

Air Sahara buyout cancellation a positive

Positive news, but valuations still not compelling

We believe that the decision of Jet Airways (Jet) to call off the Air Sahara buyout is a positive development for the company. However, the impact cost of the cancellation will have a slight impact of the company's earnings. Although the stock has corrected 38% since the announcement of the buyout earlier this year, it is close to fair value, trading in line with global growth airlines. We therefore maintain Neutral.

Air Sahara buyout cancellation a positive

The cancellation of the loss making Air Sahara buyout has positive implications for Jet. The imputed valuation of Air Sahara at ~\$500mn was clearly on the higher side (compare with Jet's EV of \$2.3bn being nearly 5x the size and having profit making operations). On the negative side, the company will forego Rs 1.2bn being commitment fee (Rs 14/share) and legally fight to recover Rs 5.8bn. Also, rival airlines like Kingfisher may again vie for Air Sahara to expand footprint.

Slight impact on earnings

If Jet is not able to recover the advances made towards the Air Sahara deal, the impact on earnings will likely be 6% in FY07, and 5.7% in FY08. There is a strong possibility that some of the deposit will be recovered by the latter half of this fiscal.

Retaining rating on fair valuation

Jet trades at EV/EBITDAR of 6.9x FY07E and 6.3x FY08E, which is in line with global growth airlines, despite the 38% correction in Jet's stock price YTD. We therefore maintain rating at Neutral.

Estimates (Mar)

(Rs)	2004A	2005A	2006E	2007E	2008E
Net Income (Adjusted - mn)	1,631	3,920	4,655	4,333	4,831
EPS	22.63	53.93	53.92	50.19	55.96
EPS Change (YoY)	NA	138.3%	0%	-6.9%	11.5%
Dividend / Share	0	3.00	6.00	7.50	8.00
Free Cash Flow / Share	70.30	141.74	17.32	(19.87)	46.40

Valuation (Mar)

	2004A	2005A	2006E	2007E	2008E
P/E	31.19x	13.08x	13.09x	14.06x	12.61x
Dividend Yield	0%	0.425%	0.850%	1.06%	1.13%
EV / EBITDA*	11.27x	8.04x	10.33x	9.77x	8.91x
Free Cash Flow Yield*	9.03%	18.35%	2.66%	-3.06%	7.14%
ANALYST EV/EBITDAR	8.93	6.91	7.07	6.56	5.76

* For full definitions of *iQmethod*SM measures, see page 4.

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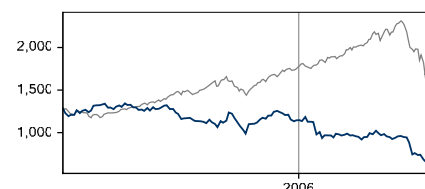
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Stock Data

Price	Rs705.70
Investment Opinion	C-2-7
Volatility Risk	HIGH
52-Week Range	Rs600.00-Rs1,344
Mrkt Val / Shares Out (mn)	US\$1,326 / 86.3
Average Daily Volume	48,988
ML Symbol / Exchange	JTAIF / BSE
Bloomberg / Reuters	JETIN IN / JET.BO
ROE (2006E)	25.1%
Net Dbt to Eqty (Mar-2005A)	86.6%
Est. 5-Yr EPS / DPS Growth	15.0% / 15.0%
Free Float	20.0%



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22 June 2006

iQprofileSM Jet Airways

Key Income Statement Data (Mar)	2004A	2005A	2006E	2007E	2008E
(Rs Millions)					
Sales	34,474	43,380	56,937	72,386	84,821
Gross Profit	14,647	18,460	20,605	21,288	23,431
Sell General & Admin Expense	(3,740)	(4,368)	(6,845)	(6,458)	(6,519)
Operating Profit	3,490	7,537	5,356	5,015	5,669
Net Interest & Other Income	(1,708)	(1,715)	2,001	1,651	1,764
Associates	NA	NA	NA	NA	NA
Pretax Income	1,781	5,821	7,358	6,667	7,432
Tax (expense) / Benefit	(150)	(1,901)	(2,702)	(2,333)	(2,601)
Net Income (Adjusted)	1,631	3,920	4,655	4,333	4,831
Average Fully Diluted Shares Outstanding	72	73	86	86	86

Key Cash Flow Statement Data

Net Income (Reported)	1,631	3,920	4,655	4,333	4,831
Depreciation & Amortization	5,152	4,570	4,064	4,953	5,261
Change in Working Capital	(2,779)	1,791	(2,342)	(1,870)	(2,466)
Deferred Taxation Charge	0	1,441	1,258	1,000	1,115
Other Adjustments, Net	0	(1,441)	(1,393)	(1,000)	(1,115)
Cash Flow from Operations	6,588	10,873	6,580	7,788	8,034
Capital Expenditure	(1,521)	(571)	(5,085)	(9,504)	(4,029)
(Acquisition) / Disposal of Investments	NA	NA	NA	NA	NA
Other Cash Inflow / (Outflow)	(1,737)	(13,623)	(1,000)	(1,000)	0
Cash Flow from Investing	(402)	(14,194)	(6,085)	(10,504)	(4,029)
Shares Issue / (Repurchase)	0	(556)	0	0	0
Cost of Dividends Paid	0	(295)	(583)	(728)	(777)
Cash Flow from Financing	(7,205)	11,824	(7,266)	(728)	281
Free Cash Flow	5,068	10,302	1,495	(1,715)	4,005
Net Debt	28,396	17,406	23,236	25,679	21,336
Change in Net Debt	(4,706)	(10,954)	5,830	2,444	(4,343)

Key Balance Sheet Data

Property, Plant & Equipment	31,116	26,086	26,937	31,318	29,886
Other Non-Current Assets	152	320	490	660	860
Trade Receivables	2,344	2,523	4,212	5,751	6,972
Cash & Equivalents	3,704	12,242	5,472	2,028	6,314
Other Current Assets	1,799	2,353	2,500	2,500	2,500
Total Assets	44,924	62,808	62,028	67,552	73,785
Long-Term Debt	32,100	29,648	28,707	27,707	27,650
Other Non-Current Liabilities	NA	NA	NA	NA	NA
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	2,785	3,378	3,715	4,087	4,496
Total Liabilities	40,750	42,706	44,989	46,908	49,086
Total Equity	4,174	20,102	17,039	20,644	24,698
Total Equity & Liabilities	44,924	62,808	62,028	67,552	73,785

iQmethodSM - Bus Performance*

Return On Capital Employed	9.1%	12.6%	8.9%	8.1%	8.3%
Return On Equity	114.8%	32.3%	25.1%	23.0%	21.3%
Operating Margin	10.1%	17.4%	9.4%	6.9%	6.7%
EBITDA Margin	25.1%	27.9%	16.5%	13.8%	12.9%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	4.0x	2.8x	1.4x	1.8x	1.7x
Asset Replacement Ratio	0.3x	0.1x	1.3x	1.9x	0.8x
Tax Rate (Reported)	8.4%	32.7%	36.7%	35.0%	35.0%
Net Debt-to-Equity Ratio	680.3%	86.6%	136.4%	124.4%	86.4%
Interest Cover	1.2x	3.0x	2.2x	2.2x	2.5x

Key Metrics

* For full definitions of iQmethodSM measures, see page 4.

Company Description

Jet Airways is the largest domestic airline in India – offering a premium service product and dominating the business travel segment. The company's two-tier fare structure allows it to compete effectively with Low Cost Carriers (LLCs). It operates a relatively young fleet (avg. age 4.6 yrs, fleet size 43 as of FY05). It commenced international operations in April 2005, flying to destinations like Singapore, Kuala Lumpur and London.

Stock Data

Price to Book Value 3.3x

Valuation

Based on revised estimates, Jet trades at P/E of 14.1x FY07 and 12.6x FY08 EPS, and on EV/EBITDAR, at 6.9x FY07E and 6.3x FY08E. This is comparable to regional airlines. We therefore maintain Neutral rating.

Table 1: Peer Valuation

	ML Ticker	Investment Opinion	Country	Price Local	Mkt Cap (USD mn)	PER			EV/EBITDAR			EPS Gr Rate
						CY05	CY06E	CY07E	CY05	CY06E	CY07E	CY05-07E
Asian Airlines												
Qantas Airways Ltd	QUBSF	B-3-7	Australia	3.0	4,225.6	9.9	10.8	10.1	4.9	5.3	5.2	-6.3%
Singapore Airlines	SPAAF	B-2-8	Singapore	12.6	9,694.4	12.4	11.9	11.0	6.0	5.8	5.6	7.1%
Thai Airways (L)	TARWF	C-1-8	Thailand	40.0	1,755.0	9.9	8.1	6.2	7.4	6.4	5.6	26.6%
China Airlines	CHAWF	C-2-8	Taiwan	15.0	1,599.5	NM	NM	29.2	12.1	12.2	11.0	NM
Eva Airways Corporation	EVABF	C-2-8	Taiwan	13.3	1,511.4	33.3	43.9	29.0	9.8	8.8	10.8	69.9%
AirAsia BHD	AIABF	C-1-9	Malaysia	1.5	977.5	26.7	16.8	13.2	16.9	15.6	12.0	34.6%
Jet Airways India Ltd	JTAIF	C-2-7	India	705.7	1,325.6	13.2	14.1	12.6	7.1	6.9	6.3	2.4%
Mean*						16.8	18.3	16.4	8.1	9.0	8.4	
Median*						12.4	11.9	12.1	6.7	7.6	8.2	

Source: Merrill Lynch Research

*excluding Jet Airways

Analyst Certification

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*iQmethod*SM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill Amortization}$
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	$\text{Net Debt} = \text{Total Debt, Less Cash \& Equivalents}$	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	$\text{Market Cap.} = \text{Current Share Price} * \text{Current Basic Shares}$
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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JTAIF Price Chart



B : Buy, N : Neutral, S : Sell, PO : Price objective, NA : No longer valid

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark Grey shading indicates the security is restricted with the opinion suspended. Light Grey shading indicates the security is under review with the opinion withdrawn. Chart current as of May 31, 2006 or such later date as indicated.

Investment Rating Distribution: Transport/Infrastructure Group (as of 31 Mar 2006)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	57	50.00%	Buy	19	33.33%
Neutral	39	34.21%	Neutral	9	23.08%
Sell	18	15.79%	Sell	2	11.11%

Investment Rating Distribution: Global Group (as of 31 Mar 2006)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1145	40.29%	Buy	393	34.32%
Neutral	1474	51.86%	Neutral	430	29.17%
Sell	223	7.85%	Sell	44	19.73%

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