

INDUSTRY	AVIATION		
CMP (as on 14 Aug 2017)	Rs 123		
Target Price	Rs 119		
Nifty	9,794		
Sensex	31,449		
KEY STOCK DATA			
Bloomberg	SJET IN		
No. of Shares (mn)	599		
MCap (Rs bn) / (\$ mn)	73/1,145		
6m avg traded value (Rs mn)	574		
STOCK PERFORMANCE (%)			
52 Week high / low	Rs 136/55		
	3M	6M	12M
Absolute (%)	3.9	90.4	107.5
Relative (%)	(0.3)	79.4	95.7
SHAREHOLDING PATTERN (%)			
Promoters	60.25		
FIs & Local MFs	4.92		
FPIs	5.49		
Public & Others	29.34		
Source : BSE			

Swing in the yield

SpiceJet's 1QFY18 results came in slightly below expectations. Revenue grew 23% to Rs 18.7bn, as yield improved 4%. PAT was up 17.6% at Rs 1.8 bn.

ASKM/RPKM growth was strong at 18.3%/20.5% respectively, with passenger growth at 18.4%.

Ancillary revenue growth was flat at Rs 1.6bn, despite strong passenger growth. Fuel cost increased 34%, as average ATF prices were up 16% YoY. The EBITDAR margin was down ~5pp owing to higher fuel cost. Other income was down 58% QoQ at Rs 199mn.

We have been maintaining that yield will harden owing to an improving demand-supply scenario. We maintain our view, and remain structurally positive on the Indian aviation market. Though we have considered dilution (~24%) of the warrants issued to the earlier promoter, the arbitration verdict is expected in the next few months. Any verdict which does not lead to dilution will be positive and an upside risk to our assumption. As of now, we

Financial Summary

(Rs mn)	1QFY18	1QFY17	YoY (%)	4QFY17	QoQ (%)	FY16	FY17P	FY18E	FY19E
Net Sales	18,695	15,215	22.9	16,257	15.0	50,881	61,914	76,430	92,643
EBITDAR	4,519	2,872	57.3	3,399	33.0	12,376	15,040	21,072	25,611
APAT	1,752	1,490	17.6	416	320.7	3,435	3,923	7,930	7,789
Diluted EPS (Rs)	2.9	2.5	17.5	0.7	320.3	5.7	6.5	10.1	9.9
P/E (x)						20.8	18.2	11.8	12.0
EV / EBITDAR (x)						11.7	9.6	6.9	5.6
RoE (%)						N.A.	N.A.	N.A.	88.3

Source: Company, HDFC sec Inst Research

maintain NEUTRAL with a revised TP of Rs 119, based on 12x FY19-EPS.

Highlights of the quarter

- Yield pressure:** Load factor remained high at 92.3%. Yield bounced back strongly, and is expected to remain firm owing to balanced demand-supply scenario.
- Fleet addition:** SpiceJet added four aircraft during the quarter. It now plans to add another six B737 and two Bombardiers in 2H. Also, it has further placed an order for 20 Boeing 737-MAX-10 aircraft and up to 50 Bombardier Q400s. With this, it has further added to its strong order pipeline of aircraft delivery. We expect the aircraft to be funded through sale and leasehold.
- Near-term outlook:** Profitability is expected to be good, owing to a balanced demand-supply market, along with the benefits of an appreciating rupee and crude oil prices. Low passenger growth is a key risk.

Topline was in-line with expectations, as yield improved 4%

Lease rental declined and maintenance cost surged due to classification issue.

Maintenance under wet lease was reported as lease rentals. This quarter Spicejet had few wetleases.

Employee costs jumped sharply, owing to new hiring for fleet expansion in the coming quarter

EBITDAR margin dropped by 513bps on higher fuel and other costs

Quarterly Financials Snapshot

Particulars (Rs mn)	1QFY18	1QFY17	YoY (%)	4QFY17	QoQ (%)
Net Sales	18,695	15,215	23	16,257	15
Aircraft Fuel	5,344	3,997	34	5,518	(3)
Lease Rentals	2,309	2,595	(11)	2,518	(8)
Airport Charges	1,600	1,120	43	1,492	7
Aircraft Maintenance	3,005	1,972	52	2,435	23
Employee Expenses	1,965	1,475	33	1,837	7
Other Expenses	2,189	2,133	3	1,823	20
EBITDA	2,284	1,924	19	634	260
EBITDAR	4,593	4,519	2	3,152	46
Depreciation	561	449	25	529	6
EBIT	1,723	1,475	N.A	104	1,549
Other Income	199	224	(11)	479	(58)
Interest Cost	170	209	(19)	167	2
PBT	1,752	1,490	17.6	416	321
Tax	-	-	N.A.	-	N.A.
APAT	1,752	1,490	17.6	416	321
EPS (Rs)	2.9	2.5	17.6	0.7	320.3
Fleet Size (Nos.)	55	42	31%	51	8%

Source: Company, HDFC sec Inst Research

Margin Analysis

	1QFY18	1QFY17	YoY (bps)	4QFY17	QoQ (bps)
Aircraft Fuel % Net Sales	28.6	26.3	232	33.9	(536)
Lease Rentals % Net Sales	12.4	17.1	(470)	15.5	(314)
Airport Charges % Net Sales	8.6	7.4	119	9.2	(62)
Aircraft Maint % Net Sales	16.1	13.0	311	15.0	109
Employee Expenses % Net Sales	10.5	9.7	82	11.3	(79)
Other Expenses % Net Sales	11.7	14.0	(231)	11.2	50
EBITDA Margin (%)	12.2	12.6	(43)	3.9	832
EBITDAR Margin (%)	24.6	29.7	(513)	19.4	518
Tax Rate (%)	-	-	-	-	-
PAT Margin (%)	9.4	9.8	(42)	2.6	681

Source: Company, HDFC sec Inst Research

Cost structure is stable for Spicejet now

We have factored in a dilution of warrant conversion in FY18E

We have lowered ancillary revenue assumption given sluggish revenue in 1Q.

We have increased ASKM growth given higher expected fleet for FY18 and FY19

Key Assumptions

	FY15	FY16	FY17P	FY18E	FY19E
Fleet Size	32	43	51	62	69
ASKM (in mn)	14,541	12,916	16,439	19,438	23,058
YoY Growth (%)	(21.4%)	(11.2%)	27.3%	18.2%	18.6%
Load Factor	81%	91%	92%	92%	93%
RPKM (in mn)	11,833	11,700	15,053	17,786	21,329
YoY Growth (%)	(11.5%)	(1.1%)	28.7%	18.2%	19.9%
Yield (Rs)	4.06	3.81	3.62	3.78	3.82
YoY Growth (%)	(6.0%)	(6.2%)	(4.9%)	4.3%	1.1%
Operating Revenue (Rs mn)	52,015	50,889	61,914	76,430	92,643
YoY Growth (%)	(17.5%)	(2.2%)	21.7%	23.4%	21.2%
RASK	3.58	3.94	3.77	3.93	4.02
Aircraft Fuel/ASKM	1.66	1.08	1.13	1.12	1.18
Brent Crude (USD/bbl)	82.7	49.4	46.0	51.0	53.0
Employee Cost/ASKM	0.37	0.38	0.41	0.40	0.41
Lease Rental/ASKM	0.82	0.88	0.58	0.61	0.63
Other Operating Exp./ASKM	1.41	1.52	1.32	1.32	1.35
CASK	4.03	3.53	3.44	3.46	3.56
Non-Fuel Op.Exp/ASKM	2.60	2.78	2.31	2.34	2.38
OPASK	(0.45)	0.41	0.33	0.47	0.46

Source: Company, HDFC sec Inst Research

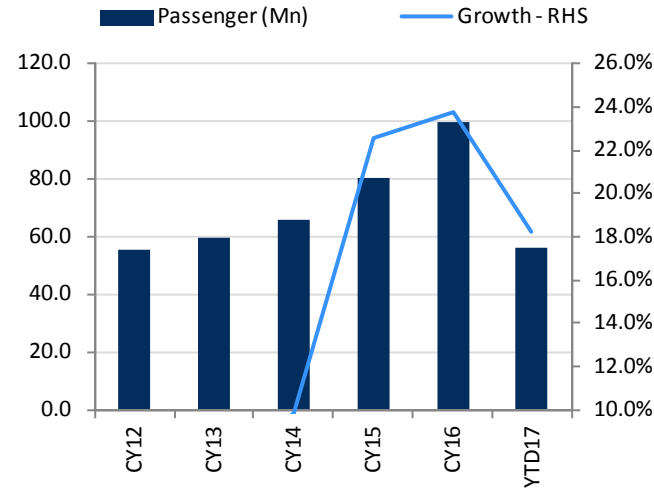
Change In Estimates

Particulars (Rs mn)	FY18E			FY19E		
	New	Old	% Change	New	Old	% Change
Revenues	76,430	77,920	(1.9)	92,643	90,288	2.6
EBITDAR	21,072	21,769	(3.2)	25,611	25,324	1.1
Adj PAT	7,930	8,331	(4.8)	7,789	7,624	2.2
EPS (Rs.)	10.1	10.6	(4.8)	9.9	9.7	2.2

Source: HDFC sec Inst Research

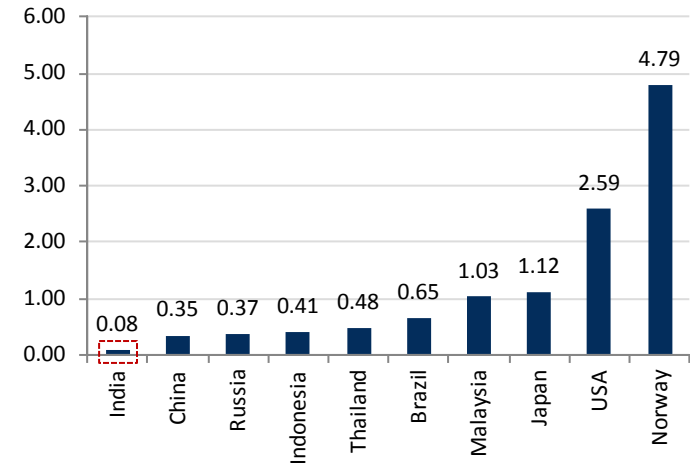
The growth rate is tapering down on a higher base; we expect 15-17% CAGR over the next five years

Passenger growth trend



Source: DCGA, HDFC sec Inst Research,# till Jun'17

Annual Seat Per Capita (CY14)



Source: Indigo RHP, CAPA

Sensitivity of FY18 EPS on Oil And Currency

		Crude Oil (S/bbl)				
		51	53	55	57	59
Rupee/\$	66	14.6	15.7	15.7	14.6	12.5
	67	12.1	13.2	13.2	12.1	10.1
	68	9.0	10.1	10.1	9.0	7.0
	69	5.1	6.2	6.2	5.1	3.0
	70	0.3	1.4	1.4	0.3	-1.8

Source: HDFC sec Inst Research

Sensitivity of FY18 EPS on Yield And Load Factor

		Yield (Rs)				
		3.58	3.68	3.78	3.88	3.98
Load Factor	88%	6.1	7.5	8.9	10.3	11.7
	89%	6.7	8.1	9.5	10.9	12.3
	90%	7.2	8.6	10.1	11.5	12.9
	91%	7.8	9.2	10.6	12.1	13.5
	92%	8.3	9.8	11.2	12.7	14.1

Source: HDFC sec Inst Research

Name	MCap (Rs bn)	CMP (Rs)	Reco	TP (Rs)	P/E FY17E	P/E FY18E	P/E FY19E	ROE FY17E (%)	ROE FY18E (%)	ROE FY19E (%)
Interglobe Aviation	467	1,290	NEU	1,310	28.0	20.6	16.2	59.1	58.0	68.4
Spicejet	71	123	NEU	119	18.2	11.8	12.0	NM.	NM.	88.3

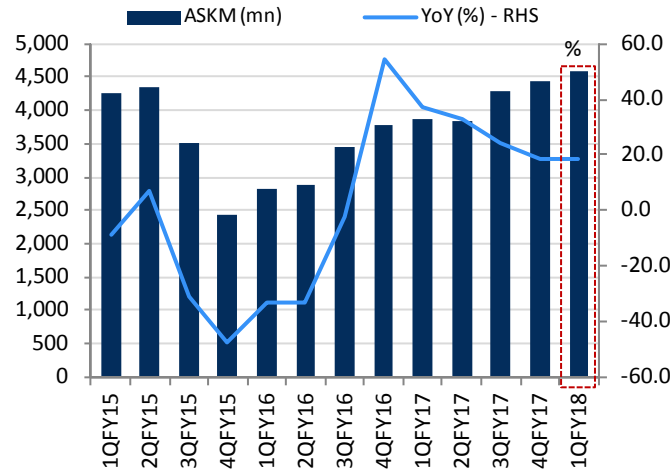
Source: HDFC sec Inst Research

Strategy of boosting revenue through a higher load factor continues

Spicejet has consistently maintained load factor at >90% and its market share in last five quarters

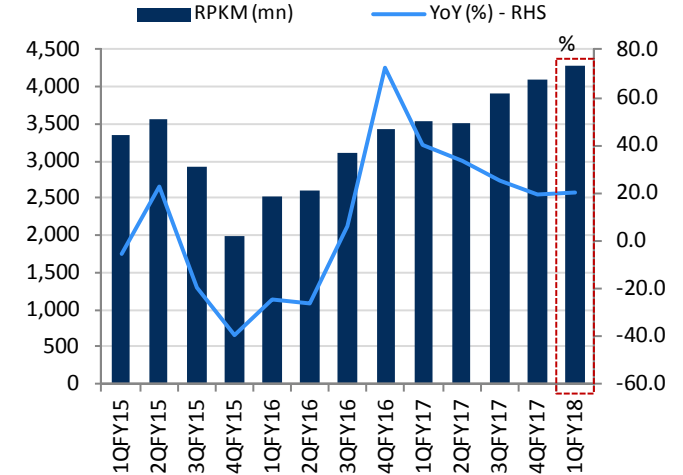
It increased its fleet size to 55 compared to 51 in 4QFY17

SpiceJet's Rising Capacity (ASKM)



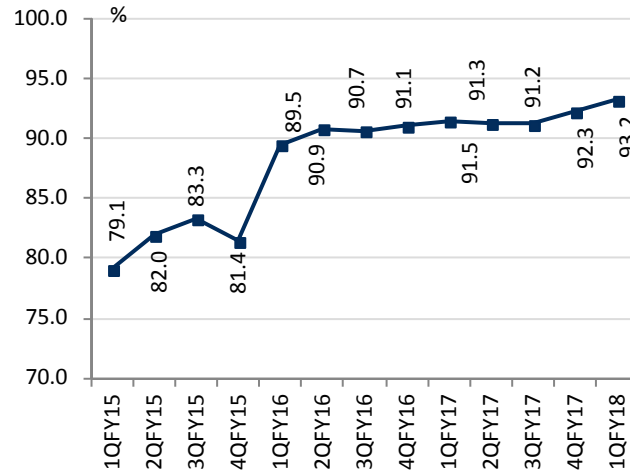
Source: Company, HDFC sec Inst Research

Strong Growth In RPKM continues



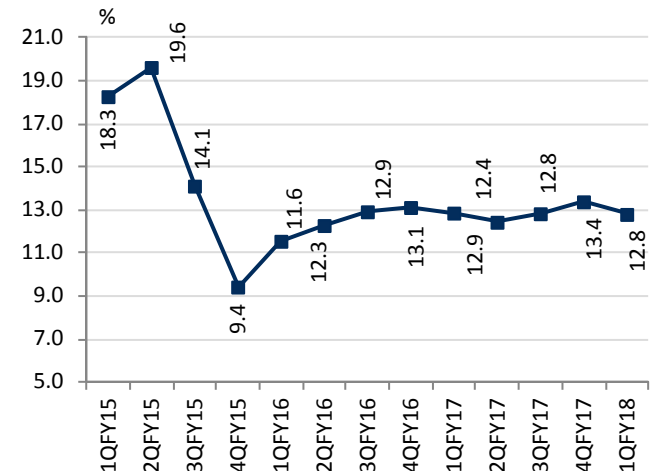
Source: Company, HDFC sec Inst Research

Consistent Strong Load Factor



Source: Company, HDFC sec Inst Research

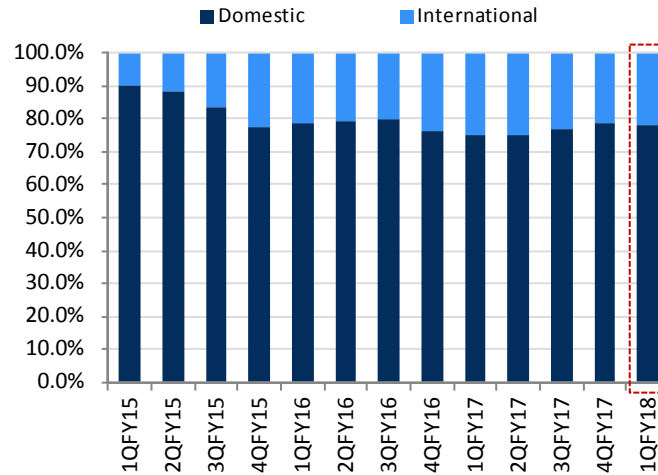
Stable Domestic Market Share



Source: Company, HDFC sec Inst Research

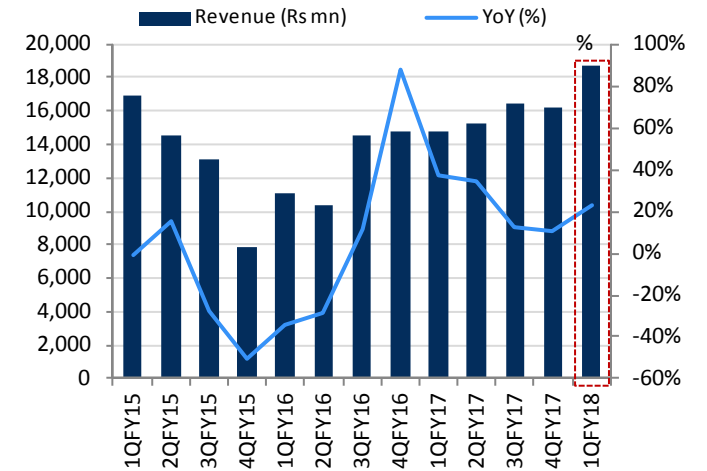
22% to its capacity deployed in international routes

Focus On International Business To Continue



Source: Company, HDFC sec Inst Research

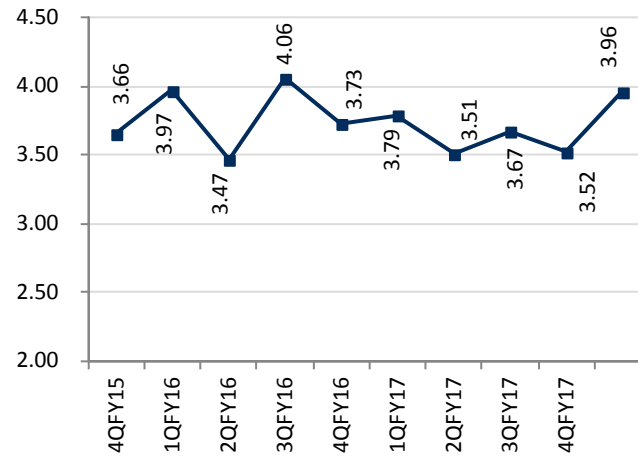
Revenue Growth To Continue With New Capacity



Source: Company, HDFC sec Inst Research

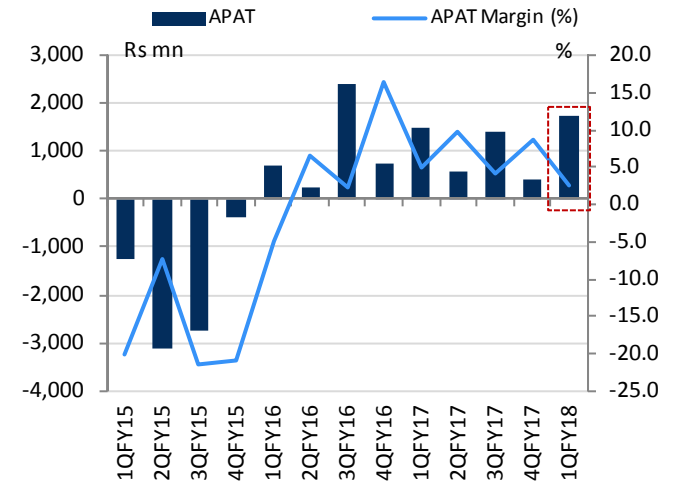
Yields increased during the quarter

Yield improved showing demand buoyancy



Source: Company, HDFC sec Inst Research

NPM pressure eased



Source: Company, HDFC sec Inst Research

Income Statement

Year ending Mar (Rs mn)	FY15	FY16	FY17P	FY18E	FY19E
Net Revenues	52,015	50,881	61,914	76,430	92,643
Growth (%)	(17.5)	(2.2)	21.7	23.4	21.2
Aircraft Fuel	24,096	13,920	18,552	21,820	27,162
Employee Expenses	5,375	4,928	6,735	7,851	9,424
Lease Rental	8,644	8,054	9,606	11,928	14,495
Other Operating Expenses	20,483	19,657	21,586	25,686	31,046
EBITDA	(6,582)	4,322	5,434	9,143	10,516
EBITDA Margin (%)	(12.7)	8.5	8.8	12.0	11.4
EBITDA Growth (%)	(22.7)	(165.7)	25.7	68.3	15.0
EBITDAR	2,062	12,376	15,040	21,072	25,611
EBITDAR Margin (%)	4.0	24.3	24.3	27.6	27.6
Depreciation	1,266	1,176	1,986	2,009	2,089
EBIT	(7,849)	3,146	3,448	7,134	8,427
Other Income (Incl. EO Items)	2,613	1,443	1,125	1,100	1,100
Interest	1,635	1,154	650	304	255
PBT	(6,871)	3,435	3,923	7,930	9,272
Tax (Incl Deferred)	0	0	0	0	1,484
APAT	(6,871)	3,435	3,923	7,930	7,789
EO (Loss) / Profit (Net Of Tax)	862	(637)	(386)	-	-
RPAT	(7,733)	4,072	4,308	7,930	7,789
APAT Growth (%)	(31.5)	(150.0)	14.2	102.2	(1.8)
Adjusted EPS (Rs)	(13.8)	5.7	6.5	10.1	9.9
EPS Growth (%)	(29.0)	(141.5)	14.2	53.7	(1.8)

Source: Company, HDFC sec Inst Research

FY17 numbers are based on abridged financials

Balance Sheet

Year ending Mar (Rs mn)	FY15	FY16	FY17P	FY18E	FY19E
Total Shareholders' Funds	(12,645)	(12,107)	(6,091)	4,921	12,710
Total Debt	14,185	14,362	10,282	8,573	6,937
Other Long -term Liabilities	255	220	461	461	461
Long-term Trade Payables	1,682	-	210	220	231
Long -term Provisions & Others	153	2,822	2,897	3,187	3,506
TOTAL SOURCES OF FUNDS	3,629	5,297	7,759	17,362	25,037
APPLICATION OF FUNDS					
Net Block	17,138	16,021	16,198	14,609	13,570
CWIP	-	-	-	-	-
Investments	-	-	1,398	5,000	5,000
LT Loans & Advances	2,314	3,029	3,108	3,821	4,632
Other Assets	-	200	2,339	2,386	2,892
Total Non-current Assets	19,453	19,250	23,042	25,816	26,094
Inventories	451	665	870	1,227	1,402
Debtors	1,217	434	618	649	787
Other Current Assets	414	647	1,569	1,937	2,348
Cash & Equivalents	580	2,331	2,012	4,510	14,417
Short Term Loans and Advances	3,951	3,710	1,798	2,293	2,779
Total Current Assets	6,613	7,788	6,867	10,616	21,734
Creditors	10,105	7,762	7,381	8,283	10,110
Other Current Liabilities & Provns	12,332	13,979	14,769	11,889	12,680
Total Current Liabilities	22,437	21,741	22,150	20,172	22,790
Net Current Assets	(15,824)	(13,953)	(15,283)	(9,556)	(1,057)
TOTAL APPLICATION OF FUNDS	3,629	5,297	7,759	17,362	25,037

Source: Company, HDFC sec Inst Research

Cash Flow Statement

Year ending Mar (Rs mn)	FY15	FY16	FY17P	FY18E	FY19E
Reported PBT	(6,871)	3,435	4,308	7,930	9,272
Non-operating & EO items	(134)	-	386	-	-
Interest expenses	1,439	997	650	304	255
Depreciation	1,266	1,176	1,986	2,009	2,089
Working Capital Change	258	(2,468)	1,010	(3,229)	1,408
Tax Paid	(68)	(3)	-	-	-
OPERATING CASH FLOW (a)	(4,109)	3,137	8,340	7,014	13,024
Capex	(117)	(532)	(2,163)	(420)	(1,050)
Free Cash Flow (FCF)	(4,226)	2,606	6,177	6,595	11,974
Investments	-	(200)	(1,198)	(3,602)	-
Non-operating Income	2,608	191	(2,339)	(47)	(506)
INVESTING CASH FLOW (b)	2,491	(540)	(5,699)	(4,069)	(1,556)
Debt Issuance/(Repaid)	(996)	(2,683)	(3,870)	(1,699)	(1,625)
Interest Expenses	(1,454)	(1,366)	(650)	(304)	(255)
Others	3,255	1,617	75	290	319
FCFE	(3,422)	174	1,732	4,882	10,413
Share Capital Issuance	999	-	1,191	1,891	-
Dividend	-	-	-	-	-
FINANCING CASH FLOW (c)	1,804	(2,432)	(3,254)	178	(1,561)
NET CASH FLOW (a+b+c)	185	165	(613)	3,123	9,907
EO Items, Others					
Closing Cash & Equivalents	236	745	1,718	5,135	14,417

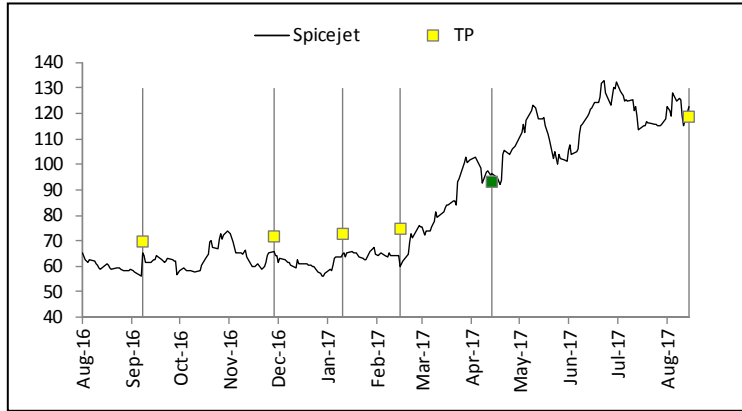
Source: Company, HDFC sec Inst Research

Key Ratios

	FY15	FY16	FY17P	FY18E	FY19E
GPM	53.7	72.6	70.0	71.5	70.7
EBITDA Margin	(12.7)	8.5	8.8	12.0	11.4
APAT Margin	(13.2)	6.8	6.3	10.4	8.4
RoE	N.A.	N.A.	N.A.	N.A.	88.3
RoIC (or Core RoCE)	N.A.	N.A.	N.A.	N.A.	N.A.
RoCE	(150.9)	70.5	52.8	59.4	40.8
EFFICIENCY					
Tax Rate (%)	0.0	0.0	0.0	0.0	16.0
Fixed Asset Turnover (x)	2.4	2.4	2.8	3.3	3.9
Inventory (days)	3.1	4.0	4.5	4.9	5.1
Debtors (days)	9.7	5.9	3.1	3.1	3.1
Other Current Assets (days)	8.2	3.8	6.4	8.3	8.3
Payables (days)	64.2	70.0	48.9	44.9	44.9
Other Current Liab & Provns (days)	72.8	68.2	68.7	55.9	41.8
Cash Conversion Cycle (days)	(116)	(125)	(104)	(85)	(70)
Debt/EBITDA (x)	(2.2)	3.3	1.9	0.9	0.7
Net D/E (x)	N.A.	N.A.	N.A.	N.A.	N.A.
Interest Coverage (x)	(4.8)	2.7	5.3	23.5	33.1
PER SHARE DATA (Rs)					
Adj. EPS	(13.8)	5.7	6.5	10.1	9.9
CEPS	(11.6)	8.8	10.5	12.6	12.5
Dividend	-	-	-	-	-
Book Value	(22.6)	(20.2)	(10.2)	6.2	16.1
VALUATION					
P/E (x)	N.A.	20.8	18.2	11.8	12.0
P/BV (x)	N.A.	N.A.	N.A.	19.1	7.4
EV/EBITDA (x)	(22.0)	33.5	26.6	15.8	13.7
EV/Revenues (x)	2.8	2.8	2.3	1.9	1.6
OCF/EV (%)	(2.8)	2.2	5.8	4.9	9.0
FCF/EV (%)	(2.9)	1.8	4.3	4.6	8.3
FCFE/Mkt Cap (%)	(4.8)	0.2	2.4	6.8	14.6
Dividend Yield (%)	-	-	-	-	-

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
8-Sep-16	65	NEU	70
28-Nov-16	66	NEU	72
10-Jan-17	65	NEU	73
16-Feb-17	60	BUY	75
14-Apr-17	96	NEU	93
14-Aug-17	123	NEU	119

Rating Definitions

- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
- SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

INSTITUTIONAL RESEARCH

Disclosure:

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