



‘IndiGo Second Quarter Fiscal Year 2019  
Financial Results Conference Call’

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**RELATIONS**

**Operator:** Good evening ladies and gentlemen and welcome to IndiGo's Conference Call to discuss the second quarter fiscal year 2019 financial results. 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 call over to your moderator, Mr. Ankur Goel, Associate Vice President of Treasury & Investor Relations for IndiGo.

**Ankur Goel:** Good Evening, everyone, and thank you for joining us for the Second Quarter Fiscal Year 2019 Earnings Call.

We have with us our co-founder and interim CEO – Rahul Bhatia and our Chief Financial Officer - Rohit Philip to take you through our performance for the quarter. Greg Taylor, our Senior Advisor, Wolfgang Prock-Schauer, our Chief Operating Officer and Willy Boulter, our Chief Commercial Officer are also with us and available for the Question and Answer session.

Before we begin, 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.

A transcript of today's call will also be archived on our website. We will upload the transcript of today's prepared remarks within an hour. The transcript of the Question and Answer session will be uploaded subsequently.

With this, let me hand over the call to Rahul Bhatia.

**Rahul Bhatia:** Good evening everyone and thank you for joining us on this call.

We announced our second quarter fiscal 2019 financial results today.

The second quarter is seasonally the weakest quarter of the year. In addition, as you are aware, there has been a surge in the fuel prices and a significant depreciation in the Indian rupee during the quarter. Fuel constitutes over 40% of our total costs and about 50% of our costs excluding fuel are denominated in foreign currency. Typically in the airline industry, you would expect to see higher fares to cover the increased costs, however that has not happened here. This has significantly impacted our profitability and we reported a net loss of Indian rupees 6.5 billion for the quarter. Rohit will talk more about this when he takes you through our financial performance in detail.

Despite these pressures on the industry, we continue to execute our long term growth plan focused on building a leading nationwide air transportation network. India remains a significantly underpenetrated market with all the Indian carriers combined having about 600 commercial planes flying between themselves. In comparison, some of the largest carriers in the US, Europe and China would alone have more planes than this. There continues to be strong growth in the demand for air travel in India and we are scaling up to offer more choices to customers and satisfy this demand. Along our journey to build this robust network, we added 20 aircraft to our fleet and ended the quarter with a fleet of 189 aircraft. This enabled us to add 5 new destinations and 35 new routes, including 3 routes under the UDAN scheme. We have also selectively increased frequencies across our existing network and now offer connectivity to over 1,300 city pairs via nonstop and one stop flights. We have crossed the milestone of operating over 100 daily departures out of each metro city – Delhi, Bombay, Bengaluru, Kolkata, Hyderabad and Chennai.

We have begun selling tickets for 7 new destinations including 6 international cities - Allahabad, Abu Dhabi, Hong Kong, Kuala Lumpur, Kuwait, Male and Phuket. In addition, we expect to start receiving Airbus 321neos from November this year which will bring some more international points within range.

Besides growing rapidly, we continue to perform well operationally. We had an average OTP of 86.8% for the quarter and were awarded the Best Airline on On-Time Performance at the third edition of ICONIC awards. Our Technical Dispatch Reliability was 99.87% for the quarter. I am also happy to report that our Company was awarded the ‘Best Domestic Budget Airline’ at the ‘Zee Business Travel Awards’ 2018. None of this would have been possible without the efforts of our 20,000 IndiGo team members who work relentlessly with the single-minded focus of making us a world-class airline. Another testimony is the recent award for ‘Companies with Great Managers’ at the ‘Great Managers Award, 2018’ presented to us by ‘People Business’.

Finally, let me say that all of us at IndiGo were deeply saddened by the extensive flooding in Kerala and I was heartened by the rapid response of the airline. Before services to Kochi Airport were restored, we operated a total of 92 additional flights out of Kozhikode and Thiruvananthapuram, and 24 flights from the Kochi Naval Base to facilitate the increased travel needs into and out of Kerala. We provided special assistance to our passengers through free-of-cost cancellations and re-routing for affected customers, and aided rescue operations by transporting over 50 tons of relief supplies from our various collection centers across India. Once again, IndiGo provided practical and immediate help during testing times for our country.

With this, let me hand over the call to Rohit for a detailed overview of our financials.

**Rohit Philip:**

Thank you Rahul and good evening everyone.

For the quarter ended September 2018, we reported a net loss of 6.5 billion rupees compared to a profit after tax of 5.5 billion rupees during the same period last year. We reported an EBITDAR of 2.2 billion rupees with an EBITDAR margin of 3.6% compared to an EBITDAR of 16 billion rupees with an EBITDAR margin of 29.9% during the same period last year.

As Rahul mentioned, our profitability was significantly impacted by cost pressures from the increase in fuel prices and the depreciation of the Indian rupee as well as from the competitive fare environment.

The average aviation fuel price in India during the quarter was 40% higher than the same period last year. Fuel is about 40% of our total costs. After adjusting for the increased volumes, this increase in fuel price resulted in higher fuel costs of 9.1 billion rupees compared to the same period last year.

The Indian rupee also depreciated significantly during the quarter and closed at 72.58 rupees per U.S. Dollar. Based on this, we booked a foreign exchange loss of 3.4 billion rupees compared to a loss of 0.5 billion rupees during the same period last year. The currency depreciation also had an adverse year over year impact of 1.4 billion rupees on our dollar denominated expenses. So, the overall impact of currency depreciation increased our costs by 4.3 billion rupees compared to the same period last year.

Unfortunately, these higher input costs have not been recovered as fares remain low due to continued intense competition. Similar to the last quarter, the 0-15 day booking window remains weak with lower fares compared to the same period last year. This has been further accentuated by the significant increase in capacity in the market. We are getting significantly more aircraft as Airbus has ramped up its neo deliveries to make up for the delays earlier. In this growth phase, when new capacity is being added, the RASK is generally lower as it takes time for new markets to mature. The year over year impact of lower RASK on our profits is 5.6 billion rupees.

Our total capacity for the September quarter was 19.5 billion ASKs, an increase of 28.9% compared to the same period last year.

Our revenue from operations in the September quarter was 61.9 billion rupees, an increase of 16.9% over the same period last year. Our other income was 3.3 billion rupees for the quarter.

Our RASK for the quarter was 3.23 rupees compared to 3.52 rupees during the same quarter last year, a decline of 8.1%. This decline in RASK was primarily driven by a decrease in yields. Our yields were down by 9.7% to 3.21 rupees while our load factors were nearly flat at 84.5%.

The year over year fuel price increase of 40% led to an overall CASK increase of 24.1%. Our CASK for the quarter was 3.74 rupees compared to 3.01 rupees during the same period last year. CASK excluding fuel was 2.18 rupees in the current quarter, an increase of 13.5% from the same period last year primarily because of the adverse effect of foreign exchange. The foreign

exchange loss combined with the impact of currency depreciation on our dollar denominated expenses resulted in an 11.2% increase in our CASK excluding fuel. Excluding the impact of foreign exchange, our CASK excluding fuel went up by only 2.3% despite inflationary pressures.

We have taken several steps to create efficiencies and improve productivity as we scale up. For example, we have adopted various initiatives to reduce the fuel burn on our planes by reducing weight and improving navigation and landing procedures. We have also improved the productivity of airport operations through better cross utilization of resources. We have refined our maintenance schedule to improve aircraft utilization by carrying out activities during the night.

Our balance sheet continues to remain strong. Our cash balance at the end of the period was 132 billion rupees comprised of 44 billion rupees of free cash and 87 billion rupees of restricted cash. We purchased 3 ATRs using our free cash during the quarter. We had total debt of 26 billion rupees at the end of the quarter.

Before I close my remarks, let me give you our capacity guidance for the coming quarter. We expect a year over year capacity increase in terms of ASKs of 35% for the third quarter. For the full year, we expect capacity increase of 30%. This is higher than our previous guidance because as I mentioned earlier, we have now started seeing a ramp up in neo deliveries post the initial delays.

With this, let me hand it back to Ankur.

- Ankur Goel:** Thank you, Rahul 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 if required. And with that, we are ready for the Q&A
- Moderator:** Thank you very much. Ladies and Gentlemen, we will now begin the question-and-answer session. The first question is from the line of Ronil Dalal from Ambit Capital. Please go ahead.
- Ronil Dalal:** Sir, my question is about the regional connectivity scheme. I was wondering, first of all, how much percentage of your overall ASK would be deployed currently and maybe in this year in the RCS scheme?
- Greg Taylor:** I do not have an exact percentage for you, but it is very small at the moment. We are participating in the scheme but it is only a handful of routes with ATRs. We have other bids and we will be adding more flights in RCS markets as we go forward. But as of right now it is not material.
- Ronil Dalal:** Because I was just checking out, the load factors are significantly lower for IndiGo versus some of the competitors on the same routes. My second question is on the long and medium-haul operations. Any advancement in the plans for going into international markets or is there any kind of cut back from what was earlier planned?

**Greg Taylor:** The sort of long-haul flying with wide body airplanes at this point kind of remains more than aspiration than a plan. But in the interim we continue to add a lot of international markets that are within range of A320 family airplanes. And later this year in November we will be getting deliveries of A321s that have additional range and that is going to open up some other markets for international flying. So our plan is to take advantage of international opportunities within the capabilities of our existing fleet in the near-term.

**Ronil Dalal:** And last question, you had also mentioned on the call that the capacity additions are high for the industry. But mostly the capacity additions are high because they are driven by IndiGo right now, so from April to October you all have added around 33 planes, whereas the other participants have not really added so many planes. So mostly the capacity addition is high because you all have the highest market share and you all are adding planes at a very high pace. So is that the reason why the fares are low rather than just competition?

**Rohit Philip:** Let me take the capacity addition question, then Greg can comment on the fares. The capacity addition what we said was because of the delays in the Neo deliveries that we were scheduled to get earlier. We have started ramping up, so we got a bunch of deliveries than the sort of the original schedule. And so, yes, we did get a number of deliveries this quarter. Greg, you want to take the question on fares.

**Greg Taylor:** The only thing I would add to the capacity question is, if you look back over previous quarters what you tend to find is that domestic industry capacity grows around kind of 18%, 19%, 20% range. And some periods of time back when the Neo's weren't being delivered, IndiGo was making up a smaller percentage, now we are making a larger percentage. But the industrial growth continues to grow at this 20% range which is kind of in-line with demand. So, you are right, this quarter we grew faster and competitors grew slower, if you look back a couple of more quarters it was somewhat reversed. So, that is the situation right now.

With regards to the fares, I turn that over to Willy. If you would like to take that one, Willy?

**William Boulter:** Sure. We are, as we mentioned, in a period of intense competitive pressure. And I want to characterize that by really looking at the booking periods. If you look at the booking period outside 15 days, what we have seen is that whereas previously 60% of our traffic was booked in that period, now that has reduced to around 54%. And the reverse is obviously applied to the booking period within 15 days where it has increased from 40% in previous year to 46% now. And what we have seen is that the competitive pressure is very intense in that period and we have seen the yields decline closer to departure. Whereas, if you actually look at the yields beyond 15 days, bookings outside of that 15 day period, yields have actually gone up. So, I think with that in mind that explains why we have to match what we see happening in the market. And obviously we are keen to protect our market share. And as a result we have to match the activity of the other carriers.

**Moderator:** Thank you. Our next question is from the line of Binay Singh from Morgan Stanley. Please go ahead.

- Binay Singh:** Just on the capacity and just to understand it better, is it that IndiGo would have gone to Airbus and said that we want to bring in more planes or Airbus sort of told IndiGo that you have to take more planes? Because earlier we were looking at 25% growth in ASK, now we have increased that to 30% when industry profitability is fairly weak. So, just to understand the dynamics of that relationship?
- Greg Taylor:** I do not really want to comment on details of our contract with Airbus, but I want to sort of get back to what we have said in the past calls. We continue to be primary focused on long-term network strategy. As Rahul said in his prepared comments, we are building a nationwide air transportation network for the country and our focus continues to be putting those pieces in place. The reason that we have sort of grown to more than 100 departures a day at each of the six metros, that sets the foundation of that kind of network. And so even though we have somewhat of a bubble in our capacity during these two quarters, we still are comfortable with our long-term capacity plans and we think we are on the right strategy to create value, not only for shareholders but also for our customers. So, we are happy generally with our capacity strategy, although I admit we have a bubble here in next couple of quarters.
- Binay Singh:** And just linked to that, so basically is it fair to assume that the bulk of increase in capacity is in A320neos? Will they be operating lease or finance lease? And lastly, how are the sale and lease back premium of the Neos?
- Rohit Philip:** So, firstly, the bulk of the capacity is A320neos. They will likely be mainly on sale and lease back like we have been doing previously. And in terms of the market, the market is still pretty robust in terms of lessor demand for sale and lease backs.
- Moderator:** Thank you. Our next question is from the line of Kunal Lakhan from Axis Capital. Please go ahead.
- Kunal Lakhan:** Quickly, on the change in the strategy regarding the purchase of aircraft. I think we had shifted that - last year we had plans of purchasing aircraft and now we are thinking about doing sale and lease back. Just wanted to understand the thought process there and also if you can share some light on what are the cash incentives in terms of trend. Like how are they, given the fuel cost has now gone up or for that matter, even the lease rentals for Neos are inching up. How do cash incentives as a trend look versus last year and then going ahead?
- Rohit Philip:** Okay, so let me take them one at a time. I mean, I think there hasn't really been any change in our strategy. So what we have been talking about over the last year is that we want to start owning some planes with free cash flow going forward and we had already started to do that with the ATRs. We do intend to buy A320s at some point with cash as well. But as we said even at the time all along that based on the free cash we generate, we will still only take a very small percentage of additional aircraft deliveries through that route, and the majority of our aircraft would continue to still rely on the sale and leaseback model to finance the majority of our planes. So when you come to today, that overall strategy is still pretty much the path we are on. Obviously, at times, and what I said on the last call as well, at times when there is a little uncertainty you want to be prudent with cash. So, right now we are holding off of buying any A320s with cash and continue to rely on the

sale and leaseback model. And we will review that periodically when we think it is the right time to start buying.

Now the question on the value of A320s in the market, I think you all will see that the values are pretty strong. And so that has continued to hold up well, and I think that is pretty much what I said on the last question as well.

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

**Achal Kumar:** First of all, I wanted to understand about your strategic plans, strategic initiatives. Of course when you brought such an experience team at the management level, you must have some strategic steps in mind. So if you could remind us at the moment what are your key three strategies? Another thing I wanted to understand was on the question on the capacity versus fares going forward. Obviously, you are growing at 35% in Q3 and probably similar amount in Q4, and then you had a similar growth plan for the next year. If the growth plans are such, of course, you want to maintain your load factor, and that means you need to offer lower fares. I could see the news, though it is typically a seasonal news or offer, you are offering 10 lakh seats at a very discounted price. So how do you think you could counter the rise in fuel price, softening INR with such a low fare? Obviously it is a strategic plan and to grab market share, but overall you are losing the shareholder equity value. So how do you think, how do we see the fares going forward given that you are growing at such a high level? And recently, I understand that the passenger fee at Bangalore airport was reduced significantly and that will definitely feed into your yields. On the order side, the tax was cut by the government on the fuel, though it was very minor. So in all and these two putting together, how do you see, what sort of benefits you are looking at in terms of per passenger, maybe?

**Greg Taylor:** So, that were a lot of questions. Maybe I will take part of it and let others step in. With regard to the strategy moving forward, a lot of it I talked about in my previous comments. I mean, from a customer point of view our strategy is pretty much unchanged. We continue to be focused on a very simple model of providing low fares, hassle free service and on-time service. And we think that strategy is resilient and will remain in place. We also have very strong strategy around our employees and how we want to continue to have IndiGo be a great place to work. Beyond that, I have talked already about some of the network strategy and, again, our long-term plan is to build a world-class network through the country. And the pieces of that are being put in place quite rapidly. When I look at more than 100 flights a day in all six metros, already, even though we are not a true hub-and-spoke carrier who are building banks of connections, we are just naturally creating connections. We now are offering nonstop and one-stop service in over 1,300 city pairs. So the long-term strategy of building this network for the country is really our focus right now. So, I think that is my answer to the sort of top three strategy questions.

The question's more generally about long-term fares. We look at our capacity plan going out into the next fiscal year and we are comfortable with it right now. But we have flexibility. Our capacity plan is made up of new deliveries plus retirement of older ceo airplanes. So if were to decide, we wanted more or less, we have the ability to adjust that in the future, if we need to. I mean, right now, we are comfortable where we are, but we frequently look at it, and if we need to make an

adjustment, we will. There was a bunch of fare questions that were kind of around that. Did you catch that? Anybody wants to help me with that one.

**William Boulter:**

Well, perhaps I can just comment on the sale that you noticed today. Just to say, we have sales from time to time where we see periods of weaker demand. And the sale we announced today is actually effective for travel after Diwali and in the period where, obviously, traffic falls off after the holidays. And we are very cautious and very prudent. This number of seat looks good from a headline point of view, it is 10-lakh seats, and that gives you some idea of the sale of the airline now. But it does not cover all the seats on the whole network, nor is the lead-in price, necessarily the price that applies for the vast majority of the sectors. So, that was just to explain some of the rationale behind that. And we are always looking at our prices in a very rational fashion. Indeed, we did try a couple of months ago to put in a fuel surcharge, which demonstrates that we are, we think, behaving properly and understandably given the higher costs that we face.

**Achal Kumar:**

The last question was about the passenger fee at Bangalore airport where you have applied almost 10% of your capacity. So that is quite important for you as the passenger fee sort of reduced and the tax on the ATF was reduced slightly. So how do you see that? I mean, what sort of impact do you see?

**Rohit Philip:**

So obviously those are positive steps. They are small steps but directionally positive.

**Wolfgang Prock-Schauer:**

If I just may comment on this from operational point of view. If you see, globally, airline success stories with low-cost carriers are, it is emphasized, in the 200-aircraft range. You can see it in America, you can see it in Europe. So this is one element also of our growth strategy, to continue and improve our sustainability in terms of productivity and this goes to all areas. Because we can see now – we are able to upgrade majority of our new pilots within our system. We can achieve much better productivity. It applies to flight attendants the same way. Engineering - we use our infrastructure much better. I.E. browsers are upgraded. And, especially, also in airport services we have a lot of elements. Let's say, if you fly more, there is much more benefit in terms of achieving higher productivity in running the operations. And that is one of our main goals - to become an even more efficient airline in the future. And that is also important when you grow more internationally. You deal with big carriers and we must do better and really better than them. So this is also one element in our strategy.

**Achal Kumar:**

Yes, agree on that part. But obviously the demand is immature in India at the moment. And if you are growing at 30%, you need to either offer lower fares to keep up your load factor or you let your load factor kill. Right? So it is a sort of negotiation between the two.

**Rohit Philip:**

Yes. So I think the perspective we shared here is, there is the long-term strategy that we are very comfortable with. There will be some periods where capacity comes in a little quick and it takes time for demand and supply to rebalance. But, overall, I think as Greg said, we are very comfortable with the plan that we have.

**Greg Taylor:** Look, I mean, demand is growing really fast. The economy is healthy in India and we continue to see demand growing in the 20% range. So, things may be out of balance a little bit in the short-term, but with that pace of demand growth we are comfortable that it is going to get back in balance really soon.

**Rahul Bhatia:** Sorry, this is Rahul. I beg your pardon, if I may add. You must understand that at IndiGo we are not leading the charge in terms of low fares. We have never had that policy. What you are seeing today in the marketplace, and we all read in the newspapers, there are players in the industry who are really hurting. And for them to raise short-term cash, they have to do lower fares. And, we, as a company, have no choice but to match them. That is the one part. The other part is, when we talk about the industry growing at 20%, within that IndiGo may be growing a little bit faster than 20%, but if you look at the overall industry it actually is almost at par with the growth in traffic. So, we do not believe that there is too much capacity coming into the market, it is in line with the growth of the industry. But there are other issues, the fare, which really is not being led by us because of the 30% guidance we provided on capacity going into the future.

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

**Sonal Gupta:** I just wanted to ask a question in terms price elasticity. I mean, of course, the fares are lower right now and they will inflate when they inflate. But any thoughts around the price elasticity of demand., My broad sense is that if you have to get back to your profitability level of last couple of years, then you probably need a 15% to 20% increase in yields. And if you have, say, a 10% to 15% increase in yields for the industry, do you think the 20% growth that we are seeing still on the passenger side, how much can that slow down? So any thoughts around that?

**William Boulter:** I would only say that of airline history, generally markets have grown at double the rate of GDP growth. And where we have in India a GDP growth of 8%, that would imply a sort of aviation market growth of around 16%. And that really applies whatever the pricing is. Honestly, we couldn't jack up the yield by 50%, but I think even if they went up by 15% or 20% you would still see a very healthy growth, given the GDP growth in the country.

**Greg Taylor:** I would like to add one point, if I may, Willy. We talked about what is happening inside 15 days and outside 15 days. I think if you look at the literature, there is a lot of work that has been done on this over the years about elasticity of demand in the airline industry. And typically, business travel which is usually booked inside 15 days is very inelastic, essentially it does not respond very much to fare increases. And leisure travel is quite elastic, which is why when you do a fare sale that is targeted at leisure traffic, that is revenue generative because it is quite elastic demand. If you cut fares for business travelers, that does not generate very much demand, it just generates less revenue. I think that is kind of what we are seeing playing out. We mentioned earlier outside 15 days our yields are actually up a little bit. The real problem are discounts to inelastic travelers.

**Sonal Gupta:** Right. And just one more question. I think, Rohit, last call you mentioned that the restricted cash that we have, we are trying to now change to more of a dollar deposits from rupee deposits. So, I

just wanted to get a sense of where we are. What percentage of your allocation is now dollar deposits versus INR?

**Rohit Philip:** Yes. So, we are well on our way with that plan. At the end of the quarter, we have about a third of our restricted cash is in dollars. Having said that, the mark-to-market for this quarter would have been higher because it happened during the quarter, so we still are subject to fluctuations during the quarter. But that number, where sort Rs.1 depreciation to the dollar would have been roughly equivalent to about Rs.85 crores, we probably reduced to about Rs.60 crores and we will continue to reduce that. So our plan is to actually convert the majority of this in another three quarters into dollar deposits.

**Sonal Gupta:** So majority, you mean like 70% to 80%, is it?

**Rohit Philip:** It is 80% plus, may be as far as 100%. But we have to get there first.

**Moderator:** Thank you. The next question is from the line of Anshuman Deb from ICICI Securities. Please go ahead.

**Anshuman Deb:** I wanted to understand the significant increase in restricted cash and vis-à-vis decrease in the free cash. If we could just get a bridge of that? That is one. And second, because of some of our competition not being so great, are we still in a position where we can see some gain in some slots in key airports like Mumbai or Delhi. Is there something like that in the offering? These are the two questions.

**Rohit Philip:** I will start with the question on free cash flow and then Wolfgang can take the one on slots. So, our total cash balance for the quarter compared to the prior quarter was roughly flat. There was a reduction in free cash and an increase in restricted cash. Clearly, we did have a loss for the quarter, so that does consume some cash. We also took delivery of new planes which also does generate some cash with the sale-leaseback, but we then also put some of that into restricted cash as security for the standby letters of credit. So what happens when you take delivery of new planes, you have to set up these letters of credit. And so that is why that consumes cash. Those are sort of broadly the key reasons why you saw the free cash went down a little bit and the restricted cash went up, but total cash stayed roughly the same.

**Wolfgang Prock-Schauer:** On the slots and parking bays, we have demonstrated in the last quarter that we could place 20 additional aircraft with parking bays and slots. And looking forward, our winter schedule is mostly secured. I mean, there is one or the other discussion going on with airports or AAI on this matter, but mostly we find homes for these aircraft. And there are actually some positive developments in India, especially the southern airports are very active, creating new parking bays. Hopefully, also creating new slots. Then some other airports are really upcoming because the growth is going more into Tier 2, Tier 3 cities where there is capacity available. And, overall, in the key constrained airports, naturally if other airlines start withdrawing, we will be there because we get something like six aircraft a month. And with that we will always be very flexible to, let's say, occupy the parking bays which might be not used by others. So in that sense, we are well prepared to take

advantage of a growing market and also a constraint market because we have the capacity available.

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

**Dheeresh Pathak:** So, Rohit, just to understand better, restricted cash would include supplementary rental and also forward sales, right?

**Rohit Philip:** It includes the cash we post to secure the supplementary rental obligations. There is no restricted cash related to forward sales. That is one additional item that I did not mention when I answered the prior question in terms of what consumed cash, which was the purchase of ATRs. We did buy three ATRs in the quarter with cash. But there are no forward sales in restricted cash.

**Dheeresh Pathak:** So, apart from supplementary rentals, what else is included in restricted cash?

**Rohit Philip:** A majority of restricted cash is supplementary rentals. There are some cash offsetting, some letters of credit, etc., but the majority of it is supplementary rental obligations.

**Dheeresh Pathak:** Okay. And this is not available to you. Is it like a bucket you create and you call it restricted cash? Or this is something which goes into an escrow sort of account and you can't use even if you want to? When you say restricted cash, what do you mean by that?

**Rohit Philip:** It is restricted because there is lean on it against the standby letter of credit that the bank would issue. So, it is restricted because of the lean on it. Now, we always have flexibility to, maybe, there is always a price versus the percentage of collateralization you have that you can negotiate and change and free up cash if you want or if you require it based on certain factors. But no, what we classify as restricted is what there is with a lean on it.

**Moderator:** Thank you. The next question is from the line of Kaustav Bubna from Rare Enterprises. Please go ahead.

**Kaustav Bubna:** So, by when do you think this pressurized pricing environment will eventually come to an end? I wanted to pose this question because crude is between \$70 and \$80 and if we have no plans of maybe increasing pricing for the next couple of months at least, are we okay, as an airline or as a company? Are we okay with being in losses for the next few months, quarters? Because that is the impression I am getting.

**Greg Taylor:** So, in the short term we are moving from what has been seasonally weakest quarter in to stronger seasonal period. So that will give us some upward pressure on fares during the next couple of quarters, which will help. That being said, and you can go back to what I said before, which is that our focus really continues to be more on the long-term, and we continue to believe we are on the right strategy to build a long-term, viable, positive network for the company. And so that is our

focus. I guess, we'll get some help in the short-term, and in the long-term we are on the right path. And with demand growing by 20% a year, the demand is going to go into supply fairly soon.

**Kaustav Bubna:**

Yes, but, why exactly is this? I am still not being able to understand. I understand that there is a lot of capacity coming in and every airline says there is a lot of competitive pressure. But, I mean, cumulatively as an industry you are seeing great amounts of losses because of the pressurized pricing environment. So, who takes the first step? Maybe not now, maybe 6 to 12 months later, maybe two years, three years, four years later, who takes the first step of increasing prices? Because, if crude comes down, well and good. But let's assume crude stays at these levels, just a hypothetical scenario.

**Greg Taylor:**

So, we look at this and say that, it is not a sustainable situation right now. Capacity adjustments are going to have to take place and prices are going to have to go up. And we think that will play out over some time while demand continues to grow. In the short-term for IndiGo, we are looking at our situation and saying we are in a stronger position than anybody else. We think our capacity plan for the next year is logical and we have flexibility if we need to change it. So we are sticking with the strategy and we think it is the right long-term strategy for the company.

**Kaustav Bubna:**

But to my first question, who actually makes the first decision to raise prices? I am not understanding. Who will take this? Who in the industry? Because you guys are market share leaders by quite a bit. So who takes the first decision?

**William Boulter:**

I would now like to look at the actual facts. And I think at the end of May, it was that we put in a fuel surcharge. And so we made the first move, as it were, to increase the prices. But it was not matched by the competition. Everyone can have their own reasons for doing that. But as a result we have to withdraw that surcharge. And as, I think, Mr. Bhatia said earlier, we are not the people that are interested in having low prices, and we are doing our best to lead the yields up.

**Kaustav Bubna:**

Okay. And on your international expansion, any more updates as a Company, as in how are we going to scale up this international business of ours? I mean, in terms of inorganic opportunities, what is our plan?

**Greg Taylor:**

So, I mentioned earlier that we continue to expand very quickly into the international using sort of all of the capabilities of the fleet we have today. I mean, we added one international destination during the quarter, Dhaka, and we have since announced and opened for sale six more international destinations: Abu Dhabi, Hong Kong, Kuala Lumpur, Kuwait, Male and Phuket. And we continue to believe that these are just sort of natural opportunities for us. They are well within the capabilities of the airplanes we have. And as we have built up strong domestic networks out of the large cities, we instantly get connections to 20 or 30 cities every time we add one of the international markets. So, our plan is to continue to grow the international aggressively, but opportunistically. And then the last thing I would add, again, we are taking delivery of the longer range A321s, which add essentially another hour of flying, which brings another set of markets into economic viability. So, anyway, we will continue to grow the international at a pretty fast pace.

**Moderator:** Thank you. The next question is from the line of Pulkit Singhal from Motilal Oswal AMC. Please go ahead.

**Pulkit Singhal:** In an industry scenario where most airlines would actually think of scaling back capacity expansion, IndiGo has decided to prepone the growth somewhat from 25% to 30%. So it clearly seems like conscious decision. I just wanted to clearly understand the reasons for the same. Opportunistic availability of slots comes to mind, but can you talk about the availability of slots? Was that one of the decisions considered in the top four or five cities? And how much important is the international expansion bit in this decision?

**Wolfgang Prock-Schauer:** Naturally you look at the whole environment. Market and also the infrastructure, which is very rare commodity in India, you look at that. And if there are slots available, it plays a role in the decision making. But not at any cost, the underlying business case must be there. We have evaluated that. And since the slots were available in certain cities or parking bays, we took advantage of that. It plays a certain role, there is no doubt about it.

**Rahul Bhatia:** And, Pulkit, I think we said this in a previous call. At IndiGo what is fundamentally different is we are not building this airline from quarter-to-quarter, what are we doing is for the long term.

**Pulkit Singhal:** Absolutely. If there is limited availability of slots, I mean, it seems like a slot had to do in that sense. Now, just to get a sense of slot availability, like in the top four or five cities, if you could give us some sense as to whether they are frozen, somewhat available or freely available?

**Wolfgang Prock-Schauer:** Yes, so if you look at the top markets and you always have to see slots and parking bays in conjunction, because a slot alone doesn't help you if you do not have the parking bay. So you need to see it both. We see very positive developments in the southern cities like Bangalore or Hyderabad. Then we see positive development in certain Tier 2, Tier 3 cities, which are still getting in our sight and which makes it possible for us to build a certain network around it. New airports are coming up. So we have these plus points. Other, let's say, the most difficult airports are naturally, Mumbai, where there is hardly any possibility, and also Delhi, it has not developed at a pace as we would like it. But we think, in Delhi, which this is the most important market, the location of the runway, how are they set up, the space at the airport, there is much more potential. Everybody knows that. And we think that over one year, it will play out and much more capacity will become available. The airport wants it. It is just necessary that everything gets coordinated in a way that it becomes available. So, we can see and we have seen also in the past that actually if capacity pressure is there, demand is there, so it will develop further. So, overall, a lot of work could be done, but we are also cautiously optimistic.

**Pulkit Singhal:** Got it. And just a follow-up to Rahul. I mean, obviously, this scenario is going to result in a lot of domestic airlines being under tremendous stress. And even some of the smaller ones. While we already know, I mean, you had intended to consider Air India and that could be for multiple different reasons, but would you be also looking at any such domestic opportunities that may arise in the future because some of them would have good slots available?

- Rahul Bhatia:** Yes, I mean, like everything else, we look at it opportunistically. But right now we are so busy building our own business. If something came along that was too good to say no to, we would certainly look at it.
- Moderator:** Thank you. The next question is from the line of Prashant Kothari from Pictet. Please go ahead.
- Prashant Kothari:** The first question is around the capacity addition plans. In case you or the other players were to defer their capacity addition plans, are the penalties or escalation clauses just too high and is not very easy to do that? And the second question was around these kind of weaker players in the industry. What would be more sensible for us, essentially to kind of let them die on their own or this means for us to actually buy them out?
- Rohit Philip:** Yes, so on the first question, I think every airline contract with the manufacturers have different clauses. We are very comfortable with our relationships with manufacturers. And as Greg said, we can always adjust capacity we feel like. We can create flexibility if we need to. We are very comfortable with our current plans in terms of the capacity.
- Rahul Bhatia:** So, what I said to Pulkit earlier, I mean, there are two things going on with IndiGo. We are terribly busy building out what we have set out to build. And when you have what's going on in the industry today, if something came along that really was very attractive, we would look at it. But that is sort of whenever that would happen would happen and, we will have to measure it whether – is that more beneficial for us or should we just focus on building our business organically. And that will depend whenever that moment arrives.
- Moderator:** Thank you. The next question is from the line of Ruchit Mehta from SBI Mutual Fund. Please go ahead.
- Ruchit Mehta:** Just a couple of questions. One, when you get a new aircraft that comes in today, well, from a 6 to 12 month perspective, do you think it is cheaper or more economic to fly the aircraft or would it be more value accretive for you to do a dry lease and a wet lease over a short period of time? Somebody else, I mean, you have taken it, then try and put it out in the market over there?
- Rohit Philip:** Yes, certainly for us. I can answer the question for us. Maybe you may get a different answer from others, but from us, we like to actually fly the planes we buy.
- Ruchit Mehta:** Okay. Second is that if you could give us some sense of why do certain markets forces show weakness despite lack of landing slots itself or capacity constraints like, let's say, Bombay-Delhi sector? And we have seen that typical yields there seem to be much lower and even what other sectors could be. And this sector is fairly constrained in terms of landing slots, etc. So, some of your insight as to why that is the case.
- William Boulter:** The Delhi-Bombay sector is probably the most competitive sector that we operate on. And it is basically a function of capacity. There is a hell of a lot of capacity on that sector and there is competition. We have mentioned before, the fundamental issue is that the fares within the 15-day,

7-day booking windows are extremely low and it is not us that is putting those fares out. It is generally smaller competitors that are worried about their load factor towards departure and end up putting in discounts very late in the working cycle. And so it is a combination of those things which leads to generally very low fares on heavily competed sectors.

**Ruchit Mehta:** But I am just really puzzled by this because, Bombay really has been constrained for a long time for landing slots. And this is a business sector. So I am surprised that you say there is a lot of excess capacity in this sector itself. So, it is just a bit puzzling itself.

**William Boulter:** Well, I think it primarily depends on what time of day you fly. And most business people end up flying early in the morning or in the evening. But there is plenty of other time slots where there is capacity available, even though, as we mentioned, the slots are constrained.

**Moderator:** Thank you. The next question is from the line of Deepika Mundra from JPMorgan. Please go ahead.

**Deepika Mundra:** Just firstly on the cost side, I just noticed that both your rental expense and overall CASK ex-fuel, if you look at it on a sequential basis, there has not been much increase despite the rupee depreciation. Could you highlight as to, is there some relief on maintenance costs in the quarter? And as well as the rental costs, is there some relief because of Neos coming in?

**Rohit Philip:** So, firstly, if you just look at the costs on a year-over-year basis, you will clearly see the explanation is really driven by the depreciation in the rupee. Over the quarter, yes, there was further depreciation in the rupee that affected your mark-to-market, but the incremental effect on dollar denominated expenses in these line items would not cause that big a difference. That is why you would not see a big difference sequentially.

**Deepika Mundra:** Understood. But do you expect a meaningful improvement in these costs with the Neos coming in? I mean, I do want to understand the fuel burn being lower, but given the fact that you were doing short-term leases earlier on, is there going to be a meaningful dip even in your CASK ex-fuel?

**Rohit Philip:** So, I think the primary benefit of Neos are from the fuel burn. 15% of improvement on fuel is a huge benefit. New airplanes have a maintenance honeymoon etc., but the total cost of ownership ultimately will play out over the life. So, the primary benefit of the Neos is the fuel burn.

**Deepika Mundra:** Understand. And just on the yield side once again, just wanted to understand that broadly, if demand growth is at 20%-plus and, let's say, your competition is taking the pricing cut, and if you stay put in terms of the pricing, I mean, won't you eventually closer to the flying date end up at meeting your load factor requirements given that the demand is growing where it is at?

**William Boulter:** Whenever I am talking about yield and load factor, obviously there are two bits that make up the RASK and our focus is on optimizing the revenue per available seat kilometer. Sometimes that

means we look for more demand, more load factor. Other times when we have enough demand then obviously we are looking to try and increase the yields.

**Moderator:** Thank you. Ladies and gentlemen, due to time constraints, that would be the last question. I now hand the conference over to Mr. Ankur Goel for closing comments. Thank you and over to you, sir.

**Ankur Goel:** Thank you for joining the call. Sorry, because of lack of time, we could not take all the questions, but I hope you found this useful. Thank you.

**Moderator:** Thank you very much, members of the management. Ladies and gentlemen, on behalf of IndiGo, that concludes this conference call. Thank you all for joining us. And you may now disconnect your lines

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