"IndiGo Fourth Quarter and 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 fourth quarter and fiscal year 2022 financial results. My name is Faizan 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. Thank you and over to you ma'am.

Richa Chhabra: Good evening, everyone, and thank you for joining us for the fourth quarter and 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 – Gaurav Negi 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 Chief Programs Officer and Head of Investor Relations 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: Good evening, everyone and thank you for joining us on this call.

For the quarter ended March 22, we reported a net loss of 16.8 billion rupees. Excluding foreign currency loss of 6.1 billion rupees, our net loss aggregated to 10.7 billion rupees. We swung from a profitable third quarter to a loss making fourth quarter because of around 15% higher fuel prices, around 11% lower capacity due to Omicron and a lower RASK of 2.9%.

For the year ended March 22, we reported a net loss of 61.6 billion rupees. Excluding foreign currency loss of 9.4 billion rupees, our net loss aggregated to 52.2 billion rupees. Excluding currency impact our operating losses reduced by around 18%, year over year. We deployed around 55% higher capacity and reported around 77% higher revenue from operations in the fiscal year 2022 as compared to the fiscal year 2021.

Our financial results for the full year and the reported quarter were severely impacted by the pandemic - first by the 'Delta' wave and then by the 'Omicron' wave which hit us in this quarter. Even with these challenges, we served around 50 million passengers in fiscal year 2022, an increase of 62.3% as compared to fiscal year 2021.

Focusing specifically on the fourth quarter, it would be helpful to break the revenue discussion into two distinct periods of 6 weeks each. The first six weeks saw significantly lower demand because of Omicron; we operated an average of 1,098 flights per day with below average yields. However, we saw a strong rebound in the 6 weeks starting mid-February once the rate of Omicron infection reduced. During this mid-February to March period, we operated an average of 1,366 daily flights with a strong uptick in unit revenues.

While overall RASK during the March quarter reduced marginally by 2.9% to 3.97 rupees primarily due to reduction in load factors by 3 points, as compared to the December quarter. Yields have remained a good story and held steady at 4.40 rupees. Importantly, this is comparing a seasonally weak March quarter to a seasonally strong December quarter.

As per OAG - the Official Aviation Guide - IndiGo emerged as the sixth largest airline in the world and the fastest in terms of growth. We were ranked number four in terms of punctuality worldwide. It is exciting to see IndiGo amongst the top airlines in the world both in terms of scale and quality of service.

Towards the end of March, the Government allowed International scheduled operations. We ended the quarter with over 100 daily international flights and are currently operating over 90% of our pre-covid international flights.

We also announced our proposed strategic partnership with Qantas Group. This proposal will be the fifth arrangement with an international carrier along with American Airlines, Air France-KLM, Qatar Airways and Turkish Airlines. These partnerships will help IndiGo access new markets and new set of customers.

We reported a CASK or unit cost of 4.79 rupees for the March quarter, which is 18.9% higher, sequentially. This higher unit cost was primarily attributable to adverse movement in rupee, reduction in capacity deployment and increase in fuel prices.

We have just experienced 2 very turbulent years in our history, and this would be a good time to step back and assess IndiGo's performance

- We were hit by three waves of Covid-19 which caused a sharp decline in demand
- We witnessed a sharp rise in fuel prices over the last few months
- Capacity and aircraft utilization were severely curtailed
- We reported large back-to-back losses totalling 119.7 billion rupees over the two years

- We also experienced significant strain on our balance sheet

There is no question that we have taken it on the chin in terms of Covid, fuel prices and operating losses. Now, let us ask ourselves how IndiGo has responded to this crisis

- We strengthened our domestic network
- We focused on superior customer service to ensure a higher share of passengers
- We right sized our workforce
- We improved our yields in an impressive manner
- We positioned ourselves for an aggressive international expansion with building connecting traffic at our hubs and negotiating multiple code share arrangements
- We significantly restructured our fleet to ensure lower maintenance costs and lower fuel burn, two key drivers of our costs
- We launched new initiatives such as 'CarGo freighters' and 'Digital'
- We strengthened our relationship with our business partners
- We restored our free cash balance to 77.6 billion rupees
- Along with all these operational factors, I would also like to highlight that we have exercised continuous improvement in Governance, Compliance and ESG initiatives

The problems we have experienced in our two-year performance such as covid, fuel, large losses etc. are all cyclical in nature. In contrast, all our responses have been strategic and sustainable in nature. Consequently, I'm proud to say we have emerged as one of the top ten airlines in the world both in terms of size and quality and are the fastest in terms of growth.

Looking ahead, we are blessed to be domiciled in probably the most exciting aviation market in the world and within that we are structurally the strongest player. Therefore, we are extremely bullish on our long-term outlook. We would like to thank our shareholders for their patience during these difficult times and assure them that profitability is very much on top of our minds.

Let me now hand over the call to Gaurav to discuss the financial performance in detail. As you are aware, Gaurav Negi has joined us as our new CFO. Gaurav has been with IndiGo from December 2021. He has a vast experience spanning across more than two decades in several reputed organizations and we are excited to have Gaurav as a part of our team.

Gaurav Negi: Thank you Rono and good evening, everyone.

For the quarter ended March 2022, we reported a net loss of 16.8 billion rupees. Excluding foreign exchange impact, we reported a net loss of 10.7 billion rupees. We reported an EBITDAR of 1.7 billion rupees for the quarter ended March 2022 compared to an EBITDAR of 20.0 billion rupees for the quarter ended December 21.

For the year ended March 2022, we reported a net loss of 61.6 billion rupees. Excluding foreign exchange impact, we reported a net loss of 52.2 billion rupees compared to a net loss of 63.3 billion rupees for the year ended March 2021. We reported an EBITDAR of 11.5 billion rupees for the year ended March 2022 compared to an EBITDAR of 6.2 billion rupees for the year ended March 21, an increase of around 84% against a capacity increase of around 55%.

Some of the key variations of our performance in March quarter as compared to the December quarter are as follows:

1. Yield for the quarter remained steady at 4.40 rupees. Reduction in load factor by 3 points led to a RASK* decrease of 2.9%.

2. Our fuel CASK increased by 10.9%, sequentially to 1.58 rupees, driven by an increase in average fuel prices by around 15%^.

3. Our CASK ex fuel ex forex for the March quarter was 2.91 rupees, which is around 12% higher than the December quarter primarily due to operating at lower capacity.

The update on our cash position is as follows:

We ended the March quarter with a free cash of 77.6 billion rupees, a marginal net reduction of half a billion rupees versus the December quarter. Our total cash as on 31st Mar 2022 was 182.3 billion rupees.

On the other key balance sheet numbers, we ended the quarter with capitalized operating lease liability of 316.7 billion rupees and total debt, including the capitalized operating lease liability of 368.8 billion rupees. Our ROU assets at the quarter end were 204.4 billion rupees.

Demand has picked up well during the latter half of the March quarter. Resumption of scheduled international travel will help us improve our margins. Based on our current estimates our total capacity deployment in the fiscal year 2023, in terms of ASK, will be in the range of 55-60% higher than our capacity deployed in the fiscal year 2022, which would roughly translate into 13-17% growth as compared to our pre-covid fiscal year 2020. Specifically, for the first quarter of fiscal year 2023, we expect the capacity to rebound at almost 2.5 times the capacity deployed in the first quarter of fiscal year 2022.

We are encouraged by the improvement in revenue performance. But currently challenged by the increase in fuel and weakening of rupee. In order to address these headwinds, we are taking counter measures, but meaningful improvement in these two macro drivers will be critical for us to transition back on a path to profitability.

With this, let me hand it back to Richa.

Richa Chhabra: Thank you Rono and Gaurav. 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: Thank you very much. We will now begin the question-and-answer session. First question is from the line of Binay Singh from Morgan Stanley. Please go ahead.

Binay Singh: Overall, we are trying to understand how to think about profitability into the coming year. Clearly in terms of capacity, this will be a record year for IndiGo and even on traffic side we are seeing very good traction. So, could you talk a little bit about how are the yields playing out? Are you able to pass on the cost pressures? Maybe to answer that if you could share how were your yields in the second half of March quarter, because as I understand that the yield that you have reported also would have been adversely hit by very weak yields in the first half. So, could you share a few thoughts on how to think about profitability? Secondly, the forex loss looks much larger than we anticipated. Could you talk a little bit about that also?

Ronojoy Dutta: Okay, so how do we get back to profitability. As we said, there is a tug of war going on, and the tug of war is between, I think, a very good revenue performance, and a very challenging fuel and the rupee weakening, and just staying on the revenue side. I think I am really impressed with what our team has done on the revenue side. And I congratulate them for doing a great work. It's not been easy, it clearly very, you almost have to hit the point, the sweet spot just right because you can keep pushing up fares. And then at a certain point, the demand actually falls off. So, judging which that point is and just pushing it to the right level, I think is sort of the science and the art of all this. And again, our revenue team is doing a great job.

March was the strongest month last quarter. And to give you a sense of where the trends are going, April, unit revenue was 6% higher than March. And then May month to date unit revenue was again, another 6% higher than April, which is what I mean by the revenue guidance . But to counter sort of balance the story though, April fuel prices were 11% higher than March, and May fuel prices were 6% higher than April. So, you have a tug of war. But the key to profitability is to keep managing our business on the revenue side, of course cost need to be under control, that is always said, but we won't save ourselves into profitability; we have to get it from the revenue side. And at the same time, hopefully we get a break on fuel and the rupee.

Binay Singh: Just to give us an idea of so what was your March yield? Just so that we can understand that what are the yields trending in absolute sense.

Ronojoy Dutta: We will find that in a second. While we are looking for it, Gaurav you want to talk about the forex, you had the question in forex.

Gaurav Negi: Yes, Binay on the forex front, the impact has been around 600 crores rupees. Now that's largely because the rupee has weakened approximately two points between December and March. So, a large chunk of the forex impact that you are seeing is mark-to-market, given that the balance sheet that we have is close to 300 crores rupees of capital leases that we have. That will give you that we have got a 600 crore rupees foreign exchange impact coming into quarter, largely because the rupee is weakening by two points.

Ronojoy Dutta: April yields was 5.14 rupees, March was 4.71 rupees.

Moderator: Thank you. The next question is from the line of Deepika Mundra from JP Morgan. Please go ahead.

Deepika Mundra: Just following up on yield, so March 4.7 rupees, April 5.1 rupees, how much of the delta would be potentially from the reopening of international flights?

Ronojoy Dutta: Well, we don't want to get too much into detail now. I already feel like I have given too many numbers. So, look, international as I can say the international profitability has been stronger than domestic. And it always is. So, that's the good news. But I don't want to now break up yield into domestic versus international.

Deepika Mundra: And the significant capacity increase that you are planning for next year, could you give us a sense as to how much of that skew is again towards international versus domestic?

Ronojoy Dutta: So, I can only give you a long term trajectory on this. Short term, as you can imagine, there is a lot of volatility. For example, Sri Lanka is a problem, it's not opening as fast as we would like. China is absolutely closed. So, there will be some sort of start go through the process. Overall, pre-Covid our capacity was only 25% of our system. Our projection is that in five years from now, international would be about 40% of our system. So, international will be growing faster, but the rate of growth is very much depending on how markets open up individually.

Deepika Mundra: And if I may just sneak in one more, the codeshare agreements, how do they pan out in terms of profit dynamics as compared to flights run singularly by IndiGo?

Ronojoy Dutta: The key to making money on codeshare is pro-rate agreements. So, every time a passenger from KLM or Qatar or anyone gets on our flight, the question is, what is the pro-rate are we charging them and how do we compare to our alternatives. So, we have a good position in the marketplace as you know and therefore are able to negotiate quite attractive pro-rates and therefore we are excited about the codeshare agreements.

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

Mitul Shah: The way rupee movement is happening in this quarter in April and May, even slightly sharper than the previous quarter which implies that losses could be like a 700 crore rupees to 800 crore rupees this quarter. Is it a right understanding or even more than that?

Ronojoy Dutta: We know that, look so I don't know how investors generally look at above the line and below the line. So, we are trying desperately to be profitable above the line. But if the rupee keeps going as it is going and then we have this big mark to market correction then below the line, we take a big hit. So, yes, as the rupee depreciates further you can expect big mark to market adjustments.

Mitul Shah: My second question is on what is a kind of feedback, or you people are experiencing after a sharp price hike on the ticket side, ticket price increases? What is the response on the customer side, still, the affordability seems to be reasonable, or do you think, do you feel any negative sizeable, noticeable negative impact on the traffic side?

Ronojoy Dutta: So, clearly, it's a balancing game. If you see the customer resistance to higher prices, you see it on the load factors. I wish our load factors were higher than they are. And they are not because yes we are getting some resistance. At the same time, the fact that we are getting unit revenue up, which is what's important, it doesn't matter whether you take it on yield or in load factors, you want the unit revenue to keep going up. And we are doing quite well on unit revenue. And we are pleased with the performance. So, there will be load factor pressure as we increase prices, progression.

Mitul Shah: Lastly, after this capacity utilization and capacity increase for FY23, whichever number you indicated, would that be close to pre-Covid level or even higher? Or still it will remain below pre-Covid level?

Ronojoy Dutta: We are already higher than pre-Covid level.

Gaurav Negi: Like we said it's going to be close to 13% to 17% higher.

Ronojoy Dutta: So, I mean you know through all these question, I just have to emphasize the revenue performance has really been good. And I would say surprisingly good and thanks again to our commercial team, they are do a great job on the revenue side. And as you alluded is the customer pressure, is there customer resistance, my God these prices are going up. But we have to survive, with fuel doing what it's doing, we have to raise fare. And as we have said many times India has the lowest price in the world. So, I hope that’s the stories that’s sustainable over the long term. We do need to have higher fares, but this fuel and the rupee really are a problem.

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

Chintan Sheth: On the capacity again, with industry getting consolidated and new players are trying to get, start the operations and our plan of very strong capacity addition next year, do you foresee, what’s your take on yield, how it will pan out?

Ronojoy Dutta: So, the industry has been behaving quite rationally, I used to say that. We do have a lot of players already. And everyone recognizes with the fuel during what it’s doing with the large losses we have incurred, we all need to repair balance sheets. So, I am hopeful that the new players actually seasoned players, if you look at the management team at both Akasa and Jet Airways and so forth, they are season players. So, I expected the rationale behavior will continue, and we wouldn't see any crazy price wars or anything like that.

Chintan Sheth: And second on small bookkeeping, sequentially we see opex as well as employee cost rising, I understand that we must have planned for better capacity, but because of Omicron, we kind of need to pull back our capacity. And that resulted into timing wise, rationalizing our cost. So, going forward, what kind of run-rate we should look at, if you can provide some light on that?

Ronojoy Dutta: You are talking of employee costs specifically?

Chintan Sheth: Yes. Sequentially it has increased both employee cost and other opex. So, I am just trying to understand how should the trajectory look like?

Ronojoy Dutta: So, employee cost, clearly, we have some snapback in regions and it's not over yet. As you know for example, pilots, we have given 8% and promised another 6.5% in November. And we will keep looking at those numbers and as profitability improves, we will be doing some fare raises along the way. So, yes, rates will go up. As far as productivity goes, that's where our emphasis is. So, in every department, from flight crews, to operations, to commercial, we are looking at employee productivity and trying to sort of manage that as best as we can. But absolute pay raise yes, we would expect them to grow up in an inflationary environment.

Chintan Sheth: Any numbers in terms of ASK or percentage growth.

Ronojoy Dutta: No, I mean, it's a very delicate. Again, just like we said, we have to manage revenue very carefully. We have to manage this also very carefully. We have to be absolutely conscious of the fact that our employees are facing an inflationary environment, and that we need to give pay raises, we are very conscious of the fact that they have all worked very hard through two years of Covid. At the same time, we need to keep an eye on the profitability of the company as well. So, it is a balancing act. And I wouldn't like to give any forecasts.

Chintan Sheth: And other expense from 742 crores rupees to 830 crores rupees, sequentially.

Gaurav Negi: Again, sequentially, we had one off in Q3, so excluding that there have been some increases in opex cost, in line with some of our increases that we have seen in international operations, that is driving some of the cost up. But again, to Rono’s point in terms of as a percentage of ASK that's what we will be focused on. And we try to keep it lower in terms of as a percentage of ASK versus just looking at an absolute number.

Moderator: Thank you. The next question is from the line of Arvind Sharma from Citigroup. Please go ahead.

Arvind Sharma: First question, would be on your fleet strategy, when you give that number for ASK, is there any fleet number in mind, because on a quarter-on-quarter basis, your absolute amount of teams have gone down? So, is there any number that you have in mind for FY23, in terms of fleet expansion?

Ronojoy Dutta: So, part of the reason why our capacity is going up because we have such a large number of A321s coming. I mean it's become a very significant part of our fleet. As we said before, our overall fleet count won't change much. It will be roughly flat, but the capacity will go up because of higher seats.

Arvind Sharma: Secondly, I think this has been in a way alluded to, in previous comments. The fares have risen quite sharply, but still demand is holding on. Where do you think is that inflection point where anything beyond that in terms of increase in fares would start impacting negatively.

Ronojoy Dutta: This is a balancing act and it's a day-to-day activity and almost minute by minute activity. We have to just watch the loads carefully. Our job is to maximize the revenue on each flight. And whether it comes from load factors or yields, we are sort of agnostic to that. But we need to push revenues for flight up and that's what we are focused on doing. Within that, I would say, that our customer service is very strong. And if we have a strategy on customer service, it's almost like, we want to make sure that the customer has to almost ask themselves, why would I make a mistake of not booking IndiGo.

So, through the entire process in the frontend and in the backend, in the frontend we make sure we give more frequencies, more connectivity so the customer wants to book us. When they fly us, we make sure, we provide reliable service, we are courteous. And even after the travel, we want to build trust with the customer. If you lose your bag, if you need a refund, you can trust IndiGo to do it just right. So, part of our revenue strategy is just build great customer service, and make sure you get a disproportionate share of the industry revenue.

Arvind Sharma: If you could just inform on the same line, does the floor and the ceiling on the fares still exists?

Ronojoy Dutta: Very much so yes.

Arvind Sharma: And you don't expect it to go away, so we expect those that bit discrepancy in the 15 day window, and beyond to stay for some times.

Ronojoy Dutta: It's hard to tell, right now, they are here, and we abide by them.

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

Aditya Mongia: My first question was on the growth that we envisage for air traffic in general, if the yields kind of stick around the 5 rupees or a higher mark. I am just trying to get a sense whether the past growth rates can still be repeated after let's say a one-year lull or should one structurally start thinking about lower growth rates for the sector.

Ronojoy Dutta: So, I am not sure I understood your question exactly. But you are saying at higher yields, do we expect the growths to continue? So, look, let's do total industry revenue. As you know, industry revenue is roughly two times faster than the economy. And the fact is, there is pretty strong growth in the economy, we had a downturn, but then we have recovered nicely. And you look at all the parameters such as GST collections, and all that and tell you right, in the industry, the economy is fairly strong. So, as long as the economy is strong, we expect industry revenues as a whole to grow.

Now, whether we take it again, in yields or in volume, it's up to the rational players in the industry to decide. And clearly with higher oil prices, you can't take it in volume, you have to take it in yields. So, that's where we are as an industry.

Aditya Mongia: As in just to kind of clarify this more of let's say the period from 2010 to 2020. So, air volumes growing at 3x GDP, almost 3x GDP. The question that I am asking is that with yields having made such a big jump up, should one start thinking through low multiples to GDP growth for air fare growth from here on?

Ronojoy Dutta: Let me clarify your question, when we say it's a multiple of GDP, we are talking of revenues. So, yes, at a certain period, revenues might have gone up three times. And revenues across the world, whatever the GDP is, the revenue will grow around two and a half times. That's the norm.

Within that, the industry players can say, okay, I have this much of revenue coming. Do I need more voluntary push? Or do I want yields to remain high? And that will depend on all players and their individual behavior. But the total revenue growth will not slow down, it will be two times, two and a half times GDP growth.

Aditya Mongia: The second question that I had was more on the ability of better placed airlines like IndiGo on slightly more on a relative basis. Now with the yields already being so high, are the opportunities to price your offering at slightly higher rates becoming, are they becoming easier or more difficult?

Ronojoy Dutta: So, it's about the same. But look, our yields are better than the industry, right. And they are increasing faster than the industry. And the question is why? And maybe your secondary question is, is that sustainable? Why are our yields growing faster than the industry, number of factors, first, I will start with the network. Our network has more penetration. Our network provides more frequency. And importantly, our network provides better connectivity. So, if you are going from point A to point B, there might be six airlines flying it. But IndiGo through its connectivity gives you far better options than anyone else. Morning, afternoon, evening, we give you all the options. So, our connectivity is a huge reason for customers to book us over everyone else. So, that's one.

Second as I said is overall service, reliability, etc. And third is, I would say trust, whether we have a disruption, we have a plan B, if we have a refund to be made, we are very diligent in making sure, Hey, let's not hold on to a customer’s money, give it back fast. If your bags are lost I will tell you, we have a team that's like aces they go around finding lost bags, lost knapsacks, lost laptops. So, this whole package of network, customer service, trust, all this builds into higher yields. And that’s why yields are going up. And yes, I believe they are sustainable.

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

Achal Kumar: So, I have two actually, so one Mr. Dutta, if you could please take a slight deeper dive into the network, so basically, if you could talk a little bit more about how the Metro to Metro routes are performing, how much is Metro to non-Metro performing, or where the yields are high and how the competitive landscape looks like, because everybody’s sort of trying to enter Metro to non-Metro because there the yields are much better, fair enough we can understand that. But with the rising competition, of course, there will be a yield under pressure, because the demand has not developed fully there.

And similarly, domestic versus international, how do you see the international, because fares are very competitive, on Dubai, you are flying for 14,000 rupees, Emirates, also flying for 14,000 rupees. So, looks like the competition is very high. So, if you could talk about take a deeper dive into the network.

Secondly, on the inflation side, of course, the inflation is rising. And there was unhappiness between your employees about the salary increase, especially on the pilot side. But then with the rising inflation, that actually could grow. So, how do you see the situation there? What sort of things you need to do? Would that add pressure to the cost? So, these are two questions if you could talk about.

Ronojoy Dutta: Okay, so first on the network. And the network, as you know, and this is not new, there has been a shift in the sense that, I would say three, four years ago, it was all about, oh Metro to Metro is so profitable, they are our best routes and everyone's like piling into Metro to Metro. And that has clearly changed. Metro to Metro is still strong, but Metro to non-Metro, as you have said, is getting stronger. Now within Metro to Metro though a huge part of it is corporate travel. And I am please to say the corporate travel is coming back. Yes, we took a sharp hit, but everything says they are coming back and therefore Metro to Metro profits are also increasing.

Metro to non-Metro, we have a lot of unique stations that we have gone into. Therefore, we have a lot of unique segments. And so that by itself is good. Within that also, Metro's are so well positioned, that if you are going from I will just made this up, if you are going from Bhubaneshwar to Surat, we will give you six different ways of getting there, at five different times of the day. That's a huge advantage for us in terms of yield.

So, if you look at pricing, then, clearly everyone prices to match, and 90 days out everyone has matched, 60 days out and everyone has matched and then 15 days out, everyone has matched. The question is, which airline is getting a higher proportion of the 90 day pricing and which airline is getting a higher proportion of the 15 day, pricing? That's where our advantage comes in, because of everything that I have mentioned, service, network, etc., we tend to get more of the 15 day pricing. All of this is a network yield game, and sort of unique strong network results in the higher yields.

International, yes, the markets to the Middle East are very strong for everyone, I am sure. Now within that what are our advantages, you mentioned Emirates. Well, Emirates will have a certain number of seats, but they are looking at more towards the beyond. So, they are pricing in such a way as to get more and more beyond financial. We are pricing in the local market. And that's why we have a strength with narrow body, we do quite well and therefore Middle East looks good. I think that's what you are asking me about international specific. And now I will switch to the employee side.

Look, our overall strategy is engage with the employees, focus on the employees. If we do that, the employees in turn will focus on the customers. And if they do that, the customers in turn will create shareholder value. So, it really is a chain of doing everything right for the employees, not just pay in terms of working conditions to engagement all of that, so that we get better customer service, so that we get shareholder value.

We are in an inflationary environment, we have gone through a very difficult period, first off pay cuts and then not full restoration of pay. And we know we have to address this issue. But as you say, '*it's helplessness*', we do have a big loss. So, much as we would just like to give everyone pay raise, we have to take into account the sort of losses that we are piling up. So, we have to manage this very carefully. But I will say this, our heart is with the employees. We want to do the right thing for them, we would love to give them more pay raises so our heart is with them, but our head has to work in terms of let's be profitable.

So, overall, I think our employees have been resilient. I think they are extremely loyal. We take all these surveys, and I think they understand. So, again, it's not easy walk in the park, it's something we have to manage very carefully. But we would like to do the right thing for our employees.

Achal Kumar: Actually Emirates was an example, which I was referring to, I wanted to understand the overall international network on the Southeast Asian countries, on North Asian countries and also, and this was just an example which I gave you.

Ronojoy Dutta: So, let's talk of our international strategy. The fact is, India is surrounded by strong hubs, which carry a lot of connecting traffic. And what we have discovered through the Covid process is the incredible amount of charter demand we got for point to point. And we are like how did these people get to these before Covid and the shutdown, and so forth? And answer is, they all went one stop. Well, if there are so many one stop, we obviously have a unique opportunity to go non-stop.

And I will just make up some example. Let's say you are trying to get to Bali, or you are trying to get to Manila or you are trying to get to Hamburg, how do you get there? Well, you get there, one stop on someone, with a three hour stop, layover, etc, etc. And we want to do all this nonstop. So, we are looking for all these opportunities. Covid has given us a great learning and feedback, insights into markets. And we are eager to go as soon as we have some more aircraft available.

So, right now we are quite hungry for aircraft. As I said before, our count is not going up. We would like to increase the count. But I also want to stress the codeshare applicability to all of this. And you look at Doha, you look at Istanbul, and all these connections, where the other side is flying passengers in and then connecting to our network, that’s a very profitable business for us as well. So, international has always been margin wises better, it will continue to be a margin wise better. And to Southeast Asia, we have more challenges right now, but I think its temporary, whether it’s Thailand or Malaysia, softer to build up, but I think we will do fine.

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

Mohit Adnani: I wanted to understand has the booking cycle moved, has the booking curve sort of expanded than before, because I remember saying and hearing one of the con-calls that because the pandemic in FY21 and FY22, India had moved from already a shorter booking cycle to even shorter because people are not sure what the condition would be. But do you see it going back to pre-Covid levels now or even say further because in the D-15 fare cap is still there, and fares are high, are you seeing people booking more in advance than before?

Sanjay Kumar: Yes, so, the booking cycle has almost become the same as it used to be the pre-Covid level. And we are seeing almost similar kinds of booking patterns, more so with the 15 days pricing which is right now currently enforced by the government. So, we are seeing the booking cycle getting back to the pre-Covid level. What is also happening is, on the international side, we are seeing even better than the pre-Covid level, as far as the advance bookings are concerned. So, we are seeing a higher percentage of people booking in advance, 30 days out compared to what they were doing prior to Covid.

Mohit Adnani: And I just had a quick follow-up, not exactly a follow-up. I want to know that with three recent incidences of the CFM engine having shutdown in the DGCA having taken notice of that. Do we foresee any delay in the receiving the new A320Neos which are going to be powered by the CFM engine set?

Wolfgang Prock-Schauer: No we don't foresee any delays in how the aircraft is delivered to us. And I have to say, in operations as we have that scale of operation in engine, engine shutdown is a normal case of, not normal in a way that we want to have it but it happens from time to time. There are clearly statistics that show that, but our crew is trained, our pilots are trained to handle such situation. And we don't foresee any changes now in our fleet planning

Moderator: Thank you. The next question is from the line of Pramod Kumar from UBS. Please go ahead.

Pramod Kumar: My question is pertaining to the cargo side, given that recent announcement of 50% joint venture with UPS, just want to understand some more details about it. In terms of whether it is over and above your own freighter plan? And also, is there any overlap over your existing, the freight what you carry on the passenger aircraft, will it be also part of that joint venture. So, to begin with that and I have a follow-up on the cargo side.

Ronojoy Dutta: So, first of all the cargo arrangement between UPS and the InterGlobe IGE Group, that has nothing to do with us. That's a standalone operation. They have their own agreements; it has no impact on IndiGo whatsoever. We of course carry UPS; we serve not carry. We serve UPS, we serve FedEx, we serve DHL. So, we are neutral to all of those and we try to do as best as we can by each one of those providers.

On our own, of course, we are quite bullish on the cargo business. And as you know, we have four freighters coming and cargo has done very well through the Covid period, and we expect that to continue. But there's no relationship at all between what we are doing in the cargo and what IGE Group is doing on their side?

Pramod Kumar: Okay, so that's good, Rono for you to clarify, because I was wondering why there was no exchange filing from your side to this effect. So, in a way it's kind of promoter is driving this business separately with UPS. But isn't that a bit of an issue then, because IndiGo itself has its own freighter plans. So, isn't it a bit of an issue there in terms of both promoter group companies competing for the business, I am just a bit surprised.

Ronojoy Dutta: As I said, this is the totally arm's length. We do business with the UPS, we do business with FedEx, we do business with DHL and we will continue to do that. They have their own relationship which really has no overlap, nothing to do with us, no sort of tentacles between the two companies.

Moderator: Thank you. Next question is from the Iqbal Khan from Edelweiss. Please go ahead.

Iqbal Khan: I mean talking about the cargo portion as well. Can you please tell me how much was the cargo revenue for this quarter, like if I am not wrong, last quarter it contributed around 20% of the total mix. So, can you just give me the number on that? And how do you see the corporate travel recovering? Has it been 100% a pre-Covid levels now?

Sanjay Kumar: So, on the corporate travel side, we have seen complete recovery of the pre-Covid level, as par with the pre-Covid level. Especially in terms of March, we had almost 64% of recovery taking place on the corporate travel side. But now last two months especially in the month of April and May, we are seeing pre-Covid level or even higher traffic than the pre-Covid level. So, going forward, I think we are quite bullish about the corporate recovery as well as the business growing from the pre-Covid level.

Ronojoy Dutta: And on cargo, our year-over-year numbers shows 31% growth. So, as I said cargo is strong, and all the signs are there that cargo continuing to be very strong going forward.

Iqbal Khan: So, how much was it in the overall revenue mix in this quarter?

Ronojoy Dutta: I don't think we go into that level of detail; I am sorry.

Iqbal Khan: And just one, you mentioned that the capacity addition in first Quarter was 2.5x of the Q1 FY22, is that correct, is what I have heard?

Ronojoy Dutta: Yes.

Iqbal Khan: And how much would you anticipate for the entire financial year FY23?

Gaurav Negi: It will be around 50% to 60% higher than, what we closed 2022 with.

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

Pulkit Patni: My first question is on yields. So, we have obviously got that floor price, which is still something that is supporting us, I guess there should be some charters as well. Just to get a sense, how much do you think of the yield that we are getting today could have a bit of artificial support because of these factors? Or do you think these yields are absolutely pure yield? And even if the support goes, it shouldn't have an impact? Anything that you can quantify there would be pretty helpful for us?

Ronojoy Dutta: So, look the pricing bands have a floor and they have a ceiling. For a long time, we were all sitting on the floor, prices, we are doing what they were doing, but we all sort of managing at the floor. Now they have come sharply off the floor. They haven't hit the ceiling at all, or anywhere near it. So, there is still room to grow. But they are sort of now in between the ceiling and the floor.

It is impossible to give a scientific answer, you can only give a gut feel answer. So, my gut feel is that the Indian economy is strong, that there has been a structural shift in the way people think of air travel. People travel more, people who could afford it are spending more on travel and vacations getting together with family. And people before who couldn't afford it, now can afford it. And some of them who can afford it because income levels have gone up, some of them can actually afford it because their employers are now paying for it. And some of them just sort of do a tradeoff mentality I am going from Jaipur to Chennai and I can lose four days wages by train or I can pay a slightly higher fare on IndiGo. So, I think there is a big structural shift of more people flying more often and substitution of air versus rail. I think this is not only it's sustainable, I think we are just seeing the beginning of this phenomenon. So, there is a long way to go in this. Everything that I have said, Yes it's starting off, but boy, we have got a long way to go. So, I am very bullish on aviation traffic and yields in India.

Pulkit Patni: And what about international charters?

Ronojoy Dutta: See fewer and fewer as the international has opened up, we have moved from charter to schedule. But international again, there is a lot of room for growth. I mean, again, as I keep saying, look at the traffic between Milan and Delhi, and how the hell does it get here? Not nonstop on anybody, it's all coming through Doha and Dubai and whatever else. And it's like, come on, let's get a plane and fly Delhi, Milan. So, there is lots of opportunity here on this.

Pulkit Patni: My second question, more of an observation, I mean to one of the previous questions, you mentioned that this UPS JV is with the IGE Group, but the fact that we are also getting into cargo getting dedicated freighters at a time when this is a joint venture with the promoter. I mean, isn't that conflict of interest, I mean, if you could just explain this, how would it eventually work, because obviously we were very bullish about cargo, which we are focusing on as a company, and at that time the JV happens with the promoter company. If you could just explain that a little better, it will be helpful.

Ronojoy Dutta: There is absolutely no conflict here. So, we have I don't know a 100 shareholders, each of them do their own thing. Now if one of our shareholders want to get into the cargo business, another shareholder wants to get into the shipping business, what concern is it of ours. And what does the shareholder expect us to do, nothing, just ignore them. We will do our thing; they will do their thing. And also avoid them I don't know exactly what this is, but just knowing UPS I am guessing they will focus more on small shipments and transportation and we won't, we are looking at consolidated shipments probably going international. So, hey, it's like two ships passing in the night. We have nothing to do with each other. We don't signal each other we just ignore each other.

Moderator: Thank you. The next question is from line of Joseph George from IIFL. Please go ahead.

Joseph George: I have three questions. Firstly, what is the impact of rising interest rates on lease rentals?

Second is when I do the math with respect to utilization rates, expected utilization rate for aircraft for FY23, based on the fact that you are guiding to a 55% growth in ASK without a significant increase in fleet size, it comes up to about 11 hours. I want to understand whether there is scope to increase this further. And given that your international share as we go ahead will increase compared to your own history, whether there is a scope to increase the utilization beyond what we have seen in the past. That was the second question. I will take the third one after maybe the response of the first and the second.

Ronojoy Dutta: So, aircraft utilization, very good question and yes, a lot of the growth is coming from increased utilization. And part of this is our domestic international mix. The great thing about domestic international is domestic flies in the day, international flies in the night. So, it just works beautifully for us. And if there is an objective target, feasible number we are shooting for, we would like to be at about 13.5 hours utilization. And you are long way from there. So, a big part of this oh year-over-year growth is so high and 70% growth and all that a lot of it is surely coming from utilization.

The next question, what is the impact of interest rates on leasing costs. So, clearly, there is a correlation. But as of date, we see it, still not large numbers where we see an impact. And we are sort of booked far out. So, it's not like we are doing leasing transactions for next year's deliveries, we are booked far out. So, those deals are sort of done and sealed and signed. So, for next few years, at least we have no issues. But your point is well taken if interest rates go to 16%, or some huge number, would there be an effect on leasing, of course there will, but we are not seeing that anywhere near anything like that yet.

Joseph George: So, just to get a clarification, so the current lease rentals are all locked in at a particular interest rate not governed by variable rates.

Ronojoy Dutta: And I don't want to say all or nothing, most of them are in active negotiations. But we don't do leasing arrangement for the next six months. We do them to three years out. So, Yes a huge bulk of them are all done.

Joseph George: The last question that I had is, you have guided for a 50% to 60% growth in AFKs. That number sounds very good, because we are going to be much higher than pre-Covid levels. I want to understand what is the confidence level on maintaining load factors and yields, I mean, increasing capacity by 50% by 60% is one thing, but doing that while maintaining load factors at optimum levels, maybe north of 80% and sustaining high yields. How do you see that playing out?

Ronojoy Dutta: So, again, it's a full package that I want to talk about. I will repeat everything that I have said in different questions. Indian economy, very strong; engine, aviation, lots of opportunities around us internationally; IndiGo's position in terms of high customer service and therefore disproportionate share of revenue very strong; the dynamics of the Indian Aviation have more people traveling, more people traveling more frequently, more people willing to pay a higher price, very strong. So, when I put those all things together, what is the confidence level, very, very high.

Moderator: Thank you. Ladies and gentleman that was the last question for today. On behalf of IndiGo, that concludes this conference call. 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

**Inadvertently called out as CASK during the call.*

^Inadvertently called out as 11% during the call.