“IndiGo First Quarter Fiscal Year 2025 Financial Results Conference Call”

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Operator: Good evening, ladies and gentlemen and welcome to IndiGo's Conference Call to discuss the first quarter of fiscal year 2025 financial results. My name is Dorwin and I will be your coordinator. At this time, the participants are in a listen-only mode. A question-and-answer session will follow today's management discussion.

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

Richa Chhabra: Good evening, everyone, and thank you for joining us for the first quarter of fiscal year 2025 earnings call.

We have with us our Chief Executive Officer - Pieter Elbers and our Chief Financial Officer – Gaurav Negi 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: Thank you, Richa. Good evening, ladies and gentlemen and thank you for joining the call. We announced our financial results for the first quarter of the financial year 2025 today.

For the first quarter of the financial year 2025, we reported a quarterly total income of 202 billion rupees, which is an increase of 18% as compared to same period last year. In terms of profitability, we reported a profit after tax of 27.3 billion rupees – 2,729 crore rupees with a profit after tax margin of around 14%. With these results, we have reported seven consecutive quarters of profitability.

We proudly served around 28 million customers during the quarter. And I would like to express my gratitude to each customer for choosing to fly with us. Our customers are the reason we do what we do and we remain committed to making every journey with us a memorable and enjoyable experience. We take into consideration all the feedback that we receive and makes changes to our product & services accordingly. I would like to highlight some of the recent changes that we have made:

- First of all, we are in the process of launching a tailor-made business product for the nation's busiest and business routes

- We have also started testing in-flight entertainment on a select route.

- We have introduced a web check-in seat selection feature, specifically for women travellers.

- We are in the process of revamping our website and mobile application for enhanced customer experience.

- And, we have added a hotel booking option for our customers on our website and app

- Additionally, on the operations side we are constantly expanding the role of technology in order to serve our customers better as recently we became the first airline in India to get approval from the regulator for Electronic Flight Folder that will enable reduction in the time spent on pre-flight preparations, smoother operations and will add to the overall operational efficiency.

We will be unveiling a lot more details on some of these changes next week during our 18th Anniversary celebration.

When we first took to the skies, we envisioned an airline that would not only transport passengers from one destination to another but would also connect the vast and diverse cultures across India. And over the past 18 years, we have grown to the world's seventh largest airline, in terms of daily departures and have become India's most preferred airline.

Since our inception, India's and IndiGo's growth story have been closely interlinked. And we believe as India gears up to become the third-largest economy in the world, it's important that we devise our strategy to, not only capitalize the opportunity, but also stay ahead of the curve. The Indian market, as we shared earlier, is still largely underpenetrated when it comes to air travel. And even more so, when it comes to international air travel. So, there is a buoyant market out there, hand in hand with the growth of the Indian economy.

With IATA's 81st AGM to be held in Delhi in 2025, India's aviation industry potential is being recognized, also at a global stage. And we are proud to be the host airline for IATA AGM next year and look forward to welcoming the global aviation community to our home country.

Expanding our network is a key part of our growth strategy. And we have added 30 new routes on a year-over-year basis as we fly to more than 540 routes currently. Further, in line with growing demand we are further enhancing our international capacity deployment to Central Asia and as from mid of August we will be flying daily to the cities we added last year - Tashkent, Almaty and Tblisi.

As guided at the starting of the year, we will continue to add more destinations and frequencies in the coming quarters to grow by early double digits in the financial year 2025.

We have the Airbus XLRs joining our fleet next year which will allow us to reach the southern parts of Europe and further into Asia as well. Then to further expand our range, we have the Airbus A350-900 coming in from the year 2027.

In addition to that, our codeshare networks have been a very important pillar of our international strategy. Our experience of partnerships with multiple global airlines has exposed us to the needs and preferences of international customers, preparing us for the next stage of operations as so that we are able to apply the learnings once we have widebodies. Recently, we have announced codeshare partnership with Japan Airlines, under which Japan Airlines' customers will be able to seamlessly travel to 14 Indian cities through Delhi and Bengaluru. All of these elements are building blocks of the very same cohesive strategy towards internationalization.

Operationally, over the past few quarters, as the air traffic in India continues to grow and infrastructure enhancements are being implemented across various stations, we have been experiencing increased block times and congestion. We are working relentlessly and taking all possible internal actions such as adjusting schedules to reassure our customer promises.

Additionally, due to the unfortunate event of canopy collapse in Delhi's Terminal 1, we had to shift our operations to other terminals in a very short period of time and very recently the massive IT outage globally, which was not limited to the airlines, impacted hundreds of our flights over a two-day timeframe. IndiGo teams immediately stood up and dealt with the situation to minimize the impact for our customers. And I would like to sincerely thank my 6E colleagues for going above and beyond to serve our customers in these extraordinary times.

While large global airlines are facing multiple headwinds currently due to various factors. Given the size of the opportunity that India presents, and our clear strategy combined with a strong execution by the IndiGo team I remain confident that we will continue to reach new heights. As we enter the next phase of our growth, we remain committed towards our goal of 2030 and are investing heavily to support our growth plans.

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

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

For the quarter ended June 2024, we reported a net profit of 27.3 billion rupees with a net profit margin of 13.9% compared to a net profit of 30.9 billion rupees for the quarter ended June 2023.

We reported an EBITDAR of 58.1 billion rupees with an EBITDAR margin of around 30 percent compared to an EBITDAR of 52.1 billion rupees for the quarter ended June 2023.

On the revenue side, we experienced a similar revenue environment as compared to same period last year as the passenger unit revenue, PRASK, came in at 4.54 rupees. The yields came in at

5.24 rupees, an improvement of 1.3 percent as compared to the same period last year which was offset by a marginally lower load factors of around 87%. Our unit revenue, which is RASK, came in at 5.40 rupees, which is around 5.5 percent higher compared to the quarter ended June 2023 primarily driven by accruals of the compensation that we have finalized with the OEM for the AOG.

On the cost side, the fuel CASK increased by 10.5 percent primarily driven by increase in fuel costs we have witnessed year over year

When one reviews the CASK ex fuel we experienced a similar increase of around 11 percent in the June 2024 quarter as compared to same period last year.

Now excluding the impact of forex, the CASK ex fuel ex forex increased by around 9 percent, compared to the same period last year primarily driven by aircraft grounding related costs, annual contractual escalations, inflationary pressures, annual increments, and the investments we continue to make towards supporting the future growth in areas of digital technology, talent and new initiatives.

Moving to the grounding of aircraft, the current count of grounded aircraft remains range bound at mid-seventies. We are working with Pratt & Whitney towards constant supply of spare engines and basis the current estimates we expect the groundings to start reducing towards the start of the next year. Further as communicated earlier, during the quarter we have finalized an amendment to the existing agreement with Pratt & Whitney for providing us with a customized compensation in relation to the grounding of aircraft due to spare engine unavailability.

During the quarter, we inducted 15 aircraft of which 8 are from original order book and remaining 7 were inducted as part of our mitigation measures in the form of damp leases and secondary leases. As of June 30th, we have a total of 382 aircraft of which 14 aircraft are on finance leases and 18 aircraft are on damp leases. In addition to this, subject to regulatory approvals we will induct 6 more aircraft from Qatar Airlines for the Doha route on wet or damp lease in the coming quarters.

As shared previously, in order to diversify our sources of financing we have added 14 aircraft on finance leases in the last three quarters. Going forward, we will continue to further diversify our sources and will add more aircraft on finance leases. The tenure of these finance leases is similar to the operating leases of 8-10 years, and we will have the right to own the assets at the end of the lease term at a nominal price.

In terms of recognition, in an operating lease we recognize the ROU and the lease liability at a present value of lease payments, which is then depreciated over the lease period and the interest is accrued on the lease liability. Supplementary Rentals & Maintenance is also accrued on the flying hours of the aircraft.

Whereas, when it comes to finance leases, the full value of the aircraft is capitalized in the ROU, which is then depreciated based on the component accounted in the aircraft value. Similarly, the interest is also accrued on the full value of the aircraft, but over the lease term. As a result, one will witness a higher allocation of interest and depreciation in the earlier years which will taper down over the lease term and life of the asset. Additionally, in finance leases the maintenance costs are capitalized when the maintenance event is carried out.

We ended the quarter with a capitalized operating lease liability of 449.6 billion rupees and a total debt, including the capitalized operating lease liability of around 525.3 billion rupees. Our right to use assets at quarter end were 358.6 billion rupees.

Due to our strong financial performance, our liquidity has further improved as we ended the June quarter with a free cash of 220.9 billion rupees. We continue to utilize part of our free cash towards future growth and our goal to become a 600 plus aircraft airline by the end of the decade.

With our firm pending orderbook of 975 plus aircraft that will enable us to receive more than one aircraft per week and the mitigation measures we remain firm on our capacity guidance of early double digits for the financial year 2025. And for the seasonally weak second quarter, we are expecting to add around high single digits capacity as compared to the same period last year. Further, on the revenue side basis the early trends of July, we are estimating a stable revenue environment on a passenger unit revenue which is PRASK basis in the second quarter of financial year 2025 as compared to the same period last year.

We will be turning 18 soon, we are proud of the legacy that we have built, and we are carefully considering the changing needs of our customers and making product advancements accordingly. As we embark on the next chapter of our journey our robust strategy and our improved financial health will provide us with the resources to invest for the future, explore new frontiers and reach greater heights.

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 very much. We have the first question from the line of Amyn Pirani from JPMorgan. Please go ahead.

Amyn Pirani: My question is on the compensation that you have accrued in the other operating line. Is this a one-time thing or are you accruing it as and when you get more clarity on the level of compensation that you get?

Gaurav Negi: So, like we've been communicating since Q3, which is the December 2023 quarter end, we've been accruing based on the understanding that we had with the OEMs, that has now been finalized and firmed up through a contractual arrangement that we've got into. So, the current quarter that you will see, is a combination of what we have kind of finalized with them and a true-up of the prior quarters also.

Amyn Pirani: Okay. So going forward, this number should come down dramatically because last 2 quarters, you had like Rs. 500 crores odd. This quarter, you have like Rs.1,300 crores. But before that, your number you should be much lower. So going forward, this number has to come down to where it used to be. Is that a fair understanding?

Gaurav Negi: Yes, going forward, we'll be accruing depending on the quarter that we need to account for it. Like I said, in this quarter, we had some catch-up of the previous quarters also, which will not be happening in the go-forward quarters.

Moderator: The next question is from the line of Venkatesh from Axis Capital.

Venkatesh: I just noticed something that normally, when I see how many A320CEOs you have, at the end of this quarter, you have 38. This number was 31 at the end of the previous quarter. And what I understand was end of last quarter, you had A320CEO damp lease of 11 and at end of this quarter, you have 16. That means that ex the damp lease, the A320CEO number has gone up from 20 to 22. Now I can't understand why that would happen because these are older planes, should not you be giving it back. I mean, have you taken new A320CEO planes? What exactly has happened?

Management: Yes, we've taken 2 additional secondary planes as an alternate to the AOG situation that we have faced. As you know that there are AOG situations that are happening with the NEO technology. So, we are on a much safer wicket to go back to the CEO fleet, which is more kind of a secure for us. So as a result, we've taken these 2, but for a shorter duration of time. So, it's not something we've taken from a long-term perspective.

It is a shift from the earlier strategy, where we were phasing all our CEOs, but this is something that we've been communicating ever since we ended up with a situation of AOGs on the newer technology from one of the OEMs. We've tried to get alternate mitigation kind of aircraft, which is also on CEO technology. So, 2 additional aircraft were taken on CEO to mitigate the AOG situation.

Venkatesh: Now just to clarify on the kind of lease this is. What I understand is if you take a damp lease, that might be for, let's say, 6 months or 1 year or 1.5 years. And you have your normal leases, which are longer term, but generally, you tend to return your aircraft in 6 to 7 years. Now when you have taken these 2 planes, what do you mean by a shorter period? Is it like 3 years, 4 years or even shorter?

Gaurav Negi: It could be shorter than that. It is a medium-term lease. Longer than a damp lease, but definitely shorter than the 6-year period. So, it has different tenures. It ranges between 2 to 3 years.

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

Pulkit Patni: Could you repeat what you said about the recognition of operating lease versus finance lease? And how should we look at it from an accounting perspective impact on depreciation and finance line items?

Gaurav Negi: So, when I spoke about operating leases and finance leases. So, when you do an operating lease, a large part of the lease move into your depreciation, interest and maintenance line items. And the way you do it is, you have a lease rental, you figure out the tenure of that lease, you then discount the same to a net present value, and then you start depreciating that through the depreciation line item, and the corresponding interest is then routed through the finance cost line. Under the operating leases, you do have an obligation to start maintaining that aircraft. So, you start accruing for the maintenances also. So that's on the operating lease side.

When you do a finance lease, you will ultimately become the owner of the aircraft at the end of the term that you have defined. It's usually 8 to 10 years. So as a result, the capital outlay as well as the interest cost because of that is going to be higher. And the depreciation is also accelerated in the initial years, which then tapers down over the life of the asset. So, in initial years, you'll have a higher depreciation and a higher interest rate but no SR obligations because there's no compulsion given in operating lease, you have an SR obligation.

So, the trade-off that is happening is your depreciation and finance cost plus SR comes up in the operating leases. In finance leases, we'll have a higher depreciation and interest cost in the initial years, which then tapers down over the life and the lease period that is remaining. At the end of the 10th year, the asset then gets transferred to you in a finance lease and you become the owner at a very nominal price too.

Pulkit Patni: This is clear. Gaurav, my second question is again on what the previous participant asked, so in terms of whatever you have accrued so far, since there are still 70 planes which are on lease, why should the amount come off, because the maintenance related to that should also be recognized every quarter, right? So, if you could just explain how this entire compensation would work going forward?

Gaurav Negi: So, the compensation is going to be directly proportional to the number of AOG situations that we continue to carry and the firmed-up number that we've agreed for each of those AOGs that we have. So, in Q3 and Q4, we had a kind of a baseline which was linked to prior kind of experience that we had with the OEMs in terms of how much we needed to accrue. That has been firmed up. And as you firm that up, it's a higher amount than what we had accrued earlier, you basically have a catch-up of the earlier quarters. So, example, Q3 and Q4 of last year, when we had accrued for it, there was a different aircraft count as well as a different compensation number that we had taken for accruing that, which went into the revenue line.

In Q1 of this year, we finalized the agreement with the OEM. As a result, there is now a firmer number that we have, which is also a catch-up of what we had accrued in Q3 and Q4. As a result, in our Q1 numbers, you've got what is the AOG and the compensation for that in the current quarter as well as a catch-up of the earlier quarters.

Going forward, as you go into Q2, that firm kind of amount is established. Now the only variable is going to be the number of AOGs that will remain during that quarter, and that's how the accruals are going to happen going forward.

So, this particular quarter, because of finalization of the agreement, there's catch-up. Going forward, there's no catch-up that is needed to be done. It's only going to move around depending on the number of aircraft that are going to be AOG.

Pulkit Patni: And we've got AOG, one on account of powder coating issues and then there are other AOGs. So, I'm assuming this is total or would there be separate for both of them?

Gaurav Negi: No, it's all combined right now. There's nothing to break down into different categories. This is all combined.

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

Pramod Kumar: My question pertains to the demand environment, as to there have been some concerns about the passenger traffic growth kind of moderating a bit. And given the fact that now we have a significant AOG situation with you and some players other players also impacted.

So how should one look at the muted passenger traffic growth and also yields are kind of softening. So how would you kind of look at the demand environment? And how would the growth look like or once this AOG situation starts to normalize, should we be kind of prepared for more moderated fares for next year? So how should one look at the current demand environment? Because there are some questions around whether the demand is really that robust.

Pieter Elbers: Well, maybe let me start off. I think we had a first quarter with solid demand. What we have seen, of course, there were some comparisons to last year. You may recall last year, Q1 had some capacity fluctuations and disruptions. And now in the first quarter, clearly, we had the elections and some of the impact on that, which is difficult to quantify. But for sure, there was some effect on the demand itself.

So, both last year and this year, I would say, were quarters with very specifics in their own characteristics. Looking at the overall outlook for July, we see a solid demand. And therefore, we have no change in our capacity guidance. We have no change in our planning, and we have an outlook for the long term, which is also very stable. So yes, we see some quarter-over-quarter fluctuations. Looking at the overall growth, I think we're satisfied with the growth which is there and the resulting of that in the load factors and yields. And going forward, we're confident on that environment.

Pramod Kumar: And just as a follow-up, have you heard anything from the regulators or the government regarding yields? Because there's been some noise in the political arena about the fares and all that. So, any follow-up from the government or the ministry concerned?

Pieter Elbers: Well, there's always focus on fares, obviously, and that's a mixture of routes, which where we see some stimulation of demand where new routes are being introduced. And I elucidated earlier on the number of new routes and new stations. And if you compare year-over-year, we've added the total of 17 new destinations, 10 domestic and 7 international.

And clearly, at those new routes, we see at times that traffic had to be stimulated and demand has to be sort of created. And with that, prices are very competitive. Some other markets are more mature or are fluctuated by discrepancies between demand and supply overall, and you see that in our financials. If you look to our yields, we see an average fare still in that range around Rs.5,000 to Rs.6,000 range, which is a very stable setting actually for the last couple of quarters.

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

Krupashankar NJ: My first question, Gaurav, would be on the compensation piece. Just to hop on it, there is some compensation which will be offset, vis-a-vis, expenses as well in this -- which is what was stated in one of the notes. So just wanted to understand there has been a significant increase in any other costs? Or what exactly is the line item against which it is predominantly offset?

Gaurav Negi: So, it's only getting offset around one line item that we have considered right now is maintenance. So, the rest of it is all sitting in the other operating income. So that's where the two categories of the compensation are getting allocated.

Krupashankar NJ: Okay. And is there any substantial escalation in costs, in any other major line item?

Gaurav Negi: So yes, the escalation, like I spoke about the last time also, we are seeing escalation that is happening across. So, we talked about the fuel escalation because the fuel year-over-year has started to creep up.

Within fuel also, we are experiencing that some of the states have started to increase the VATs also. So, there is some escalation that we foresee there. On airports, I had also spoken about, that the airport charges, what we've experienced has started to climb upwards. That's an area that we are monitoring and are in discussions with our airport partners that we have.

Other than that, obviously, maintenance is going through a bit of an inflationary cycle, largely because some of these OEMs that we have with whom we have maintenance programs are based out of Europe and U.S., where there's a higher inflation. So, that will play itself out based on contractual terms that we have as the inflation happens, the inflation plays out into maintenance. When that particular cycle goes down in these respective countries with which we have contracts, that will also taper downwards.

But currently, what we are experiencing is that there's a higher kind of an inflationary environment. If you look at the other line items that we've mentioned about, there's normally escalation that is happening, which everyone is experiencing. Like in our case related to other expenses, we do have crew accommodations. So, hotels as you are aware, are having a higher cost structures, which also translates into our line items, which face a little bit of inflation.

So, it's across the board that we are experiencing. But nonetheless, we are looking at ways in terms of how do we keep controlling these costs, but it's across the line items. It's not uniquely specific to only one or two.

That's also what played out in our Q1 results, what we've kind of shared with you. What we managed to do is, obviously, if you look at year-over-year, there's an increased fuel cost structure, there's increased FX impact that was there. We are offsetting it because we've got capacity increase. So, that capacity increase is helping at least moderate some of that, but we continue to look at other avenues also to see how we can control cost.

Krupashankar NJ: Understood. The second question will be regarding the announcement in budget regarding the increase in the period of the import of goods for MRO as well as changing the norms, as well as revised GST rate. Does this benefit us in a large way, if you can throw some light on all that?

Gaurav Negi: Yes, there were a couple of announcements. One, obviously, was on the GST rate related to imports of various spare parts that we as an airline also import, largely it was also focused on MROs also, but equally to us. There is some benefit that will trickle our way.

Like I said, these are all benefits, which are going to be helping us offset some of the inflationary pressures that we are facing. So that's where we'll be. Any savings that we are getting deployed towards at least offsetting some of the inflationary pressures that I talked about. Obviously, there was another mention in the budget also, which is very welcome for the MRO fraternity, is going to be related to importing further equipment and keeping them for a longer period. So, you get some parts and tools, which can then be kept within the country for a longer period.

That particular piece does not impact us as much but will be definitely kind of welcome by the MRO community. And I'm sure they're going to probably ask for more window related to that. But at least it's a move in the right direction from extending it from 6 months to 12 months now.

So, the first one gives us -- it is an uplift, but neutralized by the fact that we've got inflationary pressure. The second one is more towards the MROs, it is not as much to us.

Moderator: We have the next question from the line of Aditya Mongia from Kotak Securities.

Aditya Mongia: Two questions from my side. The first one on cost. If I see your cost ex of fuel ex of forex, it's gone up by about Rs.0.30 on a Y-o-Y basis. Would the Pratt & Whitney issue be accounting for a minority share of this increase, majority or dominant share of the increase?

Gaurav Negi: Probably a larger share because you get that offset sitting in the other operating income line.

Aditya Mongia: Understood. So, the second question that I had was on the demand environment. The context is that maybe the top 3 airlines in India, the CEOs have basically suggested that air fares are low, both IndiGo, Akasa as well as Air India CEOs. Is the demand environment good enough for the sector to be taking price increases ahead of cost inflation in the next 12 months?

Pieter Elbers: If 3 of the airline CEOs are stating that, I guess, you have made your own analysis in comparing it to what's happening in other parts of the world and to some extent, aviation is a global business looking at the price of planes and looking at the price of fuel and looking at the price of many other factors. So, there is clearly an underlying demand.

And looking at the under-penetrated Indian market, we feel still very confident about the growth and the long-term growth perspectives of that Indian market and a significant number will go up in the years ahead. On the more short term, there's always going to be some fluctuations in pricing, and we've seen a significant increase last year compared to the year prior.

We have seen a more stable environment today. I think what's important and let me take a step back from only the pricing element. If we look at some of the global airlines and other parts of the world and some of the mentioning there and recent publications of results, a 14% margin with IndiGo is presenting today, actually, for this very first quarter.

We have qualified that as a very solid and robust margin at 14% in this quarter. So, if we bring back your 2 questions, 1 on the cost and the other 1 on the revenues. -- and we present a 14% margin in this first quarter. Again, taking into consideration that last year had its own very specific dynamics and elements, we feel very confident on that outlook. And for IndiGo, it's important to maintain that cost leadership. Therefore, I think the way you go after you answered the previous question is underlining our focus on keeping those costs down. And clearly, we are confident on that revenue environment going forward.

And yes, you'll see quarters where it's stable. You see quarters where it's going up and where it's going down. If you look at the somewhat longer-term trends and how the industry is evolving and how the Indian landscape is moving into a more sustainable, if I may call it like that, aviation operating environment, I think we feel confident that the prices will continue to reflect some of the costs. And clearly, some of the increased cost in fuel and navigation and airport fees will have to find their way back in the cost. That's the only way to keep a sustainable business, and IndiGo is committed to continue to do that. And in that balancing, again, you'll see prices going up and down. Apologies for a bit of a long answer, but I thought it was good to basically incorporate some of the previous remarks and questions in this as well.

Moderator: The next question is from the line of Jinesh Joshi from Prabhudas Lilladher Private Limited.

Jinesh Joshi: Sir, is it possible by any chance to share how much claim have we raised on Pratt & Whitney to the AOG issue? And how much have we received so far?

Gaurav Negi: Jinesh, sorry, we will not be able to share that. We've mentioned this in our earlier calls also that it is something between IndiGo and the OEM. So, this is not something that we'd like to discuss in this call.

Jinesh Joshi: Sure. One related follow-up is a recognition on the compensation part, which happened. So, you mentioned that there was some recognition which happened in the other operating revenue and some bit of compensation also get adjusted into the supplementary rentals part. And if I remember right, in one of your earlier calls, you had also mentioned that the income gets adjusted in the other income line item. So, can you please explain, I mean, how does the attribution basically happen to each line item?

Gaurav Negi: We've never attributed anything to the other income line items. So, it's always gone into the other operating income line item and some of it has gone into the maintenance. So, as and when we are able to close out an arrangement with the OEMs, which we had done in the past, as the arrangement got closed out, there was an allocation that will define at the get-go with the OEMs towards maintenance and the rest was across various line items. As a result, we had attributed that to the other operating income line items.

In Q3 and Q4, what we accrued was something which was still being negotiated. As a result, we did not have clarity of where the final kind of negotiation is going to settle. So as a result, we attributed everything to the other operating income line items.

But as we closed the contract with the OEMs for this particular quarter, there's visibility that we have, how much is going to go into other operating income and the maintenance. That's how the allocation we've broken about. So, it's based on firmed-up agreements that you have with the OEMs that we are able to attribute between these 2 line items. There's nothing that went to the other income line item ever.

Moderator: The next question comes from the line of Arvind Sharma from Citi.

Arvind Sharma: First of all, on the codeshare part. If you could just share some more details how does the revenue recognition work on the codeshare arrangements that you have?

Pieter Elbers: It's pretty straightforward. If most of the partnerships we're having are somewhat different. But for the partnerships, and I was referring to the partnership with Japan Airlines, which has been announced, there's a portion of the entire sector, which is flown on the IndiGo aircraft, and IndiGo is getting revenues by the respective airlines, Air France, KLM, Qantas, Qatar and soon also Japan Airlines who are having their customers flying on that specific sector of IndiGo, and that will be recognized in our revenues.

Arvind Sharma: Got it. Also, interesting that you shared that in some of the routes you are testing inflight entertainment, is that still a very, what do you say, a very elementary test phase? Or is it something that IndiGo could launch on a broader scale going forward as well? And I believe this means not the data, the proper screen, right?

Pieter Elbers: Let me first share a little bit the strategy and the philosophy behind. I think the way IndiGo is moving is we're combining different pieces or different parts of the very same puzzle. So, if I fast forward a couple of notions; 2030, we will be doubling in size; 2027, we will have wide-body in operation; 2025, we will have the XLR coming in; and by the end of this year, we'll introduce a business product on the country's business and busiest routes.

So, if you combine these elements, we felt it was also a good opportunity to start testing what we call on-app entertainment. So, this is accessible through the app of IndiGo; an app, by the way, which will soon be further enhanced and further upgraded in order to enhance the digital experience of our customers. We're investing heavily in that digital experience of our customers. And I guess India by nature is becoming more and more a digital savvy nation. And against that backdrop, we feel it's the correct time to do that.

So, we have selected one specific route, where we are testing this on-app entertainment. That means-- it's on the device of the customers themselves. They can view movies, play games and even the geographical sort of functions and actually, we get very, very positive feedback from our customers on that. We'll review after a while what we do going forward, but it's clearly these types of testing are part of a broader puzzle.

I think what speaks to the entrepreneurship of IndiGo is we're testing a thing like this, and then we take a call whether we roll it out on a broader basis or not.

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

Sabri Hazarika: Congratulations on good numbers. So, I have a couple of bookkeeping questions and one question on strategy. So, in terms of your fuel CASK, so it has gone up sequentially despite the fact that there was some marginal reduction in fuel prices. So, you mentioned that there are some states which have increased the VAT, something of that sort. So, was it the only reason or there was something else also given that you have increased the number of damp lease aircraft also?

Gaurav Negi: All of them actually, Sabri. Because like we've said in one of the questions, we are deploying or we are taking mitigation measures, wherein we are bringing in some CEO technology. So, as you know, CEO is obviously is not as efficient on the fuel front. So that is adding to the increased fuel.

If you will compare the fuel rates between last year to this year, it's already a 10% increase on the fuel rates. So, you'll see on account of that, the fuel -- overall fuel cost has gone up. Obviously, the growth that we had, so the capacity driven growth that we have is also adding to increased fuel cost.

And finally, what we are experiencing is some states have, like I alluded to earlier, we've seen some of them had reduced their fuel, the VAT rates, but we are now seeing that some of them are actually started with the reverse trend. A couple of them have started a reverse where rates have gone up. So that's also impacting the overall fuel kind of a category that you're seeing. So, it's a combination of all these elements that's playing itself out now.

Sabri Hazarika: Right. And another bookkeeping question, your employee incentives that has been accounted for this quarter? Or is it -- it's not?

Gaurav Negi: Yes, everything has been accounted for. So, there's a combination of what we had done last quarter. In this particular quarter, we basically gave incentives to the employees, that has also been accounted for in this particular quarter.

Sabri Hazarika: Right. And secondly, regarding this Noida International Airport. So, what is the thought process? I think the VAT there is like very less in UP. I think it's like 1%, 2%, what I know in terms of ATF. So are you looking to like -- I mean just to give some idea what kind of like shift could happen from Delhi Airport to Noida Airport in terms of your volumes. And can this benefit you in terms of your cost structure or in terms of like new demand creation and including even Navi Mumbai also got it better, but of course, it's within the same state.

Pieter Elbers: Yes. I assume this is not your bookkeeping question but your strategic question. So let me answer that one. Clearly, the VAT is an important aspect of it. And if you take a step back and we have the ambition to build India into a global aviation hub, this is a very important aspect.

And clearly, airports, and we have seen some great examples of airports where states have reduced the VAT, have been able to attract a larger share of the growth. So, I would probably put more emphasis on where it's going to be the emphasis of growth rather than per se shifting from one place to the other one. That may happen in some specific places maybe lesser so in this case. But if we see that there's -- and Gaurav alluded to that, we get one plane coming in each and every week for the many years ahead. So, for IndiGo itself, we are developing today a strategy on where will this significant growth take place and where will the emphasis of the growth will take place.

And clearly, Noida is positioning itself with this at least to the information we have today, with this position to take a significant share of that growth. So, I would rather focus here on where will the emphasis of growth be and clearly, again, building India into global aviation hub, taking some comparison with other parts of the world where if you were to fly international, there's no VAT and where you fly domestic, you pay VAT, and I give that example earlier.

If you take a domestic sector, connecting Delhi and then fly somewhere else, you pay VAT. And if you take that same sector and you connect into hub in the Middle East, you don't pay VAT. So, to that extent, I think we are engaging in some of these discussions, how to make sure that the strategic objective of building India into a global aviation hub is compatible with some of these dynamics. A bit of a broader answer than just Noida, but I think it's relevant.

So, for Noida, we look forward to the opening and we are committed to build it and clearly, a competitive or as low VAT point as you alluded to, will be very beneficial in terms of attracting a larger share of the growth we have planned going forward.

Moderator: The next question is from the line of Kushagra from Old Bridge Asset Management.

Kushagra: Just 2 questions. One, on the yield side, if you can give more colour about both the domestic as well as the international yields, whether you saw both of them start of holding on versus the comparing quarters or it was more like the international, which was doing the heavy lifting there? And a related question is, over the longer term, when you were explaining about the pricing scenario and that whole India growth story, how do you see the yields between the domestic and the international over the longer term? Like was you sort of alluding to that the domestic yield should catch up and converge with the international yields over the longer term?

Pieter Elbers: If we look to yield development, I think it's sometimes going a bit into waves and fluctuations because yield, to some extent, is an outcome of the relationship between or the balance between supply and demand. And if that gets out of balance and yields are consistency too low, airlines will be out of business, and if yields would be consistently too high, customers would no longer fly.

So, if we take yield as a function of the balance between supply and demand, you can naturally expect some fluctuations where sometimes international or sometimes domestic is sort of a better proposition. Overall, still the international yields are competitive and are in a way that we see as sustainable. Therefore, today, the international share of IndiGo is around 27% of the ASK. We have announced earlier that that percentage is expected to grow, and we'll continue to build on that. And we believe that the long-term perspective of international yields will be there.

And clearly, also here with the change of some of the Indian consumer, some of the Indian consumer trends, we can expect also that solidifies going forward. And if we take lessons from what happened in Europe or what happened in the U.S., I think we can see similar fluctuations in India itself as well in the timing they had.

Kushagra: Just last question, two data questions attached together. One is like you called out international capacity share at 27%. If you can also call out or sort of, give a range of what would be the profit share between the domestic and international.

The second data question is, since you have focused a lot on these newer initiatives, these online things, mobile digital things, if you can also call out how much of your bookings today are coming directly through either your mobile apps or your website. Any such indication -- data indication will be helpful.

Gaurav Negi: So, on the first one, we usually don't provide a split. What we've kind of shared in the past also is that international is more accretive than domestic for us. So, we usually don't want to give a separate split between the two. But definitely, international is definitely more accretive than what the domestic is for us.

Pieter Elbers: And when it comes to the distribution side of it, there's different aspects. There's the direct sales we're having on our own app and web, then there's a percentage where we have the direct sales from some of our corporates and especially the small and medium enterprises.

Then of course, we have sales, which is going through the OTA channel, then we have the, let me call it, more traditional agents, and we're not providing a detailed breakdown for each of these segments. But clearly, part of our customer promise is an interaction within IndiGo. And recently, we have launched a 6Eskai app for our customers to interact with us. That's more servicing rather than sales. We have introduced WhatsApp as a communication channel for our customers.

So, part of that digital journey is in fact, making sure that, let me call it, being where our customers are. And increasingly, we see our customers online, and therefore, we explore these new channels and again, without going into the precise percentage for each of the channels.

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

Achal Kumar: So, first of all, in terms of yield. So, you mentioned that the next quarter yields are going to be flat year-on-year. That confuses me a bit because I think the last year, second quarter, I think the capacity was up almost 20%. And this year, you are guiding much lower capacity growth. And then yet you're expecting a yield, a flattish yield. So, I mean, could you just break it down a bit and give us a bit more colour in terms of are you sort of reducing the fares to inflate the demand? Or is it like how much of it is like underlying yield strength and how much is because of the network mix? So, what exactly happened on the yield? So, if you could break that up and then give a bit more colour, that would be helpful.

Pieter Elbers: There's a couple of elements here. There is the year-over-year comparison, there's the quarter-over-quarter comparison. I think we all recognize that last year was a special year. It was the first sort of full year after COVID, which has seen a lot of recovery and a lot of catch-up demand and very significant growth.

And now if we only look to IndiGo, we welcomed in 2023, 100 million customers as compared to 78 million, which was the peak before. So, an incredible increase of 20-plus percent, which we had there. That is not a sort of year-over-year 20% growth.

So, we look to a longer-term significant growth perspective, but not every year 20%. So therefore, it's exactly why we gave the capacity guidance for this year in the low double-digit numbers. And we feel comfortable that, that low double digit is the capacity guidance we'll be able to achieve. And the 11% is the actual percentage which we had for the Q1. Q2 is the quarter ahead, which is usually a seasonally weaker quarter. So of course, we tune our capacity to the demand quarter-over-quarter.

Achal Kumar: Okay, fine. My second question is about more on the international side. So now, of course, given that you're not very far from taking XLRs' deliveries and then you are also preparing for wide bodies. So, I just want to understand in terms of taking the flight rights and especially the sixth freedom right, which is quite important since India is getting an international hub. So, how do you see them? Do you see any challenges at the moment? Have you not started preparation yet? Or are you finding it easy to get all the flying rights which you need for international operations? Could you please help on that?

Pieter Elbers: Sorry, did you say fifth freedom or sixth freedom?

Achal Kumar: Sixth freedom.

Pieter Elbers: Okay. IndiGo is building up its international network. And we've shared that earlier with all of you when we announced the wide-body, I think there are 2 things happening. First of all, the Indian market, when it comes to international travel is still underpenetrated, both from a point of sales, India as well as from the foreign visitors into India. If you look only to the wealth of tourism sites and heritage India is having, I think we have a great potential in also attracting more foreign visitors, business, tourism, visiting family and friends. And the same would go for the outbound one.

So, one is international demand, which will continue to grow. And two is a share in that international demand for Indian carriers, which is lower than what some of -- especially in some countries, of the share of the foreign carriers. So, I think we have two dimensions why we feel comfortable we can grow.

One is the sheer growth size of the market. And secondly, the size and the share, which is being done by Indian carriers. And against that backdrop, there are still opportunities, there's still markets out there where these traffic rights are available. Then whether we use that for point-to-point or connecting traffic, that's part of a broader strategy.

And we have seen really, in some of the recent introductions, and I mentioned in my opening remarks, the successful introduction of Central Asia, when we launched that, and that's actually one year ago, it was early August last year, we started flights into, not only Nairobi, but also Baku, Tbilisi, Almaty and Tashkent. We started 3-4 a week into these cities. Today, they're all moving up to daily and if not more going forward. So, we believe there are still opportunities in adding that. You have seen in the first quarter, even we've added more routes and new routes, we have ambitions in the second half of the year to add a couple of new international stations as well, and that is all within the existing portfolio of available traffic rights.

Moderator: Ladies and gentlemen, we will now take the last question, which will be from the line of Prateek Kumar from Jefferies.

Prateek Kumar: Congrats on the good results. My first question is on compensation again. So past 3 quarters has seen total cumulative compensation of Rs.2,300 crores, Rs.2,400 crores. Is this attributable cost of Rs.2,400 crores for the same 3 quarters and net spread neutral for the company as such? And maybe now the quarterly impact or compensation would be Rs.800 crores -- to the tune of Rs.800 crores going forward?

Gaurav Negi: Prateek, sorry, just repeat that question. What's the Rs.2,300 crores, how you get from that?

Prateek Kumar: So that other operating income Rs.1,300 crores this quarter, plus Rs.500 crores each in last 2 quarters. So Rs.2,300 crores.

Gaurav Negi: You're aggregating it, okay. Got it.

Prateek Kumar: Yes. Just aggregating. You said it was 2 ups of last quarter. So, is it like on a 3-quarter basis, is it like neutral on spread and as a result, like last year, second half, you said I would have been much higher versus what they have reported for the company? And going forward, like they're simply averaging 3 quarters at like Rs.800 crores kind of average, that could be the compensation going forward?

Gaurav Negi: Like I said, it's going to be based on the number of AOGs that are going to be there. So, it's not going to be as simple. Because the AOG number in Q3 was a different number and Q4 is a different number, and it keeps changing. So, this particular number will keep changing depending on the number of AOGs, that is how.

Our endeavour was obviously to get the maximum in terms of what the cost structure is. But as has been mentioned, that while there is a cost dimension to it, there is obviously an increased cost for the mitigation measures that we've taken. That increased cost is like I gave kind of a reference point, the fuel is going to be higher. There's going to be higher rentals because some of the secondary aircraft that we're getting are at a higher cost.

So, all elements of costs will not get kind of covered, while a substantial portion will get covered, but this is the best kind of an arrangement that we could get with the OEM, keeping all aspects into account in terms of working with them to reduce the AOGs as well as the long-term relationship that we have to maintain with them.

Prateek Kumar: Just a clarification on an adjusted true up basis, it's like neutral on spread, right? Or is it like positive on spreads in some period and negative on spread the other periods?

Gaurav Negi: No, it's not going to be neutral, like I said, it's always going to be less than what the overall cost is going to be. For the 3 quarters that we've had, if you'll aggregate the 3 quarters, you will not be able to cover all dimensions of the cost through the compensation.

Prateek Kumar: Okay. My other question is on the 6 wet leased aircraft of you talked about Qatar. This would be like Boeing aircraft, right? And does this change anything for the company as such because we have been operating only Airbus?

Gaurav Negi: Not really. These are going to be damp. So, these are going to be operated the same way we are operating the wide-bodies, which are again a Boeing aircraft, 777. This is a similar structure that we're getting it. So, the entire ACMI is going to be with Qatar. So operationally, we'll be providing -- our cabin crew is going to get trained to operate these aircraft the way we've done it with the 777s also.

But all other elements in terms of the flight crew is going to be there. The cockpit crew is going to be there. Aircraft maintenance is going to be done by them. The insurance is with them. So, all maintenance is going to be with Qatar, not with us. So, it doesn't complicate the execution of it because we have an Airbus operations.

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

Pieter Elbers: Thank you so much. Ladies and gentlemen, thank you so much for joining us in this call. Let me just summarize it. We're very pleased to report another strong quarterly financial performance for this very first quarter of the financial year 2025. A continued growth in total income of 18% as compared to the same period last year to around Rs.202.5 billion and a net profit of Rs.27.3 billion, resulting in a very solid margin of around 14%.

And this 14% is solid and strong, especially keeping in mind the increased cost in the form of fuel, forex, aircraft groundings and some of the global dynamics. And I'd like to use this opportunity to extend a heartfelt gratitude to our 28 million customers this quarter for their continued loyalty and choosing IndiGo for their travels.

In a few days, we will celebrate our 18th anniversary, when we will unveil our recently announced new initiatives to address the evolving market developments and our customer feedback. I would also like to thank all my IndiGo colleagues for their continued dedication, professionalism and commitment in serving our customers.

Ladies and gentlemen, once again, thank you for joining. Wish you a happy Friday evening, a good weekend. Thank you.

Moderator: Ladies and gentlemen, on behalf of IndiGo, that concludes the conference. Thank you for joining us. You may now disconnect your lines.

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