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

February 03, 2023

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Operator: Good evening ladies and gentlemen and welcome to IndiGo's Conference Call to discuss the third quarter of fiscal year 2023 financial results. My name is Aman and I will be your coordinator. At this time, all participants are in a listen-only mode. A question-and-answer session will follow today's management discussion.

As a reminder, today's conference call is being recorded. I would now like to turn the call over to your moderator, Ms. Richa Chhabra from the Investor Relations team of IndiGo.

Richa Chhabra: Good evening, everyone, and thank you for joining us for the third quarter fiscal year 2023 earnings call.

We have with us our Chief Executive Officer - Pieter Elbers, our Chief Financial Officer – Gaurav Negi, and our Chief Programs Officer and Head of Investor Relations – Kirankumar Koteshwar with us to discuss the financial performance and are available for the Q&A session.

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.

We will upload the transcript of 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 Pieter Elbers.

Pieter Elbers: Good evening, ladies and gentlemen and thank you very much for joining the call. We announced today our third quarter of fiscal year 2023. It was a very strong quarter on the demand side and IndiGo performed very well with improvement in operational, financial and customer experience parameters. In November (2022), we were back to being the most punctual airline in the country and we retained the number one spot also in December of last year. As India's preferred airline we welcomed a record number of 22.3 million customers during the December quarter.

I am very glad to report that we have the highest ever quarterly revenue of 154.1 billion rupees and robust quarterly profit of 14.2 billion rupees for the third quarter of fiscal year 2023. After various quarters, we are now back at a meaningful levels of profitability as our profit margin stood at 9.5 percent. With that, I would like to sincerely congratulate all IndiGo employees for this superior performance and our customers for choosing IndiGo.

As guided previously, the capacity development in the December quarter was 28.8 billion ASKs, which is 4% higher than the quarter ending September 2022 and around 25% higher than the quarter ending in December 2021. The yields came in very strong at 5.38 rupees and the load factor also improved from around 80% in the September quarter to 85% in the December quarter.

On the cost front, our CASK decreased by 7 percent sequentially, primarily due to reduction in the adverse impact of two important factors - the fuel and the forex. Gaurav will cover the cost trends in detail in his section.

In the December quarter, we added 22 passenger aircraft (net of deliveries) to reach the 300 aircraft mark, a first for any airline in the country – giving wings to the nation and our ambition. It is indeed a great milestone in our journey, and we will continue to take further deliveries from our large order book of 500 aircraft. Apart from this we also added 1 more freighter to help us add to our CarGo revenue. These additions will help us to expand our footprint both domestically and internationally.

On the domestic front, in line with our focus to increase accessibility in the north-east part of the country, we added Itanagar as our 10th Destination in the north-east region. With Itanagar added, we now connect to all the 'seven sister states' of North-East India. In January, we opened operations to the New Goa International Airport (in Mopa) as our 76th Domestic destination. This was our largest new station launch ever and connects North Goa to 8 cities across India through 168 weekly frequencies. This opening is the largest by any airline to any destination in India and momentous for us as it signals towards our ambition and endeavor to provide connectivity, ease of accessibility, and provide even more options for our customers to one of the most visited tourist destinations of the country. Gradually we will also further explore international destinations from this new airport.

While domestically, we served a very significant share of our passengers, Internationally, we served around 16% passengers (in and out of India) leaving us with an enormous opportunity for further growth. In terms of mix and recovery, about 23 per cent of our capacity measured in ASKs in 3Q was deployed in international markets and we are already operating at 105% of our pre-covid levels. With demand for international travel continuing to grow, we aim at expanding international connectivity further in the year 2023.

One of the other developments is the addition of capacity between India and Europe through our code share agreement which allows our customers to travel to 27 destinations like Amsterdam, Manchester, Milan, and Athens. We will continue to explore strategic partnerships in future that will allow added connectivity for our customers and provide us with more global visibility.

Last one year has seen continuous recovery and we have reached greater heights and navigated across many new frontiers. A wide range of initiatives and actions which were set in motion over the past months have started to yield results. The demand remained strong enabling us to welcome a total of 76.8 million customers in the calendar year 2022 and to reach a total of 1,700 plus daily flights in the month of January. We are thankful to our customers for flying with us and thankful to our employees for the reliability of service delivered at such large scale of operations.

Moving to the fourth quarter, the forward bookings look encouraging, combined with relatively stable fuel prices we hope to continue with the positive trend. We are looking forward to the next fiscal year with great enthusiasm - building on our ambitious expansion plans towards our endeavor to connect 'vast and diverse' India and add to the overall socio-economic progress of the nation.

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

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

For the December 2022 quarter, we reported a strong quarterly net profit of 14.2 billion rupees compared to a net loss of 15.8 billion rupees for the quarter ended September 2022 and net profit of 1.3 billion rupees for quarter ended December 2021. The year-to-date December 2022 operational profitability which is excluding foreign exchange loss stands at around 20 billion rupees as against a loss of around 41 billion rupees for the year-to-date December 2021 which is indicative of the steady recovery from the pandemic.

We reported an EBITDAR of 34.0 billion rupees with an EBITDAR margin of around 23 percent compared to an EBITDAR of 2.3 billion rupees with an EBITDAR margin of around 2 percent for the quarter ending September 2022. This improvement in EBITDAR was driven by a sizeable increase in revenue and a reduction in adverse impact of fuel and foreign exchange. This is suggestive of relatively stable operating environment versus a couple of quarters ago.

We saw a strong performance across several indicators in this seasonally strong quarter with revenue improving by 20 percent compared to the September quarter and 63 percent compared to the quarter ended December 2021. The unit revenues came in at 5.26 rupees, which is 15% higher sequentially and 29% higher on a year-on-year basis.

The fuel CASK reduced by 11% primarily due to a reduction in average fuel prices by close to 7% as compared to the September quarter. The average fuel prices are still higher by about 50 percent as compared to December 2021 quarter. Looking at the non-fuel costs, there is a sequential reduction in CASK ex fuel by 4.3% driven by the lower foreign exchange loss. The rupee at the closing date further depreciated by 1.4% leading to a forex loss of 5.9 billion rupees.

Our CASK ex fuel ex forex for the December quarter stood at 2.55 rupees, an increase of 4.3% as compared to the September quarter. This increase was primarily due to reinstatement of salaries, additional expenses on certain digital initiatives and impact of global supply chain disruptions which we are working to mitigate through alternative sources of capacity including lease extensions and wet leasing. Our endeavor is to deploy adequate capacity during this strong period of recovery to minimize the adverse economic impact of such disruptions.

Liquidity remained strong during the period, and we ended the December quarter with a free cash of 106.1 billion rupees, a net increase of 23.6 billion rupees as compared to the September quarter ended. Our total cash as on 31 December 2022 was 219.2 billion rupees, a net increase of 22.6 billion rupees.

We ended this quarter with capitalized operating lease liability of 410.4 billion rupees and a total debt, including the capitalized operating lease liability of 444.8 billion rupees. The increase of around 35 billion rupees is driven by additions in aircraft, certain lease extensions and the quarter end foreign exchange change that I spoke about earlier. Our right to use assets at the quarter end were at 254.8 billion rupees.

Moving on to the fourth quarter, we expect to operate at around 45% higher capacity as compared to the same quarter last year. We have demonstrated high level of agility with the positive market developments we will be concluding FY23 at the higher side of the range of our previously guided capacity estimates. The bookings are strong for the fourth quarter with the effects of seasonality in yields. With this trends, we expect to close FY23 operationally profitable excluding the impact of foreign exchange loss.

We are currently building on our plan for the next fiscal year and finalizing our capacity. With the knowledge of today, we expect our capacity to grow around north of mid-teens in FY24 as compared to FY23. We will giving more color on these aspects in the next earnings call. Our long-term prospects remain solid as we look forward to the next 5-10 years of IndiGo's growth. We continue to remain focused on providing high quality product to our customers, increasing our productivity levels and remain committed to generate healthy returns on capital.

With this, let me hand it back to Richa.

Richa Chhabra: Thank you Pieter 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. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Deepika Mundra from JP Morgan.

Deepika Mundra: Congratulations for the great quarter. A couple of questions for me. So your guidance of 15% odd capacity growth next year. Could you put that into the context of the grounded aircraft situation and availability of spare engines as well as in terms of what the situation like in terms of getting new deliveries from Airbus in light of their recent miss on deliveries?

Pieter Elbers: Yes. I think we have demonstrated, let me take a bit of time to answer your question and look back first to what we have been doing this year. At the start of this year, we've indicated the capacity guidance, I believe, between 13% and 17%. And despite the challenging situation on the supply chain with a range of mitigation actions, we've been able to maintain the high end of that capacity guidance.

As Gaurav just alluded, for next year, we have a capacity guidance somewhere around the north of the mid-teens. So that's our guidance for next year. We still have flexibility in adjusting that going forward depending on demand situation and depending on the AOG situation. So we do expect the deliveries of Airbus to resume in the next year. We are working to get the alternatives on capacity as we have been doing for the past few quarters.

And with that, we are confident that the capacity guidance, which we were just giving north of the mid-teens for the full year, can be achieved.

Deepika Mundra: Understood, and if you could give us as to what percentage of the aircraft is currently grounded, if at all?

Pieter Elbers: Well, we're not going into a specific number. There's also some fluctuations on that. But the number, I must say, compared to the last earnings call, we had is pretty stable, and we work closely with the suppliers to increase the supply chain. And as I said, we have various actions. One of them is extending some of the leases. And you may have seen in the news, we have also yesterday or the day before yesterday started a wet lease operation to Istanbul in order to provide us that capacity.

Deepika Mundra: Last question for me. Is there any in the results, any impact of holding cost of these grounded aircraft? And is it adequately being compensated by the OEMs?

Gaurav Negi: Yes, there is. So because of the AOG, there's an impact. We are working with the OEMs to get some relief related to that. Some of it did come through in the quarter results, which kind of offset that. So we continue to keep working with the OEMs for the remainder of the AOG that we have to get adequately compensated.

Moderator: The next question is from the line of Joseph George from IIFL.

Joseph George: I have got two questions. One is simple math, which is your revenues for the quarter minus the passenger ticket revenues, minus the ancillary revenues I get a component which might be some other revenues, which in the past couple of quarters has been about 1 billion rupees, about 100 crores. And this quarter, it's jumped to about 350 crores, which is 3.5 billion rupees.

So if you can help us understand why there's a big jump of about 2.5 billion rupees this quarter? That is one question.

The second question is in relation to the aircraft utilization. When I look at it in terms of number of hours per day, historically, clocked 12.5 to 13 hours per day pre-COVID. And now I understand we are still at 10 to 11 hours per day. So what is the outlook on that number? When can we get back to the 12.5 to 13 hours a day number?

Gaurav Negi: If you look at the other category, obviously, it has multiple elements to it. Some of it is related to other revenue streams like Viability Gap Funding that we have related to the RCS portfolio and the flights that we take. Aside from that, we do get some OEM related credits that we spoke about, some of it is related to the AOG and some are related to the delays which we received in the quarter.

Again, these are relatively small given the grand numbers of revenues overall that you see, which is closer to of 15 billion. So that's what this makes up.

Related to the utilization that we have, excluding the groundings, our utilization levels have been closer to the 13 hours that we have targeted, and we are quite comfortable with those 13 hours. And I think the team has done a fabulous job of reaching to those levels to mitigate some of these AOG impacts that we have experienced in the quarter.

Joseph George: Some of the OEMs does it entirely pertain to the loss of flying hours this quarter? Or is there any element of past quarters as well?

Gaurav Negi: It's a combination of both, I would say, and we're not getting specifically into details related to that. We continue to work with the OEMs, as I said, in the beginning, to adequately get compensated, but that's where we can probably leave the response at.

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

Mitul Shah: Congratulations for a very strong performance. Sir, first question, I would like to understand this consumer behavior after sharp increase in back-to-back airfare, particularly from the Tier 2 and Tier 3 cities. And how has been the traffic in past one or two quarters? And what is the outlook here?

Pieter Elbers: If you look at the network of IndiGo, today, we operate to 76 domestic destinations. And actually, as recent as today, we announced two new destinations to be added in the month of March. Nashik and Dharamshala will be added to our network. So a very significant part of our network is the non-metros. So we have, of course, a very strong position at the metros. But given the size of our network, naturally a significant share of our ASKs is also operated in the Tier 2 and Tier 3 cities.

If you run a network at 85% load factor for the entire quarter, with very strong days but also less strong days, it means that basically also the Tier 2 and the Tier 3 cities are doing very well. And actually, we see that providing air connectivity to these cities is creating really a positive economic effect and sort of add-on effect where there's more economic activity. With more economic activity, there's more flying. And so it is sort of self-supporting system in order to create that air connectivity to Tier 2 and Tier 3 cities.

Mitul Shah: And second question, again, on this ATF prices being still volatile. Any thought on a short to medium term hedging or anything we are doing on this side? And what is the situation in this January and February beginning compared to last quarter's average in terms of pricing?

Gaurav Negi: So we are not looking at ATF hedging to begin with. Obviously, the big shift that happened last quarter, where we had the oil marketing companies shift to the MOPAG pricing, that gave us some favorability in terms of transparency as well as the price plan that was agreed on the tracking cost also gave some favorability to all the airlines. So that's been a positive development for us. The new regime that has been now put in place, we saw some reduction related to ATF with the prices coming down from MOPAG, which translated into relative savings for the airlines in quarter 3. We are seeing a similar trend. It's obviously going to be linked to the way the Brent is going to behave, which is then going to translate into the MOPAG index getting influenced.

So other than that, we continue to push our operations to optimize fuel saving opportunities, which they've been doing traditionally also, and we continue to push that. But related to hedging, we are not looking at ATF as to be hedged in any time soon.

Mitul Shah: Sir, lastly, on this international capacity, as we are indicating mid-teen-plus growth for FY '24. I believe sizable chunk would be for these new destinations and on the international side. Can you give a broader indication on how much it would be split?

Pieter Elbers: We are now fine tuning our precise network plans going forward. As I said, we have a total growth plan for next year in the north of the mid-teens. The recent international expansions, which we have done, basically are performing very well. So we're optimistic in going forward. We have identified a list of destinations such as Nairobi and Jakarta, which are on the list to be opened somewhere in the year to come.

We have recently seen opening of China as a market. So we are optimistic going forward. And beside our own expansion, part of the expansion we have done now as European codeshares which I mentioned in my introduction, are also helping us a lot to get a larger international footprint. And that goes basically hand in hand, if I may add there, that goes hand-in-hand with the also the development of the Indian economy with a much more international connectivity investments and positioning. So that's I think it nicely coincides. And it's not by coincidence, but by design that we are developing that international expansion.

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

Achal Kumar: A wonderful set of numbers. So a couple of things actually. So first, I think you just said that you're still sorting out the international network. But I mean in terms of strategy, are you going to operate the wide bodies? Are you go to operate narrow bodies? And if you want to operate the wide bodies, are you offering business class, 2 classes, 3 classes seating? So what will be the strategy on the international side?

And as of now, you've just announced Istanbul operating these 777s. So is there I mean, what's the plan? I mean, is there a sort of a special kind of agreement with Turkish that you'll be operating 777s to Istanbul? Or is it like you're going to use 777s for the broader international networks? That is my first question.

Secondly, also I wanted to understand about the competitive landscape now, of course, being more clarity on how the Tata is going to change its structure. So it looks like it will operate two airlines, one is an LCC, AirAsia and Air India Express and then is one full service. What kind of risks do you see from that? And finally, about your liquidity, so you have very strong liquidity at the moment. Do you have any specific plans on how you use that money? And do you have anything in mind?

Pieter Elbers: Thank you. I'll answer your first two questions, and then I'll ask Gaurav to go into further details on the liquidity. Let me start with the first one on the strategy, and I shared that with you last time. The strategy for IndiGo, in fact, has three main components. The first one is coming back to what I call the very basics of the success of our company, which is you see it back, for example, in the on-time performance. So the very three customer promises we're having, hassle-free and courteous service, on-time performance and affordable fares will remain very much so the basic and the core of our strategy. That's one.

And I think, again, you see it back in the on-time performance where I'm very proud of what the teams did, really wonderful. We are back to the number one position in India with the size of our operation, which is just a very impressive result by the teams. The second part of that strategy is that we develop and align our structure in line with the size of our company. So we start to invest there in further digital tools and further internal processes and make sure that we can continue that growth bar.

The third pillar is to create the future and basically work towards the next phase. Part of that next phase is indeed a more international exposure, and we started to do that with today's 26 destinations, but also to continue to work on our customer loyalty and elements linked to what we are.

Your specific question on the wide-body, maybe it's good to remind that this was one of the measures, which was taken in order to deal with the supply chain issues. So we are having a long-standing partnership and relationship with Turkish. It's one of the first, if not the first, airline partners of IndiGo. We operated to Istanbul already. We already had to be on codeshares, and we found a good way to deal with our supply chain issues in temporary leasing these wide-bodies from Turkish. That's today's situation.

So in summary, the basis of the company is still very strong and the very foundations of what we did for the past 16 years. We continue to do that. And on that, we start to build our international footprint and our international exposure. And I think the results today, be it on the revenue side, be it on the financial performance side, just speak to the actions we have taken over the past period in order to relaunch that very strong foundations of the company.

So there's no change in that strategy. And again, we're adding the widebodies to deal with the supply chain. Partnerships, last but not least, are an important part of that strategy. The fact that we have to be beyond codeshares now allow our customers to connect to Istanbul and as the last piece of their journey in Europe. So the longest part of their journey is with us. And then the last bit of their journey is with our partner Turkish Airlines.

And as such, it provides us a footprint in Europe, it provides us awareness in Europe, and it also gives us an opportunity to get more non-Indian customers to India. So that basically is the very core of our strategy going forward. I'll ask Gaurav to do the liquidity question.

Gaurav Negi: Again, on the liquidity side, after a long kind of a time, we've got close to RS.22,000 crores. Again, I want to break it down, while there is RS.22,000 crores of cash available, a large part of that is the restricted cash related to our obligations for maintenance. But now we've got a sizable amount of free cash, which is available, which is roughly around RS.10,000 crores, like I mentioned in my opening remarks, we are currently doing the planning for the next year.

But what this cash does is give us the leverage to now start thinking about areas where we want to invest, areas where we want to invest from a growth standpoint. Pieter just mentioned related to digitization, our investment in systems and tools in order to drive productivity within the organization. And there are many more growth areas that we are evaluating currently, which we'll come back to you. But being in a much improved liquidity position gives us now the leverage to start exploring those growth investment opportunities.

Achal Kumar: And could you share the thoughts on competitive entities?

Pieter Elbers: Yes. Sorry, I realized I omitted answering that question. You mentioned the initiatives, which are taken by the Tatas. I would say, in general, I would like to focus on the IndiGo performance and the IndiGo results. But having said that, the fact that there is some consolidation in the Indian aviation landscape the fact that Air India or the Tatas are taking initiatives, I think by and large, for the Indian aviation market, it's a good thing. It will further mature. It will further develop, which eventually is a good thing for the market and for all the players in that market.

Having said that, for us at IndiGo, we continue to focus on basically what has been the success of our company in the past 16 years, as I mentioned before, to make sure that we deliver our customer promise, the one which I just mentioned to you, in combination where cost leadership remains a very essence of our profitability going forward.

So overall, market is developing solid, competition is there. But it's there in a different way maybe than it's what is in the past, and we focus on our own strength. And with that, we should be ready to deal with that competition.

Moderator: The next question is from the line of Krupashankar NJ from Avendus Spark.

Krupashankar NJ: My first question is on the yield side. Just wanted to get a sense as to how are the yields moving in January and February? And what do you foresee with respect to the yields? I know this is not a strong quarter vis-a-vis third quarter, but I just wanted to get a sense on that.

Gaurav Negi: Krupa, again, these yields have softened compared to the third quarter. and that's largely because of seasonality. But the good thing is that the yields are still holding up much higher than what they used to be pre-COVID level. So that's a positive kind of indication. But they kind of moderated down in line with the seasonality that we expected for Q4 compared to Q3.

Krupashankar NJ: And my second question was on the cargo operations. So just wanted to understand what are our aspirations out here? And is there any growth target that we have in mind? And is there any other further fleet additions, which one can expect more in the medium term?

Pieter Elbers: So I think, overall, we started the cargo operation last year. That was, I would say, a bit start, which we were long awaited. So finally, we got the cargo freighter coming in last year, and we started the first flight, both domestic and international. We have recently received our second freighter. On the short term, we have no other plans for that. We're now in the process of optimizing our planning on that, working around our procedures, making sure that we have a good sort of linkage of our enormous domestic network with the operation of these two freighters. So I would say it's work in progress. It's an important part, and it's supplementing the total business of IndiGo.

Krupashankar NJ: Last question, if I may. Just wanted to understand a little bit on the international side. So while I do understand, I do note that international is close to about 105% of pre-COVID level. But we are seeing that certain geographies, especially in Southeast Asia, are well below average. So given that capacity constraints over the medium term with respect to OEMs as well as supply chain challenges, are you expecting more and more capacity is deployed on geographies, which are just opening up?

And if at all, there is a higher traction, can international capacity expansion being given the preference vis-a-vis the domestic side of things, which is more a function of new airport addition perhaps?

Pieter Elbers: No. Let me shed a bit of light on that. But today, domestic is, as we shared in the numbers, is the vast majority of our operation. That will continue to be the case going forward. Having said that, our growth in international will be higher than our growth on domestic. And I'm not sure if I understood your remark on Southeast Asia with a somewhat lower numbers. I think what we see is that the international markets are recovering, by the way they're opening with post-COVID measures.

You may have seen some interruptions. We know that China is only very recently opening. But even Southeast Asia is not so long opened. So the recovery of these markets has been more driven by the fact that some of these markets open quicker or let some of the COVID measures go quicker or less quick rather than by a change of demand.

We remain very optimistic. And I guess, the geographical position of India and the fact that we operate both from the north part of India as well as from the south part of India, it gives us a great opportunity to have very different international connections. And what we see, what we operate out of Delhi is very different than what we operate out of Hyderabad.

So if you see the position of IndiGo, I think we have a unique opportunity and a unique position really to develop our international network in basically all directions, matching it and linking it to the Indian metros we operate out of.

Moderator: The next question is from the line of Sabri Hazarika from Emkay Global.

Sabri Hazarika: Congratulations on good set of numbers. So I have a few questions. The first one relates to the overall Indian passenger traffic demand. So we had last few years affected by COVID. So do you see more pent-up and more sort of catching up happening this calendar year also? Or do you think that the passenger traffic demand growth could go more to the ballpark run rate of, say, 2x or something of that of real GDP growth?

Pieter Elbers: You said you have multiple questions. So this is your question?

Sabri Hazarika: Yes, this is the first one. Yes, this is the first one.

Pieter Elbers: Okay. No. I think you addressed a very valid point, actually, both points you're addressing. If you look to the total recovery of the Indian market, the total numbers of the market are not yet back to the pre-COVID levels. However, IndiGo is at this point in time higher than pre-COVID level. So we can expect going forward that the market will continue to grow significantly in order to catch up and sometimes the demand will be there also in the year to come. That's why we're optimistic on that outlook.

If you combine that with and you mentioned that yourself, the ballpark number of aviation growth, especially in a market which is still growing a lot for aviation of 2x the GDP size, if you take the GDP outlook and you combine that with the earlier remark or still some pent-up demand, that's how also we come to comfortably giving a capacity guidance of north of the mid-teens for the year to come.

Sabri Hazarika: Second question is related to your fleet addition. So historically, your net fleet addition has been like quite robust. Of course, last year has been affected by issues. But I think Q3, again, you were able to catch up in something like 25, 30 sort of run rate is showing for this year. So this run rate will continue considering that you have an order book of 500. And where in down the line, would you have to like place another set of orders to maintain your expansion?

Pieter Elbers: Well, we have seen indeed that's part of the success of IndiGo. I mentioned earlier, we crossed in January for the first time, I think in India, an airline operates more than 300 aircraft, and we are proud for all of us at IndiGo that we had that benchmark. And it's not only a very big number, but it's also a young fleet, and we recognize this having the youngest fleet for an airline with more than 100 aircraft, which, of course, helps to our fuel consumption, it helps our CO2 emissions, it helps to our sustainability effect.

So that foundation and that basis is very strong. We will continue to build at a similar number as we have done over the past few years. Our fleet for '24 or actually for the full year '24 to come or the calendar year '23. We will have to see what's going to be the precise number. Of course, that depends on Airbus and the deliveries, but we foresee a similar rate of increase what we have seen over the past years.

And if you don't mind, I don't give any speculations going forward on new orders. With an order book of 500, I think we're good for the time to come.

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

Pulkit Patni: Sir, my question is on yield. Any indicative sense of how much have yield compressed based on the first one month of data on a Q-o-Q basis?

Gaurav Negi: We can't give you specific, we don't have enough data to reflect while one month has gone by. But what you can do is do an extrapolation with the historical trends the way they move from Q3 to Q4, that will give you an indication.

Pulkit Patni: Yes, historically has been about 3 odd %, but this time around, based on our data, it seems to be a higher number, anyway.

Gaurav Negi: It is slightly on the higher side, that much we can declare to you.

Pulkit Patni: Fair point. So my second question is, given that we have cash now, could we think of buying planes versus leasing in the near term given that we are in an elevated interest rate environment? And in which case, the leasing cost or whatever you would be taking now would be coming at a higher cost. Is that fair to assume?

Gaurav Negi: One can do that assumption. Nothing is off the table. I would just say that, Pulkit, because, again, buying an aircraft is kind of a long-term commitment of your cash also. We are looking at other avenues because we tend to remain asset light for the time being. But nothing is off the table. As we go through our planning cycle for the next year, we'll evaluate all this. Like I said, we do have that leverage now to play with various options given the free cash that is available with us.

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

Aditya Mongia: Congratulations on a very strong set of result to all of you. The first question that I had was on this interplay between domestic and international, and as you remain uniquely positioned. I'm just trying to think through that the fact that you have so many domestic destinations, how do you think about the D-to-I and the I-to-I prospects that can come forward for an airline like IndiGo?

Pieter Elbers: Yes. I think and that's maybe surprising for some. Today's network of 76 and soon 78 domestic destinations, they already do connect to our international network. So already today, we do have a set of connections and a set of connectivity in place in our network. And of course, we continue to go forward. Some of that connectivity is by design, and some of that connectivity is just like consumers finding out different travel paths and different routes.

In the domestic space, we operate some 400 direct city pairs, but many of these flights indeed are connecting to international. So we continue with the development of both our domestic and international network. We continue to develop the D-to-I and I-to-D as you just questioned for.

Aditya Mongia: And just a clarification, is I-to-I actually possible? I'm just trying to kind of suggest that, let's say, you as an airline was looking at China as a large market just pre-COVID and obviously didn't fructify as well with the proof out there. Is that even a possibility over a three to five year perspective that international passengers land in India combined with domestic passengers and go out on international flight?

Pieter Elbers: That's already the case today, sir. But today, it's in relatively small numbers. So already today, passengers can connect, but with the growth of our network, and of course, we need to have the bilaterals in place, and we need to make sure that we have all the facilities in place to do that.

But I mentioned before, I think the geographical position of India and the geographical position of our strong points in India are perfectly allowing us to further develop that connectivity, be it in Delhi, be it in Mumbai, but also be it in Hyderabad and other places where we do operate. So that international connectivity is there and will continue to be developed going forward.

And maybe just to add here, if you look, you were very kind in appreciating the results. And of course, that's a mixture of all actions we are doing and enhanced connectivity is just one of them. So it's basically many of the initiatives we are taking are nicely coming together and supporting these results. And connectivity is really one of them.

Moderator: The next question is from the line of Pramod Kumar from UBS.

Pramod Kumar: Congratulations on a great operational number. My question is on the international side, given that it's becoming increasingly large and the big focus for growth going forward, will you be in a position to share broadly the revenue split or the split in even other operating metrics, if you can domestic and international?

Pieter Elbers: No, I think what we have shared with you was some of the share of ASKs we're having. That share number, which I just mentioned, was 23%. That share will go up somewhat going forward. We're not providing any revenue breakdown per area. But the capacity share of ASKs, which is today around 23%, will move towards the direction of 30% in the year to come.

Pramod Kumar: And historically, there's been always a perception that international has better profitability. But given the fact that yields in India have also surged in the recent quarters and load factors have also improved. So how should one look at the profitability equation between the domestic and the international operations going forward?

Pieter Elbers: If we have a closer look at your question, I think the fact that we are getting a different combination of domestic and international, it's a way also for us to be more agile and to spread. If the domestic is strong, we can shift a bit more to that. And the combination, of course, creates that D and I and I-to-D connectivity we were just speaking about.

So the philosophy of having that network and having the opportunity to tilt a bit more to one leg or the other leg, I think that will basically put IndiGo, if I may phrase it like that, more firmly on two feet going forward.

Pramod Kumar: And final question on the domestic new locations what you can add? We are currently at around 75, 76. So where do you see this number in the next two years, given that new airports are also being opened up because these smaller cities and towns are actually bringing in a pretty good traffic and also are pretty viable. So what will be the target you will have in mind, two years out on the number of domestic destinations where you will operate?

Pieter Elbers: A number of destinations is never a target in itself. We operate where there's a market where airports are opening, where we feel it makes sense for our customers to move forward. Again, we just announced two new ones earlier today to Nashik and Dharamshala, if I pronounced it correct. That's number 77 and number 78. With more airports opening and a wide range of initiatives from both government as well as private entities to move forward on that, we will continue to provide that airlift.

And again, if you see where India stands and the development of the economy and also the development of some of the regional economies that is just speaking to what aviation brings. So a number of, I would say, high single-digit growth of destinations per year, we should be able to do that. But again, it's not an objective in itself, it's an outcome of airports going in operation and market developments.

Moderator: The next question is from the line of Ashish Shah from Centrum Broking Limited.

Ashish Shah: Sir, I have two questions largely on the operating cost side. One, in terms of the employee cost that you are seeing this quarter on per unit basis, is this the normalized levels? Or there is still some impact of salary normalization that could be expected in the quarters to come?

And maybe I'll just complete the second question, sorry. The other one being on the supplementary rental and maintenance costs. Now that number is a little elevated today probably also because of the aircraft groundings. Now what is the kind of savings that one could expect in terms of the unit cost on that particular subject as we go forward into the next year and hopefully, when things normalize? Those are the two questions.

Gaurav Negi: So on the first part, the salary, obviously, we did the retraction related to all our employees in the quarter. So this is now going to be more level loaded and levelized kind of a salary per ASK cost that you'll start seeing subject to, obviously, investments that we are planning to do for growth where we will probably have some deployment of further resources, but you can assume this to be a more levelized cost going forward on a quarter-to-quarter basis.

Related to SR again, the supplementary rentals, this is where you'll see on a unit cost basis, we are somewhere around 0.70 paisa per ASK. This is where we will remain. Obviously, there's a lot of moving parts related to AOG, which can impact this. But on a levelized basis, 0.70 paisa per ASK is where we are today, and we've been there for a couple of quarters is where we see ourselves.

Moderator: The next question is from the line of Prateek Kumar from Jefferies.

Prateek Kumar: My first question is on grounding of aircraft for yourself and peers. Is it significant? And when do you expect these aircraft coming back in operation? And has it benefited, particularly the yields in the past six months?

And my second question is on international operations. When you see, while you have highlighted on this, but from 23%, when you see that somewhat going to 40%, does that tie up with your order of XLRs over next three years?

Pieter Elbers: Let me take your first question on the AOG situation and when do we expect them to get back into service. It all depends when the supply chain will be able to provide us all the things we need. There are some different reports out there. We're in close contact, of course, with the OEMs, and we hope that the situation will improve in the course of the year to come. But again, I think here, we depend really on the OEMs and the supply chain facilitation on that part.

Your second question, did it help to push on the yields? I wouldn't say so. With the OEMs, of course, we discuss to get the aircraft back. I told you, we have taken a lot of measures such as lease extensions to more or less operate what we had planned for. So therefore, we could maintain our capacity guidance despite the situation we have not adjusted our earlier capacity guidance. So with that, I wouldn't link that to any sort of rise in yields.

Your last point to international, I mentioned, you mentioned 40%. It's not a number which I mentioned for next year. I said, today, we are 23%. Next year, we are going in the direction of 30%, not sure what is the precise percentage, where we will end. And we sort of take it from there what would be the next step in going forward, depending on bilaterals, depending on further market development. And of course, after that, the XLRs will help us to increase our range from the various Indian cities and with that further develop our network.

Prateek Kumar: And just related question on fleet. Is there any outlook on retirement of pending CEO fleet for the company?

Pieter Elbers: Could you repeat that question, please? Sorry.

Prateek Kumar: Retirement for the pending CEO fleet for the company?

Pieter Elbers: Yes, we take, of course, a very prudent approach. Again, we have had still some CEOs in operation. And one of the measures, which we mentioned earlier to deal with the AOG situation, is to continue some of these aircraft in operation. And we will do that, again, to mitigate the AOG. When that situation is more stable and will be better because of the supply chain, then we can have a different view and a different look at it.

Moderator: The next question is a follow-up question from the line of Aditya Mongia from Kotak Securities.

Aditya Mongia: My first question is for the comment made from your side that versus pre-COVID times, the yields are sticking out to be better than where they were on a pre-COVID basis. I'm assuming adjusting all the costs adjusting in that comment. Given this is a 2-tier market, do you expect a scenario to sustain for much longer? Given this let's say 2-tier is 80% of the market, do you think that versus pre-COVID basis, the yields adjusted for costs are not going to be in a different zone for some time to come?

Pieter Elbers: No, I think there's different elements which comes into play. One is some pent-up demand, which is coming back and that's coming back all over the world, and we should not look at yields in isolation for the situation in India. We should also look at what's happening in other places in the world. And we can see a very similar trend. So one is the pent-up demand.

The other part is there's inflation, basically, in many, many sectors, and that inflation, of course, is also a part of some of the yield development. Last but not least is, of course, the seasonal elements in that. And the third quarter, of course, traditionally is a very strong season, and part of that robust yield development is, of course, driven by the seasonal effects we're having.

Aditya Mongia: And the second question that I had was just to kind of pick your brains, Pieter, on this. India as a market for domestic traffic and international traffic has grown at 2x GDP and 1x GDP for almost a decade or so. Do you envisage these numbers changing over time?

Pieter Elbers: I'm almost six months now in India. And what I witnessed here in terms of GDP growth, in terms of market growth and in terms of willingness to travel, I think that is a reflection of what we see in the numbers here. Looking at some of the economic reports and economic projections going forward, I think we do expect and that's, of course, in our plans as well. We do expect to further develop that not only from the Tier 1 cities but also from the Tier 2 cities. So that really connects also to our network strategy.

And combination of a young population, an ambitious growth plan. Some of the government plans in place, such as the developments of airports, some of these policies in place are really helping stimulating the economy at large. And for us as an airline, we're part of that economic development.

Moderator: Ladies and gentlemen, that was the last question for today. I now hand the conference over to Mr. Pieter Elbers for closing comments. Thank you, and over to you.

Pieter Elbers: Thank you so much, ladies and gentlemen. Thank you for participating in this call. Maybe a few closing words that the third quarter for us was obviously a very strong quarter, both operationally and financially, in the backdrop of this robust demand for air travel. We were very pleased to see that these wide range of initiatives that were set in motion across the organization have started to yield results.

And with that, the highest ever quarterly revenue, I think it speaks to the commitment of the IndiGo teams and the trust and the loyalty of our customers. And with that, I'm very thankful to our customers and all the IndiGo employees who enabled us to achieve this performance. The robust profit, obviously, is important, especially after this range of quarters due to COVID, which were much lower.

So this really enables us to start rebuilding our company and start investing in the future, and Gaurav mentioned a few elements like investing in digitization, investing in a lot of these elements. So profits are needed, again, both to rebuild as well as to invest in the future. And with that, this quarter has been a very important milestone for that. So thank you for that.

And with the plans going forward, we continue to serve the market with further capacity growth across domestic and international routes. Thank you very much.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of IndiGo, that concludes the 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