

**BUY**

TP: Rs 85 | ▲ 58%

**SPICEJET**

| Airlines

| 11 November 2020

## Q2 better than expected; maintain BUY

SpiceJet's (SJET) Q2FY21 revenue came in at Rs 10.6bn. Despite lower capacity utilisation (at ~70%), SJET reported positive EBITDA of Rs 2bn. Easing of Covid lockdowns, benign crude and a stable INR should aid profitability ahead. We cut fleet addition estimates based on guidance, which lowers revenue but improves margins (as fixed costs ease). Maintain BUY with an unchanged Sep'21 TP of Rs 85. Despite valuing the stock at a steep discount to the leader (5.2x vs. 9x Sep'22E EV/EBITDAR for IndiGo), risk-reward is appealing.

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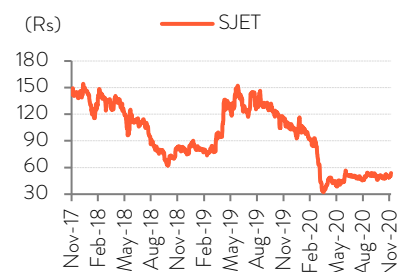
**Q2 results better than expected:** Revenue plunged 63% YoY to Rs 10.6bn. The company reported EBITDA of Rs 2bn aided by the sharp decline in fuel costs and a reduction in staff expenses. Steady other income and higher interest and depreciation costs induced an adj. net loss of Rs 1.1bn, translating to negative EPS of Rs 1.9 for the quarter.

Ticker/Price	SJET IN/Rs 54
Market cap	US\$ 435.2mn
Shares o/s	600mn
3M ADV	US\$ 2.9mn
52wk high/low	Rs 119/Rs 31
Promoter/FPI/DII	60%/1%/10%

Source: NSE

**Favourable macroeconomic conditions to boost position:** Key factors that favour SJET's growth outlook over the next three years are expected improvement in capacity utilisation in the coming months (easing lockdowns, market share gains), steady cash flow generation and benign crude prices, along with a cost-benefit advantage over the railways. These drivers together with reinstatement of grounded Boeing aircraft are likely to boost profitability.

## STOCK PERFORMANCE



Source: NSE

**Maintain BUY:** Management has indicated for fleet cut from 112 aircrafts (as on Mar'20) to 85 by Mar'21. We accordingly cut our fleet expansion estimates and now expect ASK addition at a 10% CAGR (13% earlier) during FY20-FY23. Revenue/EBITDA over this period are projected to log a 9%/69% CAGR, resulting in EPS of Rs 16 by FY23. Retain BUY with a Sep'21 TP of Rs 85.

## 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)	(10.7)	(3.5)	(2.9)	13.5	3.5
EV/EBITDA (x)	(56.7)	6.8	(43.8)	2.3	2.0

Source: Company, BOBCAPS Research

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**FIG 1 – QUARTERLY PERFORMANCE**

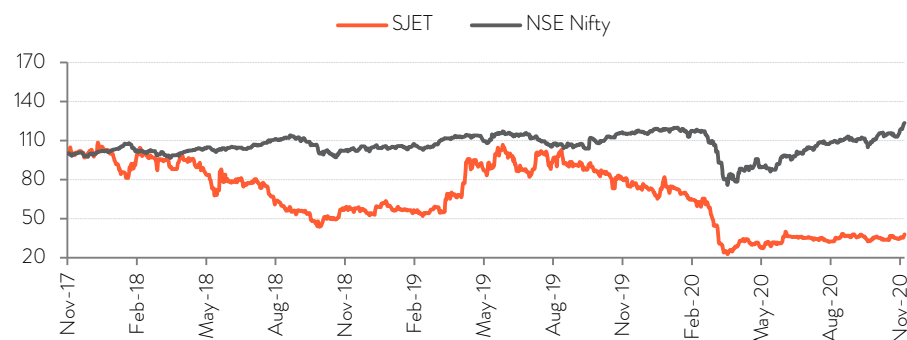
(Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
<b>Total Income (A)</b>	<b>10,550</b>	<b>28,453</b>	<b>(62.9)</b>	<b>5,147</b>	<b>105.0</b>	<b>15,697</b>	<b>58,473</b>	<b>(73.2)</b>
<b>Operating Expenses:</b>								
Aircraft Fuel	2,785	11,621	(76.0)	892	212.1	3,677	21,905	(83.2)
Employee 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

Management has indicated for fleet cut from 112 aircrafts (as on Mar'20) to 85 by Mar'21. We accordingly cut our fleet expansion estimates and now expect ASK addition at a 10% CAGR (13% earlier) during FY20-FY23. Revenue/EBITDA over this period are projected to log a 9%/69% CAGR, resulting in EPS of Rs 16 by FY23. Maintain BUY with an unchanged Sep'21 target price of Rs 85.

**FIG 2 – RELATIVE STOCK PERFORMANCE**



Source: NSE

## Key risks

- Net worth likely to remain negative despite significant profits expected in FY22 and FY23
- Sudden jump in crude prices and rupee depreciation
- Slower-than-expected passenger traffic growth

## 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	0.4	0.3	0.6	0.4	0.3
EV/EBITDA	(56.7)	6.8	(43.8)	2.3	2.0
Adjusted P/E	(10.7)	(3.5)	(2.9)	13.5	3.5
P/BV	(9.2)	(2.0)	(1.2)	(1.3)	(2.1)

**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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