



“Conference Call to discuss IndiGo’s expression of interest in the privatization of Air India and IndiGo’s views regarding long-haul, international operations”

**July 06, 2017**



**FOUNDERS:      MR. RAHUL BHATIA  
                         MR. RAKESH GANGWAL**

**Moderator:** Good evening ladies and gentlemen and welcome to the Conference Call on IndiGo's future plans regarding long-haul international flying. My name is Zaid and I will be your coordinator. At this time, the participants are in a listen-only mode. A question-and-answer session will follow today's management discussion.

As a reminder, today's conference call is being recorded. I would now like to turn the call over to your moderator, Mr. Ankur Goel, Associate Vice President of Treasury & Investor Relations for IndiGo.

**Ankur Goel:** Good Evening, everyone, and thank you for joining us for this discussion on IndiGo's potential future plans and strategy on long-haul, international flying.

Participating on this call are our two founders, Mr. Rahul Bhatia and Mr. Rakesh Gangwal.

Before we begin, please note that today's discussion contains statements regarding certain elements of our business plans, strategy and/or financials which will be construed as forward-looking. Our actual plans and 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 obligations to update the information subsequently.

A transcript of today's call will be archived on our website. We will upload the prepared remarks within an hour and the Q&As will be uploaded within a week after Chorus Call has translated the Q&As.

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

**Rahul Bhatia:** Thank you, Ankur. A good day to all of you, and thank you for joining us.

Let me speak to the recent flurry of news regarding IndiGo's interest in Air India. There has been a lot of press coverage and commentary on IndiGo's interest in acquiring the airline operations of Air India. Regrettably most of that reporting and commentary has missed the mark largely because we, at IndiGo, were constrained and not able to provide more clarity to the investor community and the press about our plans. We should have done a better job at this.

We are close to announcing our quarterly results at the end of this month and being mindful of the quiet period as well as the materiality of the issues, we could not, on an individual basis, reach out to the investor community as well as the press to share our thoughts regarding Air India. Now with all the misunderstanding that is floating out there, we felt it best to publicly elaborate and spell out our vision and potential plans regarding long-haul international flying, through this conference call.

India is the third largest aviation market, and the second largest country in terms of population. It is going through significant economic growth, and prosperity is on the rise. The country continues to be dramatically underserved in the domestic aviation space, and that is why we are witnessing domestic traffic growth of 15% to 20% every year. On the international side, we believe that India represents one of the largest untapped international air transportation market opportunities that is out there, and the country certainly lacks its fair share of long-haul international flights. In reality, India's international air transportation hubs reside outside India.

Air India is a massive organization. They employ more than twenty thousand people and operate various subsidiaries ranging from maintenance, to charter operations, to ground handling, to hotel operations, and so on. It has lost thousands of crores of rupees over the last five years, carries a debt load of more than 50,000 crore rupees, and continues to be a significant financial challenge for the Government.

First and foremost, IndiGo is not looking at acquiring all of Air India's businesses and subsidiaries. In our view, that would be a herculean task which would at best be a very challenging proposition and at worst an impossible task, unless an organization is willing to fund large losses for a very long time.

So what are we looking at within Air India? Quite simply, we are interested in the airline operations of Air India. And more specifically, we are focused narrowly on Air India's international operations and Air India Express. That is what we have communicated in our one-on-one discussions with Government officials.

Let me digress for a moment and address a few news reports stating that IndiGo may be rethinking the scope of what it is looking at with respect to Air India. Quite to the contrary – our thinking is clear on this issue, and it has not changed. When we were asked by the stock exchanges to comment on reports that IndiGo had expressed interest in Air India, we decided to disclose the letter that we had submitted to the Government. Now it also became important that we share some details with our employees. Consequently, concurrent with the filing with the stock exchanges, we sent an email to all our employees about what was transpiring and elaborated to them that our interest was primarily in Air India's international operations. So from day one, it is mainly about international operations.

Now some of you may be wondering if such a carve out of Air India's international operations is even possible and practical. To which we would like to point out that this is not a new concept. A few decades ago, United Airlines acquired Pan Am's Pacific operations. Based on the success of that transaction, United then followed up by acquiring Pan Am's London routes in 1990. Today, United Airlines is one of the largest international carriers and it is questionable if that would have happened but for those acquisitions. United was able to do with those international routes and route authorities what Pan Am was unable to do principally because United had a large domestic feed network. As a matter of fact, American Airlines followed that same model by acquiring TWA's London routes.

So there is a road map out there that has worked very successfully. Today, IndiGo serves seven international destinations and Air India's international operations would bring a very important element to our network. It would provide rapid entry into restricted and, in some cases, closed international markets. So instead of being a small international player, IndiGo would have a path to becoming a major player in the international market. Importantly, we believe that IndiGo has the ingredients to significantly grow and unleash the true growth and earnings potential of Air India's international operations, and Rakesh will speak to that issue in a few minutes.

Understandably, an acquisition of Air India's international operations would require significant restructuring and management oversight. A task that we are quite comfortable taking on. However, we simply do not have the ability or for that matter, the desire to take on debts or liabilities that could not be supported by a standalone restructured international operation of Air India.

On the other hand, if the Government of India decides to sell all of Air India's airline operations and, I emphasize "airline operations", to a single entity and not carve out the international operations, we would still be interested in exploring that option. As the largest domestic carrier, it would not be prudent, if not irresponsible, on our part if we did not look at and explore all the opportunities that may or may not exist from the Government's divestiture plans for Air India. However, acquiring all of the airline operations of Air India brings with it a lot of other issues and many more challenges and complexities. We would evaluate that option and assess if it is economically feasible for us to go down that path. At the end of the day, this exercise is not about becoming bigger for the sake of being bigger – it is all about profitable growth and that is a bedrock principle at IndiGo borne out in our performance of the last ten years.

Thank you, and let me now turn the call over to Rakesh

**Rakesh Gangwal:**

Thank you, Rahul. This is an interesting call with financial analysts and investors since we are only sharing our thoughts and vision and not numbers. It's like going to a corporate board meeting in a swim suit.

In broad strokes, let me spend a few minutes on some interesting analytical work that has been going on at IndiGo regarding long-haul, international flying. Today, a large number of Indian citizens and visitors to India arrive or depart on connecting international flights due to the lack of non-stop flights into and out of India.

Historically, most of these connections were over European hubs such as London, Paris and Frankfurt and over South-East Asian hubs like Singapore and Bangkok. And, of late, a vast amount of international traffic from and to India flows over the middle-eastern hub cities of Dubai, Abu Dhabi and Doha. These small middle-eastern cities near India have built huge airline hubs even though they lack the essential and fundamental ingredient of a hub -- which is the presence of a large local traffic. The massive hubs that these airlines have built have significantly benefited from the traffic that India provides to their operations.

Over the last ten years, IndiGo has established a significant domestic presence and now has a little over 40% of the domestic market share. In doing so, we have also been able to build meaningful operations at all the large metropolitan cities of India. And, in the years to come, we expect to keep up our pace of rapid growth in the domestic market. In fact, during Fiscal Year 2018, between the A320s and the ATRs, we expect to add almost 50 aircraft – a remarkable number and we have built the internal capability and muscle to execute on that plan. On the other hand, our internal work shows that IndiGo is a natural player to take advantage of the significant and lucrative international market opportunity that India offers. Specifically, because of our large domestic network, we are well positioned to capture this massive and growing international traffic. It is about time that IndiGo enters the long-haul, international markets and takes advantage of this lucrative opportunity. And, just to state the obvious, we would not attempt to enter the international long-haul market but for the fact that we have this large domestic feed network.

So, irrespective of how the Air India story plays out and based on all our internal work, we are generally of the view that it makes fundamental economic sense for us to enter the long-haul, international market. Our original plan was to begin this discussion and share our thinking with all of you during our upcoming quarterly analyst call at the end of this month. However, that got pre-empted due to the Government's in principle decision to divest itself of Air India. So, in summary, our long-haul operating plans are being guided by the following principles:

- First: The Indian market is significantly underserved in non-stop international destinations
- Second: A large and lucrative opportunity exists uniquely for IndiGo to take advantage of this market segment
- Third: Success is not dependent on developing these international markets. In fact, we would take passengers from connecting international hubs and also from high-cost, non-stop operators and fly them on our non-stop, low-cost flights

The market thesis is no more complicated than that and the issue for us is to figure out how best to go about doing this profitably? Let me take a few minutes and share our perspective and for obvious competitive reasons we will only share some very high-level thoughts on this issue.

If we enter this space, we will do so with a low-cost model. Just like the low-cost model disrupted the short-haul, full-service legacy carriers starting a few decades ago, we believe that international long-haul markets are ready for the right type of low cost operations. In fact, there are quite a few examples of low-cost, long haul operations that are starting to take hold across the global aviation space -- airlines such as Norwegian and Wow Air. At the other end of the spectrum, Lufthansa, British Airways, Air France, Singapore Airlines, etc. are all trying their best to build their own long-haul, low-cost operations and time will tell if a legacy carrier can successfully launch a true low-cost operation.

I do wish to emphasize two fundamental ingredients for success that makes IndiGo's potential plans very different from that of other long-haul, low cost operations in the market

- First: Our massive domestic feed network is a big plus

- Second: Passengers will mostly come from foreign airlines that are today connecting over their hubs or flying at high fares on non-stop flights. Just for a moment, think about the value proposition to the passengers that IndiGo would offer. On average, the passengers will arrive at their destination three to five hours earlier – and for a lower fare – and without all the hassles of connecting over hubs, going through multiple security checks, worrying about their connections, losing bags in transit and so on.

Interestingly, last week, while we were expressing our serious interest in Air India's international operations, Ryanair expressed serious interest in Alitalia which is also going through major financial stress. With tongue-in-cheek let me say, our compliments to Ryanair for understanding the fundamentals of the airline business. Jokes aside and in all seriousness, Ryanair is a very smart and formidable airline and it certainly is comforting to see that we are on the right track with respect to our thinking and strategy. Yes, the long-haul business as we know it, is changing just like the short haul, full service segment changed over the last few decades. In our view, this change and transformation will be a World-wide phenomenon with many such operations sprouting up globally and will ever so slowly encroach in to the current format of full-service, long-haul flights. This will be quite unlike what happened in the short-haul, low cost segment where it first took hold in North America. This then gave confidence to European start-ups and then to Asia and South-East Asia start-ups to launch similar services. One of the principle reasons for this is that the smarter low-cost carriers have perfected their art and, over the last ten years, aircraft technology has changed allowing for this potential transformation in long-haul, low-cost flying.

Our journey of building an international, low-cost operation will be gradual – a journey that we would take thoughtfully and deliberately. To be clear, whether we do some limited transaction with Air India, or launch our own long-haul, international operations or a combination of both, the business case would need to be EPS accretive for us to go down that path. To underscore that point, with respect to Air India, let me just say that we are not looking at replicating the unfortunate scenario that unfolded when the Brazilian low-cost carrier Gol merged with Varig.

In closing, let me suggest that we reflect for a moment on what has transpired at IndiGo in the last ten years. The Company has placed 50 billion dollars in firm aircraft orders at list prices – built an impressive domestic network representing more than 40% of the market with reliable, on-time and a hassle free travel experience – has been profitable for the last nine years in the brutally competitive Indian market – and distributed almost 900 million dollars in dividends over the last five years. We now have critical mass and let's now see what the next ten years bring.

Hopefully, we have been able to paint a clearer picture of our plans and thought process regarding long-haul, international operations with or without Air India.

**Ankur Goel:**

Thank you, Rakesh. 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.

**Moderator:** Thank you. Ladies and Gentlemen, we will now begin with the question-and-answer session. We have the first question from the line Bhavin Shah from Sameeksha Capital. Please go ahead.

**Bhavin Shah:** You mentioned that you are interested in basically doing low-cost, long-distance. Obviously, Air India's current fleet is not designed for that. So, if you were to take over Air India, how would you do that and what sort of investments would it require? And also, their fleet is very complex, they have all different types of aircraft – it does not seem to fit into your existing strategy. So, could you talk about that?

**Rakesh Gangwal:** There are a lot of questions in that broad question that you have asked. Let me just pick on a few of them for you. First of all, if we were to acquire the International Operations of Air India, for sure we will not continue to operate it the same way, because then we are just repeating the same exercise and nothing changes. So, we would not expect a different result. Thus, by definition, it would require us to redo whatever was going on before. There are many things that Air India does very well and there are certain things that we can improve upon. But having said that, there are a lot of other issues that at this stage are at best going to be hypothetical for a lot of reasons but principally two – One, while we may have expressed our interest to buy the international operations, it does not necessarily mean that the Government of India would be interested in carving out or hiving out the international operations. It is kind of difficult to sort out. So, first we have to see what exactly the Government would like to do. But, by expressing our interest we have tried to give a roadmap to the Government. And from a policy perspective at the Government, which is different than how we would look at it at IndiGo, we would like to believe that the Government would in the long-term be very interested in having a home-grown, so-called “Make in India” very large international operations. So, time will tell how this plays out.

Getting back to some of the specifics of the fleet and how the airplane is configured, and where they fly – you have to assume that there will be fundamental structural changes. And without any doubt there will be an investment that will be required to do that. We look at this thing as simply. It is just a business. So just like any investment there is a cost to acquire, there is a cost to retransition, refocus it. And we would offset it against the incremental revenues we expect to gain. And if the revenues are more than the cost by significant margin, game is on and we would be very interested in looking at it. But today, it is almost next to impossible for us to elaborate any more as to how this cost will play out. I have kind of answered most of the issues that you have raised.

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

**Binay Singh:** I have three questions. First – if you were to do this on your own, how long will it take for you to offer customers in India the similar network that Air India offers? And added to that, are there any structural sort of bottlenecks in doing that, if IndiGo was to do it on its own in terms of flight availability and all? And the last question is how familiar is this Air India issue to you Rakesh, because you have dealt with United and you have worked with Air France, where you dealt with unions and all, and then with US Airways? So, when you look at the issues of Air India, is it familiar ground for you?

**Rakesh Gangwal:**

In terms of time, how long would it take us to replicate or do something similar to what Air India does – I think it will be a long-long time. Air India has been able to acquire these route authorities through bilateral negotiations over a 70-year-period, and back then access to many-many large airports was much easier than what it is now - aviation was at its infancy. Most of these large airports like Heathrow, Kennedy, etc., are largely slot constraint. So, not for a moment do we believe that we will be able to replicate a network like Air India or a network like United in the near-future. That is simply not going to happen. And that answers kind of what I am talking about both the issues – how quickly we will get there and what are the structural constraints? And I would not say these are structural but these are realities of not getting route authorities. But on the other hand, it is not like we are just absolutely pell-mell interested in putting long-haul flying for the sake of long-haul flying. Each is going to by itself be what I call an opportunity that has to be assessed. And opportunities will come - in this business things change. Just look at the aviation market in the United States where after decades and decades of flying, over the last 10 years, carriers like Delta, United and American Airlines were able to merge some of the smaller carriers and became very massive behemoths. So, we are patient, and while we are going to be patient on the international side – the domestic market itself provides massive opportunities for us. And it will be many, many years before the domestic growth slows down.

Coming back to the issue of my familiarity with Air India – yes, I understand Air India but this is not about familiarity with Air India, this is what I would call the IndiGo team and it has nothing to do with me. The IndiGo team's ability to understand the fundamentals of market, and if we get that right we see Air India's international operations as a so called "A Canvas", a new sheet of paper, the biggest asset sitting in there is these negotiated route structures.

Another big asset, which you may find strange - but it is a big asset - is many, many of their employees. They know a lot of good thing about the business. The question is how do we take these – the employees, the management skills, the front-line employee skills, and the route authorities bring in the culture of IndiGo and bring in the different leadership and management skills that IndiGo would provide, and between the three combine it to make it a success. So, it is really familiarities of Air India I would say maybe a negative rather than a positive, and we will see how this plays out.

**Moderator:**

Thank you. Our next question is from the line of Prashant Kothari from Pictet. Please go ahead.

**Prashant Kothari:**

I just wanted to understand why is it that the Government has chosen to mention IndiGo's name as the interested party? Are there no other bidders or you are the preferred one already? And then if this deal happens, are you happy with a minority stake or would you want to have like a majority control or full stake of this?

**Rahul Bhatia:**

So, to answer your first question, I think it is best answered by the Government. We submitted an "Expression of Interest", I think, the evening when the Government took an in-principle decision to divest itself from Air India. Why they elected to bring it to the press is best answered by the Government. On your second question on participation – we would look at acquiring all of Air India's International Operations and Air India Express. And like we said earlier, if the Government

decided that they wanted to go down the path of divesting itself from all of the airline operations of Air India, we will certainly give it a very close look.

**Rakesh Gangwal:** Let me just add a little bit more to what Rahul said, and a little bit to the flavor of your question about partnership with the Government. Our view of a joint venture or a joint ownership with the Government is at best a very-very difficult proposition, and we would not go down that path. The Government has owned and managed Air India for more than 50 years and they are looking to divest off itself right now. So, one would even wonder if truly at the end of the day, when the thinking is all done, whether the Government would itself be interested in wanting our partnership. But from our perspective, as a so-called “Corporate Entity” which has public shareholders and takes on this responsibility very seriously, we would not go down a path where there would be a joint venture or even a minority or a majority stake which the Government would own. Because we simply do not know how to do it. Maybe a good model but we cannot bring value to that proposition.

**Moderator:** Thank you. Our next question is from the line of Ashutosh Somani from JM Financial. Please go ahead.

**Ashutosh Somani:** Just had a very specific question, on the working capital management of Air India, how different is it from airlines like IndiGo? And whether it is a low hanging fruit which can be turned around and are there any technical aspects that you would want to just highlight regarding the working capital management of Air India?

**Rakesh Gangwal:** I was hoping nobody would ask that question, but now that you have asked it, let me kind of approach it differently. If we just focus on the international operations, the working capital issue becomes very different. There are future ticket sales that Air India has made and assuming whether it is IndiGo or whoever buys a carved out international operation – we would have to take the liabilities associated with the air planes, we would have to take the lease obligations and we would have to take whatever relevant number of employees are associated with that, and that is easy to understand. We would also obviously take the cash that Air India has generated through the sale of future tickets, because that becomes an obligation of the acquirer. We have to fulfill those obligations. So, it kind of falls into that working capital concept. But having said that, we may still in the front end need to be able to augment it with some additional working capital. But, it is going to be nowhere near to what goes on today at Air India. You have to just look at IndiGo with 40% market share, we have not taken any debt to fund our working capital and you have to assume, other than a short-term blip that model does not change. But again, it all depends on who is selling what and who is buying what, and these are hypotheticals; Conceptually, we would very quickly transition into a mode where working capital requirements are funded through internal funds.

**Moderator:** Thank you. Our next question is from the line of Ross Teverson from Jupiter Asset Management. Please go ahead.

**Ross Teverson:** I think what you are doing is potentially a massive transformational step. To date, as far as I am aware, neither of you are doing road shows to meet investors. And clearly you are both very important to the strategic decisions that are being made on the Board at IndiGo. So, can you commit

to, in future, having greater visibility with investors coming on the road to explain IndiGo's strategy as you go down this path which I think a lot of people are going to continue to have many questions on?

**Rakesh Gangwal:**

Let me first address the former question. Maybe we are being cavalier here, maybe we are being simplistic, but this transaction if it happens from the international side, we do not see it as a very massive challenge. It is pretty simple one-two-three and you get there. Just execute on it. It is an existing network, existing airplanes and how do we go about fixing it, and we would have answers to all those before the so-called transaction closes.

And importantly, any transaction, I doubt is going to close before a year. It is going to take quite a long time for all the right reasons. The Government is going to thoughtfully think through this thing and look at all the pros and cons of it. And if I could just kind of digress for a moment, I mean it is not because the Government is going to be slow, but if you were the Government you probably are looking at these objectives that you have to solve – one is address the employee issue, they need to address these massive ongoing losses, and they need to also maximize the values that it receives from the sale of asset.

Very importantly, something that is not going on today in the public discourse is what happens post-divestiture, and this is where Governments are very good in policy making. They can sort out the short-term things but they always take a long-term view, and that is what whether we like politics or not. But, that is the beauty of politics. And let me just elaborate the one element that I am very surprised is not out there in the public domain – so first, if a foreign airline was to get hold of these important international assets of Air India, it is just a question of time where all they will do is maximize these assets, these slots, landing rights, parking facilities at the international location to the economic interest of the foreign airline and not so much for India.

Second, if for chance the international assets of Air India actually get acquired by a state-owned entity, it potentially could play out as a Shakespearean tragedy. World politics is unpredictable, look no further than the state boycott that is going in the Middle East. And for us the idea that a foreign nation would control a large part of India's international and domestic air transport network, it is very difficult to wrap one's head around, and the consequences and implications literally of outsourcing Air India's transportation should raise serious policy issues.

So, all this is going to take a year and a half, but we thought we would come upfront right now because there was just too many different tangential discussions going on in the press, largely because of our fault. We did not clarify and we learnt something. So, now we have clarified.

Going forward, yes to the extent we do something monumental, as founders and as true believers in the rights of shareholders, we will communicate with you, we will talk with you and you will find us out there. So, you can be rest assured we will do the right things on those matters.

**Ross Teverson:**

So, is it the case you may well come on the road and meet investors over the next year?

**Rakesh Gangwal:** Yes, some of them. But, I do not want to promise something on a call which Rahul and I would not come through.

**Ross Teverson:** So, just the final thing from me, I think that would be very well-received because for people to have real clarity over the strategic direction of the company, hearing it directly from yourselves and being able to explore the issues for yourself I think would be something that investors would really appreciate.

**Rakesh Gangwal:** Point well-taken.

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

**Anushman Deb:** Low-cost model and excellent aircraft management have been the kind of two key pillars of IndiGo. Now, while you clarified that international operations would remain LCC essentially, aircraft management will be challenging if we take on Air India. Does the confidence of being able to deliver a similar aircraft management stem from cost tailwinds which are available currently? In other words, I wanted to know would we have ventured in a similar way had cost remained high or the situations less benign than what it is currently. Thank you.

**Rakesh Gangwal:** Let me kind of approach it differently. If you rewind the tape and go back 10 years, out of nowhere comes IndiGo and places a firm aircraft order for 100 aircraft. In the history of aviation nothing like that has been done, not even by United Airlines, American, and British Airways. Nobody goes out and places 100 firm aircraft orders. Now, since then a lot has changed and people really felt this is a joke. For the first few years, people said maybe they will put some airplanes. Over time history has proven that these guys are able to execute on their thinking and since then we have added another airplane order for 180 followed by another 250 aircrafts order, and then just recently this order of 50 ATRs. So, we are going down this path and now we are just adding on the international element. We do not want to get too much into how this cost structure is going to play out, because a lot of people would like to know what our thinking is. Clearly, it is not going to be the Air India model, British Airways model, or United Airlines model. It will be an IndiGo model. And when the time comes you will hear us do some of it, some of it we would not talk though. The only think we can tell you is that structurally if we cannot create a meaningful cost advantage, then it does not make sense to do it. This airline business is very tough to begin with and if your cost is at parity with the other guy, other things come into play which is your club rooms, your frequent flyer programs, the comfort of the blanket and how well the flight attendants smile. That becomes a very difficult game and we have very little interest in playing that game. Create a structural cost advantage and then find ways to generate revenue. So, while I have not quite answered your question but I am just giving you the philosophy with which we are looking at this business.

**Moderator:** Thank you. Our next question is from the line of Anand Gupta from East Spring Investments. Please go ahead.

**Anand Gupta:**

My question is a follow-up on cost structures, I assume it is all about being least cost quartile in airline the way IndiGo is the lowest cost ex-fuel per seat in the domestic market. Can you share with us your perceptions on how does Air India international operations rank with their peer set? My assumption is they have not been able to keep it in a very efficient way both on the asset side and on the people side, and on the turnaround time, and few of these things could be structural which could be the employee productivity and the asset productivity. So, I am just trying to think that globally has there been any example where someone has acquired another player which is perhaps double the cost per seat kilometer and turned it around? It is a puzzle in my mind. I know it is difficult for you to talk specifics but I am just trying to request if there is a case study or if there are any thoughts you can give on how it is possible to optimize the cost if they rank poorly on our cost comparison on international ops?

**Rakesh Gangwal:**

So, best way to look at it is to walk away from international and come back to domestic. Air India has pretty high domestic cost structure, and a lot of reasons are behind it, it is a legacy airline. It is not unique to Air India and certainly I do not want to bad mouth Air India. These phenomena happened in North America & Europe. In North America pretty much all the airlines have gone through multiple bankruptcies. And through those multiple bankruptcies they were able to bring their cost structure down. In India and in Europe those types of bankruptcy laws do not exist. But now having said that, let's come back to specifically Air India. And let me not talk about international because it gets into a lot of competitive issues, let's just look at domestic. Go back 10 years, your same question would be as relevant which is Air India has a certain cost structure, what makes you believe that you will have a lower cost structure than them because you are locked into turnaround times, you are locked into airport congestion, and you have got the same airplane assets? And as you can see, our cost structure is fundamentally different than that of Air India or for that matter the other airlines that operate in India. And you just have to assume that for us to go down this path we expect to be able to understand with crystal clarity that we can bring the cost structure down dramatically. And if we cannot do that we are not writing any cheques to buy anything. It has got nothing to do with Air India. It is just a business proposition and that is the way we look at it. Having said that, I do feel pretty comfortable that we will be able to bring down the cost dramatically, just like United Airlines, when the United acquired Pan Am's specific operations and then five years later followed up the Pan Am's London operations and there are a lot of wonderful things one can do when you have the size, scale, and management abilities to do things.

**Anand Gupta:**

Is people lay off and a new set of people are must do in these kind of turnaround cases where one aspires to lower the cost per seat?

**Rakesh Gangwal:**

No, I do not necessarily subscribe to that. The idea that you can make Air India international successful is only by laying off the international employees of Air India is dead wrong, that is just the wrong way to go about building something. Having said that, we would obviously make changes to however the Air India employee structure is organized and it is very early to even think about it. For us, it is very important to retain the culture that exists at IndiGo. And personally, I really believe deep down, if I was a pilot at Air India, a flight attendant or a front-line employee, I would like to grow the business profitably. Nobody likes to wake up every morning to kind of go out and play in a losing team, everybody likes to come and play in a winning team. And the question is, if we can

bring that chemistry - that kind of thought process. I feel largely that you will find their employees are no different than our employees. It is just how we train them, how we educate them and what our expectations are. I would not fault this problem on the employee side, and I am talking about the frontline employee side of Air India. Yes, the press can sometimes talk about it but I totally discard that notion.

**Moderator:** Thank you. Our next question is from the line of Shrinath Krishnan from Sundaram Mutual Fund. Please go ahead.

**Shrinath Krishnan:** My first question is, correct me if I am wrong if I look at the balance sheet of Air India and the way they have funded the fleet, it looks like partly owned and partly leased, particularly international route. And we have always been followed a light balance sheet model, so is there a possibility that as part of the proposal we will be seeing changes in the way these assets funded.

**Rakesh Gangwal:** Even today, we do not know actually the specific details. Of course, I agree with you that on the international side I think it is 50:50, about half of it is owned and about half of it is on a sale leaseback. On both of those we do not have visibility today, to the extent they own some of it what is the debt and what is the interest rate on those, and to the extent they do these sale leasebacks, we do not know what the lease rates are, and what the maintenance reserve requirements are. So, all these in a due diligence process, if we get to that stage, we would look at and we would make our internal decision and then we will go from there. The idea is in the airline business going forward asset-light is a good idea, but having said that there is another aspect to this business and Rohit and Aditya Ghosh will talk about it in the call later this month.

When we are in a start-up mode, asset-light is absolutely fundamentally important because it is survival, because you are a start-up, you just want to be sure you never run out of cash. But once an airline becomes very large like us, you need to start looking at ways to figure out if there are other optimal structures otherwise to look at it, and great examples have companies like Southwest Airline, Ryanair and these are just great admirable airlines. What they have done is remarkable. And what is interesting is those folks on the aircraft side are not asset-light. They own a large number of airplanes. So, we are looking at that model, trying to understand how and when, and what we should do. But having said that, we do not want to get asset-heavy on issues like maintenance, issues like ground staff, issues like for instance having catering organizations, and those become very asset heavy.

And having said that, there is another complication going on right now within the Indian system. There is a new GST tax regime that has been put out there effective July 1, and I think long-term it is a very, very good thing that the country has done. But interestingly, and for reasons we do not understand, if you own an aircraft or if you buy an aircraft and import it, there is a penalty on it. You pay about 5% on it. But if you are leasing an airplane, even from a foreign entity you get credits to offset those kinds of cost. So, we are not quite sure what all that means and what the motivation of the Government would be and we need to understand it, so that may also play a role going forward. But having said that, other than airplanes we are firm believers on asset-light, the airplane is an asset which if you own allows you to withstand situations going forward where there is a cash

crunch, because you can raise money against it. And if there is a war or if there are some crises, airlines need to be able to raise a lot of cash. So, just to wait till the end of the month. Rohit is going to walk you through in great detail on this matter.

**Shrinath Krishnan:** Second question is on the working capital loan which is there in the Air India's balance sheet at this point, and if I understand from common source, there are some non-core assets also or even subsidiaries which they have highlighted. Will our proposal be that you take this working capital loan away and even the non-core assets and whatever we are picking up from the Air India operations we will not take working capital loan or we will take some portion of the working capital loan along with some non-core assets and we will later on monetize and manage our balance sheet?

**Rakesh Gangwal:** Let me be very, very clear on this thing. We are not interested in taking assets which we have to monetize later. We do not know how to do those things. We do not want to build expertise on it. If we just focus on the international operations, we can all figure out what may be a legitimate so called working capital associated with it and deal with that situation. But the idea that we are going to take on debts and liabilities that are not related to the international operation, it is just kind of a very alien concept in any transaction. And I think the Government will be smart enough in understanding how to go about doing it.

**Moderator:** Thank you. Our next question is from the line of Deepika Mundra from JP Morgan. Please go ahead.

**Deepika Mundra:** Sir, you have commented on the international operations, but just on the domestic operations, if the Government were to decide that they need to package it and sell it because presumably nobody will probably bid for the domestic business. Do you see any synergies especially given there are full service carrier on a Boeing fleet? Do you see any synergies with them on the domestic route?

**Rakesh Gangwal:** No, we do not see synergies there. But, if the Government needs to take out the domestic end of the business we would again go back and look at how much liabilities come with it. And clearly, we would have to sort out. We would not go full service let me be very, very clear. Full service for us at IndiGo just does not work. We are not a full-service carrier, that is not what India is looking for the vast majority of the product. I am not saying there is no market place for full service, there is a limited market for it, but it is a very small, narrow market and we do not address that. If we were to get to a point where we are taking some or all of the domestic operations, it is all a new game and we would have to think very, very hard as to why we are doing it. Because we would have to unwind this whole service issues and we would have to unwind the maintenance issues and it does not excite us. Let me put it that way. It is just the nature of the beast and time will tell how this plays out. But keep in mind, there could be, as you said interestingly and I am just speaking on the fly, you raised a very interesting question that if there are no other buyers for domestic. - maybe the Government can approach it differently. Maybe what they can do is take all of the domestic operations, because there are a lot of employees there and they have good slots, gates & hangers. They could put it into three baskets and carve out certain types of flying. And go out and tell the smaller airlines that this is more manageable, would you like to buy one of these baskets, and we may participate in something like that. But again, these are very hypothetical things, there is a roadmap, I think the Government is on the right track in terms of massive losses & significant liabilities. And in India

the bankruptcy laws do not allow what happened in North America and the Government has to figure out a way to solve it.

**Moderator:** Ladies and Gentlemen, we will take our last question now from the line of Gautam Roy from Motilal Oswal Asset Management. Please go ahead.

**Gautam Roy:** Sir, while I can see the logic of your bid, just wondering what is in it for Air India to let go of a lucrative part of the business, if it is lucrative part? Also, how do you think the huge debt could be handled, because that could be a big constraint to this overall divestment going through?

**Rakesh Gangwal:** I think you qualified it well. We do not know if the international operation is profitable. All we know is based on all the analysis we do and based on all the traffic projections. And the fact that the vast amount of traffic is connecting over the Middle East or over Europe or over Southeast Asia, there is a massive lost opportunity out there. It needs to be capitalized. And that is what we are focused on and if we were to acquire the international operations, it will come with some hair on it. As somebody said earlier it has a mix of different types of airplanes, we have to sort all those things out. And we feel very comfortable that for a right price and the right liabilities there is a path out there to make something absolutely incredible and massive - something that India would be very proud of. It will take time but we feel very comfortable we can do it.

And the last question about how to handle the debt and all – that is beyond the pay grade of the people on this call. We just do not even know how we go about solving the debt problem. We are only looking at primarily the international. And as Rahul said, to the extent the Government wants to sell the whole thing, and I am talking about airline operations, we would obviously at least explore and see if there are other opportunities, or for that matter shape the Government's thinking as to there may be other ways to kind of solve the conundrum that the Government of India faces with respect to the ongoing losses of Air India.

**Moderator:** Thank you. Ladies and Gentlemen, I now hand the conference over to Mr. Goel for closing comments. Over to you, sir.

**Ankur Goel:** Thank you all for joining us on this call. Because of lack of time we could not take all the questions, but we look forward to speaking with you again on our quarterly earnings call. Thank you.

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