

## "Jet Airways Limited Q2 FY2019 Earnings Conference Call"

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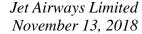
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**Moderator:** 

Ladies and gentlemen, good day and welcome to Jet Airways Q2 FY2019 earnings conference call hosted by SBICap 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 now hand the conference to Mr. Santosh Hiredesai from SBICap Securities Limited. Thank you and over to you Sir!

Santosh Hiredesai:

Thanks, Karuna. On behalf of SBICAP Securities, I would like to thank the management of Jet Airways for giving us this opportunity to host this call. To discuss the quarterly results, we have the senior management of Jet Airways, represented by Mr. Vinay Dube, CEO, Mr. Amit Agarwal, CFO and Deputy CEO, Raj Sivakumar, SVP worldwide sales and distribution, Mr. Ravichandran Narayan, SVP Finance, Abhijit Dasgupta, VP Network With his brief introduction, I would like to hand over the call to management for the initial comments followed by Q&A session. Thank you, and over to you, Sir!

N. Ravichandran:

Thanks, Santosh. This is Ravichandran. Complements of the season and a very good afternoon to all of you. We 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. We must inform you all that the numbers reported are in our financials, the quarterly financials are in compliance of the provisions of IND-AS Let me now had 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 earning call organized by SBICAP. I am grateful to all of you for your time and the interest that you have shown in our company. It is a pleasure to be here with my team. I am accompanied by Amit, our CFO and Deputy CEO, Raj Sivakumar, SVP Worldwide Sales and Distribution and Ravichandran, SVP Finance and Abhijit Das Gupta, VP networks.

I have spent the last 15 months of my aviation career in India, and while aviation in general is not a very easy business globally, in India both the opportunities and challenges faced by the sector are at a totally different level. The opportunity is staggering because of our highly underpenetrated aviation market with a fast-growing economy and a growing population. But the challenges are equally staggering, as airlines battle for market share, not profitability, by dumping capacity into a market at unprecedented levels, enabled by fare regimes that are unsustainable. You are seeing this clearly play out as each of the airlines report results for the second fiscal quarter.

Compared to the same quarter last year, the Indian rupee has depreciated by about 10%, and Brent is higher by almost \$25 per barrel or 50%. However, instead of witnessing an increase in fares, to recover these cost increases, the industry fares and yields are in fact down. Such a low fare



environment is not sustainable for the industry nor good for the consumer in the medium term, and it is imperative that fares rise in the short term.

However, as we have said before, hope is not a strategy, and we remain focused on our airlines business turnaround, which we are happy to report is on track. I would like to spend a few moments on some of our key turnaround efforts before I dive into our Q2 FY2019 results.

Let me start with operations, our operational reliability and on-time performance is the best we have seen over the last 3 years. The airlines arrival on-time performance for this quarter was 84%, which is a substantial 15% point higher than Q2 of last year. Our technical dispatch reliability during the quarter was at 99.36%.

On the cost side we continued to see our cost savings initiatives bearing fruit. It is noteworthy that our CASK including fuel was almost flat at Rs.3.09 against Rs.3.07 in Q2 FY2018. This is despite the significant depreciation of the Indian rupee versus the U.S. dollar across the comparable period. Excluding the adverse impact of exchange rates, our non-fuel CASK was, in fact, Rs.2.94, which is about 4.2 points lower compared to the same period last year. Compared to first quarter of FY2019, the non-fuel CASK in this quarter was lower by 2.4%. This is testimony to the fact that our cost reduction initiatives are bearing fruit, and we are on track to meet the cost reduction targets, which we have set for ourselves. Excluding foreign exchange, the current quarter's nonfuel CASK is a 9% lower than the nonfuel CASK of fiscal year 2017.

To remind everyone on the call, this is in line with the target we communicated late last year to reduce our nonfuel CASK by 12% to 15% compared to FY2017 in the succeeding 10 to 12 quarters. On the network front, the Airline continues to evaluate environmental factors and economic performance and is undergoing a comprehensive update of its network along with products and services offered. The strategy includes concentration of capacity, enhancing frequency density and hub connectivity to better serve our corporate customers, which contribute to more than 45% of our revenue.

The measures will include rationalization of our operations on uneconomic routes and the redeployment of these assets to more productive and economically efficient international, as well as domestic sectors, closely aligning capacity with the demand characteristics of specific markets. Effective 29 August 2019 we have introduced 28 new flights in our domestic network, which include industry first flights connecting Indore with Jodhpur and Vadodara and additional frequencies on Mumbai to Guwahati.

To complement the changes in our network, we are also implementing new revenue management strategies that help us cope with a difficult fare environment. The implementation of these strategies is going well, and we expect to see this bear fruit in our reported RASK performance over the coming quarters.



We are in a dynamic business, which is ever evolving to ensure that needs of all segments of our guests are met. To cater the needs of certain sections of our guests, we have come up with more flexible fare options on our domestic services.

We have now unbundled fares in the Light and Deal categories of fare choices in the economy cabin for flights within India to allow customers to buy a meal. The revised offering on the fare choices will now allow guests to enjoy more value for money by letting them choose a travel plan based on their preference, travel requirements and budget. So to recap, we are successfully implementing transformational initiatives in the areas of operation reliability, cost, revenue and the customer experience.

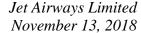
Now let us move to the results of the second quarter for fiscal year 2019. This quarter, we reported a loss of Rs.1261 Crores at a consolidated level. Excluding the impact of foreign exchange losses due to the depreciation rupee, the loss was Rs.823 Crores.

Amit and Ravi will be taking you through the results in detail later during our call. Just some highlights though for now. During the second quarter of fiscal year 2019, the capacity deployed in terms of ASKs increased by 7.3% over the same period last year to 15.3 billion ASKs. We recorded 2.2% traffic growth in this quarter, with a number of passengers carried increasing to 7.45 million over the same period last year.

We reported a RASK of RS. 4.16 for Q2 FY2019, which is practically flat compared to Q2 of FY2018, despite a stage length increase of 9.6%. We improved the load factor by 2.5 points, which was offset by the lower fare regime dominating the Indian aviation markets these days.

Fuel prices have seen a sharp increase with Brent price being higher by 51%, at \$75 per barrel in Q2 FY2019, compared to \$50 per barrel in the same period last year. As a result, the fuel CASK in Q2 was 44% higher as compared to Q2 of FY'18. This led to our overall CASK increasing to Rs.4.75 in Q2 FY2019 as compared to Rs.4.22 in FY2018. We are glad to share that our first ever-nonstop service between Mumbai and Manchester has started from November 5, and we are seeing an encouraging response from our guests. We have also expanded our code share partnerships with Bangkok Airways, Malaysian Airlines, for seamless connectivity of our passengers to and from points in India and the overseas and have also expanded the scope of code share agreements with Korean air on our Bengaluru to Singapore service.

We are already seeing fuel efficiencies in our 737 Max Aircraft. Along with extremely positive feedback from guests about the overall flight experience of the Max, we have so far inducted 5 out of the 11 Max aircraft scheduled to be delivered to us this financial year. Let me now request Amit to take you through the financial and operating highlights.





**Amit Agarwal:** 

Thank you, Vinay, good afternoon, everyone. Let me first talk through the Jet Group's consolidated performance for the second quarter of fiscal 2019 vis-à-vis second quarter of fiscal 2018. In second quarter fiscal 2019, our total capacity which includes domestic plus international in terms of seats decreased by 2.1%, whereas the total passengers carried by the Airline grew to 2.2% versus second quarter fiscal 2018. This reduction is primarily attributed to reduced ATR flights. ASK, however, went up by 7.3% as compared to the same period last year.

We have achieved a seat factor of 84% in Q2 fiscal 2019, which is higher by 3 points as compared to Q2 fiscal 2018. Consolidated gross revenue increased by 7% to Rs.6,363 Crores in the current quarter from Rs.5,952 Crores in same quarter last year.

Our cargo business continues to show significant improvement, with cargo revenues improving by almost 14% over last year same period. The total cost per ASKM increased by 53 paisa or 12.5% to Rs. 4.75 paise in the current quarter via-a-via Rs.4.22 paise in Q2FY2018. This was mainly due to fuel cost increasing by 44% from Rs.1.15 paise to Rs.1.65 paise in the same period. Measures undertaken by us to control costs have resulted in our non-fuel CASK being largely contained at last year's level. This is despite annual inflation and significant depreciation of Indian rupee vis-à-vis the U.S. dollar. As alluded to you by Vinay earlier, our nonfuel CASK excluding foreign exchange impact was in fact at Rs.2.94 which is 4.2% lower than second quarter of last year.

EBITDA for the quarter was Rs.239 Crores as compared to Rs.1,084 Crores in the second quarter fiscal 2018. This quarter's results were adversely impacted by increase in fuel prices without corresponding yield improvements. This rise in Brent prices had a negative impact of over Rs.811 Crores in the current quarter.

Further, the quarter was also impacted by mark-to-market noncash charge to the income statement on account of unrealized foreign currency loss of Rs.438 Crores. Given that the unrealized foreign currency loss was Rs.73 Crores in second quarter of fiscal 2018. The incremental charge to the income statement due to unrealized foreign exchange was Rs.365 Crores in the current quarter.

Considering that, almost 50% of non-fuel CASK are dollar-denominated, and the 10% depreciation of rupees vis-à-vis dollars in the current quarter compared to previous quarter has significantly impacted our costs. However, our cost saving initiatives have offset the inflationary increases in cost. The selling and distribution costs increased this quarter compared to Q1 due to increase in number of international passengers by 10% and additional impact of foreign exchange. The increase in finance cost in the second quarter of fiscal 2019 versus last year was primarily attributable to additional INR loans taken after September of last year, with steady interest rate higher as compared to aircraft and other dollar-denominated debt.

Continuing on the operational highlights for the domestic operations, the share of domestic revenues to total revenues was 41% for the quarter. ASKM were up by 1.3% as compared to second quarter of



last year. Passengers carried from 5.21 million in Q2 fiscal 2018 to 5.27 million in Q2 FY 2019, shows an increase of 1.1%.

Gross revenue decreased by 5.7% to Rs.2,615 Crores in the current quarter from Rs.2,773 Crores in the same quarter last year, primarily due to lower fares. Overall seat factor for the domestic operations was at 83.4%.

Moving on to International. The international revenues to total revenues accounts for 59% for the quarter. ASKMs grew by 11.3% compared to second quarter of last year. Passengers carried were 2.19 million in second quarter fiscal 2019, an increase of 5% from 2.08 million in the second quarter fiscal 2018. The gross revenue from international operations increased by 17% to Rs.3,748 Crores in the current quarter. Overall seat factor in international market was at 84.3%.

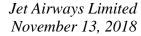
Let me now take you through the details of the debt and the liquidity position for the Jet group. As of September 30, 2018, the gross debt on our balance sheet stood at Rs.8,411 Crores or roughly \$1.16 billion, a reduction of approximately of Rs.200 Crores in the quarter. Of this aircraft debt stands at Rs.1,851 Crores.

About 60% of the total debt is denominated in U.S. dollar terms. The Crores debt as at September 30 was Rs.8411 Crores. The net debt at September 30 stood at Rs.8,052 Crores, a reduction of approximately Rs.30 crores over March 2018, an increase of Rs.690 Crores over June 2018.

It is important to note that given large component of our debt is dollar-denominated depreciation of the Indian rupee has impacted our closing debt balance by Rs.530 Crores due to non-cash mark-to-market. Excluding the impact of unrealized mark-to-market loss, the reduction in our net debt since March 2018 has been Rs.560 Crores. Given the financial performance of the company, our liquidity is strained while we are current on all of our payment obligations to banks, statutory dues fuel companies and airport operators, we have delays in payment to vendors and a section of employees.

We must emphasize that we are receiving unwavering support from our vendors, and we are grateful to all stakeholders for having confidence in us. We are working towards various liquidity initiatives to bridge the debt. The company has engaged the services of experts to help in its turnaround plan, encompassing operational improvements, building efficiencies and enhancing the liquidity status of the company. These measures include sale of aircrafts, monetization of the company's stake in JPPL and fresh liquidity infusion into the Company. We are actively pursuing both the transactions and are currently at various stages of discussion with multiple interested parties for both part stake sale in Jet business and fresh infusion of equity into the company. There is plenty of interest in our strong brand and confidence in our business turnaround efforts.

Turning to the current quarter and outlook. While the aviation market in India continues to be challenging, sales are showing little signs of improvement as we enter into the busiest quarter of the





year. In the upcoming quarter, we would be adding 3 more B737 Max aircrafts, taking the total tally of the fuel-efficient aircraft to 8. As mentioned in earlier calls, we are strengthening our network with additional departures out the Tier 2 and Tier 3 cities to connect to Metro cities in this effort we have connected Indore to 14 cities on our network.

On the international front, we are introducing daily nonstop flights between Pune and Singapore, which will enable our guests to connect to more destinations beyond Singapore like Brisbane, Jakarta, Nadi to name a few. With overwhelming response to our existing services between Delhi and Singapore, we intend to start third frequency on this sector to cater to the demands of our guests. We have also started our fourth frequency, daily frequency between Delhi - Dubai to strengthen our network in the Gulf market. Let me now open the call to questions.

**Moderator:** 

Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Ronil Dalal from Ambit Capital. Please go ahead.

**Ronil Dalal:** 

Good day gentlemen. So my question is that your revenue from operations, I saw there is an item of Rs.114 Crores so this is an expected refund of an earlier rent expense so why is it been classified as an operating revenue, No.1, Number 2, I wanted to ask you, in other non-current liabilities, there is an item of Rs.1697 Crores, what is this regarding and one other question I had was, so cost savings and revenue rationalization, if you could maybe further give us some insight on your maintenance costs, how many planes were grounded, and routes dropped, if that is possible?

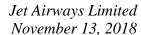
**Amit Agarwal:** 

Thanks, Okay. So to give you the perspective in terms of your first point about the Rs.114 Crores what happens is we have taken 8 737 NG aircraft in the last year, which was not covered under the PBTH arrangement and from now on, we have covered into the PBTH arrangement, so whatever rentals has been paid maintenance rentals have been paid in the past, has been classified as an operational revenue. Number 2, in terms of the, what you call liabilities, we, as mentioned earlier, we have got certain lease incentives in the first quarter of this fiscal, which has been classified as lease incentives and shown as a liability.

The third part, which we talked about the maintenance cost, basically we have been doing and focused on our maintenance cost reduction and various cost initiatives, which we clearly demonstrated that on a plan of 12% to 15% non-fuel cost reduction over the 10 to 12 quarters, we have been able to demonstrate on the same FX basis that we have delivered in this quarter Rs.2.94, which reflects 9% reduction against the plan, which is going to be delivered by the 12 quarters as we have working on the various initiatives like maintenance cost reduction, selling distribution reduction and other productivity-related efficiency and improvement in costs.

**Ronil Dalal:** 

Okay, so actually like revenue from operations, the first point, which I mentioned Rs.114 crores, it is a refund of an expense so how is it an operational revenue even if, so usually, would not you net it off against the expense I mean it is not your operation or operational business of getting the refund, right





so should not it be an extraordinary item or a part of the expense? And second is, in terms of employees, could you give us a sense of any kind of number of employees who have been taking the voluntary retirement scheme or have been laid off, any kind of sense on that?

**Amit Agarwal:** 

So basically, if you see, because it relates to that maintenance thing relates to previous years, and as per the accounting requirements, it has to be classified into the revenue line item. It cannot be netted off against the expenses that are the accounting requirement. And on terms of the employees, you see we have said very clearly, we are focused on enhancing the productivity improvement and there is no specific scheme, which has been announced called VRS, which you alluded to so we continuously work on the productivity enhancement of our cockpit crew, cabin crew, maintenance, engineers and all the relevant staff.

**Ronil Dalal:** 

Okay great, so I will get back in the queue but the first point I still not understanding very clearly because it should be maybe in reduced from the expenses what I thought maybe, anyway thank you.

**Amit Agarwal:** 

But it is the accounting we cannot change the accounting norms, the way it is to be defined.

**Ronil Dalal:** 

Okay.

**Amit Agarwal:** 

Thanks.

**Moderator:** 

Thank you. We move to the next question from the line of a Gaurav Nigam from Catamaran. Please go ahead.

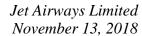
**Gaurav Nigam:** 

Thank you Sir for taking my question. Sir as I understand from the press release that Jet has embarked on a comprehensive review of the operations including this routes and network consolidation and rationalization on uneconomic routes, on these points, I have two questions, one is that do we wish to continue to engage in the fare war even after rationalizing on those routes and why exactly it took us so long to consolidate on routes and network, despite having a pre-balance sheet position for so long, these are my two questions?

Vinay Dube:

So let me address both of them. First, we have absolutely no desire, not today, not yesterday and not day after tomorrow in engaging in a fare war so let me just put that myth to rest.

Second, in terms of so long, let me remind you of the history of our ASK growth over the last several years. Most of our growth has come from a more efficient use of our aircraft as we increase the utilization of our narrow-body fleet. Beyond that, we have put our guidance in terms of what our long-term growth projections are, at between 8% and 10% and so I do not believe that in terms of a network restructuring or consolidation that has been referred to over here, it in any way implies that our approach to capacity has been inappropriate in the past.





What we are talking about here is, really in terms of a deployment of existing capacity, and this is something that we do periodically and we have provided you with some details so this is something that is a process that any airline should do on a continuous basis and not a one-off measure.

**Gaurav Nigam:** 

Okay, and just to understand the second point more clearly, are we changing any strategy from being a point to point to now more of a hub network is that a more a formal way of doing this that is what you are referring to here or?

Vinay Dube:

No, not at all. Let me say that we have always had large connecting complexes in Delhi and Mumbai and a growing connecting complex in Bengaluru that was the case last year, and this year, we are not changing that strategy. What we have done is redeployment, like I said of these assets you have seen our stage length grow up in domestic by about 5 points, and in international by about 9.5 points so I would not describe that as an element of our strategy here. No, that is not a change.

**Amit Agarwal:** 

And just to add, you see the whole slot strength, which we have between Mumbai and Delhi helps us to maintain this rotation, so that we can connect to people both domestic to international, international to international, as well as domestic to domestic. It is the slot strength, which helps us also to have our connecting passengers.

Gaurav Nigam:

Thank you.

**Moderator:** 

Thank you. The next question is from the line of Rohan Advant from Multi Act Equity. Please go ahead.

**Rohan Advant:** 

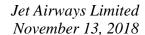
Sir thanks for the opportunity. Sir my first question pertains to the other non-current liabilities of Rs.1,697 crores so I just wanted to understand, is this with regards to the 737 Maxs that we have already received or we have taken some incentives in advance for aircrafts to be received in the future? That is my first question. Secondly, Sir, if you could give us your ASK guidance for H2 FY2019 versus H2 FY2018 and lastly, Sir, international versus domestic, I think your international yields have shown a smart uptick this quarter so is this an industry phenomenon or it is something that you have done with regards to routes that has helped?

**Amit Agarwal:** 

Okay. So first thing, on the liabilities, it is very clear for the 737 Max for the future deliveries and in terms of the ASKM guidance, we do not give any specific guidance on the ASKM on a short-term basis. But as we have talked through earlier, that we have placed an order of 225, 737 fuel-efficient aircraft, which enables us on a consistent basis to give 8% to 10% CAGR over the next 5 years. We continue to follow that philosophy and not go on one quarter to another quarter.

Vinay Dube:

And your third question was on your international versus domestic I would say that this is primarily due to the strategy that we have undertaken as we have said before, there is a lot of room for a market uptick, and what you are seeing is much more Jet's turnaround plan being implemented as opposed to an upward mobility in the market.





Rohan Advant: Okay. Sir just a follow-up on the capacity guidance Sir some news report suggested that you are

going to receive the 737 Maxs, but you are also going to retire old aircrafts, and so in the remainder of

the year, there would not be a capacity increase. Would you be saying that it is right or not?

Amit Agarwal: So look, we cannot keep commenting on the people, what was written, where it is written but we can

only suggest one thing that we are taking the 737 Max aircrafts, we have talked about 11 aircraft

coming in this fiscal and based on that, there will be a certain capacity increase, which is very clear.

**Rohan Advant:** Okay, thanks for taking my question.

**Moderator:** Thank you. The next question is from the line of Vijayan Gupta from Edelweiss. Please go ahead.

Vijayan Gupta: Hi Sir. Actually would you be able to comment on the current portion of long-term debt and how was

it changed versus end of Q1?

**Amit Agarwal:** Look, our debt is an amortizing debt, which is close to at any point of time today or in the end of the

first quarter is approximately Rs.2000 Crore of a debt repayment for the next 12 months. So that is

because considering the nature.

**Vijayan Gupta:** This is same as the end of Q1, so we have not made any debt repayments this quarter.

Amit Agarwal: No, we have made debt repayments because it is a scheduled amortizing debt and that is why if you

see, as we reported that the cash balance from the 30 June to the 30 September has repeated, which

has gone for using the debt returned.

Vijayan Gupta: Okay and secondly, Sir, on your trade payables, is it possible to give a breakup, how much is, say,

employee, salary payables and how much is other vendor payables?

Amit Agarwal: We do not give a breakup between these two, that is given on an annual basis, on our annual report

but it is primarily on account of the trade vendors as the salary is only for, is a very small portion and as we have explained in various announcements, 85% of the employees have been paid their salaries on the first of the month as it is due. It is only 15% of the employees whose salary there have been

certain delays.

Vijayan Gupta: And how flexible do think these payable terms would be going forward, can we expect this amount to

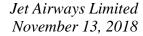
increase further as well during the second half?

Amit Agarwal: Look, Vijayan, we have been running this business for 25 years and have an excellent relationship

with all the stakeholders with whom we work, so if the process is completely on that we have a

mutual discussion and agreed on certain payment terms, and we continue to work with them.

Vijayan Gupta: Thanks a lot.





Moderator: Thank you. The next question is from the line of Aaron Chong from Flight Global. Please go ahead.

Aarong Chong: My name is Aaron from Flight Global. I am calling out of Singapore. I have some questions for the

panel. The first question is, you have said that you have hired an expert party to help on the sale of aircraft, the monetizing of your stake in Jet Privilege and fresh liquidity infusion and can I confirm

that this was said?

Amit Agarwal: That is correct.

**Aarong Chong:** Which expert party is it that you guys have hired?

Amit Agarwal: Yes, we have hired so basically if you look at it, this is done in two parts, one where we have hired

the investment bankers for monetization of stake sale in JPPL as well as the equity infusion of the company and for the turnaround initiative, we have hired the expert consultants who are working with

us, helping us with the cost and revenue initiatives.

**Aarong Chong:** Okay and this includes the sale of aircraft?

**Amit Agarwal:** No, sale of aircraft, we are doing on our own.

Aarong Chong: Okay. So there are various parts to this, the sale of aircraft, there is, the cost initiatives, which you

hired an expert to help you, and then you have bankers to help you with the monetizing of the stake

and fresh liquidity infusion, correct?

Amit Agarwal: Correct. As I said the bankers have been hired for doing the stake sale in JPPL as well as bringing

equity into Jet Airways.

**Aarong Chong:** Okay. Can I ask then how many aircraft are you looking to sell?

**Amit Agarwal:** So we have already put, on equity on our balance sheet that assets held for sale for the 6 B777s.

Aarong Chong: Understood. And also can I just get some, well you can either deny or confirm this, but Reuters and

Bloomberg have talked about Tata? And they are doing their due diligence into Jet. Do you have any

comments on that?

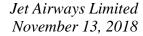
Amit Agarwal: So we cannot comment on speculation. We have very clearly stated time and again that once

something materializes, we will talk it through. Otherwise, we are not commenting on any

speculation.

**Aarong Chong:** Okay. And my final question is, how many more aircraft, how many more 737 Maxs do you intend to

take on delivery for the year, the next half of the year?





Amit Agarwal: So out of 11 aircraft, 5 have been already received and the balance 6 aircraft will be received till

March 31, 2019.

**Aarong Chong:** Thank you very much and that is all I have.

Moderator: Thank you. The next question is from the line of Pawan Kumar from CRISIL Research. Please go

ahead.

Pawan Kumar: My question is regarding your capacity induction plan for FY '20, as you have mentioned that your

long-term growth path is around 8% to 10% CAGR going forward, so I believe all of them will be mostly 737 Maxs. So how many of your Maxs have been -- do you plan to have inducted by FY '20

and when were you planning to replace all your existing 737s going forward?

**Amit Agarwal:** So you are 100% right that we are inducting the 737 Maxs and that is primarily the way we are going

to have the growth of achieving 8% to 10%. We for the next year as per the plan available will be

taking 15 aircraft on the 737 Max in the next year, fiscal '20.

**Pawan Kumar:** Okay. So when will you be replacing your existing fleet of 75 737 aircraft, Sir?

Amit Agarwal: So it will be progressively being done from the current year till fiscal 2025. Every year, a few aircraft,

depending upon the lease expiries will be delivered back, and the fresh aircrafts will either go for

replacement or the expansion capacity, which is 8% to 10% CAGR.

**Pawan Kumar:** Okay. The 8% to 10% CAGR is after removing of these aircraft, right?

**Amit Agarwal:** Absolutely.

**Pawan Kumar:** And one more question is regarding your said monetization you mentioned that you are having 6 777

aircraft for sale, which is what you are showing in your balance sheet so what about the remaining 10 aircraft? What is the plan regarding the sale of those 10 aircraft and apart from this, any other assets

you are having for the sale or anything like that you are holding on your balance sheet?

Amit Agarwal: So as I have mentioned earlier also in the first quarter call, that we have identified these 6 777s for

sale and lease back and the balance aircraft, as of now, we are continuing on our ownership and the way it is structured, it continues as of now. However, we continue to evaluate things as we progress.

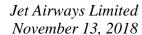
Pawan Kumar: Okay, so your other assets will only be having the JPPL program only nothing else apart from these

10 aircrafts in the JPPL program, right?

Amit Agarwal: Yes, and that is one asset, which we have talked through earlier that we have already mandated the

bankers for finding a potential stake sale into the JPPL.

**Pawan Kumar:** Okay. That is it from my end. Thank you very much.





Moderator: Thank you. The next question is from the line of Anshuman Deb from ICICI securities. Please go

ahead.

Anshuman Deb: Thanks for the opportunity Sir. I have two questions, one is regarding the new routes that we were

discussing, so some of the routes, as you said, connecting Tier 2 places and even routes like Pune-Singapore, if you could throw some color on those new routes, because apparently, it looks like they are a shift away from our primary focus on Tier 1 places, that is one. And the second question is regarding the incentive that we have booked in our liability. This is regarding the 11 aircrafts that we are going to receive in FY '19 or would you be not disclosing the number of aircrafts, for which that

delivery that liability is there?

Vinay Dube: So on the network side, I would say that there is no shift away from Tier 1 cities. We are still the

largest player in Mumbai; we will always be the largest player in Mumbai, so there is no broad shift. As we go about the 8% to 10% capacity growth, there is a natural amount of Tier 2 cities that will come in, primarily from our domestic growth perspective and remember that when we talked about

Indore, a considerable portion of that Indore capacity also comes to the Tier 1 cities.

Amit Agarwal: And on the incentives, we talked about that it is based on the 737 Maxs, which we have ordered and

unfortunately, I will not be able to give you the number of aircrafts against which we got it.

**Anshuman Deb:** Sure. On last question regarding slots in Mumbai so there has been some shift from the Jet Lite to Jet,

so I just wanted to understand, is the slots between Jet and Jet Lite fungible in terms of slots in

Mumbai or Delhi?

Vinay Dube: Yes, they are. We use them as a common pool.

**Anshuman Deb:** Okay, thanks a lot. Thank you.

Moderator: Thank you. The next question is from the line of Ashish Shah from Goldman Sachs. Please go ahead.

Ashish Shah: Thank you for the opportunity. Sir on the 6 aircraft that you are planning to sell, what would be the

current existing debt on those aircraft?

Amit Agarwal: So look, the aircraft debt as we mentioned is close to \$240 million Rs.1800 Crores and the way we

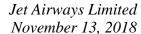
are structuring is that the sale proceeds would go out to pay down most of the aircraft debts.

**Ashish Shah:** Okay. So this entire aircraft debt is I mean we have 16 aircraft, so the total debt for the 16 aircraft is

only Rs.1800 crores, is that correct?

Amit Agarwal: Yes.

**Ashish Shah:** Thank you.





**Moderator:** 

Thank you. The next question is from the line of Achal Kumar from HSBC. Please go ahead.

**Achal Kumar:** 

I want to understand a few things, one obviously Vinay talked about the yield, and of course these yields are not sustainable and we expect the yields should go up. However, on the other side if we see, I mean sector is really, so some of your capacity is coming in so I just want to understand, how you see the sector developing at the moment I mean if you see the IndiGo has guided to 36% capacity and next to SpiceJet and Jet Airways are taking delivery of 737 Maxs, Vistara has ordered 57 aircrafts, and they started taking delivery of 67 narrow bodies and 10 wide body and delivery will start from next year. So in all these scenarios, do you see any possibility of the yield improvement and obviously, given that we are in the strongest quarter, and yet I could see the sale from IndiGo jet extended this Diwali sale, is that the softness in demand or is that the sort of hunger for the more load factor so how do I see the sector developing as a whole? If you could please talk about that?

Vinay Dube:

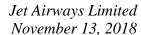
So first I will say that from our competitive perspective, our competitors will put in the kind of capacity that they want to put in. I would say that we remain fixed on the capacity guidance that we have given you and if that is a little bit below, what our competitors are putting in, so be it. This is what we believe we need to drive a profitable future for Jet Airways. Second, I would say that we are working less in terms of hoping, what is going to happen in the marketplace but we are working to control our own destiny through a number of revenue management initiatives that we have put in place and that the RASK performance that you have seen in the second quarter is reflective of those and then let me remind you that we have 9% increase in stage length and so I would ask you to view that RASK performance relative to the stage length increase. And just the third aspect and you can rebut me if you would like, the third aspect is that, I would also remind everyone of our slot holdings in Mumbai and Delhi, where the level of capacity increase that we are seeing is quite constrained and there is a natural relationship between constraint capacity and RASK increase so my view is that where we are positioned as Jet Airways, there will be some opportunities arising from that constraining of industry capacity at those airports as well.

Achal Kumar:

But, Vinay I completely agree with you that you are doing what you are doing and competitors are putting a lot of capacity, but in that scenario, given that so much of capacity is coming in, and leaving the competitors apart, we are talking about total capacity into the system, do you really see any possibility of yields rising from here?

Vinay Dube:

My view is there is yield and then there is RASK, which is a combination of yield and load factor and India is not a ubiquitous story in terms of every single route is going to offer the same sort of RASK potential. I would ask you to differentiate between what might happen in Mumbai and potentially, Delhi where the capacity growth has a certain ceiling that we are beginning to hit, or have hit already, and contrast that with the kind of RASK potential that you would see in other markets where you have still considerable headroom. Coupled with that, I would say, you need to single out Jet Airways in your analysis as a result of our specific capacity deployment as well as our specific focus on





changing revenue management practices and I would ask you to do that right away as you look at our second quarter published results and compare them to what you are seeing in the industry.

**Achal Kumar:** 

Right. And then, by the way, do you, how far do you see the consolidation as in coming to India market. I mean do you see the India market as very close to the consolidations, given that there are news about Jet Airways I am not talking about commenting on news, but then there is the news about GoAir and all that sort of things so do you see Indian market is really in that state wherein the consolidations could enter as soon as next year?

Vinay Dube:

So I will leave it for you and your colleagues as well as the various aviation reporters, we have to speculate. I will focus long with my colleagues here on running Jet Airways.

**Achal Kumar:** 

Okay perfect. And second question I had about the salary deal is, you have been delaying the salary payments for the last few quarters for the last few months, sorry and so just wanted to understand, has that impacted the employee motivation or your relations with your employees?

Vinay Dube:

Let me answer that two fold, the one I have alluded to, the 15% of employees that have not got their salary on a regularly scheduled interval, I am sure they are less than happy. But I will say this, that our employees are extremely committed and dedicated to the functioning of the airline and that as you look at our operating performance in these 2 last months, for example, we are running at an operating efficiency and levels that are completely unprecedented given our history and at global standards. So I would say that our employees remain very dedicated to Jet Airways and to the work that they must do to see Jet Airways be successful.

**Amit Agarwal:** 

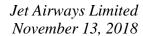
And just to add, Achal, we have excellent relationships with all of our employees, our employees are very much engaged, they completely understand what the situation is and therefore, it is very, very clear that we are working together, they are working together with us and we are achieving a higher standard every day. So this is a great company with 25 years and we have got our employees who have been working with us for the longest period of time, very dedicated colleagues, which we have. And that is what makes us fly for 25 years.

**Achal Kumar:** 

Perfect. I have two small accounting questions. One is about your cost ex forex and fuel, which was down 4% in the quarter, on the equivalent basis, what was the performance in RASK terms, ex forex and on the international operations, you have done phenomenally well in this quarter, how much is due to the forex, of course, your USD dollars converted to Rupees would have inflated due to that so if you could please guide us on these two?

**Amit Agarwal:** 

Basically if you look at it on the operating performance, as we talked through, that our cost reduction initiatives and the revenue enhancement initiatives have started to work and we clearly see that this is being demonstrated. In terms of the FX movement as you know, that we are practically on the P&L





side, dollar naturally hedged subject to a small gap and therefore, the gap on the RASK is also around the 2.7% to 3%, which is impacting because of the FX.

**Achal Kumar:** So the RASK, ex forex, would have been down 3%, is that what you are saying?

Amit Agarwal: 2.7% to 3%, yes.

Achal Kumar: Okay and on the international operations, please, how much was the impact due to the forex

strengthens, the USD strengthening?

Amit Agarwal: Overall, because you see, I cannot separate it because in terms of the fuel when we talk about or the

forex we talked about, we talked about the overall scales as a company and not distributing it between

domestic as well as the international.

Achal Kumar: Okay perfect. Thank you so much.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, this was the last question. I now hand the

conference over to the management for their closing comments. Over to you, Sir!

Amit Agarwal: Thank you very much everyone and we will talk to you on the next quarter and thank you SBICap for

hosting this call.

Moderator: Thank you, very much. Ladies and gentleman, on behalf of SBICap Securities Limited, that concludes

this conference call. Thank you for joining us, and you may now disconnect your lines.