“IndiGo Second Quarter Fiscal 2018 Financial Results Conference Call”

October 31, 2017

MANAGEMENT: MR. ADITYA GHOSH – PRESIDENT & WHOLE TIME DIRECTOR
MR. ROHIT PHILIP – CHIEF FINANCIAL OFFICER
MR. ANKUR GOEL – AVP, TREASURY AND INVESTOR RELATIONS

Operator: Good evening ladies and gentlemen and welcome to IndiGo's Conference Call to discuss the second quarter financial results for fiscal year 2018. 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 call over to your moderator, Mr. Ankur Goel, Associate Vice President of Treasury & Investor Relations for IndiGo.

Ankur Goel: Good Evening, everyone, and thank you for joining us for the Second Quarter Fiscal 2018 Earnings Call.

I have with me our President and Whole Time Director -- Aditya Ghosh and our Chief Financial Officer – Rohit Philip.

Before we begin, please note that today's discussion may contain certain statements on our business or financials which will be construed as forward-looking. Our actual results may be materially different from these forward-looking statements.

The information provided on this call is as of today's date and we undertake no obligation to update the information subsequently.

A transcript of today's call will also be archived on our website. We will upload the transcript of today's prepared remarks within an hour. The transcript of the Question and Answer session will be uploaded subsequently.

With this, let me hand over the call to Aditya Ghosh.

Aditya Ghosh: Good evening everyone and thank you for joining us on this call.

We announced our second quarter fiscal 2018 financial results today. We reported a profit after tax of 5.5 billion rupees with an after tax profit margin of 10.4%. Our year on year profit improvement was favorably impacted by two factors: One - we did not optimally manage our revenue last year and as a result our RASK performance last year was sub-optimal. Since then we have corrected this and have put in place new people and processes in our revenue management function. This has resulted in much better revenue performance for us in this fiscal year. And two - we were significantly helped this quarter by the credits we received from our manufacturers related to aircraft groundings and delivery delays.

Rohit will discuss this when he takes you through our numbers in detail.

We also continue to be the leading airline in terms of on-time performance and were ranked No. 1 in OTP in July, August and September with an average OTP of 87.0% for the quarter. Our technical dispatch reliability during the quarter was 99.84%. Our flight cancellation for the quarter was 0.37%. Our preparations for the launch of our Turboprop operations are on track for a year end start. The teams have put in a lot of hard work in order to launch our regional operations within a relatively short period of time. In fact, we have already started selling tickets and our first ATR aircraft is expected to commence operations from 21st December 2017. We are excited at the opportunity of once again being able to redefine air travel in India by bringing the reliability and efficiency of IndiGo's operations to towns and regions in our country which so far have been devoid of reliable air service or have been subject to exorbitant air fares. With the commencement of our regional operations, we will introduce three new destinations: Tirupati, Rajahmundry and Vijayawada into our network between December 2017 and January 2018.

We added 6 aircraft during the quarter of which 2 were A320neos taking our total fleet count to 141 and our A320neo fleet count to 24. As we have discussed previously, the challenges associated with the neo engines and the shortage of spare engines from Pratt and Whitney led to the grounding of as many as 9 neo planes at its peak last quarter. We have started receiving some of the spare engines and we currently have no A320neo on the ground awaiting spare engines. Having said that, we continue to monitor the situation closely and work with the manufacturer to maintain sufficient spares.

In parallel, we are also looking at various options to mitigate the shortfall in our desired capacity growth by looking at getting more aircraft from the secondary market on short term leases.

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.

For the quarter ended September 2017, we reported a profit after tax of 5.5 billion rupees with an after tax profit margin of 10.4% compared to a profit after tax of 1.4 billion rupees with an after tax profit margin of 3.4% during same period last year. We reported an EBITDAR of 15.8 billion rupees with an EBITDAR margin of 29.9% compared to an EBITDAR of 9.8 billion rupees with an EBITDAR margin of 23.5% during the same period last year.

As Aditya mentioned, our profitability was favorably impacted this quarter because of the improvements we have made in revenue management as well as the credits we have received from our manufacturers related to aircraft groundings and delivery delays.

As far as the credits we received from our manufacturers are concerned, we will not be able to go in to the specific details of our confidential contractual arrangements. However, it is important for me to point out that we do get compensated by our manufacturers for loss of revenue due to grounding of planes as well as reimbursed for some operational expenses that we incur due to delays in deliveries of our aircraft. In the event that there is an improvement in the situation related to the number of grounded planes and the delay in deliveries, we would not expect to receive the same magnitude of credits from manufacturers going forward.

That said, even if you exclude these credits, we saw a strong improvement in our year over year profitability this quarter.

Our total capacity for the September quarter was 15.1 billion ASKs, an increase of 13% compared to the same period last year. This is lower than our previously guided number of 15% due to the unavailability of some of our neos during the quarter.

Our revenue from operations in the September quarter was 52.9 billion rupees, an increase of 27.0% over the same period last year. Our other income was 2.1 billion rupees for the quarter.

Our RASK for the quarter was 3.52 rupees, an increase of 12.6% from 3.12 rupees during the same quarter last year. This increase in RASK was helped by both an increase in our load factors as well as yields. Our load factors were up by 1.8 points to 84% and our yields were up by 8.9% to 3.57 rupees. Our RASK performance was also helped by the two factors we have mentioned before – the improvement in revenue management and the credits received from manufacturers. Talking about the revenue management improvements, while we are pleased with the revenue performance this quarter, you should not expect to see these kinds of year-over-year improvements in RASK going forward.

On the cost side, our CASK was 3.01 rupees for the quarter compared to 2.99 rupees for the same period last year. CASK excluding fuel was 1.92 rupees in the current quarter, an increase of 5.0% from the same period last year. This was primarily on account of two issues. One, we had a reduction in ASKs due to grounding of our A320neos but still had to incur some of the associated costs; and two, the Indian currency depreciated over the quarter and we recorded a mark to market foreign exchange loss on our liabilities.

As you are aware, the new GST law went into effect from July this year. The airline industry in India as a whole has raised a number of concerns on certain aspects of the law as well as how it has been interpreted. The airline industry with the support of the Ministry of Civil Aviation is in active discussion with the Ministry of Finance on this subject and has represented to the government to help resolve this issue in a manner that does not impose an incremental financial burden on the airline industry. However, in the interim, we have paid GST of 784 million rupees under protest during the last quarter related to engine repairs which we believe should not be subject to GST. This has not been recorded as a cost this quarter but has been shown as a recoverable on the balance sheet.

During the quarter, our Company successfully completed an Institutional Placement Programme or IPP through an issue of 33.6 million shares consisting of a fresh issue of 22.4 million shares and an offer for sale of 11.2 million shares to help comply with the minimum public shareholding requirement. The IPP proceeds which the Company has received will be primarily used for the purchase of aircraft.

Moving to the balance sheet, we had total debt of 25.4 billion rupees at the end of the quarter. Our cash balance at the end of the quarter was 129.3 billion rupees, comprising of 53.2 billion rupees of restricted cash and 76.0 billion rupees of free cash which includes the net IPP proceeds of 24.8 billion rupees.

Before I close my remarks, let me give you our capacity guidance for the coming quarter. We are expecting a year over year capacity increase in terms of ASKs of 14% for the third quarter. For the full year, we expect a year over year increase in capacity of 19%.

The above prepared remarks transcript will be replaced with a full conference call transcript (including the Q&A portion)