

## "Jet Airways Q2 FY 2016 Results Conference Call"

## October 29, 2015







ANALYST: MR. MAHANTESH SABARAD -SBI CAP SECURITIES

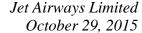
MANAGEMENT: MR. CRAMER BALL – CEO - JET AIRWAYS (INDIA) LIMITED

MR. N. RAVICHANDRAN – CFO (ACTING) - JET AIRWAYS (INDIA)

LIMITED

MR. GAURANG SHETTY – SR. VP – COMMERCIAL - JET AIRWAYS

(INDIA) LIMITED





**Moderator:** 

Ladies and gentlemen good day and welcome to the Jet Airways Q2 FY'16 Results Conference Call hosted by SBI Cap Securities Limited. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask the questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '\*' then '0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Mahantesh Sabarad. Thank you and over to you Sir!

**Mahantesh Sabarad:** 

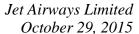
Good afternoon everyone. We at SBI Cap Securities are pleased to welcome you all to the Q2 FY'16 post results conference call of Jet Airways. We have with us the senior management of Jet Airways lead by their CEO Mr. Cramer Ball. I now hand over the floor to Mr. Cramer Ball for his opening remarks before we proceed to the Q&A session. Over to you Mr. Ball!

**Cramer Ball:** 

Thank you. A very good afternoon to all of you, this is Cramer Ball the CEO of Jet Airways. I am pleased to extend a very warm welcome to all to this earnings organized by SBI Caps. I am also extremely grateful for all of you for your time and the interest that you have shown in tracking the performance of our company. Our senior VP Commercial, Mr. Gaurang Shetty and Mr. N. Ravichandran, VP Finance and acting CFO join me this afternoon. I hope all of you would have seen the financial results and the presentation uploaded on our company website and the press release results issued by us.

I will take you through a few of the highlights and then Mr. Ravichandran will take you through some other key detail. In Q2 we have seen an EBT of INR 83 Crore. Traditionally, Q2 is the toughest quarter in Indian Aviation, however we reported an 83 Crore EBT. This is now the second consecutive profitable quarter and the first time that we have posted a Q2 profit in eight years. So this shows that we have reversed the trend and we are certainly confident of the future as we move forward.

I will take you through some other key highlights. In Q2 FY'16 Jet's domestic seat capacity grew by 16.6% while our passenger numbers grew by 34.5%, which is much higher than the industry growth. At the same time in the international business the airline registered 6.6% growth in capacity but a 9.7% growth in the passenger numbers, this is a very good result. This improvement is largely the result of optimizing our network to enable tighter integration between domestic and international networks, enhanced by synergies with partner carrier and improved operational performance and a component of that improved operational performance is more production out of our existing assets. 737 utilization currently stands at round about 13 hours and continues to be amongst the highest in the world, so we are operating our assets very, very efficiently. Keeping in mind the evolving demand from tech savvy consumers Jet Airways recently undertook initiatives including the launch of a new mobile app, revamped website and launched a new website Jet Privilege which is now fully integrated with the Jet Airways website. Further we enhanced our ancillary revenue bouquet by introducing seat





select online and online booking of excess baggage which has seen very, very promising take up. These all enable the guests to plan their travel together with greater ease and convenience. Total revenue from operations was up 8.1%. I mentioned before domestic passenger numbers up 34.5% and international passenger numbers up by 9.7% resulting in a 9.5% increase in international passenger revenue. Cost per ASKM or CASK improved by 12.5% in this quarter compared to Q2 FY 2015. As I mentioned before it shows we have certainly reversed the trend and we are confident of strong delivery in the future. I would now hand over to N. Ravichandran who will take you through further details. Ravi.

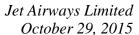
## N. Ravichandran:

Good afternoon everyone. My name is Ravichandran. I will initially take you through the financial highlights in a while and later follow it by the detailed performance of the company. First to talk through Jet Group's consolidated performance for the second quarter FY'16 versus the same quarter last year. The highlights are: domestic passengers flown by Jet Airways grew by 35% outpacing the industry passenger growth of 21%. Seat factor improved by 3.1% points leading to 81.7% clocked compared to 78.6% clocked in the previous year.

Our total gross revenue stood at INR 5504 Crores versus INR 5092 Crores last year same quarter, up by 8.1%. EBITDA of INR 468 Crores versus INR 355 Crores last year same quarter, improving EBITDA margin of 8.5% versus 7.0% in the second quarter of last year. Reported profit of 82.9 Crores during the quarter, an improvement of almost INR 126 Crores compared to loss of 43.8 Crores as reported in the second quarter of FY'15.

Operational highlights for Jet Airways standalone: consolidated position of both domestic and international. Passengers carriage increased from 4.37 Million in the second quarter of FY'15 to 5.78 Million in the current quarter showing a remarkable increase of 32.2%. During the quarter overall seat factor increased by 2.9% points to 82% in the current quarter from 79.1% in the same quarter last year. Further in the second quarter of last year, the RPK during the quarter grew by 19.1% against the ASK increase of 14.9% same quarter last year. Profit after tax was INR 87.6 Crores for the second quarter of the current year as compared to a profit after tax of INR 69.8 Crores for the same period last year, showing an improvement of 25%. Excluding the one-off profit on slump sale of the Jet Privileged program that was carried out in the last year, profit after tax improved by almost 137% from a loss of INR 235 Crores in the same quarter last year to a profit of 87.6 Crores in the current quarter. In the standalone results of Jet Airways I am sure you would have observed a provision for losses incurred by Jet Lite has been disclosed in the exceptional item.

Jet Airways domestic operations: The share of our domestic revenues to total revenues is 41% for the quarter. Total domestic revenues were at INR 2272 Crores, up by 14.1% on a year-on-year basis. Domestic operations in Jet Airways achieved a load factor of 79.6% an improvement of 8.6% percentage points over the last year same quarter. ASKs went up by 25.7% compared to Q2 of last year.





Moving to international, the share of international revenues to total revenues was 59% for the quarter. The international revenues stood at INR 3245 Crores up by 4.7% as compared to Q2 of last year. Load factors on international were more or less at previous year levels of 83%. ASK on international segment increased by 6.6% compared to Q2 of last year.

Operational highlights of the wholly-owned subsidiary Jet Lite - overall seat factor increased to 78% in the current quarter from 72.3% in the same quarter last year, this was against an ASK reduction of 8.6% during the quarter over the same quarter last year. JetLite's loss after tax reduced from 112.7 Crores in the same quarter last year to INR 50.3 Crores in the current quarter showing an improvement of 55.4%.

Let me just give you a quick snapshot on the funds position and the liquidity position of the company.

As on September 30, 2015, our net debt stood at INR 11,171 Crores equivalent to 1.703 billion. Repayments during the quarter - the total loans repaid during the quarter was to the tune of INR 558 Crores equivalent to US \$ 85.1 million.

Turning to the current quarter and the outlook, improvement in seat factor continues to be expected in Q3 due to upcoming holiday season, However fares continue to see pressure primarily due to increased competition. We continue to enhance our metro-to-metro schedule, as opportunities still exist. In line with this we introduced additional frequencies on Bombay-Delhi sector (16th frequency), the 10th frequency on Delhi-Bangalore sector, 11th frequency on Bangalore–Bombay, 10th frequency on Bombay-Chennai a 4th frequency in Delhi-Hyderabad, third frequency on Bangalore–Hyderabad and first frequency on Kolkata–Chennai till 25th October. Additionally we are upgrading Delhi-Singapore-Delhi and evening Delhi-Bombay-Delhi to a wide body A330 service in the upcoming winter schedule.

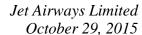
Codeshares with Etihad and Etihad Airlines partner are resulting in higher traffic inflows as has been reported in the previous quarters as well.

During the second quarter we enhanced our codeshares with Etihad airways, South African Airways, Air Berlin and Virgin Atlantic. The quarter witnessed a significant growth of 29% in overall codeshare traffic while at the same time the codeshare traffic by strategic partner Etihad Airways and its partner airlines grew by 87%.

Ladies and gentlemen we are now very happy to take questions and we open the floor for questions. Thank you.

**Moderator:** 

Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Praveen Shah from B&K Securities. Please go ahead.





**Praveen Shah:** Congratulation Sir for a good set of numbers and thank you for taking my question. The first question

is related to a certain lease back of aircraft and the engine, as I had seen the result from the last year onwards we are continuously reporting some numbers on this and also for this quarter it is somewhere around 1.2 billion rupees, so could you please give some detail like how many of aircraft we are

operating on operating lease and how many we are still owning.

N. Ravichandran: There has not been any sale and lease back in the current financial year either in Q1 or Q2. The sale in

lease back was carried out in the last fiscal year, which is contained in Note 5 to our clause 41 results. Coming back to your question on the split of the aircraft between owned and leased, we continue to

operate a total fleet of 115 aircrafts of which 24 are owned and the balance 91 are on operating lease.

**Praveen Shah:** Okay. So there is no further sale and lease back, just the previous one, which you are reported, I think.

**N. Ravichandran:** No, there is no further sale and lease back, which has taken place in the current financial year.

**Cramer Ball:** I need to add that there is an erroneous report in the media today. It is wrong. It is not right. It relates

to previous financial year, so that report was incorrect.

**Praveen Shah:** Okay great. The next question related is you have not given this time the international route's load

factor, can you give that how much in the UK route or ASEAN routes?

Cramer Ball: We are not going to network-by-network but international was very strong. The average for the

quarter is 83.1.

Pravin Shah: Moving to another question, the last question from my side, if I look at the fares for the domestic

were down some 15% whereas we did very well in the passenger numbers which quite significantly improved. So reduction in the fares is totally on account of lower fuel expenses or depression in the

ATF prices or we are more emphasizing on the volume rather than on the fares?

**Cramer Ball:** It is a combination of fares and volume.

**Pravin Shah:** So it is like we are full service carrier. We are competing with low cost carrier, so the fares usually

could be at the same level like will come with an what we had done further, some rather offers,

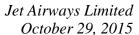
improved our load factor required significantly, so is that the trend?

Cramer Ball: It is not just load factor or fare, it is a combination of both. In terms of industry we are seeing a

reduction in average fare, but in comparison to other carriers we are still strong in terms of load

factor.

**Pravin Shah:** Thank you.





**Moderator:** Thank you so much. The next question is from the line of Pulkit Singhal from Motilal Oswal AMC.

Please go head.

**Pulkit Singhal:** Thanks for taking my question. On your domestic strategy could you just kind of mention what is the

kind of expansions plan for the next one or two years and how do you view the domestic market

versus the international market?

**Cramer Ball:** So what we are seeing as I mentioned before is very good utilization of the aircraft. We will continue

to take advantage of the domestic market and look strategically where we can make money. We are prepared to expand where we make money. We demonstrated quarter-on-quarter, year-on-year expansion into the domestic market. In addition to that what you see is how effectively we use our assets on domestic market and the ability to changing to international when it come to a narrow body aircraft. We are seeing very strong results certainly in the medium range international market ie. Gulf, ASEAN. So we will expand where we see the opportunity, we see the opportunity obviously domestic and international and to have that combines in terms of where we fly. Important thing is that with consistent configuration on the narrow body aircraft we have been able to take advantage of flipping the assets between domestic and international and that is the key part of strategy going forward.

Pulkit Singhal: Do you disclose the number of air craft you are to add say over the next one or two years primarily

getting to domestic?

**Cramer Ball:** No, not at this stage.

Pulkit Singhal: All right and in terms of the capacity in the Mumbai Airport, I mean you are adding certain slot, so

my understanding that there are no more slots available, so how are you able to add?

Cramer Ball: Yes incrementally we are securing slots. One of the key things that we implemented from the October

25, is operating a wide bodied aircraft between Mumbai and Delhi so that gives us roughly 200 seats

more for rotation and that at a key time operating 330 on that route.

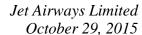
**Pulkit Singhal:** Okay, so but there is a slot constraint in Mumbai airport and that is what I was looking at?

**Cramer Ball:** Of course.

**Pulkit Singhal:** Lastly on a QOQ basis what is the decline in domestic yields?

**Cramer Ball:** Quarter-on-quarter is 1.7%.

Pulkit Singhal: Thanks a lot.





Moderator: Thank you. The next question is from the line of Danish Mistry from Tata Mutual Fund. Please go

ahead.

**Danish Mistry:** Good afternoon gentlemen. Thanks for taking the time out to talk to us and congratulation for good

set of numbers. I just had one question. This is on pricing, if you could just run us through what you seeing on the ground board domestic, in the domestic sector, as well as in the international sector and so just trying to figure out where the maximum drop would have come from and secondly how is it

looking for you in Q3 both again domestic and international, thanks.

**Cramer Ball:** If you can repeat that first part of the question.

Danish Mistry: So the first part is that, what you seeing on the ground right now in terms of domestic and

international, so what happened in Q2, which sector lost lot more?

Cramer Ball: I can say what I see on the ground in domestic certainly there is a strong growth in passenger

numbers, but in Q2 clearly being one of the weaker quarters it has been tough in terms of average fares. What we have been able to do is increase capacity and passenger numbers above the market, which is a very, very good point, we are seeing still the growth continues, so how do we manage that, we manage that with, smart inventory management to make the most of the peak periods and also driving our base loads, so building a strong base helps us being competitive but throughout we are

still seeing a strong third quarter.

**Danish Mistry:** Internationally?

Cramer Ball: Internationally, we expect again this third quarter to be strong particularly with the holiday period and

we are seeing that to be in line with quarter two.

**Danish Mistry:** Okay and pricing wise internationally do you see any pressures over the competitive pressures or it is

mainly on the domestic front?

**Cramer Ball:** I see competitive pressures within our industry, but there are competitive pressures internationally,

but not as much as domestic in terms of averages fare wise.

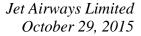
**Danish Mistry:** Thank you and best of luck for the next quarter.

Moderator: Thank you. The next question is from the line of Santosh Hiredesai from Edelweiss Securities. Please

go ahead.

Santosh Hiredesai: Thanks for the opportunity. I have couple of them, firstly if you can just help us with what is the kind

of fuel consumption, which you have seen during the quarter and average rate if possible?





**N. Ravichandran:** The fuel rate has been more or less the same at the same level as first quarter

Santosh Hiredesai: Sir would it be possible to share the numbers, the absolute consumptions in million liters and average

rate?

N. Ravichandran: On an average we consume per annum 1.6 million KL, so the rates are pegged anyway to the

international rates.

Santosh Hiredesai: Got it, the second one was in the forex exposure, in the annual report I see that you know you have

got 11,000 Crores of income coming in, but what I just trying to understand is that when you have fares booked on the international route, do I book them on, it is US denominated or receive payments on INR terms, so I am just trying to understand how we call ourselves completely hedged in terms of

forex exposure?

**N. Ravichandran:** As we have said earlier almost 48% to 49% of our topline comes in foreign exchange, so the trend

continues as we speak and is likely to improve as we have more point of sales getting activated outside the country where the fares are US dollar denominated fares, so this would certainly be on the

rise as we move on with more and more international point of sale coming up.

Santosh Hiredesai: What I am trying to understand is if I were to book a ticket on Dubai leg on Jet, I would be paying in

INR terms sitting in say Bombay or Delhi so I am just trying to understand do you categorize that as a

US denominated income or is that a back to back hedging policy or how do you categorize?

N. Ravichandran: You need to be clear, the whole thing is driven basically from a point of sale, if you are booking a

ticket say Dubai, Bombay sitting in India, which will still be a rupee denominated fare, it is easier to assume Bombay, Dubai, but assuming if you were to book a ticket from Bombay for return leg that is Dubai Bombay it will still be considered as a rupee fare annual repaying settling the fares be the ticket

value in rupees, however, if it is booked outside the country the point of sale that is recognized as

international FX revenues.

Cramer Ball: Santosh, I just like to add one more point to what Ravi said when you are seated in a new system

Mumbai and it looks at all sectors in between and this system is very intelligent system, it gives preference to the higher value fare, so regardless to the point of sale and takes into account currently

which, what it does, it actually looks on O&D basis so it looks may be London to Lucknow via

and conversion, so you know we are now moving forward with this very intelligent system that will

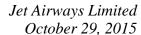
give preference to higher value fare, so that will have certainly a revenue benefit as that system fully

kicks in.

Santosh Hiredesai: Got it Sir so finally one last thing, in terms of fleet addition you are saying right now there is nothing

in the pipeline, so whatever increase in capacity is largely going to come in from bettering the number

of average flying hours, I mean you talked about the best, which is 13 hour, so is there a possibility





that we can better it further or how do I see the capacity going ahead, this is what I want to kind of look at?

Cramer Ball: Better utilization, better productivity is a continuous process and there is always possibility to

improve it.

Santosh Hiredesai: Fair enough sir, so I will come back in the queue if I have more questions, thank you so much sir.

Moderator: Thank you. The next question is from the line of Giriraj Daga from SKS Capital. Please go ahead.

Giriraj Daga: Good afternoon Sir. My question is related to like if you see our operating cost basically other than

has been tough on the parameter like we have improved our aircraft utilization by 10% compared to second half or like first half, for FY 2016 compared to first half of FY 2015, still our operating cost have gone up, so ideally I should have believe to see the EBITDA margin improving in quarter two

the fuel cost like selling and distribution has been quite high were close to 40% and other expenses

compared to quarter one, but that is not the case, would you like to throw, is there any one-off into it

and will the increase continue or how do we look at these basically other operating cost?

N. Ravichandran: I will take this question. As you know the selling and distribution cost is completely pegged to the

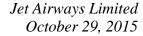
change in the topline. You have seen reasonable growth on the topline and so would be the case in the expense line item of the selling and distribution cost. We have explained this in the last quarter to say that the selling and distribution cost do include the frequent fly miles cost, which earlier used to be part of the airline which has been hived off as a separate entity, so you see with more number of our members flying with miles getting credited to each of these members, the cost is on the rise, which is part of the selling and distribution cost. Secondly, the annual inflationary increases on the GDS system that we have explained and year-on-year inflationary increase that we have been required contractually agreed upon. Lastly, the productivity linked incentives that we do give to our agents both for the cargo and passenger revenue which is in tandem with increase to the topline has also grown. What we have experienced over the last year is when we come to the last quarter of the year we see many of these agents qualifying at a higher slab and thereby clubbing up this provision in the last quarter, so providing for these we have now prorated these provisions across the quarter to have a homogenous effect across, so this has also resulted in a higher provisioning towards the productivity linked incentive. So collectively this is contributing to the increase that you get to see on the selling

and distribution expense. Moving forward your question on that is as I said this is completely linked to the movement on the topline and barring the few inflationary related costs sitting there in for the

booking engine, it should be in tandem more or less.

Giriraj Daga: Okay, just follow up into that you said we have changed the mechanism from earlier last fourth

quarter to now pro-rata basis this has been done from FY 2016 onwards only?





**N. Ravichandran:** That is right.

**Giriraj Daga:** So we will not see a bump up in the quarter four numbers?

N. Ravichandran: You would not. Let me clarify on this particular item sitting within selling and distribution expenses,

the productivity linked incentive you would not see that bumping up in the quarter four. There are lot

many costs sitting in aggregate is referred to selling and distribution expenses.

Giriraj Daga: When I look at the aircraft maintenance charges that has also gone up significantly on the first half

compared to last year first half?

N. Ravichandran: Yes, as we mentioned to you because the production has gone up, there is increase in block hours, so

lot of our maintenance cost which are primarily with respect to the block hours clocked with higher production obviously there is an increase in the aircraft maintenance cost. Secondly the rupee dollar parity because most of these expenses are FX denominated with almost a 7% impact on the rupee dollar this has also led to an increase and also there were couple of maintenance activities that was scheduled in this quarter too, because it depends on every quarter based on the schedule of the aircraft checks or the engine checks that we have, it is not necessary that quarter on quarter it will remain the same, so based on the scheduled maintenance activities, which have collectively led to this kind of an

increase.

Giriraj Daga: Normally we have seen the second half is higher compared to first half, will that be a scenario this

year also, maintenance cost?

N. Ravichandran: Not necessarily, as we have mentioned in the first quarter results, most of our engines have now

moved to the power by the hour arrangement, so obviously the provisions are spread across based on the utilization of the aircraft across as opposed to earlier where we used to account it based on the event of the occurrence of the shop visits, so in a manner you should not be seeing it as we have seen

in the past.

Giriraj Daga: Thanks a lot from my side.

Moderator: Thank you. The next question is from the line of Vineet Maloo from Birla Sun Life. Please go ahead.

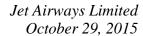
Vineet Maloo: Good afternoon gentlemen. My question is related to some of your balance sheet items, just needed

some clarification. I just wanted to understand you know with the fuel cost going down does it not benefit us in terms of or rather does it not impact trade payables because that is really not changed

much over the last three, let us say September 2014 and March 2015 numbers virtually stagnant?

**N. Ravichandran:** The question is the volumes have gone up is not it. In terms of you are comparing between the March

31 levels?





**Vineet Maloo:** March 31 or September 2014 as well?

**N. Ravichandran:** Yes it is only due to the volume increase, primarily due to the volume increase.

Vineet Maloo: ASKMs have gone up by 15% year-over-year right?

**N. Ravichandran:** It is right.

Vineet Maloo: I presume your fuel consumption would have increased in similar fashion, but fuel price has dropped

by about 40%?

**N. Ravichandran:** Yes, but fuel price reductions have not been so much in India.

**Vineet Maloo:** Let us say 30%.

**N. Ravichandran:** As we have mentioned, the production, the block hours have increased, so there is an increase in

volume while the rates have dropped. Because of the higher flying hours, the volumes have grown and also the scales of operations that is primarily the reason for this. Also the exchange implications,

the rupee dollar exchange implication where you have to be revaluing on the reporting date.

Vineet Maloo: Yes, okay rupee dollar exchange, but I am talking about rupee cost right, so when we talk about fuel

cost in India, we are talking about rupee cost right?

**N. Ravichandran:** No we also have uplift overseas.

Vineet Maloo: So as I look at your absolute fuel cost has gone down by 28% on a YOY basis in this quarter, so

which includes everything, your fuel volumes, your rupee dollar everything right, after that it is down

28%, the fuel bill?

N. Ravichandran: As I mentioned to you, the combination of factors here are one, is the increased production capacity

which is led to high flying, number two the rupee dollar because many of our expenses as you know are FX denominated, so doing a mark-to-market on the reporting date do have implications on the revaluation or restating the creditors, thirdly in couple of cases we have also got an extended period from some of the creditors which has also led to this, but they are not very significant enough to talk

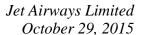
about, but collectively that has only been the reason for the kind of an increase that you are talking.

Vineet Maloo: All right and there is another item for short-term loans and advances there we also seen a little bit of

bump up, which is highlight, what is led to that?

N. Ravichandran: Under the current assets right, primarily on account of the CENVAT credits, this has increased and

couple of increase in advances to suppliers that we have. Primarily this is because of an increase in





our variable rentals as you know the power by the hour arrangement accounting treatment has an impact on how we account for the variable rentals, so coupled with that is primarily the reason for the increase.

**Vineet Maloo:** Similarly long-term loans and advances also is under non-current assets?

**N. Ravichandran:** These are primarily the business related kind of the transactions that we have. Nothing specific to talk

about.

Vineet Maloo: Another thing could you highlight, recently had raised some money from Etihad right, some NCD

issue was done, if you just could clarify what exactly is all the cost of their NCD because going by the

terms it just looks like a complicated structure to us?

N. Ravichandran: We have not raised any money from Etihad Airways. This was rupee denominated NCD issuance,

which has been subscribed to by a foreign portfolio investor, and there is an SPV, which has subscribed to NCD. I am sure you would have seen the BSE's website where we are listed under F group debt instruments, which talks about the coupon, the amount and the number of debentures, This

is absolutely unsecured rated, listed, taxable, redeemable, non-convertible debentures.

**Vineet Maloo:** My last question is if you could give some directional sense on where your overall debt is heading or

any plans to repay that, etc., any of the other debt? How is it going to pan out, now that I mean, your

earning profits you probably add into cash flow etc., what is the plan?

N. Ravichandran: Well we have said this before, all our debts are, we are absolutely current in servicing all our

obligation, be it to do with the aircraft loans or the working capital loans. From the level that we are in September, there is going to be a marginal increase over this and then you get to see a tapering

effect coming down as the business improves, we do not see a major impact on our debts going up and the periods to come, but this is subject to the business operations continuing at the pace that it is

in developing or in improving the operations.

Vineet Maloo: Thank you very much.

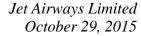
**Moderator:** Thank you. The next question is from the line of Miten Lathiya from HDFC Mutual Fund. Please go

ahead.

Miten Lathiya: Thank you for the opportunity. You clarified on the expense on the frequent flyer miles that are

accruing through the flyers coming in the S&D cost, for the last few quarters you have been booking a revenue of about 1900 Crores in the other income line, if you could just sort of clarify how and on

what basis that revenues accrue?



JET AIRWAYS 🏉

N. Ravichandran:

The income that you get to see which is grouped under other income, if you refer to note the foot note 6C of our clause 41 results describes as to what it is, but since you raised this question let me explain. When the program was hived off in April 2014 as a slump sale of this program, the company realized certain profits in hiving off this program. This profit was linked to certain milestones that the company had to achieve over a period of three to five years. As a result because of the conditionality in terms of the business transfer, the whole profit could not be recognized in one period and had to be spread across over the three to five year horizon depending on the milestones that were to be achieved. As a result there is a gradual release of this profit in every period as and when we achieve those milestones, so that is what is sitting as an income under the line other income. Barring this, the frequent flyer program cost as you know which is sitting outside now and there is a separate billing happening for every accrual happening, similarly for every redemption that happens, there is also an income stream coming in from the frequent flyer program, which is sitting within the income from operations. So as we have explained this before the business model is drawn in a manner that over a period of three to five years, this position would change, the income would outpace the expenses that is accrual of these miles and we are almost around one-and-a-half years into this program. In another one-and-a-half to two years program the whole trend should change.

Miten Lathiya:

This trend change that you are talking is of the profit linked to the milestone number that you have, so just on a pure operating revenue and the S&D cost, you are saying you are net negative today, but in 18 months you will become net positive?

N. Ravichandran:

In 18 to 24 months we will be positive.

Miten Lathiya:

Okay and then in another 18 to 24 months, this profit linked incentives sort of tapers off, I mean does it go down to 0 or is that, is it fair assumption to make?

N. Ravichandran:

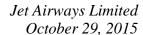
The productivity is linked incentive is based on as an agency commission, which has nothing to do with the frequent flyer program. In the frequent flyer program, cost to the company is the cost of the mile that you give to member and when he redeems it, the program buys tickets from the airline for the redemption for redeeming this. So you pay upfront for the cost of these miles for a later date when these miles will be redeemed into your service and you earn revenue out of it, so this is what I meant in 18 to 24 months in isolation if you look at the cost of the miles versus the redemptions the trend would change.

Miten Lathiya:

Certainly Sir, I am sorry to persist with this, but the element that is coming in other income you are saying even without considering that the redemption minus accrual today is a net negative for you which will become a net positive in 18 to 24 months?

N. Ravichandran:

That is right.





Miten Lathiya: Is that what you are saying and then the element which is there in the other income sort of tapers off

because you would have hit most of your milestones in another 18, 24 months, is that a fair way of

looking at it?

**N. Ravichandran**: Your understanding is absolutely right.

Miten Lathiya: Thanks.

Moderator: Thank you. The next question is from the line of Srinath Krishnan from Sundaram Mutual Fund.

Please go ahead.

Srinath Krishnan: Thank you Sir. Will it be possible to share the revenue per RPKM for both domestic and international

and how has that moved on a sequential basis?

**N. Ravichandran:** The revenue for RPKMs for the domestic segment is at sub 5 level.

**Srinath Krishnan:** What is the percentage decline on a sequential basis for domestic especially?

**N. Ravichandran:** It is 1.3% on the domestic.

**Srinath Krishnan:** Thanks a lot.

Moderator: Thank you. The next question is from the line of Aditya Biyani from Reliance Mutual Fund. Please

go ahead.

Aditya Biyani: Thanks for taking my question. Sir I had the question on the gross debt, if you could share the number

like you shared for net debt would that be around 13500 Crores?

**N. Ravichandran:** It is 12077 Crores.

Aditya Biyani: Also could you give me the breakup of the dollar denominated and non-dollar denominated debt?

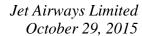
**N. Ravichandran:** Today we are almost 76% on dollar and the balance on INR.

Aditya Biyani: And the average cost on dollar denominated?

**N. Ravichandran:** Would be sub 6% including the aircraft loans.

Aditya Biyani: Sir and the INR?

**N. Ravichandran:** INR will be sub 13%.





Aditya Biyani: Sir could you help me break this down of 12770 Crore debt as aircraft loan debt and working capital

debt if you could just break this down into certain parameters that would be helpful?

**N. Ravichandran:** 5087 Crores of this is aircraft and the balance is towards working capital.

Aditya Biyani: Also on the opex side, what are the cost parameters which we are working on, which can trim down

over the coming years, if you could just give us some colour on the same, it would be really helpful?

**N. Ravichandran:** We are working on a variety of areas and measures that have been undertaken.

Aditya Biyani: Also on the NCDs, which we have raised at 20.64%, so is this is a 20% IRR or is it based on a coupon

and if you could just tell me the coupon rate for the same?

**N. Ravichandran:** 20.64 is the coupon.

**Aditya Biyani:** 20.64 is the coupon.

N. Ravichandran: Yes.

Aditya Biyani: Will this appear into the interest rate or it would be just minus from the networth because that is

something, which I am trying very hard to get around?

N. Ravichandran: Minus from what you said?

Aditya Biyani: Would it be from the networth, how will this hit the P&L or the balance sheet, this is what I am trying

to understand?

**N. Ravichandran:** It will be recorded as an interest cost.

Aditya Biyani: It will be recorded in the interest cost.

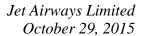
**N. Ravichandran:** Yes it is a debt instrument.

**Aditya Biyani:** That is all from my end.

Moderator: Thank you. The next question is from the line of Pravin Shah from B&K Securities. Please go ahead.

Pravin Shah: Thank you for taking my follow up question. Just on the maintenance side, how long is our

maintenance contract for our aircraft?





**N. Ravichandran:** There are various contracts that we have. Some contracts we have for 10 years and for some we have

it for 8 years from now on.

**Pravin Shah:** And that from the third party?

**N. Ravichandran:** These are the various MROs.

Pravin Shah: Another related to the other expenses, so the other expenses, other operating expenses include

variable lease rental as well, right?

**N. Ravichandran:** That is right.

**Pravin Shah:** So, in the leased component the base lease and the variable and we account the base in the lease rental

and the variable under the other operating expenses?

**N. Ravichandran:** That is right.

**Pravin Shah:** Thank you Sir.

**Moderator:** Thank you. The next question is from the line of Retesh Bhagwati from Fortune Interfinance Limited.

Please go ahead.

Retesh Bhagwati: Thanks for taking my question. Can you share any roadmap if any in your business model over the

next three to five years? Like would you continue to remain in the similar proportion geographically? That is one. Also in terms of that distinction between the full service provider and being LCC, so can

you share some views on that so as to understand?

Cramer Ball: The important issues are to building flexibility around the business model we have created. It is

building simplicity and consistency, which we are at. So it is consolidating on that as being sensible enough to take advantage of the market as the market moves and changes. That is the same with the domestic market where it is growing approximately 15% to 20% in the international market around 8% to 10%, ability to build to respond and take advantage of the opportunities in this case. That is

where I see we are moving.

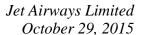
Retesh Bhagwati: So, given the fact that domestic market is going to grow at a faster rate, so what kind of preparations

or any forecasting you can give in terms of like fleets or anything?

Cramer Ball: I cannot give you any forecast or anything like that and we are moving out certain important issues

when the time is right and at the appropriate time, but as I said the flexibility that we have, the

consistency to build new domestic market and also in international business.. So it is about having





right cost structure and as compared to the business and from a fare perspective, where we can take advantage of fare opportunities but being competitive, and that is the model moving forward.

Retesh Bhagwati:

Thanks.

Moderator:

Thank you. The next is from the line of Sanket Saheti from Geecee Investment. Please go ahead.

Sanket Saheti:

Just wanted to understand in terms of the cost structures what we have at the aircraft maintenance and the other operating costs as well as the selling, selling is explained partly, but if you can go a little bit more detail over the next three years, how do you expect that to trend down? Are we targeting any specific any reduction in that segment in all of these?

N. Ravichandran:

Well, we have mentioned this before to say that our fleet is going to be more or less flat in the immediate future. So, these expenditures providing for their annual inflationary increases and the kind of FX denominated expenditures any movement in the FX can have an impact on these.

Sanket Saheti:

There is no way you can reduce that because if we keep given the competitive landscape when we compare broadly to the rest of the competition, the cost are on the higher side?

N. Ravichandran:

As our CEO mentioned that we are working on various measures to contain our cost, every single item, cost element is being looked into and opportunities are being explored to contain this cost and so the company is taking all kind of efforts to contain this cost as we move on. So obviously there will be a lot of efficiencies coming in and some of the replacement of the aircraft with the newer generation aircraft, which comes into will have both efficiency in terms of the fuel cost as well as the maintenance cost.

Sanket Saheti:

If I have to extend this part, like given that the average age of the fleet, what we have today where do we see the average age of the fleet? How do we want to take it that can help us cost reduction? Is that what you are saying?

**Cramer Ball:** 

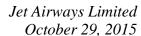
That is right. There is a huge opportunity to focus on cost reduction and we have a dedicated team for evaluating every single costs line. I will say we expect that the cost will decrease overtime and without a doubt.

Sanket Saheti:

Any indication as investors we can look 300 to 400 basis point over a three to five year period. What is your wish list or a target over a longish period of time to remain competitive and efficient vis-à-vis some of the other airlines in the market place? From a margin perspective if you can throw some light?

**Cramer Ball:** 

You need to be competitive and that is there. I am not going to compare our numbers to any other business but the fact that we are making sure we have the most efficient cost price given our model,





so it is a huge focus. I cannot give you any indication of the basis points, but I can tell you that it is a significant focus on drawing down the cost and improving efficiencies, so one is cost and the other around the efficiencies through production. I think we have demonstrated our ability to do that over the last quarter with a 13% improvement in production.

Sanket Saheti: One question what I have is in the last quarter we usually have this one off expense on the side, on the

opex side. Should we expect that to come even this year or this time it has been apportioned equally?

**N. Ravichandran:** It is apportioned equally.

**Sanket Saheti:** So that is not going to come this time?

**N. Ravichandran:** That is right.

Sanket Saheti: In case of the JetLite so the standalone numbers will it include the JetLite accounting numbers? Just

wanted to get that part?

**N. Ravichandran:** The provision that has been created in the standalone results to the tune of 45 Crores incorporates the

JetLite's results.

**Sanket Saheti:** So that you are taking that as an exceptional which you are showing over there?

N. Ravichandran: Yes.

Sanket Saheti: Thank you.

Moderator: Thank you. The next question is from the line of Miten Lathiya from HDFC Mutual Fund. Please go

ahead.

Miten Lathiya: Thanks once again for the opportunity. Just wanted to understand the economics behind the wide

body in the domestic market. What would be the key constraint on deploying more wide-body aircraft

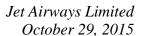
in the domestic market?

**Cramer Ball:** We are judicious about where we deploy the wide bodies. The utilization of those wide bodies is quite

high. So we had an opportunity to improve our operating pattern, so we could deploy the wide bodies on the Mumbai Delhi flight. Back to what I said before, better production, smarter utilization of assets

and we are continually looking at that. So if there is another opportunity and the time is right, we will

do it.





Miten Lathiya: You have just started with this one route experiment, should we sort of think about it as in a couple of

years time, you would have at least 10 routes within India that you would be using wide bodies on or

that is not a correct assessment?

Cramer Ball: It is speculation, but we actually deployed the white-bodied aircrafts last year in December period of

time and it produced good results. It is part of standard operating pattern and if we see further

opportunities we will go down that part, the opportunities and the economics may be derived.

Miten Lathiya: Just to sort of go back to my first question, the constraint is in what traffic is originating from that city

at that point in time, is that what your constraint is?

**Cramer Ball:** The constraint is on aircraft availability and obviously profitability.

Miten Lathiya: Thank you.

Moderator: Thank you. Ladies and gentlemen this was the last question. I would now like to hand the floor over

to Mr. Mahantesh Sabarad for closing comments.

Mahantesh Sabarad: Thank you. We at SBI Cap Securities would like to thank the management of Jet Airways for

patiently answering all the queries in the call. With this we will conclude the call. Thank you very

much.

Moderator: Ladies and gentlemen on behalf of SBI Cap Securities that concludes this conference. Thank you for

joining us. You may now disconnect your lines.