

**SELL**

TP: Rs 85 | ▼ 17%

**SPICEJET**

| Airlines

| 14 December 2020

## Valuations full – downgrade to SELL

**Easing of Covid restrictions (incl. international travel) and likely reinstatement of Boeing 737s into the fleet will remain growth catalysts for SpiceJet (SJET), though rising crude prices could impede earnings. The stock has rallied >100% in the last month due to the improving macro climate, international clearance for grounded Boeing aircraft, and SJET's partnership for vaccine transport. We believe most optimism is in the price and downgrade from BUY to SELL with an unchanged Sep'21 TP of Rs 85. Our cautious stand is also due to a possible Jet Airways revival.**

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**Strong growth outlook but rising fuel cost a concern:** Key factors that favour SJET's growth outlook over the next three years are expected improvement in capacity utilisation over the coming quarters together with reinstatement of its grounded Boeing 737 aircraft. Also, the recently announced logistics partnership to carry Covid-19 vaccines will continue to bolster its cargo business. However, rising crude oil prices could act as a deterrent to earnings. Every US\$ 1 change in crude price impacts the company's operating margins by ~60bps.

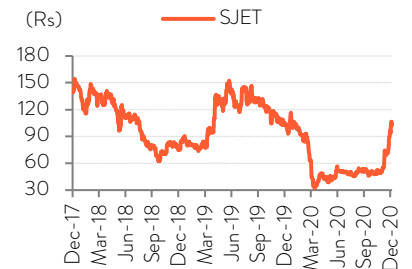
**Macro benefits largely factored in:** The stock has rallied sharply by over 100% in the last month due to the improving macro climate following easing of lockdown restrictions, international approvals for Boeing to fly its grounded 737 Max aircraft, and SJET's partnership for vaccine transportation. However, we remain cautious on the company due to its weak balance sheet (negative net worth) as well as expected revival at competitor Jet Airways.

**Downgrade to SELL:** We have assumed crude oil at US\$ 45/bbl for FY21 and FY22 (US\$ 50/bbl for FY23) and a USDINR rate of Rs 75 for all three years. We continue to value the stock at 5.2x Sep'22E EV/EBITDAR. Following the sharp rally, we believe most positives are priced in and hence downgrade SJET to SELL with an unchanged Sep'21 TP of Rs 85.

Ticker/Price	SJET IN/Rs 103
Market cap	US\$ 836.9mn
Shares o/s	600mn
3M ADV	US\$ 8.1mn
52wk high/low	Rs 119/Rs 31
Promoter/FPI/DII	60%/1%/10%

Source: NSE

## STOCK PERFORMANCE



Source: NSE

## KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	91,215	123,586	68,564	123,435	160,227
EBITDA (Rs mn)	(572)	4,964	(899)	18,939	23,793
Adj. net profit (Rs mn)	(3,024)	(9,348)	(11,149)	2,394	9,277
Adj. EPS (Rs)	(5.0)	(15.6)	(18.6)	4.0	15.5
Adj. EPS growth (%)	NA	NA	NA	NA	287.4
Adj. ROAE (%)	86.4	59.2	41.4	(9.8)	(60.8)
Adj. P/E (x)	(20.3)	(6.6)	(5.5)	25.7	6.6
EV/EBITDA (x)	(107.7)	12.7	(76.3)	3.9	3.2

Source: Company, BOBCAPS Research

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**FIG 1 – QUARTERLY PERFORMANCE**

(Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
<b>Total Income (A)</b>	<b>10,550</b>	<b>28,453</b>	<b>(62.9)</b>	<b>5,147</b>	<b>105.0</b>	<b>15,697</b>	<b>58,473</b>	<b>(73.2)</b>
<b>Operating Expenses:</b>								
Aircraft Fuel	2,785	11,621	(76.0)	892	212.1	3,677	21,905	(83.2)
Employee Expenses	1,185	3,962	(70.1)	1,722	(31.2)	2,907	7,498	(61.2)
Other Expenses	4,539	14,047	(67.7)	4,443	2.2	8,982	24,051	(62.7)
<b>Total Expenditure (B)</b>	<b>8,508</b>	<b>29,630</b>	<b>(71.3)</b>	<b>7,057</b>	<b>20.6</b>	<b>15,565</b>	<b>53,454</b>	<b>(70.9)</b>
<b>EBITDA (A-B)</b>	<b>2,041</b>	<b>(1,177)</b>	<b>NA</b>	<b>(1,910)</b>	<b>NA</b>	<b>131</b>	<b>5,019</b>	<b>(97.4)</b>
EBITDAR	2,378	(545)	NA	(1,665)	NA	11,386	6,297	80.8
Other Income	2,503	2,282	9.7	1,951	28.3	4,454	3,714	19.9
Depreciation	4,156	4,363	(4.7)	4,482	(7.3)	8,638	8,135	6.2
EBIT	388	(3,257)	NA	(4,442)	NA	(4,053)	598	NA
Finance Costs	1,514	1,368	10.7	1,493	1.5	3,007	2,607	15.3
PBT before excep items	(1,126)	(4,626)	NA	(5,934)	NA	(7,060)	(2,009)	NA
Tax expense	-	-	NA	-	NA	-	-	NA
<b>Reported PAT</b>	<b>(1,126)</b>	<b>(4,626)</b>	<b>NA</b>	<b>(5,934)</b>	<b>NA</b>	<b>(7,060)</b>	<b>(2,009)</b>	<b>NA</b>
<b>Adjusted PAT</b>	<b>(1,126)</b>	<b>(4,626)</b>	<b>NA</b>	<b>(5,934)</b>	<b>NA</b>	<b>(7,060)</b>	<b>(2,009)</b>	<b>NA</b>
Adj EPS (Rs)	(1.9)	(7.7)	NA	(9.9)	NA	(11.8)	(3.4)	NA

Source: Company, BOBCAPS Research

## Valuation methodology

We expect ASK (available seat kilometre) addition at a 10% CAGR for SJET during FY20-FY23. Our assumptions for crude oil are at US\$ 45/bbl for FY21 and FY22 (US\$ 50/bbl for FY23) and we bake in a USD/INR rate of Rs 75 for all three years. Revenue/EBITDA over this period are projected to log a 9%/69% CAGR, resulting in EPS of Rs 16 by FY23. We continue to value the stock at 5.2x Sep'22E EV/EBITDAR. Following the sharp rally of over 100% in the past month, we believe most optimism is in the price and downgrade the stock from BUY to SELL with an unchanged Sep'21 target price of Rs 85.

**FIG 2 – KEY ASSUMPTIONS**

	FY21E	FY22E	FY23E
Available Seat Km (ASK) (mn)	19,658	32,399	41,804
Revenue per ASK (Rs)	3.5	3.8	3.8
Load factor (%)	63	90	90
International Crude price (\$)	45.0	45.0	50.0
INR / USD (Rs)	75.0	75.0	75.0
No of passengers carried (mn)	14.0	25.0	31.0

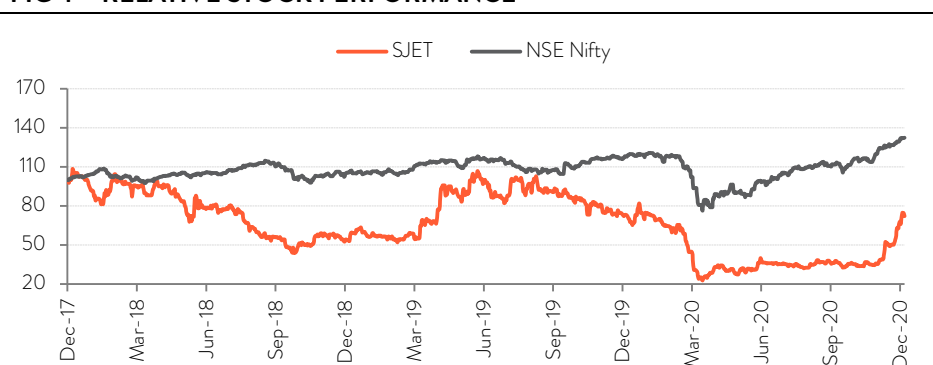
Source: Company, BOBCAPS Research

**FIG 3 – SOTP VALUATION SUMMARY**

	EV (Rs mn)	Value (Rs/sh)	Comments
Total business EV	131,778	220	5.2x Sep'22 EBITDAR
Less: Net debt	80,631	135	
<b>SJET Equity Value</b>	<b>51,147</b>	<b>85</b>	

Source: BOBCAPS Research

**FIG 4 – RELATIVE STOCK PERFORMANCE**



Source: NSE

## Key risks

- Sudden fall in crude prices and rupee appreciation
- Faster-than-expected passenger traffic growth
- Delay in revival plans of Jet Airways

## FINANCIALS

### Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Total revenue</b>	<b>91,215</b>	<b>123,586</b>	<b>68,564</b>	<b>123,435</b>	<b>160,227</b>
EBITDA	(572)	4,964	(899)	18,939	23,793
Depreciation	2,564	17,339	10,193	14,407	14,782
EBIT	(1,687)	(3,898)	(3,592)	10,531	16,011
Net interest income/(expenses)	(1,336)	(5,450)	(7,557)	(8,137)	(6,733)
Other income/(expenses)	1,448	8,478	7,500	6,000	7,000
Exceptional items	602	0	0	0	0
EBT	(2,422)	(9,348)	(11,149)	2,394	9,277
Income taxes	0	0	0	0	0
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
<b>Reported net profit</b>	<b>(2,422)</b>	<b>(9,348)</b>	<b>(11,149)</b>	<b>2,394</b>	<b>9,277</b>
Adjustments	(602)	0	0	0	0
<b>Adjusted net profit</b>	<b>(3,024)</b>	<b>(9,348)</b>	<b>(11,149)</b>	<b>2,394</b>	<b>9,277</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	10,482	17,371	12,783	10,411	13,632
Other current liabilities	17,395	44,365	23,356	34,111	34,308
Provisions	2,787	4,762	4,762	4,762	4,762
Debt funds	11,098	4,593	16,593	7,093	2,500
Other liabilities	9,666	74,369	93,369	86,369	72,369
Equity capital	5,997	6,001	6,001	6,001	6,001
Reserves & surplus	(9,497)	(21,793)	(32,943)	(30,548)	(21,271)
Shareholders' fund	(3,500)	(15,793)	(26,942)	(24,547)	(15,270)
<b>Total liabilities and equities</b>	<b>47,928</b>	<b>129,668</b>	<b>123,921</b>	<b>118,199</b>	<b>112,301</b>
Cash and cash eq.	797	402	1,357	855	1,710
Accounts receivables	1,353	2,917	825	1,316	1,710
Inventories	1,413	1,776	825	1,531	1,989
Other current assets	10,128	17,500	23,032	27,023	28,700
Investments	4	5	5	1,005	3,505
Net fixed assets	16,257	86,809	77,616	66,209	54,427
CWIP	0	0	0	0	0
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	17,975	20,259	20,259	20,259	20,259
<b>Total assets</b>	<b>47,928</b>	<b>129,668</b>	<b>123,921</b>	<b>118,199</b>	<b>112,301</b>

Source: Company, BOBCAPS Research

**Cash Flows**

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	(461)	7,992	(956)	16,802	24,059
Interest expenses	(1,336)	(5,450)	(7,557)	(8,137)	(6,733)
Non-cash adjustments	(1,448)	(8,478)	(7,500)	(6,000)	(7,000)
Changes in working capital	3,461	88,955	(9,089)	(3,804)	(13,111)
Other operating cash flows	(617)	(2,886)	0	0	0
<b>Cash flow from operations</b>	<b>(400)</b>	<b>80,133</b>	<b>(25,102)</b>	<b>(1,139)</b>	<b>(2,785)</b>
Capital expenditures	(2,837)	(87,892)	(1,000)	(3,000)	(3,000)
Change in investments	1,009	(1)	0	(1,000)	(2,500)
Other investing cash flows	1,448	8,478	7,500	6,000	7,000
<b>Cash flow from investing</b>	<b>(380)</b>	<b>(79,415)</b>	<b>6,500</b>	<b>2,000</b>	<b>1,500</b>
Equities issued/Others	39	4	0	0	0
Debt raised/repaid	(1,929)	(6,505)	12,000	(9,500)	(4,593)
Interest expenses	(1,336)	(5,450)	(7,557)	(8,137)	(6,733)
Dividends paid	0	0	0	0	0
Other financing cash flows	0	0	0	0	0
<b>Cash flow from financing</b>	<b>(3,227)</b>	<b>(11,951)</b>	<b>4,443</b>	<b>(17,637)</b>	<b>(11,326)</b>
<b>Changes in cash and cash eq.</b>	<b>(4,008)</b>	<b>(11,233)</b>	<b>(14,159)</b>	<b>(16,776)</b>	<b>(12,611)</b>
<b>Closing cash and cash eq.</b>	<b>797</b>	<b>402</b>	<b>1,357</b>	<b>855</b>	<b>1,710</b>

**Per Share**

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	(5.0)	(15.6)	(18.6)	4.0	15.5
Adjusted EPS	(5.0)	(15.6)	(18.6)	4.0	15.5
Dividend per share	0.0	0.0	0.0	0.0	0.0
Book value per share	(5.8)	(26.3)	(44.9)	(40.9)	(25.4)

**Valuations Ratios**

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	0.7	0.5	1.0	0.6	0.5
EV/EBITDA	(107.7)	12.7	(76.3)	3.9	3.2
Adjusted P/E	(20.3)	(6.6)	(5.5)	25.7	6.6
P/BV	(17.6)	(3.9)	(2.3)	(2.5)	(4.0)

**DuPont Analysis**

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	124.9	100.0	100.0	100.0	100.0
Interest burden (PBT/EBIT)	143.5	239.8	310.4	22.7	57.9
EBIT margin (EBIT/Revenue)	(1.9)	(3.2)	(5.2)	8.5	10.0
Asset turnover (Revenue/Avg TA)	552.9	307.3	93.8	162.5	249.4
Leverage (Avg TA/Avg Equity)	(8.1)	(4.2)	(3.4)	(3.0)	(3.2)
Adjusted ROAE	149.0	96.9	52.2	(9.3)	(46.6)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

**Ratio Analysis**

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
<b>YoY growth (%)</b>					
Revenue	17.5	35.5	(44.5)	80.0	29.8
EBITDA	NA	NA	NA	NA	25.6
Adjusted EPS	NA	NA	NA	NA	287.4
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	(0.6)	4.0	(1.3)	15.3	14.8
EBIT margin	(1.9)	(3.2)	(5.2)	8.5	10.0
Adjusted profit margin	(3.3)	(7.6)	(16.3)	1.9	5.8
Adjusted ROAE	86.4	59.2	41.4	(9.8)	(60.8)
ROCE	(10.2)	(9.7)	(4.9)	13.9	24.9
<b>Working capital days (days)</b>					
Receivables	4	6	10	3	3
Inventory	6	5	7	3	4
Payables	91	110	240	112	83
<b>Ratios (x)</b>					
Gross asset turnover	0.3	0.9	1.7	0.9	0.7
Current ratio	0.4	0.3	0.6	0.6	0.6
Net interest coverage ratio	1.3	0.7	0.5	(1.3)	(2.4)
Adjusted debt/equity	(3.2)	(0.3)	(0.6)	(0.3)	(0.2)

Source: Company, BOBCAPS Research

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### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

### RATINGS AND TARGET PRICE (3-YEAR HISTORY): SPICEJET (SJET IN)



B – Buy, A – Add, R – Reduce, S – Sell

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