



**“IndiGo Fourth Quarter and Fiscal Year 2018
Financial Results Conference Call”**

May 02, 2018



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Operator: Good evening ladies and gentlemen and welcome to IndiGo's Conference Call to discuss the fourth quarter and fiscal year 2018 financial results. 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 Fourth Quarter and Fiscal 2018 Earnings Conference Call.

I have with me our co-founder and interim CEO – Rahul Bhatia and our Chief Financial Officer – Rohit Philip to take you through our performance for the quarter. I also have with me Wolfgang Prock-Schauer for the Question and Answer session.

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 Q&A session will be uploaded subsequently.

With this, let me hand over the call to Rahul Bhatia.

Rahul Bhatia: Good evening everyone and thank you for joining us on this call.

As you all would be aware, Aditya Ghosh has resigned and will leave the Company on July 31. Aditya wishes to explore starting a new business venture and we respect his decision to do so. Our Board of Directors and I want to thank him for all his hard work and contributions for the successes that our Company has enjoyed over the years. That said, I am very excited to announce the return of Gregory Taylor as Senior Advisor to the Company, who would be reporting directly to me. Our Board of Directors will consider his appointment as President and CEO of the Company subject to receiving necessary regulatory approvals and paperwork.

We announced our Fourth Quarter and Full Year Fiscal 2018 financial results today. We have recorded our highest ever annual after tax profit of Rs.22.4 billion for fiscal 2018 with a profit margin of 9.7%. For the fourth quarter, we reported a profit after tax of Rs.1.2 billion with the

profit margin of 2%. I would also like to announce that our Board of Directors has recommended a dividend of Rs.6 per share, subject to shareholders' approval at the Annual General Meeting.

Rohit, as always, will discuss this when he talks about our financial performance in detail.

We continue to be the leading airline in terms of on-time performance and were ranked No. 1 in on-time performance for the Fiscal Year 2018 with an average OTP of 83.1%. For the quarter, our OTP was 78.1%, Technical Dispatch Reliability was 99.87% and flight cancellation rate was 1.74%. Our flight cancellation rate was higher especially during the month of March due to the ongoing issues with some of our neos. Our passengers were informed well in advance and were re-accommodated and assisted.

We are happy that our passengers have once again acknowledged our consistent performance and reliable service. We were awarded the "Best Low Fare Airline Domestic" and Best International Low Cost Airline in and out of India by the 'Air Passenger Association of India' during the quarter. We have also been awarded as "Best Low Cost Airline in Asia" by the TripAdvisor Travellers' Choice Award 2018.

We have added 4 new destinations in the quarter bringing our total number of destinations to 50 including 8 international destinations. We were also awarded 20 routes covering 10 additional destinations in the Phase-II of bidding under the Regional Connectivity Scheme. Over the next 3-4 months, we plan to open 5 additional destinations including Dhaka, Allahabad, Hubli, Jorhat and Kolhapur. We have already opened up ticket sales for Trichi, which is going to be our 51st destination.

We added a net of 6 aircraft during the quarter of which 3 were ATRs. This takes our total fleet count to 159 which includes 32 neos and 6 ATRs at the end of March 2018. In addition to this and as mentioned in our previous call, we also operated 4 aircraft during the quarter under a short term damp lease arrangement.

Let me now take a few minutes to talk about how our performance is tracking against our long term plan. As we had outlined in our Company presentation back in August last year, we are focused on creating shareholder value by building a large and profitable air transportation network. India is a severely underpenetrated market and we continue to capitalize on opportunities that this market presents. Also, as we said in that presentation, we are cognizant of the challenges that we face and are taking steps to address them.

We spoke about building upon our domestic leadership. To that end, we added 161 daily flights and 4 new stations during the course of fiscal 2018 in the domestic market and successfully launched our turboprop operations. We also substantially increased our international operations whereby current share of international operations is at 15% of our total capacity as compared to 11% one year ago.

We have also started executing on the financing strategy which we had discussed previously with the objective to lower our aircraft ownership costs going forward.

As you all are aware, there are certain issues with the neo engines. Also, as we have discussed previously, these issues will take some time to get resolved and we continue to work with Pratt & Whitney and Airbus to ensure that we have sufficient spare engines available.

During the quarter, a new issue cropped up where a subpopulation of A320neos, powered by Pratt & Whitney engines with Engine Serial Number 450 and beyond. This led to grounding of some of these aircraft by the Indian DGCA. As we received new engines from Pratt and Whitney, we have replaced all the affected engines and these planes are now back in service.

We have been continuously putting in place the building blocks for our future plans. A key element of this is to build a talent pool with deep functional expertise that will be able to successfully execute on our long term plan. As part of this effort, I am delighted that we have new leaders join the team. Since our last call, in addition to Wolfgang, Raj Raghavan has joined us as our head of HR, Mike Swiatek as our Chief Planning Officer and Willy Boulter as our Chief Strategy Officer.

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

Rohit Philip:

Thank you, Rahul, and good evening everyone.

As Rahul mentioned, we reported record profitability for the year with a 35.1% growth in profits compared to last year. We reported a profit after tax of Rs.22.4 billion with a profit margin of 9.7% for the year compared to a profit after tax of Rs.16.6 billion with a profit margin of 8.9% last year. Our EBITDAR for the year was Rs.66.8 billion with an EBITDAR margin of 29% compared to an EBITDAR of Rs.54.4 billion with an EBITDAR margin of 29.3% last year.

For the quarter ended March 2018, we reported a profit after tax of Rs.1.2 billion with an after tax profit margin of 2% compared to a profit after tax of Rs.4.4 billion with an after tax profit margin of 9.1% during the same period last year. We reported an EBITDAR of Rs.11.3 billion with an EBITDAR margin of 19.5% compared to an EBITDAR of Rs.14.5 billion with an EBITDAR margin of 29.9% during the same period last year. As we had said in last few quarters, we also received credits from our manufacturers this quarter to offset some of the adverse impact from aircraft groundings and delivery delays.

Our profits for the quarter were lower compared to the same period last year primarily because of three reasons. One - the fuel price increased by 11.6%. Two - our yields declined by 5.6%. And Three - we were adversely impacted by foreign exchange - we booked a loss of Rs.925 million this quarter compared to a gain of Rs.1.6 billion in the same period last year. Just the foreign exchange impact resulted in a year over year swing of Rs.2.5 billion for the quarter.

Our earnings per share were Rs.3.06 for the quarter and Rs.60.03 for the full year.

Our total capacity for the year was 63.5 billion ASKs, an increase of 16.4% compared to the same period last year. Our total capacity for the fourth quarter was 17.1 billion ASKs, an increase of 20.9% compared to the same period last year. This is lower than the capacity we had previously guided due to the grounding of some of our neos during the quarter.

Our revenue from operations in the March quarter was Rs.58.0 billion, an increase of 19.6% over the same period last year. Our other income was Rs.2.6 billion for the quarter.

Our RASK for the quarter was Rs.3.40 compared to Rs.3.52 during the same quarter last year, a decline of 3.2%. This decline in RASK was primarily driven by lower yields partially offset by higher load factors. While our yields were down by 5.6% to Rs.3.31, our load factors were up by 2.8 points to 88.9%.

We normally do not give guidance on how the revenue environment in the current quarter is shaping up. However, last year, we did share certain short term yield trends post the demonetization event since it had resulted in a sharp decline in yields during that quarter.

Having said that, let me provide some colour on near term yield trends. Currently, we are seeing yield pressures in the industry. We saw that in the 0-15 day booking window, the fares are materially lower compared to a year ago. This is typically high yielding traffic and consequently, our yields have been impacted more than expected and that is in spite of increasing fuel prices.

In April, the revenue environment was weak and year over year yields were down more than we were expecting primarily driven again by the weak pricing in the 0-15 day booking window. That said, there have been some recent signs of yield improvements in this window but it is still just too early for us to comment whether this will sustain over the quarter.

Fuel prices increased by 11.6% which led to an overall increase in CASK by 7.4%. Our CASK for the quarter was Rs.3.30 compared to Rs.3.08 during the same period last year. CASK excluding fuel was Rs.1.94 in the current quarter, an increase of 5.3% from the same period last year primarily on account of depreciation of Indian Rupee this quarter compared to an appreciation in the Indian Rupee in the same period last year. Similar to previous quarters, we also paid a GST of Rs.356 million under protest in the March quarter.

Now moving to the balance sheet, we had total debt of Rs.24.5 billion at the end of March 2018. As we have discussed previously, we have started purchasing some of our aircraft with our free cash. We purchased 3 more ATRs during the quarter with our free cash in addition to the 3 ATRs we had purchased in the previous quarter. We will continue to purchase more aircraft with our free cash going forward. Our cash balance at the end of the period was Rs.137.1 billion comprising of Rs.70.6 billion of free cash and Rs.66.5 billion of restricted cash. Based on our cash position, the cash required to purchase aircraft and the overall profitability for the year, the Board of

Directors of the Company has recommended a dividend of Rs.6 per share for fiscal 2018. This is subject to approval by our shareholders in the upcoming Annual General Meeting.

Now let me give you our capacity guidance for the coming quarter and for the fiscal year 2019. We expect a year over year capacity increase in terms of ASKs of 18% for the first quarter of 2019 and 25% for fiscal 2019.

So to recap the year – we generated record profits, continue to focus on our costs and have delivered consistent and profitable growth.

With this, let me hand it back to Ankur.

Ankur Goel: Thank you, Rahul 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 if needed. And with that, we are ready for the Q&A.

Moderator: Thank you sir. Ladies and Gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Binay from Morgan Stanley. Please go ahead.

Binay: Hi team, thanks for the opportunity. My question is on the load factor, you know the load factors currently are close to all time high. So, when we look at next year, should we look at the March quarter load factor and look at that as a doable or should we judge for seasonality and benchmark it to the financial year'18 load factor? Could you guide us a bit about how do you see load factor moving in a year where capacity will grow by 25%?

Rohit Philip: Hi Binay, it is Rohit. So I think we have historically talked about it that we don't try to look at load factor or yield in isolation. We try to maximize RASK and there are various periods and times where sometimes the optimal RASK includes higher load factors and slightly lower yields and vice versa. So we always look at our revenue management systems that are trained to optimize RASK. Having said that, yields have been lower this quarter and that was offset a little bit with higher load factors. That will not necessarily be indicative of what to expect going forward and we don't normally give a forward-looking guidance on that in any case.

Binay: Right. Because one of the questions we get on load factor is that some of the peers are running at much higher load factors. Would you normally attribute to them having a larger fleet of smaller planes? Or like for an A320neo or an A320, what will be the ideal load factor? I know it's tricky to answer that, but any points on that?

Rohit Philip: So Binay, as you probably have noticed over the last year, our load factors have increased on a year-over-year basis primarily on account of us being much more aggressive as we have signaled in terms of matching competitive fares. So, that's what you would see with load factors. So, there is no ideal load factor as I said because it's always a combination of optimizing yield and load factor.

- Binay:** Great. Thanks a lot. I will come back in the queue for my second question.
- Rohit Philip:** Thanks, Binay.
- Moderator:** Thank you. The next question is from the line of Sonal Gupta from UBS Securities. Please go ahead.
- Sonal Gupta:** Hi, good evening. Thanks for taking my question. Rohit, just wanted to understand - load factors are on all-time high, your load factors are running close to 88% and still we are seeing the yield drop. So, I just want to understand, in terms of the industry as a whole and not just you. The whole industry is running at all-time high load factor and still we are facing this yield pressure. So could you just explain as why this should be? Ideally, you would think that at first our capacity utilization levels could actually start moving the other way, over and above the fuel price increase, but it is going the other way. Could you just explain the phenomena and what you think?
- Rohit Philip:** Sure. Clearly we are not happy with what is going on in the industry with respect to yields especially with respect to close end bookings. However, in the past, we made this mistake where we didn't match the fares that the competition was offering. We have clearly indicated we will not make that mistake again. It is fundamental to our business that we always remain competitive. You know, our competitors have been offering discounts to passengers through coupons, special email promotions and we continue to match these offers. At the end of the day, our perspective is that revenue environment can always remain volatile, but we remain focused on our cost and our cost structure is the lowest in the industry and that provides us the cushion to withstand the short-term pressures. Now we feel that these fare levels especially with today's fuel price levels are just not sustainable and that's why again, our lowest cost structure gives us that cushion to withstand the short-term volatility.
- Rohit Philip:** Rahul anything you want to add?
- Rahul Bhatia:** I agree with you entirely.
- Sonal Gupta:** Sure, thanks. No problem.
- Moderator:** Thank you. The next question is from the line of Kunal Lakhan from Axis Capital. Please go ahead.
- Kunal Lakhan:** Hi, good evening. In your opening comments you mentioned about the Company being compensated in some way for the revenue lost due to the grounding of planes. Have we been fully compensated or partially compensated, and can we look at some partial compensation coming in Q1 of this fiscal year? How should we look at it?
- Rohit Philip:** I think we have said on the last few calls that we do get compensation, but we won't be able to comment anything more about that. So I think that's pretty much all we can tell you on that.

- Kunal Lakhan:** Alright. Just last one. In terms of dividends, how should we look at it going forward? Our payout ratio has been declining in the last 3-4 years and you have mentioned about it that you have been spending cash more towards purchasing planes now and towards adding capacity. But in terms of directionality, should we look at these kinds of payout ratios sustaining in the next few years?
- Rohit Philip:** So firstly on the context under which our Board looks at dividends is in terms of long-term shareholder value. That is a very clear lens that our Board looks at. And in the context of long-term shareholder value, we believe that the best use of our cash right now is to invest in buying aircraft. We think it's a significant competitive advantage that we will create. It will bring down our cost structure and in light of what you see in the market place today, it all the more reinforces that cost structure is the key to fundamental long-term success. And so with that context, that's the reason the Board has allocated the majority of our cash generation in fiscal 2018 towards the purchase of aircraft. We won't be able to give you specific guidance going forward, but the context around the decision making is as I said.
- Kunal Lakhan:** Alright thanks and all the best.
- Rohit Philip:** Thank you.
- Moderator:** Thank you. The next question is from the line of Achal Kumar from HSBC. Please go ahead.
- Achal Kumar:** Hi. Thanks for the opportunity. I have 2 questions actually. One is about what sort of price elasticity you see in the system? Do you think industry will be able to pass on some of the fuel burden without having any impact on demand? Or you think the fuel might turn out to be a big hurdle for the growth and in that context, how do you see yourself placed? That is my first question. Secondly, you said you are going to increase your capacity by 25% - 18% in Q1 which implies 27% in the next three quarters and given that the capacity of Mumbai and Delhi airport is almost full, how do you see that capacity deployment? If you can comment on that. Obviously there is strong demand on metro to metro and metro to non-metro. So do you see that you will have to deploy more capacity on them or non- metro to non-metro routes where of course the demand is picking up, but then you may face some bit of softer load factor. Thank you.
- Rohit Philip:** Sure. So I think just in terms of the question on our capacity guidance and capacity deployment, we see no issues with the deployment of the capacity. We have got plans across all the markets - both metro markets, non-metro markets as well as international markets. Yes, there are slot constraints in Mumbai and Delhi, but the other metros still have capacity available. So, you would see us add capacity across all aspects of our network. Sorry, I missed the first part of the question, if you can repeat that.
- Achal Kumar:** The first question is about the price elasticity you see in the system and do you think industry will be able to pass on some of the fuel burden without having any impact on demand or you think that the fuel might turn out to be a big hurdle for the growth and in that context, how do you see yourself placed in?

- Rohit Philip:** Yeah, that's right. So, clearly there is elasticity of demand but what we see going on is that in the 0 to 15 booking day window where actually you have most of the inelastic demand, the industry has discounted the price of those tickets. We think that there are clearly some inefficiencies with industry pricing right now. So that's one and as I said we don't think it is sustainable for the industry as a whole. As far as we are concerned, in our position, as I said our low-cost structure gives us that cushion to withstand short-term pressures much better than others in the industry. Rahul, do you want to talk about our capacity?
- Rahul Bhatia:** This is Rahul. The quarter is the quarter, but let's step back and look at where IndiGo is going long-term. We are not going to shrink our capacity deployment based on quarter-to-quarter performance. IndiGo as a business is here for a long-term. We have taken a large punt on India. We have the lowest cost structure in the industry and we will continue to go and will continue to build the franchise. And like Rohit said earlier, at the end of the day, our view is that the airline with the lowest cost structure must prevail and we are firmly in control of that and the guidance we have given of 25% for this year, we are very comfortable with putting it out there.
- Achal Kumar:** Thanks Rahul.
- Moderator:** Thank you. Next question is from the line of Ashutosh Somani from JM Financial. Please go ahead.
- Ashutosh Somani:** Thanks for taking my question. Just wanted to understand the PLF-yield play off a step better. So just in terms of the increase in the PLF, how much of it is through metro or not. How much, directionally, whether the metro contributed more or the non-metro contributed more in terms of increased PLF? And the fare pressure that we have talked about, we see it in the metro routes or the non-metro routes? So if you can answer this question.
- Rohit Philip:** Sure, Ashutosh. I think the answer to the question as you see is pretty much across the network. So there is no specific trend difference on both load factor and yield across our network.
- Ashutosh Somani:** Which is?
- Rohit Philip:** Which is, you see the overall load factor improvement across the network and you see the overall yield decline across the network.
- Ashutosh Somani:** Okay, across the network. There is no bifurcation between metro or non-metro. You are not particularly facing pressure in the non-metro routes in fares. Is it fair to say that?
- Rohit Philip:** That's it. That's absolutely fair. There is nothing different going on in those markets.
- Ashutosh Somani:** Sure. Thank you.
- Rohit Philip:** Thanks.

- Moderator:** Thank you. The next question is from the line of Pulkit Singhal from Motilal Oswal Asset Management. Please go ahead.
- Pulkit Singhal:** Hi. Thanks for taking my question. First question is just really on this yield environment. I am kind of shocked with the kind of yield decline. Just wanted to understand, in airports like Mumbai and Delhi where it is anyway chock-a-block, one would expect there could be yield increases out there. At least, one would not need to compete in such airports. Is that what you are seeing or is it just the opposite?
- Rohit Philip:** So as I said, I think the yield declines are across the system. Yes, maybe Mumbai where there is no capacity being added has slightly less pressure, but you see pretty low fares in Mumbai as well. It's this pricing in 0 to 15-day window that has been mostly affected.
- Pulkit Singhal:** Alright.
- Rohit Philip:** Having said that, as I said earlier in the prepared remarks, we have seen some firming up of these yields in this 0 to 15-day window over the last week or so. But we said it's too early to say whether that trend will continue, but we have seen some firming up of this in the last week or so.
- Pulkit Singhal:** Sure and are there any one-off costs relating to the neo issues in the last quarter which is substantial enough for you to mention that will not be repeated?
- Rohit Philip:** No, there is nothing that we need to mention on that.
- Pulkit Singhal:** Got it, thank you.
- Moderator:** Thank you. The next question is from the line of Saurav from JP Morgan. Please go ahead.
- Saurav:** Hi, good evening. My question was essentially on the neo engines. So, United Technologies in their analyst meet in March have indicated that they now expect to resume supplies to almost normalcy for the P&W engines in the balance of 2018. I was wondering whether you have had any communication on that from them. And a related question is, how much of these aircraft you have on your fleet would be short-term leases?
- Wolfgang Prock-Schauer:** So, Wolfgang here, I am taking the first part.
- Saurav:** Yes.
- Wolfgang Prock-Schauer:** Yes, we have got information that deliveries will resume and that is why we end up with the forecast of 25% capacity increase for the financial year. So, we see a ramp up of the deliveries. The issues around this Airbus 450 and above serial number engines have been resolved. All the engines have been replaced, all aircraft are flying, and we will get substantial deliveries from May onwards until the end of this financial year. It is the first part of your question regarding the resumption of deliveries.

- Saurav:** Second part?
- Rohit Philip:** Yes, so the second part, I think you were asking about what percentage of our aircraft are on short-term leases. Aside from our neos, we have got the rest of our Airbus aircraft as ceos. Some of them are ceos that we own right from when they were new aircraft. There are about 40 planes that we have leased from the secondary market. They were all leased in the 3 to 4-year lease terms.
- Saurav:** Okay, so Rohit, this is a follow up, if I may. As the neo deliveries resume do you expect to retire, at least, part of these short-term leases. Just trying to figure out your cost structure for F19. That is it.
- Rohit Philip:** So, the reason we did all the short-term leases was to bridge the gap because of the delays in neos. And though lease terms are designed such that when we start getting neos we start to return these planes and have our fleet to be predominantly neos over time. That is still very much the plan.
- Saurav:** Okay. Thank you very much.
- Rohit Philip:** Thank you.
- Moderator:** Thank you. We will move to the next question which is from the line of Joseph George from IIFL. Please go ahead.
- Joseph George:** Thank you for the opportunity. My question is in relation to the impact that the flight cancellations in March had on your yields. Would it be right to say that you faced pressure on pricing because of the cancellation and related impact on the brand, etc., and in order to cover that up or in order to mitigate that, you went ahead with aggressive pricing to make sure that you do not lose the customers and that has continued in April. Would that be a right statement to make?
- Rohit Philip:** That would not be accurate at all. We did not see any decline in bookings with that event.
- Joseph George:** Alright and the second thing I wanted to check was in terms of trend, is it that you saw deterioration through the quarter from say January, February, March and as you mentioned you know April has not been great from a pricing perspective. Now, we are starting to see improvement in May. So, would March and April be the peak of the weak pricing scenario or do you think it continue through the quarter?
- Rohit Philip:** We cannot really speculate on that. I think we gave you the information on April and slight firming up over the last week. We would hope that the firming up would continue but we cannot tell. Clearly, the firming up is the sign that the fare levels were not sustainable.
- Joseph George:** Rohit, my question is more on what happened in 4Q rather than outlook, so my question is whether the pricing deteriorated over the course of 4Q that is from January to February to March and then starting to improve now in April? So, my question is more on the trend that you saw within 4Q rather than outlook?

- Rohit Philip:** No, there is no such trend like that. I think you can see that really what happened was that 0 to 15 day booking window prices just went down across the quarter and you saw it continue in April.
- Joseph George:** Understood. Okay, thank you.
- Moderator:** Thank you. Our next question is from the line of Ansuman Deb from ICICI Securities. Please go ahead.
- Ansuman Deb:** Yes, thanks for the opportunity. I had 2 questions. First is regarding our CAPEX. So why have we not bought the neos that we inducted in 2H-FY18? And whatever CAPEX we have planned, would have a substantial amount of neos been bought in FY19. Is that the correct understanding? And second is regarding Air India's acquisition that we have kind of rejected, so what changes which if the government made at all what was the reasons for which we thought that the Air India acquisition was not capable for turning around as per our design initially which we thought? Thank you.
- Rohit Philip:** Sure, I will take the CAPEX question and then Rahul will talk about Air India. So, in terms of aircraft CAPEX, we started to buy ATRs with our free cash. ATRs are where we get the most bang for our buck because the sale leaseback market for ATRs is not as efficient as the Airbus market. So, we definitely get the best bang for our buck by buying ATRs. We will start buying Airbus planes, but we also had struck some attractive sale and leaseback deals previously on these. But, you will see us buying some Airbus planes in the coming year.
- Rahul Bhatia:** Hi Ansuman, this is Rahul. Just to answer your question on Air India, as we have stated we were very interested primarily in the acquisition of Air India's international operations and Air India Express. Unfortunately, such an option is not available under the government's current divestiture plan of Air India and hence we expressed our inability to turn around the entire airline operations of the Company. Having said this, we continue to look at the long-haul opportunity without Air India. We continue to seek route rights and other necessary regulatory approvals as maybe required to operate long-haul flights and we are also actively studying the choice of wide-body aircraft and will update you once we have made more progress on this issue.
- Ansuman Deb:** Thank you.
- Moderator:** Thank you. The next question is from the line of Ashish Shah from IDFC Securities. Please go ahead.
- Ashish Shah:** Yes, good evening, sir. Just wanted to check on how is the yield different in the domestic versus the international operations that we have, whether the domestic yields were any better than the international or vice versa?
- Rohit Philip:** We saw yield pressures across the network, both domestic and international.

- Ashish Shah:** Right. Fair, second on the non-fuel cost - this year we have seen about 2.5% increase in the non-fuel cost. You know, going into FY19 we obviously have plans to expand our operations probably also start the various UDAN routes. So, what would be reasonable outlook for the non-fuel cost for FY19, if you can give some direction on that?
- Rohit Philip:** We do not give specific guidance going forward, all I can tell you is that we manage our cost very tightly. We are very aggressive at looking at how to control our costs and offset inflationary pressures that we inevitably get. There are pressures with foreign exchange as well that affect the cost structure but we aggressively manage our cost. So, beyond that I will not be able to give you any specific guidance on our number.
- Ashish Shah:** Sure, thank you.
- Moderator:** Thank you. The next question is from the line of Binay from Morgan Stanley. Please go ahead.
- Binay:** Hi team, thanks for the opportunity. Actually two questions, firstly could you share some impact on the lease-rentals, are they on fixed rates or floating rates? Globally, rates are rising, so will that have an impact on lease-rentals? And secondly on the restricted cash, just for better understanding, grew some 15% quarter-on-quarter. So, what are the big drivers for restricted cash?
- Rohit Philip:** I will take the second question first. Restricted cash is based on of our supplementary lease rental liability that we have to lessors. We give them letters of credit and we place our cash collateral with the banks to issue that. So, when you look at our balance sheet in addition to our debt there are other liabilities and you will see that is largely reflective of our supplementary lease rental liability and your restricted cash requirements grew largely in line with that. I forgot your first question, I am sorry, Binay.
- Binay:** So the supplementary rentals remain the key reason for the changes in restricted cash?
- Rohit Philip:** That is correct. And the first question is about lease-rentals whether it was fixed or floating. Most of our, in fact all our leases are fixed rate leases. We fix the rates at the time of the lease, so there is no exposure to additional rates. There is some exposure in our balance sheet which relates to the financial leases of about Rs.2,000 crores which is floating rate debt. But all our operating leases are on fixed rate. Now having said that, new leases that we get, those rates are set at the time we sign the lease agreements and those get expose to new rates. But the old leases do not get marked up because we have fixed rate.
- Binay:** Great, okay. Thank you.
- Moderator:** Thank you. The next question is from the line of Achal Kumar from HSBC. Please go ahead.
- Achal Kumar:** Yes, hi thanks for the opportunity again. First question is mainly around the costs, I mean of course your unit cost is lowest in the Indian Aviation Industry. Now, obviously you started with

the single type of fleet, pure low-cost model, which work pretty well and then you added ATRs for UDAN. And now you are planning to add wide body, so how do you see your model evolving and do you see you could lose the tightening or discipline around the cost? How do you see that is happening and obviously you are ordering A320neo those are almost 40% or 50% more expensive than A320. So, how would you be able to control the cost? And secondly around UDAN, if you could please talk us about how the UDAN is doing and then on last call also I asked this that you are supposed to keep this operations separately, so how that independent operations are doing? Thank you so much.

Rohit Philip: Sure, firstly on the business model perspective. There is absolutely no change in and no effect on our business model with the fact that we have a Turboprop and we have potentially a wide body operation in the future. The key is in a particular market to have a single fleet type and have the cost efficiencies associated with that fleet type and have the best cost structure in the market. So, from our perspective, in the Airbus operations, where we compete with others similar aircraft types, we need to be the lowest cost in that market. In the Turboprop business, where we compete with other people in the Turboprop business, we need to be the lowest cost there. And we fully expect to be the lowest cost in that market. If we go into the wide body market, we would expect there the lowest cost structure in that markets. So, the key is to have the right cost structure in each market. The weighted average cost structure does not matter. It matters to have the right cost structure in each market. And in terms of the cost structure, we also have A321s coming-in in to our fleet this year which have all the commonalities of an A320. Same pilot, same engines, so it does not have any complexity but it has a 15% lower mile cost because it will have more number of seats than the A320. We will continue to manage our cost very tightly and the additional operations won't affect that. In terms of what we talked about the Turboprop Operations, yes, we have a separate group of operations in terms of pilot and flight attendants which run the Turboprop Operation that is working very well.

Wolfgang Prock-Schauer: There are examples in our operations that resets our cost structure going down. It is a very lean set up and we actually had a lot of ideas when we set this up. We now actually see a lot of advantages of those good ideas to bring our cost structure down. So, it is good set up in our Turboprop Operation.

Achal Kumar: But, my second question was about the UDAN performance. So, how is that business doing in terms of profitability and all?

Rohit Philip: We have not started flying in the UDAN market. We are flying our Turboprop Operation in certain markets. We were very pleased with ramp-up so far. Load factors have been good. It is still very much in the ramp-up phase, we have only a few aircraft flying but we are very optimistic based on how the operations are ramping up.

Achal Kumar: Thank you.

Moderator: Thank you. Next question is from the line of Kunal Lakhan from Axis Capital. Please go ahead.

- Kunal Lakhan:** Hi. Thanks for taking my question again. Just wanted to understand, in the current environment, we do not seem to have control on the fares. But we do have certain expenses lined up in FOREX and this quarter alone we saw some losses booked on that account. Just wanted to understand in terms of what kind of FOREX hedging policy that we follow and any color on that side?
- Rohit Philip:** So, on foreign exchange our philosophy that we shared before is that a lot of the foreign exchange expenses, which are lease- rentals maintenances cost, are all expenses that the rest of the industry also incurs. And so, we are a firm believer that the business has to offset these pressures. This is very similar to how we think about fuel hedging. The fuel is a cost, foreign currency lease-rentals and maintenance cost are the costs. They are all input cost that the industry has and the ultimately the industry has to absorb this as a whole and any financial instruments we use are really speculating on those markets than actually hedging. So, we view that the business has to actually withstand that and that has been a consistent hedging policy that we have had on both foreign exchange and fuel.
- Kunal Lakhan:** Alright and secondly just wanted to understand the 25% ASK growth that we spoke about. In terms of additions of neos if you can give some guidance on that front or for the full year, that will be helpful.
- Rohit Philip:** We have not given the breakup yet. Certainly, a large chunk of this capacity increase will be neos.
- Kunal Lakhan:** Alright, thank you very much.
- Moderator:** Thank you. The next question is from the line of Naveen Baid from Aditya Birla Capital. Please go ahead.
- Naveen Baid:** Yes, thanks for the opportunity. This is a more philosophical question that the industry is facing cost pressures with crude having risen from about say \$40 to \$75 now. At \$75 if this is an indication of the profitability, is it safe to assume that the best days of the industry can only be attained at about \$60-\$65 and anything beyond that the profitability will be severely dampened?
- Rohit Philip:** We would not say that at all, Firstly as we said
- Naveen Baid:** Let me just add to that because you said there are no one-offs in this quarter, so there is no adjustments that we are needed to make apart from the fact that you do not hedge your foreign exchange expenses. So, even after you adjust for the foreign exchange hedges, at this level of crude, is this the normal profitability that one should expect?
- Rohit Philip:** As we said we do not believe this combination of today's fare levels and fuel prices is a sustainable situation for the industry. And as we said we are very comfortable because we have that cost structure that gives us that cushion and as I said we have some recent signs of things firming up.
- Wolfgang Prock-Schauer:** If I may add, going forward with neos with 15% less fuel consumption, actually we will be in better position. So, that is a hedge we are building up here in terms of the high fuel cost.

- Naveen Baid:** Okay, thank you.
- Moderator:** Thank you. Next question is from the line of Miten Lathia from HDFC Mutual Fund. Please go ahead.
- Miten Lathia:** Hi. I do not know if we have frozen the type of fleet we will use for our international long-haul operations and if not, then by when would we be freezing it?
- Rohit Philip:** Miten, as we said, we are actively studying this opportunity and when we have more information we will provide it.
- Miten Lathia:** The press reported that the first international long-haul flight will probably be in the winter later this year. So that is not a lot of time left between now and then.
- Rohit Philip:** Yes. You know honestly, I do not read the press because I learn new things about IndiGo every time I read the press. So, we will update you when we have more information to share.
- Miten Lathia:** Okay great. Thanks a lot.
- Moderator:** Thank you. Next question is from the line of Pranav Tendulkar from Rare Enterprises. Please go ahead.
- Pranav Tendulkar:** Hi, thanks a lot for the opportunity. Sir, could you please compare cost per available kilometer for various models that you have? So, for example the new 3 ATRs that you have hired or bought?
- Rohit Philip:** We do not have that breakup to share right now because it is too early. The ramp-up of the operation is still very new.
- Pranav Tendulkar:** Okay, so out of the capacity addition that will happen in FY19, how much of this capacity will be deployed on existing routes and how much of it will be new destinations?
- Rohit Philip:** It will be a combination of both just like when you look at what happened over the past fiscal year. We added a lot of capacity in existing routes and we opened new destinations and I think Rahul talked about the fact that we are going to add five additional destinations. We have also got these 20 new routes under the UDAN schemes. So, we will definitely have some new destinations, but we will also add capacity in existing markets. Absolutely, it will be a combination of both.
- Pranav Tendulkar:** Right, last question from my side. On UDAN routes, can you just highlight operating parameters like revenue and cost?
- Rohit Philip:** We have not started the UDAN markets yet. So, there is nothing we can share yet on that.
- Pranav Tendulkar:** Okay, thanks a lot.
- Moderator:** Thank you. Next question is from the line of Saurabh from JP Morgan. Please go ahead.

- Saurabh:** Hi, just two data points. So, one is what was the block hours utilization this year and what was it last year? And secondly, the landing charges, how have they trended year-over-year and if any outlook for F19?
- Rohit Philip:** Sure, on aircraft utilization we had a total aircraft utilization of 12.5 hours this quarter compared to 12.65 a year ago.
- Saurabh:** And Rohit full year number if you can give us that would be nice.
- Rohit Philip:** In this current quarter as you know we had some neos on the ground. So, if we exclude the neos and you look at operational utilization it was 13.2. So, we target that above 13 hours a day of utilization. But year-over-year because of the groundings of neos it was lower. I am sorry, I forgot your second question.
- Saurabh:** If you can give us this block hour for the year and secondly what is the landing charges? How much have they gone up year-over-year and what is your outlook for FY19 if you can?
- Rohit Philip:** Landing charges have gone up by little bit year-over-year primarily because of the RCS levy, so that adds a little bit. Excluding the RCS levy for the quarter nothing material had changed. Going forward the landing fees, when we have our Turboprop Operations ramping up, will be a little lower. But, overall for the year, we had some increases in the previous quarters that we talked about but for the quarter year-over-year the only increase was RCS.
- Saurabh:** But this year landing charges would have gone at a higher rate than CASK ex fuel, is that a fair assumption to make?
- Rohit Philip:** Roughly, yes.
- Saurabh:** Okay, thank you very much.
- Moderator:** Thank you. Next question is from the line of Pulkit Singhal from Motilal Oswal. Please go ahead.
- Pulkit Singhal:** Hi, my question is on the international operations. You mentioned 15% of ASK is on the international side. From a 3-year perspective, broadly, where do you see this going? Is it like 25%-30% is that what you are looking at?
- Rohit Philip:** It is too early to give you that kind of guidance. It will probably be inched up but it is too early to give you that kind of guidance.
- Pulkit Singhal:** And is it, what is the impact of this, currently, on your margins and profitability of the business?
- Rohit Philip:** No, as we said we manage our business based on where the opportunities are to fly or not. You know the short-haul international, we view it just like domestic. It just incidentally crosses the geographic border. So, we look at optimizing the network and the markets based on the

opportunities, and we do not view this any differently. Long-haul will be obviously looked at slightly differently but the short haul international is just an extension of domestic.

Pulkit Singhal: Okay lastly, the long-haul, is it fair to assume it would require certain amount of investment period or gestation period before it becomes profitable? The kind of competition out there is lot different than competing with the Indian carriers in India?

Rahul Bhatia: Pulkit, this is Rahul. Like we said earlier, there is a lot of work going on internally on this whole opportunity and you know when we are ready to share the details we would do so. More than that, we are not able to share anything at this time.

Pulkit Singhal: Thank you.

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, sir.

Ankur Goel: Thank you all for joining us on the call. I hope you found this useful.

Moderator: Thank you very much. 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.

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