

"Jet Airways India Limited Q3 FY17 Earnings Conference Call"

February 06, 2017





MANAGEMENT: MR. AMIT AGARWAL - CEO (ACTING) & CFO, JET

AIRWAYS (INDIA) LIMITED

MR. GAURANG SHETTY – WHOLE-TIME DIRECTOR,

JET AIRWAYS (INDIA) LIMITED

MR. N. RAVICHANDRAN- VP (FINANCE), JET

AIRWAYS(INDIA) LIMITED

Mr. Jayaraj Shanmugam- Chief Commercial

OFFICER, JET AIRWAYS (INDIA) LIMITED

MODERATOR: Ms. Pranajal Sanghvi – SBI CAP Securities



Moderator:

Ladies and gentlemen good day and welcome to the Jet Airways India Limited Q3 FY17 Earnings Conference Call hosted by SBI CAP Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference to Ms. Pranajal Sanghvi from SBICAP Securities. Thank you and over to you ma'am.

Pranajal Sanghvi:

Thank you Janis. Good afternoon to all. Thank you for joining the call of Jet Airways. We have with us the Senior Management of Jet Airways represented by Mr. Amit Agarwal – Acting CEO & CFO, we have Mr. Gaurang Shetty – the Whole-time Director along with Mr. N. Ravichandran – the VP (Finance) and Mr. Jayaraj Shanmugam- the Chief Commercial Officer. I will now handover the call to the management for their opening comments. Over to you sir.

N. Ravichandran:

Thank you. A very good afternoon to all, my name is Ravichandran. Before we begin today's call, wish to highlight that certain statements made during this call related to our future business, financial performance and future events or developments may be construed as forward-looking statements which involves a number of risks and uncertainties that could cause actual results to differ materially from those in such forward-looking statements. Let me now hand it over to our CFO and acting CEO Mr. Amit Agarwal. Thank you.

Amit Agarwal:

Thank you Ravi. A very good afternoon to all of you. This is Amit- CFO and acting CEO of Jet Airways and I am pleased to extend a very warm welcome to all of you for this earnings call organized by SBICAP. I'm extremely great full to all of you for your time and the interest that you have shown in our company. It is our pleasure to be here with the team with which is accompanied by Gaurang-Whole-time Director, Jayaraj, our Chief Commercial Officer and Ravi- VP, Finance.

Now I would like to commence with an overview of our third quarter and nine months fiscal 17 results. We reported seventh profitable quarter in a row with the net profit of 156 crores at a consolidated level. This is despite lower yields and rising fuel prices. Available seat kilometer ASK have increased by 9.2% to 13.78 billion ASK due to increased fleet deployment. We recorded strong traffic growth measured in terms of number of passengers carried by 4.1% to 6.79 million in third quarter fiscal 17 over same period last year. Traffic from codeshare partners increased by 7% to 0.56 million passengers from 0.52 million passengers in third quarter fiscal 16. Our total cost per ASKM remained almost flat at 4.27 in the current quarter vis-à-vis 4.25 in the quarter last year. More importantly CASK excluding fuel for third quarter fiscal '17 reduced by 1.7% to INR 3.15 against 3.20 in third quarter fiscal 16.

Continuing with our deleveraging efforts the company reduced its net debt by 1000 crores during the quarter and 1435 crores during the first nine months of the year.



The 777 returning to our operations have helped to strengthen our network. Especially our guests have benefitted from the world-class flying experience on a larger part of our network. The overall wide-body deployment because of the induction of 777 are as follows: Mumbai-Singapore two frequencies upgraded to 777 from 737, Mumbai-Dubai one frequency upgraded to 777 from737, Mumbai-Amsterdam upgraded to 777 from 330, Mumbai-Hong Kong day of the week upgraded to 777 from 330, Delhi-Amsterdam Toronto upgraded to 777 from 330. As the 777s have been deployed on existing routes the time taken bringing the market up to speed with higher capacity is expected to be shorter than usual especially given our strategic partnership with Etihad, Etihad Airways partner airlines, Delta, KLM and Air France. We are already seeing healthy loads on the incremental wide-body deployment.

Overall average fares for the group declined by 1.6% in third quarter fiscal 17 vis-à-vis same period last year. While yields in domestic market have been subdued, international RASK have reduced by 11.2% in the current quarter as compared to third quarter fiscal 16. One of our significant core-market is Gulf which had a muted performance in terms of load factors as well as yields. As you all would know that the Gulf Corporation Council countries' economy has witnessed a slowdown in 2016. The low oil price environment since mid-2015 forced GCC countries to implement strict austerity measures in order to reign in their soaring budget deficit. Lower subsidies and a sizable reduction in government expenditure particularly in infrastructure took a toll on non-oil activities. As a result, growth in GCC countries fell from 3.8% in 2015 to 1.9% in 2016, one of the weakest performances since the global financial crisis in 2009.

The impact of the global economic slowdown had resulted in significant weakening of demand and excess capacity both in passenger and cargo. Demand is being stimulated through major pricing actions resulting in falling yield and flat revenues at best compared to the previous year despite the passenger numbers moving up. Despite this we have grown our market share to the Gulf shifting shares from our competition.

We still have lots of pockets of opportunities in niche segments which we are capitalizing on. There is still a decent demand from an India perspective as more and more Indians are traveling abroad be it for work or vacation. We see India as a growth engine for Jet while the Gulf our traditional area recovers from its current economic situation.

We have taken necessary steps to match capacity with demand resulting in redeployment of aircraft between Gulf and other markets. We have seen also a decent development in the domestic market and demand continues to hold strong. The economic environment continues to be monitored closely and actions are being taken accordingly.

Now let me take you through some of the financial and operating highlights; on the consolidated basis for the third quarter fiscal 17 vis-à-vis third quarter fiscal 16 Jet Group's domestic capacity in terms of seats grew by 0.8% whereas passenger numbers grew by 1.4%. At the same time in the international business the airline registered 16.6% growth in terms of



seats. The total capacity domestic and international put together in terms of seats grew by 5.1%, the total number of passengers on the airline grew by 4.1% in third quarter fiscal 17 vis-à-vis third quarter fiscal 16. We achieved an overall seat factor of 79.6% on the incremental capacity. The improvement in number of passengers carried has resulted in our consolidated gross revenue to increase by 1.4% to 5784 crores in the current quarter from 5702 crores in the same quarter last year. Yields in domestic and international market continue to be under severe pressure, primarily on account of increased capacity deployed in the marketplace. While we were able to contain the drop in the domestic RASK to less than 0.5%, international RASK dropped by 11% in the third quarter fiscal 17 vis-à-vis fiscal 16. The revenue per ASKM or RASK reduced by 7.1% from 4.52 in Q3 fiscal 16 to 4.20 in the current quarter. Our total cost per ASKM was almost flat at 4.27 vis-à-vis 4.25 in the last year. Fuel prices went up by over 5% which was largely off-set by reduction in non-fuel CASK due to various cost efficiency measures undertaken by the company. Despite inflationary increases and weakening Indian rupee cost excluding fuel reduced by 1.7% from 3.20 in Q3 fiscal 16 to 3.15 in the current quarter.

As we informed in the last quarter during this year we reached wage settlement providing for salary increases and arrears with various groups of employees during the nine-month period resulting in higher wage cost. There was also increase in retirement benefit liabilities due to increase in base salary coupled with decreasing G-Sec rates. Further with the increased utilization of our aircraft and additional deployment of aircraft we have increased the number of employees who are directly linked to the scale of operations such as pilots, cabin crew and certain airport staff. Overall we have delivered an EBITDA of 480 crores in the current quarter. During the quarter we also completed sale and lease back of four 737 aircrafts which resulted in a gain of 130 crores.

Now continuing on the operational highlights for Jet Airways on a standalone basis; passengers carried increased from 5.93 million in Q3 fiscal 16 to 6.12 million in Q3 fiscal 17 an increase of 3.1%. ASKM went up by 8.6% as compared to Q3 of last year. Gross revenue increased by 0.6% to 5478 crores in the current quarter from 5444 crores in the same quarter last year. Reported profit after tax was 142 crores for the third quarter fiscal 17.

In terms of our Jet Airways domestic operations the domestic revenues account for 47% of the total revenues in the quarter. Total domestic revenues were 2696 crores up by 2.4% as compared to Q3 of last year. The passenger revenue from domestic operations increased by 2.3% to 2376 crores in the current quarter. RASK in our domestic market reduced by 0.5% in the current quarter as compared to third quarter fiscal 16. ASKM went up by 3% when compared to Q3 of last year. Domestic load factor was 80.2% at the increased capacity.

Now moving on to the international which contributes 53% of the total revenue during the quarter; our passenger revenue from international operations increased by 2.5% to 2610 crores in the current quarter. ASKM increased by 13.4% compared to third quarter of last year.



RASK in the international market reduced by 11.2% in the current quarter as compared to third quarter fiscal 16. Overall seat factor in the international market was 79.3%.

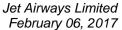
Let me talk about operational highlights for JetLite; JetLite recorded a profit of 13.9 crores in third quarter fiscal 17 compared to a loss of 7.8 crores in Q3 of fiscal 16. ASKM increased by 21% and overall seat factor was at 77%. Total revenue increased to 330 crores by 17.7%. RASK reduced by 2.9% to 4.41 in Q3 fiscal 17 over 4.54 in Q3 fiscal 16.

Now let me also talk about the nine-month performance on consolidated Jet Group for fiscal 17 vis-à-vis fiscal 16. ASKM went up by 6.3% as compared to nine months of last year. Passengers carried increased from 19.18 million to 20.13 million in nine-month fiscal 17, an increase of 4.9% at a total seat factor of 80.8%. Overall CASK reduced by 2.4% from 4.39 in nine-month fiscal 16 to 4.29 in nine months fiscal 17 while CASK excluding fuel has remained almost flat at 3.23 in nine-month fiscal 17. Overall, we have delivered an EBITDA of 1656 crores in nine-month fiscal 17 as compared to 2000 crores in nine-month fiscal 16. In the terms of the profitability profit after tax was 368 crores for nine-month fiscal 17. Overall net debt has reduced by 1435 crores during the nine-month period ending December 2016.

Now let me take you through the details of the debt and the liquidity position for the Jet Group. As on 31st of December 2016 our debt on the balance sheet stood at 9684 crores, our total debt comprises of, aircraft debt of 3158 crores at 465 million and our 76% of our total debt is denominated in US dollars. During the current quarter our net debt reduced by 1000 crores and net debt stood out 31st December at 8529 crores as compared to 9530 crores as at 30th of September 2016 and 9964 crores as at 31st of March 2016. It is noteworthy that since April 2015 the company has been able to reduce its net debt by \$0.5 billion.

Now moving on to the current quarter and the outlook which we see; the competitive and structural challenges in the Indian aviation market continue to put pressure on yields. In addressing this we will continue to focus on cost reduction and deleveraging the balance sheet. We continue to closely monitor the developments in the Gulf market and will continue to build and capitalize on our niches in this market. Jet Airways is a network carrier with its codeshare partnership with Etihad and Etihad Airlines partner and others continue to result in high traffic growth. The quarter witnessed a growth of 7% in overall codeshare traffic. In the third quarter fiscal 17 our partner airlines including Etihad and Etihad Airways partner contributed to more than 559,000 passengers onto Jet the highest ever in the third quarter of the year. During third quarter we have further expanded our codeshare with Etihad, Air France, All Nippon, Delta, Garuda, Kenya Airways, Qantas, Korean Air, Virgin Atlantic and KLM.

Some of the key enhancements to our domestic and international connectivity are as follows; additional frequencies to SAARC from Mumbai and New Delhi, daily flight from Dubai to Thiruvananthapuram and to Sharjah from Kozhikode, a nonstop flight from Bangalore to Singapore and Colombo, upgraded service on Delhi-Amsterdam-Toronto route with the introduction of first-class suites to the existing product offering, Wide-body upgrade on flights





to Dammam, Jeddah, Kuwait and Bangkok, upgraded to state of the art A330s on Mumbai to Delhi, Bangalore and Chennai as well as from Delhi to Calcutta.

Ladies and gentlemen let me now open the quarter the questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session.

We take the first question from the line of Rajni from CLSA. Please go ahead.

Rajani Khetan: Just a couple of questions, firstly on your international segment. What is your assessment of

the impact of demonetization on the level of weakness you have seen in the international travel? And considering that January is also supposed to be a strong month what has your

recent experience been after the third quarter ended?

Amit Agarwal: Obviously on the international segment overall for Jet Airways, because of the structure and

the network we have created, the codeshares which we have with the various airlines, we get a fair share of the corporate traffic. But as you rightly pointed out during December which is a holiday period there is a leisure traffic and we have seen drop in the leisure traffic to some extent. Let me say 10% to 12% of drop in such leisure traffic on account of the

demonetization. But; however, we see things are coming back to normalcy as we speak today.

Rajani Khetan: In terms of your US dollar debt that you said, is it the fixed rate or it at floating rate?

Amit Agarwal: It is at the floating rate.

Rajani Khetan: And it's on ex the Libor?

Amit Agarwal: Yes.

Rajani Khetan: And the next question really is on your expansion plans. Would you please help us understand

what is your near term and medium-term expansion plans on the domestic and international

markets?

Amit Agarwal: As you are aware that we have already placed an order of 75, 737 Max which would start

coming into our fleet from June 18 onwards. That is our firm order on which we see the fleet expansion is going to happen and certain replacements. However, during the period, we continuously evaluate the opportunities based on the leased aircraft available and the profitability and economics for a particular route to deploy such aircrafts. So, that is a constant

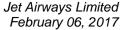
process and we continue to do so.

Rajani Khetan: Can you please tell me what is the breakup of your fleet between owned and leased at the

moment?

Amit Agarwal: Of the 113 aircraft that we have on fleet, 105 are in Jet Airways and 8 in JetLite and the split

between owned and leased are 15 of them are owned and the balance of 98 are on lease.





Rajani Khetan: And the owned are primarily 777, A330?

Amit Agarwal: Majority of them are B777.

Moderator: We take the next question from the line of Dheeresh Pathak from Goldman Sachs. Please go

ahead.

Dheeresh Pathak: Your other income includes the portion of this benefit of surplus that you get from Jet Privilege

Private Limited deal, can you just explain the nature of that income and for how long will it

accrue?

N Ravichandran: Yes, it does include the profit which are accruing over a period of time as we have explained in

the note #5, the profit that was accruing to us from the hiving-off this program as part of the conditionality's built-in our agreement are being deferred and are being accrued over a period of time depending on certain conditions which are being met. Accordingly, in this quarter 62 crores of that profit has been accrued and the balance of 379 crores is being carried forward

which will be accrued in the future years.

Dheeresh Pathak: So, 379 is on the balance sheet and will get recognized over a period of time?

R Ravichandran: That is right.

Dheeresh Pathak: And then this thing will end or is there a natural flow into this bucket the 379 there is

something add to this or reduce from it apart from it being recognized in the P&L?

N Ravichandran: Nothing, it is the exclusive profit which will be accrued over a period of time depending on

certain conditionality in the agreement agreed to with the Jet privilege program.

Dheeresh Pathak: So can you just explain that why it is put it in the balance sheet and then you are recognizing in

parts in the P&L based on what, can you just explain little bit more?

N Ravichandran: When the program was hived-off there were certain conditionalities built-in in terms of the

future accruals of the program. As a result the profit which is accruing to us on the hiving off had to be pecked to it and upon satisfaction of these conditions prorated profits are being

accrued and recognized as per the accounting principles.

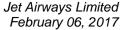
Moderator: Next question is from the line of Anshuman Deb from ICICI Securities. Please go ahead.

Anshuman Deb: I wanted to understand the demonetization effect on the domestic segment and what were the

kind of declines that we witnessed in the domestic fares?

Amit Agarwal1: If I look at it the impact on the domestic market obviously the first few days immediately after

the announcement we saw a dip in the bookings. As I mentioned earlier also because of the strength of our corporate traffic this was not so much reflected on overall bookings and after





few days we saw that dip also on the traffic in the domestic market settled down. So we have not seen a significant dip on the longer period because we enjoy a healthy mix of our corporate traffic and organized sector SME traffic which had no impact on account of demonetization.

Anshuman Deb:

One more question regarding our international PLF, so if you see on YOY basis it has been lower. I understand that it's because of the muted performance in the Gulf region so is there any other reasons to that?

Amit Agarwal:

No, Anshuman you are absolutely right. As I covered in my opening remark that we have seen clearly the weakness in the Gulf market and because of the weakness in the Gulf market the overall passenger numbers we have grown. But because of the capacity deployed there is a drop in the load factors overall because of the muted demand in this Gulf market.

Anshuman Deb:

If I see our quarterly performances as far as the cost is concerned over a period of time we have done remarkably in some of the cost areas and we have seen sharp cost reductions. But going ahead in Q4 probably how is the average fares looking because without fare hikes we could be ending up or profits good sharply decline in this Q4 onwards. So what has been the fare trajectory in January and February till date as in say it in different way have we been able to pass on some hikes?

Amit Agarwal:

Anshuman obviously if you look the overall situation, because of the overall capacity deployed in the domestic market being so high, the possibility to increase a significant quantum of fares is limited. However, as you can see because of the strengthening fuel prices there has been certain fuel surcharge imposed on some of the fares both in the domestic and in the international market and we are seeing thus things are sticking onto the fares.

Moderator:

Next question is from the line of Kevin Mehta from IIFL. Please go ahead.

Joseph:

This is Joseph from IIFL. Just one question; could you give us the amount of lease rental income that you received in the September quarter and the December quarter?

Amit Agarwal:

Lease rental income that we have earned in Q3 of this year is 128 crores.

Joseph:

And how much was it in 2Q that's the September quarter?

Amit Agarwal:

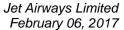
Was 214 crores.

Joseph:

And given that you have taken repossession of many of the aircraft that were given out on lease, would the quarters ahead so the March quarter etc. see much lower number as compared to the 128 that we have seen in the December quarter or is this 128 a steady number that we should expect to continue?

Amit Agarwal:

Basically, if you see these lease rentals was stemming out of the 777 aircraft which we had given leased out to EY, our strategic partner. Now since we see the value of these aircraft





returning into our fleet and ably deploying. Especially if you look at the good strength which we witnessed in the Amsterdam market and that is where we have upgraded as I covered in my script. After we upgraded from 330 to 777, we see a good load and the partnership between Air France KLM is giving us good quality traffic. We believe that this deployment going into this particular market helps us to deployed 777 instead of 330 and would be much more beneficial than just simply leasing out these aircrafts. And that is why we have got these aircraft back into our fleet and on a go forward basis, so we will have only one aircraft which is leased out which is 330 and 120 crores odd will come down to around 30 crores per annum. So 128 crores will come down to around 8 crores. Basically, all the aircraft which are available will be used for operations of the business.

Moderator:

Next question is from the line of Pawan Kumar from Crisil. Please go ahead.

Pawan Kumar:

My question is in the line of international fares; you mentioned that international is a stable market earlier but now you have seen a decline of around 11% in international fares in Quarter 3, do we see this kind of pressure going forward?

Amit Agarwal:

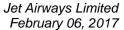
Yes, if you see the international market, as I mentioned that we have been a significant player and our capacity has been significantly deployed in the Gulf market. And the Gulf market, because of the weakening GCC economy there is a pressure and the two kinds of traffic which we used to carry was one a connecting traffic and the other traffic was typically the labor traffic which goes and works into the GCC market. Those kinds of traffics, due to shelving down of the projects or deferral of the projects are not requiring increased manpower and that is why we have seen a dip in our demand for the traffic in the Gulf market. Obviously, we have certain niches considering Bombay and Delhi being our big hubs we see a possible advantage and that segment will grow and some of the other segments we will deploy our capacity because, as we sit in the Indian market we see a good strong demand growth in the domestic market.

Pawan Kumar:

This question is regarding the aircraft, actually earlier you had mentioned you have leased your aircrafts to your partners and actually you are getting them back during the past nine months if I'm right. How many of them are still yet to be brought back and are you planning on taking any new leases during the next year?

Amit Agarwal:

What we talked about we had given six 777 to Etihad and we have got back as of now all the 777 back into our fleet and these are being operationalized on the various sectors and we are not opening a new route, which is basically strengthening our existing route and upgrading and updating those routes. As far as the other developments, we have already mentioned that we continuously evaluate the opportunities based on both what the lease rentals we get and what is the economics of the route and depending upon that we will finalize taking such aircrafts into our operations.





Moderator: Thank you. That was the last question. I now hand the floor over to the management for their

closing comments.

Amit Agarwal: We would like to thank all the investors, analysts and participants on the call for taking the

interest in the performance of the company and to SBICAP for hosting this call. We will talk to

you all in the next quarter. Thank you.

Moderator: Thank you. Ladies and gentlemen on behalf of SBICAP Securities that concludes this

conference. Thank you for joining us and you may now disconnect your lines.