



LSE Securities

SpiceJet - Buy

Investment Overview

- SpiceJet reported a net profit of Rs 108.95 crore for the December 2009 quarter against a net loss of Rs 17.96 crore for the Q3 of FY09.
- Being low-cost carrier the airline is set to grow at a higher pace compared to the full service carriers.
- The approval from DGCA to fly on international routes is going to benefit the company in a big way and will also boost its volumes going forward.
- The stock currently trades at 1.27x its EV/EBIDTA, a discount of 96% compared to Jet Airways, which trades at 32.96x its EV/EBIDTA.

Business Overview

SpiceJet, promoted by Royal Airways, is India's most preferred Low Fare Airline, delivering the lowest air fares with the highest consumer value.

The airline currently operates 129 daily flights to 18 destinations all over India, including Ahmedabad, Bangalore, Bagdogra (Darjeeling), Chennai, Coimbatore, Delhi, Guwahati, Goa, Hyderabad, Jammu, Jaipur, Kochi, Kolkata, Mumbai, Pune, Srinagar, Varanasi and Visakhapatnam. Its new generation fleet of 19 Boeing 737-800 / 737-900ER aircraft are backed by cutting edge technology and infrastructure to ensure the highest standards in safety and operating efficiency.

The company's on-time performance is amongst the best in the country and coupled with a Technical Dispatch Reliability of 99.6%, makes it an airline with the least cancellations.

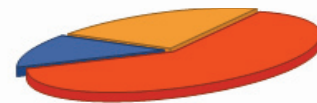
Its market share witnessed a significant increase despite no major capacity induction during the quarter ended December 31, 2009, moving up to 12.5% from 10.5% during the corresponding quarter of the last fiscal. The strong performance comes on the back of better aircraft utilization. SpiceJet consistently carried more passengers per departure than any of its competitors, which indicates customer preference in the airline's favour.

Financial Health

The airline's net turned positive during the October-

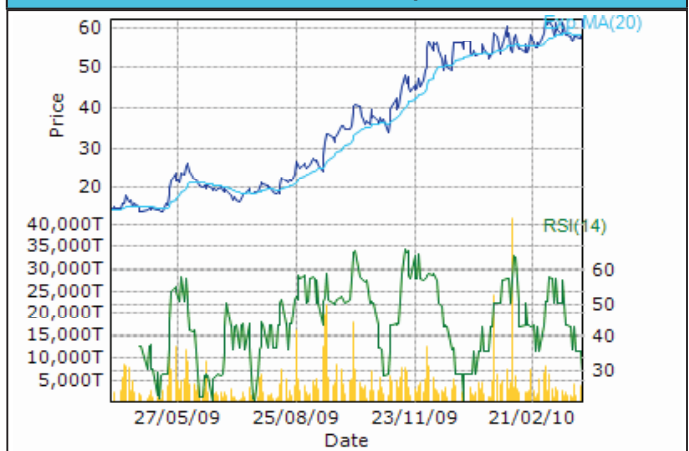
Stock Data		01/04/2010
Current Mkt Price (Rs)		57.90
52 Week High		64.40
52 Week Low		13.85
Mkt Cap (Rs. in Million)		14005.01
Return in last one Month (%)		-4.46

Share Holding



12.89 Foreign Promotor	22.19 Total Institutions
64.92 Total Non-Institutions	

Performance in last one year



Y-o-Y Performance

Particulars	(Rs. in Million)		
	Mar 2009	Mar 2008	Change(%)
Net Sales	16894.48	12949.91	30.46
Other Income	1240.90	1435.88	-13.58
Total Expenditure	21273.87	15469.99	37.52
Operating Profit	-3138.49	-1084.20	189.48
Interest	160.22	137.23	16.75
Profits After Tax	-3404.44	-1323.85	157.16
Reserve & Surplus	-0.01	0.00	216.75
Reported EPS(Rs)	-14.13	-5.50	156.86
Core EBITDA Margin (%)	-25.92	-19.46	33.21



LSE Securities

December 2009 quarter compared to the year ago period.

Net sales for the reporting quarter grew at 35.93% to Rs 642.08 crore from Rs 472.35 crore for the October-December 2008 quarter. Total income for the quarter under review stood at Rs 653.39 crore, up 23.75% over Rs 528.01 crore reported for the same quarter last fiscal.

Its profit before depreciation and tax (PBDT) increased to Rs 110.89 crore during the December 2009 quarter from Rs 3.76 crore for the December 2008 quarter, up 2849%. Operating profit margin for the quarter stood at 17.53%, up by whopping 1523 basis points (bps) compared to 2.30% recorded in the corresponding previous quarter.

For the nine months ended on December 31, 2009, the company posted a net profit of Rs 34 crore against a net loss of Rs 344.74 crore for the same period last fiscal. Turnaround in the bottom line was underpinned by 27% growth in the top line of the airline. Its net sales for the year to date period stood at Rs 1,615.93 crore as compared to Rs 1,272.72 crore for the corresponding period of FY09.

The airline's PBDT for the Apr-Dec'2009 period including prior period adjustments turned positive to Rs 43.75 crore from a negative figure last fiscal. It posted a cash EPS (earnings per share) of 4.60 for the December 2009 quarter.

Latest Developments

- SpiceJet is looking to induct nine more aircraft by 2012. It plans to raise around \$50-75 million to fund its expansion initiatives. Besides this, the company is also considering revising its fares upward by 10%.
- Debt-ridden Dubai World's investment arm -- Istithmar World Capital -- exited the Delhi-based low cost air carrier in February 2010 by offloading its entire 13.4% stake in the latter through two block deals for a total consideration of Rs 160 crore.
- Recently, the airline introduced two direct sectors viz Ahmedabad-Kolkata and Kolkata-Hyderabad in its summer schedule for this year.
- It has received an in-principle approval from the

Q-o-Q Performance			
(Rs. in Million)			
Particulars	Dec 2009	Dec 2008	Change(%)
Net Sales	6420.85	4723.52	35.93
Expenditure	5408.08	5168.55	4.63
Other Income	113.02	556.59	-79.69
EBITDA	1125.80	111.56	909.14
Interest	16.94	70.86	-76.09
Net Profit	1089.47	8.19	13202.44
EBITDA Margin (%)	0.18	0.02	642.38
NPM (%)	0.17	-0.04	-546.15
EPS	4.52	-0.71	-736.62

Profit & Loss			
(Rs. in Million)			
Particulars	Mar 2009	Mar 2008	Change(%)
Net Sales	16894.48	12949.91	30.46
Total Income	18135.38	14385.79	26.06
Total Expenditure	21273.87	15469.99	37.52
Operating Profit	-3138.49	-1084.20	189.48
Profits After Tax	-3404.44	-1323.85	157.16

Balance Sheet			
(Rs. in Million)			
Particulars	Mar 2009	Mar 2008	Change(%)
Share Capital	2410.20	2406.51	0.15
Reserve & Surplus	-6818.61	-2152.71	216.75
Total Liabilities	593.60	5680.98	-89.55
Investments	0.00	3.62	-100.00
Current Liabilities	5657.23	7216.64	-21.61
Net Current Assets	-1934.82	37.55	-5252.65
Total Assests	593.60	5680.98	-89.55

Key Ratios		
Particulars	Mar 2009	Mar 2008
Reported EPS (Rs)	-14.13	-5.50
Core EBITDA Margin (%)	-25.92	-19.46
EBIT Margin (%)	-19.01	-8.98
ROA (%)	-108.52	-22.35
ROE (%)	0.00	-126.11
ROCE (%)	-102.35	-19.62
Price/Book (x)	-0.74	38.69
Net Sales Growth (%)	30.46	101.15
EBIT Growth (%)	176.25	87.08
PAT Growth (%)	157.16	96.49
Total Debt/Mcap (%)	1.51	0.55



LSE Securities

Directorate General of Civil Aviation (DGCA) to launch flights on international routes. The company now awaits the Civil Aviation Ministry's nod for the route allocation. The airline is likely to start overseas operations in June 2010.

Industry Scenario

Indian aviation industry, much like its global counterparts, had a difficult year in FY09. In the first half of the FY09 global commodity rally and resulting surge in crude prices shattered the cost fundamentals of industry pushing the carriers deep into the red, even as air-traffic was still growing. The worst came in second half, as the global economic downturn hit the demand side of the industry. While the waning commodity rally opened doors to sharp decline in fuel prices and related costs, air-traffic numbers fell even more sharply and load factors dropped substantially resulting in huge over-capacity in the industry.

However, things started to improve slowly as the industry entered into FY10. With the Indian economy recovering rapidly riding on the fiscal and monetary stimulus packages, demand for aviation too started improving. Air-traffic numbers had turned back into positive by middle of calendar year 2009 and business atmosphere improved continuously in the second half of FY10.

Aviation industry has seen a strong recovery in recent months. While the fiscal 2008-09 was a disaster for the sector which recorded a year-on-year deceleration for the first time since 2002, passenger volumes started to improve since middle of 2009. By keeping capacity in check despite improvement in demand and riding on relatively stable fuel prices, airlines have been able to improve margins significantly.

As such, the tide seems to have finally turned for the industry. The industry that was struggling this time around last year on woes of overcapacity is now reporting a strong passenger growth. Riding on the improving condition, a number of carriers turned cash positive in the December quarter.

While there may be further upside in the cost as global economy recovers and crude prices firm up, the increased demand should provide added pricing power to offset increase in costs. As long as crude

prices do not rally too much and the industry is able to stay away from temptations to add too many aircrafts in near term, consistent profitability could become a reality in next few quarters.

Investment Rationale

The overall demand in the domestic industry has been strong during the last 6 months. While industry demand was up 30% in the December 2009 quarter versus 2008, SpiceJet has seen a 55% rise in traffic in the same period. This clearly demonstrates that consumers have appreciated the airline's service enhancements, improved connectivity, low cancellation rates and high on-time performance.

The seat factor of the airline stood at 82.1% and 81.3% during January and February, respectively which is one of the highest figures reported by the domestic air carriers.

SpiceJet is likely to commence its international operations in June 2010 with flights to - Kathmandu, Colombo and Dhaka. It has also received DGCA's nod for flying on international routes.

The company is expected to take delivery of four new aircraft by the end of this year and three new planes by next year. (is looking to induct nine more aircraft by 2012, it plans to raise around \$50-75 million to fund its expansion initiatives.)

Following the global economic slowdown, there has been clear shift of passengers from Full Service Carriers (FSCs) like Jet Airways, Kingfisher to Low-Cost Carriers (LCCs). LCCs have registered steepest increase in market share as compared to other airlines in the past few months.

At CMP of Rs 57.90, the stock is trading at an EV/EBIDTA of 1.27x, a huge discount of 96% compared to Jet Airways, which is currently trading at 32.96x its EV/EBIDTA. The nod from DGCA to SpiceJet to launch flights on international routes is going to be a big value booster for the stock considering the fact that it operates on low cost model and can offer discount of around 20% on tickets for foreign destinations compared to the FSCs. The scrip currently trades at a P/E multiple of 71.78x. We would recommend a BUY in the stock with a short-term price target of Rs 64.50 and a long-term price target of Rs 80.



LSE Securities



LSE Securities Ltd.

Disclaimer : This document has been prepared by **LSE Securities** and Accord Fintech Pvt. Ltd. and is being distributed in India by **LSE Securities**, a registered broker dealer. This information in the document has been compiled by the research department. Due care has been taken in preparing the above document. However, this document is not, and should not be construed, as an offer to sell or solicitation to buy any securities.

Any act of buying, selling or otherwise dealing in any securities referred to in this document shall be at investor's sole risk and responsibility. This document may not be reproduced, distributed or published, in whole or in part, without prior permission from the company.

© Copyright - 2009 - Accord Fintech Pvt. Ltd. and **LSE Securities**