

SpiceJet

BLOOMBERG: SJET IN EQUITY | BSE: 500285 | NSE: MODILUFT

Efforts underway to de-risk business model

The following are key takeaways from our recent management meet with SJET, one of India's largest budget airlines with a 14% market share: (1) The company is adding 15 aircraft to its fleet by July'12 and moving into smaller cities to de-risk its business model. (2) After net losses over the past two quarters owing to rising crude and aggressive pricing by larger rivals, the management expects the price war to abate with the arrival of the festive season. (3) SJET is looking to raise ~Rs 1.3bn via a 5% stake sale to the promoter to cover operational losses and fund expansion.

- ❖ **Efforts to de-risk business by entering tier II/III cities:** SJET is foraying into newer markets via 15 fleet additions by mid-2012. The company plans to use the new aircraft to provide cheaper services in fast-growing smaller cities. In the initial phase, SJET intends to operate in over 10 cities in South and Central India with Hyderabad as its base. It is also securing approvals to expand into new international sectors.
- ❖ **Capacity expansion in sight:** SJET expects delivery of its new fleet of 15 Bombardier Q400 NextGen turboprop aircraft by July'12. The new fleet has been purchased with US\$ 270mn in funding from Canada's export finance agency, Export Development Canada. Further, 30 new additions are proposed for its Boeing 737-800 fleet with delivery commencing from January'14 and continuing through 2019.
- ❖ **Growing share of low-cost carriers (LCC):** Domestic traffic has grown 16–19% YoY in the past two years and the management expects healthy growth at 12–16% over the next two years. Industry capacity is expected to increase broadly in line with demand growth, with only SJET and Indigo adding capacity. Incremental passenger traffic and the LCC nature of airlines would provide support to profitability.
- ❖ **Confidence boost by promoter:** SJET plans to raise ~Rs 1.3bn to cover operational losses and fund expansion by selling a 5% stake to key shareholder Kalanithi Maran, upping his stake to 43.6%. The preferential allotment at Rs 36–37, a 50% premium to CMP, is a clear demonstration of Maran's confidence in SJET's business potential.

Financial highlights

Year End: 31 Mar	FY07A	FY08A	FY09A	FY10A	FY11A
Revenue (Rs mn)	6,438	12,950	16,894	21,811	28,795
EBITDA (Rs mn)	(1,608)	(2,520)	(4,379)	314	672
Adj. PAT (Rs mn)	(674)	(1,324)	(3,404)	670	1,034
Adj. EPS (Rs)	(3.5)	(5.5)	(13.8)	2.7	2.6
Growth (%)	28.5	55.1	150.4	n.m.	(5.6)
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
ROIC (%)	(70.8)	159.0	78.2	(3.1)	(16.8)
ROE (%)	(78.4)	(124.6)	169.6	(17.4)	(981.7)
P/E (x)	n.m.	n.m.	n.m.	29.9	9.6
EV/EBITDA (x)	n.m.	n.m.	n.m.	63.5	13.2
P/BV (x)	8.9	13.7	n.m.	n.m.	3.1

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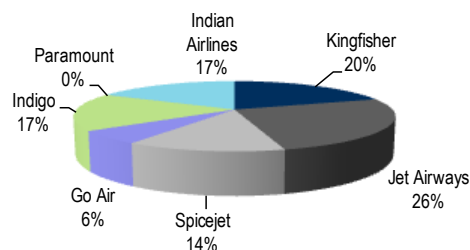
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CMP	Rs 25
Target	NA
Rating	NOT RATED

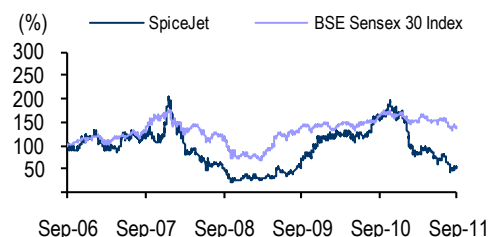
Company data

Market cap (Rs mn / US\$ mn)	9,932 / 208
Outstanding equity shares (m)	405
BVPS (Rs)	8
Free float (%)	61.4
52-week high / low (Rs)	92 / 21
2-month avg. daily vol (mn) / value (US\$ mn)	4 / 2
ADR/GDR premium (%)	n.a.

Domestic Market Share (as of FY11)



Stock performance



Profit and Loss statement

Y/E 31 Mar (Rs mn)	FY07A	FY08A	FY09A	FY10A	FY11A
Total revenue	6,438	12,950	16,894	21,811	28,795
EBITDA	(1,608)	(2,520)	(4,379)	314	672
EBIT	(1,666)	(2,598)	(4,451)	238	583
Interest	(42)	(137)	(160)	(114)	(112)
Other income/(Expense)	1,045	1,436	1,241	610	811
Exceptional items	0	0	0	0	0
EBT	(664)	(1,300)	(3,371)	734	1,282
Income taxes	(10)	(24)	(33)	(64)	(247)
Extraordinary items	(34)	(11)	(121)	(56)	(23)
Min int./Inc. from associates	0	0	0	0	0
Reported net profit	(707)	(1,335)	(3,525)	614	1,012
Adjustments	34	11	121	56	23
Adjusted net profit	(674)	(1,324)	(3,404)	670	1,034

Balance sheet

Y/E 31 Mar (Rs mn)	FY07A	FY08A	FY09A	FY10A	FY11A
Accounts payable	476	877	1,564	1,548	2,536
Other current liabilities	5,980	6,340	4,094	5,873	4,408
Provisions	415	695	1,257	1,507	83
Debt funds	4,322	5,316	4,888	4,383	858
Other liabilities	0	0	0	0	0
Equity capital	2,407	2,407	2,410	2,419	4,054
Reserves & surplus	(561)	(2,127)	(6,705)	(5,841)	(843)
Shareholder's funds	1,846	280	(4,294)	(3,422)	3,211
Total liabilities	13,039	13,507	7,508	9,891	11,096
Cash and cash eq	3,510	5,995	3,080	4,507	1,922
Accounts receivable	56	16	124	190	172
Inventories	79	111	125	147	204
Other current assets	1,153	1,742	1,651	1,128	1,817
Investments	812	4	0	0	0
Net fixed assets	484	651	676	670	867
CWIP	6,944	4,989	1,853	3,249	6,114
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	13,039	13,507	7,508	9,891	11,096

Cash flow statement

Y/E 31 Mar (Rs mn)	FY07A	FY08A	FY09A	FY10A	FY11A
Net income + Depreciation	(649)	(1,257)	(3,453)	691	1,101
Interest expenses	27	90	118	61	48
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(340)	174	289	779	(1,283)
Other operating cash flow	(531)	(1,133)	(294)	(257)	(322)
Cash flow from operations	(1,493)	(2,126)	(3,339)	1,274	(455)
Capital expenditure	(122)	(254)	(124)	(93)	(3,202)
Change in investments	(1,635)	959	6,201	37	168
Other investing cash flow	69	124	388	(184)	1,809
Cash flow from investing	(1,687)	829	6,465	(239)	(1,225)
Issue of equity	2,924	(14)	61	29	573
Issue/repay debt	239	1,408	(1,334)	7	71
Interest expenses	(13)	(74)	(100)	(63)	(125)
Dividends paid	0	0	0	0	0
Other financing cash flow	3,385	5,929	1,261	3,247	1,823
Cash flow from financing	6,535	7,248	(112)	3,220	2,342
Change in cash & cash eq	3,355	5,952	3,014	4,254	662
Closing cash & cash eq	3,510	5,995	3,080	4,507	1,922

Per share data

Y/E 31 Mar (Rs)	FY07A	FY08A	FY09A	FY10A	FY11A
Reported EPS	(3.7)	(5.5)	(14.3)	2.5	2.5
Adjusted EPS	(3.5)	(5.5)	(13.8)	2.7	2.6
DPS	0.0	0.0	0.0	0.0	0.0
BVPS	9.7	1.2	(17.4)	(13.8)	7.9

Valuation ratios

Y/E 31 Mar (x)	FY07A	FY08A	FY09A	FY10A	FY11A
EV/Sales	2.6	0.2	0.9	0.9	0.3
EV/EBITDA	n.m.	n.m.	n.m.	63.5	13.2
P/E	n.m.	n.m.	n.m.	29.9	9.6
P/BV	8.9	13.7	n.m.	n.m.	3.1

Financial ratios

Y/E 31 Mar	FY07A	FY08A	FY09A	FY10A	FY11A
Profitability & Return ratios (%)					
EBITDA margin	(25.0)	(19.5)	(25.9)	1.4	2.3
EBIT margin	(25.9)	(20.1)	(26.3)	1.1	2.0
Net profit margin	(10.5)	(10.2)	(20.1)	3.1	3.6
ROE	(78.4)	(124.6)	169.6	(17.4)	(981.7)
ROCE	(32.5)	(44.2)	(143.8)	27.9	18.7
Working Capital & Liquidity ratios					
Receivables (days)	3	1	2	3	2
Inventory (days)	6	5	5	6	5
Payables (days)	52	35	47	70	61
Current ratio (x)	0.7	0.6	0.5	0.5	0.5
Quick ratio (x)	0.7	0.6	0.4	0.5	0.5
Turnover & Leverage ratios (x)					
Gross asset turnover	10.6	17.4	18.5	22.0	25.0
Total asset turnover	0.7	1.0	1.6	2.5	2.7
Interest coverage ratio	(39.2)	(18.9)	(27.8)	2.1	5.2
Adjusted debt/equity	2.3	19.0	(1.1)	(1.3)	0.3

Quarterly trend

Particulars	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12
Revenue (Rs mn)	7,079	6,030	8,200	7,487	9,328
YoY growth (%)	34.9	34.3	26.6	33.8	31.8
QoQ growth (%)	26.5	(14.8)	36.0	(8.7)	24.6
EBITDA (Rs mn)	585	(216)	1,039	(821)	(795)
EBITDA margin (%)	8.3	(3.6)	12.7	(11.0)	(8.5)
Adj PAT (Rs mn)	575	101	944	(607)	(719)
YoY growth (%)	117.6	n.m.	(14.1)	n.m.	n.m.
QoQ growth (%)	97.9	(82.4)	833.9	n.m.	18.4

DuPont analysis

(%)	FY07A	FY08A	FY09A	FY10A	FY11A
Tax burden (Net income/PBT)	101.5	101.9	101.0	91.3	80.7
Interest burden (PBT/EBIT)	39.8	50.0	75.7	308.9	219.9
EBIT margin (EBIT/Revenue)	(25.9)	(20.1)	(26.3)	1.1	2.0
Asset turnover (Revenue/Avg TA)	68.6	97.6	160.8	250.7	274.4
Leverage (Avg TA/Avg equity)	1,091.8	1,249.0	(523.5)	(225.5)	(9,959.5)
Return on equity	(78.4)	(124.6)	169.6	(17.4)	(981.7)

Company profile

SpiceJet Limited is one of India's largest budget airline with ~14% market share currently. The Company operates ~170 flights daily with a fleet of 27 aircraft currently in operation. Spicejet (began services in May'05) started its international operations from H2FY11 with Kathmandu in Nepal and Colombo as first two destination. During FY11, SpiceJet went through a major shareholding change with Mr. Kalanithi Maran alongwith KALAirways Private Limited, acquiring 38.66% stake in the company from the erstwhile promoter.

Shareholding pattern

(%)	Dec-2010	Mar-2011	Jun-2011
Promoters	38.6	38.6	38.6
FIs	22.8	18.7	15.1
Banks and FIs	16.5	15.1	12.1
Public	22.1	27.6	34.2

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