India Midcaps

VISIT NOTE

SPICEJET

Ample wind beneath its wings

India Equity Research| Aviation

Edelweiss
Ideas create, values protect

Our meeting with Mr. Koteshwar, CFO, SpiceJet (SJ), left us enthused about the company's growth prospects. From a near collapse, SJ has managed to clock profits in past 10 consecutive quarters and continues to prune debt. Following the turnaround, the company has now renewed focus on profitable growth reflected in a mega aircraft order to capitalise on promising industry dynamics (structural: demand growth to exceed capacity in underpenetrated market; cyclical: benign ATF prices). Hence, we raise FY19E EV/EBITDAR to 8.5x (from 8.0x) and revise TP to INR150 (INR138 earlier) as we assume lower warrants dilution (50% probability versus 100% assumed earlier).

Refurbished strategy aids rebound

SJ has recovered, from a near collapse, bolstered by the new chairman's refurbished strategy: 1) focus on maximising revenue through high aircraft utilisation; 2) fleet rationalisation; 3) cost efficiencies (restructured legacy contracts with lessors); 4) enhancing employee productivity (aligning incentive structures); and 5) sharpening focus on balance sheet/cash flows.

Favourable dynamics: Traffic growth to outstrip capacity

1) **Structural demand factors**: Airline under-penetration (0.09 annual trips/capita, 1/4th of China) is expected to improve with better airport connectivity under UDAN; 2) **Cyclical benefits**: Pent up demand amidst 40% fall in ATF price since 2014. SJ sees limited risks to demand if oil remains at ~USD60-65/bbl; 3) **Capacity to lag**: India needs 60 new aircraft p.a. to support demand, well above capacity projections; 4) **Slot-constraints at major airports** a bottleneck. However, Mumbai's new airport & Delhi's new terminal will ease constraints. Bengaluru and Hyderabad airports are scalable.

Growing profitably: Mega aircraft order to address higher cost

Mega order for 205 737 MAX will bolster growth. While operating cost will fall with 15% fuel savings and lower maintenance, ownership cost will dip as deliveries in the initial 3 years will be under sale and lease (as SJ is targeting to stay asset light).

Outlook and valuation: Robust growth, improving B/S; retain 'BUY'

Cumulative INR11bn PAT in past 10 quarters has enhanced liquidity. We estimate 18% RPKM and 49% EPS CAGR over FY17-19. We envisage reduced risk of warrants dilution (16% dilution versus 32% assumed earlier) and revise our TP to INR150 (8.5x FY19E EV/EBITDAR). At CMP, the stock trades at 9x FY19E EPS. Maintain **'BUY'**.

Financials **(INR mn)**

Year to March	FY16	FY17	FY18E	FY19E
Net revenue	50,881	61,913	76,022	91,831
EBITDAR	13,486	15,039	17,081	23,287
Adjusted Profit	3,861	3,922	5,093	9,617
EV/EBIDTAR	10.6	10.1	9.5	7.2
Diluted P/E (x)	19.8	19.5	17.4	9.2

EDELWEISS RATINGS

Absolute Rating	**BUY**
Investment Characteristics	Growth

MARKET DATA *(R: SPJT.BO, B: SJET IN)*

CMP	: INR 128
Target Price	: INR 150
52-week range (INR)	: 136 / 55
Share in issue (mn)	: 599.5
M cap (INR bn/USD mn)	: 76 / 1,193
Avg. Daily Vol. BSE/NSE ('000)	: 0.0

SHARE HOLDING PATTERN (%)

	Current	Q4FY17	Q3FY17
Promoters *	60.3	60.3	60.3
MF's, FI's & BKs	4.9	3.6	1.2
FII's	5.5	4.4	2.2
Others	29.3	31.7	36.3

** Promoters pledged shares (% of share in issue) : NIL*

PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	1.7	(0.5)	(2.2)
3 months	6.6	20.2	13.6
12 months	16.6	126.4	109.9

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Chart 1: SJ's PLF at significant premium to Indigo

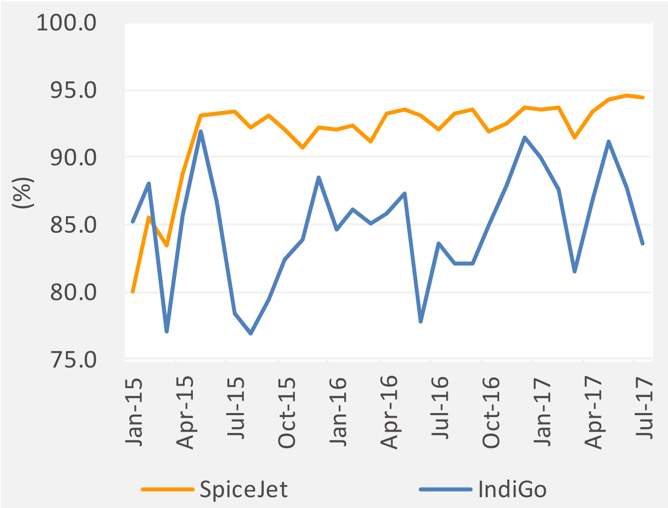


Chart 2: Enjoys premium RASK than Indigo

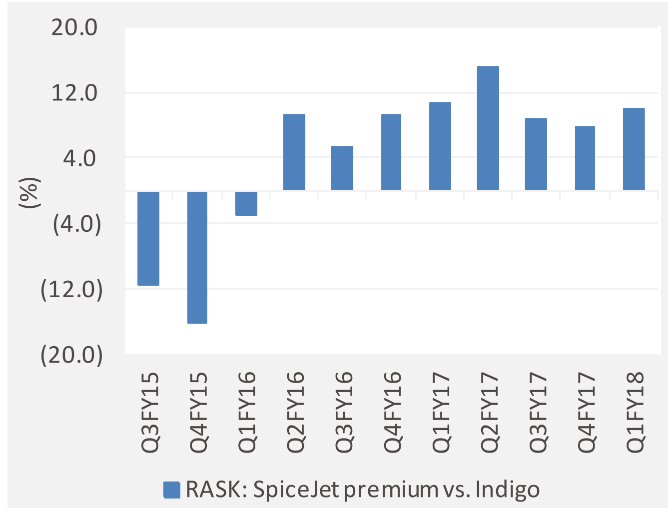


Chart 3: ASKM (capacity) almost doubled since lows in Q4FY15

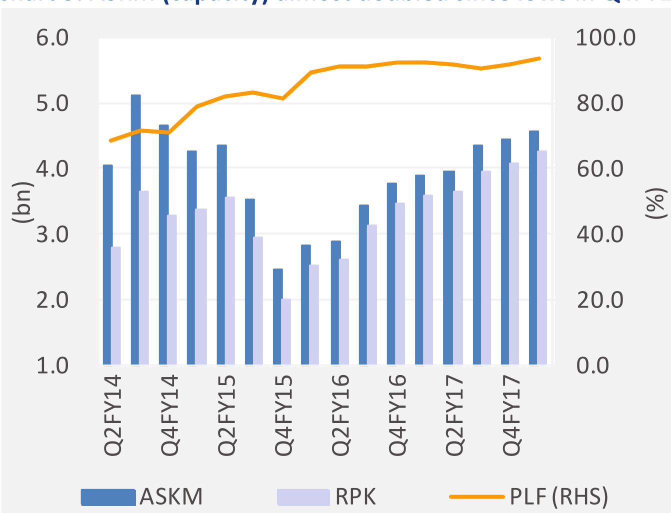


Chart 4: Maintenance cost rationalizing from highs in FY15

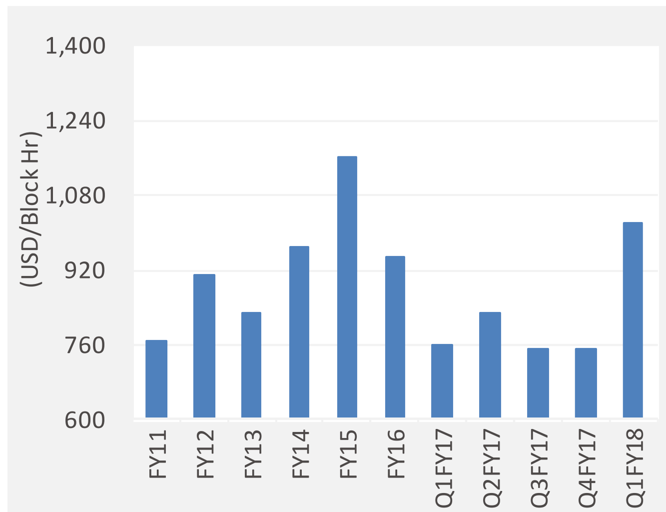


Chart 5: ATF price crashed ~40% since 2014

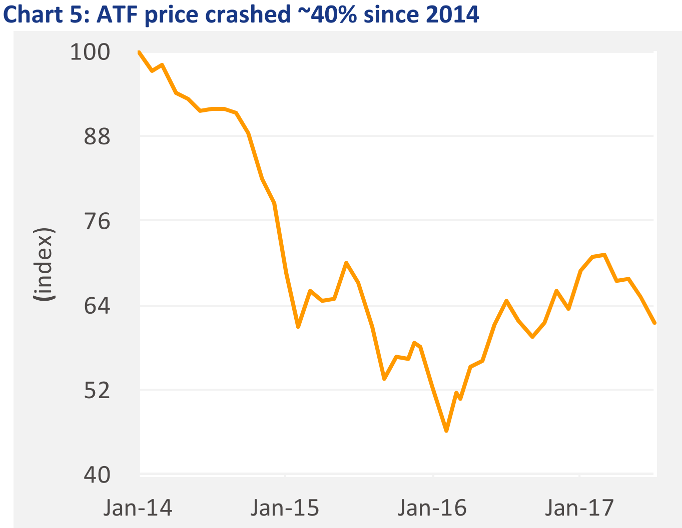
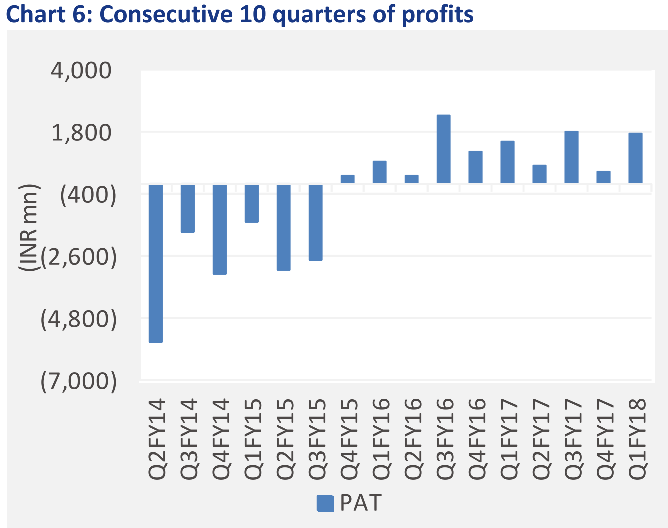


Chart 6: Consecutive 10 quarters of profits



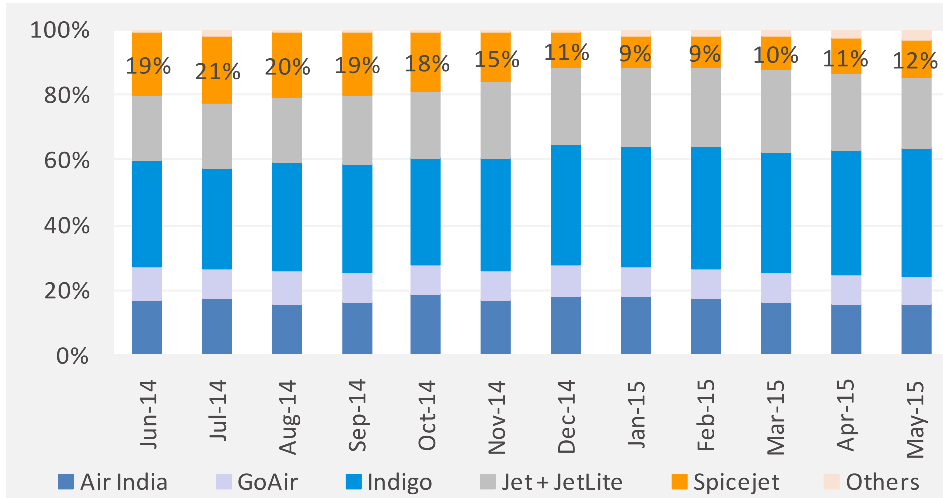
Source: Company, Edelweiss research

Mr. Kiran Koteshwar
CFO

Near collapse in FY15...

Winter (seasonally peak quarter for airline industry) 2014 ironically turned out to be one of the most challenging quarters in SpiceJet's (SJ) history. Owing to the difficulty in meeting some of its financial obligations due to liquidity constraints, the airline had to cancel considerable number of scheduled flights thereby severely eroding the brand and customer confidence in the airline, which had a cascading impact on future bookings. Consequent to flight cancellations, the airline lost significant market share—plummeted from 18-20% to 9-10%—to competition in subsequent months.

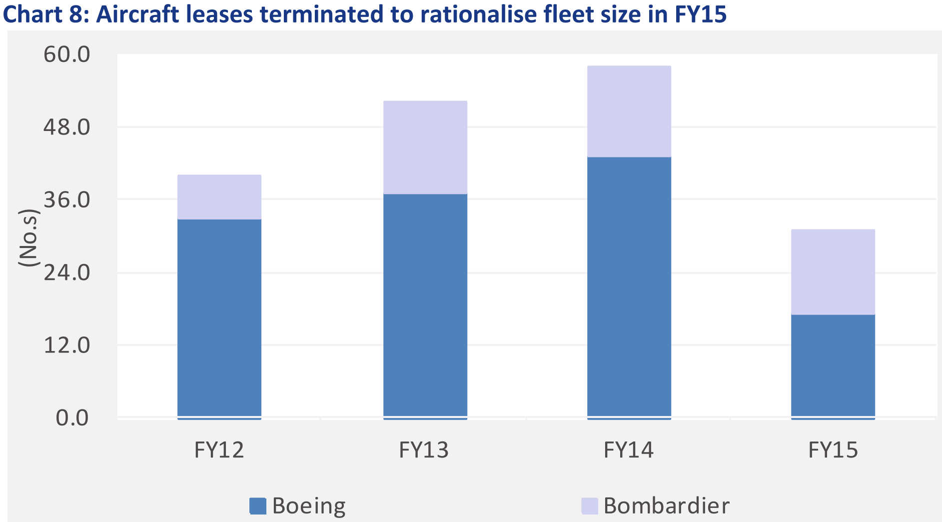
Chart 7: Market share plummeted from 18-20% to 9-10%



Source: DGCA, Edelweiss research

SJ, under financial duress, delayed its dues to statutory authorities and payments to various parties, including vendors and aircraft lessors. To rationalise fleet size, it terminated certain aircraft leases ahead of schedule even as it continued to explore options to raise fresh capital to meet its short and long-term obligations. Fleet rationalisation also led to provisioning for costs related to early terminations, which took a further toll on the airline's profitability during the year.

Chart 8: Aircraft leases terminated to rationalise fleet size in FY15



Source: Company, Edelweiss research

…battles back from the brink

In Q4FY15, under the reconstruction and revival scheme, Mr. Ajay Singh (a founder member) through a share purchase agreement took over ownership and control of the company from erstwhile promoters—Mr. Kalanithi Maran and Kal Airways, who held 58.46% in the company. Unlike previous promoters, Mr. Singh, with deep understanding and experience in the airline sector, is known for his hands-on approach and gets involved in the day-to-day operations.

Chart 9: Promoter holding prior to take over

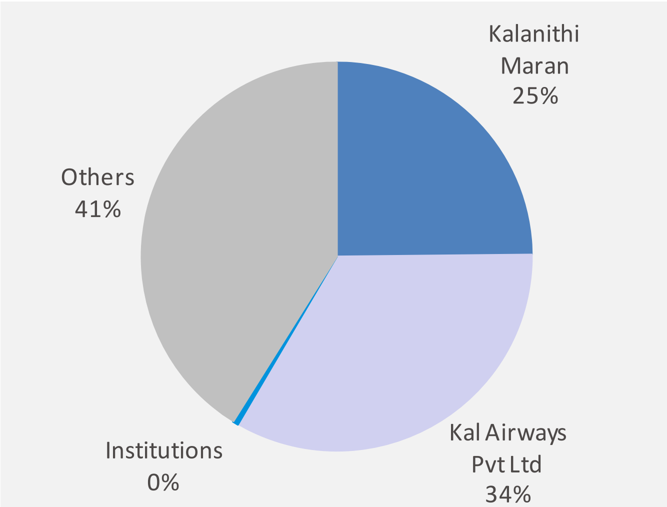
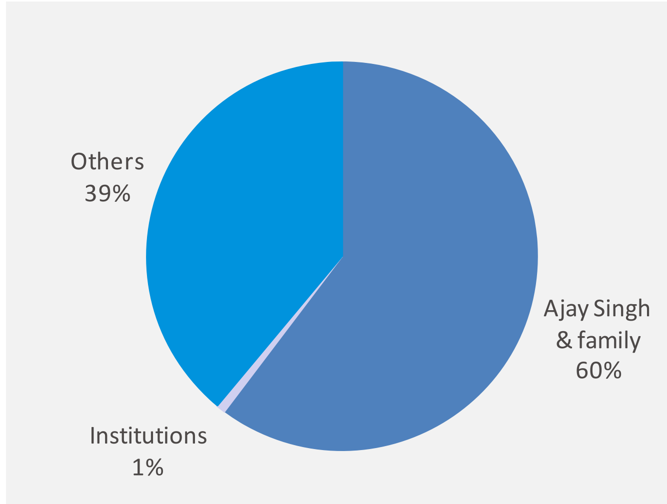


Chart 10: Promoter holding after take over



Source: Company, Edelweiss research

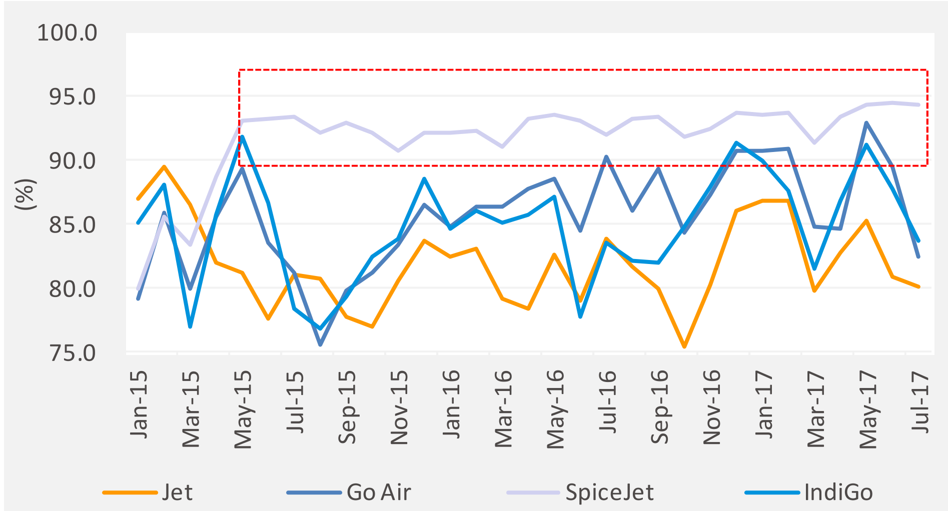
SJ has successfully revived from a near grounding experience, led by a refurbished strategy by the new Chairman, notably: 1) focusing on revenue maximisation through high aircraft utilisation; 2) timely fleet addition; 3) achieving cost efficiencies (restructured legacy contracts with lessors); 4) enhancing employee productivity (aligning incentive structures); and 5) sharpening focus on balance sheet/cash flow improvement.

These measures helped SJ restore operational reliability and regain customer confidence. This was amply evident in the return to normalcy of flight cancellations rate, gradual uptick in available capacity and recovery of lost passenger volumes in ensuing months, thereby gaining market share.

Revenue maximisation: Tactical pricing to stimulate PLFs, RASK

SJ focused on maximising revenue by adopting dynamic revenue management through higher airline load factor than industry. Management’s philosophy - flying empty seats, which are ultimately a perishable commodity/lost forever once the flight has taken off, is a crime, and the best way to address that was to sell well in advance at highly attractive rates to passengers willing to plan and book early in exchange for competitive prices.

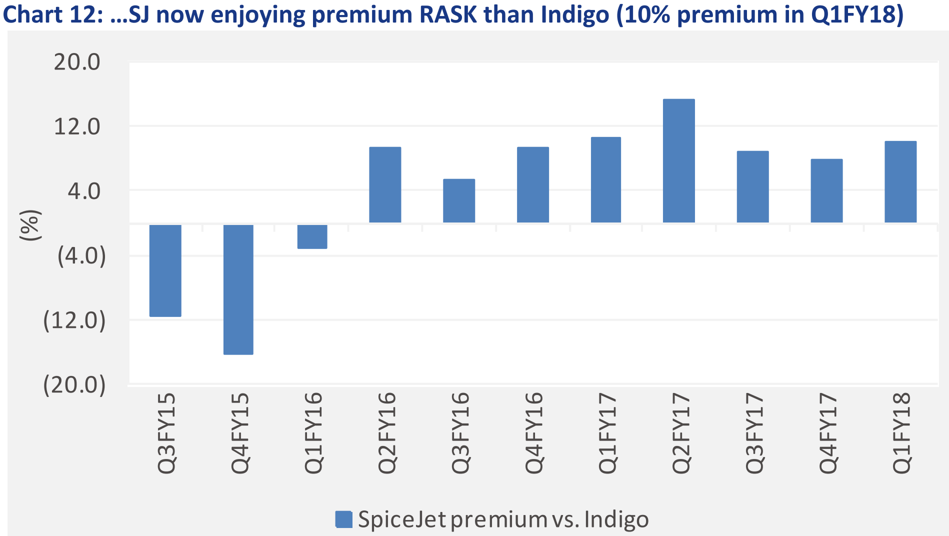
Chart 11: Discounted pricing - PLF recouped to >90% from ~80% levels in Q4FY15…



Source: DGCA

While fare discounting props PLF, yields (pax revenue/RPKM) tend to falter. However, high occupancy ensures that the discount narrows down significantly on revenue earned/ASKM (RASK). **Adjusting for PLF, average passenger revenue earned/ASKM by SJ which was at 16% discount to Indigo in Q4FY15 (due to lower fleet and cancellations), went up to 9% premium to IndiGo in Q2FY16 and has been at a premium since then (Q1FY18: 10%).**

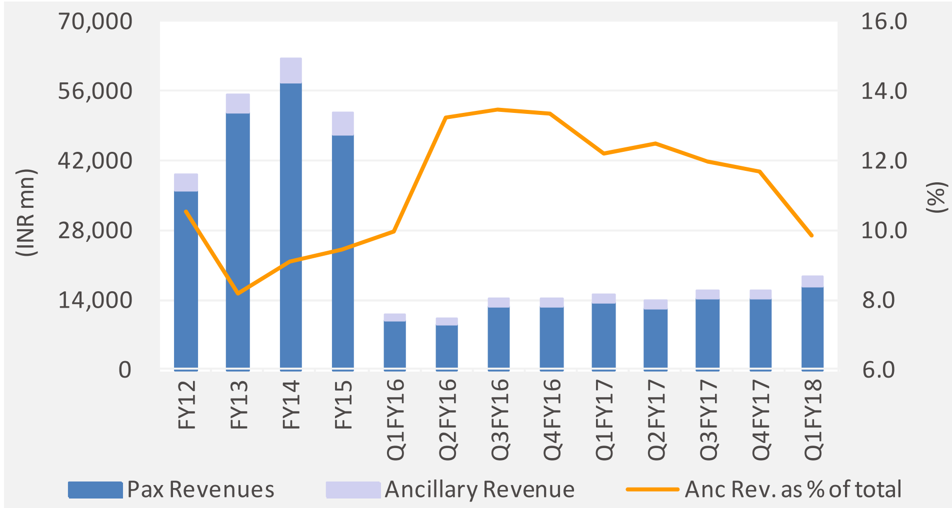
Chart 12: …SJ now enjoying premium RASK than Indigo (10% premium in Q1FY18)



Source: DGCA, Companies, Edelweiss research

Higher PLFs coupled with innovative pricing through "unbundling fares" led to higher share of ancillary revenue which entails better margins.

Chart 13: Ancillary revenue, as a percentage of passenger revenue

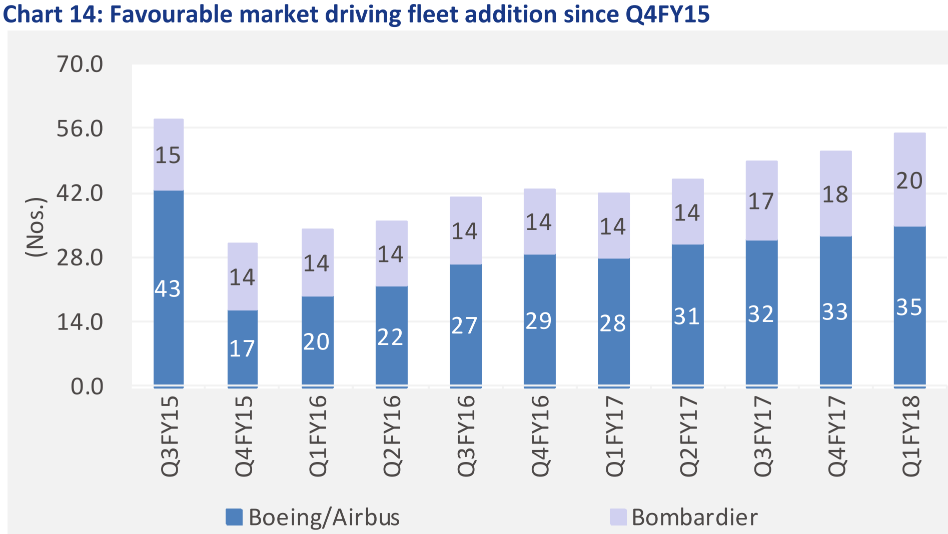


Source: Company, Edelweiss research

Subsequent fleet addition, High PLFs driving market share

From peak fleet of 58 aircraft in Q3FY15, fleet size declined to 31 in Q4FY15. However, given better liquidity and favourable markets, SJ reintroduced new aircraft (on operating lease) and re-inducted few of the earlier surrendered aircraft, to end Q1FY18 with fleet size of 55, almost its highest level.

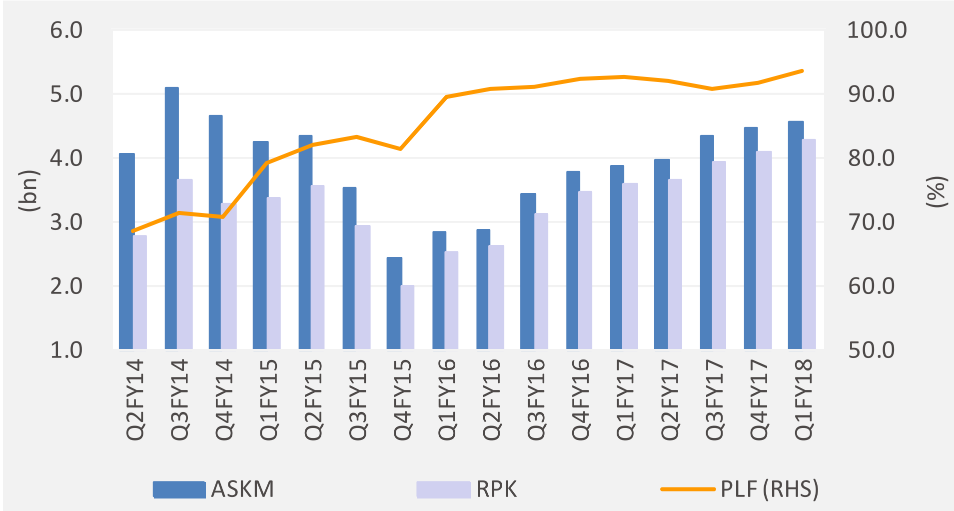
Chart 14: Favourable market driving fleet addition since Q4FY15



Source: Company

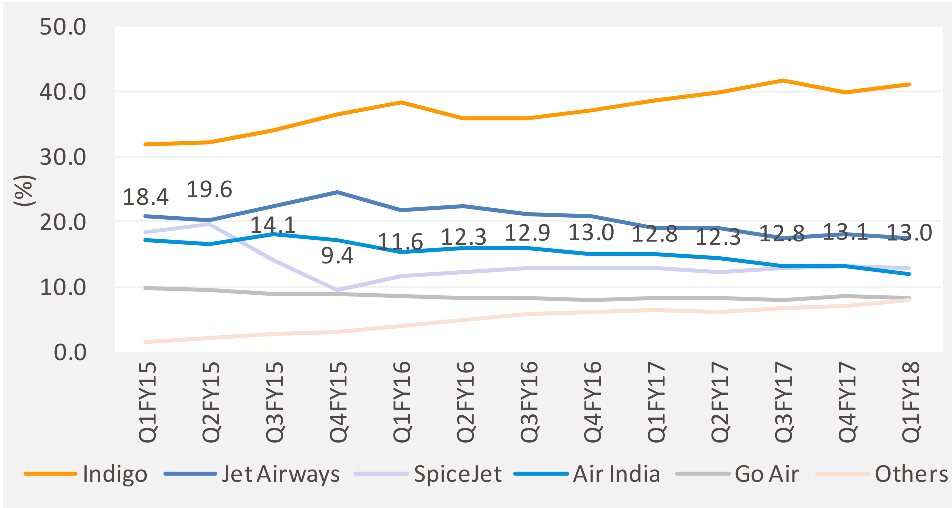
Due to higher PLFs and increased capacity, SJ regained lost customer volumes and confidence, which resulted in market share recovering from the Q3FY15 lows.

Chart 15: Capacity (ASKM) almost doubled from Q4FY15 lows



Source: DGCA, Edelweiss research

Chart 16: Regaining market share, but still well below peak levels of 20% in Q2FY15

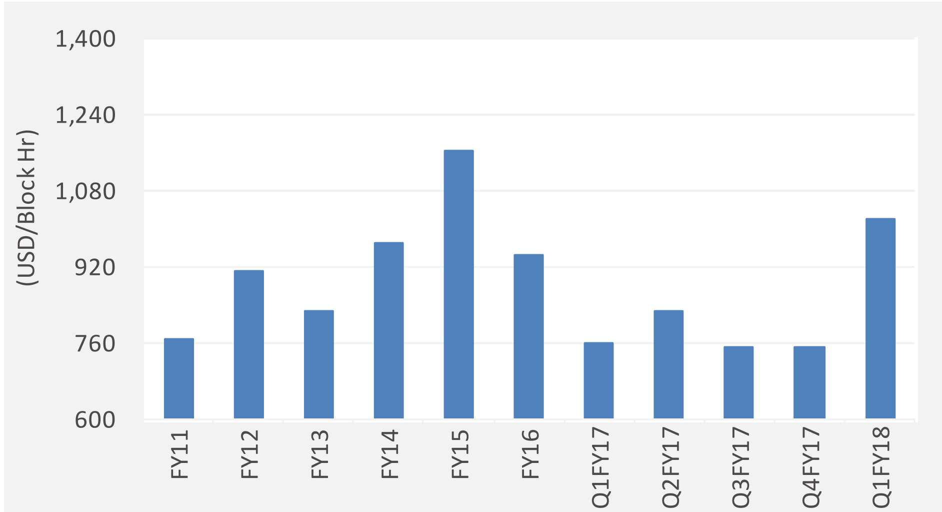


Source: DGCA

Restructured legacy contracts with lessors, rising cost efficiencies

Owing to provisioning for aircraft redelivery and other aircraft related costs relating to early termination of Boeing aircraft leases in FY15, the company's maintenance cost had surged in previous years. However, new management worked with the lessors and other service providers to restructure long-term contracts concerning aircraft lease, engineering, maintenance and other areas, which led to decline in maintenance cost for the airline.

Chart 17: Maintenance cost rationalised from highs in FY15

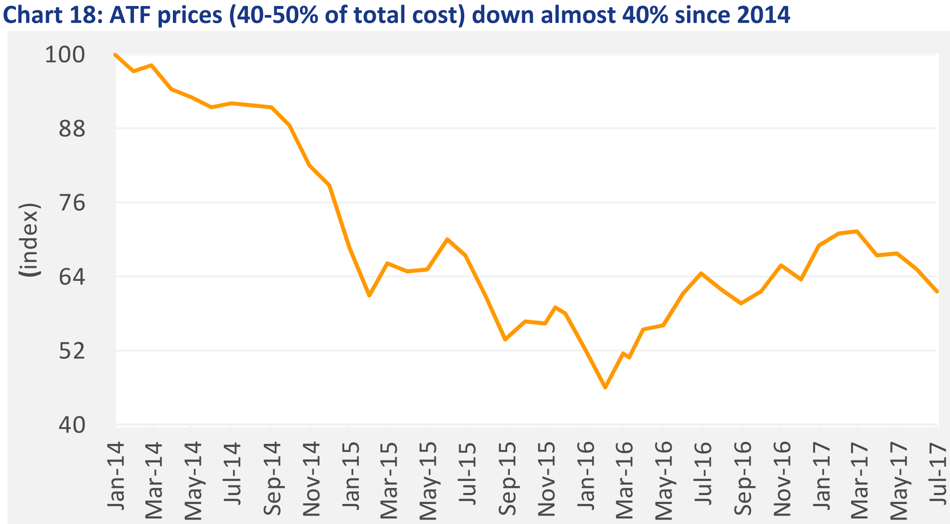


Source: Company, Edelweiss research

Favourable industry dynamics: Traffic growth to outstrip capacity

SJ expects robust demand growth (**10.7% CAGR over next 10 years**) to exceed capacity addition. While the recent robust demand growth is driven by cyclically lower oil price driving pent-up demand, structural fundamental growth drivers are yet to play out, which will drive airline demand in long term.

Chart 18: ATF prices (40-50% of total cost) down almost 40% since 2014



Source: IOCL, Edelweiss research

Fundamental demand drivers that are yet to play out

1. Strong economic growth and continued population growth
2. **Growing affluent middle class:** India's middle class households will exceed 90mn by 2025, retaining its current rank as the world's second largest middle class. Moreover, by 2025, share of elite, affluent and aspirer households will increase from 23% to 36% of the total, while the share of strugglers will drop from 31% to 18%.

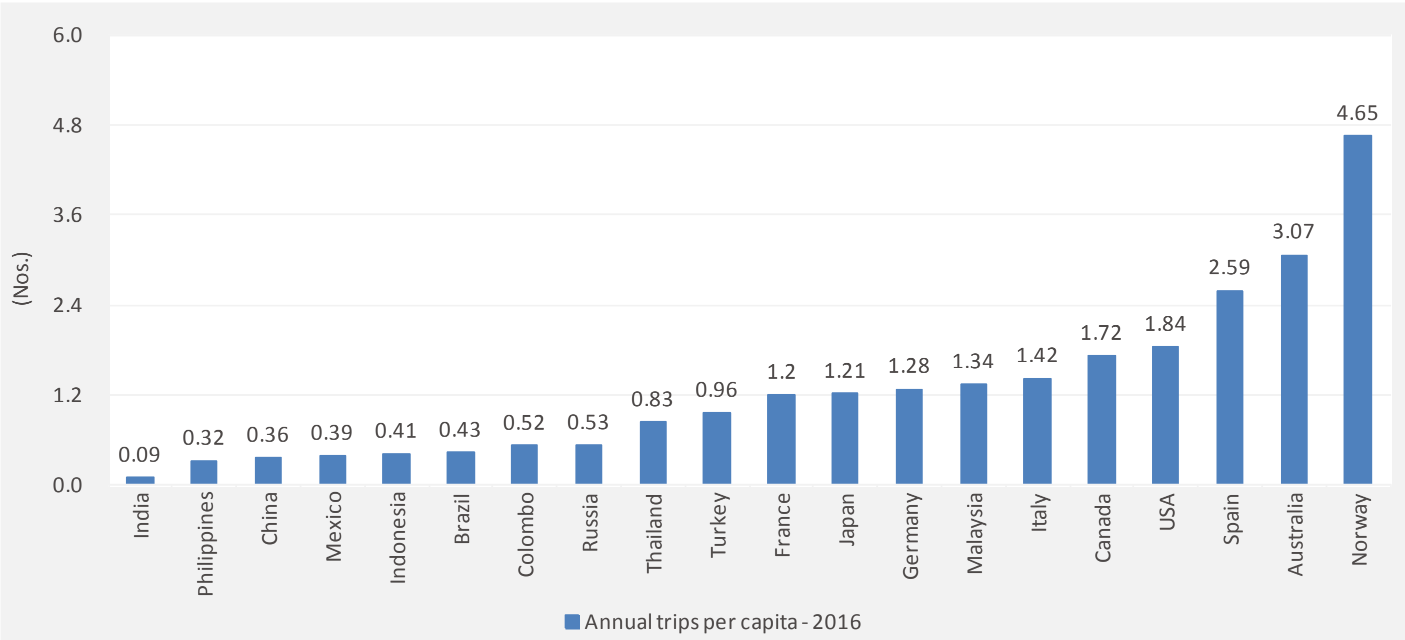
3. **Strong growth in tourism:** Total contribution of travel & tourism to GDP was 9.5% of GDP in 2016 and forecast to rise by 6.7% p.a. to 10% of GDP by 2027.

4. **Untapped market potential:** India has the lowest airline penetration rate – 0.09 annual trips per capita for CY16, compared to China's 0.36 and USA's 1.84.

5. **Expansion in infrastructure:** Brown-field airport expansions, green-field airports and growing airline capacity will support growing demand.

6. UDAN, introduced as part of the National Civil Policy, will boost regional connectivity and drive demand from Tier-II and III cities. The Union Civil Aviation Ministry has already awarded 128 routes connecting 70 airports to 5 airlines.

Chart 19: India's lowest airline penetration at 0.09 annual trips per capita, 1/4th of China



Source: Company

Mega aircraft order to capitalise on favourable industry dynamics

Mega aircraft orders placed by SJ

1. In January 2017, SJ placed an order with Boeing for 155 firm and 50 options for B737 MAX aircraft.

2. In June 2017, entered into an MoU with Boeing for 20 firm and 20 options for B737 MAX 10 aircraft at the Paris Air Show.

3. Placed an order with Bombardier for purchase of 25 and purchase right for 25 Q400 aircraft at the Paris Air Show. This is expected to augment SJ's regional presence and be an active part of UDAN scheme. SJ is the only organised player in the regional aviation market with 10% of capacity on regional routes and has 20 Bombardier Q400s.

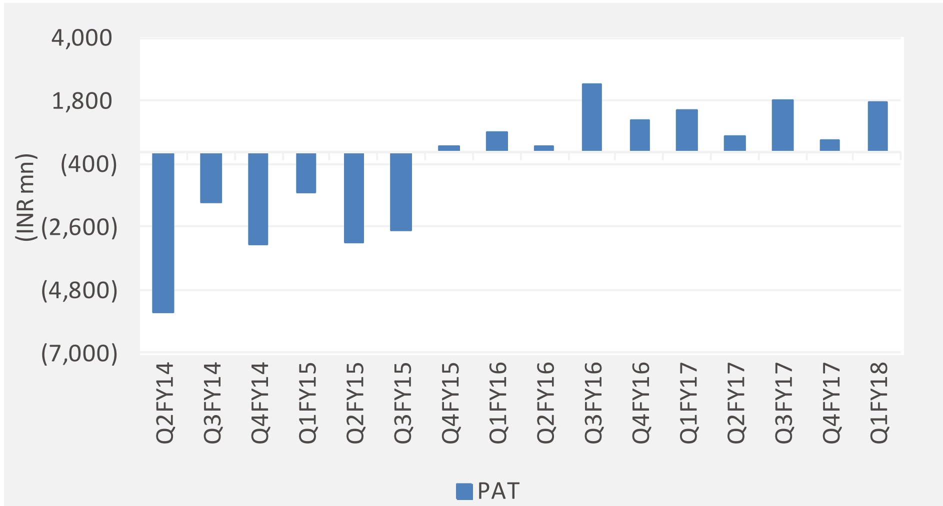
B737 MAX will improve structural costs driven by ownership cost-led advantages in the long run. SJ will fund the initial deliveries by Sale & Lease for atleast the first 3 years (9 planes in FY18/19 and 15 p.a. from FY20), thereby reducing the ownership cost. Operating cost will also fall amid 15% fuel savings and lower maintenance.

Outlook and Valuations: Strong growth, improving B/S; maintain 'BUY'

SJ has managed to dislodge significant portion of its overdue obligations to statutory authorities in the past few quarters. The company has entered into settlement agreements with certain lessors and vendors with respect to past overdue payments and also negotiated deferred payment plans with certain vendors for overdue amounts.

The corrective measures, in an extremely conducive macroeconomic environment, has helped the new promoter turn-around the airline—reported 10 consecutive quarters of profits: cumulative INR11bn. With sharpening focus on improving balance sheet, the company has pruned debt by INR2bn in the past 2 years, reduced liability by INR3bn in FY17 and surplus gross cash balance at INR2bn in FY17.

Chart 20: SJ consistently recording profits since past 10 quarters



Source: Company

The airline will enhance fleet size in ensuing years to improve scale and depth of operations across strategic markets and capitalise on the growing aviation market in India. With the airline now returning to normalcy, management is clearly shifting focus to growth.

Over FY17-19, we estimate 18% RPKM CAGR, driving 49% EPS CAGR.

Subsequently, we have revised our target price to INR150, driven by:

1) **Higher EV/EBITDAR multiple**: With the company's renewed focus on profitable growth and visible improvement in balance sheet/cash flow quality, we have raised FY19E EV/EBITDAR multiple to 8.5x (8.0x earlier). We believe Indian airline companies deserve premium valuations versus global peers (5.0x 1-year forward EV/EBITDAR), on expected superior growth (almost 5% higher than global airlines traffic growth).

2) **Lower risks of warrant dilution**: While the warrant case with ex promoters is under arbitration, we now assume 50% probability of dilution at INR16.3/share, purely based on information available in the public domain. This implies 16% dilution versus 32% assumed earlier. Assuming NIL warrants dilution (best-case scenario), our implied target price works out to INR167 (31% upside from current levels), while if there is 100% dilution (worst-case scenario), our target price is pegged at INR136 (implying 7% upside).

Table 1: SoTP valuation

	INR mn	INR/share
Standalone FY19E EBITDAR	23,287	34
EV/EBITDAR (x)	8.5	
EV	**197,939**	**285**
Less: Aircraft lease rentals capitalised at 7x	89,536	129
Less: Net debt (cash)	374	1
Less: Pref capital from ex promoters*	4,250	6
Equity value	103,779	**150**
Market Cap / CMP	88,554	128
% upside	17	17

Chart 21: Shareholding pattern: Different dilution scenarios

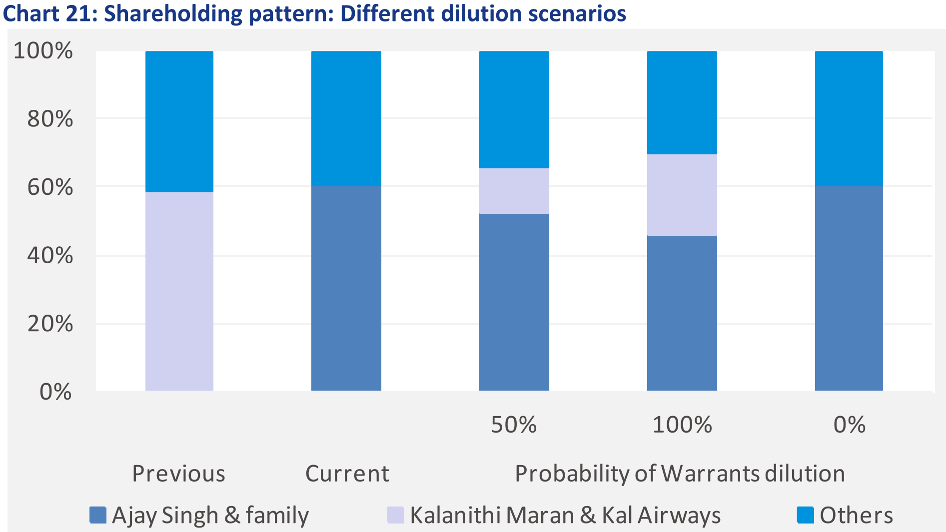


Table 2: Valuation (INR/share) scenarios - 31%/17%/7% upside at 100%/50%/0% dilution

	Bull case (nil dilution)	Base case (50% dilution)	Bear case (100% dilution)
Standalone FY19E EBITDAR	39	34	30
EV/EBITDAR (x)	8.5	8.5	8.5
EV	**330**	**285**	**251**
Less: Lease rentals capitalised at 7x	149	129	114
Less: Net debt	4	1	(2)
Less: Pref capital from ex promoters*	10	6	3
Equity value	**167**	**150**	**136**
Market Cap / CMP	128	128	128
% upside	31	17	7

Source: Edelweiss research

Table 3: Global peers: Indian companies trading at premium EV/EBITDAR valuation

Company	PER (1 yr fwd)	EV/EBITDAR (1 yr fwd)	EBITDAR margin (1yr fwd)
Indigo	16.2	8.8	31.9
SpiceJet	9.2	7.2	25.4
Jet Airways	19.9	7.5	14.2
Indian players average	**15.1**	**7.9**	**23.8**
Air Asia	8.5	5.5	38.4
Cebu Pacific	7.5	4.4	32.9
Ryanair	14.3	9.2	33.4
Wizz Air	14.6	3.8	34.2
EasyJet	14.1	6.1	14.2
Spirit Airlines	9.3	3.1	30.0
WestJet	10.6	3.7	22.9
JetBlue	9.7	3.9	24.3
Southwest	13.8	5.8	25.1
Azul	56.9	4.5	29.6
Global peers average	**15.9**	**5.0**	**28.5**

Source: Bloomberg, Edelweiss research

Annexure

Allotment of warrants pending regulatory clearances

Based on information available in the public domain, we have prepared a summary of the warrants issue between SJ and ex promoters (Mr. Kalanithi Maran and Kal airways).

Background: Under FY14 sale purchase agreement, Mr. Maran had transferred 58.46% stake in the airline for a total sum of INR2. In return for the transfer, Mr. Maran and KAL Airways were to receive stock warrants and convertible redeemable preference shares from the budget carrier.

After SJ failed to issue warrants or allot tranches of the preference shares, Mr. Maran and his airline filed a civil suit before a single-judge of the HC to enforce the terms of the agreement. On the directions of the single judge, SJ's shareholders in the 30th AGM held in September 2014 had approved allotment of ~189mn warrants convertible into equivalent number of equity shares at a price of INR16.3/share (total consideration of INR3.08bn) to the outgoing promoters. SJ received an amount aggregating INR2.3bn (75% of total consideration) against such proposed warrants. However, the company has not allotted warrants till date citing non-receipt of regulatory approvals. Further, the board in January 2015 also approved issuance of 3.75mn non-convertible CRPS of INR1,000 each to outgoing promoters on preferential basis and had received INR1.2bn as advance.

However, market regulator SEBI informed the court that the resolution to allot the shares cannot be approved according to law. This lead to the July 2017 order directing the payment of INR5.8bn, while directing the parties to settle the dispute through arbitration. **The case is currently under arbitration and the final decision is awaited**. The case timelines are presented below.

Fig. 1: Chronology of events

Current Status	Arbitration proceedings underway. Final decision expected by December 17
August 1, 2017	SpiceJet furnishes bank guarantee of INR3.3bn to the Registrar General of the Delhi HC
July 28, 2017	Supreme Court rejects Spicejet's petition, orders company to make the payments as per Delhi HC order but extends timeline extended by 2 weeks i.e. September 14 and August 14
July 19, 2017	Spicejet moves to SC against Delhi HC order asking the airline to deposit INR5.8bn in equal installments over 12 months
July 3, 2017	2-member bench of Delhi HC directs SpiceJet to deposit INR2.5bn in cash and furnish INR3.3bn as bank guarantee by August 31st and July 31st respectively.
August 31, 2016	Spicejet appeals Delhi HC single bench order, claims decision 'erroneous'
August 29, 2016	Single Judge order directs SpiceJet to deposit INR5.8bn in equal installments over 12 months, while directing the parties to settle dispute by arbitration.
Between Mar-Jul 16	SEBI informs the court that the resolution could not be approved according to law
March 14, 2016	Necessary Board resolution to be passed authorising both parties to jointly represent the applications before BSE / SEBI
March 12, 2016	Outgoing promoters Kalanithi Maran and KAL Airways approach Delhi HC, which directs SpiceJet to pass a board resolution to issue shares to outgoing promoters against proposed warrants
February 23, 2015	MOCA approved transfer of entire shareholding to Mr. Ajay Singh Pursuant to this share holding of Mr. Ajay Singh in SpiceJet increased from 1.6% to 60%
January 29, 2015	Board of Directors approved the issuance of up to 3,750,000 non convertible CRPS of INR1,000 Of the total consideration of INR3.75bn, INR1.2bn was paid in advance against the proposed CRPS
Mid December 2014	Owing to liquidity constraints & regulatory clampdown the airline was forced to suspend operations partially - total number of daily flights reduced from 340 during July 14 to 230 during December 14
September 24, 2004	Shareholders proposed allotment of 139mn warrants convertible into equivalent number of equity shares at INR16.3/share

Source: Edelweiss research

Company Description

Spice Jet is one of India's leading domestic low-cost carriers. Whilst the company is amongst the most efficient operators in the domestic airspace, Spice Jet has undergone financial restructuring. It currently operates 35 leased B737-800 in the domestic airspace commanding ~13% market share

Investment Theme

Revenue maximization, an appropriate strategy at current scale

SJ's revenue maximisation strategy has been backed by tactical pricing and dynamic revenue management which has successfully propped occupancy (industry best PLF of 90% plus). The company's yield is at 6% discount to competition, but superior asset utilisation ensures that it earns 9% higher revenue per seat flown (as of Q2FY16). Unlike competition, SJ's current scale (smaller fleet) prevents cannibalisation, thereby maximising revenue. This, coupled with obsessive focus on ancillary revenue generation, has paid rich dividends — high margin ancillary income share jumped to 13% in FY17 from 9% in FY15.

Next big focus on industry leading cost structure

Shirking legacy issues and to ensure structural cost advantages, management is restructuring its long-term contracts. Towards this, it is working with lessors and other service providers to rationalise its cost base. Moreover, SJ has sealed a 155-aircraft order to lower ownership costs and avail structural advantages.

Key Risks

Sharp uptick in ATF prices (accounted for 50% of revenue in past) and INR depreciation (bulk of cost is USD denominated) will impact profitability given high price sensitivity of the Indian consumer leaving limited ability to pass on costs.

Economic slowdown exerting pressure on demand for corporate / leisure travel will impact load factor and hence profitability given the high operating leverage structure of the airline business. Failure to maintain occupancy levels at 90% plus any demand weakness will pressurise RASK and hence pose a risk to earnings/valuations.

Uncertainty and unpredictability in policy/regulatory framework remains a concern. Adverse taxation structure will drive up cost of doing business, hurting profitability.

Existing airports at Indian metros like Mumbai, Chennai and Kolkata running at peak capacity could prove to be bottlenecks for growth.

Financial Statements

Key Assumptions

Year to March	FY16	FY17	FY18E	FY19E
Macro				
GDP(Y-o-Y %)	7.2	6.5	7.1	7.7
Inflation (Avg)	4.9	4.8	5.0	5.2
Repo rate (exit rate)	6.8	6.3	6.3	6.3
USD/INR (Avg)	65.0	67.5	66.0	66.0
Sector				
Domestic pax growth(%)	20.0	21.0	20.0	17.0
Domestic ASKM growth(%)	15.0	20.0	18.0	16.0
Domestic oil price(INR/Ltr)	47.9	49.7	52.7	54.0
Company				
Average fleet size(No)	37.0	45.8	56.8	65.0
Avg. flying hours (Hrs)	9.9	9.8	9.6	9.9
Employee Exp. Growth(%)	(8.4)	36.8	29.9	22.3
S&D Exp/pax (INR)	250	250	250	250
Airport chg/dep (INR)	43,871	48,027	43,116	41,000
Maint. Cost/B Hr (USD)	946	791	784	731
Lease rent/Aircrart (USDmn)	5.3	4.3	3.8	3.5
Pax growth (%)	1.7	25.2	19.6	18.0
Pax yield/RPKM	3.8	3.6	3.7	3.7
Cargo rev as % of pax	12.6	12.0	11.5	13.0
Tax rate (%)	-	-	-	10.0

Income statement (INR mn)

Year to March	FY16	FY17	FY18E	FY19E
Net revenue	50,881	61,913	76,022	91,831
Aircraft fuel expenses	13,920	18,552	23,337	28,005
Employees Costs	4,925	6,735	8,747	10,694
Operating expenses	18,551	21,586	26,858	29,845
Total operating expenses	37,395	46,874	58,942	68,544
EBITDAR	13,486	15,039	17,081	23,287
Aircraft Lease Rentals	8,111	9,606	10,546	12,791
Depreciation	1,798	1,986	2,325	2,450
EBIT	3,577	3,447	4,210	8,046
Add: Other income	1,520.56	1,125.38	1,557.52	3,118.96
Less: Interest Expense	1,237	650	675	480
Profit Before Tax	4,498	4,307	5,093	10,686
Less: Provision for Tax	-	-	-	1,069
Extraordinary item	637	386	-	-
Reported Profit	4,498	4,307	5,093	9,617
Exceptional Items	637	386	-	-
Adjusted Profit	3,861	3,922	5,093	9,617
Shares o /s (mn)	599	599	694	694
Diluted shares o/s (mn)	599	599	694	694
Adj. Diluted EPS (INR)	6.4	6.5	7.3	13.9
Adjusted Cash EPS	10.5	10.5	10.7	17.4

Common size metrics

Year to March	FY16	FY17	FY18E	FY19E
Aircraft fuel expenses	27	30	31	30
Non-fuel expenses	46.1	45.7	46.8	44.1
EBITDAR margins	26.5	24.3	22.5	25.4
EBIT margins	7.0	5.6	5.5	8.8
Net Profit margins	7.6	6.3	6.7	10.5

Growth ratios (%)

Year to March	FY16	FY17	FY18E	FY19E
Revenues	(2.2)	21.7	22.8	20.8
EBITDAR Growth	554	12	14	36
Adjusted Profit	-	1.6	29.9	88.8
EPS	-	1.6	12.2	88.8

Balance sheet (INR mn)

As on 31st March	FY16	FY17	FY18E	FY19E
Share capital	5,995	5,995	6,940	6,940
Reserves & Surplus	(16,383)	(12,085)	(8,701)	916
Shareholders' funds	(10,389)	(6,091)	(1,761)	7,856
Short term borrowings	1,050	2,522	1,722	922
Long term borrowings	9,209	7,760	5,760	3,760
Total Borrowings	10,259	10,282	7,482	4,682
Def. Tax Liability (net)	(293)	(212)	(212)	(212)
Sources of funds	**(422)**	**3,980**	**5,509**	**12,326**
Tangible assets	16,265	16,189	15,225	13,575
Intangible Assets	10	9	9	9
Total net fixed assets	16,276	16,198	15,234	13,584
Non current investments	-	-	-	-
Current Investments	205	1,398	1,398	1,398
Cash and Equivalents	1,059	2,012	7,108	18,558
Inventories	665	870	1,047	1,258
Sundry Debtors	434	618	743	893
Loans & Advances	4,986	4,906	4,800	5,300
Other Current Assets	4,550	3,697	3,756	4,351
Current Assets (ex cash)	10,635	10,090	10,345	11,802
Trade payable	7,748	6,055	7,176	8,258
Other Current Liab	20,849	19,663	21,400	24,758
Total Current Liab	28,596	25,718	28,576	33,016
Net Curr Assets-ex cash	(17,961)	(15,628)	(18,230)	(21,214)
Uses of funds	**(422)**	**3,980**	**5,509**	**12,326**
BVPS (INR)	(17.3)	(10.2)	(2.5)	11.3

Free cash flow (INR mn)

Year to March	FY16	FY17	FY18E	FY19E
Reported Profit	3,861	3,922	5,093	9,617
Add: Depreciation	1,798	1,986	2,325	2,450
Others	(1,980)	(487)	(883)	(2,639)
Gross cash flow	3,679	5,421	6,535	9,428
Less: Changes in WC	(6,795)	2,195	(2,168)	(3,683)
Operating cash flow	10,474	3,226	8,703	13,111
Less: Capex	780	1,908	1,361	800
Free Cash Flow	**9,694**	**1,318**	**7,342**	**12,311**

Cash flow metrics

Year to March	FY16	FY17	FY18E	FY19E
Operating cash flow	10,474	3,226	8,703	13,111
Investing cash flow	(2,006)	(829)	632	1,619
Financing cash flow	(5,136)	(627)	(4,238)	(3,280)
Net cash Flow	3,332	1,769	5,097	11,450
Capex	(780)	(1,908)	(1,361)	(800)

Profitability and efficiency ratios

Year to March	FY16	FY17	FY18E	FY19E
ROAE (%)	NA	NA	NA	315.6
ROACE (%)	196.5	169.7	85.0	88.1
Inventory Days	4	5	5	5
Debtors Days	6	3	3	3
Payable Days	70	41	32	31
Cash Conversion Cycle	(60)	(33)	(24)	(23)
Net Debt/Equity	(0.9)	(1.1)	0.6	(1.9)

Operating ratios

Year to March	FY16	FY17	FY18E	FY19E
Total Asset Turnover	30.4	34.8	16.0	10.3
Fixed Asset Turnover	3.0	3.8	4.8	6.4
Equity Turnover	(4.4)	(7.5)	(19.4)	30.1

Valuation parameters

Year to March	FY16	FY17	FY18E	FY19E
Adj. Diluted EPS (INR)	6.4	6.5	7.3	13.9
Y-o-Y growth (%)	*-*	*1.6*	*12.2*	*88.8*
Adjusted Cash EPS (INR)	10.5	10.5	10.7	17.4
Diluted P/E (x)	19.8	19.5	17.4	9.2
P/B (x)	(7.4)	(12.6)	(50.3)	11.3
EV / Sales (x)	2.8	2.5	2.1	1.8
EV/EBIDTAR	10.6	10.1	9.5	7.2
EV	85,690	84,760	88,928	74,678

Peer comparison valuation

	Market cap	Diluted P/E (X)		EV/EBIDTAR		ROAE (%)	
Name	(USD mn)	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
SpiceJet	1,193	17.4	9.2	9.5	7.2	(129.7)	315.6
InterGlobe Aviation (IndiGo)	6,898	17.3	15.8	9.7	9.0	59.1	56.9
Jet Airways (India)	1,029	12.6	7.2	7.1	5.9	(11.2)	(23.0)
Median	-	17.3	9.2	9.5	7.2	(11.2)	56.9
AVERAGE	-	15.8	10.7	8.8	7.4	(27.3)	116.5

Source: Edelweiss research

Additional Data

Directors Data

Mr. Ajay Singh	Chairman and Managing Director	Mr. R Sasiprabhu	Independent & Non-Executive director
Mrs. Shiwani Singh	Promoter Director (Non-Executive)	Mr. Anurag Bhargava	Independent director
Dr. Harsha Vardhana Singh	Independent director		

Auditors - M/s S. R. Batliboi & Associates LLP

Holding - Top 10

	Perc. Holding		Perc. Holding
Birla Sun Life Asset Management	2.15	Jupiter Inv Mgmt Group Ltd	1.97
Icici Prudential Asset Mgmt Co	1.91	Reliance Capital Trustee Co Ltd	1.04
Companies S K Modi Group	0.99	L&T Investment Management Ltd	0.64
Kotak Mahindra Old Mutual Life	0.29	Van Eck Associates Corporation	0.29
Sbi Funds Management	0.28	Wisdomtree Investments Inc	0.19

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**as per last available data*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

**as per last available data*

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Date: 2017.09.07 15:24:44 +05'30'

Coverage group(s) of stocks by primary analyst(s): Aviation

InterGlobe Aviation (IndiGo), Jet Airways (India), SpiceJet

Recent Research

Date	Company	Title	Price (INR)	Recos
11-Aug-17	**SpiceJet**	Buoyant quarter: Yield recovery augments strong PAX growth; *Result Update*	115	Buy
31-Jul-17	**Interglobe Aviation (Indigo)**	Strong operational show on yield recovery ; *Result Update*	1,291	Hold
19-Jun-17	**Jet Airways**	Skids on fuel cost spike; debt	545	Buy

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

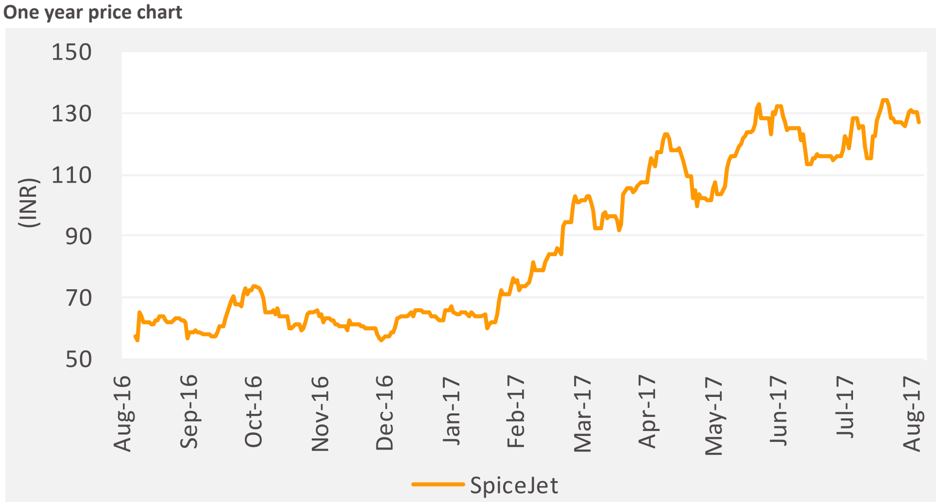
	Buy	Hold	Reduce	Total
Rating Distribution* * 1stocks under review	161	67	11	240

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	156	62	11

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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