

SpiceJet Limited

Executive Summary

SpiceJet Limited is an India-based airline company. The Company is engaged in Domestic Passenger and Cargo Services. As of March 31, 2010, its Cargo Division offered services for all types of General Cargo and its operations covered 15 stations, including Ahmedabad, Bangalore, Chennai, Coimbatore, Delhi, Goa, Hyderabad, Jaipur, Kochi, Kolkata, Mumbai and Pune.

The Company has single-aircraft-type fleet, such as Boeing 737-800s with winglets and Boeing 737-900ER. Spice Enterprises Private Limited is the subsidiary of the Company. In fiscal 2010, SpiceJet Limited operated 129 daily flights.

Concerns

- High Aircraft Fuel prices
- Promoters alleged Involvement in the 2G Scam.
- Pledging of shares by Promoters

SpiceJet Ltd	BUY
Horizon	6 Months
CMP(₹)	27.5
Target Price (₹)	38
Upside	~38%

Key Investment Considerations

- Softening of Aircraft Fuel prices
- Low Debt as compared to its Peers.
- Robust Expansion Plans.
- Margins to improve going ahead.

Investment Strategy	
Period	Cash
Short Term	Avoid
Mid Term	Accumulate
Long Term	Accumulate

Please read our detailed report below for further Information, Analysis and details of the Greshma CSI Ranking Model and the Greshma Risk Return Matrix

FY11 Result Highlights

The Revenue for FY11 stood at ₹29,343.89 mn as compared to ₹22,024.08 mn in FY10, which is an increase of 33% on a YoY basis. The Expenditure rose from ₹21,549.34 mn in FY10 to ₹28,186.95 mn for FY11, which is an increase of 31% on a YoY basis. The EBITDA Margin nearly doubled from 2.2% in FY10 to 3.9% in FY11 as EBITDA grew by a substantial 144%. The EBITDA stood at ₹ 1,156.94 mn for FY11 as compared to ₹474.74 mn in FY10. The PAT saw an increase of 65% on a YoY basis as it rose from ₹614.49 mn in FY10 to ₹1,011.55 mn in FY11.

Operational Highlights

SpiceJet completed 5 years of operations domestically and also commenced International flights. In the quarter ended March 2011, the company saw a 41% growth in the number of passengers and a 31% growth in the available Seat Kilometers. SpiceJet, in FY11 saw a 30% increase in traffic while Domestic Air Traffic increased by 19%. An improvement of 450 basis points was reported in the load factor.

Investment Rationale

Improvement in Market Share: SpiceJet's market share has improved by 220 bps on a YoY basis on account of an increase in the number of flights and healthy PAX traffic in the LCC Segment. The market share currently lies at 13%.

Expanding Fleet Size: SpiceJet plans to add 7 Boeing 737s this year to its Operational Fleet of 25 aircrafts. This move is to capitalize on the expected Domestic Demand growth. The airline plans to have around 70 aircrafts in its fleet by 2013 including Q400 Bombardier aircraft. SpiceJet announced their order of 30 Q400 NextGen Turboprop Aircraft from Bombardier Inc. of Canada in September 2010. Hyderabad's Rajiv Gandhi International Airport (RGIA) will be the first base for SpiceJet's turbo-prop operations that should begin in July 2011.

International Expansion: After completing 5 years of Domestic operations, SpiceJet plans to scale up its International operations by commencing services to destinations in South Asia and the Middle East. The growing investment in expanding the fleet bodes well for the International expansion.

SpiceJet Limited

CMP: ₹ 27.5

BUY

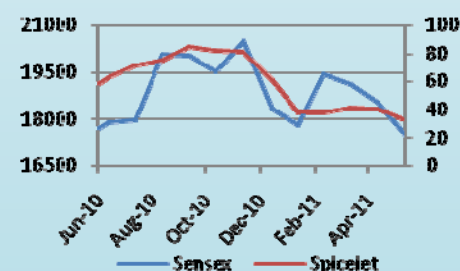
Stock Matrix

No. Of shares (Mn)	40.53
FV (₹)	10
BV (₹)	84.07
Market Cap (₹ Mn)	14,600
52Week High/Low (₹)	97/33
EV (Mn)	13,520
BSE Code	500285
NSE Code	-

Shareholding Pattern (%)

(In %)	11-Mar	10-Dec	% Change
Promoters	38.61	38.61	0%
FII	11.84	16.23	-27%
DII	15.1	16.45	-8%
Others	34.45	28.71	20%

Price Performance:



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Lowest Debt- Presently SpiceJet has a Debt/Market Cap of 0.07x which is the best among its peers. Its peer Jet Airways is currently quoting 3.8x its Debt to Market Cap. This gives the company the ability to raise more debt if required for the expansion. We expect the company to leverage its expansion plan by raising further debt.

Introduction of the Civil Aviation Policy- The Civil Aviation Ministry is evolving a draft Civil Aviation Policy that would increase Foreign Direct Investment ceiling, liberalize bilaterals and move towards an 'Open Sky', this would encourage the promotion of Regional Airlines, lower fares to make aviation affordable and remove price monopolies in respect of Aviation Turbine Fuel (ATF). This is a positive trigger for LLC's like SpiceJet in the aviation industry.

Margins to improve going ahead – The recent fall in Crude Oil prices and the company's proposal to buy more planes is likely to have a positive effect on the margins. We also expect lease cost to come down by 2014 although depreciation cost may increase in the near term.

Concerns

High Aircraft Fuel Prices- In the aviation industry Fuel prices are the driving factor in pricing and also in realizing margins. The current price of Jet Fuel is the primary cause of concern to SpiceJet. It is the key driver in Expenditure for the company.

Promoters Involvement in 2G scam- The alleged involvement of Ajay Singh, the previous promoter as also Kalanithi Maran, the present promoter of SpiceJet in the 2G scam has affected the stock to some extent.

Pledged shares by Promoters- Kalanithi Maran's Kal Airways Private Ltd has pledged an additional 2.07 crore shares in SpiceJet on June 3. With this transaction, Kal Airway Private Ltd has pledged a total of 9.09 crore shares, out of the 15.65 crore shares it holds in SpiceJet. In other words, 58% of its shares are pledged. Kal holds over 38% in SpiceJet. This move may cause the stock to behave in a volatile manner.

Financial Summary: FY11 Result Update

Particulars (₹ millions)	FY10	FY11	% YoY Change
Net Sales/Income from Operations	21810.78	28795.08	32%
Other Income	213.3	548.81	157%
Total Income	22024.08	29343.89	33%
Expenditure			
a) Operating Expenses			
Aircraft Fuel	8142.18	12262.3	51%
Aircraft Lease Rental	3898.11	4284.79	10%
Airport Charges	1447.72	1761.32	22%
Aircraft Maintenance	2409.12	2970.82	23%
Other Operating Cost	1042.43	1256.71	21%
b) Staff Cost	1814.11	2406.15	33%
c) Other Expenditure	2795.67	3244.86	16%
Total Expenditure	21549.34	28186.95	31%
EBITDA	474.74	1156.94	144%
EBITDA Margin	2.2%	3.9%	83%
Depreciation	76.43	89.1	17%
Profit before Other Income and Interest	398.31	1067.84	168%
Other Income	396.83	262.15	-34%
PBIT	795.14	1329.99	67%
Interest	61.23	48.3	-21%
Prior Adjustment-(Gain)/Loss	55.76	22.77	-59%
PBT	678.15	1258.92	86%
Income tax	63.66	247.37	289%
PAT	614.49	1011.55	65%
EPS (₹)	1.56	2.49	60%

(Source: Company, Greshma Research)

Financial Projection

Particulars (₹ Millions)	FY10	FY11	% YoY Change	FY12E	% YoY Change
Total Income	22024.08	29343.89	33%	33745.47	15%
Total Expenditure	21549.34	28186.95	31%	31200.21	11%
EBITDA	474.74	1156.94	144%	2545.27	120%
EBITDA Margin	2.2%	3.9%	83%	7.5%	91%
Depreciation	76.43	89.10	17%	112.27	26%
Profit before Other Income and Interest	398.31	1067.84	168%	2433.00	128%
Other Income	396.83	262.15	-34%	329.49	26%
PBIT	795.14	1329.99	67%	2762.49	108%
Interest	61.23	48.30	-21%	57.96	20%
Prior Adjustment-(Gain)/Loss	55.76	22.77	-59%	12.00	-47%
PBT	678.15	1258.92	86%	2692.53	114%
Income tax	63.66	247.37	289%	309.21	25%
PAT	614.49	1011.55	65%	2383.32	136%
EPS (₹)	1.56	2.49	60%	3.3	32%

(Source: Company, Greshma Research)

Outlook and Valuation

We expect an EPS of ₹3.3 in FY12E and valuing the company at 11.51 times arrive at our Price Target of ₹38. Maintain BUY with a ~38% upside from CMP of ₹27.50. At CMP, the stock trades at 8.33x FY12E EPS. We expect the EBITDA Margin to grow by 91% and the PAT Margins to grow by 136%. The introduction of the Civil Aviation Policy bodes well for LLC's like SpiceJet. Together with this policy and the softening of Aviation Fuel Prices and the robust expansion plans SpiceJet has in mind Domestically and Internationally, we have a positive outlook for the company in the medium term.

Operational Highlights

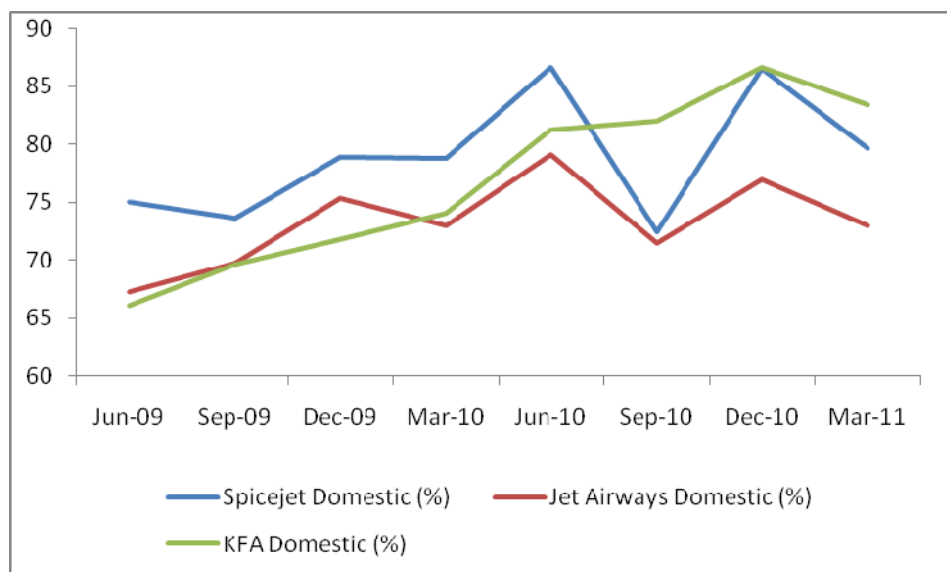
Particulars	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11
Ton Kms.Performed								
Domestic (Crns)	15.44	15.99	17.05	13.94	16.72	15.2	18.91	18.52
PAX								
Domestic (Crns)	15.44	15.18	15.82	12.62	15.4	13.44	17.42	16.98
Available Seat Kms.								
Domestic (Crns)	216.68	216.93	229.08	213.34	236.62	247.19	268.29	284.3
Efficiency								
Available Tonne Kms.								
Domestic (Crns)	21.55	21.43	21.43	18.34	20.34	21.23	23.03	24.37
Kms.Performed								
Domestic (Crns)	162.55	159.75	180.79	168.18	205.27	179.11	232.32	226.37
PAX.Load Factor								
Domestic [%]	75.02	73.64	78.92	78.83	86.63	72.43	86.57	79.6

The operational numbers show that the Domestic PAX Load Factor has seen an increase of 5% on a YoY basis, which is a positive trigger for the company and also much better than its peers. The Available Seat Kms have seen an increase of 33% on a QoQ basis and of 18% on a YoY basis. The efficiency of the company is seen at 79.62% for Q4. The efficiency stood at 81% for FY11 as compared to 77% in FY10, this is an improvement of 6.15% on a YoY basis.

Peer Comparison on Domestic PAX Load Factor

Airline	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11
SpiceJet Domestic (%)	75.02	73.64	78.92	78.83	86.63	72.43	86.57	79.6
Jet Airways Domestic (%)	67.27	69.76	75.39	72.97	79.07	71.47	76.97	73.0
KFA Domestic (%)	66.14	69.64	71.81	74.05	81.3	82.03	86.67	83.4

Domestic PAX Load Factor [%]



Greshma's Valuation/Fundamental Model

Valuations: A → CSI: 3/5: We expect a 38% appreciation from current market price.

VALUATION	> 20%	A	HOLD	SpiceJet		STRONG BUY	
	+5% to +20%	B		BUY		BUY	
	-5% to +5%	C	HOLD			HOLD	
	-5% to -20%	D	SELL			SELL	
	< -20%	E					
				1	2	3	4
			VERY POOR	POOR	MODERATE	GOOD	VERY GOOD
CORE STRENGTH INDEX							

Core Strength Index	Weightage
Industry/Market Structure	25%
Company Track Record	25%
Investor Orientation	25%
Opportunity Spectrum	25%

Expected Stock Performance

Short Term (1-3 Months)	Market Performer
Mid Term (3-6 Months)	Out Performer
Long Term (6-12 Months)	Market Performer

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