

September 16, 2020

Q1FY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

| | Current | | Previous | |
|-----------------|----------|----------|----------|----------|
| | FY22E | FY23E | FY22E | FY23E |
| Rating | HOLD | | SELL | |
| Target Price | 53 | | 32 | |
| Sales (Rs. m) | 1,04,590 | 1,14,331 | 1,02,682 | 1,13,053 |
| % Chng. | 1.9 | 1.1 | | |
| EBITDAR (Rs. m) | 21,438 | 25,562 | 22,228 | 25,933 |
| % Chng. | (3.6) | (1.4) | | |
| EPS (Rs.) | (1.2) | 5.4 | (0.2) | 5.7 |
| % Chng. | NA | (5.4) | | |

Key Financials - Standalone

| Y/e Mar | FY20 | FY21E | FY22E | FY23E |
|-----------------|----------|----------|----------|----------|
| Sales (Rs. m) | 1,23,586 | 54,612 | 1,04,590 | 1,14,331 |
| EBITDAR (Rs. m) | 8,594 | 7,211 | 21,438 | 25,562 |
| Margin (%) | 7.0 | 13.2 | 20.5 | 22.4 |
| PAT (Rs. m) | (16,066) | (17,557) | (715) | 3,218 |
| EPS (Rs.) | (26.8) | (29.3) | (1.2) | 5.4 |
| Gr. (%) | NA | NA | NA | NA |
| DPS (Rs.) | - | - | - | - |
| Yield (%) | - | - | - | - |
| RoE (%) | NA | NA | NA | NA |
| RoCE (%) | NA | 82.0 | NA | NA |
| EV/Sales (x) | 0.3 | 0.7 | 0.4 | 0.3 |
| EV/EBITDAR (x) | 23.5 | 27.1 | 8.3 | 7.0 |
| PE (x) | NA | NA | NA | 10.0 |
| P/BV (x) | NA | NA | NA | NA |

Key Data

SPJT.BO | SJET IN

| | |
|---------------------|------------------|
| 52-W High / Low | Rs.134 / Rs.31 |
| Sensex / Nifty | 39,044 / 11,522 |
| Market Cap | Rs.32bn/ \$ 436m |
| Shares Outstanding | 600m |
| 3M Avg. Daily Value | Rs.443.45m |

Shareholding Pattern (%)

| | |
|-------------------------|-------|
| Promoter's | 59.93 |
| Foreign | 0.85 |
| Domestic Institution | 9.68 |
| Public & Others | 29.54 |
| Promoter Pledge (Rs bn) | 26.37 |

Stock Performance (%)

| | 1M | 6M | 12M |
|----------|-----|------|--------|
| Absolute | 8.5 | 22.3 | (59.3) |
| Relative | 5.3 | 6.8 | (61.1) |

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Cargo ops a silver lining in a washout quarter

Quick Pointers:

- Other income includes Rs1.4bn compensation for Boeing 737 Max grounding
- Yields increased by 12.3% YoY
- Boeing 737 Max likely to return to service in 4QFY21

We cut FY22 and FY23 EBITDAR estimates by 3.6% & 1.4% respectively given 1) sluggish scale up of operations due to localized lockdowns and 2) low consumer confidence due to rising incidence of Covid-19 cases

SJET reported better than expected 1Q21 unit revenues with operating RASK growing by 65% aided by ~8x increase in ancillary revenues (largely cargo), while yields improved by 12.3% YoY. However, the reduced scale of operations impacted costs with non-Fuel CASK growing 6.3x to Rs17.2.

SJET has undertaken various measures to better manage cash flows like 1) deferring payments to vendors including lessors 2) renegotiating rentals and maintenance contracts 3) right sizing fleet size 4) reduction in employee bill through pay cuts, leave without pay and 5) cutting down all possible discretionary expenses. In addition to this, the likely return of Boeing 737 Max (more fuel and cost efficient) in 4QFY21 will further aide operations. With a dedicated fleet of 11 aircrafts, SJET has emerged as the largest air cargo operator in the country and the cargo operations are enabling in reducing the cash burn.

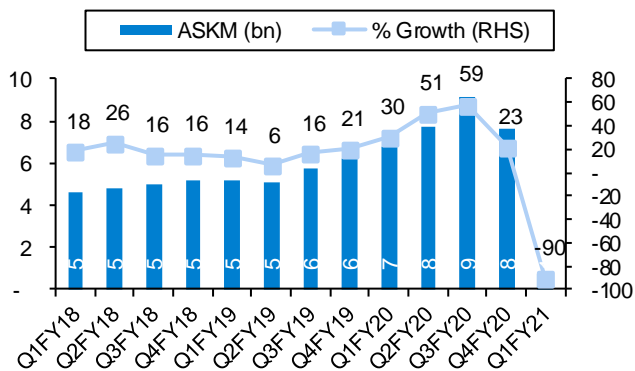
Although, the limited scale of operations remains insufficient to cover all costs thereby putting further pressure on the finances, SJET continues to look at new revenue streams like 1) increasing cargo operations and 2) charter operations (including wide body long haul charters). Also, SJET continues to negotiate with Boeing regarding compensation for the grounded Boeing 737 Max. We shall keep a close eye on payment terms and actual flow of compensation. We expect FY21 capacity to decline by 51% YoY while FY22/FY23 capacity is likely to be 86%/91% of FY20 capacity. We value the stock at 7x FY23 adj. EV/EBITDAR (earlier Sept-22) and arrive at a target price of Rs53. Upgrade to Hold from Sell.

Sales down by 82.9% Cargo operations grow 144% QoQ: Revenues declined by 82.9% to Rs5.2bn with Passenger revenue revenues declining 92%. SJET reported an EBITDAR loss of Rs1.7bn impacted by reduced scale of operations and Rs286mn MTM forex loss. Adjusting for Rs1.4bn of Boeing 737 Max lease rentals & other costs recognized as other income in lieu of compensation from Boeing, SJET reported a loss of Rs7.3bn.

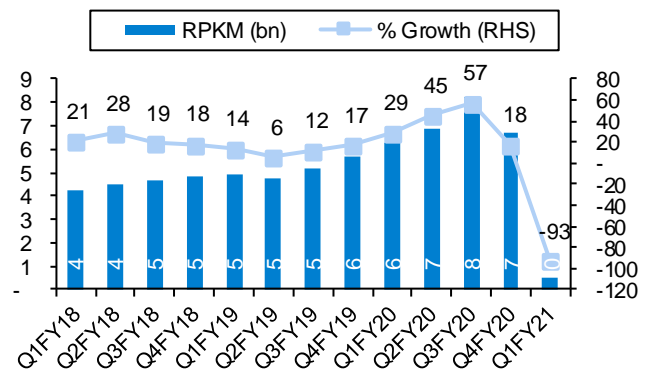
Exhibit 1: Sales declined by 82.9%; Rs1.4bn recognized as compensation for Boeing 737 Max grounding

| Y/e March | Q1FY21 | Q1FY20 | YoY gr. (%) | Q4FY20 | FY21E | FY20 | YoY gr. (%) |
|---------------------------------|---------|--------|-------------|--------|---------|----------|-------------|
| Revenue from Operations (Rs mn) | 5,147 | 30,021 | -82.9% | 28,639 | 54,612 | 1,23,586 | -55.8% |
| Aircraft fuel expenses | 892 | 10,284 | -91.3% | 10,850 | 14,003 | 46,162 | -69.7% |
| Employee Cost | 1,722 | 3,536 | -51.3% | 3,700 | 8,905 | 15,258 | -41.6% |
| Other expenses | 4,198 | 9,358 | -55.1% | 16,790 | 24,493 | 53,573 | -54.3% |
| EBITDAR | -1,665 | 6,842 | | -2,702 | 7,211 | 8,594 | -16.1% |
| <i>EBITDAR margin</i> | -32.4% | 22.8% | | -9.4% | 13.2% | 7.0% | |
| Aircraft & engine rentals | 245 | 646 | -62.1% | 1,327 | 2,209 | 3,630 | -39.1% |
| Other Income | 550 | 326 | 68.6% | 589 | 1,018 | 1,760 | -42.2% |
| Depreciation & Amortization | 4,482 | 3,773 | 18.8% | 4,557 | 18,026 | 17,339 | 4.0% |
| Finance Cost | 1,493 | 1,274 | 17.1% | 1,420 | 5,551 | 5,450 | 1.8% |
| PBT | -7,335 | 1,475 | | -9,416 | -17,557 | -16,066 | |
| Tax Expense | 0 | 0 | | 0 | 0 | 0 | |
| Adj PAT | -7,335 | 1,475 | | -9,416 | -17,557 | -16,066 | |
| <i>PAT margin</i> | -142.5% | 4.9% | | -32.9% | -32.1% | -13.0% | |
| Exceptional item | 1,401 | 1,141 | | 1,345 | 1,401 | 6,718 | |
| Reported PAT | -5,934 | 2,617 | | -8,071 | -16,156 | -9,348 | |
| Key Operating Metrics | | | | | | | |
| ASKM (mn) | 704 | 6,797 | -89.6% | 7,647 | 15,373 | 31,334 | -50.9% |
| RPKM (mn) | 468 | 6,292 | -92.6% | 6,703 | 11,145 | 28,201 | -60.5% |
| Load Factor % | 66.5 | 92.6 | -26.1 | 88 | 73 | 90 | -17.5 |
| Yield (Rs) | 4.7 | 4.2 | 12.3% | 3.6 | 3.9 | 3.8 | 4.0% |
| RASK (Rs) | 10.1 | 4.6 | 117.5% | 4.0 | 3.6 | 4.2 | -14.0% |
| Fuel CASK (Rs) | 1.3 | 1.5 | -16.1% | 1.4 | 0.9 | 1.5 | -38.0% |
| Non-Fuel CASK (Rs) | 17.3 | 2.7 | 532.0% | 3.6 | 3.8 | 3.0 | 26.6% |
| CASK (Rs) | 18.5 | 4.2 | 336.5% | 5.1 | 4.8 | 4.5 | 5.6% |
| RASK - CASK (Rs) | (8.4) | 0.4 | | (1.1) | (1.1) | (0.3) | |

Source: Company, PL

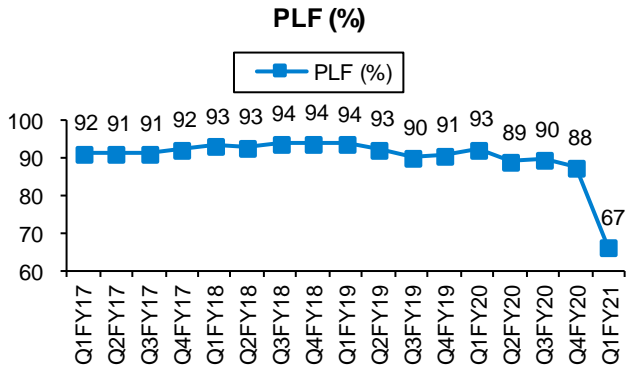
Exhibit 2: ASKM de- grew by 90% YoY


Source: Company, PL

Exhibit 3: RPKM de-grew by 93% YoY


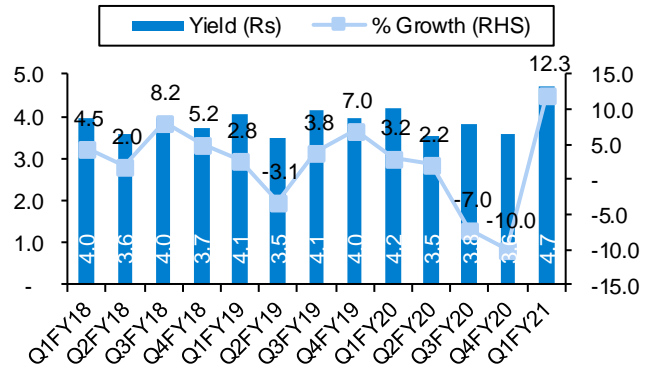
Source: Company, PL

Exhibit 4: PLFs at 67%



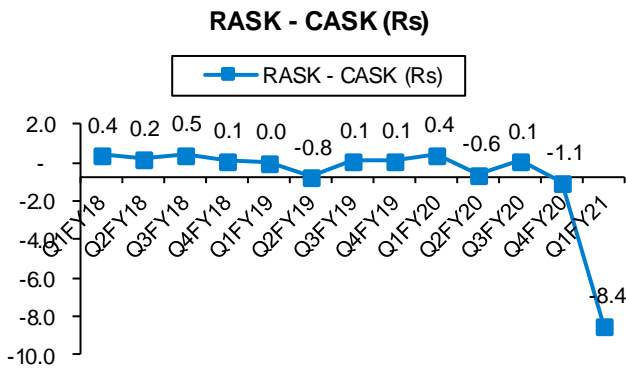
Source: Company, PL

Exhibit 5: 12.3% YoY increase in Yield (Pax rev/RPKM)



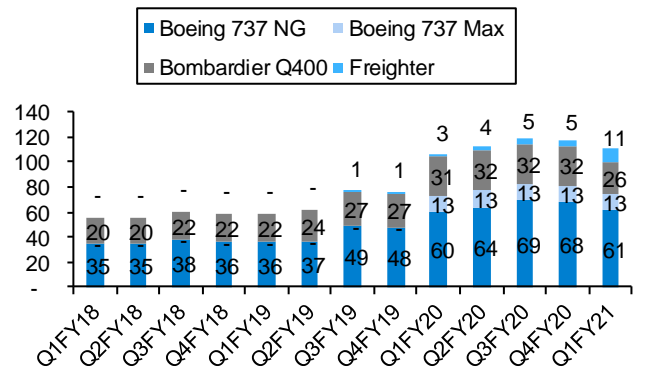
Source: Company, PL

Exhibit 6: Suspension of ops impacted spreads



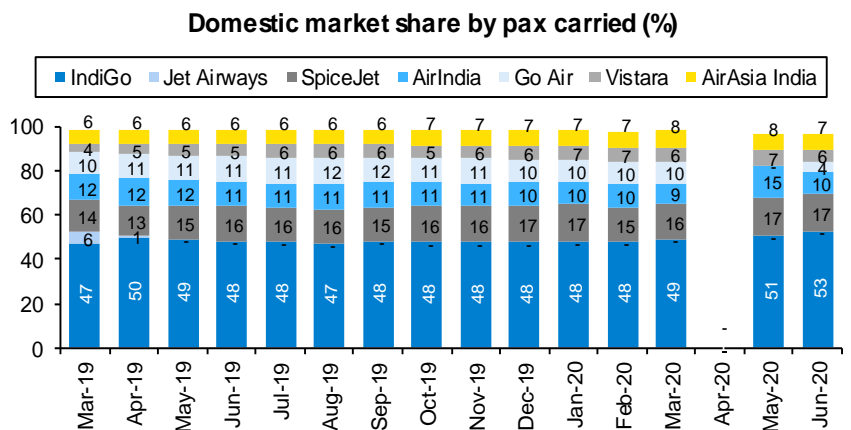
Source: Company, PL

Exhibit 7: 7 aircraft returned in the quarter



Source: Company, PL

Exhibit 8: SJET has gained considerable market share post Jet's grounding



Source: Company, PL *Operations were suspended in April 2020

Financials

Income Statement (Rs m)

| Y/e Mar | FY20 | FY21E | FY22E | FY23E |
|-------------------------------|-----------------|-----------------|-----------------|-----------------|
| Net Revenues | 1,23,586 | 54,612 | 1,04,590 | 1,14,331 |
| YoY gr. (%) | 35.6 | (55.8) | 91.5 | 9.3 |
| Aircraft Fuel Expenses | 46,162 | 14,003 | 30,679 | 33,123 |
| Employee Cost | 15,258 | 8,905 | 9,978 | 10,800 |
| Other Expenses | 53,573 | 24,493 | 42,495 | 44,847 |
| EBITDAR | 8,594 | 7,211 | 21,438 | 25,562 |
| YoY gr. (%) | (33.2) | (16.1) | 197.3 | 19.2 |
| Margin (%) | 7.0 | 13.2 | 20.5 | 22.4 |
| Aircraft Lease Rentals | 3,630 | 2,209 | 1,953 | 1,988 |
| Depreciation and Amortization | 17,339 | 18,026 | 16,318 | 16,649 |
| EBIT | (12,375) | (13,024) | 3,166 | 6,926 |
| Margin (%) | NA | NA | 3.0 | 6.1 |
| Net Interest | 5,450 | 5,551 | 5,024 | 5,067 |
| Other Income | 1,760 | 1,018 | 1,143 | 1,360 |
| Profit Before Tax | (9,348) | (16,156) | (715) | 3,218 |
| Margin (%) | NA | NA | NA | 2.8 |
| Total Tax | - | - | - | - |
| Effective tax rate (%) | - | - | - | - |
| Profit after tax | (9,348) | (16,156) | (715) | 3,218 |
| Minority interest | - | - | - | - |
| Share Profit from Associate | - | - | - | - |
| Adjusted PAT | (16,066) | (17,557) | (715) | 3,218 |
| YoY gr. (%) | NA | NA | NA | NA |
| Margin (%) | (13.0) | (32.1) | (0.7) | 2.8 |
| Extra Ord. Income / (Exp) | 6,718 | 1,401 | - | - |
| Reported PAT | (9,348) | (16,156) | (715) | 3,218 |
| YoY gr. (%) | NA | NA | NA | NA |
| Margin (%) | (7.6) | (29.6) | (0.7) | 2.8 |
| Other Comprehensive Income | - | - | - | - |
| Total Comprehensive Income | (9,348) | (16,156) | (715) | 3,218 |
| Equity Shares O/s (m) | 600 | 600 | 600 | 600 |
| EPS (Rs) | (26.8) | (29.3) | (1.2) | 5.4 |

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

| Y/e Mar | FY20 | FY21E | FY22E | FY23E |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|
| Non-Current Assets | | | | |
| Gross Block | 1,16,738 | 1,20,420 | 1,11,261 | 1,13,749 |
| Tangibles | 1,16,200 | 1,19,782 | 1,10,523 | 1,12,911 |
| Intangibles | 538 | 638 | 738 | 838 |
| Acc: Dep / Amortization | 29,929 | 33,167 | 34,020 | 36,998 |
| Tangibles | 29,564 | 32,754 | 33,551 | 36,467 |
| Intangibles | 365 | 413 | 468 | 531 |
| Net fixed assets | 86,810 | 87,253 | 77,241 | 76,751 |
| Tangibles | 86,636 | 87,028 | 76,972 | 76,444 |
| Intangibles | 173 | 225 | 270 | 307 |
| Capital Work In Progress | - | - | - | - |
| Goodwill | - | - | - | - |
| Non-Current Investments | 11,917 | 9,618 | 10,793 | 10,624 |
| Net Deferred tax assets | - | - | - | - |
| Other Non-Current Assets | 8,674 | 3,441 | 3,451 | 3,773 |
| Current Assets | | | | |
| Investments | 4 | 5 | 10 | 11 |
| Inventories | 1,776 | 1,197 | 1,146 | 1,253 |
| Trade receivables | 15,458 | 8,229 | 7,450 | 9,084 |
| Cash & Bank Balance | 402 | 112 | 167 | 906 |
| Other Current Assets | 2,236 | 1,638 | 2,301 | 2,515 |
| Total Assets | 1,29,668 | 1,12,040 | 1,03,607 | 1,06,061 |
| Equity | | | | |
| Equity Share Capital | 6,001 | 6,001 | 6,001 | 6,001 |
| Other Equity | (21,793) | (39,351) | (40,066) | (36,847) |
| Total Networkth | (15,793) | (33,350) | (34,065) | (30,846) |
| Non-Current Liabilities | | | | |
| Long Term borrowings | 4,593 | 4,493 | 4,493 | 4,493 |
| Provisions | 6,285 | 4,208 | 5,098 | 5,416 |
| Other non current liabilities | 153 | 546 | 1,046 | 1,143 |
| Current Liabilities | | | | |
| ST Debt / Current of LT Debt | 4,144 | 4,144 | 4,144 | 4,144 |
| Trade payables | 17,371 | 17,955 | 18,626 | 18,481 |
| Other current liabilities | 44,983 | 47,762 | 45,677 | 43,600 |
| Total Equity & Liabilities | 1,29,668 | 1,12,040 | 1,03,607 | 1,06,061 |

Source: Company Data, PL Research

Cash Flow (Rs m)

| Y/e Mar | FY20 | FY21E | FY22E | FY23E |
|--------------------------------------|-----------------|-----------------|-----------------|-----------------|
| PBT | (9,348) | (16,156) | (715) | 3,218 |
| Add. Depreciation | 17,339 | 18,026 | 16,318 | 16,649 |
| Add. Interest | 5,450 | 5,551 | 5,024 | 5,067 |
| Less Financial Other Income | 1,760 | 1,018 | 1,143 | 1,360 |
| Add. Other | 12,731 | (1,401) | - | - |
| Op. profit before WC changes | 26,173 | 6,020 | 20,628 | 24,935 |
| Net Changes-WC | (7,428) | 13,119 | 818 | (4,620) |
| Direct tax | (327) | - | - | - |
| Net cash from Op. activities | 18,418 | 19,139 | 21,446 | 20,314 |
| Capital expenditures | (2,712) | (600) | (1,100) | (1,100) |
| Interest / Dividend Income | 599 | - | - | - |
| Others | 326 | 7,574 | (1,249) | (162) |
| Net Cash from Inv. activities | (1,787) | 6,974 | (2,349) | (1,262) |
| Issue of share cap. / premium | 4 | - | - | - |
| Debt changes | (970) | (100) | - | - |
| Dividend paid | - | - | - | - |
| Interest paid | (1,012) | (24,576) | (20,490) | (18,738) |
| Others | (15,064) | (1,684) | 1,390 | 416 |
| Net cash from Fin. activities | (17,043) | (26,359) | (19,100) | (18,322) |
| Net change in cash | (368) | (246) | (3) | 730 |
| Free Cash Flow | 15,706 | 18,539 | 20,346 | 19,214 |

Source: Company Data, PL Research

Quarterly Financials (Rs m)

| Y/e Mar | Q2FY20 | Q3FY20 | Q4FY20 | Q1FY21 |
|-----------------------------------|----------------|----------------|----------------|----------------|
| Net Revenue | 28,456 | 36,471 | 28,639 | 5,147 |
| YoY gr. (%) | 49.8 | 48.3 | 12.0 | (83.5) |
| Aircraft Fuel Expenses | 11,621 | 13,407 | 10,850 | 892 |
| Employee Expenses | 3,962 | 4,059 | 3,700 | 1,722 |
| Other Expenses | 13,415 | 14,010 | 16,790 | 4,198 |
| EBITDAR | (541) | 4,995 | (2,702) | (1,665) |
| Margin (%) | NA | 13.7 | NA | NA |
| Aircraft Lease Rentals | 633 | 1,025 | 1,327 | 245 |
| Depreciation / Depletion | 4,363 | 4,647 | 4,557 | 4,482 |
| EBIT | (5,537) | (676) | (8,586) | (6,392) |
| Margin (%) | NA | NA | NA | NA |
| Net Interest | 1,368 | 1,387 | 1,420 | 1,493 |
| Other Income | 512 | 332 | 589 | 550 |
| Profit before Tax | (6,393) | (1,732) | (9,416) | (7,335) |
| Margin (%) | NA | NA | NA | NA |
| Total Tax | - | - | - | - |
| Effective tax rate (%) | 0.0 | 0.0 | 0.0 | 0.0 |
| Profit after Tax | (6,393) | (1,732) | (9,416) | (7,335) |
| Minority interest | - | - | - | - |
| Share Profit from Associates | - | - | - | - |
| Adjusted PAT | (6,393) | (1,732) | (9,416) | (7,335) |
| YoY gr. (%) | NA | NA | NA | NA |
| Margin (%) | NA | NA | NA | NA |
| Extra Ord. Income / (Exp) | 1,767 | 2,464 | 1,345 | 1,401 |
| Reported PAT | (4,626) | 732 | (8,071) | (5,934) |
| YoY gr. (%) | NA | NA | NA | NA |
| Margin (%) | NA | 2.0 | NA | NA |
| Other Comprehensive Income | - | - | - | - |
| Total Comprehensive Income | (4,626) | 732 | (8,071) | (5,934) |
| Avg. Shares O/s (m) | 600 | 600 | 600 | 600 |
| EPS (Rs) | -7.7 | 1.2 | -13.4 | -9.9 |

Source: Company Data, PL Research

Key Financial Metrics

| Y/e Mar | FY20 | FY21E | FY22E | FY23E |
|----------------------------|--------|--------|--------|--------|
| Per Share(Rs) | | | | |
| EPS | (26.8) | (29.3) | (1.2) | 5.4 |
| CEPS | 2.1 | 0.8 | 26.0 | 33.1 |
| BVPS | (26.3) | (55.6) | (56.8) | (51.4) |
| FCF | 26.2 | 30.9 | 33.9 | 32.0 |
| DPS | - | - | - | - |
| Return Ratio(%) | | | | |
| RoCE | NA | NA | NA | NA |
| ROIC | NA | NA | 3.1 | 6.6 |
| RoE | NA | NA | NA | NA |
| Balance Sheet | | | | |
| Net Debt : Equity (x) | (0.5) | (0.3) | (0.2) | (0.3) |
| Net Working Capital (Days) | 0 | (57) | (35) | (26) |
| Valuation(x) | | | | |
| PER | NA | NA | NA | 10.0 |
| P/B | NA | NA | NA | NA |
| P/CEPS | 25.2 | 68.5 | 2.1 | 1.6 |
| EV/EBITDAR (Adj) | 23.5 | 27.1 | 8.3 | 7.0 |
| EV/Sales | 0.3 | 0.7 | 0.4 | 0.3 |
| Dividend Yield (%) | - | - | - | - |

Source: Company Data, PL Research

Key Operating Metrics

| Y/e Mar | FY20 | FY21E | FY22E | FY23E |
|-----------------|-------|-------|--------|--------|
| EBITDAR (Rs mn) | 8,594 | 7,211 | 21,438 | 25,562 |
| EBITDAR % | 7.0 | 13.2 | 20.5 | 22.4 |
| ASK (bn) | 31.3 | 15.4 | 26.9 | 28.7 |
| RPK (bn) | 28.1 | 11.1 | 22.2 | 24.4 |
| PLF % | 89.6 | 72.5 | 82.5 | 85.0 |
| RASK (Rs) | 4.0 | 3.6 | 3.9 | 4.0 |
| CASK (Rs) | 4.5 | 4.8 | 4.0 | 3.9 |
| RASK-CASK (Rs) | (0.5) | (1.1) | 0.0 | 0.1 |
| Fleet Size | 118.0 | 90.0 | 80.0 | 80.0 |

Source: Company Data, PL Research



Price Chart

Recommendation History



| No. | Date | Rating | TP (Rs.) | Share Price (Rs.) |
|-----|-----------|--------|----------|-------------------|
| 1 | 03-Aug-20 | Sell | 32 | 46 |
| 2 | 10-Jul-20 | Hold | 48 | 51 |
| 3 | 14-Apr-20 | Hold | 48 | 49 |
| 4 | 14-Feb-20 | BUY | 130 | 88 |
| 5 | 03-Jan-20 | BUY | 163 | 106 |
| 6 | 14-Nov-19 | BUY | 163 | 114 |
| 7 | 03-Oct-19 | BUY | 198 | 124 |

Analyst Coverage Universe

| Sr. No. | Company Name | Rating | TP (Rs) | Share Price (Rs) |
|---------|---------------------|------------|---------|------------------|
| 1 | InterGlobe Aviation | Accumulate | 965 | 908 |
| 2 | SpiceJet | Sell | 32 | 46 |

PL's Recommendation Nomenclature (Absolute Performance)

| | |
|--------------------------|-----------------------------------|
| Buy | : > 15% |
| Accumulate | : 5% to 15% |
| Hold | : +5% to -5% |
| Reduce | : -5% to -15% |
| Sell | : < -15% |
| Not Rated (NR) | : No specific call on the stock |
| Under Review (UR) | : Rating likely to change shortly |

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