"IndiGo Second Quarter Fiscal Year 2020 Financial Results Conference Call"

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Operator: Good evening ladies and gentlemen and welcome to IndiGo's Conference Call to discuss the Second Quarter Fiscal Year 2020 financial results. My name is Ali 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, Head of Investor Relations for IndiGo.

Ankur Goel: Good Evening, everyone, and thank you for joining us for the Second Quarter Fiscal Year 2020 Earnings Call.

We have with us our Chief Executive Officer – Rono Dutta and our Chief Financial Officer – Aditya Pande 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 Q&A 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.

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

We reported a net loss of 10.6 billion rupees in the seasonally weak quarter for the industry. While we had a much better revenue performance during the quarter, the loss was driven by certain cost headwinds. These costs fall into three major categories: 1. Mark to market loss due to capitalization of operating lease liabilities, 2. Re-assessment of accrual estimates for future maintenance cost, and 3. One-time adjustment owing to adoption of lower tax rates. Let me stress that each of these cost items is non-cash in nature and does not reflect on the cash flows we generate. Excluding the impact of these cost items, our loss before tax would have been 2.8 billion rupees, a significant improvement over the 9.9 billion rupees loss we posted in the same period last year. Over the half year ended September 2019, post servicing our debt and lease obligations, we have generated a very healthy cash of 33 billion rupees through our operating activities which clearly demonstrate the strength of our business and our Company. Our CFO, Aditya Pande, will go into detail on each of these items.

Now let me speak to the fundamental operating metrics of the quarter. We continued to see a year over year improvement in unit revenues and this quarter, we reported a 5.7% increase.

Our rapid expansion into both domestic and international markets has been very impressive. We opened 7 new domestic stations and 6 new international markets. Frankly, I am personally staggered by what IndiGo employees have been able to achieve in this regard. When I set a target for the opening of two China stations, two Vietnam stations, one Myanmar station, one Saudi Arabia station plus 35 additional frequencies into international markets, I was hesitant as to whether I was demanding too much from the organization. Think of all that it takes to operate into a new country or even to add a new frequency. There are the regulatory hurdles, slots at airports, crew familiarization flights, ground handling contracts, sales agreements, PR initiatives and much more. The fact that IndiGo employees were able to achieve over 100% growth rate in international market in so compressed a time period, I think is a real testimony to the quality of this organisation.

Cargo has maintained its rapid growth during the quarter in both domestic and international sectors. As per the DGCA reports, we now have a 39% market share in the domestic cargo business, a significant increase from the 28% we had in the same period last year. Our international cargo capacity has grown by more than 80% on a year over year basis. We are now also focusing on inbound cargo business from South East Asia and Middle East and I am very pleased with the response we are getting on these sectors.

During the quarter, IndiGo was awarded the 'Best Domestic Airline' at FICCI's first edition of Travel and Tourism Excellence Award. These awards motivate all of us at IndiGo to keep pushing the bar and set the highest standards.

We are putting a lot of emphasis on improving our service standards. There are two avenues that we use to identify and track areas of improvement. The first avenue is customer feedback on which we spend a lot of management time and attention in analysing and identifying root causes. The second avenue is the Net Promoter Score which organisations around the world are using. I am pleased to say that our NPS scores compare favourably with most of the low cost carriers around the world.

Looking forward to the next quarter, the revenues during the festive season have been somewhat subdued. At this time we are expecting a flattish year over year unit revenue performance. Please note that it is still early in the quarter and things will of course change and we take no responsibility to further update our revenue forecasts before the next earnings release.

We are seeing declines in yield in metro to metro markets where low cost capacity has replaced former Jet airways capacity. We are seeing stronger performance in markets where Jet was not previously present. On international markets, despite our significant increase in capacity, our unit revenues are holding up rather well, with China in particular performing well ahead of plan.

On our capacity guidance, we expect a year over year capacity increase in terms of ASKs of 22%

for the third quarter of this fiscal year. For the full year, we expect capacity increase of 25%.

As you are well aware, Aditya Pande has joined us as our new Chief Financial Officer. Aditya has vast experience spanning across more than two decades in several blue chip organisations and we are excited to have Aditya as a key part of our team. Let me now hand over the call to Aditya to discuss the financial performance in detail.

Aditya Pande: Thank you Rono and good evening everyone.

For the quarter ended September 2019, we reported a net loss of 10.6 billion rupees with a negative after tax profit margin of 13.1% compared to a net loss of 6.5 billion rupees with a negative after tax profit margin of 10.5% during the same period last year. We reported an EBITDAR of 2.6 billion rupees with an EBITDAR margin of 3.2% compared to an EBITDAR of 2.2 billion rupees with an EBITDAR margin of 3.6% during the same period last year.

As Rono mentioned, the lower profitability was mainly contributed by mark to market loss due to capitalization of operating lease liabilities, re-assessment of accrual estimates for future maintenance cost and one-time adjustment owing to adoption of lower tax rates. Let me discuss each one of these three factors in detail.

As you would know that we have capitalized our operating lease liabilities as per the new accounting standard IND AS 116. These liabilities are dollar denominated, and hence they are subject to mark to market every quarter. Since during the quarter, rupee depreciated from 68.90 rupees per US dollar to 70.71 rupees per US dollar, we had a negative impact of 4.3 billion rupees on mark to market of our capitalized operating leases.

If you recall, we have mentioned previously that we are experiencing a maintenance bubble because of ceo engines. We extended the leases of most of our existing ceos beginning 2016 and also got around 50 used aircraft from the secondary market. As a result of this, the engines of these older aircraft are undergoing second shop visits which are significantly more expensive than first shop visits. These second shop visits resulted in maintenance spikes in our costs. During the quarter, we have carried out the re-assessment of accrual estimates for heavy maintenance and overhaul cost of engines. Accordingly, we provided 3.2 billion rupees under supplementary rentals and aircraft maintenance cost. This re-assessment is confined to our older ceo aircraft. This cost should continue to be in similar range for the next couple of quarters. This maintenance cost should eventually go away around 2022 as the neos become a larger portion of our fleet and these older ceo planes are redelivered.

The government has announced an option for the corporates wherein tax rate is reduced from 35% to 25.2%, a tax reduction of 9.8%. In addition, the companies adopting the same will not be required to pay minimum alternate tax or “MAT” going forward.

We have decided to adopt the lower tax rates. This will lower our effective tax rate and we will no longer be required to pay MAT which will result in lower cash tax outflow.

The key highlights of our performance during the quarter can be best summarized by the following points:

- Our capacity grew by 24.2% on a year over year basis.

- Our revenue from operations in the September quarter was 81.1 billion rupees, an increase of 31% on a year over year basis.

- Our RASK for the quarter was 3.42 rupees compared to 3.23 rupees during the same period last year, an increase of 5.7%. For the quarter, our yields increased by 9.4% to 3.52 rupees while our load factors were down by 0.9 points at 83.5%.

- Our Fuel CASK decreased by 17.3% compared to 8.7% decrease in ATF prices on a year over year basis.

Fuel was a very good story for us. We are seeing a much faster decrease in fuel CASK compared to decrease in fuel prices primarily driven by fuel savings from the neo aircraft. Further, our international operations has also helped us to reduce our fuel costs – both because of lower taxes and higher stage length. We have also taken a number of operational initiatives which has contributed to a lower fuel CASK number.

Our CASK for the quarter was 3.85 rupees compared to 3.74 rupees during the same period last year, an increase of 2.8%. Our CASK ex fuel was 2.56 rupees, an increase of 17.2% from the same period last year. Excluding the impact of mark to market loss on capitalized operating leases and re-assessment of accrual estimates for future maintenance cost, our CASK ex fuel would have increased by 3.1%. This CASK increase was primarily driven by higher employee cost and lower aircraft utilization.

While we have little control over the depreciation of Indian rupee, we definitely see some areas of improvement in our CASK ex fuel in the coming quarters. For the quarter, our employee costs were higher by 56% compared to same period last year. As stated during the previous conference call as well, the higher employee cost is because of around 600 pilots being under training, insourcing of ground handling at most of the domestic airports through our wholly owned subsidiary, Agile Airport Services Private Limited, and salary hikes. We estimate the impact of these pilots under training to be negative 2.3% on our CASK ex fuel. We expect the employee cost per ASK to start going down from the second half of the year onwards as these pilots complete their trainings and start flying.

Secondly, similar to previous quarter, we continue to hold certain aircraft in reserve awaiting clarity on allocation of Jet Airways' slots. As a result, our aircraft utilization was lower by around 9% compared to same period last year. We estimate that lower aircraft utilization contributed to 2.7% in the increase of CASK ex fuel. We expect the aircraft utilization to increase and translate into better CASK ex fuel performance.

Our balance sheet continues to remain strong. Our cash balance at the end of the period was 187 billion rupees comprised of 87 billion rupees of free cash and 100 billion rupees of restricted cash. The capitalized lease liability as of 30th September, 2019 was 175 billion rupees. Our total debt, including the capitalized lease liability, was 198 billion rupees.

With this, let me hand it back to Ankur.

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