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Jet Airways - Buy

Jet Airways commenced operations on May 5, 1993. It's one of the fastest growing airlines in the world. Jet Airways operates flights to 20 international destinations.

Jet Airways currently operates a fleet of 89 aircraft, which includes 10 Boeing 777-300 ER aircraft, 12 Airbus A330-200 aircraft, 53 next generation Boeing 737-700/800/900 aircraft and 14 modern ATR 72-500 turboprop aircraft. With an average fleet age of 4.66 years, the airline has one of the youngest aircraft fleet in the world.

Management

The management of the company is led by Naresh Goyal Chairman; Saroj K Datta- Executive Director while other directors include Ali Ghandour, Victoriano P Dungca, Javed Akhtar, I M Kadri, Aman Mehta, Yash Raj Chopra and Pierre J Jeannot.

Business Overview

Jet Airways operates flights to 20 international destinations, offering a better choice in the skies. The airline's service class comprises Premiere-business branded for domestic sectors and First Class, Premiere- business class branded for international sectors. The airline has interline agreements with over 133 international airlines, which allow passengers to use interline documents on Jet Airways for their travel.

The company's subsidiaries include Jet Lite (India), Jet Airways LLC, Trans Continental e Services, Jet Enterprises, Jet Airways of India Inc, India Jetairways Pty and Jet Airways Europe Services N.V.

Jet Airways Konnect links five major metros- Mumbai, Delhi, Chennai, Bengaluru and Kolkata - with several destinations across India, operating over 195 flights daily. Jet Airways and its all-economy, no-frills Jet Airways Konnect service together operates over 300 flights daily.

JetLite is a wholly owned subsidiary of Jet Airways India Ltd. and was acquired by Jet Airways in April 2007. Positioned as an all-economy, no-frills airline, JetLite operates a fleet of 23 aircraft, which includes 16 Boeing 737 series and 7 Canadian Regional Jets 200 Series. The airline flies to 28 domestic destinations and 2 international destinations (Kathmandu and Colombo), operating over 110 flights a day, on average.

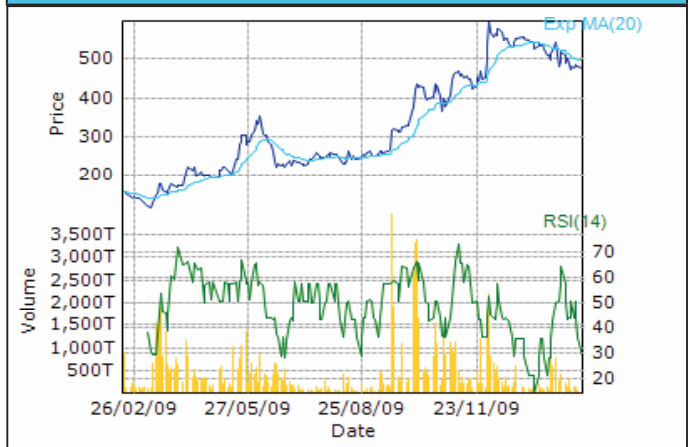
Stock Data		19/02/2010
Current Mkt Price (Rs)		466.60
52 Week High		605.95
52 Week Low		115.25
Mkt Cap (Rs. in Million)		40283.00
Return in last one Month (%)		-8.24

Share Holding



0.01 Indian Promotor	79.99 Foreign Promotor
15.86 Total Institutions	4.14 Total Non-Institutions

Performance in last one year



Y-o-Y Performance

Particulars	(Rs. in Million)		
	Mar 2009	Mar 2008	Change(%)
Net Sales	114769.80	88111.00	30.26
Other Income	3099.00	6704.10	-53.77
Total Expenditure	117837.30	86235.50	36.65
Operating Profit	31.50	8579.60	-99.63
Interest	7380.30	4927.50	49.78
Profits After Tax	-4023.40	-2530.60	58.99
Reserve & Surplus	0.31	0.45	-31.23
Reported EPS(Rs)	-46.60	-29.31	58.99
Core EBITDA Margin (%)	-2.67	2.13	-225.57



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Latest result analysis

- Net sales of the company decreased by 4.76 % to Rs 2885.59 crore from 3022.83 crore in the same quarter last fiscal.
- The company has reported a PBT of Rs 105.8 crore for the quarter ended December 31, 2009 against a loss of Rs 249.8 crore in the corresponding previous quarter.
- Profit after Tax (PAT) stood at 105.80 crore compared to a loss of Rs 214.20 crore in the same quarter last year.
- The total income of the company decreased by 1.85% to Rs 1,619.97 crore compared to Rs 1,803.04 crore.
- Other income of the company increased by 26.32% to Rs 50.83 crore compared to Rs 40.24 crore in the December 2009 quarter.
- The operating profit margin of the company increased by more than 1400 basis points y-o-y to 20.71% in the third quarter of FY10.
- EBITDAR margin stood at 24.7% vs 12.6 % in Q3 FY09.
- The Jet group maintained its leadership in the industry during the quarter with the highest market share of 26.9%.
- The company achieved the system wide seat factor of 80% against 66.2% in a year ago.

Industry Scenario

The liberalization of aviation industry in India has precipitated the boom for domestic and international passenger carriers. Domestic passenger traffic registered an average growth of more than 30% between 2004 and 2007. Annual domestic passenger traffic has increased from 14.5 million to nearly 45 million over last five years, India home to one of the fastest growing aviation industries in the world.

The rapid growth posed by the aviation industry has witnessed strong brakes during the current year. During the first quarter of current year, the industry witnessed only 10% growth in passenger traffic. The growth further slipped to 9.69% during the month of April. Main reason for slowing growth is increasing fares due to rising costs.

Q-o-Q Performance			
(Rs. in Million)			
Particulars	Dec 2009	Dec 2008	Change(%)
Net Sales	2885.90	3022.83	-4.54
Expenditure	23770.80	28581.40	-16.83
Other Income	508.30	402.40	26.32
EBITDA	5593.40	2049.30	172.94
Interest	2480.00	2059.30	20.43
Net Profit	1058.00	-2141.80	-149.40
EBITDA Margin (%)	0.19	0.07	185.92
NPM (%)	0.04	-0.07	-151.75
EPS	12.25	-24.81	-149.38

Profit & Loss			
(Rs. in Million)			
Particulars	Mar 2009	Mar 2008	Change(%)
Net Sales	114769.80	88111.00	30.26
Total Income	117868.80	94815.10	24.31
Total Expenditure	117837.30	86235.50	36.65
Operating Profit	31.50	8579.60	-99.63
Profits After Tax	-4023.40	-2530.60	58.99

Balance Sheet			
(Rs. in Million)			
Particulars	Mar 2009	Mar 2008	Change(%)
Share Capital	863.30	863.30	0.00
Reserve & Surplus	30706.20	44653.20	-31.23
Total Liabilities	192054.80	161541.90	18.89
Investments	17450.00	14753.50	18.28
Current Liabilities	35565.00	42015.80	-15.35
Net Current Assets	6153.70	-4683.80	-231.38
Total Assests	192054.80	161541.90	18.89

Key Ratios		
Particulars	Mar 2009	Mar 2008
Reported EPS (Rs)	-46.60	-29.31
Core EBITDA Margin (%)	-2.67	2.13
EBIT Margin (%)	2.34	0.91
ROA (%)	-2.28	-2.07
ROE (%)	-25.57	-12.79
ROCE (%)	1.74	0.74
Price/Book (x)	1.13	2.59
Net Sales Growth (%)	30.26	24.84
EBIT Growth (%)	234.84	-72.50
PAT Growth (%)	58.99	-1005.73
Total Debt/Mcap (%)	10.94	2.42



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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.

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

Latest News

Jet Airways, India's largest airline, is reportedly in initial discussions with FedEx Corporation, a multinational logistics firm, to launch a cargo airline. Jet Airways is all set to this proposed cargo airline with FedEx.

Sahara India's Chairman, Subrata Roy has said that the company is open to an out-of-court settlement of a multi-crore rupee takeover deal with Jet Airways, which acquired Sahara's airline business three years ago.

In terms of passengers Jet Airways has carried about 750631 passengers in January 2010 while in January 2009 the company carried 596235 passengers in the domestic sector. While in the international sector, it carried 364041 passengers in January against 280983 passengers in the same period last year.

Investment Rationale

The company is considering raising funds through QIP route and in the coming one and half month it will access what exactly be the amount it will go for , presently the company is contemplating to raise about \$150-200 mn. Coupled with proposals for undertaking sale and leaseback of aircraft which it had to go through a court route, to close out due to Sahara's ongoing litigation.

Jet Airways comprehensively improved on its impressive performance in December 2009, reporting a 30% surge

in international passenger traffic for January 2010 vis the same period last year. Domestic passenger traffic in January 2010 also registered a 26% increase, as compared to the same period last year. The airlines' average seat factor for its international operations for January 2010 also stood at an impressive 84.9%, reflecting a growing passenger demand for the airline's award-winning international product.

It commenced daily service from Bombay to Kathmandu/Dhaka to increase feed potential has also started Delhi-Hongkong and Gaya-Bangkok via Varanasi. These new services are likely to improve the profitability of the company further.

Jet Konnect, its all economy class service is experiencing high levels of seat factor and continues to dominate Low fare market with higher yields than other airlines. The service has helped to improve the seat factor and overall revenue in the domestic business. Jet Airways Konnect contributes to strong performance, registering high load factors of 75.9% for Q3.

Jet Airways is going to launch a cargo airline with FedEx. As India is largely untapped as far as cargo market is concerned, here is strong business for more players. It will also help the company to counter Kingfisher Airlines' new door-to-door express cargo delivery service, Kingfisher Xpress and other airlines companies who are planning to enter the fray.

The company has considerably reduced its operational cost mainly from the payroll and the salary line. The company's headcount has gone down from 13400 in January 2009 to around 11400 in December 2009. While in other operating expenses there was reduction in maintenance cost, and it is likely to get lower and steady in coming quarters because of renegotiating most of its maintenance agreements.

At CMP of Rs 467, the stock is trading at an EV/EBITDA of FY 10E at 49.5x and PAT margin of 10.1 We would recommend a BUY in the stock with a price target of Rs 565. The company is having very few aircraft in pipeline for coming few years and hence has not much of capital expenditure though it has to repay the debt of about Rs 14000 crore (\$3.1mn). The company in its outlook has itself said, 'trends for the next few months look healthy and the capacity situation seems to be under control. The company expects to see premium (business and first class) demand revival in the next few quarters.



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