



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

October 25, 2024



**MANAGEMENT: MR. PIETER ELBERS – CHIEF EXECUTIVE OFFICER
MR. GAURAV NEGI – CHIEF FINANCIAL OFFICER
Ms. RICHA CHHABRA – DIRECTOR, INVESTOR
RELATIONS**

Operator: Good evening, ladies and gentlemen and welcome to IndiGo's Conference Call to discuss the second quarter of fiscal year 2025 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 second 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 so much for joining the call. We announced our financial results for the second quarter of the financial year 2025 today.

For the quarter ended September 2024, as we continue our growth path our capacity grew by around 8 percent which is in line with our guidance. We reported a total income of 178 billion rupees, which is an increase of 14.6 percent as compared to the same period last year. Driven by the peak groundings of mid-seventies and rising fuel costs, we reported a net loss of 10 billion rupees as compared to a profit of 1.9 billion rupees during the same period last year.

Our performance in the September 2024 quarter, was impacted by seasonal trends and shift in religious period. In addition to these factors, as experienced in the global markets we have also observed some normalization in the demand in the last few months when compared to the very high base of last year. Currently, while some of the markets are still underserved, some markets especially international are witnessing added competitive intensity.

As we have communicated earlier, we are facing headwinds in the form of aircraft grounding situation. We reached the peak number of groundings, in the mid-seventies, during the quarter and the number has already started moderating downwards. The expensive mitigation measures as against these groundings is a well thought through short-term investment in the business, as to ensure that we can serve our customers with the best possible flying options in the upcoming seasonally stronger quarters. Additionally, fuel costs have impacted us negatively in this quarter when we compare them to the very same period last year. Gaurav will delve further into the financial performance.

When I joined a little over two years ago, we set a point on the horizon being 2030. We laid out what type of airline does India need by 2030. And the vision at that point was and still is India would need a very strong domestic carrier but also an airline connected strongly across the world.

In August, we celebrated our 18th Anniversary, and it offered us the perfect opportunity to reflect on our journey so far and set our sights on the next chapter of IndiGo growth. At the same event, we unveiled our tailor-made IndiGo business class. And we start the offering in only three weeks from now on the Delhi-Mumbai route. By the end of 2025, we will launch this on 12 metro routes with a fleet of 40 plus aircraft of this configuration. It will create a desired option for many who are aiming to travel business class, some of them seasoned and some perhaps for the very first time in their lives.

We also started our loyalty programme - BluChip in October. Customers who become members of the program will be able to accumulate IndiGo BluChips on each and every flight. It offers one of the highest rewards per spend on flights and ensures life-time validity and hassle-free redemption on every flight up to the last seat available throughout the year. With lakhs of customers already signed up for the BluChip programme, we are witnessing positive traction in our loyalty programme. The programme will further increase our customer loyalty and will also provide us further insights on the consumer preferences.

In our continuous endeavour to enhance customer experience through digitization, we have revamped our website and app with an interactive design experience and a state-of-art modernized technical architecture. These upgrades will offer customers a more user-friendly and hassle-free way to book and manage their travel plans.

In addition to this, if you recall we had announced the launch of our venture capital arm, last year, to invest in startups, which have the potential to redefine the future of aviation and beyond. We have recently received SEBI approval for IndiGo Ventures. Currently, IndiGo will have a total contribution of up to 3 billion rupees in the fund and will start to invest in startups by the end of this financial year.

While we are deeply rooted in India, and we are also continuously adding capacity in international markets and our capacity share in the international market has reached to 28 percent. We announced two new international destinations – Jaffna and Mauritius during this quarter. We are likely to launch two more destinations – Penang and Langkawi in the coming months, and we aim to add another three international destinations before the end of this financial year. These

additions will take our international destinations to a total of 40 by the end of this year. As a result of these additions, our international capacity share is expected to reach the targeted levels of 30 percent.

We are continuously investing towards our future growth by enhancing our distribution strategy. We have partnered with Amadeus to make our NDC content available to travel sellers across India and the world. This will simplify the booking process, for corporate clients and travel agencies, by providing direct access to our full range of products. It will not only streamline operations but will also deliver the ability to offer exclusive deals tailored to individual traveler profiles.

Further, to nurture the next generation of pilots and support our growth plans, we have partnered with two world-class aviation academies - Marigold Aviation and Garuda Aviation Academy, over the past six months. With these partnerships, we have a total of nine partnerships under our coveted Cadet Pilot Program, which offers aspiring candidates with world-class training ecosystem. Additionally, recently in October, we have opened two new learning academies, one in Gurugram near our headquarters and another one in Mumbai. With these additions our training capacity has increased by around 60 percent.

Through these efforts we are laying the groundwork for significant further growth in the years ahead. We recognize that growth is projected to happen at a pace where we also need to keep up with the infrastructure both on the ground and in the air. While a lot of the effort is being made to make sure that infrastructure is being ramped up. Infrastructure at a few Major Hub locations such as Delhi and Mumbai will take time to match this growth, which will have an impact on the operational performance of the airlines as well as their ability to increase capacity at these airports. Given our size and with around 40% of our flights touching Delhi and Mumbai, the impact is more profound.

Operationally, on 5th October, we experienced a major system outage due to system update by Navitaire, affecting our bookings and our operations. Our teams did an excellent job in managing the disruption and due to their Agile approach, we cancelled only one percent of the flights on that specific day. We are working with Navitaire to avoid such disruptions in future.

Further, as we discussed during our Annual General Meeting, during the last winter season, we faced significant operational challenges due to weather-related disruptions. These challenges taught us valuable lessons which have prepared us to navigate such uncertainties ahead. While we have taken steps such as increase block times and enhance some of our operational procedures to mitigate the impact of weather-related challenges, however, these challenges remain unpredictable at times. What we can control is how we respond to these challenges. This year, we made a whole set of preparations as to be better equipped to manage the situation with improvement in processes, systems, and training.

In closing, the headwinds that we are facing in the form of groundings, had an impact on our financial performance during the September quarter. If the grounding of aircraft was not there, our financial performance would have been in line with the seasonality. While in the last 8

quarters, we have seen a consistent increase in the number of groundings, we have now turned the corner with the grounding situation and the number of aircraft groundings have started reducing. Basis the development, we will start adjusting our mitigation measures in the quarters to come. As we move forward, we also expect to see a natural rebound in passengers in the seasonally strong third quarter.

We will continue to execute our long-term strategy and are fully confident in meeting our full-year capacity growth guidance of the early double digits. We are investing in growth, people and new initiatives while remaining focused on our customer promises. These investments will help us to reach new heights, with a strong sense of our roots.

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 September 2024, we reported total income of 178 billion rupees an increase of around 15 percent as compared to the same period last year.

We reported a net loss of 9.9 billion rupees with a negative net profit margin of 5.8 percent compared to a net profit of 1.9 billion rupees with a net profit margin of around one percent during the same period last year. If we compare the quarter performance versus the last year, while we continue to grow our revenue and capacity, this year we have been impacted by headwinds related to:

- Costlier mitigation measures given we had the peak number of AOGs in the quarter
- Increased fuel costs driven by increased VAT in some of the states and increases in oil marketing companies' charges
- We have also spoken about the inflationary environment which are contractual in nature and is impacting various line items on the P&L side
- And we continue to do growth-oriented investments in digitization, people and infrastructure.
- Additionally, as we had shared last year, we had some one-time reversals in the airport charges due to the RCS provisions and OEM claims that were accrued in Supplementary Rentals & Maintenance line, which we do not see repeating itself in the current year.

In terms of per unit revenue performance, the passenger unit revenue (PRASK), came in at 3.76 rupees vs. 3.70 rupees in Q2FY24, an increase of around 2 percent, broadly in line with our guidance. The yields came in at 4.55 rupees, an improvement of 2.3 percent as compared to the same period last year and a similar load factor of around 83 percent.

Revenue from domestic market, which forms around three-fourth of our total passenger revenue, grew more than the international markets as the yields in the international markets have tapered as compared to last year.

Our overall unit revenue, which is RASK, came in at 4.45 rupees, which is around 5 percent higher compared to the quarter ended September 2023.

In terms of the fuel costs, while the benchmark fuel prices went down on a year-over-year basis, our fuel CASK has increased by around 4 percent driven by increased consumption due to changes in the fleet mix, congestion at major airports, that we are experiencing, leading to increased block times and increase in VAT on ATF in certain states.

The CASK ex fuel ex forex came in at 2.90 rupees, which is 23 percent higher on year-over-year basis. However, it continues to be consistent on a sequential basis, across all our cost categories, with what we had communicated in our earlier calls. This quarter, we have taken deliveries of 6 aircraft from Qatar on ACMI basis and are also paying enhanced summer rates on existing ACMI based leases from European lessors, from May onwards which is leading to a marginal increase in aircraft and engine rentals sequentially.

The year over year increase in CASK ex fuel ex forex, as shared earlier, is largely driven by:

- Groundings and mitigation related costs
- Annual contractual inflation increases in airport charges driven by new control periods and enhanced annual escalations.

Moving to the aircraft on ground situation, as Pieter mentioned, we have already passed the peak levels of groundings, and our current grounded aircraft have reduced to high sixties from mid-seventies levels in the first & the second quarter. Further, based on the current discussions with the OEM, we are anticipating that the groundings will continue to moderate downwards to sub-sixty level by the end of the calendar year and in the forties by the start of next financial year.

The impact on the profitability related to the costlier mitigation measures will also start to moderate downwards as we start returning the short-term damp leases sometime in the first half of next year.

During the quarter, we inducted 31 aircraft of which 9 were inducted as part of our mitigation measures in the form of damp leases and secondary leases. Further, if you recall we had incorporated a captive leasing unit in the Gift city last year and post the necessary regulatory approvals we have started to finance our aircraft from this entity. From an IndiGo consolidated financial statements perspective, there will be no change, and we will continue to record our lease liabilities and right of use assets from these leases. Further, we redelivered 3 aircraft during the quarter resulting in a total fleet of 410 aircraft. With these changes, we have become the first Indian airline to have a fleet of more than 400 aircraft.

Now in terms of the balance sheet side, we ended the September quarter with a capitalized operating lease liability of 477.8 billion rupees and a total debt, including the capitalized operating lease liability of around 592 billion rupees. As explained in the last earnings call, given that, we are also adding finance leases the capitalization of ROU and the lease liability per aircraft is increasing. However, at the end of the lease term we will be owning the asset at a nominal value. Our right to use assets at quarter end were around 415 billion rupees.

As we continued to take deliveries of our aircraft and move into a seasonally stronger quarter, our liquidity has further improved as we ended the September quarter with a free cash of 243.6 billion rupees and a restricted cash of 150 billion rupees.

For the third quarter, we are expecting to add capacity in the early double digits as compared to the same period last year, and we also remain firm on our full year guidance of early double digits capacity addition. Further, on the revenue side basis the trends of October, we are estimating early to mid-single digit moderation in passenger unit revenues for the third quarter as compared to the same period last year.

In Summary, while the September quarter results were modest due to expected seasonal effects and current headwinds related to groundings, we are committed to generate long term shareholder value. We have launched our new initiatives during our 18th Anniversary celebrations, our IndiGo business class and our loyalty programme – BluChip. These new initiatives align with our customers' needs and we believe that the timing is right to embark on this chapter of our journey. As we grow, we will do so by continuing to keep our customer promises.

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. We will now begin the question-and-answer session. The first question is from the line of Binay Singh from Morgan Stanley. Please go ahead.

Binay Singh:

Just a follow-up question from the opening comments. When we look at CASK ex-fuel ex-forex, it's up around 23%, and we basically said there are 2 reasons for it. One is aircraft grounding. The second is inflation in different line categories. Could you give us a little bit of a breakup between the 2 so that we can get a better sense on what normalized CASK ex-fuel ex-forex is? Linked to that, when we talk about inflation in categories, there is a lot of news flow on airport charges rising up, and you also talked about VAT rising up. Do you think that inflation that you see today is already built into the Q2 CASK? Or is there more to go through that? And the third point is I couldn't catch what you said on 40 aircraft in FY'26. Is that your estimate that 40 aircraft will be grounded on average in FY'26, if I got you correctly on that.

Gaurav Negi: So, Binay, on the first question, if you look at CASK ex-fuel, ex-forex, yes, it's gone up by 23%. The broad categories of that driving that increase is one is the AOG related cost that is sitting in the cost side. An offset of that is in the revenue because that's where we get the claims from the OEMs. So, there is an offset of that sitting in the other operating income line. So, that's one element of the cost increase that you will see. The other element of the cost increase that we have called out is the mitigation measures that we have taken, which again, has driven the cost higher for us. So that's the second category of the cost increases.

The third category of the cost increases relates to all the inflation that we have been talking about across the various line items. So, these are the 3 broad categories that has driven the cost, barring the fact that, obviously, you have the operational increases. So, given our capacity has grown by close to 8%, there is a cost increase related to that operational growth. Alongside that, there are other factors which are AOG, mitigation and then the inflationary environment that we have seen across line items that have contributed to this 23% growth.

Binay Singh: And the 40 number that you said on AOG, that is what you are expecting starting FY'26 or that is for the whole year?

Gaurav Negi: No, so, like, we have been communicating, our AOG number has been in the mid-70s, and also the fact that there are mitigation costs related to these AOGs that we have taken. Now what we are experiencing is that the mid-70 number has started to trend downwards. We have managed to reduce this. It's trending now below the 70s, it's in the high 60s. And what we are expecting now working with OEMs that this number will start to trend further down and be in the mid-40s by the start of the next financial year. And over a period, it will keep trending downwards. So, the trajectory that we were experiencing, where the AOGs were increasing, has now taken a turn. And as a result, this number will continue to taper downwards. And beginning of next financial year, the number is in the mid-40s and will further come down.

Binay Singh: When you said the AOG is offset in the operating line item, so even the mitigation factors are offset in the operating line item or you basically are not fully able to offset that? So, overall, the idea is to get that when things normalize, what will be either a CASK or a RASK tailwind at the net level basis?

Gaurav Negi: So, what we get is like and I have kind of shared in the past, the combination of AOG that we have and the mitigation measures that we have taken has an offset sitting in the other operating income line, which is the OEM-related claims that we are getting. So, a combination of these 2 are an offset. Like in the prior calls, I have expressed, we are not completely getting an offset related to all these cost items. So, that's about what I can share with you. There is not 1:1 kind of a correlation, but we are obviously carrying a higher cost that has been said related to these groundings, which surface in the form of mitigation measures that we have taken.

Binay Singh: This is very helpful. So, all the inflationary pressures are built in that you see today? Or you see more coming up? There is a lot of talk about airport charges rising.

Gaurav Negi: The way the airport, and obviously, it's kind of regulated by the regulatory authorities that you have. But some of the airports will be going through a shift as far as the control periods are concerned. So, when an airport goes through a control period shift, there is usually what we have experienced is a revision in the rentals that they have. So, as and when a particular airport is going through a control period shift, we are more likely than not likely to see some kind of a revision in those rates. A large part has already been seen and like you rightly pointed out, the airport rentals have gone up. But as and when the other airports also kind of have their control periods coming up, we are likely to see some kind of a revision over there, too.

Moderator: Next question is from the line of Aryn Pirani from JPMorgan. Please go ahead.

Aryn Pirani: My first question is actually on demand growth itself. So, like you rightly pointed out, your load factor in 2Q FY'25 is similar to last year of around 83% despite the fact that you had an increase in AOGs, and your ASK growth has also moderated. So, basically, it looks like your domestic RPK growth is around 4%. So, is this because of a moderation in growth? Or is it because some of your AOGs are in routes where you could have lost sales, and once these AOGs come back in service, the RPK growth itself could see an acceleration?

Pieter Elbers: No. If we look at the growth numbers, I think in the introduction, we have also mentioned it, there is a bit of a normalization. Last year, of course, was characterized by very high growth numbers. And this year, we see some normalization on a quarterly basis of these growth numbers, especially in the somewhat traditionally weaker seasons. And obviously, Q2 is a somewhat weaker season. I think what's important for us is that despite this very high number of AOGs and we have taken all these mitigation measures, that has enabled us to still have a significant capacity growth and with that to keep serving the market. So, without the AOGs obviously, our financial situation would have been better, but we would not have been able to serve the market and accommodate the growth. So, for us, the sort of long-term view on how the Indian market is growing is unchanged. But clearly, there is somewhat traditionally weaker season, the growth was somewhat moderated.

I think also there were a couple of very specific elements in this quarter, which was the sort of the post-election travels, which were there. There were some specific weather elements also affecting it. So, there were a couple of specific items. But overall, I would say it was pretty much in line with our expectations, and that's exactly why we put out the capacity projection for the entire year of the early double digits, and we had a single-digit growth predicted and actually executed in the 2nd Quarter. So, the fact that we have a stable load factor in this quarter is very much in line with what we anticipated. And in fact, where we were foreseeing prior to the quarter itself.

Aryn Pirani: Just a follow-up on the costs. Now obviously, AOG mitigating factors will moderate as these planes come back and the damp leases are given back, but the inflation is something which would be impacting you as well as the industry. So, would it be fair to say that if you have to go back to normalized spreads, then the yields in the industry and your yield have to go up materially higher from here? Or do you think that the ASK growth itself can take care of the inflation that we are seeing in the non-AOG path?

Gaurav Negi:

Obviously, there is inflation that is two-folds. One is the domestic inflation, one is the international related inflation because part of our cost structure is also linked to the international. So, as there is moderation in those inflation levels, the underlying contract will also automatically start moderating downwards because those are all linked to indexes, which are global in nature. So, those moderations of inflation at a global level will obviously start flowing through as far as our moderation and inflation levels.

Similarly, from a domestic standpoint, we have talked about the airport rental related inflation. But there is also inflation inherently within the country, which also is directly correlated to the expenses that we incur, meaning our crews are also staying in various hotels that are there. There is an inflation linked to hotels. So, all that is linked to external elements, environments, as they start to moderate downwards, so will we also kind of benefit from that moderation. So, that's how I will probably answer this.

But to your other point, yes, we are still growing on the revenue side. We are committed to deploying more capacity. We have grown 8% this quarter. We are again looking at early double digits. And the total year, like Pieter mentioned, is still commitment of early double-digit capacity growth, which is also in a way to absorb some of the inflationary pressures that we are experiencing. So, there is a combination effect that is playing out. And we are hopeful that some of the inflation will start moderating downwards also, which will then kind of play itself out.

Having said that, obviously, the yields are going to get tested out any which ways in order for us to absorb some of these costs. Which is going to be a balance of, again, load factors and yields. We usually look at PRASK as a measure. We don't individually look at yield and standalone yield and standalone load factors.

Moderator:

Next question is from the line of Arvind Sharma from Citi. Please go ahead.

Arvind Sharma:

First question would be on the yield trends or the passenger unit revenue (PRASK) trends, which you said there could be a bit of moderation in third quarter. Any specific reason for that because the market share is fairly strong. So, is it a manifestation of some decline in demand? Or what could be the reasons for that? That would be the first question.

Gaurav Negi:

Arvind, if you see the way the first half trended, obviously, there was a bit of a moderation in the demand. And again, as was stated, we have seen a significant kind of a run-up last year. Because last year turned out to be a very strong reference point because we had significant demand coming through, a lot of capacity got added. And as a result, it turned out to be a very strong year. So, that's where the kind of a new baseline got established from a revenue and a PRASK standpoint.

The first half played out well because at least the PRASK was holding in majority of the places. It held to the level that was there prior. And there was demand-related pressures that did surface in the first half because you had the election in the first quarter. You had some weather-related that Pieter just alluded to, you had some kind of disruptions related to systems and infrastructures also. And you've got some congestion related challenges also. So, those have impacted the demand.

What we are now experiencing, at least in October, the demand has started to kind of creep up. It is obviously a festival-related kind of a demand creep-up that we have already started to see. But that's what we can see at least trending in October. And likewise, what we have guided to, that the PRASK is going to be a little moderation that we expect in Q3 because there is capacity addition that has happened. The good part is demand has started to come back. At least what we are seeing in October is going to be at least high single-digit to early double-digits on the domestic side I am talking about. While the international demand is very much there, there is increased competition that we are seeing it because India is becoming very attractive for many. So, there is a capacity build that we are experiencing on the international side, which sees a bit of a moderation, again, on the yield side.

But on a whole, passenger unit revenue (PRASK) wise, we have said that between probably early single-digit to mid-single digit moderation is likely for the third quarter vis-a-vis the last year because last year was again a very strong kind of a performance, Q3 was a very strong performance for us, if you will see in terms of both demand as well as the yield levels and the PRASK levels, load factor levels that was reached.

Arvind Sharma: Staying on revenue, there was a sharp increase in the ancillary income, again, quarter-on-quarter basis because this is ideally a relatively weaker quarter. Any specific reason for that?

Gaurav Negi: I think within the ancillaries, obviously, various categories that we have and various initiatives that we keep carrying out, large part is obviously related to cancellations, to seat, to baggages. But a large part is also embedded in that is the cargo side of the business. And our cargo business has started to do very well for us. So, as a result, that's where you will probably see a bit of an increase on the ancillary when you club it together. Our cargo business, our freighter business has had a good run at least in the more recent months, which has contributed to a better performance on the ancillaries.

Arvind Sharma: One very quick view on the inflationary part. Due to that higher damp and wet leases, probably those are the mitigation measures you are talking about. Inflation would be even higher than what it would have been, if you had all the planes. So, once the AOGs go down next year, i.e., FY'26, I mean, I don't know if we call it a reversal of inflation, but easing of inflationary pressures, like, say, second half of next year?

Gaurav Negi: Too forward an outlook to say, let's see where that goes. But like I am saying, our underlying contracts are linked to obviously, the right kind of indices, which are linked to inflation, so environment-related inflation that is there. So, it could be labor related, it could be various commodity related. So, all are considered and factored in. If you foresee those to be moderating, yes, they will moderate downwards, but it's a little too further out for us to kind of call out right now.

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

Krupashankar NJ: My first question was on the international side. While we do see that load factors have come off seasonally because we are expanding. But Gaurav, you did mention that the competition in the international side is increasing. Is it likely because 85% what we reported in the first quarter was

one of the highest load factors we have recorded internationally in the past. So, is it likely that the load factor probably has peaked out and from hereon because we are on an expansionary trend, it will moderate at close to about 82% to 84%, roughly. Is that a fair assumption?

Pieter Elbers:

Well, I think that would be a bit too quick jumping into conclusions basis on what's happening in the quarter. I think what we have seen taking a step back is that the international demand is strong and actually still stronger or even stronger, I should rather say, than the domestic demand. We are exploring new markets, new destinations. I think for example, Jaffna is a great example of a new market. All our growth in Central Asia. So, we keep growing these international markets. And with some of the new announcements, again, we will start to explore new international markets. So, I would not link it to a specific load factor in a specific quarter to take any view on that.

The Indian traveller, as we can see, is still very keen to travel international. We see a couple of international markets where visa restrictions are being either lifted or eased, an enormous surge of demand. We expect that to continue. We will reach our 30% share of international ASKs very soon. We continue to add new destinations and open up new markets in that. So, we remain very optimistic and bullish on that.

Yes, we do see some sort of quarter-over-quarter changes in the load factor and some sort of increase of some of the international carriers coming also on these routes again. India has been viewed, I think, over the past 12 to 24 months as the world's fastest-growing market, and obviously, other airlines or other airlines from other countries are looking to reallocate some of their capacities to this market. I think this will only further let the market grow and develop the Indian international market.

Krupashankar NJ:

My second question was on the ATF prices. While we have seen a sharper decline coming in, in the third quarter, at least October numbers are giving quite a sharp decline, sequentially. Gaurav, do you see probably that adjusted for even the VAT and other OMC related costs, are you seeing a decline in fuel cost? Or are there any other inflationary pressures, which is keeping the cost at similar levels?

Gaurav Negi:

No. On the fuel side, the way it works is obviously, its linked to last month's MOPAG pricing. So, it's kind of a defined formula. So, if the price is moderate, the moderation then gets factored in, in the next month's pricing from the oil marketing companies. But because of some of the challenges that the airlines are running into with the congestion, there is a bit of a larger kind of fuel burn that we are experiencing because our block hours are getting more expanded out.

So, that's a bit of inefficiency that we have, which, obviously, as things ease out because there is obviously efforts that are being taken by everyone in order to reduce or improve the congestions, will also kind of then ease out the pressure that we have on the fuel side.

I have also talked about the fact that, yes, there are certain states where the VATs have increased, that's also gone up, which then becomes incremental costs for the airline. And we're working with the oil marketing companies also because while the underlying MOPAG may be changing, there are certain oil marketing company-related charges that have also started to go a little upwards.

So, the formula to calculate the underlying fuel remains well established. So, whichever way the fuel is going to move, that's going to be passed on to the airlines through the oil marketing companies as a defined process. So, if you are experiencing that October, the fuel has gone down, we will get to see that in November, barring some of the other elements that I am talking about, which are offsetting those declines. And hopefully, we are just hopeful, let's see where that goes. If the congestion situation improves our operational efficiency improves, and that's going to come through on the fuel side.

Moderator:

Next question is from the line of Prateek Kumar from Jefferies, India. Please go ahead.

Prateek Kumar:

My question is regarding your revamp on website and your app. So, how have you seen like the hotel bookings. We see that you have started hotel booking. So, how has been the ramp-up there on the platform? And what is the revenue model here as the business is probably powered by external platform. This is the first question.

And other related question is how much of your site bookings as a percentage are like sort of happening direct on your platform? And is it something where you also see a significant business for yourselves in terms of going forward. And we see that pricing at your direct booking is like at least 2% to 5% lower versus what we see in another platforms. So, how do you see this business going forward?

Pieter Elbers:

Well, let me take a different angle in responding to your question, and thanks for bringing that forward. I think the first angle was that we needed to upgrade our existing architecture and IT infrastructure. And you have seen that we have gone through the cloud, and we actually spend a lot of efforts and work with all the teams over the past 24 months to make sure that we are future proof. And for a whole host of reasons, this was all stopped during COVID, and we revitalized on that.

So, we have created actually the architecture and infrastructure, which is future proof. That's probably outside the view of everyone, but it's been a very important part and comparing us to some other companies in the world, I think we have done it very quick and very efficient. So, we have moved to the cloud, and that's the infrastructure.

The second part was all around revamping our web and also app. You see now that we have, for example, a fare calendar on our website. And that's really being received by our customers very positively. What is the key driver of that actually is to make sure that we have more direct customer contact and direct customer interfacing with our customers. We serve over 100 million customers per year. And actually, we would be able to serve them through our digital channels in an even better way today than we have been doing going forward. So, that's the strategy behind it.

So, when it comes to the numbers, the number of direct bookings on our own web and app was relatively limited compared to some other parts of the world. That's clearly a strategy. Today, we are in the high teens when it comes to some of these direct channels. That's a number which is still likely to go up going forward. And again, with more of the initiatives that number will go up. We do that both, on sell side. So, we are selling through our web. We are selling through app, but importantly, also the servicing, so our 6Eskai which we have introduced to serve our customers in

a digital fashion is also up.

The last part of that, and that's still in the very early stages is to offer some of the hotel bookings and linked to hotel bookings. So, we have also started with that. That's only for the past 3 months. So, it's probably still too early to come out with exact numbers. But I am actually quite encouraged by the first inputs on that. Again, early stages, but quite encouraging. So, a journey from first, creating the architecture then putting on a lot of new features on the website and the app from the strategy to interact directly with our customers and that will create a platform where also links are being made to hotel bookings going forward. So, foundation is there. And from there, we start to build going forward.

Just an additional elucidation to that. If we have 100 million customers a year, and that was the achievement of last year, and you all know that we are growing this year, so that number will be even bigger. Against that backdrop, some of the initiatives like a loyalty program, like this hotel sales. It's a natural extension of the customer bases we are having. And whereas probably 5 years ago, we had just a handful of frequent flyers that with the change of India is changing rapidly. So, all the parts and the pieces of that more strategic puzzle with business products, with a loyalty program, with direct sales, with direct interaction with our customers is all matching to where we want to be and where we will be moving towards in 2030.

Prateek Kumar: Some of your IndiGo Ventures fund might also be investing in these companies who might be helping powering these direct bookings or hotel bookings on the website?

Pieter Elbers: Absolutely. I think whatever we would like to do is sort of extending our ecosystem and with the customer bases, again, we are whether it's #6 or #7, I guess time will tell. But we are clearly in the top 7 airlines in the world when it comes to customer numbers. And that's against the backdrop of aviation in India, which is still, to some extent, under penetrated. We have announced that we are going to double in size by the end of the decade. So, if you just take that 100 times 2 as an indicative number where we could end up in 2030, that's a fantastic customer base and should enable us to do a lot of other customer interactions and customer service than flying only. Well, and against that backdrop, the IndiGo Ventures will provide us an opportunity in a vehicle rather to start working with start-ups with other companies to become part of that ecosystem of serving our customers.

Prateek Kumar: And one other question regarding competitive intensity because you talked about the moderation. So, cost environment seems to be obviously hurting you, but it would likely be hurting your competition maybe more similarly or maybe similar basis. But despite inflationary environment, we still like sort of seeing a moderation in yield. I mean, how do we generally explain that, especially in a season which is going to be very fantastic otherwise for demand perspective?

Pieter Elbers: I am not sure if you could link that cost to what's happening on the yield side. I think what is important for IndiGo is to keep our focus on maintaining our cost leadership. We have a setting which is rather unique in terms of what is the impact of some of the global supply chain challenges and what is the impact of some of the more recent announcements, for example, on the powder metal, I think what IndiGo has done, and I would invite you to look at the situation of some other airlines in the world where the supply chain challenges have stepped in.

IndiGo has been able to deal with that by a whole range of mitigating measures, where, of course, there is a cost to it, but at least that has allowed us to maintain our capacity guidance. One. Two, maintain, if not improve our market position. Three, continue to make use of that capacity to expand our network, open up new destinations and new routes and to make sure and that process has started now. And I cannot underline enough the importance of what Gaurav mentioned earlier. We used to be in the mid-70s, which isn't an incredible high number. We are now in the high 60s, and we expect to start the next year in the mid-40s. Against that backdrop, I think we have done the right thing by taking at this point in time, these additional costs and all these measures. And that means we have created, in fact, a platform to start growing on that.

And then the yield, yes, the yields will show variations season over season and how the cost of our competitors look, I leave that to you, it's not our focus. We are committed to continue our cost leadership. All the initiatives we have in place are exactly to keep doing that. And with the AOGs going down and the associated cost of mitigation going down, we will see that cost leadership continues to be there.

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

Achal Kumar: First of all, coming back to revenue side. So, basically, you have guided to a yield moderation. I just want to understand, apart from this yield moderation, you will have some dilution from the loyalty program. So, what kind of dilution you're expecting 1%, 2%, 3% and would that impact your yields more than what you're expecting? And of course, in terms of pricing strategy, do you think any difference in terms of pricing strategy because of the loyalty program?

Gaurav Negi: There is not going to be any material impact from a loyalty standpoint on the revenue on the yield because we are just launching that program right now, and it's more of a deferment of revenue that will play out on loyalty. So, on the contrary, it will support us at a later point as the burn starts kicking in and when the burn starts kicking in, it's going to start probably pushing up the revenue side. So, there is no material impact on the yields because of loyalty.

Pieter Elbers: Sorry, let me add, Achal, sorry to interrupt you. Why are we introducing this loyalty program? We are introducing this loyalty program in order to make sure that we start to build on a loyal bases of customers. And that, in fact, IndiGo is becoming even more than today their airline of choice, both domestic and international. So, with the international growth going up and with the initiatives which we have launched in the premium segment with the introducing of the business class with the XLR, which will start to come in by the end of next year and even further in the future with the 350, we are in fact, creating that loyal customer base and the loyal customer base over time, for sure, will help us to not only maintain yields, but even improve yields.

And if you, again, there look what's happening at some other parts of the world, we see exactly that's happening. So, of course, the entire system is based on points and recognition of points and then you move forward. But over time, and that's exactly why many of the most successful airlines in the world are having a very successful loyalty program is precisely for that reason. And then we also tie it to the previous remark on ancillaries, our investments in the web and whatever we do with hotels and all kind of associated bookings. This is in order to get a larger share of the wallet, if I may call it like that, from our customer spending.

Achal Kumar: No, exactly. I agree with your point, but just want to understand the kind of a dilution in terms of percentage, which will happen because of the loyalty program?

Pieter Elbers: I don't think there is any percentage to be linked to that.

Achal Kumar: My second question is around the pricing strategy. So, I just noticed that there is a significant difference, especially now in terms of pricing for the peak hour flights and on the non-peak hour flight, and especially I am talking about IndiGo in terms of IndiGo website. So, is there a change in the pricing strategy? Is it like you have more corporate customers in the peak hours and that will offset to your lower fares on the nonpeak hours. So, I just want to understand a bit on the pricing strategy and how would you offset lower ticket prices in the nonpeak hours?

Pieter Elbers: No, I think there is no change of pricing strategy in itself as we have a very consistent pricing strategy and there is always a correlation between pricing and demand, and we do our revenue management accordingly, which, again, is a very normal industry element. By the way, not only the airline industry, there is the very same thing happens in the hospitality and hotels. So, we have no change in that.

What we do have is actually a very significant number of routes and a very significant number of city pairs. So, you will see that where some of the dynamics in pricing are sort of very much throughout the year, and Diwali, I think, is a good example. But there is other seasonalities or other events, which differ very much on regional basis or even domestic and international basis, and some of the traffic to the Gulf is not always the same in terms of seasonality. So, probably you see a bit more variation of that seasonality as our network continues to grow and as our number of routes continues to grow, but the strategy is the very same.

And yes, with 20 flights a day between Delhi and Mumbai, you see some different fare levels on the different timings of the day. Again, that's a total normal industry practice and standard. And if you check the prices on our website, which is always good to do, and you will find very competitive prices on our website, you will see even against the backdrop of the Indian market, which is very late booking that even there, you will find a lot of variations in the last couple of days prior to departure.

Moderator: Next question is from the line of Pramod Kumar from UBS Group. Please go ahead.

Pramod Kumar: First accounting question on the tax rate expectations, what do you have for FY'26 and FY'27, Gaurav?

Gaurav Negi: Pramod, we still have close to Rs. 13,000 crore of carry-forward losses. So, as a result, we have enough for us to kind of offset any kind of profit. So, there is no tax-related provision that will be needed. Barring a very small amount that we are already doing in the current quarter because that's related to finance income and the finance income cannot be offset. So, what you will see in our Reg 33, there is a certain amount of tax provision that we have to make for finance income. But on the business income side, we still have close to Rs. 13,000 crores to offset.

Pramod Kumar:

Given that you highlighted hotel charges have got expensive, and there are some other cost elements, which are also kind of going out of control. So, is there a thought to use the balance sheet what you have to kind of probably look at investing in hotel infrastructure or something like that, because that's a fixed, permanent cost for you, given the business model, right? So, is it some kind of a thought that you can look at investing or creating accommodation spaces which are not exactly very fancy like a 5-Star and end up paying the same rate. And something which can reduce your costs over a longer term for what do you spend on accommodating your crew?

And also on the airport charges side, is there a discussion with the government because ultimately, any airport charge is borne by the customer, right? And in a few cases, even the airlines will have to bear some of the cost. But is there a discussion with the government that some of these airports which are increasingly turning out to be like more like fancy lounges and very expensive looking airports, is there a discussion with this on the government that is there a way they can probably relook at the entire way these airports are done and the kind of CAPEX approval, which are given because the return is linked to the CAPEX what you do to an extent, right, for the airport operators and the guys who make the airports, because ultimately the cost is being borne by the consumer. So, any thoughts on that, please?

Gaurav Negi:

On the latter, we have got a regulator that regulates the costs. So, obviously, we keep talking to the regulator, we keep talking to the airports also. It's in our collective best interest that we have more footfall and we have more passengers because that's where it will bode well both for the airlines as well as for the airports.

Having said that, some of the investments that are being made in the airports are also long term in nature because you need to kind of project out what kind of a footfall and the fact that you've seen India from a hub standpoint. So, those are investments that are being done.

So, there is always going to be a discussion related to how you can balance it well because the initial investments will look a little more on the higher side. But when you have a long-term view, again, I see to the point that they probably have a long-term view around how they can develop their respective infrastructure, which can be of international standards also and as a result, attract more footfalls through of hub creation.

As far as the other, we will take it as a cost idea. What usually happens is when your operations become significantly large, there is always a discussion related to in-source versus outsource kind of model. So, what you're suggesting is an in-source model. But that's not always practical because our core business is largely to be focused on ensuring that we provide the best of services to our customer from an aviation standpoint. So, that's where our focus is.

We will always take measures to reduce the cost wherever possible. But all ideas are welcome. So, having said that, there is always an evaluation that is being done, but the extent of ideas always get kind of deliberated upon from a lens of in-source versus outsource and keeping your core kind of activities closer to yourself and try to do a lot more than what is needed.

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

Pieter Elbers: Ladies and gentlemen, thank you so much for joining us in this call. In summary, our top line grew by 14.6% on a year-over-year basis. Our 2nd Quarter Results were impacted by seasonal factors and the temporary headwinds related to the peak groundings during this quarter. With respect to the groundings, we have turned the corner, and number of grounded aircraft have started reducing.

Ladies and gentlemen, thank you for joining. Looking forward to talking to you next quarter and for now Shubh Deepawali to you and to your family members. Thank you.

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. Thank you.

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