BOBCAPS
TRUST | INNOVATION | EXCELLENCE

FIRST LIGHT

02 July 2021

RESEARCH

Spicejet | Target: Rs 60 | –26% | SELL

Liquidity crisis, rising fuel cost dampen outlook; SELL

Automobiles

June'21 dispatches reflecting opening up of economy

Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.47	0bps	(13 bps)	79 bps
India 10Y yield (%)	6.05	2 bps	5 bps	21 bps
USD/INR	74.33	(0.1)	(2.6)	1.7
Brent Crude (US$/bbl)	75.13	0.5	7.9	78.8
Dow	34,503	0.6	(0.1)	34.1
Shanghai	3,591	0.5	(0.3)	18.7
Sensex	52,483	(0.1)	2.1	48.2
India FII (US$ mn)	**29-Jun**	**MTD**	**CYTD**	**FYTD**
FII-D	(66.0)	(583.1)	(3,163.7)	(1,136.5)
FII-E	443.3	1,648.7	8,234.8	908.5

Source: Bank of Baroda Economics Research

SUMMARY

Spicejet

- SJET's Q4FY21 revenue plunged 35% YoY and it reported an adjusted net loss of Rs 2.4bn, translating to negative EPS of Rs 3.9
- We remain cautious due to the weak balance sheet (negative net worth) as well as growing competition amid rising fuel cost
- Maintain SELL with a revised TP of Rs 60 (vs. Rs 70) as we cut estimates owing to the pandemic-linked crisis and higher fuel costs

Click here **for the full report.**

Automobiles

- Most OEMs reported a sharp jump MOM. Tractors and PVs report normalcy in their dispatches led by lower dealer inventories
- Domestic 2W inventory continue to be high in excess of 45 days. For BJAUT & TVS, exports continue to provide additional boost.
- CVs/3Ws continue to be most adversely impacted with higher fuel cost and lower economic activities

Click here **for the full report.**

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SELL
TP: Rs 60 | ∨ 26%

SPICEJET | Aviation | 01 July 2021

Liquidity crisis, rising fuel cost dampen outlook; SELL

- **SJET's Q4FY21 revenue plunged 35% YoY and it reported an adjusted net loss of Rs 2.4bn, translating to negative EPS of Rs 3.9**
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Sluggish Q4: SJET's Q4FY21 revenue plunged 35% YoY to Rs 18.8bn. RASK was at Rs 4.5 (vs. Rs 3.7 in Q3). Rising fuel costs amidst the ongoing pandemic reduced EBITDAR YoY to Rs 440mn, yielding a margin of 2.3% vs. 18.5% reported in Q3. The company reported higher other income of Rs 3.2bn (+44% QoQ) on account of expected recovery of dues from Boeing with respect to grounding of the 737 Max fleet. Adjusted net loss stood at Rs 2.4bn, translating to negative EPS of Rs 3.9. SJET intends to raise Rs 25bn through a QIP.

Strong growth outlook for FY23 but rising fuel cost a concern: Key factors that favour SJET's growth outlook over the next two years are expected improvement in capacity utilisation in the coming quarters together with reinstatement of its grounded Boeing 737 aircraft. However, rising crude oil prices could act as an impediment to earnings. Every US$ 1 change in crude impacts the company's margins by ~60bps. We revise our FY22/FY23 fuel estimates up from US$ 55/bbl to US$ 65/bbl and assume a USDINR rate of Rs 73.

Earnings estimates cut on lower capacities and higher fuel costs: We cut our FY22/FY23 revenue estimates by 27%/11% owing to the pandemic-linked crisis and lowering of available capacities. Also, higher fuel costs would weigh on profitability, leading to EPS revision to -Rs 6 for FY22 (-Rs 2 earlier) and Rs 4.8 for FY23 (Rs 11 earlier). Post revision, our FY23 revenue estimates are at par with consensus. However, we remain 25% lower on EBITDA as we build in lower operating efficiency. Lower other income (assuming no further compensation receivables from Boeing) drives our PAT estimate 51% below consensus.

Availability of funds, competitive landscape remains key to survival; maintain SELL: We remain cautious on SJET due to its weak balance sheet (negative net worth) as well as lower yields amidst rising fuel costs. The key to its survival will depend on availability of liquidity (either through debt or equity) coupled with staying afloat amongst strong competition from peers who are also raising funds. We value the stock at an unchanged 4.5x FY23E EV/EBITDAR (~50% discount to INDIGO). Post estimate revision, our Mar'22 TP reduces to Rs 60 (vs. Rs 70). SELL.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	SJET IN/Rs 81
Market cap	US$ 654.0mn
Free float	40%
3M ADV	US$ 5.0mn
52wk high/low	Rs 108/Rs 45
Promoter/FPI/DII	60%/1%/10%

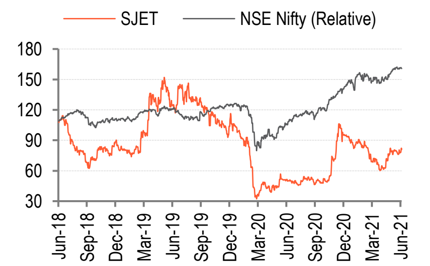
Source: NSE | Price as of 30 Jun 2021

Key financials

Y/E 31 Mar	FY21P	FY22E	FY23E
Total revenue (Rs mn)	51,334	84,197	139,151
EBITDA (Rs mn)	1,743	11,648	19,837
Adj. net profit (Rs mn)	(9,983)	(3,684)	2,885
Adj. EPS (Rs)	(16.6)	(6.1)	4.8
Consensus EPS (Rs)	0.0	(4.5)	9.5
Adj. ROAE (%)	38.8	12.5	(10.9)
Adj. P/E (x)	(4.9)	(13.2)	16.9
EV/EBITDA (x)	31.9	5.1	3.0
Adj. EPS growth (%)	NA	NA	

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

AUTOMOBILES

01 July 2021

June’21 dispatches reflecting opening up of economy

- **Most OEMs reported a sharp jump MOM. Tractors and PVs report normalcy in their dispatches led by lower dealer inventories**
- **Domestic 2W inventory continue to be high in excess of 45 days. For BJAUT & TVS, exports continue to provide additional boost.**
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Opening up of economy, Lower inventory boost PV dispatches: Maruti’s total (MSIL) dispatches at 147k (+157% MoM) in June were bolstered as plants restarted production and produced more in order to regain lost sales in May’21 (due to Covid-19 lockdowns). Domestic sales grew 269% MoM while exports were up 216% MoM. M&M’s (MM) PV sales rose 113% MoM and management is confident of a demand rebound as the booking run-rate remains healthy despite extended waiting periods across models. Sales for TTMT grew 59% MoM while Hyundai posted a 90% rise.

Domestic 2W inventory remain high; Exports outperform: Hero’s (HMCL) wholesale volumes grew by 156% MoM at 469k led by strong rebound in sales due to easing of Covid-19 related lockdowns across key markets. Bajaj Auto’s (BJAUT) total volumes grew 27% MoM with 2Ws growing ahead at 29% while 3Ws were up 14%. TVS Motor’s (TVSL) overall sales grew 51% MoM to 256k units, with 2Ws growing ahead at 54% MoM while 3Ws were up 10%. Royal Enfield (RE) reported 2W sales of 43k units (+58% MoM).

CV dispatches revive as economy starts opening up: With economy gradually opening up, CV dispatches for Tata Motors doubled MoM as MHCV/LCV volumes grew 89%/120%. For AL, total CV dispatches also doubled MoM with MHCVs/LCVs up 42%/196% led by good traction of Dost and Bada Dost.

Tractor sales remain upbeat: With Covid-19 weathering down in rural areas and seasonal purchases, tractor sales reported a strong growth in June. MM sold 48k tractors (+100% MoM) during the month and expects the tractor industry to record mid-single-digit growth for FY22. Escorts (ESC) sold 12.5k tractors, clocking 95% MoM growth. Per the company, ground activities have picked up in recent days as peak buying season begins, and the demand situation is likely to normalise soon. We have factored in a 6% CAGR in tractor industry sales over FY21-FY23 as the macro environment remains conducive.

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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