Economic Times, P-29, 30-7-10

SpiceJet may replicate domestic low-cost model internationally

Rajesh Naidu
ET INTELLIGENCE GROUP

THE past six months have been quite lucrative for airline companies. During the period, there has been a 21% growth in domestic passengers on a year-on-year basis. However, much of this growth was already factored in aviation stocks. The stock of SpiceJet, one of the proponents of low-cost carrier model, was no exception. It gained 1% during the period, thus underperforming the 2.6% return of the benchmark Sensex.

mid-cap MANTRA

This, however, should not discourage investors since the company reported a robust growth in the June quarter. The company's net profit rose two times to Rs 55 crore from the year-ago levels. The strong growth was fuelled by higher capacity utilisation, which is reflected in the 12 percentage points jump in its load factor. This also culminated in to a 35% increase in sales at Rs 707 crore.

SpiceJet has completed five years of operations. This enables it to start international flights according to the current aviation regulations in the country. The company also availed of fresh funding by selling 37% stake to Kal Airways, which is promoted by media baron Kalanidhi Maran. This should provide SpiceJet with the necessary funds to launch its operations on international routes. Experts feel that the company will use its low-cost carrier model internationally to replicate its domestic success. This, however, would come at a cost of a huge debt as seen for players such as Jet Airways India, which currently has a high debt of Rs 13,510 crore.

SpiceJet, on the other hand, may not have to shoulder a high debt burden given the recent funding from Kal Airways. It would be prudent for investors to hold on to their investments in the company considering its low-cost carrier model, comparatively lower debt on its balance sheet (as of FY09, it has debt of around Rs 488 crore) and better performance in the industry. The company is currently trading at 35 times its trailing 12 months earnings.