

# Spicejet Ltd (MODLUF)

**Rs 62**

## WHAT'S CHANGED...

PRICE TARGET .....	Unchanged
EPS (FY11E) .....	Changed from Rs 2.5 to Rs 2.2
EPS (FY12E) .....	Changed from Rs 5.2 to Rs 4.8
RATING.....	Changed from Strong Buy to Buy

## Strong result on buoyant demand growth...

In Q1FY11, SpiceJet's revenues grew by 34.9% YoY to Rs 707.9 crore, higher than our expectations. Revenue growth was driven by a rebound in the domestic pax-traffic (24% YoY to ~1.33 crore passengers) and customer's preference towards low-cost travel. As a result, the airline's load factor improved by 1174 bps YoY to 86.8% during the quarter, leading to increased market share of 13.2% (vs. 12.7% Q1FY10 and 12.1% in Q4FY10). In Q1FY11, SpiceJet's operating margin improved by 431 bps YoY to 8.3% (I-direct estimates: 5.4%) driven by higher revenues and lower lease rentals (-4.1% YoY). Further, net profits more than doubled to Rs 55.2 crore (I-direct estimates of Rs 30.3 crore) on account of lower interest expenses (de-growth of 24.1% to Rs 1.3 crore).

### Revenue growth supported by strong load factors

In Q1FY11, SpiceJet's load factor improved to 86.8% (vs. 75% in Q1FY10) driven by robust pax-traffic growth (29.5% YoY to 17.6 lakh passengers) and rising market share (13.2% vs. 12.7% in Q1FY10 and 12.1% in Q4FY10). The increase in load factor was despite the growth of 9.2% YoY in ASKM in Q1FY11. During the quarter, SpiceJet was successful in improving its pax-yields by 6.8% YoY to Rs 3.2 despite strong competition from low-cost services of Jet Airways and Kingfisher as well as other low-cost carrier.

### Positive net margin maintained in Q1FY11

SpiceJet's operating margin improved by 431 bps YoY to 8.3% in Q1FY11 driven by strong topline growth and lower lease expenses (de-growth of 4.1% YoY). Further, the airline was successful in maintaining a strong bottomline (Rs 55.2 crore in Q1FY11) after reporting positive results for the first time in FY10 (Rs 61.4 crore) since its listing in 2005.

## Valuation

At the CMP of 62, the stock is trading at 20.9x and 9.0x its FY11E and FY12E EV/EBITDA, respectively. We expect low-cost airlines such as SpiceJet to benefit from the improved macroeconomic environment (GDP growth of ~8.5% expected in FY11) and a strong promoter back-up. We maintain our target price of Rs 72 (i.e. 10.5x FY12E EV/EBITDA) with a **BUY** rating on the stock.

### Exhibit 1: Financial Performance

Rs Crore	Q1FY11	Q1FY11E	Q1FY10	Q4FY10	YoY Gr.(%)	QoQ Gr.(%)
Revenues	707.9	598.3	524.7	560.6	34.9	26.3
EBITDA	58.9	32.2	21.1	10.7	179.6	449.2
EBITDA margin (%)	8.3	5.4	4.0	1.9	431 bps	641 bps
Depreciation	2.0	3.3	1.9	1.9	2.9	6.7
Interest	1.3	2.8	1.7	1.4	-24.1	-5.7
Reported Net Profit	55.2	30.3	26.3	27.5	109.6	101.1
Diluted EPS (Rs)	1.4	0.8	1.1	0.7	24.4	94.3

Source: Company, ICICIdirect.com Research

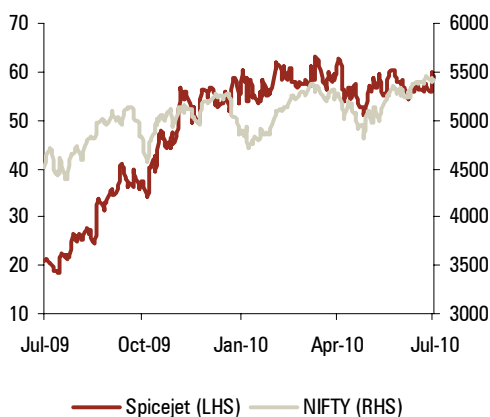
Rating matrix	
Rating	: Buy
Target	: Rs 72
Target Period	: 12 months
Potential Upside	: 16%

Key Financials				
	FY09	FY10	FY11	FY12
Net Sales	1689.4	2181.1	2827.3	3408.5
EBITDA	-419.2	26.1	115.0	265.4
Net Profit	-352.6	61.4	86.8	193.7

Valuation summary				
	FY09	FY10	FY11E	FY12E
PE (x)	NA	22.9	28.1	12.9
Target PE (x)	NA	26.6	32.7	15.0
EV to EBITDA (x)	NA	91.8	20.9	9.0
Price to book (x)	NA	NA	NA	7.2
RoNW (%)	NA	NA	NA	107.0
RoCE (%)	NA	28.5	37.1	47.2

Stock data	
Market Capitalisation	Rs 2507.6 crore
Debt (Projected)	Rs 290.0 crore
Cash (Projected)	Rs 399.3 crore
EV	Rs 2398.9 crore
52 week H/L	64/18
Equity capital	Rs 40.4 crore
Face value	Rs. 10.0
MF Holding (%)	19.5
RI Holding (%)	15.5

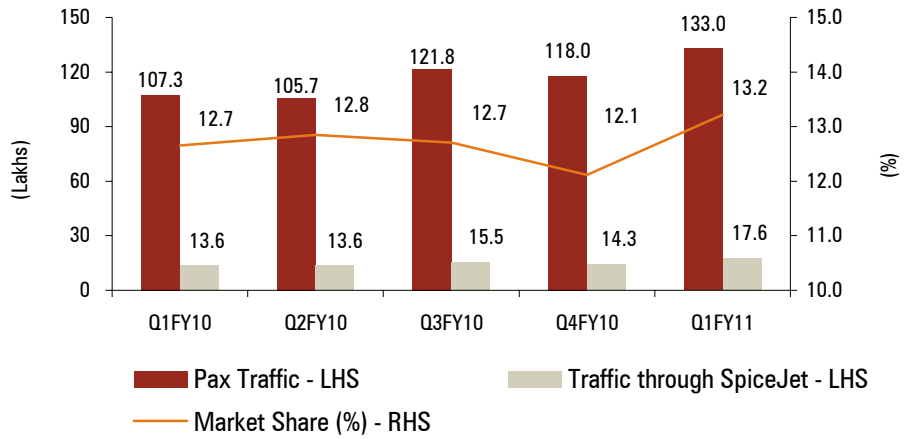
### Price movement



### Analyst's name

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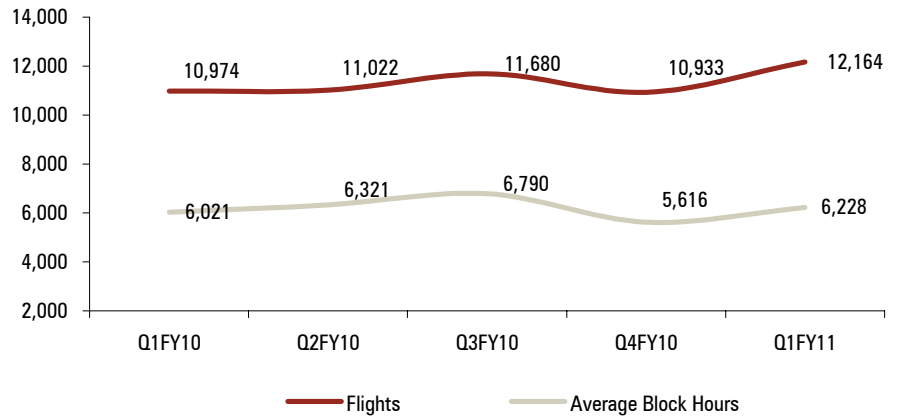
**Exhibit 2: Trend in domestic market share**



SpiceJet was able to improve its market share in Q1FY11 after witnessing a dip in Q4FY10

Source: Company, ICICIdirect.com Research

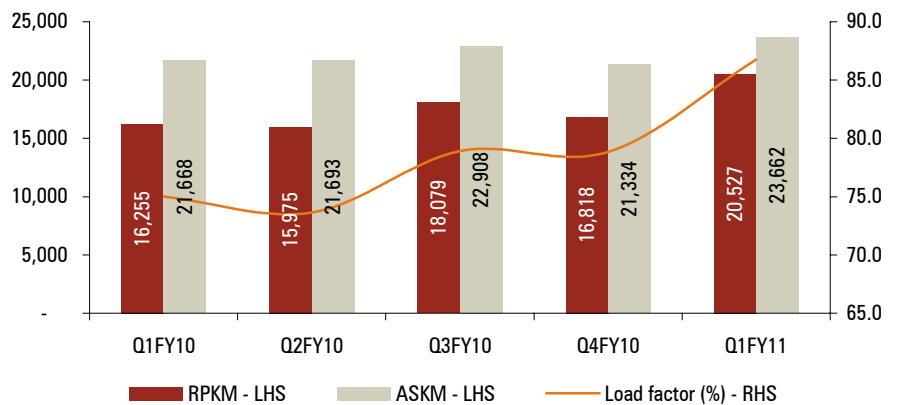
**Exhibit 3: Trends in flights and block hours**



During Q1FY11, the number of domestic flights increased by a mere 10.8% YoY with the growing popularity of low-cost airlines in the domestic market

Source: Company, ICICIdirect.com Research

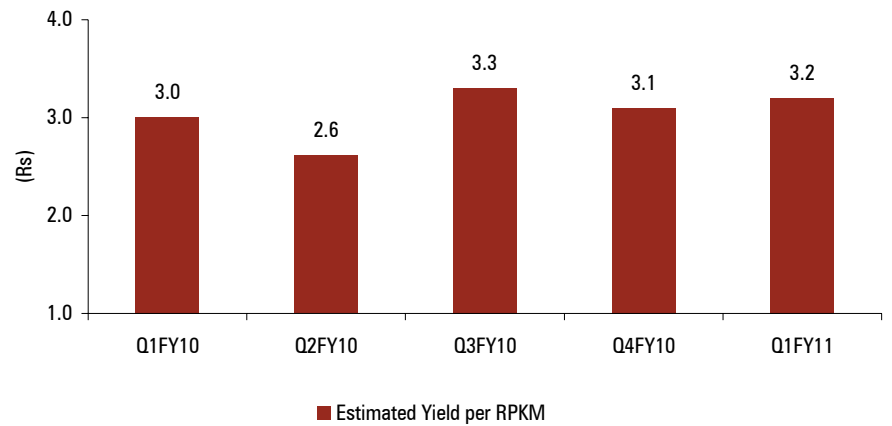
**Exhibit 4: Demand Supply matrix**



SpiceJet's RPKM, a measure of demand, increased by 26.3% in Q1FY11 (vs. 20.3% in Q1FY10) on the back of a revival in the domestic pax-traffic (24% YoY vs. -6.3% YoY in Q1FY10) and increase in market share

Source: Company, ICICIdirect.com Research

In our view, low-cost airlines such as Spicejet are clear winners in the current domestic environment due to strong customer preference. During Q1FY11, RPKM, a measure of demand, grew by 26.3% YoY in Q1FY11 (vs. 20.3% YoY in Q1FY10). As a result, SpiceJet's load factor improved by 1173.5 bps to 86.8% (vs. 75% in Q1FY10) despite 9.2% YoY growth witnessed in ASKM (a measure of capacity).

**Exhibit 5: Trends in yields per RPKM**


During the quarter, SpiceJet's pax-yields grew by 6.8% YoY. However, the yields are lower than the high witnessed in Q3FY10 due to strong competition in the domestic market

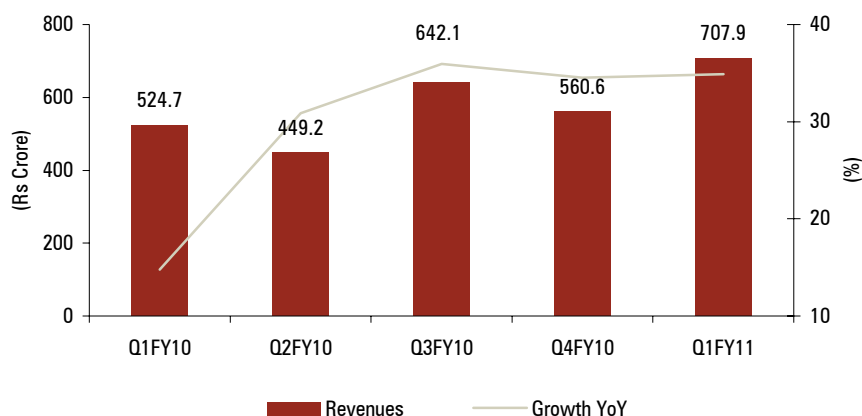
Source: Company, ICICIdirect.com Research

During the quarter, SpiceJet witnessed a robust growth of pax-traffic (29.5% YoY to 17.6 lakh passengers) leading to 6.8% YoY growth in yields. However, we believe the strong competition from Jet Airways and Kingfisher (due to low cost services started by both these airlines) as well as other low-cost airlines such as Indigo will put increasing pressure on the yields, going forward.

In Q1FY11, SpiceJet's operating margin improved by 431 bps to 8.3% (vs. 4.0% in Q1FY10) primarily due to robust revenue growth (34.9% YoY to Rs 707.9 crore vs. 14.8% in Q1FY10) and lower lease expense (de-growth of 4.1% to Rs 95.9 crore). Net profits grew by 109.6% to Rs 55.2 crore due to a decline in interest expenses by 24.1% to Rs 1.3 crore.

**Exhibit 6: Trends in revenue growth**

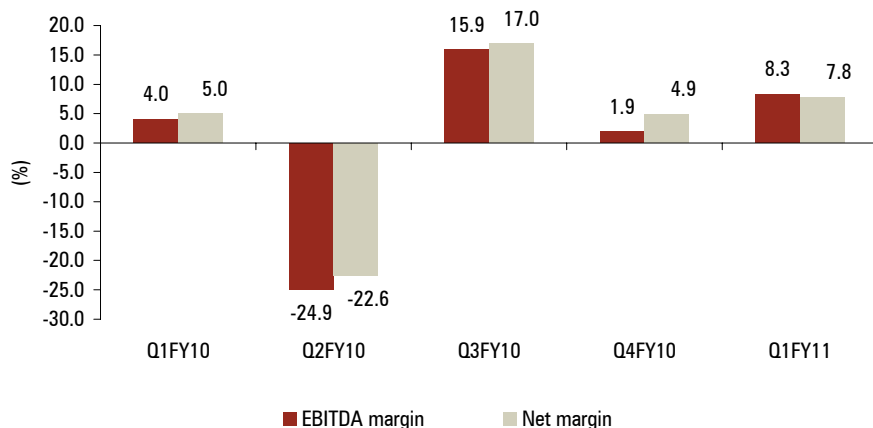
There was robust revenue growth of 34.9% YoY in Q1FY11 on the back of a rise in market share and improvement in yields



Source: Company, ICICIdirect.com Research

**Exhibit 7: EBITDA margin to remain at these levels, going forward**

EBITDA margins improved by 431 bps YoY to 8.3% owing to strong topline growth and lower lease expenses



Source: Company, ICICIdirect.com Research

**Capex plans**

With the growing air traffic in India and rising preference towards low-cost air travel, SpiceJet is planning to add ~30 Boeing 737-800 aircraft during 2014-2017. The airline has entered into a deal worth US\$2.7-3 billion with the US-based aircraft manufacturer, Boeing. According to the management, the company is planning to expand its fleet size to ~50 aircraft in 2017 (from 21 aircraft at present). The company is also planning to lease nearly 15 aircraft (from Boeing) during the next two or three years. In our view, a part of the expected leased aircrafts will be deployed on international routes (in Q3FY10, SpiceJet received government approval to start its international operations to Nepal, Bangladesh and Sri Lanka).

SpiceJet’s management is yet to announce the funding plan for the acquisition of aircraft.

## ICICIdirect.com Coverage Universe - Aviation

Jet Airways				Sales (Rs Cr)	Sales Gr. (%)	EPS (Rs)	PE (x)	*EV/E (x)	RoNW (%)	RoCE (%)	
			<b>FY09</b>	13077.9	27.0	-111.4	NA	-22.9	-30.3	-10.0	
<b>Idirect Code</b>	JETAIR	<b>CMP</b>	680	<b>FY10</b>	11876.4	-9.2	-48.7	NA	18.5	-21.1	0.5
		<b>Target</b>	690	<b>FY11E</b>	13952.2	17.5	43.9	15.5	10.1	19.3	5.6
<b>Mcaps (Rs .Cr)</b>	5,576.9	<b>Upside (%)</b>	1.5%	<b>FY12E</b>	15805.9	13.3	113.5	6.0	7.9	41.3	11.8
Spicejet				Sales (Rs Cr)	Sales Gr. (%)	EPS (Rs)	PE (x)	*EV/E (x)	RoNW (%)	RoCE (%)	
			<b>FY09</b>	1689.4	30.5	-13.8	NA	-5.7	NA	NA	
<b>Idirect Code</b>	MODLUF	<b>CMP</b>	56	<b>FY10</b>	2181.0	29.1	2.7	20.7	91.8	NA	62.6
		<b>Target</b>	72	<b>FY11E</b>	2681.3	22.9	2.2	25.4	20.9	126.8	59.6
<b>Mcaps (Rs.Cr)</b>	2,507.6	<b>Upside (%)</b>	28.6%	<b>FY12E</b>	3215.8	19.9	4.8	11.7	9.0	91.5	46.1

\*EV/E = EV/EBITDA

## RATING RATIONALE

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Buy: Between 10% and 20%;  
Add: Up to 10%;  
Reduce: Up to -10%  
Sell: -10% or more;

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