“IndiGo Third 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 Third Quarter Fiscal Year 2020 financial results. My name is Aman and I will be your coordinator. At this time, the participants are in a listen-only mode. A question-and-answer session will follow today's management discussion.

As a reminder, today's conference call is being recorded. I would now like to turn the call over to your moderator, Mr. Ankur Goel, Head of Investor Relations for IndiGo.

Ankur Goel: Good Evening, everyone, and thank you for joining us for the Third 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 released our Third Quarter Fiscal Year 2020 financial results today and I am pleased to announce a profit after tax of 5 billion rupees compared to profit after tax of 1.9 billion rupees last year. Our after tax profit margin was 5%. Overall, we continue to do well on the revenue front while being challenged by some temporary headwinds on the cost front.

We are happy with the improvement in revenue performance during the quarter and we have reported a year over year RASK growth of 5.6% with December in particular being a strong month. We have now had a string of over 5% improvement in unit revenues over the last four quarters. However, as we move to the seasonally weak fourth quarter, we will find it difficult to produce year over year improvement in unit revenues because we will be comparing ourselves against a base period when Jet Airways capacity was beginning to decline.

In terms of strengths and weaknesses in our system, the overall trend in metro to metro markets is weak because of the new competition we are facing in these markets. Fortunately, international is a bright spot in our system as both capacity & margins continue to expand simultaneously. Non-metro markets also continue to do well.

As part of our international expansion, we signed a codeshare agreement with Qatar Airways. This is our second codeshare and we will continue to evaluate such options to improve our global footprint and generate incremental revenues.

I am pleased with the growth in ancillary revenues. We have reported ancillary revenue growth of 29% against a capacity growth of 19%. Our cargo uplift grew by 46% on year over year basis. IndiGo's domestic cargo market share is above 40%, a sharp increase from the same period last year when we had only 27%. Other ancillary revenue excluding cargo has also grown faster than capacity. We are continuously evaluating different ancillary products which can be offered to our customers to improve their flying experience.

Cost headwinds are a continuing challenge we are working through. The drivers here are the maintenance cost of the old ceo engines and the bubble of pilots in training we are experiencing. Aditya will go into more detail on the engine maintenance cost and the pilot training costs.

The most effective lever we have to reduce unit costs is to increase aircraft utilization. Aircraft utilization has been held back recently because of pilots in training as well as the numerous engine changes, but come June of 2020 we will be in a position to increase aircraft utilization. Despite our current challenges, we were able to increase aircraft utilization by around 5%* sequentially for the quarter.

On capacity guidance, we expect a year over year capacity increase in terms of ASKs of 20% for the fourth quarter and 23% for the full fiscal year. For Fiscal Year 2021, we anticipate the capacity increase to be around 20%.

Now let me hand over the call to Aditya to discuss the financial performance in further detail.

Aditya Pande: Thank you Rono and good evening everyone.

For the quarter ended December 2019, we reported a profit after tax of 5 billion rupees with a profit after tax margin of 5% compared to a profit after tax of 1.9 billion rupees with a profit after tax margin of 2.3% on YoY basis. We reported an EBITDAR of 19.6 billion rupees compared to an EBITDAR of 16.7 billion rupees during the same period last year.

We have reported higher profits in the quarter compared to what we had indicated in December because of both- better revenue performance in December and lower MTM loss on capitalized operating leases as compared to our previous estimates.

*The number was inadvertently stated as 7% on the call

Let me take you through key highlights of our performance during the quarter:

- **Our year over year revenue grew faster than our capacity.** While our capacity grew by 19.3%, our revenue from operations in the quarter was 99.3 billion rupees, an increase of 25.5% on a year over year basis.

- **We saw an increase in both our yields and load factors.** For the quarter, our yields increased by 1.2% to 3.88 rupees while our load factors were up by 2.3 points at 87.6%. As a result, our RASK increased from 3.70 rupees in the same period last year to 3.91 rupees for the quarter, an increase of 5.6%.

- **We continue to actively work on lowering the fuel CASK post adjusting for fuel price changes.** Our Fuel CASK decreased by 17.9% compared to 11.9% decrease in ATF prices on a year over year basis.

- **The cost headwinds persist.** CASK for the quarter was 3.69 rupees compared to 3.62 rupees during the same period last year, an increase of 2.1%. CASK ex fuel was 2.40 rupees, an increase of 17.5% from the same period last year. Sequentially, we did better with unit cost decreasing from 3.85 rupees to 3.69 rupees.

Similar to the last quarter, the increase in CASK ex fuel was driven by mark to market foreign exchange loss on capitalized operating leases, higher maintenance cost and higher employee costs.

During the quarter, rupee depreciated from 70.71 rupees per US dollar to 71.30 rupees per US dollar, and as a result we had a 1.3 billion rupees of mark to market loss on our capitalized operating leases. Excluding MTM impact on capitalized operating leases, our CASK ex fuel increased by 15%.

As explained during the last earnings call, we continue to see elevated maintenance cost related to re-assessment of accrual estimates for heavy maintenance and overhaul cost of our ceo engines. This impacted our CASK ex-fuel. We have booked total supplementary rental and maintenance cost of 16.3 billion rupees in the same quarter. Sequentially, on a per ASK basis, the cost has remained the same despite rupee depreciating by around 2% during the quarter. Going forward, on a per ASK basis at constant currency, we expect that the "Supplementary Rentals and Maintenance Cost" line item to improve from the current levels starting fiscal 2021 despite contractual escalations and capacity additions.

Our employee costs per ASK have increased from 0.40 rupees to 0.48 rupees compared to the same period last year driven by pilots in training, impact of Agile and salary hikes. Further, we still have 400 additional pilots undergoing trainings and once these pilots are available to fly, we expect an improvement in unit employee costs. We are seeing an improvement in this number since last quarter we had 600 pilots in training.

Fuel CASK is still a good story and we continue to witness improvement in our fuel CASK performance at a faster rate than reduction in ATF prices. This was primarily driven by increase in fuel efficient neo aircraft as a proportion of overall fleet. Further, increase in international operations have also resulted in a better fuel CASK on account of lower taxes and higher stage length.

Our balance sheet continues to remain strong. Our cash balance at the end of the period was 201 billion rupees comprised of 94 billion rupees of free cash and 107 billion rupees of restricted cash. Our total cash has increased by 13 billion rupees during the quarter. The capitalized operating lease liability as on 31st December, 2019 was 192 billion rupees. Our total debt, including the capitalized operating lease liability, was 216 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)