

# "Jet Airways (India) Limited Q1 FY2019 Earnings Conference Call"

August 29, 2018







ANALYST: MR. SANTOSH HIREDESAI – SBICAP SECURITIES

**LIMITED** 

MANAGEMENT: Mr. VINAY DUBE - CHIEF EXECUTIVE OFFICER

Mr. Amit Agarwal - Chief Financial Officer &

**DEPUTY CHIEF EXECUTIVE OFFICER** 

Mr. Gaurang Shetty - Wholetime Director &

SENIOR VICE PRESIDENT COMMERCIAL

Mr. Raj Sivakumar - Senior Vice President -

WORLDWIDE SALES AND DISTRIBUTION

MR. N. RAVICHANDRAN – SENIOR VICE PRESIDENT



N Ravichandran:

Very good afternoon to all of you. This is N Ravichandran.

Please note 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 involve a number of risks, and uncertainties that could cause actual results to differ materially from those in such forward-looking statements.

Wish to inform you all, the numbers reported are in compliance with the provisions of Ind-AS.

Let me now hand over the call to our CEO Mr. Vinay Dube.

Vinay Dube:

Good afternoon everyone. I am pleased to extend a very warm welcome to all of you for this earnings call organized by SBI Cap.

I am grateful to all of you for your time and the interest that you have shown in our company. It is a pleasure to be here with my team. I am accompanied by Gaurang Shetty, whole time Director, Amit Agarwal, CFO and Deputy CEO, Raj Sivakumar, SVP worldwide sales and distribution and N Ravichandran, SVP Finance.

Before we get to the discussion on our results for the first quarter of FY19, I think it is important that I address several speculative news items that have been circulating about Jet Airways in the recent past in various sections of the media.

To begin with let me please clarify that the deferment of our quarterly results was due solely to the additional time requested by the management of Jet Airways of its Audit Committee in order to complete its accounts and to close on matters relating to cost reduction initiatives & turnaround plan. The Audit Committee subsequently granted us this extra time. I would like to make it very clear that there are no differences of opinion whatsoever between the Company and its



statutory auditors and both B.S.R. & Co., a KPMG affiliate, and DTS & Associates continue to be the statutory auditors of the Company.

As announced, Jet Airways is a going concern and the matter of emphasis in the auditor's report on our financial statements has appeared for a few years. So, any mention of our auditors raising going concern issues from March 2018 or in this quarter is incorrect. Our Auditors have issued an unmodified opinion on the results.

There have also been incorrect media reports about Mr. Vishwanathan, one of our independent directors and Chair of the Audit Committee resigning. This is also not true. Mr. Vishwanathan was appointed as an independent director by our Shareholders in 2015. He was also appointed as the chairman of the audit committee. The term of his directorship ended at the annual general meeting held on 9 August 2018 and hence he retired by rotation. In the same meeting, the shareholders of the company also appointed another independent director. and this appointment was part of the agenda circulated ahead of time for the company's annual general meeting.

Allow me to also please clarify that all our accounts with Lenders are 'Standard' and there is no overdue in any of our accounts. There have been no delays in discharging any of our loan obligations to any of the lenders. In fact, our Bankers have issued a certificate to this effect at periodical intervals.

And finally, the last clarification I would like to make is in relationship to our employees. As you all know, the Indian aviation sector is growing very rapidly and Jet Airways' firm order of 225 B737-MAX fuel-efficient aircraft is a testimony to the airline's growth ambitions. This fiscal year alone, Jet Airways will induct 11 new B737-MAX aircraft. Three of these 11 have already been delivered with two more expected next month. The airline's stated growth target of 8-10% CAGR over the next 5 years will require more people and not less. As such, any media reports of broad layoffs are completely false.



I would now like to turn our attention to the broader aviation landscape and Jet's quarterly performance. The Indian Aviation Sector, although witnessing a steady and robust traffic growth, has been passing through a tough phase. Brent rates have gone up by more than 150% from their lowest levels two and half years ago. In the last year the rupee has also depreciated by about 5%. Airlines have been unable to pass through this increased cost to consumers by increasing fares. The lag between the increase in fuel costs and fares must get corrected over time. The industry cannot sustain such low fares in the long run.

But as we've said before, we are not waiting idelly and are actively engaged in looking at various debt reduction and funding options, including infusion of capital, monetization of assets including the Company's stake in its Loyalty program. Since all these matters are at a working stage, we are unable to discuss any further details.

As importantly, Jet has been pro-actively working on multiple revenue enhancement and cost cutting measures, which have been delivering results. This is evident from the fact that we are on track with our promise of a 12 to 15% reduction in non-fuel CASK, which we made last year. As announced yesterday, this roughly translates to a delivery INR 2,000 crores of cost reduction over the next 2 years. The cost reduction program covers various facets of the company's operations including Maintenance costs, Selling and Distribution costs, Fuel rate and optimization, Debt and Interest cost reduction and enhancement of Crew and manpower productivity.

We also aim to deliver a 3-4% growth in RASK through strategic and tactical initiatives around network, pricing, inventory management and sales.

In line with our long stated fleet simplification strategy, we are in the process of leasing out some of our excess ATRs to a regional carrier in India. We expect to lease out 3 aircraft starting with the upcoming winter schedule.



Etihad, which is our strategic partner is committed to our strong and ever growing relationship and stands firmly with us as we explore and leverage the opportunities presented by the growing Indian aviation market.

### Now coming to the results for the first quarter of FY19:

During Q1 FY19, the capacity deployed in terms of Available Seat Kilometers (ASK) increased by 9.4% over same period last year, to 15.3 billion ASKs.

We recorded 3.9% traffic growth in this quarter, with the number of passengers carried increasing to 7.38 million over same period last year.

We reported RASK of INR 4.10 for Q1FY19 which is 3.9% lower than Q1FY18.

Fuel prices have seen sharp increase, with the Brent prices being higher by 36% at USD 72 per barrel in Q1 FY19 compared to USD 53 per barrel in the same period last year. As a result, the fuel CASK in Q1 FY19 was 37% higher as compared to Q1 FY18.

This led to our overall CASK increasing to INR 4.77 in Q1 FY19 as compared to INR 4.39 in Q1 FY18.

However, am happy to inform you all that our CASK-excluding fuel was down by 1.5% to INR 3.17 against INR 3.22 in Q1 FY18.

This quarter, we reported a loss of INR 1,326 crores at a consolidated level. Amit and Ravi will be taking you through the results in detail, later during the call.

We commenced operations under Regional Connectivity Scheme from 14th June 2018, connecting Allahabad with Lucknow, Patna, Nagpur and Indore, and Nasik to Delhi. We are seeing encouraging response for these services.

In line with our our "win in India" strategy, effective 01st August'18 we commenced 30 additional frequencies, connecting new city-pairs, connecting



metro cities to emerging cities, like Bengaluru to Guwahati and Indore to Hyderabad & Chandigarh.

On international side we have introduced second frequency on Delhi-Dhaka sector which will operate four days a week.

We also plan to start Mumbai-Manchester direct service which will operate five days a week. With this we will become largest carrier between Mumbai and the UK as we already have 3 daily flights between Mumbai-London and a daily frequency between Delhi-London.

In our constant efforts to give best possible connections to our guests we have enhanced our code share partnership with Delta and Aero Mexico to connect more cities within North America for seamless travel experience of our guests.

We are already seeing fuel efficiencies on our 737 Max aircraft along with positive feedback from guests about the overall flight experience of 737 Max.

During the quarter, the airline's overall fleet utilization also went up by 3.7% to 12.98 hrs. on a YoY basis with a Technical Dispatch Reliability (TDR) of 99.52%.

Let me now ask Amit to take you through the financial and operating highlights.

# **Amit Agarwal:**

# Jet Group's consolidated performance - Q1FY19 versus Q1FY18

In Q1 FY19, our total capacity (Domestic plus International) in terms of seats grew by 4.1% and the total passengers carried by the Airline grew by 3.9% versus Q1 FY18.

ASKMs were up by 9.4% as compared to same period last year.

We achieved seat factor of 80.4% in Q1FY19, marginally lower compared to Q1FY18.



Consolidated gross revenue increased by 5.2% to INR 6,257 crores in the current quarter from INR 5,951 crores in same quarter last year.

Our constant efforts on improving the cargo side of business has resulted in increase of 6% in the tonnage carried in Q1FY19 over last year same period and considerable increase in the cargo revenues as well.

The total costs per ASKM increased by 38 paise or 8.7% to INR 4.77 in the current quarter versus INR 4.39 in Q1FY18. This was due to the fuel CASK increasing by 43 paise or 37% from INR 1.17 to INR 1.60 in the same period. We were able to further reduce non-fuel CASK like previous quarters from INR 3.22 in Q1FY18 to INR 3.17 in Q1FY19. This was attributable to cost saving measures we have undertaken to control non-fuel CASK.

As Vinay alluded to earlier, our focus continues to reduce non-fuel CASK. We are on track to achieve the 12 to 15% reduction in non-fuel CASK in coming 6 to 8 quarters.

EBITDAR for the quarter was INR 52 crores as compared to INR 870 crores in Q1 FY18.

This quarter's results were adversely impacted by increase in fuel prices without corresponding yield improvements. The rise in Brent prices had a negative impact of over INR 600 crores in this quarter.

Further, the quarter was also impacted by mark to market, non-cash charge to the income statements on account of unrealized foreign currency loss of INR 344 crores.

Interest costs went up due to increase in LIBOR and other domestic benchmark rates and higher utilization of CC limits. Further, as portion of aircraft and other foreign currency debt is repaid and replaced by INR debt, this results in higher financing cost.



With our focused efforts in optimizing selling and distribution costs, we have been able to restructure our incentive, commission and distribution channels, which have resulted in lower selling and distribution costs in the quarter. We expect this to continue going forward.

Other expenses show an increase of about INR 550 crores, of which INR 364 crores was on account of foreign exchange fluctuation.

# **Continuing on the operational highlights for Domestic Operations:**

The share of Domestic revenues to total revenues was 46.4% for the quarter.

ASKMs were up by 9.0% as compared to Q1 of last year.

Passengers carried increased from 5.09 million in Q1FY18 to 5.38 million in Q1FY19 – an increase of 5.8%.

Gross revenue increased by 0.8% to INR 2,901 crores in the current quarter from INR 2,877 crores in the same quarter last year.

#### Moving to international:

The share of International revenues to total revenues was 53.6% for the quarter.

ASKMs increased by 9.7% compared to Q1 of last year.

Passengers carried were 1.99 million in Q1FY19, a slight reduction from 2.01 million in Q1FY18.

The passenger revenue from international operations increased by 5.2% to INR 2,803 crores in the current quarter.

The overall seat factor in the international market was 79.5%



Let me now take you through the details of the debt and liquidity position for the Jet Group:

As on 30th June 2018, the gross debt on our balance sheet stood at INR 8,620 crores or roughly around USD 1.26 billion. Of this, aircraft debt stands at INR 1,968 crores. Over 65% of the total debt is denominated in USD.

The net debt as at 30th June stood at INR 7,364 crores, a reduction of about INR 718 crores over March 2018. This was despite depreciation of the Indian rupee in the current quarter.

It is important to note here that over that last few years, we have reduced our net debt by about INR 3,500 crores. While our net debt has consistently gone down, we have, in the past been able to refinance some portion of our debt at regular intervals. Refinancing is a continuous process as we optimize our cash flows and financing costs. During this quarter, we were able to tap liquidity in excess of USD 300 million to ensure we met our operations and debt repayment obligations.

## Turning to the current quarter and outlook:

The aviation market in India continue to be challenging despite unprecedented growth in passenger numbers in the last few years. With fares showing little signs of improvement and fuel continuing to be at current levels, as we enter the seasonally weakest quarter of the year, our focus remains on building base loads.

The Jet Airways management team is resolutely focused on executing many key initiatives that will allow us to build a healthy and durable enterprise.

Let me now open the call to questions.