"IndiGo's June 2016 Quarterly Financial Results Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to IndiGo's First Quarter and Fiscal 2017 Financial Results Conference Call. My name is Zaid and I will be your coordinator. At this time, the participants are in a listen-only mode. A question-and-answer session will follow today's management discussion. As a reminder, today's conference call is being recorded.

I would now like to turn the call over to your moderator, Mr. Ankur Goel -- Director of Investor Relations for IndiGo. Thank you and over to you, sir!

Ankur Goel: Good Evening, everyone. Thank you for joining us for the First Quarter Fiscal 2017 Earnings Conference Call. I have with me our President and Whole Time Director – Aditya Ghosh; our Chief Financial Officer – Rohit Philip; our Chief Commercial Officer – Sanjay Kumar; our Chief Aircraft Acquisition and Financing Officer – Riyaz Peer Mohamed and our Vice President – Vineet Mittal.

Before we begin, please note that today's discussion may contain some statements on our business or financials which will be construed as forward-looking. Actual results may be materially different from these forward-looking statements. A transcript of today's call will also be archived on our website. The information provided on this call is as of today's date and we undertake no obligation to update this information subsequently.

And with this, let me hand over to our President and Whole Time Director – Aditya Ghosh.

Aditya Ghosh: Good Evening, Everyone and Thank You for joining us on this call. We declared our First Quarter Financial Results today and we have reported yet another profitable quarter.

For the quarter ended June 2016, our pre-tax profitability was Rs.7.5 billion and profit after-tax was Rs.5.9 billion, in comparison our profit after-tax for the same period last year was Rs.6.4 billion. These numbers are as per the newly adopted Ind AS standard which Rohit will talk about in more detail.

We have been primarily impacted by lower average fares which has affected our profitability. Our average fares drop from Rs.4,524 in June quarter last year to Rs.4,032 in the June quarter of this year, a decline of 10.9% primarily on account of increase competitiveness in the industry. However, this drop in average fares does not change the view we have on the potential and growth of the Indian aviation market and we are committed to adding profitable capacity in the market place.

Our last quarter ended with the induction of one A320 Neo and one used A320 Classics making it a total of 109 aircraft including four Neos. We have much more data on Neo performance now and based on this data we are seeing a 14.3% fuel savings compare to our A320 Classic aircraft without sharklets.

However, operationally the A320 Neos continue to be a challenge. In fact, we are currently looking at scenarios where we would slow down the deliveries of the A320 Neo aircraft to allow Pratt & Whitney catch-up with the production of the upgraded engines.

Pratt & Whitney and Airbus remain focused on fixing various technical issues that have been identified and we are really counting on them to stay focused and resolve all the technical issues at the highest priority.

Assuming we receive all the schedule A320 Neos during fiscal year 2017, we expect to be operating 24 Neos by March 31st, 2017, which would represent about 18% of our total fleet.

For the three months' period April 2016 to June 2016, our average technical dispatch reliability was 99.92% compared to 99.96% same period last year. Our average on time performance has improved to 85% from 80.6% same period last year and our average flight cancellation rate was 0.12% compared to 0.05% same period last year.

During the last fiscal year, we witnessed increased employee cost primarily on account of access excess bench strength of operational staff because of the delay in capacity addition.

With our delivery starting to get back on track this excess bench strength is now getting absorbed in the system. We have already seen our employee per aircraft count reduced from 121 per aircraft as of December 2015 end to 112 per aircraft as at June end.

As we were short our expected capacity last year we also looked creative ways to meet the shortfall such as to increase in our aircraft utilization which was 13.24 hours per day per aircraft in June quarter this year.

Low fuel cost environment was also an enabling factor in this increased utilization and we continue monitor economics to make sure, it continues to make sense to operate our fleet at this level of utilization.

Now coming to our network,

We have not added any new destination this quarter. We have used the capacity addition to strengthen our network by increasing frequencies on existing routes and also to start new routes between existing destinations.

In the quarter ended June 2016, we have started new non-stop services between Cochin and Muscat; Hyderabad and Nagpur; Hyderabad and Coimbatore; Chennai and Jaipur; Chennai and Guwahati; Bangalore and Vadodara; Goa and Vadodara; and finally Indore and Goa.

Pursuing to ESOPs the company has allotted 8.5 lakhs equity shares. As a result issued and paid-up share capital of the company stands increased by Rs.8.5 million to Rs.3.6 billion.

The Board of Directors had recommended a final dividend of Rs.15 per share last year which is subject to the approval of shareholder during our Annual General Meeting which will be held on 21st September, the dividend will be paid out to our shareholders as of the record date of 14th September.

We continue to engage in several initiatives under our corporate social responsibility program called "IndiGo Reach". Focus on the themes of children and education, women empowerment and environment. Under our initiatives focus on children's education, 13,600 children have enrolled so far across location such as Tripura, West Bengal, Bihar and Jharkhand. With the help of the Bandhan Foundation, we are working on creating sustainable livelihood of 600 women headed households in the slums of West Bengal by helping establish small scale enterprises.

We also working on commissioning 7,500 biogas plants in Andhra Pradesh of which, we have already commission 2,500 units.

With that, let me hand over the call to Rohit Philip for an over view of our financials. Rohit has joined us as our Chief Financial Officer just two weeks ago on the 18th of July. Rohit has enormous and varied experience in understanding of the airlines industry and we are delighted to have Rohit as part of the IndiGo family.

Rohit Philip: Good evening everyone and thank you Aditya for the warm welcome. It is a great pleasure to be a part of an Airline which such an exciting stage of its lifecycle.

As was mentioned on the last call we have adopted the new Indian Accounting Standard or Ind AS from the June quarter of this year. You will notice that the historical period comparatives have also been revised in accordance with Ind AS. All numbers going forward will be reported in this newly adopted format.

For the quarter June, 20016, we reported profit after tax of Rs.5.9 billion, which was a decline of 7.4% over the same period last year and a pre-tax profit of Rs.7.5 billion a decline of 19.1% over the same period last year.

We reported an EBITDAR of Rs.15.5 billion with an EBITDAR margin of 33.9% for the quarter ended June 2016, compared to an EBITDAR of 15.8 billion with an EBITDAR margin of 37.4% for the same period last year. We delivered earnings per share of Rs.16.42 in this quarter.

We added two aircraft in the quarter including one Neo. Our total capacity of the first quarter, at 12.7 billion ASKs, is an increase of 25.1% over the same quarter last year.

IndiGo's total passengers increased to Rs.9.9 million in the June quarter, which is an increase of 20% over the same quarter last year. Our total revenue from operations for the quarter was Rs.45.8 billion and increase of 8.7% year-over-year. Our passenger revenue was Rs.39.7 billion, a growth of 6.9% versus the quarter last year and ancillary revenue was Rs.5.8billion a growth of 20.8% over the quarter last year.

Our revenue per available seat kilometer or RASK for the quarter ended June, 2016 was Rs.3.62, down 12.7% from Rs.4.15 compared to the same period of last year. Our average fares reduced from Rs.4,524 from the June quarter last year to Rs.4,032 in the June quarter this year, which is a decline of 10.9% primarily due to increased competitiveness in the industry.

Load factor for the quarter was 83.3%, down 4.6 points from the same quarter last year. While our yields in load factors were impacted by market dynamics, we focused on keeping our cost low. Our first quarter cost per available seat kilometer or CASK of Rs.3.04 was 6.3% lower than the same quarter last year. Our CASK excluding fuel in this quarter was Rs.1.96 which was an increase of 2.4% compared to the same period last year. This was despite a 6.1% depreciation in the Indian rupee against the U.S. dollar in the quarter compared to the same quarter last year.

Our employee benefit cost increased by 24.8% in the June quarter this year compared to the same period last year. Excluding ESOP related cost, our employee benefit cost per available seat kilometer reduced by 4.5%.

As Aditya mentioned, the additional staff that we hired in anticipation of our growth has started to be absorbed by our operations. We expect further cost efficiencies to come in as we add more planes this year. We reduced our debt by Rs.4.6 billion in the June quarter. We ended the quarter with a total debt of Rs.27.8 billion all of which is related to aircraft. We do not have any working capital debt.

As mentioned in the previous quarter, we used some of our IPO proceeds to retire debt associated with three additional aircraft totaling Rs.4.9 billion during April this year. We have now used the majority of IPO proceeds and the remaining Rs.169 million will be used for the purpose of purchasing ground support equipment.

Our total cash as of June 30th, 2016 was Rs.61.97 billion out of which Rs.22.16 billion was free cash and Rs.39.8 billion was restricted cash. Our total cash includes the proposed final dividend of Rs.6.5 billion. At the end of June 30th, 2016, our total cash as a percentage of the last 12 months' revenue was 37.8%.

With this, let me hand the call back to Ankur.

Ankur Goel: Thank you Aditya and Rohit. To answer as many questions as possible, I would like to request that each participant limit themselves to one question and one brief follow-up question, if needed. And with that, we are ready for Q&A.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the Question-and-Answer session. The first question is from the line of Michael Beer from Citi. Please proceed.

Michael Beer: With respect to the capacity language in the release and earlier on the call, you stated that you have 24 Neos to be delivered this year if everything goes as planned. It does seem like you think you can absorb that kind of capacity. What is the fair number, or in other words, we would to recheck our capacity growth guidance for the year. Where do you think it shakes out? I mean, can you take basically three to four aircraft per quarter for the rest of the year or is that so overly ambitious?

Aditya Ghosh: Thanks Michael. We see a long-term opportunity in India. If the planes continue to get delivered and if they operate, we will certainly take that capacity. The slowing down has not to do with the capacity addition. It is to do with the operational challenges that we are having with the A320. There are some short-term imbalances in the demand and capacity, however, with the growth in the Indian market, it will naturally correct itself.

Michael Beer: Okay. I mean you took delivery of two aircraft and you are still able to grow your tariff by 18% year-over-year. So clearly, you are still optimizing the network and you are able to sweat the assets. Is that the case?

Aditya Ghosh: That is correct.

Michael Beer: Okay. Secondly, your ancillary was far better than we were kind of projecting at 21%. What is that reflection of? Is it low base or is it you starting to really implement new initiatives? What is driving that?

Aditya Ghosh: So, as we have discussed in the past, globally the level of ancillary revenues is much higher as compared to India and we have already said we have huge opportunities of providing value added services that people would be willing to pay for. As the Indian regulatory environment changes, we will continue to keep looking at it. So it is just a reflection of our continuous initiatives that has increased ancillary revenues.

Moderator: Thank you. The next question is from the line of Rupen Shah from HDFC Securities. Please proceed.

Rupen Shah: Hi Sir, this is Rupen Shah from HDFC Securities. If I compare this June quarter with same quarter last year, we are losing our bargaining power gradually. Last year even like the fuel price was high. So just wanted to understand, where are we heading in terms of the pricing power?

Aditya Ghosh: So Rupen, look, yields are down this quarter because of the kind of fares that we are seeing in the market place but the thing is that we are continuing to add capacity where we can add capacity profitably and we still see a great opportunity over here. It is just a reflection of that.

Rupen Shah: Okay. But sir, if I compare your RASK and your CASK for the same quarter last year, we are continuously losing our bargaining power in terms of passing on the cost and the OPEX or operating profit per CASK is continuously declining. So, like where are we heading, so if you can give some hint on that so, we can actually forecast in that terms.

Aditya Ghosh: We are not going to give any guidance in terms of future yields or earnings.

Moderator: Thank you. The next question is from the line of Ashutosh Somani from JM Financial. Please proceed.

Ashutosh Somani: I wanted reconciliation of the cash balance stated in the press release versus what has been reported in the balance sheet. So, let us say for FY'16, the cash balance as reported in balance sheet is Rs.37.2 billion, as per your fourth quarter press release, while if I look at the detailed press releases, it mentions the total cash at Rs.60.5 billion, which is the sum of restricted and free cash. So, which are the other line items, other than the reported balance sheet cash, which are included in the total cash of Rs.60.5 billion? Also out of the Rs.37.2 billion reported cash, how much is free cash? Because if you look at the past, also in FY'11-FY'13-FY'14, the free cash is much more than the cash balance reported in the balance sheet. So, if you can just throw some light on this reconciliation, it will be great.

Vineet Mittal: Yes, this is Vineet Mittal. So, as far as free cash and restricted cash in balance sheet is concerned, there are three components in our balance sheet. The first component is the fixed deposit which has been reflected in our financial statement under different caption item depending upon the age of maturity of fixed deposit. Second is, mutual fund, which is typically shown as investment. And third is free cash. So these are the three component in our balance sheet, which put together, constitute total cash and cash equivalent for IndiGo.

Ashutosh Somani: Okay. So Vineet, let me rephrase the question in a different way. Fourth quarter, we had reported the total cash of Rs.60.5 billion. First quarter end, we are reporting the number at Rs.61.9 billion or Rs.62 billion. FY'16 end the cash and equivalents in balance sheet stood at Rs.37.2 billion versus the Rs.60.5 billion that you reported in the press release. Today you have reported in the press release at Rs.61.9 billion. So, what will be the corresponding number in the balance sheet in cash and equivalents which was Rs.37.2 million in the fourth quarter of FY'16? Where has this moved from Rs.37.2 to?

Vineet Mittal: So, as I said earlier for our financial year ended 2016, from our balance sheet you need to add fixed deposit plus investment plus cash and bank balances to arrive at the number we have publish in our earnings call.

Moderator: Thank you. The next question is from the line of Binay Singh from Morgan Stanley. Please proceed.

Binay Singh: I joined the call a little late so, I will re-confirm these numbers with you, in the last call you guided for almost 34% growth in ASK you are saying around 25% growth in ASK in Q2 which is roughly implying 40% growth in second-half of this financial year. So, in light of such strong capacity growth, a) are you maintaining that 34% capacity growth guidance and b) how do you see yields playing out, when this kind of capacity will get added to the system?

Aditya Ghosh: So Binay, we are not going to give guidance on future earnings but as far as capacity addition is concerned, assuming we get all the Neos that we have as per the schedule delivery month, we will stick to the guidance that we have given before on capacity.

Binay Singh: But any sense that you see do you think that the industry will be able to absorb this kind of capacity?

Aditya Ghosh: Yes.

Binay Singh: Okay. And secondly, what is your tax rate that you would look at, for the full year?

Rohit Philip: Yes, so this is Rohit Philip, I think you may have noticed that for the quarter our effective tax rate was a little lower. This was primarily because we wrote back certain tax credits that we had written off in prior periods. So you would expect a more normalized tax rate of 28% to 30%.

Moderator: Thank you. The next question is from the line of Aditya Makharia from JP Morgan. Please proceed.

Aditya Makharia: You mentioned about competitive pressures which impacted yield. So any airline in particular, which is offering in discounts, has changed its strategy as compared to the past. Because last year, there was a lot of discipline in the market.

Aditya Ghosh: So, I think you see kind of low fares from almost everybody in the market. So, could not point out any one particular competitor.

Aditya Makharia: Okay. And are you seeing this trend sustain. This is lean season, but do you expect it to sustain even once the holiday's kick in around Diwali?

Aditya Ghosh: It continues to be under pressure, but beyond this, I am not going to give any guidance.

Aditya Makharia: Okay, fair point. And just in terms of the Ind AS Accounting, what are the major changes? Is there any change around the way we recognize our lease expense and income?

Rohit Philip: We have adopted Ind AS from April 01, 2016 and going forward we are sort of reporting all of our results in Ind AS and restating prior period. So we are not sort of restating our results going forward under the old Indian GAAP but for the prior period we have provided reconciliation in our notes which provide all the details between the two. Yes, there is a difference in lease accounting as you know and that reconciliation is provided in our notes.

Moderator: Thank you. The next question is from the line of Sonal Gupta from UBS Securities. Please proceed.

Sonal Gupta: I mean just a continue on the same line could you just highlight what are operational issues we are facing on the Neos and secondly, I mean in particular like I know this question has been asked and you continue to believe in long-term growth in India but if we look at June, we did see a very sharp plunge in your load factors even on a year-on-year and month on month basis, so, was there anything specific to June? Because your drop was much higher than the rest of the industry. So if you could highlight, how are you looking at these things?

Aditya Ghosh: So taking the question on the Neos first, you know A320 Neo operations continue to be a challenge from an operational point of view and there have been some issues around start-up time and other erroneous software messages, as a result of which we are struggling with maintaining our schedule integrity and our technical dispatch reliability at the level as the CEO. So, as I said, we are looking at slowing deliveries but no decision is made yet**.** We are allowing Pratt & Whitney to kind of catch up with the production and delivery of the upgraded engines. But contrary to some other early press statements that I saw a short while back, we have not made any decisions on it just as yet. Now coming to the load factor question, our load factors for the quarter were down 4.6 points compared to the same period last year. This is largely driven by 8.7 points decrease in load factor in the month of June itself which you pointed out. This is because in the month of June we not only increase our aircraft utilization from 11.89 hours in the June of last year, but we also introduced a lot of new flights; 39 new flights. Now also in the past, you know we have sort of led some certain low fares from some of our competition go unmatched and we will probably rethink some of that.

Sonal Gupta: Just on again coming back to the Neos thing, I mean so operationally I mean what sort of timeframe do you think for Pratt & Whitney to resolve these issues?

Aditya Ghosh: Pratt & Whitney and Airbus both are trying very hard to fix the issues. As you know they are giving us a lot of onsite support as well. Right now, we just want them to focus on that and continue to try and meet those timelines that they have given before, which was I think by the end of this year.

Moderator: Thank you. The next question is from the line of Siddharth Bothra from Motilal Oswal Asset Management. Please proceed.

Pulkit: Hi Aditya, this is Pulkit here. Just a couple of questions. The industry is really at around 83% kind of PLFs so, we are surprised that there should be yield decline when the industry itself operating at such high level PLF. So what is really happening out there? I mean you obviously are the industry leaders and would have some kind of say in the pricing discipline in the industry. But is it possible that small player can just come and disrupt the entire pricing?

Aditya Ghosh: So Pulkit you can see that there is actually yield decline. So, as you expected it is actually happening. There is a yield decline and that is because almost everyone is throwing extremely low and competitive fares in the market place. In the past, we have not matched some of these fares and because of which we took a hit on our load factors. But as I just told Sonal, we might be rethinking that strategy now.

Pulkit: I mean why would anyone need to lower fares in an environment where PLFs are already that high? That is what I am trying to understand.

Aditya Ghosh: Good question, Pulkit. I guess this is question that some of our competitors can answer. But yes, it is the realty that we are seeing in the market place.

Pulkit: Secondly, on the cost front, we are kind of surprised that operating cost have been growing a much higher rate, while I understand that for the employee cost you have a reason for the same. But at least on the other expenses, I think for 35% Y-o-Y increase and more importantly on a Q-on-Q basis we are seeing a 13% increase. So what should be the reason for that? Therefore, should there be a decline going ahead or continuing at this pace of increase?

Rohit Philip: So this is Rohit Philip. So I think in this quarter as you have seen 36% increase in other expenses while capacity only grew 25% there is some of it partially explained the depreciation and the Indian rupee we have a certain amount of foreign currency expenses. The quarter-on-quarter depreciation of the rupee was 6.1%. So some impact is with respect to that. There is some impact of certain cost that we think are one time that cost hit this quarter. So, on an ongoing basis we do not expect this line item to be anything out of line with capacity growth in fact there should be some economies of scale as go.

Moderator: Thank you. The next question is from the line of Anand Krishnan from Kotak Infina. Please proceed.

Anand Krishnan: My question was with respect to the interest cost as I can actually see your debt has actually gone down on the financial lease side but despite that there has actually been an increase on the finance cost for the quarter. Can you just explain the same, sir?

Rohit Philip: Absolutely, this is Rohit again. You are absolutely, right. Normally, you should have expected to see our interest expense go down because we reduced debt in the quarter. There is a one-time impact of write-off ECA premium that was related to the aircraft that we prepaid. In other words, there was an ECA premium on our books that was being amortized along with the life of the lease. When we terminated the lease early, we took a one-time hit of Rs.440 million for the early terminating which was a non-cash expense. So excluding that you would have seen a redemption in the interest expense.

Anand Krishnan: So what would be the average interest cost going forward for you?

Rohit Philip: I think you should just look at that line item and remove Rs.440 million which is the one-time impact.

Moderator: Thank you. The next question is from the line of Santosh Hiredesai from Edelweiss. Please proceed.

Santosh Hiredesai: Sorry, to go back to the yields part but I am not looking for a guidance. What I am trying to understand is that when I look at some of your LCC peers, the yields for them have been kind of pretty much holding on and they have been able to fill up the seats much betters clocking better PLF. So, I am just trying to understand directionally. Is it because that we have been introducing on the same routes at where we connect, because of which there is some cannibalization act play out here, or what exactly is happening and which is not being reflected in some other peers? This is what I am just trying to understand.

Aditya Ghosh: Yes, so Santosh, I think it a combination of both things. One is, some of the new flights that we are introducing, which takes a little time to catch up with the network wide average load factor and pricing and the other, as I said, we have also not matched a lot of the fares in the past.

Santosh Hiredesai: Right. So which is what I was trying to understand. If you have been very cautious in terms of not really kind of chasing those fares so that should have reflected in terms of the yields holding up. I understand that because of which our PLFs are down, but, we have both the things going together, which is what a little confusing and misleading. So I am not very sure what is that I am missing?

Aditya Ghosh: Yes, I think as I said, because we did not match some of the fares, our load factors went down and that creates a drag on the yield combine with the fact that in any case the fares are much below in the market place than they were a year ago.

Moderator: Thank you. The next question is from the line of Harshad Borawake from Motilal Oswal Securities. Please proceed.

Harshad Borawake: Sir, in the 4Q last year, you were kind quite forthcoming in terms of giving revenue/EBITDAR guidance. So now just wanted to check what had changed? Is it more about the pricing pressure which has changed, which makes it difficult to make things more predictable? So that was one. And second question was, in opening calls you mentioned that IndiGo 24 planes will account around 18% of your fleet by yearend so, does this mean your fleet guidance by March 204 is 133? Thank you.

Aditya Ghosh: So Harshad, the last time when we gave that guidance, it was in the light of the background that there was a lot of delays in the Neos. So we had to give some more information to the market because the Neos that we had originally planned were getting delayed by a few months. But otherwise, we do not like to give guidance on earnings. As far as the capacity is concerned, yes, we are looking at that same figure that we had given in the past, of course assuming that we get these 24 Neos that we have talked about.

Harshad Borawake: Okay. And lastly, do you have any thoughts on this airport saturation situation? In Mumbai, we understand it has already saturated. Do you think it will impact the overall industry growth from the medium-term perspective?

Aditya Ghosh: So Mumbai, of course, is certainly is a slot constraint airport, but, like any good partner we continue to engage with the relevant authorities to look at opportunities to get slots there. For the larger market, while we see market continue to grow, there are always certain airports which might be a little bit operationally constraint. For example, Ahmedabad Airport runway closure, because of which it is inaccessible for large parts of day however, we continue to optimize the network to make sure that capacity is profitably deployed.

Moderator: Thank you. The next question is from the line of Parita Asher from Ambit. Please proceed.

Parita Asher: Just a quick question on the A320 Neo deliveries. So as of beginning of August, where are we in terms of actual deliveries versus what was planned as per the delivery schedule?

Aditya Ghosh: As of the beginning of August, it is on schedule.

Parita Asher: It is as per schedule, is it? So basically the 24 minus I think we have received 5 right so 19 is what ideally plan for rest of the seven months?

Aditya Ghosh: That is correct.

Moderator: Thank you. The next question is from the line of Anshuman Dev from ICICI Securities. Please proceed.

Anshuman Dev: I had a question regarding the fare distribution per se. The weakening yields that we are seeing, is it like across the markets or may be different in Tier-I cities or Tier-II cities?

Aditya Ghosh: It is across the market.

Anshuman Dev: So basically, why I asked this reason is because, considering the conditions that we have in Mumbai or as you said Ahmedabad, doesn't it get higher fares? What is your sense that it may get converted into some higher fares going ahead?

Aditya Ghosh: The reality is that most airlines are offering low fares across the routes and across times of day that is the reality.

Anshuman Dev: Okay. And just one follow-up question regarding this average fare in Q2 FY'16, could we have that number?

Aditya Ghosh: **For** Q2, I do not have that average fare just now.

Anshuman Dev: Okay, sure, maybe we can get offline.

Moderator: Thank you. The next question is from the line of Nikhil Garg from BNP Paribas. Please proceed.

Nikhil Garg: I wanted to check on this A320 Neos you had mentioned that there will be approximately 15% fuel efficiency. So, are you realizing that?

Aditya Ghosh: It is 14.3% which we are realizing so far.

Moderator: Thank you. The next question is from the line of Mayur Malik from Anand Rathi. Please proceed.

Mayur Malik: For Neos, typically the lease rental of these would be like about 10% or 15% higher than your original aircraft?

Riyaz Peer Mohamed: Hi, this is Riyaz Peer Mohamed. The Neo rentals are approximately 15% higher than the Ceos in the current market. The Ceos are lower than the Neo because of the benefits that the fuel benefits that the Neos give in the current market conditions. But, of course, we do see a lease backs on these Neos and are having the attractive pricing that our purchase agreements give us.

Mayur Malik: Sure. I am sure it wouldn’t be an appropriate question, but just trying to take it off. So, at this point in time, does it suggest that, if there is a delay in getting the Neos it actually benefits you?

Aditya Ghosh: No. I mean, if it was just lease rentals but no, since there is fuel burn advantage. So no**.**

Moderator: Thank you. The next question is from the line of Michael Beer from Citi Group. Please proceed.

Michael Beer: I just wanted to clarify you talked about a one-time item of around Rs.440 Mn that was in the interest expense line. Is there any other one-time items that were material enough to skewed that bottom-line figure or even or even the EBITDAR figure or would you regard the everything accept that Rs.440 to be generally core earnings?

Rohit Philip: This is Rohit again. In addition to the Rs.440 Mn in the interest expense, there was an amount of about Rs.210 in the employee expense line which was related to ESOP expense. Other than that, there were a couple of additional items that are not something that we will go into detail. As I said, I think we expect the overall line item to grow in more in line with capacity growth in the future quarters.

Michael Beer: Does ESOP is really a function of just the IPO and just building those into the first year?

Rohit Philip: Yes, that is correct.

Michael Beer: So the Rs.440 is really the only one-time adjustment we should make.

Rohit Philip: As a one-time that is correct. The ESOP is more of a comparison versus last year and you would expect to be in the future.

Michael Beer: Okay. And then just lastly, clearly the year ago numbers were highly skewed by SpiceJet and you had some short-term benefits associated with market share and your yield held up probably better than they should have. Does that kind of starts to reverse in September-December? Are you already starting to kind of see that into this calendar third quarter?

Aditya Ghosh: Michael, I would not want to talk about the next quarter or the current quarter.

Michael Beer: No, I mean but just on the comparison basis last September. It was a bit of surprise to many because basically the gains that you had enjoyed from SpiceJet kind of went away last September. So you have lower hurdle this September.

Aditya Ghosh: This is probably true.

Moderator: Thank you. The next question is from the line of Aditya Makharia from JP Morgan. Please proceed.

Aditya Makharia: Just a quick question. In the quarter gone by, we did see that crude prices went up so has that in any way impacted the EBITDAR margins and as a follow-up are you seeing that as crude is coming off, there was a cut today of 4%, it may be a little early in the day, but do you think these benefits will be passed on by the airlines or do you see the airlines holding on to the gains?

Aditya Ghosh: We would not be able to comment on what some of the other Airlines will do and we will be guided by what is happening in the market place.

Moderator: Thank you. The next question is from the line of Shivam Gupta from PWC Advisors. Please proceed.

Shivam Gupta: I just wanted to understand a little bit more on this employee cost. So if we look at it, there has been kind of ramp up, if you look at our quarter-on-quarter numbers. So as a percentage of sales it has gone from the 8%-odds to 12% and this quarter it was 10.5%. Now, you have already mentioned that going forward if the delivery stays on track then this number will get absorbed. Over the next two years to three years, would that be a reasonable glide path for this number to go back to that 8% which historically was reported?

Rohit Philip: I do not think we can give you specific guidance but directionally I think that line of reasoning would hold.

Shivam Gupta: Okay. And the other related thing I want to understand was that in terms of availability of the crew for the Neo in the market. Is that still there or you think that is no longer an issue to ramp up?

Aditya Ghosh: Availability of crew, you mean, as in pilots?

Shivam Gupta: To the pilots, yes.

Aditya Ghosh: No, actually the conversion from for us a classic pilot to a Neo pilot is only a four hours of ground training module and we are in the process of training all our pilots to fly the Neos.

Moderator: Thank you. The next question is from the line of Shree Shankar from Prabhudas Lilladher. Please proceed.

Shree Shankar: I have got couple of question. You earlier mentioned about the employee cost utilization. Probably, you had more number of people on the rolls getting ready for the new aircraft which are coming in and will it repeating because you got 24 aircraft plan to come in the year and only 5 have come in. So, does it mean that you will keep having, for the rest of the year, the increased number of employee cost, probably not getting utilized fully?

Aditya Ghosh: Actually, we are beginning to see an absorption of that excess employee cost. As I mentioned, it has gone down from 121 employees per aircraft to 112 employees per aircraft currently and we are beginning to see the absorption, of course, assuming that the capacity keeps coming in.

Shree Shankar: Okay. The next question is on the pax growth which you have been seeing. What are the problems, probably this quarter has been your lower yields, as competition has picked up. But we are still in an environment where the demand growth has been robust. Do you think that going forward this scenario may continue because competitors have also planned capacity additions coming up?

Aditya Ghosh: As I had said in my opening remarks, this does not change our overall view of the Indian market and we continue to see a long-term opportunity in India.

Shree Shankar: Okay. And if I may ask one more question, that is the final one. Are you planning to start new routes or is it the same routes we are cannibalizing putting in more aircraft which is leading into probably lower yields?

Aditya Ghosh: We actually have started new routes even in the first quarter of this year and I had given some example. So, we are constantly optimizing our network.

Moderator: Thank you. The next question is from the line of Alok Rawal from Karma Capital. Please proceed.

Alok Rawal: I wanted to ask the question regarding the "Regional Connectivity Scheme" that the Ministry came out sometime ago. Do you think this could give a meaningful boost to domestic air travel and if yes, do you have any plans to tap this opportunity? Thank you.

Aditya Ghosh: We are very supportive of the government's effort to connect smaller cities and they have just issued this draft policy outlining the RCS. We had a meeting with the Government as latest last Friday but since it is in its stage of infancy it is too early for me to comment on the details of it or our plans around it.

Alok Rawal: Sure. If I could have a follow-up on that, if you do decide to get into the RCS market, would it necessarily mean that you have to follow a dual fleet strategy, in the sense, you have to get smaller planes?

Aditya Ghosh: As I said Alok, too early for us to comment on whether we are going to take advantage of this policy or not.

Moderator: Thank you. The next question is from the line of Sonal Gupta from UBS Securities. Please proceed.

Sonal Gupta: Clearly, I understand that shorter-term your guidance remains unchanged in terms of capacity addition. But what would make you re-think that sort of addition or at what point do you start to feel that the industry growth is not enough to continue to add capacity and you try to push out your medium-term plans? I know you may not want to do that in the short-term. So is there some pointers that you would look to?

Aditya Ghosh: No, not really. We are constantly looking at our capacity requirements as the market grows and as the country grows. So no specific trigger point.

Sonal Gupta: Because after we have seen the overall industry growth in the domestic market also. I mean we have seen the full benefit, I guess of the stimulation from the lower fare prices and the growth now seems to be plateauing, unless you think the growth will sort of continue to accelerate.

Aditya Ghosh: Actually at 20%-21% the growth is extremely healthy.

Moderator: Thank you. The next question is from the line of Ashutosh Somani from JM Financial. Please proceed.

Ashutosh Somani: Sir, this is regarding the interest cost. So this current quarter, on interest cost, I think you have given the reasons why it is on the higher side but if I look at the last quarter same period last year, that is, First Quarter FY'16 or the Fourth Quarter of FY'16, both of these interest costs have been revised upwards. I think this is doubled from the past stated numbers. First Quarter FY'16 the number was Rs.328 million reported earlier it has been restarted to Rs.72 crores or Rs.720 million and the Fourth Quarter FY'16 has actually more than doubled from Rs.469 million to Rs.723 million. So there an impact of Ind AS here and if that is the case what is the reason to that?

Rohit Philip: Yes, so absolutely there is an impact of Ind AS. I am going to let Vineet Mittal jump in.

Vineet Mittal: Yes, so under the Ind AS we need to discount our long-term liabilities and the way it works is once you discount your long-term liability you need to unwind to bring it to the original cost and when you unwind the part of that cost goes as a financial cost.

Ashutosh Somani: Okay. So sir, in that case is it fair to assume that this quarterly run rate of interest cost will sustain in the quarters going forward, adjusted for that Rs.44 crores that was one-off the numbers should sustain on a quarterly basis?

Rohit Philip: Yes. Again as I said, there is a reconciliation in our notes about the changes. With Ind AS, interest expense goes up so but there is offsetting impacts on the P&L and it is in the reconciliation.

Moderator: Thank you. The next question is from the line of Nikhil Garg from BNP Paribas. Please proceed.

Nikhil Garg: Sir, one quick question on the cash flows so, as of 31st March, 2016, you had a total cash balance of Rs.60.5 billion and out that Rs.6.50 billion was dividend which was not paid, right?

Aditya Ghosh: That is correct.

Nikhil Garg: If we exclude that it is roughly say Rs.54 billion of cash and then this quarter as on 30th June, you had again Rs.62 billion of cash. So there is an increase of Rs.8 billion there and also you have reduced the debt as well by Rs.4.50 billion so, there is Rs.12.5 billion of cash flows for this quarter?

Rohit Philip: So, it is Rohit. Let me jump in. I think Rs.6.5 billion of dividends still has not been paid out yet as you know it is subject to the approval of shareholders in the Annual General Meetings. So our cash balance that we reported even at June 30th includes the Rs.6.5 billion. So it is about Rs.2 billion increase from the prior quarter.

Nikhil Garg: Sorry, I did not get that, can you please repeat?

Rohit Philip: The cash balance for this for the June 30th quarter also includes the Rs.6.5 billion of unpaid dividends or amount allocated towards the dividends that are still subject to approval of our shareholders. So that Rs.6.5 billion of cash that is allocated to the dividends was both in the books as of the March 31st as well as June 30th.

Nikhil Garg: Understood. So, this quarter if I look at the cash flows it should be roughly say Rs.7 billion and out of that Rs.1.5 billion is the increase in cash and Rs.4.5 billion is debt repaid. So it is about Rs.6 billion. What would approximately be the remaining Rs.1 billion? Where would it go because working capital you said you do not think have anything?

Aditya Ghosh: Because we had a profitable quarter so part of it would be due to cash profit we have during the quarter.

Nikhil Garg: No, I am saying out of the cash profit, Rs.6 billion is explained by increase in cash and reduction in debt what about the remaining Rs.1 billion?

Aditya Ghosh: I do not think he is getting the arithmetic here.

Nikhil Garg: This quarter you had a cash profit, PAT plus depreciation of Rs.7 billion?

Aditya Ghosh: That is the profit before-tax you are referring to. That is profit before-tax of Rs.7 billion.

Nikhil Garg: No, I am referring to Rs.5.9 of net profit and depreciation of Rs.1.1 billion.

Aditya Ghosh: Yes, that is correct.

Nikhil Garg: Yes, Rs.7 billion and the cash increase is roughly Rs.1.5 billion on a quarter-on-quarter basis?

Aditya Ghosh: Probably good idea for us to give you this reconciliation offline?

Nikhil Garg: Okay, no worries, thank you.

Moderator: Thank you. The next question is from the line of Vinit Maloo from Birla Sunlife. Please proceed.

Vinit Maloo: I just wanted some more color on the competitive scenario. Would you have an assessment of what kind of fleet growth we are likely to see in India? Some sort of intelligence based on about leasing arrangements, order book, etc., if you could just comment on that?

Aditya Ghosh: No, I cannot talk to what the other competitors will add or not add, we can just talk about our own.

Vinit Maloo: Okay. So what I am trying to understand although you have mentioned that based on the long-term outlook for the demand in India you would continue to add to your fleet size, but I am just trying to understand that if your competitors are also doing the same then would you reassess or what would make you reassess your plans? I am sure you wouldn't just keep on adding heedless of your competitors. Right?

Aditya Ghosh: Again, as I said, it depends on what the competition finally does and how much capacity they finally add. For us, we are constantly looking at ways to deploy our capacity profitably.

Moderator: Thank you. The next question is from the line of Mustafa Khedwala from Cube Investments. Please proceed.

Mustafa Khedwala: You had said last time that there are two new engine options one is from Pratt & Whitney and the other is from CFM Leap-X, is that correct?

Aditya Ghosh: CFM Leap-X, yes.

Mustafa Khedwala: Yes, so since Pratt & Whitney has these problems, are these other engines types also have similar issues or they are performing much better?

Aditya Ghosh: So you know the first Leap-X airplane has just got delivered a couple of weeks back I do not think it has flown but we will obviously look at it and then we will take a call we are still away from ordering new engines.

Mustafa Khedwala: Okay. Just a follow-up to that, I think 150 is the total new engine options from Pratt & Whitney that we have. So in case Pratt & Whitney cannot stabilize the engines going forward, do we have the option to migrate the rest of the 130-125 odd engines to CFM, in case they are performing better? This is of course hypothetical question.

Aditya Ghosh: Yes, I am not going to comment to that.

Moderator: Thank you. I now hand the conference over to Mr. Ankur Goel for closing comments, over to you.

Ankur Goel: Thank you all for joining us on this call. To reiterate, a recording of this call will be made available on our website shortly followed by written transcript.

Aditya Ghosh: And if I may make just one closing comment that some of the early press statements comment that we saw after our Earnings Press Release is that the airline announce that it is slowing down the induction of A320 Neo aircraft, I want to just reemphasize that we have not taken any such decision. Our hope is that Pratt & Whitney is able to deliver the modified engines and in which case, we will take the additional 19 A320 Neos by March 31st, 2017.

Ankur Goel: And that is it from our side.

Aditya Ghosh: Thank you.

Moderator: Thank you. Ladies and Gentlemen, on behalf of IndiGo Airlines, that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.