

2QFY12 Results: Weak domestic performance

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Sharper than expected losses; Retain underperform

Jet's Q2 results (ex-subsiary Jetlite) were sharply below our expectations, with forex adjusted loss of Rs4.4bn, compared to our estimate of Rs2.5bn. Including unrealized forex losses, loss for the quarter was Rs7.13bn. EBITDAR margin at 5.2% (vs. 21% in Q2FY11) was below our expectation of 10.7%. We have sharply lowered our FY12 estimates on account of higher costs and cut in FY12 yields. We have largely left our FY13E-14E forecasts unchanged after tweaking assumptions of yields and traffic growth and retain our Underperform & PO.

Domestic business: No respite from competition

Domestic segment posted its worst results in 8 quarters with a negative EBITDAR margin of -9.2% (vs. +2% BofA-ML est). This sharp disappointment was due to increased competitive intensity which led to a more than expected ~12% QoQ decline (-0.2% YoY) in yields. We continue to expect industry wide strong capacity growth over the next 3-4 quarters which would likely keep the yield growth muted.

International business: Still far from break-even

Jet's international business posted a lower than expected EBITDAR margin of 13.6% (vs.16.3% BofA-ML est). This was largely on account (a) fall in long-haul corporate travel, (b) fall in freight business and (c) new competition in ASEAN routes. This led to a lower than expected yields and cargo income. We expect the break-even to be elusive in the near term even for the international business.

Outlook remains weak despite Kingfisher capacity cuts

Despite expected capacity cuts by Kingfisher, we expect capacity growth to match the demand growth. We expect addition of ~15 aircrafts till March'12 which would limit the upside due to cuts done by Kingfisher. The outlook for domestic business is expected to be bleak on account of (a) strong capacity growth, (b) restricted yield growth, (c) falling load factors and (d) high fuel cost.

Estimates (Mar)

(Rs)	2010A	2011A	2012E	2013E	2014E
Net Income (Adjusted - mn)	(6,746)	(3,127)	(8,215)	(2,000)	822
EPS	-78.1	-36.2	-95.2	-23.2	8.2
EPS Change (YoY)	60.1%	53.6%	-162.7%	75.7%	NM
Dividend / Share	0	0	0	0	0
Free Cash Flow / Share	48.2	46.8	-19.8	28.3	49.6

Valuation (Mar)

	2010A	2011A	2012E	2013E	2014E
P/E	NM	NM	NM	NM	31.5x
Dividend Yield	0%	0%	0%	0%	0%
EV / EBITDA*	20.99x	15.25x	26.28x	15.95x	13.59x
Free Cash Flow Yield*	18.6%	18.0%	-7.6%	10.9%	22.0%

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

Stock Data

Price	Rs259.70
Price Objective	Rs225.00
Date Established	27-Sep-2011
Investment Opinion	C-3-9
Volatility Risk	HIGH
52-Week Range	Rs221.70-Rs921.20
Mkt Val / Shares Out (mn)	US\$447 / 86.3
Market Value (mn)	Rs22,420
Average Daily Volume	1,505,555
BofAML Ticker / Exchange	JTAIF / BSE
Bloomberg / Reuters	JETIN IN / JET.BO
ROE (2012E)	-72.2%
Net Dbt to Eqty (Mar-2011A)	814.5%
Est. 5-Yr EPS / DPS Growth	5.0% / 5.0%
Free Float	20.0%

Key Changes

(Rs)	Previous	Current
2012E EPS	-57.8	-95.2
2013E EPS	-22.8	-23.2

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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. 11109865

iQprofileSM Jet Airways

Key Income Statement Data (Mar)	2010A	2011A	2012E	2013E	2014E
(Rs Millions)					
Sales	119,225	145,001	163,836	177,927	196,391
Gross Profit	33,611	40,371	36,618	43,489	49,217
Sell General & Admin Expense	(10,977)	(13,714)	(15,546)	(16,764)	(18,255)
Operating Profit	1,339	6,018	(513)	5,357	8,099
Net Interest & Other Income	(7,276)	(8,769)	(7,702)	(7,357)	(6,951)
Associates	NA	NA	NA	NA	NA
Pretax Income	(5,937)	(2,752)	(8,215)	(2,000)	1,148
Tax (expense) / Benefit	(104)	(375)	0	0	(326)
Net Income (Adjusted)	(6,746)	(3,127)	(8,215)	(2,000)	822
Average Fully Diluted Shares Outstanding	86	86	86	86	100

Key Cash Flow Statement Data

Net Income	(6,041)	(3,127)	(8,215)	(2,000)	822
Depreciation & Amortization	9,704	9,187	9,334	9,181	8,960
Change in Working Capital	1,556	(1,007)	(1,543)	(3,610)	(3,931)
Deferred Taxation Charge	0	336	0	0	0
Other Adjustments, Net	0	0	0	0	0
Cash Flow from Operations	5,219	5,389	(424)	3,571	5,851
Capital Expenditure	(1,054)	(1,350)	(1,282)	(1,129)	(908)
(Acquisition) / Disposal of Investments	0	199	0	0	0
Other Cash Inflow / (Outflow)	NA	0	NA	NA	NA
Cash Flow from Investing	(1,054)	(1,151)	(1,282)	(1,129)	(908)
Shares Issue / (Repurchase)	0	0	0	0	133
Cost of Dividends Paid	0	0	0	0	0
Cash Flow from Financing	(25,371)	(7,727)	(6,198)	(4,138)	(6,296)
Free Cash Flow	4,164	4,039	(1,706)	2,443	4,944
Net Debt	135,915	130,032	126,554	123,325	114,092
Change in Net Debt	(3,705)	(3,886)	2,654	(1,534)	(7,880)

Key Balance Sheet Data

Property, Plant & Equipment	147,887	140,200	126,015	116,316	106,696
Other Non-Current Assets	19,724	19,525	19,525	19,525	19,525
Trade Receivables	NA	NA	NA	NA	NA
Cash & Equivalents	8,264	6,772	5,000	5,000	5,000
Other Current Assets	30,799	37,450	42,978	48,438	55,559
Total Assets	206,674	203,947	193,517	189,278	186,780
Long-Term Debt	144,179	136,804	131,554	128,325	119,092
Other Non-Current Liabilities	0	336	336	336	336
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	45,199	50,843	54,827	56,677	59,868
Total Liabilities	189,378	187,983	186,717	185,338	179,296
Total Equity	17,296	15,964	6,801	3,891	7,650
Total Equity & Liabilities	206,674	203,947	193,518	189,230	186,946

iQmethodSM - Bus Performance*

Return On Capital Employed	1.3%	4.3%	0%	4.4%	5.5%
Return On Equity	-34.4%	-18.8%	-72.2%	-37.4%	14.2%
Operating Margin	1.1%	4.1%	-0.3%	3.0%	4.1%
EBITDA Margin	9.3%	10.5%	5.4%	8.2%	8.7%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	NM	NM	NM	NM	7.1x
Asset Replacement Ratio	0.1x	0.1x	0.1x	0.1x	0.1x
Tax Rate (Reported)	NM	NM	NM	NM	28.4%
Net Debt-to-Equity Ratio	785.8%	814.5%	1,860.9%	3,169.1%	1,491.5%
Interest Cover	0.1x	0.6x	-0.1x	0.6x	0.9x

Key Metrics

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

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 97 as of Q4FY11). It started international operations in April 2005, flying to destinations such as Singapore, HK, New York and London.

Investment Thesis

Jet Airways is India's largest domestic airline. We expect profitability for Jet Airways to be severely impacted by intense competition on the back of higher supply growth and high fuel cost. We expect Jet Airways to post losses for the next 2 years and return back to profitability only in FY14. We believe the stock is overvalued and should de-rate to lower multiples.

Stock Data

Price to Book Value 3.3x

Key result takeaways

On account of sharper than expected fall in yields, Jet (ex-sub Jetlite) reported net loss of Rs7.13bn in Q2FY12 (vs. Rs121mn profit in Q2FY11). Also, excluding unrealized forex losses net loss was lower at Rs4.39bn. EBITDAR margin for the quarter stood at 5.2% vs. 21% in Q2FY11. The results were marred by (a) soft yield in domestic segment on account of irrational pricing by certain segment of the competition and (a) spike in ATF price.

EBITDAR Margin fell more than 1500bps on a YoY basis.

Table 1: Quarterly performance

(Rs mn)	2QFY12	2QFY11	YoY (%)	QoQ(%)	1QFY12
Operating Revenues	32,935	30,606	7.6%	-7.0%	35,416
Non Operating Revenues	386	356	8.4%	-5.4%	408
Total Revenues	33,321	30,962	7.6%	-7.0%	35,824
Employees Remuneration & Benefits	4,071	3,209	26.9%	12.7%	3,614
Aircraft Fuel Expenses	14,912	9,942	50.0%	-4.6%	15,636
Selling & Distribution Expenses	3,279	3,186	2.9%	-3.4%	3,394
Other Operating Expenses	8,944	7,848	14.0%	-5.7%	9,485
EBITDAR	1,728	6,421	-73.1%	-47.4%	3,287
EBITDAR margin	5.2%	21.0%	-1573 bps	-403 bps	9.3%
Aircraft Lease Rentals	2,081	2,158	-3.6%	0.4%	2,073
Depreciation	2,280	2,340	-2.6%	2.0%	2,235
Operating profit	-2,633	1,923	NM	NM	-1,021
Operating margin	-7.9%	6.2%	-1411 bps	-505 bps	-2.9%
Interest expense	2,140	2,493	-14.2%	-0.1%	2,142
Total Expenditure	37,708	31,176	21.0%	-2.3%	38,579
Extraordinary Exp (income) Pre-tax	2,748	-335	NM	NM	-1,187
PBT	-7,135	121	NM	NM	-1,568
Provision for Tax	0	0	NM	NM	-336.1
Reported PAT	-7,135	121	NM	NM	-1,232
Recurring PAT	-4,387	-214	NM	NM	-2,419

Source: BofA-Merrill Lynch Global Research

International yields impacted from (a) new competition in ASEAN routes and (b) decline in corporate travel. This led to muted 5% yoy growth in yields which was not enough to cover the increased fuel cost.

Table 2: Operating Metrics International

(Rs mn)	2QFY12	2QFY11	YoY (%)	QoQ(%)	1QFY12
Operating Revenue	20,842	18,670	11.6%	2.5%	20,333
EBITDAR	2,841	4,863	-41.6%	24.9%	2,275
EBITDAR Margin	13.6%	26.0%	-12.4%	2.4%	11.2%
PBT (including Exceptionals)	-2,382	601	-496.3%	154.1%	-938
RPKs (mns)	4,967	4,527	9.7%	1.2%	4,910
ASKs (mns)	6,167	5,631	9.5%	1.0%	6,104
Load Factor (%)	80.5%	80.4%	0.1%	0.1%	80.4%
Revenue Passengers (mn)	1.29	1.13	14.2%	0.2%	1.28
Passenger Yield (Rs per RPK)	3.35	3.19	5.0%	3.5%	3.24

Source: BofA-Merrill Lynch Global Research

Due to high competitive intensity domestic yields fell -12% sequentially and 0.2% on YoY basis despite a >50% jump in fuel cost.

Table 3: Operating Metrics Domestic

(Rs mn)	2QFY12	2QFY11	YoY (%)	QoQ(%)	1QFY12
Operating Revenue	12,093	11,936	1.3%	-19.8%	15,083
EBITDAR	-1,113	1,558	-171.4%	-210.0%	1,012
EBITDAR Margin	-9.2%	13.1%	-22.3%	-15.9%	6.7%
PBT (including Exceptionals)	-4,753	-480	-890.2%	653.8%	-631
RPKs (mns)	2,198	2,035	8.0%	-8.4%	2,399
ASKs (mns)	3,047	2,848	7.0%	-5.3%	3,216
Load Factor (%)	72.1%	71.5%	0.7%	-2.5%	74.6%
Revenue Passengers (mn)	2.60	2.32	11.9%	-6.6%	2.78
Passenger Yield (Rs per RPK)	5.12	5.13	-0.2%	-11.9%	5.81

Source: BofA-Merrill Lynch Global Research

~10% YoY decline in yields led to a poor performance.

Table 4: Operating Metrics JetLite

(Rs mn)	2QFY12	2QFY11	YoY (%)	QoQ(%)	1QFY12
Operating Revenue	3,910	3,815	2.5%	-8.8%	4,288
EBITDAR	-419	438	-195.6%	152.4%	-166
EBITDAR Margin	-10.7%	11.5%	-22.2%	-6.8%	-3.9%
PBT (including Exceptionals)	-1,014	-624	NM	1813.2%	-53
RPKs (mns)	1,100	937	17.4%	-5.1%	1,159
ASKs (mns)	1,472	1,263	16.5%	1.7%	1,447
Load Factor (%)	74.7%	74.2%	0.5%	-5.4%	80.1%
Revenue Passengers (mn)	1.19	0.95	24.8%	-0.8%	1.20
Passenger Yield (Rs per RPK)	3.42	3.80	-10.1%	-4.3%	3.57

Source: BofA-Merrill Lynch Global Research

Price objective basis & risk

Jet Airways (JTAIF)

Our PO of Rs225 is based on 8.5x FY13E EV/EBITDAR. We value the stock at the early-stage down-cycle multiple, which is consistent with regional airlines in a similar environment. At our PO, the stock would trade at 5.9x P/BV, which is at premium to all regional peers. Upside risk: sharp decline in fuel prices and faster-than-expected economic growth. Downside risk: further increase in fuel prices and increase in competitive intensity.

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
	DLF Limited	XVDUF	DLFU IN	Abhishek Kiran Gupta
	Exide Indus Ltd	XEDRF	EXID IN	Sanjaya Satapathy
	Havells	HVLIF	HAVL IN	Sanjaya Satapathy
	Indiabulls Real Estate Ltd	IBELF	IBREL IN	Abhishek Kiran Gupta
	Motherson Sumi	XMSUF	MSS IN	Sanjaya Satapathy
	Oberoi Realty Ltd	XRXOF	OBER IN	Abhishek Kiran Gupta
	Opto Circuits	OPOCF	OPTC IN	Sanjaya Satapathy
	SINTEX INDUSTRIES LTD	SIXDF	SINT IN	Prasad Deshmukh
NEUTRAL				
	Chambal Fertilisers & Chemicals	CHBZF	CHMB IN	Prasad Deshmukh
	Coromandel International Ltd	CMDFF	CRIN IN	Prasad Deshmukh
	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	Abhishek Kiran Gupta
UNDERPERFORM				
	Ambuja Cements	AMBUF	ACEM IN	Reena Verma Bhasin, CFA
	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
	Cummins India	CUIDF	KKC IN	Sanjaya Satapathy
	Housing Development and Infrastructure	XGHSF	HDIL IN	Gagan Agarwal
	India Cements	INIAF	ICEM IN	Reena Verma Bhasin, CFA
	India Cements -G	IAMUY	ICEM LX	Reena Verma Bhasin, CFA
	Jaypee Infratech	XJAYF	JPIN IN	Gagan Agarwal
	Jet Airways	JTAIF	JETIN IN	Anand Kumar
	Jindal Saw	SWPFF	JSAW IN	Sanjaya Satapathy
	Omaxe Limited	XOMXF	OAXE IN	Gagan Agarwal
	Puravankara Projects Ltd	XPJVF	PVKP IN	Gagan Agarwal
	Renuka Sugars	SRNKF	SHRS IN	Sanjaya Satapathy
	Sobha Developers	SBDRF	SOBHA IN	Gagan Agarwal
	SpiceJet Ltd	MDLFF	SJET IN	Anand Kumar
	Tata Chemicals Ltd	TTCXF	TTCH IN	Prasad Deshmukh
	UltraTech Cemen	XDJNF	UTCEM IN	Reena Verma Bhasin, CFA
	Voltas	VTSJF	VOLT IN	Sanjaya Satapathy
	Welspun Corp Ltd	XUQRF	WLCO IN	Sanjaya Satapathy
RSTR				
	Nagarjuna Fertilizers & Chemicals Ltd	NFACF	NFCL IN	Prasad Deshmukh
RVW				
	Fortis Healthcare Limited	XFFTF	FORH IN	Prasad Deshmukh

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

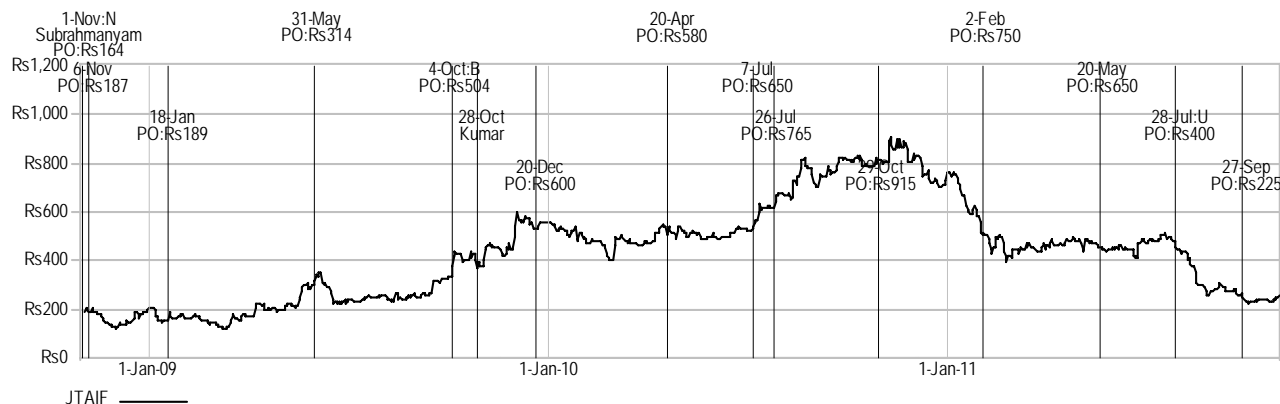
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JTAIF Price Chart



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

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of [October 31, 2011] or such later date as indicated.

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

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	91	54.17%	Buy	43	49.43%
Neutral	33	19.64%	Neutral	14	42.42%
Sell	44	26.19%	Sell	15	34.88%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	2073	54.13%	Buy	923	49.12%
Neutral	961	25.09%	Neutral	460	52.57%
Sell	796	20.78%	Sell	287	38.32%

* Companies in respect of which BofA Merrill Lynch or one of its affiliates has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

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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 BofA Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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