"IndiGo First Quarter Fiscal Year 2018 Financial Results Conference Call"

July 30, 2018

MANAGEMENT: MR. RAHUL BHATIA – CO-FOUNDER AND INTERIM CEO
MR. GREG TAYLOR – SENIOR ADVISOR
MR. ROHIT PHILIP – CHIEF FINANCIAL OFFICER
MR. WOLFGANG PROCK-SCHAUER – CHIEF OPERATING OFFICER
MR. ANKUR GOEL – AVP, TREASURY AND INVESTOR RELATIONS

Operator: Good evening ladies and gentlemen and welcome to IndiGo's Conference Call to discuss the first quarter fiscal year 2019 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 First Quarter Fiscal Year 2019 Earnings 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 Greg Taylor and 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 may be construed as forward-looking. Our actual results may be materially different from these forward-looking statements.

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

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

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

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

We announced our first quarter fiscal 2019 financial results today. This quarter we reported a profit after tax of 278 million rupees. Our profits for the quarter were adversely impacted primarily by depreciation of Indian rupee, increase in fuel prices, continued pressure on yields and increase in our maintenance costs.

While Rohit will discuss this when he talks about our financial performance in detail, let me take you through what's going on in the industry. The current revenue environment continues to remain weak particularly in the 0-15 day booking window. While we spoke about some signs of improvement in the last call, the fares continued to be lower in the quarter compared to the same period last year. We do not believe that these fare levels are sustainable, especially given the increase in input costs. Clearly with industry load factors in the high 80s or 90s, the industry is turning away passenger demand at current fare levels but we have no choice but to keep our fares competitive. Having said that, we believe that IndiGo is best positioned to withstand these pressures because we have the lowest cost structure and the strongest balance sheet.

We have 169 aircraft in our fleet at the end of June 2018 including 124 A320ceos, 36 A320neos and 9 ATRs. We added a net of 10 aircraft during the quarter including 3 ATRs and 4 A320neos. As you are aware, the neos continue to have issues resulting in a couple of parts wearing out sooner than they should and we are not happy with the situation. Pratt & Whitney and Airbus are working on fixing these issues. UTC, Pratt & Whitney's parent company, in their investor call last week mentioned that they believe they have resolved the seal issue and are continuing to make progress on the combustor chamber. We remain cautiously optimistic and hope these issues are resolved at the earliest. In the interim, we continue to rely on adequate availability of the spare engines to keep the aircraft flying. However, sporadically, we do face shortages and some planes have been temporarily grounded. We expect the situation with the spare engines to improve in the current quarter.

IndiGo continues to be the leading airline in terms of on-time performance and we ranked No. 1 in the DGCA reported OTP for each of the months of April, May and June with an average OTP of 83.9% for the quarter. Our Technical Dispatch Reliability was 99.85% and flight cancellation rate was 0.33% for the quarter. I am also happy to report that our Company has been awarded the 'Best Low Cost Airline in Central Asia and India' at the Skytrax World Airline Awards 2018 for the ninth time in a row and the 'Best (Domestic) Airline India' at the GMR Annual Awards 2018 for the seventh time in a row. These great operating results and accolades are due to the hard work of our 18,000 committed IndiGo team members and I want to take this opportunity to thank them.

As we continue to add capacity over the course of the year, you will see IndiGo deploy capacity to new routes and destinations. During the quarter, we have added two new destinations – Hubli, our 1st destination under the UDAN scheme, and Trichy. This brings our total number of destinations to 52 including 8 international cities. We have started nine new routes during the quarter – Calicut to Chennai and Bengaluru, Trichy to Chennai, Bengaluru and Kochi, Hubli to Kochi and Goa, Kochi to Ahmedabad and Madurai to Hyderabad. In addition to this, we have also started selling tickets for five new destinations: Dhaka, Gorakhpur, Jorhat, Surat and Tuticorin.

While we remain focused on building our domestic network, we will also continue to connect international destinations to additional cities in India and also open up new destinations internationally. With our existing fleet and the new A321neos that we expect to start getting towards the end of the year, IndiGo will have the capability to reach cities in China, Middle East and South East Asia. We have also secured traffic rights to fly to cities like Abu Dhabi, Kuala Lumpur, Kuwait, Male, Jeddah and Hong Kong. We are evaluating all such opportunities to expand our network and provide many more choices to our customers.

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

Rohit Philip: Thank you, Rahul, and good evening everyone.

For the quarter ended June 2018, we reported a profit after tax of 278 million rupees compared to a profit after tax of 8 billion rupees during the same period last year. We reported an EBITDAR of 11 billion rupees with an EBITDAR margin of 17.4% compared to an EBITDAR of 20 billion rupees with an EBITDAR margin of 34.1% 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 were lower compared to the same period last year primarily because of four factors.

First – Foreign Exchange. The Indian rupee depreciated significantly during the quarter and closed at 68.44 rupees per U.S. Dollar. Based on this, we booked a foreign exchange loss of 2.5 billion rupees compared to a gain of 66 million rupees during the same period last year.

Second –fuel prices were higher in the quarter compared to the same period last year. After adjusting for the increased volumes, this increase in fuel price resulted in higher fuel costs of 5.6 billion rupees compared to the same period last year.

Third – we continue to see a competitive fare environment in the industry and despite the increase in fuel prices, while our load factors are up, our yields are down year over year. The impact of these lower yields on our profits was 3.3 billion rupees. As Rahul mentioned earlier, we do not believe that the current revenue environment is sustainable given the increase in input costs.

and Fourth –We had an increased number of shop visits this quarter on the engines pertaining to our older A320ceo aircraft. These engine shop visits are a regular event and happen in the ordinary course of operating an aircraft based on the numbers of hours the engine has been used. We had significantly more scheduled shop visits during the quarter compared to the same period last year which resulted in an increase in our maintenance cost.

Our total capacity for the June quarter was 17.8 billion ASKs, an increase of 18.4% compared to the same period last year.

Our revenue from operations in the June quarter was 65 billion rupees, an increase of 13.2% over the same period last year. Our other income was 3 billion rupees for the quarter.

Our RASK for the quarter was 3.70 rupees compared to 3.82 rupees during the same quarter last year, a decline of 3.1%. This decline in RASK was primarily driven by lower yields, partially offset by higher load factors. While our yields were down by 5.4% to 3.62 rupees, our load factors were up by 1.3 points to 89.3%.

As I mentioned earlier, fuel prices have risen by over 27% which led to an overall increase in CASK of 19.8%. Our CASK for the quarter was 3.69 rupees compared to 3.08 rupees during the same period last year. CASK excluding fuel was 2.17 rupees in the current quarter, an increase of 13.3% from the same period last year. As I mentioned earlier, this was mainly because of the adverse effect of foreign exchange and the engine shop visits that I discussed earlier. The foreign exchange loss combined with the impact of currency depreciation on our dollar based expenses resulted in an increase of 9.1% in our CASK excluding fuel. The engine shop visits in the quarter contributed another 5.4% to the increase in CASK excluding fuel. Excluding these two factors, our CASK excluding fuel would have gone down by 1.2%.

As we have said before, we have the lowest cost structure in the industry which we believe is fundamental to our business. Over time, as our older planes get replaced by A320neos, in addition to the fuel burn advantage, we expect to see a reduction in our maintenance costs as well. Further, as we start getting larger A321neos, our unit costs will further reduce. We also continue to optimize our cost structure by improving efficiency and leveraging our scale.

We are strengthening our balance sheet by purchasing aircraft with our free cash. We purchased

3 more ATRs during the quarter and have a total of 9 ATRs purchased so far. Our cash balance at the end of the period was 132 billion rupees comprised of 61 billion rupees of free cash and 71 billion rupees of restricted cash. We had total debt of 25 billion rupees at the end of June 2018.

During the previous quarter, our Board of Directors recommended a dividend of 6 rupees per share for fiscal 2018. This will be placed for approval of our shareholders in the upcoming Annual General Meeting which will be held on August 10^{th}. Subject to us receiving the approval, the dividend will be paid shortly after that.

Before I close my remarks, let me give you our capacity guidance for the coming quarter. We expect a year over year capacity increase in terms of ASKs of 28% for the second quarter. We still expect a full year capacity increase of 25%.

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