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Q4FY21 result review

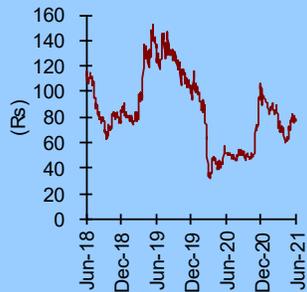
## Aviation

Target price: Rs85

### Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	59.9	59.9	59.8
Institutional investors	9.2	8.6	5.8
MFs and others	8.2	6.3	3.6
FIs/Banks	0.0	0.0	0.0
FIIIs	1.0	2.3	2.2
Others	30.9	31.5	34.4

### Price chart



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INDIA

**ICICI Securities**

## SpiceJet

**HOLD**  
Maintained  
**Rs81**

### Recapitalisation remains the key

SpiceJet (SJet) reported loss of Rs12.5bn in FY21 (ex-forex), in line with expectations. Balance sheet position is weak with negative equity of Rs26bn and gross borrowing without lease liability of Rs44bn as at FY21-end. We now estimate revenues at Rs73.6bn/Rs136bn and PAT at Rs(-)8.9bn/+4.7bn for FY22E/FY23E. We value SJet at Rs85 (15x FY23E earnings adjusted for 25% tax rate since it does not pay any tax, which translates to a multiple of 11x). Recapitalisation remains the key. Maintain HOLD on the stock and target price of Rs85.

- **FY21 performance – gross liabilities reduced in FY21 (cash burn is lower than IndiGo).** Ex-forex, SJet's losses were at Rs12.5bn in FY21 (~Rs58bn for IndiGo). Other income continued to include Boeing compensation at a quarterly run-rate of Rs1.4bn – in addition to Rs1.2bn in FY21 from rental concessions.
- **Cargo becomes the main narrative as it is planned to be hived off.** SJet's cargo revenues increased by 518% YoY to Rs11.2bn in FY21 (Rs4.17bn in Q4FY21). Cargo net profit was Rs1.3bn for FY21 against loss of Rs1.34bn in FY20. Company is operating a fleet of 20 freighters including 8 wide-bodied. Dedicated cargo initiative is commendable, but the cargo momentum can slow down with return of belly space. Driven by cargo business, SJet's ancillary revenues grew from Rs13bn in FY20 to Rs19.5bn (estimated) in FY21 despite 58% drop in ASK.
- **SJet has approved fund raise of up to Rs25bn through issue of eligible securities to qualified institutional buyers.** If this happens through fresh equity, the shareholding of the current promoter will fall from 60% to 40%.
- **SJet has a competitive cost structure, but balance sheet remains an overhang.** SJet's Cost per ASK (CASK), with depreciation and interest expenses, is competitive (average Rs3.92 between FY16-FY20 and Rs6.2 in FY21) vs Rs3.42/4.84 for IndiGo in a similar comparison. SJet's RASK was better than IndiGo's by an average of 9% over FY16-FY20 and 35% higher in FY21 because of better PLFs. However, balance sheet remains a big overhang for SJet.
- **Risks include:** 1) Rising crude prices; 2) covid-related disruptions or delayed recovery in traffic; 3) delay in, or less than expected, Boeing compensation (SJet has accounted Rs11bn till date); 4) possible cash outgo in pending litigations and vendor renegotiations; and 5) delay in recapitalization.

**Table 1: Movement in Liabilities**

(Rs mn)	FY20	FY21
Borrowing	8,739	7,072
Trade Payables	17,197	17,286
Lease Liabilities	89,590	84,498
Other Financial Liabilities	2,801	4,030
Other Current and Non-current liabilities	16,401	15,986
<b>Total Liabilities</b>	<b>1,34,728</b>	<b>1,28,872</b>
<b>Networth</b>	<b>(15,804)</b>	<b>(26,051)</b>

Source: Company data, I-Sec research

Market Cap	Rs48.7bn/US\$655mn	Year to March	FY20	FY21	FY22E	FY23E
Reuters/Bloomberg	SPJT.BO/SJET IN	Revenue (Rs mn)	1,23,746	51,714	73,654	1,36,534
Shares Outstanding (mn)	601.4	Adj. Net Income (Rs mn)	(2,071)	(12,536)	(8,935)	4,676
52-week Range (Rs)	106/46	EPS (Rs)	(3.5)	(20.9)	(14.9)	7.8
Free Float (%)	40.2	% Chg YoY	NM	NM	NM	NM
FII (%)	2.2	P/E (x)	(23.4)	(3.9)	(5.4)	10.4
Daily Volume (US\$/000)	5,518	CEPS (Rs)	25.5	5.1	16.0	43.3
Absolute Return 3m (%)	16.9	EV/E (x)	6.2	NM	5.1	2.2
Absolute Return 12m (%)	61.2	Dividend Yield (%)	-	-	-	-
Sensex Return 3m (%)	6.5	RoCE (%)	3.5	(8.1)	(2.9)	13.8
Sensex Return 12m (%)	52.4	RoE (%)	NM	NM	NM	NM

Please refer to important disclosures at the end of this report

## Key Pointers

- **Cargo becomes the main narrative as it is planned to be hived off.** SpiceJet's Cargo Revenue increased by 518% YoY to Rs11.175bn in FY21 and QoQ by 514% to Rs4.17bn. Cargo Net profit was Rs1.3bn for FY21 against loss of Rs1.34bn in FY20. The company is operating a fleet of 20 cargo planes including 8 wide-body aircraft.
- **SpiceJet has approved fund raise of up to Rs25bn through issue of eligible securities to qualified institutional buyers. If this is equity, the shareholding of promoter will fall from 60% to 40%.**
- **Key considerations which remain in notes to the financial statements:**
  - Pending payment including principle and interest in the litigation with ex promoters. The auditors have included an 'emphasis of matter' paragraph in their audit report, in respect of this matter
  - **Expected compensation from Boeing: The company has factored Rs6.7bn/Rs5.6bn as expected compensation from Boeing related to Max groundings in FY20/21 in other income.** The auditors have qualified their audit report in this regard.
  - **Possible impact of Covid:** The auditors have drawn an emphasis of matter in their audit report in this regard.
  - **Pursuant to the renegotiations with lessors, the Group has recognised other income of Rs682mn and Rs1.2bn for Q4/FY21,** arising from rental concessions.
  - **Regarding non-payment of operational dues:** On account of its operational and financial position, and the impact of the ongoing Covid-19 pandemic, the Group has deferred payments to various parties, including lessors and other vendors and its dues to statutory authorities. Where determinable, the Group has accrued for additional liabilities, if any, on such delays in accordance with contractual terms/applicable laws and regulations and based on necessary estimates and assumptions. However, it is not practically possible to determine the amount of all such costs or any penalties or other similar consequences resulting from contractual or regulatory non-compliances. The management is confident that they will be able to negotiate settlements in order to minimize/avoid any or further penalties. In view of the foregoing, no amounts of such penalties have been recorded in these consolidated financial results.
  - **The auditors have included 'Material Uncertainty Related to Going Concern' paragraph in their audit report.**
  - **The aircraft manufacturer of Q400 aircrafts initiated a claim against the Holding Company amounting to ~Rs3.2bn** for declarations, liquidated damages, interest and costs relating to the Holding Company's alleged breaches of, and the manufacturer's purported termination of the purchase agreement for certain undelivered aircrafts. While there has been a summary judgement decided in favour of the aircraft manufacturer, the Holding Company has been permitted to assail the said judgement relating to termination of certain aircraft and the same is presently pending for adjudication before Court of Appeal.

Table 1: Q4FY21 result review

(Rs mn)	Q4FY21	Q4FY20	YoY (%)	Q3FY20	QoQ (%)
Net Sales from operations	18,298	27,788		16,358	
Other operating income	584	883		559	
<b>Total Income from operations</b>	<b>18,882</b>	<b>28,670</b>	<b>(34.1)</b>	<b>16,916</b>	<b>11.6</b>
Fuel	7,073	10,850	(34.8)	4,539	55.8
Lease rentals	1,315	1,327	(0.9)	727	80.9
Airport Charges	2,330	2,834	(17.8)	1,955	19.2
Maintenance	3,760	5,653	(33.5)	3,185	18.0
Redelivery	-	-		-	
Other operating expense	1,390	1,346	3.3	1,259	10.4
Employee	2,189	3,716	(41.1)	1,892	15.7
Other expense	1,836	2,130	(13.8)	1,515	21.2
Foreign exchange	(239)	4,842		(602)	
<b>Total operating expense</b>	<b>19,654</b>	<b>32,696</b>	<b>(39.9)</b>	<b>14,469</b>	<b>35.8</b>
<b>EBITDA</b>	<b>(772)</b>	<b>(4,026)</b>	<b>(80.8)</b>	<b>2,448</b>	
(Margin %)	(4.1)	(14.0)		14.5	
<b>EBITDAR</b>	<b>543</b>	<b>(2,699)</b>	<b>(120.1)</b>	<b>3,174</b>	
(Margin %)	2.9	(9.4)		18.8	
Depreciation	3,148	4,568	(31.1)	3,819	(17.6)
Other Income	2,976	1,857	60.2	2,100	41.7
Finance Costs	1,624	1,425	14.0	1,396	16.4
Extraordinary	-	-		-	
PBT	(2,570)	(8,162)		(668)	
Tax	-	-		-	
<b>PAT</b>	<b>(2,570)</b>	<b>(8,162)</b>		<b>(668)</b>	
<b>PAT adjusted for forex MTM</b>	<b>(2,809)</b>	<b>(3,320)</b>		<b>(1,270)</b>	
OCI	-	(2)		(11)	
TCI	(2,570)	(8,164)		(679)	

Source: Company data, I-Sec research

Table 2: Quarterly operating parameters

	Q4FY21	Q4FY20	YoY (%)	Q3FY20	QoQ (%)
ASK-Total (000)	48,18,790	76,47,383	(37.0)	41,26,000	16.8
PLF (%)	79.8	88.0		77.0	
PAX Revenue (Rs mn)	12,000	23,919	(49.8)	11,331	5.9
Ancillary revenue (Rs mn)	7,500	4,751	57.9	5,585	34.3
PAX RASK	2.5	3.1	(20.4)	2.7	(9.3)
Fare (Rs)	4,000	4,064	(1.6)	4,140	(3.4)
Passengers(mn)-Company	3.00	5.89	(49.0)	2.74	9.6

Source: Company data, I-Sec research

## Assumptions

**Table 3: Assumptions**

Assumptions	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
US\$	68.0	64.4	72.0	72.0	75.0	75.0	73.0
Brent	47.5	60.5	71.0	64.0	50.0	60.0	60.0
Fare Growth	-8.6%	5.2%	5.0%	10.5%	-4.8%	13.0%	-6.3%
Average Ticket (Rs)	3,656	3,846	4,040	4,462	4,248	4,800	4,500
Scheduled Passengers (mn)	14.9	18.1	19.9	24.8	7.6	10.0	25.5
RPK(mn)	15,056	18,254	20,504	28,618	9,131	12,603	30,041
ASK(mn)	16,438	19,510	22,317	31,622	11,892	15,753	31,622
PLF(%)	91.6	93.6	91.9	90.5	76.8	80.0	95.0
Ancillary Revenue (Rs mn)	7,380	8,021	10,843	13,088	19,572	25,536	21,586
Total Revenue(Rs mn)	61,914	77,601	91,215	1,23,746	51,714	73,654	1,36,534
EBITDA (Rs mn)	5,405	7,516	786	12,433	(377)	14,291	30,683
Recurring PAT (Rs mn) (w/o forex impact)	3,887	5,572	(1,643)	(2,071)	(12,536)	(8,935)	4,676
Reported PAT (Rs mn)	3,887	5,572	(3,024)	(9,367)	(10,299)	(8,935)	4,676
Pax growth(%)	25.2%	21.3%	10.0%	24.7%	-69.5%	32.5%	154.8%
ASK Growth(%)	27.3%	18.7%	14.4%	41.7%	-62.4%	32.5%	100.7%
Ancillary as % of total revenue	11.9%	10.3%	11.9%	10.6%	37.8%	34.7%	15.8%
ASK/Pax	1,102	1,078	1,122	1,275	1,571	1,571	1,238
EPS	6	9	(3)	(3)	(21)	(15)	8
Fuel / ASK	1.13	1.25	1.54	1.4598	1.2856	1.3305	1.3326
RASK	3.77	3.98	4.09	3.91	4.35	4.68	4.32
CASK	3.60	3.76	4.23	4.24	6.20	5.36	4.23
CASK ex fuel	2.47	2.51	2.68	2.78	4.91	4.03	2.89
RASK-CASK	0.17	0.22	(0.14)	(0.33)	(1.85)	(0.68)	0.09
Net Debt including trade payables	15,558	20,762	23,095	28,314	28,027	25,031	18,971

Source: I-Sec research

## Financial summary

Table 4: Profit &amp; Loss statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
<b>Operating Income</b>	<b>1,23,746</b>	<b>51,714</b>	<b>73,654</b>	<b>1,36,534</b>
<b>Operating Expenses</b>	<b>1,11,313</b>	<b>52,091</b>	<b>59,363</b>	<b>1,05,851</b>
<b>EBITDA</b>	<b>12,433</b>	<b>(377)</b>	<b>14,291</b>	<b>30,683</b>
% margins	10.0	(0.7)	19.4	22.5
<b>EBITDAR</b>	<b>16,063</b>	<b>2,286</b>	<b>17,195</b>	<b>32,813</b>
% margins	13.0	4.4	23.3	24.0
Depreciation & Amortization	17,354	15,612	18,525	21,307
Gross Interest	5,455	6,027	6,500	6,500
Other Income	8,305	9,479	1,800	1,800
<b>Recurring PBT</b>	<b>(2,071)</b>	<b>(12,536)</b>	<b>(8,935)</b>	<b>4,676</b>
Add: Extra ordinaries	7,296	(2,238)	-	-
Less: Taxes	-	-	-	-
Less: Minority	-	-	-	-
Reported Net Income	(9,367)	(14,774)	(8,935)	4,676
<b>Recurring Net Income</b>	<b>(2,071)</b>	<b>(12,536)</b>	<b>(8,935)</b>	<b>4,676</b>

Source: Company data, I-Sec research

\*Note: Numbers does not include MTM impact of lease liability

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
<b>Assets</b>				
Total Current Assets	22,138	26,022	10,677	18,461
Cash	418	355	2,246	3,146
Total Current Liabilities	33,030	33,559	11,059	18,270
<b>Net Current Assets</b>	<b>(10,892)</b>	<b>(7,537)</b>	<b>(382)</b>	<b>191</b>
Loans and advances	11,591	9,829	9,829	9,829
Other LT assets	8,689	7,439	7,439	7,439
<b>Net Fixed Assets with CWIP</b>	<b>87,138</b>	<b>70,386</b>	<b>66,472</b>	<b>63,709</b>
<b>Total Assets</b>	<b>96,526</b>	<b>80,117</b>	<b>83,358</b>	<b>81,168</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>1,01,129</b>	<b>95,599</b>	<b>1,01,114</b>	<b>87,589</b>
Provisions and Incentives	11,201	10,569	17,229	23,889
Equity Share Capital	6,001	6,001	6,001	6,001
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus*	(21,805)	(32,052)	(40,986)	(36,310)
<b>Net Worth</b>	<b>(15,804)</b>	<b>(26,051)</b>	<b>(34,986)</b>	<b>(30,310)</b>
<b>Total Liabilities</b>	<b>96,525</b>	<b>80,117</b>	<b>83,357</b>	<b>81,168</b>

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
<b>Operating Cashflow ex WC</b>	<b>25,844</b>	<b>6,078</b>	<b>(2,145)</b>	<b>11,273</b>
Working Capital Changes	(7,367)	(2,304)	(5,264)	326
Capital Commitments	(2,804)	(639)	(1,500)	(1,500)
<b>Free Cashflow</b>	<b>15,673</b>	<b>3,135</b>	<b>(8,909)</b>	<b>10,100</b>
<b>Cashflow from Investing</b>	<b>(1,839)</b>	<b>2,122</b>	<b>(700)</b>	<b>(700)</b>
Issue of Share				
Capital/warrants	4	9	-	-
Inc. (Dec) in Borrowings	(970)	(75)	10,000	(10,000)
Dividend paid	-	-	-	-
Cash flow from financing	(17,052)	(5,859)	10,000	(10,000)
<b>Chg. in Cash</b>	<b>(370)</b>	<b>32</b>	<b>1,916</b>	<b>900</b>

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
<b>Per Share Data (in Rs.)</b>				
EPS (Basic Recurring)	(3.5)	(20.9)	(14.9)	7.8
Diluted Recurring EPS	(3.5)	(20.9)	(14.9)	7.8
Recurring Cash EPS	25.5	5.1	16.0	43.3
Dividend per share (DPS)	-	-	-	-
Book Value per share	NM	NM	NM	NM
<b>Growth Ratios (%)</b>				
EBITDA	NM	NM	NM	114.6
EBITDAR	16.8	(85.8)	652.2	90.8
Recurring Net Income	NM	NM	NM	NM
<b>Valuation Ratios (x)</b>				
P/E	NM	NM	NM	10.4
P/CEPS	3.2	15.8	5.1	1.9
P/BV	NM	NM	NM	NM
EV / EBITDA	6.2	NM	5.1	2.2
EV / EBITDAR	4.8	33.5	4.3	2.1
EV / FCF	4.9	24.4	NM	6.7
<b>Operating Ratios (%)</b>				
Fuel/Sales	37.3	29.6	28.5	30.9
Net Rentals/Sales	25.8	44.5	44.3	29.9
Other Income / PBT	NM	NM	NM	38.5
Effective Tax Rate	-	-	-	-
NWC / Total Assets	NM	NM	NM	0.2
Inventory Days	6.0	5.0	5.0	5.0
Receivables (days)	45.7	70.0	20.0	20.0
Payables (days)	56.4	110.0	38.0	38.0
Net D/E Ratio (x)	NM	NM	NM	NM
<b>Return/Profitability Ratios (%)</b>				
Recurring Net Income Margins	(1.7)	(24.2)	(12.1)	3.4
RoCE	3.5	(8.1)	(2.9)	13.8
RoNW	NM	NM	NM	NM
Dividend Payout Ratio	-	-	-	-
EBITDA Margins	10.0	(0.7)	19.4	22.5

Source: Company data, I-Sec research

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