

SpiceJet

VISIT NOTE

Sensex: 13,872

CMP: Rs. 44

April 30, 2007

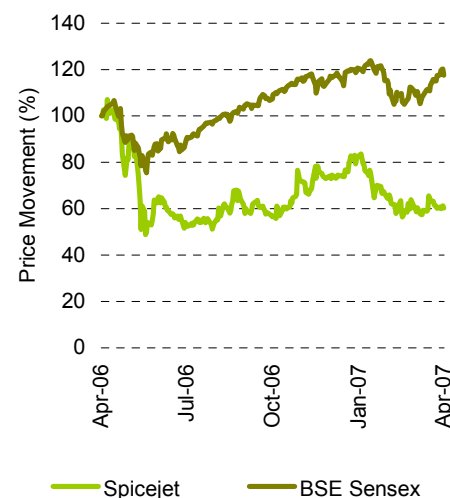
We recently met with the management of the **SpiceJet**. Following were the key takeaways from the meeting.

- Spicejet is well funded with approximately Rs. 3,000mn cash currently. It estimates that this would suffice its foreseen short term loss and the PDP payments due on the recent acquisition of aircrafts.
- The company estimates increase in revenues from other income (est. 4-5% of pax revenue) in FY08. The Spicejet Hotels has not provided satisfactory revenues to boost its ancilliary revenues which got operational in FY07. However, the company has taken other initiatives to boost this revenue:
 - *In-flight sale*
 - *Income from inflight service contracts,*
 - *Courier & cargo,*
 - *SMS campaign and*
 - *In-flight branding*
- The company currently does not track the cargo volumes carried by its flights.
- Spicejet had an option to buy 40 aircrafts from Boeing. It has exercised option of 10 aircrafts out of which 5 aircrafts have been received. These aircrafts are under sale and lease back. It has also sold the option of 10 aircrafts to a third party. Spicejet would take these aircrafts on operating lease from the same party as and when they receive. Further, spicejet recently announced the order placement of next 10 aircrafts. The company is expected to operate fleet of 34 aircrafts after the acquisition of these aircrafts.
- The company will receive additional 4 B737-900 (212 seating capacity) on operating lease.
- Spicejet follows a strategy to operate more flight on the existing routes. It is confident of keeping up with the aircraft utilization of 12 hr 40 mins even after the increase in the fleet. However, it operates more in routes other than Mumbai-Delhi to avoid parking and congestion problems.
- It is confident to achieve break-even in FY08 and start making profits henceforth.
- It does not promote selling the tickets through travel agents.

Bloomberg Code	: SJET IN
Reuters Code	: MDIL.BO
BSE Code	: 500285
NSE Code	: NA
52-Week Range(H/L)	: 83/35
Market Cap (Rs.mn)	: 10,770
Shares O/S (mn)	: 241
Free Float (mn)	: 210
3m Avg. Volume	: 402,602
Face Value	: 10

Price Performance: (%)

	3m	6m	12m
Absolute	-26.8	6.0	-39.7
Relative	-24.1	-1.7	-57.1



Y/E	Rs. in Mn				
	May-05	May-06	9m FY07	Mar-07E	Mar-08E
Operating Income	20	4,196	5,979	6,795	12,761
Operating Expenses	308	308	-7,091	-7,945	-13,362
EBITDA	-269	-446	-893	-931	-601
EBIT	-274	-527	-967	-1,013	-682
Profit on Sale & Lease Back	0	0	421	421	450
PAT	-287	-414	-577	-628	-312

* Quick Estimates

Note: The company has changed its financial year end for FY07 from May to March. Hence, the figures for Mar-07 stands for 10 months from Jun'06 to Mar'07.

Background

Spicejet has started operating as a low cost carrier since May 2005. It has replicated the model of Easyjet and Ryan Air in India by operating 189-seater B737-800. Normally, the capacity of this aircraft is ~160 seats for other premiere airlines. By giving away with seating capacity for business class and in-flight catering space the seating capacity for economy class increases by more than 15%.

Some Key Data	Data
Aircraft Utilisation	12hrs 40mins
Turnaround time for an aircraft	30mins
CASKs	Rs. 2.26
Daily Flights	85
Current Fleet (737-800s)	11 nos.
Current Market Share	7% of total pax flown

Delivery Schedule

The schedule of fleet induction of aircrafts for Spicejet is as follows:

Month	FY08 (Mar)
July	1
Aug	2
Sep	1
Oct	1
Dec	1 (212 seater)
Jan	1 (212 seater)
Mar	1

Fleet Plan

The company operates 11 B737-800 aircrafts

- 6 aircrafts under operating lease.
- 5 aircrafts under sale and lease back

Spicejet had options of purchasing 40 aircrafts from Boeing. Out of which it is operating currently 5 aircrafts under sale and lease back. Of the remaining options Spicejet has following strategy:

- 5 aircrafts which are expected to be received are already sold to a third party. Out of which 3 aircrafts would be leased back. Hence, considering this the

company would operate 8 aircrafts under sale and lease back.

- It has sold options of 10 aircrafts to a third party. However, Spicejet would operate these aircrafts under operating lease.
- Recently the company has exercised the option of buying 10 more B737-800 aircrafts with total capex of \$650-700mn. Spicejet has still not decided the funding strategy for these aircrafts.
- Company has option to purchase more 10 aircrafts remaining from Boeing. It would consider the same depending on the market condition.

The estimated Fleet size as of

YE-Mar	# of ACs
FY08	19
FY09	29
FY10	34

Parking Bays

Spicejet has parking bays across various destinations. The new aircrafts which are scheduled for delivery is from the month of July is expected to be deployed non Mumbai-Delhi routes. Hence, they are confident of getting parking slots available in those destinations.

Analyst's View

The company has shown losses for FY07 and estimates to break even in FY08. It is already well funded to bear the short term losses. One has to invest in Spicejet stocks considering a view of more than one year to get real returns at the CMP of Rs.44. Based on the initial understanding of the company's plans we are positive of the long term returns.