



“IndiGo’s Q4 & Full Year Fiscal 2016 Financial Results
Conference Call”

April 29, 2016



**MANAGEMENT: MR. ADITYA GHOSH -- PRESIDENT AND WHOLE-TIME
DIRECTOR
MR. PANKAJ MADAN -- CHIEF FINANCIAL OFFICER
MR. SANJAY KUMAR -- CHIEF COMMERCIAL OFFICER
MR. RIYAZ PEERMOHAMED – CHIEF AIRCRAFT
ACQUISITION AND FINANCING OFFICER
MR. ANKUR GOEL – DIRECTOR, INVESTOR RELATIONS**

Moderator: Ladies and Gentlemen, Good Day and Welcome to IndiGo's Fourth Quarter and Full Year Fiscal 2016 Financial Results Conference Call. My name is Zaid 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, Mr. Ankur Goel – Director of Investor Relations for IndiGo. Thank you and over to you.

Ankur Goel: Good Evening, Everyone. Thank you for joining us for the Fourth Quarter and Full Year Fiscal 2016 Earnings Conference Call. I have with me our President and Wholetime Director – Aditya Ghosh; our Chief Financial Officer – Pankaj Madan; our Chief Commercial Officer – Sanjay Kumar and our Chief Aircraft Acquisition and Financing Officer – Riyaz Peermohamed.

Before we begin, please note that today's discussion may contain some statements on our business or financials which will be construed as forward-looking. Actual results may be materially different from these forward-looking statements. A transcript of today's call will also be archived on our website. The information provided on this call is as of today's date and we undertake no obligation to update this information subsequently. With that, over to our President and Wholetime Director – Aditya Ghosh.

Aditya Ghosh: Good Evening, Everyone and Thank You for joining us on this call. We declared our Fourth Quarter and Full Year Financial Results today and I am pleased to announce an Eighth Consecutive Year of Profitability.

Also, the Board of Directors is pleased to recommend the final dividend of Rs.15 per share for shareholders' approval at the Annual General Meeting.

For the quarter-ended March 2016, our pre-tax profitability was Rs.8.1 billion and for the full year our pre-tax profitability was Rs.28.3 billion. Profit after tax for the fourth quarter was Rs.5.8 billion; for the full year profit after tax was Rs.19.9 billion which was the highest ever in our history.

We continue to use the low cost fuel opportunity to lower fares and register strong increases in passenger numbers. As you are aware, we have a firm order with Airbus for 430 A320Neo aircraft and we have just started taking deliveries from this order. As of today, we are operating three A320Neo aircraft and have received our fourth Neo this afternoon. We expect to take delivery of an additional 20 A320Neo aircraft during the 2017 fiscal year.

There has been a fair amount of controversy surrounding the delays regarding the entry into service of the Neos. These delivery delays have been due to certain engine issues primarily related to the cooling down and start-up time for the Pratt & Whitney Geared Turbofan Engine. This engine cool-down issue slows the engine start process and impacts our ability to turn aircraft around quickly which is an essential part of our low cost business model. Pratt & Whitney has been aggressively working on these issues and at this time we have a fair amount of confidence that most of these issues would be addressed before the end of this year.

Since the introduction into our fleet from the 18th of March up to 24th of April three A320 Neos have had a technical dispatch reliability of 99.02% which compares to 99.94% for the A320 Classics for the same operational period. Clearly, we expect the Neos to have better operating reliability than the A320 Classics and we continue to work with Pratt & Whitney and Airbus to make that happen.

While somewhat early to declare victory with the limited data that we have, so far we are pleased that the Neos are generating on average about 13% in fuel savings as compared to the A320 Classics without Sharklets. These fuel savings are fundamental to our business model and will allow us to continue to grow profitably and provide lower fares to our customers.

Of the 430 A320Neo aircraft that we have on order, we have selected Pratt & Whitney Geared Turbofan Engine for the first 150 of these aircraft and still need to order engines for the remaining 280. The other engine that is scheduled to be on the A320Neos is the CFM LEAP-X Engine which is expected to enter into service this year by other airline. We are eagerly looking forward to learning from experience that other airlines will have with the CFM LEAP-X Engine. It will be a good opportunity for us to compare the actual operating performance of two engines before we decide on the engine choice for the remaining 280 aircraft that we have on order with Airbus.

Now, coming to network, we started flying to the city of Dehradun from the 1st of March 2016, we have three daily flights from Delhi and further connecting flights from Mumbai, Bengaluru and Hyderabad. Consistent with our network expansion strategy this was our third new destination last financial year. With this we now operate to 35 destinations in India and 5 international destinations. At the end of March, we operated a peak of 731 daily flights including our international operations.

For the three months' period January through March '16 our average technical dispatch reliability was 99.94%, our average on-time performance was 81.6% and our average flight cancellation rate was 0.39%. I would like to take this opportunity to mention that "Indigo was also chosen as an AON Best Employer India 2016". All of these were made possible by the dedication of our employees who work hard every day to provide the best operation and customer service in the industry.

We also continue to focus on our Corporate Social Responsibility Program -- Indigo Reach to reach the under-privileged; Third Child Campaign of the SOS Children Village provides an opportunity to adopt the child and support their education, health and wellbeing. So far 243 children are being sponsored by 183 employees. We were supporting 100 MENSAs as part of our celebrations on the occasion of delivery of our 100 Aircraft last quarter. We will now be working on getting these children admitted to English Medium Private Schools. The education fee for all these 100 children will be borne by IndiGo right up to their college graduation.

We have also adopted the Dhela Village at Jim Corbett under the Swachh Bharat Campaign and installed toilets in various households.

Actually, with this, let me hand it over to Pankaj for an overview of our Financials.

Pankaj Madan:

Thank you, Aditya, and Good Evening, Everyone. For the quarter ending March 2016 we have reported profit after tax of Rs.5.8 billion, an increase of 0.3% over the same period last year. The profit after tax for the full year was Rs.19.9 billion, an increase of 52.6% compared to last year. For the quarter ending March 2016, we have reported a pretax profit of Rs.8.1 billion, a decline of 7.5% over the same period last year. PBT was impacted due to higher depreciation cost on account of component accounting and depreciation in rupee thereby impacting our cost. On a full year basis, we have reported PBT of Rs.28.3 billion for the year ending March 2016 which is a growth of 53.2% compared to last year. We recorded EBITDAR of Rs.15.5 million with EBITDAR margin of 37.8% for the quarter ending March 2016 as against EBITDAR of Rs.14.1 billion with EBITDAR margin of 36.9% for the same period last year. We have delivered earnings per share of Rs.16.08 in March 2016 quarter.

We have added 7 aircraft during the March 2016 quarter including 3 Neos. Our total capacity for the fourth quarter of FY15-16 was 11.4 billion ASKs which is an increase of 19.3% over the same quarter of the prior year. IndiGo's total passengers increased to 8.9 million in the March quarter which is an increase of 24.3% over the same quarter of the prior year. Our total revenue from operations during the fourth quarter was Rs.40.9 billion, an increase of 7% year-over-year. Our Passenger revenue was Rs.35.35 billion, growing at 5.4% and ancillary revenue was Rs.5.32 billion, growing at a pace of 17.6% over the same quarter last year.

On a full year basis, our total operating revenue was Rs.161.4 billion, an increase of 15.9% over last year. Our Passenger revenue was Rs.140.62 billion, an increase of 14.4% compared to last year. Our ancillary revenue was Rs.20.02 billion, an increase of 27.3% over last year. Our Revenue Per Available Seat Kilometer or RASK for the quarter ending March 2016 was Rs.3.64, down by 9.5% from Rs.4.02 compared to the same period last year. For the year ending March 2016 our RASK was Rs.3.78, down by 4.2% from Rs.3.95 compared to last year. Our average fare have reduced from Rs.4,667 in March quarter last year to Rs.3,958 in March quarter this year, a decline of 15.2%, reflecting lower air fares as we benefit from lower fuel prices. Our fourth quarter load factor was 85.1%, up 2.3 points from the same quarter of last year.

Our fourth quarter Cost Per Available Seat Kilometer or CASK of Rs.2.92 was lower by 5.7% as compared to the same quarter of 2015. On a year-over-year basis, the 2016 CASK of Rs.3.12 was lower by 8.9% as compared to the prior year. This is on account of the average fuel price for 2016 being 29.5% lower than the prior year. Our CASK excluding fuel was Rs.2.02 for the fourth quarter, an increase of 9.9% compared to the same period last year and Rs.2.01 for the full year of 2016, an increase of 11.5% compared to the prior year. Indian rupee depreciation by 5.8% against the USD in March 2016 quarter compared to the same quarter last year, adversely impacted our cost base. Our employee benefit cost increased by 44.2% compared to the same period last year. This increase was attributed to 20% increase in capacity, 8% on account of ESOP issued during the IPO and the balance on account of inflationary wage increases and excess bench of operating staff. The excess staffing was primarily the result of not receiving the

number of A320Neos that we were expecting from Airbus with the Neo deliveries getting back on track we expect our surplus staffing to gradually get absorbed in the system.

As I mentioned in the last call, component accounting and ESOPs have adversely impacted our cost. The depreciation booked in the quarter ended March 2016 was higher by Rs.291 million compared to the same period last year and higher by Rs.1.57 billion for the full year. This large year-over-year increases in depreciation expenses will largely go away beginning with the first quarter of the new fiscal since we would have caught up with the new component accounting rules. We also incurred an expense of Rs.270 million this quarter on account of ESOPs issued last year.

We ended the quarter with the total debt of Rs.32 billion, all towards Aircraft. We do not have any working capital debt. As I mentioned in our IPO Prospectus we want to use the majority of our IPO proceeds towards retiring of debt on 8 Aircraft. We have already retired the debt for five of our Aircraft totaling to Rs.6.7 billion from our primary proceeds in Q4. We have also retired debt of Rs.4.9 billion from our primary proceeds for another 3 Aircraft in this month of April 2016.

Our total cash as of March 31st 2016 was Rs.60.47 billion including IPO proceeds, out of which Rs.22.62 billion was free cash and Rs.37.84 billion was restricted cash. At the end of the fiscal year 2016, our total cash as a percentage of the last 12-months revenue was 37.7% equivalent to 4.52 months of last 12-months revenue.

Also, I wanted to point out that there is another update on Indian Accounting Standards or IndAS. Historically, IndiGo has been preparing its financial statements in accordance with Indian GAAP standard; however, beginning 1st April 2016 certain companies in India including IndiGo are required to comply with the IndAS. Accordingly, our first quarter results for fiscal 2017 year will be prepared in accordance with IndAS. We will also provide all previous comparative information as per IndAS. The IndAS accounting standard is based on IFRS standard that is well recognized globally. Apart from differences in the presentation format IndAS requires long-term assets and values liabilities to be stated at present values. We have conducted initial internal assessments on impact of IndAS on our financial statements.

Let me discuss some major line items which will be impacted by the applicability of IndAS. Talking about the balance sheet: While the standard requires us to follow component accounting for fixed assets, we see no material impact as we have already adopted component accounting effective FY16. We are required to value our existing long-term assets and liabilities at present value. Since the present value will be lower than the book value, on one hand, the difference will be adjusted with the retained earnings, resulting in an increase in our net worth and on the other hand, there will be corresponding increase in finance cost over a period of time.

Now, moving on to the P&L Components: We do not anticipate any impact on revenue recognition. Major costs will remain unaffected; however, valuation of existing long-term liabilities at present value will result in reduction in supplementary rentals and increase in our

finance cost. This will be partially offset by increase in our finance income arising out of the present valuation of our long-term assets.

In Summary: We anticipate that these items to broadly offset each other without materially impacting the overall profitability. The industry awaits clarity on which accounting standard, IGAAP or IndAS, will form the basis for computation of tax.

As mentioned by Aditya, the Board of Directors have recommended a final dividend of Rs.15 per share, amounting to net final dividend of Rs.5.4 billion. Including the interim dividend issued prior to the IPO, IndiGo has declared dividend of Rs.42.83 per share for the fiscal year 2016 based on the shares outstanding at the year-end, amounting to net dividend of Rs.15.4 million.

Let me end by giving you some guidance on the future capacity growth for fiscal year 2017: In the press release that we had issued on 29th February of this year, we had mentioned that we expected to end the fiscal 2017 with a fleet of 131 Aircraft, now we expect to end fiscal year 2017 with a fleet of 136 Aircraft which is expected to result in a capacity increase of 34% year-over-year and for the first quarter of fiscal 2017 we expect our ASKs on a year-over-year basis to increase by 23%.

Ankur Goel: Thank you Aditya and Pankaj. To get in any many questions as possible, I would like to request that you limit yourself to one question per participant and one brief follow-up question, if needed. And with that, we are ready for Q&A.

Moderator: Thank you, sir. Ladies and Gentlemen, we will now begin with the Question-and-Answer Session. The first question is from the line of David Lee from Lizard Investors. Please go ahead.

David Lee: I have a couple of questions. First, given the fuel price environment, how much lower of fuel price you are giving back to the customers and I am just kind of curious to know if there is additional room for you to pass savings back to the customers to stimulate more demand and maximize load factor or you guys believe it is fairly optimal at this point?

Aditya Ghosh: If you look at the fourth quarter, then fuel prices came down 29.5% whereas the average fares came down I think above 15.2%. So clearly, we are not passing on all of it back to the customers, but of course the lower fuel prices and the lower average fares also has a positive effect on our load factors, load factors went up 2.3 points. So, we are not driving down fares, there is some amount of competitive pressure from other operators as well. So while we are benefiting on the higher load factors, we think we will kind of stay with how the market moves.

David Lee: If you discount or if you were to lower the price by another 5-10 points, you could actually maybe even maximize your EBITDAR or even increase your load factors by so much work, then perhaps you are making more profits, your margins may come down a little bit?

- Aditya Ghosh:** Yes, that is a complex equation. One variable changes, some other things have to change somewhere else. We are really focused on profitability. So whatever drives that, that is what we chase.
- Moderator:** Thank you. The next question is from the line of Binay Singh from Morgan Stanley. Please go ahead.
- Binay Singh:** My question is basically on the A320Neos fuel price versus the benefit from Aircraft pricing. So you mentioned that 13% gain that you are seeing from the new A320Neos, is this adjusted for higher lease rental on the Neos?
- Aditya Ghosh:** Binay, this is just plain fuel burn advantage for the aircraft flying for the same distance with the same pay loads.
- Binay Singh:** In terms of A320Neos pricing, recently, one of your peers globally made comments about the Neo premium to CEO coming down given the fact that where crude is. So when you guys are entering into new contracts, are you seeing any pressure of that into the numbers?
- Aditya Ghosh:** First of all, we have already financed 35 of our Neos to begin with. So that takes us sometime into the next year. Secondly, this lower fuel price environment is not going to stay forever. We have ordered airplanes for the next 10-years and fuel being the biggest component of our cost, we just feel that any machine that structurally brings down that cost is going to be hugely beneficial for IndiGo and as fuel prices goes up, we actually stand at a huge competitive advantage over anybody else who is flying the older airplane.
- Binay Singh:** So is it fair to assume that for FY17, the 35 Planes that you have ordered, on a net basis Neo is earnings-accretive?
- Aditya Ghosh:** Yes Absolutely. Of the 24 Airplanes coming in FY17, but yes, absolutely accretive.
- Moderator:** Thank you. The next question is from the line of Pulkit Singhal from Motilal Oswal Securities. Please go ahead.
- Pulkit Singhal:** This is the question on the industry supply dynamics. So while IndiGo is adding 34% YoY ASK increase, as you mentioned 29 Aircraft in FY17, how much do you think the industry is poised to supply in the next one year in your opinion or in your research?
- Aditya Ghosh:** Some of the data is public, some of the data is something we read in the newspapers. What we see is – domestic market growing at 20-21%, the amount of supply that is coming in is not keeping pace with the demand that is out there. So the macro levels we do not see much change but yes, let us see how the year turns out, what competition does, where fuel price goes, how much capacity comes in and so on and so forth. But we feel very confident that this is where the opportunity is.

- Pulkit Singhal:** For instance, it is 280 Aircraft domestic market and you are already adding 10% of it. So you would not believe that another 10% could come from the industry in your sense?
- Aditya Ghosh:** From everything that the numbers that are out there, looks unlikely, let us see how the year turns out.
- Pulkit Singhal:** On the employee expense on a YoY basis for the full year it has increased 50%. Can you help break this down into the similar way in terms of how much is due to capacity because capacity increase only 20%, how much is wage hike and how much is ESOPs and bench?
- Pankaj Madan:** On the full year basis, if you look at the employee cost increase of 50%, our total capacities increased by 21% and then there is an 8% increase because of the ESOPs that we issued during the IPO, the remainder of the increase is because of inflationary wage increase and the extra bench that we were carrying in anticipation of the A320Neos that we talked about. Now that these Neos are coming back in force, we will start to see those costs getting defrayed.
- Moderator:** Thank you. The next question is from the line of Michael Beer from CitiBank. Please go ahead.
- Michael Beer** We just talk about I guess the competitive climate in the kind of qualitative context, clearly, earlier in the year when SpiceJet was dead in battle, you had clawed back quite a bit of market share, that seem to kind of reverse in the second and third quarter and seemingly you are kind of back on your same trajectory here in the fourth quarter. How do you kind of see I guess FY17 playing based on your capacity growth? It looks as if you are likely to top 40% market share within the domestic market. If you can kind of just speak more of qualitative sense with respect to pricing and just overall competitive climate? Secondly, what is the kind of dividend strategy? If we look at your payout ratio in the second half versus the interim dividend, it sort of fell off there. Of course that dividend I will say in the first half was prior to the IPO, so just want to get a sense of how we should expect FY17 and FY18 dividends to look as a percent of your adjusted income?
- Aditya Ghosh:** As far as the competitive environment is concerned, we look at this way. Firstly, strong profitable players in a growth environment like India is actually helpful. Secondly, our lack of gaining market share in the third quarter was a bit to do with just the planes not coming in enough and now the planes have started coming in, you can see that our market share has started climbing up again. It is at 38.4%. Yes, it is highly likely that we would cross that 40% mark this year with the capacity that we are bringing in. What happens in the market share of course depends a lot probably on what capacity comes in from other players as well as pricing that is out there in the marketplace. But generally speaking, we are seeing strong growth in passenger numbers and so the macro levels have been changed, nothing fundamentally has changed in our business and the opportunity. As far as dividend is concerned, you see again it is in line with what we have done in previous years. We do not have a dividend policy but going forward depending on what the cash requirements for the company are, what is happening in the marketplace, what is happening at the macro level, the board will figure out whether we pay more dividend, less dividend or no

dividend. In the past if you see we have been a very shareholder focused and dividend-paying stock which is what we have done this year as well.

Michael Beer With respect to the competitive environment, your access to incremental slot in kind of the five key gateway cities specifically Mumbai you still feel that you have bandwidth there to grow?

Aditya Ghosh: Yes, there is opportunity there to grow. The slots in Mumbai are a problem and it has been like that for quite a few years. We are pushing Mumbai Airport to find ways to make it more efficient and create slots. As far as bunch of other cities are concerned, there are slots available and we see a lot of growth there.

Moderator: Thank you. The next question is from the line of Srinath Krishnan from Sundaram Mutual Fund. Please go ahead.

Srinath Krishnan: In fourth quarter, we have seen that realizations were sequentially down due to seasonality, but historically, the first and third quarters are pretty relatively stronger. Are you seeing similar trends in terms of pricing reviving during the first quarter? Secondly, with lowering of fuel prices, we are seeing that growth rates have shifted upwards in terms of passenger growth. If there is a reversal of fuel prices, do you think the growth rates might taper down?

Aditya Ghosh: First of all, actually in our business probably, we do not look at our business sequentially because what we do is look at year-over-year for the same period because that then takes care of the seasonality effect that is there in our business. But you are right, generally speaking, if you see the last several years, Q1 and Q3 are the strong quarters of the year. I expect that it will be the same going forward unless we have something which distorts the market in a particular quarter. As far as the second question on passenger growth is concerned, Yes, absolutely, lower fuel prices mean lower fares, means higher load factors and more passenger growth. By corollary if fuel prices go up and fares start climbing up, there will be some impact on load factors. But again, that is one part of the equation. Look at actually what is probably going to end up happening. As fuel prices start going up and we have these more fuel efficient Neos, we will be able to display a big competitive advantage over players who will have the older airplanes and may not be able to sustain the kind of cost pressures that come with high fuel prices environment.

Moderator: Thank you. The next question is from the line of Santosh Hiredesai from Edelweiss. Please go ahead.

Santosh Hiredesai: I was just trying to get a sense of the incentives. How have they moved with the induction of the Neos? From what we have seen you have numbers for Q1FY'16 so from then on if I see the closing of FY'16, I am looking at a number of roughly Rs.200-odd crores of accretion to the incentives from the induction of these Neos. Is my understanding correct for these three Neos?

Aditya Ghosh: No, not really. Neos' incentives are a whole different. There are various manufacturers, it is not just aircraft and so on and so forth, and that is not the correlations.

Santosh Hiredesai: So you are saying whatever movement cannot be attributed just for these three Neos coming in, it could be things beyond these three aircraft and engines put together?

Aditya Ghosh: We don't give any forecast.

Santosh Hiredesai: I am not looking at the forecast; I am just trying to get a sense of how the incentives have moved especially with Neos coming in? From where we had in Q1'16 to what we have ending the year with and of course what net off in our lease rentals. So I was just trying to get a sense of that and I am understanding that this movement would largely because of the induction of new aircraft which we get from the OEM and nothing from what we immediately procure from secondary market? Is my understanding is correct?

Aditya Ghosh: Not quite, first of all if you are talking about FY17, we are not going to give any....

Santosh Hiredesai: I am not looking at FY17. I was referring in the credits. If I were to add up your closing FY16, I am looking at the number of Rs.1580 crores both long terms and short term put together there is a number of about Rs.1650 crores in the end of Q1-FY16. Hence, I am looking at the movement of this number over the past

Pankaj Madan: Let me just try to explain because you will not be able to derive from the balance sheet because there are a few things happening here. First of all, during FY16 we just took delivery of three Neos, those were the only ones we did. The other thing that is happening is that we have also now retired the five aircraft which we had to as per the use of proceeds that too has an implication on that line item. Third thing that is happening is that we continue to take the deferred incentives and apply to the P&L as a reduction to our lease cost as we ply so these all three parameters that are kind of impacting the year-on-year movement.

Moderator: Thank you. The next question is from the line of Vineet Maloo from Birla Sun Life Insurance. Please go ahead.

Vineet Maloo: You spoke about slots being a constraint in Mumbai Airport. So I just want to understand could you talk about your growth in metro routes versus non-metro routes given such constraint might be there in other metros as well to some degree and would it lead to pick up in pace of addition of newer routes where slots might be available?

Aditya Ghosh: Mumbai is a kind of unique situation where there are no new slots available. It has to be a good customer of the airport and get slots as and when we are able to bring in capacity. As far as other cities are concerned – we regularly get new slots and then we connect the dots that we already are flying into. As far as growth is concerned between metro to metro, metro to non-metro and non-metro to non-metro, typically, the growth is about evenly distributed amongst all three sectors. Of course, given other complexities in India about route disbursement guidelines and things like that, but apples-to-apples it is about similar growth across all sectors.

Vineet Maloo: So slot availability yet not a constraint at all for you right now?

- Aditya Ghosh:** Other than Mumbai and probably Pune.
- Moderator:** Thank you. The next question is from the line of Sonal Gupta from UBS Securities. Please go ahead.
- Sonal Gupta:** Just wanted to understand as to how many aircraft do we have where we would have finished the original lease term or which we have got like on a short lease like the few 12 aircraft that we added last year, so basically could you quantify that number?
- Riyaz Peermohamed:** We have returned back 16 aircraft to the lessors out of the original order of 100 aircraft. As and when required, we have been extending some of the aircraft and so far we have extended 34 aircraft out of the original 100 aircraft order.
- Sonal Gupta:** Just on this accounting for this, so once the original lease term is over, the incentive booking is over or when you extend it, you do extend the duration of the incentives?
- Riyaz Peermohamed:** It is over at the end of the original period.
- Sonal Gupta:** How many aircraft do you have which are short duration right now which you have added to the fleet?
- Riyaz Peermohamed:** At the moment, we have 20 aircraft which are used aircraft which are a very short duration of average terms of 3.5-years. Some of the original 100 aircraft which are on 6-years lease which are again on short duration.
- Moderator:** Thank you. The next question is from the line of Aakash Manghani from BOI AXA Investments. Please go ahead.
- Aakash Manghani:** Just to probe that question a bit further on the capacity that is out there in terms of the infrastructure, now while slot availability is an issue in Mumbai, when you go and add your new aircraft to routes, like the one you did in Dehradun, how is the profitability different from Mumbai, Delhi or the top 5-6 routes; the profitability per ASK?
- Aditya Ghosh:** That is a function of how much competition there is on some of those routes. So, it is not so much by distance or by the city, but in theory if we are flying to a relatively small city but there is very little competition, the profitability could be much higher than somewhere where there is a lot of competition but a longer route.
- Aakash Manghani:** So in your top-5, 6 versus an outside of those routes, what is the variation as of now in terms of profitability per ASK?
- Aditya Ghosh:** Again, that depends on season-to-season because there are some shorter sectors, I will give you an example, Delhi-Srinagar would see a lot more traffic in certain times of the year than others,

but again as we have said in the past even our profitability amongst metro-to-metro, metro-to-non-metro and non-metro-to-non-metro is fairly evenly distributed.

Aakash Manghani: Between now and FY'25 I think according to your flight schedule you would be adding 2.5x number of planes that you have now. Now that means that you will have expand a lot more outside the top-5, 6 networks which are actually the most profitable ones for you. Do you see the infrastructure may not catch up with the addition that you guys are planning and that could lead to much lower load factor structurally for you?

Aditya Ghosh: This is a larger India question. So first of all, when you look at the number of airplanes coming in, right, and you look at our total order. You have to take out all the airplanes that would be retiring out of our fleet at the end of whatever it is 6-7-years. So the net addition of airplanes will be not the same as the airplanes on order. Secondly, we are today flying to 35 airports within the country and there are give or take another 30 airports in this country which can today take A320 or 737 narrow-body jets which some of the competition is flying. And at two or three new airports every year we have a lot of runway ahead of us. Again, these are not small half a million population type of cities, there are several cities in this country which we do not fly today and if I just run off a few of them you will just think they are slam-bang opportunities, whether it is Mangalore or Tirupati or Vijayawada or Amritsar, Bhopal, Jodhpur, I can keep going on like this. So there are a lot of opportunities ahead of us over and above what we are already flying to.

Moderator: Thank you. The next question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.

Ravi Naredi: Sir, in how many days you induct a new plane in the system? Which routes have you added for A320Neo?

Aditya Ghosh: Did you mean how many does it take after we take delivery of an airplane?

Ravi Naredi: Yes.

Aditya Ghosh: Maybe five or six days.

Ravi Naredi: These three planes where you have added?

Aditya Ghosh: They are part of our regular network, they fly to several cities.

Ravi Naredi: Can you charge higher fare for these new planes?

Aditya Ghosh: I wish we could.

Ravi Naredi: In reality people pay higher for these planes also?

Aditya Ghosh: No, they do not.

- Moderator:** Thank you. The next question is from the line of Harshad Borawake from Motilal Oswal Securities. Please go ahead.
- Harshad Borawake:** Sir, just wanted to check on your guidance of this 34% YoY ASK increase. So, what is the underlying assumption block hours? Also, wanted to confirm the seating capacity of Neos? It is 186 or is it higher?
- Aditya Ghosh:** No, the seating capacity of the Neos that we are flying today are 180, same as A320 Classics that we are flying. The aircraft utilization number that we have assumed is about 13-hours.
- Harshad Borawake:** But on the Neo we understand there was supposed to be 186-seats or will it be in the later period?
- Aditya Ghosh:** Possibility exist for it to stretch all the way up to 186. There are a whole bunch of other issues there – the comfort of the seats, whether there is a window next to it or not so on and so forth. We are working with Airbus on that, but at the moment it is all 180 seats. That is what we have assumed in the ASK growth that is out there.
- Harshad Borawake:** There was this media article about some hydraulic system problems. So have you experienced that in your Neo planes?
- Aditya Ghosh:** Yes, I also read it and it looks like it is an airplane specific issue for one other operator, we have not faced that in any of our planes. There are these articles and there are a whole bunch of comments out there and hopefully I would not sound too flippant, but that is in the category of noise. What we have really focused on is if this airplane giving us the fuel burn advantage that we want to see of it. As I said it is already showing a 13% fuel burn advantage. We expect over the next few years as the performance improvement programs goes-on to this engine for this fuel burn actually to improve even further. That is really the \$50 billion bet we took a few years ago, saying fuel is the biggest chunk of our cost what can we do to structurally bring the fuel burn down? What can we do that can in a very unique structural manner bring down our overall cost structure? We are very-very happy with that and as long as this plane works and as long as this plane delivers the lower fuel burn, we have scored the goal.
- Moderator:** Thank you. The next question is from the line of Alok Rawat from Karma Capital. Please go ahead.
- Alok Rawat:** You spoke about in response to an earlier question that you have not passed on the entire decline in fuel prices. However, if I look at the spread between your RASK and the CASK pertaining to fuel, that actually has come down both quarter-on-quarter as well as year-over-year. So is that right understanding? What explains the divergence?
- Aditya Ghosh:** As I said, the average fares are down and the RASK is down when you look at year-over-year comparison and that is driving that.

Alok Rawat: The point I am trying to understand is when you say that you have not passed on the entire fuel price decline, it does not show up in the numbers?

Aditya Ghosh: There are two things going on – one is as I said the average fares are down. Secondly, remember that there is also 6% depreciation in the rupee, 40% of our cost is dollar-denominated. The third is that when you are comparing year-over-year fourth quarter, the last year fourth quarter which is January through March of 2015 was somewhat of abnormal quarter because a lot of capacity went out of the market because of some severe financial issues that one of our competitors was having that led to fares jumping up and all the airlines including IndiGo got an advantage with that. So when you compare this fourth quarter with the last fourth quarter that is the other issue that is going on.

Alok Rawat: But even if I look at QoQ, the decline in RASK has been much-much sharper than the decline in CASK, this is despite the load factors actually going up. So you have lower fares also to stimulate demand, is that a right understanding?

Aditya Ghosh: Absolutely, there would have been lower fares which stimulated the demand and therefore the higher load factors. I told you, you can see that there is a 2.3 basis point increase in load factors. The second bit is again, sorry to harp back on my answer, the comparison is not a normal comparison because of the issues that were there around capacity and yield.

Alok Rawat: I do appreciate the YoY, I am talking about the QoQ, the third quarter versus fourth quarter or this fiscal year?

Aditya Ghosh: We actually just do not look at our business sequentially quarter-on-quarter because then it does not take into account the seasonality effect that is there. So, we always look at our business year-on-year.

Moderator: Thank you. The next question is from the line of Pravin Sahay from Batliwala & Karani Securities. Please go ahead.

Pravin Sahay: Just wanted to clarify on addition of 29 aircraft. These are the net addition in our aircraft. In the past we have not seen such an aggressive addition of the aircraft. What exactly made you to include such a high number?

Aditya Ghosh: We are seeing a lot of opportunity out there. Market is growing. More and more people are beginning to travel. So we are just out there chasing that opportunity and that is what we have always felt. This is the country to be in. This is the country which is the right market for a low cost carrier.

Pravin Sahay: Do you think this 24-25% of the growth will continue?

- Aditya Ghosh:** We are looking at about 21% growth in the coming years. Let us see how the market grows after that. Again depends on fuel prices, depends on fares and so on and so forth. But we do know that this is a highly underpenetrated aircraft market.
- Pravin Sahay:** Secondly, on the expenses side, if I look at the cost per ASK ex-fuel has increased on a full year basis 11.5%. So can you give segregation how much is from employee or how much is from the rental?
- Pankaj Madan:** Our cost per ASK ex-fuel has gone up and that is driven by the depreciation in INR and also the inflationary cost increase and also there are some first-off expenses this year that we do not have a comparative in the same period last year, for example, there is component accounting and ESOPs. So that also distorts the comparison year-over-year.
- Moderator:** Thank you. The next question is from the line of Manish Ostwal from Nirmal Bang. Please go ahead.
- Manish Ostwal:** My question is again on the fuel side. During the quarter, what was the fuel cost saving per unit of consumption?
- Pankaj Madan:** For Quarter 4 our fuel cost has gone down by 36%, but that is partly offset by depreciation in INR by 6%.
- Manish Ostwal:** So basically it is 30% net?
- Aditya Ghosh:** Yes, I think 29.5%.
- Moderator:** Thank you. The next question is from the line of Mohsin Aziz from May Bank. Please go ahead.
- Mohsin Aziz:** Have you done reconciliation of your profit due to the extra cost incurred from the delays of the Neo. What I am trying to say is that what is the addition of staff cost that you have to incur or the other overheads? Do you have a number for that?
- Aditya Ghosh:** Not really. We are ahead in our staffing as opposed to the capacity that is coming in and that will kind of start defraying as we start getting in.
- Mohsin Aziz:** Looking at your yields, in the December quarter, I noticed that IndiGo has had the highest year-on-year yield decline compared to Spice, JetLite and even Air Asia and for the fourth quarter relative to JetLite it also seems that you are slightly more in decline. So I just want to get a sense of what is the reason behind this? Is it a necessity to fill up the planes or is just the way the market is gelling for your new capacity growth?
- Aditya Ghosh:** If we take out the comparison with some of the really small players for whom it was the first year. What is different, of course, is our growth rate is much higher than anybody else and so

the capacity increases is far higher. What we are focused on, Mohsin, is profitability. As compared to any other carrier our profitability is the highest.

Moderator: Thank you. The next question is from the line of Shivam Gupta from PWC Advisors. Please go ahead.

Shivam Gupta: My question is regarding the opening remarks around the new accounting standard that you will adopt from the next quarter. So I just want to understand where this standard stands from the perspective of the operating lease of the aircraft that you have, will the standard mandate you to capitalize them on the balance sheet?

Pankaj Madan: There is no impact in terms of the accounting on the operating lease.

Shivam Gupta: So they will just continue to be off the balance sheet, is that sir?

Pankaj Madan: That is correct.

Shivam Gupta: Is this under some kind of review where decision needs to be taken of how it will pan out or is this already a decided matter that under this accounting standard which you are going to adopt this will be the status quo?

Pankaj Madan: We are in this quarter where IndAS is applicable. We will probably get some additional guidance on how certain P&L and balance sheet line items may be impacted. But the way things stand as of now, we do not see any impact in terms of the way we account for our operating leases.

Moderator: Thank you. The next question is from the line of Sagar Sanghavi from JP Morgan. Please go ahead.

Sagar Sanghavi: Just wanted to know, how does the excise duty hike on fuel in this budget impact the equation? 8% fuel savings would have gone off in that sense, right, because the duty has gone up to that extent?

Aditya Ghosh: Yes, but having said that whether it is excise duty hike or whether it is the price of fuel that goes up, what we finally see is that the total fuel cost starts going up and that partially gets passed on to consumers as well. You would have seen that there was a fuel surcharge that we introduced earlier this month.

Sagar Sanghavi: This is obviously a little bit of a difficult question, crude is now almost back to \$50 and at least in the fourth quarter the run rate is much lower now. I know it is difficult to take a view but are you guys building in \$50 kind of scenario for next year or are you working with something lower?

Aditya Ghosh: I would not predict fuel prices. It will impact fares and more importantly, it creates competitive pressure on some of the other players.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to Mr. Ankur Goel for closing comments. Over to you, sir.

Ankur Goel: Thank you all for joining us on this call. I hope you found this useful. Just to reiterate, recording of this call will be made available on our website shortly followed by written transcript.

Moderator: Thank you. Ladies and Gentlemen, on behalf of IndiGo Airlines, that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.