

Upswing is on track; Raise PO to Rs. 91

Planes going full; Raise forecasts and PO

We raise our PO to Rs.91 (from Rs 77), driven by (1) upgrade in EBITDAR forecasts by 6%/8% over FY11/12, and (2) roll over financials to FY12E. High operational leverage leads to EPS revision of 16%/18% for FY11/12. Our thesis for upswing of the industry is playing out and we believe the industry should remain in the sweet spot for next 18-24 months owing to rising traffic and curtailed supply.

Impressive load factors & traffic drive revisions

We have raised traffic assumptions of SpiceJet by ~3% for FY11/12. Load factors assumptions for FY11/12 have been raised by 3%/4%, to 81%/80%. We expect SpiceJet to achieve ~24% EBITDAR margin over FY11-12 with an impressive EBITDAR CAGR of 45%. While we have kept our yields assumption for FY11 (+10%YoY) unchanged, we have raised FY12E yields by 2%.

Fleet & international plans unchanged

SpiceJet inducted the 22nd aircraft into its fleet during this month, with 6 more deliveries scheduled until 2012 (roughly 1 each quarter). It is additionally planning to add 3 more aircrafts before Dec'10 to capture the industry growth. SpiceJet is going to retain its plans of international operations post the ownership change. It is going to begin the night flights to 4 South Asian destinations from 3QFY11. This would improve the aircraft utilization by 5%-10% (from 12.5hrs to 13.5 hrs).

Attractive valuations

SpiceJet trades at FY12E EV/EBITDAR of 7.3x, representing a 5%-10% discount to Jet Airways & other regional peers. We value SpiceJet at a mid-cycle multiple of 8x EV/EBITDAR FY12E, which is similar to Jet at its PO.

Estimates (Mar)

(Rs)	2009A	2010A	2011E	2012E	2013E
Net Income (Adjusted - mn)	(3,336)	614	2,891	3,464	3,594
EPS	(13.8)	2.5	7.2	8.6	8.9
EPS Change (YoY)	-149.5%	NM	182.3%	19.8%	3.7%
Dividend / Share	0	0	0	0	0
Free Cash Flow / Share	(6.4)	8.7	2.7	2.1	0.5

Valuation (Mar)

	2009A	2010A	2011E	2012E	2013E
P/E	NM	26.8x	9.5x	7.9x	7.6x
Dividend Yield	0%	0%	0%	0%	0%
EV / EBITDA*	NM	213.04x	20.63x	15.06x	14.08x
Free Cash Flow Yield*	-5.6%	7.6%	3.9%	3.1%	0.7%

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

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Stock Data

Price	Rs68.20
Price Objective	Rs91.00
Date Established	19-Aug-2010
Investment Opinion	C-1-9
Volatility Risk	HIGH
52-Week Range	Rs21.10-Rs71.45
Mrkt Val / Shares Out (mn)	US\$590 / 403.1
Average Daily Volume	3,658,307
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.	77	91
2011E EPS	6.2	7.2
2012E EPS	7.3	8.6
2013E EPS	NA	8.9

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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. 10966887

iQprofileSM SpiceJet Ltd

Key Income Statement Data (Mar)

	2009A	2010A	2011E	2012E	2013E
(Rs Millions)					
Sales	16,894	21,811	30,232	35,025	40,584
Gross Profit	5,892	11,854	16,237	18,781	20,735
Sell General & Admin Expense	NA	NA	NA	NA	NA
Operating Profit	(4,304)	185	2,616	3,573	3,831
Net Interest & Other Income	934	549	632	626	919
Associates	NA	NA	NA	NA	NA
Pretax Income	(3,370)	734	3,248	4,199	4,750
Tax (expense) / Benefit	(33)	(64)	(357)	(735)	(1,156)
Net Income (Adjusted)	(3,336)	614	2,891	3,464	3,594
Average Fully Diluted Shares Outstanding	241	242	403	403	403

Key Cash Flow Statement Data

Net Income	(3,403)	670	2,891	3,464	3,594
Depreciation & Amortization	73	76	84	126	126
Change in Working Capital	1,857	1,458	(2,068)	(3,269)	(4,363)
Deferred Taxation Charge	0	0	0	0	0
Other Adjustments, Net	21	64	357	735	1,031
Cash Flow from Operations	(1,453)	2,268	1,265	1,056	387
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	1,082	865	186
Net Debt	1,808	(124)	(3,263)	(6,718)	(10,127)
Change in Net Debt	(1,476)	(736)	(4,695)	(791)	(105)

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	268	342	436
Cash & Equivalents	3,080	4,507	4,263	7,218	11,127
Other Current Assets	1,776	1,275	2,292	2,607	2,987
Total Assets	7,508	9,891	10,832	14,259	18,720
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	8,810	9,273	9,766
Total Liabilities	11,802	13,312	9,810	9,773	10,766
Total Equity	(4,293)	(3,420)	1,022	4,486	7,953
Total Equity & Liabilities	7,510	9,892	10,832	14,259	18,719

iQmethodSM - Bus Performance*

Return On Capital Employed	-125.2%	21.4%	156.0%	84.1%	41.6%
Return On Equity	NM	NM	NM	125.8%	57.8%
Operating Margin	-25.5%	0.8%	8.7%	10.2%	9.4%
EBITDA Margin	-25.0%	1.2%	8.9%	10.6%	9.8%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	NM	3.7x	0.4x	0.3x	0.1x
Asset Replacement Ratio	1.3x	2.3x	2.2x	1.5x	1.6x
Tax Rate (Reported)	NM	8.7%	11.0%	17.5%	24.3%
Net Debt-to-Equity Ratio	NM	NM	-319.3%	-149.8%	-127.3%
Interest Cover	-36.2x	3.0x	38.8x	48.2x	47.0x

Key Metrics

* For full definitions of iQmethodSM measures, see page 6.

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 22 B-737s and has an extensive network between 20 destinations in India.

Investment Thesis

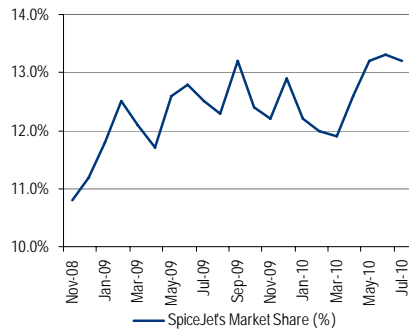
SpiceJet is one of India's leading low cost carriers. We expect the company to post strong EBITDAR growth in FY11 on the back of strong passenger growth over FY10-12, stable yields and efficient cost structure. Its business model exploits the changing preference of price sensitive Indian flyers.

Stock Data

Price to Book Value 26.9x

Key Financials

Chart 1: Gaining market share



Source: BofA Merrill Lynch Research Estimates

Table 1: Summary P&L

	FY09	FY10	FY11E	FY12E	FY13E
Total Revenues	18,135	22,421	30,932	35,725	41,584
Employees Remuneration & Benefits	(1,551)	(1,814)	(1,996)	(2,445)	(2,982)
Aircraft Fuel Expenses	(9,452)	(8,142)	(12,000)	(13,800)	(16,866)
Total Other Operating Expenses	(6,536)	(7,695)	(9,032)	(10,106)	(11,469)
EBITDAR	(644)	4,160	7,205	8,675	9,266
Margin	-3.8%	19.1%	23.8%	24.8%	22.8%
Interest	(119)	(61)	(67)	(74)	(81)
Depreciation	(73)	(76)	(84)	(126)	(126)
Aircraft Lease Rental	(3,587)	(3,898)	(4,506)	(4,976)	(5,435)
PBT	(3,370)	734	3,248	4,199	4,623
Recurring PAT	(3,336)	614	2,891	3,464	3,468
Operating Metrics					
RPKs (mns)	4,820	6,822	8,596	9,764	10,673
ASKs (mns)	7,227	8,771	10,613	12,205	13,425
Load Factor (%)	66.7%	77.8%	81.0%	80.0%	79.5%
Revenue Passengers (mn)	4.6	6.6	8.3	9.6	10.5
Passenger Yield (Rs per RPK)	3.3	3.2	3.5	3.6	3.8
Cost/ASK (Rs.)	3.0	2.5	2.6	2.6	2.8
Revenue/ASK (Rs.)	2.3	2.5	2.8	2.9	3.0

Source: BofA Merrill Lynch Research Estimates

Table 2: Key assumption changes

		FY11E	FY12E	FY13E
Traffic (Mn Pax)	New	8.28	9.59	10.49
	Old	8.06	9.27	NA
	Change	3%	3%	NA
Load Factors (%)	New	81.0%	80.0%	79.5%
	Old	77.5%	76.0%	NA
	Change	3.5%	4.0%	NA
EBITDAR (Rs. Mn)	New	7,205	8,675	9,266
	Old	6,795	8,064	NA
	Change	6%	8%	NA
EPS (Rs./Share)	New	7.2	8.6	8.9
	Old	6.2	7.3	NA
	Change	16%	18%	NA

Source: BofA Merrill Lynch Research Estimates

Price objective basis & risk

SpiceJet Ltd (MDLFF)

Our PO of Rs.91 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.

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	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

India - General Coverage Cluster

Investment rating	Company	BofAML ticker	Bloomberg symbol	Analyst
	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
RSTR				
	Grasim	GRSJF	GRASIM IN	Reena Verma Bhasin, CFA
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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

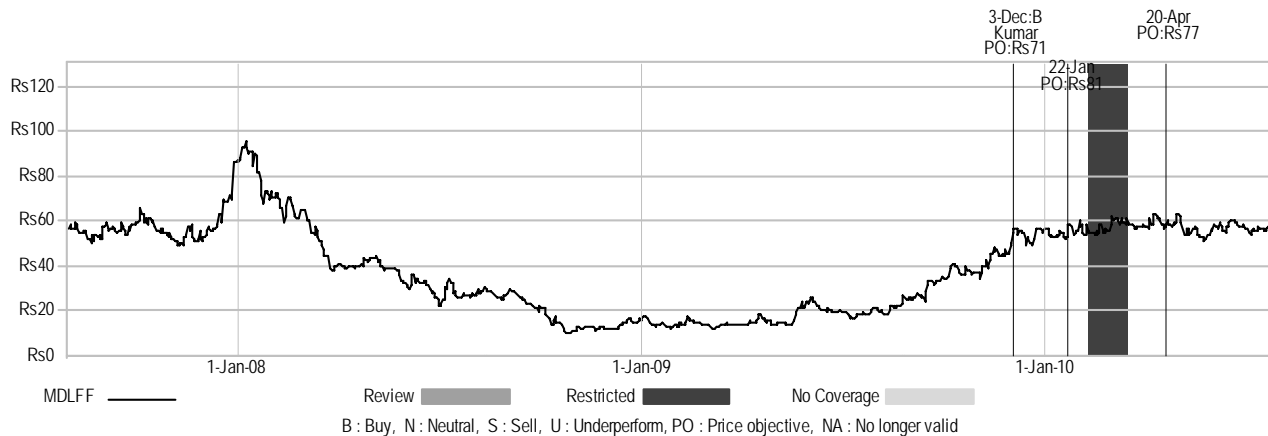
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Investment Rating Distribution: Transport/Infrastructure Group (as of 01 Jul 2010)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	94	64.38%	Buy	44	49.44%
Neutral	19	13.01%	Neutral	11	57.89%
Sell	33	22.60%	Sell	11	34.38%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1922	54.14%	Buy	1042	59.85%
Neutral	874	24.62%	Neutral	496	62.78%
Sell	754	21.24%	Sell	362	51.86%

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