‘IndiGo Fourth Quarter & Fiscal Year 2019 Financial Results Conference Call’

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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 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 turn the call over to your moderator, Mr. Ankur Goel, Head of Investor Relations for IndiGo.

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

We have with us our Chief Executive Officer – Rono Dutta and our Chief Financial Officer - Rohit Philip to take you through our performance for the quarter. Wolfgang Prock-Schauer, our Chief Operating Officer and Willy Boulter, our Chief Commercial Officer are also with us and are 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 Q&A session will be uploaded subsequently.

With this, let me hand over the call to Rono Dutta.

Ronojoy Dutta: Good evening everyone and thank you for joining us on this call.

We announced our Fourth Quarter and Full Year Fiscal 2019 financial results today. Our results for the full year were of course not great, in that we essentially had a break-even year.

But it is important to note that we made a sharp U turn during the year with losses in the first two quarters and then a recovery of profits in the last two quarters. We have earlier discussed the challenges that the industry faced in the first and second quarters, so it is best now to focus on fourth quarter results and the trends we see going forward.

For the quarter ending March, we delivered a profit before tax of 6.2 billion rupees which equates to a fairly respectable 7.8% profit before tax margin.

Our capacity for the quarter increased 29% year over year, with domestic capacity growing at 24% and international capacity growing at 60%. International capacity now represents close to

20% of our total capacity. We were particularly pleased that our international RASK or unit revenue improved at approximately 13.6% year over year as against a domestic RASK improvement of 6.2%.

In explaining our revenue trends, it would be helpful to break it up into three factors:

- The first factor is what is happening to our unit revenues based on the actions we are taking internally to improve them. We have optimized our network and 10% of our capacity has been reallocated this quarter. We have also taken some sales initiatives to improve performance on our distribution channels. And finally we are ensuring higher connectivity on our international flights. All these factors created a 2-3% year over year improvement in our unit revenues for the quarter and on a steady –state basis we expect a boost of 5% unit revenue improvement for the next financial year.

- The second factor is the Jet Airways cessation of services that helped our revenue performance in the last week of February and the whole of March. Overall for the quarter, we think that the Jet Airways effectively increased our unit revenue by 3-4%. Looking forward to the first quarter of 2020, our April revenues have actually been strongly affected by the Jet Airways shutdown and in that regard April revenues have been stronger than even March. By May, however, as the industry has added capacity to Jet markets, the Jet Airways effect has started to dissipate and by June I think the effect will pretty much disappear except in a few international markets where we overlapped with Jet as in the Middle East markets.

- Now, that brings us to the third factor which is the market behavior on pricing discipline. The downside here is that capacity was added rather late in the game without the full benefit of the 90 day booking window. Therefore, the most painful impact is in June in the metro to metro markets, where close in fares have come down quite appreciably. Unfortunately we are also heading into the traditionally weak July August period and we are hoping that the new capacity establishes its footing by then.

Thus to summarize, we have an underlying 5% unit revenue improvement trend because of the actions we have taken internally. We have a Jet Airways bump that is pronounced in March & April and largely dissipates by June. And finally we have new capacity in high yield markets that is still trying to find its way around. So, we are off to good start for the first quarter but I have to emphasize that we have no visibility at this time of the seasonally weak second quarter. The shape of the 2nd quarter will depend a lot on whether the new capacity finds traction in the market place and if pricing discipline is maintained.

For the quarter ending June 2019 and for the full year of fiscal 2020, we expect our total capacity will be up by 30%.

Looking at our on-time performance for the quarter, our OTP was 76.6%. Our OTP has improved from March onwards and we have reported an OTP of 90% for each of the months of March and

April. We are also very proud of the many awards that we have received during the year and I would like to thank our 23,000 employees for enabling the airline to expand rapidly, ensure profitability and simultaneously win all these customer service awards.

I am also pleased to announce that our Board of Directors has recommended a dividend of 5 rupees per share. I would like to share with our investors our internal discussions as it relates to this announcement of dividend.

Ever since the IPO, we have been profitable every year while this year has just been a break-even year. We think this past year was an anomaly, an aberration and going forward we are bullish on our financials. Given that profile of our profitability – past, present and expected future, we decided that we want to establish ourselves as Company that gives out dividends every year. We realize that having set such expectations, we will of course have to deliver on them but this management team is indeed resolved to do exactly that.

And with that I will turn you over to Rohit.

Rohit Philip: Thank you Rono and good evening everyone.

For the quarter ended March 2019, we reported a profit after tax of 5.9 billion rupees with an after tax profit margin of 7.5% compared to a profit after tax of 1.2 billion rupees with an after tax profit margin of 2% during the same period last year. We reported an EBITDAR of 22 billion rupees with an EBITDAR margin of 27.8% compared to an EBITDAR of 11.3 billion rupees with an EBITDAR margin of 19.5% during the same period last year. We reported a profit after tax of 1.6 billion rupees for the full year.

As Rono mentioned, our profitability was better during the quarter compared to the same period last year mainly on account of better revenue performance.

Our total capacity for the year was 81 billion ASKs, an increase of 27.6% compared to the same period last year. Our total capacity for the fourth quarter was 22.1 billion ASKs, an increase of 29.4% compared to the same period last year.

Our revenue from operations in the March quarter was 78.8 billion rupees, an increase of 35.9% over the same period last year. Our other income was 3.8 billion rupees for the quarter.

Our RASK for the quarter was 3.63 rupees compared to 3.43 rupees during the same quarter last year, up by 5.9%. This improvement in RASK was primarily driven by higher yields partially offset by lower load factors. While our yields were up by 12% to 3.7 rupees, our load factors were down by 3.0 points to 86%.

Our CASK for the quarter was 3.35 rupees compared to 3.33 rupees during the same period last year, up by 0.6%. Our CASK excluding fuel was 2.09 rupees in the current quarter, an increase of 6.7% from the same period last year. Excluding the impact of currency depreciation, the increase was 4% which was primarily driven by an increase in our maintenance cost.

Our balance sheet continues to remain strong. Our cash balance at the end of the period was 153 billion rupees comprising of 61 billion rupees of free cash and 92 billion rupees of restricted cash. Our debt at the end of the period was 24 billion rupees.

Before I close my remarks, I would like to mention that we have adopted the new lease accounting standard Ind AS 116 with effect from 1st April 2019. This standard requires us to capitalize our operating leases and as a result, we will record a lease liability and a corresponding asset associated with these leases on our balance sheet. In our P&L, there will a reduction in operating lease expense offset by an increase in depreciation and interest expense. I would like to emphasize that while you will see some changes in the balance sheet and P&L as a result of this new accounting standard, nothing changes with respect to the fundamentals of our business or the cash flow that we generate.

With this, let me hand it back to Ankur.

Ankur Goel: Thank you Rono 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 the Q&A.

Operator: Ladies & gentlemen, we will now begin the question-and-answer session. The first question is from the line of Anshuman Deb from ICICI Securities. Please go ahead.

Anshuman Deb: My question was regarding the structural improvement measures that you were referring to, in terms of capacity reallocation and higher international shares and the sales and distribution mix. So, the effect of this would be around 5% for the next year in terms of fare growth. Was that what you meant when you said that?

Ronojoy Dutta: It is not necessarily fare growth; it is unit revenue growth. It could be fare or load factor, but yes, 5% year-over-year improvement is what we see going forward.

Anshuman Deb: Okay. And my question was regarding the wide-body order which we kind of contemplated for the international expansion. Do we have any color on that? Any further details on that?

Ronojoy Dutta: So, on wide-body, there is nothing imminent. Are we studying it? Absolutely. But are we about to place an order or do we see something happening in the near future? No.

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

Binay Singh: My question is basically that we have guided for around a 30% expansion in ASKM. Could you share what percentage will go in international? And what is the impact of that positive or negative to the P&L? Because you are growing quite fast in the international business, so I assume that must be a little bit of a drag on earnings. And similarly, what percentage of that will go towards Neos? Thanks.

Ronojoy Dutta: So, we have consistently said that of the capacity coming forward of 30%, half will be domestic, half international. So, half of the 30% goes domestic, and the other half goes international. All our new aircraft coming in are the Neos. So, it's all 100% Neos which is helping us reduce our cost. And in terms of the international being a drag, we really have an S-curve of profits by market. And it's got both domestic and international in it. Some of the international traffic is very profitable, higher than some of the domestic profits. So, there is no blanket statement of one being more profitable than the other, and the reallocation tries to optimize all that, to try and move this S-curve to the right. So, what is the average profitability we have? We have a goal of moving the entire basket of the markets to the right. And some of those are domestic, some of those are international. Did that answer your question?

Binay Singh: Yes, that's quite helpful. So, like in the previous presentation you have talked about that when the ASKM growth slows down, the period of profitability will start to improve. So, that sort of lever is still left with us, right, probably two, three years down the line when you see ASKMs slowing down and then that will kick in?

Ronojoy Dutta: You are right, that is the accepted wisdom in the industry that, 'hey, slower growth is good, higher growth is bad'. Fortunately for us, that's not true. We have so many high profit markets that we are going into and we are very, very excited about that. And there is always sort of a slot issue or constraint of some kind. And so, when we find them, they are actually more profitable than our averages. So, I wouldn't assume that growth comes at a price of profitability.

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

Ronil Dalal: I have two questions. So, my first question is on the international strategy. Since you are aggressively growing in international, how do you think that you will be able to compete with the much stronger balance sheet and experienced players? So, what is the strategy there? Because now so far, we have been focusing on domestic, but now for the last year or so we are looking to move in international?

My second question is on the domestic front. Being the largest player, how do you think fares will behave, given passenger demand is coming down a little bit, and capacities are going up? And on the antitrust, if there is any kind of information you can give, because now your market share is near 50%.

Ronojoy Dutta: Okay. So, let me take it. You have two, three questions there. I will take one at a time. So, the first question is competing internationally with the established players. And I assume you are talking about British Airways, Singapore, Emirates, all of those. They have a very different business model than we do, as you now. They are full-service carriers, they have a business class, their economy is a smaller part of the entire cabin, and their cost structure is much higher than ours. So, we are a different animal in the market. And we don't go head-to-head with them. And we are very successful with our business model. So, when we fly to Dubai, yes, Emirates is well entrenched and we are a new player, but we are highly profitable. And we expect that to continue. And if you look at our international expansion when we talked about the four corner strategy, we really try and fly the shortest flight to get people into our network. So, we really are a low cost operator. And frankly, our model has proved to be hugely successful to us.

There was a second question I think on...

Ronil Dalal: On domestic.

Ronojoy Dutta: Yes. So, I have to say, part of our business model is affordable fares. So, please don't assume that what is happening here is a lot of fare increases. Of course, with Jet, admittedly, March, April, there was a fare increase. But as I said, by June it's back down again. So, our profitability is not driven by increasing fares, our profitability is driven by flying into the right markets with a low cost.

And then there was a third one about anti-trust or market share. Look, we are dedicated to building air transportation system in India that's second to none. And that's what we are trying to do, and we don't know where that model takes us in terms of market share. What we do know is that we will be connecting all these Tier 2 to Tier 2 cities in sort of high-frequency flying so that people can move around more easily. And that's what we are trying to do. Let me give you some examples of that. We know how important tourism is to India, so we are building this Buddhist Circuit now connecting Gaya, Varanasi and Gorakhpur, which has never been done before. And we are connecting it to both Kolkata and Delhi and we expect to really boost tourism into those markets.

In the Northeast, we are not waiting for the government to tell us to increase flying, but we are taking the cities there like Dimapur, Silchar, Aizawl, Agartala, and we are connecting all those cities to both Kolkata and to Guwahati. And then again, as I said, we are developing a plan to take Tier 2 to Tier 2 connections without going through the metros. So, these are all things that we are doing to improve the transportation system in India. And I hope the authority and everyone will see what we are doing and appreciate that.

Ronil Dalal: Sure. And one last thing, besides focusing on the passenger revenue and ancillary revenue, what are your views or is there any thought over the medium to longer-term to enter, say, allied businesses, like say, a little bit on the airport infrastructure or something where you maybe have some sort of tie-ups with the tourism companies or for example some booking service companies?

Ronojoy Dutta: Look, we stick to our knitting. We know what we are doing, we are good at what we do, and we have no plans to sort of expand in to other areas that we know very little about.

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

Achal Kumar: I have three questions actually, if I may. So, one is around operational challenges. Where are you in terms of your operation challenges on the Pratt & Whitney, on the pilot problem? And the third one, which has not yet started, is like IFRS 16. When are you planning to incorporate IFRS 16 into your books' account? And what sort of challenges do you see around that?

Second, I wanted to understand about your aircraft financing strategy. Are you still looking at complete sale and lease back or is there any change in your aircraft financing strategy?

And the last one, I wanted to understand about what is your view on the low-cost business class on the long-haul operations? I mean, I understand that it was in the news that you are thinking about offering low cost business class seats, is that true? And then what sort of strategy you are looking around that? Thank you.

Wolfgang Prock-Schauer: I will start with answering the questions on P&W, and the pilot question you asked. First on P&W, we see a strong improving trend in our performance. Technical Dispatch Reliability is 99.85%, which is actually 100% comparable to other engines. And a lot of improvements have been achieved in the last one year. If you look at, for example, the rolling trends of certain parameters of the engine performance, which let's say, in terms of in-flight shutdown rate has been reduced by half and is now much below the international required standards. So, we are absolutely confident that all these measures which have been initiated by P&W will show results.

For most of the issues, resolutions have been found and are implemented. And we have right now two areas where we are focused on together with the manufacturers. One is at the third stage of the engine, where solution has been implemented for the deliveries starting in June. And the other area is for the gear, where we also expect the solutions to be implemented by September. So, all these methods are under control. We have no AOGs. We have sufficient spare engines, and so we are absolutely comfortable now how the engine is operating.

On the second point, you mentioned about the pilots. If you recall, we had a pilot shortage three, four months ago, I have to admit that. But in the meantime, we have released about 40 captains every month. In the meantime, we have caught up. We have sufficient pilots. And as on April, there is enough numbers to execute our expansion program. So, we are well on track. And looking forward, we also have something like 285 Jet Airways pilots who have already joined us, and they will be online within three to six months. And expect this number of 285 to increase further. So, looking forward, we will have sufficient pilots to execute and to support our expansion program.

Rohit Philip: Okay. So, this is Rohit, I will address your questions on Accounting Standard 116 and the sale and leaseback question. So, first on 116, I think in my prepared remarks I talked about the fact that we have adopted the new standard as of the 1st April where our operating leases will be on balance sheet. I will give you a little bit more color in terms of rough numbers. So, roughly, we will have a lease liability of approximately Rs.140 billion, that will be on our balance sheet. And a corresponding asset of about Rs.130 billion will also be on our balance sheet. So, that will be the balance sheet impact.

On the P&L side, for the financial year FY20, the coming year, we would expect it to be roughly neutral. The reduction in lease rent expense will be almost exactly offset by the increase in depreciation and interest expense. So, P&L impact will be neutral, which is kind of what you would expect as the accounting standard is only trying to bring the liability on the balance sheet. The only other issue that I will point out is that we will be marking the liability to market, and that impact will flow through our P&L. So, depending on the change in the exchange rate, the mark-to-market of the liability will also affect our P&L. So, that's 116.

Ronojoy Dutta: And on the business class issue, we have said repeatedly I think, look airline business really segments itself strongly of less than six hours flying and over six hours flying. In the less than six hours flying, the business model has been tried, tested and is established everywhere around the world. In the long-haul, over six hours flying, many people have tried, no one has come up with a good model yet. And we aren't saying we have any of the answers either. So, when people's say, "Are you going to do a business class, are you going to go wide-body, are you going to go long haul?" This is very preliminary in our thinking. We are just putting our thoughts together. So, all options are open at this point on that regard.

Rohit Philip: Just to finish up on 116, there is just one more point I wanted to add. I think most of you on the call are very familiar with the fact that in the airline industry, for years, analysts and investors have always looked at the off-balance sheet debt and estimated an adjusted debt number using different lease capitalization factors. Some people use 5x rent, some people use 7x rent, etc. So, there is nothing really new with the standard other than it puts it on the balance sheet.

I also wanted to address your question on the financing model. So, we primarily have been relying on sale and leaseback model to finance our planes. Having said that, over the last year and half, we have signaled that we would like to start owning some planes outright with the cash flow that we generate. We had started buying, and I think we own about 12 of our ATRs which we bought outright with cash. We have plans to buy some A320s, but because of a little bit of uncertain financial environment over the last year, I think over the last many calls I had explained that we sort of temporarily slowed down our thoughts to buy planes. But as our cash starts building up, it's certainly something that we will utilize some of our cash balance to buy some planes as well.

Achal Kumar: Okay. Rohit, but what I understand is that I take this very positive which you said that there is a neutral impact on the P&L, other than the forex impact. Because generally what I understand is that young leases are penalized more in the initial years. And you have all the young leases, which are not depreciated. So, in the initial year that should have more impact on the P&L. I am not sure if I am true, but that's what I get from the international airlines and the international standards.

Rohit Philip: Yes. You are absolutely right. The issue is most of our leases are six-year leases. And so, on average you will have our leases that we are capitalizing, which will be sort of on an average life. So, that would be true if our leases were like 12-year leases. But here the early part of the lease is the first three years, and the latter half is the next three years. And so because our leases are short-term, that's why you won't see that big an impact.

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

Sonal Gupta: Could you give us some more insights on the 5% unit revenue improvement that you talked about? I mean is this going to come because of faster ancillary revenue, cargo growth etc. because you said this is driven by internal initiatives, right?

Ronojoy Dutta: Right. No, look, cargo, ancillaries- those are also important areas for us. I would also say that so far we have been handicapped in cargo a little because we are flying routes that are not cargo rich. As we go internationally, we do get more cargo rich routes. So, those are add-ons. Yes, cargo should do better. Ancillary, the same thing. As you go long-haul, people will tend to buy more meals, they will tend to sometimes have two meals. And so all those are potentials, but I am not including that in the 5%. We had a project team put together around December, January, and we said we need to improve our unit revenue and what can we do. And these are the three areas we focused on as low-hanging fruit. That doesn't mean that that's all that is going on in the company. Of course, not. We have got initiatives to improve customer service, initiatives to improve cargo, initiatives to improve ancillary as you suggested. Those are not included in the 5%.

Sonal Gupta: Okay. And just another question, if I may, is on the international slots, I mean, how does that allocation take place? I mean, do you need permission like say, flying to Middle East or somewhere?

Ronojoy Dutta: Absolutely. So, there are two issues, and they are looked on almost separately. Domestically, you are talking of slots. And it's not just Delhi and Bombay that people seem to think, there is also, like, can you get a slot in Lucknow or Pune and Goa? Everywhere, there is a slot issue. So, those are domestic. Then you come to the international flying and they are governed by bilaterals. So, who has how many bilaterals by countries is an issue, and who has applied for it? So, Jet is a good example to focus on. Jet has shut down and there are a lot of authorities that are now available. So, several discussions are going on with the Ministry. Everyone is applying for some of those. But we can't fly them until the Ministry approves them. And they will approve them by saying "Okay, IndiGo, you got this and GoAir you get that." And after they give us authority, then we have to start the slot process again. Because if they just say that you can fly Mumbai to Hong Kong, doesn't mean you can start flying, you still have to go to the Hong Kong Airport and get a slot, you still have to go to the Bombay Airport and get a slot. So, yes, for international it's a two-step process, first get the bilateral authority, and then get the slots at both airports.

Sonal Gupta: And would that require any payments also for international slots, like, to Hong Kong or...?

Ronojoy Dutta: No. I mean if you are going to Heathrow, yes. But all these others don't require. But they are highly slot constrained, let me tell you that. Getting a slot in Hong Kong is not easy. We have some rights that we have not been able to use because we don't have the slots. So, these are tough to negotiate and get.

Rohit Philip: The slots itself, the airports don't charge you for, but they charge you landing fees. So, that's their model, they charge you landing fees.

Sonal Gupta: Sure. So, basically given that we have a certain fixed number of bilateral flights which are there from India, and now Jet's allocation is obviously going out, so you can get or other people can get those slots, so then you don't need an approval from the other government to fly, right? So, you just need approval from the Indian Ministry and then negotiate for the slots with the airport?

Ronojoy Dutta: That is correct.

Operator: Thank you. The next question is from the line of Deepika Mundra from JPMorgan. Please go ahead.

Deepika Mundra: As your stage-length increases with the increasing international mix, is that factored in into your 5% unit revenue growth?

Ronojoy Dutta: The 5% unit revenue growth is a set of actions that is taken on a specific project, so everything else remains the same. As we talked about cargo, our CASK, our RASK, everything remains the same and goes along with the trend. This was a very concerted specific project effort to try and give our unit revenues, so it doesn't affect anything else.

Deepika Mundra: Understood. And could you give us, like a little bit more color on the slightly longer haul routes, how is the utilization now trending, I mean the newer routes that you have launched? And particularly on the return, are you getting enough demand on a 6-hour, 7-hour routes?

Ronojoy Dutta: Yes, we are very pleased with that. I mean, I will tell you, the only route that you can imagine is Delhi- Istanbul, because we now have a fuel stop. That one is an issue for us until the Pakistan airspace opens up. But by and large, most routes are doing well. We are happy with the utilization, happy with the profitability. So, yes, and as I just read in my prepared remarks, year-over-year international actually improved sharper than domestic did. And so we know how much of an impact Jet had on the domestic. International overlaps with Jet is not that much, except in the Middle East. And yet we are performing very well. So, yes, we are pleased with international.

Deepika Mundra: And one last question, if I may. You have mentioned that you plan to give out dividend each year. Any specific dividend policy in terms of a payout?

Ronojoy Dutta: You mean in terms of what yields are we targeting?

Deepika Mundra: Yes.

Ronojoy Dutta: No, it will depend on profitability. What we are saying is, we are committed to make sure we earn enough profits to give out enough dividends. But it will all depend on what percentage profits we are making and other cash needs for that matter. As Rohit said, we would also factor in that we would like to own some more airplanes.

Operator: Thank you. Next question is from the line of Santosh from SBICAP Securities. Please go ahead.

Santosh H.: I had two questions. First one on the non-fuel CASK side, you did mention that it's gone up in the quarter by about 6.7%, and part of it is due to the movement in forex. You did mention that some of it is attributable to the maintenance side, which you have seen an increase in. Just wanted to understand, is this more of a one-off or we should expect this to continue going ahead?

Rohit Philip: Yes. So, Santosh, you are absolutely right. So, I said the 6.7% was partially forex and partially maintenance. Without forex it was 4%. The majority of the 4% is maintenance. This is something that has been there for the last year or 12 to 15 months, as we have had a number of our older aircraft- the Ceo aircraft, that went through lease extensions, go through a second shop visit. And the second shop visit is usually at the eighth year mark, which was not sort of originally anticipated, because originally we expected to keep all these aircraft only for six years. So, I think I have explained on the last couple of calls as well that we have this bubble. I think this bubble will continue through the next year or so, but it starts to dissipate over the next year. So, we will see it come down slightly over the next year, but then this sort of bubble will be behind us two years from now.

Santosh H.: So, this is mostly linked with the average age of the fleet, so to say, that's how one should read it, right?

Rohit Philip: Yes, that's correct. As those older aircraft exit the fleet and are replaced by Neos, this bubble will sort of be behind us.

Santosh H.: Understood. The second one was around the A321 Neos that we have started adding now. Just wanted to understand the unit cost structure, how is it different from the A320 Neo?

Rohit Philip: It's in the range of 8% to 10% better on a unit cost basis than the A320 Neo.

Santosh H.: So, this is compared to A320 Neo, is it?

Rohit Philip: Yes, Neo to Neo, 321 versus 320.

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

Joseph: This is Joseph for IIFL. I had a couple of questions. One was, right now when we look across the economy, we are seeing significant slowdown in many consumption categories, be it autos, be it FMCG growth or consumer electronics, etc. I just wanted to check whether you are seeing a similar trend in your category as well, especially when you hold the fares constant on a like-to-like basis?

Ronojoy Dutta: Actually we are not seeing that kind of slowdown that the press is reporting. So, the press reports that traffic has gone down, and the fact is that the passenger traffic is very closely correlated to capacity. So, if capacity goes up, traffic goes up; if capacity goes down, traffic tends to go down with it. And recently capacity has gone down, of course, led by the grounding of the MAXs and then, of course, Jet. And so again, the correlation is very tight. Now going forward to May and June, looking at our load factors, they are bouncing back up nicely. So, if you were to say, "So, what do you think is happening to airline traffic in the short term?" We'd say it's going to be up 10% to 12%. That's our best forecast.

Joseph: Got it. My second question was based on your internal estimates, what do you think domestic industry capacity will grow in FY20? Any rough sense that you will be able to give us?

Ronojoy Dutta: That's very hard to say because we know our numbers and everyone else's number, I think, are sort of speculation. So, as you know, Spice got a lot of Jet airplanes. Vistara is talking of the same. So, no, we don't have a clear sight into other people's growth plan, it seems very volatile at this point.

Operator: Thank you. The next question is from the line of Vineet Maloo from Birla Sun Life Mutual Fund. Please go ahead.

Vineet Maloo: I heard you say that your fares have not gone up, I mean, your margins have basically increased because of different routes and the cost being under control. So, just want to understand, your yields show a pretty decent increase on a year-on-year basis, so just if you could throw some light on that, how much is because of mix?

Ronojoy Dutta: Sure. So, as we said, March and April were strongly affected by Jet, and fares did go up. Jet Airways has overlaps with us on about 40% of our routes. So, on 60% of the routes there is no Jet effect as such. So, what is happening there? We do have strong routes, we do have weaker routes. And to the extent we optimize our network by saying, it's almost like a plumbing problem, "Where is the chokepoint, try and add capacity there. And where are the flights empty and try and take capacity out of there." When you do that you get an automatic improvement in yields. Although in each specific market, fares haven't gone up. So, it's this mix change that creates most of this impact. But acknowledging completely that March, April and May are affected by Jet.

Vineet Maloo: Sure. I wanted to understand, let's say your yields show approximately 10% improvement over last year in this quarter, so would it be fair to say that more than two-thirds of this is because of mix and the rest is because of fare, because not all routes would have seen fare increase?

Ronojoy Dutta: Right. So, as we said, of a 5.9% improvement for the quarter now, I am not steady stating it to the next quarter. Last quarter we had a 5.9% unit revenue improvement and we looked at that and said, "How much is that because of our actions? And how much of that is because of Jet?" And our best guess is that 2.5% of that is us doing stuff for the quarter, and the remaining 3.5% or so is because of Jet. So, you can use that ratio as to what's happening in the marketplace.

Vineet Maloo: Okay. So, when you say fares have now again come back down, so that means only that part will actually go down, the balance of gain you will actually continue to retain going ahead. Is that a fair understanding?

Ronojoy Dutta: You have to understand three different factors. One is, what are we doing in terms of this mix. And don't forget, the sales channel initiatives, and there is international connectivity. So, don't just focus on the optimization of the network. All three had an impact. And we said, "How much is that?" So, we gave you that number. That's a 5% steady state, we are saying for the whole year we should get it. Year-over-year, we should get a 5% improvement. Then we said separately that there is a Jet impact. And we said that the Jet impact was strong in March, stronger in April, coming down in May and disappears in June. That's the bump effect. And then we said, however, there is a third effect which is actually a negative, which is much of this capacity has gone into metro-to-metro markets. And in metro-to-metro market, before we had established players doing their thing and it was a pretty steady or a stable environment, and now we have new players coming into that market and they are coming in very close, they don't give a 90-day booking window. So, the third impact is actually negative in terms of this new capacity coming into high-yield markets. So, those are the three trends we were trying to delineate one from the other.

Vineet Maloo: Okay. And my last question is regarding now that you mentioned that the initial squeeze which happened and which took fares up, is behind us- that hump, right? So, now how do you see the situation, especially in that up to 15 days bucket, how do you see fares and competition behaving in that bucket?

Ronojoy Dutta: So, in June, we said that during 0 to 15 day window, the fares are weaker, appreciably weaker. So, through May, we are good; after June it seems to be getting weaker. But again, as they get this 90-day booking window behind them, they could behave differently. I mean clearly if you are going to put in a flight into Bombay- Bangalore with sort of 20-day notice, you will rush to fill those seats, right? And then it is going to bring down fare.

Operator: Thank you. The next question is from the line of Nitin Aggarwal from JM Financial. Please go ahead.

Nitin Aggarwal: Sir, like you said, to capitalize the lease in the industry we use somewhere around 5x to 7x. So, if in FY19 we have over Rs. 50 billion of aircraft rentals, so if we use 5x to 7x, the capitalized lease should be somewhere in the range of Rs.250 billion to Rs.350 billion. However, you said a rough cut lease liability which will be coming in our balance sheet will be around Rs. 140 billion. So, can you explain the difference of what is being missed? And maybe you can reconcile this for us?

Rohit Philip: Yes, it's actually a very simple explanation. Our leases are six year leases, while sort of that normal industry-standard of 5x or 7x is assuming more like a 12 or 15 year lease. So, because our leases are six years, they have sort of an average life of three years. So, our numbers are going to be more like 3.5x number, which will reconcile with the number I have given.

Operator: Thank you. The next question is from the line of Mayur Milak from IndiaNivesh. Please go ahead.

Mayur Milak: So, two questions from my side. One, just trying to analyze, DGCA recently reported the April numbers. Now what we see is that IndiGo has gained significantly. We see a 20% YoY growth in passenger traffic for IndiGo versus the minus 5% for the industry. And we see zero market share improvement for SpiceJet. Now what I don't understand is, while there are the media reports that the SpiceJet has picked up a lot of Jet Airways aircraft, we haven't seen any benefit really showing there. So, just wanted to understand that do we see that impact coming now? And will it hit us both in terms of competition and the yield benefit?

Ronojoy Dutta: So, you have to remember that, first of all, the capacity went down because of the MAX grounding. And then they are trying to bring in this Jet aircraft, and the Jet aircraft are coming in at a certain pace. So, I don't think they are all in there and all flying and all flying at full utilization. So, they had to bump down because of MAX building up. And that's why I said, it's kind of volatile when you say what is the domestic capacity going to do next year, especially in the next three, four months. It will all depend how quickly Spice will be able to get these planes up in the air.

Mayur Milak: Right. And secondly, continuing on the same thing. So, while we have seen your personal traffic growth really going up by 20%, you are also mentioning that you are going to see addition of about 30% in your ASK for the quarter and for the year as well. So, even if that growth rate continues, my sense is that your fixed cost will be up by about 30% of the capacity while you will be generating revenue for about, let's say, 20%. That is when I am assuming that you continue with the same kind of growth which you yourself were mentioning that you are now seeing a kind of zero to diminishing impact of the Jet really going forward. So, I am just trying to understand that how have we planned our cost when the fixed cost which looks to be going up because of higher capacity addition for the company?

Ronojoy Dutta: Let's see if I can decipher that. So, you are saying our cost will grow faster than the revenue, is that your concern?

Mayur Milak: Yes. So, my sense is that most of the aviation cost is kind of fixed in nature. When you add 30% capacity you are definitely adding cost by 30%. And as we rightly know that SpiceJet has become aggressive, if the other guys will start coming into the metro routes, the yield might again go back into pressure. So, just trying to understand, is there any other lever left with us other than the external yield where we could still continue the kind of performance that we have generated?

Ronojoy Dutta: Look, I mean, I will have to say that I look at this at a market-by-market basis. And I say, "Are we gaining or are we losing?" And I am very comfortable that we are gaining ground. I mean, remember I talked about chokepoints. Our biggest chokepoint was Mumbai. So, we look at each market, we say, "Okay, it's Patna, Coimbatore, Lucknow, I want to do this, this is where we are going." And it's like we are doing well in every direction, but in the direction of Mumbai we are choked. Suddenly now Mumbai has opened up, that clearly makes a big impact to all our markets where the traffic was getting choked before. Then we look at the Middle East market. The Middle East market, also long-term, there has been a reduction in capacity because of Jet. And I am saying, "Hey, that looks pretty good, too." So, then I can go eastwards, and we are quite optimistic about the markets we are going to fly into Asia where actually no one is flying today. So, as we said we will go to Hanoi and China, we will be the only Indian carrier flying into those routes. Metro to metro, we used to have some gaps in our schedule. And I mean, just to make this more live, we were like, "If we only had a Mumbai and Chennai in the morning, we are missing that". Well, now we have Mumbai and Chennai in the morning, which we didn't have before. So, if I look at every market, it's like, there is a lot of room to be positive here.

Wolfgang Prock-Schauer: Just on the cost structure, Wolfgang here. I mean, quite a big amount of our costs are fixed costs. And that should stay like this, or only decrease much below than the increase in our capacity. And the way we plan our expansion is the most efficient way, because we bring in our own aircraft which we have ordered in the same configuration. We are also bringing big aircraft like the A321. So, all of these will lead to much lower unit cost going forward. And so, I didn't fully understand your question that fixed costs will increase more or less at the same rate as the capacity induction. In our experience, this is not the case. And, we will have a very homogeneous growth with our own aircraft coming in. There will be no big sudden introduction of business class which, as I said, brings up unit cost. So, we don't need to bring in other aircraft. All that coming together, I think, your calculation will show that it will have a very positive effect compared to the industry.

Operator: Thank you. The next question is from the line of Manish Ostwal from Nirmal Bang. Please go ahead.

Manish Ostwal: Most of my questions already answered. Only one question I have. As per the media reports, there is some difference between the promoters. So, can you update on the same, sir?

Ronojoy Dutta: Well, like we said in the press release, we want to confirm that there are absolutely no differences on the strategy and no differences in international expansion, and no differences on management selection. There is one issue that they are debating right now and we hope to resolve that in the very near future. That's our only one issue remaining, it is being debated, and we are very optimistic that it will be resolved shortly.

Operator: Thank you. The next question is from the line of Chockalingam Narayanan from BNP Paribas. Please go ahead.

Chockalingam Narayanan: No, the last question was what I wanted to ask. Thank you.

Operator: Thank you. The next question is from the line of Chintan Sheth from Sameeksha Capital. Please go ahead.

Bhavin: This is Bhavin. You talked about the unit revenue improvement from the initiatives. Could you comment based on the fleet improvement and the 30% ASK growth, what sort of improvement can we expect for fuel cost, assuming the same price? And also because of the further economies of scale, what sort of improvement can we expect in your CASK?

Rohit Philip: Yes. So, in terms of fuel CASK, as we continue to take on more Neos, we will see a 15% improvement in fuel burn. So, if you look at our fuel CASK for this quarter and compare it to the same quarter a year ago, our fuel CASK was 8% better. Even though fuel prices coincidentally were actually roughly the same a year ago in this quarter. So, that is primarily driven by the improvement in Neos as well as some improvement in the fact that we have had increased international capacity, due to which, because of a longer stage length, you burn less fuel on a per ASK basis, and there are lower fuel taxes in international as well. So, those are the two points. But the Neos definitely contribute a portion of that, and that you will see going forward. And as we get more and more Neos and some of the older planes exit, you will see that increase. As far as the overall non-fuel CASK goes, I think I mentioned earlier to another question that we see about an 8% to 10% improvement on unit cost of A321s versus the A320s, Neos to Neos, so we will see improvements from that as well.

Bhavin: Sir, if I may just ask one follow-up on that. So, if I take Q4 next year, Q4 FY20 rather, versus Q4 that you just completed, and all is being the same- the prices of fuel and everything, what sort of improvement can we expect on a 12-month basis on those two parameters?

Rohit Philip: So, I think I have given you sort of the information that I could give you. I think on both fronts.

Bhavin: Okay, understood. Your other income hasn't come down, one thought that a lot of money moving into foreign currency, it would come down. So, what is the reason? I mean can we expect it to continue at these kinds of levels?

Rohit Philip: Our interest income which is based on the interest we earn on the deposits will start coming down with the foreign currency deposits. So, you will start to see that coming down.

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

Sonal Gupta: Just on the international, I mean, one is do we see this expansion largely to be 321 led in that sense? And the second thing I mean, just taking your numbers on 50% of capacity going into international routes, seems to imply like an 80% - 90% growth in international ASK for the year. And like you were hinting that it's not easy to get slots, etc. So, I mean, is this already pre-model build out or given that things have also opened up with Jet, this is including that benefit? Just some color there.

Ronojoy Dutta: So, the growth between now and December of this year is pretty much signed, sealed and done in terms of we have got the slots, we have got the bilaterals, etc. Going forward from December to the rest of the year, we are still applying for slots, we are applying for bilaterals, we are applying for routes, and so on. So, most of it is done. I would also say that for the international, really, people seem to think that as you grow, you are growing into less profitable areas, and that really is not true. Many of these international markets we are quite excited about - that they are highly profitable. And don't forget, for every international passenger, you really get a bump of about 0.3 passengers domestically, because every international passenger tends to do a domestic connect or does a domestic route. And so all of that makes us quite optimistic about our route network going forward with international being a major add.

Wolfgang Prock-Schauer: And let me add here that the good thing about the A320 family is that we can use these aircraft in a very flexible way. There are certain routes which might require only A320 size, and a lot of route will require A321s. So, actually, we can deploy our A320 family from all parts of the country on our international routes. Let's say, we are having a heterogeneous network on international routes. So, A320 family will play a very important role –both A320 and A321 for us. And A321 has the added benefit that we can also use the aircraft on high-density domestic routes where the airports are slot constrained. It will also give us an additional advantage with A321 going forward.

Sonal Gupta: Right. Would you be able to indicate a number for how many A321s we expect this year?

Ronojoy Dutta: I can tell you total aircraft. The total number of deliveries we expecting this year is 53 narrow bodies, meaning A320 and A321 combined, and 11 ATRs. This is through the next financial year. Now this is not all growth because there are some aircraft returns as well.

Wolfgang Prock-Schauer: Will be in the magnitude of 15 A321s for this financial year.

Operator: Ladies and gentlemen, that would be the last question. I now hand the conference over to Mr. Ankur Goel for closing comments. Thank you, and over to you, sir.

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

Operator: Ladies and gentlemen, on behalf of IndiGo, that concludes today's conference. 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