

3QFY11: In-line operating performance

Cut PO on rising ATF prices

We have cut our EBITDAR estimates by 4%-8% for FY11-13E on account of (a) hike in average ATF assumption by 3%-16% over FY11E-13E, (b) marginal cuts in domestic traffic and yields over FY11E-13E. However, we have raised our international traffic and yield assumptions by 1%-4% over FY11-13E on account of strong demand which partially offsets the hike in ATF. To factor in the lower EBITDAR we have cut our PO to Rs.750 (from Rs916).

3QFY11: In-line PBT; Deferred tax lowers PAT

Jet (ex-sub JetLite) reported net profit of Rs1.18bn (+12% YoY) in Q3FY11 vs. our BofAMLe of Rs1.8bn. While EBITDAR and PBT were largely in-line with our estimates, PAT was lower on account deferred tax of Rs1bn. Operating revenue at Rs34.7bn (+20% YoY; 12% QoQ) was in-line with our estimate of Rs35.5bn. EBITDAR margin at 24.5% was marginally lower than our estimate of 25%. Subsidiary Jetlite returned back to black and made a profit of Rs. 256mn.

Business class & international exposure keep yields steady

Domestic yields for Jet were up 16% sequentially (+4.3% YoY) and on the same lines international yields were up 3% sequentially (+8% YoY). This was largely on account of recovery in premium traffic in both domestic and international segment. Jet has partially shifted Jet Konnect capacity to Jet Airways full service. Going forward higher premium capacity would enable Jet to manage their yields in a better way in a rising crude scenario.

Attractive valuations

Jet trades at 7.2x FY12E EV/EBITDAR, largely in line with comparable regional airlines. We value Jet at mid-cycle multiple of 8x EV/EBITDAR FY12E (same as earlier), which is consistent with regional airlines at respective POs.

Estimates (Mar)

(Rs)	2009A	2010A	2011E	2012E	2013E
Net Income (Adjusted - mn)	(16,910)	(6,746)	1,731	3,924	4,322
EPS	-195.9	-78.1	20.1	36.9	40.6
EPS Change (YoY)	-108.6%	60.1%	NM	84.0%	10.1%
Dividend / Share	0	0	0	0	0
Free Cash Flow / Share	-503.1	48.2	10.4	99.4	94.5

Valuation (Mar)

	2009A	2010A	2011E	2012E	2013E
P/E	NM	NM	25.1x	13.7x	12.4x
Dividend Yield	0%	0%	0%	0%	0%
EV / EBITDA*	NM	23.45x	12.05x	11.28x	11.38x
Free Cash Flow Yield*	-99.8%	9.6%	2.1%	24.3%	23.1%

* For full definitions of *iQmethod*SM measures, see page 7.

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Stock Data

Price	Rs504.10
Price Objective	Rs750.00
Date Established	2-Feb-2011
Investment Opinion	C-1-9
Volatility Risk	HIGH
52-Week Range	Rs379.95-Rs926.35
Mrkt Val / Shares Out (mn)	US\$954 / 86.3
Average Daily Volume	1,091,494
BofAML Ticker / Exchange	JTAIF / BSE
Bloomberg / Reuters	JETIN IN / JET.BO
ROE (2011E)	9.8%
Net Dbt to Eqty (Mar-2010A)	785.8%
Est. 5-Yr EPS / DPS Growth	5.0% / 5.0%
Free Float	20.0%

Key Changes

(Rs)	Previous	Current
Price Obj.	915	750
2011E EPS	40.2	20.1
2012E EPS	64.6	36.9
2013E EPS	65.4	40.6

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Refer to important disclosures on page 8 to 10. Analyst Certification on Page 5. Price Objective Basis/Risk on page 5. Link to Definitions on page 5. 11016126

02 February 2011

iQprofileSM Jet Airways

Key Income Statement Data (Mar)	2009A	2010A	2011E	2012E	2013E
(Rs Millions)					
Sales	130,778	119,225	147,508	161,222	174,091
Gross Profit	13,811	33,611	46,459	48,625	50,403
Sell General & Admin Expense	(12,041)	(10,977)	(13,453)	(13,936)	(14,437)
Operating Profit	(17,734)	1,339	12,210	13,338	13,167
Net Interest & Other Income	(2,703)	(7,276)	(9,296)	(7,873)	(7,121)
Associates	NA	NA	NA	NA	NA
Pretax Income	(20,438)	(5,937)	2,914	5,465	6,046
Tax (expense) / Benefit	32	(104)	(1,183)	(1,541)	(1,724)
Net Income (Adjusted)	(16,910)	(6,746)	1,731	3,924	4,322
Average Fully Diluted Shares Outstanding	86	86	86	106	106

Key Cash Flow Statement Data

Net Income	(20,406)	(6,041)	1,731	3,924	4,322
Depreciation & Amortization	9,076	9,704	9,284	9,614	9,584
Change in Working Capital	(431)	1,556	(9,937)	(2,900)	(3,743)
Deferred Taxation Charge	(773)	0	0	0	0
Other Adjustments, Net	0	0	0	0	0
Cash Flow from Operations	(12,534)	5,219	1,078	10,638	10,162
Capital Expenditure	(30,897)	(1,054)	(181)	(72)	(109)
(Acquisition) / Disposal of Investments	(896)	0	0	0	0
Other Cash Inflow / (Outflow)	NA	NA	0	NA	NA
Cash Flow from Investing	(31,793)	(1,054)	(181)	(72)	(109)
Shares Issue / (Repurchase)	0	0	0	200	0
Cost of Dividends Paid	0	0	0	0	0
Cash Flow from Financing	33,701	(25,371)	(4,163)	(10,965)	(10,451)
Free Cash Flow	(43,431)	4,164	897	10,566	10,053
Net Debt	154,428	135,915	135,893	116,938	108,170
Change in Net Debt	53,538	(3,705)	(19)	(18,556)	(8,369)

Key Balance Sheet Data

Property, Plant & Equipment	169,519	147,887	138,784	128,842	118,967
Other Non-Current Assets	19,724	19,724	19,724	19,724	19,724
Trade Receivables	NA	NA	NA	NA	NA
Cash & Equivalents	14,662	8,264	5,000	5,000	5,000
Other Current Assets	28,281	30,799	34,479	39,112	44,372
Total Assets	232,186	206,674	197,987	192,678	188,063
Long-Term Debt	169,090	144,179	140,893	121,938	113,170
Other Non-Current Liabilities	0	0	0	0	0
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	41,125	45,199	38,942	40,675	42,192
Total Liabilities	210,215	189,378	179,835	162,613	155,362
Total Equity	21,971	17,296	18,149	30,064	32,702
Total Equity & Liabilities	232,186	206,674	197,984	192,677	188,064

iQmethodSM - Bus Performance*

Return On Capital Employed	-9.4%	1.3%	5.3%	7.2%	7.4%
Return On Equity	-53.3%	-34.4%	9.8%	16.3%	13.8%
Operating Margin	-13.6%	1.1%	8.3%	8.3%	7.6%
EBITDA Margin	-6.6%	9.3%	14.6%	14.2%	13.1%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	NM	NM	0.6x	2.7x	2.4x
Asset Replacement Ratio	3.4x	0.1x	0x	0x	0x
Tax Rate (Reported)	0.2%	NM	40.6%	28.2%	28.5%
Net Debt-to-Equity Ratio	702.9%	785.8%	748.8%	389.0%	330.8%
Interest Cover	-2.2x	0.1x	1.1x	1.4x	1.5x

Key Metrics

* For full definitions of iQmethodSM measures, see page 7.

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 (average age 5 years, fleet size of 91 as of Q2FY11). It started international operations in April 2005, flying to destinations such as Singapore, HK, New York and London.

Investment Thesis

Jet Airways is one of India's leading airlines. We expect the company to return to profitability from FY11, driven by an increase in traffic, as well as stability in yields. We believe that the stock is undervalued and should re-rate to a higher multiple.

Stock Data

Price to Book Value 2.4x

Key result takeaways

Jet (ex-sub JetLite) reported net profit of Rs1.18bn (+12% YoY) in Q3FY11 vs. our BofAMLe of Rs1.8bn. While operating revenues were in-line with our estimates, PAT was lower on account deferred tax of Rs1bn. This deferred tax was on account of previous deferred tax liabilities. Operating revenues at Rs34.7bn (+20% YoY; 12% QoQ) was largely in-line with our estimate of Rs35.5bn. EBITDAR margin at 24.5% was marginally lower than our estimate of 25%. Subsidiary Jetlite made a profit of Rs. 256mn.

Table 1: 2QFY11 results (Standalone)

(Rs mn)	3QFY11	3QFY10	YoY (%)	QoQ(%)	2QFY11
Operating Revenues	34,747	28,856	20.4%	11.9%	31,050
Non Operating Revenues	406	509	-20.2%	14.0%	356
Total Revenues	35,153	29,365	19.7%	11.9%	31,406
Employees Remuneration & Benefits	3,351	2,898	15.6%	4.4%	3,209
Aircraft Fuel Expenses	10,968	8,879	23.5%	10.3%	9,942
Selling & Distribution Expenses	3,337	2,924	14.1%	4.7%	3,186
Other Operating Expenses	8,580	7,019	22.2%	9.3%	7,848
EBITDAR	8,511	7,135	19.3%	24.0%	6,865
EBITDAR margin	24.5%	24.7%	-0.9%	10.8%	22.1%
Aircraft Lease Rentals	2,176	2,051	6.1%	0.8%	2,158
Depreciation	2,305	2,438	-5.5%	-1.5%	2,340
Operating profit	4,030	2,646	NM	70.3%	2,367
Operating margin	11.5%	9.0%	2.5%	52.1%	7.5%
Interest expense	2,506	2,481	1.0%	0.5%	2,493
Total Expenditure	33,223	28,690	15.8%	6.6%	31,176
Extraordinary Exp (income) Pre-tax	-250	-382	NM	NM	107
PBT	2,180	1,057	106.2%		123
Provision for Tax	996	1	NM	NM	0.0
Tax Rate	45.7%	0.0%			0.0%
Reported PAT	1,184	1,057	12.0%		123
Recurring PAT	1,048	674	55.4%		230

Source: BofA Merrill Lynch Global Research

Table 2: Change in assumptions

	Earlier		Revised		Revision	
	FY11	FY12	FY11	FY12	FY11	FY12
Load factor						
- Domestic	76%	77%	76%	75%	0 bps	-200bp
- International	81%	81%	81%	80%	0 bps	-100bp
Yield(Rs/RPK)						
- Domestic	5.7	5.8	5.7	5.9	-0.5%	0.9%
- International	3.2	3.2	3.2	3.4	0.9%	4.2%
Pax (Mn)						
- Domestic	10.1	11.2	10.1	11.1	-0.1%	-1.1%
- International	4.4	4.6	4.5	4.8	1.0%	3.2%
Fuel price (\$/barrel)						
	90	90	93	105	3.3%	16.7%

Source: BofA Merrill Lynch Global Research

International: Attaining steady state

- Operating revenues was at Rs. 19.3bn rising by 20.2% YoY on account of higher traffic and better yields. Sequentially revenues are up 3.6%.
- Load factors at 80.6% continue to remain strong and expected to remain in the 80% range.
- Yields at Rs3.29/RPK grew by 8% YoY and 3% sequentially.
- EBITDAR rose to Rs. 4.95bn (+23% YoY; 2% QoQ) was largely due to improvement in yields and traffic.
- Passenger carried during the quarter was at 1.21 mn vs. 1.02mn in Q2FY10.
- Jet launched its Delhi-Milan route in Dec'10. It is expected to reach break-even sooner than earlier long-haul routes as they are part the network hub and not standalone flights.

Table 3: Operating Metrics International

(Rs mn)	3QFY11	3QFY10	YoY (%)	QoQ(%)	2QFY11
Operating Revenue	19,340	16,085	20.2%	3.6%	18,672
EBITDAR	4,951	4,027	22.9%	1.8%	4,865
EBITDAR Margin	25.6%	25.0%	0.6%	-0.5%	26.1%
PBT (including Exceptionals)	1,021	341	199.1%	69.3%	603
RPKs (mns)	4,648	4,248	9.4%	2.7%	4,527
ASKs (mns)	5,765	5,151	11.9%	2.4%	5,631
Load Factor (%)	80.6%	82.5%	-1.8%	0.2%	80.4%
Revenue Passengers (mn)	1.21	1.02	18.8%	7.2%	1.13
Passenger Yield (Rs per RPK)	3.29	3.04	8.1%	3.0%	3.19

Source: BofA Merrill Lynch Global Research

Domestic- Strong quarter

- Operating revenues at Rs15.4bn grew by 20.6% YoY on account of higher traffic, better load factors & yields. Sequentially revenues are up 24.5%.
- Load factors at 76.9% continue to show improvement on YoY basis (+1.5%).
- Yields showed improvement on both sequential (+16% QoQ) and YoY basis (+4.3% YoY).
- EBITDAR rose to Rs 3.56bn (+14.5% YoY) was largely due to improvement in yields and traffic.
- Passenger carried during the quarter was at 2.73 mn vs. 2.4mn in Q3FY10 and 2.32mn in Q2FY11.
- Jet along with JetLite has maintained the no.1 position with a market share of 25.9% vs. 26.9% in Q2FY11.

Table 4: Operating Metrics Domestic

(Rs mn)	3QFY11	3QFY10	YoY (%)	QoQ(%)	2QFY11
Operating Revenue	15,407	12,771	20.6%	24.5%	12,378
EBITDAR	3,560	3,108	14.5%	78.0%	2,000
EBITDAR Margin	23.1%	24.3%	-1.2%	6.9%	16.2%
PBT (including Exceptionals)	1,159	716	62.0%	-341.5%	-480
RPKs (mns)	2,385	2,058	15.9%	17.2%	2,035
ASKs (mns)	3,101	2,729	13.6%	8.9%	2,848
Load Factor (%)	76.9%	75.4%	1.5%	5.4%	71.5%
Revenue Passengers (mn)	2.73	2.40	13.8%	17.5%	2.32
Passenger Yield (Rs per RPK)	5.96	5.71	4.3%	16.2%	5.13

Source: BofA Merrill Lynch Global Research

JetLite: Recovery taking shape

- Operating revenue was at Rs. 4.8bn, rising sharply by 16.1% YoY on account of improving traffic and yields.
- Load factors at 82.6% continue to show improvement on annual basis (+3.8%). However, they are still lower than other low-cost airlines and there is still further scope for improvement.
- Yields rose to Rs4.07/RPK (+4.8% YoY), however on a sequential basis it was up 7%.
- Passengers carried during the quarter were at 1.12mn vs. 0.98mn in Q3FY10 and 0.95mn in Q2FY11

Table 5: Operating Metrics JetLite

(Rs mn)	3QFY11	3QFY10	YoY (%)	QoQ(%)	2QFY11
Operating Revenue	4,833	4,164	16.1%	26.7%	3,815
EBITDAR	1,080	787	37.2%	146.5%	438
EBITDAR Margin	22.4%	18.9%	3.4%	10.9%	11.5%
PBT (including Exceptionals)	256	40	NM	-141.1%	-624
RPKs (mns)	1,143	1,020	12.1%	22.0%	937
ASKs (mns)	1,384	1,294	7.0%	9.6%	1,263
Load Factor (%)	82.6%	78.8%	3.8%	8.4%	74.2%
Revenue Passengers (mn)	1.12	0.98	14.3%	17.4%	0.95
Passenger Yield (Rs per RPK)	4.07	3.88	4.8%	6.9%	3.80

Source: BofA Merrill Lynch Global Research

Price objective basis & risk

Jet Airways (JTAIF)

Our PO of Rs750 is based on 8x FY12E EV/EBITDAR. We value the stock at mid-cycle multiple, which is consistent with regional airlines. At our PO, the stock would trade at 2x P/BV, largely in line with regional peers. Downside risks to our price objective: Rising fuel costs and an increase in competition. Upside risks would be a decline in fuel prices and faster-than-expected economic recovery.

Link to Definitions

Industrials

Click [here](#) for definitions of commonly used terms.

Analyst Certification

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India - General Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Aditya Birla Nu	ADYAF	ABNL IN	Reena Verma Bhasin, CFA
	Anant Raj Industries Ltd	XNRJF	ARCP IN	Gagan Agarwal
	Brigade Enterprises	XBDGF	BRGD IN	Gagan Agarwal
	Chambal Fertilisers & Chemicals	CHBZF	CHMB IN	Prasad Deshmukh
	Cummins India	CUIDF	KKC IN	Sanjaya Satapathy
	DLF Limited	XVDUF	DLFU IN	Gagan Agarwal
	Exide Indus Ltd	XEDRF	EXID IN	Sanjaya Satapathy
	Fortis Healthcare Limited	XFFTF	FORH IN	Prasad Deshmukh
	Havells	HVLIF	HAVL IN	Sanjaya Satapathy
	Housing Development and Infrastructure	XGHSF	HDIL IN	Gagan Agarwal
	Indiabulls Real Estate Ltd	IBELF	IBREL IN	Gagan Agarwal
	Jaypee Infratech	XJAYF	JPIN IN	Gagan Agarwal
	Jet Airways	JTAIF	JETIN IN	Anand Kumar
	Motherson Sumi	XMSUF	MSS IN	Sanjaya Satapathy
	Puravankara Projects Ltd	XPJVF	PVKP IN	Gagan Agarwal
	Renuka Sugars	SRNKF	SHRS IN	Sanjaya Satapathy
	SINTEX INDUSTRIES LTD	SIXDF	SINT IN	Prasad Deshmukh
	Sobha Developers	SBDRF	SOBHA IN	Gagan Agarwal
	SpiceJet Ltd	MDLFF	SJET IN	Anand Kumar
	Voltas	VTSJF	VOLT IN	Sanjaya Satapathy
NEUTRAL				
	Grasim	GRSJF	GRASIM IN	Reena Verma Bhasin, CFA
	Grasim -G	GRSJY	GRAS LX	Reena Verma Bhasin, CFA
	Jain Irrigation Systems Ltd	JNIDF	JI IN	Prasad Deshmukh
	Shree Cements	SREEF	SRCM IN	Reena Verma Bhasin, CFA
	Unitech Ltd	UTKIF	UT IN	Gagan Agarwal
UNDERPERFORM				
	Ambuja Cements	AMBUF	ACEM IN	Reena Verma Bhasin, CFA
	APIL	ANSFF	APIL IN	Gagan Agarwal
	Assoc. Cement	ADCLF	ACC IN	Reena Verma Bhasin, CFA
	Bajaj Hindusthan	BJJHF	BJH IN	Sanjaya Satapathy
	Balrampur Chini	BMPRF	BRCM IN	Sanjaya Satapathy
	Container Corp	CIDFF	CCRI IN	Sanjaya Satapathy
	India Cements	INIAF	ICEM IN	Reena Verma Bhasin, CFA
	India Cements -G	IAMUY	ICEM LX	Reena Verma Bhasin, CFA
	Jindal Saw	SWPFF	JSAW IN	Sanjaya Satapathy
	Nagarjuna Fertilizers & Chemicals Ltd	NFACF	NFCL IN	Prasad Deshmukh
	Omaxe Limited	XOMXF	OAXE IN	Gagan Agarwal
	Tata Chemicals Ltd	TTCXF	TTCH IN	Prasad Deshmukh
	Triveni Engg	TVIEF	TRE IN	Sanjaya Satapathy
	UltraTech Cemen	XDJNF	UTCEM IN	Reena Verma Bhasin, CFA
	Welspun Corp Ltd	XUQRF	WLCO IN	Sanjaya Satapathy

iQmethodSM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
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	Net Debt = 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	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

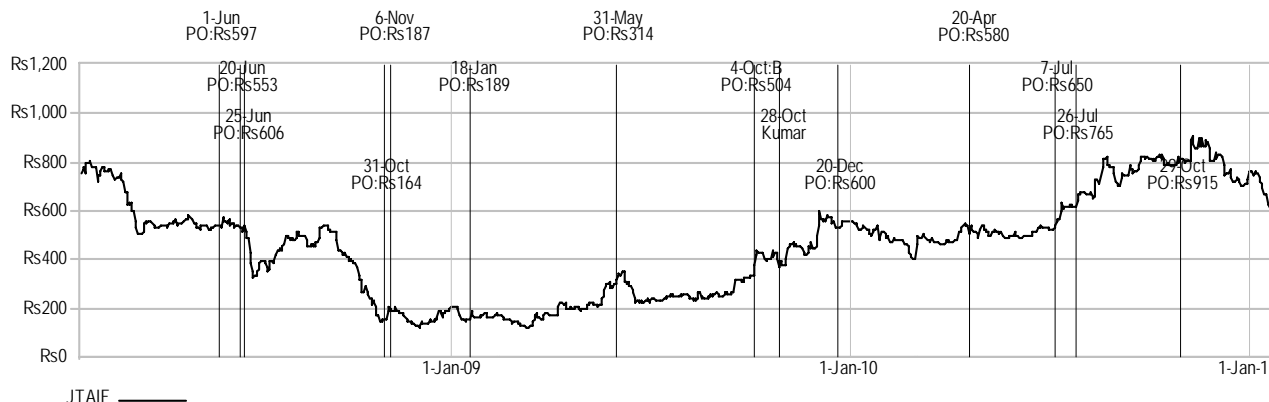
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Important Disclosures

JTAIF Price Chart



B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid, NR: No Rating

Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of December 31, 2010 or such later date as indicated.

Investment Rating Distribution: Transport/Infrastructure Group (as of 01 Jan 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	90	58.44%	Buy	38	44.71%
Neutral	22	14.29%	Neutral	9	40.91%
Sell	42	27.27%	Sell	8	19.51%

Investment Rating Distribution: Global Group (as of 01 Jan 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	2011	53.86%	Buy	874	48.31%
Neutral	925	24.77%	Neutral	444	52.30%
Sell	798	21.37%	Sell	276	36.75%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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