

Riding the demand wave; Buy

Raise PO on strong momentum

Post strong 2QFY11 results, we raise our EBITDAR estimates by 3%/12% for FY11E/12E on (a) raising traffic assumptions for FY11/12 by 2% to 8%, (b) raising yields assumption for FY11/12 by 2% to 4% and (c) load factor assumptions for FY11/12 raised by 1%. To factor this strong growth, we raise our PO to Rs107 (from Rs91) on a similar target multiple of 8X FY12E EV/EBITDAR.

2QFY11: Results beat estimates on strong yields

In a seasonally weak quarter, SpiceJet reported net profit of Rs101mn in Q2FY11 compared to loss of Rs1bn in 2QFY10. This was ahead of our estimates of a loss of Rs480mn. Operating revenues at Rs6.3bn (+40% YoY) was 7% ahead of BofAMLe. This was largely due to better than expected growth (+19% YoY) in yields. Despite a seasonally weak quarter, yields showed just 2% sequential decline. EBITDAR margins at 17.2% were ahead of our estimate of 6.5%.

Future capacity addition plan unveiled

SpiceJet has 6 deliveries of B737 scheduled until FY12 (roughly 1 each quarter). Company is additionally expected to get 3 more B737s by end of FY11. SpiceJet has further started negotiations with Bombardier to get up to 30 aircrafts starting from mid-FY12. With this, coupled with the earlier Boeing order of 30 aircrafts, SpiceJet has tied up its fleet expansion plans for the next 5-7 years. This will enable SpiceJet to capture the strong domestic demand.

Look out for strong Q3 on strong traffic and yields

The coming holiday season would enable the industry to clock strong seat factors on an expected 12%-15% higher yield. The coming of new capacity would enable SpiceJet to grow faster than the market and gain market share.

Estimates (Mar)

(Rs)	2009A	2010A	2011E	2012E	2013E
Net Income (Adjusted - mn)	(3,336)	614	2,934	3,741	3,873
EPS	(13.8)	2.5	7.3	9.2	9.6
EPS Change (YoY)	-149.5%	NM	185.8%	27.2%	3.5%
Dividend / Share	0	0	0	0	0
Free Cash Flow / Share	(6.4)	8.7	2.9	2.5	1.6

Valuation (Mar)

	2009A	2010A	2011E	2012E	2013E
P/E	NM	34.7x	12.1x	9.5x	9.2x
Dividend Yield	0%	0%	0%	0%	0%
EV / EBITDA*	NM	246.07x	22.63x	15.40x	13.73x
Free Cash Flow Yield*	-4.3%	5.9%	3.3%	2.8%	1.8%

* For full definitions of *iQmethod*SM measures, see page 6.

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Stock Data

Price	Rs88.15
Price Objective	Rs107.00
Date Established	2-Nov-2010
Investment Opinion	C-1-9
Volatility Risk	HIGH
52-Week Range	Rs33.40-Rs88.95
Mkt Val / Shares Out (mn)	US\$801 / 404.1
Average Daily Volume	2,481,101
BofAML Ticker / Exchange	MDLFF / BSE
Bloomberg / Reuters	SJET IN / SPJT.BO
ROE (2011E)	NA
Net Dbt to Eqty (Mar-2010A)	NA
Est. 5-Yr EPS / DPS Growth	15.0% / NA
Free Float	60.0%

Key Changes

(Rs)	Previous	Current
Price Obj.	91	107
2011E EPS	7.2	7.3
2012E EPS	8.6	9.2
2013E EPS	8.9	9.6

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Refer to important disclosures on page 7 to 9. Analyst Certification on Page 4. Price Objective Basis/Risk on page 4. Link to Definitions on page 4. 10989515

*iQprofile*SM SpiceJet Ltd

Key Income Statement Data (Mar)

(Rs Millions)	2009A	2010A	2011E	2012E	2013E
Sales	16,894	21,811	30,786	38,346	43,184
Gross Profit	5,892	11,854	16,600	20,534	22,025
Sell General & Admin Expense	NA	NA	NA	NA	NA
Operating Profit	(4,304)	185	2,759	4,051	4,560
Net Interest & Other Income	934	549	632	626	919
Associates	NA	NA	NA	NA	NA
Pretax Income	(3,370)	734	3,392	4,677	5,479
Tax (expense) / Benefit	(33)	(64)	(458)	(935)	(1,606)
Net Income (Adjusted)	(3,336)	614	2,934	3,741	3,873
Average Fully Diluted Shares Outstanding	241	242	404	405	405

Key Cash Flow Statement Data

Net Income	(3,403)	670	2,934	3,741	3,873
Depreciation & Amortization	73	76	84	126	126
Change in Working Capital	1,857	1,458	(2,131)	(3,617)	(4,635)
Deferred Taxation Charge	0	0	0	0	0
Other Adjustments, Net	21	64	458	935	1,481
Cash Flow from Operations	(1,453)	2,268	1,345	1,186	845
Capital Expenditure	(93)	(174)	(182)	(192)	(201)
(Acquisition) / Disposal of Investments	4	0	0	0	0
Other Cash Inflow / (Outflow)	3,136	(1,297)	0	0	0
Cash Flow from Investing	3,047	(1,471)	(182)	(192)	(201)
Shares Issue / (Repurchase)	0	0	3,680	0	0
Cost of Dividends Paid	0	0	0	0	0
Cash Flow from Financing	(547)	(566)	230	(574)	419
Free Cash Flow	(1,546)	2,095	1,163	994	644
Net Debt	1,808	(124)	(3,439)	(7,708)	(11,190)
Change in Net Debt	(1,476)	(736)	(4,775)	(920)	(562)

Key Balance Sheet Data

Property, Plant & Equipment	676	769	858	942	1,020
Other Non-Current Assets	1,853	3,150	3,150	3,150	3,150
Trade Receivables	124	190	273	374	464
Cash & Equivalents	3,080	4,507	4,439	8,208	12,190
Other Current Assets	1,776	1,275	2,298	2,646	3,023
Total Assets	7,508	9,891	11,018	15,320	19,847
Long-Term Debt	4,555	4,150	837	386	750
Other Non-Current Liabilities	0	0	0	0	0
Short-Term Debt	333	233	163	114	250
Other Current Liabilities	6,914	8,929	8,943	9,994	10,274
Total Liabilities	11,802	13,312	9,943	10,494	11,274
Total Equity	(4,293)	(3,420)	1,075	4,826	8,573
Total Equity & Liabilities	7,510	9,892	11,019	15,320	19,847

*iQmethod*SM - Bus Performance*

Return On Capital Employed	-125.2%	21.4%	157.2%	87.6%	43.3%
Return On Equity	NM	NM	NM	126.8%	57.8%
Operating Margin	-25.5%	0.8%	9.0%	10.6%	10.6%
EBITDA Margin	-25.0%	1.2%	9.2%	10.9%	10.9%

*iQmethod*SM - Quality of Earnings*

Cash Realization Ratio	NM	3.7x	0.5x	0.3x	0.2x
Asset Replacement Ratio	1.3x	2.3x	2.2x	1.5x	1.6x
Tax Rate (Reported)	NM	8.7%	13.5%	20.0%	29.3%
Net Debt-to-Equity Ratio	NM	NM	-319.9%	-159.7%	-130.5%
Interest Cover	-36.2x	3.0x	41.0x	NM	NM

Key Metrics

* For full definitions of *iQmethod*SM measures, see page 6.

Company Description

SpiceJet is a dedicated low-cost domestic carrier which has rapidly gained market share in the last and is now in top-5 domestic carriers. It began its services in May-2005. Currently it has a single-aircraft-type fleet of 22 B-737s and has an extensive network between 20 destinations in India and 2 destinations in the South East Asia.

Investment Thesis

SpiceJet is one of India's leading low cost carriers. We expect the company to post strong EBITDAR growth in FY11 on the back of strong passenger growth over FY10-12, rising yields and efficient cost structure. Its business model exploits the changing preference of price sensitive Indian flyers.

Stock Data

Price to Book Value 33.1x

Key result takeaways

SpiceJet reported 2QFY11 results ahead of our expectations. EBITDAR margin at 17% was ahead of our expectations of 6%. This was largely driven by higher than- expected yield growth and other operating revenues.

Table 1: SpiceJet - Quarterly results

Rs. Mn	2QFY11	2QFY10	YoY (%)	1QFY11	QoQ(%)
Operating Revenues	6,282	4,504	39.5%	7,079	-11.3%
Non Operating Revenues	126	149	-15.4%	160	-21.4%
Total Revenues	6,408	4,653	37.7%	7,239	-11.5%
Employees Remuneration & Benefits	529	417	27.0%	615	-13.9%
Aircraft Fuel Expenses	2,608	2,098	24.3%	2,591	0.6%
Airport Charges	406	363	11.8%	392	3.7%
Aircraft Maintenance	720	820	-12.1%	745	-3.3%
Other Operating Costs	690	589	17.1%	765	-9.7%
Other Expenditure	249	277	-9.8%	398	-37.4%
Total Other Operating Expenses	2,066	2,111	-2.1%	2,327	-11.2%
EBITDAR	1,078	(122)	-981.9%	1,545	-30.2%
Margin	17.2%	-2.7%	19.9%	21.8%	-4.7%
Interest	14	15	-10.1%	13	3.5%
Depreciation	22	19	15.4%	20	9.4%
Aircraft Lease Rental	1,043	982	6.1%	960	8.6%
Prior period adjustments	-	29		23	-100.0%
PBT	126	(1,019)	-112.4%	690	-81.7%
Taxes	25	(7)		137	-81.7%
Recurring PAT	101	(1,012)	-110.0%	552	-81.7%

Source: BofA Merrill Lynch Global Research estimates

Strong performance

- Operating revenue was at Rs. 6.2bn, rising sharply by 39% YoY on account of good yields and improving traffic.
- Load factors at 74% continue to be strong in a seasonally weak quarter.
- Yield was the major surprise during quarter at Rs. 3.3/RPK, showing a 19% annual improvement. On a sequential basis, yields were down just 2.5%.
- Passengers carried during the quarter were at 1.81mn vs. 1.56mn in Q2FY10 and 2.06mn in Q1FY11.
- Cost/ASK has come down by 2% YoY, while Revenue/ASK increased 22%. Ex fuel cost/ASK has gone down by 9%.
- SpiceJet improved its mkt share from 12.6% in Q2FY10 to 12.8% in Q1FY11.

Table 2: SpiceJet operating metrics

(Rs mn)	2QFY11	2QFY10	YoY (%)	1QFY11	QoQ(%)
Operating Revenue	6,282	4,504	39.5%	7,079	-11.3%
EBITDAR	1,078	(122)	-981.9%	1,545	-30.2%
EBITDAR Margin	17%	-3%	19.9%	22%	-4.7%
RPKs (mns)	1,821	1,620	12.4%	2,083	-12.6%
ASKs (mns)	2,474	2,169	14.1%	2,367	4.5%
Load Factor (%)	73.6%	74.7%	-1.1%	88.0%	-14.4%
Revenue Passengers (mn)	1.81	1.56	15.6%	2.06	-12.5%
Passenger Yield (Rs per RPK)	3.31	2.77	19.5%	3.40	-2.5%

Source: BofA Merrill Lynch Global Research estimates

Price objective basis & risk

SpiceJet Ltd (MDLFF)

Our PO of Rs.107 is based on 8x FY11E EV/EBITDAR, which is in line with the regional airlines with similarly high EBITDAR growth in the mid cycle. 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.

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India - General Coverage Cluster

Investment rating	Company	BofAML 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				
	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
	Welspun Corp Ltd	XUQRF	WLCO IN	Sanjaya Satapathy
RVW				
	Grasim	GRSJF	GRASIM IN	Reena Verma Bhasin, CFA
	Grasim -G	GRSJY	GRAS LX	Reena Verma Bhasin, CFA
	UltraTech Cemen	XDJNF	UTCEN IN	Reena Verma Bhasin, CFA

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill}$

Amortization

Net Income

Operating Profit

Expected 5-Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt, Less Cash & Equivalents

EBIT

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales}$

Other LT Liabilities

Enterprise Value

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap. = Current Share Price * Current Basic Shares

Basic EBIT + Depreciation + Amortization

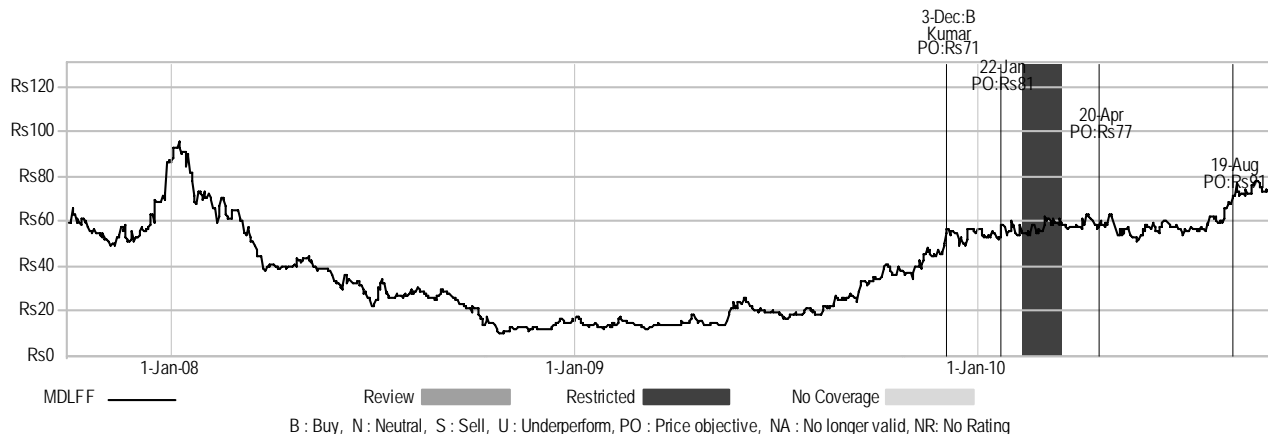
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MDLFF Price Chart



*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 August 31, 2010 or such later date as indicated. BofA Merrill Lynch price charts do not reflect analysts' coverage of the stock at prior firms."

Investment Rating Distribution: Transport/Infrastructure Group (as of 01 Oct 2010)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	93	61.18%	Buy	35	39.77%
Neutral	20	13.16%	Neutral	9	45.00%
Sell	39	25.66%	Sell	7	18.42%

Investment Rating Distribution: Global Group (as of 01 Oct 2010)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1948	54.31%	Buy	821	46.73%
Neutral	891	24.84%	Neutral	397	49.07%
Sell	748	20.85%	Sell	259	37.16%

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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