

## Jet Airways (JETAIR)

₹ 578

### Higher operating cost dents margins...

- Jet Airways reported a mixed set of Q1FY18 numbers. A key notable was that cost pressure continued amid rising competition from other carriers leading to a fall in margins. The company reported revenues in line with our estimates. However, EBITDA margins dropped sharply YoY on account of higher fuel and maintenance expenses
- Total revenues were up 11.6% YoY to ₹ 6185 crore (vs. I-direct estimate: ₹ 6,188 crore) led by 8.1% YoY growth in total passenger traffic. Passenger traffic growth stayed below industry growth mainly due to lack of capacity addition. Passenger load factor during the quarter was marginally up 70 bps YoY to 81.7% amid rising competition
- EBITDA margin of 6.5% was lower than our estimated margin of 7.7% mainly due to a sharp jump in fuel & maintenance costs. Fuel costs (i.e. 26% of revenues) were up 29.1% YoY to ₹ 1636 crore. Maintenance cost also jumped sharply by 31.8% YoY to ₹ 626 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 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 FY17 was at ~53%.

### Domestic market share at 17.6% in sync with capacity share

After falling consistently since Q4FY15, the domestic market share of Jet has stabilised to 17.6% 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 traction in market share, going forward. The delivery of 75 fuel efficient aircraft B737-Max is expected to commence from June 2018 onwards.

### Cost rationalisation only key to sustain margins amid rise in supplies

While demand growth continues to remain robust (up over 18% YoY), supply side growth (up over ~14%) 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 a 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.

### Rich valuation, downgrade to HOLD from BUY

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 in FY17, we expect debt levels to come down further by ₹ 750 crore over the next two years led by a healthy cost environment. Although we remain positive on the stock from a long term perspective, considering the recent run up in the stock we downgrade it to **HOLD** from **BUY** with a revised target price of ₹ 630/share (i.e. valuing at two year forward P/E of 10.0x).

Rating matrix		
Rating	:	Hold
Target	:	₹ 630
Target Period	:	12-15 months
Potential Upside	:	9%

What's changed?	
Target	Changed from ₹ 580 to ₹ 630
EPS FY17E	Changed from ₹ 52.3 to ₹ 50.3
EPS FY18E	Changed from ₹ 61.2 to ₹ 63.1
Rating	Changed from Buy to Hold

Quarterly performance					
	Q1FY18	Q1FY17	YoY (%)	Q4FY17	QoQ (%)
Revenue	6,185.0	5,542.0	11.6	6,026.0	2.6
EBITDA	399.0	438.0	(8.9)	404.0	-1.2
EBITDA (%)	6.5	7.9	-140bps	6.7	-20bps
PAT	58.0	50.0	16.0	24.0	141.7

Key financials				
₹ Crore	FY16	FY17	FY18E	FY19E
Net Sales	22,321	22,693	23,578	24,545
EBITDA	2,350	1,284	1,509	1,615
Net Profit	1,212	438	572	717
EPS (₹)	106.7	38.6	50.3	63.1

Valuation summary				
	FY16	FY17	FY18E	FY19E
P/E	5.4	15.0	11.5	9.2
Target P/E	5.4	15.0	11.3	9.2
EV/EBITDA	5.2	9.6	8.2	7.6
EV/Sales	0.55	0.54	0.52	0.50
P/BV	NA	NA	NA	NA
RoNW (%)	NA	NA	NA	NA
RoCE (%)	47.7	53.4	60.9	54.9

Stock data	
Particular	Amount (₹ crore)
Mcap	6566.1
Debt (FY17)	7304.3
Cash & Invest (FY17)	1542.6
EV	12327.8
52 week H/L (₹)	645/332
Equity cap	113.6
Face value (₹)	10.0

Price performance				
	1M	3M	6M	12M
SpiceJet	27.2	23.0	85.2	138.7
Jet Airways	4.4	8.8	31.9	9.6

### Research Analyst

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**Variance analysis**

	Q1FY18	Q1FY18E	Q1FY17	YoY (%)	Q4FY17	QoQ (%)	Comments
Total Revenue	6185.0	6188.8	5542.0	11.6	6026.0	2.6	While passenger growth remained in line with estimates (up 8.1% YoY to 71 lakh), realisations remained better than our estimates (up 3.3% YoY)
Employee cost	769.0	770.0	677.0	13.6	825.0	-6.8	More pilot hiring during the quarter and pay hikes led to a sharp jump in employee cost on YoY basis
Fuel	1636.0	1590.0	1267.0	29.1	1700.0	-3.8	
S&D Exp	684.0	659.7	647.0	5.7	617.0	10.9	
Other Ope costs	2091.0	2060.0	1924.0	8.7	1852.0	12.9	
Lease Rent	606.0	632.6	589.0	2.9	628.0	-3.5	
EBITDA	399.0	476.5	438.0	LP	404.0	-1.2	
EBITDA Margin (%)	6.5	7.7	7.9	-140bps	6.7	-20bps	Margins were impacted mainly due to higher fuel expenses and other costs during the quarter
Depreciation	144.0	181.0	179.0	-19.6	188.0	-23.4	
Interest	197.0	201.0	209.0	-5.7	192.0	2.6	
Exceptional items	0.0	0.0	0.0	NA	0.0	NA	
Tax	0.0	18.0	0.0	NA	0.0	NA	
PAT	58.0	76.5	50.0	16.0	24.0	141.7	

**Key Metrics**

No of passengers (In mn)	7.10	7.14	6.57	8.1	7.02	1.1	Increase in market share by other airlines led to moderate growth in passenger traffic vs. industry growth
Gross yield per passenger (₹)	8,711.3	8,667.8	8,435.3	3.3	8,584.0	1.5	

Source: Company, ICICIdirect.com Research

**Change in estimates**

(₹ Crore)	FY18E			FY19E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	23,555.3	23,578.0	0.1	24,521.1	24,544.7	0.1	
EBITDA	1,531.1	1,509.0	-1.4	1,593.9	1,615.0	1.3	FY17 saw crude prices touching the lowest price of \$35/barrel. However, it has now stabilised at \$52-55/barrel bracket, which we have factored in the model
EBITDA Margin (%)	6.5	6.4	-10 bps	6.5	6.6	8 bps	
PAT	594.0	571.9	-3.7	695.5	716.6	3.0	
EPS (₹)	52.3	50.3	-3.7	61.2	63.1	3.0	

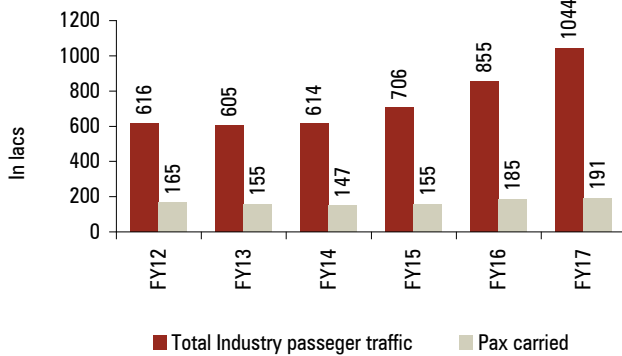
Source: Company, ICICIdirect.com Research

## Company Analysis

### Domestic market at 17.6% in sync with capacity share

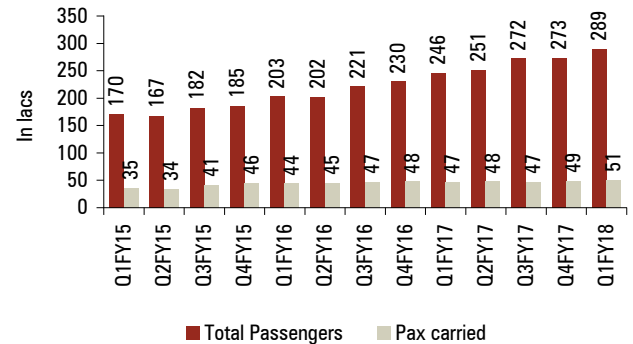
After falling consistently since Q4FY15, the domestic market share of Jet has stabilised to 17.6% due to induction of wide body capacity in some key metro routes. With the stabilisation in the fleet capacity by other players and induction of new fleets by Jet, we expect the company to gain traction in market share, going forward. Delivery of 75 fuel efficient aircraft B737-Max is expected to commence from June 2018 onwards.

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



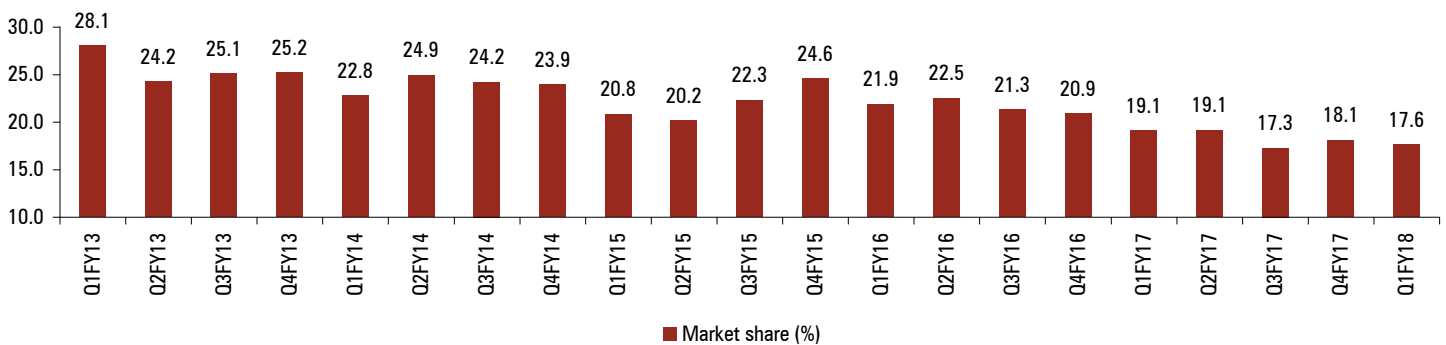
Source: Company, ICICIdirect.com, Research

**Exhibit 2: Q1FY18 Jet domestic pax traffic grows 8.5% YoY**



Source: Company, ICICIdirect.com, Research

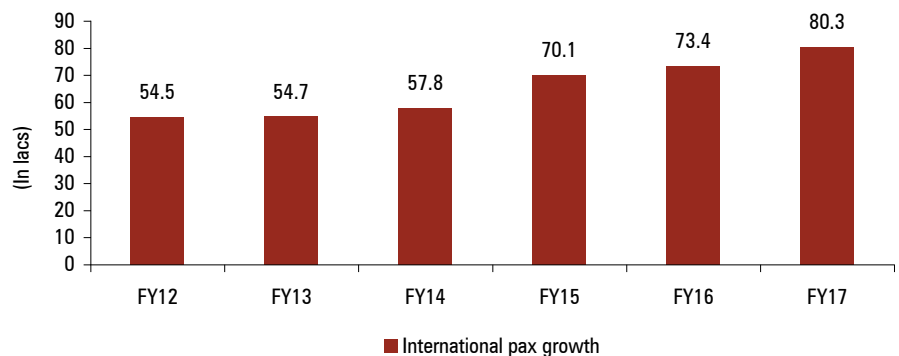
**Exhibit 3: Jet domestic market share trend (%)**



Source: Company, ICICIdirect.com Research

Although domestic traffic growth has moderated during FY12-17, international passenger traffic has grown at 8% CAGR 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**

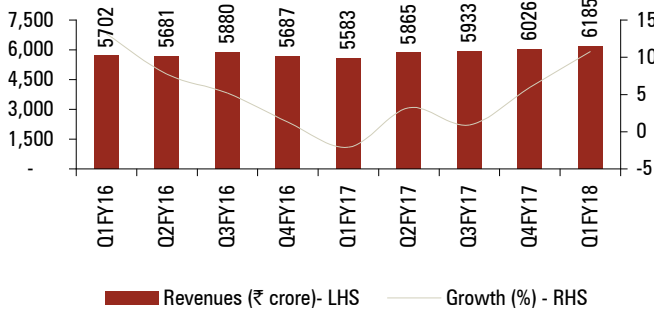


Source: Company, ICICIdirect.com Research

**Q1FY18 consolidated revenue grows 11.6% YoY**

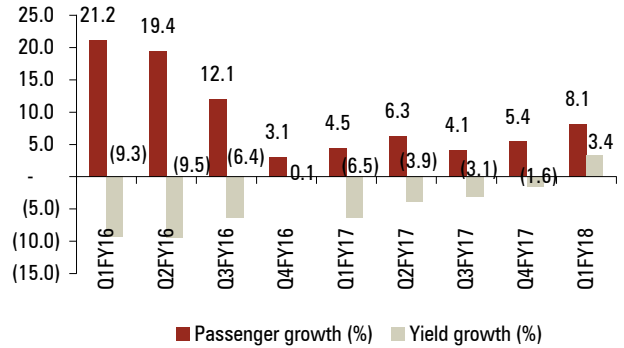
During Q1FY18, consolidated revenues grew 11.6% YoY to ₹ 6185 crore. While total passenger growth of 7.1% YoY 7.1 million remained in line with our estimates, yield per pax remained better due to peak season.

**Exhibit 5: Consolidated quarterly revenue trend**



Source: Company, ICICIdirect.com Research

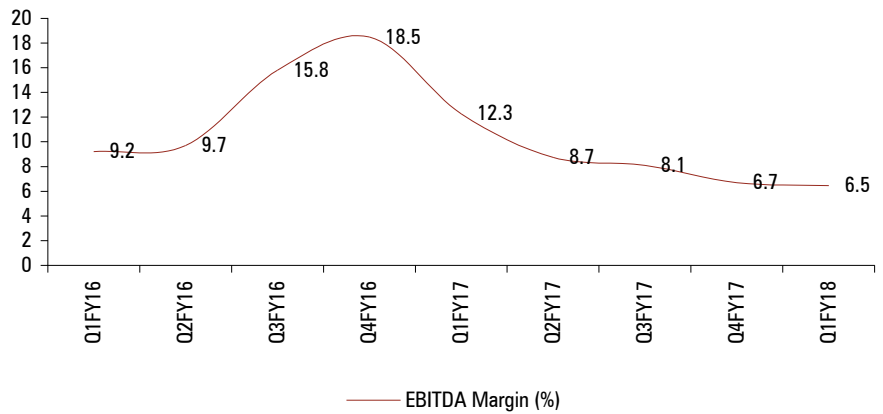
**Exhibit 6: Passenger and yield growth trend**



Source: Company, ICICIdirect.com Research

Consolidated margins for the quarter declined further to 6.5% on account of a sequential rise in ATF prices. Further, higher maintenance cost also had an impact on margins

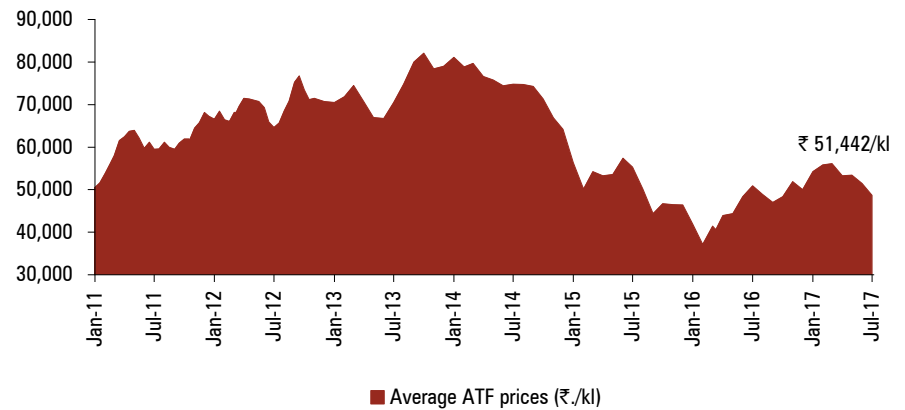
**Exhibit 7: Margin trend (%)**



Source: Company, ICICIdirect.com Research

In Q1FY18, average ATF prices increased 15.7% YoY due to a spike in the international crude basket

**Exhibit 8: Trend in ATF prices**

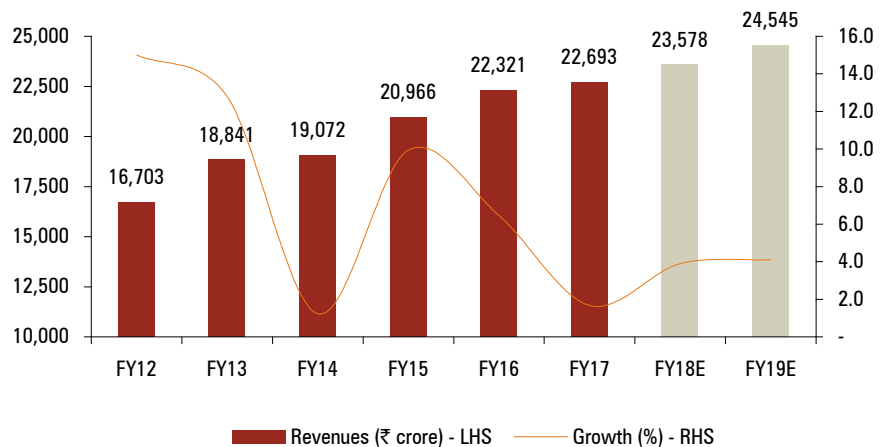


Source: Company, ICICIdirect.com Research

**Expect revenue CAGR of 4% during FY17-19E**

Jet Airways reported revenue CAGR of 6.3% in 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 grew 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 4.0% during FY17-19E on a consolidated basis for Jet Airways due to limited fleet addition and lower yields led by a rise in competition from other players.

**Exhibit 9: Revenue growth trend (%)**

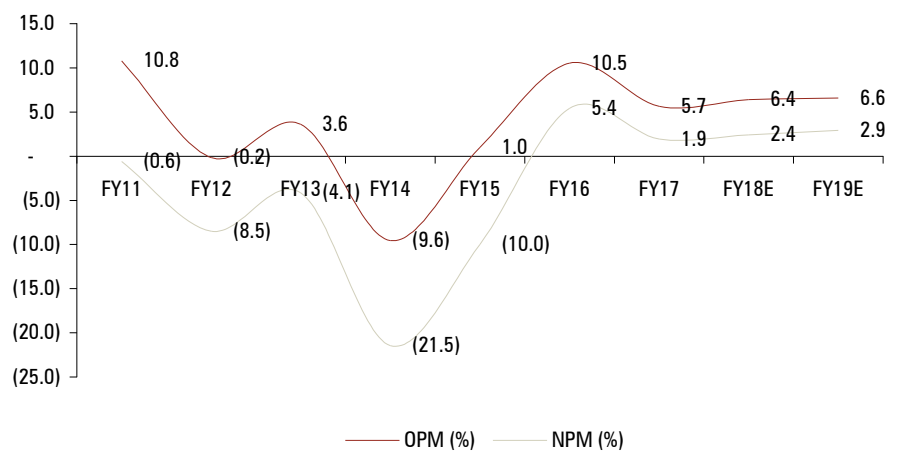


Source: Company, ICICIdirect.com Research

**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 around 6.6% over the next two years assuming the 10-11% rise in ATF prices.

**Exhibit 10: Margin trend**



Source: Company, ICICIdirect.com Research

## Valuations

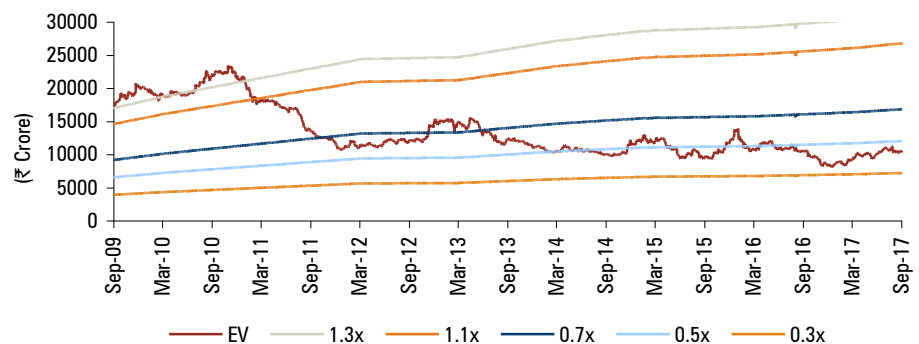
Macro factors for aviation like passenger traffic growth (up over 22% YoY) continue to remain healthy. This would take care of the rise in fleet supplies. With debt reduction of over ~₹ 1900 crore in FY17, we expect debt levels to come down further by ₹ 750 crore over the next two years led by a healthy cost environment on account of benign ATF prices. Although we remain positive on the stock from a long term perspective, considering the recent run up in stock we downgrade it to **HOLD** from BUY with a revised target price of ₹ 630/share (i.e. valuing at two year forward P/E of 10.0x).

**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	23578.0	3.9	50.3	30.6	11.5	11.5	NA	NA
FY19E	24544.7	4.1	63.1	25.3	9.2	9.2	54.9	NA

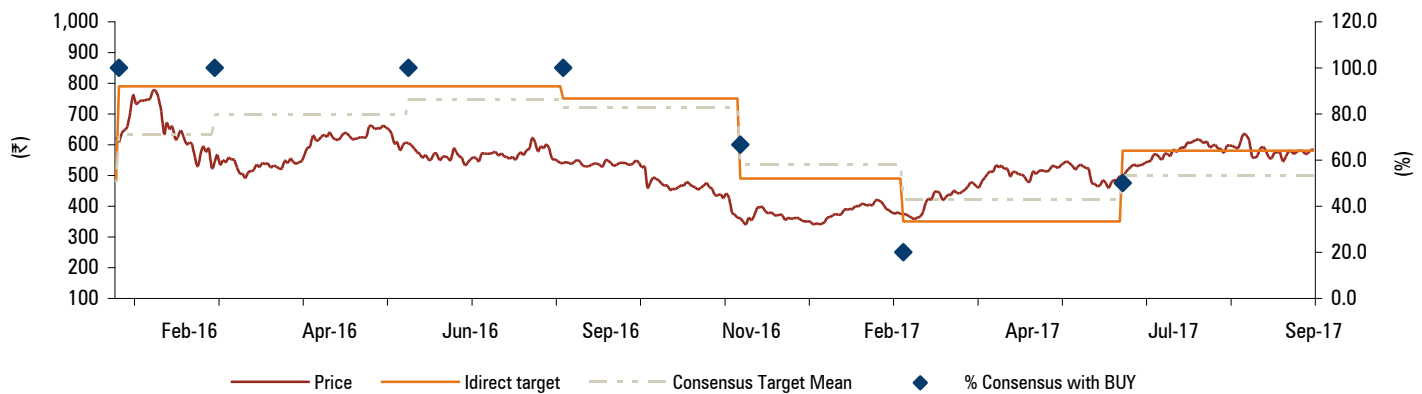
Source: Company, ICICIdirect.com Research

**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	Etihad 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-Etihad deal
Oct-13	Etihad Airways wins Cabinet approval for minority stake purchase in Jet Airways
May-14	Acting CEO of Jet Airways Ravishankar Gopal Krishnan 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	Etihad 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	Etihad Airways	31-Mar-17	24.0	27.3	0.0
3	Birla Sun Life Asset Management Company Ltd.	31-Jul-17	3.4	3.8	0.0
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.	30-Jun-17	0.6	0.6	0.1
8	McKinley Capital Management, LLC	31-Jul-17	0.4	0.5	0.3
9	Mellon Capital Management Corporation	31-Aug-17	0.3	0.4	0.0
10	Nuveen LLC	31-May-17	0.3	0.4	0.2

### Shareholding Pattern

(in %)	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Promoter	51.0	51.0	51.0	51.0	51.0
FII	4.0	4.0	3.5	2.8	6.6
DII	9.3	9.3	8.6	10.3	9.7
Others	35.8	35.8	36.9	35.8	32.7

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 Asset Management Asia Limited	-1.53	-0.19
Kotak Mahindra Asset Management Company Ltd.	3.20	0.34	Sundaram Asset Management Company Limited	-0.54	-0.07
McKinley Capital Management, LLC	2.62	0.28	Van Eck Associates Corporation	-0.05	-0.01
Nuveen LLC	1.67	0.23	BlackRock Institutional Trust Company, N.A.	-0.02	0.00
The Vanguard Group, Inc.	1.30	0.15			

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	23,578.0	24,544.7	
Growth (%)	6.5	1.7	3.9	4.1	
Fuel Expenses	5,403.4	5,936.0	6,012.4	6,258.9	
Employee Expenses	2,532.3	3,141.0	3,183.0	3,313.5	
Selling Expenses	2,360.7	2,533.0	2,664.3	2,773.6	
Lease Rentals	2,285.7	2,428.0	2,499.3	2,601.7	
Other Operating costs	7,388.6	7,371.0	7,710.0	7,981.9	
Total Operating Expenditure	19,970.7	21,409.0	22,069.0	22,929.7	
EBITDA	2,350.3	1,284.0	1,509.0	1,615.0	
EBITDA Margin (%)	10.5	5.7	6.4	6.6	
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	571.9	716.6	
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	571.9	716.6	
Growth (%)	LP	-63.9	30.6	25.3	
EPS (₹)	106.7	38.6	50.3	63.1	

Source: Company, ICICIdirect.com Research

Cash flow statement		₹ Crore			
(Year-end March)	FY16	FY17	FY18E	FY19E	
Profit after Tax	1,211.8	438.0	571.9	716.6	
Add: Depreciation	996.2	888.0	905.8	923.9	
(Inc)/dec in Current Assets	-288.6	847.8	26.6	-80.2	
Inc/(dec) in CL and Provisions	347.7	-173.4	-383.9	-456.4	
Others	-929.2	-44.0	-696.8	-616.0	
CF from operating activities	1,338.0	1,956.4	423.6	488.0	
(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	-76.4	138.0	
Opening Cash	2,075.5	1,488.5	1,542.6	1,466.2	
Closing Cash	1,488.5	1,542.6	1,466.2	1,604.2	

Source: Company, ICICIdirect.com Research

Balance sheet		₹ Crore			
(Year-end March)	FY16	FY17	FY18E	FY19E	
<b>Liabilities</b>					
Equity Capital	113.6	113.6	113.6	113.6	
Reserves and Surplus	-5,324.1	-5,013.5	-4,441.6	-3,724.9	
Total Shareholders funds	-5,210.5	-4,899.9	-4,328.0	-3,611.3	
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	2,476.4	2,943.0	
<b>Assets</b>					
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	525.7	547.3	
Debtors	1,665.9	1,376.2	1,329.9	1,388.5	
Loans and Advances	3,088.6	2,632.6	2,829.4	2,945.4	
Cash	1,488.5	1,542.6	1,466.2	1,604.2	
Total Current Assets	7,307.1	6,057.4	6,151.1	6,485.3	
Creditors & Others	11,961.0	11,665.3	11,260.6	10,781.5	
Provisions	411.8	534.1	554.9	577.7	
Total Current Liabilities	12,372.8	12,199.4	11,815.5	11,359.1	
Net Current Assets	-5,065.7	-6,142.0	-5,664.4	-4,873.8	
Application of Funds	4,924.4	2,404.5	2,476.4	2,943.0	

Source: Company, ICICIdirect.com Research

Key ratios		FY16	FY17E	FY18E	FY19E
<b>Per share data (₹)</b>					
EPS		106.7	38.6	50.3	63.1
Cash EPS		19.4	11.7	13.0	14.4
BV		-458.7	-431.3	-381.0	-317.9
DPS		0.0	0.0	0.0	0.0
Cash Per Share		131.0	135.8	129.1	141.2
<b>Operating Ratios (%)</b>					
EBITDA Margin		10.5	5.7	6.4	6.6
PBT / Total Operating income		4.7	1.1	2.4	2.9
PAT Margin		5.4	1.9	2.4	2.9
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
<b>Return Ratios (%)</b>					
RoE		NA	NA	NA	NA
RoCE		47.7	53.4	60.9	54.9
RoIC		-80.8	456.2	725.5	-2,354.9
<b>Valuation Ratios (x)</b>					
P/E		5.4	15.0	11.5	9.2
EV / EBITDA		5.2	9.6	8.2	7.6
EV / Net Sales		0.55	0.54	0.52	0.50
Market Cap / Sales		0.3	0.3	0.3	0.3
Price to Book Value		NA	NA	NA	NA
<b>Solvency Ratios</b>					
Debt / EBITDA		4.3	5.7	4.5	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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