

Kingfisher Airlines

Dropping coverage; Sell at every rise

May 31, 2012

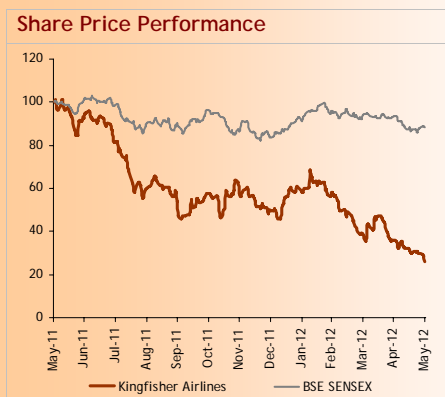
CMP (₹)	Absolute Rating
10.20	SELL

Market Info (as on May 30, 2012)	
BSE Sensex	16,218
Nifty S&P	4,924

Stock Detail	
BSE Group	B
BSE Code	532747
NSE Code	KFA
Bloomberg Code	KAIR IN
Market Cap (₹ bn)	7.09
Free Float (%)	50%
52wk Hi/Lo	44 / 10
Avg. Daily Volume (NSE)	9665267
Face Value / Div. per share (₹)	10.00 / 0.0
Shares Outstanding (mn)	675.4

Shareholding Pattern (in %)			
Promoters	FII	DII	Others
42.93	1.15	15.93	39.99

Financial Snapshot (Consol)					(₹mn)
Y/E Mar	FY11	FY12(P)	FY13E	FY14E	
Net Sales	62,334	54,934	53,411	42,108	
EBITDA	(1,219)	(10,768)	(8,639)	(7,080)	
PAT	(10,273)	(23,280)	(17,508)	(19,774)	
EPS	(21)	(40)	(30)	-34.2	
ROE (%)	(73)	(96)	(71)	(79.9)	
ROCE (%)	(1)	(8)	(6)	(4.0)	
P/E	(2)	(0)	(0)	-0.3	
EV/EBITDA	(74)	(8)	(12)	-19.1	



Rel. Perf.	1Mth	3 Mths	6Mths	1Yr
KFA (%)	(27.5)	(55.2)	(54.2)	(73.1)
SENSEX (%)	(5.8)	(8.1)	1.2	(10.5)

Source: Company data, GEPL Capital Research

Crash landing expected; limited lifejackets on-board

- Kingfisher Airlines (KFA) reported a 52.2% Y-o-Y decline in revenues to ₹7.4 bn driven by a 44% Y-o-Y de-growth in RPKM (demand) and 14.6% Y-o-Y de-growth in yields (revenue/RPKM).
- The passenger load factor (PLF) declined by 1050bps Y-o-Y to 71.3% even as the capacity (ASKM) de-grew 25.5% Y-o-Y with fleet reduction. The feet size fell to 55 in Q4FY12 as compared to 66 in Q4FY11.
- Higher fuel prices (73.5% of sales in Q4FY12 vs 43.1% in Q4FY11) and higher staff cost (18.5% of sales in Q4FY12 vs 11.1% in Q4FY11) led to KFA reporting an EBITDAR loss of Rs2.28 bn in Q4FY12 vs an EBITDAR profit of Rs468 mn in Q4FY11. The lease rentals fell by ~60% to Rs1 bn led by the grounding and returning of fleet.
- The company also changed its accounting policy leading to lower than expected other income. However, extra-ordinary items of Rs10.4 bn ensured that the losses in Q4FY12 widened to Rs11.5 bn vs Rs3.55 bn in Q4FY11.

Result Highlights

Company to pull-out of historically higher margin international business

The international revenues de-grew by 46.7% Y-o-Y driven by the company's decision to pull out of loss making international routes. Fuel cost however surged to 85.9% of sales for its international operations leading to an EBITDAR loss of Rs 980 mn and EBITDA loss of Rs1.6 bn.

Domestic business (non)- performance clearly visible

The domestic revenues de-grew by 66% Y-o-Y driven to Rs4.2 bn. This was led by lower flights in the quarter due to a) grounding and returning of fleet, b) strike by employees, c) IT department freezing their accounts, d) OMCs putting it on a cash-and-carry basis etc.

These above factors led to the market share falling to 6.4% in Mar'12 from 20% in Mar'11. The yields (ticket prices) too plunged by 35% Y-o-Y as KFA tried to pursue travelers with lower fares. The high fixed cost of the industry ensured the EBITDA loss widened to Rs2.8 bn for the domestic business.

Expect the high debt to weigh strongly over KFA in the next few quarters

The current year saw KFA's debt balloon to ~Rs80 bn. Given the higher cost involved for the company and the reduction in its revenue stream we believe debt repayment has become a bigger challenge for the company. Consequently, we expect the interest burden to weigh heavily on their financials and lead to further erosion of net worth in the near future.

Valuation & Viewpoint

We do not expect the "holding plan" stated to KFA with a limited fleet to lead to any progress for the airline. We also expect the reconfiguration of aircraft to remain a challenge for the company despite the company's mission to operate on a full-scale in the next 12 months. Hence, we do not see any value in the company and expect the interest burden to weigh heavily on the company given the sharp fall in revenues. Consequently we are removing KFA from our coverage universe and advise clients to exit from any current holdings.

Quarterly Result Snapshot

Y/E Mar ₹mn	Q4FY12	Q4FY11	Y-o-Y Chg	Q3FY12	Q-o-Q Chg
Net Sales	7,413	15,514	(52.2)%	13,423	(44.8)%
EBITDA	(3,279)	(2,007)	NA	(3,521)	NA
PAT	(11,515)	(3,554)	NA	(4,443)	NA
EPS	(23.13)	(7.14)	NA	(8.92)	NA
Margin Profile			Y-o-Y Chg		Q-o-Q Chg
EBITDA Margin %	NA	NA	NA	NA	NA
PAT Margin%	NA	NA	NA	NA	NA

Source: Company data, GEPL Capital Research

Quarterly Financial table

Y/E Mar ₹mn	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12
Net sales	15,514	18,816	15,282	13,423	7,413
Y-o-Y (%)	14.3	14.7	10.5	(19.1)	(52.2)
Q-o-Q (%)	(6.5)	21.3	(18.8)	(12.2)	(44.8)
Total expenditure	15,046	16,591	16,513	14,222	9,691
Fuel cost	6,683	8,451	8,168	7,388	5,451
% of sales	43.1	44.9	53.5	55.0	73.5
Y-o-Y (%)	38.1	44.3	70.2	36.8	(18.4)
Q-o-Q (%)	23.7	26.5	(3.4)	(9.5)	(26.2)
Staff cost	1,721	1,737	1,832	1,757	1,370
% of sales	11.1	9.2	12.0	13.1	18.5
Y-o-Y (%)	9.6	6.3	6.2	4.5	(20.4)
Q-o-Q (%)	2.4	0.9	5.5	(4.1)	(22.0)
Other expenses	6,642	6,403	6,513	5,078	2,870
% of sales	42.8	34.0	42.6	37.8	38.7
Y-o-Y (%)	(4.1)	12.8	17.0	(19.7)	(56.8)
Q-o-Q (%)	5.0	(3.6)	1.7	(22.0)	(43.5)
EBIDTAR	468	2,226	(1,232)	(799)	(2,278)
EBIDTAR (%)	3.0	11.8	NA	NA	NA
Aircraft lease rentals	2,474	2,473	2,488	2,722	1,001
% of sales	15.9	13.1	16.3	20.3	13.5
Y-o-Y (%)	(2.0)	2.9	(1.3)	11.5	(59.5)
Q-o-Q (%)	1.3	(0.1)	0.6	9.4	(63.2)
EBIDTA	(2,007)	(247)	(3,720)	(3,521)	(3,279)
EBIDTAM (%)	NA	NA	NA	NA	NA
Y-o-Y (bps)	NA	NA	NA	NA	NA
Y-o-Y (%)	NA	NA	NA	NA	NA
Other Income	960	294	1,021	2,051	435
Depreciation	619	865	785	836	932
Y-o-Y (%)	(4.6)	63.3	28.1	35.1	7.7
EBIT	(1,665)	(819)	(3,484)	(2,306)	(3,776)
Interest	2,888	3,058	3,344	3,472	2,889
Y-o-Y (%)	(10.4)	(15.6)	(1.5)	20.2	(5.5)
PBT	(4,554)	(3,877)	(6,828)	(5,779)	(6,666)
Extra - ordinary items	(593)	(24)	(110)	(798)	(10,380)
Tax	(1,593)	(1,266)	(2,251)	(2,134)	(5,530)
Tax rate (%)	35.0	32.6	33.0	36.9	83.0
Add/(less): prior period adjustment	0.0	0.0	0.0	0.0	0.0
Profit after tax	(3,554)	(2,635)	(4,687)	(4,443)	(11,515)
NPM (%)	NA	NA	NA	NA	NA
Y-o-Y (%)	NA	NA	NA	NA	NA
Q-o-Q (%)	NA	NA	NA	NA	NA
EPS (Rs)	(7.14)	(5.29)	(9.42)	(8.92)	(23.13)

Source: Company data, GEPL Capital Research

Kingfisher Airlines

May 31, 2012

Income Statement

Y/E March (₹mn)	FY10(A)	FY11(A)	FY12(P)	FY13(E)	FY14(E)
Total net revenues	50,679	62,334	54,934	53,411	42,108
Fuel Cost	18,030	22,740	29,459	25,535	19,524
Gross Profit	32,649	39,594	25,475	27,876	22,585
Employee Cost	6,888	6,760	6,695	7,025	6,428
Other Expenditure	23,817	24,213	20,863	21,382	16,574
EBITDAR	1,945	8,621	(2,083)	(530)	(417)
<i>EBITDAR Margin (%)</i>	<i>3.8</i>	<i>13.8</i>	<i>(3.8)</i>	<i>(1.0)</i>	<i>(1.0)</i>
Lease Rental	10,938	9,840	8,685	8,108	6,663
EBITDA	(8,993)	(1,219)	(10,768)	(8,639)	(7,080)
<i>EBITDA Margin (%)</i>	<i>(17.7)</i>	<i>(2.0)</i>	<i>(19.6)</i>	<i>(16.2)</i>	<i>(16.8)</i>
Depreciation	2,173	2,410	3,419	2,228	2,273
Other Income	2,031	2,622	2,215	1,360	1,360
Interest (Net)	10,965	13,129	12,763	16,241	21,086
PBT	(20,100)	(14,137)	(24,734)	(25,747)	(29,079)
<i>PBT Margin (%)</i>	<i>(61.6)</i>	<i>(35.7)</i>	<i>(97.1)</i>	<i>(92.4)</i>	<i>(128.8)</i>
Tax	(7,707)	(4,935)	(11,181)	(8,239)	(9,305)
Minority Interest	0	0	0	0	0
Adjusted PAT	(12,393)	(9,203)	(13,554)	(17,508)	(19,774)
<i>Extraordinary /exce.</i>	<i>(4,079)</i>	<i>(1,071)</i>	<i>(9,727)</i>	<i>0</i>	<i>0</i>
Reported PAT	(16,472)	(10,273)	(23,280)	(17,508)	(19,774)

Key Ratio

Y/E (₹mn)	FY10(A)	FY11(A)	FY12(P)	FY13(E)	FY14(E)
Per Share Ratios					
Fully diluted E P S	(61.9)	(20.6)	(40.3)	(30.3)	(34.2)
Book Value	(146.6)	(59.3)	(90.1)	(120.4)	(154.6)
Dividend per share	0.0	0.0	0.0	0.0	0.0
per share FCFO	(55.8)	(16.6)	(34.4)	(26.5)	(30.3)
Valuation Ratio					
P/E	(1.2)	(2.2)	(0.4)	(0.4)	(0.3)
P/BV	(0.5)	(0.8)	(0.2)	(0.1)	(0.1)
EV/EBITDA	(10.8)	(74.2)	(8.2)	(11.8)	(19.1)
EV/Sales	1.9	1.5	1.6	1.9	3.2
Price/ FCFO per share	(1.3)	(2.7)	(0.5)	(0.4)	(0.4)
Growth Ratios					
Sales Growth	(3.3)	23.0	(11.9)	(2.8)	(21.2)
EBITDA Growth	NA	NA	NA	NA	NA
Net Profit Growth	NA	NA	NA	NA	NA
EPS Growth	NA	NA	NA	NA	NA
Common size Ratios					
Gross Margin	64.4	63.5	46.4	52.2	53.6
EBITDA Margin	(17.7)	(2.0)	(19.6)	(16.2)	(16.8)
PAT Margin	(0.3)	(0.2)	(0.4)	(0.3)	(0.5)
Employee Cost	13.6	10.8	12.2	13.2	15.3
S&G Expenses	47.0	38.8	38.0	40.0	39.4
Return ratios					
RoAE	(377.0)	(72.9)	(95.6)	(70.8)	(79.9)
RoACE	(8.6)	(0.8)	(8.1)	(5.7)	(4.0)
Turnover ratios (days)					
Debtors (Days)	21.5	22.3	21.3	11.8	11
Creditors (Days)	166.3	157.0	166.8	207.4	275
Inventory (Days)	11.2	10.3	14.5	13.8	12
Net working capital	(93.6)	(66.9)	(146.6)	(257.7)	(378)
Solvency Ratios					
Total Debt/Equity	(2.0)	(2.4)	(1.5)	(1.4)	(1.4)
Interest coverage	(0.6)	(0.1)	(0.6)	(0.4)	(0.3)

Source: Company data, GEPL Capital Research

Balance Sheet

Y/E March (₹mn)	FY10(A)	FY11(A)	FY12(P)	FY13(E)	FY14(E)
Equity capital	2,659	4,978	5,776	5,776	5,776
Reserves & Surplus	(42,614)	(40,021)	(63,330)	(80,838)	(100,612)
Preference Capital	970	5,531	5,531	5,531	5,531
Net worth	(38,984)	(29,512)	(52,023)	(69,531)	(89,305)
Minority interest	0	0	0	0	0
Deffed tax liability	0	0	0	0	0
Total debt	79,226	70,571	80,535	95,535	124,035
Total Liab. & Equity	40,242	41,059	28,512	26,004	34,730
Net block	15,545	15,719	14,300	12,573	10,800
Capital WIP	9,806	6,733	4,700	6,700	8,700
Total fixed assets	26,808	23,711	20,250	20,523	20,750
Investments	1	1	0	0	0
Goodwill	0	0	0	0	0
Current Assets	24,571	29,738	34,918	26,643	15,893
Inventories	1,649	1,876	2,500	1,536	1,211
Debtors	3,225	4,405	2,000	1,463	1,154
Cash & bank	2,065	2,524	2,298	11	(5,103)
Loans & advances	17,633	20,933	28,120	23,632	18,632
Other Current Assets	0	0	0	0	0
Current Liab. & Prov.	35,481	41,670	67,115	69,859	59,916
Creditors	26,027	28,632	31,425	39,100	35,039
Other liabilities	4,926	5,828	8,995	10,243	8,076
Provisions	468	622	6,695	2,957	2,958
Net Working capital	24,344	29,278	40,459	48,698	58,003
Miscellaneous Exp	0	0	0	0	0
Total Assets	40,242	41,059	28,512	26,004	34,730

Cash Flow

Y/E March, (₹mn)	FY10(A)	FY11(A)	FY12(P)	FY13(E)	FY14(E)
PBT	(20,100)	(14,137)	(24,734)	(25,747)	(29,079)
Add: Depreciation	2,173	2,410	3,419	2,228	2,273
Add: Interest expense	10,965	13,129	12,763	16,241	21,086
Less: Other Income	(2,031)	(2,622)	(2,215)	(1,360)	(1,360)
Other Adjustments	(4,079)	(1,071)	(9,727)	0	0
Chg in working capital	(3,814)	1,480	20,040	8,733	(4,308)
Taxes paid	(7,707)	(4,935)	(11,181)	(8,239)	(9,305)
CF from operations	(24,593)	(5,744)	(11,635)	(8,145)	(20,693)
Chg in fixed assets	4,749	687	42	(2,500)	(2,500)
Chg in Intangible Asset	0	0	0	0	0
Chg in investments	0	0	0	0	0
Other income	2,031	2,622	2,215	1,360	1,360
CF from investing acti.	6,780	3,308	2,258	(1,140)	(1,140)
Chg in debt	22,570	(8,655)	9,964	15,000	28,500
Chg Equity capital	0	14,951	799	0	0
Chg in Pref. capital	0	0	0	0	0
Dividend & dividend tax	0	0	0	0	0
Interest paid	(10,965)	(13,129)	(12,763)	(16,241)	(21,086)
Other Adjustments	(7,646)	(4,934)	(11,181)	(8,239)	(9,305)
CF from financing acti.	3,959	(11,768)	(13,181)	(9,480)	(1,891)
Chg in cash	346	459	(226)	(2,287)	(5,114)
Opening cash	1,719	2,065	2,524	2,298	11
Closing cash	2,065	2,524	2,298	11	(5,103)

Du-Pont Analysis

(%)	FY10(A)	FY11(A)	FY12(P)	FY13(E)	FY14(E)
Net Profit Margin	(32.5)	(16.5)	(42.4)	(32.8)	(47.0)
Asset Turnover	1.3	1.5	1.9	2.1	1.2
Leverage	(1.0)	(1.4)	(0.5)	(0.4)	(0.4)
ROE	(377.0)	(72.9)	(95.6)	(70.8)	(79.9)

NOTES

GEPL CAPITAL Pvt Ltd

Reg Office: D-21 Dhanraj mahal, CSM Marg, Colaba, Mumbai 400001

Analyst Certification

The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report:

Name : Sunil Sewhani

Sector : Aviation

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