



“IndiGo Second Quarter Fiscal Year 2020  
Financial Results Conference Call”

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**Operator:** Good evening ladies and gentlemen and welcome to IndiGo's Conference Call to discuss the Second Quarter Fiscal Year 2020 financial results. My name is Ali 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, Head of Investor Relations for IndiGo.

**Ankur Goel:** Good Evening, everyone, and thank you for joining us for the Second Quarter Fiscal Year 2020 Earnings Call.

We have with us our Chief Executive Officer – Rono Dutta and our Chief Financial Officer – Aditya Pande to take you through our performance for the quarter. Wolfgang Prock-Schauer, our Chief Operating Officer and Willy Boulter, our Chief Commercial Officer are also with us and are available for the Q&A 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 Q&A session will be uploaded subsequently.

With this, let me hand over the call to Rono Dutta.

**Rono Dutta:** Good evening everyone and thank you for joining us on this call.

We reported a net loss of 10.6 billion rupees in the seasonally weak quarter for the industry. While we had a much better revenue performance during the quarter, the loss was driven by certain cost headwinds. These costs fall into three major categories: 1. Mark to market loss due to capitalization of operating lease liabilities, 2. Re-assessment of accrual estimates for future maintenance cost, and 3. One-time adjustment owing to adoption of lower tax rates. Let me stress that each of these cost items is non-cash in nature and does not reflect on the cash flows we generate. Excluding the impact of these cost items, our loss before tax would have been 2.8 billion rupees, a significant improvement over the 9.9 billion rupees loss we posted in the same period last year. Over the half year ended September 2019, post servicing our debt and lease obligations, we have generated a

very healthy cash of 33 billion rupees through our operating activities which clearly demonstrate the strength of our business and our Company. Our CFO, Aditya Pande, will go into detail on each of these items.

Now let me speak to the fundamental operating metrics of the quarter. We continued to see a year over year improvement in unit revenues and this quarter, we reported a 5.7% increase.

Our rapid expansion into both domestic and international markets has been very impressive. We opened 7 new domestic stations and 6 new international markets. Frankly, I am personally staggered by what IndiGo employees have been able to achieve in this regard. When I set a target for the opening of two China stations, two Vietnam stations, one Myanmar station, one Saudi Arabia station plus 35 additional frequencies into international markets, I was hesitant as to whether I was demanding too much from the organization. Think of all that it takes to operate into a new country or even to add a new frequency. There are the regulatory hurdles, slots at airports, crew familiarization flights, ground handling contracts, sales agreements, PR initiatives and much more. The fact that IndiGo employees were able to achieve over 100% growth rate in international market in so compressed a time period, I think is a real testimony to the quality of this organisation.

Cargo has maintained its rapid growth during the quarter in both domestic and international sectors. As per the DGCA reports, we now have a 39% market share in the domestic cargo business, a significant increase from the 28% we had in the same period last year. Our international cargo capacity has grown by more than 80% on a year over year basis. We are now also focusing on inbound cargo business from South East Asia and Middle East and I am very pleased with the response we are getting on these sectors.

During the quarter, IndiGo was awarded the 'Best Domestic Airline' at FICCI's first edition of Travel and Tourism Excellence Award. These awards motivate all of us at IndiGo to keep pushing the bar and set the highest standards.

We are putting a lot of emphasis on improving our service standards. There are two avenues that we use to identify and track areas of improvement. The first avenue is customer feedback on which we spend a lot of management time and attention in analysing and identifying root causes. The second avenue is the Net Promoter Score which organisations around the world are using. I am pleased to say that our NPS scores compare favourably with most of the low cost carriers around the world.

Looking forward to the next quarter, the revenues during the festive season have been somewhat subdued. At this time we are expecting a flattish year over year unit revenue performance. Please note that it is still early in the quarter and things will of course change and we take no responsibility to further update our revenue forecasts before the next earnings release.

We are seeing declines in yield in metro to metro markets where low cost capacity has replaced former Jet airways capacity. We are seeing stronger performance in markets where Jet was not previously present. On international markets, despite our significant increase in capacity, our unit revenues are holding up rather well, with China in particular performing well ahead of plan.

On our capacity guidance, we expect a year over year capacity increase in terms of ASKs of 22% for the third quarter of this fiscal year. For the full year, we expect capacity increase of 25%.

As you are well aware, Aditya Pande has joined us as our new Chief Financial Officer. Aditya has vast experience spanning across more than two decades in several blue chip organisations and we are excited to have Aditya as a key part of our team. Let me now hand over the call to Aditya to discuss the financial performance in detail.

**Aditya Pande:**

Thank you Rono and good evening everyone.

For the quarter ended September 2019, we reported a net loss of 10.6 billion rupees with a negative after tax profit margin of 13.1% compared to a net loss of 6.5 billion rupees with a negative after tax profit margin of 10.5% during the same period last year. We reported an EBITDAR of 2.6 billion rupees with an EBITDAR margin of 3.2% compared to an EBITDAR of 2.2 billion rupees with an EBITDAR margin of 3.6% during the same period last year.

As Rono mentioned, the lower profitability was mainly contributed by mark to market loss due to capitalization of operating lease liabilities, re-assessment of accrual estimates for future maintenance cost and one-time adjustment owing to adoption of lower tax rates. Let me discuss each one of these three factors in detail.

As you would know that we have capitalized our operating lease liabilities as per the new accounting standard IND AS 116. These liabilities are dollar denominated, and hence they are subject to mark to market every quarter. Since during the quarter, rupee depreciated from 68.90 rupees per US dollar to 70.71 rupees per US dollar, we had a negative impact of 4.3 billion rupees on mark to market of our capitalized operating leases.

If you recall, we have mentioned previously that we are experiencing a maintenance bubble because of ceo engines. We extended the leases of most of our existing ceos beginning 2016 and also got around 50 used aircraft from the secondary market. As a result of this, the engines of these older aircraft are undergoing second shop visits which are significantly more expensive than first shop visits. These second shop visits resulted in maintenance spikes in our costs. During the quarter, we have carried out the re-assessment of accrual estimates for heavy maintenance and overhaul cost of engines. Accordingly, we provided 3.2 billion rupees under supplementary rentals and aircraft maintenance cost. This re-assessment is confined to our older ceo aircraft. This cost should continue to be in similar range for the next couple of quarters. This maintenance cost should

eventually go away around 2022 as the neos become a larger portion of our fleet and these older ceo planes are redelivered.

The government has announced an option for the corporates wherein tax rate is reduced from 35% to 25.2%, a tax reduction of 9.8%. In addition, the companies adopting the same will not be required to pay minimum alternate tax or “MAT” going forward.

We have decided to adopt the lower tax rates. This will lower our effective tax rate and we will no longer be required to pay MAT which will result in lower cash tax outflow.

The key highlights of our performance during the quarter can be best summarized by the following points:

- Our capacity grew by 24.2% on a year over year basis.
- Our revenue from operations in the September quarter was 81.1 billion rupees, an increase of 31% on a year over year basis.
- Our RASK for the quarter was 3.42 rupees compared to 3.23 rupees during the same period last year, an increase of 5.7%. For the quarter, our yields increased by 9.4% to 3.52 rupees while our load factors were down by 0.9 points at 83.5%.
- Our Fuel CASK decreased by 17.3% compared to 8.7% decrease in ATF prices on a year over year basis.

Fuel was a very good story for us. We are seeing a much faster decrease in fuel CASK compared to decrease in fuel prices primarily driven by fuel savings from the neo aircraft. Further, our international operations has also helped us to reduce our fuel costs – both because of lower taxes and higher stage length. We have also taken a number of operational initiatives which has contributed to a lower fuel CASK number.

Our CASK for the quarter was 3.85 rupees compared to 3.74 rupees during the same period last year, an increase of 2.8%. Our CASK ex fuel was 2.56 rupees, an increase of 17.2% from the same period last year. Excluding the impact of mark to market loss on capitalized operating leases and re-assessment of accrual estimates for future maintenance cost, our CASK ex fuel would have increased by 3.1%. This CASK increase was primarily driven by higher employee cost and lower aircraft utilization.

While we have little control over the depreciation of Indian rupee, we definitely see some areas of improvement in our CASK ex fuel in the coming quarters. For the quarter, our employee costs were higher by 56% compared to same period last year. As stated during the previous conference call as well, the higher employee cost is because of around 600 pilots being under training, insourcing of ground handling at most of the domestic airports through our wholly owned subsidiary, Agile Airport Services Private Limited, and salary hikes. We estimate the impact of these pilots under training to be negative 2.3% on our CASK ex fuel. We expect the employee cost

per ASK to start going down from the second half of the year onwards as these pilots complete their trainings and start flying.

Secondly, similar to previous quarter, we continue to hold certain aircraft in reserve awaiting clarity on allocation of Jet Airways' slots. As a result, our aircraft utilization was lower by around 9% compared to same period last year. We estimate that lower aircraft utilization contributed to 2.7% in the increase of CASK ex fuel. We expect the aircraft utilization to increase and translate into better CASK ex fuel performance.

Our balance sheet continues to remain strong. Our cash balance at the end of the period was 187 billion rupees comprised of 87 billion rupees of free cash and 100 billion rupees of restricted cash. The capitalized lease liability as of 30th September, 2019 was 175 billion rupees. Our total debt, including the capitalized lease liability, was 198 billion rupees.

With this, let me hand it back to Ankur.

**Ankur Goel:** Thank you Rono and Aditya. To answer as many questions as possible, I would like to request that each participant limit themselves to one question and one brief follow-up question, if needed. And with that, we are ready for the Q&A.

**Operator:** Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Dipika Mundra from JP Morgan.

**Dipika Mundra:** The first question is regarding the ASK growth guidance. It's considerably lower as to what you had guided to earlier. Is this because of aircraft delivery issues or is it just that because of a weak environment you are postponing deliveries?

**Ronojoy Dutta:** No. It's not because of the weak environment. So, looking backwards, the reason why we were softer in terms of ASK growth, as I said, is because of the Jet slot issues. So, this is affecting sort of August and September. We knew that we would get various landing rights in slots and bilaterals, but they all kept getting delayed. So, the aircraft were waiting for the slots while we were thinking okay, next week we will get it, and it didn't happen. So, that was looking backwards why we were soft. Looking forward, though, the softness is because of aircraft delivery issues.

**Dipika Mundra:** Could you just elaborate as to what is the delivery issue?

**Ronojoy Dutta:** I will let Wolfgang Prock-Schauer take that.

**Wolfgang Prock-Schauer:** So, basically, our delivery stream planned for the next year is such that the growth rate is coming down anyways because we used to get something like 60 aircraft per month. Now this growth rate is expected to come down. This is one element. And also, we have certain delays in our upcoming aircraft deliveries, which may be in the range of three to four months, so this also reflects a bit of

pressure in our growth going forward for the next year. So, these are the main elements of it. But it doesn't change our fundamental growth strategy going forward.

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

**Binay Singh:** Actually, continuing on the earlier question. So, what sort of a growth are you looking next year in ASK?

**Ronojoy Dutta:** By next year, you mean the following year, I don't have that number. It will be around 25%, roughly.

**Binay Singh:** Okay. And just one question on supplementary rentals, repair and maintenance, we have seen that number move up quite sizably from 10 billion rupees to 15 billion rupees. And in your remarks you mentioned that around 3.2 billion rupees is basically sort of a charge for the older engines. So, in a way, are you saying that the 3.2 billion rupees number will continue in the coming quarter, so the supplementary rentals and repairs and maintenance as a percentage of ASK will remain at these levels?

**Aditya Pande:** Yes. So, we expect the supplementary rentals to remain at similar levels for the next quarter and the quarter after. And as I said earlier, this is primarily because of the second shop visits that we are seeing on these older ceo aircraft that we have.

**Ronojoy Dutta:** And I think we also mentioned, we will return a bunch of these ceo aircraft by 2022. So, after that, this engine maintenance cost will show a decline.

**Binay Singh:** And the 33 billion rupees number that you shared on cash flow, is that your operating cash flow for this quarter? Or what was that 33 billion rupees number earlier in the opening remark?

**Aditya Pande:** It's on a six monthly basis. This is for the half year.

**Binay Singh:** That is a cash profit on six monthly basis.

**Aditya Pande:** Yes.

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

**Ansuman Deb:** I just wanted a little bit more clarification on this maintenance cost. So, in FY20 remaining two quarters, we will have this elevated supplementary cost. And in FY21 we will have a run rate which is lower than this. And then in FY22 we would have a more neo fleet, which should kind of not give the supplementary rentals. Is that the right understanding?

- Ronojoy Dutta:** Yes. That's directionally the correct understanding. For the current year we continue to remain in a similar range. During 2021, that number should start reducing. And starting 2022 as the ceos start retiring, ceos actually start retiring starting next year. As they start going out in higher volume in 2022, these numbers will start coming down.
- Ansuman Deb:** So, when we are providing for this number, are we paying these supplementary rentals on it on a shop visit basis or we are providing it upfront?
- Aditya Pande:** Yes. So, we provide it in our books. And we pay it once the engine visits the shop and we get billed from the MRO in terms of what that particular cost is for these maintenance costs which we are talking about i.e. heavy maintenance costs.
- Operator:** Thank you. The next question is from the line of Achal Kumar from HSBC. Please go ahead.
- Achal Kumar:** I want to understand few things. One is about your stand on Air India international operations. Previously you said that you are still interested in international operations if it comes. So, what is your stand on that? And when we talk about Air India, separately you also said that you are interested in wide-body, so where are you on that? If you could please clarify on those.
- Ronojoy Dutta:** Those are all great questions; to which we do not have definitive answers. They are all subject matter of great interest, so we talk about it in various management forums, and we do not have something to declare or announce as a yes or no. We recognize that we are at a point of evolution where we have to think of longer-range aircraft. But beyond that, really, I don't have much to share at this point.
- Achal Kumar:** Okay. Fine. Then other thing I wanted to understand very quickly on this maintenance cost, which you said was 3.2 billion rupees. Would that be impacted by the forex? I mean the forex will definitely impact as it is paid in USD. Is that correct?
- Aditya Pande:** So, we have provided for those in our books. And obviously, these bills are raised in foreign exchange. But it's no different than it has been done in the past. I mean in the past, we have always operated on the principle that we pay the bill as we get it from the MRO. So, it's always a dollar-denominated bill, will continue to be a dollar-denominated bill.
- Achal Kumar:** So, that will have an impact from the forex, right?
- Aditya Pande:** Yes, it would.
- Achal Kumar:** Okay. Sorry, last two questions. One is on the engine side. So, recently, I think DGCA has announced, they have disclosed something that you cannot fly a few particular engine after a specific time period. So, how will that impact IndiGo?



And secondly, on the international operations, you said that your international operations are doing great, especially China. So, I just want to understand, overall, as a unit, in international operation, how you are doing. And why I am asking is because I was travelling in one of your flight in Calcutta-Hong Kong, and I saw just 30 passengers on board. And then you discontinue this flight probably because of tension in Hong Kong. So, overall, I wanted to understand, is that particular case with Hong Kong or how you are experiencing overall international operations?

**Ronojoy Dutta:**

So, I will address the international issue and then Wolfgang will pick up on the engine issue. So, on international, you are right, Hong Kong was doing badly, I guess it was doing badly for everyone with all the unrest there. So, we have discontinued it. Internationally, we are very pleased with the results. And international is on a somewhat different cycle seasonally to domestic, so it has its own swings up and down. But the Middle East is very strong. As I said, China is strong. Hong Kong is an area of weakness. And we started some flights, unfortunately, not by choice, but by necessity with a very short time window. And I am thinking of places like Vietnam and so forth. It took us a long time to get all the approvals, which I talked about before, the regulatory hurdles, etc. And we had a certain date. We had to start by October given the fact that after that, there is a whole new slot season, as you know. So, some of those international markets had very short time windows for booking. International typically has a 90-day booking window, and we were starting flights with like a 30 to 45 days before window. Some of those flights did not get the full benefit of the booking. But overall, we are very pleased with our international profitability.

And with that, I will give it to Wolfgang.

**Wolfgang Prock-Schauer:**

Yes. Thank you. On the engine, we can see overall significant improvement in trends. For example, the key event is naturally an in-flight shutdown. This rate has come down to 0.01 per thousand engine flight hours. So, this is very low. And just to put it in perspective, the regulatory requirements in FAA, for example, or in others is 0.05. So, this is 5 times as high. So, we are well within the required regulatory limits in terms of efficiency and reliability of the engines. And basically, many of the issues have been fixed. There are three main issues remaining to which we are on a good track. One is the third stage, low-pressure-turbine where all our aircraft delivered from May 2019 onwards are using new material. And there is no time limit for us. So, for all the aircraft already delivered, we have time to change all these planes with new material.

Second is the issue with main gear box which is fixed. There was a required software change which is done already. And the last element or the number three is the transient vibration, which happens due to the nature of this engine. And all regulatory authorities outside India have a requirement, if it's below a certain threshold, there is no maintenance activity required. We, however, have taken a more cautious approach and we are fulfilling that. So, what we hear from your questions that there might be some limits we are having. We continue with all our deliveries. We have no limitations.

However, there is one limitation that I want to mention is the extended range operations if you have an airport outside India. Right now, every airport must be reachable on our flight track within 60 minutes. For neo aircraft, we can't use extended range, which goes up to 120 minutes. So, our international operation will be having a more restricted route, which we are doing. And as soon as EDTO, extended range operation is allowed and gets approval, we can then have all the flexibility. And it is for our neo aircraft abroad that needs approval. So, we think that we will get this EDTO extension in the next year or so.

**Operator:** Thank you. The next question is from the line of Miten Lathia from HDFC Mutual Fund. Please go ahead.

**Miten Lathia:** Just wanted to understand the disconnect between the cash profits and the operating cash flow. So, while your free cash has gone up by about 4,300 crores rupees on a one-year basis and even you suggested that there was an operating cash flow of 3,400 crores rupees in the first six months of this financial year itself. When we look at the P&L that is hardly half of that is cash profit. So, I just wanted to sort of identify that one big item which is causing this disconnect between the P&L and the cash flow. And the cash flow statement has been given, but somehow it's not very apparent.

**Aditya Pande:** Yes. I mean, let me try and walk you through that. I mean our cash balance has increased during the half year primarily driven by cash from operations, which you are correct, is one big driver. Our increase in the deferred incentives that we get from our vendors and increase in our working capital, our forward sales have been strong as we look at the end of September. So, those gave us the large cash flow impact. Now that was partially offset by repayment of our lease liabilities, purchasing ground support equipment and paying dividend for the quarter. But those are the key drivers.

**Miten Lathia:** Understood. And if I can understand the accounting impact of the forex fluctuation on lease liability. So, right now, there is a rupee depreciation and you have passed it through the P&L. And because that amount is payable to nobody, it just goes and increases your lease liability on the balance sheet, is that how it works?

**Aditya Pande:** So, basically, what happens is that as per the new accounting rules, we are required to take a charge on a mark-to-market basis. Now this is neither a payout to anybody nor is it impacting any of our metrics in any way. Because what happens eventually is that when you end up paying the bill, which is in foreign exchange, be it either lease liabilities or anything that you are paying, at that time, we have a realized forex loss at that point. So, in some ways, it's just showing you a notional number that had the currency been at this level what would your liabilities be. And the rules require us to run it through the P&L and therefore it ends up as a charge to the P&L. So, you are right, it is a non-cash item.

**Miten Lathia:** And sort of because it is non-cash, does it also increase the asset side commensurately or how does that work?

- Aditya Pande:** No. It doesn't increase the asset side.
- Miten Lathia:** It doesn't change the asset side at all. It basically hit on the P&L and increase in liability. And how would it reverse itself? I mean because let's say, the liability is not crystallized, how would it reverse itself?
- Aditya Pande:** So, this is a period item, right? I mean you state your liability at the level at which the rupee is at that point in time. As you get to the next period, there will be a change upwards, downwards and then again reflected through the P&L. So, it will keep on adjusting itself based on where the rupee ends at the end of that quarter. I mean you will settle it when you will settle it. I mean when you are really due to make that payment, that is when you will truly settle it.
- Miten Lathia:** Okay. So, if I could sort of put it in other way just extending the same question. It is not a fresh question. Effectively where revenue and costs would have been matched under the earlier accounting because any forex depreciation would have been in some form or the other passed on to the customer. Here effectively that link has broken, the revenue and expenses no longer matched because even your future liability you have sort of taken into your current expense.
- Aditya Pande:** Right. You take it to your current expense, you route it through your liabilities. And then every quarter, you adjust it. If you want a slightly detailed walk-through on that, we can have that provided through Ankur. It's not a problem at all.
- Operator:** Thank you. The next question is from the line of Bhavin P from Sameeksha Capital. Please go ahead.
- Bhavin P:** You mentioned that you have had difficulty obtaining some approvals. And I think it is common knowledge that SpiceJet has gotten a lot of important slots from Mumbai, Delhi, and some other important routes. So, there seems to be some sort of an irregular approach by the government in this whole matter. I mean, how do you plan to address that with the government?
- Ronojoy Dutta:** So, let me just clarify. I think I mentioned that we were in a sort of holding pattern for a while, while the government was working through how do we deal with this issue. So, Jet had many foreign bilaterals, for example. Who gets what? So, the ministry spent some time deciding that. And while they were deciding that, we were on hold with aircraft. So, that is one issue. The other issues that you are referring to is how was the final outcome, what were the sort of winners and losers in this. And we can share with you a number. Overall, I would say, we did pretty well in Delhi while SpiceJet is doing better in Mumbai. And I will ask Wolfgang to give you the exact slot count. If you would, Wolfgang.
- Wolfgang Prock-Schauer:** Yes. So, if I refer to the domestic slots, we got additional 22 slots in Delhi, and we got additional slots for domestic in Mumbai, which was less. And if you look at the absolute figures, basically, what has happened, SpiceJet and Indigo got the same amount in absolute figures, whereas our

position was that we, as the bigger carrier, should have gotten a higher share, but it was done as it was done. It was a special SOP, which was implemented, which gave Spice and Indigo the same amount of additional slots in these two big cities. And a similar thing has happened on the bilateral rights where SpiceJet and Indigo got approximately same amount of freed up traffic rights because of stoppage of operation of Jet Airways. So, we took it as it is. But we believe that with our capacity coming in and our operational capabilities, we eventually will get our fair share of these additional resources which are available going forward.

**Bhavin P:**

Okay. And in the second quarter, you generated additional free cash flow of about, I guess, 1,000 crores. Now could you tell us in third quarter, knowing where the fares are, whatever you have seen until this date in October and knowing what you know about your costs and assuming that those factors don't change and fuel prices don't change much, what can we expect in terms of free cash flow for third quarter? And I am asking this question because there are a large number of moving parts in the second quarter results, it's impossible to put all those together and kind of figure out because your spread is very negative, yet you have good reasonable free cash flow generation. So, how does one think about free cash in the next quarter?

**Ronojoy Dutta:**

So, let me tell you what we can forecast with some degree of confidence and what we can't. And so we know roughly that the market is softening. There's no question about that. We were on a pretty good growth path in terms of revenue, 5.7% this quarter. I think the quarter before that, we did even better. As we have said in our remarks, we now think it'll be flat. So, there's some softening in the marketplace. We have told you that our maintenance cost will be roughly the same next quarter. We think aircraft utilization will improve a little, that will help our CASK. Fuel, we don't really know. But beyond that, we also can't put all the numbers together and tell you this is what the net-net cash flow will be. That is going too far into the future, which none of us has the capability of forecasting that accurately.

**Bhavin P:**

But is it fair to say that some of these one-time adjustment items that you had in second quarter, such as, for example, additional supplementary rental and the change in accounting, that won't be there in third quarter vis-à-vis second quarter? So, then we are sort of back to more of the normal...

**Ronojoy Dutta:**

But as we have said before, we do expect our maintenance cost to remain elevated for the next two quarters. So, we don't see a decline in maintenance cost. That continues, as we said, to 2022, when it goes down.

**Bhavin P:**

Yes. But you took one-time charge that relate to an increase in supplementary rental that is related to your future cost and similarly to the forex. It's a future cash call, obviously, you have booked it in accounting in the P&L for a one-time basis. So, that results in a significant deviation in the accounting number and the cash flow number. What I am saying, though, is from first quarter to second quarter, such big deviation won't be there. Is that fair to say?

**Aditya Pande:** So, we will continue to accrue these costs based on when we need to send these engines for shop visits. So, that accrual will continue, but these engines will also then start visiting the shop as well. So, the accrual will then get knocked off against the actual expense. So, we will see the accrual build up, and then we will see the engines going into the shop visit where this will effectively knock off the accrual that we have created. It's a non-cash charge, you are right. But as and when these engines go for the shop visit, we will end up paying the MRO for the services provided.

**Operator:** Thank you. The next question is from the line of Charles Cartledge from Sloane Robinson. Please go ahead.

**Charles Cartledge:** My first question is that in the last quarter or maybe the last two quarters, you talked about self-help improving your yields by about 5%, could you update us on that? And secondly, in the broader environment, you say the market is softening. I would just like to understand that a bit better because the overall ASKs for India are in the low single digit and one would have thought that underlying demand might be such that we saw overall yields increase, but I am sort of getting a different message.

And if I may, the third point on your aircraft deliveries. I think earlier in the call, you said that there were some delays. Are these delays outside of your control then? Are they Airbus-type delays and could you elaborate on that?

**Ronojoy Dutta:** Yes. So, first, on the self-help issue. We said earlier in the year that we are doing certain things in network optimization, in our revenue management, sales initiatives, et cetera, which should give us a 5% boost in unit revenue, over and above the industry trend. So, basically, we are saying we are stealing revenue share, if you will, over and above our capacity share. We see that continuing.

And as you can see, this quarter again, we saw that 5% boost in unit revenue. We'll have to see how the industry does as the rest of the quarter unfolds. We are actually convinced that, that will continue into the third quarter. So, the question is how is the industry going to do? No matter what the industry does, we'll do 5% better, we think. But the industry itself, we see the softening. And let me tell you that there was a little bit of a sort of tipping point, if you will, come this festive season and starting September. So, July, August were good, strong months. We were quite confident of what was going on. September, we started seeing some weakening. And we thought, but wait, September is always weak. So, it was difficult to sort of separate the seasonal weakness from any economic weakness.

And now October typically is a very strong month. And you may not be familiar, there are two big Indian holidays in October, first is called Dussehra, the second is called Diwali. And generally, you don't see anyone coming out with sales during this period because the demand is so strong. This October was unusual. In the middle of Dussehra, the first festival, we had one of our competitors do a sale. And then, again, now we are in the middle of Diwali, and the second competitor does a sale. That says there is weakness, otherwise, why would all these sales be

coming up? And of course, we are seeing it in our numbers as well. But I am not trying to be like, oh, my god, things are really bad. Things are softening is all I am saying. So, looking at our actuals and our forecast, last quarter we had a 5.7% unit revenue improvement. Right now, we are forecasting a flat unit revenue year-over-year. So, those are the first two points.

Your third point, I think, was about aircraft deliveries. The aircraft delivery delays are beyond our control. We are in no way pushing back delivery. If anything, we are hungry for more airplanes. There are a lot of routes we would like to fly. And we are after Airbus and pounding the table, come on, come on, give us these planes. Unfortunately, I think you will see this all across the aviation industry worldwide, there seems to be a problem within the supply chain. And people talk of castings and forgings and those things are not available. So, all engine manufacturers, all aircraft manufacturers seem to be struggling with keeping up with the demand. And so the aircraft deliveries are totally not of our own making.

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

**Sonal Gupta:** Sir, just wanted to understand, one, in terms of the forex side, like previously, we have indicated that the restricted cash would be now moving more and more towards dollar-denominated. So, I just want to understand where would be that percentage?

**Aditya Pande:** So, we are now 100% hedged for all our supplementary rent payments. So, we don't carry any mark-to-market exposure as it relates to supplementary rentals going forward.

**Sonal Gupta:** So, all the restricted cash is, I mean, which relates to the rentals or lease payments is now dollar-denominated?

**Aditya Pande:** Yes. That's true. 100% of that.

**Sonal Gupta:** Okay. That's great. And just on the international operation versus domestic, I mean, clearly, the stage length would be much, much higher. I think domestic, maybe 1,000 kilometers. On an average, the international would be, maybe, 3 times of that. So, could you just give us some sense in terms of how does the yield versus cost metrics work? And I mean what would be some sort of rule of thumb or equivalent number that we should think about? Because, obviously, a higher international will sort of depress yields a bit, but it may be, actually, more profitable. So, I just want to understand that.

**Ronojoy Dutta:** And so look, there is again, the seasonal idiosyncrasies, if you will, that you have to deal with. And so certain seasons, international is very strong and the domestic is not as strong, and then it reverses itself again. So, net-net, when we look at it, we are very happy with our international growth. We have put in, say, 100% growth in ASK, and then you would have thought, oh, my god, this would really depress the yields and profitability, and that has not happened. And some of the sectors are actually very, very strong. And I can point to Saudi Arabia, China, they surprised us

with their trends. Obviously, at the same time, Hong Kong was weak. And as I have said before, we started Vietnam with very little booking availability, and we are waiting for that to play itself out.

Overall, I am guessing that over the long term, domestic and international will both continue to do equally well. And to the extent that some domestic flights are weak, we will cancel them and move it to international. And to the extent that some international flights are weak, we will cancel them and move it into domestic. So, we really don't see a big demarcation between one versus the other. And the same thing sort of applies to all our six metros. Sometimes, Chennai does better and sometimes, Delhi does better, and we move capacity around. So, there's no hard and fast rule like, oh, yes, we know this is good, and we know that is bad. This all seems to have economic dynamics, seasonal dynamics. And we move the capacity around constantly.

**William Boulter:** It's Willy Boulter here. Maybe I will just add that you are asking about the stage length effect. And basically, what you have to bear in mind is that, yes, the yield per kilometer on a longer stage length will be lower. But equally, the costs are, too, for a number of reasons. One, operationally, the aircraft is spending a longer time at cruising altitude as a proportion of the flight. And so again, the fuel cost per ASK is less. And then crew productivity is obviously better. And there is a number of reasons. But longer stage lengths, yes, they mean usually lower yield, but equally, they mean lower cost per ASK.

**Sonal Gupta:** Sure. So, that is what I was trying to understand. That is like if you stretch the stage length, I mean, like domestic is roughly 900 km to 1,000 km and international is 3,000 km. I mean will that mean that even with 10% less or lower yield, would you be equally profitable? I mean, is there a rule of thumb there?

**Ronojoy Dutta:** There are very well-established charts of revenue and cost by range, and we can share that with you. I will ask Ankur to reach out to you. And these are internationally available amongst all airlines. So, what happens at the short stage length, what happens to long stage length, how does the revenue curve and the cost curve behave? And they tend to go down in parallel as Willy suggests. Net-net, profitability wise, it doesn't make that much of a difference.

**Sonal Gupta:** Sure. So, that would be very helpful. And just lastly, how much of the capacity is on metro routes on the domestic side?

**William Boulter:** The total metro-to-metro capacity is 24% to 25% of our total capacity for the quarter under review.

**Sonal Gupta:** The total, including international...

**William Boulter:** Yes.

**Operator:** Thank you. The next question is from the line of Lokesh Garg from Crédit Suisse. Please go ahead.

- Lokesh Garg:** This is continuing an earlier discussion, which we heard from your side that your plane deliveries are sort of coming down. We have also been observing that plane deliveries have come down to probably two or three planes per month. The question is going at this rate of three planes per month, which seems to be a comment from your side, could we get to 25% also? Or would we undershoot that as well?
- Ronojoy Dutta:** So, really, it depends on whether we catch up on the deliveries or slow down further. So, that is a bit of a moving target. As I said that we will also be increasing utilization a little bit, not a lot, but slowly. So, between all that, I think it's around 25%. So, it could be 22% to 25%, we are not as precise at this point, depending on how the deliveries shape up. So, we are in constant touch with the manufacturers, of course, trying to ask them to send us more airplanes.
- William Boulter:** I think also, there's another effect, which is the 321s coming in. And so that is adding more capacity even though the number of airframes is not as fast as we would like. But 321, obviously, has about 40 more seats on it.
- Lokesh Garg:** Yes. And just sort of continuing that, we have particularly observed that 321 additions have specifically slowed down even more. And I think your commentary seems to suggest there are about nine 321 aircraft only so far. Do you face even stronger constraint in 321 deliveries versus the 320 neos?
- Wolfgang Prock-Schauer:** Yes, that is correct. A321 might slow down because they are primarily produced in Hamburg. And Hamburg is the place where the industrial issues are happening, where most of the delays happen. But it's only a temporary thing. What we have as a forecast from Airbus which shows a catch-up within three to six months.
- Lokesh Garg:** Okay. My last question, probably. There is a lot of discussion, particularly in the press related to your Europe offerings starting someday and the news reports seems to suggest that you have certain slots that you have not utilized on London sector. Any outlook on that, that you can share?
- Ronojoy Dutta:** Not at this point, no. As we said, I think, earlier to a question, we are studying it. No definitive projections on dates yet.
- Operator:** Thank you. The next question is from the line of Deepak Krishnan from Goldman Sachs. Please go ahead.
- Pulkit Patni:** This is Pulkit from Goldman. Regarding international operations, clearly, for the last six odd months, we have been adding capacity quite meaningfully there. But are we pretty much done with the large part of the short-haul groups that we can address with that current fleet? And at what stage should we expect our international expansion relatively slowing down assuming we don't really go the long haul? So, basically, what we wanted to really understand is, is there more



opportunity for us to really grow on the short-haul international route after what we have done in the last six months?

**Ronojoy Dutta:** Yes, there is lots of opportunity. I mean, look, we fly to just two Chinese cities. And we fly to Vietnam from only one city. As you know, we have six metros we can fly from to China, Vietnam, Middle East, Russia, Africa, all these are available to us. So, we are not short of opportunities at all. If anything, it's timing in terms of aircraft deliveries. And of course, there are bilaterals. Bilaterals are a big factor in all this. In China, we have seven more frequencies we can fly and then we need to add to the bilaterals, same thing in Vietnam and so forth. So, bilaterals are constraints, and aircraft deliveries are constraints. Opportunities are not an issue.

**Wolfgang Prock-Schauer:** And if I may add here, within the six-hour range of our aircraft on both sides, with Istanbul on one side and Hong Kong or Guangzhou on the other side, two-third of the world population is living. And within six hours, our aircraft and our business model works very well. And if you take this, it shows you how much opportunity we have with our aircraft and with our business model here.

**Operator:** Thank you. The next question is from the line of Abhishek Joshi from CGS CIMB. Please go ahead.

**Abhishek Joshi:** Yes. I wanted to ask what percentage of tickets were sold in the 15-day bucket during the quarter. And what has been the trend right now?

**William Boulter:** Yes, I can answer that. I mean for the quarter under review, there was an improvement, certainly, in the domestic market from 47% sold within 15 days to 51% out of our load factor, whereas beyond 15 days went from 40% down to 36%. And that has helped, obviously, produce the yield improvement that we saw of almost 10%.

**Abhishek Joshi:** And what was the price behavior in this 15-day window if we compare it with Q2 and Q1 quarter?

**William Boulter:** Sorry, what was the price?

**Abhishek Joshi:** Yes.

**Ronojoy Dutta:** Sorry, it depends, I think. Is there a particular segment that you have in mind or just system-wide?

**Abhishek Joshi:** Just in total domestic.

**Ronojoy Dutta:** So, our yields are up by 9%, right?

**William Boulter:** Yes.

**Ronojoy Dutta:** I mean, isn't that the answer?

**Abhishek Joshi:** Okay. And can you comment on like, you were saying that the market in terms of price is softening. So, is it just the domestic market? Or we are facing the same issue in the international?

**Ronojoy Dutta:** No. It's mostly the domestic that we are seeing the impact. And again, it is like I said in my opening remarks, a lot of it is focused on the metro to metro. As you know, a lot of new capacity came in those markets that had to be catered. And that is where we are seeing the biggest pressure because there's new capacity coming in, which has not yet found its footing, if you will, and that is where we are seeing the major softening.

**Abhishek Joshi:** And what kind of share we are having right now in the 15-days bucket window in the current quarter?

**Ronojoy Dutta:** I don't think we can share that; I think. I mean it's tough to get that number, frankly. I mean we would have to know every competitors 15-day bucket sales, and we don't.

**Abhishek Joshi:** Okay. And lastly, as you said that from next year onwards, there would be slower growth in the number of fleet that we would be adding. So, is there any possibility that you may start replacing your ceo fleet with a neo fleet?

**Ronojoy Dutta:** Now if we got planes faster, we would. The issue is in the supply side, right? So, the reason we are not growing fast enough is because we are not getting the airplane fast enough from Airbus. So, yes, if we got them faster, we would be replacing the ceos faster.

**Abhishek Joshi:** And what rate would you target to replace it? Any goal on that?

**Ronojoy Dutta:** Really, we don't have those numbers. If and when we get more aircraft deliveries, we will have to see whether we should be adding to the capacity or replacing.

**Operator:** Thank you. The next question is from the line of Dipika Mundra from JP Morgan. Please go ahead.

**Dipika Mundra:** So, just following up on the maintenance expenses, again. The one-time charge that you have taken, is it also because you are expecting the ceos to stay longer in the fleet now versus earlier? And just to reclarify, so it's 0.6 per ASK for the quarter? And you are expecting this 0.6 to continue for the next couple of quarters as well?

**Ronojoy Dutta:** So, to your first question, no, we are not planning to extend the leases on the ceos. The ceos, as we said, start going out in 2021 and by 2022, they are pretty much gone. We have sort of upgraded or re-estimated, if you will, our actual experience with the ceos, and we have said, we need to take our accruals up based on what we are seeing. That's all we have done. And by end of 2021, we should be out of this problem.

**Aditya Pande:** And the 0.6 question, I didn't get it. Can you come again on that?

**Dipika Mundra:** Oh, sorry. So, just some confusion, on whether that 3 billion rupees is a one-time charge or not. So, if you look at it on per ASK basis, it's 0.63 for the quarter. So, what I want to understand is that if the same level continues, right, of 0.6 per ASK for the next two or three quarters depending on how you defer down the maintenance expenses?

**Aditya Pande:** I think you should look at this as an overall bucket of our supplementary rental and lease costs. We expect that bucket to remain in that range for the next two quarters. This is defined by the engines going on shop visits that defines the cycle that is running in a particular month, in a particular quarter. It's very difficult to estimate engine by engine for the overall fleet what it means. The guidance that you should use is that on a supplementary rent bucket overall, the numbers should remain in that range.

**Ronojoy Dutta:** So, most importantly, I don't think you should use the ratio because this is not engine cost spread over all airplanes. The neos don't have this problem. So, if we add more neos, it doesn't mean our engine maintenance costs go up. Engine maintenance cost on the ceo is a fixed pool. And that is the number that we are using, and that is what you should use. If we add more neos in our growth plan, it doesn't mean that engine maintenance cost goes up proportionately to the 0.63 that you are mentioning.

**Dipika Mundra:** Got it. And also, I think, sometime next year, this may or may not happen, but the MAX planes are expected to come back into the system. Given the kind of softness that you are seeing, do you expect that it could continue well into next year if the ban on the 737 MAX is lifted?

**Ronojoy Dutta:** So, the softness is an economic issue. And your crystal ball is as good as mine. Are we in a softening economic environment? Looks like it, looking at the Diwali experience. When will this stop? Next year, will the economy get stronger? I think you are a better economic forecaster than I am on that issue.

**Operator:** Thank you. That was the last question. I now hand the conference over to Mr. Ankur Goel for closing comments.

**Ankur Goel:** Thank you all for joining us. I hope you found it useful and hope to speak with you again. Thank you.

**Operator:** Thank you. Ladies and gentlemen, on behalf of Indigo, that concludes this conference call for today. Thank you 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