



“IndiGo Third 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 Third Quarter Fiscal Year 2020 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, Head of Investor Relations for IndiGo.

**Ankur Goel:** Good Evening, everyone, and thank you for joining us for the Third 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 released our Third Quarter Fiscal Year 2020 financial results today and I am pleased to announce a profit after tax of 5 billion rupees compared to profit after tax of 1.9 billion rupees last year. Our after tax profit margin was 5%. Overall, we continue to do well on the revenue front while being challenged by some temporary headwinds on the cost front.

We are happy with the improvement in revenue performance during the quarter and we have reported a year over year RASK growth of 5.6% with December in particular being a strong month. We have now had a string of over 5% improvement in unit revenues over the last four quarters. However, as we move to the seasonally weak fourth quarter, we will find it difficult to produce year over year improvement in unit revenues because we will be comparing ourselves against a base period when Jet Airways capacity was beginning to decline.

In terms of strengths and weaknesses in our system, the overall trend in metro to metro markets is weak because of the new competition we are facing in these markets. Fortunately, international is a bright spot in our system as both capacity & margins continue to expand simultaneously. Non-metro markets also continue to do well.

As part of our international expansion, we signed a codeshare agreement with Qatar Airways. This is our second codeshare and we will continue to evaluate such options to improve our global footprint and generate incremental revenues.

I am pleased with the growth in ancillary revenues. We have reported ancillary revenue growth of 29% against a capacity growth of 19%. Our cargo uplift grew by 46% on year over year basis. IndiGo's domestic cargo market share is above 40%, a sharp increase from the same period last year when we had only 27%. Other ancillary revenue excluding cargo has also grown faster than capacity. We are continuously evaluating different ancillary products which can be offered to our customers to improve their flying experience.

Cost headwinds are a continuing challenge we are working through. The drivers here are the maintenance cost of the old ceo engines and the bubble of pilots in training we are experiencing. Aditya will go into more detail on the engine maintenance cost and the pilot training costs.

The most effective lever we have to reduce unit costs is to increase aircraft utilization. Aircraft utilization has been held back recently because of pilots in training as well as the numerous engine changes, but come June of 2020 we will be in a position to increase aircraft utilization. Despite our current challenges, we were able to increase aircraft utilization by around 5%\* sequentially for the quarter.

On capacity guidance, we expect a year over year capacity increase in terms of ASKs of 20% for the fourth quarter and 23% for the full fiscal year. For Fiscal Year 2021, we anticipate the capacity increase to be around 20%.

Now let me hand over the call to Aditya to discuss the financial performance in further detail.

**Aditya Pande:**

Thank you Rono and good evening everyone.

For the quarter ended December 2019, we reported a profit after tax of 5 billion rupees with a profit after tax margin of 5% compared to a profit after tax of 1.9 billion rupees with a profit after tax margin of 2.3% on YoY basis. We reported an EBITDAR of 19.6 billion rupees compared to an EBITDAR of 16.7 billion rupees during the same period last year.

We have reported higher profits in the quarter compared to what we had indicated in December because of both- better revenue performance in December and lower MTM loss on capitalized operating leases as compared to our previous estimates.

\*The number was inadvertently stated as 7% on the call

Let me take you through key highlights of our performance during the quarter:

- **Our year over year revenue grew faster than our capacity.** While our capacity grew by 19.3%, our revenue from operations in the quarter was 99.3 billion rupees, an increase of 25.5% on a year over year basis.
- **We saw an increase in both our yields and load factors.** For the quarter, our yields increased by 1.2% to 3.88 rupees while our load factors were up by 2.3 points at 87.6%. As a result, our RASK increased from 3.70 rupees in the same period last year to 3.91 rupees for the quarter, an increase of 5.6%.
- **We continue to actively work on lowering the fuel CASK post adjusting for fuel price changes.** Our Fuel CASK decreased by 17.9% compared to 11.9% decrease in ATF prices on a year over year basis.
- **The cost headwinds persist.** CASK for the quarter was 3.69 rupees compared to 3.62 rupees during the same period last year, an increase of 2.1%. CASK ex fuel was 2.40 rupees, an increase of 17.5% from the same period last year. Sequentially, we did better with unit cost decreasing from 3.85 rupees to 3.69 rupees.

Similar to the last quarter, the increase in CASK ex fuel was driven by mark to market foreign exchange loss on capitalized operating leases, higher maintenance cost and higher employee costs.

During the quarter, rupee depreciated from 70.71 rupees per US dollar to 71.30 rupees per US dollar, and as a result we had a 1.3 billion rupees of mark to market loss on our capitalized operating leases. Excluding MTM impact on capitalized operating leases, our CASK ex fuel increased by 15%.

As explained during the last earnings call, we continue to see elevated maintenance cost related to re-assessment of accrual estimates for heavy maintenance and overhaul cost of our ceo engines. This impacted our CASK ex-fuel. We have booked total supplementary rental and maintenance cost of 16.3 billion rupees in the same quarter. Sequentially, on a per ASK basis, the cost has remained the same despite rupee depreciating by around 2% during the quarter. Going forward, on a per ASK basis at constant currency, we expect that the “Supplementary Rentals and Maintenance Cost” line item to improve from the current levels starting fiscal 2021 despite contractual escalations and capacity additions.

Our employee costs per ASK have increased from 0.40 rupees to 0.48 rupees compared to the same period last year driven by pilots in training, impact of Agile and salary hikes. Further, we still have 400 additional pilots undergoing trainings and once these pilots are available to fly, we expect an improvement in unit employee costs. We are seeing an improvement in this number since last quarter we had 600 pilots in training.

Fuel CASK is still a good story and we continue to witness improvement in our fuel CASK performance at a faster rate than reduction in ATF prices. This was primarily driven by increase in fuel efficient neo aircraft as a proportion of overall fleet. Further, increase in international operations have also resulted in a better fuel CASK on account of lower taxes and higher stage length.

Our balance sheet continues to remain strong. Our cash balance at the end of the period was 201 billion rupees comprised of 94 billion rupees of free cash and 107 billion rupees of restricted cash. Our total cash has increased by 13 billion rupees during the quarter. The capitalized operating lease liability as on 31st December, 2019 was 192 billion rupees. Our total debt, including the capitalized operating lease liability, was 216 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:** Ladies and gentlemen, we will now begin the questions-and-answer session. The first question is from the line of Suraj Chheda from IIFL. Please go ahead.

**Joseph George:** Hi. This is Joseph from IIFL. I had three questions. One was, would it be possible to give the value of right-of-use on the balance sheet at the end of the third quarter? I think you had given the number at the end of the second quarter. If you can give the number for the third quarter, it will be great. That is one.

Second was, if you can give some indication on what the growth in international ASKM for next year would be? So overall, you have guided to a 20% kind of a growth, just wanted to understand what percent of that incremental 20% will go into international in a broad sense versus domestic?

And third was, you also mentioned that the yield situation was looking challenging because of the Jet bankruptcy in the Y-o-Y base. So are you guiding to a flattish or a decline in year-on-year yield going into the March quarter? Or if you can give some indication there. So three questions- value of right-of-use, international versus domestic growth for next year and third, some guidance on yield.

**Ronojoy Dutta:** So, international versus domestic. We are moderating ourselves so that 50% of the additional capacity goes domestic, 50% goes international. And we have lots of opportunities in both the areas and we don't want to grow one at the expense of the other. So again, it's a 50-50 split in terms of additional capacity.

Yield on a year over year basis- what are we projecting for the next quarter? It's a challenging question to which we don't have a precise answer and I will tell you why. Just to look at the recent experience, October was quite a disappointing month. December bounced back faster than we expected. Now January, it is continuing to see the December stretch. But we know that

February and March are typically seasonally very weak. And one of the things that I have learnt in aviation is that September and March you can't predict, and usually they are lower than what you expect. So with exams coming and everything, people just refuse to travel in March. So how bad will the effect be this year, we really don't know.

On top of that is the Jet effect. And the Jet, if you recall, started reducing capacity in February. So February, March, April, these were very strong months in terms of Jet comparison and trying to match those numbers is going to be a challenge. So with that, I can tell you, I am hedging my bets, we don't really know. But at this point, we don't want to give you an answer because all we can see is January, which was good. February and March are going to be real challenges.

**Aditya Pande:** Yes. On your question on net ROU. As on 30th September, recall this number was 102 billion rupees. This number is now 115 billion rupees with the capacity addition that we have had to our fleet.

**Joseph George:** Sorry. Just a clarification needed on the right-of-use number. The number that I have for the September quarter is 133 billion rupees. This is on the balance sheet. So how does this number compare to the 3Q number?

**Aditya Pande:** So, we have 165 billion rupees of gross ROUs. And this is now going up to 185 billion rupees of gross ROUs.

**Joseph George:** 185 billion rupees versus 165 billion rupees?

**Aditya Pande:** Right. And on a net ROU basis it is 102 billion rupees going up to 115 billion rupees.

**Operator:** Thank you. Next question is from the line of Ashish Shah from Centrum Broking. Please go ahead.

**Ashish Shah:** Just wanted to touch upon the subject of supplementary rentals and maintenance. You did allude in your opening remarks that we would expect the per unit cost to go down next year. So any quantum that you could give? How do you expect either in the per unit basis or an absolute basis? If you would like to guide anything on that?

**Aditya Pande:** So, we are not giving out a guidance as to what it is going to be. But today, as you can see, it is about 63 paise per ASK. We expect this to continue to be elevated in our fourth quarter. But as we get into 2021, this number should start reducing. We don't have an exact number as to what it's going to be because we are still working through our planning cycle for the year. But it should be lower than the 62 paise, 63 paise that you are seeing.

**Ashish Shah:** Sure. Secondly, on the entire program that we are currently in, in terms of changing the Pratt & Whitney engines, and that we expect probably to be done by June. So where are we exactly in that process? And do we expect that you will be meeting this timeline that we have been now given by the DGCA?

**Wolfgang Prock-Schauer:** So right now we have 106 neos, having 212 engines. And we have replaced close to 60% of all the engines to become fully compliant within FAA rules, which is applicable at end of 2020. So we are very confident. And as you know, there was a guidance given, not guidance but a ruling by DGCA that we have to replace all these non-modified engines by end of May. We are confident that we will meet the target and will have all the engines modified on our aircraft by end of May.

In addition, I can give you information that in between we also had another ruling which does not require all the engines to be exchanged, but there should be no aircraft having two unmodified engines on its wings. And we have already complied with that point. So currently, there is no aircraft flying with two unmodified engines. So we are well on track on both applicable rules, both IATA and the FAA and we are confident to meet these targets.

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

**Ansuman Deb:** I had a question regarding the supplementary rentals. The additional accrual in the last three quarters has been to the tune of around 6 billion rupees as per our disclosures, nine-month FY19. This additional accrual, how much would it be for FY20 or FY21? If you could give any idea on that, that would be really helpful. That is one. Secondly is that, in concern with our EGM meet that we have on 29th, if you can share any color on that, that would be helpful.

**Ronojoy Dutta:** So I will take the EGM meeting. As you know, the Gangwal Group has asked to remove the right-of-first-refusal from the Articles of Association. The company really does not have any stand on this matter. We are totally neutral. It is really up to the shareholders to decide which way to go. And Aditya, on the supplementary rental...

**Aditya Pande:** So, Ansuman, on the question of supplementary rental, as I just mentioned, I request you to please focus on the overall line. We are at 1,650 crores rupees for the quarter, we expect to be in a similar range for 4Q. And then on a per ASK basis, as we start getting to 2021 fiscal year, you will see that per ASK cost going down. So that is the guidance we are offering right now.

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

**Deepika Mundra:** A couple of questions. So last quarter, you had mentioned that the neo deliveries have been slightly slower, particularly, the A321s. So could you provide a status update on that? Because it seems towards the end of the quarter the pace of the deliveries has picked up. And in relation to that, we have also seen some decline in the ceo fleet in the particular quarter. So again, what bearing will that have in terms of the cost structure in the coming quarters as that continues to wind down, given the maintenance provision has been largely taken for the same?

**Wolfgang Prock-Schauer:** On the neo deliveries, basically you can predict the delivery slowdown to a certain degree because you see that the aircraft are in their assembly line. And we have factored all of these aspects into our capacity forecast. So whatever we gave you in terms of our capacity guidance for FY20 and FY21, this is already factored in. There is a certain slowdown, but deliveries

continue in the pace of four to five a month. And it's all factored in. In terms of ceos, there is a natural cycle of ceos over which they will be removed because our lease terms are relatively short and they will be given back to lessors. So there is a continuous cycle which is going on. So there is not a specific strategy behind it, it is just a continued pace of returning all the aircraft and getting new aircraft instead.

**Ronojoy Dutta:** And in terms of the costs, the classic engines have a higher maintenance cost and a higher fuel cost, but a lower ownership cost. So those are the three pieces that we juggle. And clearly, we think the neo is better overall, with a slightly higher ownership cost but a lower maintenance cost and a lower fuel cost.

**Operator:** Thank you. The next question is from the line of Bhavin Shah from Sameeksha Capital. Please go ahead.

**Bhavin Shah:** You mentioned that the cargo volume is up strongly year-on-year and the revenues are not showing a similar trend. So could you comment on that? Is there a lot of pricing pressure in that space? And second, I think you mentioned some of the positive factors with respect to the international business. So would you care to comment on the spread between international and domestic or at least the RASK and CASK comparison? Thanks.

**Ronojoy Dutta:** So on the spread between domestic and international. Clearly, domestic has its strengths, domestic has its weaknesses. Domestic strengths, as we have said, are in the non-metro markets, we find those doing very well. Metro-to-metro markets, historically, used to be one of our strongest markets. But now with the low-cost carriers coming in and being very aggressive on pricing, that has become relatively weaker. Similarly, international, clearly, the markets that have matured are doing exceptionally well. The market that we have just introduced are sort of building up.

**William Boulter:** Sorry. Just to mention on the cargo side. I mean, as Rono covered I think in the opening remarks, we have seen a bounce back in terms of our market share, which is now above 41% compared to 27% last year. And this is driven really by a better concentration on the sales cycle for cargo and better throughput, and also one or two of our competitors have had challenges on the cargo side. So we do anticipate that this will be maintained for some time.

**Bhavin Shah:** Yes. What I was asking is, the cargo revenue seems to be growing at a slower pace than volume. So that is kind of counterintuitive, given what you had explained.

**William Boulter:** I mean, the cargo volumes are up about 40%, which is a pretty good result, I think.

**Ronojoy Dutta:** And I think the answer is the lower yield. But...

**William Boulter:** Slightly lower yield. But as I said, we continue to be optimistic about cargo.

**Operator:** Thank you. The next question is from the line of Aditya Makharia from HDFC. Please go ahead.

**Aditya Makharia:** Firstly, just wanted to know what is international as a percentage of our revenue today? And

secondly, with this issue around the virus, I mean, the whole China virus issue, how do you see air travel growth, particularly on the international side?

**Ronojoy Dutta:**

So again, international, both capacity and revenue are sort of marching towards 25% of our total capacity. And the virus situation, we are obviously monitoring very very closely. And we have seen some cancellations. We have offered for a month, we will take cancellations and we have seen some. So we are monitoring the situation very very closely. But we have not taken any decision on capacity adjustment as of now. But as you can see, this is an ever-evolving story, so every day we have a conference call talking to all our sales people around, especially in China, but in other areas as well. And looking at how our bookings are doing and based on that we will take a decision.

**Aditya Makharia:**

Would it be fair to assume, at least that the traffic which is west bound, that is not impacted? So the east bound traffic can be impacted, I can understand that, but the west bound should be holding up, right?

**Ronojoy Dutta:**

West bound has actually seen a pickup because I am sure a lot of people are coming out of China. So we have seen a pickup in that. But equally, we have seen the cancellation going into China. So these are still early days and we are monitoring it closely.

**Aditya Makharia:**

Sure. And last question, China relatively for you is a new market, right? So in that sense, the impact would be lower?

**Ronojoy Dutta:**

China, we were off to a very strong start, frankly. I mean, I think we mentioned in the last call also, China has surprised us with its strength. So it's a new market which took off very fast. So there is an impact. And you had a question on what does it do to air travel. It is really bad for air travel overall. I mean, we are talking about China, but people will just say, hey stay home, you don't know what's happening in other parts of the world either. So compare it to SARS and all that, this is not a positive for air travel.

**Operator:**

Thank you. The next question is from the line of Varun Ginodia from AMBIT Capital. Please go ahead.

**Varun Ginodia:**

I have three quick questions, if you can throw some light on them. Number one is, on this entire engine issue by Pratt & Whitney, are you eligible for any compensation from the OEM? And if you can quantify that, if that is the case?

Number two, government invited EOIs for the Air India sale today. Wanted to know your thoughts, because the news flow is suggesting the name of IndiGo as one of the potential bidders. So how are you looking at that particular transaction?

And number three, on the FY21 capacity guidance, you gave 20%. If I remember correctly, in your 2Q call you were expecting in the range of 25%. So is this lower guidance largely driven by delay in neo deliveries? Or is there anything else as well to this guidance number? That will be it from my side.

**Ronojoy Dutta:** So let me take each one of these. Air India, we really will not comment. Yes. Air India, no comment. FY21 guidance, our fourth quarter is off to a weak start because of all the engine changes and so forth. And as you said, after that by June, we will ramp up the aircraft utilization. So aircraft utilization is weak in the fourth quarter, weakish in March, April and then ramps up towards the end. So it's the aircraft utilization that is really driving this. We have had some delivery delays as well from Airbus. So it's a combination of those two factors. On the engine issue, excuse me, can you ask the question again, on the engine issue.

**Varun Ginodia:** Are you eligible for any compensation from Pratt & Whitney for all the delays that are happening there?

**Ronojoy Dutta:** So, both with Airbus and Pratt & Whitney, we have very very good contracts in terms of compensation and eligibility thereof. And we will pursue them vigorously with manufacturers.

**Varun Ginodia:** Okay. Just on that, the FY21 capacity guidance. So you are expecting utilization to ramp up from May - June onwards, right? Around that time to remain muted until May. So it's only about a month or so of FY21, where the utilization will hit your ASK guidance per se. So this markdown from 25% to 20% is only driven by those two months or is there anything else as well in here?

**Ronojoy Dutta:** The number of aircraft deliveries also is lower than what we had anticipated.

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

**Abhishek Joshi:** Sir, are we looking to buy any wide-bodied aircraft? There was a news that Singapore Airlines, or should I say Vistara, is planning to buy some wide-body carriers so that they can directly fly long distances. And if we are not planning for any wide-body carriers, then how does it affect our route towards the Middle East?

**Ronojoy Dutta:** So wide-body is a project that is ongoing. We keep studying it with different perspectives. No decision has been made. As to our route plan, we have the A320, A321s. And the A321s as you know is over 220 seats. Then we have the XLR, which takes us almost 9 hours. So we can go to a lot of markets around India from Seoul to Bali to Barcelona, all with the fleet that either we already have or that we have on order. Also, the seat count with the A321 is quite attractive.

The Middle East is really not affected by this; you don't need a wide-body to go to the Middle East. We have enough A321s to serve the Middle East quite properly. And please also remember, traffic tends to fragment by frequency, not by seats. So would I rather have two frequencies or one large wide-body? I think I will get more market share by going with frequency. So we are quite happy with the fleet plan, frankly.

**Abhishek Joshi:** No. I was asking about the Middle East because many passengers go for the Middle East, there is a halt, like we have a codeshare agreement. So for example, it takes 16 hours to fly to U.S and we can't fly directly to a market like US. So because of that, if passengers choose to fly directly, then how are we affected?

**Ronojoy Dutta:** Okay. First, let me tell you about the nonstop India to U.S. market. It is a very very challenging market. Many carriers tried and many carriers have failed. And the problem is the fuel burn. You burn so much fuel going non-stop to the U.S. that you have to load more fuel. And the more fuel you load, the heavier you become, and your fuel burn goes higher. So unless you get a very good yield premium, the economics don't work, and the fact is that you don't get a good yield premium. Therefore, the market is very challenging. We have no plans of flying non-stop to the U.S. Even if we had a wide-body that would not be one of our first market, believe me. So, our fleet plan is very much in line with what we want to do, the markets we want to fly to. We have got a schedule built for the next four - five years and we have ordered our fleet according to that.

**Abhishek Joshi:** Sir, can you give me the average revenue per passenger for international flights and for domestic flights.

**Ronojoy Dutta:** See, the yield of revenue per seat mile goes down with length of haul. So you would expect that as we grow longer distances, our yield will gradually come down. But along with that, your cost curve also comes down. So it is all dependent on the length of haul- our yield comes down and cost per ASKM also goes down.

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

**Sonal Gupta:** My question has been answered.

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

**Binay Singh:** The first question is, at the start of the year the Aviation Minister made a comment that the government is looking into predatory pricing in airlines in India. Do you foresee any change in competitive landscape or regulatory landscape as the government is also now worried about fares being very low in India?

**Ronojoy Dutta:** So, fares were quite low in India in the metro-to-metro market. I think that is where all the attention has been in the month of October. As we said, we have recovered in December and January looks reasonably strong. So I don't know how anyone would prove predatory pricing in all of this. I think people are just reacting to the marketplace. If load factors are strong, we raise fares, if load factors are weak, we reduce fares. So there is no predatory pricing in any of this.

**Binay Singh:** Okay. And secondly, what percentage of your traffic is now from China? Will be a very small percentage, I assume.

**Ronojoy Dutta:** Very tiny. People are saying less than one percent. We have just got two flights right now, right; Delhi-Chengdu and Kolkata-Guangzhou. So it's a very small part of our system.

**Binay Singh:** Right. And then thirdly, in your comments earlier you said that the aircraft utilization will rise from June. So could you give us any number as to what is it today and how do you see that

changing going ahead? Because that will have implications on CASK and all.

**Ronojoy Dutta:** Sure. So we are trying to get to above 13 quickly. Right now, we are closer to 12.2, 12.3 in that range. But we want to take it above 13 very quickly after June. And again, the reason we are being held back is because we are doing so many engine changes and because of the pilots in training, that is what is holding us back. So I feel like the airline is not able to fly at full throttle right now. But after June, we will be flying at full throttle, and I am excited about what will happen after that.

**Binay Singh:** And what is like the upper end of this number? Like till what number, with your current mix of domestic and international, like, if you become one-third international in a year or so, so what is the upper end of this number?

**Ronojoy Dutta:** You need to look at global carriers and what they do, including low-cost carriers. 13 is a very very healthy and respectable number, we would like to go above that. For some low-cost airlines like Ryanair and all, it is about 11 hours. But of course, everyone's schedule is different. So we can easily get to 13 and above, and that is what we are shooting for.

**Operator:** Thank you. The next question is from the line of Ashwani Kumar from Nippon India Mutual Fund. Please go ahead.

**Ashwani Kumar:** My question was, what is your market share in metro-to-metro and non-metro to non-metro? And wherever it is falling, what is the way to correct it or improve it?

**Ronojoy Dutta:** I didn't know that the market share is falling anywhere. We have looked at everything, every metro, everywhere, our market share has hit, maybe 49% or 47%, it's somewhere in that range. But we are not losing market share anywhere- each of our metros, each of our non-metros. As I said, as we add more capacity, I don't want to direct it all internationally, we have got lots of domestic opportunities which are very attractive. So yes, there is no question of losing market share.

**Ashwani Kumar:** Yes. I wanted to know, in terms of non-metro to non-metro, what is the opportunity, basically? Non-metro to non-metro, if you look at it. And where is this growth coming from? What's the reason for growth in these specific markets?

**Ronojoy Dutta:** So, I know where this is coming from. The fact is that Bangalore and Hyderabad, they are great markets, but to an extent they have been played out, right? Now the Patnas, the Lucknows, the Bhubaneswars, the Coimbatores, there is lots of room for growth in all those areas. So, now our first phase is metro to metro. Okay, so we have sort of maxed out on that. Then we went metro to non-metro, still lots of opportunity. And finally is the non-metro to non-metro, which today is a very small part of our system, but we are coming up with a plan to serve those better.

**Ashwani Kumar:** Yes. And sir, the international customer who is coming to you, predominantly which kind of airlines are you able to attract the customer? Is this a typical Air India customer, is it Jet Airways customer, can you specify? And would you aim to compete with the bigger premium airlines also at some point in time?

- Ronojoy Dutta:** Well, we are a low-cost airline, they are a full-service airline. So we are not going for the business class customer, obviously. We are also not going for the premium economy customers. We are just going for the economy customers. So Emirates and British Airways, they have a segment that we don't compete in, which is the business class and the premium economy. But after that, in economic to economy we are fully competitive.
- Operator:** Thank you. The next question is from the line of Manish Ostwal from Nirmal Bang. Please go ahead.
- Manish Ostwal:** I have a question on the maintenance cost. In the December presentation we had indicated that the maintenance cost will remain elevated level till FY22? And in the initial remarks, you said that in FY21 the maintenance cost will decline from the current level. So what is the reason for diversion of comment from the December update to the current quarterly update?
- Aditya Pande:** I think what you are referring to is the line item of cost. So what we meant, if you look at our December presentation that we made, the line item of cost itself would remain in this region- 1,600 crores rupees to 1,700 crores rupees as the volume goes up. But what we want you to focus on is the per ASK cost of that. So while the per ASK cost is obviously elevated because these are higher than what we have been typically been experiencing in 2016 and 2017, as you go into the 2021 fiscal, and we are only talking about 2021 right now, you will see that the per ASK level cost will start coming down. However, the line item itself, which is the line item of supplementary rental and maintenance would remain in that 1,650 crores rupees range. But unit costs will come down because you'll be flying higher ASKs.
- Manish Ostwal:** So when you say unit costs will come down, that means unit cost, again, back to 44, 45 paisa per ASK kind of level?
- Aditya Pande:** No, it can't go down to that level. Definitely not to that level and we are not guiding any number over there. We still have these aircraft in our fleet for the next 12 to 18 months. They will still incur the expenses. We are booking those costs on an accrual basis. So they are not going to go back to 44 paisa. But as we go into 2021, they're not going to remain 62, 63 paisa as well.
- 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. My first question is, if you look at your A320 ceo fleet, could you highlight what is the average age of that fleet as of now?
- Ronojoy Dutta:** So we are all saying around six because they are hitting their second shop visit, which means they must be around six. So we haven't actually studied this number, maybe you can call Ankur. But we all are guessing that it will be around 6 years.
- Pulkit Patni:** Okay, which effectively means that we have to do the recheck, which is why the maintenance cost has been higher. Now what is the balanced lease life left for the same ceo, if you could also highlight that number?

- Ronojoy Dutta:** So by 2022, they go away.
- Aditya Pande:** Right. By December 2022 we expect all of them to go away. We will start returning these aircraft starting 2021, so you will see the proportion of the ceos that are leased and used going down in our fleet. And as we get to December 2022, we have all these aircraft returned by that time.
- Pulkit Patni:** And when you say all, you mean the ones which are over 6 years? Or you mean the entire fleet basically gets replaced?
- Aditya Pande:** No. These are only the used aircraft that we have taken under the extensions that we made.
- Pulkit Patni:** Understood. That is helpful. My second question is, since you have spoken about the metro and the non-metro route, and the yield has actually been pretty decent with 1.2% growth. Would you give a rough idea of how the metro yields would have been? And what would have been the trend in the non-metro yields, if you were to look at percentage?
- Ronojoy Dutta:** We really don't want to be that specific. And we can only say there is weakness in metro to metro. It used to be our biggest, strongest market but they are not now. But fortunately, that weakness is compensated for both by international and by the non-metro experience.
- Operator:** Thank you. The next question is from the line of Vijayant Gupta from Edelweiss. Please go ahead
- Vijayant Gupta:** I had a couple of questions. Firstly, so we have seen a very welcome increase in PLF this quarter. But along with that, other operational metrics like on-time performance, for example, or the cancellation rate, that has actually worsened if I look at it on a Y-o-Y basis. So how do we balance all these factors? And what is your outlook on PLFs going forward?
- Wolfgang Prock-Schauer:** Wolfgang here. So I will take the question on cancellation rate and on-time performance. If you look at the official DGCA data, you will see that we operate as number one amongst Indian carriers, the official data for the last quarter. So overall, the underperformance, let's say, was a challenge for every airline, but we were number one. I am not talking about Y-o-Y, nor I am talking compared to last quarter. And same applies to cancellation rates where we have been the airline with the least cancellation rates in the industry compared to last quarter.
- Ronojoy Dutta:** So as Wolfgang said, we were number one. But the whole industry is performing much worse. If you do a year-over-year comparison, industry is not doing any better. And there are a number of reasons for that. One, of course, is the weather patterns. People talk of climate change and all that, we seem to have more cyclones, more strong winds. You saw the dense fog that enveloped the whole of northern India for the last few weeks. And on top of that, we have the infrastructure challenges. And one thing you need to know is that Bombay, the primary runway has been closed for few months. So people say, "Oh, I took five flights from Bangalore to Bombay, and two of them were late." and I am like, "Yes, the runway is closed." So it's true for everyone. So Bombay in particular has taken a big hit in terms of on-time performance.
- So you have to look at the environment we are operating in right now. And we are not doing as

well as we would like to. But competitively, at least, we are still doing well. And I think you were saying, how does it affects load factors. I don't think it does. I mean, our load factors are strong, our demand remains strong, and customer complaints will be lower for sure if we had a better operation going. But you can't fight fog and you can't fight runway closures.

**Vijayant Gupta:** Right. So I have to confirm, PLF is not at all related to the cancellation data? I mean, it's not like we are bunching flights with lower PLF with flights with higher PLF, and that is why the overall number is higher?

**Ronojoy Dutta:** Believe me, one of the metrics that we look at most carefully every morning is customer complaint. I mean, that is something that is very close to us and we say, yes, we can be growing, we can be profitable, everything is great but if the customer is not happy, we are not happy. So no, we wouldn't dare do something like that which would disenfranchise so many customers.

**Vijayant Gupta:** All right. And secondly, the EBITDAR number, which you actually gave in the presentation. How do we reconcile that with the reported P&L?

**Aditya Pande:** You mean the EBITDAR number that we reported at a rate is lower than what you see from last year?

**Vijayant Gupta:** No. So the EBITDAR number, which you have quoted in the presentation is 19.6 billion rupees. How do I get that from the reported numbers? I mean what costs are included in this?

**Aditya Pande:** So you can do profit before tax, add your lease rents and depreciation, add your interest costs and take out interest income.

**Vijayant Gupta:** And what about supplementary rentals, is that included in this?

**Aditya Pande:** No. It's not. If you work with the IR team, Ankur, we can give you a small table for that.

**Vijayant Gupta:** All right. And would it be possible to disclose the quantum of supplementary rentals?

**Aditya Pande:** So, supplementary rentals move quarter-on-quarter for a variety of reasons. But roughly, it's about 50% of the total cost line item.

**Operator:** Thank you. Next question is from the line of Achal Kumar from HSBC. Please go ahead.

**Achal Kumar:** I had few questions. One, obviously, I want to understand about the capacity growth. I am so sorry to go back to that question. But a bit confusing. I mean, so your utilization is going up by 6% - 7% and then you are getting bigger aircraft which are A321neo, and yet you are guiding a capacity growth of about 20%. And despite the fact that a couple of quarters back you have been guiding capacity growth of about 25% for the next three years while you had a plan to return your ceos, and now you are carrying on with your ceos because you had a problem with the neo Pratt & Whitney engines. So overall equation looks a bit confusing, if you could please help to understand that.

And if that is the case, and the capacity growth is only 20%, which means the revenue momentum looks to be slowing and your cost is growing. Of course, you have a cost pressure which will decline in the next year. And yet, overall equation looks a bit unfavorable for the profitability. So if you can please help on that. So that is one question.

Secondly, I also wanted to understand about your international operations, which are doing good, of course. You said, with the virus, China has been impacted. And if I look at the SARS, the traffic was impacted for about two to three quarters. How do you see that situation? I know you have commented on that. But when would you decide on the China thing?

And if you need to remove capacity out of China, would you sort of deploy it somewhere else? And how would you sort of manage your international operation in that case? And finally, the third thing I wanted to understand about Qatar because I remember this deal was sort of a one-way deal where Qatar was able to put his code on your ticket. So what sort of benefit are you getting? And how do you see your relation with Qatar?

**Ronojoy Dutta:**

Okay. Alright. So I will take it in reverse order of your questions. So Qatar, as you know, we do three destinations while we fly to five. So we are in discussions with Qatar. They are very happy with what is going on, we are very happy with what is going on. So we want to expand the relationship and quickly. And so one way to do that is to go to more destinations. And the second is to go to two-way rather than one-way. The two-way is currently still held up because of IT issues, but we are working hard on that. So Qatar, I think holds a lot of promise. What we are doing now is better than what we expected, and we are both very enthusiastic about broadening the relationship.

International operations. China, as we mentioned, it is just two flights. If we decide to discontinue them, there is enough room for two more airplanes, if you will. But we are going to take a decision soon. You asked, when will you decide? Well, this is a very quickly evolving situation. We looked at the numbers this morning, and we said, till day before yesterday, there were no cancellations. This morning, when we looked at it, there were quite a few cancellations. And we are like, "Okay, so this is getting serious." So we'll look at the numbers again for the next two, three days and decide. If we pull out of those two markets, for whatever reason, and we won't do it very quickly and we will have to pace it out because we still have a lot of bookings on it and we can easily redeploy the aircraft.

Your other question was about ceos, you are deciding to extend it. That is not true. It's quite the reverse. We decided to extend it back in 2017 when we had the neo issues and so forth, that is when they got extended. Now as we look at it, we are like, okay, let's get these airplanes out as quickly as we can because we have enough neos coming in. And as I told you before the economics of it that the ceos have a higher maintenance cost, higher fuel, slightly lower ownership cost. So the neos are a much better engine. So we are not extending more ceos, rather we are returning them at a faster rate. A321, yes, it has got a lot of seats and that helps our capacity.

Overall, what has been happening is, as I said, there is the low utilization which will ramp up, more ceos being returned at a fast pace, some delivery delays in the A320s, A321s, and all of

that. The numbers are where they are. We are not moving it in one direction or the other. If Airbus would give us airplanes faster, we would take them faster. The ceos, we are returning them as fast as we can. We are not holding on to them. So I think that answers your question. Have a shout back if you want to clarify anything.

**Achal Kumar:** Yes. Sure. I mean, so on Qatar, sorry, I didn't get, so what sort of benefit are you getting? And of course, you said that you are moving into the two-way direction. But at the moment, what sort of benefit are, I mean, you are getting as IndiGo?

**Ronojoy Dutta:** The number is big. We have it in millions of dollars, it's a very healthy number. We are very happy with it.

**Operator:** Thank you. The next question is from the line of Ruchit Mehta from SBI Mutual Fund. Please go ahead.

**Ruchit Mehta:** Just a quick query on the international side, considering as you said that you are focusing more on the economy side of it. In a hypothetical like-to-like, let's say, Bombay-Dubai, if you were to fly in full economy LCC style thing. Would you be able to deliver a similar level of profitability per aircraft or per route, let's say, a full-service guy would, because he offers us...?

**Ronojoy Dutta:** I can assure you much higher than what a full-service guy could ever dream of offering. I mean the numbers are very very attractive.

**Ruchit Mehta:** Okay. So from a customer standpoint, sometimes these full-service guys, they kind of do all these economy-like fares or discounted fares at marginal costing. And they get a full-service experience, you have in-flight entertainment, meals, et cetera. So how do you tackle that challenge that even there will be a part of a customer base that forever will be kind of keep flip flopping between something or the other. Or is the market wide enough and large enough that with a good LCC offering, you can sort of kind of expand the market?

**Ronojoy Dutta:** I think I would say that we really don't focus on the competition all that much. We look at the marketplace, we look at our cost structure, and we see what we can do. So the reason we are adding all these flights is not because someone else is doing something else, and we are studying them or anything. It's like, "Wow, look at this market, look at our cost structure, let's do it." And that is why we have the sort of appetite for a serious rate of growth. And what the full-service guy is doing, I mean, hey, really, you do your thing, we will do our thing. We don't focus on them at all.

**Operator:** We will take the next question that is from the line of Santosh Hiredesai from SBICAP Securities. Please go ahead.

**Santosh Hiredesai:** So my first question is around the modified engines that you are getting from Pratt & Whitney. Have you developed any different sort of problems that have been noticed off late, because we still keep hearing that there have been some issues with the inflight shut down so on and so forth? So is the problem identified? And do we have a complete fix or it's still in process?

**Wolfgang Prock-Schauer:** The problem has been identified and is fixed. As I mentioned at the beginning of the call, around 60% of our engines are already of modified nature, meaning stronger material. And we had no issues so far with the modified engine. So the problem has been identified. Whatever you read in papers, not everything is necessarily engine problem or neo problem, there is a lot of reporting going on for things which are not necessarily something related to our neo aircraft.

So I will give you one example. An aircraft had to land because there was a smoke warning. When the aircraft landed, we checked it, it was a false sensor with a defect. So not everything you read in the paper is necessarily a neo engine problem. So we have identified the issues. And our aircraft, all of them, will be modified as per the directives of DGCA by end of May. And we have good progress on this. We monitor it on a daily basis. Engines are coming in on a continuous basis and we will update our fleet accordingly.

That is the main issue right now, and then other things are of minor nature, but we have learnt to live with this engine. Together with the manufacturer, we have very stringent intervals of checking and other ways of how to, let's say, do a daily maintenance of these engines. And I think we are very confident right now that we will make it work and by end of May, everything should be modified.

**Santosh Hiredesai:** Just trying to understand the percent guidance that has been given for 2021. Is there a risk to that number? Should there be some delays in terms of, let's say, on part of Pratt & Whitney to deliver engines?

**Ronojoy Dutta:** No. I mean, look, we give you our best guess estimates. If things change, things change. So we can't say, "oh, we built in a contingency of some kind for aircraft deliveries", we haven't. Whatever data we have, based on that, we are giving a capacity guidance.

**Santosh Hiredesai:** Sure. So my second question is in terms of the international expansion. I understand that you tried some routes but do we have routes in terms of pipeline?

**Ronojoy Dutta:** Okay, I think I get the question. You are saying you have tried some routes; do you have a pipeline of new opportunities? The answer is yes. We have a great pipeline, and my frustration is we don't have enough aircraft to fly them all right now.

**Operator:** Thank you. Ladies and gentlemen, due to time constraints, we will take the last question that is from the line of Arvind Sharma from Citi. Please go ahead.

**Arvind Sharma:** Again, on the guidance front, while we know the capacity guidance that you have given, what is the kind of fleet expansion that you are building in when you give this capacity guidance? Any indication on that part?

**Ronojoy Dutta:** You mean net-net what is the aircraft count? Is it what you are looking for?

**Arvind Sharma:** Right. The net addition to the fleet.

**Ronojoy Dutta:** I don't think I want to share that quite yet. We have deliveries coming in and we have retirements

going out. And based on all that, we are saying 20% growth rate. I can't give you specific numbers of ins and outs.

**Arvind Sharma:** Sure, secondly, on the engines for the A320neos, I believe that we shifted from the Pratt & Whitney to CFM. Now the premise for the A320neo was better fuel economy. With the changed engines, is this fuel economy still as good as it was with the previous engine?

**Ronojoy Dutta:** It's the same. And we haven't shifted. We had run through our Pratt & Whitney order and we needed more engines, and we did a sort of comparison and they both bid and CFM came out ahead. But the economics are obviously very favorable to us, otherwise we wouldn't have gone with CFM.

**Arvind Sharma:** Great. So that actually augurs well, the maintenance cost would be lower, I believe?

**Ronojoy Dutta:** On the CFM?

**Arvind Sharma:** If the fuel economy is the same and there are no troubles which are there in the current engine, the maintenance costs, et cetera, would go down. Is that right?

**Ronojoy Dutta:** Okay. So as we said before, our contracts protect us very well against technical disruptions. So that is not an added cost in either direction. If there is a technical problem, we are compensated for it. We are looking forward to the CFM engines. I think they will be very good for us. And we don't look at it as what is the fuel rate, how much you buy it for. We look at the life cycle of the engine. We say, what is the initial cost, what is the maintenance cost, what is the fuel cost; and we will take everything into account in making the final decision.

**Operator:** Ladies and gentlemen, that was the last question for today. I now hand the conference over to Mr. Ankur Goel for closing comments. Thank you, and over to you, sir.

**Ankur Goel:** So thank you for joining us. Sorry, we could not take all the questions in the queue, but I hope you found the call useful. Thank you.

**Operator:** Thank you very much. Ladies and gentlemen, on behalf of IndiGo, that concludes today's 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