

Jet Airways (JETAIR)

Higher ATF prices dent margins...

- Jet Airway's Q4FY17 numbers were below our estimates broadly on account of high ATF prices. The key notable thing was that pressure on yields continued amid rising competition from other carriers. The company reported revenues of ₹ 6026 crore that were lower than our estimates. On the other hand, EBITDA margins dropped sharply YoY on account of higher fuel prices
- Total revenues were up 6% YoY to ₹ 6026 crore (vs. I-direct estimate: ₹ 6,242.8 crore) led by 5.4% YoY growth in total passenger traffic. Passenger traffic growth stayed below industry growth mainly due to lack of capacity additions. Passenger load factor during the quarter was down 30 bps YoY to 83.0% amid rising competition
- EBITDA margin of 6.7% was lower than our estimated margin of 7.2% mainly due to sharp jump in fuel & maintenance costs. Fuel costs (i.e. 28% of revenues) were up 58.6% YoY to ₹ 1700 crore. Maintenance cost also jumped sharply by 56% YoY to ₹ 492 crore
- The company repaid ₹ 468 crore of debt during the quarter. Total repayment of debt for FY17 was at ₹ 1902 crore

More focused on international compared to domestic segment

Jet is more focused on the international segment (inbound and outbound traffic) than on the domestic segment as the international segment is stable and offers higher margins than the domestic segment. Further, it also provides a natural hedge against currency weakness vs. the dollar. During FY11-16, the international segment has outpaced the domestic segment with revenue CAGR of 9.7% vs. domestic segment (Jet + JetLite) revenue CAGR of 5.4% during FY11-16. The revenue share of the international segment as of 9MFY17 was at ~63%.

Domestic market share improves to 18.1% during quarter

After falling consistently for five quarters, domestic market share of Jet has improved to 18.1% from 17.3% last quarter due to induction of wide body capacity in some key metro routes. With the stabilisation in the fleet capacity by other players and induction of new fleets by Jet, we expect the company to gain further traction in market share, going forward.

Cost rationalisation only key to sustain margins amid rise in supplies

While demand growth continues to remain robust (up over 23% YoY), supply side growth (up over ~20%) is also keeping a check on yields and margins. The past two years had witnessed a substantial expansion in margins mainly led by the sharp fall in ATF prices and reduction in ticket prices. With crude prices now on the stable curve, players would now have to focus more on cost rationalisation to sustain competition. Given Jet's operating cost is one of the highest, sustenance of margins would remain challenging for the company amid rising competition.

Healthy cost environment, improving B/S strength; upgrade to BUY

The macro factors for aviation like passenger traffic growth (up over 22% YoY) continue to remain healthy. This would take care of the rise in fleet supplies. With debt reduction of over ~₹ 1900 crore this fiscal, we expect debt levels to come down further by ₹ 750 crore over the next two years led by a healthy cost environment on account of benign ATF prices. Hence, we upgrade our recommendation to **BUY** with a revised target price of ₹ 580/share (i.e. valuing at two year forward P/E of 9.5x).

Rating matrix		
Rating	:	Buy
Target	:	₹ 580
Target Period	:	12-15 months
Potential Upside	:	17%

What's changed?	
Target	Changed from ₹ 350 to ₹ 580
EPS FY17E	Changed from ₹ 66.9 to ₹ 52.3
EPS FY18E	Introduced at ₹ 61.2
Rating	Changed from Hold to Buy

Quarterly performance					
	Q4FY17	Q4FY16	YoY (%)	Q3FY17	QoQ (%)
Revenue	6,026.0	5,686.5	6.0	5,932.9	1.6
EBITDA	404.0	1,053.4	(61.6)	480.4	-15.9
EBITDA (%)	6.7	18.5	-770bps	8.1	-60bps
PAT	24.0	425.5	-94.4	156.4	-84.7

Key financials				
₹ Crore	FY16	FY17E	FY18E	FY19E
Net Sales	22,321	22,693	23,555	24,521
EBITDA	2,350	1,284	1,531	1,594
Net Profit	1,212	438	594	695
EPS (₹)	106.7	38.6	52.3	61.2

Valuation summary				
	FY16	FY17E	FY18E	FY19E
P/E	4.7	12.9	9.5	8.1
Target P/E	5.4	15.0	10.9	9.5
EV/EBITDA	4.9	8.9	7.5	7.2
EV/Sales	0.51	0.50	0.48	0.47
P/BV	NA	NA	NA	NA
RoNW (%)	NA	NA	NA	NA
RoCE (%)	47.7	53.4	61.3	54.1

Stock data	
Particular	Amount (₹ crore)
Mcap	5645.9
Debt (FY17)	7304.3
Cash & Invest (FY17)	1542.6
EV	11407.6
52 week H/L (₹)	796/248
Equity cap	113.6
Face value (₹)	10.0

Price performance				
	1M	3M	6M	12M
SpiceJet	0.1	42.4	74.0	57.2
Jet Airways	-6.7	9.6	26.6	-15.8

Research Analyst	
Rashesh Shah	rashes.shah@icicisecurities.com
Devang Bhatt	devang.bhatt@icicisecurities.com

Variance analysis

	Q4FY17	Q4FY17E	Q4FY16	YoY (%)	Q3FY17	QoQ (%)	Comments
Total Revenue	6026.0	6242.8	5686.5	6.0	5932.9	1.6	While passenger growth remained above our estimates (up 5.4% YoY to 70.2 lakh), weak realisations during the quarter (down 1.6% YoY) hurt topline growth
Employee cost	825.0	812.5	702.7	17.4	747.7	10.3	More pilot hiring during the quarter and pay hikes led to a sharp jump in employee cost during the quarter
Fuel	1700.0	1745.0	1071.9	58.6	1545.8	10.0	
S&D Exp	617.0	659.7	572.7	7.7	639.3	-3.5	
Other Ope costs	1852.0	1950.0	1700.4	8.9	1904.8	-2.8	
Lease Rent	628.0	627.4	585.4	7.3	614.9	2.1	
EBITDA	404.0	448.2	1053.4	LP	480.4	-15.9	
EBITDA Margin (%)	6.7	7.2	18.5	-770bps	8.1	-60bps	
Depreciation	188.0	176.4	418.9	-55.1	212.5	-11.5	Last year's depreciation included additional one time charge of ₹ 225.7 crore with respect to aircraft components
Interest	192.0	183.4	213.4	-10.0	223.5	-14.1	
Exceptional items	0.0	0.0	-4.4	NA	-112.0	NA	Exceptional loss mainly pertains to forex gains and profit from sale & lease back transactions
Tax	0.0	0.2	0.0	NA	0.0	NA	
PAT	24.0	88.2	425.5	-94.4	156.4	-84.7	

Key Metrics

No of passengers (In mn)	7.02	7.10	6.66	5.4	6.79	3.4	Increase in market share by other airlines led to moderate growth in passenger traffic
Gross yield per passenger (₹)	8,584.0	8,792.7	8,538.3	0.5	8,737.7	-1.8	

Source: Company, ICICIdirect.com Research

Change in estimates

(₹ Crore)	FY18E			FY19E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	23,353.2	23,555.3	0.9	NA	24,521.1	NA	FY17 saw crude price touching the lowest price of \$35/barrel. However, it has now stabilised at \$52/barrel, which we have factored in the model
EBITDA	1,835.8	1,531.1	-16.6	NA	1,593.9	NA	
EBITDA Margin (%)	7.9	6.5	-136 bps	NA	6.5	NA	
PAT	760.3	594.0	-21.9	NA	695.5	NA	
EPS (₹)	66.9	52.3	-21.9	NA	61.2	NA	

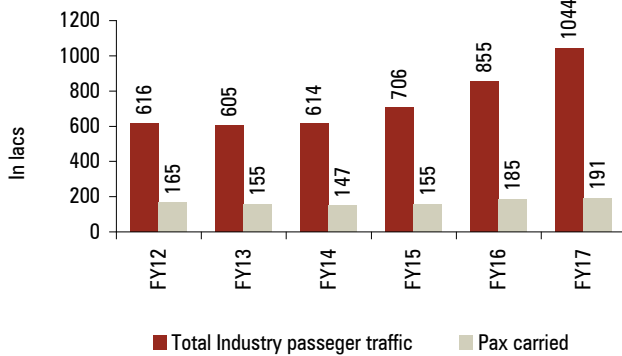
Source: Company, ICICIdirect.com Research

Company Analysis

Domestic market share improves to 18.1% during quarter

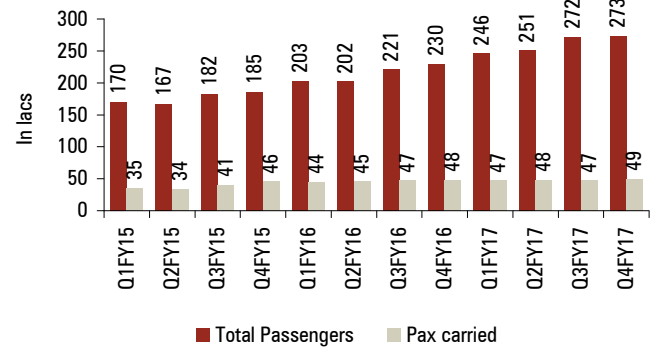
After falling consistently for five quarters, the domestic market share of Jet has improved to 18.1% from 17.3% last quarter due to induction of wide body capacity in some key metro routes. With the stabilisation in fleet capacity by other players and induction of new fleets by Jet, we expect the company to gain further traction in market share, going forward.

Exhibit 1: Jet's domestic pax traffic grows 3.3% in FY17 vs. industry growth of 22.1%



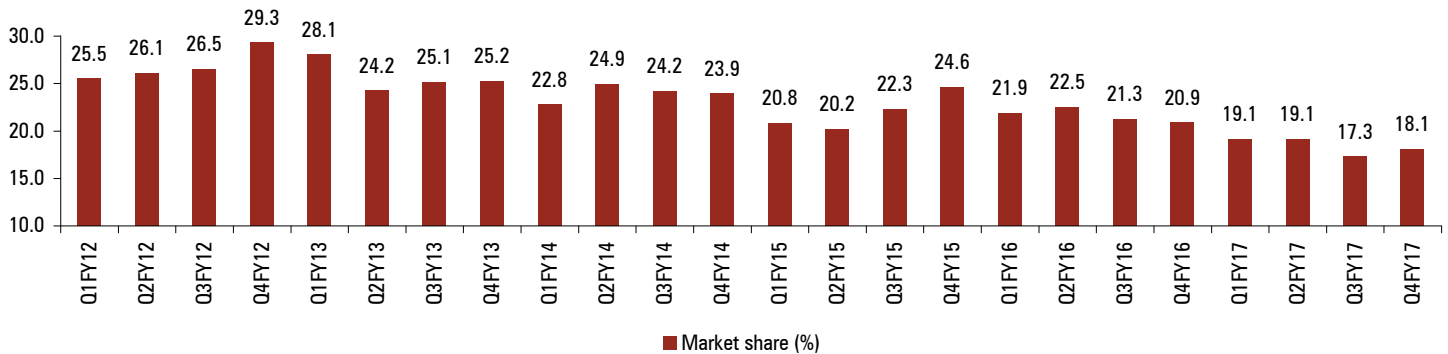
Source: Company, ICICIdirect.com, Research

Exhibit 2: Q4FY17 Jet domestic pax traffic grows 2.8% YoY



Source: Company, ICICIdirect.com, Research

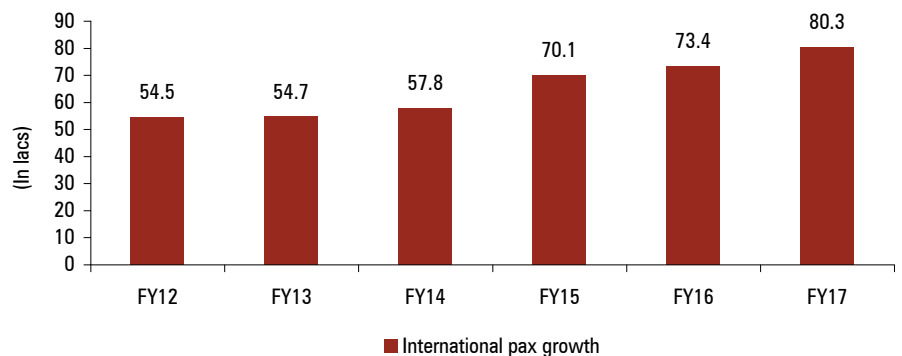
Exhibit 3: Jet's domestic market share trend (%)



Source: Company, ICICIdirect.com Research

Although domestic traffic growth has moderated during FY12-17, international passenger traffic has grown at a CAGR of 8% during the same period due to better margins and healthy demand along with benefit of strategic code share agreement with Etihad Airways

Exhibit 4: International passenger traffic grows at CAGR of 8% during FY12-17

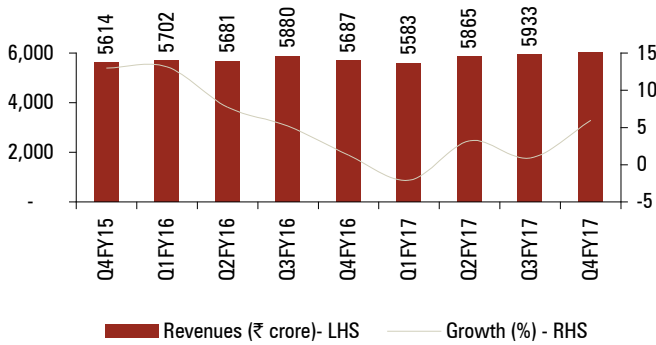


Source: Company, ICICIdirect.com Research

Q4FY17 consolidated revenue growth stays flattish amid pressure on yield

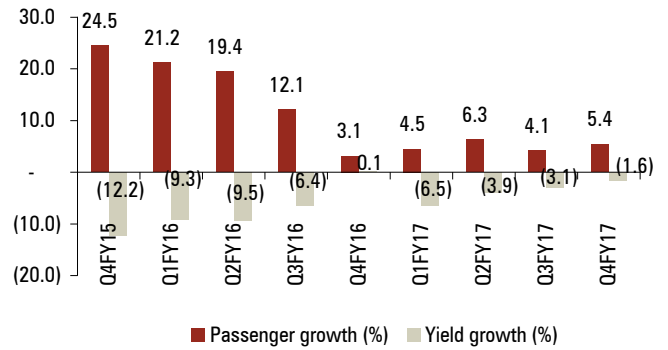
During Q4FY17, total consolidated revenue grew 6.0% YoY to ₹ 6,026 crore. While total passenger grew 5.4% YoY 7.02 million, domestic yield saw a weakness during the quarter due to higher competition.

Exhibit 5: Consolidated quarterly revenue trend



Source: Company, ICICIdirect.com Research

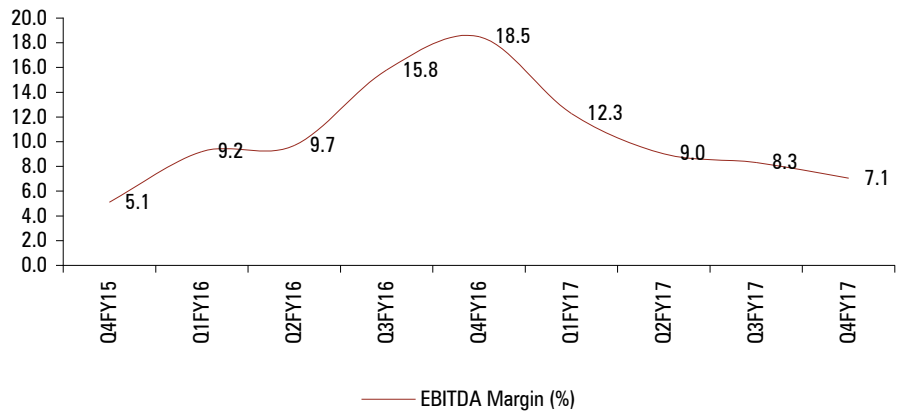
Exhibit 6: Passenger and yield growth trend



Source: Company, ICICIdirect.com Research

Consolidated margins for the quarter declined further to 6.7% on account of a sequential rise in ATF prices. Further, higher employee cost also had an impact on margins

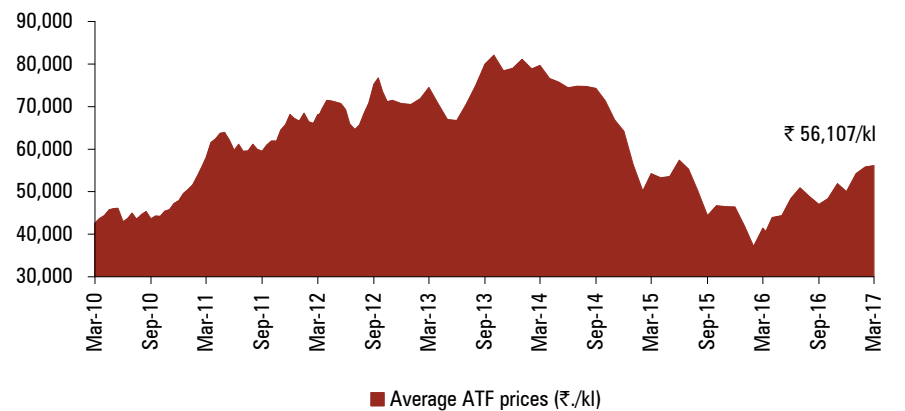
Exhibit 7: Margin trend (%)



Source: Company, ICICIdirect.com Research

In Q4FY17, average ATF prices increased 36% YoY, and 12% QoQ due to a spike in the international crude basket

Exhibit 8: Trend in ATF prices

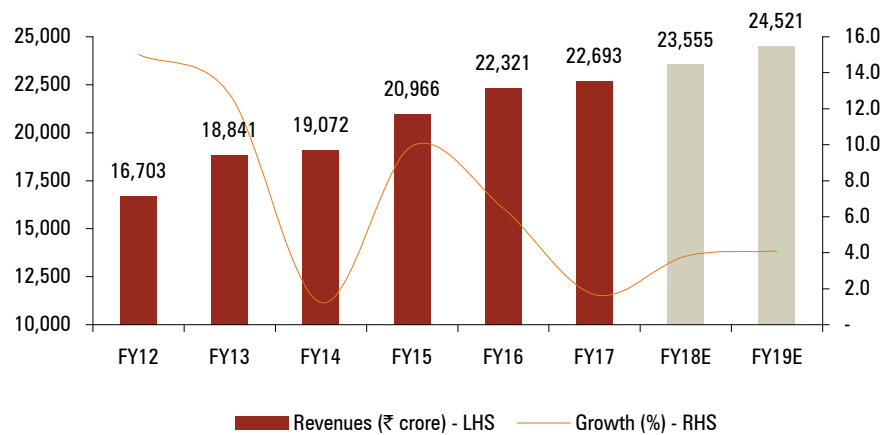


Source: Company, ICICIdirect.com Research

Expect revenue CAGR of 3.9% during FY17-19E

Jet Airways has reported revenue CAGR of 6.3% during FY12-17 led by a rebound in the economy, favourable cost environment coupled with increased supply. However, during FY12-14, domestic passenger traffic growth moderated due to higher ticket prices given the high cost environment while international passenger traffic has grown at 7-8% annually. We remain positive over the next two or three years with an expected recovery in the economy coupled with benign ATF prices. However, we build in moderate revenue CAGR of 3.9% during FY17-19E on a consolidated basis for Jet Airways due to limited fleet additions and lower yields led by rise in competition from other players.

Exhibit 9: Revenue growth trend (%)

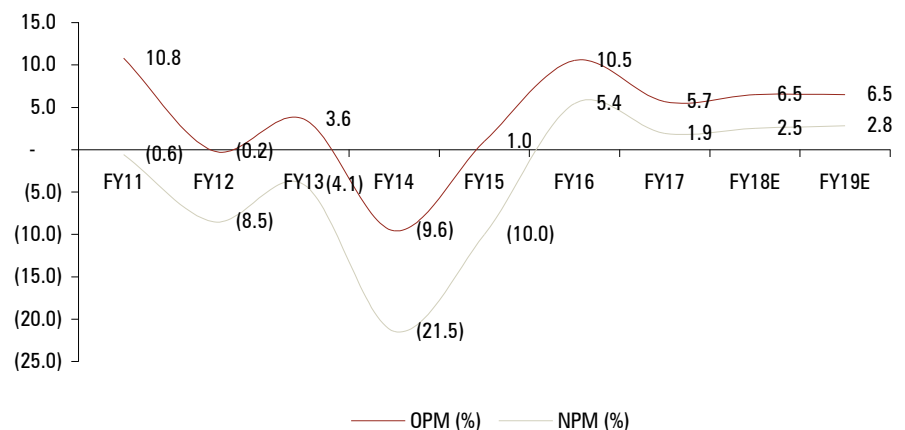


Source: Company, ICICIdirect.com Research

Margins to remain healthy followed by benign ATF prices

While FY14 and FY15 have remained challenging for Jet Airways due to an adverse cost environment, FY15 saw an improvement led by a significant reduction in ATF prices. However, we expect margins to stabilise to over 6.5% over the next two years assuming the 10-11% rise in ATF prices.

Exhibit 10: Margin trend



Source: Company, ICICIdirect.com Research

Valuations

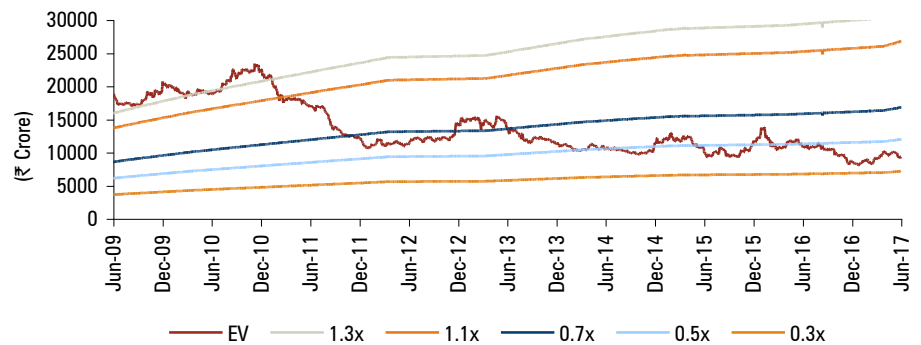
The macro factors for aviation like passenger traffic growth (up over 22% YoY) continue to remain healthy, which would take care of a rise in fleet supplies. With a debt reduction of over ~₹ 1900 crore this fiscal, we expect debt levels to come down further led by healthy OPM margins on account of benign ATF prices. Hence, we upgrade our recommendation to **BUY** with a revised target price of ₹ 580/share (i.e. valuing at two year forward P/E of 9.5x).

Exhibit 11: Valuation matrix

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoCE (%)	RoE (%)
FY16	22321.0	6.5	106.7	LP	NA	5.4	NA	NA
FY17	22693.0	1.7	38.6	-63.9	15.0	15.0	NA	NA
FY18E	23555.3	3.8	52.3	35.6	11.1	11.1	NA	NA
FY19E	24521.1	4.1	61.2	17.1	9.5	9.5	54.1	NA

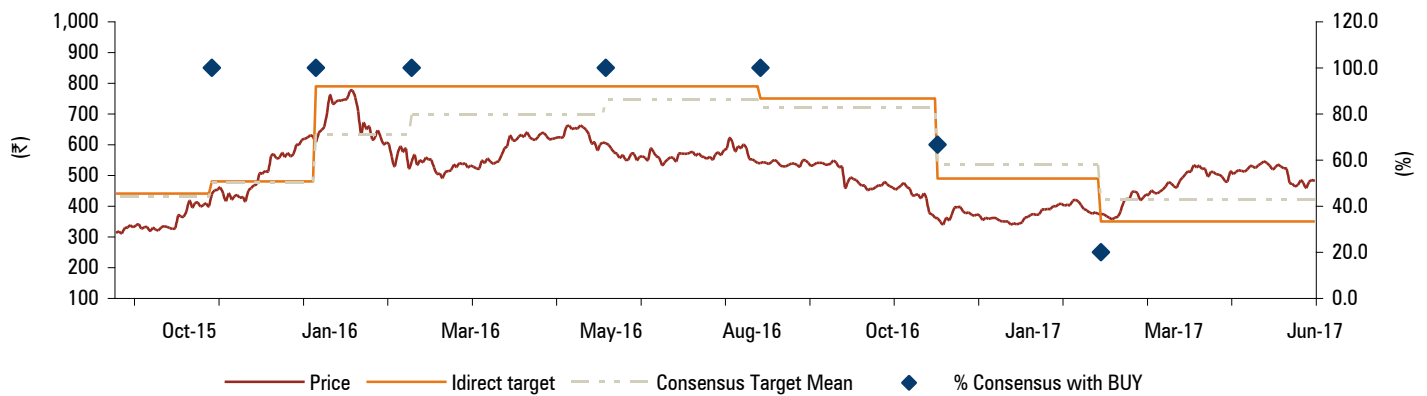
Source: Company, ICICIdirect.com Research

Exhibit 12: One year forward EV/Sales graph



Source: Company, ICICIdirect.com Research

Recommendation History vs. consensus estimate



Source: Bloomberg, Company, ICICIdirect.com Research

Key events

Date	Event
Oct-08	Jet Airways and Kingfisher Airlines announced a joint alliance, which involved code-sharing on domestic and international flights, an interline agreement, joint fuel management, common ground-handling services and cross-selling flights through the global ticketing system
Oct-08	Jet takes back all sacked 1900 employees on payroll
Feb-09	Jet, JetLite come up with promotional basic fares of ₹ 300 and ₹ 1. Inks code share agreement with Malaysian Airlines
Mar-09	The Sahara Group, promoter of Air Sahara, which was acquired by Jet Airways in 2007, takes the latter to court over default of dues worth ₹ 1,450 crore that was part of the buyout deal
May-11	Bombay High Court directs Jet Airways to pay ₹ 478 crore to Sahara India
Feb-13	Etihaad buys Heathrow slots from Jet Airways for US\$70 million
Apr-13	Jet Airways sells 24% stake to Etihad for \$379 million
Jun-13	Air France, KLM SA and Jet Airways sign cooperation agreement
Jul-13	FIPB clears Jet-Etihaad deal
Oct-13	Etihaad Airways wins Cabinet approval for minority stake purchase in Jet Airways
May-14	Acting CEO of Jet Airways Ravishankar Gopal Krishanan quits the company with effect from May 2, 2014
May-14	Sebi exempts Etihad from making open offer
May-14	Reports record quarterly loss of ₹ 2153.5 crore. The company names Cramer Ball (erstwhile CEO of Air Seychelles) as new CEO of the company.
Jun-14	Etihaad expands codeshare agreement with Jet Airways bringing total number of services to 71 from 43 routes

Source: Company, ICICIdirect.com Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Goyal (Naresh)	31-Mar-17	51.0	57.9	0.0
2	Etihaad Airways	31-Mar-17	24.0	27.3	0.0
3	Birla Sun Life Asset Management Company Ltd.	30-Apr-17	3.7	4.2	0.1
4	Reliance Nippon Life Asset Management Limited	30-Jun-16	2.4	2.7	0.2
5	Life Insurance Corporation of India	31-Mar-17	2.1	2.4	0.0
6	Reliance Industries Ltd	31-Mar-17	1.1	1.3	1.3
7	The Vanguard Group, Inc.	31-Mar-17	0.4	0.5	0.1
8	Mellon Capital Management Corporation	30-Apr-17	0.3	0.4	0.0
9	Principal PNB Asset Management Company Ltd.	31-Mar-17	0.3	0.3	0.0
10	Dimensional Fund Advisors, L.P.	31-Mar-17	0.3	0.3	0.0

Shareholding Pattern

(in %)	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Promoter	51.0	51.0	51.0	51.0	51.0
FII	4.6	4.0	4.0	3.5	2.8
DII	10.0	9.3	9.3	8.6	10.3
Others	34.4	35.8	35.8	36.9	35.8

Source: Reuters, ICICIdirect.com Research

Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Reliance Industries Ltd	10.23	1.26	BNP Paribas Investment Partners Asia Ltd.	-1.53	-0.19
McKinley Capital Management, LLC	1.72	0.21	BNP Paribas Asset Management India Pvt. Ltd.	-0.56	-0.09
TIAA Global Asset Management	0.73	0.14	L&T Investment Management Limited	-0.41	-0.06
Birla Sun Life Asset Management Company Ltd.	0.87	0.11	SBI Funds Management Pvt. Ltd.	-0.10	-0.02
The Vanguard Group, Inc.	0.56	0.07	Edelweiss Asset Management Ltd.	-0.08	-0.02

Source: Reuters, ICICIdirect.com Research

Financial summary

Profit and loss statement		₹ Crore			
(Year-end March)	FY16	FY17	FY18E	FY19E	
Net Sales	22,321.0	22,693.0	23,555.3	24,521.1	
Growth (%)	6.5	1.7	3.8	4.1	
Fuel Expenses	5,403.4	5,936.0	6,006.6	6,252.9	
Employee Expenses	2,532.3	3,141.0	3,180.0	3,310.3	
Selling Expenses	2,360.7	2,533.0	2,661.8	2,770.9	
Lease Rentals	2,285.7	2,428.0	2,496.9	2,599.2	
Other Operating costs	7,388.6	7,371.0	7,679.0	7,993.9	
Total Operating Expenditure	19,970.7	21,409.0	22,024.2	22,927.2	
EBITDA	2,350.3	1,284.0	1,531.1	1,593.9	
EBITDA Margin (%)	10.5	5.7	6.5	6.5	
Depreciation	996.2	888.0	905.8	923.9	
Interest	885.0	853.0	691.3	634.5	
Other Income	585.0	714.0	660.0	660.0	
PBT	1,054.1	257.0	594.0	695.5	
Exceptionals	148.0	181.0	0.0	0.0	
Total Tax	0.0	0.0	0.0	0.0	
Reported PAT	1,211.8	438.0	594.0	695.5	
Growth (%)	LP	-63.9	35.6	17.1	
EPS (₹)	106.7	38.6	52.3	61.2	

Source: Company, ICICIdirect.com Research

Cash flow statement		₹ Crore			
(Year-end March)	FY16	FY17	FY18E	FY19E	
Profit after Tax	1,211.8	438.0	594.0	695.5	
Add: Depreciation	996.2	888.0	905.8	923.9	
(Inc)/dec in Current Assets	-288.6	847.8	28.5	-80.1	
Inc/(dec) in CL and Provisions	347.7	-173.4	-396.2	-455.9	
Others	-929.2	-44.0	-694.1	-615.9	
CF from operating activities	1,338.0	1,956.4	437.9	467.4	
(Inc)/dec in Investments	509.7	82.0	0.0	0.0	
(Inc)/dec in Fixed Assets	-1,481.2	-1,525.7	-405.8	-323.9	
Others	159.2	159.2	159.2	159.2	
CF from investing activities	-812.4	-1,284.5	-246.6	-164.7	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	-1,265.1	-2,830.6	-500.0	-250.0	
Dividend paid & dividend tax	0.0	0.0	0.0	0.0	
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0	
Others	152.5	2,212.7	246.6	64.7	
CF from financing activities	-1,112.6	-617.9	-253.4	-185.3	
Net Cash flow	-586.9	54.1	-62.1	117.4	
Opening Cash	2,075.5	1,488.5	1,542.6	1,480.6	
Closing Cash	1,488.5	1,542.6	1,480.6	1,598.0	

Source: Company, ICICIdirect.com Research

Balance sheet		₹ Crore			
(Year-end March)	FY16	FY17	FY18E	FY19E	
Liabilities					
Equity Capital	113.6	113.6	113.6	113.6	
Reserves and Surplus	-5,324.1	-5,013.5	-4,419.5	-3,724.0	
Total Shareholders funds	-5,210.5	-4,899.9	-4,305.9	-3,610.4	
Total debt	10,134.9	7,304.3	6,804.3	6,554.3	
Deferred Tax Liability	0.0	0.0	0.0	0.0	
Total Liabilities	4,924.4	2,404.5	2,498.5	2,943.9	
Assets					
Gross Block	16,767.2	16,129.6	16,629.6	17,229.6	
Less: Acc Depreciation	7,956.5	8,844.5	9,750.3	10,674.1	
Net Block	8,810.7	7,285.1	6,879.3	6,555.4	
Capital WIP	0.0	0.0	0.0	0.0	
Total Fixed Assets	8,810.7	7,285.1	6,879.3	6,555.4	
Goodwill	0.0	0.0	0.0	0.0	
Investments	1,179.4	1,261.4	1,261.4	1,261.4	
Inventory	1,064.1	506.0	525.2	546.8	
Debtors	1,665.9	1,376.2	1,328.5	1,387.0	
Loans and Advances	3,088.6	2,632.6	2,826.6	2,942.5	
Cash	1,488.5	1,542.6	1,480.6	1,598.0	
Total Current Assets	7,307.1	6,057.4	6,160.9	6,474.3	
Creditors & Others	11,961.0	11,665.3	11,248.8	10,770.1	
Provisions	411.8	534.1	554.4	577.1	
Total Current Liabilities	12,372.8	12,199.4	11,803.2	11,347.2	
Net Current Assets	-5,065.7	-6,142.0	-5,642.2	-4,872.9	
Application of Funds	4,924.4	2,404.5	2,498.5	2,943.9	

Source: Company, ICICIdirect.com Research

Key ratios					
(Year-end March)	FY16	FY17E	FY18E	FY19E	
Per share data (₹)					
EPS	106.7	38.6	52.3	61.2	
Cash EPS	19.4	11.7	13.2	14.3	
BV	-458.7	-431.3	-379.0	-317.8	
DPS	0.0	0.0	0.0	0.0	
Cash Per Share	131.0	135.8	130.3	140.7	
Operating Ratios (%)					
EBITDA Margin	10.5	5.7	6.5	6.5	
PBT / Total Operating income	4.7	1.1	2.5	2.8	
PAT Margin	5.4	1.9	2.5	2.8	
Inventory days	17.4	8.1	8.1	8.1	
Debtor days	27.2	22.1	20.6	20.6	
Creditor days	195.6	187.6	174.3	160.3	
Return Ratios (%)					
RoE	NA	NA	NA	NA	
RoCE	47.7	53.4	61.3	54.1	
RoIC	-80.8	456.2	748.5	-2,157.0	
Valuation Ratios (x)					
P/E	4.7	12.9	9.5	8.1	
EV / EBITDA	4.9	8.9	7.5	7.2	
EV / Net Sales	0.51	0.50	0.48	0.47	
Market Cap / Sales	0.3	0.2	0.2	0.2	
Price to Book Value	NA	NA	NA	NA	
Solvency Ratios					
Debt / EBITDA	4.3	5.7	4.4	4.1	
Debt / Equity	-1.9	-1.5	-1.6	-1.8	
Current Ratio	0.6	0.5	0.5	0.6	
Quick Ratio	0.3	0.3	0.2	0.3	

Source: Company, ICICIdirect.com Research

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Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICIdirect.com Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No. 7, MIDC,
Andheri (East)
Mumbai – 400 093**

research@icicidirect.com

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