TRANSCRIPT

Conference Call of Jet Airways Limited

JET AIRWAYS 🏉

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Presentation Session

Moderator:

Good afternoon ladies and gentlemen. I am Shirley, moderator for this conference. Welcome to the conference call of Jet Airways Limited organized by SBICAP Securities Limited to discuss the Q4 FY11 and FY11 results. We have with us today the management team of Jet Airways Limited, represented by Mr. Sudheer Raghavan, Chief Commercial Officer, Mr. M. Shivkumar, Senior Vice President – Finance and Mr. K. G. Vishwanath, Vice President – Commercial Strategy and Investor Relations. At this moment, all participants are in listen only mode. Later, we will conduct a question and answer session. At that time, if you have a question, please press * and 1 on your telephone keypad. Please note this conference is recorded. I would now like to hand over the conference to Mr. Nirav of SBICAP Securities.

Nirav:

Good afternoon ladies and gentlemen. On behalf of SBICAP Securities, I welcome you all to the conference call of Jet Airways. Now, may I please request the management to give some opening remarks, following which the Q&A session can resume? Thank you.

K. G. Vishwanath:

Thank you Nirav. Good afternoon ladies and gentlemen. My name is K. G. Vishwanath. As Shirley mentioned, I have with me our Chief Commercial Officer and our Head of Finance Mr. Shivkumar. We will first go through the highlights of the results and then get into Q&A. And I hope that all of you would have taken a look at the presentation that we have put up on our website as well as the press release that we have released. Let me take you through the key highlights and the industry scenario, after which I will request Sudheer to take you through the detailed performance.

The Indian domestic traffic for the quarter ended March 2011 grew by 21% compared to the same period last year, as against this, the growth for Jet Group about 19% in the current quarter. The Jet Group continues to maintain its leadership position in the Indian aviation

industry and we recorded the highest market share of 25.4% for the quarter ended March 2011. Our international operations continue to achieve very high and healthy seat factor levels and operating margins. For the quarter ended March 2011, we achieved a seat factor of 80.4%. Our overall EBITDAR margins were 10.6% for Jet Airways and 6.4% negative for JetLite in the quarter ended March 2011 versus 24% and 28% respectively in the same period last year. The reason for this drop in EBITDAR margins is steep increase in the fuel rate which we had for the quarter ended March 2011.

Moving to the operational highlights for Jet Airways; we achieved a system wide seat factor of 77.9% versus 78.6% for the same period a year ago. Our overall yield as measured by revenue per RPKM was Rs3.58 compared to Rs3.65 for the same period a year ago. During the quarter, our domestic capacity as measured by ASKM increased by 12.1% compared to the same period last year. For the company as a whole, Jet Airways showed a loss before tax of Rs1.87bn or equivalent of US\$42mn and a loss after tax of Rs1.24bn or equivalent of 27.9mn. This compares to a profit of Rs586mn or US\$13.1mn for the same period last year. If you were to break down the profit before tax number or the loss before tax number, the domestic business lost 113 crores or equivalent of 25.4 million, while the international business lost 74 crores or equivalent of 16.6 million dollars. As against this, for the same period last year, the domestic business actually made a profit of 55 crores or 12 million dollars, international business made a small profit of 3 crores or 0.7 million dollars.

The key operating highlights for the quarter in the case of JetLite were as under. Our revenue for the period was Rs441cr or \$98.9mn compared to Rs462cr or \$102.9mn for the same period last year. The reported loss before tax for the quarter was 75 crores or \$16.9mn compared to a profit that we achieved for the same period last year of 176 crores or \$39.3mn.

Let me now hand it over to Sudheer, who will take you through the detailed performance.

Sudheer Raghavan:

Thank you Vishi and good afternoon my friends. Jet Airways continues to improve its cost per seat kilometer and this has resulted in the reduced cost per available seat kilometer by 3.7%. This is for excluding fuel. We have relentlessly pursued strict cost control measures implemented across various parts of the business and also with effective route rationalization exercises. This has resulted in Jet Airways posting an operating profit, i.e. EBITDAR of Rs3,169mn for the Q4FY11 despite a 32% increase in fuel prices compared to the same period last year. The fuel cost for the quarter was 39% of the total costs versus 32% in Q4FY10. During this period, there was an unprecedented increase in prices of fuel which airlines were not able to pass on to the customer fully. Though airlines did take increases in Fuel surcharges, the full impact of the same will only come through in the next quarter. As such, the operating performance of this quarter has been significantly impacted by the said fuel price increases. The impact of such fuel price increases for Jet Airways and JetLite for the quarter was Rs3,461mn or US\$77.62mn, compared to the same period last year. The

quarter results were also impacted on account of certain one-time exceptional items like service tax payments of prior years, amounting to Rs58cr or US\$13.2mn. Excluding the same, the loss for the quarter would have been much lower.

The Jet Group continues to maintain its leadership position in the Indian aviation industry with the highest market share of 25.4% for the quarter ending March 2011. Our on time performance for the quarter for Jet Airways domestic operation was 91.1% and for JetLite 85.2%. And we continue to be number one airline in OTP as well.

To explain in greater detail, let me begin with the domestic operations. The Indian domestic industry showed a growth of 21% for the quarter ending March 31st 2011 year on year, as against this our growth was 19%. The industry capacity increased by 16% for the current quarter versus the same period a year ago. The share of our domestic revenues to total revenue is 42% for the quarter. Jet Airways achieved a load factor of 73% for the quarter, while JetLite achieved a load factor of 77.1. The average fuel rate in Q4 for domestic operations was Rs82.12 per liter, which was higher than Q4FY10 by 29.6%. The domestic capacity of Jet Airways as measured by available seat kilometers for Q4FY11 was higher by 12.1% compared to the same period a year ago. The domestic EBITDAR margin was 2.5% in Q4FY11. Our domestic operations as a whole showed a pre-tax loss of Rs1,132mn or US\$25.4mn versus a pre-tax profit of Rs556mn or US\$12.4mn for the same period last year.

Moving to international; we continue to achieve high levels of seat factors on the international operations. Our new routes that we started in FY11 have started maturing fast and we are achieving high seat factor levels. The share of international revenues to total revenues is 58% for the quarter. The average seat factors for key international routes for Q4 were as under. USA routes achieved 81.4%. UK routes achieved 87.5%. The ASEAN routes clocked 81.9%. The Gulf routes 75%. SAARC routes 68.7%. Africa route 75.2%. Italy route 82.1%. As you probably are aware, we launched our Italy route sometime late in December 2010. And I am extremely happy that today it has started to clock 82% seat factor. It has matured very fast. The EBITDAR margins on the international operations were 16.2. I repeat 16.2 for Q4FY11 versus 22.9 for the same quarter last year. Our international operations as a whole showed a pre-tax loss of 741 million or 16.6 million US versus a pre-tax profit of 30 million or 0.7 million US for the same period last year.

Let me now spend a moment to update you on the JetLite operations. The operating results of JetLite for the quarter are as under. Achieved seat factor of 77.1% versus 75.9 in the same quarter last year. Revenues of Rs4,413mn or US\$99mn versus Rs4,620mn or US\$102.9mn in the same quarter last year. Negative EBITDAR of Rs264mn or US\$5.9mn in Q4FY11 versus Rs1,191mn or US\$26.5mn in Q4FY10. EBITDAR margin was at minus 6.4% in Q4FY11 versus 28.7% in Q4FY10. Loss before tax of Rs752mn or US\$16.9mn versus a profit of Rs1,764mn or US\$39.3mn in Q4FY10. There were certain exceptional items for Jet Airways which impacted the Q4 results, majority of which were as under. We had to pay certain

dues on account of service tax demands pertaining to the prior years for services like GDS and GSA services. The same was accounted for in the current quarter and amounted to Rs580mn or US\$13.2mn. We also changed the method of depreciation for assets other than aircraft and simulator from WDV to SLM method on account of which we wrote back close to Rs683mn or US\$15.3mn. Our six new ATR aircraft which were delivered in December 2010 were put into service only at the beginning of the summer schedule, which resulted in instances of aircraft on the ground. This, along with other instances accounted for Rs220mn or US\$5mn for the quarter.

Now I turn to the current quarter and outlook. The dramatic rise in crude oil prices severely impacted the quarter in question and also the month of April. In May 2011, crude oil prices have cooled off to some extent and should help airlines to improve margins. In addition, the full impact of all the fare increase and surcharge increases will come through in the current quarter. To the extent crude oil prices and fares continue to remain higher; it could impact traffic growth slightly in the short term, though the medium term growth outlook remains intact. This is because of the fact that due to other macro economic conditions, discretionary spending on travel could get affected in the short term. The capacity growth in the market continues to be manageable but traffic growth in the short-term seems slightly sluggish. Our International business continues to be robust and we are achieving healthy seat factors. As I mentioned before, the routes to Milan and Johannesburg have matured significantly since inception and are currently achieving load factors well above the 70% mark. We have also added new short haul flights to Gulf and Middle-East which will boost the network flows and revenues. With the return of the two Boeing 777 aircraft next quarter, we intend to upgrade some of our A330 services to a B777 operation and the aircraft which gets released will be used to start up Manila and other Gulf operations.

I will now hand over the floor to my colleague Shiv, who will take you through the details of the Sahara litigation as well as our funds position and future plans. Shiv.

M. Shivkumar:

Hi, good afternoon. Shivkumar here. Just would like to summarize the Jet Sahara litigation matter. As everybody is aware, we had acquired the Sahara Airlines for a sum of about 2,000 crores in 2006 and after some disputes which came in and it was finally agreed and settled that 1,450 crores, when we took the airlines on 28th April 2007. At the time of taking over, we had paid 900 crores, with the balance 550 crores to be paid in four installments commencing from 30th March 2008 to 30th March 2011. When the first installment was paid, was about to be paid, we had lot of tax demands from the pre-acquisition period, so we made certain deductions, which was always the subject matter of debate by Sahara whether we are entitled to deduct or we need to recover that money separately. And we took up this case in the Court of law and we had to also respond to the tax demand that were coming up. It went on for about two years and finally it was concluded and the judgment was delivered on the 4th of May, whereby it was held that Sahara's demand for restoration of purchase

conservation at 2,000 crores was denied and purchase consideration has been sealed at 1,450 crores and the Court also held the view that we are not right in making deductions, we deducted about 87 crores from the purchase conservation payable to Sahara. And hence the entire became payable from the date of the first year default. So, from that period onwards, the interest was awarded to them, which came to about 116 crores, which we had paid off. The issue is whether we are right, whether they are right and this question has now again gone into the appeal and they have filed a case that interest should be awarded at a higher rate and they are still entitled to 2,000 crores. And we will be defending our case and we will also be saying that whether the consent terms did not provide for interest, whether interest at all is payable. So, this is the matter as far as Sahara is concerned. And by making the payment of 116 crores and whatever we had deducted earlier, the undertaking given by us has been completely, we are relieved of the undertaking that we had given off non-alienating the assets, which means we can do sale and leaseback deal, sale or leaseback deal, go for a BKC transaction and all, without having to get the approval of the Court. This is the Sahara matter. So, the next hearing is scheduled sometime next month.

Now, let me say something about the balance sheet position. Our cash position is about 558 crores as at 31st March 2011. And our loans portfolio is something close to 13,680 crores against 14,290 and out of which 3,400 crores is in rupee terms, rupee denominated terms and the dollar denominated is about 10,200. During the course of the financial year, we had converted about 2,500 crores of rupee loans into dollar loans, which has given us 6% reduction in the interest cost, the full impact of which will come in the next financial year.

Now, we are all open to questions from you all. Thank you.

Nirav: Shirley, can I please request you to start the Q&A session?

Moderator: Sure sir.

Question and Answer Session

Moderator:

Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If your question has been answered before your turn, and you wish to withdraw your request, you may do so by pressing # key.

I request the participants to press * and 1 for your questions.

The first question comes from Mr. Chaitanya Choksi from JM Mutual Fund.

Chaitanya Choksi:

Good afternoon sir. Sir, just wanted to know of the fuel price increase, how much would we have passed on already and how much is remaining to be done?

K. G. Vishwanath: We have had more than two rounds of surcharge increases over the last three months. The last was done sometime in the month of April. So, the full impact of that will actually start coming in the current quarter. But, I would think at the current levels of around 98-99 dollars to a barrel of crude, we would have passed on most of the impact to the consumers in the form of higher surcharges.

Sudheer Raghavan:

If I may just add to that, from 5th of May, I believe the fares and surcharges when we take it together, there will be a 20% increase in the yield, 20% increase going forward. And we are watching to see, if that level can hold. So far the indications are that it can hold. The other carriers are also seems to be holding at similar levels and it has not dampened the demand. So, the indications so far looked good.

Chaitanya Choksi:

Sir, there was also some news on Air India reducing its fares considerably. So, any view on that?

Sudheer Raghavan:

Air India reduced its fares sometime in January by about 20%. And I think the market has learnt to live with such irrational pricing initiatives by various participants in the sector.

So, the recent fare drop that you had seen of Air India was largely because of the strike, after which they got back to business. So, they had an initial one week period where they were offering really low fare. But, now ever Air India has reverted to higher fares than what they were selling.

Sudheer Raghavan:

But, that is inevitable. When you are off the market for a while and you need to jump start back in, you have to do what they did.

Chaitanya Choksi:

Okay. And you mentioned the fuel cost average was around Rs52, if I am not wrong?

K. G. Vishwanath:

That's right.

Chaitanya Choksi:

Is this only the domestic fuel that we would be using or it includes international also?

K. G. Vishwanath:

Domestic. Domestic.

Chaitanya Choksi:

Okay. And your view on capacity additions for FY12, how do you see that?

K. G. Vishwanath:

So, we still believe that the industry capacity growth will be anywhere between 12% and 15%.

Sudheer Raghavan:

I think at the end of the day, the growth will largely be a function of how our economy comes along. So long as the economy continues to grow anywhere between 8% and 9%, it is reasonable to expect at least 1.5 to 2 times multiple of that in terms of market growth. So, that's how we see the market growing next year. And so long as the economy grows at that pace, we see this robustness in the market continuing.

Chaitanya Choksi:

Okay. And sir, how many orders do we have, basically planes on delivery this year and funding for that, if you can just outline that?

K. G. Vishwanath:

So, for the current year we have six 737 incremental aircraft, which will come into the fleet starting from October of the current financial year, all of which are going to be on a lease basis. Incrementally on the international business, we will take back two of our Boeing 777, which are currently on lease with Turkish.

Chaitanya Choksi:

Okay. And sir, lastly on the BKC land, if you can just give an update on that?

M. Shivkumar:

We are in discussions with various developers. And since we have got the undertaking release only recently, we hope to conclude this in the next two weeks time.

Chaitanya Choksi:

Okay. Thanks a lot sir. That's it from my side.

Moderator:

Thank you sir. Next question comes from Mr. Saurabh Das from Sundaram Financial.

Saurabh Das:

Good afternoon everybody and thanks for the opportunity. My first question pertains to, you just mentioned that you have taken price hikes in April and as well as in May, the surcharges. So, as of now on a sequential basis, what kind of yield improvements can we expect in this quarter?

Sudheer Raghavan:

The increase was taken in April, sorry, sorry; the increment was taken on the 5th of May, effective 5th of May, so not in April. And the average yield improvement is expected to be around 20%.

K. G. Vishwanath:

From the yield prior to 5^{th} of May. But, if you compare Q4, the average yield improvement is around 8% to 9%.

Saurabh Das:

And if you can just highlight the yield improvements on the international side as well?

K. G. Vishwanath:

From the international side, the only increases have been in fuel surcharges, which to some extent carriers have started to rollback given that there is some softening in the international crude oil prices. Yield improvement otherwise is largely by managing the fare buckets better. And given that we are already in terms of very high seat factors and you will see a 4% to 5% increase YoY in terms of the yields in the international business.

Saurabh Das: Did you mean 4% to 5% QoQ or...?

K. G. Vishwanath: YoY.

Saurabh Das: YoY increase?

K. G. Vishwanath: Yes.

Saurabh Das: Okay, because what I was looking at is that if I just compare Q3 to Q4 last year on the international routes, there has not been such a big seasonality effect in terms of decline in the yields. But, this has been the case in this particular year, December yields to March yields have dropped on the international route as well. So wanted to check, is there as you mentioned some crude price softening has led to some fares rolled backs, so are you seeing some kind of over capacity or pricing indiscipline in this particular quarter or in the last year four months?

K. G. Vishwanath: No, I am not so sure what yield metrics are you looking at. As for the rates for the international business, you should not look at yield per passenger, because it will take...

Saurabh Das: I am looking at revenue per RPKM Vishi.

K. G. Vishwanath:

Okay. So, that is largely a function of incremental short hauls versus long hauls that we are operating. So, over the last six to seven months, we added two longer haul routes, which were to Milan and to Johannesburg, on account of which the overall yield per RPKM would be lower, because the optimum yield per RPK comes through when you have a four to five hour flying distance.

Saurabh Das:

Okay. So, are you mentioning that this 16% EBITDAR margin which we touched after almost eight or nine quarters, is not something which has to be looked at in isolation and it's not extrapolatable, we will reach back 20%-21% EBITDAR margins pretty soon on the international?

K. G. Vishwanath:

This is completely short-term and completely fuel driven.

Saurabh Das:

And the corrective actions have been taken in this quarter?

Have been.

Saurabh Das:

And just on this *seat* factors, you just mentioned region-wise seat factors, the SAARC routes had 68%, is it more a seasonality and this quarter we will see better?

K. G. Vishwanath:

We started three new flights to Colombo. We added Bombay flights as well as an incremental Delhi flight. And these are very early days for those routes and that's the reason why the overall SAARC numbers were lower.

Saurabh Das:

Okay. And if you can, along with the seat factors, give us a broad idea about your revenue break up from these routes?

K. G. Vishwanath:

The US routes still contributes close to one-fourth of the overall revenues. UK route is another one-fourth. Africa, Joburg and Gulf contribute another 25%. SAARC and ASEAN is the balance.

Saurabh Das:

Okay, so almost equally split up. And finally on the domestic route, given how things are at this current juncture between how Air India is responding, do you think that Air India or for that matter Spice or Kingfisher, there is a possibility even in this quarter some kind of pricing indiscipline to continue?

Sudheer Raghavan:

See, one of the things as I mentioned in our response in the earlier call is that we have learnt to live with irrational pricing. And one of the biggest examples of irrational pricing was what happened in January this year, when Air India dropped fares by I think by close to 20%. There was no reason to drop any fares during such a time, because it is a low period and by dropping fares you are not going to really simulate traffic. So, basically we earn less for the same amount of passengers we all carry. So if you ask me, whether this kind of irrational pricing will continue to prevail, I expect it to prevail. There is no way to stop this or control this, particularly if there is a penchant to drive hard for cash. If you are cash trapped and if you are driving hard for cash, one of the first things that carriers around the world, particularly I have observed it here, is to drop their fares and try and believe that will drive the cash in. But, it is a short-term activity with complete blindness towards what can hurt them in the long run.

Saurabh Das:

Got it, got it. And just the last question from my side. Jet Konnect as a proportion of your total seats right now on the domestic side?

Sudheer Raghavan: Yeah, you see if I answer your question directly, one of the benefits we have in Jet Konnect is a swing product, in the sense when we see the strength of the market, we can switch more towards the full service carrier and benefit from the yield improvements we get out of that. And when the market softens, we switch it back to a no frills operation plying in the same waters that the low cost operators fly. So, our capacity ratio has been switching between a high of say, 65-35 to around 55-45. So, we swing between these ratios as we see the market strengthening or weakening.

K. G. Vishwanath: We are currently close to 63%.

Saurabh Das:

63. And do you see that in this slow phase, slower phase, if I may just add on the sluggish growth outlook which you are talking about, given the recent hikes in fares. There would be some down trading and you might have to increase your proportion of Jet Konnect offerings going ahead?

Sudheer Raghavan:

If we have to, we will. But, we will be guided completely by the strength of the demand. If our seat factors are in above a certain levels, we will continue to offer the full service. If the seat factors are trending below a certain threshold that we have set internally, then we will switch. But, we will remain relevant, regardless of which way the market swings.

Saurabh Das: Sure, sure. And April seat factors on the domestic would be roughly?

K. G. Vishwanath: April seat factors were 67% and May currently we are running at 78%.

Saurabh Das: Wonderful. Thanks and all the very best.

Sudheer Raghavan: Thank you.

Moderator: Next question comes from Mr. Daneesh Misri from TATA Mutual Fund.

Danesh Mistry: Hello.

K. G. Vishwanath: Hello there.

Danesh Mistry: Hi, good afternoon.

Sudheer Raghavan: Good afternoon.

Danesh Mistry:

Just had a couple of questions. First question is more in terms of your ASKMs, what is the kind of ASKM which you would see this year both for your domestic and international operations? That's one. And you spoke about the Sahara deal working out. Any understanding in terms of whether we have any sale and leaseback plans for any of our planes, if so, do we see anything happening this year? And if you, in which segment would that be in? Thank you.

K. G. Vishwanath:

I will take the first question. The ASK growth that we are expecting for this year is anywhere between 15% and 17%. In addition to the six aircrafts that we are going to add in the month of September, we will also see a full year impact of all the new aircrafts that we had added in FY 2011. And as we had mentioned earlier in the call, we had six ATR aircrafts which we had delivered in December, which were only put to service in March. So, that will also have a full year impact.

M. Shivkumar:

As regards to the sale and leaseback, we are working with various people, various lessor and the Boeing is likely to be the aircraft, 737 Boeing is likely to be the aircraft where we are going in for sale and leaseback at this juncture.

Danesh Mistry:

Any idea on what amount we would be raising through this financing? Any target amount?

M. Shivkumar:

It is little early to suggest about on that. We have proposal for the entire fleet, but we will not be going in for it.

Danesh Mistry:

Alright, alright. Okay, thank you so much.

Moderator:

Thank you sir. Next question comes from Mr. Jamshed Dadabhoy from Citigroup.

Jamshed Dadarbhoy:

Yeah, thank you for taking my question. Just a couple. One is sale and leaseback, we read somewhere in the papers, that you are all doing sale and leaseback which will release about 600 crores of cash, can you confirm that? Second is on your debt repayment plans, what is the plan for this year in terms of how much is your scheduled debt repayment and how

much do you all expect to prepay if any if possible? Thirdly, on your capacity expansion, you all mentioned about seven planes for the domestic, are these all fresh adds or is there any replacement happening?

K. G. Vishwanath:

So, we spoke about six new airplanes for the domestic business, all of which are going to be fresh adds.

M. Shivkumar:

As far as the repayment for the current financial year is there, it will be total of about 1,900 crores. It will be consisting of about 350 crores on account of the BKC transaction. When we sign off this deal, then the debt turning in our books, equivalent to 81 million dollars will get liquidated and the balance 1,500 crores is more to do with aircraft repayment loans and all that, plus certain amount of short-term loans. And this is going to be coming out majorly from the operations and if there is a deficit and all, it will come through the route of either the sale and leaseback or wherever there are short-term loans, we might even renew it.

Jamshed Dadarbhoy:

Okay, this is all rupee debt that will be paid back?

M. Shivkumar:

No, this is dollar debt. Rupee debt, if you see on 31st March, rupee debt is about 3,400 and dollar debt is 10,200 crores, out of which the 10,200 will go somewhere between 8,700 and 9,000 crores, which means a large part of it is in dollar debt.

Jamshed Dadarbhoy:

Okay. And sale and leaseback, are you all doing it for six planes or something?

K. G. Vishwanath:

For the sale and leaseback, as Shiv had mentioned, we have 21 airplanes. We have firm offers from very many lessors for all of the aircrafts. At this point in time, we are still evaluating as to how many aircrafts (inaudible), because we don't want to risk doing all the twenty at one shot, because the market will easily come to know that Jet is in the business of doing the sale and leaseback. So, we want to do it one step at a time. But, at this point in time, we haven't decided how many we will do for the current quarter.

Jamshed Dadarbhoy: Alright.

Moderator:

Thank you sir. Next question comes from Mr. Rahul Bhangadia from Lucky Securities.

Rahul Bhangadia:

Hi, thank you for taking my question. I just had a very broad question, if you look at the numbers that DGCA throws up every now and then, maybe three-four months down the line, the kind of fleet addition that happens is not exactly, it's probably maybe of the order of 4%-5%. But, the ASKMs that DGCA reports go up by probably 10% to 12%. What explains the difference?

K. G. Vishwanath:

I think the aircraft type is the biggest difference. So, you have aircraft capacities ranging from as small as 62A planes, which Kingfisher, Air India as well as Jet has got to the single class 737 or 8320, which the likes of Indigo or Spice Jet have, which in their configuration is as much as 18090. So, even though the usage in terms of airplanes might be lower, it depends on the number of fleets that each and every airplane has got.

Rahul Bhangadia:

Is it also a function of aircrafts flying more hours?

K. G. Vishwanath:

To some extent, yes. So, the average aircraft utilization is anywhere between 10 and 11 hours for the industry as a whole.

Rahul Bhangadia: Okay. And next is, you were talking about little sluggish growth on the passenger side in the last month or two, what kind of growth do you expect coming at these yields or whatever?

K. G. Vishwanath: For the month of April we have seen around 12% to 13% growth. And for May we expect the growth to be around 15 odd percent.

Rahul Bhangadia:

Now, with these growth numbers and your own plan of about adding 15% to 17% to the ASKMs, I am sure Spice Jet, Indigo, others have similar plans, if not more. The pricing may not come back, is that a reasonable conclusion to make?

K. G. Vishwanath:

Very hard to make a conclusion on that basis. All we can say that, we still expect the whole year capacity growth to be anywhere between 12% and 15%. Now, to the extent Spice or Indigo adds airplanes, we also have somebody like Air India who is currently 15% of the market and not adding any capacity. We are still not very sure in terms of how much capacity Kingfisher is going to add, which leaves only three or four airlines who are doing or who are adding multiple capacities into the market as such. At this point in time, the growth in the traffic is expected to be anywhere between 12% and 15%. It depends on how

the next one or two months pan out for us to be able to take a call in terms of how pricing will emerge. It's too early because we only have one or two months of data, where the growth numbers have slipped.

Rahul Bhangadia:

Yeah, but given that Q1 is generally your second best quarter after Q3, is that correct?

K. G. Vishwanath: Third best quarter.

Rahul Bhangadia: Yeah, so third best quarter, is it?

K. G. Vishwanath: Yeah, yeah.

Rahul Bhangadia:

Okay, thank you. I will come back if I have more questions. Thank you so much.

Moderator:

Thank you sir. I request the participants to press * and 1 for your questions.

Next question comes from Mr. Pankaj Murarka from Axis Mutual Fund.

Pankaj Murarka:

Yeah hi. You made an interesting comment that you were saying that you expect irrational pricing to continue, kind of thing. So, now given that, if you could give some sense of what do you think in the medium-term how the competitive environment will pan out and how you expect the market shares to move kind of thing, given we have had, let's say the recent issues with Air India and some of the financial issues that they have?

Sudheer Raghavan:

Okay. As I mentioned earlier, we had one incidence of completely inexplicable pricing. Subsequent to that, Air India, after they came out of their strike dropped their fares to restart the flow of traffic. But, the second instance I think is a very understandable thing to do, because once you are off the market and to reenter the market, you need to ensure that traffic comes back swiftly. So, that's understandable and I would not call it irrational. But, the January initiative was completely irrational in my view. Now, where do we stand today? As I mentioned earlier in the call, the combination of fares and fuel surcharge increase as effected on the 5th of May, has been holding at about 20% higher than the immediate past of April. It has been holding, it has not dented the demand and no carrier is dropping its fares. So, my gut feel is that during this stronger, remaining part of the quarter, which tends to be stronger than the early part of the quarter, it will hold. And then you are moving into the July, August, September quarter, which is traditionally a softer quarter. And I am afraid, I can't sit here and look crystal gaze and say, nothing stupid will happen

then. We are prone to this kind of realities and we have learnt to withstand this kind of initiatives. And then we will move into the traditionally stronger quarter of October, November, December, where we see things being firm and good opportunities for us to improve use and recover whatever we may not have made during the earlier months.

Pankaj Murarka:

Fine, that helps. But, from a medium-term perspective, would you say that the market shares in the industry has fairly stabilized kind of thing? Or, would you expect increased competitive activity?

Sudheer Raghavan:

I think earlier my colleague Vishwanath made a comment about the capacity induction. Not all the carriers are inducing capacity. There is ourselves, Jet Airways and probably Indigo, Spice, that's basically it. We were not sure about Kingfisher and Go. So, given that not all carriers, but basically 50% of the airlines are inducing capacity and that too at a measured pace. I don't see a radical shift in the market share position. Largely because in India, the gap, the traditional gap between market share and capacity share is about plus or minus 1%. So, with market shares not changing very dramatically, I mean capacity shares not changing very dramatically, I see market shares also in the same ballpark region.

Pankaj Murarka: Sure. Thank you.

K. G. Vishwanath: Thank you.

Moderator:

Thank you sir. Next question comes from Mr. Shahid Pravin from B&K Securities.

Sahay Praveen: Hi, good afternoon sir.

K. G. Vishwanath: Hi.

Sahay Praveen:

My question is related to leasing income, like you have leased aircraft to different international airlines, so currently how many aircrafts is on lease?

K. G. Vishwanath:

Currently we have seven aircrafts which has been leased out. Four to Turkish Airways, three to Thai Airways, of which Turkish Airways is going to return all of the four aircrafts starting July of this year, of which two of the aircrafts will currently be retained by us and the other two will be leased out to Thai Airways. So, as of October we will have only five aircrafts which are leased out from the system.

Sahay Praveen:

Okay. And regarding debt, as you have mentioned, out of 137 million of a debt, 10,200 is of USD denominated. So, what kind of a reduction in interest rate we will see going forward?

K. G. Vishwanath:

Interest rate, we have already converted certain rupee loan to dollar loan, so to that extent, the impact of reduction in the interest rate will come in the current financial year that is about 2,000 crores at 6%. And then there is, as far as the interest rate is concerned for the rupee or for the dollar that we will have to see. Interest rate has hardened a bit in the current financial year starting now, recently with the recent RBI policy or monetary policy. And going forward we don't expect the dollar rates to change significantly. So, the interest cost will remain at the, marginally it may go up by 0.25% from the company balance sheet perspective.

Sahay Praveen: Thank you sir.

K. G. Vishwanath: Thank you.

Moderator: Thank you sir. I request the participants to press * and 1 for your questions.

Next question comes from Mr. Vineet Maloo from Birla Sunlife.

Vineet Maloo:

Hi, good afternoon gentlemen. Just wanted to ask, you mentioned you can do some sale and leaseback transaction and also the BKC property deals. What kind of cash inflow we can expect in FY12?

M. Shivkumar:

BKC transaction, we can expect whatever the holding cost that we have right now, we will get it back this year, which means we will discharge the US dollar loan of 81 million immediately, whenever we do this deal.

Vineet Maloo:

Okay. Are there any restrictions in terms of doing the property deal, because we have seen in media that you can only do it regarding so much of space and not all of it?

M. Shivkumar:

No, no, this is, we have only given a declaration that whatever space that we are entitled to it, that we will not dispose off and 50% of that we will not encumber it. But, that has no relevance at all for doing this deal. And in no way that will come in our way of doing the development, agreement of the developer.

Vineet Maloo: Okay, so you will get 80, even million dollars out of that?

K. G. Vishwanath:

Yeah, yeah. At the minimum, US\$81mn we will get, about 350 crores. And there are some additional sum also that we would get; it could range between 100 and 125 crores.

Vineet Maloo: So, by when do we expect conclusion of this?

K. G. Vishwanath: Two weeks.

Vineet Maloo: Two weeks?

K. G. Vishwanath: Yeah.

Vineet Maloo:

Okay, okay. And second is, you said you can do sale and leaseback, but you don't want to do lot of them together. So, how much cash inflows can come this year from sale and leaseback?

K. G. Vishwanath:

We have twenty aircrafts, twenty one 737 in the fleet. For every sale and leaseback, we can technically make incremental cash of around 8 to 9 million dollars.

Vineet Maloo:

No, I understand, I am saying how many can you do in this year?

K. G. Vishwanath:

We can technically do all the twenty, but as I mentioned earlier, we have not decided in terms of how much we are willing to do this year.

Vineet Maloo:

Okay. Not yet finalized. Second, last question is, in terms of market share, we have seen that certain low cost carriers, they have increased their market share significantly in the industry. So, dropping fare has actually worked for them unlike Air India, so do you think that this will continue to drive, like keep fares low despite whatever fuel prices etc. are there?

Sudheer Raghavan:

If I may just take that question. There is a limit to how much you can drop your fares, even if you are a so called and I stretch the word, so called "low cost carrier". As your fleet size grows and your fleet age increase, your costs go up. And consequently, your ability to drop

your fare significantly narrows, because your cost flow available seat kilometers will go up. So, this ability to drop fares is not an unlimited ability. There is a limit. And we are seeing in essence a desire to not drop fares any more, because when we raise our fares, we see an appetite for others to raise it as well and not try to keep it where it was to achieve market share.

K. G. Vishwanath: Especially the AICC.

Sudheer Raghavan:

Yeah, this is especially an appetite demonstrated by the AICC. So, there is a good indication on what we are saying that, you can't drop this any further, because your costs are going to catch up with you as you increase your fleet size and as the fleet age increases. And that trend we are seeing today. So, I don't think there is much more room in the Indian market to drop fares as they are dropped in the past. In fact, if you look at it from a yield perspective, we are probably one of the lowest yielding markets in the world. And it's sad that this is the situation, but it is our reality and there is only one way to go from here.

Vineet Maloo: Right, right, understood. Thank you very much.

Moderator:

Thank you sir. Next question comes from Mr. Shrey Loonker from Reliance Mutual Fund.

Shrey Loonker:

Can you give us for this year, what is the interest cost for the dollar denominated debt and rupee denominated debt?

M. Shivkumar: Yeah, one second. About on the rupee side, one second...

Sudheer Raghavan:

I seek your indulgence; my colleague is going through his laptop to get you accurate data.

Shrey Loonker: Sure. In the meantime, if I can ask another question.

K. G. Vishwanath:

About 375 crores in the rupee side. On the dollar side, it will be about 80 million dollars, about 358 crores. So, 380 and 358. 380 rupee loan and 358 on dollar, on dollar loans.

Shrey Loonker: I am sorry, I kind of got lost.

K. G. Vishwanath:

380 crores of interest cost towards the rupee loan and about 358 crores on the dollar loans that will be my interest cost.

Shrey Loonker:

Alright. And just another thing. If you could just help us explain, what really happened to the capacity this quarter, because there is very varying spikes? What really happened this quarter in the industry, Q4 2011?

K. G. Vishwanath: What kind of slides are you looking at?

Shrey Loonker: If I look at your slide four.

K. G. Vishwanath: That is because of the number of days in February.

Shrey Loonker: But, that's so much.

K. G. Vishwanath: Yeah, it's 10%.

Shrey Loonker:

Okay, okay. And in April essentially which are the aircrafts really added so much?

K. G. Vishwanath:

In April for us, we added six ATR aircraft in the end of May, in the end of March rather. And that is the reason why, to some extent our capacity has gone up.

Shrey Loonker:

Okay. Okay, that explains it. Thanks Vishi. Thanks a lot.

K. G. Vishwanath:

Thanks.

Moderator:

Thank you sir. Next question comes from Mr. Manav Vijay from Edelweiss.

Manav Vijay:

Hello sir. Good evening. Just a couple of questions. First of all, on the domestic side, our yields have come off by close to I would say 10% quarter on quarter, but on the JetLite, there it has come off by close to 20%. Now, could you please explain what happened really during the quarter with JetLite?

K. G. Vishwanath:

So, what happened is, with Air India price drop, we started loosing customer even at JetLite levels, because those passengers actually found Air India much more cheaper than flying on

JetLite? And that's the reason why we had to; we had no choice but to drop our fare significantly to be still be able to be relevant compared to Air India in the market.

Manav Vijay:

Okay. So, it was a factor of at least Air India as far as JetLite is concerned for the quarter?

K. G. Vishwanath:

That's correct. So, you can imagine that Air India being a full service carrier was even serving lower than JetLite.

Manav Vijay:

Okay. Now, the 20% price rise effective, I believe May 5th that has been spelled in the call, so is that only for Jet Airways domestic or that is also for JetLite? Or, we have taken a higher increase for JetLite?

K. G. Vishwanath:

No, this is across the board for domestic, on an average.

Manav Vijay:

Across the board. So, we could have a lower let's say, I would say in Jet Airways and maybe higher in JetLite?

K. G. Vishwanath:

No, it's more sector to sector. It is sector dependent than airline dependent.

Manav Vijay:

Okay. Now, one more thing that our cost per ASKM without fuel, it actually went up from Rs2.6 to Rs2.8 quarter on quarter. If I were to, let's say exclude the effect of 58 crores which is one-time, then I just take away 20 paisa, so from 2.6 to almost 2.7, let's say 2.8, now please help us to explain this thing.

K. G. Vishwanath:

From which period to which period are you talking about?

Manav Vijay:

From quarter three to quarter four domestic Jet.

K. G. Vishwanath:

So, as I mentioned to you, our ASKs did not grow at the same pace, but we had fixed cost like lease rentals and other things, because as I mentioned to you, the ATR aircraft got delivered in December, but did not fly up to end of March. So, we had a lot of fixed cost

sitting in the system, but not generating enough ASK. That's one reason. That's more exceptional in nature.

Manav Vijay:

Okay. So, we should have our cost per ASKM without fuel coming down to let's say 2.6 or 2.5 levels going forward?

K. G. Vishwanath: That's correct.

Manav Vijay:

Okay. Thirdly, as I understand right, we had converted our INR debt into US debt somewhere in quarter three.

K. G. Vishwanath: In October 2010.

Manav Vijay: Sorry?

K. G. Vishwanath: In October 2010 we did it.

Manav Vijay:

Yeah, so I believe that at least in quarter three, since we had done the conversion, we had to pay a certain penalty. So, because of which quarter on quarter, there was no decline in interest cost. That was maybe understandable. Now, again in this quarter, quarter on quarter there is no fall in interest cost that I could not understand.

K. G. Vishwanath:

So, we mentioned that there is an impact of 58 crores pertaining to service tax. The interest line actually includes close to 25 crores on account of delayed payment of service tax. And that's the reason why you are not seeing that reduction. So, that is again a one-time impact of 25 crores sitting in the interest line.

Manav Vijay: So, total 58 crores includes 25 crores of interest as well.

K. G. Vishwanath: That's correct.

Manav Vijay:

Okay. Maybe one last question from my side is that, is there any specific reason of changing the depreciation policy?

We wanted to be consistent with respect to all the assets. We had earlier carried out for the aircrafts, then we did it for simulators. And we realized that going for an IFRS situation; we better convert everything to one method, so that there are no inconsistencies. That's all, there is no other reason.

Manav Vijay:

Okay. I believe that's all from my side. If I have anything, I will come back. Thank you very much and all the best.

K. G. Vishwanath: Thank you so much.

Moderator: Thank you sir. Next question comes from Mr. Chin Lim from

Morgan Stanley.

Chin Lim:

Thank you. I was trying to clarify your average yield. When you say, plus 20% increase, is that for international or domestic?

Sudheer Raghavan: Domestic.

K. G. Vishwanath: That's for domestic and that's over April, Lim.

Chin Lim: And international? Would that increase by 20?

K. G. Vishwanath:

No, international we would see anywhere between 5% and 8% increase. The reason for a high level of increase in domestic was largely because of the kind of price war that was happening in the domestic market. And those kind of pricing initiatives were not seen in the international and that's the reason you won't see such a huge increase in the international.

Chin Lim:

And can I assume that when you said 20% increase in domestic yield that is equal to about 20% increase in ticket fares (not sure)?

Sudheer Raghavan:

It is a combined effect of fare rises and of course fuel surcharge increase as well as revenue management to close out lower buckets, because it was a stronger season we were going into.

But the question is, the 20% increase will effect, in fact 20% to the customer? Yes.

Chin Lim:

Yeah, that's the question. It will affect consumer or ticket, given the 20% higher in ticket fare.

Sudheer Raghavan: Yes, it will.

Chin Lim: Wouldn't you worry about low factor then?

Sudheer Raghavan:

As I was explaining in the earlier questions, the increase was implemented on the 5th of May. We watched two things. We watched the bookings, because for domestic India, the booking curve is very short, meaning most of our business comes in the last three to five days of prior to departure. So, we watch to see if the introduction of the higher fares and surcharges had a discernible impact on the demand? It didn't. Number two, were other carriers prepared to hold the price increases or match the price increases? They did. Number three, did we see them rolling it back? No, we didn't see them rolling it back. So, I need to infer that the impact of those increases are positive.

Chin Lim:

Okay. The question going forward is that, if all prices goes higher, does that mean that you still need to increase your ticket fare?

Sudheer Raghavan:

Absolutely. It will not be possible for us to survive if we don't pass on these spikes in cost to the consumer. Our ability to do that, of course will depend on everybody having the same mindset.

K. G. Vishwanath:

So, there it's also important to realize that, if you take the case of fuel rates across, where for our vehicles and all it has gone up to Rs69 today. And it is consistently increasing and there is no demand reduction and all that.

Sudheer Raghavan:

So, there is no question about us passing it to the consumer. It's given.

Chin Lim:

So, I guess the conclusion is that if I look at your Q1, that which is your June quarter or Q2, everyone should have similar yields assumption increases that you do have, if everybody passes on to the consumers.

Sudheer Raghavan:

Well, up to now, as I said earlier, there seems to be no rolling back on the May increases, it seems to be holding. So, everybody is of the same mindset. Secondly, traditionally the low cost carriers were the prime drivers of yield declines or fare reduction. But, now their fleet sizes have increased and their fleet age has also increased their cost structures are increasing, so their ability to drop prices as they were able to previously is no longer there. So, there is a general appetite to try and make sure that we recover all these spikes in cost.

Chin Lim:

Okay. That's useful. We will watch the Q1 result then and see everyone's yield is similar magnitude as you do as well.

Sudheer Raghavan: Yeah.

Chin Lim: Thank you.

K. G. Vishwanath: Thank you. We will take one last question.

Moderator:

Sure sir. Last question comes from Mr. Manav Saraf from Mount Kellett.

Manav Saraf:

Hello, good afternoon. Thank you for taking the question. Hi, can you hear me? Hello.

K. G. Vishwanath: Yes, go ahead please.

Manav Saraf:

Hi. First question, just a high level question I had was, is CASK up to the EBITDAR line?

K. G. Vishwanath: No, CASK is at total cost level.

Manav Saraf:

Across the cost level. Secondly, digging a little further, the CASK for the domestic business has gone up, sort of the CASK for JetLite has more or less stayed flat and the international has sort of gone down and I am talking without fuel. Can you just explain what was going on for each?

As I mentioned to you, for the domestic business there was this one-time impact on account of service tax and other aircraft on ground and all those things, which has basically hit the domestic business, on account of which the CASK had gone up. But, for JetLite and for international, you will actually see that as and when we keep renegotiating various cost expenses line items, you will actually see our CASK excluding fuel go down on a YoY basis.

Manav Saraf:

Can you highlight specifically for the international, in terms of what was the key driver of that?

K. G. Vishwanath:

So, across the system there were very many contracts which got renegotiated, ranging from lease rental contracts, catering contracts, ground handling contracts. So, each and every cost line item has been renegotiated over the last twelve-eighteen months at any given point in time.

Manav Saraf:

There is nothing which is specific; it is all across the board basically?

K. G. Vishwanath:

That's right. So, for international specifically, we had renegotiated our lease agreement for two Airbus 330 aircrafts, whereby we managed to bring the cost per month from close to 1.3 million dollars to around 800,000 dollars per month, per aircraft. So, all of those things have basically resulted in lower cash.

Sudheer Raghavan:

In addition, if I may just add, but this one I am about to say is not specific to the last quarter. But, in the company we have gone pretty relentless in our pursuit to reduce things like fuel burn. If you look at our fuel burn efficiency year on year, we have sustained a good track record. Just to give you, illustrate with some data, financial year 2008-09, we managed to improve our fuel burn efficiency by about 10%. And 2009-10, we managed to improve fuel burn efficiency by 8%. When I say fuel burn efficiency, it relates to the amount of liters burnt to carry one tonne over one kilometer. So, this is the kind of reductions we were able to achieve in those two years. But, going forward it would not be possible to achieve the same scale of reductions, because you catch the low hanging fools first, the higher hanging fools are a bit tougher. Nonetheless, we have committed ourselves to achieving a fuel burn efficiency of anywhere between 2% and 3% year on year, if nothing else, to save our fuel bill as well as to do our bit for the environment.

So, we are looking at things like, for all the new aircrafts that we will induct into the fleet, whether we can look at seats which will weigh lower than what the existing seats are weighing. We are looking at lighter weight galley equipment, lighter weight crockery, whether the quantity of paper in the in flight magazine can be reduced and quite a lot of different things which will basically help us reduce the weight of the aircraft.

Manav Saraf:

Could you give us some guidance in terms of what are you looking at as we go out for the next few quarters, just a very broad sense in terms of how that works out in terms of say numbers?

K. G. Vishwanath:

I think we are looking at close to 5% to 8% reduction in CASK excluding fuel on a YoY basis.

Manav Saraf: And that's across on a consol basis is what you are saying?

K. G. Vishwanath: That is correct. That's right.

Manav Saraf:

Can you give some break up of that, for each domestic, international and JetLite?

K. G. Vishwanath: It is difficult to break it down.

Manav Saraf: Okay. Great, thank you very much. I appreciate your answer.

K. G. Vishwanath: Thank you.

Moderator:

Thank you sir. There are no further questions. Now, I hand over the floor to Mr. Nirav Vasa for closing comments.

Nirav Vasa:

Thank you very much. I would like to thank the management of the Jet Airways for allowing us *an* opportunity to host the conference call.

K. G. Vishwanath: Thank you.

Nirav Vasa:

I also like to thank the participants for their time. Thank you very much.

K. G. Vishwanath: Thank you everybody.

Sudheer Raghavan: Thank you.

M. Shivkumar: Thank you.

Moderator:

Thank you sir. Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a pleasant day.

K. G. Vishwanath: Thank you my dear. Thank you.