

June 26, 2008

Rating	Market Performer
Price	Rs544
Target Price	Rs610
Implied Upside	12.1%
Sensex	14,220

(Prices as on June 25, 2008)

Trading Data

Market Cap. (Rs bn)	47.0
Shares o/s (m)	86.3
Free Float	20.0%
Avg. Daily Vol ('000)	53.3
Avg. Daily Value (Rs m)	28.8

Major Shareholders

Promoters	80.0%
Foreign	10.1%
Domestic Inst.	6.4%
Public & Others	3.5%

Stock Performance

(%)	1M	6M	12M
Absolute	3.3	(44.2)	(32.3)
Relative	17.9	(15.8)	(30.4)

Price Performance (RIC: JET.BO, BB: JETIN IN)



Source: Bloomberg

Jet Airways

Turbulent times ahead

- **Results:** Jet Airways reported 37% topline growth to Rs27bn in Q4FY08. International operations grew by 147% YoY to Rs11.6bn, while domestic operations were up by 6% to Rs16bn. International operations now contribute about 42% of Jet's topline. Operating margin was down to about 2.3% due to rising ATF costs. The company reported a loss of about Rs2.2bn in Q4FY08. JetLite reported PBT loss of Rs1.6bn for Q4FY08 on a topline of Rs3.8bn.

For FY08, Jet's (standalone) topline grew by about 25% to Rs88bn, while the company reported a loss of Rs2.5bn.

- **Outlook:** ATF prices have risen by as much as 47% in Q1FY09. With industry capacity rising ahead of demand, many players would have to opt for route rationalisation strategies and move out of unviable routes. The industry is currently facing a dual challenge of controlling their costs and pruning their expansion strategies. If the current trend continues, the industry may suffer losses to the tune of USD 2bn in FY09.

- **Valuation:** The company expects domestic operations to grow at about 10-12%, while the bulk of growth would be driven by international operations. Most of the international operations (except the US) are expected to stabilise in FY10. While revenue would continue to grow as anticipated, rising ATF costs would continue to impact margins and hence profitability. Rising fuel costs have compelled us to revise our estimates downwards. We expect Jet's loss to widen to Rs8.6bn in FY09, while loss in FY10 is expected to be at Rs3.1bn. Downgrade to Market Performer.

Key financials (Y/e March)	FY07	FY08	FY09E	FY10E
Revenue (Rs m)	90,544	102,456	142,067	157,308
Growth (%)	17.5	13.2	38.7	10.7
EBITDAR (Rs m)	7,270	6,587	2,988	15,852
PAT (Rs m)	(6,617)	(6,539)	(8,650)	(3,138)
EPS (Rs)	—	—	—	—
Growth (%)	—	—	—	—
Net DPS (Rs)	6.0	0.0	0.0	0.0

Source: Company Data; PL Research

Consolidated

Profitability & valuation	FY07	FY08	FY09E	FY10E
EBITDA margin (%)	8.0	6.4	2.1	10.1
RoE (%)	—	—	—	—
RoCE (%)	—	—	—	—
EV / sales (x)	1.8	2.2	1.8	1.8
EV / EBITDAR (x)	23.0	33.9	84.8	18.3
PE (x)	—	—	—	—
P / BV (x)	2.1	1.1	1.2	1.3
Net dividend yield (%)	1.1	—	—	—

Source: Company Data; PL Research

Consolidated

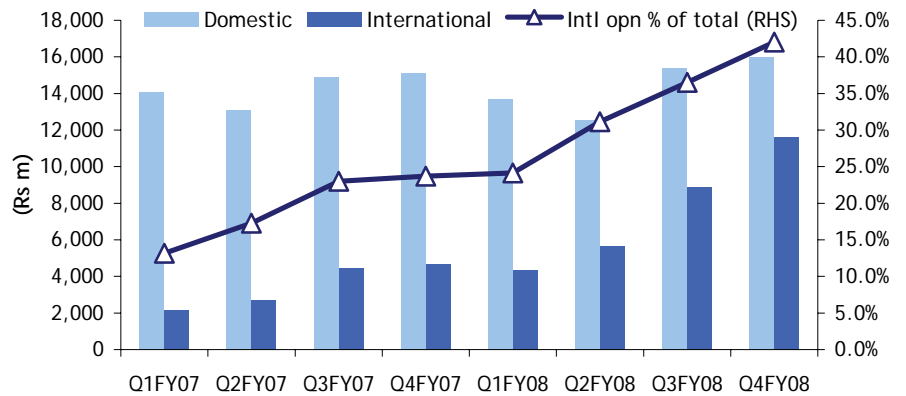
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Highlights

Growth driven by international operations

Jet reported 37% topline growth to Rs27bn in Q4FY08. Growth was primarily driven by international operations, which grew by 147% YoY to Rs11.6bn, while domestic operations were up by 6% to Rs16bn. International operations in Q4FY08 contributed about 42% of Jet's topline. Jet has ramped-up its international operations faster than expected in order to take the first mover advantage over Kingfisher, which is expected to start its international operations in August 2008.

International operations contribute 42% to topline



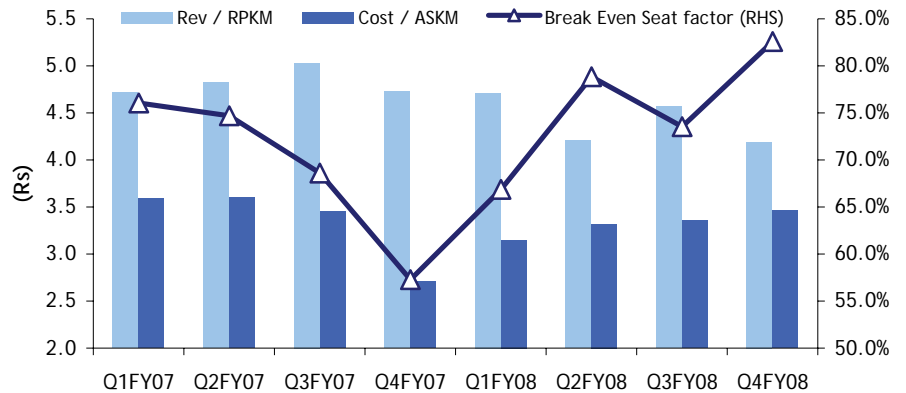
Source: Company Data, PL Research

During the quarter, Jet launched its flights to the Gulf, i.e. Kuwait, Bahrain, Muscat and Doha. With new start-up international routes, load factors were down on the international segment at 69% as against 76% in Q4FY07. Domestic load factors, however, were better at 74% (73% in Q4FY07) indicating stabilising of domestic operations.

Break-even seat factor at uncomfortable levels

The company-wide break-even seat factor has gone up to about 82.6% from 67.1% in Q4FY07. Consistent increase in fuel surcharge has led to lower load factors, leading to airlines selling at cheaper basic fares. Thus, despite higher surcharge, yields have been impacted. Costs, led by fuel, continued to rise resulting in higher break-even seat factor for the quarter.

Break-even seat factor at 82.6%



Source: Company Data, PL Research

Lower margins, rising cost lead to losses

With rising fuel cost and competitive pricing prevalent in Q4FY08, Jet’s operating margin dropped to a meagre 7.7% for the quarter. As a result, the company reported a loss of Rs2.2bn on standalone basis.

JetLite update

During FY08, JetLite has steadily increased its market share to about 7.2% in Q4FY08. While its yield was lower at Rs3.4/RPKM (Rs4.6/RPKM in FY07), costs were brought under control at Rs3.2/ASKM (Rs4.3/ASKM in FY07) despite rising fuel prices. Cost control was achieved by reducing employees by 31% YoY and better aircraft utilisation. As a result, loss before tax for the year was lower at Rs4.4bn (Rs6.9bn in FY07).

Outlook

Industry straddled with rising fuel, overcapacity

ATF has shot-up by as much as 47% in Q1FY09 to about Rs71.8/litre (Mumbai prices). Airline companies have now gone for differential fuel hike based on distance travelled, penalising longer route travellers.

Movement in fuel surcharge vis-à-vis ATF hikes

	ATF (Rs / ltr)	% increase	Fuel surcharge (Rs / pax)		% increase	
			<750kms	>750kms	<750kms	>750kms
March	48.6		1,650	1,650		
April	55.2	13.4	1,800	2,000	9.1	21.2
May	60.5	9.6	1,950	2,350	8.3	17.5
June	71.8	18.7	2,250	2,900	15.4	23.4



In addition to the above, all the companies have hiked their base fares in a bid to stop irrational pricing. Now, the minimum base fare for a distance less than 750kms stands at Rs1,000, while the same for a distance more 750kms stands at Rs3,000.

While the industry is once again trying to put an end to irrational pricing, air fares will now start impacting load factors.

Also, the industry capacity for the quarter grew by 18% YoY, while passenger growth was only 11%, which clearly indicates symptoms of over capacity. As a result, many airline majors are reconsidering their expansion plans as well as route rationalisation strategies to improve their seat factors.

The industry is currently facing a dual challenge of controlling their costs and pruning their expansion strategies. If the current trend continues, the industry may suffer losses to the tune of USD 2bn (USD 1bn in FY08E) in FY09E.

Valuation

Jet has started its operations in the profitable Gulf region from January and Mumbai-Shanghai-San Francisco routes from June 2008. It intends to fly to Saudi Arabia, Riyadh, Jeddah and Hong Kong by October 2008. International operations would form more than 50% of the company's total operations by FY09. The company expects domestic operations to grow at about 10-12%, while the bulk of the growth would be driven by international operations. While the US operations may take about 18 months to stabilise, most of the other international routes are expected to stabilise in FY10.

While revenue would continue to grow as anticipated, rising ATF cost would continue to impact margins and hence profitability. The 47% ATF rise was unforeseen. Rising fuel costs have compelled us to revise our estimates downwards. We have factored in an average fuel rate of Rs65/litre in FY09 and Rs60/litre in FY10. We expect Jet's loss to widen to Rs8.6bn in FY09, while loss in FY10 is expected to be at Rs3.1bn. Downgrade to Market Performer.



Operating parameters

Y/e March	Q4FY08	Q4FY07	YoY gr. (%)	Q3FY08	FY07	FY08	YoY gr. (%)
RPKM (in m)	5,452	3,396	59.3	4,554	12,308	16,915	37.4
ASKM (in m)	7,684	4,679	61.4	6,586	17,698	24,447	38.1
<i>Load factor (%)</i>	<i>70.9</i>	<i>72.6</i>		<i>69.1</i>	<i>69.5</i>	<i>69.2</i>	
Rev / ASKM	3.6	4.2	(13.6)	3.7	4.0	3.6	(9.6)
Cost / ASKM	3.5	3.6	(1.4)	3.4	3.8	3.5	(6.8)

Q4FY08 result overview

(Rs m)

Y/e March	Q4FY08	Q4FY07	YoY gr. (%)	Q3FY08	FY07	FY08	YoY gr. (%)
Operating revenue	27,599	19,783	39.5	24,260	70,578	88,111	24.8
Expenditure							
Personnel	3,528	2,583	36.6	3,027	9,381	12,052	28.5
<i>% of net sales</i>	<i>12.8</i>	<i>9.4</i>		<i>11.0</i>	<i>34.0</i>	<i>43.7</i>	
Aircraft fuel expenses	10,802	5,511	96.0	9,174	24,276	32,930	35.6
<i>% of net sales</i>	<i>39.1</i>	<i>20.0</i>		<i>33.2</i>	<i>88.0</i>	<i>119.3</i>	
Selling & distribution exp	2,761	2,361	16.9	2,622	8,009	9,830	22.7
<i>% of net sales</i>	<i>10.0</i>	<i>8.6</i>		<i>9.5</i>	<i>29.0</i>	<i>35.6</i>	
Other operating expenses	8,386	4,728	77.4	6,531	18,833	25,792	37.0
<i>% of net sales</i>	<i>30.4</i>	<i>17.1</i>		<i>23.7</i>	<i>68.2</i>	<i>93.5</i>	
Total expenditure	25,477	15,183	67.8	21,354	60,499	80,604	33.2
EBITDAR	2,122	4,600	(53.9)	2,906	10,079	7,507	(25.5)
<i>EBITDAR margin (%)</i>	<i>7.7</i>	<i>23.3</i>		<i>12.0</i>	<i>14.3</i>	<i>8.5</i>	
Aircraft lease rentals	1,483	1,753	(15.4)	1,364	6,458	5,633	(12.8)
<i>% of net sales</i>	<i>5.4</i>	<i>8.9</i>		<i>5.6</i>	<i>9.2</i>	<i>6.4</i>	
EBITDA	639	2,847	(77.6)	1,542	3,621	1,874	(48.2)
<i>EBITDA margin (%)</i>	<i>2.3</i>	<i>14.4</i>		<i>6.4</i>	<i>5.1</i>	<i>2.1</i>	
Depreciation	2,503	1,209	107.0	2,204	4,141	7,778	87.8
EBIT	(1,864)	1,638	NM	(662)	(520)	(5,904)	NM
Interest expenses	1,549	530	192.3	1,554	2,402	4,927	105.2
Non-operating income	(329)	108	NM	912	3,435	6,704	95.2
PBT	(3,742)	1,216	NM	(1,304)	514	(4,127)	NM
Tax-total	(1,530)	-	-	(393)	234	(1,595)	NM
<i>Total tax rate (%)</i>	<i>40.9</i>	<i>-</i>		<i>30.1</i>	<i>45.6</i>	<i>38.7</i>	
Profit after tax	(2,212)	1,216	NM	(911)	280	(2,532)	NM



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PL's Recommendation Nomenclature

BUY	: > 15% Outperformance to BSE Sensex	Outperformer (OP)	: 5 to 15% Outperformance to Sensex
Market Performer (MP)	: -5 to 5% of Sensex Movement	Underperformer (UP)	: -5 to -15% of Underperformance to Sensex
Sell	: <-15% Relative to Sensex		
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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