

"Jet Airways (India) Limited Q2 FY18 Earnings Conference Call"

December 08, 2017







MANAGEMENT: Mr. VINAY DUBE – CHIEF EXECUTIVE OFFICER, JET

AIRWAYS (INDIA) LIMITED

MR. AMIT AGARWAL – DEPUTY CHIEF EXECUTIVE OFFICER & CHIEF FINANCIAL OFFICER, JET AIRWAYS

(INDIA) LIMITED

MR. GAURANG SHETTY – DIRECTOR AND SENIOR VICE PRESIDENT (COMMERCIAL), JET AIRWAYS (INDIA)

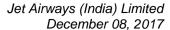
LIMITED

MR. N. RAVICHANDRAN – VICE PRESIDENT (FINANCE),

JET AIRWAYS (INDIA) LIMITED

MR. SANTOSH HIREDESAI – RESEARCH ANALYST - SBI MODERATOR:

CAPS





Moderator:

Good Day, Ladies and Gentlemen. And a very warm welcome to the Jet Airways Q2 FY18 Earnings Conference Call, hosted by SBICAP Securities. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask 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 now hand the conference over to Mr. Santosh Hiredesai from SBICAP Securities. Thank you and over to you, sir.

Santosh Hiredesai:

Thank you, Ali. On behalf of SBICAP Securities, I would like to thank the management of Jet Airways for giving us an opportunity to host this call.

To discuss the 2Q FY18 Results of Jet Airways, we have the senior management team with us today, represented by Mr. Vinay Dube – CEO; Mr. Amit Agarwal – Deputy CEO and CFO; Mr. Gaurang Shetty – Director and Senior VP (Commercial); and Mr. N. Ravichandran – VP (Finance).

We will start with the introductory remarks from the management, followed by a Q&A session. Now I hand over the call to the management. Thank you, and over to you, sir.

Ravichandran Narayan:

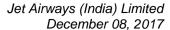
Thank you, Santosh. A very good afternoon to all. My name is Ravichandran. Before we begin today's call, wish to state that certain statements made during this call related to our future business, financial performance and future events or developments may be construed as forward-looking statements, which involve a number of risks and uncertainties that could cause actual results to differ materially from those in such forward-looking statements. Further, I wish to inform you all the numbers reported are in compliance with the provisions of IndAS, both for the current period as well as for the previous periods. The major impact of these will be explained over the call.

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

Vinay Dube:

Thank you, Ravi. Good afternoon, everyone. I am pleased to extend a very warm welcome to all of you for this earnings call organized by SBICAP. I am extremely grateful to all of you for your time and the interest that you have shown in our company. It is a pleasure for me to be here with my team. I am accompanied by Gaurang Shetty – Whole-Time Director; Amit Agarwal – CFO and Deputy CEO; and N. Ravichandran – VP, Finance. I would like to commence with the results of the second quarter for the fiscal year 2018.

During Q2 fiscal year 2018, our available seat kilometers, or ASKs, increased by 7.7% over the same period last year to 14 billion ASKs, and this is primarily due to an increased deployment of wide-body aircraft. We recorded strong traffic growth with the number of passengers carried increasing by 7.7% to 7.29 million over the same period last year.





Our consolidated EBITDAR was Rs. 1,025 crores, compared to an EBITDAR of Rs. 1,531 crores in the same period last year. This is the 10th consecutive profitable quarter with a net profit of Rs. 70.9 crores at a consolidated level.

Our total RASK was Rs. 4.18, compared with Rs. 4.32 in the same period last year. Now, despite an increase in the price of Brent fuel by about 3%, the overall CASK of the company was contained through cost efficiencies in a number of areas. Our CASK, excluding fuel, fell by 5.3% to Rs. 3.07, against Rs. 3.24 in Q2 of last year. This reflects that we are on track to reduce our non-fuel CASK by 12% to 15% in the coming eight to ten quarters, and this is in line with what we outlined as an estimate at the recent analyst meeting held on the 20th of November. The company's focus on deleveraging continues. And in this quarter, we reduced net debt by a further Rs. 194 crores.

Now you all know that global partnerships are the core of Jet's philosophy, and in keeping with this, on the 29th of November Air France-KLM and Jet Airways signed a landmark, in the first of its kind, enhanced cooperation agreement for the development of our operations between Europe and India. Through this enhanced cooperation agreement our guests now have seamless access to 106 destinations in Europe and 200-plus destinations in North America. We have also extended our partnership with China Eastern, and JetPrivilege members can now earn and redeem miles on China Eastern's network. Similarly, China Eastern's Eastern Miles members can now earn and redeem miles on the Jet Airways network. Of course, Etihad remains a strategic partner and continues to contribute more than 40% of our overall partnership traffic. The airline's percentage of alliance revenues went up by 8% during this recent quarter.

We also forged an industry-first partnership with Airbnb, the world's leading community-driven hospitality company, offering a wide spectrum of rapidly growing global hospitality choices to guests from, India and establishing a deeper connect with the new age Indian traveler who is increasingly seeking unique and interesting experiences while traveling in India and abroad. This partnership strengthens the portfolio of choices the airline currently offers to its guests with a well differentiated and highly regarded offering.

Complementing our efforts to deliver exceptional value to guests, Jet Airways also redefined it's classical in-flight, duty-free shopping, JetBoutique, by taking it online and introducing a unique preorder facility. In this process, we have become the first airline to have such an offering, and it helps our guests save time at the airport and, of course, also increases convenience that we provide them.

Now let me request Amit Agarwal, our CFO and Deputy CEO, to take you through the financial and operating highlights of this quarter.

Amit Agarwal:

Thank you, Vinay. Good afternoon, everyone. As outlined by Ravi earlier, it may kindly be noted that Jet Airways adopted Indian Accounting Standards, IndAS, effective 1st April 2016 as a phase II company. Accordingly, the financial results for the quarter and half year ended 30th



September 2017 have been prepared in accordance with the recognition and measurement principles laid down under Section 133 of the Companies Act 2013, read with the relevant rules issued thereunder and the other accounting principles generally accepted in India. Accordingly, the results for the comparative quarter and half year ended 30th September 2016 have been restated as per IndAS, and the reconciliation of the results between the previously reported, referred to as Indian GAAP, and IndAS for the quarter ended September 30, 2016, have been provided in Regulation 33 submitted to the stock exchanges and also published on our website.

Now, let me explain some of the key IndAS and related adjustments in the quarter two of fiscal 2017. Number one, profit on sale and leaseback of aircraft and reversal of losses as per I-GAAP of Rs. 187 crores; actuarial loss on employee benefits and other adjustments amounting to Rs. 32 crores; as well, reversal of exchange gain of Rs. 118 crores. While the reported consolidated EBT for second quarter fiscal 2017 stood at Rs. 513 crores, after giving effect to the above adjustments, the consolidated EBT for Q2 fiscal 2017 would stand at Rs. 147 crores.

Coming to the current quarter, that is the reported EBT for the second quarter fiscal 2018 of Rs. 71 crores, considers an adverse impact of foreign exchange loss aggregating to Rs. 73 crores. If this were to be excluded, the consolidated EBT for second quarter fiscal 2018 would stand at Rs. 144 crores, which is comparable with the IndAS adjusted EBT of second quarter fiscal 2017 of Rs. 147 crores.

Now, let us move to the detail in terms of Jet Group's consolidated performance for the second quarter fiscal 2018 vis-à-vis second quarter fiscal 2017. In second quarter fiscal 2018, while the total capacity, both put together domestic and international, in terms of seats, grew by 8.7%. Total passengers carried by the airline grew by 7.7% vis-à-vis second quarter fiscal 2017. Compared to the same period last year, in second quarter fiscal 2018, we carried 5.21 million passengers in the domestic market, which reflects an increase of 9.4%. At the same time, in the international business, the airline flew 2.08 million passengers, a growth of 3.9%.

During that period, ASKs went up by 7.7% as compared to same period last year. Overall, we achieved a seat factor of 81.5%. The improvement in number of passengers carried has resulted in an increase in our consolidated gross revenue by 4.1% to Rs. 5,952 crores in the current quarter from Rs. 5,715 crores in same quarter last year. The total RASK reduced by 3.3% from 4.32 in second quarter fiscal 2017 to 4.18 in the current quarter.

As we have stated earlier, yields in domestic markets have shown slight improvement; however, Gulf market continue to be under severe pressure. Domestic RASK improved by 2.6%, whereas on the international front, the RASK dropped by 8.4% in second quarter fiscal 2018 vis-à-vis second quarter fiscal 2017. Total cost per ASKM decreased by 10 paisa to Rs. 4.22 in the current quarter vis-à-vis Rs. 4.32 in second quarter fiscal 2017. This was despite the fuel cost increasing by 7 paisa from Rs. 1.08 to Rs. 1.15 in the same period. The CASK, excluding fuel, decreased by 17 paisa from Rs. 3.24 in Q2 fiscal 2017 to Rs. 3.07 in Q2 fiscal 2018. Based on this, we are on track to achieve the 12% to 15% reduction in non-fuel cost in coming 8 to 10 quarters.



EBITDAR for the quarter was Rs. 1,025 crores in second quarter fiscal 2018 as compared to Rs. 1,531 crores in second quarter fiscal 2017. This needs to be also viewed in line with the IndAS adjustment as explained earlier.

Now let me talk about the Jet Airways standalone position, both for domestic and international. Passengers carried increased from 6.1 million in Q2 fiscal 2017 to 6.61 million in second quarter fiscal 2018, and is an increase of 8.4%. ASKMs were up by 8.8% as compared to Q2 of last year. Gross revenue increased by 3.2% to Rs. 5,627 crores in the current quarter from Rs. 5,453 crores in the same quarter last year.

Let me explain some of the key IndAS related adjustments impacting the standalone results in second quarter of fiscal 2017:

Profit on sale and leaseback of aircraft and reversal of loss as per I-GAAP accounts for Rs. 187 crores, actuarial loss on employee benefits and other adjustments amounting to Rs. 74 crores and reversal of exchange gain of Rs. 118 crores. While the reported EBT for Q2 is Rs. 549 crores, excluding the above adjustments the standalone EBT for second quarter fiscal 2017 would be Rs. 170 crores. The reported EBT of second quarter fiscal 2018 of Rs. 50 crores consider the adverse impact of foreign exchange loss aggregating to Rs. 73 crores. If this were to be excluded, the standalone EBT for second quarter fiscal 2018 would stand at Rs. 123 crores.

Now, moving on to domestic operations of Jet Airways:

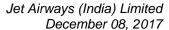
Our share of total domestic revenues to total revenues accounts for 43.2% during the quarter. ASKMs went up by 18.4% compared to Q2 of last year. Domestic revenues were Rs. 2,429 crores, up by 16.2% as compared to Q2 of last year. The passenger revenue from domestic operations increased by 22.6% to Rs. 2,121 crores in the current quarter. Domestic load factor was 80.4%.

Now about international market:

The revenues to the total revenue account for 56.8% during the quarter. The ASKM increased by 3.8% compared to Q2 of last year. The passenger revenue from international operations decreased by 1.5% to Rs. 2,770 crores in the current quarter. Overall seat factor in the international market was 82.1%.

Now moving on to debt and liquidity position for Jet Group:

As of 30th September 2017, the gross debt on our balance sheet stood at Rs. 8,386 crores. Our total debt comprises of aircraft debt of Rs. 2,441 crores or \$405 million, and 71% of our debt is dollar denominated.





As part of our deleveraging philosophy, the gross debt reduced by Rs. 313 crores for the quarter ending 30th September 2017, and net debt reduced by Rs. 194 crores during the quarter. The net debt at 30th of September stood at Rs. 7.884 crores.

Turning to the current quarter and outlook:

We witness that the Gulf market continues to remain weak. And the recent increase in the Brent prices continues to put pressure on the airline's overall cost position. As mentioned in our previous call, we plan to induct eight aircraft during the current fiscal year. Of these, three aircraft have already been inducted, and we expect the remaining five to be inducted in the next quarter. In addition, the 737 Max will start getting inducted into the fleet from next fiscal year. In line with our commitment to provide a best-in-class guest experience, we are also happy to say that almost 80% of our 737 aircrafts are now equipped with world-class streaming capabilities. With this, our guests flying even within India on the 737 fleet can enjoy an exciting range of Indian, Hollywood, regional and international movies, TV shows, videos, games and music.

Let me now open the call to questions.

Moderator:

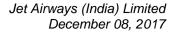
Thank you very much. Ladies and Gentlemen, we will now begin the question-and-answer session. We will take the first question from the line of Rahul Bhangadia from Lucky Investment Managers. Please go ahead.

Rahul Bhangadia:

So two questions. First one, if you could kind of give us some sense of the financial and operational implications of this metal-neutrality deal that you have signed with Air France and KLM? If you could just give us, I am sure you have worked it out, what is the sense that you can give to the shareholders on this deal?

Vinay Dube:

We do not have specific numbers to share with you in terms of x percent increase in this or y percent increase in the other, but we can certainly outline a range of benefits for our consumers, which eventually translate to a host of benefits for Jet Airways. And they start with increased connectivity, I mentioned the 106 destinations in Europe and 200 destinations in North America. That is the increase in connectivity that we have. So we can get to you virtually from almost anywhere in India to almost anywhere in Europe and North America. And we have used the word seamless in that, this is not just a typical codeshare, but this is one where we will fundamentally design the schedule together, ensuring that the connections that one makes at every connect point go as smoothly as we can. It is also the selling process and the ticketing process, allowing people to have various combinations for one leg on Air France and another leg back on Jet Airways or going to Europe on KLM, traveling around Europe between Air France and KLM, and then flying back on Jet Airways or any such combination. So, it is really the seamless travel, it is the joint development of the network in a coordinated and structured manner, providing choices and convenience to our customers.





Gaurang Shetty:

Hi, this is Gaurang. I just want to add to what Vinay just said. I think this arrangement is the ultimate level of partnership that carriers create. There are very few of them, a handful of them around globally. And I think, for us, the customer proposition certainly becomes very strong, it becomes an unparalleled, unbeatable combination. Because as far as we are concerned, it does not matter on which aircraft the customer flies he just gets the entire benefit of traveling within Europe and to North America as well. So the entire range of benefits changes completely. And we do a complete harmonization in the way we work together, and it is the ultimate level in which partners cooperate on routes.

Rahul Bhangadia:

Okay. So this arrangement has already kicked in, or this is a work in progress kind of stuff?

Vinay Dube:

No, this arrangement has kicked in. It kicked in from the time we signed it. And so we have started seeing the incoming flow of customers onto our network already. And we have started seeing that coming in from points of sale in both Europe as well as North America.

Rahul Bhangadia:

So, sir, would it be fair to say at least on a bare minimum basis that we hope to at least increase occupancies when we sign up for this kind of a deal?

Vinay Dube:

Absolutely. And I would say increase the RASK, really, on the set of flights that are being covered here.

Rahul Bhangadia:

Okay. Sir, the second question was you already touched upon the topic on the cost per ASK in the quarter at Rs. 3.07. I just wanted to confirm that is there any contributive cost that was a one-off or advantage that are a one-off in this? Or this is pretty much the run rate of Rs. 3.07, and you will slowly move towards your target of, say, Rs. 2.8 or Rs. 2.75?

Amit Agarwal:

Obviously, this is a normal cost of what we have been able to achieve through the various initiatives. And we continue to focus on various other initiatives. And as we talked about on the analyst meet, that we are in line to achieve the 12% to 15% on non-fuel CASK reduction over the next eight to ten quarters.

Rahul Bhangadia:

And just one follow-up to this, sir. This deal with Air France-KLM annual target of cost saving, there is there any inherent cost benefit that you have included in your 12% to 15% target because of this deal or these two things are separate altogether?

Amit Agarwal:

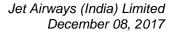
No. Obviously, the cost target is based on our various initiatives which we are taking as Jet Airways and efficiencies which we are building into the company. And Air France-KLM is mostly on the revenue line item that is what we are going to see the benefit.

Moderator:

Thank you. We will take the next question from the line of Anshuman Deb from ICICI Securities. Please go ahead.

Anshuman Deb:

In continuation with the previous question of the metal-neutral JV that we have done, one of the implications for the travelers from India to the long-haul operations in this JV, would it be a





migration of some of the passengers from Middle Eastern airlines to the Jet network? And avoiding Middle East does halve them traveling directly to Europe and the US through our network? Would that be a right implication of this kind of a deal, as in one of the possible implications?

Vinay Dube:

So I think that is overstating it a little. I think It is safe to say that when we entered into this partnership, we are trying to make our Europe and North American offering as strong as we possibly can. I think when you look at the overall market, there is plenty to go around. There is a lot of growth in this market. And we want to grow at a disproportionate rate compared to the market growth. And I do not believe that we ought to focus on Middle Eastern carriers specifically, but really every carrier that takes traffic between India and Europe and North America.

Gaurang Shetty:

Yes, exactly. Just to add what Vinay is saying. I think since the partnership started last year, we have already seen that we have certainly made a dent, as far as competition is concerned, to Europe and North America. And you can see the effect on the network benefit and the reach that we offer, and you can see the effect on competition already, in general, yes.

Anshuman Deb:

All right. And one more question I had regarding the other income part of the JPPL slump sale part which we have in our other income. What would be the quantum in this quarter and what amount would be left as of now?

Ravichandran Narayan:

As you know, we have been accruing this credit over the years, and it is at the same run rate that we have recorded in the past. And of the Rs. 305 crores that was left as of 31st March 2017, as we move forward, around Rs. 140 crores of it is left, which will be recognized in the balance quarters.

Moderator:

Thank you. We will take the next question from the line of Mayur Milak from IndiaNivesh Securities. Please go ahead.

Mayur Milak:

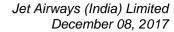
Just trying to understand this metal-neutrality. So just help me understand, what we typically mean by this is that while both of us are running our individual aircrafts on that route, it does not really matter whether the passenger is traveling on any of the aircraft. The revenues will be shared by all of them. Am I right?

Vinay Dube:

Broadly speaking, you are correct. There are details that differ, in that it is not just pooling the revenues together and splitting it down in half. The formula is a bit more complicated, it is not one that we will share with you, but you have got the concept correct.

Mayur Milak:

All right. And on this concept only, so does it mean that, let us say, if Jet really does not have its own aircraft, let's say between x and y destination and KLM has it there, in that case, does it go under code sharing or does it still go under metal-neutral?



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Vinay Dube:

It is both, meaning that if there is a flight from point A to B that Jet does not have, so let's take Bangalore-to-Paris, Jet does not have a flight there, the expectation is that Jet would help make that flight successful by putting a code-share on it. And of course, if there is a place where Jet has a flight and AFKL do not, we would expect the same in return. And then all of those revenues would then go into a revenue-sharing pool to be shared based on a set of formulas and governance.

Mayur Milak:

All right. And so would this revenue share be more to do with the capacities that are run by individual aircraft or they are a different set of things altogether? As an analyst, if I have to really build in some kind of revenue growth based out of this agreement, how do I look at, I mean, how do I look into it? Because I know the cost, right, so you give me the cost, as in cost per ASK, but I really do not know how much revenue should I apportion between this arrangement to our sheets, so how do I look into it?

Vinay Dube:

Yes. The formula is a little more harder, I would say, to model than that, so capacity certainly plays a part. But also, the incremental revenue and the underlying RASK of each parties also plays a part. And my view is it is going to be hard for me to explain all the detailed formulae that underlie this. And I think we also have a confidentiality agreement as part of this, which prevents me from going into all of the detail of how that is shared. All I would say is that there are a multitude of parameters that go into the exact method by which both parties are economically incentivized to help each other out where capacity, RASK and incremental revenue are all factors.

Mayur Milak:

Okay. And coming to the revenue per ASK, so we have seen a decline from Rs. 4.32 to Rs. Rs. 4.18 YoY. Just trying to understand that while crude cost went up, our revenue per ASK came off, which means which you are probably suggesting that the yields have been under pressure and you've said that even the international yields are down. Are we really looking at any improvement, now that crude has gone up and you are supposedly in the best quarter for the aviation industry?

Vinay Dube:

Yes. Actually, that is not correct. I am glad you asked the question, so we can clarify. Because when it came to passenger RASK, that really was not the issue. This was really related to revenue from leasing operations that is causing the decline. So it is good that you asked the question, that we can clarify it.

Moderator:

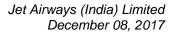
Thank you. We will take the next question from the line of Pawan Kumar from CRISIL Research. Please go ahead.

Pawan Kumar:

Sir, I have two questions. The first question is regarding your induction plan for 737 Max. You mentioned that you will be inducting 737 Max from June next year. Will this be of configuration, I do not know, Max 8 or 9 or 10, which one will be this configuration?

Vinay Dube:

Max 8.





Pawan Kumar: Max 8. And what will be the seat configuration, number of seats or anything like that?

Vinay Dube: So 12 and 162. A total of 174.

Pawan Kumar: Sir, apart from that, over the next three years how much fleet are you planning to induct into

MAX overall, you know, including your narrow-body and wide-body aircraft?

Amit Agarwal: So as per our plan, we want to induct in the next three years, from next year onwards, almost 25

aircraft into the fleet, which is narrow-body.

Pawan Kumar: Okay. All 25 aircraft will be narrow-body, right sir?

Amit Agarwal: Yes, please, yes.

Pawan Kumar: Sir, and when will be the wide-body you have on order, 787-9 in order right sir, when will those

be inducted, sir?

Amit Agarwal: So we are currently evaluating the whole wide-body, long-haul network. And depending upon

that we will finalize the delivery schedule of such 787s.

Moderator: Thank you. We will take the next question from the line of Yusufi Kapadia from Edelweiss.

Please go ahead.

Yusufi Kapadia: So I have got three questions. Firstly, on the selling and distribution expense, so you spoke about

the measure to reduce the global distribution services expense, GDS expense. And also, there was, a couple of days back there was announcement that Jet has scrapped agent commission by 1%. So, can you please let us know whether this has to do with that GDS part or this is more on

the domestic agent commission and not on the international fleets which you have?

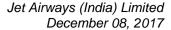
Amit Agarwal: So, Yusufi, thank you. Basically, if you look at it, as we mentioned and we have been

consistently talking about, our drive towards efficiency improvement and cost reduction does not go into one-line item, our focus is to address every single line item. And as and when we get the ability to negotiate and convince the vendors to provide a better rate and have a different usage, we work on that basis. So, similarly, that structure has worked out. And the GDS cost which you talked about, we have been working through the vendors and we will see the benefit of that as we mentioned in the analyst call and the meeting, that it will come over the next few quarters. However, the agent's commission is something which we continuously evaluate and see where is an opportunity to reduce such cost without compromising the sales of the business and that is we take the call accordingly. So these are two different things, but as I mentioned, we

will address every single line item of our cost.

Yusufi Kapadia: Okay. So this agent commission then is likely to be the one which we pay to MakeMyTrip and

Yatra of the world on domestic...





Amit Agarwal: Yes. So it is part of commissions which is payable in India to various agents.

Yusufi Kapadia: Okay, understood. And also, secondly on the debt side, you have mentioned that the total debt

for the company today is roughly Rs. 7,800 crores. That is the net debt I am talking about. While if you look at the balance sheet on a standalone level, the net debt comes out to be roughly Rs. 5,500 crores. So the Rs. 7,800 crores, is it the consolidated one which you are talking about or

if it is standalone are there any other elements which need to be considered?

Amit Agarwal: Yes. So basically if you see, you will have always, which is due in the next 12 months shown

under the current liability. And that is why you need to consider all the debt, not only just the line item borrowings, rather what is shown in the other financial liabilities and other current

liabilities.

Yusufi Kapadia: Okay. So all the portion of the current liability like Rs. 5,400 crores, if I am not wrong, that is...

Amit Agarwal: No, no.

Yusufi Kapadia: Okay. Other liabilities?

Amit Agarwal: Yes.

Moderator: Thank you. We will take the next question from the line of Rahul Bhangadia from Lucky

Investment Managers. Please go ahead.

Rahul Bhangadia: Sir, just a question on that Jet Privilege program. You mentioned the quantum of revenue that is

left. Just as a clarification or just to understand, the credit that you recognize in the turnover, does that have a corresponding cost or does it directly go and hit the EBITDA in a positive

manner, how does that work on the accounting side?

Ravichandran Narayan: This credit that we spoke of is the credit that had arisen by parting with this program, which is

completely delinked to the accruals that we pay for. The program separation, which happened as a slump sale way back in 2014, the credits were accrued over a period of time and Rs. 305 crores of that amount was left as of 31st March, 2017. As we speak, as at end of 30th September, 2017, there is a balance of Rs. 140 crores, which will be recognized. However, on the Frequent Flyer Program, the cost side of it, the accruals are driven by a different commercial arrangement

between the two entities.

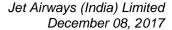
Moderator: Thank you. We have next question from the line of Mayur Milak from IndiaNivesh Securities.

Please go ahead.

Mayur Milak: So just on the other income as well, so what you are saying is that once this Rs. 140 crores that

is left and we recognize it, so the component of this will not really arise again in FY 2019, right,

so the other income will come down to a regular level of what is reported right now?





Amit Agarwal: That is right.

Mayur Milak: All right. And I also wanted to understand that our load factor has been at 81.5% and we have

been adding ASK in about 8% to 9%, 10% kind of range, while the domestic market is growing at about 14% - 15%. So isn't that really leaving us a risk of losing market share while other

people gain out of that additional passenger flow?

Amit Agarwal: So, basically if you see, what happens is, in our domestic operations we have added ASKs also

to the tune of 18% compared to the last year second quarter. So, so what happens is if you look at on a total overall business the ASKs we add, but as we have talked about again in the analyst meet, when in India, our philosophy is very, very clear, that the majority of the deployment of such incremental ASKs goes into the domestic operation. And that is why it has been clearly

reflected that ASKs grew by 18% in the domestic market compared to last year.

Mayur Milak: Right. And just this last thing on the KLM partnership. So, are we reading it partially correct

when we say that when we have this kind of arrangement and we are already seeing some weakness in our Gulf network, somebody who has a choice to really go to Europe can directly now go without really going to Gulf. So part of it could really be cannibalizing our existing

network, so the growth that comes will be definitely much more, but some of that will definitely

cannibalize your existing network in the Gulf as well?

Gaurang Shetty: I think, overall, the market is growing by at least 10%, and the pie is large enough. I think the

advantage that we enjoy is, customers now have a choice, I mean, customers have a choice of

going to the European hubs to North America. Customers, if they wish, would like also to have

a choice to go via Middle East points on Abu Dhabi with our partner, I think to Europe and others. I think we now offer the largest bouquet of options to our customers, and that is going to

be our biggest strength. So customers can choose from our bouquet of services on whichever

routing they wish to take, and that is a big strength.

Amit Agarwal: And you see, we are the only carrier which takes the opportunity of four gateways, you have

Abu Dhabi, London, Paris and Amsterdam to go to Europe and North America and can have an alternate situation on the return. So this is one of the most unique combination which has been

able to create because of this partnership with Etihad and the new recently alliance with the Air

France-KLM.

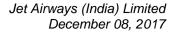
Gaurang Shetty: Yes. And this cannot be offered by any of our competitors in India, in fact.

Amit Agarwal: Or any carrier in Europe or Middle East.

Mayur Milak: Right. And sir, lastly, on the debt side. So since our debt is at about Rs. 7,800 and the reported

had this kind of tie-up, and you also mentioned in the analyst meet that any further aircrafts that we take will possibly be on a sale and leaseback, so I believe that all the operating cash flow that is actually being generated could vastly be used to reduce debt in a big way. So am I reading it

right? And what are our targets on debt as such?





Amit Agarwal: So you are absolutely right. And this has been clearly demonstrated, if you see in the last three

years, 2.5 years. We have reduced the overall debt by over Rs. 3,000 crores. And this is clearly reflected upon that the cash flow generated from the business will go towards deleveraging of the company. Now as far as the target is concerned, obviously, I am not going to give any guidance in terms of what kind of a reduction. But our committed agenda is clear, that whatever it takes on a cash flow generation will be used only for debt reduction. And you are absolutely right, that we have said all the new aircraft deliveries will be only on the sale and leaseback.

Moderator: Thank you. We will take the next question from the line of Saurabh Kumar from JPMorgan.

Please go ahead.

Saurabh Kumar: Sir, just going back to the 737 Max's. So by fiscal 2020, so if I take this 25 addition, should then

the 737 Max's be about 20% of the capacity of the company?

Amit Agarwal: 20% of what?

Saurabh Kumar: Of the net installed fleet then.

Amit Agarwal: No, it will be lower. It will be still lower. It will be around 12% to 13%.

Saurabh Kumar: 12% to 13% by fiscal 2020?

Amit Agarwal: Yes.

Saurabh Kumar: Okay. And this maintenance cost for your consolidated income statement, I think at Page 11 of

the presentation, sir, the number is 19% up year-over-year, so 3.5%, even if you look for ASK,

it has gone up. So what is happening there?

Amit Agarwal: So basically, if you see the maintenance cost, the increase happens on two folds. One, we have

increased the number of hours which has been flying. And as you know that compared to the last year to this year we have got the 777s back into our fleet, which was operating under Etihad in the past which was leased out. Now these aircraft are operating into Jet Airways, and therefore, the operational expenses come into different line items. And that is the reason for an incremental maintenance cost, as well as there is always the inflationary increases on account of maintenance

contracts with the various MRO providers.

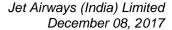
Saurabh Kumar: Okay. And a part of these resets, as you had guided in the analyst meet, a big part of this reset's

in Jan 2019, right?

Amit Agarwal: That Is correct. That is absolutely correct.

Moderator: Thank you. We have the next question from the line of Anshuman Deb from ICICI Securities.

Please go ahead.





Anshuman Deb:

I had one question regarding the CAPEX of our company in the next two years. So regarding the pre-delivery payment or any that kind of a CAPEX guidance, if you could share, that would be really great.

Amit Agarwal:

Yes. So Ansuman, basically, as you know, I am not talking about few crores of CAPEX, a small CAPEX just like a maintenance CAPEX kind of a thing, that would be there, which is also not significant. But there is, in terms of the PDP payments and such things, the arrangement which we have made with our lessors, would take care of any such PDP payments and the OEMs as well.

Anshuman Deb:

Okay. So sir, the part of the CWIP that we have would be towards that PDP payment, is that the right understanding?

Vinay Dube:

It is only a small portion which is contained in that CWIP, but the balance is towards the other CAPEX.

Moderator:

Thank you. We have next question from the line of Harsha from PM Securities. Please go ahead.

Harsh Shah:

So, my question was regarding the maintenance cost itself. For the aircraft maintenance cost, as I understand, we are spending almost around Rs. 2,000 crores for aircraft maintenance with around a fleet size of 112, which roughly translates to around Rs. 17 crores to Rs. 18 crores per aircraft. And if we look at our competitors like InterGlobe, they are spending around Rs. 840 crores with a fleet of 131, which roughly translates to Rs. 6 crores to Rs. 7 crores. So why are we paying like 3x the amount of maintenance cost per airplane, can you please clarify that? Or is it the line items included in the maintenance cost which is differing?

Amit Agarwal:

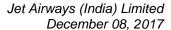
Okay. So first of all, I cannot comment about the competition. What I would like to explain that the maintenance cost per se varies for a narrow-body aircraft and a wide-body aircraft. And as you know, that we have a significant long-haul operation, which are met by the 18 wide-bodies, which we have the ten 777s and the eight330s. So obviously, there is a fundamental cost which is accounted there. Second, as we also talked to you that starting January 1, 2019, our renegotiation of the maintenance contract has enabled us to reduce a substantial portion of the cost, which will also be reflected by reducing the cost from January 1, 2019. So these are the two major reasons for the aircraft maintenance cost in our books.

Moderator:

Thank you. We have the next question from the line of Kaustav Bubna from SKS Capital & Research. Please go ahead.

Kaustav Bubna:

Just please help me out here because I am relatively newer to the company than the other participants. Just wanted to understand, so you know this debt reduction you are talking about, it is highly dependent on your operating cash flow. Now, one thing I see is that with your revenues increasing in your international operations through the years because of this deal and other things, on that side your overall volume of EBITDA will increase. But just wanted to understand, if oil goes to \$80 or oil goes to \$85, there is a hindrance on your operating cash flow





over there. So, could you give some specific guidance on how much are you expecting to reduce that? I know you cannot give the exact figure, but compared to the last three years, you have reduced x amount of debt. Now in these next three years compared to the previous three years, how much debt are we planning to reduce? And what if oil goes up to like \$75, \$80, then how does that impact our CF and our debt reduction plans?

Amit Agarwal:

Okay. So clearly, fuel going up to \$75, \$80, again, for me to say how the market will pan out, because there is a concept of fuel surcharges in the marketplace, which happens both in the domestic market and international market. However, I would also like to add, clearly, there does not exist any correlation that x goes up, y sales go up. So there does not exist a correlation, however, it is a general trend in the market depending upon various economic factors and capacity and other factors that derives or determines whether the fuel surcharge is levied at 100%, 0%, so anything or everything can happen. So that is something which is very, very difficult to forecast to date, I think, at this juncture.

As far as debt reduction is concerned, again, as I mentioned to earlier person, that it would not be possible for me to give any guidance in terms of what would be the debt reduction on a go-forward basis. We have been consistently demonstrating that the cash flow generation will be used. And for a business like this, the major CAPEX goes into the aircraft. And we have stated very clearly that all the future deliveries of the aircraft will be on a sale and leaseback. So that eventually leads to the fact that whatever would be the cash flow generation would go for debt reduction.

Moderator:

Thank you. We will take the last question due to time constraints from the line of Achal Kumar from HSBC. Please go ahead.

Achal Kumar:

Yes. I have two questions, sorry. One is that when you have planned 737 Max's, these are expensive machines, how do you see your lease expenses reacting to that? How much do you think lease expenses will increase by? And secondly about Air India, obviously, there was a news that you were thinking about bidding for Air India. I am not going to that. But even if you do not do that, at the moment, Air India is a sort of very inefficient airline, you know that, but if it goes to the competitors what sort of risk do you see to your business?

Amit Agarwal:

Okay. First one, in terms of understanding, we are very clear that the way it is going, Air India is something which we cannot talk about and comment upon what would happen, what would not happen. We have talked about how we want to grow and make Jet Airways a sustainable business, and that is our effort, which we will continue to focus upon. And that has been demonstrated based on what we have shown in the last so many quarters by consistently reducing the non-fuel costs and reduction in cost. Now as far as the lease is concerned, we look at it with the recent upgrade of the Moody's rating, and we are in the right spot to negotiate our lease contracts with the various lessors. And we are seeing some very good rates, which are being made available to us in terms of financing these aircrafts. So obviously, as a quantum, it will go up. However, these aircraft are going to generate more production, which is more ASKs and



Jet Airways (India) Limited December 08, 2017

which will fly. And as you know, also 737 Max's are 15% more fuel-efficient aircraft, which will also help us in reducing overall cost, and the lease rentals will be very, very competitive.

Moderator: Thank you very much. Due to time constraints, that was the last question. I now hand the

conference over to the management for their closing comments.

Amit Agarwal: Thank you very much. We would thank all investors, analysts and participants on the call for

taking interest in the performance of the company and SBICAP for hosting this call. Thank you

all.

Moderator: Ladies and gentlemen, on behalf of SBICAP Securities, that concludes this conference call for

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