

**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
- 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

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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.

## 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%

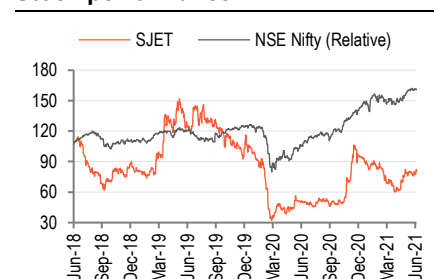
Source: NSE | Price as of 30 Jun 2021

## 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

**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.



**Fig 1 – Quarterly performance**

(Rs mn)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
<b>Total Income (A)</b>	<b>18,771</b>	<b>28,639</b>	<b>(34.5)</b>	<b>16,866</b>	<b>11.3</b>	<b>51,334</b>	<b>123,583</b>	<b>(58.5)</b>
<b>Operating Expenses:</b>								
Aircraft Fuel	7,073	10,850	(34.8)	4,539	55.8	15,288	46,162	(66.9)
Employee Expenses	2,133	3,700	(42.4)	1,871	14.0	6,911	15,224	(54.6)
Other Expenses	10,359	18,117	(42.8)	8,008	29.4	27,349	57,143	(52.1)
<b>Total Expenditure (B)</b>	<b>19,565</b>	<b>32,667</b>	<b>(40.1)</b>	<b>14,418</b>	<b>35.7</b>	<b>49,548</b>	<b>118,528</b>	<b>(58.2)</b>
<b>EBITDA (A-B)</b>	<b>(794)</b>	<b>(4,028)</b>	<b>(80.3)</b>	<b>2,448</b>	<b>(132.4)</b>	<b>1,786</b>	<b>5,055</b>	<b>(64.7)</b>
EBITDAR	440	(2,702)	(116.3)	3,119	(85.9)	11,826	8,684	36.2
Other Income	3,176	1,935	64.2	2,201	44.3	9,831	8,351	17.7
Depreciation	3,138	4,557	(31.1)	3,803	(17.5)	15,580	17,339	(10.1)
EBIT	(756)	(6,651)	(88.6)	846	(189.4)	(3,963)	(3,933)	0.8
Finance Costs	1,597	1,420	12.5	1,416	12.8	6,021	5,414	11.2
PBT before excep items	(2,353)	(8,071)	(70.8)	(570)	312.9	(9,983)	(9,348)	6.8
Tax expense	-	-	-	-	-	-	-	-
<b>Reported PAT</b>	<b>(2,353)</b>	<b>(8,071)</b>	<b>(70.8)</b>	<b>(570)</b>	<b>312.9</b>	<b>(9,983)</b>	<b>(9,348)</b>	<b>6.8</b>
<b>Adjusted PAT</b>	<b>(2,353)</b>	<b>(8,071)</b>	<b>(70.8)</b>	<b>(570)</b>	<b>312.9</b>	<b>(9,983)</b>	<b>(9,348)</b>	<b>6.8</b>
Adj EPS (Rs)	(3.9)	(13.5)	(70.8)	(1.0)	312.9	(16.6)	(15.6)	6.6

Source: Company, BOBCAPS Research

**Fig 2 – Sensitivity of Fuel cost to change in crude oil and forex cost as a % of sales (FY22E)**

(%)	USDINR				
Crude (US\$/bbl)	69.0	71.0	73.0	75.0	77.0
55.0	29.7	30.5	31.3	32.0	32.8
60.0	32.8	33.6	34.4	35.2	35.9
65.0	35.9	36.7	37.5	38.3	39.1
70.0	39.0	39.8	40.6	41.4	42.2
75.0	42.2	42.9	43.7	44.5	45.3

Source: Company, BOBCAPS

**Fig 3 – Sensitivity of EBITDA margin to change in crude oil and forex (FY22E)**

(%)	USDINR				
Crude (US\$/bbl)	69.0	71.0	73.0	75.0	77.0
55.0	21.7	20.9	20.1	19.3	18.5
60.0	18.6	17.8	16.9	16.1	15.3
65.0	15.4	14.6	13.8	13.0	12.2
70.0	12.3	11.5	10.7	9.9	9.1
75.0	9.2	8.4	7.6	6.8	6.0

Source: Company, BOBCAPS Research

**Fig 4 – Sensitivity of EPS to change in crude oil and forex (FY22E)**

(%)	USDINR				
<b>Crude (US\$/bbl)</b>	<b>69.0</b>	<b>71.0</b>	<b>73.0</b>	<b>75.0</b>	<b>77.0</b>
<b>55.0</b>	4.8	3.7	2.6	1.5	0.3
<b>60.0</b>	0.5	(0.6)	(1.8)	(2.9)	(4.0)
<b>65.0</b>	(3.9)	(5.0)	(6.1)	(7.3)	(8.4)
<b>70.0</b>	(8.2)	(9.4)	(10.5)	(11.6)	(12.7)
<b>75.0</b>	(12.6)	(13.7)	(14.9)	(16.0)	(17.1)

Source: Company, BOBCAPS Research

## Valuation methodology

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.

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**Fig 5 – Revised estimates**

(Rs mn)	New		Old		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenues	84,197	139,151	114,883	156,146	(26.7)	(10.9)
EBITDA	11,648	19,837	18,663	25,341	(37.6)	(21.7)
OPM (%)	13.8	14.3	16	16	(14.8)	(12.2)
Adj. PAT	(3,684)	2,885	(1,457)	6,391	152.9	(54.9)
EPS (Rs)	(6.1)	4.8	(2)	11	155.4	(55.1)

Source: BOBCAPS Research

**Fig 6 – Key assumptions**

Parameter	FY22E	FY23E
Industry passenger traffic (mn)	85.6	141.2
SJET passenger traffic (mn)	12.6	21.8
Market share (%)	14.7	15.4
Load factor (%)	80	90
ASK (mn)	18,341	31,736
RASK (Rs)	4.59	4.38
Crude cost (US\$/bbl)	65.0	65.0
INR/USD (Rs)	73.0	73.0

Source: Company, BOBCAPS Research

**Fig 7 – Peer comparison**

Company	Rating	Target Price (Rs)	Revenue CAGR FY21-23E (%)	EPS (Rs)		Target EV/EBITDAR (x)
				FY22E	FY23E	
InterGlobe Aviation	ADD	2,000	73	(102)	79.4	9.0
SpiceJet	SELL	60	65	(6.1)	4.8	4.5

Source: BOBCAPS

### Key risks

Key upside risks to our estimates are:

- Sharp fall in crude oil price
- Appreciation of rupee (against USD)
- Increase in market share

### Sector recommendation snapshot

Stock	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Interglobe Aviation	INDIGO IN	9	1,717	2,000	ADD
SpiceJet	SJET IN	1	81	60	SELL

Source: BOBCAPS Research, NSE | Price as of 30 Jun 2021

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
<b>Total revenue</b>	<b>91,215</b>	<b>123,586</b>	<b>51,334</b>	<b>84,197</b>	<b>139,151</b>
EBITDA	(572)	4,964	1,743	11,648	19,837
Depreciation	2,564	17,339	15,580	15,993	16,243
EBIT	(1,687)	(3,898)	(3,962)	1,655	7,594
Net interest inc./(exp.)	(1,336)	(5,450)	(6,020)	(5,339)	(4,709)
Other inc./(exp.)	1,448	8,478	9,874	6,000	4,000
Exceptional items	602	0	0	0	0
EBT	(2,422)	(9,348)	(9,983)	(3,684)	2,885
Income taxes	0	0	0	0	0
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>(2,422)</b>	<b>(9,348)</b>	<b>(9,983)</b>	<b>(3,684)</b>	<b>2,885</b>
Adjustments	(602)	0	0	0	0
<b>Adjusted net profit</b>	<b>(3,024)</b>	<b>(9,348)</b>	<b>(9,983)</b>	<b>(3,684)</b>	<b>2,885</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Accounts payables	10,482	17,371	17,106	17,331	17,150
Other current liabilities	17,395	44,365	51,118	46,009	43,699
Provisions	2,787	4,762	10,423	10,423	10,423
Debt funds	11,098	4,593	7,071	8,071	4,071
Other liabilities	9,666	74,369	53,751	49,751	42,751
Equity capital	5,997	6,001	6,009	6,009	6,009
Reserves & surplus	(9,497)	(21,793)	(31,724)	(35,408)	(32,524)
Shareholders' fund	(3,500)	(15,793)	(25,715)	(29,399)	(26,514)
<b>Total liab. and equities</b>	<b>47,928</b>	<b>129,668</b>	<b>113,756</b>	<b>102,187</b>	<b>91,581</b>
Cash and cash eq.	797	402	320	1,037	2,311
Accounts receivables	1,353	2,917	3,464	3,822	4,338
Inventories	1,413	1,776	1,558	1,911	2,336
Other current assets	10,128	17,500	20,437	22,934	23,357
Investments	4	5	26	26	26
Net fixed assets	13,420	80,972	70,060	54,567	41,324
CWIP	0	0	0	0	0
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	20,812	26,096	17,890	17,890	17,890
<b>Total assets</b>	<b>47,928</b>	<b>129,668</b>	<b>113,756</b>	<b>102,187</b>	<b>91,581</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
<b>Cash flow from operations</b>	<b>(3,238)</b>	<b>77,134</b>	<b>(13,776)</b>	<b>(11,123)</b>	<b>(435)</b>
Capital expenditures	0	(84,892)	(4,667)	(500)	(3,000)
Change in investments	1,009	(1)	(21)	0	0
Other investing cash flows	1,448	8,478	9,874	6,000	4,000
<b>Cash flow from investing</b>	<b>2,457</b>	<b>(76,415)</b>	<b>5,187</b>	<b>5,500</b>	<b>1,000</b>
Equities issued/Others	39	4	9	0	0
Debt raised/repaid	(1,929)	(6,505)	2,478	1,000	(4,000)
Interest expenses	(1,336)	(5,450)	(6,020)	(5,339)	(4,709)
Dividends paid	0	0	0	0	0
Other financing cash flows	0	0	0	0	0
<b>Cash flow from financing</b>	<b>(3,227)</b>	<b>(11,951)</b>	<b>(3,533)</b>	<b>(4,339)</b>	<b>(8,709)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(4,008)</b>	<b>(11,233)</b>	<b>(12,123)</b>	<b>(9,962)</b>	<b>(8,144)</b>
<b>Closing cash &amp; cash eq.</b>	<b>797</b>	<b>402</b>	<b>320</b>	<b>1,037</b>	<b>2,311</b>

### Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21P	FY22E	FY23E
Reported EPS	(5.0)	(15.6)	(16.6)	(6.1)	4.8
Adjusted EPS	(5.0)	(15.6)	(16.6)	(6.1)	4.8
Dividend per share	0.0	0.0	0.0	0.0	0.0
Book value per share	(5.8)	(26.3)	(42.8)	(48.9)	(44.1)

### Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21P	FY22E	FY23E
EV/Sales	0.5	0.4	1.1	0.7	0.4
EV/EBITDA	(85.1)	10.1	31.9	5.1	3.0
Adjusted P/E	(16.1)	(5.2)	(4.9)	(13.2)	16.9
P/BV	(13.9)	(3.1)	(1.9)	(1.7)	(1.8)

### DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21P	FY22E	FY23E
Tax burden (Net profit/PBT)	124.9	100.0	100.0	100.0	100.0
Interest burden (PBT/EBIT)	143.5	239.8	251.9	(222.6)	38.0
EBIT margin (EBIT/Revenue)	(1.9)	(3.2)	(7.7)	2.0	5.5
Asset turnover (Rev./Avg TA)	552.8	307.3	104.5	265.1	571.1
Leverage (Avg TA/Avg Equity)	(8.1)	(4.2)	(2.4)	(1.2)	(0.9)
Adjusted ROAE	149.0	96.9	48.1	13.4	(10.3)

### Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
<b>YoY growth (%)</b>					
Revenue	17.5	35.5	(58.5)	64.0	65.3
EBITDA	NA	NA	NA	NA	70.3
Adjusted EPS	NA	NA	NA	NA	NA
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	(0.6)	4.0	3.4	13.8	14.3
EBIT margin	(1.9)	(3.2)	(7.7)	2.0	5.5
Adjusted profit margin	(3.3)	(7.6)	(19.4)	(4.4)	2.1
Adjusted ROAE	86.4	59.2	38.8	12.5	(10.9)
ROCE	(10.2)	(9.7)	(8.1)	5.2	31.2
<b>Working capital days (days)</b>					
Receivables	4	6	23	16	11
Inventory	6	5	12	8	6
Payables	91	110	412	199	121
<b>Ratios (x)</b>					
Gross asset turnover	0.2	0.9	2.2	1.3	0.8
Current ratio	0.4	0.3	0.3	0.4	0.5
Net interest coverage ratio	1.3	0.7	0.7	(0.3)	(1.6)
Adjusted debt/equity	(3.2)	(0.3)	(0.3)	(0.3)	(0.2)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

## Disclaimer

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

**BUY** – Expected return >+15%

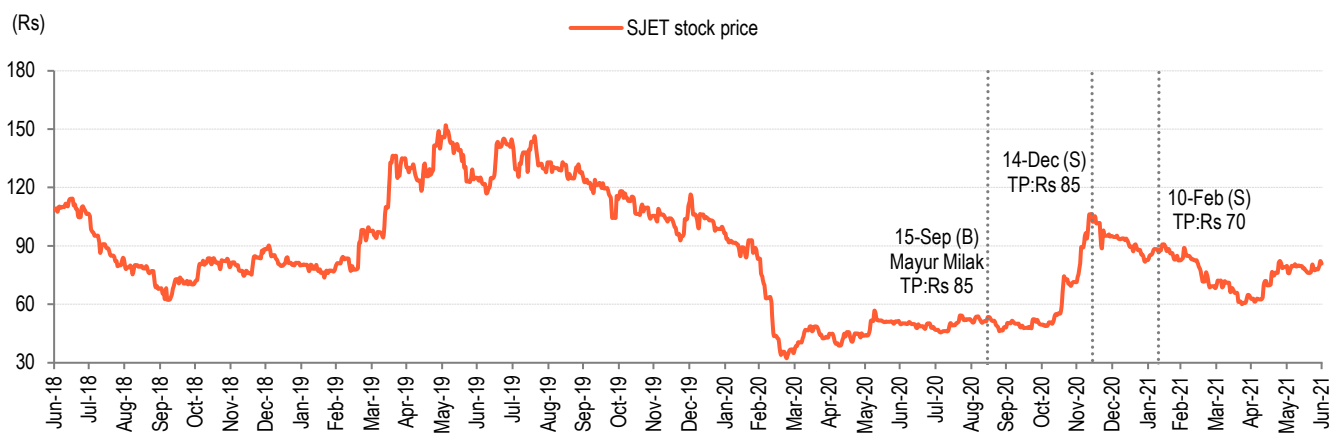
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

### Ratings and Target Price (3-year history): SPICEJET (SJET IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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