

**SELL**

TP: Rs 70 | ▼ 20%

**SPICEJET**

Airlines

10 February 2021

## Lower yields amidst rising fuel costs; maintain SELL

SpiceJet's (SJET) Q3FY21 revenue plunged 54% YoY to Rs 16.9bn. With capacity utilisation improving to ~78%, reported EBITDA was at Rs 2.4bn. Easing of lockdowns and expected reinstatement of Boeing 737s into the fleet will remain near-term growth catalysts. However, the sudden drop in yields and rising crude prices would hurt profitability. We raise our fuel estimates from US\$ 50 to US\$ 55/bbl for FY22/FY23. Maintain SELL with a revised Mar'22 TP of Rs 70 (vs. Rs 85) as we reset our target EV/EBITDAR to 4.5x (vs. 5.2x).

Mayur Milak | Nishant Chowhan, CFA  
 research@bobcaps.in

**Q3 disappoints:** SJET's revenue dropped 54% YoY to Rs 16.9bn as the improved yields seen in November ebbed in December despite rising fuel prices. EBITDA was at Rs 2.4bn aided by lower fuel costs and improving operating efficiencies from stronger capacity utilisation. Higher than expected other income and steady interest and depreciation costs limited the adjusted net loss to Rs 570mn, translating to negative EPS of Re 1.

Ticker/Price	SJET IN/Rs 88
Market cap	US\$ 724.5mn
Shares o/s	600mn
3M ADV	US\$ 11.7mn
52wk high/low	Rs 108/Rs 31
Promoter/FPI/DII	60%/1%/10%

Source: NSE

**Strong growth outlook but rising fuel cost a concern:** Key factors that favour SJET's growth outlook over the next three years are an expected improvement in capacity utilisation in coming quarters together with reinstatement of its grounded Boeing 737 aircraft. Also, the recently announced partnership to ferry Covid vaccines will bolster its cargo business. However, rising crude oil prices could impede earnings given that every US\$ 1 change in crude impacts operating margins by ~60bps. We have raised our FY22/FY23 fuel estimates from US\$ 50/bbl to US\$ 55/bbl.

## STOCK PERFORMANCE



Source: NSE

**Macro benefits priced in:** Post the sharp rally, we believe most optimism regarding growth is in the price. We remain cautious due to SJET's weak balance sheet (negative net worth) as well as lower yields amidst rising fuel costs. We value the stock at 4.5x FY23E EV/EBITDAR and maintain SELL.

## KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	91,215	123,586	53,835	114,883	156,146
EBITDA (Rs mn)	(572)	4,964	4,861	18,663	25,341
Adj. net profit (Rs mn)	(3,024)	(9,348)	(8,512)	(1,457)	6,391
Adj. EPS (Rs)	(5.0)	(15.6)	(14.2)	(2.4)	10.7
Adj. EPS growth (%)	NA	NA	NA	NA	
Adj. ROAE (%)	86.4	59.2	35.0	5.7	(33.0)
Adj. P/E (x)	(17.4)	(5.6)	(6.2)	(36.2)	8.3
EV/EBITDA (x)	(92.4)	10.9	12.3	3.3	2.3

Source: Company, BOBCAPS Research

**BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda**

Important disclosures, including any required research certifications, are provided at the end of this report.



**FIG 1 – QUARTERLY PERFORMANCE**

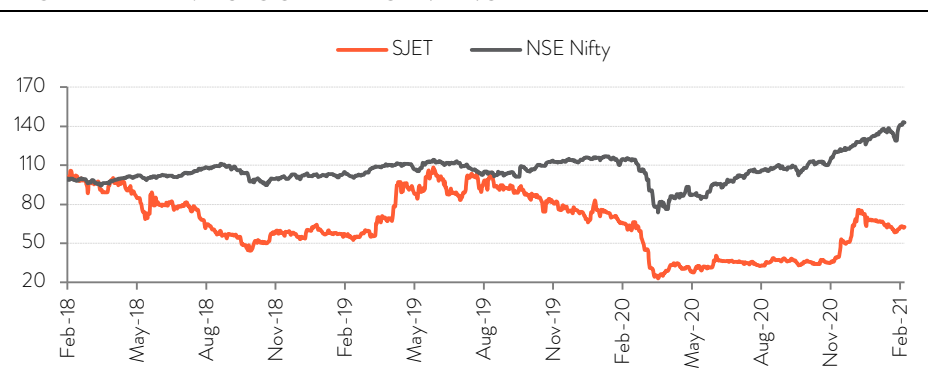
(Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
<b>Total Income (A)</b>	<b>16,866</b>	<b>36,471</b>	<b>(53.8)</b>	<b>10,550</b>	<b>59.9</b>	<b>32,563</b>	<b>94,945</b>	<b>(65.7)</b>
<b>Operating Expenses:</b>								
Aircraft Fuel	4,539	13,407	(66.1)	2,785	63.0	8,215	35,312	(76.7)
Employee Expenses	1,871	4,025	(53.5)	1,185	57.9	4,778	11,524	(58.5)
Other Expenses	8,008	14,974	(46.5)	4,539	76.4	16,990	39,025	(56.5)
<b>Total Expenditure (B)</b>	<b>14,418</b>	<b>32,407</b>	<b>(55.5)</b>	<b>8,508</b>	<b>69.5</b>	<b>29,983</b>	<b>85,861</b>	<b>(65.1)</b>
<b>EBITDA (A-B)</b>	<b>2,448</b>	<b>4,064</b>	<b>(39.8)</b>	<b>2,041</b>	<b>19.9</b>	<b>2,580</b>	<b>9,083</b>	<b>(71.6)</b>
EBITDAR	3,119	5,089	(38.7)	2,378	31.2	11,386	11,386	-
Other Income	2,201	2,702	(18.5)	2,503	(12.1)	6,655	6,416	3.7
Depreciation	3,803	4,647	(18.2)	4,156	(8.5)	12,441	12,782	(2.7)
EBIT	846	2,120	(60.1)	388	117.8	(3,207)	2,717	(218.0)
Finance Costs	1,416	1,387	2.1	1,514	(6.5)	4,423	3,994	10.7
PBT before excep items	(570)	732	NA	(1,126)	NA	(7,630)	(1,277)	497.6
Tax expense	-	-	NA	-	NA	-	-	NA
<b>Reported PAT</b>	<b>(570)</b>	<b>732</b>	<b>NA</b>	<b>(1,126)</b>	<b>NA</b>	<b>(7,630)</b>	<b>(1,277)</b>	<b>NA</b>
<b>Adjusted PAT</b>	<b>(570)</b>	<b>732</b>	<b>NA</b>	<b>(1,126)</b>	<b>NA</b>	<b>(7,630)</b>	<b>(1,277)</b>	<b>NA</b>
Adj EPS (Rs)	(1.0)	1.2	NA	(1.9)	NA	(12.7)	(2.1)	NA

Source: Company, BOBCAPS Research

## Valuation methodology

Following the sharp rally, most optimism regarding growth appears to be in the stock price. We remain cautious due to SJET's weak balance sheet (negative net worth) as well as lower yields amidst rising fuel costs. We reset our target Mar'23E EV/EBITDAR to 4.5x vs 5.2x earlier, retaining the discount to market leader IndiGo (valued at 6.5x EV/EBITDAR). Maintain SELL with a revised Mar'22 target price of Rs 70 (earlier Rs 85).

**FIG 2 – RELATIVE STOCK PERFORMANCE**



Source: NSE

## Key risks

- Sudden decline in crude prices and rupee depreciation
- Higher-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>53,835</b>	<b>114,883</b>	<b>156,146</b>
EBITDA	(572)	4,964	4,861	18,663	25,341
Depreciation	2,564	17,339	16,422	16,712	17,147
EBIT	(1,687)	(3,898)	(2,561)	4,951	11,694
Net interest income/(expenses)	(1,336)	(5,450)	(5,951)	(6,408)	(5,302)
Other income/(expenses)	1,448	8,478	9,000	3,000	3,500
Exceptional items	602	0	0	0	0
EBT	(2,422)	(9,348)	(8,512)	(1,457)	6,391
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>(8,512)</b>	<b>(1,457)</b>	<b>6,391</b>
Adjustments	(602)	0	0	0	0
<b>Adjusted net profit</b>	<b>(3,024)</b>	<b>(9,348)</b>	<b>(8,512)</b>	<b>(1,457)</b>	<b>6,391</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	10,482	17,371	11,285	9,025	13,417
Other current liabilities	17,395	44,365	13,495	30,677	34,150
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)	(30,306)	(31,763)	(25,372)
Shareholders' fund	(3,500)	(15,793)	(24,305)	(25,762)	(19,371)
<b>Total liabilities and equities</b>	<b>47,928</b>	<b>129,668</b>	<b>115,199</b>	<b>112,164</b>	<b>107,827</b>
Cash and cash eq.	797	402	1,872	4,868	8,812
Accounts receivables	1,353	2,917	575	1,184	1,645
Inventories	1,413	1,776	575	1,377	1,913
Other current assets	10,128	17,500	20,526	25,796	28,166
Investments	4	5	5	1,005	3,505
Net fixed assets	16,257	86,809	71,387	57,675	43,528
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>115,199</b>	<b>112,164</b>	<b>107,827</b>

Source: Company, BOBCAPS Research

**Cash Flows**

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	(461)	7,992	7,910	15,255	23,538
Interest expenses	(1,336)	(5,450)	(5,951)	(6,408)	(5,302)
Non-cash adjustments	(1,448)	(8,478)	(9,000)	(3,000)	(3,500)
Changes in working capital	3,461	88,955	(17,440)	1,241	(9,501)
Other operating cash flows	(617)	(2,886)	0	0	0
<b>Cash flow from operations</b>	<b>(400)</b>	<b>80,133</b>	<b>(24,481)</b>	<b>7,088</b>	<b>5,235</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	9,000	3,000	3,500
<b>Cash flow from investing</b>	<b>(380)</b>	<b>(79,415)</b>	<b>8,000</b>	<b>(1,000)</b>	<b>(2,000)</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)	(5,951)	(6,408)	(5,302)
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>6,049</b>	<b>(15,908)</b>	<b>(9,895)</b>
<b>Changes in cash and cash eq.</b>	<b>(4,008)</b>	<b>(11,233)</b>	<b>(10,432)</b>	<b>(9,820)</b>	<b>(6,660)</b>
<b>Closing cash and cash eq.</b>	<b>797</b>	<b>402</b>	<b>1,872</b>	<b>4,868</b>	<b>8,812</b>

**Per Share**

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	(5.0)	(15.6)	(14.2)	(2.4)	10.7
Adjusted EPS	(5.0)	(15.6)	(14.2)	(2.4)	10.7
Dividend per share	0.0	0.0	0.0	0.0	0.0
Book value per share	(5.8)	(26.3)	(40.5)	(42.9)	(32.3)

**Valuations Ratios**

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	0.6	0.4	1.1	0.5	0.4
EV/EBITDA	(92.4)	10.9	12.3	3.3	2.3
Adjusted P/E	(17.4)	(5.6)	(6.2)	(36.2)	8.3
P/BV	(15.1)	(3.3)	(2.2)	(2.0)	(2.7)

**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	332.4	(29.4)	54.7
EBIT margin (EBIT/Revenue)	(1.9)	(3.2)	(4.8)	4.3	7.5
Asset turnover (Revenue/Avg TA)	552.9	307.3	72.3	149.8	253.5
Leverage (Avg TA/Avg Equity)	(8.1)	(4.2)	(3.7)	(3.1)	(2.7)
Adjusted ROAE	149.0	96.9	42.5	5.8	(28.3)

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	(56.4)	113.4	35.9
EBITDA	NA	NA	NA	NA	35.8
Adjusted EPS	NA	NA	NA	NA	
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	(0.6)	4.0	9.0	16.2	16.2
EBIT margin	(1.9)	(3.2)	(4.8)	4.3	7.5
Adjusted profit margin	(3.3)	(7.6)	(15.8)	(1.3)	4.1
Adjusted ROAE	86.4	59.2	35.0	5.7	(33.0)
ROCE	(10.2)	(9.7)	(3.4)	6.5	19.0
<b>Working capital days (days)</b>					
Receivables	4	6	12	3	3
Inventory	6	5	8	3	4
Payables	91	110	352	98	80
<b>Ratios (x)</b>					
Gross asset turnover	0.3	0.9	2.1	1.0	0.8
Current ratio	0.4	0.3	0.8	0.7	0.8
Net interest coverage ratio	1.3	0.7	0.4	(0.8)	(2.2)
Adjusted debt/equity	(3.2)	(0.3)	(0.7)	(0.3)	(0.1)

Source: Company, BOBCAPS Research

## Disclaimer

### 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

### Rating distribution

As of 31 January 2021, out of 88 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 41 have BUY ratings, 13 have ADD ratings, 6 are rated REDUCE and 28 are rated SELL. None of these companies have been investment banking clients in the last 12 months.

### Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

### General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2025. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations

expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

### **Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014**

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company in the past 12 months. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.