

February 11, 2021

Q3FY21 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

| | Current | | Previous | |
|----------------|---------|---------|----------|---------|
| | FY22E | FY23E | FY22E | FY23E |
| Rating | BUY | | BUY | |
| Target Price | 120 | | 100 | |
| Sales (Rs. m) | 114,423 | 129,620 | 106,175 | 116,117 |
| % Chng. | 7.8 | 11.6 | | |
| EBITDA (Rs. m) | 24,977 | 29,200 | 21,636 | 25,747 |
| % Chng. | 15.4 | 13.4 | | |
| EPS (Rs.) | 2.4 | 8.1 | (1.0) | 5.8 |
| % Chng. | (350.1) | 39.7 | | |

Key Financials - Standalone

| Y/e Mar | FY20 | FY21E | FY22E | FY23E |
|-----------------|----------|----------|---------|---------|
| Sales (Rs. m) | 123,586 | 53,576 | 114,423 | 129,620 |
| EBITDAR (Rs. m) | 8,595 | 6,852 | 24,977 | 29,200 |
| Margin (%) | 7.0 | 12.8 | 21.8 | 22.5 |
| PAT (Rs. m) | (16,066) | (13,957) | 1,464 | 4,861 |
| EPS (Rs.) | (26.8) | (23.3) | 2.4 | 8.1 |
| Gr. (%) | NA | NA | (110.5) | 232.1 |
| DPS (Rs.) | - | - | - | - |
| Yield (%) | - | - | - | - |
| RoE (%) | 166.5 | 61.3 | NA | NA |
| RoCE (%) | NA | 80.1 | NA | NA |
| EV/Sales (x) | 0.5 | 1.1 | 0.5 | 0.5 |
| EV/EBITDAR (x) | 25.9 | 29.8 | 8.3 | 7.3 |
| PE (x) | NA | NA | 36.0 | 10.9 |
| P/BV (x) | NA | NA | NA | NA |

Key Data

SPJT.BO | SJET IN

| | |
|---------------------|-------------------|
| 52-W High / Low | Rs.108 / Rs.31 |
| Sensex / Nifty | 51,309 / 15,107 |
| Market Cap | Rs.53bn / \$ 725m |
| Shares Outstanding | 600m |
| 3M Avg. Daily Value | Rs.1790.79m |

Shareholding Pattern (%)

| | |
|-------------------------|-------|
| Promoter's | 59.98 |
| Foreign | 2.31 |
| Domestic Institution | 6.31 |
| Public & Others | 31.40 |
| Promoter Pledge (Rs bn) | 26.29 |

Stock Performance (%)

| | 1M | 6M | 12M |
|----------|--------|------|--------|
| Absolute | (6.3) | 90.5 | (3.2) |
| Relative | (11.0) | 41.7 | (22.7) |

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Cargo continues to shine; Sustained recovery in Pax traffic

Quick Pointers:

- Cargo revenues grew by 36% QoQ; Yields down by 8.2%
- Booked Boeing Max compensation of Rs1.4bn

We increase our FY22/FY23 EBITDAR estimates by 15.4%/ 13.4% respectively given 1) broad based recovery in demand and 2) improving load factors on the back of rising consumer confidence

SJET reported operational numbers in line with market leader with Pax RASK declining by 21.4% while various cost initiatives led to 1% decline in CASK. SJET continues to reap benefits from its cargo segment which grew by 36% QoQ thereby reducing cash burn. Yields were under pressure in 3Q given 1) new strain of virus slowing demand recovery 2) capacity addition in the industry at a short notice post easing of restrictions.

Although rising crude oil prices and volatility in demand in an already seasonal 4Q can be a near term drag, management remains upbeat about sustainability of demand momentum and is targeting to operate at close to 100% of domestic capacity by 1Q along with calibrated increase in international operations. Likely return to service of Boeing 737 Max (more fuel and cost efficient) in 1HFY22 will further aide operations. SJET continues to negotiate with Boeing regarding compensation for the grounded Boeing 737 Max. We shall keep a close eye on payment terms and flow of compensation.

We expect FY21 capacity to decline by 60% YoY while FY22 capacity will likely be 89% of FY20 capacity. We value the stock at 8x FY23 adj. EV/EBITDAR and arrive at a target price of Rs120. New strain of virus, volatility in key commodity costs (Crude, INR) and delay in Boeing Max recertification & compensation remain key risk to our call.

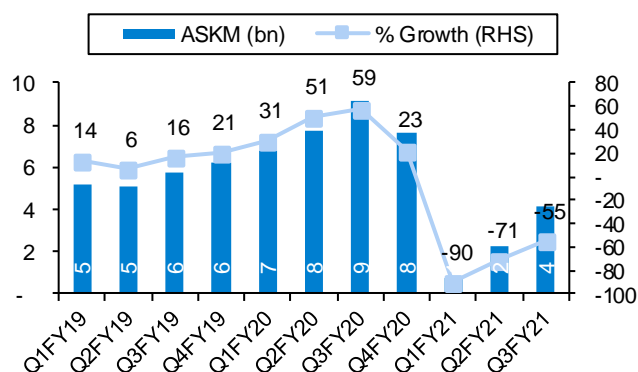
Sales down by 53.8%; Cargo revenues up by 36% QoQ: Revenues declined by 53.8% to Rs16.9bn with Pax revenue down by 64.5% while cargo revenue grew 36% QoQ. EBITDAR came in at Rs3.1bn down 37.6% YoY despite Rs602mn forex gain (vs loss of Rs803mn) and 52%/48% decline in employee /maintenance costs. Adjusting for Rs1.4bn (Rs10.9bn till date) of Boeing 737 Max related compensation booked as other income, SJET reported a loss of Rs2bn. Reported loss was Rs570mn vs profit of Rs732mn.

Pax RASK down by 21.4% YoY; Yields down by 8.2%: Pax RASK was down 21.4% YoY to Rs2.75. Aided by 51.4% increase in other RASK total RASK decline to 9.8% YoY to Rs3.87. Yields were down by 8.2% YoY on the back of softness witnessed in month of December and capacity addition in the industry. PLFs continued to improve QoQ by 100bps to 76.7%. The 36.4% decline in Fuel CASK more than offset 17.9% increase in non-Fuel CASK leading to 1% decline in CASK.

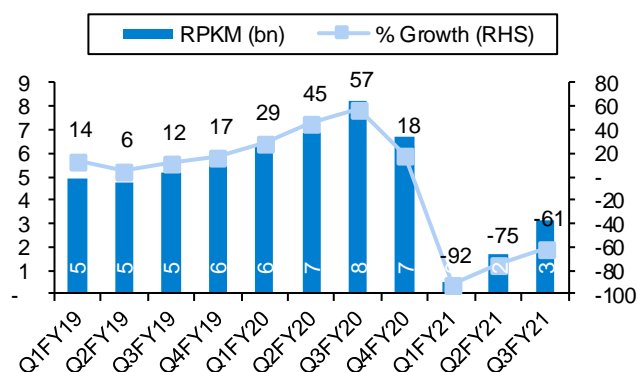
Exhibit 1: Sales declined by 53.8%; Rs1.4bn recognized as compensation for Boeing 737 Max grounding

| Y/e March | Q3FY21 | Q3FY20 | YoY gr. (%) | Q2FY21 | 9MFY21 | 9MFY20 | YoY gr. (%) |
|--|----------------|----------------|---------------|----------------|-----------------|----------------|---------------|
| Revenue from Operations (Rs mn) | 16,866 | 36,471 | (53.8) | 10,550 | 32,563 | 94,948 | (65.7) |
| Aircraft fuel expenses | 4,539 | 13,407 | (66.1) | 2,785 | 8,215 | 35,312 | (76.7) |
| Employee Cost | 1,871 | 3,909 | (52.1) | 1,064 | 4,657 | 11,407 | (59.2) |
| Other expenses | 7,337 | 14,161 | (48.2) | 4,324 | 15,903 | 36,933 | (56.9) |
| EBITDAR | 3,119 | 4,995 | (37.6) | 2,378 | 3,788 | 11,295 | (66.5) |
| EBITDAR margin % | 18.5 | 13.7 | | 22.5 | 11.6 | 11.9 | |
| Aircraft & engine rentals | 670 | 1,025 | (34.6) | 336 | 1,251 | 2,303 | (45.7) |
| Other Income | 797 | 332 | 140.3 | 1,114 | 2,505 | 1,170 | 114.1 |
| Depreciation & Amortization | 3,803 | 4,647 | (18.2) | 4,156 | 12,441 | 12,782 | (2.7) |
| Finance Cost | 1,416 | 1,387 | 2.1 | 1,514 | 4,423 | 4,030 | 9.8 |
| PBT | (1,973) | (1,732) | NA | (2,515) | (11,822) | (6,650) | NA |
| Tax Expense | - | - | | - | - | - | |
| Adj PAT | (1,973) | (1,732) | NA | (2,515) | (11,822) | (6,650) | NA |
| PAT margin % | (11.7) | (4.7) | | (23.8) | (36.3) | (7.0) | |
| Exceptional item | 1,404 | 2,464 | | 1,389 | 4,193 | 5,373 | |
| Reported PAT | (570) | 732 | NA | (1,126) | (7,630) | (1,277) | NA |
| Key Operating Metrics | | | | | | | |
| ASKM (mn) | 4,126 | 9,135 | (54.8) | 2,243 | 7,074 | 23,683 | (70.1) |
| RPKM (mn) | 3,166 | 8,196 | (61.4) | 1,699 | 5,277 | 21,387 | (75.3) |
| Load Factor % | 76.7 | 89.7 | (13.0) | 75.8 | 74.6 | 90.3 | (15.7) |
| Yield (Rs) | 3.6 | 3.9 | (8.2) | 3.9 | 3.8 | 3.9 | (2.4) |
| RASK (Rs) | 3.9 | 4.3 | (9.8) | 4.8 | 4.6 | 4.2 | 7.5 |
| Fuel CASK (Rs) | 0.9 | 1.4 | (36.4) | 1.0 | 0.9 | 1.5 | (36.3) |
| Non-Fuel CASK (Rs) | 3.2 | 2.7 | 17.9 | 4.4 | 4.8 | 2.8 | 72.5 |
| CASK (Rs) | 4.1 | 4.1 | (1.0) | 5.4 | 5.8 | 4.3 | 35.2 |
| RASK - CASK (Rs) | (0.2) | 0.2 | NA | (0.6) | (1.2) | (0.0) | NA |

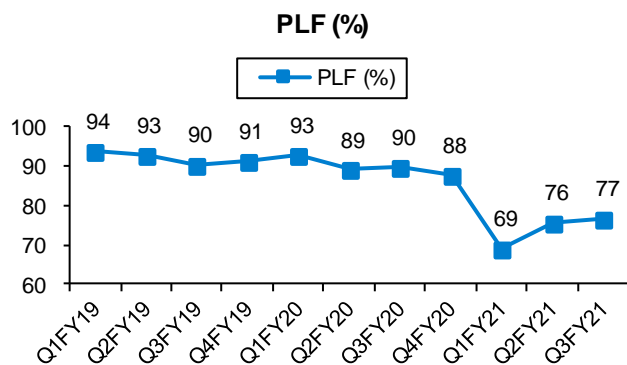
Source: Company, PL

Exhibit 2: ASKM de- grew by 55% YoY


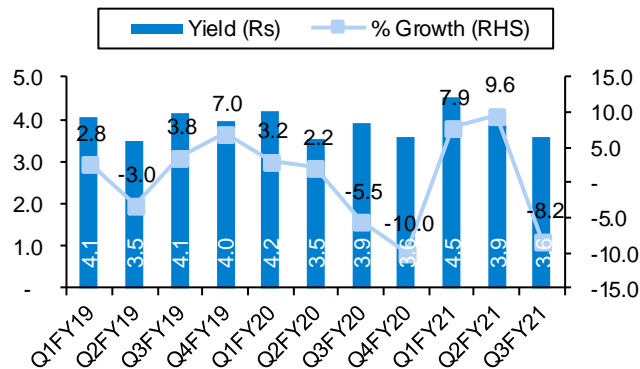
Source: Company, PL

Exhibit 3: RPKM de-grew by 61% YoY


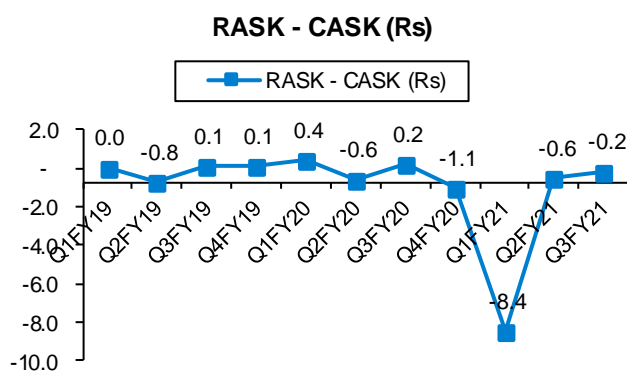
Source: Company, PL

Exhibit 4: PLFs improved QoQ to 77%


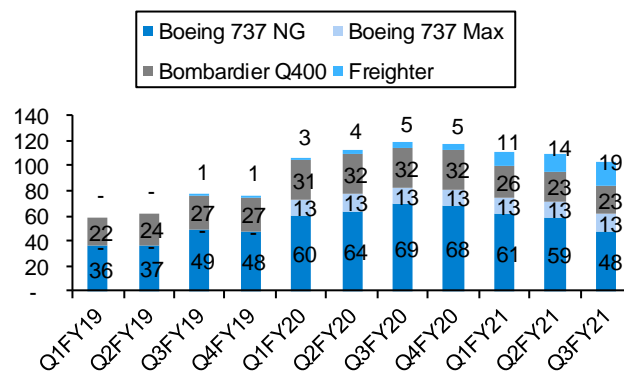
Source: Company, PL

Exhibit 5: 8.2% YoY decline in Yield (Pax rev/RPKM)


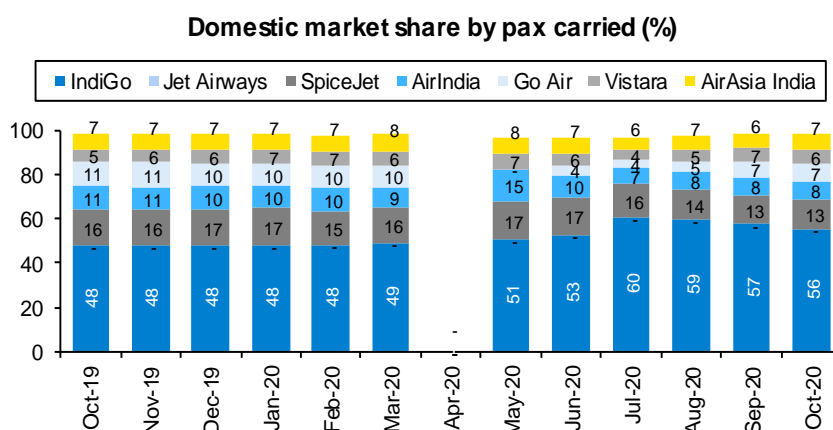
Source: Company, PL

Exhibit 6: Unit spreads improve QoQ


Source: Company, PL

Exhibit 7: 5 aircraft returned in the quarter


Source: Company, PL

Exhibit 8: SJET's market share steady at 13% post resumption of services


Source: Company, PL

*Operations were suspended in April 2020

Financials

Income Statement (Rs m)

| Y/e Mar | FY20 | FY21E | FY22E | FY23E |
|-------------------------------|-----------------|-----------------|----------------|----------------|
| Net Revenues | 123,586 | 53,576 | 114,423 | 129,620 |
| YoY gr. (%) | 35.6 | (56.6) | 113.6 | 13.3 |
| Aircraft Fuel Expenses | 46,162 | 15,459 | 34,156 | 39,084 |
| Employee Cost | 15,258 | 6,741 | 12,546 | 13,671 |
| Other Expenses | 53,572 | 24,524 | 42,745 | 47,665 |
| EBITDAR | 8,595 | 6,852 | 24,977 | 29,200 |
| YoY gr. (%) | (33.2) | (20.3) | 264.5 | 16.9 |
| Margin (%) | 7.0 | 12.8 | 21.8 | 22.5 |
| Aircraft Lease Rentals | 3,630 | 1,927 | 2,109 | 2,202 |
| Depreciation and Amortization | 17,339 | 16,203 | 16,557 | 17,260 |
| EBIT | (12,374) | (11,278) | 6,311 | 9,739 |
| Margin (%) | NA | NA | 5.5 | 7.5 |
| Net Interest | 5,450 | 5,926 | 6,147 | 6,353 |
| Other Income | 1,759 | 3,247 | 1,299 | 1,476 |
| Profit Before Tax | (9,348) | (8,365) | 1,464 | 4,861 |
| Margin (%) | NA | NA | 1.3 | 3.8 |
| Total Tax | - | - | - | - |
| Effective tax rate (%) | - | - | - | - |
| Profit after tax | (9,348) | (8,365) | 1,464 | 4,861 |
| Minority interest | - | - | - | - |
| Share Profit from Associate | - | - | - | - |
| Adjusted PAT | (16,066) | (13,957) | 1,464 | 4,861 |
| YoY gr. (%) | NA | NA | NA | 232.1 |
| Margin (%) | NA | NA | 1.3 | 3.8 |
| Extra Ord. Income / (Exp) | 6,718 | 5,593 | - | - |
| Reported PAT | (9,348) | (8,365) | 1,464 | 4,861 |
| YoY gr. (%) | NA | NA | NA | 232.1 |
| Margin (%) | NA | NA | 1.3 | 3.8 |
| Other Comprehensive Income | - | - | - | - |
| Total Comprehensive Income | (9,348) | (8,365) | 1,464 | 4,861 |
| Equity Shares O/s (m) | 600 | 600 | 600 | 600 |
| EPS (Rs) | (26.8) | (23.3) | 2.4 | 8.1 |

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

| Y/e Mar | FY20 | FY21E | FY22E | FY23E |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|
| Non-Current Assets | | | | |
| Gross Block | 116,074 | 108,817 | 112,130 | 116,723 |
| Tangibles | 115,505 | 108,148 | 111,360 | 115,853 |
| Intangibles | 570 | 670 | 770 | 870 |
| Acc: Dep / Amortization | 29,265 | 31,259 | 34,166 | 37,509 |
| Tangibles | 28,868 | 30,812 | 33,662 | 36,940 |
| Intangibles | 396 | 447 | 504 | 570 |
| Net fixed assets | 86,810 | 77,558 | 77,964 | 79,214 |
| Tangibles | 86,636 | 77,335 | 77,699 | 78,914 |
| Intangibles | 173 | 223 | 265 | 300 |
| Capital Work In Progress | - | - | - | - |
| Goodwill | - | - | - | - |
| Non-Current Investments | 11,917 | 8,668 | 12,074 | 12,297 |
| Net Deferred tax assets | - | - | - | - |
| Other Non-Current Assets | 8,674 | 5,518 | 3,776 | 4,277 |
| Current Assets | | | | |
| Investments | 4 | 5 | 11 | 13 |
| Inventories | 1,776 | 1,174 | 1,254 | 1,420 |
| Trade receivables | 15,458 | 12,477 | 6,270 | 5,327 |
| Cash & Bank Balance | 402 | 337 | 829 | 1,092 |
| Other Current Assets | 2,236 | 1,607 | 2,517 | 2,852 |
| Total Assets | 129,668 | 108,417 | 105,839 | 107,789 |
| Equity | | | | |
| Equity Share Capital | 6,001 | 6,001 | 6,001 | 6,001 |
| Other Equity | (21,793) | (35,751) | (34,287) | (29,426) |
| Total Network | (15,793) | (29,750) | (28,286) | (23,425) |
| Non-Current Liabilities | | | | |
| Long Term borrowings | 4,593 | 4,493 | 4,493 | 4,493 |
| Provisions | 6,285 | 6,125 | 4,851 | 4,614 |
| Other non current liabilities | 153 | 161 | 858 | 972 |
| Current Liabilities | | | | |
| ST Debt / Current of LT Debt | 4,144 | 4,144 | 4,144 | 4,144 |
| Trade payables | 17,371 | 21,284 | 14,734 | 14,205 |
| Other current liabilities | 44,983 | 44,315 | 45,741 | 40,862 |
| Total Equity & Liabilities | 129,668 | 108,417 | 105,839 | 107,789 |

Source: Company Data, PL Research

Cash Flow (Rs m)

| Y/e Mar | FY20 | FY21E | FY22E | FY23E |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|
| PBT | (9,348) | (8,365) | 1,464 | 4,861 |
| Add. Depreciation | 17,339 | 16,203 | 16,557 | 17,260 |
| Add. Interest | 5,450 | 5,926 | 6,147 | 6,353 |
| Less Financial Other Income | 1,759 | 3,247 | 1,299 | 1,476 |
| Add. Other | 12,731 | (5,593) | - | - |
| Op. profit before WC changes | 26,173 | 8,173 | 24,168 | 28,474 |
| Net Changes-WC | (7,428) | 11,162 | (533) | (5,991) |
| Direct tax | (327) | - | - | - |
| Net cash from Op. activities | 18,418 | 19,335 | 23,635 | 22,483 |
| Capital expenditures | (2,712) | (600) | (1,100) | (1,100) |
| Interest / Dividend Income | 599 | - | - | - |
| Others | 326 | 6,498 | (1,701) | (827) |
| Net Cash from Invt. activities | (1,787) | 5,898 | (2,801) | (1,927) |
| Issue of share cap. / premium | 4 | - | - | - |
| Debt changes | (970) | (100) | - | - |
| Dividend paid | - | - | - | - |
| Interest paid | (1,012) | (24,951) | (19,797) | (20,270) |
| Others | (15,064) | (152) | (577) | (123) |
| Net cash from Fin. activities | (17,043) | (25,203) | (20,374) | (20,393) |
| Net change in cash | (368) | 30 | 461 | 163 |
| Free Cash Flow | 15,706 | 18,735 | 22,535 | 21,383 |

Source: Company Data, PL Research

Quarterly Financials (Rs m)

| Y/e Mar | Q4FY20 | Q1FY21 | Q2FY21 | Q3FY21 |
|-----------------------------------|----------------|----------------|----------------|----------------|
| Net Revenue | 28,639 | 5,147 | 10,550 | 16,866 |
| YoY gr. (%) | 12.0 | (83.5) | (63.2) | (53.8) |
| Aircraft Fuel Expenses | 10,850 | 892 | 2,785 | 4,539 |
| Employee Expenses | 3,700 | 1,722 | 1,064 | 1,871 |
| Other Expenses | 16,790 | 4,242 | 4,324 | 7,337 |
| EBITDAR | (2,702) | (1,709) | 2,378 | 3,119 |
| Margin (%) | NA | NA | 22.5 | 18.5 |
| Aircraft Lease Rentals | 1,327 | 245 | 336 | 670 |
| Depreciation / Depletion | 4,557 | 4,482 | 4,156 | 3,803 |
| EBIT | (8,586) | (6,436) | (2,114) | (1,354) |
| Margin (%) | NA | NA | NA | NA |
| Net Interest | 1,420 | 1,493 | 1,514 | 1,416 |
| Other Income | 589 | 594 | 1,114 | 797 |
| Profit before Tax | (9,416) | (7,335) | (2,515) | (1,973) |
| Margin (%) | NA | NA | NA | NA |
| Total Tax | - | - | - | - |
| Effective tax rate (%) | 0.0 | 0.0 | 0.0 | 0.0 |
| Profit after Tax | (9,416) | (7,335) | (2,515) | (1,973) |
| Minority interest | - | - | - | - |
| Share Profit from Associates | - | - | - | - |
| Adjusted PAT | (9,416) | (7,335) | (2,515) | (1,973) |
| YoY gr. (%) | NA | NA | NA | NA |
| Margin (%) | NA | NA | NA | NA |
| Extra Ord. Income / (Exp) | 1,345 | 1,400 | 1,389 | 1,404 |
| Reported PAT | (8,071) | (5,934) | (1,126) | (570) |
| YoY gr. (%) | NA | NA | NA | NA |
| Margin (%) | NA | NA | NA | NA |
| Other Comprehensive Income | - | - | - | - |
| Total Comprehensive Income | (8,071) | (5,934) | (1,126) | (570) |
| Avg. Shares O/s (m) | 600 | 600 | 600 | 600 |
| EPS (Rs) | -13.4 | -9.9 | -1.9 | -0.9 |

Source: Company Data, PL Research

Key Financial Metrics

| Y/e Mar | FY20 | FY21E | FY22E | FY23E |
|----------------------------|--------|--------|--------|--------|
| Per Share(Rs) | | | | |
| EPS | (26.8) | (23.3) | 2.4 | 8.1 |
| CEPS | 2.1 | 3.7 | 30.0 | 36.9 |
| BVPS | (26.3) | (49.6) | (47.1) | (39.0) |
| FCF | 26.2 | 31.2 | 37.6 | 35.6 |
| DPS | - | - | - | - |
| Return Ratio(%) | | | | |
| RoCE | NA | 80.1 | NA | NA |
| ROIC | NA | NA | 6.0 | 9.1 |
| RoE | 166.5 | 61.3 | NA | NA |
| Balance Sheet | | | | |
| Net Debt : Equity (x) | (0.5) | (0.3) | (0.3) | (0.3) |
| Net Working Capital (Days) | 0 | (52) | (23) | (21) |
| Valuation(x) | | | | |
| PER | NA | NA | 36.0 | 10.9 |
| P/B | NA | NA | NA | NA |
| P/CEPS | 41.4 | 23.5 | 2.9 | 2.4 |
| EV/EBITDAR (Adj) | 25.9 | 29.8 | 8.3 | 7.3 |
| EV/Sales | 0.5 | 1.1 | 0.5 | 0.5 |
| Dividend Yield (%) | - | - | - | - |

Source: Company Data, PL Research

Key Operating Metrics

| Y/e Mar | FY20 | FY21E | FY22E | FY23E |
|-----------------|-------|-------|--------|--------|
| EBITDAR (Rs mn) | 8,595 | 6,852 | 24,977 | 29,200 |
| EBITDAR % | 7.0 | 12.8 | 21.8 | 22.5 |
| ASK (bn) | 31.3 | 12.5 | 28.0 | 31.4 |
| RPK (bn) | 28.1 | 9.7 | 23.8 | 27.6 |
| PLF % | 89.6 | 77.2 | 85.0 | 88.0 |
| RASK (Rs) | 4.0 | 4.5 | 4.1 | 4.2 |
| CASK (Rs) | 4.5 | 5.6 | 4.1 | 4.0 |
| RASK-CASK (Rs) | (0.5) | (1.1) | 0.1 | 0.2 |
| Fleet Size | 118.0 | 95.0 | 90.0 | 90.0 |

Source: Company Data, PL Research

Price Chart
Recommendation History


| No. | Date | Rating | TP (Rs.) | Share Price (Rs.) |
|-----|-----------|--------|----------|-------------------|
| 1 | 11-Jan-21 | BUY | 100 | 94 |
| 2 | 12-Nov-20 | BUY | 70 | 55 |
| 3 | 09-Oct-20 | Hold | 53 | 50 |
| 4 | 16-Sep-20 | Hold | 53 | 54 |
| 5 | 03-Aug-20 | Sell | 32 | 46 |
| 6 | 10-Jul-20 | Hold | 48 | 51 |
| 7 | 14-Apr-20 | Hold | 48 | 49 |
| 8 | 14-Feb-20 | BUY | 130 | 88 |

Analyst Coverage Universe

| Sr. No. | Company Name | Rating | TP (Rs) | Share Price (Rs) |
|---------|---------------------|------------|---------|------------------|
| 1 | InterGlobe Aviation | Accumulate | 1,780 | 1,593 |
| 2 | Polycab India | BUY | 1,359 | 1,211 |
| 3 | SpiceJet | BUY | 100 | 94 |

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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