



Jet Airways (India) Ltd

1QFY13 EARNINGS CONFERENCE CALL

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Moderator

Ladies and gentlemen, good day and welcome to the Jet Airways Q1 FY13 earnings conference call hosted by Tata Securities Limited. As a reminder all participant lines will be in the listen only mode, there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Pratik Bavishi Tata Secutrites Ltd. Thank you and over to you sir.

Pratik Bavishi

Thank you. Good afternoon everyone, on behalf of Tata Securities let me welcome you all to Q1 FY13 earnings call of Jet Airways India Limited. Today we have with us Mr. Sudheer Raghavan-Chief Commercial Officer and Mr. Vishwanath who is a Senior VP Commercial Finance and Investor Relations. Without any further ado, let me hand over the call to Mr. Vishwanath for his opening remarks. Over to you Sir.

K.G. Vishwanath

Thank you Pratik and welcome to everyone. Just wanted to add along with me I have Mr. Sudheer Raghavan our Chief Commercial Officer, Capt. Hameed Ali who is our Chief Operating Officer, Mr. Raj Sivakumar who is our Head of Alliances and Network Planning. We will first go through the highlights of the results for Jet Airways and Jet Lite and then get to Q&A thereafter.

I hope all of you would have seen both the presentation we have put up on our website as well as the results press release that we have issued.

Let me take you through the key highlights and the Industry scenario after which I will take you through the detailed performance.

The Indian domestic traffic grew by 1% in Q1 FY 2013 as compared to Q1 FY 2012. As against this, our growth was 10% (Jet + JetLite) in the current quarter vs Q1 FY 2012.

Jet Group continues to maintain its leadership position in the Indian aviation industry with the highest market share of 27.9% for quarter ended June 2012.

Our international operations continue to achieve high seat factors and healthy operating margins. For the quarter, Jet Airways as a whole, achieved a seat factor of 82.7% and 79.3% for Jetlite.

The Jet Group has reported profits after 5 consecutive quarters of losses. The group's EBITDAR went up from INR 3,330 million (US \$ 74.5 million) in Q1 FY12 to INR 8,255 million (US \$ 148.4 million); up 147.9% YoY. Our overall EBITDAR Margins were 16.1% and 15.4% respectively for Jet Airways and Jetlite in Q1 FY13 versus 9.8% and -3.4% respectively in Q1 FY12. This is despite an increase of around 13% fuel rates over Q1 FY12, which already had a high base last year. This coupled with FX loss for the quarter 1,703 million (US \$ 30.6 million), due to rupee depreciation v/s US Dollar.

Moving to the operational highlights for Jet Airways;

We achieved a system wide seat factor of 82.7% versus 78.5% in the same period a year ago.

Overall yields, as measured by revenue per revenue passenger kilometer, were Rs.4.39 as compared to Rs. 3.78 in the same period a year ago (or an increase of 16.1%). During the quarter, our domestic capacity, as measured by ASKMs, increased by 15.2% and International capacity increased by 7.8% as compared to Q1 last year.

As a whole, Jet Airways showed Profit before tax of Rs. 333 million (US\$ 6.0 million) and a Profit after tax of Rs. 247 million (US\$ 4.4 million). This compares to a Loss before tax of Rs. 1,568 million (US\$ 35.1 million) and Loss after tax of Rs. 1,232 million (US\$ 27.6 million) respectively for the same period last year.

The breakdown of Profit before tax shows a Profit of Rs.168 million (US\$ 3 million) for the domestic business and a Profit of Rs. 165 million (US\$ 3million) on the International operations for Q1 FY13.

As against this, we had a Loss before tax of Rs. 625 million (US\$ 14.0 million) for the domestic business and a Loss before tax of Rs. 943 million US\$ 21.1 million for International operations for Q1 FY12.

The key operating highlights for the quarter in the case of JetLite are as under:

Revenues for the period were Rs. 5,632 million (US\$ 101.3 million) as compared to Rs. 4,321 (US\$ 96.7 million), while the Profit before tax for the quarter was Rs. 117 million (US\$ 2.1 million) as compared to a Loss of Rs.52 million (US\$ 1.2 million) for Q1 FY13.

Let me now hand it over to Mr. Sudheer Raghavan

Sudheer Raghavan

For the quarter in question, severely depreciating rupee against dollar, ever escalating Aviation Turbine Fuel prices (ATF) and the imposition of levies and charges on account of improved infrastructure at Delhi T3, has resulted in an increase in operating costs. However, Yield improvement coupled with increase in demand and stringent cost control measures has helped the Group to post a Profit after Tax of INR 364 million (US \$ 6.6 million)

Q1FY13 saw an increase of around 13% in fuel rates (over Q1 FY12), which already had a high base last year. The absolute difference in fuel costs (Jet Airways and Jetlite) was Rs. 4,095 million.

The result also includes an amount of INR 1,703 million or (US \$ 30.6 million) on account of foreign exchange translation losses [realised FX Loss of INR 1,160 million (USD \$ 20.9 million) and unrealised FX loss of INR 543 million (USD \$ 9.8 million)], which has impacted the overall results.

We also had a positive impact on account of profit on sale and lease back of 2 aircraft and sale of 2 engines amounting to INR 749 million (USD 13.5million) for the quarter, which helped us negate some of the cost increases above.

To explain in greater detail, let me begin with Domestic Operations:

The share of our Domestic revenues to total revenues is 44% for the quarter. The total domestic revenues are Rs. 20,677 million (US \$ 371.8 million); up by 33.7% YoY.

Domestic operations in Jet Airways achieved a load factor of 76.2% for the quarter while Jetlite achieved a load factor of 79.3%.

Revenue per RPKM (yields) was up by 10% versus Q1 FY12 and by 8.6% versus Q4 FY12. and Gross Revenue per passenger went up by 8.9% YoY.

The average fuel rate in Q1 for our domestic operations went up by around 13% over Q1 FY12 , which already had a high base last year.

The domestic capacity of Jet Airways (as measured by ASKMs) for Q1 FY13 was higher by 15.2% as compared to the same period a year ago.

The domestic EBITDAR margins were 15.0% in Q1 FY13 as against 7.9% in Q1 FY12.

Our Domestic operations as a whole showed a pre-tax Profit of Rs. 168 million (US\$ 3.0million) versus a pretax loss of Rs. 625 million US\$ 14.0 million for the same period last year.

Moving to international:

We continue to achieve high levels of seat factors on the International operations.

The share of International total revenues to total revenues is 56% for the quarter. The total International revenues are 26,439 million (US \$\$ 475.4 million).

Revenue per RPKM (yield) went up by 21.2% YoY and Gross Revenue per passenger went up by 11.8% YoY.

The average seat factors for key International routes for Q1 were as under:

USA routes were 87.2%, UK routes were 87.9%, ASEAN routes were 87.6%, Gulf routes were 89.3%, SAARC routes were 73.9%, Africa route was 76.5%, and Italy route was 72.3%

The EBITDAR margin on the international operations was 17.0% for Q1 FY13 versus 11.2% for Q1 FY12.

Our international operations as a whole showed a pre-tax Profit of Rs. 165 million (US\$ 3.0 million) versus a pretax loss of Rs. 943 million US\$ 21.1 million for the same period last year.

Let me now spend a moment to update you on the Jetlite operations:

The operating results of Jet Lite for the quarter are as under:

Achieved seat factor of 79.3% (vs. 80.1% for Q1 FY12) Revenues of Rs. 5,632 million (US\$ 101.3 million vs. Rs. 4,321 million (US\$ 96.7 million) in Q1 FY12; up by 30.3% YoY Jet Lite Revenue per RPKM (yield) was up by 49.6% and Gross revenue per passenger was up by 43.2% YoY EBITDAR of Rs. 860 million (US\$ 15.5) million in Q1 FY13 versus a negative EBITDAR of Rs. 148 Million (US\$ 3.3 million) in Q1 FY12. EBITDAR margin was at 15.4% in Q1 FY13 versus negative EBITDAR margin of 3.4% in Q1 FY12 Profit before tax Rs. 117 million (US\$ 2.1 million) vs. Loss of Rs. 52 million (US\$ 1.2 million) in Q1 FY12

Turning to the current quarter and outlook:

High Crude prices, rupee depreciation and slow down in economy will impact the operating margins in short term. Imposition of higher user charges and levies at Delhi T3 airport will lead to airline passing on the costs to passengers, which in turn may affect the passenger growth and / or ability of the airline to increase fares. Q2 domestic traffic trends will reflect seasonality in seat factors though yields continue to be strong. The industry capacity growth is expected to be very modest (less than 5% for the year) and this will result in overall yields and seat factors remaining stable for the balance part of the year. International loads continue to be strong for the second quarter reflecting high seasonality. Our efforts to reduce costs (ex-fuel), including route rationalization, contract renegotiation, productivity improvements will help us to improve operating margins and these have started showing. The Cost per ASKM (ex-fuel) has remained flattish Year over year despite the INR weakening by 24% vs. the USD year over year. We intend to strengthen our Balance sheet by bringing down the debt burden by around \$ 400 million during the financial year through various initiatives. We have completed Sale/ Sale and Lease back of 2 aircraft and 2 engines in Q1 FY13. During the second quarter, we intend to complete sale/ sale and lease back transactions for another 8 - 9 narrow body/ wide body aircraft. This will help in reducing the onbalance sheet debt and release cash. Our focus on ancillary revenues has started to show improved results. Initiatives relating to passenger and non passenger ancillaries will start forming a large part of our top line in the next few quarters, by when we plan to increase our ancillary revenues per passenger by 100% of what we are making today.

Let me know take you through the details of our funds position

Our cash position as at June was at Rs.6.0 billion. US\$ 107.1 Million . On balance sheet date, debt was Rs. 135 billion. US\$ 2.43 billion, while Shareholders funds were Rs. 12.6 billion US\$ 227.4 million. The average cost of Debt for Jet airways is around 6%.

Ladies and gentlemen, let me now open the call to questions.

Jaibir Sethi

The various cost initiatives you have mentioned so any ballpark target you have in mind that this is the amount of cost reduction you want to achieve or is that fairly flexible in that regard?

K.G. Vishwanath

So given that we are looking at every single cost line item and not some pockets specifically. Our overall intend is to bring down our unit cost that is cost per ASKM excluding fuel by anywhere between 5 to 8% year-on-year.

Jaibir Sethi

Secondly on the international business, now both load factor as well as yields have been exceedingly strong in this quarter and loads have in fact remained high in the last quarter as well so anything in particular which is changed there, which has helped deliver this improvement?

Raj Sivakumar

There are a couple of significant changes worth noting here, one is we have seen a strong turnaround in our Gulf market. As you all probably know we have a fairly large footprint in the Gulf and this is the market that we continue to invest in and this quarter saw an exceptionally strong turnaround in the Gulf market with a lot increased focus coupled with the market turnaround. The second aspect we continue to focus on our core network itself, meaning not just the third-fourth freedom Origin and Destination, we continue to invest on connectivity both from international to the Indian domestic point as well as between the two international points using now Mumbai and Delhi as the midpoint hubs, in an airline's parlance known as fixed medium traffic. From a seat factor standpoint investment in the network contributes to the continued upward trend in the seat factors and from a revenue performance standpoint if I were to single out one market there will be turnaround in the Gulf market.

Jaibir Sethi

Would you see room for further improvement there or do you think it is by and large done for the time being?

Raj Sivakumar

We continue to invest in the network, we continue to be quite ruthless and taking out the underperforming route if we don't see a future in them and we continue to invest in routes that show growth opportunity. So by no means we believe that we have hit the upper band and we expect this trend to continue. To substantiate, routes like Johannesburg and sectors such as Chennai-Kuala Lumpur and Chennai-Dubai have been taken out and we feel quite good about the routes that we have in place today but the mindset is such that we're going to be a single-mindedly focused on the profitability and where we don't see an opportunity either we will get better or we will get out of the way.

Moderator

The next question is from Jamshed Dadabhoy from Citi Group, please go ahead.

Jamshed Dadabhoy

Sir some observations on your market share Quarter on Quarter. It has declined marginally from about 29 to about 28, what is the big picture in terms of market share given that Kingfisher in a span of a year has gone from about 19 to 5, your market share Jet plus JetLite combined is gone from 25-26 to about 28 or so, could you give some share on how your revenue market share has moved?

Raj Sivakumar

Let me talk about the traffic share itself and then perhaps touch upon the revenue share. On the traffic share as you all very well know, traffic share closely follow capacity share and while there has been a significant reduction in capacity of Kingfisher it has also been more than off-set by induction and capacity of the LCC such as Indigo, Spice, Jet and GO airways to a large extent. Our induction in capacity over the last 6 to 8 months has been smaller as compared to others, however I would like to focus on the fact that we continue to take a yield premium, traffic share when it comes to a premium carrier such as Jet Airways is not a complete measure. We believe our revenue share is about 35 to 36% in the marketplace primarily broaden by the yield premium. While the core traffic broadly follows the capacity share, we are single-mindedly focused on profitability and improving the yield.

Jamshed Dadabhoy

And on this revenue share how much would it have been about a year ago or so?

Raj Sivakumar

Only marginally lower about 30% last year.

Jamshed Dadabhoy

The second question is on fleet additions, now that system wide load factor at about 82-83% how do you see your fleet additions in the context of this high load factor, is it sustainable or do you see fleet additions now growing at about 10% or so in the next couple of years, what are your schedule deliveries?

K.G. Vishwanath

For the narrow body fleet between now and end of this financial year our fleet size will actually go down and that is largely because there is a certain sale of our older 737 airplanes which we are undertaking during this quarter, so between now and end of March will actually see our 737 fleet going down by three or four units. In terms of our wide-body fleet, we have four new A330-300, which will join the fleet in the second half of this financial year, two of which will be the replacements for lease airplanes, which would leave the fleet and other two will be the net additions that we will have to the fleet. Starting next financial year we have a large chunk of our Boeing 737 orders which will start delivering, part of them will be the placements for leased airplanes which will leave the fleet the other half will effectively be additions. Overall starting FY13 and beyond we are not looking at an increase in fleet capacity by more than 8 to 10%. I think what we will look at is high utilization with the same amount of fleet that we have because as we keep combining more international and domestic rotations the overall utilization for the 737 fleet will start increasing and for a fleet size of over 70 to 80 737 airplanes we will be easily able to churn out two or three incremental 737 worth of flying.

What we are also doing in terms of ASKM is trying to get into a configuration which will have a higher than 150 seats that we had on our full service sectors now 270 seats in 8/162 kind of a configuration and what we are also doing on the international businesses we are increasing our configuration on the wide-bodies, the 777 aero plane which had 312 seats after it gets reconfigured will now get 348 seats so roughly 12 to 15% incremental seats on those airplanes. So all and all with very similar or with a sedate growth in terms of number of airplane you will still see the ASKM increasing purely because of better utilization and higher density on the airplane.

Jamshed Dadabhoy

Just to understand you are increasing capacity by about 10 to 15% on both the narrow and wide body by what reducing in the seat pitch is it?

K.G. Vishwanath

The wide-body airplane has got nine seats in a row at this point in time for economy class, we will make that as 10 seats per row in line with the industry standard, so 312 seater effectively goes to 348 seats on our Boeing 777. On the narrow body we still have certain airplanes which are configured as 154 or even lesser so we are standardizing a large part of our 737 fleet into an 8/162 and last year we have also inducted a couple of 900s which has got higher capacity as compared to the 800s. On the ATRs, we are inducting ATR-600s which have got 68 seats versus the 62 seaters in the existing ATR-500s. We intend to reconfigure these to 68 seats.

Moderator

The next question is from Avinash Nahata from Aditya Birla Money, please go ahead.

Avinash Nahata

I would like you guys to discuss the operational and cost dynamics as regards the import of jet fuel into the country right from notification approvals, players and bodies involved in this entire process if you can please so?

K.G. Vishwanath

That will take a fairly long discussion. But all I can say is currently we are not very clear in terms of the whole process because it is not clearly defined in terms of the RBI circular in terms of how effectively airlines can undertake this import of fuel. We know for a fact that the entire infrastructure whether it is storage or even transportation from the port into the airport and into the airplane at this point in time is all controlled by the state owned oil companies. There are just one or two airports which have got private fuel firms by which the private fuel company will be able to do this for us. Unless there is clarity in terms of what the structure is and what is the process in terms of the airlines working with the oil suppliers to be able to do this, we are not very confident in terms of what kind of fuel savings it will board for us. We are keeping our eyes and ears open to the extent there is an opportunity for us to get in and do something like this, we will go in for it.

Avinash Nahata

Just a small clarity, when you are saying clarity the clarity will emerge from there, one of the companies seeking this import the clarity will emerge then or the industry is waiting for something from a government body to do that?

K.G. Vishawanath

From our side we are still waiting for the government body in terms of understanding how this whole mechanism will be worked out because importing the fuel to the port is something which

every airline can do but the question is about storage and from there getting the ATF into the airplane which is what we don't have clarity about in terms of how much it will cost. What we also don't know is what kind of import taxes or even entry tax will any state governments levy given that they now lose out on the state sales tax revenues.

Moderator The next question is from Rajni Khaitan from HSBC, please go ahead.

Rajni Khaitan Just a couple of questions probably I will ask them one after the other. The first one is could you just disclosed the cash flow from the sale and lease back transactions that you did in this quarter?

K.G. Vishwanath The cash flows from the sale and lease back was around 52 crores that we had from two airplanes which we did a sale and lease back on and a cash flow of 20 crores on sale of engines.

The next question is on JetLite, I see that the capacity of JetLite is falling, I understand some of it probably is also because of lower fleet but is there anything else or is it also because of the reconfiguration of planes could you just throw some light on that one?

> Yes there has been some reduction in the fleet but also equally important and you probably see that in the revenue performance of the JetLite entity is the continued conversion of aircraft with a two class configuration so we are taking aircraft which would have otherwise had a capacity of 170 or even more and adding a premier class to make ourselves relevant in more markets where there is premier class and especially with premier class demand especially with the reduction in the Premier class capacity brought about by the continued gradual reduction of one of our competitors. So that is partially contributing to the capacity reduction or reduced capacity increase of JetLite, however, there is more than offset with the revenue increase.

So can you break it what was it before the configuration and now what is it?

On a standard 737-800 we could go up to as much as 186 or 189 seats on a economy class configuration. In a reduced contribution which is a two class we will have 8 seats in the front and 162 at the back so that brings it down to 170.

And how many of the Boeings does JetLite operate?

Out of the 14 or 16, 737s that JetLite operated last quarter around eight aircraft are already reconfigured.

Next just onto your other non-operating income. so if you exclude profits from sale and lease back transactions what does the remaining non-operating income pertain to?

That's basically the ancillary revenue piece which we are currently focusing on. This includes lot of focus that we have placed on non-passenger related ancillary revenues as well as passenger related ancillary revenues which includes cancellation charges, date change penalties as you would have seen we have started charging for printouts at the airport. Our focus on selling no meals on-

Rajni Khaitan

Sudheer Raghavan

Rajni Khaitan

K.G. Vishwanath

Rajni Khaitan

Rajni Khaitan

K.G. Vishwanath

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06 August 2012

board has increased. We are doing a lot of activities in terms of our frequent flyer miles selling and quite a lot of other things. So this piece is basically an increased or improved ancillary revenue performance.

Rajni Khaitan

If this is towards the ancillaries than what is the other income in your operating revenue, what does that pertain to because I was under the impression that is the other revenues would pertain to the ancillary revenues?

K.G. Vishwanath

The passenger related ancillary revenues form part of other income, the non-passenger related is non-operating which comes below the line.

Rajni Khaitan

Then moving quickly onto the airport charges, so have all the scheduled airport charges increase that were announced have they happened already and if they have then what percentage have you been able to pass on or just some color on that one?

K.G. Vishwanath

We know that the increase in terms of airport charges would cost us anywhere between 50 to 55 crores purely because of what happened in Delhi. We will not be able to exactly quantify in terms of what amount of this has been charged back because what we only pass through at this point in time is a UDF and EDF charges, a large part of the other cost increases have been taken care of through fare increases.

Rajni Khaitan

We have had Dragon air announced a new launch from Hong Kong to Calcutta and on assuming there is a popular sector, are you thinking of launching any of these sectors any time soon?

K.G. Vishwanath

While generally speaking we continue to look at expanding our footprint in ASEAN and Gulf in particular, however, I am not in a position to talk about specific routes. A lot of our incremental capacity is going to be centered on furthering our hubs in both Bombay and Delhi. So if the question is specifically Hong Kong-Calcutta, no, we don't have any interest in it in the short-term.

Moderator

The next question is from Sachin Gupta from Edelweiss, please go ahead.

Sachin Gupta

And just one related on this, for Gulf I am saying is specially from Q4 the load factor has been increasing so you have kind of explained that has been focused area and is it also because the Gulf airlines have run out of their quota of the flights that they can operate and you are benefiting?

K.G. Vishwanath

We don't see that phenomenon. When I look at the ongoing market share numbers that are available to us from IATA I don't see any discernible trends that we are the beneficiary of any shared reduction of the Gulf carriers.

Sachin Gupta

A few on the fleet addition plan just wanted to confirm, whatever fleet addition that you discussed would that be leased or it will be owned?

K.G. Vishwanath

Currently only leased.

Sachin Gupta And also on JetLite did I understood correctly that at the moment the plan is to increase the

capacity through change in seat configuration or we plan to have more flight fare as well?

K.G. Vishwanath For the next 6 to 7 months you won't have any airplane increase in the JetLite fleet but as I

mentioned starting next financial year we have quite a lot of 737s which will enter the fleet, close

to the delivery they will determine whether that needs to go into JetLite for Jet Airways.

Sachin Gupta And you have lease income from I believe that is on the aircraft that you are giving to other

airlines so when is that coming up or when is that lease agreement ending?

K.G. Vishwanath Three of those aircrafts are coming back next year i.e. by 2013. one by end of May , one is

coming back in July and the last one in November .

Moderator The next question is from Jasdeep Walia from Kotak Securities, please go ahead.

Jasdeep Walia My question is with respect to the domestic operations, the cost per ASKM declined quarter-on-

quarter as per reported numbers from Rs. 2.79 to Rs.2.46 in the 1st Quarter, this is quarter-onquarter and I'm talking about cost per ASKM excluding fuel. Now given the depreciation in rupee

one would have expected higher cost quarter-on-quarter, how come the cost reduced by 10-15%?

K.G. Vishwanath Every single cost line item is something that we are looking at very intently in terms of what we

can do in terms of reducing the cost per ASKM. What we also had is better utilization in terms of short haul sectors versus long haul sectors that is the kind of mix that we had on the domestic

operations because of which we were able to produce more ASKMs with the similar fleet size.

Jasdeep Walia I am guessing the kind of cost savings that you are trying to achieve that won't have much of an

impact quarter-on-quarter so it is latter part which is the change in mix or deriving more ASKMs

out of similar number of planes that has led to the _?

K.G. Vishwanath Actually both because some of the long-term agreements that we had in terms of maintenance

cost etc, the reduction started to kick in from the Quarter 1 of this financial year.

Jasdeep Walia But if I see JetLite there are nothing of that sort has happened, JetLite the cost per ASKM actually

has gone up quarter-on-quarter and if I see other airlines also they are also cost per ASKM has

gone up by around 4-5%.

K.G. Vishwanath JetLite what has happened is the number of airplanes went down, so the ASKs that we offered

went down ,that is again purely because we reconfigured airplanes from an 186-189 seater to 170 seater so though we earned higher revenues per departure our cost per ASK also went up but at a

slower pace.

Jasdeep Walia My second question is on debt, can you give me the breakup of debt between asset backed debt

and working capital debt?

K.G. Vishwanath

Out of the \$2.4 billion of debt close to 1.52 billion is aircraft loans which is 100% asset backed. We have loans that we have taken as against the credit card receivables which is around \$400 million, other term loans that we have is around one \$176 million and the working capital loan which is fully backed by stock and debtors is roughly \$350 million.

Jasdeep Walia

If your company would go for fresh debt raising what kind of interest rate you expect to pay on your debt?

K.G. Vishwanath

Incremental cost of funding to us is roughly 13 to 14%.

Jasdeep Walia

What is the extent of overdue payments in your current liabilities?

K.G. Vishwanath

Most of the payments that we have are not overdue in that sense purely because we have credit period that we enjoy, both from Fuel Company as well as all of our major suppliers. There were certain instances of late payments that we had all of which have been corrected at this point in time.

Jasdeep Walia

Why I point this out was if you see your last year current liabilities they would have increased from around 2200 crores to around 3700 crores Y-O-Y in FY12 whereas the increase in sales is hardly 10%. So I was expecting there would be large amount of overdue payments in this sundry creditors figure.

K.G. Vishwanath

No lot of your creditors also includes your foreign currency creditors who because of the rupee depreciation itself have swelled up by 25% on a YOY basis and the other reason is obviously because of increase in level of operations as well as the fact that fuel costs have gone up and given that on fuel you have 60 days of credit that current liabilities looks swelled.

Moderator

The next question is from Princy Singh from JP Morgan, please go ahead.

Princy Singh

My question is on your outlook on the industry over the course of the last two quarters the industry has seen a fair bit of increases in passenger realizations, I just wanted to understand how much more leeway does the industry have as a whole to drive up realizations further without actually hurting traffic demand. And also if you can throw some light on what is generally happening on the traffic demand over the last couple of months and what is your outlook in the near term?

Sudheer Raghavan

Let me take the fare increases first, there is a very strong correlation between the capacity that is inducted today and less than exuberant rate at which traffic is growing compared to the past. So given that there is a very strong correlation between capacity growth and traffic growth, there is a stronger probability that the yield or the fare increases that have been put in place will hold. They are usually under pressure when there is a significant gap between the demand growth and the supply growth, here we are seeing that the two are now fairly closely twined and given that scenario I expect the yield or the fare increases that we have put in place up to now to hold and probably even increase. So that is on the fare side. As on the traffic side; yes it is a very price

sensitive market so is the fares go up it is fairly common to conclude that there will be pressure on demand. However, you need to look at the macroeconomic position here, as a country while we may call our GDP growth tepid at 6% because we were probably used to 9 and 10% in the past. On a global perspective that is a pretty healthy growth but not withstanding a lot of popular commentary about it today and traffic growth traditionally trends at about 1.5 to 2 multiples of the GDP growth. Given that we can possibly look an underlying trend of anywhere from 10 to 15% traffic growth year-on-year, no doubt there will be variations in between but I think the underlying trend is a decently healthy one. So on the one hand you seeing a better correlation between supply and demand that is helping to prop up fares and on the other hand traffic continuing to grow with given the underlying macroeconomic position and in addition to all these things I must also add that with our government's mindset of allowing more carriers to fly international routes, a lot of capacity that they have signed up for are also being deployed on the international routes. So there is not that capacity dump scenario in the domestic route. You may ask if they are going to deploy the capacity in the international routes, is that not going to take impact in the long run. But my own view about that is this so long as good Indian carriers go out and compete in the open market the perception of service and quality of Indian carriers will go up as a whole and from there our pie I see growing. So consequently I think on the whole there are three or four good things happening today in the Indian aviation sector.

Moderator

The next question is from Vikram Suryavanshi from Antique stock Broking, please go ahead.

Vikram Suryavanshi

I just want to know what is the current fleet which we own now, what is the proportion of the total fleet?

K.G. Vishwanath

As of June we had 40 of our airplanes which we own but going forward as I mentioned we will be doing a series of sale and lease back so we expect to complete around 8 to 9 airplanes in the current quarter post which our composition of own fleet to total will reduce to roughly 30 to 32.

Vikram Suryavanshi

And you also mentioned that you are planning to increase your ancillary revenue by almost 100% going ahead can we have some reference number what is it today in terms of..

K.G. Vishwanath

Currently we generate roughly \$3 to \$3.5 per passenger. We intend to take it up to \$8 to \$9 in the next year or so.

Moderator

The next question is from Nilesh Shetty from Quantum AMC, please go ahead.

Nilesh Shetty

Just a follow up on the debt question, out of the \$2.4 billion how much would be rupee-based and how much would be dollar-based?

K.G. Vishwanath

As I mentioned to you the aircraft loans are 1.5 billion, 90% of which are dollar denominated, 10% is rupee denominated. On the credit card loans we have another \$200 million which is rupee denominated so overall out of the 2.4 we are talking about close to \$500 million is rupee denominated debt and 1.9 billion of dollar denominated debt.

Nilesh Shetty If I remember correctly earlier your have never used to hedge the FOREX risk, the rupee dollar

rate was left open, the interest portion was what you all used to hedge, is it still the policy is it

changed?

K.G. Vishwanath Yes that is still the case.

Nilesh Shetty So out of the non-current liabilities the increase which is being shown here how much has been

impact of just purely the rupee movement against the dollar?

K.G. Vishwanath Year-on-year that is around 900 crores.

Nilesh Shetty And there is no plan of hedging the rupee....

K.G. Vishwanath Not currently.

Moderator The next question is from Amit Nigam from BNP Paribas, please go ahead.

Amit Nigam I have got two questions; one is related to the other expenses in the domestic business.

Sequentially I see a drop of almost 50 odd crores so is that a sustainable number now going ahead

or is there a one-off item there?

K.G. Vishwanath Large part of that is sustainable. As I mentioned to you there were quite a lot of contract

renegotiation that we had undertaken starting last year. To some extent there is a one-off because some of the credits pertain to the last financial year. But large part of this is sustainable and going

forward you will see these kinds of cost levels.

Amit Nigam So 443 crores is the number two which we can sequentially build either a decline or...

K.G. Vishwanath For the same level of operations, yes.

Amit Nigam The other thing on the selling and distribution expenses you mentioned that from the 2nd Quarter is

when we should be able to see the impact of reduction in the agent commission 5 to 10%?

K.G. Vishwanath Agency commission from 3% to 1% for India sale.

Amit Nigam And what would that amount be in absolute terms?

K.G. Vishwanath Around \$1.5 to \$2 million a month.

Amit Nigam

The other thing which was on the interest expense for the domestic that is down some 11% and

what could be the reason for that sequentially not YOY? So from 135 you are down to 120 crores.

K.G. Vishwanath We have repaid some of our Indian rupee debt in the 1st Quarter so it is largely the impact of that.

Amit Nigam So if you have done the two aircraft sale and lease back would the aircraft loans have also come

down?

K.G. Vishwanath Yes the aircraft loans pertaining to those two airplanes were roughly \$25 million apiece which has

come down so \$50 million of debt reduction has also happened for that.

Amit Nigam The other puzzling thing was in JetLite you had a FOREX gain of some 15 odd crores, how is that

possible if you had FOREX loss in the rest of the operations?

K.G. Vishwanath Large part of Jet Airways' exchange loss is because of the FOREX loans that we have on the books

which are mark-to-market on account of which there is a loss. In the case of JetLite the current assets that are denominated in dollars far exceed the current liabilities which are denominated in

dollars on account of which whenever the rupee depreciates there is a forex gain.

Amit Nigam So going ahead the other bit was on the expenses of the ex-pat pilots being replaced by domestic

so that impact on your salaries, etc., would be visible from 2nd or the 3rd Quarter?

Hamid Ali As far as the ex-pats are concerned normally they have the notice period of three months and for

some they have one month . It's a combination of both. Some of it come into effect after a month

and some after three months once they serve the notice period.

Moderator The next question is from Joseph George from IIFL, please go ahead.

Joseph George My question was in relation to the cash flows that you have generated during the guarter, can you

give us a sense of the operating cash flows during the quarter and the total cash including

repayment of debt that you generated out of the aircraft and engine sales?

K.G. Vishwanath The net cash that we have generated from the sale of aircraft and engine sales is roughly \$30

million, around 150 crores odd. In terms of cash flow from operations we generated roughly 270 to

280 crores.

Joseph George And secondly could you give me a sense of the breakdown of Jet's domestic operations into Jet

Airways and Jet Connect during the quarter?

K.G. Vishwanath For the quarter around 70 to 75% of our capacity was Jet Airways Connect and the balance 25%

was Jet Airways. In terms of revenue split that will be more like a 65-35.

Moderator Ladies and gentlemen that was the last question. I now hand over the conference back to Mr.

Pratik Bavishi for closing comments.

Pratik Bavishi Thank you. On behalf of Tata Securities I would like to thank the senior management of Jet

Airways and also all the participants of this call for taking time out and understand more about the

airline industry and Jet Airways in particular.

K.G. Vishwanath Thank you.

Moderator Thank you very much. On the half of Tata Securities Limited that concludes this conference call.

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