7	514.4	565.9	622.4
Net Current Assets	(15,069.9)	(10,910.3)	(17,971.2)	(12,307.7)	(1,892.5)
Initial Cost on Leased Aircrafts	1,664.5	1,456.4	1,310.8	1,179.7	1,061.7
Miscellaneous Expenditure	45.1	0.0	0.0	0.0	0.0
Profit and Loss Account	25,765.9	43,210.8	51,537.0	48,465.3	43,840.8
Total	61,168.0	83,732.1	86,732.1	84,732.1	86,232.1

Source: Company reports, J.P. Morgan estimates

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Table 15: Kingfisher Airlines: Consolidated cash flow statement

Rs MM. YE March	FY09	FY10	FY11E	FY12E	FY13E
PBT	(26,860.3)	(24,179.2)	(11,894.6)	4,101.3	6,169.4
Direct Taxes paid/ Refund	(30.3)	(47.0)	0.0	(410.1)	(925.4)
Depreciation	1,332.0	1,628.0	1,707.5	1,786.9	1,866.4
Change in Working Capital	3,218.1	(4,252.1)	6,148.8	(4,999.1)	(12,052.5)
Other Non Cash Items	5,266.1	10,199.4	13,346.8	8,765.7	8,656.8
Operating Cash Flows	(17,074.3)	(16,650.9)	9,308.3	9,244.8	3,714.8
Movement in Fixed Assets	3,992.9	3,496.2	(19.4)	(117.5)	(205.7)
Costs on Leased aircrafts	(2,077.0)	(1,252.7)			
Change in Investments	(0.5)	0.0	0.0	0.0	0.0
Other Investing Activities	151.0	107.8	145.6	131.1	118.0
Cash flow from Investing	2,066.3	2,351.3	126.2	13.6	(87.7)
Change in Debt	10,306.2	24,128.4	(23,379.6)	(2,000.0)	1,500.0
Equity Issued	5.0	0.0	26,379.6	0.0	0.0
Dividends Paid	0.0	0.0	0.0	(619.5)	(619.5)
Interest Paid	(7,410.1)	(9,482.9)	(13,300.0)	(5,923.1)	(6,088.1)
Other	10,616.5				
Cash Flow from Financing	13,517.6	14,645.6	(10,300.0)	(8,542.6)	(5,207.6)
Change in Cash	(1,490.4)	346.0	(865.4)	715.8	(1,580.6)
Cash at Beginning of the Year	2,801.2	1,718.7	2,064.7	1,199.3	1,915.0
Cash acquired from KTASL	407.8				
Cash at End of Year	1,718.7	2,064.7	1,199.3	1,915.0	334.4
Cash as reported in Balance sheet	1,718.7	2,064.7	1,199.3	1,915.0	334.4

Source: Company reports, J.P. Morgan estimates.

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Kingfisher Airlines Limited: Summary of Financials

Income Statement

Rs in millions, year end Mar	FY09	FY10	FY11E	FY12E	FY13E
Revenues	52,390	50,679	65,094	82,343	87,262
% change Y/Y	263.5%	(3.3%)	28.4%	26.5%	6.0%
Gross Profit	-	-	-	-	-
% change Y/Y	-	-	-	-	-
EBITDA	-18,067	-8,994	1,490	11,085	13,778
% change Y/Y	149.5%	-50.2%	-116.6%	644.1%	24.3%
EBIT	-19,399	-10,622	-218	9,298	11,912
% change Y/Y	161.3%	NM	NM	NM	28.1%
EBIT Margin	-37.0%	-21.0%	-0.3%	11.3%	13.7%
Net Interest	-7,786	-10,965	-13,300	-5,923	-6,088
Earnings before tax	-26,932	-20,100	-11,895	4,101	6,169
% change Y/Y	280.9%	-25.4%	-40.8%	-134.5%	50.4%
Tax	5,464	7,707	3,568	-410	-925
as % of EBT	20.3%	38.3%	30.0%	10.0%	15.0%
Net income	-21,468	-12,393	-8,326	3,691	5,244
% change Y/Y	909.8%	-42.3%	-32.8%	-144.3%	42.1%
Shares outstanding	222	266	548	548	548
EPS (reported)	(96.51)	(46.61)	(15.20)	6.74	9.57
% change Y/Y	515.9%	(51.7%)	(67.4%)	(144.3%)	42.1%

Cash flow statement

Rs in millions, year end Mar	FY09	FY10	FY11E	FY12E	FY13E
PBT	-26,932	-20,100	-11,895	4,101	6,169
Depr. & amortization	1,332	1,628	1,707	1,787	1,866
Change in working capital	3,218	-4,252	6,149	-4,999	-12,052
Other	5,266	10,199	13,347	8,766	8,657
Cash flow from operations	-17,074	-16,651	9,308	9,245	3,715
Capex	1,916	2,244	-19	-117	-206
Net Interest	-7,786	-10,965	-13,300	-5,923	-6,088
Other	-	-	-	-	-
Free cash flow	-15,158	-14,407	9,289	9,127	3,509
Equity raised/(repaid)	5	0	26,380	0	0
Debt raised/(repaid)	10,306	24,128	-23,380	-2,000	1,500
Other	3,206	-9,483	-13,300	-5,923	-6,088
Dividends paid	0	0	0	-620	-620
Beginning cash	2,801	1,719	2,065	1,199	1,915
Ending cash	1,719	2,065	1,199	1,915	334
DPS	0.00	0.00	0.00	0.00	0.00

Balance sheet

Rs in millions, year end Mar	FY09	FY10	FY11E	FY12E	FY13E
Cash and cash equivalents	1,719	2,065	1,199	1,915	334
Accounts receivable	2,742	3,225	3,567	4,512	4,781
Inventories	1,472	1,649	1,783	2,256	2,391
Others	14,399	17,633	16,973	18,087	16,776
Current assets	20,332	24,571	23,523	26,770	24,283
LT investments	0	0	0	0	0
Net fixed assets	32,065	25,351	23,663	21,994	20,333
Total Assets	96,570	119,213	128,226	123,809	112,408
Liabilities					
Short-term loans	0	0	0	0	0
Payables	34,947	35,014	40,979	38,511	25,553
Others	455	468	514	566	622
Total current liabilities	35,402	35,481	41,494	39,077	26,175
Long-term debt	56,656	79,226	55,846	53,846	55,346
Other liabilities	-	-	-	-	-
Total Liabilities	92,058	114,707	97,340	92,924	81,522
Shareholders' equity	4,512	4,506	30,886	30,886	30,886
BVPS	20.29	16.95	56.37	56.37	56.37

Ratio Analysis

Rs in millions, year end Mar	FY09	FY10	FY11E	FY12E	FY13E
Gross margin	-	-	-	-	-
EBITDA margin	-34.5%	-17.7%	2.3%	13.5%	15.8%
Operating margin	(37.0%)	(21.0%)	(0.3%)	11.3%	13.7%
Net margin	-41.0%	-24.5%	-12.8%	4.5%	6.0%
Sales per share growth	121.7%	(19.1%)	(37.7%)	26.5%	6.0%
Sales growth	263.5%	(3.3%)	28.4%	26.5%	6.0%
Net profit growth	909.8%	-42.3%	-32.8%	-144.3%	42.1%
EPS growth	515.9%	(51.7%)	(67.4%)	(144.3%)	42.1%
Interest coverage (x)	2.32	0.82	0.11	1.87	2.26
Net debt to equity	1217.5%	1712.4%	176.9%	168.1%	178.1%
Working Capital to Sales	(58.7%)	(59.5%)	(54.7%)	(38.6%)	(21.1%)
Sales/assets	0.84	0.47	0.53	0.65	0.74
Assets/equity	21.40	26.46	4.15	4.01	3.64
ROE	(265.4%)	(274.8%)	(47.1%)	12.0%	17.0%
ROCE	-47.2%	-14.7%	-0.3%	10.8%	13.9%

Source: Company reports and J.P. Morgan estimates.

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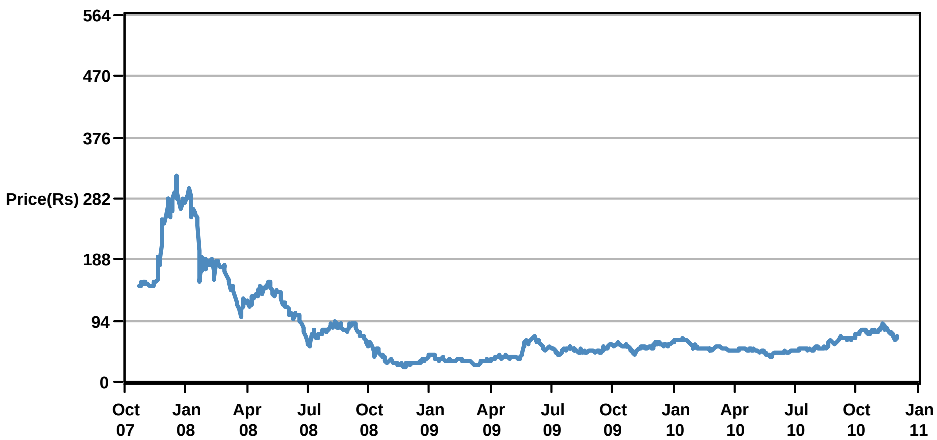

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
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