# "IndiGo Third Quarter Fiscal Year 2022 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 of fiscal year 2022 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, Ms. Richa Chhabra from the Investor Relations team of IndiGo.

**Richa Chhabra:** Good evening, everyone, and thank you for joining us for the third quarter of fiscal year 2022 earnings call. We hope that you and your families are safe and in good health.

We have with us our Chief Executive Officer – Ronojoy Dutta and our Chief Financial Officer – Jiten Chopra to take you through our performance for the quarter. Wolfgang Prock-Schauer, our Chief Operating Officer, Sanjay Kumar, our Chief Strategy and Revenue Officer and Kiran Koteshwar, our Head of Investor Relations and sustainability 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 be archived on our website. We will upload the transcript of today's prepared remarks by day end. The transcript of the Q&A session will be uploaded subsequently.

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

**Rono Dutta:** Thank you Richa. Good evening everyone and thank you for joining the call. Hope all of you are safe and doing well.

We released our third quarter fiscal year 2022 financial results today and I am pleased to announce a net profit of 1.3 billion rupees for the quarter ending December 21 as compared to a net loss of 14.4 billion rupees for quarter ending September 21 and a net loss of 6.2 billion rupees for the quarter ending December 20.

Decline in covid cases and removal of capacity restrictions resulted in buoyant traffic numbers. We were encouraged to see how rapidly the domestic traffic reverted to pre-covid levels during the quarter. We added capacity to take advantage of the ongoing recovery and we are pleased to see our efforts culminate into a profitable quarter.

First, I would like to take you through the key highlights for the December quarter and then provide some insights on the impact of the new covid variant on our performance in the current quarter.

Within the quarter, October was a relatively weak month, but we saw strong momentum building through November and December. During the latter part of December revenues started declining because of omicron – if this had not been the case, we would have reported even better performance. Overall, we achieved strong pricing levels & high load factors of about 80 percent during the quarter.

While international capacity is still restricted, traffic showed particular strength. With the gradual addition of bubble flights, International capacity deployed grew by almost 80%, quarter over quarter and bookings grew by 95%.

System wide, we deployed approximately 45% more capacity, sequentially, reaching to about 88% of our pre-covid capacity for the quarter and about 97% of our pre-covid capacity in the month of December. Our load factors have increased to 79.7% in the December quarter compared to 71.1% in the September quarter. Yields have increased by 5.2%. These drivers led to a RASK improvement of 13.5% sequentially to 4.09 rupees. Higher yields and higher capacity deployment have resulted in a sequential revenue growth of 63.5%.

Moving to the cost side, we reported a CASK of 4.03 rupees, which is 10.7% lower sequentially in spite of increased fuel costs. Higher capacity deployment has helped reduce our unit cost. Fuel continues to be a significant headwind and as a result the fuel CASK went up by almost 13% on a sequential basis.

In line with our fleet modernization programme, we continue to replace the CEOs with NEOs. During the December quarter, we inducted 18 fuel efficient NEOs and returned 16 CEOs. We remain firmly on the path of returning most of our CEOs by the end of December 2022.

Towards our long-term goal of enhancing our global footprint, we also signed a codeshare agreement with Air France-KLM, our fourth arrangement with an international carrier. This is a two-way code share agreement and will help us increase connectivity and gain access to new markets. We are confident that such partnerships will improve IndiGo's reach to new markets and customers once the International operations normalise.

Before we talk about current market conditions, I would like to pause and thank all our employees for providing exceptional service to our customers during the difficult calendar year. In 10 out of 12 months during calendar year 2021, IndiGo was positioned as number one in on time performance as a result of our employee’s efforts.

Now let me talk about the current market conditions. In response to increase in Covid cases we have reduced our operations to stay in line with declining demand.

We are expecting that our capacity deployed in the fourth quarter of fiscal year 2022 will be reduced by approximately 10-15 percent as compared to the third quarter of fiscal year 2022. We think that load factors for the fourth quarter could possibly be weaker than the third quarter. We are clearly in a volatile environment, and we are reviewing our bookings and capacity deployed on a daily basis.

Unfortunately, we are experiencing a bit of an unpredictable environment with traffic recovering and declining lockstep with the covid cases. While we are going to see declining revenues for the fourth quarter, the experience of other countries leads us to believe that we are likely to see a recovery take place again in the first quarter next year.

In summary, we are particularly pleased that we were able to report a profit for the quarter for the following four reasons:

1) It demonstrates that the fundamentals of aviation in India remain strong and once we are able to put the pandemic behind us, we should be able to return rapidly to a path of profitable growth

2) It validates our core belief that higher employee engagement results in higher levels of customer service which in turn manifests itself in better revenue performance. Whether it is group fares, or charters or individual bookings, we are positioning ourselves as the preferred airline because of our superior service.

3) International revenues continue to be very robust and this augurs well for our future growth.

4) The essence of our business model with its emphasis on cost leadership and reliability has served us well even in these uncertain times.

We are looking forward to the next financial year with optimism and with a steely resolve to make sure better times are ahead for all of us.

With this, let me handover the call to our CFO, Jiten Chopra.

**Jiten Chopra**: Thank you Rono and good evening everyone. I hope that all of you are keeping safe and healthy.

For the quarter ended December 2021, we reported a net profit of 1.3 billion rupees compared to a net loss of 14.4 billion rupees for the quarter ending September 21. We reported an EBITDAR of 20.0 billion rupees compared to an EBITDAR of 3.4 billion rupees in the quarter ending September 21.

In the December ended quarter, we operated at 88% of our pre-covid capacity. This higher capacity deployment has helped us to further improve our performance metrics. Some of the key measures of the reported quarter are as follows

1. Our RASK increased by 13.5 percent driven by sequential increase in load factors by 8.6 points and in yields by 5.2 percent to 4.41 rupees, sequentially.

2. As we deployed 45.2 percent additional capacity, our CASK ex-fuel reduced by 19.9 percent sequentially to 2.60 rupees. We still have substantial head room for absorbing our fixed costs by increased international and domestic operations.

3. Our fuel CASK increased by 13.2 percent, sequentially driven by increase in ATF prices.

The update on our cash position is as follows:

- We ended the December quarter with a free cash of 78.1 billion rupees, net increase of 14.6 billion rupees as compared to September end. Our total cash at 31 Dec 21 was 173.2 billion rupees.

- We continue to monitor the ever-changing market conditions and will respond in an appropriate manner whenever necessary.

We are thankful to our employees who have kept up their spirits during the difficult days. In line with the better performance in third quarter, we have rolled back certain employee cost measures.

On the other key balance sheet numbers, we ended the quarter with capitalized operating lease liability of 307.6 billion rupees and total debt, including the capitalized operating lease liability of 351.5 billion rupees. Our ROU assets at the quarter end were INR 202.8 billion rupees.

The key to overcoming current pandemic conditions is largely in maintaining our cost leadership position. We are striving each day to improve on our cost metrics and looking at innovative ways to further capitalize on this strength.

With this, let me hand it back to Richa.

**Richa Chhabra:** Thank you Rono and Jiten. 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.

**Moderator:** Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Binay Singh from Morgan Stanley. Please go ahead.

**Binay Singh:** I just wanted to understand the operating leverage point that you highlighted a bit better. So, firstly, when we look at the ASKM for the quarter, like given your fleet size, how much more can it be from the current level, just to understand that what is the utilization rate of the fleet. The second is when you talk about operating leverage outside of lease rentals, which are the other line items where you would call out that, in a normalized year that you would see a big operating leverage, thanks.

**Ronojoy Dutta:** Okay. So, on the capacity, as we said in our release, our utilization is at about 10.7 or so. We can easily go up to 13, 13.5 utilization. So, there's still a lot of headroom left in terms of increasing our capacity. However, it also requires international relaxation of restrictions, it's tough to get to certain hours just domestically because we are only using it during the day. So, international needs to open and then we'll be at 13.5 hours. In relation to what is the advantage of more capacity on unit cost. Most of our costs, as you probably know are variable. Fuel, employees I would say, landing costs, et cetera. So, the fixed costs are in lease, they are in a lot of IT, digital and the network. Those are the costs that are mostly fixed. But a very small portion overall. So, we need a fair amount of capacity to really bring the unit cost down. But that's assuming that employee costs are variable, when in reality they are not, they are semi- variable. So, most of the costs are variable at the end of it.

**Binay Singh:** And just a follow on question on, fuel per ASKM. Assuming fuel prices remain where they are, we will see two trends, one is that the share of NEOs, in the fleet will go up, which is positive for ASKM but at the same time will it be fair to assume that you may not be utilizing your CEO fleet fully today. So, if you actually utilize the whole fleet, we may not really see much change in fuel per ASKM versus where we are today, even if the entire fleet moves to NEO, so any comments on that?

**Ronojoy Dutta:** So, clearly the switch from NEO to CEO is a big driver. And really all the CEOs will be gone by the end of the calendar year 2022. Now as to what the fuel consumption and what are the drivers, engines are one big driver. Along with that, the way we operate the airplane is a big driver itself, our flight operations has been very active in making sure that they fly differently. One is shorter routes, one is as you know, most of the consumption happens in descent and trying to manage all those procedures helps a lot. So, the flight operations people are very active in reducing fuel burn itself. And finally, I would say we also have good purchasing power. So, we do tend to pay a slightly lower rate than the rest of the industry in terms of fuel price. So, all three of those are factors, which explain our fuel consumption. But, I would have to say you're right. Over the last three, four years one of IndiGo's best performance has been the way to reduce fuel costs for ASKM.

**Moderator:** Thank you. Our next question is from the line of Pulkit Patni from Goldman Sachs. Please go ahead.

**Pulkit Patni:** Firstly, if you could just touch upon the international bit a little bit more, given the fact that we don't get too much data, since these are mostly bubble flights. If you could just talk about where we are in terms of capacity or any numbers you could share, in the current scheme of things, how is the international business, what size are we operating today, that will be my question number one.

**Ronojoy Dutta:** Okay. So, international is quite restricted in total amount of departures but quite buoyant on the traffic numbers, again because the margins are much better internationally, the yields are better internationally. And now where are we flying. Bubble flights are being allowed mostly to the

Middle East. So, Dubai, all of UAE, Doha, Kuwait, recently Saudi Arabia opened up, which is positive for us. So, we are constantly in touch with the government looking for more international relaxation. And, our domestic revenues exceeded pre Covid levels. But international is the part in terms of overall revenue that brought us down. But again, it's because of capacity not because of the market conditions. Market conditions actually are very attractive. And, I have to say that we see a couple of trends, which are very encouraging for the future. As you know, domestically we have been growing and we've grown particularly in the smaller cities, and we see a lot of revenue spend there. So, that say, as we keep going and keep growing, in the smaller cities, that should have more tail wind. At the same time international is performing better than it did before the Covid in terms of absolutely yields and margins, and so forth, all with the capacity restrictions.

Now, as capacity opens up, we don't expect to get such high yields, clearly those two things will work in reverse directions. But overall, international is very attractive to us right now. So, I see those two as being a tailwind for us as we go forward - smaller cities and international growth.

**Pulkit Patni:** Sure. International yield actually came as a surprise to us as well. My second question is on employee cost. You spoke about rolling back some of the cost cutting measures, but at the same time we are seeing this increase competition coming into the market, is there a possibility that this number could look a lot higher in future for you to retain, plus is there also a possibility that some of the sort of cuts that were taken place, during peak Covid periods could be actually given to employees now, as a one time or something like that, just wanted to get a sense on the employee cost and how should we model that going into the next 12 to 18 months?

**Ronojoy Dutta:** So, let me see if I can help you. If you look at our employee cost per ASK, you will see a rising trend from 2019, 2020, 2021. And that rising trend, I think we've talked in earlier calls, was a large part driven by pilot training. In that period, we had to invest in a lot of pilots, we went out and employeed 270 expat pilots, we got a lot of jet pilots who were 737 qualified, we had to convert them into A320 pilots. So, all of the training bubble really pushed up our employee cost. So, the way we look at it, internally is that 2019 is probably a good year, and 2020 and 2021, the more anomalies because of the streaming bubble that we face. And our goal is to try and get back to 2019 levels, with all the restoration of pay and so forth. That's the number we're targeting that we would like to be roughly there. And in terms of restoring pay, actually we have already started doing quite a few, in quite a few areas, not universally and not everywhere. But we started gradually roll back and we fully expect that we will be rolling back gradually. We won't do anything in a rush. But as profitability improves, we will be rolling back, but when we stabilize, I do believe we will stabilize at 2019 level. Right now we are way below that of course.

**Moderator:** Thank you. Our next question is from the line of Arvind Sharma from Citi. Please go ahead.

**Arvind Sharma:** Sir, just your views on the competitive landscape and its impact on pricing. If we see right now 15 day window prices are very high but immediately on the 16th day, they fall sharpening. So, what do we expect, do we expect this trend to continue or do you see a change here from the perspective of the competitive landscape

**Ronojoy Dutta:** So, the competitive landscape, clearly there is a lot of change happening. Akasa is supposed to be flying from May, I believe is what they have announced. Vistara, AirAsia, Air India they are going through some sort of consolidation. So, we do see a lot of change. I have to say to a large part, we focus on ourselves and not so much on the competition. So, when we look at what we are doing, and what is our strategy, our strategy is to run a world class airline. And as we have demonstrated over and over again, in 2021 calendar year, 10 out of 12 months we were number one and when we were not number one we were probably number two. Worldwide, we are one of the top five most punctual airlines in the world. Our customer service, I have to tell you, we grow carefully through our customer complaints, I find that is a great source of information in terms of how actually we are doing. And a large majority of the emails, at least I get are all about complementing our service. And the negatives are declining fast. So, in all of that, if you run a great quality airline, our brand name is getting stronger, if you keep your costs under control. I will see all the rest of it as noise in the system, someone comes in, someone goes out, someone has capacity but the key focus is what are we doing, we control our cost, we make sure we have done a great customer service. And as you say, employees are a very big part of our spent, it would be impossible to deliver good customer service, it will be impossible to go through the COVID period, with everything that we are through the employees, we have been changing schedules almost on a weekly basis, well before our schedule used to go on for eight weeks and be stable, we are rostering and rostering again, and then we are telling people to stay back late and allocate capacity in different ways. And through all of that, employees have held fast and have done a really superior job. So, you have good employee culture, you do good customer service. I think you can weather any storm. Specific to your yields what is going to happen. The yield environment is generally fairly good I would say, given everything that has happened. And I think it is because people have a lot of pent-up demand to travel, I will take Male as an example. Pre Covid we do a Bombay-Male and Bangalore-Male, and we struggle to fill this place. And then as soon as Male opened up, it’s like my God, you can do Chennai, Bangalore, Hyderabad, Delhi, non-stop and do well to Male. So, there’s all of this pent-up demand. And I said the same thing for this hill station whether it’s Dehradun, Bagdogra, people want for travel. So, the yield is, I don’t see it declining from here, it will hold up pretty well, is my best guess.

**Arvind Sharma:** Just a follow up and thanks so much for detail on the yields. Beyond, I was just referring to the 15 days window because we see a very, very sharp fall immediately after 15 days support, it’s a regulatory support. Do you think that would stay or do you believe there could be a change there, wherein you could be more nimble in pricing, even in the 15 days window?

**Ronojoy Dutta:** I’ll ask Sanjay to elaborate on this.

**Sanjay Kumar:** We have seen decline of the fare outside 15 days window primarily due to the reduced demand, which kind of started coming in the last week of December, and then has continued till about third week of January. And as the demand is now reversing back to a better number and better booking trends, this pricing of 15 days out would also get automatically corrected. It’s just a question of demand and supply.

**Ronojoy Dutta:** And just to pick up on January versus February, so we can describe the revenue in two waves. One is a big wave down. So, after December 15th , we were holding strong, then December to December 15 to January 15 we saw a big wave drop. However, as Sanjay was alluding from January 15th to February 5th or 6th, we are seeing a small wave up, not a big wave up but a small wave up. So, in a way we feel like okay, the worst has come and gone. Maybe things are slowly getting better. It's not rebounding but slowly getting better. At least we can say for sure is not getting worse.

**Moderator:** Thank you. Our next question is from the line of Chintan Sheth from Sameeksha Capital. Please go ahead.

**Chintan Sheth:** You did mention that next quarter, we are looking at slightly lower capacity. But broadly if you can guide us where we can be post this all the replacement of old CEOs to NEOs, what can be the capacity say end of 2023, obviously, assuming that no Covid wave come back to hit us again. Fiscal year 23 or 24 maybe if you will, whatever works for you directionally.

**Ronojoy Dutta:** So, capacity wise, again we've said that for the next year growth will be muted. Year-over-year, we'll see some change of course, because we have not been, first of all we will bring the utilization up. If you go from 10.7 to 13 hours, that is a big amount of growth. In terms of fleet count, we're not growing much. But in the fiscal year 24, we are starting rapid growth. So, we've given aircraft deliveries in earnings release. So, those deliveries should tell you what's happening. But behind all that is increasing utilization that will increase. And also, Sanjay remined me there is A321 capacity also helps, because that's the growing part of the fleet.

**Chintan Sheth:** But you don't want to put any number to it.

**Ronojoy Dutta:** Not yet, I think by next quarter we will start giving those numbers.

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

**Achal Kumar:** So, I had a couple of questions, first on the yield, so you have reported a very strong yield and that's highest ever in the last seven, eight years. So, is it because of your networking, is it because of the government fare capping, is it because of international so what exactly is going on and how do you see once the things normalizes and also of course all the airlines have been complaining about the fare capping, which has been done, because this has been hurting, but now of course with a higher fuel price that might have been reverse, now probably that is helping. So, how do you see once the government removed the capping do you think the fares will start coming back, so if you could please help understand the yield in the background.

**Ronojoy Dutta:** Look, I'm quite optimistic about the yield environment. And as I said, there are pockets of strength, which are not going to go away. I talked about this pent-up demand, this pent up demand, people want to travel, people want to, as soon as you add capacity anywhere and if there are no restrictions of government, and there's no big Omicron or Delta wave hitting the news media. Our numbers just bounce up hard and they bounce up very fast, and they bounce up at a good yield. So, people have slowly fallen in love with travel, if you will. They are used to the slightly higher prices, as I said tirelessly, many many times India has some of the lowest fares in the world. So, they can only think they can do it, is go up. So, I'm quite optimistic about the yield situation. The government has been helpful on this 15 day thing. And again, every time the fuel goes up, we do talk to the government about, what can we do, because really, our problem is that we are in a high fuel environment and a high tax environment. So, the only thing we can do to manage that is through higher yields. I also have to say, that look, it helps a lot to be the airliners choice. I know I frankly, it's like I'll take charters as an example. What tends to happen is, a group will say I want to do this charter. Can you beat this price, or can you at least match this price? So, we are the last resort, if you will, will shop around, we will go to three different airlines. And finally, they'll come to us, and they will say hey, how about this price. And so, it's a good position to be, we see that in group players also and individual also write to us saying you are my airlines. I'd like to prefer to fly you. So, we can't charge a higher price of course, but we can at least pay, in terms of the mix. People will always tend to gravitate towards IndiGo and that helps us a lot. And I go back to this connection between employee culture, customer service, and yield they are all three very closely interrelated. And because we've got ourselves in a good position with employees and we are providing good customer service that's why I'm sort of optimistic about a competitive yield picture. And broadly speaking, I'm optimistic about being picked in the country in general because of this desire to travel that is there.

**Achal Kumar:** Right, fair enough. Taking the last question forward on the competitive landscape, of course, you have your own strategy, and you care about yourself. But then recently, Akasa clearly said that they are going to sort of focus on the smaller cities where you are sort of increasing your presence, –as you said and those are profitable for you and now Akasa is sort of in your areas, of course they have said that they will be focused on the tier II, tier III cities. And, of course, competition do impact the yield and lots of capacity is coming. So, how do you see the, we saw your strategy but then how do you see the strategy changing in case of course the new airline starts simulating and they start focusing on tier III cities and we all know that India is still underdeveloped market when it comes to the air traffic. And because the focus is still on the metro to metro and you know there are no metros, probably they don't have so much of demand to manage such a big capacity. So, how do you see the overall situation?

**Ronojoy Dutta:** They will always be competition. In every industry you get competition. And you can say, my God, there is a new competition. Okay, there is competition, something deliberate, and it's probably good for the industry. Question is, how good is your implementation. I think, IndiGo has proved over and over again, that we are great at implementing, so airline A might say, I'll do ultra-low cost, airline B, will say, I will go full service, airline C will say I will match IndiGo on everything. Yes yes yes, but the proof of the pudding is in the implementation. Who has implemented well, and execution and employees and employee culture, those things don't just happen by accident.

**Wolfgang Prock-Schauer:** Yes. So, what I want to mention is, we have also the right fleet to implement our strategy, we have the ATR, then we have the A320 and we have the A321. So, we are very flexible, in going serving all the markets from tier II, tier III, up to the metro to metro and also international. So, this is a huge advantage we're seeing compared to other competitors, who have limited surely only because of the three doors so naturally, because we have the size and scale, we can play around with different bit sizes also, it is very important as we implemented, because you have to see this as one in total, network we have designed.

**Ronojoy Dutta:** And Achal, let's look at the quarters that we just reported, October, November, December. We know October was a weak month, we know after December 15th, we had Omicron. And yet IndiGo produce a profit. Why? What is the one single reason why we produce a good profit? I would say execution and it was execution by the employees. We just kept changing our schedule, almost on a weekly basis. We just made sure that, make sure we had good service. And based on good execution, we made money and that's all we're going to focus on. And if others can execute well, then they will make money too.

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

**Anushman Deb:** So, my question is regarding on again on the yields part. So, we having crossed the 4 rupees per ASK kind of, is a benchmark kind of thing because even when Jet Airways went out, it was not this high. I just wanted to understand one thing in the sense that there is a pent up demand. But if in case international would have been flying in Q3, what could have been the yield if you could just give some kind of color on that. And sustainability of beyond 4 rupees yield, in the sense like if you think on the pent up demand, one quarter, two quarter, three quarter phenomena. After that, your views on the sustainability yields above 4.2 rupees or something? Can you give any color on this?

**Ronojoy Dutta:** See, you have a virtuous cycle. When we going into small cities. We're not just getting the point to point traffic we're getting a lot of connecting traffic. So, that's not going to go away and connecting traffic that is almost unique let say. So, I will just use an example of why we're making this up from Imphal to Coimbatore, how many airlines can you take and how many airlines will give you these choices of morning flight, afternoon flight, evening flight, et cetera and that creates unique opportunities for us to capture good yield. Now that's domestic and I'm just saying that's not going away. And Hyderabad is a wonderful example of that. Airlines look for the sweet spot, when you say, I'll fly to city A, my hub. And it doesn't matter what time of day I come in, doesn't matter where I come from. I am just connecting traffic. In Chicago luckily, not luckily Chicago happens to be one of those as you call it Omni hub, you just bring it in anytime it's connecting to somewhere. So, Hyderabad is like that for us now, it doesn't matter where you come from and before we used to sort of agonize over should we do Surat to Bangalore, will it make money? Now Surat to Hyderabad, just put it in and it will make money. So, we have sort of unique structure that we've now built, which allows us to grow and domestically capture names that no one else can.

Now, let's move to your international question. Clearly, when we opened Kuwait, when we opened Saudi Arabia, we've got more than normally yields because there's a lot of pent up demand, but those markets have been flying now for a couple of months, we have been up for about three months. Yes, the yield has come down a little but not a lot. And we are beginning to see to it. As we have more capacity, we do expect the yields will come down. But at the same time, the unit cost will come down too because of increasing the aircraft utilization up from 10.7 to 13 hours, and so forth. So, there will be a trade-off between yields and cost, unit costs as we add capacity. And I think it will work in our favor and you said 4.07 is sort of a high watermark, I believe we will be seeing those numbers again and again, not every quarter. Clearly now, January will be a weak month for us because of Omicron. But I believe we'll keep hitting those numbers pretty regularly from now.

**Moderator:** Thank you. Our next question is from line of Rajesh Rawat from HDFC Bank. Please go ahead.

**Rajesh Rawat:** So, in the last quarter, we have done deliberation for improvement in the cargo business also, some of the planes were converted into cargo. And then some of the belly space allocated to cargo also. So, where are we on that strategy and how is it yielding benefits to us, just a sense on that. Secondly, what is the plan for QIP which we have initially planned and any other measures to improve liquidity. So, that's it from my side.

**Ronojoy Dutta:** So, cargo and I will ask Jiten to talk about liquidity. So, cargo there has been a transformation in the business conditions and it is driven by two different factors. One is regulation, so the Government doesn't allow airlines like Cathay, Korean. They used to do flights into Chennai, Chennai to Bombay, Bombay to Dubai. And the Government said no you can't do all this, shipment within India and so forth. So, Cathay reduced the capacity many times, at the same time, the export import business is booming, India's exports are booming, India's imports are booming so lot more trade happening. Then the supply disruption, container ships are not available, ports are congested. Airplanes are flying above all that. So, cargo business in general has seen the transformation. On top of that we have high export countries right next to us, Bangladesh, Vietnam, and they are looking for capacity to ship out to Europe or whatever. And India is a great shipment hub. This is of macro long term picture. Cargo has become more sort of fertile ground for us. Near term, in the worst of the passenger crisis we gave cargo 11 planes and said see what you can do with it. As passenger demand has grown, we pulled those airplanes back. And right now cargo only has 3 airplanes, and then two more, three airplanes for freighter and 2 more planes which we call cabin cargo. So, we've taken out seats and put in nets and utilize it cargo in cabins. However, we are still limited, and the biggest limitation is the size of the door. So, it takes a long time to load, takes a long time to unload you can only put in certain size packages whatever. As the freighters come in, we can catch up. So, yes, we are very bullish in the cargo strategy, we are going to go with the 4 freighters, and we are optimistic it will become a good business for us.

**Jiten Chopra:** So, I'll take the liquidity part question. If you see our quarter end number we are reporting a free cash of 78.1 billion rupees, which is about 15 billion more than what we reported in September. So, in terms of overall cash, we are pretty much comfortable. As we always do, we keep watching the space for any changes which are happening. And at this stage, we feel we don't need further liquidity because we are sufficient in the bank in terms of our financing ability also. So, that's where we are and we'll keep monitoring this space as things pan out.

**Ronojoy Dutta:** And generally, just to put a top line phrase to it, our cash flow is improving, our liquidity position is improving.

**Moderator:** Thank you. Our next question is from the line of Mitul Shah from Reliance Securities. Please go ahead.

**Mitul Shah:** Sir, I have question on consumer sentiment in terms of the first and second wave there was a severe negativity, this time despite number of cases being high, even railway travel we are seeing waiting period. So, barring apart this Government restriction, what you people are experiencing in terms of passenger wants to travel or suddenly these restrictions go away. What would be the likely situation?

**Ronojoy Dutta:** So, as I said, through December 15$^{th}$, our domestic traffic numbers were higher than pre Covid, International was lower because of capacity restrictions, nothing else. Up to December 15th we were very strong from December 15th we kept going down all the way every day on January. So, every day the trend is lower, lower. January 15th, we sort of bottled from January 15 to February 5 or so we've seen a slow build up again, we haven't gone back to any of the higher levels. But we stopped dropping for sure. And we are seeing a slow build up again. And this all says that, look people just watch the Covid numbers, they experience whatever they do with their families, their friends, et cetera and as soon as the numbers come down, they travel. So, what do I expect - as soon as Omicron numbers subside, December was a great month, I think March, April again we will be back up. And this is all assuming Omicron fades away.

**Mitul Shah:** Thank you, sir. Second question again, as you already replied on competitive landscape, but just want to check, in terms of pricing discipline, what we are finding, despite this slowdown situation, lower utilization, yields are much stronger. So, do you see this to sustain or how the competitive scenario different compared to the historical situation?

**Ronojoy Dutta:** Look, everyone wants to manage the cash and build up the cash balance. As they say, nothing focuses your mind so much as the cash situation. And every airline mind is very focused on the cash situation right now. That being the case, people are not going to be foolish in terms of yields. Fuel price are up, our capacity is not being fully utilized. We have to manage our yields. So, we do our stuff, people do their stuff but no, everyone is sensible. Everyone is, in a way self-serving. Everyone is professional. So, that is the competitive side, as I said, the underlying fundamentals of industry, where people are willing to travel at a higher price. People need to travel more, there is more migration is happening, more factories are opening up in places, labour is in the Northeast, the demand in the Southwest. So, there is a certain buoyancy with the traffic, along with that as we've seen people want to travel for tourism purposes as-well. So, there is a lot of good fundamentals of industrial growth, migrant labour, families. Before it was like, we live in one state and that's all families here now families are spread up all across India. So, people need to travel. So, those fundamentals will work in our favour. As we know India has one of the lowest propensity to travel in the world. India has some of the lowest fares in the world. And there's only one way to go and that is us.

**Moderator:** Thank you. Our next question is from the line of Iqbal Khan from Edelweiss. Please go ahead.

**Iqbal Khan:** You spoke about the cargo part. So, during the quarter, could you please quantify that how much is the cargo revenue for this quarter versus year-on-year and quarter-on-quarter basis. And secondly, if you can throw a light on the corporate travel how they have been doing in this quarter and what is the current status of that?

**Ronojoy Dutta:** So, cargo in the quarter itself, as I said, the cargo revenue could not grow, because we pull airplanes out from cargo. So, we had 11 planes, we needed for passengers, so we went down to three. And cargo still grew, by the way, it didn't shrink, but we pulled a lot of capacity out. And on the business, I'll give it to Sanjay.

**Sanjay Kumar:** So, on the corporate travel we saw the recovery of almost 70% of the pre Covid level, in the month of December. But with the Omicron third wave, we started seeing that drop in the business. And it came down to about 25% of the pre Covid level in the first half of the January month. But again, as Rono mentioned, that we are seeing somewhat recovery after the middle of January, and we are seeing some better numbers coming in. We hope that we'll get to the similar kind of growth very soon, next few weeks' time going forward.

**Iqbal Khan:** And sir just one bookkeeping question, if you can just give us the number of passengers for this quarter, and the capacity utilization of the international fleet?

**Jiten Chopra:** So, for these details, if you can connect with our IR team, they will provide you separately.

**Moderator:** Thank you. Our next question is from the line of Mohit Adnani from CRISIL. Please go ahead.

**Mohit Adnani:** I wanted to understand that, now with the global situation with airlines improving are you seeing a hardening so we have signed leases for a long term so the new NEOs that are being inducted are you seeing an increase in the lease cost. And secondly, if the leases are going up are you also improving is the SLB income also going to go up because since the demand has been increasing and to say Indian family is the one which has always seen a lot of demand. So, are you expecting higher SLB income from them?

**Ronojoy Dutta:** So, we keep watching all our lease rates and our SLB income and so forth, and we are not really seeing any change, we keep asking that question every week and like what's happened to the latest ones, they seem pretty much in line. So, there could be some turbulence later, but right now it's pretty stable.

**Mohit Adnani:** Okay, thank you. And just a follow up. Now that you are taking four passenger to freighters conversions. Are you lining up any more cargo only planes or freighters, is IndiGo looking at that currently?

**Ronojoy Dutta:** We constantly keep looking at it. Our cargo plans are evolving, if you will right now, we have made a commitment to four. But we keep studying the market to see what the right number is.

**Moderator:** Thank you. Next question is from Nikunj Mandowara from UBS Securities. Please go ahead.

**Nikunj Mandowara:** Sir just wanted to understand our delivery schedule for the remaining ATRs which I believe 15 are left and about the possibility of inducting new ATRs or other smaller aircraft and what can be the potential timeline considering that we are having growth in tier II and III cities, won't we need many more of these aircraft over the medium term?

**Ronojoy Dutta:** I will like Wolfgang to kind of take that question.

**Wolfgang Prock-Schauer:** So, we are not commenting in detail on the delivery of the ATR, but we get something like number of more ATR next year. But we also have this lease expiration we're just starting our discussion, evaluating if we should extend some of these, some of the lease ATR which would increase our fleet, or we should allow to fleet to stay stable, and the market is right now we're assessing it to be more flexible - growing or staying stable. So, that is just work in progress right now.

**Ronojoy Dutta:** I would just say that, I'll speak for myself personally here. There's one thing that has surprised me in the current environment is the strength in the small city. I've been like, this is good.

**Moderator:** Thank you. Next question is from Ashish Shah from Centrum Broking. Please go ahead.

**Ashish Shah:** Just one question, like we talked about the cost structure on the employee side, ideally where we would want to be at a 2019 level, can we give an indication on the maintenance cost aspect as well. Obviously, today the number is inflated because of the lower denominator, but would we want to be at like 50 paisa, or there about or you think that this number is going to be higher?

**Jiten Chopra:** So, in terms of the Outlook, first of all we should keep in mind we cannot give a number like that because we are still returning the CEO, so we still have some time before we can actually stabilize that's point one. Having said that, we also need to keep in mind the fact that overall, there is an escalation which we need to include in our contract, there is currency fluctuations all put together, I would say it would not be the numbers which you are looking at. Okay, that is not going to be the number, but our focus is that we remain within the range where we are comfortable, and that's what we will look at. But again, as I say, till the redeliveries are happening, we are watching this space very closely. And once we get settled, and then we'll be able to give a better idea.

**Ronojoy Dutta:** I want to temper the discussion a little bit, though with what's happening with oil prices. I recall a year ago, we were looking at 45 dollars a barrel. Now we're looking at 89 dollars, some people are talking about 125 dollars, so oil really is a bit of a perplexing problem for us.

**Moderator:** Thank you. Next question is from Vipul Garg from Kota Mahindra. Please go ahead.

**Vipul Garg:** Observation is that there is a sharp dip in the CASK ex-fuel. So, what is the reason for that?

**Ronojoy Dutta:** CASK-ex fuel, the biggest one is the capacity. We went from 7.7 hours to 10.7 hours. So, that really helps CASK a lot. After that, it's just every area with better cost management, as I said, execution, execution, execution. But the biggest driver was the capacity and that's why, we've only gone from 7.7 to 10.7 hours, we can go to 13.5 hours very easily that's our plan. But we need international markets to open it and when it does, people were talking about yields go down, yes it will but we think the CASK will also go down.

**Vipul Garg:** But sir in the past also when the capacity was being fully utilized at that time, also, the number was something about 2.97 rupees. So, are there some cuts in the say expenses, like employee expense, et cetera?

**Ronojoy Dutta:** We had a cost bubble build up in the year 2020 and 2021, and we talked about in the earnings call what was there, there were all these CEOs, the CEOs were driving us nuts. Those engines were expensive, though maintenance problems. So, that maintenance cost in 2019-2020 was a bubble related to the CEOs, which are now going away. Equally as I said, we were running short of pilots, we're growing fast, we were getting expat pilots, we were getting Jet Airway pilots and the training bubble hurt us a lot. So, what we are seeing is sort of return to normalcy, if you will, on both pilot costs and maintenance costs. And that is helping us as well.

**Vipul Garg:** Okay. So, same would be continuing in further also?

**Ronojoy Dutta:** Yes.

**Vipul Garg:** And sir secondly, how much of the free cash is being contributed by the advance booking, which company has received?

**Jiten Chopra:** See advance booking is part of our free cash generally, and we don't normally call out a separate number about it. But it does contribute a portion of it, I would say and not as a percentage I would not like to call that out. But yes, this is an important financing which we get always and as the bookings keep building up, our free cash also goes up as well.

**Moderator:** Thank you. Our next question is from the line of Krupa Shankar from Spark Capital. Please go ahead.

**Krupa Shankar:** Just one question from my side. If I look at an absolute number, basically the supplementary rentals have gone up quite substantially, in fact substantially higher than the historical level in FY20 itself. So, any guidance on how perhaps it will shape up or absolute, would it hover around 18 billion or so, if maintain our capacities at current level brand, perhaps increase from a 10.7 to 13.5 hours it will go up further, any color on that please?

**Jiten Chopra:** So, supplementary rental has an element of variable, and this period obviously has seen significant departures and our supplementary rentals have gone up from that perspective. The fixed cost again as I said earlier, fixed cost is dependent on -some of it is fixed which will remain and then there is a CEOs which when we are redelivering, we are incurring some cost. So, to give a particular number is difficult, but as I said we would like to maintain this current number, or maybe a few basis points plus and minus from here. That is the objective and that's where we want to stick to. But yes, this will all depend on how, when we are able to fully redeliver our CEOs by end of this calendar, then we will have a better handle on this number.

**Moderator:** Thank you. The next question is from Aditya Mongia from Kotak Securities. Please go ahead.

**Aditya Mongia:** I had a couple of questions. The first one that I had was, in context of your RASK minus CASK the spread that you make. As you move forward do you see versus let's say competition, benefiting more from better yields that you can get or further reduction in cost. By yields I mean you said that you had three kinds of aircrafts, you can do metro to metro you can do small cities with international. I am just trying to get a sense; can you leverage that a lot more or are there cost benefits incrementally that will help you more than the yield improvements that you would see?

**Ronojoy Dutta:** So, IndiGo has always been laser focused on cost control. And on a global basis, we are one of the lowest cost airlines in the world. And we want to stay there. So, costs are down and they'll stay down and we'll manage our costs to be among the lowest. So, the opportunity for further cost reduction, after you are already among the lowest in the world is hard to become even better on cost, you just have to maintain your position. But we see lots of availability for improving our PBT margins, that is what we should be focused on, on the revenue side. So, where is our focus, our focus is on maintaining our cost leadership, and then improving on our revenue performance.

**Aditya Mongia:** Got that. The second thing I want to ask you was that, you talked about the utilization levels being improving from 7.7 to 10.7 hours and basically improve further. Assuming that international goes nowhere, and you kind of come back to 100% domestic, capacity levels or slightly higher. How much more improvement can happen from the perspective of this 10.7 hours or so?

**Ronojoy Dutta:** The premise is if international goes down. Why should international go down? International is gradually opening up. All the countries are saying if you're vaccinated why do you have all these restrictions. So, international is opening up and will continue to open up. So, I don't want to create a false premise of what if it doesn't happen. No, it is happening, and it will happen. And that's where the biggest opportunity is, domestic you're sort of limited by the hours in a day. You don't want to be flying you can do a few flights at midnight, but everyone wants to travel at 6:00 am and come home my 10:00 pm at the latest, et cetera. So, trying to improve domestic capacity utilization going to be tougher, international easier because we saw night flying. You just take the plane and keep going and International we have to assume that things are going to improve because they already are.

**Moderator:** Thank you. Ladies and gentlemen, due to paucity of time that would be our last question for today. On behalf of IndiGo, that concludes this conference. Thank you all for joining us. And you may now disconnect your lines.

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