SpiceJet: Poised for Takeoff

CMP: Rs. 61

Target Price: Rs.81 (June 2008)

Potential upside: 33%

- Aviation Industry at the cusp of exponential growth
- Key Drivers: Demographics, Lifestyle, Consumerism, Low base
- Market Cap/Sales multiple not factoring in high growth rates
- Ancillary revenue along with cost efficiency : Major impetus in Breaking even
- Consolidation marks the beginning of the end of price war
- **Indian aviation sector valued at less than 50% of Hutch -Vodafone deal**
- Risks: High crude price, Continued price war, Rising cost of funds, Infrastructure bottlenecks.

Period ending...	FY06	FY07 (10 M)	FY08E	FY09E
Revenues (Rs. Mn.)	4,196	6,404	13,144	21,999
EBIDTA (Rs. Mn.)	(603)	(1641)	(116)	1311
PAT (Rs. Mn.)	(414)	(708)	14	1,120
EPS (Basic & Recurring) (Rs.)	(2.2)	(2.9)	0.1	4.7
Book Value per Share (Rs.)	(1)	8	8	12
P/E x	-	-	1077	13.11
Price to Book Value x	-	8	7.9	4.9
EV/Sales x	3.7	3.0	1.7	0.9
Mcap/Sales x	2.7	2.3	1.1	0.7
RoCE %	-	-	0.2	15.0
RoNW %	-	-	0.7	37.6

Investment Summary

- **SpiceJet**
  - Company is expected to make operating profits in FY09 and is trading at 13 x FY09 EE
  - Top line is expected to grow at 85% CAGR over next two years with 11% rise in yield in FY09
  - An attractive target for strategic investor
- **Aviation Industry on the verge of Break out**
  - Domestic passenger volume has grown at ~40 % CAGR over last two years and is expected to grow atleast 15% CAGR over next five years
  - Higher disposable income and change in spending pattern will drive the growth
  - Consolidation helps to regain pricing power
- **Demographics to drive the volumes**
  - Large population of 450 Mn young people eager to travel
  - 370 Mn middle class population with rising spending power
  - Increase in employment with rising working class populace from 573 Mn in 2000 to 646 Mn in 2005
- **Favorable policy environment ahead**
  - Proposal for allowing International flights earlier then expected for new players
  - Investment of Rs 40000 crs for airport infrastructure will remove structural bottlenecks
  - Proposal for raising FDI limits
- **Risk to our Recommendation**
  - Rising crude oil price could act as a major dent for all the aviation players
  - Continued price war and infrastructure delay could slow down the growth

Industry valuations not factoring high growth

SpiceJet to acquire Profitable Growth

READY TO TAKE-OFF

- Strong passenger demand coupled with additional capacity would lead to Top-line growth of 105% for FY08 and 67% for FY09
- We expect company to make operating profits in FY09 and deliver a bottom-line of Rs 1120 Mn for the same period
- FY08 growth would be volume driven while FY09 growth would be driven by yield
- Increased revenue from ancillary business to supplement the operating revenues
- We expect a re-rating in this sector and SpiceJet being an efficient LCC could start the trend
- At INR 61, Mcap to sales of 0.67x FY09E not pricing high growth
- We arrive at one year fair value of INR 81 by using discounted cash flow methodology leading to a Mcap/sales of 0.89x FY09E
- With the likely hood of rising yield and good business model we recommend a BUY on SpiceJet

Deserves premium valuation once the uncertainty of making profits gets cleared

SpiceJet: Business Description

- Started its operations in May 2005 as a Low Cost Carrier (LCC)
- Homogenous fleet with 11 Boeing 737-800s aircrafts
- New additions: 8 aircrafts to be added in FY08 while 16 more by 2012
- Currently flying to 14 destinations, to add 3 more destinations in 2007
- Focused on Tier 1 and Tier 2 cities. No plans to enter tier 3 cities
- Efficient player having commonality in spares, trained technical manpower, and other operations

IMPORTANT PARAMETERS

	March 2007 (10 m)	May 2006 (12 m)	Change
Revenue/ Pax	Rs 2320	Rs 2209	Rs 111
load factor	77%	83%	-6%
Avg ATF Cost	Rs 38533 per KL	Rs 33609 per KL	14%
Avg fleet size	8.17	4.08	
Passenger flown	2.61 Mn	1.34 Mn	

Source: Company Data, Eisec Research.

SHARE HOLDING

Description	Holding (%)
Foreign	40
Institutions	3
Non Promoter Corp	21
Promoters	17
Public & Others	19
Total	**100**

Source: Company Data.

Priority: Profitability rather then Size

SpiceJet: Revenue optimization

"Control over pricing and revenue generation from non-ticket sources is the key to success" Patrick Murphy former chairman of Ryan air

---

- Company uses Navitaire one of the best available revenue management software which is responsible for managing routes, timing of flights, increasing yields and other revenue related parameters
- Focus on ancillary revenue generation such as in-flight advertisement, courier service, baggage service, Insurance services to contribute ~ 9% of total FY09 revenue.
- It optimizes the load factor by leasing out aircrafts in lean season. This year It would be leasing out two aircrafts for the month of July, August and September which are generally a low load factor period
- It has highest block hours in industry of 12.07 hrs
- Lesser turnaround time of 30 minutes enables it to operate more number of flights in a day
- Exploring various opportunities for providing car rental services
- It is planning to fly short distance international routes especially to gulf region, as and when the criteria is met
- Liberalization of international routes would significantly help in improving the yields.

Revenue optimization along with the on going industry consolidation will help in improving the yields

SpiceJet: Cost reduction

- Better and newer fleet lowers fuel cost
- Installation of winglet has lead to fuel savings, improvement in take off performance and reduction in engine maintenance cost
- 40% reduction in insurance cost due to reduced perception of global risk
- Better accommodation planning has led to a 40% reduction in pilot accommodation charges
- The company outsourcers entire training process thereby helping it to reduce fixed cost
- Efficient repairs and maintenance planning through a tie up with KLM

COST CONTRIBUTION

Cost Comparison	Asia Pacific		Industry peers FY06		SpiceJet
% of total cost	2001	2006	Deccan*	Jet	FY06
Labor	17.2%	17.2%	10.28%	10.97%	10.6%
Fuel	15.7%	30.4%	37.84%	32.46%	43.1%
Aircraft Rentals	6.3%	2.4%	13.08%	10.79%	16.9%
Depn and Amortz	7.4%	7.3%	0.8%	7.86%	0.7%
Other	53.4%	42.7%	38.0%	37.92%	28.7%

Source: IATA, Eisec Research, * 15 months.

- ATF contributes to around 30% of total cost for Asia Pacific region while for spice its near about 43%
- Labor's share of the total operating costs for all major airlines has fallen from 28.3% in 2001 to 23.3% in 2006, it is much higher for India and Asia pacific region

Though Indian ATF is around 50% higher than other countries, SpiceJet is still expected to break even

Sector valuation

- Get the whole Indian aviation sector for less then 50% of Hutch -Vodafone deal
- Current over supply and low yield scenario taking very heavy toll on valuation
- Consolidation is likely to improve yields giving a major boost to profitability
- Mcap not factoring in high growth potential

FY06 Industry Sales Rs 255910 Mn → #sales to grow to Rs 591930 MN by FY12

- We expect Mcap to grow atleast 1 x of sales growth
- # Assumption: sales growth of 15% p.a. for next five years
- Approx capacity addition of 20% p.a.

INDUSTRY MARKET CAPITALIZATION

	Mcap (Rs. Mn.)
Air India *	88337
Indian Airlines *	57660
Jet Airways @	69227
Deccan @	19264
Spice Jet @	13236
Air Sahara *	20617
Alliance Air *	5533
Kingfisher *	4250
Go Air *	384
Indigo *	906
AI Express *	4324
Total	**283738**

Source: DGCA, Eisec Research, * FY06 sales,
* Mcap to sales = 1, @ Current Mcap

HIGHER ROE DUE TO SLOWER EQUITY DILUTION

- As almost all the aircrafts in the industry are on sale and lease back terms, the capital required for fixed asset is much lesser then the working capital requirement
- Thus we see equity dilution as a function of working capital and that of the upfront fees required for ordering aircraft
- Also as gearing ratio is high, majority of the capital requirement would come in from debt
- A similar trend was observed by Easy Jet

From the year 2001 to 2006, the fleet size grew at 36% CAGR, from 26 to 122 planes but the equity dilution grew at 9.5% CAGR from 65 Mn. pound to 102 Mn. pound while debt grew at 20% CAGR from 190 Mn. to 480 Mn. pound for the same period

Once profitable, market cap should grow faster then sales

Peer comparison

VALUATION MEASURE

	FY09 Mcap/Sales	FY09 P/E	# % growth in sales	PEG
* SpiceJet	0.67	13.1	85 %	0.15
Jet Airways	0.50	40.97	38 %	1.07
Ryan Air	2.41	14.12	21 %	0.68
Southwest	0.96	13.43	11 %	1.21
Easy Jet	0.95	10.25	13 %	0.78

Source: Bloomberg, * Eisec research, # growth for next 2 years

SPICEJET: GROWTH STORY AT DEEP DISCOUNT

- Revenue to grow at CAGR of 85% over next two years
- Forward Mcap/Sales ratio not factoring high revenue growth
- Skepticism of breaking even taking toll on valuations
- PEG ratio at deep discount to other players
- Our target price of INR 81 values the company at 17.4 x FY09
- High growth justifies a premium valuation

COST STRUCTURE

% of sales (FY06)	SpiceJet	Deccan*	Jet Airways
Fuel	49.7	50.5	29.49
Repairs	8.7	14.4	5.46
Lease Rentals	19.3	17.5	9.80
Airport Charges	8.5	15.6	6.16
Employee cost	11.7	13.7	9.96
Admin & other	22.1	20.9	22.82

Source: Company data, Eisec research, * 15 months

SPICEJET: BETTER COST STRUCTURE THEN OTHER LCCs

- Newer fleet requires low maintenance
- Outsourced training reduces employee cost
- Better route planning reduces airport charges

Peer comparison

LOAD FACTOR

Company	2005-06
Air India	38.30%
Indian Airlines	63.80%
Jet Airways	73.70%
Deccan	74.70%
Spice Jet	82.90%
Air Sahara	70.80%
Alliance Air	64.20%
Kingfisher	59.30%
Go Air	45.10%
AI Express	27.40%

Source: DGCA

SPICEJET: OPTIMIZING LOAD FACTOR

- Route optimization led to highest load factor of 83% in FY06
- Load factor for FY07 (10 M) has declined to 77% due to increased focus on yield (Note: Does not include high load factor months of April and May)
- We expect load factor to remain at 77% to 80% for next two years

Indian Aviation

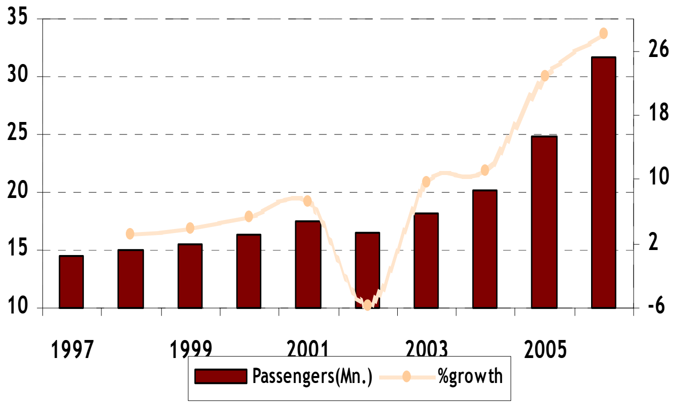
- Industry revenue at Rs 255,910 Mn in FY06
- Total passenger flown by domestic players has increased at the rate of 9.1% CAGR from 14.54 Mn in 1997 to 31.75 Mn in 2006
- For the period Jan-March 07, passenger flown has grown at 45% from 2.12 Mn to 3.07 Mn per month
- Domestic airport traffic grew at 26%, and international at 17%, over the past 2 – 3 years
- Airport traffic expected at 115 Mn by 2010 from current 74 Mn (Inclusive domestic and international).

DOMESTIC MARKET SHARE

Jet Airways	31%
Indian Airlines	22%
Deccan	18%
Air Sahara	9%
Kingfisher	9%
Spice Jet	7%
Go Air	3%
Indigo	1%

Source: DGCA Data: 2006

TOTAL TRAFFIC OF INDIAN CARRIERS

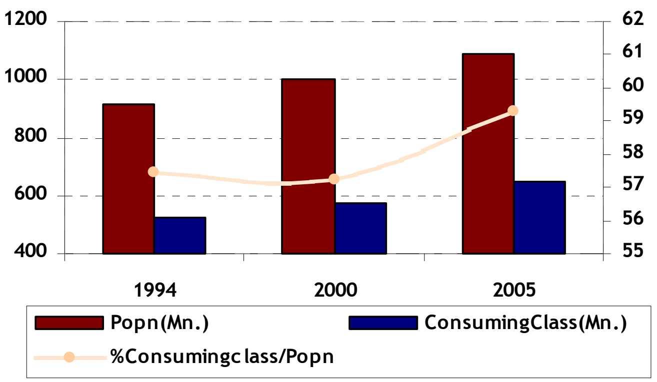


Source: DGCA

- Passenger traffic has kept pace with the country's GDP and Income growth.
- Total passenger flown has increased at the rate of 8.6% for last five years (2000 to 2005) while the country's GDP and Income level for the same period has increased at 5.9% and 8.9%. respectively.
- Entry of new players both FSC and LCC has led to robust growth
- Easy access to capital has led to high growth

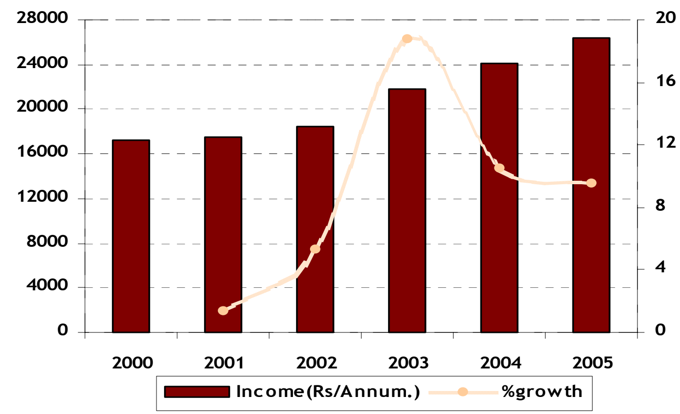
Industry Drivers: Changing Demographics

CONSUMING CLASS (Age group 15 to 60 yrs)



Source: NSSO, Eisec Research

PER CAPITA INCOME



Source: NCAER

- Consuming class grew from 526 Mn in 1994 to 646 Mn in 2005
- Rising per capita consumption and growing consuming class will act as a major booster to the aviation sector growth

- Per capita income grew at 9% CAGR from Rs 17,250 in 2000 to Rs 26,450 in 2005.
- It has lead to increase in both leisure and business spending by upper/middle class on air travel.
- With increasing affordability of air travel and rising per capita income, a strong demand pull is expected in aviation sector

Rising Middle class, Employment rate, Labor force, Per capita income and consumption to give trigger

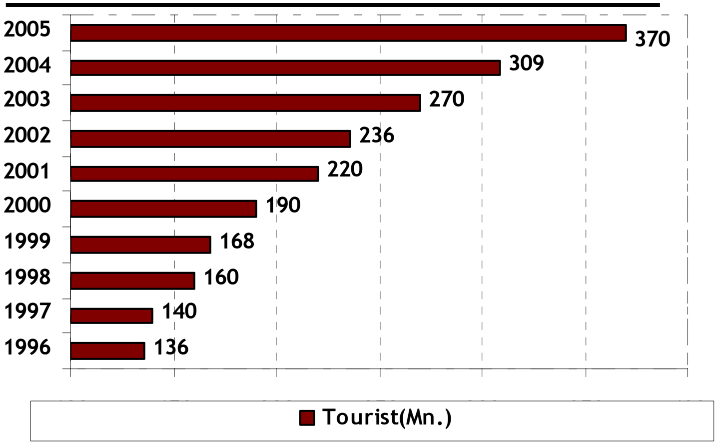
Industry Drivers

➢ Domestic tourism has grown at a CAGR of 15% over the last few years

➢ Tourist arrival in India has grown at an average of 18.7% p.a. in 2004 & 2005 compared to 8.1% p.a. growth in world tourist arrival.

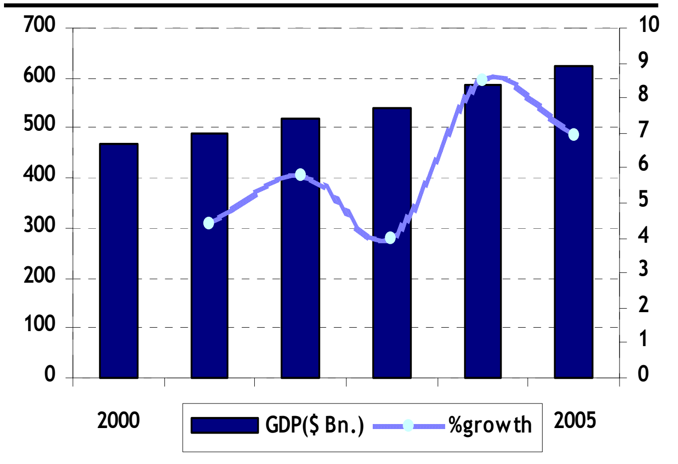
➢ Demand for Indian tourism is expected to grow annually at 8.8% over the next decade, which will be the highest in the world. - WTTC

TOURISM GROWTH



Source: Ministry of Tourism

INDIA'S GDP



Source: NCAER

➢ Very strong correlation between GDP and aviation sector growth

➢ 1% rise in India's GDP should translate into a 2% increase in air traffic*

➢ GDP has grown at the average of 6% in last decade while it has potential of growing more then 8% over the next decade

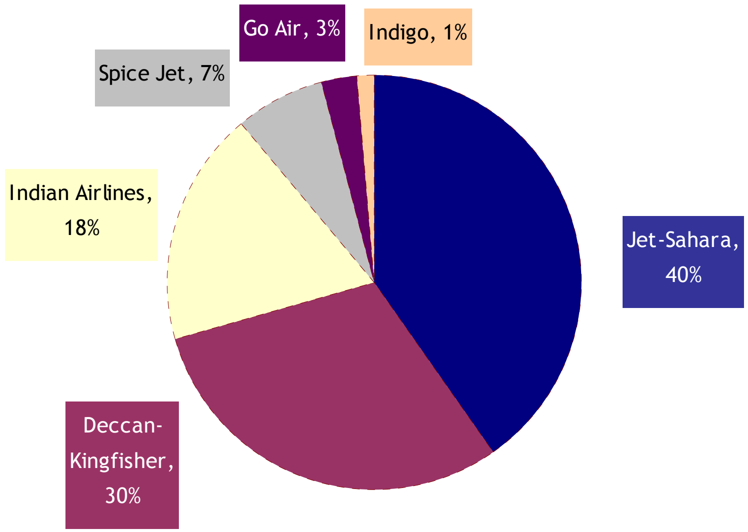
Source: * E & Y Report

Post Consolidation Scenario

Consolidation will

- help rationalize supply
- increase revenue per pax leading to higher yield
- help to reduce cost by bringing synergy in maintenance and repair, engineering, ground services, route networking and planning
- improve financial status

MARKET SHARE POST CONSOLIDATION



Source: DGCA

CANNIBALIZATION

Recent consolidation in the industry has lead to development of composite model (i.e. FSC + LCC) which might lead to cannibalization resulting into lower yield for the industry

EXPECTED BENEFITS

Vijay Mallya: "Kingfisher-Air Deccan group will work closely to save on costs and, in fact, in our first full year of operations, we will save up to Rs. 300 cr on costs."

Media: "It is estimated that the merger of Indian airlines and Air India would lead to a saving of Rs 820 cr."

Success brings scale rather than scale necessarily bringing success

LCC vs FSC

Industry has seen major shake out in in last couple of years with the entry of LCCs

MASS vs CLASS (WHO WILL GAIN ?)

Differentiation	Points	LCC	FSC
Cost	Operating	Low	High
	Maintenance	Low	High
	Airport	Same	Same
	Fuel	Depending on fleet	Depending on fleet
Fleet		Uniform	Mixed
Distance		Short haul	Long/ Short haul
Process		No frills	Full service
Class		Economy	Mixed
Dependence on		High load factor	High yield pax
Domestic Players		Air Deccan, Spicejet, Go Air etc	Jet Airways, Kingfisher etc
International Players		Ryan Air, Easy Jet, Southwest etc	British Airways, Air France etc

MASS vs CLASS

- According to a survey*, the proportion of higher class traveling by air has fallen from 52.9% in 1978 to 41.8% in 2003 while that of other masses has increased 47.1% from 1978 to 58.2% 2003
- Air transport is a service for all classes of population hence the bottom of the pyramid will offer huge growth opportunity to LCC
- We expect both LCC and FSC to benefit from the growth opportunity offered by Indian aviation industry

* UK Civil Aviation Authority annual passenger survey

Different model works across different geographies

Market share vs Profits

- Huge divergence in profitability of different airlines across different geographies
- Profits depends on a wide range of strategic, cost and management factors, but there is no clear relation with size.
- In-fact larger size has meant bigger losses for some airlines
- The strategic focus of consolidation needs to be on identifying ways to boost margins and profits rather than capturing market share

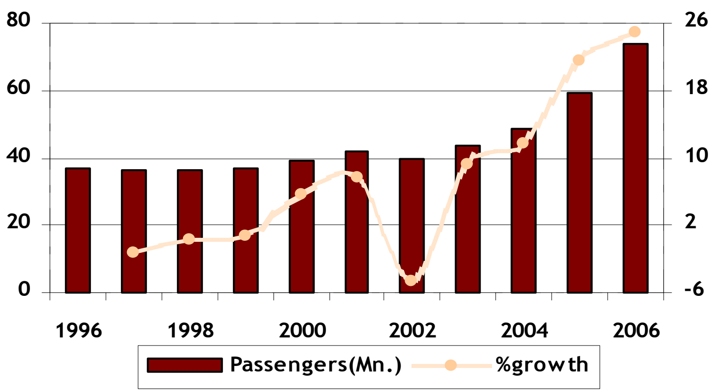
Airlines	OPM	NPM	Fleet Size	Fleet Type	Future Order
Ryanair	22.2%	18.1%	103	Boeing 737	148 Firm Orders
Southwest	10.3%	5.5%	481	Boeing 737	115 Firm orders

Source: Company Data 2007

There is no correlation at all between size and profit margins

Potential Drags on Profits

AIRPORT TRAFFIC



Source: Airport Authority of India

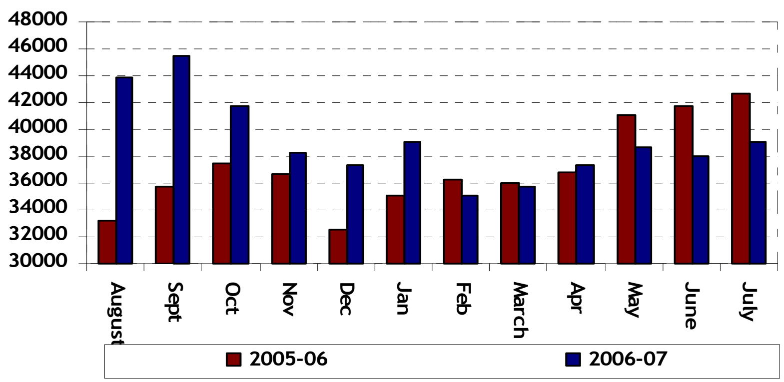
AIRPORT INFRA: LAND BEFORE TAKEOFF

- Airport infrastructure acts as a major bottleneck for the sector growth with only 113 airstrips out of 454 airstrips in use
- The estimated total passenger traffic for all airports in India in 2005-06 grew to 74 Mn over 40 Mn in 2000-01 while freight tonnage grew to 1.4 Mn tons over 0.8 Mn tons in the same period
- With initiatives taken by government it is expected that the scenario would improve in next 2 to 3 yrs
- Any delay in initiatives could drag the growth down

RISING CRUDE PRICES

- ATF has been a key dampener for the whole aviation industry
- Excise duty of around 9% and sales tax of around 25% is applied on base ATF cost
- ATF in India is around 50 % higher then in other countries
- Though ATF prices are down 9% Y-o-Y, they are much higher then the historical levels

MONTHLY ATF PRICE



Source: Indian Oil

Potential Drags on Profits

SHORTAGE OF TRAINED MAN POWER

- Capacity expansion of 20% p.a. for next five years would lead to a requirement of more then 2000 pilots*
- India currently has 9000* cabin crew members and additional 1500 per year would be needed by 2010
- Demand supply mismatch could lead to substantial increase in employment cost

REGULATORY RISK

- Incremental capacity to be deployed in category 2A and category 3 routes
- Minimum equity participation requirement for scheduled player
- Increase in service tax on business class passengers and other services such as ground handling etc.

INCREASING CAPACITY

- With capacity increasing at 20% CAGR any slow down in demand will again lead to low yield scenario
- Delay in deployment of capacity on international route acts as a dampener

Source: * CAPA (Centre for Asia Pacific Aviation)

Aviation Industry…Five Force Analysis

INDIAN SCENARIO

- **Supplier Power:** Key supplies required are Aircrafts and ATF. Limited option available for both. Hence airlines have low bargaining power
- **Buyer Power:** Consumers lack bargaining power but at times elastic demand might leads to people making a switch to other mode of transport.
- **Entry Barriers:** Regulation and Infrastructure issues such as landing slots, parking bays etc are major entry barriers. Regulation barriers have eased out while infrastructural still persists.
- **Exit Barriers:** High due to quantum of assets involved along with regulatory frame work related to M & A and consolidation activities
- **Threat of Substitute:** Likely substitutes for airline travel includes automobiles and trains. Upper class of railways compete with LCC players
- **Rivalry:** Airline industry is fiercely competitive due to high revenue growth leading to very low margins

It is easy to gain entry but difficult to exit, making it even more worse for competitor

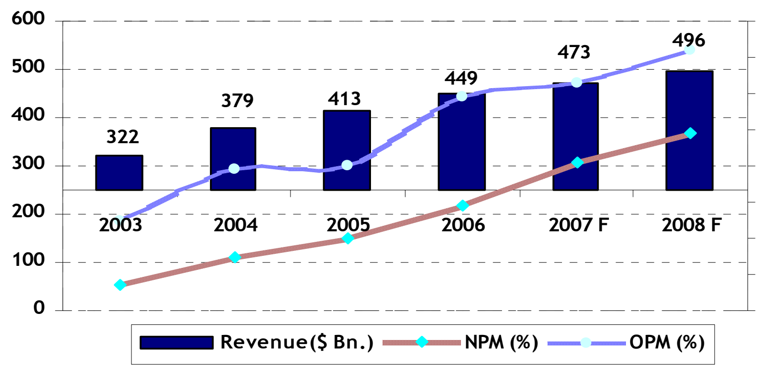
Global Insights

➢ Global aviation industry's operating profit grew to $ 13 bn in 2006 over $ 4.3 bn in 2005 while revenue grew from $ 413 bn to $ 449 bn for the same period

➢Operating profit margin stood at 2.9% in 2006 versus 1% in 2005

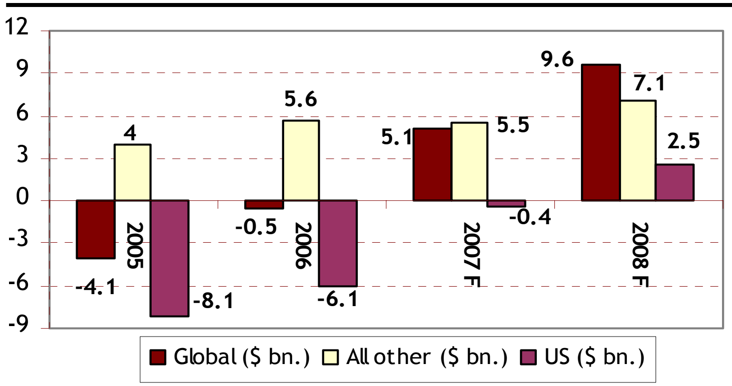
➢ US airlines, in continuation with the global trend saw the strongest improvement in operating profitability. In 2006, 12 US airlines made operating profits of more than $ 100 million (5 in 2005), while only 4 US airlines made operating losses (9 in 2005)

GLOBAL STATS : (REVENUE AND MARGINS)



Source: IATA

GLOBAL NET PROFITABILITY



Source: IATA

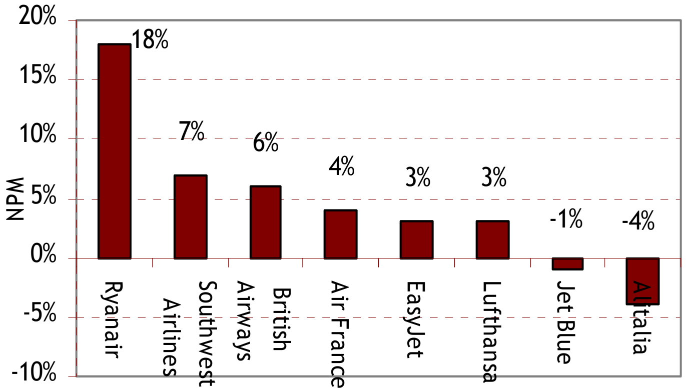
➢ At net level no money was left on table in 2006

➢ Global aviation industry made a net loss of $ 0.5 bn ($ 4.1 bn in 2005) in which US airlines contributed $ 6.1 bn loss ($ 8.1 bn in 2005) while other regions made a profits of $ 5.6 bn ($ 4 bn in 2005)

➢ A turn around is expected in global airlines industry over next two years, especially on the back of US making profits.

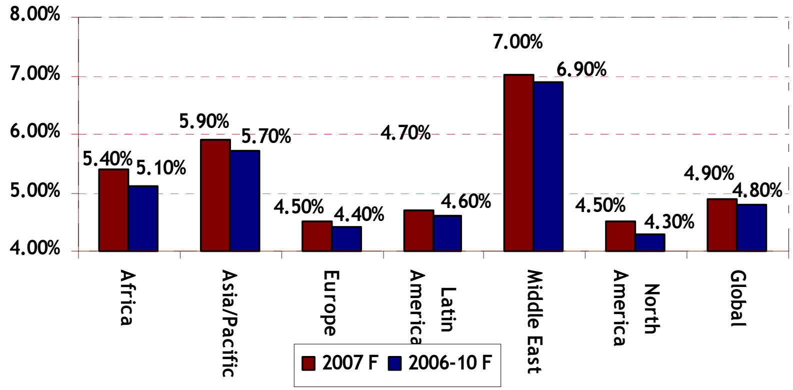
Global Insights

NPM OF GLOBAL PLAYERS



Source: Ryan Air presentation Data: 2006

INTERNATIONAL TRAFFIC FORECAST



Source: IATA

- Over the next five years developing economies such as China and India are likely to make a greater contribution towards global airline industry
- IATA (International Air transport Association) estimates Intra-Asian travel at 678 million by 2010, making Asia the largest passenger market in the world
- In the whole value chain, the airline players are making the lowest margins. Comparatively, operating margins of leading airports are around 20%, engine manufacturers around 14% and aircraft manufacturers around 9%

Significant improvement in top and bottom-line of global players is expected for next two years

SpiceJet: Financials

INCOME STATEMENT (Rs. Mn.)				
Period Ending	**FY06**	**FY07 (10 M)**	**FY08E**	**FY09E**
Revenues	**4,196**	**6,404**	**13,144**	**21,999**
% Change		*52.6*	*105.3*	*67.4*
Total Expenses	4,800	8,045	13,260	20,688
EBIDTA	(603)	(1641)	(116)	1311
% of Net Sales		*(25.6)*	*(0.9)*	*6.0*
Dep. & Amortization	82	58	62	68
Interest	110	43	3	(30)
Other Income	335	1,078	213	0
PBT	**(460)**	**(664)**	**32**	**1,273**
Tax	13	10	19	153
Tax Rate (%)	*2.8%*	*1.5%*	*10.0%*	*10.0%*
PAT	**(414)**	**(708)**	**14**	**1,120**
% of Net Sales		*0.0*	*0.1*	*5.1*

All Financials: Company Data, Eisec Research.

SpiceJet: Financials

INCOME STATEMENT (Rs. Mn.)				
Quarter Ending	Jun-07	Sep-07	Dec-07	Mar-07
Revenues (Incl Ancillary)	**2,294**	**2,719**	**3,752**	**4,380**
Q-o-Q % Change		*19*	*38*	*17*
Total Expenses	2,324	2,766	3,735	4,436
EBIDTA	110	26	18	(56)
% of Net Sales	*4.8*	*1.0*	*0.5*	(1.3)
Other Income	140	73	0	0
PBT	**94**	**10**	**1**	**(73)**
Tax	12	4	3	0
PAT	**82**	**6**	**(2)**	**(73)**
% of Net Sales	*3.6*	*0.2*	*0.0*	*(1.7)*

SpiceJet: Financials

BALANCE SHEET (Rs. Mn.)				
As on period ending	FY06	FY07 (10 M)	FY08E	FY09E
Share Capital	1,843	2,407	2,407	2,407
Reserves	(1971)	(561)	(548)	573
Net Worth	(128)	1,845	1,859	2,979
Loans	4,104	4,322	7,562	4,322
Deferred tax	(94)	-	-	-
Capital Employed	3,883	6,167	9,421	7,301
Gross Block	589	621	652	685
Less: Depreciation	98	137	199	268
Net Block	490	484	453	417
Investments	0	812	3240	3240
CWIP	3629	6944	7664	6719
Curr. Assets				
Inventory	34	79	131	204
Sundry Debtors	34	56	114	191
Loans & Advances	816	1,154	1,154	1,154
Cash & Bank Balance	529	3,095	950	2,086
Current Liab. & Prov.				
Sundry Liabilities	-	5,286	2,766	5,061
Provisions	142	415	519	649
Other Current Liabilities	1,508	755	1,000	1,000
Net Current Assets	(237)	(2073)	(1936)	(3075)
Application of Funds	3,883	6,167	9,421	7,301

SpiceJet: Financials

CASH FLOW STATEMENT (Rs. Mn.)				
	FY06	FY07 (10 M)	FY08E	FY09E
Pre tax profit	(795)	(1,743)	(181)	1,273
Depreciation & Amortization	82	58	62	68
chg in Working Capital	810	4739	(2281)	2275
Total Tax Paid	13	10	19	153
Ext ord items / Other non cash item	0	0	0	0
Operating Cash Inflow	**110**	**3065**	**(2381)**	**3769**
Capital Expenditure	(3587)	(3366)	(751)	912
Free Cash Flow	**(3477)**	**(302)**	**(3132)**	**4681**
(Purchase)/Sale of Investments	0	(812)	(2428)	0
Debt raised/(repaid)	2984	217	3240	(3240)
Capital raised	234	563	0	0
Dividend (incl. Tax)	0	0	0	0
Misc	0	0	0	0
Net chg in cash	**286**	**2445**	**(2145)**	**1136**

SpiceJet: Financials

RATIOS (Rs. Mn.)				
Period Ending	**FY06**	**FY07 (10 M)**	**FY08E**	**FY09E**
Per Share Data (Rs)				
EPS (Basic & Recurring)	(2.2)	(2.9)	0.1	4.7
Book Value per Share	(1)	8	8	12
Valuation Ratio (x)				
P/E	-	-	1077	13.11
Price to Book Value	-	8	7.9	4.9
EV/EBDITA	-	-	229.2	14.5
EV/Sales	3.7	3.0	1.7	0.9
Mcap/Sales	2.7	2.3	1.1	0.6 7
Operating Ratios (%)				
Effective Tax Rate (%)	3	1	10	10
Inventory (Days)	3	4	4	4
Receivables (Days)	3	3	3	3
Payables (Days)	0	240	76	89
Debt/Equity Ratio (%)	-	2	4	1
Profitability Ratios (%)				
RoCE	-	-	0.2	15.0
RoNW	-	-	0.7	37.6

Appendix 1: Liberalization a changing face

INDIAN AVIATION LIBERALIZATION TIMELINE

1953: Nationalization of Aircraft Industry
1986: Private sector players permitted as Air taxi operators
1994: Private carriers permitted to operate scheduled services

2003: Entry of low cost carriers
Air Deccan, Spicejet, Kingfisher, Go Air, Indigo, Paramount

IMPACT OF LIBERALIZATION

Various players with different business model entered the market

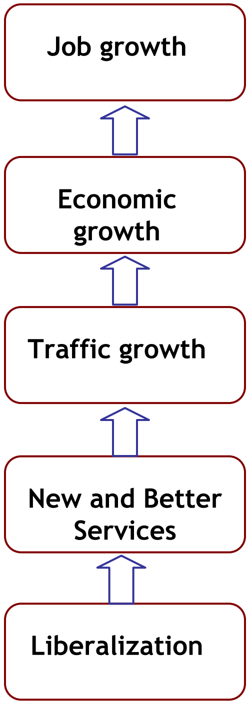
Size of the Aviation market grew tremendously

Old players such as Air India and Indian Airlines were forced to improve their services

Traveling by air became affordable

Discounted fares lead to high market growth

Lead to Job creation and Economic growth



BILATERAL LIBERALIZATION: THRUST TO GROWTH

Post bilateral liberalization traffic growth tended to exceed pre-liberalization growth levels anywhere between 12% to 35% and up to 50% and greater, depending upon the periods measured.

Some proven cases:

- US – UK Market
- Intra EU Market
- UAE – UK – and Germany Market
- Australia – New Zealand Market
- Malaysia - Thailand

COMMENT BY BOEING…

"There is little doubt that liberalization of aviation bilateral air services agreements, and the deregulation of domestic aviation markets, has brought substantial benefits to economies and consumers. For these reason, the vast majority of world governments have given either explicit or implicit support for the concept."

Appendix 2: Scheduled and Non Scheduled services

SCHEDULED AIR TRANSPORT SERVICE

- It is an service undertaken between the two or more places and operated according to a published time table
- It has flight being open to use by members of the public and its frequency constitute a recognisably systematic

NON-SCHEDULED AIR TRANSPORT SERVICE

- It is an air transport service other than scheduled air transport service and that may be on charter basis and/or non-scheduled basis. The operator is not permitted to publish time schedule and issue tickets to passengers.

REQUIREMENT FOR SCHEDULED SERVICE

- Registered and has its place of business within India
- A fleet of minimum five aircraft
- Not less than Rs.30 cr subscribed equity capital in respect of operators having aircraft weight exceeding 40,000 kgs and not less than Rs.10 cr for operators having aircraft weight not exceeding 40,000 kgs
- The Chairman and at least two-thirds of its Directors are citizens of India
- Substantial ownership and effective control is vested in Indian nationals

REQUIREMENT FOR NON-SCHEDULED SERVICE

- Citizen of India or
- NRI or
- A company having principal business in India and with or without foreign equity participation (excluding NRI equity) limited to 49% or
- The Central Government or State Government or an Undertaking owned or controlled by either of the state Governments

Source: Civil Aviation Ministry

East India Securities Ltd.

Member: NSE/BSE/NSDL/CDSL

Phiroze Jeejeebhoy Towers, Room No.2118, 21st Floor, Dalal Street, Mumbai- 400 001

Phones: +91-22-22721210, +91-22-22722314; Fax:+91-22-22722364

CONTACT INFORMATION

RESEARCH

Anil Jain +91-22-22723997, +91-9892244469 anilk@eisec.com

Rajiv Pathak +91-22-22723997, +91-9820167128 rajivp@eisec.com

SALES

Sanjeev Mohta +91-22-22722314, +91-9821087659 sanjeevm@eisec.com

DEALING

Rajiv Agrawal +91-22-22722314 +91-9322238667 rajiva@eisec.com

Renu Patil +91-22-22722314 +91-9892498010 renup@eisec.com

Shekhar Kabadi +91-22-22722314 +91-9867167048 shekhark@eisec.com

Rating	Meaning
Buy	Absolute Postive Return greater than 15% over the time period mentioned
Accumulate	Absolute Positive Return between 0% and 15% over the time period mentioned
Reduce	Absolute Negative Return between 0% and 15% over the time period mentioned
Sell	Absolute Negative Return greater than 15% over the time period mentioned