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**Shareholding (%)**

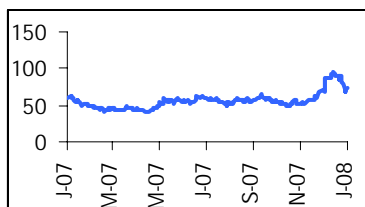
Promoters	12.9
FII's	14.2
MFs	10.6
Others	62.3

**Share price performance**

52-week high/low (Rs)	105/36		
	-1m	-3m	-12m
Abs (%)	0.1	32.9	19.3
Rel* (%)	11.6	36.2	-10.5

\*to Nifty

**Stock chart**



**The Ascent Continues.....**

During Q3FY08, SpiceJet posted a robust 97%YoY growth in net sales to Rs 4,085 mn. The airline's EBITDAR (profitability before lease rentals) improved by 315% YoY to Rs 535 mn, and EBITDAR margins rose by 690 bps to 13.1%. However, net profit declined by 23% to Rs 93 mn, due to lower sale and leaseback income in Q3FY08 (Rs 58 mn) as compared to Q3FY07 (Rs 374 mn).

At the current market price of Rs73, the stock trades at an EV/EBITDAR of 3.4x FY09E. Considering the growth opportunities in the sector and the airline's strong operating capabilities, we continue to maintain a 'BUY' on the stock.

**Key highlights of Q3FY08 results:**

- ▲ **Robust growth in revenues:** SpiceJet's net sales increased by 97% YoY, from Rs 2,074 mn to Rs 4,085 mn; this growth was a mix of increased volumes and higher yields. Passengers flown by the airline increased by 67% YoY to 1.16 mn, and yields improved by 14% YoY, from Rs 2,721 to Rs 3,090.
- ▲ **Maintains Load Factors:** SpiceJet has been steadily adding capacity over the past one year. Its average fleet size has increased from 8.7 in Q3FY07 to 15.2 in Q3FY08, and the Available Seat Kilometres (ASKM) by 72% from 955 mn to 1,647 mn during the same period. In line with its strategy of expanding into routes offering moderate occupancy levels, the company has successfully maintained its load factors at 76% and achieved a 67% YoY increase in passenger base. Going ahead too, SpiceJet would continue to maintain this route expansion strategy.
- ▲ **Escalating fuel costs – a dampener:** Rising crude prices translated into an 88% YoY increase in fuel costs for SpiceJet, from Rs 1,049 mn in Q3FY07 to Rs 1,970 mn in Q3FY08. We expect some respite to airlines in Budget 2008, with lower rate of taxes being proposed by the Aviation Ministry. In a favourable situation, fuel prices could come down by about Rs 1-2 per litre.

**Buy**

**Rs73**

January 25, 2008

**Market cap**

Rs bn 18

US\$ mn 445

**Avg 3m daily volume**

3,444,763

**Avg 3m daily value**

Rs mn 6

**Shares outstanding (mn)**

241

**Reuters/Bloomberg**

MDIL.BO/SJET.IN

**NSE/BSE**

MODILUFT/500285

**Sensex**

18,362

**Nifty**

5,383

## SpiceJet

- ▲ **Operation of Haj flights to strengthen foothold in the Middle-East:** In October 2007, SpiceJet signed an agreement with Air India for the wet lease of two of its fleet to operate daily flights during the Haj period (November 2007-February 2008) between India and Jeddah; the airline would operate 120 flights carrying 20,000 Haj pilgrims during this period. We believe that this arrangement was a strategically prudent step for the airline, enabling it to strengthen its foothold in the Gulf region.
- ▲ **Valuations:** Currently, the stock is trading at an EV/EBITDAR of 3.4x FY09E. Considering the growth opportunities in the sector and the company's strong operating capabilities, we continue to maintain a **'BUY'** on the stock. At our target price of Rs88, the stock trades at an EV/EBITDAR of 4.3x FY09E.

**Table 1. Quarterly result table**

Rs mn	Q3FY08	Q3FY07	YoY (%)	Q2FY08	QoQ (%)
Net Sales	4085.1	2073.9	97%	2226.2	84%
Total Expenses	4258.9	2388.1	78%	3037.3	40%
Aircraft fuel expenses	1970.4	1048.9	88%	1402.4	41%
Employee Remuneration and Benefits	355.1	229.7	55%	305.9	16%
Aircraft lease rentals	708.9	443.3	60%	508.7	39%
Airport costs	627.8	376.0	67%	454.7	38%
Other operating costs	353.5	137.6	157%	193.8	
Other costs	243.3	152.7	59%	171.9	
EBITDAR	535.1	129.1	315%	-302.5	
EBITDA	-173.8	-314.2		-811.1	
Other Income	294.6	488.9	-40%	473.8	-38%
PBIT	120.8	174.7	-31%	-337.4	
Interest	4.4	7.4	-41%	18.7	-77%
Depreciation	20.1	25.6		18.7	7%
Prior period adjustment	0.0	-19.6		0.04	
PBT	96.4	122.1	-21%	-374.7	
Tax	3.0	0.5		3.0	
PAT	93.4	121.6	-23%	-377.7	
Equity (Face value Rs 10)	2406.5	2406.5		2406.5	
EPS (Rs)	0.4	0.5	-23%	-1.6	
<b>Key Ratios (%)</b>					
EBITDAR Margin	13.1%	6.2%		-14%	
EBITDA Margin	-4.3%	-15.2%		-36%	
Interest / Sales	0.1%	0.4%		0.8%	
Tax / PBT	3.1%	0.4%		-0.8%	
NPM	2%	5.9%		-17.0%	

Source: IISL research, company

## Financials

### Profit & Loss

Rs mn	FY06	FY07	FY08E	FY09E
Net sales	4,196.5	6,404.4	12,706.9	21,026.7
YoY (%)		53%	98%	65%
Total expenses	4,084.7	6,678.4	11,311.5	16,829.5
Operating expenses	1,022.2	1,579.7	2,611.4	3,992.1
Fuel costs	1,989.8	3,494.4	6,026.2	9,417.3
Employee cost	479.7	855.0	1,298.7	1,734.4
Selling expenses	231.7	279.6	479.4	716.1
Administrative Exp	361.1	469.8	895.8	969.7
EBITDAR	111.8	(274.0)	1,395.4	4,197.2
EBITDAR (%)	2.7%	-4.3%	11.0%	20.0%
Aircraft Lease rental	771.7	1367.1	2471.6	3774.0
EBIDTA	(659.9)	(1641.0)	(1076.2)	423.2
EBIDTA (%)	-15.7%	-25.6%	-8.5%	2.0%
Other income	323.3	1,078.4	1,308.6	0.0
PBIDT	(336.6)	(562.7)	232.4	423.2
Interest	41.6	42.7	44.7	46.7
Gross profit	(378.2)	(605.3)	187.7	376.6
Depreciation	81.6	58.5	138.0	145.0
PBT and extra ordinary	(459.8)	(663.8)	49.7	231.6
Prior period items	58.7	(33.7)	0.0	0.0
PBT	(401.1)	(697.5)	49.7	231.6
(-) Tax	13.1	9.9	40.1	59.3
Tax/ PBT	-3%	-1%	81%	26%
PAT	(414.2)	(707.4)	9.6	172.2
Adjusted net profit	(414.2)	(707.4)	9.6	172.2

### Key Ratios

	FY06	FY07	FY08E	FY09E
EPS (Rs)	(2.2)	(2.9)	0.0	0.7
Adjusted EPS (Rs)	0.0	0.0	0.0	0.0
CEPS (Rs)	(1.8)	(2.7)	0.6	1.3
Book value (Rs)	(0.7)	7.7	7.7	8.4
Dividend per share (Rs)	0.0	0.0	0.0	0.0
Debt-equity (x)	(32.9)	2.3	2.3	2.1
ROCE	-10%	-10%	2%	4%
ROE		-38%	0.5%	8%

### Valuations

	FY06	FY07	FY08E	FY09E
PE (x)	(32.4)	(24.8)	1,828.1	101.9
Cash PE (x)	(40.4)	(27.0)	118.9	55.3
Price/book value (x)	(105.2)	9.5	9.5	8.7
Dividend yield	0.0	0.0	0.0	0.0
Market cap/sales	3.2	2.7	1.4	0.8
EV/sales (x)	4.1	2.9	1.2	0.7
EV/EBDITAR (x)	152.2	(67.0)	11.1	3.4
EV/EBDITA (x)	(25.8)	(11.2)	(14.4)	33.8

### Balance Sheet

Rs mn	FY06	FY07	FY08E	FY09E
Equity capital	1,843.4	2,406.5	2,406.5	2,406.5
Preference capital	0.0	0.0	0.0	0.0
Reserves	(1,971.1)	(560.7)	(551.1)	(378.9)
Net worth	(127.7)	1,845.8	1,855.4	2,027.6
Total borrowings	4,207.3	4,321.5	4,326.5	4,326.5
<b>Total liabilities</b>	<b>4,079.5</b>	<b>6,167.3</b>	<b>6,181.9</b>	<b>6,354.1</b>
Gross block	588.8	621.1	816.1	958.1
Less: Acc. depreciation	98.4	137.3	275.3	420.3
Net block	490.4	483.8	540.8	537.8
CWMP	3,628.9	6,943.5	2,910.5	0.0
Investments	0.0	812.2	812.2	812.2
Current assets	1,504.3	4,799.3	7,891.7	9,316.7
Inventories	34.0	79.4	125.0	180.0
Debtors	37.2	55.6	85.0	130.0
Cash	634.3	3,510.5	6,366.7	7,581.7
Loans and advances	798.8	1,153.8	1,315.0	1,425.0
Current liabilities	1,496.0	6,456.2	5,534.0	3,854.0
Provisions	141.9	415.3	439.3	458.5
Net current assets	(133.6)	(2,072.2)	1,918.4	5,004.1
Miscellaneous expenses	93.8	0.0	0.0	0.0
<b>Total assets</b>	<b>4,079.5</b>	<b>6,167.3</b>	<b>6,181.9</b>	<b>6,354.1</b>

### Cash Flow

Rs mn	FY06	FY07	FY08E	FY09E
Profit before tax	(459.8)	(663.8)	49.7	231.6
Depn and w/o	114.1	(15.7)	138.0	145.0
Profit/loss on sale	(168.9)	(442.0)	(1,308.6)	0.0
Change in working cap	676.9	(63.6)	(1,158.4)	(1,890.0)
Others	0.3	(6.9)	44.7	46.7
Income tax paid	-14.19	-20	-16.06	-40.15
Operating cash flow	148.5	(1,212.1)	(2,250.7)	(1,506.9)
Capex	(3,471.2)	1,677.2	5,146.6	2,768.5
Investments	0.0	(812.2)	0.0	0.0
Dividend & Interest received	12.17	72.71	0.0	0.0
Investing cash flow	(3,459.1)	937.7	5,146.6	2,768.5
Interest paid	(24.6)	(12.7)	(44.7)	(46.7)
Fresh equity	589.2	2,924.4	0.0	0.0
Debt	3,090.6	238.8	5.0	0.0
Financing cash flow	3,655.2	3,150.5	(39.7)	(46.7)
Others				
Net change in cash	344.6	2,876.1	2,856.3	1,214.9
Opening cash	289.7	634.3	3,510.5	6,366.7
Closing cash	634.3	3,510.5	6,366.7	7,581.7

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