"Jet Airways Limited Conference Call"

November 14, 2011





MODERATORS: MR. MAHANTESH SABARAD

Mr. K.G. VISHWANATH Mr. SUDHEER RAGHAVAN

MR. SHIV KUMAR

Moderator:

Ladies and gentlemen good day and welcome to Jet Airways Limited Q2 FY'12 earnings conference call hosted by Fortune Equity Broker India Limited. As a reminder, for the duration of this conference, all participants' line will be in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you 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. At this time, I would like to hand the conference over to Mr. Mahantesh Sabarad. Thank you and over to you Sir.

Mahantesh Sabarad:

Good afternoon everyone, we at Fortune Equity Brokers welcome you all to the post results conference call of Jet Airways. I also take this opportunity to welcome Mr. M. Shivkumar - Senior VP Finance, Mr. Sudheer Raghavan- Chief Commercial officer, and Mr. K. G. Vishwanath - VP Commercial Strategy and Investor Relation to take this call forward. I would now hand over the call over to Mr. Vishwanath for his opening remarks. Over to you Sir.

K.G. Vishwanath:

Thank you Mahantesh and Ladies and Gentlemen my name is K. G. Vishwanath. Welcome to Jet Airways second quarter results call. I have with me today, Mr. Sudheer Raghavan our CCO and M. Shiv Kumar, our Sr.VP Finance. 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 20% in Q2 FY 2012 as compared to Q2 FY 2011. Jet Group continues to maintain its leadership position in the Indian aviation industry with the highest market share of 26.1% for quarter ended September 2011. Our international operations continue to achieve high seat factors and healthy operating margins. For the quarter, we achieved a seat factor of 77.8% for Jet Airways and 74.7% for Jetlite. Our overall EBITDAR Margins were 5.3% and -10.7% respectively for Jet Airways and Jetlite in Q2 FY12 versus 21.0% and 10.7% respectively in Q2 FY11. This is mainly due to a steep increase in the fuel rates for Q2 FY'11 and a low pricing environment. Moving to the operational highlights for Jet Airways; We achieved a system wide seat factor of 77.8% versus 77.4% in the same period a year ago. Overall yields, as measured by revenue per revenue passenger kilometer, were Rs.3.63 as compared to Rs. 3.50 in the same period a year ago, up by 3.6%. During the quarter, our domestic capacity, as measured by ASKMs, increased by 7.0% and International capacity increased by 9.5% as compared to Q2 last year.

As a whole, Jet Airways showed loss after tax of Rs. 7136 million (US\$ 145.7 million). This compares to a loss of Rs. 320 million (US \$ 7.1 million) for the same period last year. This includes a forex impact of Rs. 2580 Mio or US \$ 52.7 Mio for the quarter.

The breakdown of this number shows a loss of Rs.4573 million (US\$ 97.0 mio) for the domestic business and a loss of Rs. 2383 million (US\$ 48.7 mio) on the International operations for Q2

FY12. As against this, we had a loss of Rs. 480 million (US\$ 10.7 mio) for the domestic business and a profit of Rs. 604 million (US\$ 13.4 mio) for International operations for Q2 FY11.

The key operating highlights for the quarter in the case of JetLite are as under: Revenues for the period were Rs. 3,938 million (US\$ 80.4 mio) as compared to Rs. 3,825 (US\$ 85.1 mio), while the loss after tax for the quarter was Rs. 1008 million (US\$ 20.6 mio) as compared to a loss of Rs.624 million or (US\$ 13.9 mio) for Q2 FY11.. Let me now hand it over to Sudheer who will take you through the detailed performance.

Sudheer Raghavan:

Despite high fuel prices, competitive pressures induced by low pricing and arbitrary fare cuts by other airlines and the fact that the second quarter is traditionally a lean season, Jet Airways posted an EBITDAR of Rs. 1,729 million for Q2 FY 2012. There was a 41 % increase in fuel rates as compared to the same period last year. The Fuel costs for the quarter were 41.1% of the total costs versus 32.7% in Q2 FY 2011. The absolute increase difference in fuel costs for Jet Airways & Jetlite for the quarter was Rs. 5,951 Million (US \$ 121.5) as compared to the same period last year. The results were also impacted by an exceptional Forex loss due to the depreciation of the Rupee amounting to Rs. 2,580 million or US \$ 52.7 million

The Jet Group continues to maintain its leadership position in the Indian aviation industry with the highest market share of 26.1 % for the quarter ending September 2011.

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

The share of our Domestic revenues to total revenues is 37% for the quarter. Jet Airways' achieved a load factor of 72.1% for the quarter while Jetlite achieved a load factor of 74.7%. The average fuel rate in Q2 for our domestic operations was Rs 56.55 per litre, which was higher than Q2 FY11 rates by 35%. As we speak, the ATF rate per litre is around Rs. 62 for domestic operations. The domestic capacity of Jet Airways (as measured by ASKMs) for Q2 FY12 was higher by 7.0% as compared to the same period a year ago. Our Domestic operations as a whole showed a pre-tax loss of Rs. 4753 million (US\$ 97.0 mio) versus a pre tax loss of Rs. 480 million (US\$ 10.7 mio) for the same period last year.

Moving to international operations:

The share of International total revenues to total revenues is 63% for the quarter. The average seat factors for key International routes for Q2 were as under: USA routes were 88.0%, UK routes were 87.4%, ASEAN routes were 77.0%, Gulf routes were 73.9%, SAARC routes were 71.0%, Africa route was 69.4%, Italy route was 76.0%

The EBITDAR margin on the international operations was 13.6% for Q2 FY12 versus 26.0% for Q2 FY11.

Our international operations as a whole showed a pre-tax loss of Rs. 2383 million (US\$ 48.7 mio) versus a pre tax profit of Rs. 604 million (US\$ 13.4 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 74.7% (vs. 74.2% for Q2 FY11) Revenues of Rs. 3,938 million (US\$ 80.4 million) vs. Rs.3,825 million (US\$ 85.1 million) in Q2 FY11 EBITDAR of Rs. -418 million (US\$ -8.5) million in Q2 FY12 versus a positive EBITDAR of Rs. 407 Million (US\$ 9.1 million) in Q2 FY11. Loss before tax Rs. -1014 million (US\$ -20.7 million) vs. loss of Rs. -624 million (US\$ -13.9 million) in Q2

FY11

Turning to the current quarter and outlook:

The pricing scenario in the domestic industry for Q2FY12 has been very weak due to demand supply imbalance as well as near predatory pricing by some market participants. Added to this, we had negative impact of high ATF prices and depreciating rupee versus the US Dollar. Under such circumstances, we could see capacity rationalisation in the market during the current quarter. Q3 being a peak season, as expected, over the last few days, we have seen significant increase in yields, which will help to improve performance. Airlines have also taken fare increase of around 20% over the last couple of weeks. The international business continues to show a healthy seat factor trend because of our ever-growing network presence. We should be able to either maintain or improve yields further in the months to come. We are also looking at cutting down costs considerably and we are looking at contract renegotiations, process improvements, and rationalisation of manpower and increasing ancillary revenues. We will be undertaking sale and lease back of some of our aircraft to repay existing high cost workings capital loans. This along with the BKC deal will help us to reduce high costing debt. These initiatives will fructify in the current quarter.

The complete package will help us recover from the existing financial situation in a phased manner. In terms of customer confidence, Jet is now clearly emerging as the most preferred business airline and we have seen a surge in our corporate bookings in the last few weeks. Our focus on OTP and service is resulting in a strong product acceptance across all market segments.

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

Our cash position as at September was at Rs.5.7 billion. US\$ 115.7 Million On balance sheet date, debt was Rs. 141 billion. US\$ 2.9 billion, while Shareholders funds were Rs. 33.0 billion US\$ 674 million. The average cost of Debt for Jet airways is around 6%.

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

Moderator:

Thank you very much we will now begin the question and answer session. The first question is

Nilesh Shetty:

I just wanted to know, we had an annual debt repayment of about 1000 Crores. Given that we made probably significant cash loss in the first half and we got some money coming in from the land sale, how do we plan to repay the debt in the year?

Shiv Kumar:

There were some loan renewals during the H1, currently the loan figures are looking on the higher side mainly because of the Rupee depreciation and the loans that were taken to fund the aircraft acquisition. In the next six months including the BKC loans that we have taken, the repayments will be on the order of 1487 Crores. It will be coming out partly from operations and partly from the contribution that Godrej will provide us and also certain amount of sale and lease that we will carry out over the next three to four months.

Nilesh Shetty:

From operations do you expect a dramatic turnaround in profitability in H2 for the company?

Shiv Kumar:

The second half of the year is generally the stronger half, wherein we generate close to 55% of the total revenues for the year. So, automatically there will be a higher cash flow compared to what we have achieved in the first half of the year. So structurally this half is going to be better than the second half of the year. The profitability would largely depend on Dollar and crude.

Nilesh Shetty:

I just wanted to understand in terms of the comparative position in the market, you have got large clear leading in the industry, still why people have not been able to increase the prices or pass on the fuel price to the consumers?

Sudheer Raghavan:

In a market which grows at 18-20% there is no reason why anybody should be making losses, but at the end of the day if predatory pricing prevails, it becomes inevitable ,given that this is a competitive market and we sell a highly perishable product hence we cannot sit back and hope for the best and say what we don't sell today we will sell tomorrow. There is always that pressure to drop fares. You also know where the price of oil is going and contrary to a popular belief it has never been the case where we have been able to pass on the complete spike in cost on account of fuel hike to the consumer. As the price continues to grow up and our ability to recover that from the consumer gets far and far apart, naturally the pressures build up on profitability.

K.G. Vishwanath:

Couple of weeks back you all must have actually seen the fares gone up by around 18-20% across the board and even as a consumer I am sure you are now experiencing much higher fares than what you were paying around one month ago.

Nileah Shetty:

And what is your comment on the recent problems that one of your competitors has in terms of cancellation of flights, have you seen a dramatic increase in terms of seat factors for your flights?

Sudheer Raghavan:

I cannot comment on my competitors' predicaments, but yes, we have seen increase in our seat factors, more so because of stronger season . when consumers are unsettled about reliability they tend to walk to whomever in their view offering them more reliable operation. We have certainly seen more traction in the corporate travelers segment, where they have less room to be flexible about their travel date and that's good news for us because they come at a higher yield.

Nilesh Shetty:

Thanks a lot sir.

Moderator:

The next question is from Rajani Khetan from HSBC. Please go ahead.

Rajani Khetan:

I just have two quick questions, one is given the yield increases that you have seen in the quarter to date, what is your outlook on the yield performance for Q4 as well as next year, if that's not too much of a guess to make at this point in time? My second question is about predatory pricing and its impact on yield? I was just wondering are we to only blame predatory pricing for the yields or is there demand sensitiveness to fares that you are experiencing and which also prevents airlines from raising fares to the extent that they would like to do?

K.G. Vishwanath:

We have always known that Q2 has been the worst quarter in terms of traffic. The aviation industry has not generated more than 75% load factor if you look at the last four or five years in the Q2 load factor. In this kind of environment, I don't think lowering the fares could have even bought us incremental passengers because generally there is no need for the customers to travel incrementally. So that's the reason why we believe that low pricing is something which will cause airlines not to make that kind of yields or even that kind of revenues in a quarter like Q2. It is only in Q3 or even Q4 where there is incremental leisure demand, even Rs. 200 or Rs. 300 price reduction could induce the customer to take the trip. Hence we believe that in addition to increased fuel prices, it is the low-pricing regime which basically led us to where we are for the quarter which just ended. In terms of commenting whether the yields will go up from hereon, it is anybody' guess, but what we have seen for the last two to three weeks, yields are holding and it did not have any major impact on our load factors which is currently running in the mid to high 70's.

Sudheer Raghavan:

The domestic market in India is definitely a price sensitive market. That's point number one. Point number two, despite this price sensitivity, it is nevertheless growing at 18-20% clip. So there is absolutely no reason to price below what is a reasonable fare. If anyone does it, it is only because they are under pressure to show market share increase or seat factor rise or to pour in cash to sustain operations. Now in the first two, I can show you 100% seat factor and significantly higher market share if I am prepared to sell my seats at throw-away prices knowing fully well that I have a steel netting to cushion my fall. So long as many of us do not have such cushions beneath us, we under no circumstances can initiate such, to put it bluntly, stupid pricing. It was a market share game, it was a cash flow game to a large extent in the Q2 period.

Rajani Khetan:

All right. If I might just add, we understand that there is a trade-off between load factors and yields and that's pretty logical, but my only concern is that, even with the unsustainable fares, that I may call them, that the carriers are charging now, load factors are not going up probably because of the seat capacity that is being injected into the market, so how do you see this industry going forward, if I were to say in macro terms at the industry level, if you were to comment upon the outlook of this industry, how would you see it because there are so many dichotomies happening at the same time, it is difficult to take a call on this industry anymore?

Sudheer Raghavan:

So long as our economy grows as a clip that it is growing today, even if it is at 7.5%, the market is expected to grow anywhere from 12-15%. Now currently we are averaging 18-20% market growth which is higher than the empirical formula would suggest normally. However, there are

some systemic issues in the market that cannot be addressed by the airlines, can only be addressed by the government, and one of the issues is this incredible sales tax on ATF that we end up paying. It is my understanding that India has one of the lowest refining costs to convert from crude to kerosene, but nevertheless for price parity sake we pay the base price as almost the same as everybody else. On top of that, we have unusually high average sales tax of about 21%, which is a meaningless issue to dump on airlines. Instead of making Indian carriers grow, we have policies that debilitate them in one problem. Second problem is given that there is a privatepublic partnership in airports, you find that private partners of airports wanting to recover their investments in a significantly shorter time than any public sector enterprise would into. So consequently we pay significantly higher Navigation charges. So all these are extremely debilitating factors that we function under. These difficult conditions are not imposed upon foreign carriers by their respective governments. So how then our Indian carriers ever going to become strong enough to find our rightful place under the sun and all this is happening when India is a huge travel generator, others are eating our lunch while we sit here with our mouth fixed. So you asked a very pertaining question, the potential for aviation in India is huge, but we have to get over certain systemic blocks that we are suffering under today.

Ranjani Khetan: Thank you very much.

Moderator: Thank you. The next question is from Jasdeep Walia from Kotak. Please go ahead.

Jasdeep Walia: My first question is the cash inflow on account of BKC deal reflected in your debt number? If not

then when it is suppose to come?

Shiv Kumar: The coming week.

Jasdeep Walia: You have been talking about sale and lease back transaction in the last six months or so now, but still for some reason they are not happening, why are they not happening especially considering

that your company needs incremental cash flow of mark-to-market profit on those transactions?

Shiv Kumar: We wanted to touch up on our reserves on the time when it is really required and we do not want

to go in for that unless we have gone into the last level. The sale and lease back transactions also requires intense debates and discussions in terms of what is the ideal price for us to be able to sell this aircraft pack, because let us not also forget to the extent, it is lease pack and there is a leasing cost which is effectively a function of the aircraft price. We are in the final stages of drafting all

of these agreements and within the next month or so we will start doing these transactions.

Jasdeep Walia: Could you break up your debt in terms of Dollar and Rupee, and could you quantify what is the

amount of incremental debt in the first six months, which is coming on accounting of purely

currency translation?

Shiv Kumar: The aircraft loan is about Rs.8500 Crores, out of which about 500 Crores is on Rupee and the

balance of 8000 Crores is on dollar terms. We have a short-term foreign currency loan which is

in the order of Rs. 3100 Crores, on which 258 Crores is on account of Rupee appreciation. The consolidated debt is around 14,300 Crores at dollar of 48.975.

Jasdeep Walia: What is the impact of translation on this aircraft debt and short-term debt?

Shiv Kumar: Aircraft debt is Rs.719 Crores , and Rs. 258 crores on account of short-term debt, which has been

added in the current quarter

Jasdeep Walia: So in total, broadly around 1000 Crores additional debt which is coming in purely on account of

currency translation?

Shiv Kumar: Yes.

Jasdeep Walia: I understood and one more question. Your working capital has turned negative in the quarter,

does that mean that your company is delaying payment because it has never typically happened

in Jet Airways?

Shiv Kumar: It is mainly on account of the fact that we have taken certain amount of fuel credits because of

the high prices, the level of working capital has gone up and also the increase on account of the forward sales that we have done on the tickets has also contributed to the negative working

capital.

K.G. Vishwanath: It always happens. By the end of second quarter you find very strong levels of booking for the

international business for the November, December, January, on account of which, the forward sales are very high for September and October, and the other point which we have mentioned that

we have anyway two months of credit on our fuel, and given where the rates of fuel are that's the reason why you see a swell in our creditors which is largely fuel related.

Jasdeep Walia: Understood, thanks a lot.

Moderator: Thank you. The next is from Saurabh Das from Sundaram Mutual Funds. Please go ahead.

Saurabh Das: Good afternoon everybody and thanks for the opportunity. My first question is a clarification,

you just mentioned that there is a 20% increase in yields. First, is it on domestic alone and

secondly, this 20% is higher than the average for the quarter or is it a month-on-month increase?

K.G. Vishwanath: Firstly, it is only on domestic that we are talking about. Secondly, when we mentioned 20%, we

are talking about 20% increase over October fares, which are pretty much in line with where the

Q2 yield had been reigning.

Saurabh Das: Okay, so November fares are higher than October by 20% and October is equal to Q2 levels. The

second question is on the international operations, while we cited predatory pricing and a lot of other systemic issues plaguing the domestic business, if I look at the international operations,

there as well our EBITDAR margins, we are steady for almost 8 or 10 quarters, but the last three quarters have slipped substantially. First of all, if you can just explain the seasonality in the

business because I really don't see too much of seasonality in our EBITDAR margins if I just exclude the last three quarters, so what is the kind of trend we can see there. Second in terms of ASKM growth on the international business if you can throw some light what kind of numbers we can expect there?

K.G. Vishwanath:

Just as the domestic business, the international business also has been hit by the higher fuel prices that we have been paying over the last three to four months. As we have mentioned, there is no seasonality in the international business in terms of the load factor, but there is definitely seasonality in terms of the yields that we are potentially able to charge and that is something which will define whether revenue numbers are higher or lower from a yield standpoint. You should also keep in mind that there were no participants in the international business in and out of India, and herein I am talking about both Spice and Indigo who launched new flights into the Gulf and South East Asian Market, and there were initial pricing pressures on account of the very low fares that they were offering for the international routes. So it is a combination of more than two or three reasons on account of which the numbers don't look as strong as what they were for the same period last year.

Sudheer Raghavan:

The international air freights have also dipped somewhat, I think dipped by about 4% and a large share of that dip was observed in the European and US markets, which has also contributed somewhat as we have significant amount of white body capacity deployed to the US, Europe, and UK. Secondly, from the US, we saw a softening of the corporate travel market, but it is leveled out as we speak. The third point is as Vishwanath correctly pointed out, there was new entrance in the low-cost market; however, every time you have a new entrance in the market there will be introductory pricing which after a while levels out .

Saurab Das:

Since you mentioned the corporate travel market, I am sure you would have a measure to track what percentage of your customers are corporate travelers on the international route, if you can broadly give us a sense?

Sudheer Raghavan:

The softening has only taken place in the markets of US and to an extent Europe, but our corporate travel market segment has a much wider base, India, Asia, etc., so while the US and Europe softened a bit, what we basically saw was about 2 to 3% drop in our corporate travel market overall, and revenues derived out of corporate contract that we have roughly accounts for close to 33% of our top line for domestic and international.

Saurab Das:

Okay and I presume it could be higher for the international travel?

K.G. Vishwanath:

It is higher for domestic travel because you will appreciate that in markets like the US or Europe we don't have that kind of penetration as much as what we have in the Indian market.

Saurab Das:

Just one last thing on regulations, we keep hearing in the media about government contemplating allowing FDI in the sector, so I just wanted to pick your thoughts on, if at all it is allowed what is your sense on that and second that it's a conjecture at this point, but if more money chases Indian

aviation do you see more irrational pricing by some other players whom we think are little weak right now?

K.G. Vishwanath:

To begin with ,we always hold a view, whether it is foreigners who are going to invest or Indian investors going to invest, the first thing is the pricing has got to change, the irrational pricing that continues must stop then only anybody would like to come. As far as our reaction to any FDI proposal is concerned we will be able to react only when we actually see it on print. Because a lot of regulations have taken place even earlier also, but we are neutral to whatever is the decision of the Government of India.

Saurab Das:

Okay thanks a lot.

Moderator:

Thank you. The next question is from the line of Jamshed Dadaboy for Citi Group. Please go ahead.

Jamshed Dadaboy:

Good afternoon, thanks for the opportunity, just two questions. One, could you give some more color on how your re-branding is going to happen with Jet, Jet Lite, Jet Konnect, etc. Second question is that how much do you expect to gather both from sale and lease back transactions over the next six months and also from the Godrej transaction?

Sudheer Raghavan:

Okay let me do the first one and then I will let my colleague in the area of finance handle the second. On the issue of re-branding, if I may just take the liberty of also making of few other comments, Jet has been in existence since 1993, unlike most of other friends in the business we have weathered many storms and we continue to exist, and we have made changes on 8th of May 2009 we announced the launch of Jet Airways Konnect, and that was largely a re-configuration exercise. I am sure you are hearing that word a lot more these days, but we did not have the kind of turbulence that you are seeing today, so in my view such re-configurations need not be accompanied by high turbulence. It can be done quite smoothly. So we are in the process of addressing this question of having three brands in the market i.e., Jet Airways, Jet Airways Connect, and Jet Lite. As I mentioned at the last AGM, it is inevitable that we collect the three into two brands because at the end of the day we should have a frill service and no-frill service. However, as a preface to taking that step, there is one very important activity that needs to be accomplished and that is addressing cost, unless and until we have addressed cost and the wastages that are inherent in our current situation, whichever announcement we make and try to implement will be short lived. So our priority at this point in time is to ensure that we get a cost structure that is sustainable in the unfolding new environment in India, which in my view is a very price sensitive environment. So unless we get our cost aligned properly whichever name or brand or initiative we take, it is not going to succeed. Hence that's where our priorities are sitting today, addressing cost. We are not too far away, I think we spent a good one-and-a-half months all locked up in one room, and we now have our plans in place. We are now in implementation mood, one step over. We should be in a position to announce how we are going to re-brand going forward.

Shiv Kumar: As far as funding is concerned 100 million dollars will come from Godrej and we have proposals

ranging from 150 million to 350 million dollar towards sale and lease back. We need to find out when we need to take it, depending upon our funding requirements, we will accordingly have this

transaction done.

Jamshed Dadaboy: You have made a good point that you will need a sustainable cost structure in this price-sensitive

environment, so could you give some details on if you are looking at it from a cost per ASKM

basis, how much do you want to reduce the cost, by let's say from an ex-fuel perspective?

K.G. Vishwanath: We are roughly looking at reducing it by anywhere between 5% and 10% on a Y-o-Y basis.

Jamshed Dadaboy: This initiative will last for two three years or is it a one time thing?

K.G. Vishwanath: It will be an ongoing thing.

Jamshed Dadaboy: 5 to 10% okay and where do you think you will reduce the cost?

K.G. Vishwanath: As we mentioned, we are now going ahead and renegotiating every single contract that we have

well as in the back offices, which would mean that through attrition over the next few months they will be rationalization in the manpower. We are looking at how we can improve the utilization of aircraft better than what we have been doing today. If you notice, our utilization of aircraft over the last four or five quarters, it has been significantly going up. We are looking at other avenues in terms of how that can be increased. We are looking at how we can increase and

in the book. We are looking at how to use IT to be able to improve processes at the airport as

improve our ancillary revenue base and you will in the next few weeks see something, which very few airlines across the world have done in terms of ancillary revenues. So there is a lot of different initiatives that we are undertaking which we believe will help us save anywhere

between 5% to 10% on a cash basis excluding fuel.

Jamshed Dadaboy: Okay. I will come back with more questions, thanks a lot.

Moderator: Thank you. The next question is from the line of Miten Lathia from HDFC. Please go ahead.

Miten Lathia: Just for the sake of repeating what has been said earlier, your said 20% yield increases in

November over October given what has happened to industry capacity in November, but do you think that is permanent or how does one look at it because the oversupply situation has not

exactly been resolved?

K.G. Vishwanath: The oversupply situation to some extent is also temporary and we know that Indigo had got an

aircraft induction plan last week to be able to do international flights. It is only because all of their approvals have not come through in the right time that these aircrafts have been dumped in

the domestic business, so over time, this will definitely get rationalized. What we would also see is from the next year the Indigo fleet will start ageing and will start expiring, on account of which new capacity will be used to replace older fleet than increasing capacity in the market. So if we

are talking on a sustainable basis, the yields that we were selling at in Q2 were at least 20% lower

than the kind of yields that were relevant in the market in March to April of this year and this increase has only helped us to reach April 2011 levels. For this period we are actually seeing fuel prices go up by around 25%-30%. So from what we have been seeing in terms of market behavior over the last two to three weeks, so we are not seeing the kind of undue pressure on pricing that we have seen in the past.

Miten Lathia:

Okay, adjusted for the fuel price increase Y-o-Y, lets say last year Q3 fiscal 2011, have been brought prices to a level so as to have similar profitability?

K.G. Vishwanath:

No, we are still away from that because the fuel prices have grown faster and as I mentioned this 20% increase is only helping to reach April 2011 level.

Miten Lathia:

Is there any scope that we could hope for further improvement in December or probably the pricing correction will have to happen over time?

K.G. Vishwanath:

I think that it will be an interplay of both these factors in market, where we believe we are strong and will be able to push further yield improvement which are structural in nature, which will be through effective management of the revenue bucket, while in other markets where we believe that the seat factor will remain where they are or where the yields are trending low we will rather take a seat factor game than a yield game in those markets.

Sudheer Raghavan:

If I may just add a few comments to Vishwanath's statements. I don't want to sound like a vulture waiting for somebody else to die so that I can feed on, but I have to say to you what we are now sensing from the market. The corporate travelers are saying, look you guys seem to be resilient, given the many storms that you have weathered, so from a reliability perspective we are more comfortable booking on you and consequently I see our share of the domestic corporate travel market segment going up and they are beginning to see the improvement in the premier cap in seat factors. There may be some degree of optimism about our yields going forward. I am also seeing higher traction in the economy cabin again because there is a perception that we are better in terms of on time performance as an entity and consequently more reliable in terms of longevity and as we see our seat factors go up, our revenue management tools will kick in and you will see the seeds being sowed from the higher bucket. So in summary I am reasonably optimistic about where the yields will track for Jet Airways.

Miten Lathia;

Okay, thanks a lot sir.

Moderator:

The next question is from the line of Shrey Loonker from Reliance Mutual Fund. Please go ahead.

Shrey Loonker:

Good afternoon. Just want to get a sense given the state of the market internationally if sale and lease back as remunerative as it was a year back on a per aircraft basis and related question to that is the 150 to 300 million SLB pipeline that we have for the second half that's spans over how many aircrafts?

K.G. Vishwanath:

To answer the first part the shell life of the 737 or the market price of 737 has remained very hard over the last few quarter. We had not seen any depreciation of value, so we are very confident that we will be able to get the kind of number that we are targeting. In terms of 300 to 350 million that we are talking about, we are roughly talking about around 20 odd aircrafts that we are looking to sale and lease back.

Shrey Loonker:

And all of that is planned for the second half?

K.G. Vishwanath:

Not all of this is planned, this is the total number of aircrafts identified over the period of next few months and quarters when all of this will be achieved.

Shrey Loonker:

And also given the way the changes are folding over the last few weeks, could you give us your assessment on what could be the capacity addition for 12 months forward?

K.G. Vishwanath:

When we talk about next 12 months going forward, we are actually expecting a capacity increase of not more than 8% to 10%, largely because of the reasons that I had enunciated earlier on the call, in that airlines who have just turned 5, will start experiencing lease expiries on account of which all new orders that they have placed will lastly go to replace older fleet or lease expiries, we all know what happened to the other full service carrier and herein I expect actually capacity to be taken out of the market rather than new or fresh additions. In terms of Air India, we don't expect any additions, if at all there is any, there will be renewal or replacement of older fleets, which leads very few aircrafts to be added to the current system and this on optimistic side we expect anywhere between 8% to 10% of capacity growth.

Shrey Loonker:

Okay, and in terms of cost specialization did I catch the number correctly, you are looking at 5 to 7% cost reduction ex-fuel?

K.G. Vishwanath:

5% to 10% is the number which we mentioned over next 12 months

Shrey Loonker:

Are we planning to undertake any hedging activities either toward fuel or have we taken any?

Shiv Kumar:

No, not at this juncture because it is already ruling at very high level and I don't think anybody going forward will give you rates lower than what it is today. Our presumption is the rates are going to go down so there is no point in taking effort to ensure that it doesn't go up further.

Shrey Loonker:

You gave us the share of corporate travel on overall revenue basis, if you could just give us your market share in the entire corporate travel market?

K.G. Vishwanath:

It is very difficult to take a number, but we believe that we will be higher than our market share significantly, largely because we are a full service carrier and there are only two or three major guys who participate in the corporate business. I would put our number at more like 50-odd%, but this is just a guess, we do not have a clear number.

Shrey Loonker:

And this is the last question on the re-branding strategy, how do we position ourselves given the changes that have taken place in the last two weeks on an overall fleet led between full service

and low cost. I understood the cost paid very well, but is it that, we will be the way we are as of Q2 and for the next 12 months until the cost rationalization doesn't happen or how do you see it?

Sudheer Raghavan:

Whatever has happened last week or whatever continues to unfold, does not impact our assessment of where the market is going. We certainly see the Indian domestic market as an ultra price sensitive market and consequently given that the sector runs anywhere from one to two hours, people are largely going for pure transportation as opposed to heave frills. Having said that, there will still be a market that would want the service, so we stand by our earlier assessment that close to 25% of the market will want service and 75% will not want service, but they are pretty happy with the seat and whatever additional service they want will be purchased on a piecemeal basis. So that will be the guiding philosophy in the development of our strategy going forward. Now we don't have to wait until every last bit of our cost reduction exercise is completed before we address the re-branding strategy. I think, say somewhere in the first quarter of 2012 or right from the start of 2012, I will see implementation of our re-branding strategy starting to unfold. But again opposed to all these things is to do it smoothly without causing major turbulence in the market.

Shrey Loomker:

But essentially to be competitive in the LCC market 5% to 10% cost reduction would bring you at par with the incumbent LCCs?

Sudheer Raghavan:

That would be an extremely good start.

Shrey Loonker:

As of Q2 end what was the split between in terms of seats offered on full service and low cost?

K.G. Vishwanath:

Roughly 75% is still offered on low cost and the balance is on full service.

Shrey Loonker:

Very helpful, thank you everybody.

Moderator:

Thank you. The next question is from the line of Nilesh D. from Religare AMC. Please limit your questions to two per participants. Kindly go ahead.

Nilesh D.:

Thanks for taking my question. My question pertains to your balance sheet, in your balance sheet there is a mention of lease hold land which is worth 1780 Crores, could you give us the details of the same?

Shiv Kumar:

This is the BKC land, which has got a revaluation element in it.

Nilesh D.:

Okay, my second question pertains to your domestic operations. There has been a sharp increase in the employee expenses during this quarter, any particular reason for this?

Shiv Kumar:

Compared to the last year in the current financial year there is increase in head count on the order of 2000 because the volume of operations have gone up besides certain amount of the increments that had to be given.

Nilesh:

Okay, so is this largely on account of increase in the head count.

Shiv Kumar: Yes, because of level of operation.

Nilesh: Okay, thanks a lot.

Moderator: Thank you. The next question is from the line of Manav Vijay from Edelweiss. Please go ahead.

Manav Vijay: Thank you for the opportunity sir, one simple question is that the entire industry is going through

such a bad phase, despite that selling and distribution expenses as a percentage of sales are constant, we just continue to pay around 10%, is there a possibility that moving forward these

expenses can come off?

K.G. Vishwanath: These expenses can come off only if we stop paying agency commission to the travel agencies. It

can come off only if a large part of what we are booking through the GDS now goes on to the website. These are not things, which you can do on Q-o-Q basis. These are effectively longer term systemic issues, which we will need to address. In India, the travel market is pretty much at its infancy, and if you compare this with a very developed market like the US or Europe where they work with a zero commission environment, its very difficult to do these kinds of things on a overnight basis. It will obviously take sometime for us to get these things done. But to the extent possible we are looking at how we can increase the presence or the penetration of our website as compared to the travel agencies or even other modes of distribution, on account of which we

expect reduction in our commission and our general selling our distribution expenses over time.

Manav Vijay: Okay, thank you very much.

Moderator: The next question is from Manek Taneja from MK Global. Please go ahead.

Manek Taneja: I just wanted to understand a couple of things. First of all, the national carrier was pretty

aggressive on pricing over the last three to four quarters, do you see a change in that stand that would be the first question. Second question, I just wanted to understand given that what we gather in terms of Kingfisher canceling a lot of flights in the recent week, could you also talk about what's happening on the competition side especially on those routes where Kingfisher

canceled a lot of flights?

K.G. Vishwanath: When we spoke about the fare increase taking place over the last weeks, all of the carriers

including Air India have taken their fares up. To address your second question, what effectively happened is that one of the carriers cut some capacity or pulled out of some of the market. These are effectively shared by the other carrier, in the ratio of the market share. So we believe that we

have got above fare share, and in some sectors even more than our share.

Manek Taneja: Especially in terms of the national carrier, do you think they might be little less aggressive as was

the case a few quarters back?

K.G. Vishwanath: So far the fare increase has been playing out and it is also because to some extent we are in a

peak phase so we will have to wait and see if this will continue for beyond January or beyond

February, as of now we see that there is a very healthy trend in pricing.

Manek Taneja: Thank you.

Moderator: Thank you. I would now like to hand the floor over to Mr. Mahantesh Sabarad for closing

comments.

Mahantesh Sabarad: Thank you all for participating in this call, especially my thanks to the management of Jet

Airways for making time to address all the questions that investors had. Thank you all. We can

now close the call.

Moderator: Thank you. On behalf of Fortune Equity Broker India Ltd., that concludes this conference call.

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