JET AIRWAYS (INDIA) LTD

EQUITY REPORT

October 8, 2012

BSE Code:	532617	NSE Code:	JETAIRWAYS	Reuters Code:	JET.BO	Bloomberg Code:	JETIN:IN

Jet Airways (India) Ltd (Jet), the second largest Mumbai based Indian airline was incorporated in 1992 and it started operating from May 5, 1993. Within a shorter span of time it has established itself as a market leader in the Indian industry. The airline operates in two business segments: air transportation and leasing of aircraft and operates a fleet of 96 aircraft, giving the world a better choice in the skies. The airline operates through its units, JetLite and has launched a new service brand, JetKonnect to meet the needs of low-fare segment with value-for-money fares. Jet Airways, JetKonnect and JetLite have a combined fleet strength of 115 aircraft and operate over 500 flights daily. In March 2012, JetLite and JetKonnect were merged to form a single airline.

Investor's Rationale

- Despite of a rigorous depreciation in rupee against dollar, a massive rise in Aviation Turbine Fuel prices (ATF) and the imposition of levies and charges on account of improved infrastructure at Delhi T3, Jet witnessed a profit in the quarter ended June 2012, after five consecutive quarters of losses. It was reported that Jet's topline grew by 29.6% at ₹51,458 million in the wake of improved performance in international as well as domestic operations. Improvement in yield (surged 18.0% YoY) and load factor (up by 362bps to 82.3%) along with increase in demand and stringent cost control measures helped the airline in posting a net profit of ₹341 million as against a net loss in the same period previous year.

- Jet launched a low fare service brand, namely JetKonnect on 8 May 2009. The main aim of the company behind lunching this airline was to close down loss-making routes and divert the planes to more profitable routes with higher passenger load factors. The airline already ran a low-cost airline named JetLite.

- Jet has sold four of its planes (737-700s) and two engines during the quarter ended June 2012 as the company seeks to pay out its debt of around ₹25,000 million. Besides, the company has plans to sell and lease back around eight-nine narrow-body aircraft in the coming few quarters. In addition to this, the company is required to raise at least ₹11,000 million in order to improve its balance sheet.

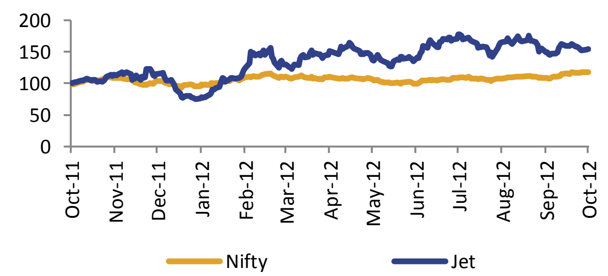
- Recently, the government of India has decided to allow Foreign Direct Investment (FDI) in aviation which will also benefit Jet airways in several ways. The government of India has permitted foreign airlines to buy stakes of up to 49.0% in local carriers which would open up fresh source of funding for the Jet. The airlines are presently facing huge debt burden and liquidity constraints, so this move by the government of India would help the Jet to have substantial improvement in balance sheet by equity infusion from the foreign companies.

Market Data	
Rating	**BUY**
CMP (₹)	379.7
Target (₹)	**476.0**
Potential Upside	~25.4%
Duration	Long Term
52 week H/L (₹)	450.0/166.7
All time High (₹)	1,379.0
Correction from 52WH (%)	15.6
Rise from 52WL (%)	127.7
Beta	1.2
Mkt. Cap (₹ mn)	32,779.5
Enterprise Value (₹ mn)	163,871.6

Fiscal Year Ended

Y/E	FY11A	FY12A	FY13E	FY14E
Revenue (₹mn)	147,060	170,670	203,861	224,125
Net Profit(₹mn)	(858)	(14,201)	577	5,604
Share Capital	863	863	863	863
EPS (₹)	(9.9)	(164.5)	6.7	64.9
P/E (x)	-	-	56.8	5.8
P/BV (x)	2.1	25.0	17.4	4.4
EV/EBITDA (x)	10.0	(618.6)	10.3	6.2
ROCE (%)	4.7	(7.0)	4.7	11.3
ROE (%)	-	-	30.6	74.8

One year Price Chart



Shareholding Pattern	Jun'12	Mar'12	Diff.
Promoters	80.0	80.0	-
FII	7.1	6.7	0.4
DII	7.2	6.9	0.3
Others	5.7	6.4	(0.7)

Second largest Indian operator of International flights

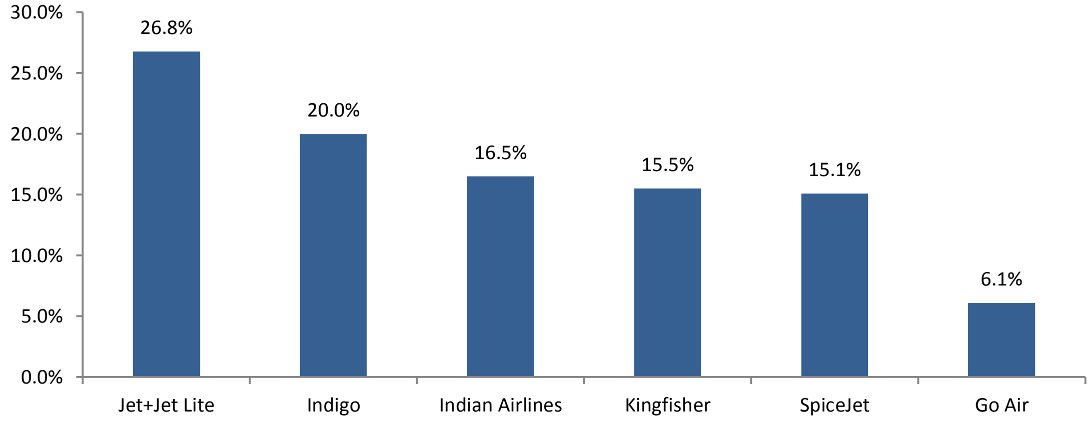
The airline is the second largest Indian operator of International flights operating in two segments – Air Transportation and Leasing of Aircrafts.

Jet Airways (India) Ltd, the second largest Mumbai based Indian airline, was established in 1992 and it started operating as an Air Taxi Operator in 1993. The airline operates in two business segments, namely, Air Transportation and Leasing of Aircraft. By providing air transportation services to the local and foreign customers, Jet is active in both domestic and international segments connecting 76 different destinations. Besides, it provides cargo services across various segments like courier companies, the Postal Department of the Government of India, international airlines, and financial institutions. Through its daily 355 flights, the airline connects not only 44 Indian destinations every day, but also operates through other countries like Sri Lanka, Singapore, Malaysia, United Kingdom, Thailand, Belgium, United States, Canada, Bangladesh, Bahrain, and Kuwait. In past few years, Jet has well established its base not only in India but in foreign markets also.

Operates through two of its units - JetLite and JetKonnect.

Currently, Jet operates a fleet of 101 aircraft, consisting of 46 Boeing 737-800, 20 ATR-72 500s, 12 Airbus 330-200s, 11 Boeing 737-700, 10 Boeing 777-300ER and 2 Boeing 737-900. The company operates through two of its units, namely JetLite and JetKonnect. JetLite, which now has merged with JetKonnect, was a wholly owned subsidiary with operation extending to all parts of the country. JetKonnect is a low fare service airline, launched on 8 May 2009. The decision to launch a low-cost brand instead of expanding the existing JetLite was taken to avoid the regulatory delays associated with moving excess aircraft and assets from Jet Airways to JetLite, which have separate operating codes.

Market Share of domestic airlines in FY12



Enjoys highest market share among the country's major airlines.

The company has agreements with several foreign airlines and has successfully completed the Operational Safety Audit and has entered into the IOSA Registry.

The air transportation service provider has commercial agreement with airlines like: Air France, Gulf Air, Qantas, South African Airways, North West Airlines, Brussels Airlines, Thai Airways International, Swiss International Airlines and Virgin Atlantic Airways. Besides, it has 25 frequent flier partners, 163 interline partners, 96 interline e-Ticketing partners, 44 through check-in partners and 14 code share partners.

Jet has won several national and international awards and has also earned the distinction of receiving the IATA Operational Safety Audit (IOSA) Registration. The airline has successfully completed the Operational Safety Audit and has entered into the IOSA Registry.

Higher yields and improved load factor helped Jet Airways to make a comeback in Q1FY13

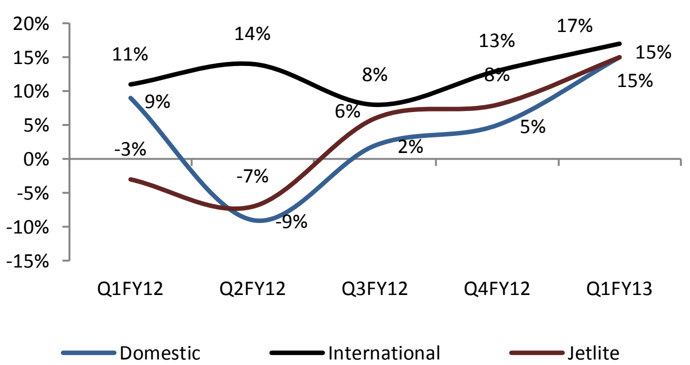
Topline witnessed 29.6% rise at ₹51,458 million on significant growth in passenger yields. Further, it managed to draw net profit of ₹341 million in Q1FY13 against the net loss of ₹3,333 million previous year.

With improvement in domestic and international operations and benefits from industry discipline, Jet posted enhanced yields on both – domestic and international front during the quarter ended June 2012. As a result, the airline flew back into the positive terrain, after being in red for five consecutive quarters in a row. Its top line witnessed 29.6% rise at ₹51,458 million as compared to ₹39,704 million in the same quarter in a year ago period on significant rise in passenger yields. The company's EBITDAR posted a massive growth of 164.6% in Q1FY13 at ₹8,255 million, compared to ₹3,120 million in the corresponding period previous year, backed by overall improvement in yield by 18.0% YoY and a surge in load factor by 362bps to 82.3%. With better route rationalization and other cost saving measures, Jet's EBITDAR margin grew nearly double from 7.9% to 16%. The consolidated group yields in domestic segment rose by 10.7% YoY to ₹5 per RPKM, while its international segment reported well-built yield that grew 21.2% YoY. Consequently, load factor on domestic and international segments surged by 160bps and 580bps YoY, respectively. In Q1FY13, Jet posted a load factors that surged to 82.3%, higher by 360bps YoY from 78.7% last year.

Load factor on domestic and international segments upgraded by 160bps and 580bps YoY, respectively.

Notwithstanding key negative risks like high crude prices, weaknesses in rupee, slow growth in Indian economy, rise in fuel expenses by 13.0%, additional airport charges at Delhi terminal, the airline managed to draw a net profit of ₹341 million against the net loss of ₹3,333 million in previous year, aided by strong yields in the domestic and international market. Capacity reduction by other private carriers also helped the company to improve yields especially in the domestic segment. On QoQ also, the airline posted positive numbers as the bottom line grew by 11.0% to ₹4,017 million as compared with ₹3,606 million last year, as it managed somehow to keep its employee expenses within limits.

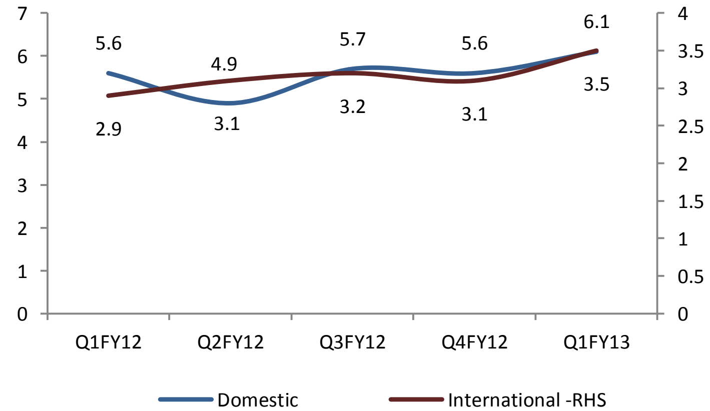
EBITDAR margin trend



In Q1FY13, International operations accounted for higher EBITDAR margin of 17.0%, compared to that of domestic operations which posted a 15.0% rise.

The airline has marked a significant improvement in yields especially in domestic segment.

Yield per RPKM



Jet Airways on expansion spree to reach new heights

57.0% of consolidated passenger revenues came from its international business during FY12.

We believe Jet is in finest positioned to capture the 16.0% CAGR in domestic passenger traffic and 15.0% CAGR in worldwide passenger traffic in FY11-FY14E owing to its integrated business model and the benefits attached to the same.

The second largest Indian operator has worldwide presence across various segments which make it best among several other aviation companies. The company's 57.0% of consolidated passenger revenues came from its international business during FY12. Moving ahead, the company's domestic passenger traffic has perceived a 16.5% CAGR in FY06-FY11 to 54 million trips. With expectations of expansion in GDP in the coming future, expansion in existing airports and development of new airports, rising per capita income of Indians and a reduction in air-fare, it can be anticipated that Jet will carry its growth momentum in the future. With a 15.3% CAGR in FY11-FY14E, we expect the domestic passenger traffic to grow to over 105 million trips. Further, the company has achieved 79.3% seat factor, higher from 78.7% last year.

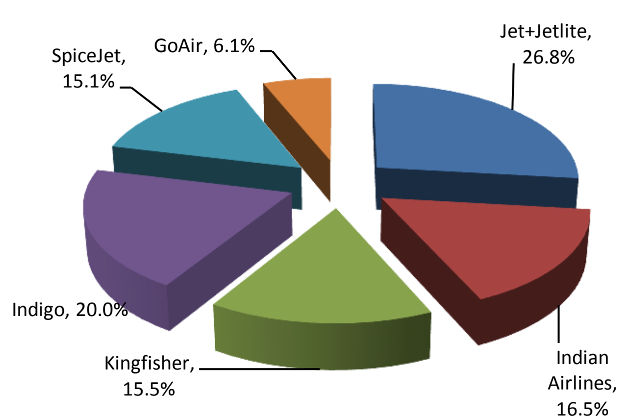
Jet is starting new Mumbai-Sharjah services, from 18 October 2012, through which it will enhance connectivity to the Gulf.

Jet has decided to boost its presence by reaching more international destinations by winter of this year. It is all set to start its new Mumbai-Sharjah services, from 18 October 2012, through which it will enhance connectivity to the Gulf. The new service will have daily flights to the UAE, Kuwait and Bahrain from Mumbai. The company is really benefitting a lot from the exhaustion of permits to Gulf carriers and route rationalization and creation of Delhi and Mumbai as hubs. The introduction of these flights will strengthen its presence in the Gulf and Jet will use its state-of-the-art Next-Generation Boeing 737-800 aircraft, offering Premiere and Economy configurations for the passengers of these flights.

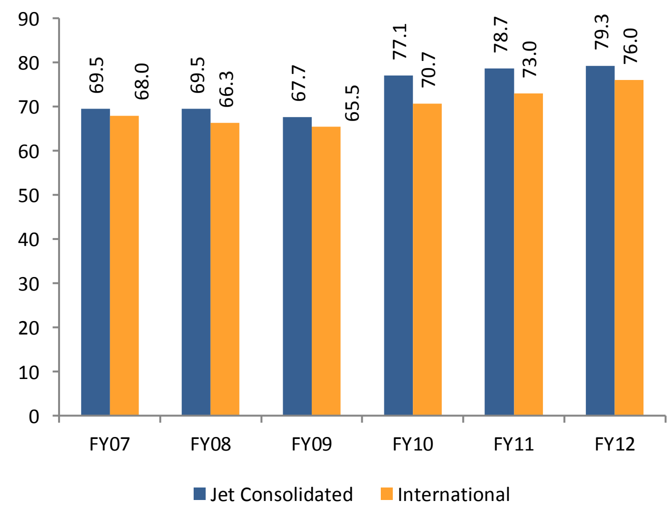
Presence across geographies helps lessen its dependency on a particular market and helps improve fleet efficiency.

Jet presently consumes 54 aircrafts allocated in the domestic skies, 5 sub leased aircrafts, and the remaining 41 aircrafts routed to fly international. Its strong foothold in the international and domestic markets has empowered the company to re-shuffle its fleet to international skies based on the seasonal demand and vice versa. The presence across geographies helps lessen its dependency on a particular market and helps improve fleet efficiency.

Domestic market share of over 25.0% including Jetlite



Passenger Load Factor (%)



Kingfisher and Air India's losses turned into Jet's gains

Jet charged higher fares when the overall average airfares dropped.

The airline has benefited from the strike by the pilot of Kingfisher Airlines and Air India as it has leveraged the opportunity created by the two air carriers. It was reported that Air India's international operations have got affected by the two-month strike and it may take time to resume its operations and even Kingfisher lost so much due to this strike as it is currently operating only 11 of its original fleet size of 64 aircrafts. Jet, taking advantage of the scenario, has charged higher fares in several sectors when the overall average airfares dropped due to lean passenger traffic. It was been seen that Jet Airways and its low cost service product, JetKonnect charged an average of about 10.0-15.0% higher fares than other airlines. Moreover, connectivity between smaller cities was Kingfisher's speciality, so taking the advantage from the opportunity; Jet Airways started direct flights between Mumbai and Amritsar, during the strike period, so as to benefit as much as it can during the period. It also managed to fill its aircraft the most in the industry (below Indigo), with seat factor of 71.7%.

FDI in aviation to benefit the country's oldest surviving private airline

Jet will be first local carrier to receive foreign investment after the government's latest reform as it is in talks for a deal with flag carrier of the United Arab Emirates, Etihad Airways.

The domestic aviation industry which is reeling under the pressure of higher losses and huge debt burden has now got a relief after new reforms in Indian aviation sector. The government of India, by announcing a Foreign Direct Investment (FDI) limit of upto 49.0% in aviation, has allowed the major foreign airlines to pick up 49.0% stake in Indian carriers and the move is expected to improve the capital structure of Jet also. The government has taken this step as the aviation sector is going through a difficult phase due to economic slowdown and the possible equity infusion would not only deleverage the sector but also provide funds for long-term growth.

Strategic and operational ties with foreign aviation companies with stronger credit profile will be able to improve the credit profile of Indian airlines also. Following the reform, the Jet is in talks with the flag carrier of the United Arab Emirates, Etihad Airways for a deal in which the Middle East airline would buy a minority stake in the company. If this deal gets executed according to the plans, Jet will be the first local carrier to receive foreign investment after the government's reform to permit foreign airlines to acquire stake in Indian airlines.

Efforts undertaken to increase the profitability

Undertaken measures like contract re-negotiations, discontinuing loss making routes, process improvements, in order to augment the earnings growth.

The domestic airlines are presently plagued by issues like high fuel cost, inconsistent tax structure, complicated legal issues, un-coordinated government policy framework and inflated airport fee. Jet has undertaken several stringent fiscal control measures through which it can come out of these major issues. The airline has undertaken measures like contract re-negotiations, process improvements, increasing ancillary revenues, discontinuing loss making routes, restructuring agent commissions and sale and lease back of some of the aircraft to repay dues so as to come out of debts. Moreover, the company has consolidated its low fare service products, namely, JetLite and Jet Airways Konnect under the Jet Konnect brand, as the company wanted to attract customers from varied segments. The decision to launch Jet Konnect, instead of expanding the existing JetLite, was taken to avoid the regulatory delays associated with moving excess aircraft and assets from Jet Airways to JetLite. Recently, Jet has extended its Premiere service to certain JetKonnect flights on increasing demand for premium services on select routes. Positive results from these measures have already been witnessed by the airline during the first quarter of current financial year and it expects to see the full impact over the medium to long-term.

Jet Airways' Jet Privilege Programme won triple honours at the prestigious Freddie Awards 2012

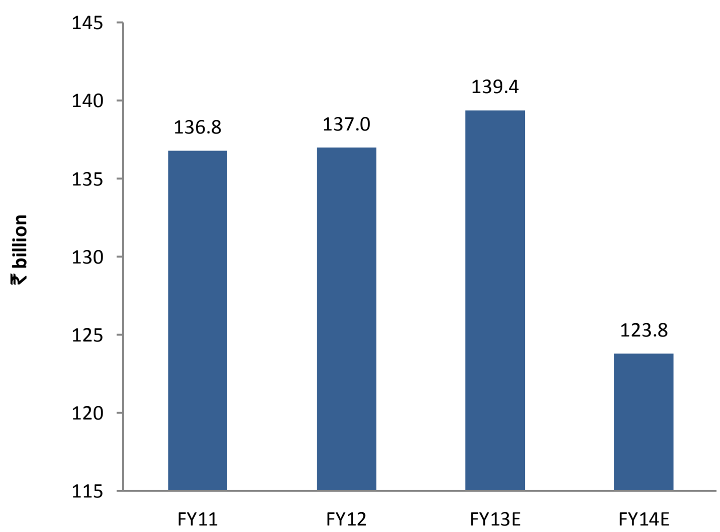
The Freddie Awards are considered as the 'Oscars' of frequent flyer programmes.

Jet's global frequent flyer programme, Jet Privilege ensures its members to experience unique privileges across five membership tiers: Blue, Blue Plus, Silver, Gold and the exclusive Platinum. The programme has won three awards at the oldest and most prominent recognition award for frequent traveler reward programs, the Freddie Awards 2012. The Freddie Awards were introduced in 1988 and since then they have grown in stature and have become the most prestigious member-generated awards in the travel loyalty industry. The company has won the awards in three categories namely, 'Programme of the Year', 'Best Promotion for Earning- The Jet Privilege - Trip Advisor Promotion' and 'Best Customer Service'. The Freddie Awards are considered as the 'Oscars' of frequent flyer programmes. The airline had previously being honored with this most prestigious award in the area of customer loyalty programmes for the five consecutive years from 2004 to 2008 which reinforces the company's commitment to offer their guests the very highest levels of customer service.

Plans to reduce debt by approx. $400 million this fiscal

Jet is trying hard to reduce the company's debt and is taking several steps in this direction so as to take the company to new heights. Recently, it has completed the sale and lease back transaction of two aircraft and two engines that produced ₹521 million and ₹200 million, respectively. It further plans to complete the sale and lease back of eight or nine aircraft in the next few quarters. Jet wants to retire its debt burden by approx. $400 million, along with this, it needs another $180 million to improve its balance sheet. Going further, the company also has plans to reduce its operating costs through route rationalization and contract renegotiation which would augment its efforts to reduce financial burdens on the company. Apart from this, it is focusing more on ancillary revenues that might also prove to be a positive effort to achieve its aim.

Plans to reduce debt by ~ $400 million



Key Business Risks

Slowing economies, weaknesses in currency and stiffer competition are the key business risks to the company.

- ✓ Due to the European debt crises and slowdown in major economies around the world, the air transportation service providers are suffering and hence the revenue growth in airline is getting hampered.
- ✓ Weakening of rupee against the dollar, growing Aviation Turbine Fuel (ATF) prices, rising infrastructure costs and high taxes imposed on the sector are eroding the margins and are likely to put strain in the next coming quarters.
- ✓ The new government reform of allowing FDI in aviation sector would lower the entry barrier in to the aviation sector and hence will increase competition among the peers.

Balance Sheet (Consolidated)

Y/E (₹million)	FY11A	FY12A	FY13E	FY14E
Share Capital	863	863	863	863
Reserve and surplus	15,101	446	1,023	6,627
Net Worth	**15,964**	**1,309**	**1,887**	**7,491**
Loan funds	136,804	136,995	139,387	123,801
Deferred Tax Liabilities	336	-	-	-
Capital Employed	**153,104**	**138,304**	**141,274**	**131,291**
Total Fixed Asset	136,692	130,809	122,167	112,126
Goodwill	18,724	18,724	18,724	18,724
Investment	804	21	98	126
Net Current Assets	(3,116)	(11,249)	285	316
Capital Deployed	**153,104**	**138,304**	**141,274**	**131,291**

Profit & Loss Account (Consolidated)

Y/E (₹million)	FY11A	FY12A	FY13E	FY14E
Total Income	147,060	170,670	203,861	224,125
Operating Expense	128,552	167,297	184,581	196,766
EBITDA	**18,509**	**3,373**	**19,280**	**27,359**
Depreciation	9,186	9,446	10,013	10,413
EBIT	9,323	(6,073)	9,267	16,945
Interest	11,842	10,058	8,870	8,940
Extraordinary Item	2,033	1,732	-	-
Profit Before Tax	(485)	(14,399)	397	8,006
Tax	373	(198)	(180)	2,402
Net Profit	**(858)**	**(14,201)**	**577**	**5,604**

Key Ratios (Consolidated)

Y/E	FY11A	FY12A	FY13E	FY14E
EBITDA Margin (%)	11.3	(0.2)	8.3	11.4
EBIT Margin (%)	4.9	(5.8)	3.3	6.7
NPM (%)	(0.6)	(8.5)	0.3	2.5
ROCE (%)	4.7	(7.0)	4.7	11.3
ROE (%)	-	-	30.6	74.8
EPS (₹)	(9.9)	(164.5)	6.7	64.9
P/E (x)	-	-	56.8	5.8
BVPS(₹)	184.9	15.2	21.9	86.8
P/BVPS (x)	2.1	25.0	17.4	4.4
EV/Operating Income (x)	1.1	1.0	0.9	0.7
EV/EBITDA (x)	10.0	(618.6)	10.3	6.2
EV/EBIT (x)	22.8	(16.9)	25.7	10.5

Valuation and view

Jet has reported profits for the quarter ended June 30, 2012 after losses in five consecutive quarters, mainly on account of an overall improvement in the airlines yield and load factor which helped its EBITDAR to grow. Benefitting from the industry's discipline, the company has been able to improve its operations in domestic as well as international front. With the government keen on making favorable reforms in the sector, the company is likely to grow further in the coming years also. Moving ahead, debt reduction, impact of FDI in aviation, consolidation of low cost carrier and improvement at operational levels would be the key trigger.

At a current CMP of ₹379.7, Jet Airways is attractively placed at P/E of ~5.8x FY14E. Considering the above aspects, we rate the stock as 'BUY' with a potential upside of 25.4% for the coming 12 months.

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