"IndiGo Third Quarter Fiscal Year 2024 Financial Results Conference Call"

February 02, 2024

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Operator: Good evening ladies and gentlemen and welcome to IndiGo's Conference Call to discuss the third quarter fiscal year 2024 financial results. My name is Neerav and I will be your coordinator. At this time, the participants are in a listen-only mode. A question-and-answer session will follow today's management discussion.

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

Richa Chhabra: Good evening, everyone, and thank you for joining us for the third quarter fiscal year 2024 earnings call.

We have with us our Chief Executive Officer - Pieter Elbers, our Chief Financial Officer – Gaurav Negi, and Head of Investor Relations – Kailash Rana 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 for joining the call. We announced our financial results for the third quarter fiscal year 2024 today. Before I get into the specifics of the results for the third quarter, I would like to add that we closed the calendar year 2023 achieving significant milestones in terms of our scale of operations, our network, our passengers, and our financial performance.

For the third quarter of the financial year 2024, I am pleased to announce a profit after tax of 30 billion rupees – 3,000 crore rupees. Our profit after tax margin was 15.4%. These positive results over the last 5 consecutive quarters is an outcome of robust demand for air travel and diligent execution of our strategy. With these results, I am very glad to share that we have become net worth positive again and we continue to recover from the losses that we incurred during the covid period.

During the quarter, we added around 27% capacity in Available Seat Kilometers terms on a year-over-year basis. With an underlying strong demand this growth was well absorbed as our load factors improved by 0.7 points to 86% as compared to the same period last year. Gaurav will dive deep into these aspects in his part of the commentary.

During this quarter, we also reached a milestone of 2,000 daily flights, a truly remarkable achievement, and a proud moment for all of us at IndiGo. Further, I would like to sincerely thank all our 27.5 million passengers (the highest ever in a quarter for us) who chose to fly with us during the December quarter enabling us to close the calendar year with yet another milestone as we entered the select club of global airlines operating at a scale of 100 million plus customers in a year. We have achieved this within a short time span of 17.5 years which is probably the fastest for any airline in the world. This milestone is also a validation of our clear strategy of Towards new heights and across new frontiers and its three pillars of Reassure, Develop and Create under which many new initiatives have been executed.

Now on the network side, even with the on-going supply chain related disruptions we continue to build our depth and breadth across India and Internationally. We commenced operations at 7 new domestic destinations during the quarter. The latest addition being Ayodhya, which is now connected to Delhi, Mumbai and Ahmedabad through 17 weekly flights. With these additions to the domestic network during the quarter, IndiGo now operates an impressive 86 destinations, up from 79 destinations at September end.

On the international side of the business, we added 6 new international destinations and re-opened 1 station during the second half of the calendar year 2023. IndiGo moved forward on its path to further internationalization as the share of international ASKs stood at 27% for the quarter. Our international ASKs during the December 2023 quarter grew by 47 percent on a year-over-year basis. There is still a very long runway for future growth as Indian Carriers take the center stage for international travel supported by the onset of world class infrastructure developments across India.

We continue to expand our geographical footprint through our strategic partnerships. Over the last few years, the codeshare agreement with Turkish Airlines has helped us to broaden our global footprint and offer seamless connectivity to many international destinations. During the last calendar year in 2023, we have added 15 additional destinations with Turkish Airlines. The latest additions being Helsinki, Stockholm and Oslo taking the count to a total of 42 codeshare destinations beyond Istanbul. Building on the experience and learnings from our first two-way codeshare agreement, we have now extended our partnership with Qantas to offer connectivity to 4 destinations in Australia - Melbourne, Sydney, Perth & Brisbane beyond Singapore. The initial response to our Qantas codeshare is very encouraging. These partnerships continue to enhance our brand awareness across newer countries and continents across the globe.

As part of our expansion plans, we have also signed a Memorandum of Understanding with Noida International Airport (NIA) making us the launch carrier for the upcoming Jewar Airport, a key strategic asset for the government to augment air connectivity in India.

During the quarter, further advancing on our digital transformation journey we launched an in-house developed AI chatbot - 6Eskai powered by GPT-4 technology. It efficiently addresses customer queries in 10 different languages and offers a first of a kind platform for booking tickets across our network. Additionally, IndiGo has recently collaborated with GMR Hyderabad International Airport to establish an industry consortium within the aviation ecosystem to enhance customer journeys through transformative digital initiatives, innovations, and technology integration.

Now moving on to our operations, we faced some challenges in the month of December and January largely due to very adverse weather in large parts of India. In the first week of December, Chennai, which is our 5th largest station with 120 daily departures, was impacted by a cyclone forcing us to cancel hundreds of flights and subsequently re-accommodate thousands of passengers. The latter half of the December and January month was characterized by the worst fog that we have probably experienced in many years that led to industry wide delays and cancellations. Throughout this period our operational staff continued to put their best foot forward. And, we continue to learn from this season to improve even in adverse times.

We continue to be one of the lowest CO_2 per unit emitting airlines in the world. IndiGo's commitment to environmental sustainability and social responsibility is being recognized at multiple national and international forums. I am proud to state that we were recently congratulated by ch-aviation for the youngest fleet award in the category of airlines with 100 plus aircraft.

Further, IndiGo was also recognized among the "Top 25 Safest Workplaces in India" by KelpHR PoSH Awards 2023. We continue to strive to deliver our customer promise in the most sustainable way possible as we recently partnered with a Swedish Company to fit our fleet with innovative nozzles that will help us to conserve water on Board.

The supply chain issues started around 18 months ago. The count of AOG showed an upward trajectory during this period. Our early actions enabled us to navigate the situation in a desired manner and helped us grow capacity in each and every quarter. Looking ahead to the calendar year 2024, we still have headwinds in the form of these groundings, however we continue to work diligently towards maintaining our capacity plans and driving our future growth.

With that, we look confidentially forward to the coming calendar year 2024 with great enthusiasm and we hope to achieve more and more milestones in the future.

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 quarter ended December 2023, we reported a net profit of 30 billion rupees with a margin of 15.4% compared to a net profit of 14.2 billion rupees and net margin of 9.5% for the quarter ended December 2022.

We reported an EBITDAR of 55 billion rupees with an EBITDAR margin of 28 percent compared to an EBITDAR of 34 billion rupees with an EBITDAR margin of 23 percent for the quarter ended December 2022.

For the quarter ended December 2023, the unit revenues came in strong at 5.34 rupees. Yields remained strong at 5.48 rupees as we observed a great degree of absorption of our increased capacity deployment in the market. This is in line with the guidance provided during the last earnings call. Total revenue from operations of 194.5 billion rupees increased by around 30% year on year.

Again, on a year over year basis the unit cost decreased by around 5.2% primarily due to decrease in fuel costs and lower impact of foreign exchange depreciation.

Moving on, fuel CASK for the quarter ended December 2023, decreased by around 7% year on year primarily attributable to drop in fuel prices for the period. Further, in line with recent continued reduction in ATF, we have removed the fuel charge that was introduced in October 2023 on our domestic and international flights. Given the dynamic nature of fuel prices and quantum of impact of fuel prices on our operating expenses, we continue to monitor the fuel prices very closely and will take corrective measures as and when needed.

On a year over year basis the CASK ex fuel ex forex increased by around 3% primarily due to contractual escalations, as well salary increments and some groundings related costs.

Circling back on our previous communications around the near-term bottlenecks in the form of aircraft on ground. The current aircraft on ground are in the mid-seventies which is a slight improvement from our earlier estimates. We are working with Pratt & Whitney on spare engine availability and are hopeful that the situation will start to improve in a few quarters from now.

In this regard, the proactive mitigation measures taken by us will allow us to navigate the situation at hand in a desired manner and grow capacity in the next financial year. As we had shared in the last earnings call, we have taken a series of mitigation measures including retention and extension of aircraft and procurement of additional aircraft in the form of damp and secondary dry leases.

Apart from this, we are also strategically optimizing our network to capitalize on the best possible opportunities and at the same time stay true to our customer promise of an unparalleled network.

Our liquidity continues to remain robust as we ended the December quarter with free cash of 192 billion rupees, a net increase of 11.2 billion rupees as compared to the September quarter end. In our earlier calls, we talked about diversifying our sources of financing and in this regard during the quarter we have

- purchased certain ATRs and certain spare engines; and

- have inducted NEO aircraft on finance leases

Our total cash as on 31 December 2023 was 324.3 billion rupees. We ended the quarter with a capitalized operating lease liability of 445.6 billion rupees and a total debt, including the capitalized operating lease liability of 511.9 billion rupees. Our right-of-use assets at the quarter end were 333.7 billion rupees.

Moving on to the fourth quarter, based on our current estimates and with the numerous mitigation measures in place, we are expecting around 12 percent capacity growth in the fourth quarter on a year-over-year basis. With this, we will be exceeding our original guidance for the fiscal year 2024 which was north of mid-teens capacity growth and will deliver a growth of more than 20% as compared to fiscal year 2023.

For the next fiscal year 2025, we are currently assessing our growth targets and will communicate the capacity guidance at a later stage.

In summary, the strategy we formulated post covid has yielded positive results for us as we have seen profitable growth over the last 5 consecutive quarters, and we closed the third quarter strong. Going forward, we are optimizing our resources to meet the robust demand for air travel and to drive profitable growth despite the supply chain constraints.

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

Binay Singh: I'll start with the ancillary revenues and the other income that we have, the other operating income, would you call out what is driving the very strong growth, like we've seen other income number jump very sharply. Ancillary is also very strong. Could you call out the key drivers for that?

Gaurav Negi: So as far as the other income is concerned, on the financial statement, what you'll see, Binay, the large part is going to be finance income. But there's another element of revenues, which are from other operating income, which has an element of certain OEM-related claims that we've received in this quarter that we considered.

Towards that also, we've given a disclosure statement that you can probably refer to the financial statements. There's a disclosure note that we've given, which substantiates that aspect.

Binay Singh: And how to look at this other income? I assume because compensation for aircraft grounding, is there a cost also attached to that? So, this is a compensation just for that cost matching quarter-on-quarter or is it for preceding quarters that comes into this quarter and there is no cost line item attached to it?

Gaurav Negi: The large part is the cost item that has also been considered in the line items which are below. There is a trickle effect of some claims that was due from the prior periods also for us. But again, this is just a partial kind of an element of recognition, as we continue to engage with the OEMs to finalize the claims amount.

We haven't finalized the claims amount in its entirety. This is largely related to the cost that we've considered in the financial statement in the below line items that has been recognized now in the other operating income line.

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

Pramod Kumar: If you can help us with what could be the outlook for FY'25 in terms of generally the ASK bit? And if you can give us update on the flights which are getting grounded with Pratt & Whitney. And any further update from Pratt & Whitney in terms of the turnaround time because while the numbers are great, everything looks pretty good. The uncertainties over FY'25 top line growth or ASK growth, so if you can just help us with that situation better, that would be very helpful?

Gaurav Negi: Like we mentioned in the opening remarks, probably we'll not talk about 2025 in this particular call, we'll focus on 2024, which is Q3 results. We will come back to you. We are in the midst of finalizing our growth numbers for the next year. In our subsequent conversations that we'll have with you, we'll be able to come back to you on 2025. So, I'll request that we limit the conversation only to 2024 for the time being.

Pieter Elbers: Yes. Maybe to supplement on that. If we look to the capacity guidance which we have given, let me just reiterate what Gaurav mentioned earlier in the elucidation. We've been confronted since the middle of calendar year '22 with supply chain challenges in different modalities. And yet, I think this is the fifth consecutive quarter, not only the fifth consecutive quarter of profits but also the fifth consecutive quarter in which we are either achieving or even surpassing our capacity guidance.

This quarter itself, we did 27%. We made a 12% projection for the fourth quarter, which means that the entire year will be over 20%. So, the whole range of mitigating measures, which we have taken and in earlier calls, we have taken quite a bit of time to elucidate on those mitigating measures, have really helped us and supported us to not only make these capacity guidances but even surpassing these indications. I think that's an important aspect and that will continue to drive us going forward.

So, without going into the numbers, as Gaurav just alluded to, we will continue with this whole range of mitigating measures also going forward.

Pramod Kumar: And just a follow-up on that. How much can we expect in terms of damp or wet leases because you again surprised us on that then with the productiveness. But given what's happening with the Boeing situation now, generally, I would understand that the leasing market will also be getting tighter. So, if you can just help us understand how is the pipeline looking for you in terms of in the damp and the wet lease markets?

Pieter Elbers: No, we continue to engage with leasing companies and we continue to explore opportunities which are there. I think we have developed a rather solid base with all the initiatives which we have taken in last year. I don't think I would be in a position today to give a precise number of leases for next year.

And let me also underline that actually, we have a rather solid order book and probably one of the best order books in the world really when it comes to the number of planes to be delivered going forward. And that will also be a natural resource for IndiGo of providing that capacity growth.

Moderator: Next question is from the line of V Balasubramaniam from Axis Capital. Please go ahead.

V Balasubramaniam: On a related note to what the previous participant was asking. Now at the end of the third quarter, you ended with around 345 aircraft, excluding the damp leases. What is the kind of addition you're expecting in the fourth quarter? And does your earlier guidance that you will add one aircraft per week next year stand?

Gaurav Negi: Yes. In the fourth quarter, we're looking at early double-digit additions in terms of new deliveries. And for the next year, we still hold to that guidance of one aircraft every week, if not more.

Moderator: Next question is from the line of Joseph George from IIFL. Please go ahead.

Joseph George: Just one question. When I look at the industry growth, till September we saw that domestic passenger traffic was growing at about 20%. We saw that taper down to about 9%, 10%, in the December quarter, at the industry level. In Jan it's come down to about 4% to 5%.

If you can help us understand how much of this has got to do with some real slowdown in demand? And how much of it has got to do with the lack of supply? And in that context, if you can also guide us on how the early yield trends are in the fourth quarter?

Pieter Elbers: Sorry, I'm not fully sure I recognize the numbers you're referring to. Could you repeat that first part? Is it the market growth?

Joseph George: Yes, the industry growth was around 20% till the month of September, on a year-on-year basis. I'm talking about the industry domestic passenger traffic. In the December quarter, that tapered down to about 9%, 10%, Jan is running at about 4% or 5% on a year-on-year basis.

Pieter Elbers: No, it's clear that immediately after COVID, we saw very significant year-over-year numbers and we are going back to somewhat lower than 25% year-over-year type of outlook. I think it will be a bit premature based just on 1 month, which, by the way, also had quite a few operational challenges and disturbance as to draw conclusions on that.

I would not immediately take a big conclusion from an indicative figure, which I'm not fully sure if I have that same number, actually, as you're referring to for the month of January, actually, I think we have a somewhat different number here.

Joseph George: Okay. And just the second part of the question, if you can give some indication on how the yields in the early part of 4Q are holding?

Gaurav Negi: Moving from Q3 to Q4, you do have that seasonality and the weakness in the yields. But if you compare it year-over-year, the yields are still holding up to what we've experienced in the last year. At least in the month of Jan we expect them to continue to hold at least in February and March. So similar to what we had experienced in the same period last year. Yields are still holding up.

Moderator: Next question is from the line of Sabri Hazarika from Emkay Global. Please go ahead.

Sabri Hazarika: Congratulations on good set of numbers. My question is relating to the damp leases. You've mentioned that you've got like 13 damp leases in Q3. have we seen the impact of these leases fully on the cost side? Or was delivered at latter period of the quarter and there will be like full impact coming in the ensuing quarters?

Gaurav Negi: No. The large part of the damp leases started to come into our fleet in the third quarter. We haven't completely seen the impact. It will start showing and the impact in terms of cost is also offset by the impact that you would see on the revenue side. It's a neutralizing impact but the full impact will probably be available to us when we have a complete quarter in Q4.

Sabri Hazarika: Right. And just a follow-up. This current yield you have mentioned it has been driven by absorption of higher ticket prices in the market. But was there any incremental contribution from the international side on the reported yields?

Gaurav Negi: So largely domestic because Q3 is a heavy domestic play for us. The contribution largely in Q3 comes from the domestic space. So, all the impact is from domestic although international might be there but the bigger impact is from the domestic space for us.

Moderator: Next question is from the line of Jinesh Joshi from Prabhudas Lilladher. Please go ahead.

Jinesh Joshi: I just have 1 question on the capacity addition guidance, which is 12%. And you also mentioned that in 4Q our deliveries will be in double digits. But if I look at the sequential growth, it effectively is a decline of about 7%. We are adding more airplanes. I mean, can you explain what will result in a sequential decline?

Gaurav Negi: If you see what we've also communicated, the number of AOGs is increasing for us in Q4, that is what is leading to the sequential decline. It's probably going to be a little lesser than what you're saying. But the driver is the fact that the number of AOGs because of the powder metal issues that we have, has increased starting January. So, the averages of grounding that we used to have in Q3 of around the high 40s has now gone up to mid-70s, as a result you'll see a sequential decline.

As we bring in more damp leases the impact is going to get mitigated but it will take us a few months and if not quarter to offset that, that increased AOG levels.

Jinesh Joshi: Got that. Just 1 last question. I think in your opening commentary, you mentioned that the other income was high because of certain compensation received from the OEMs relating to grounding. But if I recollect in the last quarter, this one-off income was adjusted in the supplementary rental line item. So, if you can just explain how the accounting impact works because this time around we have adjusted that in other income.

Gaurav Negi: Yes. When we had closed Q2, at that time, we had agreed on a compensation with the OEMs. As a result, we were getting certain compensation towards the maintenance cost that we were incurring related to these AOGs. As a result, we took it to the maintenance line items. And there was some component that went into the other income line items, other operating income line items.

Given that we are still under discussions with the OEMs to finalize the contract, short of that, the accrual that we've considered as per the standards that are available to us, considering again, as per the disclosure note that we've given, based on the existing contract that we have with them, as well as the compensation that we've received thus far in the past and the latest proposal, which is still under negotiation, we've categorized this accrual of income under the other line items.

The difference of largely the underlying agreement that we had at the time of Q2, which enabled us to recognize the relevant cost line item to which we basically offset the compensation. Compare that to today, in Q3, we are still under discussion and it's an accrual that we are doing because we feel that it's a high probability that we will be able to receive this compensation. And it's an accrual that we are doing.

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

Pulkit Patni: We currently have 70 planes, close to 70 AOG. Can you just tell us how the phasing out will happen, like by the end of, say, this calendar year, what is the number that we'll get to? And when do we expect and I'm not asking for a particular quarter but when do we expect then those AOG planes to start sort of flying again, just in terms of the next 18 months of how we are looking at that timing.

Gaurav Negi: Pulkit, it's very difficult to kind of communicate that because if you see the large part of the communication that is also coming from the OEM is that the accelerated inspections will take them around 240 to 300 days. Some of the mitigation measures that we've taken as you can see are also in a phased manner.

Earlier part of the mitigation, the extensions that we were doing were for extended periods of time. So, they were at least for 3 to 4 years that we had taken. As the number continues to grow, we've started to take certain damp leases, which are for shorter durations. We've also phased some of our mitigation measures so that as and when Pratt & Whitney is able to get their supply chain in order, the faster they're able to fix this issue and start supplying us the spare engines, the quicker we'll probably be able to reduce the AOG.

It is something which is difficult to call out right now because OEM is working on it. The good part has been what we estimated initially in terms of the AOG, which was probably on the higher side, has come back a little lower than initial estimates, to the mid-70s numbers. But we continue to engage and the reality is the OEM is working hard to solve this issue, so we are kind of working with them. But to give a number right now will be very, very difficult.

Pulkit Patni: Okay, sir. Just an extension, so that my understanding is clear. The 70s number is only a timing thing that you expected more planes to go AOG, which are not happening. But eventually, those also will happen, right?

Gaurav Negi: No. As we speak in January, the number is at mid-70s. As we closed December, the number was lower, further guidance that has come, further instruction that is coming from the OEMs. In January, because of the guidance and the instructions that are coming, we had to ground a higher number, which was in the mid-30s, we had told, as per the press release. So those groundings have happened as we speak in January. So, the number has gone up to mid-70s now.

Pulkit Patni: Okay. And sorry to belabour on this but so you are saying because we could do 30 more, it's actually a good thing that it's happening faster, so that the turnaround will also happen faster. Is that right?

Gaurav Negi: No, no, no. The number of AOGs that was in December end, today in January end is a higher number of mid-70s. So, the number of planes on ground has gone up.

Pulkit Patni: I understood that, sir. What I'm trying to understand is that you were expecting this number to be lower but there are more planes grounded. But the reason it's a good thing is that we expect that the turnaround time in terms of when these planes come back also get accelerated?

Pieter Elbers: I don't think we can draw that conclusion. I think we had an AOG situation. In the month of December, we've given some guidance that we had expected based on the initial projections from the OEM, an increase in the mid-30s. Today, we're at the number, which Gaurav just alluded on. We continue to work on what is the AOG supply chain in terms of spare engines. We continue to work on what's the turnaround times and so on and so forth.

And I think it is too early to draw a conclusion whether it will be quicker or slower or lower or less longer. So, I think, again and I'm just repeating that one side of the equation is the AOG number, the other side of the equation is the amount of mitigating measures. I think we have demonstrated for these past five consecutive quarters that we are able to find adequate mitigating measures and with that, we can live up to our capacity guidance.

Beside the mitigating measures, the one plane per week or even more coming in throughout the year ahead of us will help us to recover from that first impact, if in addition to that, the turnaround times will be quicker, yes, then the number would be better. But we're not making any predictions on that at this point in time and we just continue to work with the OEM at the moment.

Moderator: Next question is from the line of Krupashankar from Avendus Spark. Please go ahead.

Krupashankar: My first question was on the yields. Just wanted to get a sense with respect to the estimated yields in the next year given that almost 70-plus aircraft are going to be grounded for the year, are you expecting the yields to be elevated in the next year as well on this supply concern because we also hear that the competition is accelerating its narrow body fleet addition. So how do you envision the industry yields during the next financial year?

Gaurav Negi: I'll look backwards first. So, if you look backwards, I think the yields have been holding up compared to the prior years that have been there. So, if a similar trend continues, given there's going to be a bit of a capacity constraint at least for the short term, I'm not saying the entire financial year but at least for the 6 months ahead, I'm expecting the yields to continue to hold up at least in Q4. Like we said, it will be probably in line with what we have seen in a similar period last year also.

We're again hopeful, depends on what the supply chain situation is going to be and what's going to be the capacity situation, which is, again, going to be the driver of the yields because we still believe, despite the additions, the demand is very, very strong right now. One of the questions that was being asked was about demand earlier, the numbers that were being thrown. There is still a very strong demand that we are seeing in the marketplace. As a result, the loads are also high because capacity is constrained, we expect the yields to be on the stronger side.

Krupashankar: So just a follow-up. With respect to the damp leases, we are observing that the damp lease pricing has jumped sharply over the last 3 months. So, given the challenges around availability of aircraft on damp lease basis, can we expect a substantial increase in the supplementary rental costs going ahead? Is that a fair assessment?

Gaurav Negi: On a standalone basis, yes, it's a fair assessment said that the damp lease costs are going up because everyone is scouting for those secondary planes. But one has to realize, the number of damp leases that we are talking about is a very small portion of our overall portfolio.

So, when you talk about aircraft maintenance, out of the probably the 350 planes plus we have, the number of damp leases we are talking is only 20-ish right now, so between 15 to 20. You may not see a substantial impact on the aircraft maintenance line because of that. But on a stand-alone basis, yes, the damp lease costs are going up but they are a very small portion of it despite the increases because most of the extension, the mitigation measures that we have taken, were pre-this powder metal issues that started to surface, which then started to drive up the cost of damp leases.

In a nutshell, yes, the increase is there but the impact on our overall portfolio is probably going to be limited given these are smaller numbers still, given we have more than 350 aircraft in our portfolio.

Krupashankar: Last question from my side, if I may. Are you facing any issues relating to CFM engine supplies? Any chatter around that?

Gaurav Negi: Not as of now. I think the OEM has been able to fulfil their commitments. There are instances where we have spare engines that are required and OEMs were able to fulfil that. Because of that, we haven't faced any significant kind of an issue with the CFM.

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

Achal Kumar: First, going back the yields, which have been quite strong. Of course, you mentioned that demand is strong. But then what else is there anything else which is feeding into these strong yields? And what exactly I want to understand is that, was there an underlying strength in the fares?

Or do you think it's a result of a mix of change in the network? Or what else is going on? If you could please give us a bit of a colour in terms of underlying fares and the impact of mix of network?

And then how the corporate traffic looks like now? Of course, we are expecting a recovery in corporate traffic. And then I guess at some point of time, we thought the corporate traffic is recovering pretty well. Now how is the corporate traffic versus leisure mix versus pre-COVID level? If you could please talk on that.

Pieter Elbers: Yes. No, I think it's very clear for us that when we launched our strategy post-COVID 1.5 years ago, we've taken a whole range of initiatives. And we often start talking about the results but the results in fact are an outcome of all the initiatives and actions which we have taken.

If I just name a few and I mentioned already a couple of them in my introduction, we're on the fast forward, when it comes to digitization, we've upgraded actually our entire Navitaire system. And that was a couple of years behind actually predating the last update was prior to COVID. So, a lot of those initiatives started to bear fruit. When it comes to the network and I think that's a very important part, we mentioned the number of destinations and the growth in destinations. But next to the destinations only, we have actually added quite a very significant number of new routes.

Today, we're operating total set of over 500 routes. And hand-in-hand very much with the economic growth of India, we can see a growth of travel and that mixture on board of IndiGo flights which really has both a high percentage of corporates and a high percentage of first-time flyers. And I guess that combination of a very solid market development, a network which keeps on expanding and a further digital positioning, the effect of a whole range of initiatives which we are taking are really starting to bear fruit.

Lastly and I mentioned that the network is not only growing a lot domestic but even so international. The 47% growth in ASK on a year-over-year basis brings us to 27% of international ASK share, is also helping in that part. And there's quite a couple of examples where and I think that's very much in line with the ambition of the government, is that India is becoming more and more an aviation hub and the geographical position of India is really helping us to deliver on that promise.

And with the growth of the network domestic, with the growth of the network international, with airports stepping up in terms of facilities, we really see that all these elements are coming nicely together and are helping to solidify, I should say, the yield levels for IndiGo, which at the end of the day is a good thing because that means we get a much more stable industry and as an industry, we can invest in the future and go forward.

A bit of a long answer but I think it's an important aspect that the results are very much an outcome of the strategy being taken. That strategy is basically not only for the last 1.5 years but we continue to do so going forward. As you see all the initiatives we've taken in the field of digitization, network development, internationalization, partnerships are actually starting to bear fruit.

Achal Kumar: And my next question about the corporate one, if you could please answer that, the mix of corporate versus leisure, pre-COVID versus now. If you could give us a bit of colour on that?

Pieter Elbers: It brings back an earlier discussion we had on what is the definition of a corporate traveller. Is it the corporate contracts itself? Or is it also people who buy their tickets under a different flag or under a different banner? I would say, in general, the corporate travel is pretty much back to what it was prior to COVID, even slightly higher and again, fuelled by the economic development of India.

And if we look to the economic numbers quarter-over-quarter and if we look to even the GDP forecast, going forward, I think we can be reasonably confident that, that number of I would say, corporate-driven or business purpose driven traffic will continue to grow. And with our growth, 27% in the last quarter, it is clear that we are basically accommodating all types of travellers there, both corporate and first-time flyers and visiting family and friends, international and even connectivity.

Moderator: Next question is from the line of Prateek from Jefferies India. Please go ahead.

Prateek: My first question is on a clarification on aircraft on ground. You said it's like mid-70s aircraft grounded. You have total around over 130 aircraft on P&W engine. So, are the remaining 60 aircraft also expected to go on ground over and above this mid-70s or like you will receive the 30s first and the rest of them goes after that?

And related question is on compensation received from OEM. So how much of the total compensation is accrued till now with the company and how much is actually received?

Gaurav Negi: I'll make it easier but the second one, we will not be able to disclose too much, Prateek, on this call. It's something that is between us and the OEMs and we are working on it. As we resolve and finalize those positions, we bring it into the financial statements.

On the first one, yes, we've got close to 136 aircraft, 70, mid-70s is what is going to get grounded. The others are still operational. But you have to remember that most of these aircraft will also now start coming for redeliveries because they're hitting their 6-year mark. So, this 136 number and the delta between the mid-70s, some of these are due for redeliveries, which we are working with the OEMs to get redelivered.

Beyond that, we keep working with the OEMs to ensure that we keep getting spares to keep running the remainder of these aircraft. This is our best kind of an estimate that we have today of the groundings. As and when things develop, hopefully, for the better, we'll come back and communicate.

Prateek: Okay. And just one question on international ASKs. The 47% growth in international ASK, is it something like that you're diverting some of the domestic ASKs to the international market? Or is it like, it seems like significantly higher than what the overall growth in ASKs is.

Pieter Elbers: Sure. But the basis is relatively low. Again, we come from a relatively low basis. IndiGo for years has been primarily a domestic airline. One of the strategic pillars is to develop that international part. We shared that with you over the past 4 quarters. We continue to grow domestic, of course, on a very significant basis.

We continue to grow international on a much lower basis. We have given earlier guidance to move in the next years towards an ASK share of roughly 30% or actually, even over 30%. The 27% we had in this quarter is a good step towards that direction. No diversion but I would say a larger growth on a lower basis number.

Moderator: Next question is from the line of Anuj Suneja from ICICI Prudential. Please go ahead.

Anuj Suneja: Congratulations on a great set of numbers. My question is broadly on the strategy and it is directed towards Pieter. I just wanted to understand, so in the mid of the quarter, somewhere you guys made an announcement that you're also getting into the business class and I think you're trying to remodify the cabin accordingly. I just wanted to understand the thought process that went into that decision and also doesn't it go against our core DNA of being a ULCC.

Pieter Elbers: IndiGo has not made such an announcement throughout the quarter. And our consistent reply on any of these is, we keep all options open. And basically, that's the consistent reaction on any of such questions and/or speculations. But IndiGo has not made any statements on that throughout the quarter.

Anuj Suneja: And my second question is so DGCA has basically come up with some norms on fatigue of the crew. So basically, there is an increase rest also from about 8 hours to 10 hours or something on those lines. And the impact is expected to come from Q1. Is there a quantification to that impact that can be done right now? Or is there anything on those lines?

Pieter Elbers: Well, maybe to start with, safety management and fatigue are the key priorities for airlines, as they are for the regulators. We all have the same objective and the same setting. And at IndiGo, we have in place already an extensive set of structures, measuring, etcetera, etcetera, when it comes to the field of fatigue.

There has been a recent new FDTL regulation issued which should come into force in the second half of this year. We are engaging to have a full and comprehensive understanding what is the precise effects. Of course, IndiGo will always comply with the civil aviation requirements. And we are now in the process of assessing these requirements and working on a plan and continue to engage with the various stakeholders on these plans.

And I think here also, we can learn from what our regulatory frameworks outside India because I think the aviation industry, in general, has improved its standards in safety by international collaboration, sharing best practices and comparing some of these regulations. We're in the process of doing that.

Anuj Suneja: Okay. No quantification can be done, right?

Pieter Elbers: Not at this point in time, at least.

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

Aditya Mongia: The first question I had was on yields beyond the next 6 months. As in the next 6 months, you've suggested that things are going to be good. But this is going to be the year in which Air India probably has more gross additions or Air India group has more gross additions than IndiGo. And that starts hitting the market a lot more in the second half. What are your views on the next 6 months, in the second half of this calendar year on yields?

Pieter Elbers: Yields, I think Gaurav earlier alluded on that, that we're not giving any yield guidance, neither capacity guidance for the year ahead of us. And I think every airline is working through its own capacity plans and we're focusing on ours. I think we have created a structure with mitigating measures to deliver a capacity plan for next year and we continue to work on that. And against that backdrop, today giving capacity guidance and/or yield guidance would be, I would say, way too premature.

Aditya Mongia: Understood. The second question that I had was to obviously get a little bit more colour on the way the quarter has panned out and implications. As I see the yields have gone up for you in spite of the fuel cost coming down on a Y-o-Y basis. Could you give us some more colour as to whether the network is playing to your advantage in a meaningful manner?

The reason why I ask this question is that, is there a specific lever that IndiGo can pull? What are the chances of whatever incremental cost that you kind of incur on secondary leases also getting in some ways, taken care of by healthy pricing trends for IndiGo?

Pieter Elbers: Yes. Well, I think our network is becoming more and more of an incredible asset. And if we look to the 3 customer promises of IndiGo, affordable fares and on-time performance and a courteous and hassle-free service and product. We've added actually a number four, which is an unparalleled network.

And that unparalleled network and I've mentioned that before, today we have 86 domestic destinations and a total of 32 international, totalling 118 destinations with more than 500 routes is allowing us to be present both on the highly dense routes like Delhi-Mumbai and Delhi-Hyderabad and Delhi-Bangalore. We have a good presence on those, I would say, high dense, belonging to the world's busiest routes type of network and IndiGo is present there. And at the same time, we're opening new routes on flights, either from the metros to other cities. I think Delhi-Jaisalmer is a good example. But even between smaller cities, we fly now Jaipur to Agra.

So, you see that the simple breadth of our network is really helping us more and more to allocate capacity where is demand and where we feel it really adds value both for the customers as well as from a company stakeholder perspective.

Aditya Mongia: Given the disparity or the advantage that you have on network versus everyone else, in a relative basis this advantage, is this something that can sustain for the next couple of years? Is this as big an advantage versus others today in terms of where you are in terms of your network and versus where others are?

Pieter Elbers: No, I think we have demonstrated that IndiGo is able to open up new routes to create more connectivity, to continue to build on that network and those flyers if actually are helping us to choose. And over the past 17 years, we haven't built that network in the past 2 years. We've built that network in the past 17 years.

And of course, what we have been doing for the past 5, 6 quarters is accelerate on building that network. And now we have a certain size and a certain scale. And again, I mentioned that 2,000 flights a day and 100 million customers. The 100 million was the number we achieved in calendar year 2023 and 2,000 flights a day just speaks to the size.

And I think I shared it earlier in one of these calls, we are today the seventh largest airline in the world in terms of daily departures. We are with 2,000 flights were very well able to, whenever there's a new airport opening, I think Ayodhya is a good example in that or whenever new international opportunities arise, we just add these flights and we continue to build on that. Therefore, and thank you for bringing up this question.

As much as we can speak about the sort of temporary challenges we're having when it comes to some of the supply chain issues, we continue to build on that strategy and with the steady flow of new plans coming in, I think we have a very strong strategic asset at IndiGo having that network available for our customers.

Moderator: The next question is from the line of Kushagra from Old Bridge. Please go ahead.

Kushagra: Just two questions. One on capital allocation. The way I look at your debt balances and cash balances moving, can you confirm if the total cash deployment towards buying of ATRs, spare engines and Neos, which you called out would be to the tune of Rs.4,000 crores or more.

And also, how many more planes you're thinking of owning or going for a finance lease in your overall fleet going forward? And how much can be the capital allocation going over and above what you did in the third quarter?

Gaurav Negi: To that extent, what you've called out as a number, we started small. Like we said, in our prior calls that as far as capital allocation is going to be concerned, we will start small. We'll start buying the smaller planes, which are the ATRs. We started on that journey. We said we'll start buying engines. We started on that. We've diversified our financing where when you start taking finance leases, there's a certain element of your equity contribution. We've started on that particular journey.

We'll continue to scale up given the cash balances, as you see, has grown significantly for us. So today, we are sitting with close to Rs.19,000 crores of free cash. So as a result, there is a big opportunity that's available to us now because we keep buying aircraft. Every week, we'll be having at least new aircraft coming, big and small. We'll start looking at scaling up this. This is the first kind of a quarter where we started to buy or deploy capital towards ownership of assets. We'll continue to scale this up. I'll not be able to give the specific numbers right now to you.

Kushagra: All right. That was useful. The second question is on the revenue line items, data points again, if you can call out the total additional revenues, which you cornered on account of fuel surcharge? And also, if you can call out the international revenues in third quarter or 9 months, whichever you want to disclose?

Gaurav Negi: We disclosed what the fuel surcharge was. In terms of revenue, you can do that math but you got to remember 1 thing, along with the revenue, there is a cost dimension. That's why we introduced the fuel charge. Looking at just one dimension of the revenues is probably not going to give a complete picture. There is a cost dimension. That's why we had introduced that. So that offsets that particular revenue.

As far as international is concerned, directionally, I can tell you that our contribution of international is somewhere between in revenue terms is somewhere in the 20% range. Of the passenger revenue, 20% is going to be international, the remainder is going to be on the domestic.

Kushagra: All right. That was useful. Can I squeeze in 1 more?

Gaurav Negi: Go ahead.

Kushagra: All right. Sure. So, a lot has been asked about incremental capacity additions and everything. Just if you can give some colour with all the information put together, like do you look at how much your incremental share would be, how much of your share would be in the overall Indian incremental capacity additions in terms of ASKs?

Or this is something, like Pieter said, we just focus on what we are going to deliver rather than focusing on what probably the competitors might add in the second half of 2024. If you look at this, do you have a number in mind in terms of your share in the incremental capacity additions, which the Indian aviation sector will see. Yes, those were my questions.

Pieter Elbers: Yes. I won't repeat because you captured what I said earlier very well. We focus on what we are doing at IndiGo. Maybe just a few pointers here. We are confident on the market growth to continue. We're confident that we're in a position with mitigating measures to take share and to take part in this growth of the market.

What thereafter, is going to be the precise share is an outcome of that, like it was an outcome in 2023. As I shared, I think earlier said in one of these calls, we are not looking every quarter or every month, what's the precise share. We look at the market growth.

We're confident on the market growth. Maybe just, I think at the Wings event recently in Hyderabad, also from the Indian government, the projection was given the market to double towards 2030. I think the domestic market and international is likely even to grow faster. So, the domestic market to double towards 2030.

That's, by the way, very much in line with what we shared earlier with the financial community that the ambition of IndiGo is also to double towards the end of the decade and there's going to be a sort of continuous focus to deliver on that from our side.

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

Pieter Elbers: Thank you so much, ladies and gentlemen. Maybe just to close this session, we're very happy and proud really on that third quarter of this financial year, a profit of Rs.30 billion and a profit after tax margin of 15.4%. That brings us to five consecutive quarters of profit. And with that, we continue to recover from the losses of COVID and have now become net worth positive again, which obviously is an important milestone for the company. That was the situation prior to COVID, then COVID hit us and actually, now in five quarters, we've been able to recover from that and are back in the net worth positive.

This series of profitable growth is attributable to the confidence shown by our customers who choose to fly with us. And I would like to express here also gratitude for all our customers' confidence and the thousands and thousands of IndiGo employees who continue to put their best foot forward each and every day to serve them.

The year '23 was marked by numerous milestones, 100 million plus passengers in the calendar year and we joined a select club of global carriers operating at this scale 2,000 daily flights. Each achievement is a testament to our focus on the strategy, loyalty of our customers and dedication of our employees. And with that, thank you so much for your attention and looking forward talking to you again in the next quarter.

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