

First profitable year

Steady performance; Retain Buy

SpiceJet's 4QFY10 net profit at Rs.275mn was ahead of our expectations of Rs.41mn. This surprise was largely due to lower than expected fuel cost and higher other income. While revenues at Rs. 5.9bn were lower than our estimates of Rs. 6.1bn, EBITDAR margin was at 19% ahead of our estimates of 16.5%. SpiceJet posted strong load factor and yields for the quarter. On a full year basis, led by strong demand SpiceJet has finally turned around after 5 years of operations posting a profit of Rs. 614mn. We believe this strong operational recovery is sustainable and thus maintain our Buy with a PO of Rs. 77.

Demand showing resilience; to sustain going forward

Load factors for the quarter were steady at 80% while yields showed a sequential decline of just 5% in a seasonally weak quarter. For FY11 we expect SpiceJet to show traffic growth of 21.5% while yields improvement of 7%. This higher than industry traffic growth is mainly led by ~20% capacity addition for the year.

International operations to improve utilization

SpiceJet is expected to start night flights to 3 SAARC destinations from July'10. This would reduce the idle time for the aircrafts currently parked at the airport in the night thus improving the aircraft utilization of SpiceJet by ~5% to ~12.5 hrs per day per aircraft (highest in the industry).

Valuations attractive

SpiceJet trades at FY11E EV/EBITDAR of 7.6x, which represents a 10% discount to Jet Airways and other regional airlines. We value SpiceJet at early cycle multiple of 9.0x EV/EBITDAR FY11E (same as earlier), which is consistent with regional airlines at respective PO.

Estimates (Mar)

(Rs)	2008A	2009A	2010E	2011E	2012E
Net Income (Adjusted - mn)	(1,335)	(3,336)	614	2,405	2,833
EPS	(5.5)	(13.8)	2.5	6.2	7.3
EPS Change (YoY)	-88.7%	-149.5%	NM	142.9%	17.8%
Dividend / Share	0	0	0	0	0
Free Cash Flow / Share	(17.1)	(6.4)	0.5	4.9	1.3

Valuation (Mar)

	2008A	2009A	2010E	2011E	2012E
P/E	NM	NM	20.6x	8.5x	7.2x
Dividend Yield	0%	0%	0%	0%	0%
EV / EBITDA*	NM	NM	156.29x	19.44x	14.60x
Free Cash Flow Yield*	-32.5%	-12.2%	1.0%	15.1%	3.9%

* For full definitions of *iQmethod*SM measures, see page 5.

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Stock Data

Price	Rs52.50
Price Objective	Rs77.00
Date Established	20-Apr-2010
Investment Opinion	C-1-9
Volatility Risk	HIGH
52-Week Range	Rs16.10-Rs64.75
Mrkt Val / Shares Out (mn)	US\$269 / 241.0
Average Daily Volume	2,500,141
BofAML Ticker / Exchange	MDLFF / BSE
Bloomberg / Reuters	SJET IN / SPJT.BO
ROE (2010E)	NA
Net Dbt to Eqty (Mar-2009A)	NA
Est. 5-Yr EPS / DPS Growth	15.0% / NA
Free Float	70.0%

Key Changes

(Rs)	Previous	Current
2010E EPS	1.9	2.5

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Refer to important disclosures on page 6 to 8. Analyst Certification on Page 4. Price Objective Basis/Risk on page 4. Link to Definitions on page 4. 10941899

26 May 2010

iQprofileSM SpiceJet Ltd

Key Income Statement Data (Mar)	2008A	2009A	2010E	2011E	2012E
(Rs Millions)					
Sales	12,950	16,894	21,811	29,659	33,259
Gross Profit	4,521	5,892	11,854	15,424	17,359
Sell General & Admin Expense	NA	NA	NA	NA	NA
Operating Profit	(2,645)	(4,304)	185	1,988	2,661
Net Interest & Other Income	1,346	934	549	549	499
Associates	NA	NA	NA	NA	NA
Pretax Income	(1,299)	(3,370)	734	2,536	3,160
Tax (expense) / Benefit	(24)	(33)	(64)	(132)	(327)
Net Income (Adjusted)	(1,335)	(3,336)	614	2,405	2,833
Average Fully Diluted Shares Outstanding	241	241	241	388	388

Key Cash Flow Statement Data

Net Income	(1,324)	(3,403)	670	2,405	2,833
Depreciation & Amortization	78	73	76	115	138
Change in Working Capital	(2,605)	1,857	(512)	(560)	(2,610)
Deferred Taxation Charge	0	0	0	0	0
Other Adjustments, Net	(15)	21	64	132	327
Cash Flow from Operations	(3,865)	(1,453)	298	2,091	687
Capital Expenditure	(244)	(93)	(174)	(182)	(192)
(Acquisition) / Disposal of Investments	809	4	0	0	0
Other Cash Inflow / (Outflow)	1,954	3,136	0	0	0
Cash Flow from Investing	2,519	3,047	(174)	(182)	(192)
Shares Issue / (Repurchase)	0	0	0	3,680	0
Cost of Dividends Paid	0	0	0	0	0
Cash Flow from Financing	904	(547)	(341)	(20)	(546)
Free Cash Flow	(4,109)	(1,546)	124	1,908	496
Net Debt	(679)	1,808	1,244	(3,609)	(6,215)
Change in Net Debt	1,436	(1,476)	(63)	(5,497)	(450)

Key Balance Sheet Data

Property, Plant & Equipment	651	676	769	858	942
Other Non-Current Assets	4,993	1,853	1,853	1,853	1,853
Trade Receivables	16	124	176	263	325
Cash & Equivalents	5,995	3,080	3,364	4,609	6,715
Other Current Assets	1,852	1,776	1,993	2,287	2,586
Total Assets	13,507	7,508	8,155	9,870	12,421
Long-Term Debt	3,564	4,555	4,375	837	386
Other Non-Current Liabilities	0	0	0	0	0
Short-Term Debt	1,752	333	233	163	114
Other Current Liabilities	7,911	6,914	7,226	8,672	8,890
Total Liabilities	13,227	11,802	11,834	9,672	9,390
Total Equity	280	(4,293)	(3,678)	198	3,031
Total Equity & Liabilities	13,507	7,510	8,155	9,870	12,421

iQmethodSM - Bus Performance*

Return On Capital Employed	-40.5%	-125.2%	21.9%	168.2%	100.9%
Return On Equity	-125.6%	NM	NM	NM	175.4%
Operating Margin	-20.4%	-25.5%	0.8%	6.7%	8.0%
EBITDA Margin	-19.8%	-25.0%	1.2%	7.1%	8.4%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	NM	NM	0.5x	0.9x	0.2x
Asset Replacement Ratio	3.1x	1.3x	2.3x	1.6x	1.4x
Tax Rate (Reported)	NM	NM	8.7%	5.2%	10.4%
Net Debt-to-Equity Ratio	-242.6%	NM	NM	-1,820.9%	-205.1%
Interest Cover	-29.3x	-36.2x	3.0x	21.6x	NM

Key Metrics

* For full definitions of iQmethodSM measures, see page 5.

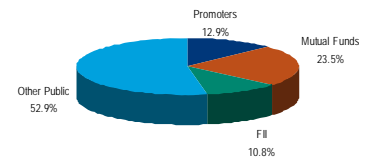
Company Description

SpiceJet is a pure-play 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 20 B-737s and has an extensive network between 19 destinations in India.

Investment Thesis

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

Chart 1: Current shareholding pattern



Source: BofA Merrill Lynch Research Estimates, BSE

Stock Data

Price to Book Value

NA

Key result takeaways

SpiceJet reported 4QFY10 results ahead of our expectations. It posted a net profit Rs. 275 mn vs. our estimates of Rs. 42mn. EBITDAR margin at 19% in a seasonally weak quarter was ahead of our expectation of 16.5%.

Table 1: SpiceJet results

Rs. Mn	4QFY10	4QFY09	YoY (%)	3QFY10	QoQ(%)	FY09	FY10	YoY(%)
Operating Revenues	5,596	4,167	34.3%	6,421	-12.8%	16,894	21,811	29.1%
Non Operating Revenues	280	190	47.1%	113	147.4%	1,241	610	-50.8%
Total Revenues	5,876	4,357	34.9%	6,534	-10.1%	18,135	22,421	23.6%
Employees Remuneration & Benefits	479	386	24.1%	493	-2.9%	1,551	1,814	17.0%
Aircraft Fuel Expenses	2,137	1,546	38.3%	2,078	2.8%	9,452	8,142	-13.9%
Airport Charges	355	302	17.7%	379	-6.3%	1,114	1,448	29.9%
Aircraft Maintenance	557	619	-10.1%	527	5.7%	1,969	2,409	22.4%
Other Operating Costs	564	617	-8.6%	597	-5.4%	1,800	2,427	34.9%
Rent	22	23	-1.4%	54	-58.8%	325	77	-76.4%
Legal & Professional Expenses / Charges	12	27	-55.0%	20	-39.3%	275	47	-82.9%
Other Expenditure	412	(223)	NM	284	45.1%	1,053	1,287	22.3%
Total Other Operating Expenses	1,923.3	1,365.1	40.9%	1,861.3	3.3%	6,535.7	7,694.9	17.7%
EBITDAR	1,057	871	21.4%	1,988	-46.8%	(644)	4,160	NM
Margin	19%	21%	-2%	31%	-12%	-4%	19%	23%
Interest	14	(17)	NM	17	-17.1%	119	61	-48.5%
Depreciation	19	15	23.1%	19	-3.5%	73	76	5.4%
Aircraft Lease Rental	949	1,016	-6.6%	965	-1.6%	3,587	3,898	8.7%
Extraordinary Items - Gain/ (Loss)	-	-	-	-	-	(188)	-	NM
PBT	354.2	45.9	671.1%	1,099.8	-67.8%	(3,369.6)	733.9	NM
Prior period adjustments	16	117	-86.4%	10	55.6%	121	56	-54.0%
Taxes	64	7	791.6%	-	NM	33	64	91.8%
Recurring PAT	275	(78)	NM	1,089	-74.8%	(3,336)	614	NM

Source: BoFA Merrill Lynch Research Estimates

Steady performance

- Operating revenues was at Rs.5.6bn rising sharply by 34% YoY on account of good load factors and improving yields.
- Load factors at 80% continue to show resilience in a seasonally weak quarter. At current yields breakeven load factor is at 76%.
- Yields were higher at Rs.3.28/RPK showing a 28% YoY improvement though down by 5% on a sequential basis.
- In a seasonally weak quarter, passenger carried during the quarter was at 1.67mn vs. 1.37mn in Q4FY09 and 1.8mn in Q3FY10.
- Aircraft utilization per day per aircraft improved 12.1hrs/day from 11.2 hrs/day in the previous year.

Table 2: SpiceJet operating metrics

(Rs mn)	4QFY10	4QFY09	YoY (%)	3QFY10	QoQ(%)	FY09	FY10	YoY(%)
Operating Revenue	5,596	4,167	34.3%	6,421	-12.8%	16,894	21,811	29.1%
EBITDAR	1,057	871	21.4%	1,988	-46.8%	(644)	4,160	NM
EBITDAR Margin	19%	21%	-2.0%	31%	-12.1%	-4%	19%	22.9%
RPKs (mns)	1,707	1,440	18.6%	1,833	-6.9%	4,820	6,822	41.5%
ASKs (mns)	2,134	2,003	6.5%	2,291	-6.9%	7,227	8,771	21.4%
Load Factor (%)	80.0%	71.9%	8.1%	80.0%	0.0%	66.7%	77.8%	16.6%
Revenue Passengers (mn)	1.67	1.37	22.2%	1.80	-7.0%	4.59	6.63	44.4%
Passenger Yield (Rs per RPK)	3.28	2.55	28.4%	3.43	-4.6%	3.26	3.20	-1.8%

Source: BoFA Merrill Lynch Research Estimates

Price objective basis & risk

SpiceJet Ltd (MDLFF)

Our PO of Rs.77 is based on 9x FY11E EV/EBITDAR which is in-line with the regional airlines with similarly high EBITDAR growth in the early cycle. Downside risks to our price objective: Rising fuel costs and increase in competition. Upside risks would be 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	BofAML ticker	Bloomberg symbol	Analyst
BUY	Aditya Birla Nu	ADYAF	ABNL IN	Reena Verma Bhasin, CFA
	Anant Raj Industries Ltd	XNRJF	ARCP IN	Unmesh Sharma, CFA
	Brigade Enterprises	XBDGF	BRGD IN	Gagan Agarwal
	Chambal Fertilisers & Chemicals	CHBZF	CHMB IN	Prasad Deshmukh
	Container Corp	CIDFF	CCRI IN	Sanjaya Satapathy
	Cummins India	CUIDF	KKC IN	Sanjaya Satapathy
	DLF Limited	XVDUF	DLFU IN	Unmesh Sharma, CFA
	Exide Indus Ltd	XEDRF	EXID IN	Sanjaya Satapathy
	Fortis Healthcare Limited	XFFTF	FORH IN	Prasad Deshmukh

26 May 2010

India - General Coverage Cluster

Investment rating	Company	BofAML ticker	Bloomberg symbol	Analyst
	Housing Development and Infrastructure	XGHSF	HDIL IN	Unmesh Sharma, CFA
	Indiabulls Real Estate Ltd	IBELF	IBREL IN	Unmesh Sharma, CFA
	Jain Irrigation Systems Ltd	JNIDF	JI IN	Prasad Deshmukh
	Jet Airways	JTAIF	JETIN IN	Anand Kumar
	Motherson Sumi	XMSUF	MSS IN	Sanjaya Satapathy
	Puravankara Projects Ltd	XPJVF	PVKP IN	Unmesh Sharma, CFA
	Renuka Sugars	SRNKF	SHRS IN	Sanjaya Satapathy
	Sobha Developers	SBDRF	SOBHA IN	Unmesh Sharma, CFA
	SpiceJet Ltd	MDLFF	SJET IN	Anand Kumar
	Voltas	VTSJF	VOLT IN	Sanjaya Satapathy
NEUTRAL				
	Shree Cements	SREEF	SRCM IN	Reena Verma Bhasin, CFA
	Unitech Ltd	UTKIF	UT IN	Unmesh Sharma, CFA
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
	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
RSTR				
	Grasim	GRSJF	GRASIM IN	Reena Verma Bhasin, CFA
	Grasim -G	GRSJY	GRAS LX	Reena Verma Bhasin, CFA
	UltraTech Cemen	XDJNF	UTCEM IN	Reena Verma Bhasin, CFA

iQmethodSM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill Amortization}$
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	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

MDLFF Price Chart



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

*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 April 30, 2010 or such later date as indicated. BofAML price charts do not reflect analysts' coverage of the stock at prior firms. Historical price charts relating to companies covered as of December 31, 2008 by former Banc of America Securities LLC (BAS) analysts are available to BAS clients on the BAS website."

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

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	78	61.90%	Buy	33	44.59%
Neutral	22	17.46%	Neutral	11	50.00%
Sell	26	20.63%	Sell	7	29.17%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1818	52.41%	Buy	952	58.01%
Neutral	873	25.17%	Neutral	490	61.95%
Sell	778	22.43%	Sell	355	49.72%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofAML Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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