



**“IndiGo First Quarter Fiscal 2018 Financial Results
Conference Call”**

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Operator: Good evening ladies and gentlemen and welcome to IndiGo's Conference Call to discuss the first quarter financial results for fiscal year 2018. My name is Zaid and I will be your moderator for this conference call. 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 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 First 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 some 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. However, the transcript of the Question and Answer session will be uploaded in a week's time.

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. Our comments today will be somewhat longer than our past calls since there is a lot to discuss and a lot that we would like to update you on. However, we expect to complete the call including the question and answer session within one hour.

We announced our first quarter fiscal 2018 financial results today. We have reported our largest ever quarterly profit this quarter with a profit after tax of 8.1 billion rupees, an increase of 37.1% compared to the same period last year. Our after tax profit margin for the quarter was 14.1%. We added 4 aircraft during the quarter of which 3 were A320neos taking our total fleet count to 135 and our A320neo fleet count to 22. On the operational front, for the quarter, we were ranked No.1 in on-time performance and our technical dispatch reliability was 99.85% and flight cancellation rate was 1.2%.

Now, let me address the operational reliability issues around our A320neos. As you may recall, we had mentioned in a prior call that we are experiencing operational issues with the Neo engines related to the premature degradation of the combustor chamber lining and the premature wear of

the No. 3 bearing seal. As a result, we continue to have a high number of engine removals and sufficient spare engines have not been available. Regrettably, there have been days when we have had to ground as many as nine A320neos due to lack of spare engines. While we do receive certain compensation from Pratt and Whitney for these groundings, the operational disruptions are quite challenging and we are not happy with that situation. Based on what we know today, it may be another year or so before the design changes are implemented by Pratt and Whitney which should allow these engines to have the on-wing flight hours that we expect from them. Pratt and Whitney is a good partner and we have tremendous respect for their leadership team and have impressed upon them that they need to focus on increasing the number of spare engines that are available in the system. And, under the assumption that we receive sufficient number of spares, we hope to see significantly reduced operational disruptions within the next few months.

Now a brief update on our planned turboprop operations. During our last call, we announced our order of up to 50 ATR 72-600 aircraft. Documentation work with the aircraft and engine manufacturers continues towards finalization of the purchase agreements and currently our plan is to launch commercial operations by the end of this calendar year.

Earlier this month, on the July 6th, our founders, Mr. Bhatia and Mr. Gangwal at an analyst call, shared their views on the potential that exists in long-haul international flying in India and in that context, our specific interest in acquiring the international operations of Air India. We will wait to see how the Government would like to undertake the divestment of Air India and till such time that there is clarity, it does not help to speculate on different scenarios. Also, on this call, I will not repeat all the details of that call but would like to emphasize the following points.

One – we believe that there is a significant opportunity that exists in long haul international travel out of India. Today, a large number of people arrive or depart India on connecting international flights due to the lack of non-stop flights into and out of India and offering flights at lower fares would be an attractive value proposition for customers.

Two – IndiGo is uniquely placed to capitalize on this opportunity as over the last ten years, IndiGo has established a significant domestic presence and now has a little over 40% of the domestic market share. In doing so, we have also been able to build meaningful operations at all the large metropolitan cities of India. We would not be attempting to enter this long-haul international space but for the fact that we have this large domestic feed network.

Three – we recognize that this will present new challenges and complexities but we believe that the overall opportunity is very compelling and we will only go down this path if the business case is EPS accretive and creates shareholder value.

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 June 2017, we reported a profit after tax of 8.1 billion rupees with an after tax profit margin of 14.1% compared to a profit after tax of 5.9 billion rupees with an after tax profit margin of 12.9% during the same period last year. Our profit after tax in the quarter was 37.1% higher than last year. As Aditya mentioned, this is our best ever quarterly profit. We reported an EBITDAR of 19.6 billion rupees with an EBITDAR margin of 34.1% compared to an EBITDAR of 15.5 billion rupees with an EBITDAR margin of 33.9% during the same period last year.

Our total capacity for the June quarter was 15.1 billion ASKs, an increase of 18.7% compared to the same period last year. This is lower than our previously guided number of 22% due to the grounding of some of our A320neos that Aditya talked about earlier and the delay in Neo deliveries.

Our revenue from operations in the June quarter was 57.5 billion rupees, an increase of 25.6% over the same period last year. Our other income was 2.0 billion rupees for the quarter.

Our RASK for the quarter was 3.82 rupees, an increase of 5.5% from 3.62 rupees during the same quarter last year. This increase in RASK was driven by both an increase in our load factors and yields. Our load factors were up by 4.7 points to 88% and our yields were up by 2% to 3.83 rupees. The year-over-year RASK growth that we have seen this quarter is a much better performance than what we have seen over the past few quarters. It is important that I point out that in the June quarter of last year, we did not execute optimally on our RASK performance. We placed a bit too much emphasis on yields and were not matching competitors' fares. Consequently, we saw a decline in load factors and our RASK performance for the same quarter last year was adversely impacted. Now we have seen a year-over-year RASK improvement of 5.5% for the quarter in spite of capacity being up 18.7%. My point here is that this quarter's superior RASK performance does not necessarily portend the RASK performance for future quarters.

Our cost performance continues to be good. CASK excluding fuel was lower by 2.5% from 1.96 rupees in the prior quarter to 1.91 rupees in the current quarter. We reported a total CASK of 3.08 rupees for the quarter compared to 3.04 rupees last year. Our total CASK was higher by 1.3% in spite of a 15.8% increase in fuel prices.

In all our prior conference calls, we have not articulated the implications and pressures on RASK and CASK as a result of adding capacity at such a torrid rate. At IndiGo, for the last five years, our ASK or capacity has grown at a compound annual growth rate of 24.8%, or almost 25%, and for the same five years our RPK or traffic has grown at a compound annual growth rate of over 26%.

Let me try and attempt to explain the implications of growing an airline at 25% every year. When an airline grows its capacity at such a high rate, it tends to depress the RASK that it is able to generate every quarter due to the simple fact that new flights which were added during the quarter have yet to mature. This 25% capacity that was added during the quarter takes about six or more

months before it establishes itself and takes hold in the market place. And, during that time, its RASK generation is sub-optimal. In other words, while the RASK of the new flights that were added during the same quarter last year have started to reach steady state maturity, the new flights added during the current quarter tend to be a drag on the system RASK.

And, there is another penalty associated with such rapid growth. There are significant costs that we incur due to our torrid growth rate of 25%. We incur material costs well before capacity additions have taken place – costs such as hiring and training of pilots, flight attendants, maintenance staff, ground staff, the opening of stations, etc. This also creates a drag on our true steady state cost structure.

So, this rapid annual growth rate of 25% at IndiGo tends to squeeze us on both the revenue side and on the cost side. Our point is that while we are somewhat satisfied with our overall profitability during this torrid growth phase, our true underlying profitability potential is suppressed due to the penalty on RASK and CASK. In years from now, this torrid growth rate will one day naturally slow down and that is when we believe that we expect to see a margin expansion due to improvements on our RASK, CASK and profitability.

Just so that there is no confusion and you do not misread my comments, we are in no way attempting to signal that we will be slowing down our growth rate in the near future. In fact, based on our current plans, market conditions and aircraft deliveries, we expect to keep growing at a compound annual growth rate of about 20% through fiscal 2020.

Another element that is impacting our profitability is the delay in A320neo deliveries. A320neos have not been delivered as per the plan with Airbus. By now we should have had 36 Neos whereas we currently have 22 Neos. To make up for this shortfall, we have had to go to the aircraft leasing market and enter in to short term leases of used A320s. Some of them with GE engines and some with IAE engines. These short term leases have an average duration of three years. However, they come at a higher operating cost for us due to higher maintenance costs because they are older aircraft and higher fuel burn relative to the Neos. These higher costs are somewhat offset by lower lease rates since these are older aircraft. However, net-net the total cost to us of operating these used aircraft is higher than what we would have incurred relative to operating the A320neos. The only silver lining is that most of these used aircraft will be gone from our fleet within three years.

Moving to the balance sheet, we had total debt of 25.2 billion rupees at the end of the quarter. Our cash balance at the end of the quarter was 101.8 billion rupees, comprising of 51.9 billion rupees of free cash and 50.0 billion rupees of restricted cash.

I now would like to discuss the sale and leaseback model that we have historically been using to finance our aircraft. As Mr. Gangwal had mentioned during the analyst conference call on July 6th, going forward we anticipate reducing our use of short-term, sale and lease back model and gradually begin the process of owning aircraft with internal funds and maybe some debt.

Quite a few folks have not understood the pros and cons of the sale and lease back model that we have deployed to date and maybe because we have not elaborated on this issue. In fact, some of our competitors claim that our superior profitability is driven by the fact that we generate some of our profitability from being able to sell the aircraft at a price higher than what we purchased that aircraft for when we do a sale lease back. This is simply not correct.

Very simplistically and at a high level, the primary purpose of the short term, six-year, sale and lease back model that we had adopted was to be able to move the aircraft out of our fleet quickly once new technology aircraft came in to the market. The short-term six-year sale and lease back models were expensive since the lessors demanded a high lease rate because we were ending the leases in six years.

Now that we have the A320neo which delivers a 15% lower fuel burn and have a much lower risk of technological obsolescence, we may choose to operate these aircraft for a longer period than the six-year period we have historically used. Over the longer term, owning an aircraft tends to have a lower overall ownership cost than leased planes. Hence, the shift in our fleet acquisition strategy will allow us to reduce our operating costs which will result in higher profitability. Also, in the longer term, our ongoing cash flow from operations will become stronger as a result of the depreciation tax shield that we will get from the owned aircraft.

As we continue to evaluate the sale lease back model versus owning aircraft, we are also factoring in the implications of the new GST rules that went into effect earlier this month.

To put into perspective our lease vs buy thinking, let me just point out that many great airlines like Southwest, Ryan Air, etc. have a large number of owned aircraft and it has helped these carriers build a strong balance sheet.

As we embark on this journey of optimizing aircraft ownership costs, we will use some of our cash to purchase aircraft. So far, in determining the annual dividend, our board looked at the profits for the year, the cash needs to run the business and the prudent amount of cash that the company should maintain. Now, going forward, this use of cash to purchase aircraft will also be factored. The primary focus will always be to create long term shareholder value.

Now switching topics, we became a publicly listed company on 10th November 2015 and we are required by law to have a minimum public shareholding of at least 25% within the three year period post listing. We plan to seek approval of our shareholders to comply with this requirement in the upcoming Annual General Meeting which is expected in the last week of August. Also, the Board of Directors of IndiGo had recommended a dividend of 34 rupees per share for fiscal 2017. This will also be placed for approval in this Annual General Meeting and subject to us receiving the approval, the dividend will be paid shortly after that.

Before I close my remarks, let me give you our latest capacity guidance. We are expecting a capacity increase in terms of ASKs of 15% for the second quarter and 20% for the full year of

fiscal 2018 which is lower than the guidance we had given earlier. The reduction in our capacity guidance is primarily because of the groundings we are currently experiencing on our Neos as well as some delays in Neo deliveries during the year.

That said, we expect that over the 3 year term for fiscal 2018 to fiscal 2020, our capacity will grow at a compound annual growth rate of about 20%.

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

Moderator: Thank you very much, Mr. Goel. Ladies and Gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Arvind Sharma from Citi. Please go ahead.

Arvind Sharma: Since you have reduced the ASK guidance, is there a change in our fleet guidance as well? Because remember, we were expecting 170 fleet by the end of FY18, so is there change to that as well?

Rohit Philip: Yes, there will be a lower number than the 170. We are moving away from giving a specific fleet count guidance and focusing more on the ASK guidance. So, we are not going to give an updated number versus the 170 - it will be lower than 170 but we want to really focus on the ASK guidance.

Arvind Sharma: Incrementally, what are going to be the margin levers? And how do we see the yields trending over the next nine months of the year because we have seen very strong yields in Q1?

Rohit Philip: Arvind as a practice we will not be giving guidance on forward-looking yields.

Moderator: The next question is from the line of Binay Singh from Morgan Stanley. Please go ahead.

Binay Singh: Just a follow-up, so does your capacity guidance include the ATRs that you are adding?

Rohit Philip: Yes, it does. As we have said previously we expect ATR operations to start in December and have seven aircraft operating by the end of March. So, the ASK number will be pretty small, but yes, it is included.

Binay Singh: The ATR ramp-up is irrespective of the Phase-II of the regional connectivity scheme, whether you bid in that or not. Right?

Aditya Ghosh: Yes, this is correct.

Binay Singh: And my last question, could you share with us if there was any one-off in any of the line items like any mark-to-market gains or anything else?

Rohit Philip: The mark-to-market for foreign exchange was a very small amount - there was a Rs.65 million gain.

- Binay Singh:** Our lease rentals per ASKM have gone down this quarter, so was just curious to know what happened over there?
- Rohit Philip:** There is no further information that we can give you on that.
- Moderator:** The next question is from the line of Saurabh Kumar from JP Morgan. Please go ahead.
- Saurabh Kumar:** Sir, is it possible to quantify what will be the savings you will get on a per aircraft basis on owned versus leased? Can we take 5% as a good rate to assume if you own an aircraft versus when you lease it?
- Rohit Philip:** We are not going to be able to give you specific numbers at this point. Directionally, when you see carriers across the world use a combination of owned and leased, there are savings associated with owning versus leasing. . We definitely see some opportunities for savings, I am not going to be able to quantify specifically on this call.
- Saurabh Kumar:** So, what were your average depreciation rate for your aircraft, including components and all the current stock you have?
- Rohit Philip:** It obviously depends on the different components. There is a different rate for the aircraft and different components. It is all laid out in our accounting policy.
- Saurabh Kumar:** No, I am just trying to get what will be like an average number versus the cost because the annual report is still not out.
- Rohit Philip:** Our Annual Report will be out tomorrow so we can point you to the right numbers rather than go through all the different line items.
- Saurabh Kumar:** Okay. And my second question is essentially on your fuel cost. Your fuel cost is up by 16% year-on-year but your fuel cost per ASKM is up by just 8%, so is that the differential because of neos?
- Rohit Philip:** That is a very good question actually. We have taken a number of steps to reduce our fuel cost. Firstly we have introduced more neos that are flying, which have a 15% lesser fuel burn and now we are starting to see the effect of that in our fuel numbers. So, one of the reasons why we have our fuel cost per ASK go up at a lower rate than the fuel prices is because of that. Secondly, we continue to see some opportunities on prices at many stations. There are multiple suppliers and there is an ability for us to do some price competition. We also look at importing some fuel, if there are cost savings there. Between all these factors, yes, we have been able to bring some savings on the fuel cost line.
- Moderator:** Thank you. The next question is from the line of Prashant Kothari from Pictet. Please go ahead.
- Prashant Kothari:** This question is again around the thought of having more owned aircraft rather than on sale and leaseback. Do you have any more details to share in terms of how many such aircraft you want to

have, by what time and do you have any thoughts on dividends as to how much they could get cut down by?

Rohit Philip: We do not have anything more on that than what we said earlier. I think we expect to directionally start going down the path of owning more aircraft, so we are not going to suddenly switch from 100% leased to 100% owned. We are going to do a mix and are going to evaluate the opportunities as we go forward. We also have an issue; I mentioned that we will take into account the implications of the new GST law. There are some implications the way the law is currently written that has a little bit of a penalty on owning aircraft. We will have to see how that plays out and what clarifications we get on that. So, there are a lot of factors that we have to take into account as we make the decision. As far as the dividends are concerned, as we have always mentioned, our dividend is decided on an annual basis based on the situation at that time and our Board looks at all these factors. And at the time when the annual dividend is looked at, the Board will make a decision on how much cash we want to put into aircraft acquisition. So, that is something that will develop over time and we will obviously keep you updated.

Prashant Kothari: And is it something that you can start doing for the deliveries which we will receive in the next few months or quarters or is it something which will happen only like one or two years later?

Rohit Philip: It could happen sooner as I have said, subject to us getting an understanding of the GST implications and other factors. It certainly does not have to wait another year or so for it to happen.

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

Sonal Gupta: In the conference call that was done, it was also mentioned that irrespective of Air India you will also continue to pursue your own low-cost international expansion strategy. So, any more details or updates on that?

Aditya Ghosh: Yes, that is correct. As our founders had highlighted on the call earlier this month, we are looking at long-haul international flying as a great and a very compelling potential opportunity ahead of us. And that will be with or without Air India. But it is just too early for us to provide any more information.

Rohit Philip: As our founders said on the call, if it is without Air India, certainly the process would take longer, it is not easy to get the slots. It will be a much slower process but there is no change in our thinking and it is something that we would like to do with or without Air India.

Sonal Gupta: And just a clarification, you said you are receiving some compensation from Pratt & Whitney, so where would that show up? Will that show up in the revenue line item or does it get adjusted in other expenses?

Rohit Philip: While we said we do receive certain compensation from Pratt & Whitney, the nature of the compensation and the arrangements are confidential and so we will not be able to shed any further light on it.

- Moderator:** Thank you. Our next question is from the line of Anshuman Deb from ICICI Securities. Please go ahead.
- Anshuman Deb:** Regarding this ASK distribution, we are right now plying around 13% of our ASKs in international segment, so what is the target international share for FY18?
- Rohit Philip:** We do not have a target share for our short-haul international operations. The A320 international operation is just a function of whatever markets we see are viable markets. So, we manage our overall A320 operations by looking at where we see good market opportunities and we deploy capacity accordingly. We definitely do not have any target mix. It is just an outcome of our route network deployment strategy that ends up at the current rate of 13%.
- Anshuman Deb:** I wanted to understand that whether in that process of increasing our international ASK share from 9% to 13% has it resulted in better yield performance that we have seen in the quarter?
- Rohit Philip:** No, we do not attribute anything to do with the international to the higher yields. It is entirely due to, as I mentioned on the call, the revenue management optimization that we believe we have executed much better than how we executed sub-optimally previously.
- Anshuman Deb:** I did not find the incentive number this quarter, so would you be able to share it?
- Rohit Philip:** You must have noticed that there are a couple of changes in the way our accounts are prepared as we have looked at the format of what the right disclosure is for our quarterly reports. So, we have stopped presenting the segments as domestic and international segments because as I just explained it is not really relevant, it is just one operation. We have also dropped the footnote on the deferred incentives because we believe the aircraft and engine rentals line item represents a true cost structure of our leases. So, we are not reporting that on our quarterly financials anymore.
- Moderator:** Thank you. Our next question is from the line of Pulkit Singhal from Motilal Oswal Asset Management. Please go ahead.
- Pulkit Singhal:** Sir, actually as shareholders we are always attracted to the IndiGo specific model of having zero capex, and to that extent the Return on Capital seem to be very high. Now, I just wanted to try and understand that there seems to be a very clear departure towards ownership of aircraft which possibly could be profit accretive in interest rate rising scenario. But from a Return on Capital perspective it does not probably make much of sense to us. So, could you help us understand, what was the reason for this departure from your philosophy of not owning aircraft?
- Rohit Philip:** Pulkit, firstly it is important to understand that we are not changing our strategy on the dimensions that you talked about. Our strategy on leasing aircraft was primarily because of the technological obsolescence risk that we saw with the A320ceo when we knew that there was a new technology airplane around the corner. That happened to be the A320neos and in the case of Boeing - the 737 Max. Now, with these new technology airplanes out there, it is going to take many years before the next generation comes out. So, our view on the short-term sale and leaseback model was that we

wanted to protect against the technological obsolescence risk. Now, with the A320neo we do not see that and so that is the primary reason for us talking about owning aircraft in the future. Now, when you talk about operating an aircraft over a longer period of time and you will see this amongst airlines around the world, you will tend to find that owning an aircraft over a longer period is more cost effective than leasing an aircraft. So, that is why we think it is profit accretive. But even when you talk about Return on Capital, it depends on what you are putting as a denominator on capital. Most analysts and investors who look at airlines, look at the capitalized value of lease debt. So, that denominator would not really be very different. Instead of the capitalized value of operating leases, you will have actual on-balance sheet debt associated with leases. So, we do not believe that it is a change at all and that is why you see a lot of people around the world do it. So, as I said, our primary reason for sale-and-leaseback was about the technological obsolescence risk.

Pulkit Singhal: And you do not see a new technology coming in the next 10 years. Basically you have taken that view that that risk does not exist going ahead.

Rohit Philip: That is correct.

Pulkit Singhal: For the dividends aspect, our understanding was okay as long as something is making a lot of profits and therefore the dividends will keep flowing. Now, with money being utilized for buying aircraft, would there be a scenario where you could say, “Hey! We made profits but we cannot give dividends this year because we are using the cash for purchasing aircraft”?

Rohit Philip: Earlier on the call I talked about that being one of the factors that the Board will take into account in terms of potential usage of cash. It will all be done with the aim of what we believe will create long-term shareholder value. So, if we believe using cash to purchase aircraft will create long-term shareholder value that is when we will make a decision on that trade off. Beyond this I cannot really speculate any further.

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

Aimee Truesdale: I just have a brief follow-up on compensation from manufactures for delayed aircraft deliveries and engine problems. I appreciate that you cannot give any numbers or anything, but I am just wondering about the accounting policy, how do you kind of account for those receipts?

Rohit Philip: Sorry, Aimee, as I said earlier, we are not going to be in a position to disclose the confidential nature of the arrangements we have with Pratt & Whitney. Obviously, accounting policy would depend on the specific type of transaction that occurs, and depending on a particular type of transaction that will follow a different accounting treatment. And, so, giving accounting treatment would not shed a light on it unless I walk through the actual transaction that we have between us and Pratt & Whitney which we are not in a position to do.

Aimee Truesdale: Sure. Is it possible to kind of give a general example of how it might work?

Rohit Philip: I am sorry, it is not possible.

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

Joseph: I had a couple of questions. One was, you mentioned that the 2% year-on-year improvement in yields is also a result of you have not given out lower fares compared to competition in June quarter of last year. And you also indicated that this might not indicate a trend going ahead. But what I wanted to check with you was, how long did you continue with that discounted fare, if I can call it that, last year? Was it just for one quarter or did it extend all the way to the festive season?

Rohit Philip: So, let me just step back and explain again what we said. If you go back to the June Quarter last year, we did not perform optimally. We were not matching competitor's fare and as a result we left money on the table. On the June quarter call that we had last year, we signaled that we are going to change that going forward and since then we have been very consistently making sure that we are not undercut in the market place, So, we are being price competitive in the market place. There will always be periods of time where someone has a lower fare than you because you have already sold out all your low fare buckets in a particular flight. So just by looking at a particular flight as example you have one airline with a higher fare than the others but we have been price competitive ever since we declared that change in direction. And I think you will start to see that when you look at our results this quarter having improved load factors by 4.7%.

Joseph: You are indicating that the lower fares that you had in the June 2016 quarter was restricted to that Quarter and did not continue in September to December, etc.?

Rohit Philip: No, that is actually not what I said. What I said was that in the June quarter last year we did not match, we actually were higher than some of our competition. After the June Quarter, starting sometime in July and August, we started getting much more disciplined about being price competitive. And we have been price competitive ever since.

Joseph: The second thing I wanted to understand was the shift in ownership versus leasing strategy that you hinted at. Could you give us an indication as to what percentage of upcoming deliveries would be owned versus leased just to get a sense of how to build the capital allocation going ahead?

Rohit Philip: Unfortunately, we are not in a position to do that just yet. We wanted to signal this so you are all aware of our upcoming plans. But there is a lot of moving parts, certainly the GST law is one of them that we have to examine as we look through our options. We will give updated guidance as we have more information but I cannot give you any more light on this unfortunately..

Joseph: Alright. And the last question that I had was in relation to the potential compensation from Pratt & Whitney. Did you indicate that some amount has already come in in Q1, or maybe I would have missed that, or is that compensation expected in the upcoming quarters?

Rohit Philip: We did not comment on that specifically and we are not going to give much more information on that topic.

- Moderator:** Thank you. Our next question is from the line of Rakesh Jhunjhunwala from Rare Enterprises. Please go ahead.
- Rakesh Jhunjhunwala:** Aditya, what I wanted to know is, you are taking permission from shareholders to dilute equity and bringing down promoter's stake to 75%. Will that happen by fresh offerings rather than the sale by the promoters?
- Rohit Philip:** So, yes, that is correct. We have taken a shareholder resolution that we will be putting out as part of our annual AGM, we will have that request.
- Rakesh Jhunjhunwala:** So, is it going to be entirely fresh issue or some part will be offer for sale?
- Rohit Philip:** We have not finalized that, so we certainly have that flexibility to do both. We will likely do some combination of the two but we have not finalized.
- Rakesh Jhunjhunwala:** In what timeframe we will be doing it?
- Rohit Philip:** We have not finalized that.
- Rakesh Jhunjhunwala:** One of the company's efficiencies I am told was the low maintenance cost. You are getting lot of discounts because you are buying large number of aircraft, so whether you own or lease is not going to affect your maintenance expense or the price at which you buy the aircraft, am I right?
- Rohit Philip:** That is correct absolutely. Our maintenance cost is primarily due to the fact that we were able to negotiate these long-term maintenance agreements at the time we ordered the planes. That is the reason and that does not get affected whether we own or lease the plane.
- Rakesh Jhunjhunwala:** And you explained why you want to restrict your growth to 20%, but don't you think that will give generally a better pricing power to all airlines? Because if you grow at 20% and the market also grows at 20% no fresh capacity will come in. So, I do not think the other airlines, especially Air India tends to grow at 20%. So, don't you think that that will lead to a better pricing for the entire industry?
- Rohit Philip:** I think on the capacity growth front we see a huge opportunity in terms of continued growth in demand in the Indian market and we are focused on that long-term growth. Of course, you can optimize profitability in the short-term by squeezing capacity and raising fares, but that game does not last very long and thus that does not create long-term value. So, we believe our capacity plan is the right way to create long-term value and profitable growth. Yes, you can squeeze profitability in the short-term by playing with capacity, but we do not think that that is the right strategy.
- Rakesh Jhunjhunwala:** I agree you are not squeezing the capacity because you want your fares to work, but it will become a natural consequence if you were to grow at 25% and you have 40% of market share. So if you grow at 25% that means only 2% share capacity will come into the market. I do not see you are doing it in order to squeeze prices but will that not be a natural consequence?

- Aditya Ghosh:** Yes, Rakesh ji, as you know this market behaves in strange way depending on what competitors do. We know what we are doing and I think any more speculation on that would be gazing into the crystal ball for us.
- Moderator:** Thank you. The next question is from the line of Praveen Shah from Edelweiss. Please go ahead.
- Praveen Shah:** My question is related to the Indian Standard 116, which is going to make it mandatory to show all aircraft leases on the balance sheet by 2019 onwards. Will that impact the financials and how?
- Rohit Philip:** Sure, the new Accounting Standard regarding capitalizing operating leases is something that we will obviously adopt and comply with if it comes into effect. So, it creates some work to state the accounts a different way but from a practical aspect there is no real change. For decades, anyone who followed airlines whether it is equity analysts, lenders, debt analysts, have always taken off balance sheet leases and capitalized them and created an adjusted debt number. So, now instead of having an adjusted debt number that debt is actually on the books. So, from a practical standpoint it does not change anything. So, as the Accounting Standard comes about we will comply with it, but we do not see any real issue with it.
- Praveen Shah:** So, just to follow-up, we have to show all the leasing liability thereafter?
- Rohit Philip:** That is correct, and so that will be on the balance sheet rather than someone estimating it as an adjusted debt number.
- Moderator:** Thank you. The next question is from the line of Ashish Shah from IDFC Securities. Please go ahead.
- Ashish Shah:** Sir, just a question on the impact of GST, it has been about a month since we have seen the GST getting implemented. Has it adversely impacted us in any way in terms of the overall flow-through of revenues and costs?
- Rohit Philip:** Under the new GST regime the GST on economy class travel is 5% compared to the earlier 6% under the service tax regime so it is slightly positive. However, there are still some unresolved issues and clarifications that we need and they are primarily in the areas related to the import of aircraft and aircraft parts. And this relates to whether airlines are entitled to input credits for the GST paid on these and what is input credit for a good or a service. So, there are some things that are still a little problematic for us that we are working through with the Government. We are hoping that we will get the clarification so that this would not be an impact. That is the only issue that is out there, but the overall tax on us is 5% instead of 6%, so that is positive.
- Ashish Shah:** Would some of these things impact the P&L or would it more be a balance sheet item? And if you were to import any parts and if there is a negative impact because of GST, would that have a bearing in terms of your higher asset in the balance sheet or it means a P&L hit?

- Rohit Philip:** It could be both, but for the moment there is an exception that if you are importing an aircraft or a part that is leased, then you do not suffer that penalty, you pay GST on the lease rentals and you get input credit against those GST paid on the lease rentals. So, for the moment I think the industry will work through with that exemption, but the time will tell.
- Ashish Shah:** I understand that you have said that you cannot give away more on the compensation that you are receiving from Pratt & Whitney. But my just point is that when I look at the revenue or the yield can I safely assume that it is reflective of the true nature of the basic business of ticketing and other things or that could include any component of that?
- Rohit Philip:** Well, of course, if you look at our passenger revenue which we report in our Press Release, it obviously is just passenger ticket revenue, but beyond that I am not going to comment.
- Moderator:** Thank you. The next question is from the line of Vishal Rampuria from HDFC Securities. Please go ahead.
- Vishal Rampuria:** Sir, on the sale and leaseback, Rohit you mentioned that one of the reasons why you are moving into some more of owned aircraft is because we want to use aircraft say for 10 years. So, why cannot we use the same kind of model for 10 years? Are there constraints in terms of that we cannot go for 10 years under the sale and leaseback model?
- Rohit Philip:** You can absolutely do 10 year sale on leasebacks and owning the aircraft would actually be longer than 10 years by the way. So, you can absolutely do longer sale and leasebacks but what you will find is typically when you are operating the aircraft over that period, owning the aircraft tends to have a lower ownership cost than a lease. It is as simple as that. Of course, there are options and again we are not saying that it will go to 100% owned right away, we are going to start doing a mix of owned and leased. But we believe that owned will be able to get us a more optimal cost structure.
- Vishal Rampuria:** You mentioned about meeting the public shareholding norm. And that you may do both OFS plus new issue shares. So, given that we have got so much of cash, what is the need to do primary issue of shares?
- Rohit Philip:** Obviously, if we issue primary proceeds we will declare the use of proceeds at the time, but I think I gave you some hint of where it could go into depending on our position in terms of aircraft ownership.
- Vishal Rampuria:** In case if we go for our owned aircraft, how much leverage do you think we can take in our books??
- Rohit Philip:** So, firstly, the question in terms of leverage - when a lender looks at the leverage on airlines, they look at a figure that they call adjusted debt which includes their own estimate of capitalized value of operating leases plus on-balance sheet debt. So, from that sense this would not actually change that leverage number. Whether you put it on balance sheet or whether it is part of your actual debt or whether it is part of your adjusted debt. The leverage that people look at is adjusted leverage.

- Vishal Rampuria:** And just one thing to again reconfirm, this entire saving on fuel, so fuel cost per ASKM was low in this quarter so is it completely because of higher mix of Neos in terms of fleet?
- Rohit Philip:** I think I explained on an earlier question that it is a combination of a few factors. One was more ASKs being flown by Neos which are 15% more fuel efficient. Also on the fact that we have been able to get some price competition at different airports and get some price reductions as well as selective imports at certain stations where we have been able to optimize cost. So, we have done a number of different things, fuel is 40% of our cost structure and we look at opportunities to save it all the time. And I think, it is a combination of those factors that allowed us to have our fuel cost optimized based on that.
- Moderator:** Thank you. The next question is from the line of Kunal Lakhan from Axis Capital. Please go ahead.
- Kunal Lakhan:** Earlier in the call you mentioned that it will take at least a year for Pratt & Whitney to resolve the reliability issues related to the Neos. My question is, it has almost been a more than a year actually since we took the first aircraft on board and since we have been facing this issue. I just wanted to understand what will be our contingency plan say one year down the line if those reliability issues still continue?
- Aditya Ghosh:** So, the contingency plan is what we have in place even today which is basically that we will then go and look at other aircraft sources, used aircraft to augment our capacity. We will continue to work with Pratt & Whitney and as I said we have confidence that they are going to come through on what they have promised to us. And if there is anything that changes, we would of course come and update you. But at the moment, we are just focused on getting the spare engines on-site so that we have enough planes up in the air.
- Kunal Lakhan:** And secondly, just wanted to understand in terms of Neo deliveries that we can expect in the subsequent quarters for this year? Is it going to be in line with what we have seen in Q1, three per quarter or there is a risk that it could be lower than that?
- Aditya Ghosh:** No, we have already said that there are these delays in the deliveries of the Neos and the capacity guidance that Rohit just provided for the year takes into account those delays that we are anticipating.
- Moderator:** Thank you. The next question is from the line of Rahul Bhangadia from Lucky Investment Managers. Please go ahead.
- Rahul Bhangadia:** Sir, you had actually touched upon this topic a little while before, I am just asking this in a different way. Your 20% ASKM CAGR target for the next three years, is there something that you can tell us how this will break up, will the international part ASKMs grow faster or something like that?
- Rohit Philip:** So, I think as I said earlier we don't look at A320 international operation very differently from A320 domestic operation. So, today it has been ranging from 10% to 12%, it is 13% right now. So yes, directionally that number has gone up a little bit. But as we look over the long-term, it will be a

combination of all markets. So, I do not see a material change in that ratio but it could change depending on where we see the opportunities.

Moderator: Thank you very much. Ladies and Gentlemen, that was the last question. I now hand the conference over to the management for closing comments. Over to you.

Ankur Goel: So this is all that we had for you today. Thank you all for joining on this call and we look forward to speaking with you again.

Moderator: Thank you very much, members of the management. Ladies and Gentlemen, on behalf of IndiGo, that concludes today's Conference Call. Thank you all for joining us. And you may now disconnect your lines.