

MAY 19, 2011

RESULT

Price (Rs): 458

Target price: 650

BSE-30: 18,141

Disappointing results—led by domestic business. Jet Airways reported 4QFY11 EBITDA of Rs511 mn versus our estimates of Rs1.98 bn. Weaker-than-expected performance was across all segments, with the degree being higher in the domestic business. Going forward, we expect improvement in profitability in 1QFY12E led by higher yield. Domestic yield (revenue per RPKM) is up ~10% qoq as of now from average levels of 4QFY11. We would revise our numbers post the conference call. Maintain BUY with a target price of Rs650 (7.5X FY2012E EBITDAR).

Company data and valuation summary

Jet Airways

Stock data

52-week range (Rs) (high,low)	926-392
Market Cap. (Rs bn)	39.5

Shareholding pattern (%)

Promoters	80.0
FIs	4.6
MFs	6.8

Price performance (%)	1M	3M	12M
Absolute	(5.5)	(7.5)	(10.5)
Rel. to BSE-30	(0.4)	(7.1)	(19.0)

Forecasts/Valuations

	2011	2012E	2013E
EPS (Rs)	(10.1)	31.6	70.8
EPS growth (%)	(85.6)	(414.0)	124.2
P/E (X)	(45.5)	14.5	6.5
Sales (Rs bn)	145.2	167.4	178.0
Net profits (Rs bn)	0.0	2.7	6.1
EBITDA (Rs bn)	15.7	19.9	22.5
EV/EBITDA (X)	10.3	7.5	5.9
ROE (%)	(5.0)	14.6	26.5
Div. Yield (%)	0.0	0.0	0.0

Disappointing numbers—led by domestic business

Jet reported 4QFY11 revenues of Rs36.4 bn (+12% yoy, -8% qoq) versus our estimates of Rs37.2 bn. The miss was largely on account of lower-than-estimated PLF in the domestic business (73% versus our estimates at 75%) and higher-than-expected qoq decline in yield in Jet Lite (decline of 17% versus our estimates at 9%). The international business also reported weak numbers with EBITDAR margins coming at 16% (lowest in the past two years). While a part of the reason is inability to pass on higher fuel prices, the yields also declined (qoq) more than the usual trend with revenue per RPKM declining 6% qoq versus sequentially flat yield in 4QFY10 (versus 3QFY10). Reported loss at PAT level of Rs1.88 bn was in line with our estimates of loss of Rs1.85 bn, led by one-off items of Rs1.24 bn (reversal of depreciation and MTM gains).

We expect 1QFY12E to be better—led by higher yields

As per our estimates, yields in 1QFY12E are up ~10% as of now over the average levels of 4QFY11. With the fuel prices also having corrected from their recent highs, we expect a better quarter ahead.

The only risk that we see on the horizon is any arbitrary discount pricing by Air India. After 10 days of employee strike, Air India has again lowered fares in a bid to improve PLFs and to bring back passengers disgruntled by the cancellations on account of the strike. If Air India persists with discounting in the market, it could again spell trouble for other players.

We maintain BUY with a target price of Rs650

In our view, 4QFY11 would represent the bottom as far as the profitability of the industry is concerned. Going forward, profitability should be much better, led by higher yields which support our BUY rating with a target price of Rs650.

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Disappointing numbers—led by domestic business

Interim results of Jet Airways, consolidated, March fiscal year-ends (Rs mn)

	Q4FY11	Q4FY11E	Q4FY10	Q3FY11	Change (%)			12 months		Change (%)
					KIE est.	yoy	qoq	FY2010	FY2011	
Operating revenues	36,390	37,200	32,456	39,580	(2)	12	(8)	120,280	145,226	21
Total expenditure	(35,879)	(35,219)	(27,353)	(32,895)	2	31	9	(93,655)	(129,534)	38
Employee Remuneration	(4,211)	—	(3,440)	(3,769)	—	22	12	(13,770)	(15,105)	10
Aircraft Fuel Expenses	(15,235)	—	(9,926)	(12,937)	—	53	18	(37,584)	(51,673)	37
Selling and Distribution Expenses	(3,611)	—	(2,461)	(3,633)	—	47	(1)	(10,977)	(13,714)	25
Other Operating expenses	(10,116)	—	(8,561)	(9,649)	—	18	5	(34,219)	(37,589)	10
EBITDAR	3,216	4,922	8,068	9,592	(35)	(60)	(66)	23,730	27,144	14
EBITDAR (%)	9	13	25	24	—	—	—	20	19	—
Aircraft Lease Rentals	(2,705)	(2,941)	(2,965)	(2,907)	(8)	(9)	(7)	(11,591)	(11,452)	(1)
EBITDA	511	1,981	5,103	6,685	(74)	(90)	(92)	12,140	15,692	29
EBITDA %	1	5	16	17	—	—	—	10	11	—
Non-operating revenues	641	150	935	438	—	—	—	2,101	2,044	—
Depreciation	(2,214)	(2,371)	(2,380)	(2,326)	—	(7)	(5)	(9,691)	(9,186)	(5)
Interest	(2,682)	(2,609)	(2,838)	(2,610)	—	(5)	3	(10,474)	(10,859)	4
PBT	(3,744)	(2,849)	820	2,187	31	(557)	NM	(5,924)	(2,309)	NM
Exceptional items	1,242	—	1,531	250	—	—	—	1,826	1,824	—
Reported PBT	(2,502)	(2,849)	2,351	2,437	(12)	(206)	NM	(4,098)	(485)	NM
Provision for tax	622	997	(102)	(997)	—	—	—	(104)	(374)	—
PAT	(1,880)	(1,852)	2,249	1,441	2	(184)	NM	(4,201)	(859)	NM

Source: Company, Kotak Institutional Equities

Segmental operating results

Jet Airways (standalone domestic business)

Domestic business reported weaker-than-expected results

Interim results, Jet domestic business, March fiscal year-ends (Rs mn)

	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11
Operating revenues	12,771	12,121	12,941	12,378	15,407	13,363
Total expenditure	(10,727)	(10,137)	(11,511)	(11,373)	(12,874)	(14,124)
Employee Remuneration	(1,589)	(1,738)	(1,682)	(1,763)	(1,890)	(2,357)
Aircraft Fuel Expenses	(3,582)	(3,316)	(4,016)	(3,939)	(4,566)	(5,014)
Selling and Distribution Expense	(1,606)	(820)	(1,250)	(1,497)	(1,622)	(1,560)
Other Operating expenses	(2,886)	(3,078)	(3,544)	(3,179)	(3,769)	(4,094)
EBITDAR	3,108	3,169	2,449	2,000	3,560	338
EBITDAR (%)	24	26	19	16	23	3
Aircraft Lease Rentals	(1,064)	(1,185)	(1,019)	(995)	(1,027)	(1,099)
EBITDA	2,044	1,984	1,430	1,005	2,533	(761)
EBITDA %	16	16	11	8	16	(6)
Non-operating revenues	249	434	355	340	384	366
Depreciation	(653)	(671)	(614)	(620)	(632)	(572)
Interest	(1,116)	(1,395)	(1,438)	(1,152)	(1,251)	(1,067)
PBT	524	352	(267)	(427)	1,034	(2,034)
Exceptional items	191	205	489	(53)	125	903
Reported PBT	715	557	222	(480)	1,159	(1,131)

Source: Company, Kotak Institutional Equities

Jet Airways (standalone domestic business): Operating parameters

Operating parameters, Jet Airways standalone domestic business, March fiscal year-ends

	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11
Number of flights	27,073	25,709	26,812	27,182	29,507	29,059
ASKMs (mn)	2,729	2,600	2,772	2,849	3,101	2,914
RPKMs (mn)	2,058	1,895	2,194	2,035	2,384	2,128
Load factor (%)	75	73	79	71	76.9	73
Block hours (hrs)	45,437	42,842	45,638	46,158	49,548	48,402
Revenue Pax (mn)	2.4	2.2	2.5	2.3	2.7	2.5
Gross yield (Rs/pax)	4,904	4,836	4,683	4,495	5,210	4,695
Rev. per RPKM (Rs)	5.35	5.47	5.05	4.84	5.69	5.25
Cost per ASKM (Rs)	3.93	3.90	4.15	3.99	4.15	4.85
Cost per ASKM excl. fuel (Rs)	2.62	2.62	2.70	2.61	2.68	3.13
Fuel cost per ASKM (Rs)	1.31	1.28	1.45	1.38	1.47	1.72

Source: Company, Kotak Institutional Equities

Jet Airways: International segment

International business also reported subdued results

Interim results of Jet Airways, International segment, March fiscal year-ends (Rs mn)

	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11
Operating revenues	16,085	16,184	16,709	18,672	19,340	19,120
Total expenditure	(13,044)	(13,449)	(14,117)	(14,970)	(15,538)	(17,014)
Employee Remuneration	(1,309)	(1,326)	(1,384)	(1,446)	(1,461)	(1,440)
Aircraft Fuel Expenses	(5,297)	(5,147)	(5,943)	(6,003)	(6,402)	(7,784)
Selling and Distribution Expenses	(1,318)	(1,334)	(1,447)	(1,689)	(1,715)	(1,838)
Other Operating expenses	(4,133)	(4,669)	(4,342)	(4,669)	(4,811)	(4,962)
EBITDAR	4,028	3,708	3,593	4,865	4,951	3,096
EBITDAR (%)	25	23	22	26	26	16
Aircraft Lease Rentals	(987)	(973)	(1,001)	(1,163)	(1,149)	(990)
EBITDA	3,041	2,735	2,592	3,702	3,802	2,106
EBIDTA %	19	17	16	20	20	11
Non-operating revenues	49	49	49	49	22	33
Depreciation	(1,785)	(1,689)	(1,650)	(1,720)	(1,673)	(1,626)
Interest	(1,365)	(1,254)	(1,307)	(1,341)	(1,255)	(1,473)
PBT	151	(176)	(138)	657	896	(960)
Exceptional items	191	205	(50)	(54)	125	220
Reported PBT	342	29	(188)	603	1,021	(740)

Source: Company, Kotak Institutional Equities

Jet Airways: International business (operating parameters)

Operating parameters for International business of Jet Airways, March fiscal year-ends

	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11
Number of flights	7,722	7,778	8,264	8,446	8,714	8,892
ASKMs (mn)	5,151	5,160	5,397	5,631	5,765	5,894
RPKMs (mn)	4,248	4,208	4,320	4,527	4,647	4,737
Load factor (%)	82	82	80	80	81	80
Block hours (hrs)	36,380	36,209	38,386	39,618	40,676	41,736
Revenue Pax	1.0	1.0	1.1	1.1	1.2	1.2
Gross yield (Rs/pax)	12,699	12,455	12,071	12,821	12,652	12,333
Rev. per RPKM (Rs)	2.82	2.83	2.76	2.90	3.01	2.83
Cost per ASKM (Rs)	2.53	2.61	2.62	2.66	2.70	2.89
Cost per ASKM excl. fuel (Rs)	1.50	1.61	1.51	1.59	1.58	1.57
Fuel cost per ASKM (Rs)	1.03	1.00	1.10	1.07	1.11	1.32

Source: Company, Kotak Institutional Equities

Jet Lite

Yields were down 17% qoq which was much more than our estimates at 9%
Interim results of Jet Lite, March fiscal year-ends (Rs mn)

	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11
Operating revenues	3,008	4,164	4,151	4,741	3,815	4,833	4,126
Total expenditure	(4,188)	(4,150)	(3,767)	(4,557)	(4,232)	(4,483)	(5,005)
Employee Remuneration	(373)	(375)	(376)	(398)	(452)	(418)	(416)
Aircraft Fuel Expenses	(1,620)	(1,615)	(1,463)	(1,889)	(1,711)	(1,969)	(2,437)
Selling and Distribution Expenses	(293)	(294)	(307)	(285)	(302)	(296)	(214)
Other Operating expenses	(1,074)	(1,093)	(814)	(1,178)	(912)	(1,069)	(1,324)
EBITDAR	(350)	787	1,191	991	438	1,081	(265)
EBITDAR (%)	(12)	19	29	21	11	22	(6)
Aircraft Lease Rentals	(829)	(773)	(807)	(807)	(855)	(731)	(614)
EBITDA	(1,179)	14	384	184	(417)	350	(879)
EBITDA %	(39)	0	9	4	(11)	7	(21)
Non-operating revenues	37	154	469	18	9	32	288
Depreciation	(21)	(21)	(20)	(21)	(21)	(21)	(18)
Interest	(98)	(108)	(189)	(131)	(197)	(104)	(143)
PBT	(1,261)	39	644	50	(626)	257	(752)
Exceptional items	0	0	1,121	0	0	0	0
Reported PBT	(1,261)	39	1,765	50	(626)	257	(752)

Source: Company, Kotak Institutional Equities

Jet Lite: Operating parameters

Quarterly operating parameters for Jet Lite

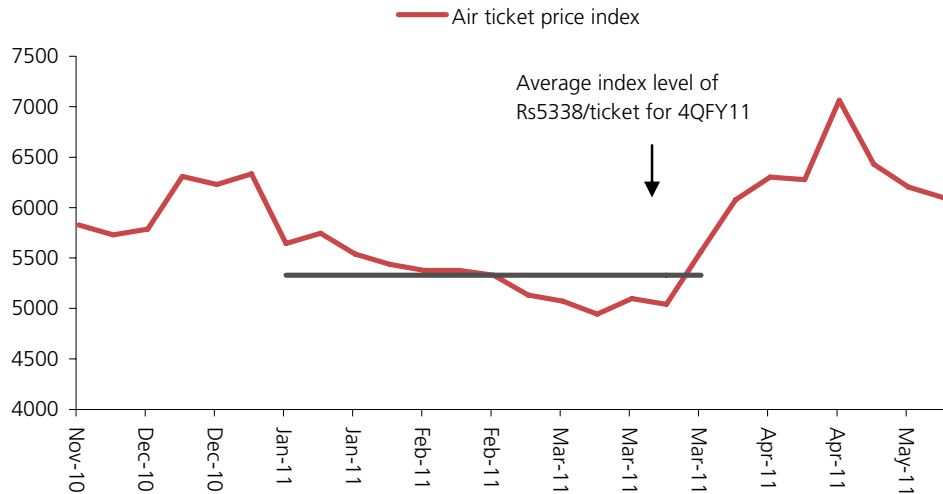
	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11
Number of flights	10,186	9,440	10,353	9,536	9,404	9,710
ASKMs	1,294	1,223	1,346	1,263	1,384	1,489
RPKM	1,020	928	1,111	937	1,143	1,148
Load factor (%)	79	76	83	74	83	77
Block hours (hrs)	17,963	16,813	17,934	16,354	16,664	17,409
Revenue Pax	1.0	0.9	1.1	1.0	1.1	1.2
Gross yield (Rs/pax)	4,038	4,325	3,937	3,737	4,150	3,405
Rev. per RPKM (Rs)	3.80	4.04	3.84	3.67	3.96	3.32
Cost per ASKM (Rs)	2.90	2.61	3.09	3.24	3.09	3.04
Cost per ASKM excl. fuel (Rs)	1.70	1.42	1.69	1.89	1.67	1.41
Fuel cost per ASKM (Rs)	1.25	1.20	1.40	1.35	1.42	1.64

Source: Company, Kotak Institutional Equities

Yields are up ~10% sequentially from 4QFY11

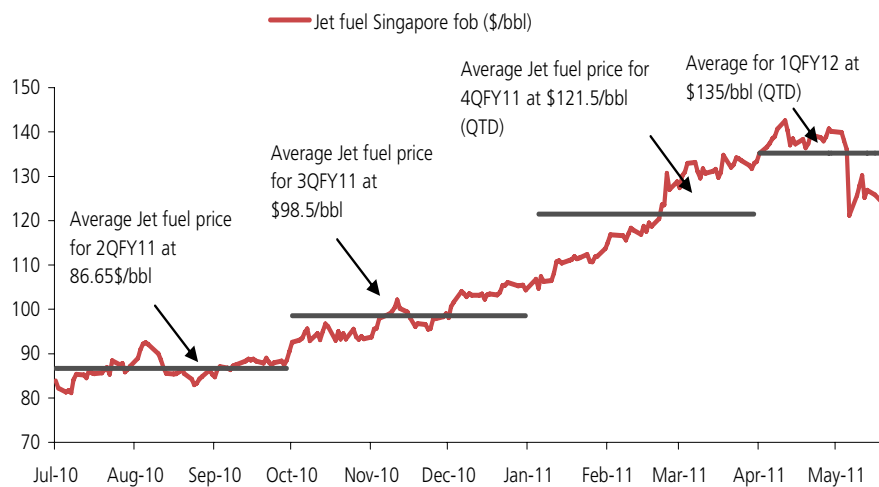
Our proprietary index for one week forward air fares which tracks the average of one week forward fares on eight routes from Mumbai and Delhi is up ~10% from the average levels of 4QFY11. Also, Jet fuel prices are down ~10% from their peak levels of US\$140/bbl. Both these factors lead us to believe that 4QFY11 would represent the bottom as far as the profitability of the business is concerned. Going forward, we expect better results.

Our index for one week forward fares is up ~10% from the average levels of 4QFY11
Kotak's index of one week forward air fares over eight sectors (Rs)



Source: Kotak Institutional Equities

Jet fuel price has corrected from peak levels
Jet fuel price, Singapore, fob (US\$/bbl)



Source: Bloomberg, Kotak Institutional Equities

Summary financials

Profit model, balance sheet, cash flow model for Jet Airways, consolidated, March fiscal year-ends (Rs mn)

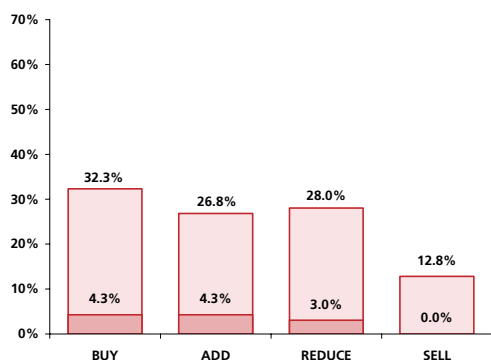
	2008	2009	2010	2011E	2012E	2013E
Profit model						
Income	102,456	130,779	118,764	145,226	166,852	177,382
EBITDAR	6,586	1,842	22,214	27,133	32,159	35,295
Aircraft lease rentals	(8,216)	(10,429)	(11,591)	(11,451)	(12,282)	(12,759)
EBITDA	(1,630)	(8,587)	10,623	15,683	19,877	22,536
Depreciation	(8,018)	(9,021)	(9,691)	(9,186)	(9,533)	(9,542)
Interest and finance charges	(5,225)	(8,023)	(10,474)	(10,858)	(7,482)	(5,965)
Non-operating revenue	7,452	3,710	3,617	2,044	544	609
PBT before exceptional items	(7,421)	(21,921)	(5,924)	(2,318)	3,406	7,638
Exceptional items	(695)	11,651	1,826	1,824		
Reported PBT	(8,115)	(10,270)	(4,098)	(494)	3,406	7,638
Taxes	1,577	656	(104)	(374)	(681)	(1,528)
PAT	(6,539)	(9,614)	(4,202)	(868)	2,725	6,110
EPS						
Diluted	(76)	(111)	(49)	(10)	32	71
Margins %						
EBITDAR	6	1	19	19	19	20
EBITDA	(2)	(7)	9	11	12	13
PBT	(7.2)	(16.8)	(5.0)	(1.6)	2.0	4.3
Balance sheet						
Equity	863	863	863	863	863	863
Reserves and surplus	41,697	33,321	32,847	32,847	32,847	32,847
P&L balance	(1,052)	(12,213)	(16,415)	(17,273)	(13,674)	(7,564)
Net worth	41,508	21,971	17,296	16,438	20,037	26,147
Secured loans	17,530	50,364	43,066	39,066	31,066	23,066
Unsecured loans	104,523	115,976	99,738	97,738	79,738	69,738
Loan funds	122,053	166,340	142,804	136,804	110,804	92,804
Deferred payment liability	4,125	2,750	1,375	—	—	—
Deferred tax liability	1,602	—	—	336	—	—
Current liabilities and provisions	45,230	41,125	45,199	50,843	63,255	67,121
Total sources of funds	214,519	232,186	206,674	204,421	194,096	186,072
Assets						
Gross block	166,687	188,450	180,110	180,710	181,310	181,910
Less: depreciation	25,560	25,502	35,558	45,060	54,593	64,135
Net block	141,127	162,948	144,552	136,865	126,717	117,775
Capital work in progress	13,026	6,571	3,335	3,335	3,335	3,335
Fixed assets	154,153	169,519	147,887	140,200	130,051	121,110
Goodwill on consolidation	18,724	18,724	18,724	18,724	18,724	18,724
Investments	104	1,000	1,000	801	1,000	1,000
Inventories	6,044	6,963	6,975	8,252	9,600	10,206
Sundry debtors	13,990	8,075	8,765	10,255	12,342	13,121
Cash and bank balances	9,584	14,662	8,264	6,772	1,808	43
Loans and advances	11,921	13,243	15,059	19,417	20,571	21,869
Current assets	41,538	42,943	39,063	44,696	44,320	45,238
Total uses of funds	214,519	232,186	206,674	204,421	194,096	186,072
Ratios						
Debt/equity	2.9	7.6	8.3	8.3	5.5	3.5
Net debt/equity	2.7	6.9	7.8	7.9	5.4	3.5
ROACE	—	—	—	3.91	6.80	9.18
ROE	—	—	—	(5.1)	14.9	26.5
Book value per share	481	254	200	190	232	303
Free cash flow						
Operating cash flow excl. working capital	(6,846)	(14,803)	1,865	9,039	11,714	15,043
Working capital changes	4,919	1,728	4,638	4,363	1,979	1,183
Capital expenditure	(58,114)	354	(615)	(600)	(600)	(600)
Investment changes	1,704	(8,844)	10,787	0	0	0
Changes in deferred payment liability	(5,525)	(1,375)	(1,375)	(1,375)	0	0
Other income	388	272	505	479	544	609
Free cash flow	(63,474)	(22,668)	15,805	11,906	13,638	16,235

Source: Kotak Institutional Equities estimates

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Source: Kotak Institutional Equities

As of March 31, 2011

Ratings and other definitions/identifiers

Definitions of ratings

BUY. We expect this stock to outperform the BSE Sensex by 10% over the next 12 months.

ADD. We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months.

REDUCE. We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months.

SELL. We expect this stock to underperform the BSE Sensex by more than 10% over the next 12 months.

Our target price are also on 12-month horizon basis.

Other definitions

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