"IndiGo First Quarter Fiscal Year 2023 Financial Results Conference Call"

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Operator: Good evening ladies and gentlemen and welcome to IndiGo's Conference Call to discuss the first quarter fiscal year 2023 financial results. My name is Steven 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 first quarter fiscal year 2023 earnings call.

We have with us our Chief Executive Officer – Ronojoy Dutta and our Chief Financial Officer – Gaurav Negi to take you through our financial 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 the call.

We announced our first quarter of fiscal year 2023 financial results today. We had an impressive quarter in terms of revenue performance with the highest ever capacity, highest ever revenue, highest ever yields and highest ever unit revenue. Unfortunately, the spike in fuel prices coupled with the depreciating rupee prevented us from translating this revenue performance into net profitability. Excluding the foreign exchange impact, the net profit stood at 3.6 billion rupees for the quarter. We reported a net loss of 10.6 billion rupees for the quarter ending June 2022 as compared to a net loss of 16.8 billion rupees for the quarter ending March 2022 and a net loss of 31.7 billion rupees for the quarter ending June 2021.

The capacity deployed in the quarter ending June 2022 was around 35% higher than the previous quarter and around 7% higher than our pre covid capacity. The unit revenue for June 2022 quarter came in at 4.69 rupees, an improvement of around 18%, sequentially. Yields also improved sequentially by around 19% to 5.24 rupees and load factors increased by 2.9 points to 79.6%. With these improvements we reported our highest ever quarterly revenue of 130.2 billion rupees, an increase of around 59%, sequentially.

On the cost side, fuel and currency movement continue to remain a significant headwind for us and led to sequential increase in CASK by 6.1% to 5.08 rupees. CASK ex-fuel ex-forex for June 2022 quarter decreased by around 18.1% as compared to March 2022 quarter to 2.38 rupees primarily due to better absorption of fixed cost.

We resumed our scheduled international operations to most of our pre-covid destinations and we are now roughly operating at pre-covid international levels. We launched new service to Bahrain on 1st August and plan to launch Ras Al Khaimah soon. Domestically, we added Deoghar as our 74th domestic destination. Along with network expansion we have a host of initiatives to enhance our customer experience. These includes initiatives by the digital team, expanded meal offerings, and launching of new airport products. We are also pleased that IndiGo is being recognized as a world-wide leader in providing value to its customers. We recently won 'Value Airline of the Year' award at the ATW's Airline Industry Achievement Awards 2022.

Our core strength continues to be our highly skilled and engaged employees who support our growth plans and enable us to deliver a consistent high-quality product. We are grateful for the dedication and loyalty that our employees have demonstrated throughout the difficult times.

Looking ahead, the second quarter is seasonally the weakest quarter. Given this seasonal weakness we do anticipate the second quarter revenue performance to decline sequentially but as of date we do not see any evidence of revenue weakness apart from seasonality. Unfortunately, the seasonal revenue decline, coupled with high costs, will lead to profitability challenges.

Our long-term prospects are highly encouraging. We continue to see robust growth across the network and our expansion is being accompanied by high growth in connecting traffic. Additionally, the XLRs which are currently expected in 2024-2025 will allow us to capture non-stop international traffic which is now only served through one-stop competing hubs. We continue to remain very bullish about our future and this is reflected in our fleet order.

We are also excited about the opportunities in the CarGo market and are looking forward for the commencement of commercial operations of our first two freighters in October 2022. We continue to tide over the current set of challenges with one of the best cost structures in the industry, a laser sharp focus on our costs and our fleet modernization programme.

Let me now hand over the call to Gaurav to discuss the financial performance in detail.

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

For the June 2022 quarter excluding the foreign exchange loss we were profitable at 3.6 billion rupees. Overall, we reported a net loss of 10.6 billion rupees compared to a loss of 16.8 billion rupees for the quarter ending March 2022. We reported an EBITDAR of 7.2 billion rupees with an EBITDAR margin of 5.6% compared to a EBITDAR of 1.7 billion with an EBITDAR margin of 2.1% for the quarter ending March 2022.

Our financial performance was better during the June quarter compared to the March quarter mainly on account of the strong revenue performance. Revenue from operations was 128.6 billion rupees, an increase of around 60% against a capacity increase of around 35%. Our RASK increased by 18.3% to 4.69 rupees primarily driven by sequential increase in our yields by 18.9% to 5.24 rupees.

Our CASK for the quarter was 5.08 rupees as compared to 4.79 rupees in the March quarter. Our CASK excluding fuel was 2.90 rupees for the quarter, a decrease of 9.6% from March 2022 quarter. Excluding the impact of foreign exchange and fuel, our CASK remains a good story and decreased by 18.1% from March 2022 quarter to 2.38 rupees. This improvement was primarily driven by increase in capacity deployed.

While the losses of the last two years have adversely impacted our balance sheet, we continue to maintain healthy free cash and have a good visibility in terms of our financing initiatives. We ended the June quarter with a free cash of 83.0 billion rupees, a net increase of 7% as compared to the March quarter end. Our total cash as on 30 June 2022 was 190.7 billion rupees.

We ended the quarter with capitalized operating lease liability of 344.7 billion rupees and total debt, including the capitalized operating lease liability of 392.8 billion rupees. Our ROU assets at the quarter end were 214.4 billion rupees.

Moving on to the September quarter, we expect our year over year capacity to increase by 70-80%. We are focusing on continuously strengthening our customer base, our fleet, our network and our employee talent pool. Fuel and forex continue to be challenges but once these normalize we should return to profitability.

With this, I will turn 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: 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: Given I only have space for 1 question, so I'll focus more on the coming quarter. Two key things have happened in the last few days. One is that one of your key competitors have gone under enhanced surveillance list and has been asked to cut capacity and secondly, a new airline is starting. So, in that regards, how are you seeing yields playing out in the coming quarter. More so, if you could talk about it in relative to the sort of the routes where the new competition has come in, are the yields under pressure over there, though I understand will be quite a small proportion for you? But how are you seeing yields in the coming quarters?

Ronojoy Dutta: So, the good thing is, first of all, the seasonal weakness, right? And as we said in our opening remarks, we do expect to see just a seasonal decline in yield. But let's look at the longer term and not talk about the quarter-over-quarter. The fact is the competition is increasing. As you know, they are adding flights. But as you also rightly pointed out, it's quite small at this. The capacity is quite limited at this point. One of our major competitors has clearly reduced capacity a lot over the last year or two, and that is helping us, no doubt. And going forward, one healthy sign in the industry is, I think, whether it's older airlines or newer airlines, they are all run by very professional veterans of the industry. So, so far, we see no irrational behavior by anyone. Everyone is behaving sensibly, and I think that's a very good sign for us. So, to answer your question in a succinct manner, we don't see too much impact from the competition. And if anything, we see a healthy industry environment as far as prices are concerned.

Moderator: The next question is from the line of Ashish Shah from Centrum Broking. Please go ahead.

Ashish Shah: Sir, on the front of the employee cost, could you indicate if we have now reached the normalized levels of salary cost or there are still certain revisions pending? And if there is any number that you can leave us with for the financial year '23 on the salary cost?

Ronojoy Dutta: So, salary, we have now reverted across the board to pre-COVID levels. The one group that was held back a little was pilots. But we've just announced that by the end of October, they will also be at pre-COVID levels. So, in effect, we are going back to employee costs of 2019. So, one of the things we look at is, what are our employee cost per ASK. And I think if you're looking forward or what do I plug into my model, employee cost will be roughly 2019 or a little bit higher. So, that would be a good index point for you.

Ashish Shah: And you mean this in a per unit context, right?

Ronojoy Dutta: So, the employee cost for ASK will be slightly higher than 2019.

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

Pulkit Patni: Sir, given the fact that you are sounding very buoyant about demand in general, and we've done very well this quarter in terms of revenue. As I look at the next 7 to 8 quarters, we'll be giving back quite a lot of capacity as we also add capacity. So, net-net, there's not going to be a meaningful change in our overall fleet. In this context, if the market continues to grow, is there a possibility we might delay the return of some of the CEOs because it seems that we could probably lose market share if we were to return all the CEOs. So, just wanted to get your sense on how you look at the market in context of our fleet being exchanged old versus new?

Ronojoy Dutta: So, a good point. We are optimistic about the trend in revenues that we see, and we do forecast strong demand going forward. Now, so one of the things is that you might have noticed, we still have about a 7% load factor gap from where we should be. And so we did very well on yields in this first quarter. We would have liked to have done better on the load factor side as well.

So, first of all, the 7 points of load factor that we need to catch up on. And although our fleet will not be growing in total numbers, we do expect our customer numbers to grow. And importantly, we have the A321s coming. So, although fleet count doesn't go up, the numbers of ASKs go up. So, all in all, I think we are well positioned. We have enough empty seats, if you will, to fill up. And will we look at redoing the fleet at this point? The answer is no. We want to remain efficient. And if necessary, we'll try and speed up some of the deliveries to the extent that's possible. But unlikely that we will go out and get some old CEOs.

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

Aditya Mongia: My question, if I heard it rightly, you said that IndiGo is already at pre-COVID levels of international volumes. If that is the case, just wanted to get a --

Ronojoy Dutta: Yes. So, specifically, let's talk about destinations, first. So, we've added back every station we had pre-COVID with the exception of China, Myanmar and Hong Kong. Those are the only 3 cities/countries that we are not in. So if you look at total number of departures in June, we were at the same level as we were pre-COVID, although we were missing a few stations. International has also performed strongly and domestic has performed stronger, but domestic got a head start. As we see, the international build, we are very optimistic, it's catching up nicely in terms of strength in domestic. And as a result, we're opening Bahrain, we're opening Ras al-Khaimah. So, we'll add wherever we can. And to the extent things improve, we might go back to Hong Kong and China as quickly as we can.

Aditya Mongia: Just to again clarify, what you're meaning to say is that the number of destinations have come back to pre-COVID levels or the actual volumes for you in international have come back to pre-COVID level?

Ronojoy Dutta: Let me specify, I'm talking of number of departures and I'm talking of stations. So, as far as stations are concerned, we've gone back to every station with the exception of 3, the Chinese Guangzhou and Chengdu, Hong Kong and Myanmar. We are operating in every other stations. And in terms of number of flights, in June, we were back at pre-COVID levels. Did I answer your question, or is there some hindering question you have?

Aditya Mongia: So, basically, your number of flights are now broadly comparable to pre-COVID levels. So, just a follow-up question on this one. Just trying to get a sense of, if the domestic/international mix in your revenues are starting to become a lot better or favorable versus what it was earlier, which means the international share of revenues for you going up right now versus pre-COIVD levels?

Ronojoy Dutta: So, at this point, domestic is a little stronger than international. So, we are very focused on the domestic expansion. But as I said, international is just lagging by a quarter or 2, and we'll expand international also very quickly.

Moderator: The next question is from the line of Achal Kumar from HSBC. Please go ahead.

Achal Kumar: I had 2. So, one is about the load factor versus yield. Of course, previously last call, Mr. Dutta you mentioned that it is about maximizing the revenue. But of course, given that the next quarter is going to be under tremendous pressure seasonally weak quarter, so would you really change your strategy towards load factor than focusing on yields? So, that is my first question. Second is about the performance now in domestic versus international. So, how do you see international routes performing given that still inbound international is still lagging behind. But then, are you talking mainly about a strong international demand on the Middle East side? Or do you see the strong demand across your international destinations?

Ronojoy Dutta: So, let me take about international demand first. So, international demand to the West has always been stronger than to the East. That's traditionally true for India for some time. What is the good news is that off-late, markets like Thailand, Vietnam, they are performing much stronger than they did even 2, 3 months ago. So, as I said, there was a build in domestic and there is a build in International. The domestic build happens faster than the international, but now the international build is growing as well. So, I don't think the Eastern markets will ever be as strong as the Western markets. But the fact is the Eastern markets are also showing some growth.

To the first question of yields versus load factors. As you said correctly, we're always looking at maximizing revenue. So, our goal is on every flight, let's just maximize the revenue. We found the yields to be strong and we are willing to sacrifice some load factor. The issue really is what happens in the fourth quarter. So, we know our revenue was strong. Now where was it strong and why was it strong? So, let me just sort of break it up into few markets. Number 1, corporate travel has been strong and very strong. Before we say, corporate travel is coming back. Well, now it is back, and it is back nice and strong. So, that's good news. Then is the tourist traffic. So, I think to some extent, we've replaced the COVID bug with the travel bug, and people are traveling like crazy to these tourist destinations. So, markets like Srinagar, Leh, Dehradun, Bagdogra, Goa, they're all performing very well. So, that's a huge positive.

The third positive really is what's happening in the new stations. Normally, when we open new stations, we say, oh, they'll lag and struggle for 6 months But they've just matured much faster than we ever expected. So, whether it's Bareilly, Kanpur, Agra, Durgapur, I mean we opened these stations recently and they're all performing great. So, to give you an example, we just opened Deoghar I think July 12 or something. And already Delhi-Deoghar is booked solid full. And we always thought Delhi-Deoghar would do well, but we were hesitant on Kolkata-Deoghar because we thought well, by train it's only a 4-hour train ride. So, maybe it won't do so well.

Well, guess what, it's had 88% load factor. That just shows the substitution we're getting from rail into airlines in all these short-haul markets. So, whether it's Delhi-Lucknow, Delhi-Dehradun, Kolkata-Deoghar, hey, people are giving up trains and coming to us. So, we see all of those as very positive signs. And yes, we'll see some weakness. But the question is what happens in the third quarter. Well, in the third quarter, like I said, we were missing 7 points of the load factor in the quarter we just reported. We hope to get that 7% load factor back. So, the third quarter should be a very strong revenue performance. And if, and I know this is a big if, if fuel and foreign exchange behaves just a little bit, I think we could have a perfect storm of profitability in the third quarter. So, that's what we are working towards.

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

Mitul Shah: Sir, I have a question on second quarter, as you indicated would be weaker seasonally. But compared to pre-COVID level, what is the sense on that side for domestic as well as international? International, you highlighted very well. Domestic, you can give more detail. And secondly, sir, on the ATF prices compared to last quarter, around Rs.123 per liter, what has been the average for July or August, any indication if you can give?

Ronojoy Dutta: Does anyone have average prices on fuel?

Richa Chhabra: I can give it.

Ronojoy Dutta: Richa is going to give it to us in a second. What was the other question? The second quarter, how does it compare? Look, I'll do it sequentially. It's easier for us. I mean I can't remember what happened a year ago. Compared to this quarter, we will have some yield declines. And so revenue will be weaker. Again, we probably won't see that much weakness in July, August, but we all know, September is a horrible month. So, we are sort of saying September we know it's going to be bad. And all the indications are going to be bad. It's not likely to be any worse than previous Septembers, all Septembers are bad. And that will drag our quarterly performance down. But again, the important thing is what happens after that. October, November, December, we think is going to be good and strong and we are all gearing up towards that. And most of all, I want to get those 7 points of load factor back.

Mitul Shah: Sir, and if you can give detail on MTM, this forex loss, how much would be MTM and how much realized out of this Rs. 1,420 crore?

Gaurav Negi: A large part is going to be MTM, close to Rs. 1,300 crore is going to be MTM and very small portion is realized in the remainder.

Mitul Shah: I'll get details from Richa on ATF side.

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

Chintan Sheth: So, on expenses, just there are 2 parts to it. One is on the fuel side. If I look at our ATF growth, ATF price growth, which is 95% Y-o-Y and 36% Q-o-Q. Sequentially, if we look at our CASK, our CASK has increased 38% versus ATF price increase of 36%. Traditionally, historically what I have seen is that we have been able to manage our fuel costs much better than the actual ATF price increase. This quarter seems to be a little off. So, just wanted to check on that? And second is on the aircraft engine rentals, the per hour basis, it has declined from above close to Rs. 0.90 to now Rs. 0.71. So, just wanted to check whether this trend should be what we should look at going forward? Or there is any SLB gains or something which has bought it down for this quarter in Q1? Yes, that's it.

Gaurav Negi: On the first question related to ATF, given last time we were using largely the NEO fleets, because the demand was less. That's why the mix of the CEOs have gone up for this quarter. That's why you'll see a difference in terms of the comparison that you were doing. So, that's what is driving the ATF question that you had.

Chintan Sheth: But by the end of this year when we're returning, this will normalize hopefully.

Gaurav Negi: Yes because when you compare it year-over-year, the utilization was more of the NEO fleet given the high demand that…

Chintan Sheth: I was comparing sequentially from 38% increase in our CASK and 36% increase in ATF price, sequentially.

Ronojoy Dutta: No. So, also this crack spread has widened quite a bit, as you might have read in various newspapers. We used to have a small spread relatively between Brent and ATF fuel. That spread has really widened and we're talking to the Petroleum Ministry and Aviation Ministry, saying what the heck is this? Why should it be so wide? But that widening is really a cause for concern for us, and I think that's showing up in the numbers.

Chintan Sheth: Where we are talking about, sorry, I couldn't get that?

Ronojoy Dutta: So, there's the price of Brent fuel and there's a price of aviation fuel. And that difference, which is the refining of aviation fuel is called the crack spread. And the crack spread was historical for last 7 years, it has been at a certain level. For the last 6 months, it has widened a lot. So, although you'll say, okay, Brent went up this percent, but ATF went much faster it's because that spread is widened.

Chintan Sheth: What it has to do with increase in our CASK higher than the increase in ATF prices? That is what is the actual question.

Ronojoy Dutta: See, so if you're comparing one time period to another, and you say the fuel cost seem to be going up faster than you expected, the reason the fuel cost is going up, and I'm sure you're indexing it to what happened to Brent. You're saying, but IndiGo your fuel cost went up faster. You will see that true for all airlines in India. And we've all been talking as an industry group to both the Aviation Ministry and the Petroleum Ministry saying this is not right, that spread should not widen so fast.

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

Deepika Mundra: Sir, just a question on the yields. Like last time, could you give us a little bit color on July and August how it's panning out? And as you enter the festive season, I know you mentioned September looks weak already, but why is the yield not relatively strong given the pent-up demand overall in the system with corporate travel reopening?

Ronojoy Dutta: Well, again, a lot of factors affect the revenue by season. It is school opening, it's monsoon season, it's something called Shrad, all these things tend to hold back the second quarter revenue. And it's been true historically. This is not a one-year phenomenon. So, if you look at the quarter-over-quarter that's always been true. So, there is sort of a extrapolation of underlying demand. And then over that you have to overlay the sort of seasonal ups and downs. So, our first quarter is a reasonably good quarter, and the second quarter is a very weak quarter and the third quarter again is a very strong quarter. So, you have to overlay that on the revenue trends. So, the revenue trends have not changed. And we are saying that over and over again. We saw no weakness in the revenue trend, but the seasonal overlay has all these anomalies.

Deepika Mundra: And how sustainable you think these kind of year-on-year yield increases are going forward as well?

Ronojoy Dutta: So, look, we've been saying for the last 3, 4 years that yields in India are abnormal and total outliers. Nowhere in the world are ticket prices this low. And therefore we've said, hey, there's only one direction they can go. And that is up, and that's what we have seen. So, the economy is reasonably strong. And then yields in India can only go up. I mean as you know we've said many times only 7% of Indians travel. And now as we're opening all these stations, we are seeing all these train travelers coming to us and they of course connect to other destinations through our hubs. So, of course our yields are going to go up.

But that is all happening long-term, I believe. Long-term, there will be more entrants into the aviation market in terms of taking flights. And there'll be people taking more frequent flights as we're seeing in all these tourist destinations. Middle class income will be growing. So, all these are long-term fundamental factors, which make us very optimistic about the yield trajectory. And if we were starting from a high point, worldwide, we say, yes, we've sort of matured. But we haven't. We're starting from a very low on worldwide comparison. So, yes, we think yields are sustainable and will continue to go up.

Moderator: The next question is from the line of Nikunj Mandowara from UBS Securities. Please go ahead.

Nikunj Mandowara: So, yes, it's great to see demand returning back to pre-COVID levels, sir, but the load factor still remain quite below the pre-COVID level. So, I think pre-COVID in Q1, we used to do 89%, while we have done 79.6%. So, sir, just wanted to get a sense of how do you think this will behave going ahead? Do you think we can hit the mid-80s from Q3 onwards? Or you'll be more comfortable at 80% and then rather raise the pricing considering higher costs?

Ronojoy Dutta: So, this is what we think is happening. We've clearly raised prices a lot. We meaning the industry has raised prices a lot. Part of that is just pushed by cost pressures. If fuel goes up, we have to raise ticket prices. That's one factor. The other factor is, we were always starting from an abnormally low point. So, they have to go up. So, yes, as we increase the prices, there's been a little bit of resistance. We don't see there's resistance in corporate travel. We don't see there's resistance in tourist traffic. But obviously in the most price-sensitive segment, there has been some resistance. And that I think explains the 7% or 8% decline we are seeing in load factors. Again, we think as we go into the third quarter when demand is so strong and as people get used to these higher fares that will get those 7% load factors back. So, what would we like to see in the third quarter? We'd like to see yields remaining where they are or inching up a little, and we'd like to get our 7% load factor back.

Moderator: The next question is from the line of Noel Vaz from Asian Market Securities. Please go ahead.

Noel Vaz: My question has been answered.

Moderator: The next question is from the line of Krupashankar NJ from Spark Capital. Please go ahead.

Krupashankar NJ: I have a question which is relating to the earlier comments on gaining traction in shorter lead distance traffic. So, what you've traditionally seen is that the rail traffic has already reached well above pre-COVID levels. And in fact the air traffic on the domestic side has just started picking up. And historically what we've seen is that softer fares are key for shifts from rail to air. So, is Kolkata-Deoghar, what you had mentioned earlier, is it more of a flash in the pan? Or is this something which is structurally changing on shorter lead distances as well? Is there any other instances where you've seen the shorter leads have done relatively better?

Ronojoy Dutta: Yes. So, that's why I also mentioned places like Delhi-Dehradun, Delhi-Lucknow, et cetera. So, in the short-haul markets, this train versus air, fact is the travel market is growing and is probably growing quite strongly. Now if that happens, I do expect the rail traffic will also grow, but we'll also grow. And within that at the high end of the customer segment, we will probably attract more than the rail traffic. And I think that's what's happening. So, Kolkata-Deoghar, we didn't put in any introductory fares. The fares are pretty attractive. And so, we never expected any change in load factor and we were surprised when we got that. So, I think that shows that the travel demand is strong and we'll both benefit.

Krupashankar NJ: And just a follow-up on that. I know, given that IndiGo has been continuously adding newer routes on shorter leads as well, so incremental fleet can be deployed towards shorter lead traffic. Is that a fair assumption to make going ahead?

Ronojoy Dutta: I think it will be fair to say that I wish we had more aircrafts at this time. We are limited by the number of aircrafts we have. So, given that, we're going to try and push load factor beneath. But if we had more aircraft, we'd fly to more destinations, yes.

Moderator: The next question is from the line of Miten Lathia from Fractal Capital. Please go ahead.

Miten Lathia: Since this is perhaps the last call that we will be hearing from Rono, just wanted to thank Rono for all the insightful interactions that we've had over time. Wish you a very happy retired life, Rono. So, just one question from my side. If you were to look at current routing that you have with the large fleet, where would the departures for aircraft be when things stabilize, let's say in FY '24?

Ronojoy Dutta: When will the number of departures stablize?

Miten Lathia: Departures for aircraft, yes.

Ronojoy Dutta: So, as I said fleet count wise, we are always sort of maxed out. So, we can’t fly more departure. Departure growth will be somewhat limited. Fortunately, we have the A321s coming in and the A320s going out. So, number of seats will continue to grow. But total number of departures, we have probably maxed out at this point. And we wish we had more airplanes. Looking at the revenues, if I could produce another 20, 25 aircrafts, it would be great. But we didn't have them.

Moderator: The next question is from the line of Ashish Shah from Centrum Broking. Please go ahead.

Ashish Shah: Sir, if you could comment on the cargo business. How is that shaping up? What's the growth measure that we can use on a Y-o-Y basis or sequential? And how are the yields panning out in the cargo business?

Ronojoy Dutta: Cargo has been a very good story, frankly. And I mean we look at the numbers month-over-month, week-over-week, and it's a straight line, not rapid growth, but the lines are pointing upwards. And again, we see lots of opportunities around us. As I said, Bangladesh, Vietnam, these are great locations for us to get traffic from. China is a wonderful opportunity. We think our freighters should do well there. So, overall, whether it's belly cargo, these freighters coming, we see lots of growth. Now we used to have a few cargo in cabin as you know during COVID, but with the increase in passenger demand, all those planes have come back on the passenger side. So, cargo is also struggling for more capacity. And so cargo is a great business and we're looking forward to that 2 that are coming in October, and after that 2 more coming in next year. So, good business and we are quite optimistic. But in the meantime, month-over-month cargo tonnage, cargo yields are both up.

Ashish Shah: Sir, could you leave us with some numbers, any indication on the growth in the volume of cargo that you could give us and anything on the yields, any numbers that you can leave us with?

Ronojoy Dutta: We're looking at double-digit growth in revenues, I can say that. And it's a mixture of yields. Look, I'm also looking for what are the negatives? I know, I keep talking about all the positive. So, what are the negatives? It is back to fuel and MTM. This mark-to-market drives me crazy. There is nothing we can do about it. And every quarter-over-quarter, we get this big hit. And we just need that to either stop going up or reverse a little. And if, by the third quarter, MTM reverses, that would be great. Fuel, it went up to $120 a barrel or something. At least it's now down at $100, so that's a good new story. I hope it goes down a little. So, our challenges and our problems are all macro. They're not micro, internal demand, anything. It's all this fuel and geopolitical and dollar and so on. But all other measures, they look very promising for us. And you know, we've always had a lot of faith that the Indian market is going to grow strong with improvements in demand, with improvements in yield. And I think we're seeing all that. Quarter-over-quarter, we are seeing great yield improvements.

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

Pulkit Patni: This is for Gaurav. Gaurav, if I look at the capitalized operating lease liability for the quarter and compare it to March, it seems a little higher relative to the kind of fleet that we have added. Anything that you can explain why the increase is quite significant relative to the fleet added?

Gaurav Negi: No, it's just largely on account of the addition of the fleet. We've got some 12 new additions that have happened during the quarter. So, that's what's driving the increase in the lease liability, nothing else.

Pulkit Patni: But there would also have been retirements right, parallelly?

Gaurav Negi: Yes, there were 6 retirements that we did do. So, net-net effect, largely the increase of the new ones that came in, the retirements was relatively a smaller number.

Moderator: The next question is from the line of Binay Singh from Morgan Stanley. Please go ahead.

Binay Singh: Firstly, congratulations to Rono for steering the airline through a very challenging environment and best wishes for future endeavors. Moving on to the question, if we look at IndiGo, the airline is in a way moving from a 20% kind of a CAGR capacity growth rates that it was in between financial year '15 to '20 through now a much slower capacity growth phase. Do you think this will lead to better profitability per seat? The reason I say that is that in the 2017-'18 cycle, I remember the airline used to say that when capacity slows down the profitability per seat should improve because new routes take 6 months to mature. And there's a lot of front adding of costs in a high growth phase. So, all else equal, do you think that sort of framework still holds that the profitability actually leaving crude and other variables outside should be much better per seat in a lower ASKM growth phase?

Ronojoy Dutta: You definitely expect that, right. If you are growing rapidly, you have both cost pressures and revenue pressures. You're opening new markets and hiring new people. Pilot training is high, maintenance training is high. So, both on cost and revenue, yes. And as you slow down, clearly both numbers improve. So, we would expect that. Having said that, our appetite for growth has not slowed. If we had the planes, we would fly them because there's a lots of new markets that are so exciting out there. I mean, just to mention a few, Tel Aviv. I mean we've had a eye on Tel Aviv for so long. And now the Saudi airspace is open now. We'd like to go to Africa. We'd like to connect China to Africa. So, all these things we want to do, but I guess, we'll just have to wait till we have the airplanes.

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

Aditya Mongia: The question that I had was more focused on your CASK ex-forex, ex-fuel, which is at Rs. 2.4 and broadly comparable to pre-COVID levels. And this is happening at a time where your load factors are still not fully kind of back at pre-COVID levels. I just wanted to get a sense of, can this number further go down, maybe because the pre-COVID base was high? Or how to think about this number incrementally from Rs. 2.4 and that it is at this point of time?

Ronojoy Dutta: So, one is look, our fixed costs made up of our lease costs. And the fact is our lease costs are going up a little. Just new airplanes, more expensive airplanes, so they're inching up a little. We have salaries which we held back on salaries for 2 years. Now we are reverting them back. And I'm sure there'll be cost pressure that way. So, just in terms of inflationary pressures, our maintenance costs go up year-over-year with sort of escalation clause every year. So, I think there will be cost pressure. But again, we're looking at the spread between RASK and CASK. And yes, CASK will tend to inch up, but our goal and our efforts and our ambitions are to improve RASK at a much faster rate. And look, we've proven that we can do that, right. Over the last couple of years, our yield performance has been strong and it gives us faith that we can keep improving on that. And you know there is so much benefit to our scale also. I mean we look at our metros. And so much of it is now just connecting traffic. So, when we add another destination, whether it's from anything into Hyderabad or Bangalore or Kolkata from another station, there is so much connecting traffic that we get out of it. So, those scaled benefits are huge. And I think that's one of the strengths that IndiGo has and therefore we're able to improve our yield at a faster and faster rate, because we can offer so much different ways and options to people to travel from A to B a faster with more frequency and all that. So, yes, our yields will continue to go up. I have full confidence in that.

Aditya Mongia: Well, that was my only question. Rono. Just a note of thanks from my side. Thank you for being around for so long. Last 2 years, my pace of learning would have been half without you. Thank you for that.

Ronojoy Dutta: Hey guys, many of you have expressed this sentiment. I'd like to reciprocate. And I would like to say that I really enjoyed working with you, I have enjoyed your questions. It's been intellectually very satisfying responding to your questions. So, thank you.

Moderator: The next question is from the line of Achal Kumar from HSBC. Please go ahead.

Achal Kumar: So, I have couple actually given that I got a second opportunity. First of all, Mr. Rono, when you talked about the yield, you very much focused on the kind of pent-up demand and corporate travel and all those sort of things. And of course corporate travel has been a big boon for the yields. But then, if I remember it correctly, a few quarters back, I asked you this question about the risk to corporate demand given that now Tata has taken over Air India, and then previously when Jet used to fly, they used to enjoy a lot of corporate market share. But then once Jet ceased operations, corporate demand shifted to you because there was no other option. But now given the Tata is coming with Air India with a much bigger size, and I guess Vistara has a very nice product. How do you see the risk to your corporate traffic with Tata coming into the competition? And if that is the case, how that could impact the yield?

But then secondly, how do you see the overall competitive landscape? So, previously we were expecting industry to be more rational. But now if you see Vistara has become very aggressive, I mean the load factors are ranging about 86%, 87%, and it looks like Tata may not be very rational player. And if that happens and they have big financial muscles, strong financial muscle. How do you see the overall competitive landscape? Sorry, that's a bit negative. But on the downside I'm looking at, how do you see the overall scenario in terms of competition? And finally, how do you see the advance sale now? Your free cash has increased, how much of that is coming from advance sale now? If you could please help on these?

Ronojoy Dutta: So, first, let's talk about the competitive landscape and let's focus on us versus Air India/ Vistara. Remember we are not head-to-head competitors. And they have focused a lot. First of all, they're very focused on international and that too long-haul international, not short-haul international with the business class product and so on. So, great. I mean that's not a market we served in. And therefore their domestic strategy is tied to that. So, what does Vistara, Air India try and do. They try and fill the big wide bodies to all these long-haul destinations. And you can see that in the way they do the network.

We are not in the same ballpark or we are not fighting in that same sandbox. We are in the domestic market, small towns. And frankly metro to metro is one of our weaker segments. Because yes, there is too much capacity, everyone is fighting yields, et cetera, et cetera. That's not the way our performance is getting stronger. Corporate demand is back. That's great. But relatively metro to metro is still weaker than metro to nonmetro. And nonmetro to nonmetro is very strong for us. So, we are sort of separated by customer segment, by destination, by network. And they'll do great I'm sure just connecting to international and they're fighting, the Lufthansa and Qatar Airways, we are not. We're not fighting. We are providing service to small towns and short-haul markets. So, that degree of separation by itself I think helps us.

Yes, ultimately, people can get high load factors, but they have to worry about costs. So, yes, it's true that some full service carriers are just matching us on price and therefore getting high load factors. But at what cost? Because our cost structure is much better. Now you could say that they don't care about the cost at this point. Yes, true, maybe. But in the long run they'll have to. So, our spread between this unit revenue and cost is something we like. And our cost structure is low. And therefore, the reason we are enthusiastic about our vision, our network is that is very different from everyone else. So, even when we go international, we'll be going to places, as I said like Tel Aviv, Nairobi, Milan where no one flies. We'll be the only one. And we're just not competing with Air India. We're taking traffic away from Dubai or Singapore or someone else. So, we are not, I would say as in Spice, as in GoAir, our head-to-head competitors. Yes, we fly in the same markets. We do exactly the same thing with the same product, same destinations, same network. Air India and us are quite separated. They'll do well in their space. We do well in ours.

Achal Kumar: But then Mr. Dutta, I mean if I know it correctly and then they are looking for 300 A321s, I mean so isn't that for the domestic market? I mean of course, you are right. They are connecting domestic to international. That will be offering fleet to the international. But then unless they have a strong domestic, I mean how they can be provide a fleet. So, 300 A321s I guess is going to be for the domestic market, isn't it? I mean of course, domestic plus neighboring international markets. So, how would that have an impact on the competition?

Ronojoy Dutta: And see that's a very astute observation. Domestic market leads to international strength. International strength does not lead to domestic strength. We have never seen it in reverse, right? And you can talk about the U.S. experience. There was Pan Am and TWA, and there was United and American and see what happened, right? So, yes, our biggest strength is the domestic market. Will we be able to leverage that into international strength? I absolutely think so, and we will. Now there'll be other competitors who will have a strong international markets. Can they leverage that back into the domestic market? Much, much tougher, much tougher.

Moderator: The next question is from the line of Gagan Dixit from Elara Capital. Please go ahead.

Gagan Dixit: Sir, my question is more related to this air fare discipline side. So, this time, we have observed that this rise in the yield is taking care of the increase in the fuel price if we adjust for the forex losses, sir. But in the past, typically we have seen that this whenever the fuel price rises, airlines not able to increase the air fare. So, this time, it looks like that there is some discipline comes in this air fares. So, sir, how much do you think is this discipline sustainable? Why this is so, sir? That's my question.

Ronojoy Dutta: A large part of it is experience. I mean we've all gone through various cycles. And I think people have learned. I think at this point we are blessed with very professional veteran leaders in all the airlines, whether it's Akasa or Spice or GoAir you name it. Everyone has been around that we know how to play the game. So, yes, investor discipline is clearly a critical factor to success for all of us. And fortunately, we are seeing it right now. Well, that's good. I don't see that changing.

Gagan Dixit: Yes, because earlier we have seen that, few years back, I think whenever IndiGo tried to increase the fares in line with the air fares I think in somewhere 2018, so other airlines don't follow, so might IndiGo is at the risk of losing the airfares. So, is there some temporary phenomena, sir because might be some new airlines might just start, so might be that we see again that competition come back that we have seen in the past. Is this something you risk you see there?

Ronojoy Dutta: Well, the thing is this. I think we have all learned over and over again that these reducing fares doesn't result in higher revenues. I mean we've all learned that lesson. Because if you reduce fares, everyone will match you down. No one is going to provide a pricing umbrella, right? It never happens. And we won't either. So, if people reduce fares, we'll all reduce, we'll all suffer, but we all know that how the game plays out. Therefore, as I said, I mean you look at all these airlines, the people there have been there 18, 20 years. So, yes, they know that as well as I do.

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