

SpiceJet (SJET IN)

Rating: HOLD | CMP: Rs72 | TP: Rs70

Recapitalization key to exiting air pocket

Quick Pointers:

- Cargo revenues grew by 13.5% QoQ; margins at 6.4%
- Booked Boeing Max compensation of Rs1.4bn
- To hive off cargo arm for Rs25.5bn on slump sale basis

We change our FY22/FY23 EBITDAR estimates by -30%/ 9.2%, given 1Q being severely impacted by 2nd Covid wave. However, with lockdown restrictions easing and rising vaccination count, we expect industry to pick up pace by the end of CY2021.

Aided by 13.5% sequential improvement in Cargo revenues, SJET's RASK improved sequentially despite Pax services being impacted by 2nd Covid wave. However, SJET's adjusted losses widened YoY/QoQ to Rs8.7bn largely, on account of lower scale of operations and input cost inflation. SJET continues to focus on managing cash flows through 1) renegotiating rentals/maintenance costs 2) deferring payments to vendors 3) capital raise via QIP & hiving off cargo arm and 4) Rs1.3bn raised via ECLGS scheme. SJET is looking to hive off its cargo arm for a consideration of Rs25.5bn on slump sale basis which shall enable greater focus on cargo business and raise additional capital to fuel growth. SJET continues to negotiate with Boeing regarding compensation for Boeing 737 Max grounding. Payment terms and flow of money remain key monitorables.

We expect SJET to operate at 49%/ 97% of pre-covid capacity in FY22/FY23. Given delay in Boeing compensation and stretched balance sheet we cut our target multiple from 8x to 7.5x (17% discount to IndiGo) and arrive at a target price of Rs70 based on FY23 adj. EV/EBITDAR. Maintain 'HOLD'. Swift execution of capital raise (QIP as well as cargo unit) and Boeing compensation shall go a long way in alleviating liquidity constraints.

Sales up by 2.1x on lower base; Cargo revenues up by 13.5% QoQ: Revenues grew by 2.1x YoY to Rs10.9bn on a lower base. Cargo revenues grew by 13.5% QoQ. SJET's EBITDAR loss widened YoY to Rs2.6bn, down 37.6% YoY impacted by higher fuel costs, lower scale of operations and forex loss (Rs1.2bn). Adjusting for Rs1.4bn (Rs13.8bn till date) of Boeing 737 Max related compensation booked as other income, SJET's losses widened YoY/QoQ to Rs8.7bn. Reported loss was Rs7.3bn vs loss of Rs5.9bn.

SJET to hive off cargo arm: With the aim of providing greater focus to cargo business and raising additional capital to fuel growth, SJET is looking to hive off cargo business and operate as a separate entity for a consideration of Rs25.5bn (2.3x FY21 revenues) on slump sale basis. Consideration is to be discharged by way of Rs5bn unsecured loans and/or issue of shares. Post transfer, SJET shall continue to provide various services basis business requirement.

August 18, 2021

Q1FY22 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	HOLD		HOLD	
Target Price	70		85	
Sales (Rs. m)	66,216	129,981	67,331	127,132
% Chng.	(1.7)	2.2		
EBITDA (Rs. m)	3,143	23,968	4,491	21,948
% Chng.	(30.0)	9.2		
EPS (Rs.)	(31.1)	4.9	(24.5)	4.9
% Chng.	27.1	0.4		

Key Financials - Standalone

Y/e Mar	FY20	FY21	FY22E	FY23E
Sales (Rs. m)	123,586	52,698	66,216	129,981
EBITDAR (Rs. m)	8,594	5,592	3,143	23,968
Margin (%)	7.0	10.6	4.7	18.4
PAT (Rs. m)	(16,066)	(14,223)	(18,712)	2,940
EPS (Rs.)	(26.8)	(23.7)	(31.1)	4.9
Gr. (%)	NA	NA	NA	NA
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	166.5	68.5	55.6	(7.3)
RoCE (%)	3,031.9	97.1	56.0	(20.0)
EV/Sales (x)	0.4	0.9	0.8	0.4
EV/EBITDAR (x)	24.8	33.5	58.9	7.5
PE (x)	NA	NA	NA	14.7
P/BV (x)	NA	NA	NA	NA

Key Data

SPJT.BO | SJET IN

52-W High / Low	Rs.108 / Rs.46
Sensex / Nifty	55,792 / 16,615
Market Cap	Rs.43bn/ \$ 581m
Shares Outstanding	600m
3M Avg. Daily Value	Rs.864.17m

Shareholding Pattern (%)

Promoter's	59.54
Foreign	1.12
Domestic Institution	2.12
Public & Others	37.22
Promoter Pledge (Rs bn)	44.31

Stock Performance (%)

	1M	6M	12M
Absolute	(8.5)	(18.5)	45.7
Relative	(12.9)	(24.5)	(0.6)

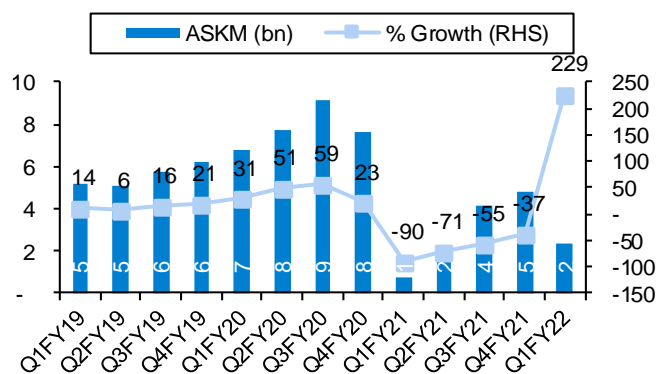
Paarth Gala

paarthgala@plindia.com | 91-22-66322242

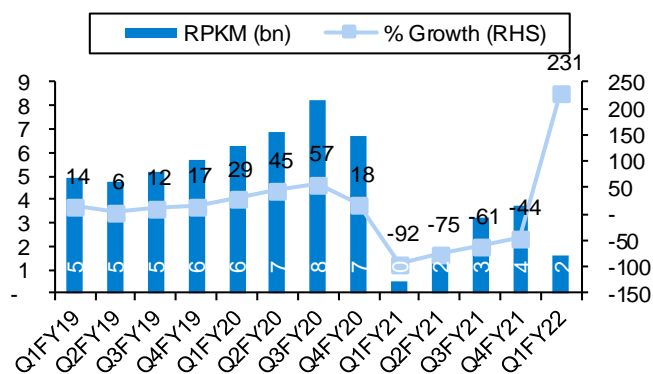
Exhibit 1: Sales up by 111.7% YoY; Rs1.4bn recognized as compensation for Boeing 737 Max grounding

Y/e March (Rs mn)	Q1FY22	Q1FY21	YoY gr. (%)	Q4FY21	FY21	FY20	YoY gr. (%)
Revenue from Operations	10,897	5,147	111.7	18,771	51,334	1,23,586	(58.5)
Aircraft fuel expenses	4,851	892	443.8	7,073	15,288	46,162	(66.9)
Employee Cost	1,653	1,695	(2.5)	2,133	6,762	14,635	(53.8)
Other expenses	7,031	4,269	64.7	9,125	25,055	54,196	(53.8)
EBITDAR	(2,638)	(1,709)	NA	440	4,228	8,594	(50.8)
EBITDAR margin %	(24.2)	(33.2)		2.3	8.2	7.0	
Aircraft & engine rentals	1,562	245	538.4	1,234	2,485	3,630	(31.5)
Other Income	326	498	(34.6)	1,082	3,059	1,760	73.8
Depreciation & Amortization	3,479	4,482	(22.4)	3,138	15,580	17,339	(10.1)
Finance Cost	1,373	1,397	(1.7)	915	4,810	5,450	(11.7)
PBT	(8,726)	(7,335)	NA	(3,765)	(15,588)	(16,066)	NA
Tax Expense	-	-		-	-	-	
Adj PAT	(8,726)	(7,335)	NA	(3,765)	(15,588)	(16,066)	NA
PAT margin %	(80.1)	(142.5)		(20.1)	(30.4)	(13.0)	
Exceptional item	1,436	1,401		1,412	5,604	6,718	
Reported PAT	(7,291)	(5,934)	NA	(2,353)	(9,983)	(9,348)	NA
Key Operating Metrics							
ASKM (mn)	2,319	705	229.0	4,818	11,892	31,334	(62.0)
RPKM (mn)	1,611	487	230.7	3,731	9,131	28,201	(67.6)
Load Factor %	69.5	69.1	0.4	77.4	76.8	90.0	(13.2)

Source: Company, PL

Exhibit 2: ASKM grew by 229% YoY on a lower base


Source: Company, PL

Exhibit 3: While RPKM grew by 231% YoY


Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Net Revenues	123,586	52,698	66,216	129,981
YoY gr. (%)	35.6	(57.4)	25.7	96.3
Aircraft Fuel Expenses	46,162	15,288	25,212	48,091
Employee Cost	14,635	6,762	6,872	9,026
Other Expenses	54,196	25,055	30,989	48,895
EBITDAR	8,594	5,592	3,143	23,968
YoY gr. (%)	(33.2)	(34.9)	(43.8)	662.6
Margin (%)	7.0	10.6	4.7	18.4
Aircraft Lease Rentals	3,630	2,485	4,021	3,930
Depreciation and Amortization	17,339	15,580	13,721	13,513
EBIT	(12,375)	(12,473)	(14,599)	6,525
Margin (%)	(10.0)	(23.7)	(22.0)	5.0
Net Interest	5,450	4,810	5,848	5,624
Other Income	1,760	3,059	1,734	2,039
Profit Before Tax	(9,348)	(8,619)	(15,876)	2,940
Margin (%)	(7.6)	(16.4)	(24.0)	2.3
Total Tax	-	-	-	-
Effective tax rate (%)	-	-	-	-
Profit after tax	(9,348)	(8,619)	(15,876)	2,940
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	(16,066)	(14,223)	(18,712)	2,940
YoY gr. (%)	NA	NA	NA	NA
Margin (%)	(13.0)	(27.0)	(28.3)	2.3
Extra Ord. Income / (Exp)	6,718	5,604	2,836	-
Reported PAT	(9,348)	(8,619)	(15,876)	2,940
YoY gr. (%)	NA	NA	NA	NA
Margin (%)	(7.6)	(16.4)	(24.0)	2.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	(9,348)	(8,619)	(15,876)	2,940
Equity Shares O/s (m)	600	601	601	601
EPS (Rs)	(26.8)	(23.7)	(31.1)	4.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Non-Current Assets				
Gross Block	116,074	114,846	128,754	138,854
Tangibles	115,505	114,305	128,163	138,213
Intangibles	570	541	591	641
Acc: Dep / Amortization	29,265	44,844	58,565	72,078
Tangibles	28,868	44,398	58,074	71,539
Intangibles	396	446	491	539
Net fixed assets	86,810	70,001	70,189	66,776
Tangibles	86,636	69,907	70,089	66,674
Intangibles	173	95	100	102
Capital Work In Progress	-	58	-	-
Goodwill	-	-	-	-
Non-Current Investments	11,917	10,473	10,067	11,931
Net Deferred tax assets	-	-	-	-
Other Non-Current Assets	7,724	7,438	4,834	6,239
Current Assets				
Investments	4	4	7	13
Inventories	1,776	1,558	1,088	1,424
Trade receivables	15,458	20,398	8,526	7,834
Cash & Bank Balance	402	320	265	494
Other Current Assets	2,236	1,813	1,159	1,300
Total Assets	128,718	113,755	96,798	96,662
Equity				
Equity Share Capital	6,001	6,009	6,009	6,009
Other Equity	(21,793)	(31,725)	(47,600)	(44,661)
Total Network	(15,793)	(25,715)	(41,591)	(38,652)
Non-Current Liabilities				
Long Term borrowings	4,593	3,027	3,027	3,027
Provisions	6,285	5,050	5,139	5,100
Other non current liabilities	153	136	331	975
Current Liabilities				
ST Debt / Current of LT Debt	4,144	4,045	5,045	4,045
Trade payables	17,371	17,106	17,053	16,025
Other current liabilities	44,033	56,491	54,276	53,836
Total Equity & Liabilities	128,718	113,755	96,798	96,662

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
PBT	(9,348)	(9,983)	(15,876)	2,940
Add. Depreciation	17,339	15,580	13,721	13,513
Add. Interest	5,450	4,810	5,848	5,624
Less Financial Other Income	1,760	3,059	1,734	2,039
Add. Other	6,391	(4,658)	-	-
Op. profit before WC changes	19,833	5,749	3,692	22,077
Net Changes-WC	(1,272)	(2,364)	13,786	(589)
Direct tax	(327)	366	-	-
Net cash from Op. activities	18,234	3,750	17,477	21,488
Capital expenditures	(2,528)	(614)	(492)	(550)
Interest / Dividend Income	599	688	-	-
Others	326	2,030	3,001	(3,306)
Net Cash from Invt. activities	(1,603)	2,105	2,510	(3,856)
Issue of share cap. / premium	4	9	-	-
Debt changes	(970)	(75)	1,000	(1,000)
Dividend paid	-	-	-	-
Interest paid	(1,012)	(1,991)	(21,334)	(17,038)
Others	(15,064)	(3,779)	285	604
Net cash from Fin. activities	(17,043)	(5,836)	(20,049)	(17,434)
Net change in cash	(368)	14	(62)	198
Free Cash Flow	15,706	3,137	16,986	20,938

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Net Revenue	10,550	16,866	18,771	10,897
YoY gr. (%)	(63.2)	(53.8)	(34.5)	116.9
Aircraft Fuel Expenses	2,785	4,539	7,073	4,851
Employee Expenses	1,064	1,871	2,133	1,653
Other Expenses	4,324	7,337	9,125	7,031
EBITDAR	2,378	3,119	440	(2,638)
Margin (%)	22.5	18.5	2.3	(24.2)
Aircraft Lease Rentals	336	670	1,234	1,562
Depreciation / Depletion	4,156	3,803	3,138	3,479
EBIT	(2,114)	(1,354)	(3,932)	(7,679)
Margin (%)	(20.0)	(8.0)	(20.9)	(70.5)
Net Interest	1,514	1,416	915	1,373
Other Income	1,114	797	1,082	326
Profit before Tax	(2,515)	(1,973)	(3,765)	(8,726)
Margin (%)	(23.8)	(11.7)	(20.1)	(80.1)
Total Tax	-	-	-	-
Effective tax rate (%)	0.0	0.0	0.0	0.0
Profit after Tax	(2,515)	(1,973)	(3,765)	(8,726)
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	(2,515)	(1,973)	(3,765)	(8,726)
YoY gr. (%)	NA	NA	NA	NA
Margin (%)	(23.8)	(11.7)	(20.1)	(80.1)
Extra Ord. Income / (Exp)	1,389	1,404	1,412	1,436
Reported PAT	(1,126)	(570)	(2,353)	(7,291)
YoY gr. (%)	NA	NA	NA	NA
Margin (%)	(10.7)	(3.4)	(12.5)	(66.9)
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	(1,126)	(570)	(2,353)	(7,291)
Avg. Shares O/s (m)	600	600	601	601
EPS (Rs)	-1.9	-0.9	-3.9	-12.1

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21	FY22E	FY23E
Per Share(Rs)				
EPS	(26.8)	(23.7)	(31.1)	4.9
CEPS	2.1	2.3	(8.3)	27.4
BVPS	(26.3)	(42.8)	(69.2)	(64.3)
FCF	26.2	5.2	28.3	34.8
DPS	-	-	-	-
Return Ratio(%)				
RoCE	3,031.9	97.1	56.0	(20.0)
ROIC	(9.6)	(11.0)	(15.1)	6.8
RoE	166.5	68.5	55.6	(7.3)
Balance Sheet				
Net Debt : Equity (x)	(0.5)	(0.3)	(0.2)	(0.2)
Net Working Capital (Days)	0	34	(41)	(19)
Valuation(x)				
PER	NA	NA	NA	14.7
P/B	NA	NA	NA	NA
P/CEPS	33.9	31.9	(8.7)	2.6
EV/EBITDAR (Adj)	24.8	33.5	58.9	7.5
EV/Sales	0.4	0.9	0.8	0.4
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY20	FY21	FY22E	FY23E
EBITDAR (Rs mn)	8,594	4,228	3,143	23,968
EBITDAR %	7.0	8.2	4.7	18.4
ASK (bn)	31.3	11.9	15.4	30.5
RPK (bn)	28.1	9.1	12.1	27.4
PLF %	89.6	76.8	78.5	90.0
RASK (Rs)	4.0	4.7	4.4	4.3
CASK (Rs)	4.5	5.9	5.6	4.2
RASK-CASK (Rs)	(0.5)	(1.2)	(1.2)	0.1
Fleet Size	118.0	95.0	90.0	90.0
Rental Capitalised	161,696	137,158	134,033	131,000

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	7-Jul-21	Hold	85	79
2	7-Apr-21	BUY	120	72
3	11-Feb-21	BUY	120	88
4	11-Jan-21	BUY	100	94
5	12-Nov-20	BUY	70	55
6	9-Oct-20	Hold	53	50
7	16-Sep-20	Hold	53	54

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	InterGlobe Aviation	Hold	1,630	1,705
2	KEI Industries	BUY	854	749
3	Polycab India	Hold	1,977	1,912
4	SpiceJet	Hold	85	79

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

ANALYST CERTIFICATION

(Indian Clients)

We/I, Mr. Paarth Gala- B.Com Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

(US Clients)

The research analysts, with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is or will be directly related to the specific recommendation or views expressed in this research report.

DISCLAIMER

Indian Clients

Prabhudas Lilladher Pvt. Ltd, Mumbai, India (hereinafter referred to as "PL") is engaged in the business of Stock Broking, Portfolio Manager, Depository Participant and distribution for third party financial products. PL is a subsidiary of Prabhudas Lilladher Advisory Services Pvt Ltd. which has its various subsidiaries engaged in business of commodity broking, investment banking, financial services (margin funding) and distribution of third party financial/other products, details in respect of which are available at www.plindia.com.

This document has been prepared by the Research Division of PL and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accepts any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

PL may from time to time solicit or perform investment banking or other services for any company mentioned in this document.

PL is in the process of applying for certificate of registration as Research Analyst under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

PL submits that no material disciplinary action has been taken on us by any Regulatory Authority impacting Equity Research Analysis activities.

PL or its research analysts or its associates or his relatives do not have any financial interest in the subject company.

PL or its research analysts or its associates or his relatives do not have actual/beneficial ownership of one per cent or more securities of the subject company at the end of the month immediately preceding the date of publication of the research report.

PL or its research analysts or its associates or his relatives do not have any material conflict of interest at the time of publication of the research report.

PL or its associates might have received compensation from the subject company in the past twelve months.

PL or its associates might have managed or co-managed public offering of securities for the subject company in the past twelve months or mandated by the subject company for any other assignment in the past twelve months.

PL or its associates might have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months.

PL or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months

PL or its associates might have received any compensation or other benefits from the subject company or third party in connection with the research report.

PL encourages independence in research report preparation and strives to minimize conflict in preparation of research report. PL or its analysts did not receive any compensation or other benefits from the subject Company or third party in connection with the preparation of the research report. PL or its Research Analysts do not have any material conflict of interest at the time of publication of this report.

It is confirmed that Mr. Paarth Gala- B.Com Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

The Research analysts for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

The research analysts for this report has not served as an officer, director or employee of the subject company PL or its research analysts have not engaged in market making activity for the subject company

Our sales people, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

PL and its associates, their directors and employees may (a) from time to time, have a long or short position in, and buy or sell the securities of the subject company or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company or act as an advisor or lender/borrower to the subject company or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

US Clients

This research report is a product of Prabhudas Lilladher Pvt. Ltd., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Prabhudas Lilladher Pvt. Ltd. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Prabhudas Lilladher Pvt. Ltd. has entered into an agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo").

Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer.

Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

www.plindia.com | Bloomberg Research Page: PRLD <GO>