J.P.Morgan

Asia Pacific Equity Research
02 December 2010

Spicejet Ltd

Ready to take off

Initiation
Overweight
SPJT.BO, SJET IN
Price: Rs82.15
Price Target: Rs115.00

- **Initiate with Overweight, PT of Rs115:** Our PT implies upside of 40% from the current share price. SJET is a leading LCC in India with 13.6% market share in Oct-2010. It is well positioned to benefit from strong growth in passenger traffic demand, in our view, driven by its strong balance sheet, efficient operations and lean cost structure. We are adding the stock to our Asia Analyst Focus List.
- **Strong balance sheet to drive market share gains:** We expect SJET to increase its passenger market share from 12.6% in FY10 to 16.7% by FY12E. SJET is leveraging its strong balance sheet to add capacity and capture higher share of incremental demand when most of its competitors are constrained by distressed balance sheets. The strong demand environment that is aiding yield improvements will drive a 48% CAGR in earnings and 36% CAGR in EBITDAR over FY10-FY13E, in our view.
- **Bombardier fleet to enhance tier II city positioning:** Addition of Bombardier Q400's will enhance SJET's non-metro presence. Q-400 78-seat configuration will also provide cost benefits such as exemption from airport landing and navigation charges and sales tax on ATF.
- **Cost competitiveness provides earnings resilience:** SJET's efficient operations driven by better seat configuration, low turnaround time, and higher block hours make it cost competitive. Its operating CASK is 20%-40% lower compared to domestic listed peers and also compares favorably with regional LCCs.
- **Price target, valuation, key risks:** Our Sep-11 PT of Rs115 is based on 9x FY12E EV/EBITDAR, at 13% premium to our target multiple for JETIN and KAIR. We attribute a premium to SJET over Indian full service players on account of SJET's efficient operations, higher growth over the next two years, strong balance sheet and low cost structure. Key risks include slowdown in passenger traffic, higher oil prices, INR depreciation and availability of trained staff for Q-400s.

India
Airlines

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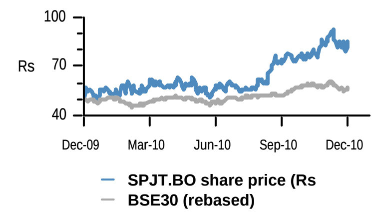
Price Performance



	YTD	1m	3m	12m
Abs	50.7%	2.2%	14.9%	71.8%
Rel	37.7%	4.7%	5.9%	56.4%

Spicejet Ltd (Reuters: SPJT.BO, Bloomberg: SJET IN)

Rs in mn, year-end Mar	FY09A	FY10A	FY11E	FY12E	FY13E
Adjusted EPS (Rs)	-13.35	1.70	6.63	6.56	5.27
EPS growth (%)	142.8%	-112.7%	289.7%	-1.0%	-19.7%
Revenue	16,894	21,811	30,006	43,041	50,308
Net Profit	-3,525.7	614.5	2,683.2	2,656.8	2,132.2
DPS (Rs)	0.00	0.00	0.00	0.00	0.00
Revenue growth (%)	30.5%	29.1%	37.6%	43.4%	16.9%
EBITDA	-4,192	314	2,721	3,755	3,898
EBITDA margin	-24.8%	1.4%	9.1%	8.7%	7.7%
P/E (x)	-5.8	54.6	12.8	13.0	16.2
P/BV (x)	4.4	6.7	3.4	3.4	3.4
EV/EBITDA (x)	-8.0	101.1	8.9	8.2	8.8
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%

Shares O/S (mn)	405
Market cap (Rs mn)	33,261
Market cap ($ mn)	725
Price (Rs)	82.15
Date Of Price	30 Nov 10
Free float (%)	48.8%
3-mth trading value (Rs mn)	223.8
3-mth trading value ($ mn)	4.9
3-mth trading volume (mn)	3.5
BSE30	19,850
Exchange Rate	45.89
Fiscal Year End	Mar

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

See page 20 for analyst certification and important disclosures, including non-US analyst disclosures.

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Company Description

Spicejet is a low-cost Indian airline service operator. It was engaged mostly in domestic airline services and has recently started an international service with flights from Chennai to Colombo and from New Delhi to Kathmandu. It was the most profitable airline in the country for FY10. The company operates 122 flights daily to over 19 domestic destinations.

P&L sensitivity metrics

FY11E	EBITDA impact (%)	EPS impact (%)
Load Factor	77%	
Impact of each +1% increase	5%	15%
Yields (Rs/RPKM)	3.45	
Impact of each +1% increase	4%	11%
Fuel Price (Rs/Litre)	40.1	
Impact of each +1% increase	-2%	-6%

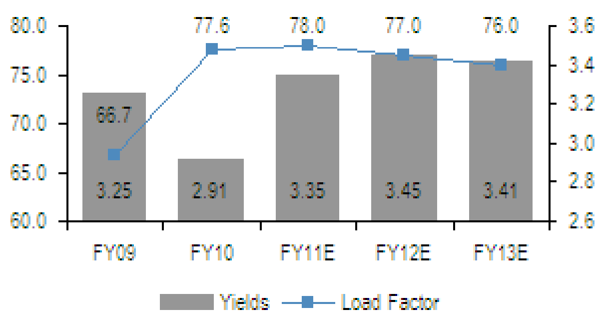
Source: J.P. Morgan estimates.

Fuel sensitivity analysis

	EBITDAR (Rs	% Change	PAT (Rs M	% Change
-5%	10350.1	*9.1*	3400.8	*28.0*
-4%	10179.3	*7.3*	3252.0	*22.4*
-3%	10008.6	*5.5*	3103.2	*16.8*
-2%	9837.8	*3.7*	2954.4	*11.2*
-1%	9657.6	*1.8*	2805.6	5.6
Base Case - Rs40.1/litre	***9486.8***	***0.0***	***2656.8***	***0.0***
1%	9316.0	*-1.8*	2508.1	*-5.6*
2%	9135.8	*-3.7*	2359.3	*-11.2*
3%	8965.0	*-5.5*	2210.5	*-16.8*
4%	8794.3	*-7.3*	2061.7	*-22.4*
5%	8623.5	*-9.1*	1912.9	*-28.0*

Source: J.P. Morgan estimates.

Load factor (%) and yields (Rs/RPKM) trends



Source: J.P. Morgan estimates.

EPS: J.P. Morgan vs consensus

Rs	J. P. Morgan	Consensus	vs. Cons
FY11E	6.6	5.8	15%
FY12E	6.6	7.9	-17%
FY13E	5.3	9.5	-45%

Source: Bloomberg and J.P. Morgan.

PT and valuation analysis

Our Sep-2011 price target of Rs115 is based on EV/EBITDAR of 9.0x on FY12E EBITDAR, at a 13% premium to our target multiple for JETIN and KAIR. Spicejet is currently trading at a 6.3x FY12E EV/EBITDAR, at a 12% discount to Asian LCC's and 6% discount to Global LCCs.

Key risks include a lower-than-expected passenger demand, higher jet fuel prices, an increase/changes in airport charges regulations, adaptability of Bombardiers to Indian conditions or non-availability/ delays in getting trained staff, and a weaker rupee.

Table 1: SJET vs. Indian air carriers vs. Asian sector average 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%
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%
Asia Pacific LCCs				14.2	9.9	2.7	2.0	9.9	7.3	8.7	7.2	177%	43%	23%	22%
Global LCCs				16.3	11.4	2.4	1.8	8.7	6.8	8.0	6.8	128%	43%	16%	17%

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.

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Figure 1: Spicejet route map

Source: Company website

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Investment thesis

Initiate coverage with OW rating and PT of Rs115 based on 9x FY12E EV/EBITDAR

We initiate coverage on SJET with Overweight rating and price target of Rs115 based on 9x FY12E EV/EBITDAR. SJET is a leading LCC in India with current passenger market share of 13.6%. It currently operates a fleet of 22 aircraft, operating 125 daily flights connecting 20 domestic destinations and two international destinations.

We estimate SJET's market share to increase from 12.6% in FY10 to 16.7% by FY12 driven by aggressive fleet addition backed by a strong balance sheet

We believe that SJET is well positioned to gain market share amidst a strong pick-up in traffic demand as industry capacity additions lag behind. SJET is leveraging its strong balance sheet to aggressively add capacity and capture higher share of incremental demand, in a scenario when most of its competitors are constrained to add capacities on account of highly geared balance sheets. As a result, we estimate that SJET will be able to increase its passenger market share from 12.6% in FY10 to 16.7% by FY12E. We forecast an earnings CAGR of 48% and EBITDAR CAGR of 36% over FY10-FY13 driven by an increase in fleet size, higher load factors and improvement in yields.

Addition of Bombardier Q400 turboprops to the fleet will enhance tier II city presence

SJET has recently placed an order for 15 Bombardier Q400 regional turbo-prop aircraft (with an option to acquire another 15), delivery of which will start in June 2011. The Q400s will have 78 seat configurations and will strengthen SJET's tier II and tier III city presence. Rising affluence is driving strong demand from tier II and tier III cities and current fares connecting non-metro cities are remunerative. In addition, Q400 turbo-props are fuel-efficient and will also be exempt from domestic airport navigation and landing charges (current regulation provides this concession to planes with less than 80 seats).

Efficient operations and low operating costs provide a competitive advantage

SJET is among the most efficient carriers in India. Its cost structure is one of the lowest and it continues to improve its operating efficiencies. Its operating cost per ASK is almost 20%-40% lower than that of its domestic peers. On a regional basis too, its operating costs compare favorably to its peer group. This bodes well for SJET as a lower cost structure allows its earnings to be more resilient in a downturn compared to its peer group.

Table 2: Key assumptions and earnings sensitivities

	Base Case Assumption	Change in assumption	Impact on FY12E net profit (%)
Domestic load factor (%)	77.0	+/-1%	+/-14.7%
Domestic Yields (Rs/RPKM)	3.45	+/-1%	+/-11.0%
Fuel price (Rs/litre)	40.1	+/-1%	+/-5.6%
Group unit cost per ASK (Rs)	2.6	+/-1%	+/-11.3%
Aircraft maintenance cost (Rs/flying hour)	25844.6	+/-1%	+/-1.2%
Aircraft, landing, navigation charges (Rs/departure)	30108.9	+/-1%	+/-0.8%
USD/INR FX rate (Rs)	44.5	+/-1%	+/-7.0%
Effective tax rate (%)	20.0	+/-1%	+/-1.3%

Source: J.P. Morgan estimates

Positive drivers

Market share gains backed by a strong balance sheet

Well positioned to capture higher share of incremental passenger traffic through fleet addition backed by strong balance sheet

SJET is well positioned in the current market environment to profitably gain market share over. It is leveraging its strong balance sheet to aggressively add capacity and capture higher share of incremental demand, at a time when most of its competitors are constrained to add capacity by their stretched balance sheets. Spice is aggressively enhancing its fleet; we estimate it to double its fleet size by FY12E to 41 aircraft from 20 aircraft in FY10.

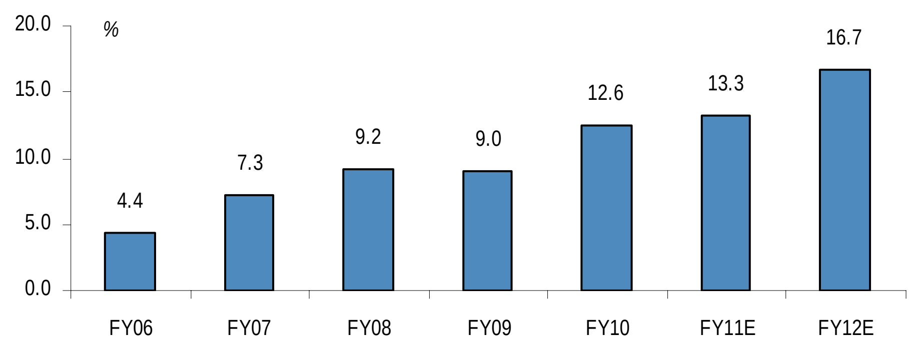
Table 3: SJET fleet expansion estimates

	FY06	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E
Aircraft type								
B737-800	5	11	17	14	15	24	28	34
B737-900ER	0	0	2	5	5	5	7	7
Bombardier-Q400	0	0	0	0	0	0	6	12
Total	*5*	*11*	*19*	*19*	*20*	*29*	*41*	*53*
Additions								
B737-800		6	6	(3)	1	9	4	6
B737-900ER		0	2	3	0	0	2	0
Bombardier-Q400		0	0	0	0	0	6	6
Total		*6*	*8*	*0*	*1*	*9*	*12*	*12*

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

As a result of the fleet expansion, we estimate that SJET will be able to increase its passenger market share from 12.6% in FY10 to 16.7% in FY12E. Additionally, given that we expect industry supply to remain tight until at least 2H FY12, load factors and yield trends are likely to remain strong, despite new capacity additions. We estimate SJET's EBITDA to grow at a 137% CAGR over FY10-FY13E and net profit to grow at a 55% CAGR over the same period.

Figure 2: SJET: Domestic passenger market share evolution (%)



Source: DGCA, J.P. Morgan estimates

Enhancing tier II city penetration through Bombardier Q400 additions

Addition of Bombardier turboprops to strengthen tier II and tier III city routes

SJET recently placed an order for 15 Bombardier Q400 regional turbo-prop aircraft with an option to acquire another 15. According to management, delivery will commence in June 2011 and management expects to add one plane every subsequent month. In the initial phase, Spicejet is looking to fly the Q400s connecting tier I and tier II cities and later expand to tier III cities. Tier II and III cities are currently underserved (top six cities account for 90% of airline traffic in India, with Delhi & Mumbai accounting for 60% of traffic). However, demand from tier II and tier III

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cities is rising rapidly and most of these cities are currently underserved. As a result, traffic share of non-metro cities has been rising steadily over the past few years and is likely to rise going forward.

According to SJET's management, the sectors on which Q400s are likely to be deployed will have an average stage length of 500km. Despite flying smaller stage lengths, we believe that Q400s are unlikely to be margin-dilutive, given that yields on tier II routes are remunerative (according to our recent channel checks) and Q400s will bring some inherent cost advantages.

Our channel checks suggest that non-metro routes are remunerative

Our recent channel checks on domestic fares suggest that tier II city fares (on a per ASKM basis) are remunerative in relation to metro fares.

Table 4: Cheapest available air fares between various cities across India*

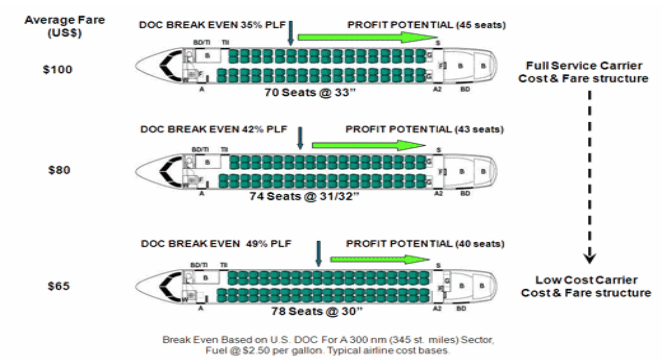
Rs	*Stage Length*	Tomorrow	After 1 week	After 1 Month
Tier I to Tier I cities				
Mumbai-Delhi	1hr 55m	5281	4581	3274
Tier I to Tier II cities				
Mumbai-Goa	1hr	6425	2704	2202
Mumbai-Ahmedabad	1hr	7934	1852	1852
Delhi-Amritsar	1hr 15m	8342	4871	2257
Delhi-Lucknow	50m	3827	2102	2197
Mumbai-Aurangabad	45m	3910	2812	2258
Tier II to Tier II cities				
Hyderabad-Chennai	1hr	3479	2971	2469
Bangalore-Mangalore	1hr	5829	2961	2961
Bangalore-Cochin	1hr 15m	5136	3979	4457
Kolkata-Bhubaneshwar	1hr 20m	4168	2760	2308
Tier III to Tier III cities				
Khajurao-Varanasi	45m	9571	3338	3338

Source: www.cleartrip.com, * We conducted this exercise on 25th Nov-2010.

Q400 Turboprops offer good flying economics to comparative aircrafts on account of faster speed and lower fuel consumptions

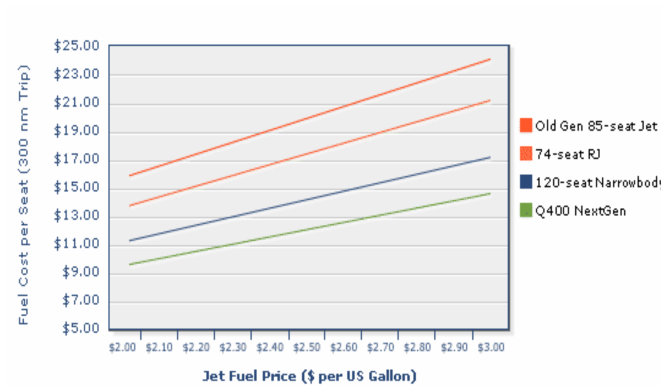
Q400 turboprops will also offer some inherent cost advantages - SJET will configure the Q400s with 78 seats, below the 80-seat limit, which would exempt the Q400s from aeronautical and landing fees at domestic airports. In addition, Q400 turboprops are economical on fuel consumption relative to jets and also have high cruising speeds, which offer the flexibility to fly longer sectors. In addition, SJET is Bombardier's launch customer in India, which we believe will allow SJET to negotiate a favorable price on the turboprops.

Figure 3: Q400 turboprop seat economics



Source: Bombardier website

Figure 4: Q400 fuel consumption vs. other narrow body aircraft



Source: Bombardier website

Cost structures lower by 20%-40% compared to domestic listed peers

Lean player with low operating costs

SJET is among the most efficient carriers in India. Its cost structure is one of the lowest and it continues to improve its operating efficiencies. Its operating cost per ASK is 20%-40% lower than that of its domestic listed peers.

Figure 5: SJET: Operating CASK vs. JETIN vs. KAIR (FY10)

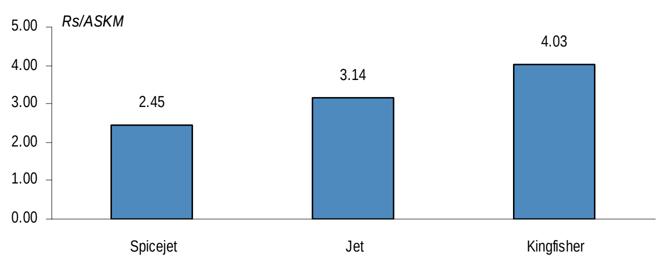
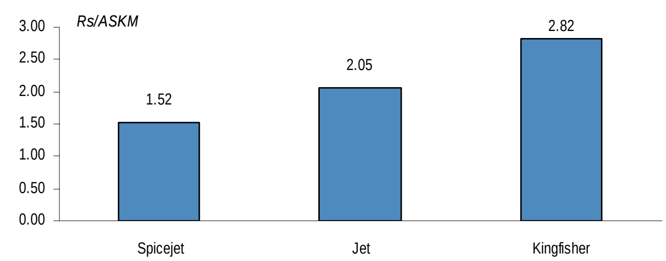
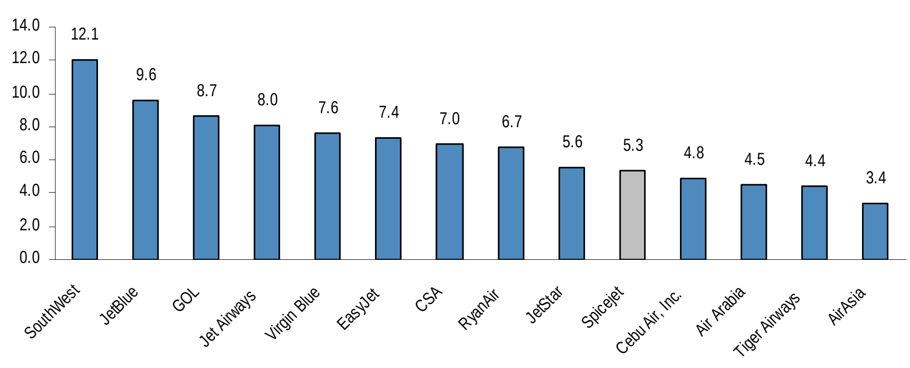


Figure 6: SJET: Operating CASK w/o fuel vs. JETIN vs. KAIR (FY10)



SJET's cost structures also compare favorably with those of global low-cost carriers.

Figure 7: CASK (in US cents per ASKM) of Global LCCs



Source: Company reports

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Efficiencies driven by extra seats, faster turnaround of aircraft, lower cost of ticketing and lean aircraft cabin crew

SJET derives its efficiencies from 1) airplane configuration which allows it to operate with 3% extra seats per place compared to Indian peers, 2) high fleet utilization driven by faster turnaround of aircraft (average 25min-30min turnaround time), 3) lean aircraft cabin crew in the absence of in-flight merchandise retailing, 4 cabin crew for SJET compared to the industry average of 5.5 cabin crew, 4) lower ticketing and reservation costs relative to domestic listed peers. SJET uses Navitaire (used by LCCs) while listed Indian peers are on the GDS systems. Its lower cost structure makes SJET's earnings more resilient during downturns and gives it better leeway to be competitive on fares.

Consolidation of promoter shareholding bodes well

Consolidation of promoter shareholding bodes well and enhances focus

Mr. Kalanithi Maran recently acquired a controlling stake in SJET, buying out stakes of earlier promoter Kansagra and US-based investor Wilbur Ross. The promoter shareholding is now consolidated, with Mr. Maran holding 38.6% of the equity of SJET. A new management team and board have been inducted, with Mr. Maran as the Chairman. We believe that the consolidation of promoter shareholding bodes well as it lends more focus and takes away the risk of conflicts on business decisions.

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Key risks to our rating and price target

Key risks include a slowdown in passenger traffic, increase in oil prices, changes to airport charge regulations, induction of Bombardier fleet, and unfavorable currency fluctuations

Lower-than-expected passenger demand

SJET has seen a strong pick-up in load factors over the last few months, driven by a 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 SJET would adversely impact FY12E earnings by 14.7%.

Jet kerosene price increase over US$105/bbl

SJET's earnings are highly sensitive to oil prices. Our fuel assumptions for SJET are based on Singapore jet kerosene at US$100/bbl for FY11E and US$105/bbl for FY12E. Higher oil prices would have an adverse impact on our earnings estimates. We estimate that every 1% increase in ATF prices would adversely impact SJET's FY12E earnings by 5.6%.

Increase / changes to airport charge regulations

Current regulations in India exempt aircrafts with fewer than 80 seats from airport landing and navigation charges. SJET is adding Bombardier Q400 aircraft with a 78-seat configuration to its fleet, which would qualify for these exemptions, which are also built into our margin assumptions for SJET. If these exemptions are withdrawn or changed, it would have an adverse impact on our earnings estimates.

Bombardier Q400s are untested in Indian conditions

SJET is the first operator in India looking to induct the Bombardier Q400 fleet. The performance of Q400s is yet untested in Indian conditions. In addition, SJET will need to train pilots and cabin staff for Q400s. Any issues pertaining to the adaptability of Q400s to Indian flying conditions or non-availability / delays in getting trained crew staff could have an adverse impact on SJET's growth plans.

Weaker rupee, given US$ denominated costs and debt

A large part of SJET'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 will result in foreign-exchange-related losses and have an adverse impact on our earnings estimates.

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Valuation and share price analysis

SJET is trading at a 12% discount to Asian LCCs on FY12E EV/EBITDAR

Spicejet is currently trading at 6.3x FY12E EV/EBITDAR, at 12% discount to Asian LCC's and 6% discount to Global LCCs. On an EV/EBITDA basis it is trading at 8.6x FY12E EV/EBITDA, at 18% discount to Asian LCCs. On a P/E basis, SJET is trading at 12.5x FY12E P/E, at a 26% premium to its Asian LCC peers.

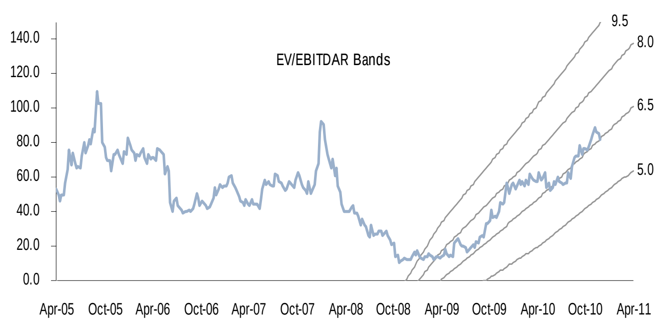
Our price target of Rs115 is based on 9x FY12E EV/EBITDAR, at 13% premium to our target multiple for JETIN and KAIR. We attribute a premium to SJET over Indian full service players on account of SJET's efficient operations, higher growth over the next two years, strong balance sheet and low cost structure. Our valuation summary is enumerated below.

Table 5: SJET: Valuation based on EV/EBITDAR multiples

FY12E EBITDAR (Rs MM)	9,486.8	
Target EV/EBITDAR Multiple (x)	9.0	13% premium to JPME target multiple of 8.0x for JETIN and KAIR
Enterprise Value (Rs MM)	85,381.2	
Lease Rental Capitalization (Rs MM)	40,123	FY12E
(-) Net Debt /(Cash) (Rs MM)	(1,077.6)	FY12E
Target Equity Value (Rs MM)	46,336.0	
NOSH (MM)	404.9	
Target price per share (Rs)	*115*	

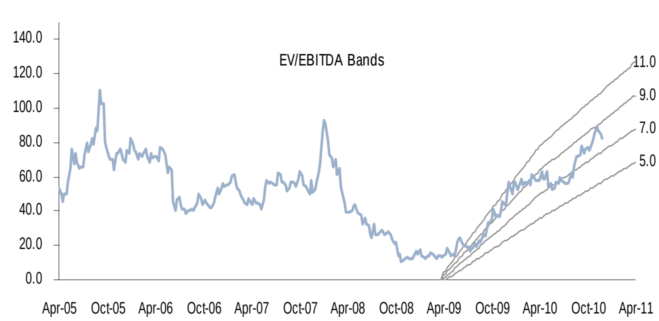
Source: J.P. Morgan estimates

Figure 8: SJET: EV/EBITDAR bands (x)



Source: Bloomberg, company reports, J.P. Morgan estimates

Figure 9: SJET: EV/EBITDA bands



Source: Bloomberg, company reports, J.P. Morgan estimates

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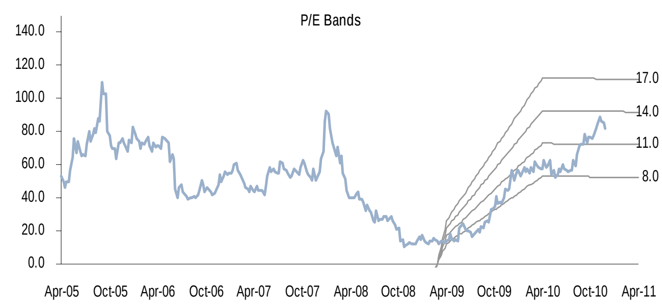
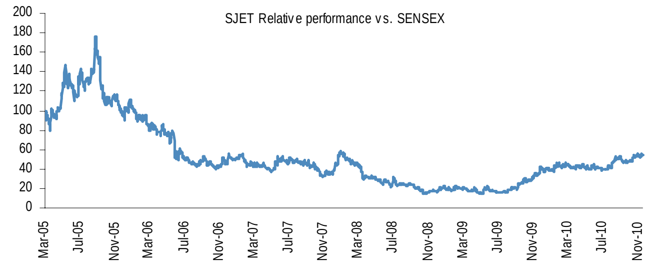
Figure 10: SJET P/E bands (x)



Source: Bloomberg, company reports, J.P. Morgan estimates

Figure 11: SJET stock performance relative to BSE SENSEX (Base:Mar-05)



Source: Bloomberg

Table 6: Spicejet vs. Asian and global LCC peer group

	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
Spicejet**	OW	INR	82.2	12.4	12.5	3.4	3.4	11.8	8.6	8.5	6.3	325%	-1%	37%	27%
Air Arabia	NR	AED	0.8	11.8	9.9	0.7	0.7	7.9	5.9	7.5	6.4	-32%	20%	6%	7%
AirAsia	NR	MYR	2.7	9.5	8.4	2.2	1.7	8.7	7.3	8.6	7.3	25%	13%	26%	22%
Cebu Air, Inc	OW	PHP	125.5	12.7	10.0	4.7	3.2	9.7	7.7	9.2	7.6	nm	28%	54%	39%
EasyJet PLC (London)	NR	GBp	427.9	13.4	9.4	nm	1.1	6.6	5.0	6.7	5.4	81%	43%	nm	12%
GOL	N	USD	16.2	28.0	16.6	2.6	2.3	10.3	8.1	9.1	7.8	-72%	68%	8%	14%
JetBlue Airways Corp	OW	USD	6.8	16.2	11.6	1.1	1.0	6.8	5.9	6.8	6.1	113%	40%	9%	10%
Ryanair Holdings PLC (Dublin)	NR	EUR	3.9	15.7	11.9	2.0	1.8	8.2	7.3	8.0	7.2	37%	32%	13%	16%
Southwest Airlines Co	N	USD	13.3	18.6	14.5	1.7	1.5	6.2	5.2	6.3	5.4	283%	28%	9%	10%
Tiger	NR	SGD	1.9	18.6	12.7	5.2	3.7	17.7	11.3	12.3	9.8	480%	47%	nm	33%
Virgin Blue	N	AUD	0.4	18.3	8.8	1.0	0.9	5.4	4.2	5.9	5.0	235%	109%	6%	10%
Asia Pacific LCCs				14.2	9.9	2.7	2.0	9.9	7.3	8.7	7.2	177%	43%	23%	22%
Global LCCs				15.9	11.5	2.5	1.9	9.0	6.9	8.1	6.8	147%	39%	19%	18%

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 , 2010E indicates year ending Mar-2011 and 2011E indicates year ending Mar-2012. Valuations are as on COB 30/11/2010.

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Company description

Spicejet is a low-cost airline service operator engaged primarily in domestic routes in India. It recently started an international service with flights to Colombo, Dhaka, the Maldives, and Kathmandu. SJET operates 122 flights daily to over 19 domestic destinations with a fleet of 22 aircraft, which includes 17 Boeing 737-800 and five Boeing 737-900 ER aircraft. With the intention to expand its network in domestic and international routes, the company intends to take 36 aircraft deliveries over the next 4-5years. Spicejet had a domestic passenger market share of 12.6% in FY10.

Management background

Spicejet, (previously run as Modiluft), was founded by Mr. Ajay Singh and the Kansagra family. In July 2008, investor Wilbur Ross invested US$78.3MM in the company. Recently, a promoter of SUN Network, Mr. Kalanithi Maran, acquired a 37.5% stake in Spicejet from Kansagra and Wibur Ross, and acquired management control of the company. Mr. Kalanithi Maran is the Chairman of the company. A new management team has been inducted, with Mr. Neil Mills being appointed as the CEO (former CFO of LCC start-up Flydubai), Mr. S. Natrajhen as the COO (previously CFO of Sun TV). Ms. Seema Chandra is the CFO of SJET.

Shareholding trend

As at the end of Sep-2010, promoter shareholding in the company was 8.1%, and FII holdings were 14.5% as per the BSE website. However, Mr. Kalanithi Maran recently bought stakes of earlier promoters and investors and controls over 38.66% stake in SJET.

Table 7: Spicejet shareholding trend (%)

%	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
Promoter holding	12.9	12.9	12.9	12.9	12.9	12.9	12.9	12.9	12.9	12.9	12.9	9.5	8.1
Public shareholding													
Institutions	25.7	28.5	24.8	24.1	17.6	17.8	17.7	16.9	16.5	22.2	34.3	35.0	33.3
Mutual Funds	6.9	10.1	10.6	11.7	7.7	8.2	8.1	7.7	11.0	12.8	23.5	19.5	18.8
Financial Insti.	0.0	0.2	0.0										
FIIs	18.8	18.2	14.2	12.4	9.9	9.6	9.6	9.2	5.5	9.3	10.8	15.5	14.5
Non-Institutions	32.2	29.5	31.5	35.2	42.0	42.4	42.3	43.7	45.3	41.7	43.4	30.0	51.3
Corporates	21.5	17.7	18.1	20.4	22.7	22.3	21.6	21.9	23.7	22.0	21.6	16.0	38.7
Individuals	10.8	11.8	13.4	14.9	19.3	20.2	20.7	21.8	21.6	19.6	21.8	14.0	12.6
Others	29.1	29.2	30.8	27.8	27.6	26.9	27.1	26.6	25.3	23.3	9.5	25.5	7.4
Total	100	100	100	100	100	100	100	100	100	100	100	100	100

Source: BSE website

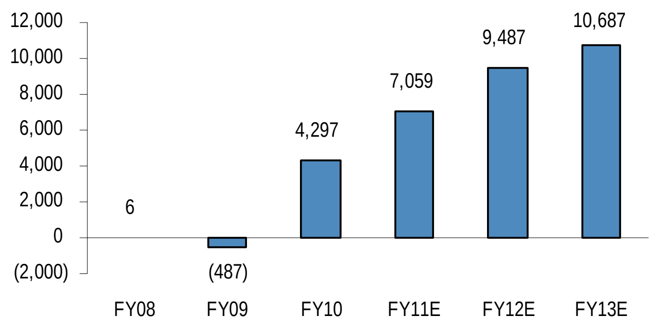
Financial analysis

Earnings CAGR of 47% over FY10-FY13E

EPS CAGR of 46% over FY10-FY13E driven by increase in fleet size and yield improvement

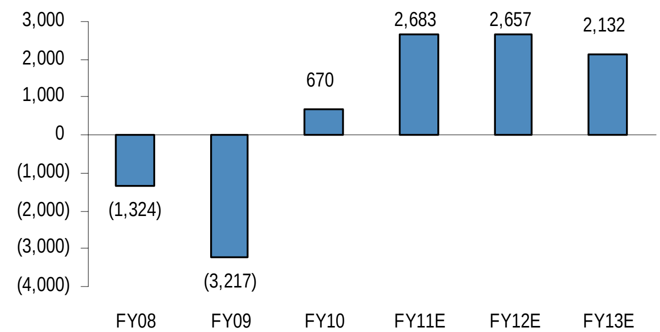
We forecast an EPS CAGR of 47% over FY10-FY13E driven by an increase in fleet size, higher load factors, and improvement in yields. We estimate ASKMs for SJET to increase from 8770 MM in FY10 to 17948 MM by FY13E, implying a CAGR of 27% and RSKMs to increase at 26% CAGR over the same period. We forecast EBITDA margins to improve from 1.4% in FY10 to 7.7% in FY13E, driven by operating leverage and improving efficiencies.

Figure 12: SJET: EBITDAR FY08-FY13E (Rs MM)



Source: Company reports, J.P. Morgan estimates

Figure 13: SJET: PAT FY08-FY13E (Rs MM)



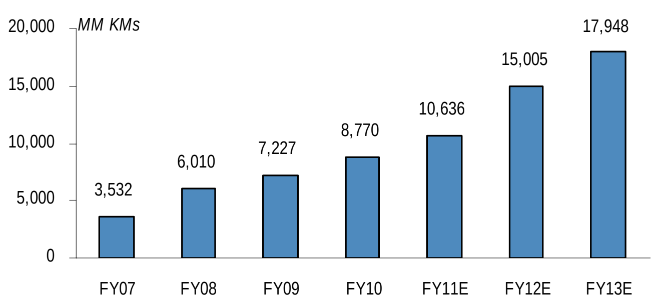
Source: Company reports, J.P. Morgan estimates

New plane additions to drive strong revenue growth

Revenue CAGR of 32% over FY10-FY13E

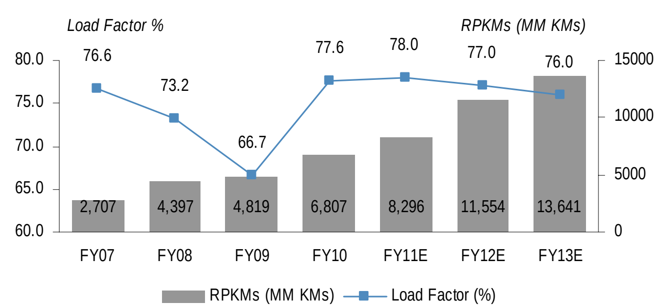
We forecast a CAGR of 32% in revenues over FY10-FY13E. We expect revenue growth to be driven by a 27% CAGR in RPKMs and 5.5% CAGR in yields over the same period. We estimate ASKMs to increase from 8770MM in FY10 to 17,948MM by FY13E on account of addition of new aircraft. We estimate RPKMs to increase at a 26% CAGR over FY10-FY13E, assuming stable load factors (77.6% in FY10, declining to 76% in FY13E). We estimate a 15% improvement in passenger yields in FY11E and 3% improvement in FY12E, before a 1% decline in FY13E.

Figure 14: Spicejet: ASKM trend FY06-FY13E



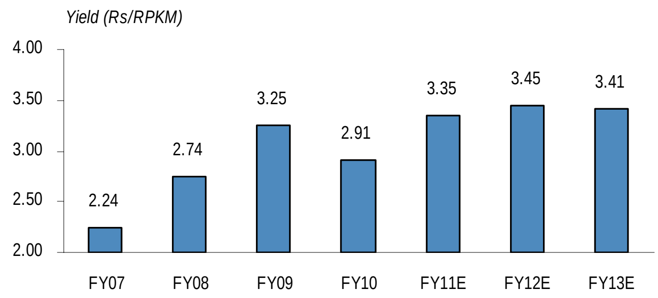
Source: Company reports and presentations, J.P. Morgan estimates

Figure 15: Spicejet: RPKM and load factors



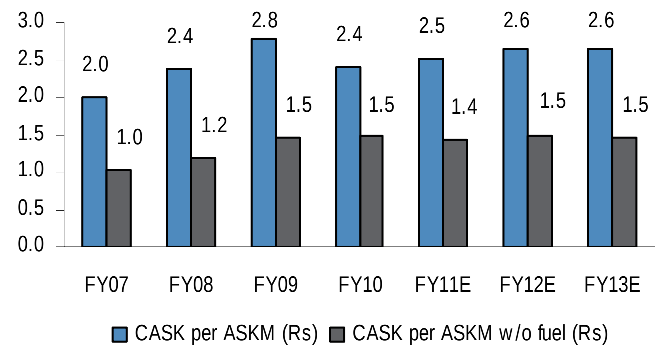
Source: Company reports and presentations, J.P. Morgan estimates

Figure 16: Spicejet: Yield (Rs/RPKM) trends FY06-FY13E



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

Figure 17: Spicejet: CASK/ CASK w/o fuel trends FY06-FY13E



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

Margin improvement to be driven by operating leverage and higher yields

EBITDAR margin to improve by 150bp by FY13E

We forecast an EBITDAR CAGR of 36% over FY10-FY13E and forecast margins to improve by 150bp to 21.2% over the same period. We estimate margin improvement to be driven by higher yields and operating leverage. We are also factoring in lower maintenance costs, better fuel efficiencies, and savings on airport navigation and landing charges on account of induction of the Bombardier Q400s. Our key margin assumptions are enumerated below.

Table 8: Key revenue and costs assumptions (Rupees / ASKM)

Year-end March	FY09	FY10	FY11E	FY12E	FY13E
Revenues per ASK (RASK)	2.3	2.5	2.8	2.9	2.8
% YoY	*8.8*	*6.4*	*13.3*	*1.7*	*(2.3)*
Operating Costs per ASK (CASK)	2.4	1.9	2.0	2.1	2.1
% YoY	*14.1*	*(18.1)*	*5.3*	*2.3*	*(0.2)*
Lease Rentals / ASK	0.5	0.5	0.4	0.4	0.4
Fuel Cost / ASK	1.3	0.9	1.1	1.2	1.2
Aircraft maintenance cost / ASK	0.3	0.3	0.3	0.3	0.3
Landing, navigation & other airport charges / ASK	0.2	0.2	0.2	0.2	0.2
Other Operating Costs	0.0	0.0	0.0	0.0	0.0
	0.1	0.1	0.1	0.1	0.1
CASK (post depreciation and interest)					
% YoY	2.8	2.4	2.5	2.6	2.6

Source: Company presentations, J.P. Morgan estimates

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Earnings highly sensitive to load factors, yields and oil

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

We estimate a 1% change in load factors would affect FY12E EBITDAR and PAT by 5% and 15% respectively.

Table 9: FY12 EBITDAR and FY12 PAT sensitivity to changes in passenger load factors

		EBITDAR (Rs MM)	% Change	PAT (Rs MM)	% Change
	-5%	7228.9	*-23.8*	704.1	*-73.5*
	-4%	7684.3	*-19.0*	1094.6	*-58.8*
	-3%	8130.2	*-14.3*	1485.2	*-44.1*
	-2%	8585.6	*-9.5*	1875.7	*-29.4*
	-1%	9031.4	*-4.8*	2266.3	*-14.7*
Base Case - 77%		*9486.8*	*0.0*	*2656.9*	*0.0*
	1%	9942.2	*4.8*	3047.4	*14.7*
	2%	10388.0	*9.5*	3438.0	*29.4*
	3%	10843.4	*14.3*	3828.5	*44.1*
	4%	11289.3	*19.0*	4219.1	*58.8*
	5%	11744.7	*23.8*	4609.7	*73.5*

Source: J.P. Morgan estimates

We estimate a 1% change in yields would affect FY12E EBITDAR and PAT by 4% and 11% respectively.

Table 10: FY12 EBITDAR and FY12 PAT sensitivity to changes in yields (Rs/RPKM)

		EBITDAR (Rs MM)	% Change	PAT (Rs MM)	% Change
	-5%	7798.1	*-17.8*	1192.9	*-55.1*
	-4%	8130.2	*-14.3*	1487.8	*-44.0*
	-3%	8471.7	*-10.7*	1780.1	*-33.0*
	-2%	8813.2	*-7.1*	2072.4	*-22.0*
	-1%	9145.3	*-3.6*	2364.6	*-11.0*
Base Case - Rs3.45/RPKM		*9486.8*	*0.0*	*2656.9*	*0.0*
	1%	9828.3	*3.6*	2949.1	*11.0*
	2%	10160.4	*7.1*	3241.4	*22.0*
	3%	10501.9	*10.7*	3533.6	*33.0*
	4%	10843.4	*14.3*	3825.9	*44.0*
	5%	11175.5	*17.8*	4120.8	*55.1*

Source: J.P. Morgan estimates

We estimate a 1% change in ATF prices would impact FY12E EBITDAR and PAT by 2% and 6% respectively.

Table 11: FY12 EBITDAR and FY12 PAT sensitivity to changes in ATF prices

		EBITDAR (Rs MM)	% Change	PAT (Rs MM)	% Change
	-5%	10350.1	*9.1*	3400.8	*28.0*
	-4%	10179.3	*7.3*	3252.0	*22.4*
	-3%	10008.6	*5.5*	3103.2	*16.8*
	-2%	9837.8	*3.7*	2954.4	*11.2*
	-1%	9657.6	*1.8*	2805.6	*5.6*
Base Case – Rs40.1/litre		*9486.8*	*0.0*	*2656.9*	*0.0*
	1%	9316.0	*-1.8*	2508.1	*-5.6*
	2%	9135.8	*-3.7*	2359.3	*-11.2*
	3%	8965.0	*-5.5*	2210.5	*-16.8*
	4%	8794.3	*-7.3*	2061.7	*-22.4*
	5%	8623.5	*-9.1*	1912.9	*-28.0*

Source: J.P. Morgan estimates

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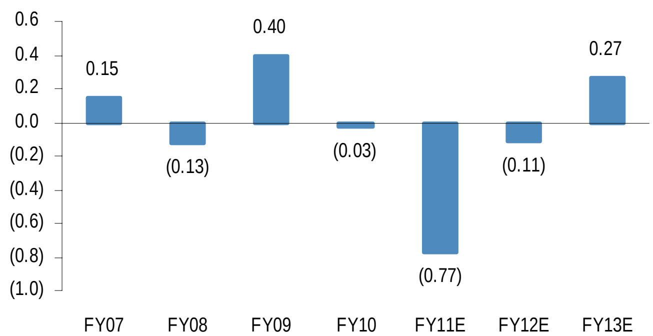
Gearing to remain low despite purchase of new airlines

Gearing to remain low despite purchase of new aircraft

SJET is looking to fund its fleet expansion through US Exim Bank funded loans. As a result, we expect gearing levels to go up. While the company currently has net cash of Rs124MM, after the fleet expansion, we estimate net gearing of 0.3x by FY13E. Overall, we estimate that balance sheet and interest cover will remain healthy despite purchase of new aircraft.

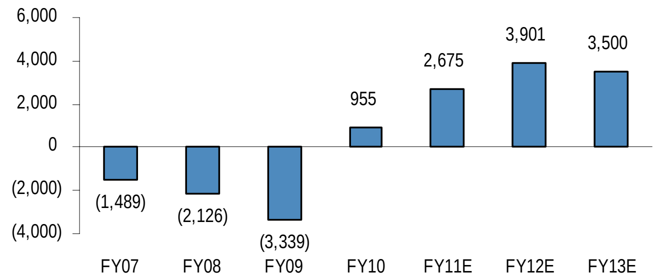
We estimate strong growth in operating cash flow – we expect operating cash flow to increase from Rs955MM in FY10 to R3.5B in FY13E.

Figure 18: Spicejet: Net debt to equity trend (x)



Source: Company reports, J.P. Morgan estimates

Figure 19: Spicejet: Operating cash flow trend (Rs MM)

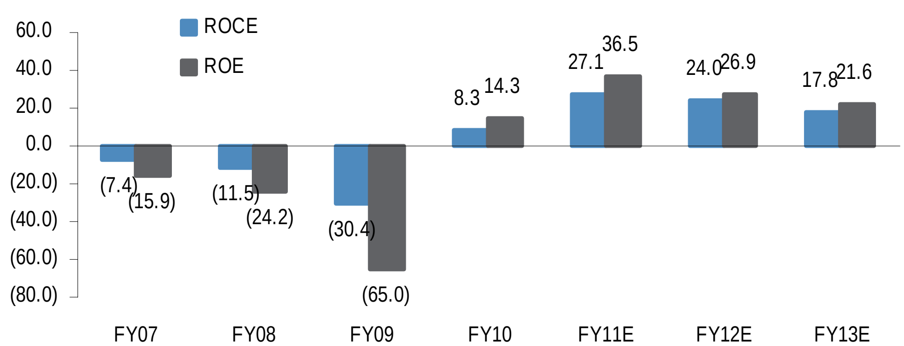


Source: Company reports, J.P. Morgan estimates

Capital efficiency to improve on higher earnings

We expect ROCE to improve from 8.3% in FY10 to 17.8% in FY13E and ROE to improve from 14.3% in FY10 to 21.6% in FY13E driven by strong growth in earnings.

Figure 20: Spicejet: ROCE and ROE trend



Source: Company reports, J.P. Morgan estimates

Table 12: Spicejet: Consolidated income statement

Rs MM, YE March	FY09	FY10	FY11E	FY12E	FY13E
Revenues	16,894.5	21,810.8	30,006.1	43,040.9	50,308.3
Operating Expenses	(17,381.2)	(17,513.6)	(22,947.5)	(33,554.1)	(39,621.1)
EBITDAR	(486.7)	4,297.2	7,058.6	9,486.8	10,687.2
EBITDAR Margin	*(2.9)*	*19.7*	*23.5*	*22.0*	*21.2*
Lease Rentals	(3,704.9)	(3,983.2)	(4,337.9)	(5,731.8)	(6,788.9)
EBITDA	(4,191.6)	314.0	2,720.8	3,755.0	3,898.4
EBITDA Margin	*(24.8)*	*1.4*	*9.1*	*8.7*	*7.7*
Depreciation	(72.5)	(76.4)	(80.2)	(560.1)	(897.6)
Interest	(160.2)	(113.8)	(72.6)	(120.0)	(270.0)
Other Income	1,240.9	610.1	704.2	246.2	112.1
Profit Before tax	(3,183.4)	733.9	3,272.2	3,321.0	2,842.9
Tax (expense)/Income	(33.2)	(63.7)	(589.0)	(664.2)	(710.7)
PAT	(3,216.6)	670.2	2,683.2	2,656.8	2,132.2
Exceptionals	(309.1)	(55.8)	0.0	0.0	0.0
PAT (Reported)	(3,525.7)	614.5	2,683.2	2,656.8	2,132.2
FD EPS	*(14.6)*	*1.6*	*6.6*	*6.6*	*5.3*
Pre-exceptional EPS	*(13.4)*	*1.7*	*6.6*	*6.6*	*5.3*

Source: Company reports, J.P. Morgan estimates

Table 13: Spicejet: Consolidated balance sheet

Rs MM, YE March	FY09	FY10	FY11E	FY12E	FY13E
Shareholders Funds	4,543.8	4,802.0	9,880.8	9,880.8	9,880.8
Share Capital	2,410.2	2,418.8	3,852.2	3,852.2	3,852.2
Convertible share warrants	60.6	60.6	0.0	0.0	0.0
Reserves and Surplus	2,072.9	2,322.5	6,028.6	6,028.6	6,028.6
Loan Funds	4,888.1	4,382.9	1,210.0	2,000.0	4,500.0
Secured Loans	332.7	341.3	210.0	1,000.0	3,000.0
Unsecured Loans	4,555.4	4,041.6	1,000.0	1,000.0	1,500.0
TOTAL	9,431.8	9,184.9	11,090.8	11,880.8	14,380.8
Fixed Assets	2,528.4	3,919.2	4,051.5	13,786.9	19,818.4
Gross Block	957.6	1,027.1	1,077.1	11,202.1	17,952.1
Less: Depreciation	282.0	357.1	437.2	997.3	1,894.9
Net Block	675.7	670.0	639.9	10,204.8	16,057.2
CWIP	1,852.8	3,249.1	3,411.6	3,582.2	3,761.3
Investments	0.0	0.0	0.0	0.0	0.0
Current Assets, Loans and Advances	4,979.5	5,971.4	10,668.1	5,753.4	5,006.1
Inventories	124.7	147.2	187.5	269.0	314.4
Sundry Debtors	123.9	189.6	241.5	346.4	404.9
Cash and Bank Balance	3,080.0	4,507.0	8,802.6	3,077.5	1,878.5
Other current assets	108.0	0.0	0.0	0.0	0.0
Loans & Advances	1,542.9	1,127.6	1,436.4	2,060.4	2,408.3
Less: Current Liabilties & Provisions	6,914.3	8,929.4	9,169.2	10,543.2	11,195.3
Current Liabilties	5,657.2	7,421.9	7,586.4	8,881.2	9,450.2
Provisions	1,257.1	1,507.5	1,582.8	1,662.0	1,745.1
Net Current Assets	(1,934.8)	(2,958.0)	1,498.8	(4,789.8)	(6,189.1)
Miscellaneous Expenditure					
Profit and Loss Account	8,838.2	8,223.8	5,540.5	2,883.7	751.5
Total	9,431.8	9,184.9	11,090.8	11,880.8	14,380.8

Source: Company reports, J.P. Morgan estimates

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Table 14: Spicejet: Consolidated cash flow statement

Rs MM, YE March	FY09	FY10	FY11E	FY12E	FY13E
PBT	(3,371.3)	733.9	3,272.2	3,321.0	2,842.9
Direct Taxes paid/ Refund	(58.9)	(31.0)	(589.0)	(664.2)	(710.7)
Depreciation	72.5	76.4	80.2	560.1	897.6
Change in Working Capital	289.4	459.8	(161.2)	563.6	200.3
Other Non Cash Items	(270.9)	(284.5)	72.6	120.0	270.0
Operating Cash Flows	(3,339.1)	954.6	2,674.8	3,900.5	3,500.1
Capex	(116.9)	(90.2)	(212.5)	(10,295.6)	(6,929.1)
Net Proceeds on Aircrafts	937.7	34.7			
Change in Investments	15.6	0.0	0.0	0.0	0.0
Other Investing Activities	5,628.4	235.4			
Cash flow from Investing	6,464.8	179.9	(212.5)	(10,295.6)	(6,929.1)
Change in Debt	(1,334.0)	7.2	(3,172.9)	790.0	2,500.0
Equity Issued	60.6	29.0	5,078.8	0.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0	0.0
Interest Paid	(99.7)	(62.8)	(72.6)	(120.0)	(270.0)
Other					
Cash Flow from Financing	(1,373.1)	(26.6)	1,833.3	670.0	2,230.0
Change in Cash	1,752.6	1,107.9	4,295.6	(5,725.1)	(1,199.0)
Cash at Beginng of the Year	66.2	1,818.8	2,926.7	7,222.4	1,497.3
Cash at End of Year	1,818.8	2,926.7	7,222.4	1,497.3	298.3
Add: Margin money held as security	1,238.1	1,557.2	1,557.2	1,557.2	1,557.2
Add: Escrow account	23.1	23.1	23.1	23.1	23.1
Add: Amount in fixed deposit					
Cash as reported in Balance sheet	3,080.0	4,507.0	8,802.6	3,077.5	1,878.5

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

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Spicejet Ltd: Summary of Financials

Income Statement					
Rs in millions, year end Mar	FY09	FY10	FY11E	FY12E	FY13E
Revenues	16,894	21,811	30,006	43,041	50,308
% change Y/Y	30.5%	29.1%	37.6%	43.4%	16.9%
Gross Profit	3,565	8,854	12,704	17,529	19,794
% change Y/Y	16.7%	148.4%	43.5%	38.0%	12.9%
EBITDA	-4,192	314	2,721	3,755	3,898
% change Y/Y	66.3%	-107.5%	766.4%	38.0%	3.8%
EBIT	-4,264	238	2,641	3,195	3,001
% change Y/Y	64.1%	NM	1011.4%	21.0%	NM
EBIT Margin	-25.2%	1.1%	8.8%	7.4%	6.0%
Net Interest	-160	-114	-73	-120	-270
Earnings before tax	-3,183	734	3,272	3,321	2,843
% change Y/Y	145.0%	-123.1%	345.9%	1.5%	-14.4%
Tax	-33	-64	-589	-664	-711
as % of EBT	1.0%	8.7%	18.0%	20.0%	25.0%
Net income	-3,526	614	2,683	2,657	2,132
% change Y/Y	164.1%	-117.4%	336.7%	-1.0%	-19.7%
Shares outstanding	-	-	-	-	-
EPS (reported)	(14.64)	1.56	6.63	6.56	5.27
% change Y/Y	163.9%	(110.7%)	325.1%	(1.0%)	(19.7%)

Cash flow statement					
Rs in millions, year end Mar	FY09	FY10	FY11E	FY12E	FY13E
PBT	-3,183	734	3,272	3,321	2,843
Depr. & amortization	73	76	80	560	898
Change in working capital	289	460	-161	564	200
Other	-271	-285	73	120	270
Cash flow from operations	-3,339	955	2,675	3,901	3,500
Capex	821	-55	-212	-10,296	-6,929
Net Interest	-160	-114	-73	-120	-270
Other	5,628	235	-	-	-
Free cash flow	-2,518	899	2,462	-6,395	-3,429
Equity raised/(repaid)	61	29	5,079	0	0
Debt raised/(repaid)	-1,334	7	-3,173	790	2,500
Other	-100	-63	-73	-120	-270
Dividends paid	0	0	0	0	0
Beginning cash	66	1,819	2,927	7,222	1,497
Ending cash	3,080	4,507	8,803	3,078	1,878
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	3,080	4,507	8,803	3,078	1,878
Accounts receivable	124	190	242	346	405
Inventories	125	147	188	269	314
Others	1,651	1,128	1,436	2,060	2,408
Current assets	4,979	5,971	10,668	5,753	5,006
LT investments	0	0	0	0	0
Net fixed assets	2,528	3,919	4,051	13,787	19,818
Total Assets	16,346	18,114	20,260	22,424	25,576
Liabilities					
Short-term loans	0	0	0	0	0
Payables	5,657	7,422	7,586	8,881	9,450
Others	1,257	1,507	1,583	1,662	1,745
Total current liabilities	6,914	8,929	9,169	10,543	11,195
Long-term debt	4,888	4,383	1,210	2,000	4,500
Other liabilities	0	0	0	0	0
Total Liabilities	11,802	13,312	10,379	12,543	15,695
Shareholders' equity	4,544	4,802	9,881	9,881	9,881
BVPS	18.86	12.18	24.40	24.40	24.40

Ratio Analysis					
Rs in millions, year end Mar	FY09	FY10	FY11E	FY12E	FY13E
Gross margin	21.1%	40.6%	42.3%	40.7%	39.3%
EBITDA margin	-24.8%	1.4%	9.1%	8.7%	7.7%
Operating margin	(25.2%)	1.1%	8.8%	7.4%	6.0%
Net margin	-20.9%	2.8%	8.9%	6.2%	4.2%
Sales per share growth	30.3%	(21.1%)	33.9%	43.4%	16.9%
Sales growth	30.5%	29.1%	37.6%	43.4%	16.9%
Net profit growth	164.1%	-117.4%	336.7%	-1.0%	-19.7%
EPS growth	163.9%	(110.7%)	325.1%	(1.0%)	(19.7%)
Interest coverage (x)	26.16	2.76	37.48	31.29	14.44
Net debt to equity	39.8%	-2.6%	-76.8%	-10.9%	26.5%
Working Capital to Sales	(32.0%)	(32.5%)	(23.9%)	(19.2%)	(17.4%)
Sales/assets	0.97	1.27	1.56	2.02	2.10
Assets/equity	3.60	3.77	2.05	2.27	2.59
ROE	(71.2%)	13.2%	36.5%	26.9%	21.6%
ROCE	-42.4%	2.6%	26.0%	27.8%	22.9%

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

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Spicejet Ltd (SPJT.BO) Price Chart

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