"IndiGo's Fourth Quarter and Fiscal Year 2017 Financial Results Conference Call"

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Moderator: Good evening, ladies and gentlemen and welcome to IndiGo's Fourth Quarter and Fiscal Year 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 Treasury & Investor Relations for IndiGo. Thank you and over to you.

Ankur Goel: Good evening everyone and thank you for joining us for the Fourth Quarter and Fiscal Year 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 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 may 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 Whole Time Director – Aditya Ghosh.

Aditya Ghosh: Good evening everyone and thank you for joining us on this call. By now most of you should have seen our earnings press release. We will review our results in detail during the call but I would like to start by taking a few minutes to update you on our exciting new development. We have just announced that we have signed a term sheet with ATR for the purchase of 50 ATR 72-600 aircraft with the flexibility to reduce the number of aircraft deliveries based on certain condition. This term sheet is subject to reaching mutually satisfactory final purchase agreements with ATR and with the engine manufacturer. Assuming that the intended final purchase agreements are reached, we plan to launch our turboprop operation at the end of this year 2017 and expect to induct up to 20 ATR aircraft by December 2018. However, under certain conditions, IndiGo may take deliveries of only a limited number of aircraft.

There are many unserved and underserved cities in India which require reliable air transportation and our planned turboprop operation will cater to this growing demand. As you know, our Honorable Prime Minister Shri. Narendra Modi has outlined a vision for increased connectivity to small towns and cities in India. He said the new civil aviation policy marks an opportunity to cater to the aspirations of the people of India and that the UDAN scheme is a key component of that policy. He also said that Tier 2 and Tier 3 cities are becoming growth engines and enhanced aviation connectivity between them will be beneficial. At IndiGo, we are very much aligned with Prime Minister Modi's vision on this issue. We should see increased business activity in these small towns and cities which we expect will increase the demand for air travel in these regions.

Now let me take a minute to speak about the structure of our planned turboprop operation. While it would be a part of IndiGo, we will have a focused division that will have the complete responsibility to run this operation which will include many autonomous operating functions that will not overlap with our narrow body operations. These operating groups would comprise of flight operations, inflight services, dispatch and operations control, route planning and revenue management. On the other hand, it will not manage activities such as human resources, finance and legal since these activities will be managed by the current IndiGo infrastructure that is already in place.

The advantage of this overall structure is that it would avoid adding complexity to the IndiGo's mainline operations while at the same time let most, if not all, administrative functions be handled by the existing IndiGo departments. Complexity comes about, for instance, from adding a Boeing 737 or a 757 into a narrow-body A320 mainline operation and then having to optimize the mainline network with different types of aircraft. In fact, when we run the numbers, the standalone ATR operation while avoiding this complexity will actually result in synergies in the corporate overhead and some operational activities such as ground handling.

While we continue our discussions with the aircraft and engine manufacturers to finalize the aircraft and engine purchase agreements, we will immediately start putting together the necessary resources both in terms of people and infrastructure to be in a position to launch our operations later this year in the hope that we shall be able to satisfactorily reach agreements with these two suppliers. Please note, however, that while we are very motivated to launch the turboprop operation, no assurances can be given that we will reach a final agreement on the purchase of these aircraft.

Now coming to our earnings, we announced our Fourth Quarter and Full Year Fiscal 2017 financial results today. We have reported a full year profit after tax of Rs.16.6 billion, our 9th consecutive profitable year. For the fourth quarter, we reported a profit after tax of Rs.4.4 billion with the profit margin of 9.1%. Compared to the same period last year, our profit after tax was lower primarily due to an increase in fuel prices. Rohit will discuss our financials in more details a bit later. We added 5 aircraft during the quarter, all these planes were A320 Neos. With the addition of these planes, our overall fleet increased to 131 at the end of the quarter, out of which 19 were Neos. Over the fiscal year 2018, we expect to add 39 airplanes, of which 28 would be Neos. With these additions, we expect to end Fiscal Year 2018 with a fleet of 170 A320 aircraft which is higher than what we had guided previously. We had announced opening of 6 new destinations in the previous call. We are pleased to report that we have already started operations to Doha, Sharjah, Mangalore, Madurai and Amritsar and we will be starting operations to Dhaka soon.

We were ranked No. 1 in on-time performance in the month of March with an OTP of 88%. Usually at the end of the year, OTP takes a bit of a beating because of bad weather and that is something that we anticipate. However in the latter part of 2016, our own operations had to deal with the added complexity of increased passenger connections and crew swaps. This was one of the reasons that our OTP dipped in the third quarter. Once we identified the root causes, we put in a number of measures to improve our on-time performance. These include optimizing the schedule to reduce crew swaps and putting in place better processes to deal with connecting bags and passengers. As a result, we saw our on-time improve to 71.2% in January, 79.7% in February and finally 88% in March. Also for the quarter, our technical dispatch reliability was 99.86% and the flight cancellation rate was 0.5%.

Now let me spend some time to update you on the performance of the Neos. The fuel performance of the Neos continues to meet our targets and are giving us a fuel savings of about 15% compared to the A320 classics. If you recall from our previous call and consistent with what Pratt & Whitney had also mentioned, there were two significant operational concerns around the Neo engines. The first issue pertains to the combustor chamber. An improved combustor chamber is expected to be available in the fourth quarter of this calendar year. However, Pratt & Whitney is working on further design improvements which will be retrofitted on the engines later.

The second concern was the No.3 bearing seal wear leading to a "chip detected" message. Pratt & Whitney has come up with an improvement package certified by industry regulators including FAA and EASA on the 12th of April. This includes necessary hardware and software changes. This change has now been carried out on all IndiGo A320 aircraft engines. As per Pratt & Whitney, this should significantly alleviate the problem due to the No.3 carbon seal wear. In addition, new production engines and spare engines we receive will be equipped with the carbon seal improvement package. Pratt & Whitney will continue to work with us to ensure operational reliability. However, Pratt & Whitney is working on further design improvements which will be retrofitted on the engines later.

Before I end, I have good news for all our shareholders too. As I mentioned earlier, we have reported yet another profitable year. Based on this, our Board of Directors has recommended a dividend of Rs.34 per share subject to, of course, shareholders' approval at the Annual General Meeting.

With this, let me hand over the call to Rohit for an overview of our financials.

Rohit Philip: Thank you Aditya and good evening everyone. As Aditya mentioned, we have reported yet another profitable year, our 9th consecutive year of profitability. For the full year, we reported a profit after tax of Rs.16.6 billion with a profit margin of 8.9% compared to a profit after tax of Rs.19.9 billion with a profit margin of 12.3% last year. Our EBITDAR for the year was Rs.54.4 billion with an EBITDAR margin of 29.3% compared to an EBITDAR of Rs.56.8 billion with an EBITDAR margin of 35.2% last year. We delivered earnings per share of Rs.45.94 for the full year.

For the quarter ended March 2017, we reported a profit after tax of Rs.4.4 billion with the profit margin of 9.1% compared to a profit after tax of Rs.5.8 billion with a profit margin of 14.3% during the same period last year. We reported an EBITDAR of Rs.14.5 billion with an EBITDAR margin of 29.9% compared to an EBITDAR of Rs.15.5 billion with an EBITDAR margin of 37.9% during the same period last year. Our profitability in the quarter was lower than the same period last year, primarily due to higher fuel prices we had this year.

Our total capacity for the March quarter was 14.1 billion ASKs, an increase of 24.2% compared to the same period last year. Our revenue from operations in the March quarter was Rs.48.5 billion, an increase of 18.5% over the same period last year. Our ticket revenue was Rs.42.6 billion and ancillary revenue was Rs.5.5 billion, an increase of 20.5% and 3.1% respectively compared to the same period last year. Our other income was Rs.2.9 billion for the quarter.

Our RASK for the quarter was Rs.3.52, down 3.3% from Rs.3.64 during the same quarter last year. The decline in RASK was driven by a 4.2% decline in yield which was partially offset by 1 point increase in load factors. While the yields were down 10% in the month of January, there was an improvement in year over year yield trends in the month of February and March as the industry was partially able to pass on the increased fuel cost to consumers. Our CASK was higher by 5.5% from Rs.2.92 for the quarter ended March 2016 to Rs.3.08 for the quarter ended March 2017 driven by an increase in fuel prices of 38.3%. Our CASK, excluding fuel improved by 8.9% from Rs.2.02 to Rs.1.84 in the quarter driven by our continued focus on cost performance. We also had total debt of Rs.26 billion on March 31st 2017. Our cash balance at the end of March was Rs.93.4 billion comprising of Rs.44.3 billion of free cash and Rs.49.1 billion of restricted cash. Based on the cash position and the overall profitability for the year, as Aditya mentioned earlier, the Board of Directors of the Company have recommended a dividend of Rs.34 per share for fiscal 2017.

Let me end by giving you our expectation of fleet and capacity. We expect to end the current financial year with a fleet of 170 A320 aircraft including 47 Neos. The year-over-year capacity increase is expected to be 25% for fiscal 2018. This excludes the planned ATR operation. For the first quarter of fiscal 2018, the year-over-year capacity increase is expected to be 22%.

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 the Q&A.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Rakesh Jhunjhunwala from Rare Enterprises. Please go ahead.

Rakesh Jhunjhunwala After all the aviation fuel price is dependent on the international oil price and the value of the Rupee against the Dollar, so I feel that although the oil prices have gone down and the Rupee has gained, the government has not commensurately reduced the price of aviation fuel. So, one question is what would be the parity price, second thing is how the yields in April and how do you anticipate yields for the quarter and the year?

Rohit Philip: Let me take the first question with respect to the fuel prices. Clearly by the time you take the international oil prices and international jet fuel prices and then translate it to the Indian prices that typically are set by our Indian oil companies, there is a little bit of opaqueness in how the price gets translated. It does not get translated real time because it gets set every month. So, yes we would hope that we would be able to get the reduction in prices effective in the Indian Jet Aviation turbine fuel prices with shortly, but there is a little bit of a lag and a little bit of lack of transparency how that process works unfortunately.

Rakesh Jhunjhunwala: But, what is the difference you think because you must be having a table where you calculated?

Aditya Ghosh: There is a lot of opacity on how the price of ATF is charged to Indian operators versus what is happening in the international market and in fact, this is a very public news that airlines for many years have been actually trying to work with the government to try and bring about more transparency in this pricing mechanism.

Rakesh Jhunjhunwala: So you have no idea that what will happen?

Aditya Ghosh: We get to know when the price is determined at the beginning of each month.

Rakesh Jhunjhunwala: No, but there is some linkage to the international price and the Dollar

Rohit Philip: Yes, absolutely. It is based on the factors of international fuel prices and the dollar prices, but then ultimately, there is a little bit of a black box that ends up translating it into the price here.

Rakesh Jhunjhunwala: No, but the price should decline by 5%-10%, I mean I listened to opaqueness but you have an idea no? Not in terms of what government will do but what the fair price is? So about last time when they said the price of oil was 55 and the Rupee was 67. So today it is 50, so that it will go down by 10%, no?

Rohit Philip: Yes, absolutely correct theoretically.

Rakesh Jhunjhunwala: That is what I am asking you. So theoretically what should be, whether do it or not we do not know.

Rohit Philip: I am sorry, I do not have that calculation for you right now. We can may be follow up with you offline with that calculation

Rakesh Jhunjhunwala: And second question is, how are the yields in April and how do you see the yields going ahead?

Rohit Philip: So, let me try to answer that question and Aditya can chime in. We typically do not give forward-looking guidance on yields.

Rakesh Jhunjhunwala: April has gone?

Rohit Philip: Right, we stay away from giving guidance on yields…

Rakesh Jhunjhunwala: No, I am not asking for guidance sir, okay you do not give me guidance, I am asking for April which is passed which has already happened. And if you do not want to give your yields during this, you can give us some idea how the industry is fared?

Aditya Ghosh: So, Rakesh Ji, there have been improvements in the yields particularly in the months of February and March and things are better. But there is still some distance to cover before we see truly rational pricing environment.

Rakesh Jhunjhunwala: Sir, if you do not want to share anything, I am asking you how yields have fared April?

Aditya Ghosh: Yes, but because April is part of this current quarter, we will not comment on this current quarter till the time that the quarter is over.

Rakesh Jhunjhunwala: You are giving a public statement the time is out, I mean the period is over, okay do not consider your yields, some idea of industry yields.

Aditya Ghosh: I have already commented on it.

Moderator: Thank you. The next question is from the line of Aimee Truesdale from Jupiter Asset Management. Please go ahead.

Aimee Truesdale: Do you have a dividend policy and is there is a set payout ratio outlined in that policy?

Rohit Philip: What we have said on our dividend policy which we said on the last couple of earnings calls is that our Board of Directors annually will look at the profit after tax that has been generated for the year. We will look at the cash balance available and we will look at the uses of cash that the board anticipates the business will need and based on that make the decision annually. We do not have any target payout ratio. So, based on the factors that our Board looked at this year, we recommended the dividend of Rs.34 per share but it is not based on any target payout ratio.

Aimee Truesdale: And there are no plans to review or put in place a dividend policy or will you do that anyway?

Rohit Philip: This is our dividend policy. As you probably know, in the airline industry, it is not very common for airlines to pay an annual dividend or to pay dividends at all. So, we do not think we are in a position to be able to guide on a particular payout ratio. Having said that, we will look at the situation annually and make our decision.

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

Ashutosh Somani: When we say that the yields were better in the month of February and March, how do you juxtapose it along with the pax growth being slower, especially in the month of March? Do you think the higher yields have percolated to lower pax growth? The other thing is if you can give some sense of what is the scale we need in the ATR that we have ordered, for EBITDAR to breakeven. What is the operational dynamics or economics of the ATR aircraft that we have ordered, especially in terms of fuel efficiency?

Aditya Ghosh: As far as the growth in traffic is concerned, year-over-year traffic growth in March was 14% compared to the capacity growth of 16%. Now in several prior months where the traffic growth was in excess of 20%, capacity growth was also in excess of 20%. So, it is kind of tracking and it is not that there is a significant difference and yields were down in excess of 10% throughout the year up till January 2017 due to the prevailing market dynamics. In February and March, we had seen an improvement in the yields across the industry. This also reflected that we have been able to partially pass on some of the increased fuel cost. On the ATR, may be Rohit can comment.

Rohit Philip: On the ATR, it is too early to give guidance on specific numbers in terms of breakeven and those kinds of metrics. Obviously when we looked at the economics of the turboprop alternatives out there, certainly the ATR aircraft have a slightly lower fuel burn than one of the other competitive products. But there are lot of factors that go ultimately into the economics of the operation and ultimately the key is to run an operation that will have the right cost structure overall for the market that it serves in and ultimately look at a RASK minus CASK spread that we will be looking to optimize.

Ashutosh Somani: Absolutely. Can you just share the specific ratio in terms of fuel consumption liter per kilometer or howsoever you state it?, Can you just give the specifics of this particular aircraft that we have ordered?

Aditya Ghosh: While we want, we are not in a position to discuss all the details that went into the decision-making process and also obviously, some of it is somewhat confidential between the manufacturer and us.

Both the ATR and the Q400 aircraft manufacturers make great products and the Q400, which is operated by one of our competitors, has proven to be successful in India. Having said that, for us, the ATR was the right product and then as Rohit explained, it is not just the cost side of it but then if you look at the revenue side of it and the spread of it, it is what will finally determine whether the operation is feasible or not.

Moderator: Thank you. The next question is from the line of Vishal Rampuria from HDFC Securities. Please go ahead.

Vishal Rampuria: One question is that this incentive income in this quarter has not changed much on a quarter over quarter basis despite adding 5 new A320 Neos. Can you explain why?

Rohit Philip: Yes, I think there are many factors that go into that line item. Obviously, you get additions to that line item with addition of aircraft. You also have certain aircraft where the lease period over which the incentives were being amortized has expired. So, there is netting of all those factors that go in and that is why for this quarter that number has not moved very much.

Vishal Rampuria: On the other income in this quarter - Can you explain how much is the yield on your cash?

Rohit Philip: I actually need to take a minute to explain the Other Income. One of the items that we have been guiding on the Q&As of the last few quarters is the mark-to-market gain or loss we take on the foreign exchange. In this quarter, rupee strengthened by Rs.3, so we had a mark-to-market gain. There was a net gain for the year that was booked in the other income line and that number was Rs.826 million. So, that explains part of the increase in the other income line, the rest is based on interest earnings in cash. So while the cash balance has gone up, interest earnings on the cash on a year-over-year basis are actually lower this year as you probably can expect. So, it is about a 2 to 3 point reduction in the interest rate that we are earning our interest income on, but that is offset by this Rs.826 million net gain on foreign exchange.

Vishal Rampuria: So, one last question to ask you. Basically, the addition on the fleet size for FY18, can you explain this change in strategy because earlier it was supposed to be around 154, now you are guiding up for 170 aircraft. Can you explain what is happening on this side?

Rohit Philip: **As** we mentioned on our last call, we had previously guided 154 aircraft for fiscal 2018 but what we said was that we will update that guidance on this call. We also indicated on the last quarter call that we expect that number to be higher than the 154 that we have previously guided. So as we worked through our full business plan and the specifics of what we were planning to launch, the number that we have just talked about of 170 aircraft is our plan.

Vishal Rampuria: So, 11 extra would be non A320 Neos. Is it that it is on short-term leases. Can you just explain whether it is a short-term lease or it is like a long-term lease?

Rohit Philip: So in addition to the 28 Neos, the remaining aircraft will likely be on shorter term leases. They would likely be on shorter term leases similar to what we did over the course of fiscal 2017.

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

Anand Krishnan: Just wanted to understand the shift in strategy from one type of aircraft Company to now actually introducing ATRs especially when our business model used to always have advantages on the cost front because of the same. Just wanted to understand the shift in strategy.

Rohit Philip: I will attempt to answer that. I think Aditya talked a little bit about it earlier on the call and as he described, complexity really comes about when you add like a Boeing 737 or Boeing 757 into your mainline A320 operation. So, when you do that, you are trying to optimize the mainline network with different types of aircraft that create complexity of trying to manage multiple fleet types. If you just look at what drives that complexity and the cost in the full service airlines which has multiple fleet types, there are a few main issues. Probably, the biggest one is pilot training cost. Say, if you have a mainline fleet type where you have one set of pilots. Then, when they get a promotion they want to move from a first officer of an A320 into a captain of another fleet type and you have to keep training them and the recurring training cost would create a lot of cost and complexity, so that is sort of one element

Secondly, because now you don't now have the flexibility of that pilot pool to be able to be scheduled across all aircraft, you have separate pilot pools for each aircraft type and you need to have more reserves. Hence, you need to have more sort of inefficiencies in the system. The other thing is when you try to schedule a plane, if you have a route network where you are scheduling multiple types of fleets on the same routes, you might have one flight between Delhi and Bombay with a 737 and another with a 757. Now, if there is some kind of IROPS, you need some flexibility to swap aircraft, now you have a different aircraft, you do not have the right crew available, you do not have a lot of those type of things, you have to add in lot of buffers for those kind of things. So, those are sort of what historically and I had a fair amount of experience living through complexity in my prior experiences at United Airlines and these are the kind of things that drives complexity.

So as we look at this operation, we absolutely want to avoid that. We will keep the operations of those aspects of this business completely separate. We will still obviously capture all the synergies of not needing a different HR or finance or all the administrative functions. It is the operational aspects which add complexity and we will look to have two separate operations which will allow us to not let complexity creep into either of the two operations.

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

Sonal Gupta: Just to understand a couple of data related questions. First was again on the mark-to-market FX gains. Has all the FX gains gone in other income or are there any FX gains in other expenses? I think some of them go into other expenses as well. Right?

Rohit Philip: Let me complete that explanation. So, the full mark-to-market explanation is that there was a reversal of prior losses recorded in other expenses and there was a net gain over and above the reversal of other expenses was booked in other income which was the 826 million that I talked about. In other expenses, there was a reversal of Rs.796 million of prior mark-to-market losses that were reversed in the other expense line. So, there is a benefit of Rs.796 million in other expenses and a benefit of Rs.826 million in other income.

Sonal Gupta: And again on the FX side, because the currency is appreciating and a lot of your costs are Dollar-linked – like these lease rentals etc., so, where is the benefit on the balance sheet? How do you take that? Does that directly go to equities or how does that work?

Rohit Philip: We have got a fair number of foreign exchange liabilities on our balance sheet and as we publish the full details of the balance sheet as part of our annual report later this year for March 31, the total foreign exchange liabilities have grown to over $500 million. So, what that does is now a Rs.1 appreciation would result in about 50 crores benefit and vice versa. That would be the balance sheet and a mark-to-market unrealized gain or loss on the liabilities. Obviously, on our existing business, we have got fuel prices which is ultimately rupee denominated but is exposed to the fluctuations of the Dollar, as you know. And then in the rest of the expenses, your aircraft and engine rentals line are primarily foreign exchange denominated. So, that exposure we do have in the P&L, in addition to the liabilites on the balance sheet.

Sonal Gupta: Should you not see some significant gains on that flowing through other comprehensive income?

Rohit Philip: The answer of that question is no. We can explain that offline in terms of how our accounting policy works. It flows through the P&L.

Moderator: Thank you. The next question is from the line of Joseph George from IIFL. Please go ahead.

Joseph George: When you refer to the potential ATR operations, would it be right to assume that these ATRs would operate on routes which are completely exclusive of your current mainline operations or will there be any overlap?

Aditya Ghosh: It is probably too early to comment on the details of our route planning for the moment. We will reveal our launch routes and our route plan network in sometime as we go ahead. We do see a tremendous amount of growth opportunity in Tier-2 and Tier-3 cities and we think that there are many such opportunities to deploy these planes profitably.

Joseph George: The numbers that you gave out regarding the MTM gain of Rs.826 million and the reversal in other expenses of Rs.796 million – are these for 4Q or are these for the Full Year FY17?

Rohit Philip: These are the numbers that we have booked in 4Q. So, for the full year effectively what happens is the net gain that was booked in other income for the quarter, the Rs.826 million is effectively the full year mark-to-market gain.

Joseph George: What is your view on the capacity increase in the industry in FY18? When I think about it, IndiGo which has a 40% market share would add may be 25% to the ASKM if I include the ATRs. So, IndiGo by itself is adding about 10% to the industry capacity and I guess there would be small additions from the other players as well. So, when you think about it in that light, do you see a scenario where the industry capacity in FY18 would actually be increasing at a much higher rate compared to the passenger growth – especially, when in the last couple of months, we have seen some moderation in pax growth?

Aditya Ghosh: This question keeps coming up periodically and the way we see it is that this is a country which is highly underpenetrated. This is the country that needs more air connectivity and more air travel. When you are building a long term business, there is sometime a lag between capacity and passenger growth. As you said, there was some slowdown of passenger growth in the last few months, but that is also for the weaker months of the year. Now we are heading into summers, load factors are up. We believe in the long term business opportunity for IndiGo and the opportunity that India presents.

Rohit Philip: I would just add that the demand over the last couple of months while sort of the March number was not the 20% year-over-year that you were used to seeing, capacity growth in March over the previous March was only 16%. So, obviously the demand growth cannot grow if the capacity does not grow in that particular month and that is, because I think, a year ago in March we saw a big increase in year-over-year capacity and that was not there in previous months. So, I think looking at the 20% number and then suddenly seeing at lower number is not necessarily a reflection of demand slowing down. Obviously, we will all have to see how demand continues in the short and long-term, but I would not look too much at that March number as something that is pointing out to any trend.

Moderator: Thank you. The next question is from the line of Anshuman Deb from ICICI Securities. Please go ahead.

Anshuman Deb: I just wanted to have a brief understanding of the fares. In the last con-call, you said that the January fares were near about 11% decline Y-o-Y. This quarter we have an aggregate decline of around 6%. So, that would mean kind of a positive fare growth in February and March. Is that a right understanding?

Rohit Philip: So firstly for the quarter, the yields were down 4.2%. So, there was clearly an improvement in February and March from the negative 10% in January, so the overall yields for the quarter was down 4.2%.

Anshuman Deb: And my second question is regarding the upcoming capacity. Would you share any details about the deployment strategy of this capacity? Are you making any kind of emphasis on any location, may be Tier-1 or any metros or region wise North, East, West, South any kind of specific? Would you be sharing that?

Aditya Ghosh: No. Our growth is quite secular.

Moderator: Thank you. The next question is from the line of Saurabh Kumar from JP Morgan. Please go ahead.

Saurabh Kumar: My first question is essentially on your rental cost. So are these rentals fixed in nature or floating and variable rates in nature?

Rohit Philip: They are primarily fixed in nature.

Saurabh Kumar: And fixed for the entire term of the lease?

Rohit Philip: Yes. Operating leases are typically on the fixed rate basis.

Saurabh Kumar: And on this ATR, so you are purchasing these aircraft, right? There is no leasing involved in this. This will be on your balance sheet now. Right?

Rohit Philip: Saurabh, we have a number of options available with us in terms of how we want to finance these aircraft. You can do ECA financing, you can do leases, you can do bank debt, you can may even choose to buy them with free cash. So, there are many options available, so it is too early to comment on what options we will choose.

Saurabh Kumar: Can just help me with your landing charges for this quarter, what will that number be?

Rohit Philip: It is not shared separately, it is part of other expenses.

Saurabh Kumar: Sir, you used to give this earlier.

Rohit Philip: Yes, I do not have that for you now.

Moderator: Thank you. The next question is from the line of Manjeet Buaria from Solidarity Advisors. Please go ahead.

Manjeet Buaria: I wanted to understand how one thinks about the tax rates for your Company. I would have presumed that your core operations would be full tax operations. So, are there any benefits which you get?

Rohit Philip: There are several line items that go into the calculation for the tax rate that might be different from how the P&L is calculated. When you look at sort of cash and non-cash items in particular obviously the other factors includes sort of aircraft depreciation where the tax depreciation is different than book depreciation. So, when you look at that, then you ultimately express an effective tax rate as a percentage of your book profits. It is going to be different from what your statutory tax rate would be.

Manjeet Buaria: So, I just wanted to understand we do not pay MAT as of now, right?

Rohit Philip: We do not pay MAT right now that is right.

Manjeet Buaria: So, I just wanted to get a sense like over time is this tax rate supposed to be in this 20% to 24% bucket based on the depreciation, etc., you mentioned or it keeps moving more than that. So, I just wanted to get a sense of how to think about the tax rate over a longer period of time?

Rohit Philip: Okay, fair enough. Now I got your question. So, we expect our tax rate to be in the range of 28% to 30% going into the fiscal 2018. That is what we had originally expected for fiscal 2017 as well and through the year and on earlier calls, we had guided it down to 20% to 24% for this year. This was because we had taken some MAT write-backs during the year. I had given the details of that in Q1 and Q2 that we have taken some MAT write-backs that helped us, which made the effective tax rate number lower for this year. But going forward, we expect to be in the 28% to 30% effective tax rate.

Moderator: Thank you. The next question is from the line of Mayur Milak from IndiaNivesh. Please go ahead.

Mayur Milak: Just had a couple of questions. One on the capacity additions, so while we have been saying that - just wanted to understand do we really consider the softening of yields as a reason of the industry capacity additions. So, if you are really going to exceed the capacity addition way above the demand that would mean that the fixed cost related to that capacity will definitely come into the books, but at the same time we are not really seeing that excessive demand coming and further the other guys also adding capacity, would not that really add pressure on the yields and the yields would continue to be soft going forward as well?

Aditya Ghosh: The way we look at it is that in the past several months, traffic growth was in excess of 20% and the capacity growth was also in excess of 20%.

Mayur Milak: So, we have not seen yields improving because they were both hand-in-hand and now that if we expect that the capacities will be higher, would that not really add more pressure to the yields as well?

Aditya Ghosh: Actually, we do see yields improving. As I pointed out and as we look at capacity growth over the next one year, we absolutely expect traffic to also grow.

Mayur Milak: Secondly, clarification on the forex, so we have been saying that the MTM gain is non-cash item, right, it is more of a bookish entry. The Rs.826 million on the other income and similarly a reversal of Rs.796 million would be a non-cash reversal in expenses. So, does not that mean that the entire PAT that is reported right now seems to be bloated by almost Rs.160 crores because of these adjustments?

Rohit Philip: I would not characterize it that way and that is the reason why the rules of financial reporting are the way they are. This was in the other direction in the last couple of quarters and it is in this direction in this quarter. Hence, I have given the full disclosure so that the investors can look at our numbers and understand them fully.

Mayur Milak: And just one last question on the ATR. Presuming that since you had mentioned in the opening note that this was more to do with the UDAN scheme, will this be more for the regional connectivity? You also mentioned that you will try and keep their operations separate from your mainline operations. Now would this mean that so far we have not seen you bidding for the newer routes, but once you are closer to the finalizing of the ATR, you start bidding on the regional routes as well?

Aditya Ghosh: Yes.

Moderator: Thank you. The next question is from the line of Parita Ashar from Ambit Capital. Please go ahead.

Parita Ashar: Congratulations on the sharp upgrade in fleet guidance. Now, as I understand that India is underpenetrated and we have been growing at (+20%) for the last 2 years, we are yet to see a year when we have a (+20%) capacity and demand growth without any cuts to yields. Now given there is limited scope for further decline in yields at the cost of margins if tomorrow IndiGo was to make a choice of further cuts to say, either maintaining load factors or cutting down on fleet guidance, how would the management think about it and what is your thought on that?

Rohit Philip: We have a fleet plan that we put together with a fair amount of thought in terms of where we think we will deploy this capacity. We expect to follow through on our fleet plan, as we look at the demand environment in the short term. What we have to do is we have to optimize our RASK which is a combination of yield and load factor and that is a normal function that an airline will do. So, you cannot really look at load factor versus anything else. On our capacity plan, we are pretty comfortable with it over the next year.

Parita Ashar: So, my question particularly was if we see demand growth being significantly lower, say, the numbers that we saw for March to continue for some more time and we see a pressure in terms of load factors, clearly demand being lower than capacity in the event that happens, would we consider lowering the fleet guidance or that is something that is more structural and that is something we will live with in the short term?

Aditya Ghosh: We are not fixated on load factors in isolation. We are looking at running a profitable airline. We will look at optimizing RASK. So, at the end of the day, we are also focused on the other very important part of the equation which is making sure that we are the lowest cost producer of the seat in the country and possibly one of the lowest cost producers of the seat in the world and as long as that RASK minus CASK spread is what we are focused on - yes load factor is one of the elements but load factor is not about driving, what is driving the capacity guidance.

Rohit Philip: And I will just add on this March data point, year-over-year the capacity for March was only up 16%.

Moderator: Thank you. The next question is from the line of Mohan Lal from Kotak Securities. Please go ahead.

Mohan Lal: Congratulations on a very good performance in a tough quarter. You just now remarked that you see yields improving going forward and so just wanted to understand a bit more, what do you think has changed for the industry in the last 3 months? In February and March, yield movement was positive and outlook is also improving now versus what you had communicated at the end of the third quarter. If you could explain a bit more on what is changing in terms of the behavior of the participants?

Rohit Philip: Just to clarify, we did not make a comment on yields going forward. It was only about the trend in the quarter – from the beginning of the quarter towards the end of the quarter. Certainly, things were improving in February and March and they were sequentially improving too. I think a little bit of that had to do with the close-in bookings. The fares with close-in bookings were higher and we did not have as many low fares available in the last week of travel that you had probably in the last couple of quarters. You saw a little bit of that sort of probably is being the primary driver of the yield improvement in February and March. Certainly, fuel prices increased by fair amount. So, there was certainly a fair amount of impetus from the industry overall to sort of recover some of that increased cost through fares and that is what you saw in February and March. We are hopeful that this trend will continue but we will not give guidance at this point in terms of yields.

Mohan Lal: You said that the low fare bucket was less in the last 2 months. That trend continues in April and May as well. Any comment on that?

Rohit Philip: Unfortunately, we will not comment on April or May. All I am saying is that yes, there was better fares in the last week of travel in February and March than they had in prior quarters.

Moderator: Thank you. Ladies and gentlemen, that was the last question. 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. Just to reiterate, the recording of this call will be made available on our website shortly followed by a written transcript**.** Thank you.

Moderator: Thank you. Ladies and gentlemen on behalf of IndiGo, that concludes this conference call. Thank you all for joining us and you may now disconnect your lines.