



“IndiGo’s Second Quarter Fiscal 2017 Financial Results
Conference Call”

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Moderator: Ladies and Gentlemen, Good Day and Welcome to IndiGo's Second Quarter Fiscal 2017 Financial Results Conference Call. My name is Aman 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 conference over to your moderator, Mr. Ankur Goel, Director of Investor Relations for IndiGo. Thank you and over to you, sir.

Ankur Goel: Good Evening, Everyone, and thank you for joining us for the Second Quarter Fiscal 2017 Earnings Conference Call. I have with me our President and Whole Time Director -- Aditya Ghosh, our Chief Financial Officer -- Rohit Philip, our Chief Commercial Officer -- Sanjay Kumar, and our Vice President, Finance -- Vineet Mittal.

Before we begin, please note that today's discussion may contain some statements on our business of financials which will be construed as forward-looking. Our 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 the information subsequently. This quarter, we have also uploaded 'Earnings Presentation' on our website which you may refer to during the call.

With this, let me hand over to our president and Whole Time Director, Aditya Ghosh.

Aditya Ghosh: Good Evening everybody and thank you for joining us on this call. We announced our Second Quarter Financial Results earlier today. The second quarter is usually the weakest quarter for airlines in India as demand slows down on the back of the opening of schools and the monsoon season.

I am happy to report yet another profitable quarter for IndiGo; our profit after tax has increased by 23.6% from Rs.1.1 billion in the second quarter last year to Rs.1.4 billion in the second quarter of this year. We saw strong traffic growth in this quarter with RPK growing at 32.7% compared to the same period last year, while capacity as measured by ASK grew by 26.7%; however, our RASK declined by 6.9% compared to the same period last year as lower fares were only partially offset by the higher load factors.

At the same time, we are pleased to report that our CASK excluding fuel declined by 9.7% despite overall inflationary pressures as well as the depreciation in the Indian rupee. Our employee productivity has improved as we have almost absorbed the excess bench that we were carrying earlier and our number of employees per aircraft at the end of September 2016 now stands at 108. You would recall that this number was 121 and 112 at the end of December 2015 and June 2016 respectively.

In the last quarter, we added nine aircraft taking our total fleet to 118 as of the end of September including 10 A320neos. As of this morning, we have a total of 122 aircraft, of which 11 are Neos.

We have been impacted by operational issues arising out of the reliability of the Neo engines and we continue to actively engage with both Pratt & Whitney and Airbus to address these scheduled reliability issues. This has also adversely impacted our cancellation rate and on-time performance. However, A320Neos continue to perform well on fuel burn and we are seeing fuel savings of over 14% compared to our A320ceos without sharklet. Pratt & Whitney has revised its engine production targets downwards for the year which has resulted in some delays in Neo deliveries. However, we will offset the impact of these delays by the induction of used A320ceo aircraft on short-term leases.

We continue to invest in the long-term growth opportunity of India and our fleet is still expected to grow to 136 aircrafts by the end of March 2017 as previously guided.

For the three months' period July to September 2016, our average on-time performance was 82.6%, our average technical dispatch reliability was 99.91% and average fleet cancellation rate was 0.58%.

We added Port Blair to our network last quarter - our 36th domestic destination and 41st overall. We operated our first daily non-stop return flight between Kolkata and Port Blair on the 28th of September and our first daily non-stop flight between Chennai and Port Blair on the 30th of September. We have also started new routes between existing destinations in the September quarter. We started non-stop services between Dubai and Chandigarh, Hyderabad and Varanasi as well as Kolkata and Visakhapatnam.

We have entered into our first GDS agreement with Travelport. As we take deliveries of more aircraft and enter new markets, this partnership with Travelport will help us reach new customers in a cost-effective manner without incurring the traditional cost associated with participating in global distribution platforms.

With that, let me hand over the call to our CFO – Rohit Philip, for an overview of our financials.

Rohit Philip:

Thanks Aditya and Good Evening everyone. As Aditya mentioned earlier, we have reported a solid profit after tax of Rs.1.4 billion for the quarter ended September 2016, an increase of 23.6% and pretax profit of Rs.1.8 billion, an increase of 9.9% compared to the same period last year despite the challenging competitive environment. We reported an EBITDAR of Rs.9.8 billion with an EBITDAR margin of 23.5% for the quarter compared to an EBITDAR of Rs.8.8 billion in the same period last year, an increase of 11.7%. We delivered basic earnings per share of Rs.3.87 in the last quarter.

Our total capacity for the September quarter was 13.4 billion ASK, an increase of 26.7% compared to the same period last year. Over the same period, our total traffic measured in terms of RPK grew at 32.7%. Our total income from operations in the September quarter was Rs.41.7 billion, an increase of 17.7% compared to the same period last year.

Our ticket revenue was Rs.36 billion, and our ancillary revenue was Rs.5.6 billion, an increase of 18% and 17.7% respectively compared to the same period last year. Our other income has grown 62.6% from Rs.1 billion in the September quarter last year to Rs.1.6 billion in the September quarter this year, primarily on account of an increase in finance income.

Overall, there is continued pressure on fares and the revenue environment remains challenging. Our RASK for the quarter ended September 2016 was Rs.3.12, down 6.9% compared to the same period last year. Our yield reduced by 11.1% and this was partially offset by a load factor increase of 3.8 percentage points.

We remain one of the lowest cost producers in the airline industry, not just in India but globally. Despite operating in an inflationary environment, coupled with 1.6% depreciation in the Indian rupee, our CASK excluding fuel reduced by 9.7%. We had CASK excluding fuel of Rs.1.83 this quarter compared to Rs.2.03 in the same period last year.

Our employee benefit costs continue to grow slower than our capacity growth due to the improved employee productivity that Aditya mentioned earlier. Our employee cost per ASK reduced by 10% from Rs.0.42 in the September quarter last year to Rs.0.38 this quarter.

Our other expenses grew at 8.6%, lower than the capacity increase of 26.7% this quarter. Our finance costs have also reduced by 23.5% primarily due to the retirement of debt related to 8 finance leased aircraft. We ended the quarter with total debt of Rs.27.4 billion, all of which is aircraft related. We do not have any working capital debt.

Our total cash at the end of September was Rs.68.6 billion, out of which Rs.23.9 billion was free cash and Rs.44.7 billion was restricted cash. We continue to generate healthy cash flow and our free cash increased by Rs.1.7 billion in the September quarter even after paying last year's final dividend of Rs.5.4 billion. At this time and subject to our profitability, our cash position and the cash needs of the business, we believe that we will be in a position to pay an annual dividend for fiscal 2017. The recommendation as to the quantum of the dividend will be made by our Board of Directors based on these factors at the end of the fiscal year. We have a history of returning excess cash to our shareholders and that is what we will strive to do in the future as well.

Before I end, let me take you through our expectation of capacity for the second half of the fiscal year. As Aditya mentioned, we expect to end the current fiscal year with a fleet of 136 aircraft. Year-over-year ASK increase is expected to be approximately 30% for each of the third and fourth quarters of the fiscal 2017.

With this, let me hand it back to Ankur.

Ankur Goel:

Thank you, Aditya and Rohit. 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. With that, we are ready with the Q&A.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. We have the first question from the line of Rajani Khetan from CLSA. Please go ahead.

Rajani Khetan: I just wanted to pick on where the cost savings really coming from? Could you talk a bit about what items other than staff are really giving that boost? Secondly, ancillary revenue growth have actually fallen short of the growth in passengers. How do you see that panning and which part of your ancillary business is really not taking off as you expected?

Rohit Philip: This is Rohit, I will take the first question on cost savings. So overall, I think a number of factors impacted cost. We talked about employee benefits. There was a significant improvement and that was one of the drivers. Finance cost also reduced, as I mentioned earlier. We also had lower depreciation expense as year-over-year our utilization was higher. So you do see an improvement in depreciation expense on a CASK basis. Lastly other expenses only grew at 8.6% for the quarter even though we had a 26.7% capacity increase. Some of that is explained by the foreign exchange mark-to-market, an accounting entry that I will just take a minute to explain. As we have significant amount of foreign exchange liabilities in our balance sheet, every quarter we have to mark those liabilities to market based on the rupee-dollar exchange rate prevailing at the time and as you can see in the most quarters, the rupee has generally depreciated, so that usually resulted in a loss. So, in the corresponding period a year ago, there was a loss related to this line item. Even in the June quarter this year there was a loss related to that line item. The mark to market loss did not appear this quarter, as the Indian currency strengthened by a rupee over the quarter. So, when you compare it across quarters, you do not have that effect of the loss that you had a year ago. So, that is some of the explanation of the other expense line. So, that combined with the other factors that I talked about, explain the overall CASK reduction.

Aditya Ghosh: Our ancillary revenue has been impacted by the reduction in the baggage fee post the change in regulation last quarter where the excess baggage fee is now capped up to Rs.100/Kg for the first 5 Kgs. Also, we witnessed lower ticket cancellations and modifications on account of the lower fares. People are now booking their tickets just a few days prior to their departure. So, these are the two things that are driving that.

Rajani Khetan: Just a very quick follow up to Rohit; could you just sort of give us the amount of mark-to-market losses in the previous quarter as well as the same quarter last year versus the gain that you booked this quarter?

Rohit Philip: The last quarter numbers a year ago was a loss of Rs.632 million. This quarter we had a gain of Rs.345 million and the first quarter 2017 was loss of Rs.589 million.

Moderator: Thank you. The next question is from the line of Sonal Gupta from UBS. Please go ahead.

Sonal Gupta: I have two or three questions, basically on the fleet numbers. So, if you could just explain in terms of what is the target now for the neos that we expect at the end of the year and how many would be the short-term leases? How many aircraft effectively do we expect to have on sale and lease back by the end of the year?

- Aditya Ghosh:** So at the end of the year, we are expecting to have 136 airplanes. Out of those 136 airplanes, we expect 20 of them to be neos. We already have 11 of them and so 9 more to come. As far as our mix of financing, in the presentation in the appendix, you will see a mix of operating leases versus finance leases, but for the remaining airplanes we expect them all to be on operating leases.
- Sonal Gupta:** Just could you tell me how many currently are on sale and lease back which are not really on short-term leases?
- Rohit Philip:** If you look at Slide #13 in the appendix, we have broken it down between owned and operating leases. The operating leases have various terms - some of them are used aircraft with around 3-year leases, some of them are around 6 years or longer. So there is a mixture of leases, but we have broken down as to how many aircraft are on operating lease versus finance lease in the appendix. As Aditya said, the aircraft that we add to the 118 aircraft will all be on operating lease in this fiscal year.
- Sonal Gupta:** Out of the 22, debt for 8 have been repaid. Right sir? As in 8 finance lease aircraft no longer have any debt; so that is like free fleet. Right?
- Rohit Philip:** That is correct, in the fleet breakup we have categorized owned and finance-leased aircraft together, which includes the 8 aircrafts where we have paid off the debt associated with that.
- Moderator:** Thank you. The next question is from the line of Binay Singh from Morgan Stanley. Please go ahead.
- Binay Singh:** We have seen tax rate now being in the 21% range. How do you look at that for the full year and going forward?
- Rohit Philip:** Tax rate will continue to be in the 28% to 30% range. We have taken some MAT tax write backs in this quarter which has reduced our overall tax rate. It is actually a small amount, but because when you are talking about a small base this quarter because this quarter is seasonally lower quarter in terms of overall profit, it coincidentally shows up as 21% rate. I think going forward, our expectation is to continue to have an average tax rate of 28% to 30%. As we explained on the call last time, we had written off Rs.160 crores of MAT credits that we still have available to us. We have written back I think Rs.58 crores last quarter and another Rs.8 crores this quarter. So we are still left with about Rs.100 crores of tax credits that we have written off. As we will assess our future usage of those tax credits based on future estimates of profitability, we may or may not in subsequent quarters take back some of that MAT credit into the books. So, depending on that, that could change the tax rate, but otherwise you should expect the tax rate to be 28% to 30%.
- Binay Singh:** Secondly, on the load factors, you guided for second half ASK and growth, but how do you see load factors for you playing out... is this the level that you are comfortable with or would you like to take them higher?

- Aditya Ghosh:** Our load factors have increased compared to the same period last year, but I do agree with you that there is further scope for us to increase our load factors especially as we enter into seasonally the strongest quarter.
- Binay Singh:** Any level that you would like to be on an annualized basis?
- Aditya Ghosh:** No, we do not have a target because then it goes into a spin of targeting and chasing market share which we do not do. We will be focused on growing profitably but we do see an opportunity of load factors growing up a little bit.
- Moderator:** Thank you. The next question is from the line of Anand Krishnan from Kotak Infina. Please go ahead.
- Anand Krishnan:** Could you actually help us with respect to the number of seats that actually gets filled say 5 days before the flight/ 10 days before the flight or 15 days before the flight. What is the sweet spot at which most of the seats in aircraft is generally filled?
- Aditya Ghosh:** Anand, it is very difficult. It depends from the time of the year, and it depends on the routes that we are flying to. So, generally speaking about 60-70% of the seats would get sold in the last 7-days, but, in a lower fare environment, that booking curve starts moving closer to the date of departure. But again as I said it is not one rule that fits all because it depends on the market and the flights and the time of the day and the season of the year.
- Anand Krishnan:** Second question is with respect to yields as in how is it actually moved on YoY basis in the month of October and November if you could just help us with that?
- Rohit Philip:** Anand, sorry, we have typically stayed away from giving anything forward-looking beyond the results of the quarter in question.
- Moderator:** Thank you. The next question is from the line of Michael Beer from Citibank. Please go ahead.
- Michael Beer:** Can you just remind me what the ASK guidance for the second half of the year – it was 30%?
- Rohit Philip:** Yes, Michael, it is 30% for both the third and the fourth quarter.
- Michael Beer:** Have you been working with Airbus regarding any concession for some of those delays basically helping offset any of the incremental cost associated with the short-term leases on the Ceos?
- Aditya Ghosh:** We are not going to the details of the contractual relationship with Pratt & Whitney and Airbus. We are working with them very closely to sort out any of the operational issues that have arisen out of the Neos. We are working well right now and are actively engaged with them but I won't go into any further details of what we have with them.
- Michael Beer:** Then just remind me again the year-end number of aircrafts and how many of those would be neos at the end of this year?

- Aditya Ghosh:** It will be 136 airplanes, out of which 20 are expected to be neos.
- Moderator:** Thank you. The next question is from the line of Mayur Malik from Anand Rathi. Please go ahead.
- Mayur Malik:** I was just checking your fuel spend. Now, typically you mentioned that your calculation suggest that you are having 14% fuel saving in the new A320neos. So while there is increase in fleet and the ASK, has the fuel moved in the same direction keeping the cost factor in mind as well as the saving factor in mind?
- Rohit Philip:** Firstly, savings with respect to neos are only with respect to 10 aircraft that we have. We did not have all those 10 aircraft for the full quarter. So the impact on the capacity deployed in the quarter from the neo is still pretty small. Overall if you look at the fuel, you will see in Slide #9 of our presentation, fuel expenses grew at 25.2% and capacity grew at 26.7%. So it grew slightly slower than capacity. If you look on the same page #9, at the bottom of the page, we talk about our fuel price based on the published price by the Indian Oil Company and that has 2% reduction in the same period. So, that basically explains the fuel price movement. The neo impact is minimal in this quarter; however, we are obviously optimistic as we continue taking neos, we will see that 14% show up in the numbers.
- Mayur Malik:** Just taking it forward, on the RASK and average fare, for Q3, have you started seeing the uptick again as far as the RASK is concerned and the average fare is concerned?
- Rohit Philip:** Mayur, as I had mentioned to Anand earlier on the call, I think we will stay away from giving you any further guidance in terms of trends that we are seeing in the marketplace now. We would rather focus on talking about the results for the September quarter. Sorry, we would not be able to answer that question.
- Moderator:** Thank you. The next question is from the line of Rajendra Mishra from IDFC. Please go ahead.
- Rajendra Mishra:** Once again my question was on the broader trend. We are seeing a very buoyant traffic growth for the industry as a whole. So how do we read the trends and the competitive scenario? Also, how is the volatility of crude playing out?
- Aditya Ghosh:** I will give you a broad comment. We have started aggressively matching the fares that have been offered by the competition, like we had said in the last earnings call. As a consequence, you would have seen that our load factors have increased compared to the same period last year. The current revenue environment remains fairly competitive. So, beyond that I will not give any comment on future yields, but again, as I was telling Binay, we do see some ability to further increase our load factors as we enter into a seasonally strong quarter.
- Moderator:** Thank you. The next question is from the line of Kunal Lakhan from Axis Capital. Please go ahead.

Kunal Lakhan: My first question was on the performance of golden engine. How are they faring in terms of both hardware and software issues?

Aditya Ghosh: We had started receiving these improved engines from Pratt & Whitney. As I said in terms of fuel performance, it is performing within the expected range and giving us the fuel efficiency of over 14% compared to the A320ceo without sharklet. In terms of operational challenges, while most of the start-up time related issues have been addressed, we continue to see some operational issues arising out of the reliability of the neo engines. There is a plan according to which both Pratt & Whitney and Airbus are supporting us. There is a plan to resolve most of these issues by the end of the year. We are actively engaged with them and ideally we would like the schedule integrity of our neo fleet to be exactly the same if not better than our ceo fleet.

Kunal Lakhan: Basically, what I am trying to ask is, are we okay with taking the delivery of the balance neo aircraft that we are expecting this year in the current state?

Aditya Ghosh: Yes.

Kunal Lakhan: I think this quarter we saw delivery of A320 Neo with Leap-X engines. Any thoughts you can share on how has been the performance of the Leap-X engines?

Aditya Ghosh: Of course, we are always interested in looking at new technology, but from what I understand that Leap-X engine has not flown really as many number of hours as the GTF engine. So we will keep a close watch on it.

Kunal Lakhan: What could be the difference in the short-term leases rentals and our typical 6-7-years leases?

Rohit Philip: They are all subject to many factors in the marketplace such as the specifics of the aircraft, the situation that a particular lessor is in at a particular point in time, etc. It is difficult to give you any specific numbers. So when getting used aircraft, we triangulate the maintenance cost implication, the lease-rental cost, fuel burn and all of those factors and compare it against the opportunity we have in hand and only get the aircraft that meet our internal operational parameters. As you know, we induct these used aircraft for short-term only temporarily to augment any shortfall in capacity.

Kunal Lakhan: In terms of guidance, we are talking about 30% growth in ASK for H2. So that would imply like 28% growth for the full year versus 34% we had guided earlier?

Rohit Philip: That is correct. The capacity guidance, that we had previously had, was based on the same 136 aircrafts. In our previous plan, we were getting those aircrafts earlier. So while we expect to get 136 aircrafts by the end of the quarter, we would get some of the aircraft later and so we would not get as many hours of flying out of each of the new aircraft. So you are right, the effective capacity guidance for the year has reduced from last time.

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

Santosh Hiredesai: Sir, I was just trying to understand some bit on the GST side, the rates which have come up. We enjoy in industry today, the abated service tax of 6%. Now is there any communication from the government what will be the structure going ahead on this for the industry?

Rohit Philip: The government has released its model on GST. We have spent some time reviewing this as an airline industry and have had a number of dialogues with both the Ministry of Civil Aviation and the Finance Ministry on what the potential impact could be depending on what rate structure we get put into. As you know, there are many different slabs of rate structure that GST could be imposed on. So the final decision as to what exact slab will be put in is still to be made. So until then we cannot really speculate where we are. We are hopeful that we have had very constructive dialogue as an industry, certainly with Ministry of Civil Aviation and the Finance Ministry, and there is receptiveness not to impose an additional tax burden on the industry. But beyond that we cannot really speculate on what the outcome would be.

Santosh Hiredesai: So this is true even for the RCS levy which the government is talking about, where do we stand on that?

Aditya Ghosh: RCS levy is a different subject and there is still a lot of discussion going on within the industry and the government. I think the government is probably relooking at some of the ways of imposing that levy, if at all, the quantum of levy and so on and so forth. So they have literally just launched the RCS Scheme, I think less than two weeks back. So I think there are still a lot of details out there which will come out and then we will be able to kind of react to that.

Santosh Hiredesai: My second question is, the winter schedule that we are looking at about is (+20%) capacity on the domestic side getting added and of course two-thirds coming from IndiGo if not more. So I am just trying to understand the thought process, what is your outlook on the market potential. Can we sustain at these rates? What kind of yield? Any thoughts on that?

Aditya Ghosh: I think despite all the capacity addition that is taking place, India continues to be an underpenetrated market. So like Rohit and I said before, while there may be some short-term imbalance of capacity coming in, over the medium-to long-term, we definitely think that the balance would be restored especially in a growing market such as India.

Moderator: Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.

Dheeresh Pathak: The neos that we have are in operating leases, right? So on an average how much are we getting on the sale and lease back transaction?

Rohit Philip: That is something that we would not be able to give you any details on.

Dheeresh Pathak: With respect to the restricted cash, to what extent is it restricted from paying dividends? What is the nature of restriction? Can you just talk about that?

Rohit Philip: The restricted cash is essentially the cash that we have on security deposit that is backing up our supplementary lease-rental obligations. So it is basically securitizing our supplementary rentals. So yes, we will not be able to use that for paying dividends. We have to look at free cash for things like dividend. That is why we disclose both the free cash and restricted cash each quarter.

Dheeresh Pathak: The forex mark-to-market which you explained earlier, that is captured in other expense, right?

Rohit Philip: That is correct, mark-to-market is in other expenses.

Dheeresh Pathak: The CASK ex-fuel when you say it is down 9%, so that includes the impact of mark-to-market or that is on a clean basis you are excluding the mark-to-market forex impact?

Rohit Philip: It does include the impact of the mark-to-market. Mark-to-market is in other expenses and other expenses is part of CASK.

Dheeresh Pathak: Would be fair to say better way to look at it would be CASK, ex-fuel, ex-mark-to-market, right?

Rohit Philip: You can just get caught up by trying to do a lot of exclusions. Even typically when this line item has hurt us in the past, we have not tried to exclude it.. But if you do want to sort of do some reconciliation on this number, we are happy to have you walk through it with Ankur offline.

Moderator: Thank you. The next question is from the line of Manish Oswal from Nirmal Bang. Please go ahead.

Manish Oswal: My question is on again this pricing environment for last couple of quarters. So is there any meaningful improvement in the pricing environment versus current or let us say six to nine months back or does the environment continues to be weak in terms of pricing?

Rohit Philip: We are not going to give you specific commentary about the third quarter, but overall the market continues to be competitive and that has not changed. The third quarter is seasonally stronger so that obviously helps and you will see the seasonality impact. But overall I will say the market continues to be competitive.

Aditya Ghosh: The only thing that I said before is that because of the lower fares, you can also see a higher load factor. So it is a combination of all of these things.

Moderator: Thank you. The next question is from the line of Ashish Shah from IDFC Securities. Please go ahead.

Ashish Shah: Just had a question on the new GDS agreement which you have signed. This is I believe the first such agreement that we have signed. So what is the benefit that do we expect out of this and what would be the sort of cost associated with this if you can indicate broadly?

- Aditya Ghosh:** This arrangement with Travelport which is the owner of Galileo will allow us to reach new customers both at home and especially overseas, where travel agents will be able to book much more easily. They do not have to toggle between screens and so on and so forth. More importantly, it is in a very cost effective manner without incurring any of the traditional cost associated with participating in GDS platforms using old style industry mechanism. We will be actually enabling real-time connectivity into that platform via an XML API link which helps us reduce the cost.
- Ashish Shah:** If I may just conclude something out of this is that, one should not expect an appreciable increase in your cost associated with your selling and distribution, on account of this agreement. Would that be a fair conclusion?
- Aditya Ghosh:** That would be correct.
- Moderator:** Thank you. The next question is from the line of Harshad Borawake from Motilal Oswal. Please go ahead.
- Harshad Borawake:** I just had a question on this cash and non-cash incentives. So they are up like 50% on YoY basis and on a per ASK basis they are up like 19%. So how do we think about it? Is it largely primarily to do with new neos coming in and as more and more neos come in, will this absolute number keep on increasing?
- Rohit Philip:** The answer is 'yes'.
- Harshad Borawake:** Second question was on this A320neos operational issues. So is it just to do with delays in getting new planes, because on the fuel side, I think you are almost there to what you have guided or are there anything more issues which we need to read into?
- Aditya Ghosh:** Again, partly it is the delays in deliveries. But the operational issue is really around delayed start up time. There were some delamination that were going on. So, there were things that were there and which were identified and as I said there is a plan according to which we are working. There were some software patches that had to come in and that are beginning to get dropped and this resolution plan goes all the way till the end of this year. But in the broad scheme of things, that is in the category of noise, and it is the multi-billion dollar bet that we took on fuel burn and that fuel burn is giving us the savings of more than 14% that I talked about.
- Moderator:** Thank you. The next question is from the line of Pulkit Singhal from Motilal Oswal AMC. Please go ahead.
- Pulkit Singhal:** Just on the average fares YoY, so the double digit decline, have you seen similar pricing decline in flights originating and terminating in Mumbai?

- Rohit Philip:** I think firstly generally the yield decline is sort of across the system. You do see a little bit steeper yield decline in the metro to metro routes and slightly less yield decline in the metro to non-metro routes or the metro to metro routes, not Mumbai specifically.
- Sanjay Kumar:** What Rohit has just said is decline will be more a the reflection on Delhi-Bengaluru and Delhi-Kolkata route where we see a lot more capacity addition, may not be on Delhi-Mumbai because right now there is a capacity constraint in this market. So overall it is across the metro-to-metro, more than metro to non-metro.
- Pulkit Singhal:** My question was precisely for this point itself and it is not to say Mumbai to only another metro. It is just all flights from Mumbai. Just look at Mumbai as an average when you have slot constraints out there. Are we still seeing similar 11% kind of fare decline for all flights for Mumbai?
- Sanjay Kumar:** Difficult to quantify. Broadly, fare decline is less out of Mumbai as compared to other metros.
- Pulkit Singhal:** Secondly on the employee expense. So this has increased 6% QoQ versus 5% QoQ increase of ASK now. My understanding was that in first quarter there was an ESOP expense which would not have taken place in second quarter and therefore the jump in expense seems to be higher. Can you help me understand how did we see the productivity because I was expecting a lower employee expense based on that ESOP expense which is not going to recur?
- Rohit Philip:** Pulkit, I am not fully getting the arithmetic that you are trying to do here, but I think in the last quarter we had a negative impact of ESOP that was not in the quarter a year ago. Now we have come to a point where the year-over-year ESOP expenses you have it in the quarter a year ago, you have it in this quarter as well, so now you do not have that negative impact, but you still have the absolute ESOP expense.. But I am not sure whether that answered your question.
- Pulkit Singhal:** Just for clarity, can you just provide the ESOP expense for this quarter and the previous quarter?
- Rohit Philip:** Pulkit, why don't you follow up with Ankur offline. We will reconcile those numbers.
- Moderator:** Thank you. The next question is from the line of Vineet Malu from Birla Sunlife. Please go ahead.
- Vineet Malu:** Just wanted to understand a little bit more on this GDS arrangement. You said it is different from a traditional connectivity and is going to cost lower. So how is it different and why would it cost lower, can you elaborate a little bit more on that?
- Aditya Ghosh:** The technology that we use is different from what legacy carriers use and that drives down the cost.
- Vineet Malu:** So is it the cost of the software license or something?

- Aditya Ghosh:** No, it is not software license. It is the mechanism with which you connect into the GDS. Legacy carriers usually have something called bill settlement plan. They participate in the BSP and they have to give credit and there were whole bunch of other things going on which we are not burdened with.
- Vineet Malu:** So is there anything that prevents others from moving to such a system, I just want to understand, are they locked into such costs which you would not be?
- Aditya Ghosh:** Yes, once a legacy carrier is locked in, they are locked in into the system and the way of connecting over a long period of time.
- Rohit Philip:** In any commercial arrangement, there is a commercial negotiation that has to happen between two parties. So it is all an outcome of how important the relationship is to both parties which will result in what the right cost structure is for that arrangement.
- Vineet Malu:** Through this distribution reach and connectivity, what we will get is same as any other traditional carriers would get?
- Aditya Ghosh:** Traditionally, low cost carriers do not participate in GDS because of the extra cost. So this is sort of an opportunities for us to expand our distribution to areas where travel agents are only accessing fares through GDS. So to expand our distribution to some places where we do not reach today but doing it without sort of increasing our cost burden is sort of obviously a win for us. It is a win for Travelport because they can access to IndiGo content which is very valuable for that travel agent's customers. So it is a win-win for both of us as well as Travelport.
- Moderator:** Thank you. The next question is from the line of Sanket Baheti from Gee Cee Investments. Please go ahead.
- Sanket Baheti:** I have one question on the new fleet that is going to come up. Do you have any plan to add on the international routes or will all of them come under domestic routes?
- Aditya Ghosh:** It will be a mix of both. More of domestic, less of international.
- Sanket Baheti:** Can you guide us on what is the market scenario at the international level? Your earnings have seemed to be improved and your EBIT margins are also very healthy over that of international side.
- Aditya Ghosh:** One is that there is a lower fuel cost in international operations. In the total international cost, fuel cost is 30% of their cost and in the domestic side, the fuel cost is 40%. The second item is the fact that the domestic market today is a highly competitive; more competitive than the international side.

- Rohit Philip:** Having said that, you are seeing some pressure even in the fares on the international side as well. So yes, I think overall the international segment is holding up a little better in the current term, but it is also subject to some of the competitive fare pressures.
- Moderator:** Thank you. The next question is from the line of Rajani Khetan from CLSA. Please go ahead.
- Rajani Khetan:** Just a quick follow up actually – first one is on commission. Now around the region we are seeing actually agent commissions going down. Just wanted to check if you are experiencing that sort of trend in India as well and at what level of your ticket sales are through agents at the moment? The second question really is on the short-term leases. What is the tenure of the short-term leases of the used aircraft that you expect over the next couple of months?
- Aditya Ghosh:** Yes, you are right. In the Indian industry also, in some pockets, there is a downward trend in commissions. Having said that, we also understand that some new players are actually paying higher commissions than the existing players. As far as IndiGo is concerned, we do not pay any commission to online travel agents in any case and even commissions that we pay to traditional brick and mortar offline travel agents is the lowest in the Indian industry. As far as the tenure of the short-term leases, it is an average of about 3.5-years, some are longer and some are shorter.
- Rajani Khetan:** What percentage of your total tickets are through the traditional travel agents?
- Aditya Ghosh:** The traditional travel agents would be about 43.7%, online travel agents would be about 34% and the balance is call center, airport, mobile app, and website.
- Moderator:** Thank you. The next question is from the line of Binay Singh from Morgan Stanley. Please go ahead.
- Binay Singh:** Two questions: Firstly, we have seen lease rental per ASK go up. That is mainly on account of neos addition like between Q1 and Q2?
- Rohit Philip:** Lease rentals have gone up post the additional aircraft that we have taken which includes neos as well as few used aircrafts. I think we took six neos and three used aircrafts in this quarter.
- Binay Singh:** Per ASK also, it would be higher because our short-term leases will be more expensive. Right?
- Rohit Philip:** Yes, but when you look at it on per ASK basis has not materially changed.
- Binay Singh:** Secondly, on the international side, we have seen in the past that our company has been very heavily focused on the domestic market. Some of your regional peers are now talking a lot about going up to 20 aircraft and increasing the pie on the international side. Profitability on that side also remains pretty strong there. So from a longer-term view, is there any change in strategy to sort of take international higher as a percentage of overall mix or do you think for the next two-three years, international as a percentage of sales will largely remain the same?

Aditya Ghosh: Without giving any guidance as to exactly how much capacity in terms of percentage that we will be allocating, fair to say that we will be chasing both international and domestic especially in the sort of short-haul routes out of the gateway points from India. There are a lot of opportunities in the Middle East and Southeast Asia. In second quarter we started Dubai-Chandigarh. We just announced Kochi-Muscat and that flight is open for sale. It will start operating from the 15th of December. We will do some more international flights but not as much as we would do domestically.

Rohit Philip: Now the mix today is about 10%. Maybe that number could go up a little bit, but as Aditya said, we will continue to do mixture of both.

Moderator: Thank you. Ladies and Gentlemen, due to time constraints, we will take our last question that is from the line of Joseph George from IIFL. Please go ahead.

Joseph George: You mentioned about the delays versus the original schedule as far as the deliveries of the neos go. Would it be right to assume that given the delays this year, and if the schedule gets back on track, there will be higher than expected bunching up, say in the next couple of years, or should we expect normalized kind of a run rate in the next two years?

Aditya Ghosh: We will expect it to be around the similar numbers from what we have guided in the past.

Joseph George: So if I remember correctly there were some numbers that were guided to for FY18 end as well. So is there a change in those numbers or that kind of stays? If I remember correctly it was 154 or something.

Rohit Philip: At this point in time that stays, so the 154 is the last guidance that we had on FY18.

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

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

Moderator: Thank you very much. Ladies and Gentlemen, on behalf of IndiGo, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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