‘IndiGo Third Quarter Fiscal Year 2019 Financial Results Conference Call’

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Moderator: Good evening ladies and gentlemen and welcome to IndiGo's Conference Call to discuss the third quarter fiscal year 2019 financial results. My name is Stanford 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. Thank you and over to you sir.

Ankur Goel: Good Evening, everyone, and thank you for joining us for the Third Quarter Fiscal Year 2019 Earnings Call.

We have with us our co-founder and interim Chief Executive Officer – Rahul Bhatia and our Chief Financial Officer - Rohit Philip to take you through our performance for the quarter. Ronojoy Dutta, our Principal Consultant, Wolfgang Prock-Schauer, our Chief Operating Officer and Willy Boulter, our Chief Commercial Officer are also with us and available 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 third quarter fiscal 2019 financial results today.

This quarter, we reported a profit after tax of 1.9 billion rupees with a profit margin of 2.4%. Though we have seen a reduction in fuel prices during the quarter compared to the previous quarter, on a year over year basis, fuel prices are still 31% higher and the Indian rupee is weaker by 11%. Both these factors have impacted our profitability compared to the same period last year. Our unit revenue was down year over year but we saw an improvement in revenue performance during the quarter. It was encouraging to see a year-on-year improvement in RASK in November and December on account of improvement in the fares in the 0-15 day window. Rohit will talk about this when he takes you through our financial performance in detail.

As we have said before, we are focused on building a large and profitable air transportation network in and out of India and are adding capacity in line with our long term growth plan.

We added a net of 19 aircraft this quarter and ended the quarter with a total fleet of 208 aircraft. This has enabled us to expand our network both domestically and internationally.

Talking about our domestic operations first, we have increased our daily domestic departures by 75 flights per day during the quarter. While some of the metro airports are getting slot constrained, we are encouraged with the growth that we are seeing in tier 2 and tier 3 cities.

In addition to our focus on our domestic network, we have also strengthened our international presence. We started operations from 6 new international destinations and added 22 international routes during the quarter. Moreover, as part of our international expansion strategy, we have entered into our first codeshare and mutual cooperation agreement with Turkish Airlines. This will allow IndiGo customers to reach several European destinations beyond Istanbul.

Our unit costs, excluding the impact of fuel and foreign exchange, declined on a year-on-year basis. Moreover, as we add more A320neos and A321neos in our fleet, we expect further unit cost improvements. Maintaining our cost leadership is fundamental to our business and I am happy that we remain firmly on track to reduce our unit costs further.

We also remain focused on our operational performance. We were ranked as one of the best airlines for the second consecutive year amongst the top 20 mega airlines globally in terms of on-time performance based on the data compiled by OAG. IndiGo is the only Indian airline to have made it to this list. During the quarter, we had an on-time performance of 79.1%, Technical Dispatch Reliability of 99.87% and a flight cancellation rate of 0.45%.

Now let me take a step back and recap the year that has gone by. Going into the year, we set ourselves very ambitious growth targets to tap into this very unique opportunity that the Indian market presents. Over the last 1 year, we have taken delivery of 55 aircraft, roughly one aircraft a week. Not many aviation companies globally have the resilience and the organizational strength to grow this rapidly and still continue delivering strong operational performance. We have delivered on all parameters – be it ensuring adequate availability of pilots and cabin crew, growing the network to new markets, strengthening the internal processes and improving efficiencies. I would like to thank all our employees, especially the operational staff for their tremendous performance. In past, we have focused on setting up the right network domestically. Now with this in place, we are looking to strengthen our international presence. We have received our first A321neo which has a higher seating capacity and lower unit costs compared to the A320neos and also has longer range. We plan to start direct flights to Istanbul from March and open other international destinations as the year progresses.

Overall, I am happy with the way we have grown so far and remain very excited with what lies ahead.

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

Rohit Philip: Thank you Rahul and good evening everyone.

For the quarter ended December 2018, we reported a profit after tax of 1.9 billion rupees compared to a profit after tax of 7.6 billion rupees during the same period last year. We reported an EBITDAR of 16.8 billion rupees with an EBITDAR margin of 21.2% compared to an EBITDAR of 20 billion rupees with an EBITDAR margin of 32.4% during the same period last year.

As Rahul mentioned, our profitability was lower compared to last year mainly on account of the increase in fuel price and the depreciation of the Indian rupee.

The average aviation fuel price in India during the quarter was 31% higher than the same period last year. After adjusting for the increased volumes, this increase in fuel price resulted in higher fuel costs of 7.3 billion rupees compared to the same period last year.

The Indian rupee closed at 69.71 rupees per U.S. Dollar. The average exchange rate for the quarter was 72.1 rupees compared to 64.8 rupees in the same quarter last year. This had an adverse year over year impact of 2.7 billion rupees on our dollar denominated expenses.

Our total capacity for the December quarter was 21.6 billion ASKs, an increase of 32.9% compared to the same period last year.

Our revenue from operations in the December quarter was 79.2 billion rupees, an increase of 28% over the same period last year. Our other income was 3.1 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%. While in October, our RASK showed a similar decline as it has in previous months, we saw a much better RASK performance in November and December. This improvement in our RASK performance was largely because of improvement in yields especially in the 0-15 day booking window during these months. For the quarter, our yields were up by 3.7% to 3.83 rupees while our load factors were down by 3.2 points at 85.3%.

Our CASK for the quarter was 3.61 rupees compared to 3.16 rupees during the same period last year, an increase of 14.5%. This increase was primarily driven by increase in fuel prices and currency depreciation. The currency depreciation also impacted our CASK excluding fuel and as a result, our CASK excluding fuel was 2.04 rupees in the current quarter, an increase of 6.3% from the same period last year. Excluding the impact of foreign exchange, our CASK excluding fuel reduced by 0.4%. We remain relentlessly focused on maintaining our cost advantage and have taken various steps to create efficiencies and further improve productivity across the organization.

Our balance sheet continues to remain strong. Our cash balance at the end of the period was 141.4 billion rupees comprised of 46.2 billion rupees of free cash and 95.2 billion rupees of restricted cash.

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 34% for the fourth quarter.

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 question, if needed. And with that, we are ready for Q&A.

Moderator: Thank you very much, sir. Ladies & gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Ansuman Deb from ICICI Securities. Please go ahead.

Ansuman Deb: Regarding the good improvement in RASK that we have seen this quarter, did we have any Pratt & Whitney compensation? And if not, then could you give a brief color on the delta that we saw between October and November - December? Because if we see sequentially, fares have increased by almost 23%. So there is a very strong pattern that we have seen in November and December. Some color on that would be useful.

Rohit Philip: Sure. Let me answer the first question on credits. There is no year-over-year improvement on account of credits, so it is all related to passenger revenue. I will let Willy comment on the trend in the quarter.

William Boulter: Sure. Well, as Rohit pointed out, I mean, October was another month in which the pricing in the market was very, very competitive. But then as we ran into Diwali and into the peak season in November and December, the pricing environment improved quite markedly. And the key improvement was in that 0 to 15-day booking period where, as opposed to the previous quarter we reported on, there was a very large reduction in yields. Hence, in the quarter, the yields, looking at a year-on-year picture, stayed stable. And as a result, the RASK number was a lot better. So I hope that, that gives you the sufficient color.

Ansuman Deb: And one last question was regarding our search for the CEO. Any update on that because post retirement of Mr. Greg Taylor, do we have any update on that?

Rahul Bhatia: Well, we hope we have an update fairly soon.

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

Ronil Dalal: Sir, my question was, ancillary revenue has grown by around 15%. What would you say is the breakup of this ancillary revenue? Second is interest and depreciation costs are much higher on a year-on-year basis. Any reason for the same. And usually, you used to give capacity guidance of the coming year and maybe one or two quarters. This time, it is only one quarter. Anything on that.

Rohit Philip: So let me answer a few things and then turn it over to Willy. The interest and depreciation was primarily due to two factors. We have taken a number of ATRs that we have acquired through cash purchases as we have talked about in the prior quarter. So the asset base has increased. So one component is that. And the second component is related to the owned aircraft on our balance sheet which over the last year, have gone through several engine shop visits and where those engine shop visits are capitalized and has increased the depreciation. So those are the two components that has increased the run rate of depreciation this year. And there is also a currency impact as well. And on interest, the currency impact is the issue. In terms of capacity guidance, we normally give capacity guidance for the fiscal year in the last quarter of the year. So we will give you guidance for the next fiscal year on the next quarter's call. And so we will update you then. In terms of ancillary, I will just comment on the breakup of ancillary. It is about 30% cargo and 70% passenger. The weakness and why it is not grown in line with the capacity is mainly on the cargo side. And maybe, Willy, you want to comment on anything else?

William Boulter: Yes. And there is a few things to say about ancillaries. I think we, in this call six months ago, indicated that we were going to be putting more emphasis on selling ancillaries. And, apart from the cargo side, there are a number of categories of ancillary. Obviously, there are cancellation charges, there is advertising, there is onboard sales, there are various products to help the passenger's journey through the airport etc. And it is gratifying that we are getting some improvement in that ancillary revenue. I would say though that we are very mindful that by global standards, we are still below what would be an average for a low-cost carrier and we continue to focus on that. Turning to cargo, it is a wider issue. We are delighted that we managed to improve our market share. It was about 24% in April. It is now in the 27%, 28% region. But as indicated I think on this call six months ago, we again are putting a lot of effort behind cargo and we hope that, that share will move closer to our passenger share.

Ronil Dalal: Yes. And one last thing is that the dollar-denominated deposits. We had mentioned that last time, it was around one-third of the supplementary lease rentals. Any update on the same?

Rohit Philip: Yes. We have continued to increase the number of dollar-denominated leases. Now about 80% of our supplementary rent liability is collateralized with dollar deposits. So the exposure to the rupee on the mark-to-market on this - it used to be in the order of Re. 1 is equal to Rs. 85 crores. Currently, it is Re. 1 is equal to Rs. 24 crores. And we will, by the end of next quarter, I think pretty much be fully hedged.

Moderator: Thank you. The next question is from the line of Achal Kumar from HSBC. Please go ahead.

Achal Kumar: I have got few questions. One about the capacity growth. As Rahul mentioned, a lot of capacity is coming on the Tier II and Tier III cities. According to OAG data, you are getting significant capacity growth on the new routes. For example, Kannur. These days, a lot of news about Kannur that you are flying lot of new flights. So how do you see this will impact the yield? It looks like quite dangerous. A lot of capacity is coming in the new routes. So that is one thing. Secondly, I want to understand about the recent news - you had a plan to start Europe, but now the news says that you have stalled the plan. Previously, Mr. Rakesh Gangwal talked a lot about this, saying that these operations are good. So now what has changed? As in, is there any change in the strategic directions? Or what has changed? Last thing, I want to understand about the November, December; you said the 0 to 15 days window, the fare has strengthened. Or is there any change in your strategic approach from rather than looking at the load factor to now are you concentrating more on the yields?

Ronojoy Dutta: Okay. So this is Rono Dutta, and I will take the question on the international first. So we are going to grow international very aggressively. Our international growth for this year, coming quarter for example, 30% of the growth will be international. And to the specific question, have we given up on going to Europe or to London? The answer is no. It is very much alive and we are looking at it and we will take a decision soon. So at this point, it is neither yes nor a no. Your other question was what is happening in the second-tier markets. And really, it is quite encouraging that although we are growing so rapidly, that we do not see a negative impact on our unit revenue. Now most of the companies like Southwest or EasyJet, when they talk about the earnings, they say, “Here's what is happening to our new markets, which are developing markets, and there we have taken a unit revenue hit. But on the rest of the market, we are doing fine.” We do not see any such distinction. And it is quite encouraging to see all these new cities that we are going into, they have responded so well. So, we do not see any sort of weakness in RASK as a result of new markets. Was there a fourth question there?

William Boulter: About the load factor in Neo, which I am happy to talk about. I think as we discussed last time, the revenue per available seat kilometer is a balance of load factor and yield. And it is a competition that never goes away in a sense as one looks forward and looks at forecasting and so on. Revenue management is about a mix of load factor and yield and that is the way it will be. I mean, I think some of our competitors concentrate perhaps rather too much on the load factor part of it. But I will leave it at that for now.

Achal Kumar: Okay. Mr. Dutta, you talked about the European and US market and I am sure European market is slightly different than India. And you know that in Indian market, when we talk about the new sector and new routes, the gestation periods are much longer than what it is there in Europe. So don’t you think that will have an impact on the yield and then probably you will have to wait for the longer term to increase the fares? So that is one thing. Of course, and now especially when everybody is growing, I mean, the next year in 2019, if you see Vistara is growing, of course leaving Jet apart, GoAir is growing, Spice is growing. So if everybody is growing, don’t you think that could actually raise the competition?

Ronojoy Dutta: Okay. So when you said that the European and US markets are different, it is true that in Europe and US, typically, they talk of a six month gestation period. What is surprising looking at the Indian market is that there is no such thing domestically as a gestation period of six months. We have grown a lot of new flights as you can see from our schedule, and they are all doing surprisingly well. So I do not see that as an issue at all.

Rohit Philip: Achal, if we can request you to go back into the queue and give others a chance to ask questions. We'd appreciate it.

Moderator: Thank you. The next question is from the line of Ashish Shah from Goldman Sachs. Please go ahead.

Ashish Shah: As I look through the data, what we see is that we have added two ATRs this quarter. But our owned fleet/ finance lease has not gone up, it has remained 29. So are we now also doing operating lease on ATRs?

\Rohit Philip: Yes, Ashish. We have done two operating leases on ATRs ie; on the last two ATRs. We have taken the first 12 ATRs as cash purchases. I think as I have mentioned on prior calls, during the periods of uncertainty, it is always prudent for airlines to manage cash carefully. So we decided to finance the next tranche of five airplanes through operating lease, and then we make a case-by-case basis beyond that. So these 2 as well as the next three ATRs, we are going to take on operating lease.

Ashish Shah: Okay. So there is no change in strategy. This is just a temporary measure, just to preserve the cash, we are taking it on an operating lease.

Rohit Philip: That is correct.

Ashish Shah: Okay. And sir, if you could give us some more color on the yield. Do you think these yields are sustainable and how do you see the environment going forward?

William Boulter: I think all I would say on this for the time being is that the better environment that we had in November and December has continued so far. And we see that there is some discipline in imposing advanced purchase requirements. And that I think, as we described again last time, is the critical issue when we look at the development of yield in the Indian market.

Moderator: Thank you. The next question is from the line of Vijayant Gupta from Edelweiss. Please go ahead.

Vijayant Gupta: Yes, I had a couple of questions. Firstly, on yields, so given the slowdown which we have seen over the past couple of months where growth has slowed down to around 12% for the industry and a number of players are expanding capacity at around 30%, do you think that yields would be sustainable at these levels? Is it possible that we may see a cutback in capacity in the future in order to maintain yields? And secondly, on the significant increase in cash balance. So we have seen a net cash accretion of around Rs. 1,300 crores versus a cash profit of roughly Rs. 400 crores. So presumably, there is a decrease in working capital. Can you please elaborate on this breakup as well?

Ronojoy Dutta: So if I can talk about the capacity issue. So by and large, when a country is growing at an 'x' GDP, I am sure you are all familiar with the notion that air traffic growth are at least twice that rate. So right now the industry is growing at about 19%. If the underlying economy is growing at close to 7.7%, I think, is the exact number, it would say, "Yes, the industry should grow at that rate." And our specific capacity, if you look at last year and this year, in unison, we have been a little lumpy. In the sense that in 2018, we didn't grow enough. Our domestic capacity grew by only 10%, while Spice was at 21%; Go was at 27%; Jet was at 11%. So we grew slower than everyone else. Now this year, we are playing catch-up. So yes, we are growing faster. But even in a domestic capacity, it is growing at only 25%. The industry is growing at 19%. So these would all be major issues if the underlying economy was not growing. But when you have a close to 8% growth in the economy, you would say, "Yes, the industry should be growing at least double that rate." So I do not see that as much of an issue. And again, I would stress the fact that our future capacity, a lot of it is going to go international. So overall, yes, we are quite happy with the capacity decisions.

Vijayant Gupta: So for 2019, can we expect capacity growth at 30% for domestic? Or would it significantly slow down?

Rohit Philip: I think we will come and give you a more precise guidance in the next quarter. But what we have said previously is we expect about 25% a year over the last three years. And so it might be a little bit higher than that, but we will give you a more precise guidance next time. Maybe I should turn to your question on cash. The cash balance increased under restricted cash. On the free cash side, it was about a Rs. 250 crore increase and the rest was in restricted cash. Yes, there obviously, increase was bigger than the profits. We do get some incentives when we take delivery of aircraft and that helps with the cash balance. Some of that gets deposited in restricted cash to securitize lease obligations. But net net, that is what drives the increase in cash balance.

Vijayant Gupta: So that lease incentive - does it also show up in other income? Or is it entirely on the balance sheet?

Rohit Philip: So I think you can follow up with Ankur to understand this in more detail. But our accounting policy basically has lease incentive getting amortized over the life of the lease. And on the P&L side you recognize it over six years, while on the cash flow basis you get it upfront. We can explain it in more detail off-line, if you'd like.

Moderator: Thank you. The next question is from the line of Rohan Advant from Multi-Act. Please go ahead.

Rohan Advant: My first question was on the growth in engine rentals, which is 46% higher on a YoY basis. That is much higher than the ASK growth and the depreciation of the currency. So do Neos have higher rentals versus the Ceos and that is why it is much higher?

Rohit Philip: I think obviously, the currency depreciation plays a part in that. And then there are some credits that offset lease rentals that appeared last year as well this year. And when you net all that out, that is why you see the percentage is a little higher than the growth in capacity and the currency depreciation.

Rohan Advant: Okay. But the Neos, would they have higher rentals than the Ceos?

Rohit Philip: On a net basis, there is differences in Ceos and Neos, especially when you talk about older planes. You will have low lease rentals. Especially the used planes that we have, have low lease rentals but higher maintenance costs, higher fuel burn. Neos might have a slightly higher rentals but lower maintenance costs and lower fuel burn. So you cannot really compare it, unless you are comparing it apples to apples.

Rohan Advant: Okay. And lastly, on the lease period for the new Neos that we are getting, is that also for six years or are we doing a higher lease period?

Rohit Philip: Currently, we are doing them on six-year sale leasebacks.

Moderator: Thank you. The next question is from the line of Chockalingam Narayanan from BNP Mutual Fund. Please go ahead.

Chockalingam Narayanan: First is on the Neo engine issues, what is the update from Pratt & Whitney? And when can we see these issues normalizing?

Wolfgang Prock-Schauer: Yes, Wolfgang here. So, as you know, initially we had certain issues with the Neo engine. Most of the technical issues have been resolved. Modification programs are in place or have been already modified or are in progress to be implemented within a short period of time. And just recently, one month ago, there was a meeting of the Indian regulator, DGCA, with the operators in India on Neo aircraft, and there was also contact with FAA. FAA has confirmed that all the engines are well within the limit prescribed by this regulator and also by DGCA. Just to give an example, the in-flight shutdown rate is as per FAA, the US regulator, 0.05 by 1,000 engine flight hours. We operate at 0.02. So, we are well within the norms set out by FAA. And there is, as per FAA, no need for further measures to be implemented. However, DGCA has asked us for some more regular checks which we are doing anyhow. We did it on our own. And so for us, the situation is completely under control. Only one aircraft is on ground right now but otherwise, all the aircraft are flying. And we do not see any restrictions on the engine side for further expansion going forward.

Chockalingam Narayanan: There were just a few incidents in between in the media and also, I think, smoke and other issues and also about possibly the regulator asking us not to fly on the Andaman route, basically on long stage length routes. So in that sense will it be a constraint as far as flying international, on the Neo flights, both A320 and A321?

Wolfgang Prock-Schauer: Yes. So, Port Blair, that is correct. Regulator has asked us to not to operate to Port Blair. But that is not out of flight safety reasons. It is more of logistical reasons. If something happens, to transport an engine there for engine change is more complicated. That is why we were not flying to Port Blair. With respect to international expansion, we do not see any restrictions because most of our routes, where we want to expand, are normal operations. So you have to have a diversion airport within 60 minutes of your flight path. And so we do not see any restriction on that side. And on top of that, we have about 40 Ceo aircraft, which are ETOPS aircraft, that we use mostly from South India to the Gulf, where you will fly a larger proportion of your journey over water. So, combined with these 40 ETOPS - ETOPS means extended range operations, and there are A320 and A321neos which will fly their routes with the 60 minutes diversion airports, we do not see any restrictions coming up in our expansion.

Chockalingam Narayanan: Secondly, on your capacity constraints at the key airports, what is the thought process and how do you see your ability to kind of grow market share out of these key routes?

Wolfgang Prock-Schauer: Yes. Actually A321 is a universal aircraft which can be used for longer flights, can fly up to six hours or more than six hours. And will also be used into capacity constrained airports. So for example, you have destinations where you have 15, 16 frequencies a day. So if you use a couple of A321s on these rotations, then you can free up slot, you can expand to other destinations. So it is for us a very useful universal aircraft which we can use for international expansion and also domestic expansion in capacity constrained airports, and bring our seat-mile costs down because of the larger capacity. So we are very happy to have the aircraft coming in.

Chockalingam Narayanan: But how much would the fuel burn kind of increase if you deploy this on shorter stage length, say, like Delhi- Bombay, if you kind of operate? Will the fuel burn actually increase if you deploy A321 on this?

Wolfgang Prock-Schauer: It all comes down to the cost of operating a seat. And definitely, with this kind of aircraft, you will have something like 10% lower seat-mile cost approximately. So our cost of bringing one seat from, let's say, Delhi to Mumbai will be 10% lower.

Ronojoy Dutta: And just as a reference point, we asked Airbus that where are people using them on short-haul, high-frequency routes. And as I recall from memory, they gave us the numbers for both Air France and Lufthansa, who have a lot of A321s. And the average stage length was for less than two hours of flying. So they are used on short or high frequency routes all over the world. And your point was that you won't have enough slots in Delhi and Bombay. Well, having 222 seats per aircraft is a huge advantage in those markets.

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

Kunal Lakhan: Just a follow-up on the previous question, how should we look at the fleet mix going ahead with the inclusion of A321 now? Going ahead, like incrementally, the number of fleets that we will add, how should we look at that mix? I understand there is 150 plane order of A321. Just over the next couple of years, if you can give some color on how the fleet addition of A321s will be. That will be helpful.

Rohit Philip: Yes. So as you know, we have an aircraft order of 430 Neos, out of which we have the ability to, with adequate notice, ask Airbus to deliver any one of the A320 family, which includes A319s, A320s, A321s. We do not intend to take any A319s at this point, but we will take a number of A321s going forward. So we expect to take actually a large number of next year deliveries with A321s, and then we will continue to sort of assess that and make those decisions on an ongoing basis. But the mix will definitely increase upwards in terms of increasing the mix of A321s.

Kunal Lakhan: Yes. And just another follow-up on that would be that the deployment strategy for these fleets would be on the trunk routes, right? I mean, you will not look at deploying these on the non-trunk routes.

Ronojoy Dutta: That is roughly correct, yes. So A321s, their first primary mission will tend to be international, and then to some extent, they'll be domestic. And you are right. We will obviously put them into high-demand, slot-constrained routes. So we stick to the trunk routes, yes.

Kunal Lakhan: That's helpful. Secondly, on the yields front, you mentioned that November, December saw some improvement in the 0 to 15-day window. How are we seeing that in Jan so far and maybe also for the quarter, if you can?

William Boulter: Sorry, in January, well, I think as I mentioned earlier, the trends that we saw in November and December continue within the market and we are obviously content with that.

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

Joseph George: This is Joseph from IIFL. My first question is in relation to the comment on yields. Now there is a lot of excitement in the investor community today because of the 20-odd percent QoQ jump in yields. But I would want to check that how much of this is seasonality? Because obviously, 3Q is seasonally far stronger than 2Q. And how much of it is actually an underlying improvement in demand? That's the first part of the question. Second part is when you talked about Jan being as good as November and December, are you implying that the high yields that is prevalent in the seasonally strong November and December period has continued into Jan.? Or are you saying that on a year-on-year basis, the improvement that you saw in November and December, that same rate of year-on-year improvement has started into January?

William Boulter: I think that yes, we are saying that there is still some improvement. I mean, I am sort of straying into commercially sensitive areas here, so I do not want to say too much on this.

Rohit Philip: Let me just set some context here. Firstly, I think, on a quarter-on-quarter basis, it is always very difficult to sort of explain the numbers because of the seasonality. So that is why we look at it on a year-on-year basis. So on a year-on-year basis, I think as we talked about, yields were up

3.7% for the quarter. That included a yield decline in October with yield improvements in November and December on a year-on-year basis. So compared to seasonally strong quarter a year ago, we saw improvements in November and December yields. And again, on January, year-on-year, January is again getting into a slow quarter, but we are talking about it all on a year-on-year basis. And so that is usually the comp. Willy, you want to add anything?

William Boulter: No, I think that is fine. As I say, traditionally, we do not really comment on performance going forward too much.

Rohit Philip: Yes. I mean, I think, that is what we have tried to add the color as what we have seen so far in January, those trends, which is really driven by the fact that the fares in the 0 to 15 day window remains strong. And that is what we had not seen the last couple of quarters.

Ronojoy Dutta: If I were to make a macro level statement, I would describe our situation as follows: We are growing rapidly. We are going into new markets. And despite all that, our unit revenue picture is firm, which I think is a surprising situation to be in, frankly, but that is how I would describe our overall situation.

Joseph George: Got that, thank you. The second question that I had was, you mentioned that you have moved about 80% of the deposits corresponding to the restricted cash in the USD deposits. Would it be right for me to assume that the investment income, this is purely for the purpose of modeling, investment income that we are modeling in future periods, the yield on the overall cash balance should come down? I mean, it is quite logical, but just want to confirm?

Rohit Philip: Yes.

Joseph George: Got it. And sir, the last question that I had was, while you talked about the improvement in the 0 to 15 day window, what we have also noticed is the fall in load factors. So to some extent, it can be said that the improvement in yield that we want, 3.7%, 3.8% YoY improvement in yield, has come at the cost of volumes. And if that is the case, how do you really measure the improvement in underlying pricing, if the yields have come at the cost of volumes?

William Boulter: Well, if I could say that part of the reduction in load factor is because of a very fast growth. And growing at 30%, it is certainly a tall order to keep the same load factor each year. But having said that, I think that the yield picture is a relatively bright one, and I do not have any particular concerns, as I say, moving forward.

Rohit Philip: I think just to again address your question more directly, you are talking about, again, 3.7% improvement in yield for the full quarter and a 3.2% decline in load factors roughly offsets each other. But for the quarter, our RASK performance was roughly flat. It included the sort of phenomenon of October, which was very negative, and improvement in November and December. And in November and December, the improvement in yield is much, much more significant than the loss in load factors. So it is definitely the right trade-off from our perspective.

Moderator: Thank you. The next question is from the line of Sanjay Doshi from Reliance Mutual Fund. Please go ahead.

Sanjay Doshi: Sir, I just wanted your comments on the overseas strategy. You mentioned earlier in the call that the growth in terms of capacity addition will be much higher in the overseas business. And obviously, the 321s will provide you greater opportunity to service a larger market. I just want your thoughts about the kind of competition and the behavior of this competition in the international market, and how does that business stack up versus your key domestic routes and the Tier II, Tier III cities in terms of profitability?

Ronojoy Dutta: So we have a huge advantage in going international. In that, we are going with single-aisle planes. Now that also restricts us to within six hours of flying. So you can draw a map around all our principal cities and say, "Where are these guys going to fly? Where are we going to fly in that six hour radius, if you will, from each of the principal city?" Now when we are flying in those, we have a single-aisle at a low cost. And we are clearly not trying to get the business class traffic, which we do not have a business class. But in those markets that we are going to fly with our single-aisle, low-cost strategy, we have a huge cost advantage. So we are very excited about that growth opportunity internationally. And just to give you another metrics, if you will, right now we carry 6% of the international traffic in and out of India. Foreign carriers carry 61%. So we have a huge opportunity for growth. And when we say, "Oh, we are growing rapidly." Yes, but we have not grown internationally at all for decades, and now we are just trying to claw back which we believe is rightfully ours. So we are very excited about international. We have the right airplane, we have the right cost structure and we think we will make strong headway internationally.

Wolfgang Prock-Schauer: If I may add here, I mean, we are the only carrier having a huge domestic network behind our international expansion. So we can connect something like 40 to 50 domestic destinations to our international markets, which gives us a unique advantage over the other foreign carriers but also our smaller Indian carriers. So we want to connect a huge domestic network with a very fast growing international network and we have also started preparations in that context by reducing minimum connecting times to make a hassle-free journey from the hinterland of India into our international destinations.

Sanjay Doshi: Understood, sir. Sir, just on that second part of the question, how is the competition behaving differently, if at all, in the international business today? And at what is there in the domestic? And in terms of profitability, if you could just rank the three key businesses that we can segregate: overseas, domestic key routes and the Tier II, Tier III domestic.

Ronojoy Dutta: Okay. So I think it is phases of growth, right? Our first phase, as you'd logically expect, would be in the metro to metro. So we have grown that. The market has matured. We will grow it somewhat slowly. As we said, we go from 320 to 321. We have more seats for departure. So we will continue that focus. What has been exciting is the Tier II cities, and I didn't expect that much growth and that much of response to our added capacity. And after Hyderabad, we do the 6 metros. Then you have a range of cities, and I will just mention places like Ahmedabad, Pune, Nagpur, Lucknow, Guwahati, I mean, these are all Tier II cities which are like wow. I didn't realize there was so much traffic in those cities. So that is great. And then the third area of growth now will be international. And how will the competition behave? Well, all these hubs, they rely on their feed from other places. And if you do city-to-city strategy, clearly, they would win. But as Wolfgang said, they had their feed into Singapore, Dubai or any of these places. They have the feed at the other end, but now for the first time, we have feed into our major gateway cities. So we have Indian feed into Delhi and Mumbai and Chennai and all of these cities. And yes, we can fight off Singapore and Dubai quite forcefully, I believe, with our feed. So I think your overall question was where do you see us growing. Well, we saw the first phase over with the trunk-to-trunk routes. The second phase is in play right now, the second-tier cities, and they are responding very well. And now the third phase will be international expansion.

Moderator: Thank you. The next question is from the line of Pulkit Singhal from Motilal Oswal Asset Management. Please go ahead.

Pulkit Singhal: Sir, when I look at the last five years, I mean, your ASK growth has largely been in the 18%, 20% range, barring FY17 where it was 27% and which incorporated one odd quarter of 30% kind of growth. Now in each of those years, your load factors had gone up, which, to me is demand outstripping supply at that price point. Now this year and going ahead, your ASK growth is at a higher trajectory and you have a much larger market share in the market. And it is the first time I have seen that load factors are coming down. So is it to say that you may not get the demand growth or may be slower than the kind of capacity addition that you are doing at the price point right now. Because this is quite different from what we have seen previously, like five years ago.

Ronojoy Dutta: So let's take a longer-term perspective. And this is all predicated on the fact that Indian economy remains strong. If it doesn't, we have a different problem. But there is nothing that says the Indian economy won't continue to be one of the fastest-growing economies in the world. Now the second factor that comes into play is what they call the propensity to travel. So what is the number of people or given the GDP, what should we expect? Well, developed countries are like 10x higher than us in terms of the propensity to travel. So you have two factors working for you: let's say, a 7.5% growth rate and a low propensity to travel, which gets higher and higher as people have more income. With both of those combined, there is no reason to expect that aviation traffic shouldn't grow between 18% to 22%. And I am now including international and domestic. And yes, domestic, we have got a good share; internationally, we have a minuscule share. As I said, 6% of the international is what we share right now. Why cannot we grow that to 25%? I am just picking a number. So if we have domestic capacity, our market share is 43%. If you want to go to 25% of the international traffic, just imagine the number of airplanes we need. So we need a lot more planes, frankly. And what is happening also is, we are getting new technology planes, which is why we are growing so fast, because the new technology planes are lower unit cost. Now older planes will tend to mature and go out of the system, and therefore, we need more planes. So yes, if anything, there is a desire to buy more planes, grow faster, because we see lots of opportunities all around us.

Pulkit Singhal: Right. So basically you are seeing that the domestic market can absorb 18% to 20% kind of increase in capacity, but then the rest will flow into the international, and that is why your growth rate is higher between 25% to 30%.

Ronojoy Dutta: Absolutely. I mean, as we grow, like, even this year 70% of the growth has gone domestic; 30%, growing internationally. And you will continue to see that as we go forward.

Pulkit Singhal: Yes. And do you think the 18% to 20% kind of growth in domestic will require fare stimulation? I mean, I am taking out the competition aspects completely. But in your view, does that require fare stimulation or it can be at flattish yields as well?

Ronojoy Dutta: We are looking at revenue growth of 18%. Now it can come in load factors, it can come in yields, but this twice/ 2.5x the GDP growth is looking at revenue. And airlines can choose to take it in any mix they think is appropriate. And again, I think you should look at China and what happened to their aviation traffic as they grew. I mean, it was like breathtakingly fast and had sustained for a long period of time. I think we are just entering that phase.

Pulkit Singhal: Sir, I completely agree. I mean, we have around 3.75 billion, I mean, the propensity to travel is already there when we just see the number of rail tickets sold in the country. It is just that, I mean, as you are getting into the newer Tier II, Tier III cities, hopefully, that will help get lot of those people onboard.

Ronojoy Dutta: Yes. I would beg to differ in that the propensity to travel in India is still among the lowest in the world. I mean, we are far behind Brazil or any other developing market and way behind Europe or the US.

Pulkit Singhal: Okay. From an air travel perspective, I presume you are referring to?

Ronojoy Dutta: Sorry, what?

William Boulter: Air travel.

Pulkit Singhal: I presume you are referring to air travel. I was referring to overall travel in the country.

Ronojoy Dutta: Absolutely, absolutely.

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

Ansuman Deb: I had one question regarding the perspective that some of the competition as well as government point of view that we already have a domestic market share of 43%. So I understand that we are doing a lot of international, and there, we can have a lot of unbridled growth. But just to put a number in domestic market share, is there any regulation or is there any limit to which IndiGo can grow, after which, there would be some kind of a government intervention or some rules which can play out, especially in the domestic market?

Rahul Bhatia: Well, yes, this is Rahul. To the best of our understanding, there is no limit. And I think IndiGo is always very cautious about its market share, and consequently, we try to behave very responsibly. We do not want ever to be seen as an airline which is either gouging the customer or the competition. We are just trying to be an efficient Company trying to connect the country from all corners, and we will continue to do so.

Ronojoy Dutta: And really, I think IndiGo should be given a lot of credit and appreciation for the kind of infrastructure building that we are doing. The government is putting a lot of emphasis on building roads, which is great. They want to build river traffic. They want to build ports. They want to revamp the railways. Thank god they do not have to worry about the airline side of it because we are taking care of building great infrastructure. And we are not only doing it in an elitist sort of way that only a few people can travel. We are doing it at the affordable fares for the mass. And you will look at how we have connected Guwahati to Chennai and Jaipur to Amritsar and all these cities and it is a fantastic infrastructure that we have built, which is great for the nation. So I do not know why anyone would object to this and say, “No, no, no. You're growing too fast.” We are growing too fast, we are building great infrastructure for the country, which sort of builds on the economic prosperity of 7.5% growth that we are talking about. Without this sort of air traffic infrastructure, that growth would slow down. So I mean, I do not see why the government should be concerned. And most importantly, we are doing it in a self-sustaining way. Everyone wants to build infrastructure, but they cannot think of a way of doing it profitably. We are demonstrating that we can.

Ansuman Deb: Right, that is very helpful. And one last question was for the CFO. If we can get some more color on the accounting of credits that we are doing right now in terms of the compensation from P&W and whether we can expect some more Pratt & Whitney compensation in the coming quarters, in the sense that, I wanted to understand that because of some groundings, we would have expected some compensations already, but it is not been there. So if any possibility, I know you do not share the quantum of the same, but in case you can give some color on the accounting and the trend of that.

Rohit Philip: Yes, sure. Obviously, it is something that is competitively sensitive and contractually confidential, and that is why we are unable to give the specific details, as you can appreciate. But directionally, I think we have talked about this before. We do get some credits from the manufacturers to offset the effect of aircraft groundings and delivery delays. Some of those credits we get are offsetting lost revenue or higher expenses that get recorded in the revenue line or the expense line as appropriate. If you looked at last year, in the similar period, we had a larger number of aircraft groundings and so the quantum of that compensation, you can imagine, was higher than it was in this current quarter. So that is pretty much the color that we have shared previously and that is what we can share right now.

Moderator: Thank you. Ladies and gentlemen, we take the last question from the line of Ashish Shah from Goldman Sachs. As there is no response from the line of Ashish Shah, ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Ankur Goel for closing comments. Please go ahead.

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

Moderator: Thank you very much, sir. Ladies and gentlemen, with that, we conclude today's conference call. Thank you for joining us. And you may now disconnect your lines. Thank you.

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