



“IndiGo’s Third Quarter Fiscal 2017 Financial Results  
Conference Call”

**January 31, 2017**



**MANAGEMENT: MR. ADITYA GHOSH – PRESIDENT & WHOLE TIME  
DIRECTOR  
MR. ROHIT PHILIP – CHIEF FINANCIAL OFFICER  
MR. RIYAZ PEER MOHAMED – CHIEF AIRCRAFT  
ACQUISITION & FINANCING OFFICER  
MR. VINEET MITTAL – VICE PRESIDENT, FINANCE  
MR. ANKUR GOEL – DIRECTOR, INVESTOR RELATIONS**

**Moderator:** Ladies and Gentlemen, Good Day and Welcome to IndiGo's Third Quarter Fiscal 2017 Financial Results Conference Call. My name is Aman 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 conference 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 and thank you for joining us for the Third Quarter Fiscal 2017 Earnings Conference Call. I have with me our President and Wholetime Director – Aditya Ghosh; our Chief Financial Officer – Rohit Philip; our Chief Aircraft Acquisition and Financing Officer – Riyaz Peer Mohamed and our Vice President, Finance – Vineet Mittal.

Before we begin, please note that today's discussion may contain some statements on our business or financials which can be construed as forward-looking. Our 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 the information subsequently. With this, let me hand over the call to our President and Wholetime Director – Aditya Ghosh.

**Aditya Ghosh:** Good Evening, everyone, and thanks for joining this call. We announced our third quarter financial results earlier today. I am happy to report yet another profitable quarter. We reported profit after tax of Rs.4.9 billion with an after-tax profit margin of 9.8%. Our profits were lower compared to the same period last year primarily because of lower yields and higher fuel prices.

As a result of lower yields, our RASK declined by 13.1% compared to the same period last year as lower yields were only partially offset by an increase in load factors. Rohit will discuss this issue in detail during his remarks. We continue to show strong cost performance - our Cost per ASK excluding fuel declined by 7.9%, and in spite of higher fuel prices by 7.5% our total CASK declined by 2.7%.

We have added 8 aircraft during the last quarter taking our total fleet size to 126 which includes 14 Neos. Our traffic growth continues to be strong and we saw a growth of 38.1% in the last quarter. We expect to add another 7 aircraft in the current quarter and end the current fiscal year with the fleet of 133. 20 of these will be Neos as we had previously guided. In addition to strengthening our existing network, the increase in fleet will be used to expand the network to 6 new cities. We expect to launch operations in the next 90 days in Amritsar, Madurai and Mangalore in India as well as 3 new international markets – Sharjah, Doha and Dhaka.

For the three months' period October to December 2016, our on-time performance was 71.7%, technical dispatch reliability was 99.85% and flight cancellation rate was 1.69%. Our operational performance was impacted during the quarter due to a number of issues including adverse weather conditions, ATC congestion at key airports and A320 Neo issues. However, going forward, we expect to do better as we have implemented a fair number of measures to get back to our historical operational performance.

Let me take a moment and speak on the on-time performance reporting that happens in India. At IndiGo, we use an automated system which establishes the arrival and departure times and it is generated by the aircraft's computer systems. The computerized system used is called Aircraft Communications Addressing and Reporting System or ACARS and it is the prevalent methodology by which airlines report their on-time data worldwide. However, most carriers in India do not use an automated system to capture the arrival and departure time and instead use a manual process to report this information- which has the potential of being manipulated.

We suspect that the OTP statistics of some of our competitors in India is not quite correct. We have already submitted evidence to the DGCA that certain airlines are manipulating their OTP data and have asked for a detailed investigation. We are thankful that the DGCA has set up a panel to conduct this investigation and based on even the preliminary findings, two employees of the Mumbai Airport have been suspended by the airport operator. I am glad that the Mumbai Airport is cooperating with this investigation and we look forward to the results once completed. Ultimately, consumers deserve access to accurate on-time information across all airports in India.

Now, talking about the A320 Neos, the good news is that the Neos are meeting our expectations in terms of fuel savings. However, we continue to face operational issues with the Neo engine and have experienced higher than expected engine replacements. Since Pratt & Whitney has extensively discussed these issues during their analyst call last week, there is not much more that we can add to the issues about the Neo engine. While this has caused operational disruptions, both Pratt & Whitney and Airbus are working to address the issues and in the meantime we continue to receive the necessary operational and technical support including the provision of spare engines to help mitigate the operational impact on us.

In summary, we continue to see robust traffic growth ahead and we will continue to grow and strengthen our network with a view to maximizing our long-term profitability.

Now, let me hand over the call to Rohit for overview of our financials.

**Rohit Philip:**

Thank you, Aditya and Good Evening, everyone. For the quarter ended December 2016, we reported an after-tax profit of Rs.4.9 billion with a profit margin of 9.8%. We reported an EBITDAR of Rs.14.6 billion with an EBITDAR margin of 29.3%. As Aditya mentioned, our profitability is lower this quarter compared to the same period last year largely due to lower yields and higher fuel prices. We delivered earnings per share of Rs.13.5 in the quarter.

While it is not our practice to get into granular details on specific monthly performance data or give near-term guidance, we feel that it is relevant that we share some monthly yield data trends with you on this call. Yields were down 16% YoY in the last quarter. For the month of October, our yields were down 10%, consistent with what we saw in Q1 and Q2. The new monetization policy went into effect on November 8<sup>th</sup> and for the full month of November our yields were down 20% and in December our yields were down 17%. However, for January of 2017, we are forecasting a yield decline of about 10%. So, we are seeing a reversal of the sharp decline that

was experienced in November and December of the last quarter immediately after demonetization. As you are aware, there has been a short-term impact on consumer spending and behavior in the country post-demonetization and you can see that effects clearly in our yield numbers for November and December. However, based on the January 2017 yield forecast, we are hopeful that the effects of demonetization are largely behind us.

Our total capacity for the December quarter was 14.4 billion ASKs, an increase of 33.8% compared to the same period last year. Over the same period, our total traffic measured in terms of RPKs grew at 38.1%. Our total income from operations in the December quarter was Rs.49.9 billion, an increase of 16% over the same period last year. Our ticket revenue was Rs.43.7 billion and our ancillary revenue was Rs.5.8 billion, an increase of 16.1% and 12.5% respectively for the quarter. Our other income comprising primarily finance income grew at 42.8% to Rs.1.7 billion in line with the increase in our cash balance.

Our RASK for the quarter was Rs.3.48, down 13.1% from Rs.4.00 during the same quarter last year. The decline in RASK was driven by 16% decline in yield which was partially offset by 2.7 percentage point increase in load factor. As I just mentioned, we saw a significantly higher yield declines in November and December compared to October. The RASK showed a similar trend with a decline of 7% in October, 17% in November and 16% in December.

We had a strong cost performance in the quarter. Our total CASK was lower by 2.7% from Rs.3.15 for the quarter compared to Rs.3.06 for this quarter. This was in spite of fuel prices increasing by 7.5%. Our CASK excluding fuel declined by 7.9% from Rs.2.06 to Rs.1.90, despite the depreciation of the Indian rupee by 2.7% and an increase in airport landing charges. This reduction was primarily driven by higher aircraft utilization and improved employee productivity. Our cash balance at the end of December was Rs.84.5 billion comprising of Rs.37.9 billion of free cash and Rs.46.6 billion of restricted cash. We also had total debt of Rs.27.5 billion as on 31<sup>st</sup> December 2016.

Let me end by giving you our expectation of fleet and capacity: We expect to end the current financial year with the fleet of 133 aircraft. The year-over-year capacity increase is expected to be 25% for the fourth quarter of fiscal 2017.

With this, let me hand over 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. With that, we are ready for the 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 Binay Singh from Morgan Stanley. Please go ahead.

- Binay Singh:** I just have a follow up from Rohit's comment on the yield side. Did I catch it right that Rohit hinted that in Jan, the yields that we are seeing are around 10% down on a YoY basis?
- Aditya Ghosh:** That is correct, Binay.
- Binay Singh:** Is it a normalized number? The reason I ask is that if you see in Jan, we have seen crude prices go up. If we are seeing a 10% YoY decline in yields, it broadly means that the yields are actually lower than what they were in December quarter. So, does this mean that the industry has not been able to pass on any of the fuel price hikes that we saw earlier this month? Is my math correct that, a 10% decline in yield in January actually means that the yields are lower than what were in December?
- Rohit Philip:** Binay, as you know, there has always been a lag in terms of when the fuel price gets passed on in the fares. Obviously, the lag that we have been seeing recently has been a long lag. By that I mean, we have not been able to pass on fuel price increases for some time. But historically, ultimately, it is always passed on to the customer. So I would not dispute your math, the effect of the price increases related to fuel would start to come into effect. We have seen some price increases going into effect in the second half of January. Whether that sticks will remain to be seen. So, this data is without the effects of the fuel price driven yield increases. Hopefully, as we said, fuel price will be passed on in the fares with some lag.
- Binay Singh:** We saw very strong load factors in December. How would you see load factors playing out in the coming year?
- Aditya Ghosh:** I will shy away from giving guidance on future load factors. But yes, we did see somewhat higher load factors compared to the same period last year.
- Rohit Philip:** Ultimately, we are looking to maximize our RASK. RASK is a combination of load factors and fares or yields and how that gets optimized changes depending on market conditions.
- Binay Singh:** We have not seen IndiGo doing that high load factors of 91%. Just wanted to understand, what happened in December? Was it like a one-off year-end load factor?
- Aditya Ghosh:** Certainly, the lower fares helped the load factors going up.
- Rohit Philip:** Obviously, there is a strong traffic growth, Binay. We saw 38% traffic growth in the quarter which certainly helped the load factor. Unfortunately, the traffic growth has not come up with the higher yielding traffic. In November and December in particular, we saw that the number of tickets we were able to book in the higher yielding buckets were lower compared to November and December of the previous year. So while you saw significant load factor, the higher yielding buckets were replaced by tickets that we sold in the lower yielding buckets, where there was still a very healthy demand.
- Moderator:** Thank you. The next question is from the of Sonal Gupta from UBS. Please go ahead.

- Sonal Gupta:** It seems like that there were four owned or finance lease aircraft which have been sold? Hence, we have seen 12 aircraft increase under operating lease, quarter-on-quarter. So, could you just talk about the P&L and Balance Sheet impact of these changes, mainly the finance lease aircraft?
- Rohit Philip:** We did a sale and lease back transaction for four of our owned aircraft. They still remain in our fleet. It was just the financing that we did and these owned aircraft now became operating lease aircraft. The P&L impact of that was not material. The cash flow impact was significant. So, when you look at our free cash flow, a portion of our increase in free cash flow is helped by the fact that we did the sale and lease back transaction. It helped cash but it did not help the P&L.
- Riyaz Peer Mohamed:** These aircraft were already 7-years old and our business model is to have as many aircraft on operating leases as possible. So, the sale and lease back helps us to phase out these aircraft in the next three years or so.
- Sonal Gupta:** These are short-term leases?
- Riyaz Peer Mohamed:** Yes, only three years.
- Sonal Gupta:** Would you be able to quantify what sort of cash inflow you saw because of that?
- Rohit Philip:** We will stay away from giving the details of a confidential transaction. But, I think when you look at our cash flow statement and then look at the sort of profit that was generated from operations, then there is some amount that will be attributable over and above that to this transaction.
- Sonal Gupta:** As of December, how many aircraft would be on sale and lease back where you are booking some sort of gain? Not the short-term leases, but excluding the short-term leases.
- Rohit Philip:** We have the disclosure in our 'Investor Presentation' that has the details of how many aircraft are on operating lease and owned. For all the new aircraft that we take, we do them generally on relatively short-term leases of an average about 6 years. We do not book a gain on this transaction. When we do a sale and lease back transaction, we do get an incentive from the manufacturer. That's a pretty common practice in the industry. Globally, anyone who does sale and lease back transaction gets this benefit. We do not book that as a profit. We do get it in cash, so it does help our cash. That incentive sits on our Balance Sheet and gets amortized over the life of the lease term. So it does help reduce our lease rent expense which obviously helps our CASK, but it does not generate a profit from the transaction.
- Sonal Gupta:** No, I understand you amortize, but would you be able to quantify how many aircraft would be there on such transactions?
- Rohit Philip:** The number is 80.
- Moderator:** Thank you. The next question is from the line of Rajani Khetan from CLSA. Please go ahead.

- Rajani Khetan:** Riyaz, we have been talking to a few lessors here and we are getting a sense that there is a lot of competition coming from the Chinese lessors especially in the purchase and lease back market for them. Is IndiGo, having such a big order of Neos, seeing benefit from that kind of competition in the leasing market?
- Riyaz Peer Mohamed:** We have been using Chinese lessors to finance our fleet for a long time now and this is nothing new. Yes, there is a lot of competition and that is good for us.
- Rajani Khetan:** Have you been seeing that the differential in the terms that you get with lessors improve over time despite the increase in competition or there is talk of oversupply and the premium is being narrowed for the Neos? Are you seeing lessor competition actually helping you expand or benefit you when negotiating with the lessors?
- Riyaz Peer Mohamed:** Yes, we do see that. We see the competition helping us.
- Rajani Khetan:** Are you also seeing the premium contract on the lease rentals for a Neo versus the Ceo and how much?
- Riyaz Peer Mohamed:** It is something that varies from transaction-to-transaction.
- Moderator:** Thank you. The next question is from the line of Pulkit Singhal from Motilal Oswal. Please go ahead.
- Pulkit Singhal:** Just want to understand the other expenses line again on quarter-on-quarter basis this is a significant jump I think of around 18%-20%. So what is the reason for that?
- Rohit Philip:** In the other expense line, we do mark-to-market of our foreign exchange liability. In the last quarter, it happened to be a gain, but in this quarter it was actually a loss. In the December quarter a year ago, it was a loss of Rs.195 million and loss of Rs.552 million in this quarter. So if you exclude the effect of that, you will find that roughly other expenses grew in line with capacity.
- Pulkit Singhal:** If there is 1% depreciation in the INR, how much impact does it have on this line item?
- Rohit Philip:** About Rs.30 crores.
- Pulkit Singhal:** Are you seeing any pressures on the landing fees and en-route charges, is there the structural reason why this might be just going up?
- Rohit Philip:** Yes, we did see an increase from about 20 airports that went into effect in the month of November and December. The biggest one was in Mumbai Airport where the increase was very high - 143% increase. We did see an increase in 19 other airports run by the Airport Authorities of India. So, that is really what drove the increase in this line item beyond the capacity increase.

- Pulkit Singhal:** We are aware that the country has limited airport slots and capacity constraints, etc., across various airports. Is this the kind of structural item that could kind of impact over the next three years? Because if we do not have slots, then maybe the airports can keep increasing the rates.
- Aditya Ghosh:** There is a regulatory mechanism around the private airports. Therefore it is not up to the airport operator to just increase rates. So there is a regulatory mechanism and then there is AERA and AERAAT. On the airports authority side, there has been an increase, but the increase has actually come after many years. So who knows what it will be going forward depending on what the expenses and commitments of these airports will be? But naturally from our perspective, we as airlines and we as a country, need to make sure that the cost of travel does not increase to a level where it becomes unaffordable for the larger number of people to travel.
- Pulkit Singhal:** You mentioned about the yield falling 20% and 17% odd in November and December. But if I understand correct, for November at least 40-50% of the bookings are done upfront for travel in November itself. So, I am still surprised that there was a huge yield decline. First week of November was anyways flown. So, is there an element of also rising supply which might have impacted this apart from demonetization?
- Rohit Philip:** Pulkit, as I mentioned, the number of bookings for those higher yielding buckets which show up closer to the departure date just did not show up.
- Moderator:** Thank you. The next question is from the line of Ansuman Deb from ICICI Securities. Please go ahead.
- Ansuman Deb:** We seem to have pared down our ASK capacity outlook for Q4 from 30% to 25% and along with that we are also planning to increase our destination by 6 cities. So, any particular reasons for that?
- Rohit Philip:** Let me comment on the capacity guidance and then Aditya will take the question on the destinations. The capacity guidance is just a little bit of fine tuning. So, we had set 30% for the third and fourth quarter. We exceeded the third quarter a little bit by doing 33% and then it is 25% in the fourth quarter. There are NOTAMS, and there are other things that go into it. There is also a delay of a few aircraft that we had. Earlier we had guided 136 at the end of March, now we are showing 133. It is just a timing difference in terms of when we are getting some of those deliveries. So, it is a modest change. I would let Aditya talk about the destinations.
- Aditya Ghosh:** As far as again growing our network is concerned, I have always said that we believe in the long-term growth opportunity in India. In a market that is growing at the level that it is, it makes sense to grow capacity at the rate at which we are growing. That is why we are adding the six new cities to our network - three within India and three overseas. We see that as an appropriate way to utilize our fleet- as a combination of strengthening our existing network and these new destinations that we will add on to our network.



- Ansuman Deb:** One last question regarding the fares. Do we see any kind of disparity particularly in Mumbai Airport as far as fares are concerned from Mumbai? Is the drop more or less unanimously the numbers that you talk from Mumbai?
- Aditya Ghosh:** I would say that the yield pressure is fairly secular across our entire network.
- Moderator:** Thank you. The next question is from the line of Kunal Lakhan from Axis Capital. Please go ahead.
- Kunal Lakhan:** On the Pratt & Whitney commentary, in terms of ramping up the production capacity in CY'17, they are looking at almost like 45-50% increase in their production. In light of that and looking at our passenger traffic growth at about 40%, are we maintaining our fleet guidance for March '18 at 154 or would we be revising that as well?
- Rohit Philip:** We are in the process of refining our 2018 plan. We will give guidance on the next call but we expect to be slightly higher than the prior guidance of 154.
- Kunal Lakhan:** Can you just help us in assessing the impact of the 8-hour daily shutdown that we may see at Mumbai Airport starting from tomorrow for the next three months. Is that getting factored into the 25% ASK growth that you are expecting?
- Rohit Philip:** It is factored into the ASK growth.
- Moderator:** Thank you. The next question is from the line of Vishal Rampuria from HDFC Securities. Please go ahead.
- Vishal Rampuria:** I have got two questions to ask you. Globally, we have seen pressure on the interest rates. I am sure that the interest rate has an impact on the lease rate. So has the lease rate for the new aircraft gone up?
- Riyaz Peer Mohamed:** We have been following a policy of doing all our leases, so far, on fixed rate leases. So, for the aircraft that are already in our fleet, it will have no impact whatsoever of an increase in interest rates or swap rates. However, for aircraft which are going to come in the future, yes, there would be a small increase in the lease rentals.
- Rohit Philip:** Having said that, Riyaz can also elaborate - we do a fair number of our forward booking of our upcoming aircraft deliveries. These are already financed in advance and rates would have been locked in on a fixed rate basis.
- Riyaz Peer Mohamed:** Yes, some of them are locked in.
- Vishal Rampuria:** Given the capacity constraints at the airports in India, what kind of the supply at an industry level can we see over the next two years?

- Aditya Ghosh:** I have said this before. Market is growing and that will also mean that there will be capacity coming in. We will add capacity and I am sure some of the others will add capacity too. I have said this many times before - a country of 1.2 billion people, we just have 450 commercial airplanes. So, we are not too concerned about capacity addition coming in.
- Vishal Rampuria:** Basically, I am asking from the airport constrained point of view. So I am not doubting the overall demand scenario - penetration levels are very low and I completely agree on that.
- Rohit Philip:** There are a few airports which are extremely constrained and we will try and add capacity there as and when opportunity comes up. There are also many airports which were not flying to and evidence of that is the fact that we are adding three more airports in the next 90-days.
- Moderator:** Thank you. The next question is from the line of Miten Lathia from HDFC Mutual Fund. Please go ahead.
- Miten Lathia:** Could you sort of help us with the trend that you would normally see in the month of December versus the month of November on a generic basis. Would December be a better month for yields than November or there is no such trend?
- Rohit Philip:** If you just take historically on an absolute basis December will obviously be better than November. But if you are referring to the numbers I gave earlier on the call, I was talking about year-on-year basis. So, November compared to November last year and December compared to December the previous year. So, the seasonality effect of November versus December was already baked into the numbers I gave you.
- Miten Lathia:** I think a previous participant has asked this - because there would be forward bookings, November would have seen the lesser impact than the month of December as December would have been a full month impact. So is that argument okay or not so?
- Rohit Philip:** So in theory, yes, you should have seen a lower impact in November than in December, absence the fact the demonetization happened. Clearly what happened is, there was a larger impact from demonetization in November. While, there were some forward bookings for November, the demonetization effect was probably greater in November. In December, the effect was a little worse, but it was not supported as much by forward bookings.
- Miten Lathia:** If I sort of add up all that I have gathered, you are saying that November plus December is one bucket and very distinct in their behavior versus January and January is much more closer to normal in the way you look at your yield buckets on an overall basis. Is that sort of what you are trying to convey?
- Rohit Philip:** I think what I was trying to convey was until the month of October we saw trends very similar to Q1 and Q2 including the month of October. January so far looks like going back to the similar trend that we saw in pre-November.

- Miten Lathia:** The other point- On the presentation you mentioned that there are still some issues ongoing with the new engines. It has probably been about a year that we are using these aircraft. What sort of visibility do we have on these issues getting resolved soon and what sort of an impact operationally should we understand the company is facing because of these issues?
- Aditya Ghosh:** Firstly, the good news is that we are seeing fuel burn savings with the new engine of about 15%, up from 14% that I had reported earlier and in some ways that is the multi-billion dollar bet that we took on the Neo engine. So as Pratt & Whitney mentioned on its earnings calls last week, there are certain issues with the combustion chamber lining, as a result of which we are not getting the engine life that we had originally expected. Now there is a redesign that Pratt is implementing to fix this. Pratt also talked about an issue with the oil seal where they have seen some failure. Pratt is working to correct that as well. There was an issue with the production of the fan blades which created some delays in the delivery of the engines and Pratt has informed us that they are addressing this problem and the productions are coming back on line. In the meantime, we are getting the support that we need both operational and technical from both Airbus and Pratt including the spare engines that we need to mitigate this impact on us.
- Miten Lathia:** These three issues have been the same since the first Neo was delivered or have something changed over the years?
- Aditya Ghosh:** If you recall, the very first issue was around motor to start time that it was taking which was much higher than what we would see in the engines that were on our Ceos. That has got resolved. So they had given a certain plan - there was a software patch that was supposed to come in, in June which it did and then there was something else that was supposed to get fixed by October which happened. The fan blade production of course we had seen earlier, so now that is coming back on track. So as and when these issues are coming up, they are working to resolve it.
- Miten Lathia:** While you are explaining the issue with engine, you mentioned the combustion chamber issue. When you said that it is impacting engine life, as in the overall duration of a particular flight, is it something that has to be only go into the reckoning when you use it over a longer period of time?
- Aditya Ghosh:** Engine life means the engine comes off the wing and then you replace it with another engine that you have which they are providing us.
- Miten Lathia:** So the economics for us do not necessarily change. These are well covered in terms of cost for us.
- Rohit Philip:** Yes, it is not a cost impact, it is more of an operational disruption. Of course, if the spares are readily available, which now they are, impact can be mitigated somewhat.
- Miten Lathia:** If you can share in terms of the utilization per day that you are getting in terms of your Ceos versus your Neos?
- Aditya Ghosh:** Our total fleet is running at utilization of 13.04 hours.

- Miten Lathia:** Both the type of aircraft would be clocking similar?
- Aditya Ghosh:** That is correct.
- Moderator:** Thank you. The next question is from the line of Prashant Kothari from Pictet Asset Management. Please go ahead.
- Prashant Kothari:** My question is around the operational issues that you are facing. The on-time performance has become a lot worse than what it used to be. I am just wondering if this is the result of very high growth that you are seeing and therefore we maybe took eyes of the balls or is it a result of your tight control on operational cost which we are seeing the results in the P&L. It is not a great result for the long-term. Any thoughts around that and how long could it take to kind of fix this issue?
- Aditya Ghosh:** First of all, the OTP number that I reported is for the quarter October through December which is a result of lot of weather delays that we see in this typical quarter and of course, combined with ATC congestion. So coming to weather, the North and Northeast part of India was impacted by fog, but I do not think that very many people realize that this winter was much worse than last year and in fact Delhi witnessed the worst fog in the last 16-years with 9 days of fog in December. Other cities such as Bengaluru, Chennai were significantly impacted by lower visibility as compared to last year as well. Having said that, we made certain changes to our operations to address these types of issues and we think that we will be back to our historical performance. The other bit that I talked about but I must reemphasize that when we are looking at a relative ranking, we have pointed out anomalies in the on-time data of some of our competitors. Two people have already got suspended by an airport operator and as the investigation goes on, I think we will probably end up seeing more.
- Prashant Kothari:** In the Earnings Call of the last quarter, you said that you started matching the fares of your competitors in order to kind of retain a market share. Is that need still there do you think?
- Aditya Ghosh:** Yes, we think that strategy is important and we will, of course, keep profitability in mind. In our business, even globally consumers are very value conscious and more so in India. Our business model is based on providing lower fares and a reliable product and courteous and hassle-free experience. We just cannot afford to have uncompetitive fares. We have the lowest cost structure and an improving cost structure so which enables us to provide those low fares and hence it is imperative that we should remain price competitive at each fare bucket.
- Moderator:** Thank you. The next question is from the line of Deepika Mundra from JPMorgan. Please go ahead.
- Deepika Mundra:** What was the incentives in the quarter on your rentals?
- Rohit Philip:** Sorry, Deepika, we do not provide those details.

- Deepika Mundra:** Second question is on yields. With the recent increase in fuel and also yourself and your competitors adding capacity, when do you see the yield situation normalizing a bit?
- Rohit Philip:** We talked about what we are seeing in January. At least, we are seeing a reversal of the sharp decline that we saw in November and December. Moreover, we have seen some fare increases that have happened in the second half of December to address the increased input cost. Beyond that we really cannot comment on this.
- Moderator:** Thank you. The next question is from the line of Rishabh Parekh from Sunidhi Securities. Please go ahead.
- Rishabh Parekh:** Just wanted to understand the growth in ancillary revenues not matching the growth in ASK. So has there been a slowdown there as well?
- Rohit Philip:** Like most LCCs globally, for us ancillaries are mainly related to passenger-related fees. We also show cargo revenue in that line item. Both those line items were impacted very similar to what we saw from a monthly trend perspective on passenger ticket sales. We did see sharp declines in cargo revenue in the month of November and December as well. So clearly there was that demonetization effect for us on the cargo line and cargo is about half the ancillary revenue. On the passenger related fees, there are some categories I will talk about. There is excess baggage charges- there was a regulation by the government that capped the amount that you could charge on the first 5 Kgs. So that did have an impact on us. We also have ticket change and cancellation fees. We have been seeing in the last couple of quarters that as the yield environment has been lower, more consumers are booking closer in and that amount has gone down on YoY basis because low fares are available even at the last minute. This effect will only reverse itself out once the fare environment gets back to being a little more normal and having a more premium for the closer-in bookings. Some of those things will come back, but those are some of the effects that drove the ancillaries to be up only 12% on YoY basis.
- Rishabh Parekh:** Also, your tax rate YoY has gone down from 30% to about 19%. What should a normalize assumption for the effective rate of tax be?
- Rohit Philip:** As you know, there are a number of factors that go into effective tax rate. Previously, we talked about the effective tax rate being in the range of 28%. Based on our revised calculations, we are estimating a full year effective tax rate to be in the range of 20-23%.
- Rishabh Parekh:** Will this continue in '18 and '19 as well, is this a one-off?
- Rohit Philip:** '18 or '19 it will be somewhere in 20% to 28% but it will be based on different factors and we will give more guidance closer in. For the full year fiscal 2017, we are estimating 20% to 23%.
- Moderator:** Thank you. The next question is from the line of Mohan Lal from Kotak Securities. Please go ahead.

- Mohan Lal:** Just a clarification on another question that was asked earlier, do you still see a difference in yield of IndiGo and your competitors and has the difference narrowed in the last two quarters because of the steep decline in yield?
- Aditya Ghosh:** Unless the competitor report their results I have no way to know what their yield is
- Mohan Lal:** Let us say any metro route normally earlier months we used to see a difference in the air fares that IndiGo were charging versus some of its competitors. Has that difference narrowed in recent months because of the decline in the ticket prices at your end or is there still some gap left?
- Rohit Philip:** I am not sure I fully understand the question. May be let me try to answer what I thought the question was and correct me if I did not get the question right. We have talked about the fact that we are matching the competition in terms of fares and we are not going to allow ourselves to be undercut. What that means is that there are different fare buckets and for each fare bucket we expect to be fully competitive. Now, if we sell out the low fare buckets, we may have on a particular flight higher fares than competition. That will be based on us having enough demand on that flight. So, now we have closed the lower yielding bucket. But we would expect based on our strategy to have the same price for every fare bucket.
- Mohan Lal:** Like you had mentioned earlier that some of the competitors were undercutting, so you wanted to bring down your average bucket fare lower to match them. So, has that process concluded or is it still in process?
- Rohit Philip:** We have matched the fares as of the second quarter and we very much continued it in the third quarter. We expect to continue it going forward as well.
- Mohan Lal:** Do you see them going further lower? Let us say starting of next year, is there a room where your fares go down further and next year also we see pressures on yield at your end?
- Rohit Philip:** Certainly, we would hope not because input costs have been rising. Fuel prices are significantly up and airport fees are also up. So we will be surprised if this trend continues but obviously we cannot really speculate further than that.
- Mohan Lal:** Just lastly, reason for this low effective tax rate of 22-23% this year. What would be the reason for that?
- Rohit Philip:** There are a number of factors that go into an effective tax rate calculation. I think that is probably as much detail as I can get into on the call.
- Mohan Lal:** In FY'18 also, it will remain like this or it will go back to 30%?
- Rohit Philip:** As I said, we do not have a specific forecast for that. We will give you more guidance closer end.

- Moderator:** Thank you. The next question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.
- Ravi Naredi:** Can you describe why the other operating income rose from Rs.24 crores to Rs.43 crores and other income of Rs.120 crores to Rs.171 crores?
- Rohit Philip:** The other income increase, as I mentioned on the earlier remarks, was driven by the increase in our cash balance. Other income is primarily finance income which is interest income on our cash balance and so as our cash balance has gone up, other income has gone up in line with that. Other operating income is a small number - it consists of many miscellaneous items like advertising and marketing revenue, some amortization of incentives related to finance lease aircraft. There are a number of line items in there. So the difference on a percentage level appears big, but on an absolute number, it is not a big impact.
- Ravi Naredi:** Any plan, strategy to deploy this cash reserve of Rs.84.55 billion?
- Rohit Philip:** Firstly, on the total cash balance, I think we have disclosed how much of that is restricted versus free cash. So less than half of that is free cash. The restricted cash obviously is restricted because it is backing up some obligations. Regarding the free cash flow, as we mentioned on our last call, our board will look at many factors at the end of the year including how much profit we generated for the year, what cash needs that the business has, etc., and based on that, come up with the recommendation on a dividend to be paid. We do expect to be paying dividend at the end of the year.
- Ravi Naredi:** The international flight revenue was less this quarter versus September '16 and profit is also down drastically in international flight. Can you tell the reason?
- Aditya Ghosh:** We run a profitable airline. So depending on the season and depending on the market there will be some domestic or some international which will be more profitable or less profitable. This is especially because our product is the same, whether we are flying domestic or international. We just deploy our capacity and look at it from a route profitability point of view.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to Mr. Ankur Goel for closing comments. Thank you and over to you, Mr. Goel.
- Ankur Goel:** Thank you, all for joining us on this call. To reiterate, the recording of this call will be made available on our website shortly followed by a written transcript.
- Moderator:** Thank you very much members of the management. Ladies and gentlemen, on behalf of IndiGo, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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Note: This transcript has been edited for readability and is not a verbatim record of the call.