"IndiGo First Quarter Fiscal Year 2021 Financial Results Conference Call"

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Operator: Good evening ladies and gentlemen and welcome to IndiGo's Conference Call to discuss the First Quarter of Fiscal Year 2021 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 now hand the conference over to your moderator, Mr. Ankur Goel, Head of Investor Relations for IndiGo. Thanks you and over to you, Sir.

Ankur Goel: Good Evening, everyone, and thank you for joining us for the First Quarter Fiscal Year 2021 Earnings Call. In light of the developments regarding COVID-19, we hope that you and your families are safe. Also, our thoughts are with those affected by the virus.

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 Sanjay Kumar, our Chief Strategy and Revenue 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.

The last few months have been very difficult for the aviation industry. As you all know, our operations were pretty much grounded from March 25, 2020 to May 24, 2020 except for charter and cargo flights. As the Government allowed partial resumption of flights starting May 25, 2020, we resumed operations with much fewer flights than our pre-covid capacity. We ended the quarter at about one fourth of our original capacity and we hope to slowly build this up in a phased manner in the coming months. Due to these on-going COVID-19 related disruptions, we reported a net loss of 28 billion rupees during the quarter.

I think it will be helpful, if we structured our discussions along four topical areas. - First - Health and safety of our customers, Second - The revenue situation in these difficult times, Third - Our liquidity position and finally - the cost reduction measures.

Let me first talk about health and safety. Ensuring the health and safety of our customers is of paramount importance to us. Our teams have worked together with planning and discipline to ensure the highest level of hygiene in our aircraft, our airports and our offices. In this context, we believe that the risk of transmission of Covid-19 from one passenger to another on-board is very low because

- The use of HEPA filters in Airbus aircraft cabin and the direction of the air flow on board from ceiling to floor ensures that the virus is not recirculated;
- The customers sit facing forward and not towards each other, with seat backs providing a barrier;
- Frequent deep cleaning procedures are executed at all touch points;
- There is limited movement on-board our aircraft once passengers are seated and finally
- Safety gear for customers and crew is mandatory on board

We have seen a very positive response from our customers with respect to the procedures which we have adopted. We are very pleased that despite the complex new procedures, our operations are proceeding very smoothly with industry leading on-time performance. The customer confidence is captured by our Net Promoter Score, is at an all-time high and the customer feedback is also very encouraging.

Now let me take you through the revenue situation and the various changes that we have done operationally to adapt to the current environment:

- We maintained a low scale operation in the form of some cargo flights and domestic passenger charters till May, 24 2020. Post resumption of operations we have also started international charters and Vande Bharat flights. The contribution of our charter flights after covering for our variable costs has been quite encouraging. We intend to continue with charter flights even as we ramp up our capacity for scheduled flights.
- As the largest airline in the country, we take our national responsibilities very seriously.
  - We undertook more than 290 repatriation flights evacuating around 44k passengers.
  - We transported 395 tonnes of medical cargo and we will continue to help in times of distress.

- We have witnessed a great deal of potential in our cargo business. To explore this opportunity further, we have converted 10 aircraft to "All cargo airplanes''.

- We continuously re-worked domestic routes keeping in mind the guidelines issued by state authorities.

- We maintained our aircraft in flight ready conditions at all times that allowed us to resume operations seamlessly with 1,582 scheduled flights operated within first week of operations.

- We have kept our crews current in this new environment and re-worked the standard protocols.

We started our scheduled passenger service from 25th May and we are encouraged by the early signs. Our unit revenues are reasonably strong although at very low capacity levels. Some of the specifics that I would like to share are

- Our average load factor was more than 60 percent for the month of June, with a peak load factor of around 70 percent during the period.

- Our unit revenue, RASK has outperformed during the quarter at 4.19 rupees, an improvement of 2.2% year over year. This was driven both by the initial surge in demand, and passenger and cargo charters.

- We have seen a 11.1 percent improvement in yield during the quarter as compared to the same period last year, which as you know was also the Jet Airways shutdown period.

- On the flights we operated, we remained significantly contribution positive, which has helped us offset part of our fixed costs.

On the basis of current trends and the pool of resources available to us in the form of aircraft, crews, operating staff and infrastructure, we aim to deploy around 60-70% capacity in the third quarter of 2021, on a year over year basis. This is of course subject to the Government lifting the capacity restrictions currently at place.

Now to the all-important question of liquidity, we ended the quarter with a total cash of 184 billion rupees and a free cash of 75 billion rupees which is a reduction of INR 14 bn of free cash from March end. Through all our efforts of cost reduction and revenue generation, we have managed to reduce our fixed cash burn. Aditya will talk about this in great detail. We are focusing on strengthening our liquidity by optimal working capital management, obtaining additional liquidity through various sources and most importantly by adding capacity.

We are working on our cost structure and taking various initiatives to reduce our fixed costs. The major components of our fixed costs can be categorised into the following three areas:

1. Our leasing cost- As we have mentioned previously, we view our relationships with our lessors as one of our key success factors. We are therefore managing our leasing costs from a long term perspective and honouring all our commitments.

2. The second important bucket relates to the payroll costs. Here we have two objectives to consider. We of course have no choice but to reduce our payroll cost given the current situation but at the same time we know how important it is to enhance our employee motivation and engagement. We are a customer service company and we know how critical it is to have an enthusiastic and motivated workforce in order to deliver high levels of service. Under these circumstances, this is clearly a difficult balancing act but our long term employee culture is very important for us and therefore we are going about this exercise in a very thoughtful and prudent manner.

3. Other costs make up 20-25% of our fixed costs. We are reducing our costs in areas such as maintenance costs, non-aircraft rentals and IT cost.

In summary, we are clearly in an unchartered territory. However, we also recognize that the industry is going through a very disruptive phase, which presents us with a unique opportunity to strengthen our airline in the key areas of customer preference, cost reduction, employee motivation and network optimization. Our business fundamentals remain strong, our optimism in the future is undiminished and we are fully confident that we will emerge from this crisis in a stronger position. As you can see we are using this opportunity to focus and strengthen each one of our business fundamentals.

And with that, 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 Jun 2020, we reported a net loss of 28.4 billion rupees compared to a profit after tax of 12 billion rupees on YOY basis. We reported an EBITDAR of negative 14.2 billion rupees compared to an EBITDAR of 27.8 billion rupees during the same period last year.

As a result of the government-imposed lockdown, we did not operate our flights till the 24th May. We resumed our flights from 25th May with roughly 200 flights a day and we have since doubled the number to over 400 flights a day. While the load factors have been understandably low, we have seen better yields in the quarter. We had load factors of 61.3% during the quarter. Our yields increased by 11.1% to 4.53 rupees and our RASK increased from 4.10 rupees in the same period last year to 4.19 rupees in the quarter, an increase of 2.2%. Our passenger and cargo charter flights have contributed to our performance. Looking at the current booking trend, most of July was strong but the trend has weakened some-what in the last few days. We attribute this weakening to the spike in Covid-19 cases, the sporadic lockdowns in various states and the seasonality in demand. This volatility in the numbers is what is making our future revenue trends hard to predict.

The flights that we have been operating have been contribution positive and are therefore helping us partly cover our fixed costs.

Given that we were not operational for almost two third of the quarter, our unit costs have been inflated as we did not have enough ASKs to offset our fixed costs. We reported a CASK of 17.7 rupees in the quarter and CASK excluding fuel of 17.1 rupees. Since the unit cost comparisons will not be relevant in the quarter, let me talk about some specific line items in the P&L:

- Employee Cost: Compared to the March quarter, our employee costs have reduced by 17.5% in the quarter. We have taken various cost reduction measures such as salary reductions, leave without pay etc. Unfortunately, given the volatile revenue environment, we also have had to take the painful decision of employee separation. Basis all the actions that we have taken we expect to end the current fiscal year with about 30 percent lower employee costs than the pre-covid levels.

- Supplementary Rentals & Maintenance Cost: Compared to the March quarter, this cost is lower by about 56%. Supplementary rentals are largely variable in nature and given that we operated very limited capacity during the quarter, our supplementary rentals have correspondingly been lower. Going forward, as our capacity is fully redeployed, supplementary rental costs would increase and this overall cost line item should reach back to the number that we have been seeing in the past.

In Mar'20, our fixed cash burn was roughly 400 mn rupees a day. In Jun'20, this has reduced to around 300 mn rupees a day because of the various cost reduction initiatives and cash contribution from our limited operations. As our operations scale up we expect our cash contribution to increase further, helping our liquidity position.

Managing cash continues to remain our primary focus and we continue to work with all our stakeholders to raise liquidity. We spoke about these initiatives in the last quarter which were expected to provide us further liquidity of 30-40 billion rupees. In addition to those initiatives, we are working on sale and lease back of our unencumbered assets which are in advanced stages of discussion. We are also in discussions with Export Credit Agencies for obtaining moratorium towards principal repayment for aircraft on finance leases. We expect that these actions will help us raise additional liquidity of approximately 20 billion rupees.

So in summary, the following is our cash position

1. Our free cash reduced by 14 billion rupees during the quarter and we ended with a free cash balance of 75.3 billion rupees in the quarter. If you recall, we had a free cash balance of 89.3 billion rupees in the previous quarter. This is despite the fact that we were shut down for a large part of the quarter.

2. We have started phase-wise operations of flight and we are currently running over 400 flights a day. These flights are contribution positive and will help us set off our fixed costs partially.

3. We have taken a number of actions to reduce our fixed costs and a number of additional measures are underway. As stated before, our daily fixed cash burn has reduced from 400 million rupees to 300 million rupees.

4. We have capitalised on new business opportunities and are profitably pursuing repatriation flights, charter flights and cargo flights.

5. We spoke about certain initiatives in the last call such as taking deliveries of new aircraft, freezing of supplementary rentals and negotiating favourable terms with our suppliers which is expected to help us generate liquidity of 30-40 billion rupees.

6. As explained earlier, we are further working on raising additional 20 billion rupees of liquidity.

We have a strong balance sheet and we remain laser-focused on reducing costs and shoring up liquidity. Our cash balance remains healthy and our debt levels remain manageable. We ended the quarter with capitalized operating lease liability of 211.8 billion rupees and total debt, including the capitalized operating lease liability of 235.5 billion rupees.

Before I close my remarks, let me give you our broad capacity guidance for the coming two quarters. Subject to the Government lifting the capacity restrictions, we expect our second quarter fiscal year 2021 capacity to be at around 40 percent and our third quarter fiscal year 2021 capacity to be at 60-70%, on a YOY basis. However, the external environment is highly volatile and therefore our planning horizons are short and we are continuously making course corrections as we navigate through this uncertainty.

With this, let me hand it back to Ankur.

Ankur Goel: Thank you Rono and Aditya. 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.

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