"IndiGo Third Quarter Fiscal 2018 Financial Results Conference Call"

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Operator: Good evening ladies and gentlemen and welcome to IndiGo's Conference Call to discuss the third quarter financial results for fiscal year 2018. My name is Aman and I will be your coordinator. At this time, the participants are in a listen-only mode. A question-and-answer session will follow today's management discussion.

As a reminder, today's conference call is being recorded. I would now like to turn the call over to your moderator, Mr. Ankur Goel, Associate Vice President of Treasury & Investor Relations for IndiGo.

Ankur Goel: Good Evening and welcome everyone. Thank you for joining us for the Third Quarter Fiscal 2018 Earnings Call.

I have with me our President and Whole Time Director – Aditya Ghosh and our Chief Financial Officer – Rohit Philip.

Before we begin, please note that today's discussion may contain certain statements on our business or financials which will be construed as forward-looking. Our actual results may be materially different from these forward-looking statements.

The information provided on this call is as of today's date and we undertake no obligation to update the information subsequently.

A transcript of today's call will also be archived on our website. We will upload the transcript of today's prepared remarks within an hour. The transcript of the Question and Answer session will be uploaded subsequently.

With this, let me hand over the call to Aditya Ghosh.

Aditya Ghosh: Good evening everyone and thank you for joining us on this call.

We announced our third quarter fiscal 2018 financial results today and this quarter, we have reported a profit after tax of Rs. 7.6 billion, an increase of 56.4% compared to the same period last year. Our after tax margin for the quarter was 12.3%. This year over year improvement in profitability is driven by better RASK performance. Similar to the last quarter, our year over year RASK improvement was due to better revenue management as well as credits received from our manufacturers. Rohit will discuss this when he takes you through our numbers in detail.

We continue to be the leading airline in terms of on-time performance and were ranked No. 1 with an average OTP of 81.8% for the quarter. In fact, recently, we have been ranked as one of the top 5 airlines amongst the top 20 mega airlines globally in terms of on-time performance based on the data compiled by OAG for the entire 2017. These are the twenty largest airlines in the world in terms of weekly scheduled flights. IndiGo is the only Indian carrier to have made it to this list and while we are thrilled with this achievement, we take even greater pride in seeing

India up there. For the quarter, our technical dispatch reliability was 99.87% and our flight cancellation rate was 0.34%.

Other than our strong profits, we also had several operational milestones during the quarter. We became the first Indian carrier to cross a 1,000 daily flights. This quarter was also special since we carried our 200 millionth customer. These achievements have come within a period of just eleven years of our operations and we are grateful for the support and encouragement that we get from the millions of customers that choose IndiGo. We also inducted our first ATR 72-600 aircraft during the quarter and commenced our maiden ATR flight on the 21st of December from Hyderabad to Mangalore.

The induction of ATR will help us reach out deeper into India and also open up our network of domestic and international markets by offering connectivity to and from many regional cities. In order to strengthen our regional operations, we have recently introduced 90 new flight connections that include routes to and from Tirupati, Rajahmundry, Hyderabad, Chennai, Bengaluru, Mangalore, Madurai and Nagpur. With this, we strive to take the IndiGo experience to customers in many more cities in India, who, so far, have been subjected to erratic schedules, old airplanes and high fares.

We started operations from Tirupati and Rajahmundry earlier this month with our ATR aircraft and on our very first day of operations in both these cities, we became the airline offering the most number of flights from there. Earlier this week, we also commenced operations from Colombo, our 8th International destination. With this, we now fly to 41 domestic destinations and 8 international destinations.

We added 12 aircraft during the quarter of which 8 were A320neos and 3 were ATRs taking our total fleet count to 153 and our A320neo fleet count to 32. In addition, we are also operating 4 aircraft under a short term damp lease arrangement with Small Planet Airlines to meet our near term schedule requirements. The first of these aircraft started to fly on the 28th of December and these 4 aircraft will be operated till the end of April 2018.

Now talking about neos, we are now receiving the required spare engines from Pratt & Whitney and therefore all our neo aircraft are in active operation.

Speaking of our long haul plans and Air India – while the government has made certain announcements relating to the privatization of Air India, we are still awaiting details of the process. We remain interested in acquiring the international operations of Air India but as we have said previously, we will explore the long haul opportunity with or without Air India. In that context, we will start seeking route rights and other necessary regulatory approvals as may be required to operate long haul flights.

With this, let me hand over the call to Rohit for an overview of our financials.

Rohit Philip: Thank you, Aditya, and good evening everyone.

For the quarter ended December 2017, we reported a profit after tax of Rs. 7.6 billion with an after tax profit margin of 12.3% compared to a profit after tax of Rs. 4.9 billion with an after tax profit margin of 9.8% during the same period last year. We reported an EBITDAR of Rs. 20 billion with an EBITDAR margin of 32.4% compared to an EBITDAR of Rs. 14.6 billion with an EBITDAR margin of 29.3% during the same period last year. Our year over year profitability was better primarily because of an improvement in our RASK.

Our total capacity for the December quarter was 16.3 billion ASKs, an increase of 13.0% compared to the same period last year.

Our revenue from operations in the December quarter was Rs. 61.8 billion, an increase of 23.9% over the same period last year. Our other income was Rs. 2.7 billion for the quarter.

Our RASK for the quarter was Rs. 3.84, an increase of 10.4% from Rs. 3.48 during the same period last year. Our load factor was up by 1.2 points to 88.5% and our yield was up by 6.3% to Rs. 3.70. This improvement in yield and load factor was a result of better revenue management as well as the effects of demonetization which had impacted our revenues last year. In addition, similar to the last quarter, we also received credits from our manufacturers. We do not expect such large year over year improvements in RASK going forward.

Our CASK for the quarter was Rs. 3.18 compared to Rs. 3.06 for the same period last year. CASK excluding fuel was Rs. 1.94 in the current quarter, an increase of 2.2% from the same period last year. This year over year increase in CASK excluding fuel was primarily driven by an increase in engine shop visits, an increase in airport charges at Mumbai, the imposition of the RCS levy and a reduction in our utilization because of the grounding of some of our neos during the first half of the quarter. This increase in CASK excluding fuel was partially offset by a foreign exchange gain we recorded in the quarter due to the strengthening of our currency against the US dollar.

Now talking about GST - as you may recall, we paid a GST of Rs. 784 million under protest last quarter. Similarly, we have paid a GST of Rs. 689 million under protest this quarter. While the GST rate for the reimport of repaired engines and certain parts has been reduced from 18% to 5%, the airline industry in India continues to believe that this should be exempt from GST and we have appealed against it.

During the quarter, one of our founders sold some of his shares through the Offer for Sale or OFS process. This sale, combined with the IPP offering in September, has brought our public shareholding to the required 25%.

Moving to the balance sheet, we had total debt of Rs. 24.3 billion at the end of the quarter. We purchased 3 ATRs during the quarter with our free cash and our cash balance at the end of the quarter was Rs. 138.9 billion. This comprised of Rs. 81 billion of free cash and Rs. 57.9 billion of restricted cash.

Before I close my remarks, let me give you our capacity guidance for the coming quarter. We expect a year over year capacity increase in terms of ASKs of 24% for the fourth quarter.

With this, let me hand it back to Ankur.

Ankur Goel: Thank you, Aditya and Rohit. To answer as many questions as possible, I would like to request that each participant limit themselves to one question and one brief follow-up question if needed. And with that, we are ready for the Q&A.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Ashutosh Somani from JM Financial. Please go ahead.

Ashutosh Somani: Aditya, just wanted to gather your thoughts around pass-through of crude oil prices, what are the dynamics that influence it? So, if you look at the period of FY10 to FY14 when the crude prices actually shot up significantly, how did IndiGo fare then? And how has the industry changed now and made fare hikes sort of unfavorable to take right now, given the competition intensity or the capacity addition or the route mix? If you can comment just directionally or share a structured thought process around how pass-through have been in terms of crude oil prices, it will be great.

Rohit Philip: Ashutosh, it's Rohit, I'll start and Aditya can chime in. You would have seen in the past that, effectively, what happens is that there is usually a lag before fuel price increase gets passed through under ticket prices. I think the market typically waits to see how permanent the price increase is and then it takes a little time for it to actually get passed-through. And it does not usually get passed-through 100%. So there is usually a lag and not a 100% pass-through. We cannot really predict what is going to happen in the future, but that is what we have seen historically.

Aditya Ghosh: I think it is in line with what has been happening in the past, so nothing new as such.

Ashutosh Somani: So, Aditya, if you look at FY10 to FY14, the pass-through was a significant number. We had upwards of 80% of cost being passed on to our customers via fare hikes. But I think the competition intensity, or the capacity addition today is a lot different from what it was in FY10 to FY14. Do you think that some of these variables may influence the fare hikes in the next 12 to 24 months?

Aditya Ghosh: Well, I cannot predict what is going to happen in the future. Again, if you are looking at such a long period of four years from FY10 to FY14, there will be times when fuel prices would have gone up and down. Intensity of competition, like you mentioned, would be similar to what we have today. So there are a lot of other market dynamics that come into play. But again, what we are probably trying to say is that we are not seeing anything different in behavior than what we have seen in the past several years.

Moderator: Thank you. We have the next question from the line of Sonal Gupta from UBS Securities. Please go ahead.

Sonal Gupta: Rohit, could you just tell us how much was the FX gain for the quarter? And if you could shed some light on the higher other income in this quarter as well.

Rohit Philip: Sure. So the FX gain for the quarter was Rs.803 million. Now, it is booked into two-line items, Rs.408 million is booked in other income and Rs.394 million is booked as an offset in other expenses. And the reason for that is, between the first quarter and second quarter we had booked a cumulative loss for the year of Rs.394 million. So the Rs.803 million for the quarter is firstly a reversal of the Rs.394 million, and then a net gain of Rs.408 million is booked into other income. So, that is what is in other income. The remaining other income is primarily the interest earnings on our cash balance.

Moderator: Thank you. We have the next question from the line of Ambar Taneja from Griffin Asset Management. Please go ahead.

Ambar Taneja: My question is, how is the plan progressing for the plane purchase that you had outlined in the previous calls, because you are saying it is going to be cheaper than leasing, and that is something that you had talked about? And the second question is, is there any movement on direct fuel import versus buying from the national oil companies? Thanks.

Rohit Philip: Sure. So, on the first question, as I said in my prepared remarks, we have acquired three ATRs outright out of cash rather than doing a sale and lease back and we expect that will save us money. We have not yet started buying A320s with cash, but we fully expect to do that over the coming periods.

Ambar Taneja: On the fuel, is there any direct fuel import or still buying mostly from the national oil companies?

Rohit Philip: As I have said previously, we do a combination of buying from national oil companies and there is Reliance in this as well. So, there are national oil companies plus Reliance. We also look at opportunities to import selectively and we do import some fuel when we see the opportunities are favorable. So that strategy continues.

Ambar Taneja: Would there be a cost saving if you build-up an infrastructure for direct fuel import? Just wondering if there is more efficiency to be gained out of importing directly versus getting it from a supplier?

Rohit Philip: There are efficiencies but there are logistical constraints as well, it is not that straightforward. And you have to commit to a purchase of fairly large quantity for it to be economical to ship the fuel across. That is why not everyone does it all the time. But we look at the opportunities and we try to take advantage of the opportunities that are in our interest.

Moderator: Thank you. We have the next question from the line of Pulkit Singhal from Motilal Oswal Asset Management. Please go ahead.

Pulkit Singhal: Just two questions, one is, do the financials contain benefits from Pratt & Whitney?

Rohit Philip: As we said in the prepared remarks, we do have credits from our manufacturers that are in our results.

Pulkit Singhal: Okay. And if I understand correctly, you mentioned that the RASK performance will not be repeated going ahead?

Rohit Philip: Yes, just to repeat what I said, there were a few things that helped our RASK performance. One was better revenue management. And we have talked about that in the last couple of quarters. When we look at the fourth quarter last year, we had the systems in place. So, the effect of better revenue management from our new systems and processes will already be baked-in going forward. And then, the third quarter last year had the demonetization effect which obviously you would not have on a year-over-year basis. And then there was the compensation. So those are the three factors that helped RASK that would not be there going forward.

Pulkit Singhal: Okay, the compensation goes off as well?

Rohit Philip: Well, we do not know, it will all depend on the nature of what happens. Clearly we had some groundings in the earlier part of this quarter which is why you still see some compensation. We cannot predict what that will be going forward.

Pulkit Singhal: Okay. Just a quick second question, cumulatively over the three quarters you have made more profits than anything in the past. Any communication on the dividend policy, given that you will also be buying planes now? Any thought on where will you be pegging it?

Rohit Philip: So, Pulkit, we expect to give you more guidance on that on the next call at the end of the fourth quarter. The overall policy and framework is no different from what we articulated in the last few quarters, which is, that in determining the annual dividend, our Board will look at the profits for the year, the cash needs to run the business, the prudent amount of cash the Company needs to maintain. And of course, now, the cash needs of the business also include the use of cash to purchase aircraft. So, after factoring all that, our Board will declare the dividend. Directionally, we expect to pay a much lower percentage of profits in dividend, but we do expect to pay dividend. But, beyond that, we will give more guidance on the next call.

Moderator: Thank you. We have the next question from the line of Sreenath Krishnan from Sundaram Mutual Fund. Please go ahead.

Sreenath Krishnan: I understand this is a seasonal business and there was demonetization impact during Q3 last year. If I look at the last three years' numbers, the spread, that is RASK minus fuel cost, this quarter seems to be the lowest despite an increase in load factors over the last four years. Similarly EBITDAR per ASK is also on the lower end. Going ahead, with increasing fuel cost even if we have a higher load factor, does this mean that we would sacrifice on our profitability to gain share? Thank you.

Rohit Philip: As we said before about the fuel price increase, the only way to get back to profitability is to pass that on in ticket prices. There is always a lag and it is not a 100% pass through. So, there will be some effect of that on margins as fuel prices go up in the short-term.

Sreenath Krishnan: Now your spreads have been declining despite lower fuel costs and higher load factors. If you look at Q3 FY15 your fuel cost per ASK was much lower than what it is today. And your spreads were something like Rs. 2.66, which is RASK minus fuel cost, whereas now it is about Rs. 2.54. And your load factor was around 81% and now it is around 88%. So, the spreads have been on a declining trend. Why would that be when your passenger growth has been pretty strong and fuel costs also have been benign in comparison to where they were three years back?

Rohit Philip: Okay, so you are talking about the longer-term trend. When you look at FY17 and we talked about it through our calls in FY17, that on a year-over-year basis, the revenue environment was weaker than FY15 where there was an effect of lower fuel prices. There was obviously a point in time where the fares were very high and competition had reduced a significant amount of capacity. So, there was a situation in FY16 where it was a very favorable environment. FY17 was a little bit more challenging. FY18 so far is somewhere in the middle of FY16 and FY17. So, it is not a declining trend. it is sort of that FY18 is a recovery versus FY17, but not quite at the FY16 margin levels.

Moderator: Thank you. We have the next question from the line of Achal Kumar from HSBC. Please go ahead.

Achal Kumar: I have two questions. One, if you could please talk about your ATR business. I understand that you said that ATR business is going to be separate, of course except the top management. So, how has that been structured and how is it performing, if you can share something on that side? And secondly, if you can talk about your plan on the international versus domestic. You said your capacity in Q4 is going to be increased by about 24%. How do you see that diverting into international and domestic capacity? And given that in December you have increased your international capacity by a lot, I think more than 60%, so how is that structured, if you could please shed some light on your international operations versus domestic?

Aditya Ghosh: So, first on the ATR, it is still very early days, we are just flying three airplanes and it has barely been a month since our first flight. So, it is too early to try and kind of either declare victory or to give a judgment call on how the operation is running. Now, operationally it is doing well - flights are running on time, we have not had any cancellations and it seems that people like the product. But to the question of how we have kept it separate, we have stuck to what we have said in the past that the pilots and the cabin crew for ATRs are separated out from our narrow-body operations. So, that is an ecosystem by itself which is not intertwined with the ecosystem that exists for the narrow bodies.

Rohit Philip: And as we have also said previously, that in other functions like corporate functions etc., there is a lot more synergy as to not have a separate structure and we leverage the current structure of the corporate. So we are largely sticking to what we have talked about previously, which we think is the most efficient way to manage these two fleets.

Aditya Ghosh: Coming to international and how we would expand there. Well, as we said in the past, we just look at our international flights as pretty much accidently crossing an international border. It is the same flight, the same airplane and a similar product. So, yes, you see some more international, but you will see lot more domestic. We will go and chase where the opportunity is, so, it is not that we have either tied down to one or the other.

Rohit Philip: If you look at this quarter, we have about 14.5% of our capacity international. The previous quarter was around 13% and a year ago it was around 10%. So yes, directionally, we have definitely increased our international capacity. We still have more capacity domestically, but the international capacity percentage inched up a little bit and we will probably continue to do so.

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

Anshuman Deb: I have a question regarding the non-fuel CASK. Now, one of our competitors have said that they are going to reduce their non-fuel CASK going ahead. I wanted to understand whether we have similar opportunities to reduce our non-fuel CASK? And about the short-term leases that we have taken, would there be any material increase in rentals which can increase the non-fuel CASK?

Rohit Philip: Absolutely. We definitely have to deal with the fact that we have shorter-term leases as well as we have extended the leases of several of our aircraft in our fleet in order to meet the capacity needs that we have had. As all of you know, the aircraft deliveries for new planes have not been at the pace that we had originally planned and that does put some challenges on the cost side, which is incorporated in our numbers. As we start getting the new planes at the pace we want them and the older planes on the short-term leases start to go away, we will see the benefit of that so-called penalty for older planes going away. So, we will actually see that improvement. We also see improvements on the CASK side from owning fleet versus leasing, which we have talked about previously. We have also previously talked about adding A321s into our network. Our A321s will have 234 seats versus 186 on our A320s. So, significantly lower unit cost that will help our CASK as well. So, all of these factors will do that. We will also continue to look for productivity and efficiency improvements. While we have done a fairly good job so far, we see a lot of opportunities to continue to create efficiency. So we will continue to push the envelope on the cost side.

Anshuman Deb: One question I had regarding the UDAN Scheme - so the routes that we have received, I guess 20 RCS routes, so are those which we wanted? If you could give some color on the routes that we have won?

Aditya Ghosh: Well, the results are coming in literally as we are on the call. You are right, this is what I have also just preliminary heard that we have been allocated 20 routes. So, we will examine it. It is only in the last few minutes that this news has come in.

Moderator: Thank you. We have the next question from the line of Binay Singh from Morgan Stanley. Please go ahead.

Binay Singh: Looking at the ancillary revenue we have seen a pretty good traction from around 1% to 3% growth to almost 21% growth this quarter. At the same time, we had a lot of news flow on cancellation fees and Air India waiving of baggage fees. So how do you see ancillary revenues moving ahead?

Rohit Philip: So, ancillary revenue this quarter as you said has been pretty strong. Baggage fees, cancellation fees are certainly two drivers of that, but we also had good performance in cargo as well, and we see some continued opportunities there. Going forward, we see some opportunities for continued improvement, but they are largely in line with capacities we would say.

Binay Singh: Okay, and in terms of capacity you maintain the 20% ASKM growth outlook for 2019 and 2020, there is no update on that?

Rohit Philip: There is no update on that, Binay. We will give more detailed guidance on that in the next quarter's Earnings Call, obviously for the Fiscal Year 2019. Directionally, we will say that we expect it to be much higher than the 20%. If you recall, we said a CAGR of 20% over the next three years. We will expect it to be around 17% for this fiscal year based on the 24% for the fourth quarter. Next year will be significantly more than 20%, but we will give you more detailed guidance on the next call.

Moderator: Thank you. We have the next question from the line of Charles Cartledge from Sloane Robinson. Please go ahead.

Charles Cartledge: I just want to make sure I am sort of understanding the messaging here. For a couple of years now you have unfortunately suffered from price competition from your competitors, as will always be the case, but that is quite aggressive. And your competitors have higher cost structures than you do. And picking up on a question made earlier, so the expectation I think is that because jet fuel prices have risen so much over the last couple of years that your competitors will find it harder to compete on price because of their high cost structures. So, is the expectation that the competitive intensity you have been suffering under will sort of go away because of higher fuel prices which gives you a more competitive edge? And to your comments earlier that it just has not come through yet because it always takes a few months to pass through the pricing cycle.

Rohit Philip: So, as we said earlier, and what you just said, it takes a while for the market to embrace the fact that the higher fuel prices are meant to get passed through. So that is just what normally happens. We can speculate about what would drive the competition's ability to absorb higher fuel prices and make that a catalyst to raise prices. I think your speculation is probably as good as ours, so, we will wait and see and really not put out a comment on that. But, certainly, as we said, historically we have seen certain behavior and we would expect that to continue.

Charles Cartledge: And forgive me if I missed some policy statements on the subject, but for the earlier question, do you actually disclose the amount of compensation from Pratt & Whitney or is that simply left undisclosed?

Rohit Philip: That is not disclosed, Charles.

Moderator: Thank you. We have the next question from the line of Himanshu Varia from Motilal Oswal Securities. Please go ahead.

Himanshu Varia: I just had one small query regarding the credits received. Wanted to just clarify, does our revenue and cost per ASK both get individually affected positively by credits received from manufacturers, as it says on page 4 of the presentation?

Aditya Ghosh: Yes, it does.

Moderator: Thank you. We have the next question from the line of Ashish Shah from IDFC Securities. Please go ahead.

Ashish Shah: Sir, first question is in terms of your international long-haul business as we spoke about. Could you elaborate a bit on what would be your fleet acquisition plans and what sort of routes would you look at? And what sort of a product offering you have in mind - would it be a low cost or a regular international service?

Aditya Ghosh: So, it is too early for me to comment on the exact nature of the product and which routes we will be flying to. So, we will update you as we get closer to those plans.

Ashish Shah: Sure. But would that be like a 12 months horizon or longer than that?

Aditya Ghosh: Well, I have actually said in my opening remarks that we will go ahead and apply for some route rights, so a lot depends on what happens after that.

Ashish Shah: Sure. Second is on the load factors. We are already at about 88.5%. In terms of the mix we have, do you think there is a scope for load factors to rise further or you think, in terms of practical feasibility, this is where we could be?

Rohit Philip: So, to answer that question, practically, you can have higher load factors, absolutely, but from our perspective, the focus is not to maximize load factor in isolation. It is to maximize our RASK, which is a combination of yield and load factor. And so really all our revenue management systems are basically geared to optimize RASK and sometimes it means higher yield or slightly lower load factor or sometimes it is the reverse. But practically, for load factor, there is no reason why it cannot be higher.

Ashish Shah: Sure. And just last question, since we have plans to add aircraft on the balance sheet, could you indicate a broad CAPEX plan or what would be the gross block addition in FY18 or FY19 vis-à-vis the previous year?

Rohit Philip: When we give guidance on the dividend next quarter, we will be able to shed a little bit more light on that as well. But essentially, we will look to use the cash that we raised through the IPP offering to acquire aircraft. That is in the range of around $400 million. So, that will eventually be utilized for aircraft purchases. In addition, we will expect to use a portion of our free cash flow that we generate every year to buy aircraft. So, directionally that is what I can tell you.

Moderator: Thank you. We have the next question from the line of Prithvi Raj from Unify Capital. Please go ahead.

Prithvi Raj: Could you give a sense of what the CASK potential is from the new 20 routes that we have added under the UDAN scheme? And importantly, are they incremental to the existing routes or would they subsume a part of our existing routes?

Aditya Ghosh: So, we have not added any routes under the UDAN scheme. Literally, after we started the call and before we have ended it, we have just got the results, so that is one. The second is that, whatever we implement will absolutely be over and above what we are currently flying.

Prithvi Raj: So, which means that the 20% CASK guidance that you give in FY19, there could be material upside to that for the whole of FY19?

Aditya Ghosh: It is a capacity guidance and that has nothing to do with the routes. It has everything to do with the planes that we are running.

Rohit Philip: So, I think when we talk about our overall capacity guidance, it is going to be in that range that we have talked about previously. And as I said earlier, in the next quarter we will give you an updated guidance for fiscal 2019 which will include all the UDAN routes as well.

Prithvi Raj: Okay. So, fulfilling these, how much would be dependent on us getting delivery of new planes and what timeframes are we looking at for these new routes?

Rohit Philip: So, as Aditya mentioned about the new routes, we have not even had the time to analyze what we actually got as part of the offering. So, once we do that we can give you more commentary. But at a high level, we bid for routes based on aircraft that we know we either have or have in the delivery pipeline. So, it is all based on aircraft that we have or are scheduled for delivery.

Prithvi Raj: Okay. Last question before I get back, adjusted for the lack of other income from the engine supplies that we will see in the quarters to come, how long do you think will it take for yields to adjust and say your margins to normalize at current rates?

Rohit Philip: So, I think I have answered this a couple of times on the call already that there is always a lag and the period of the lag for prices to adjust varies from time-to-time. So, we cannot really speculate and answer how quickly that will happen.

Moderator: Thank you. We have the next question from the line of Achal Kumar from HSBC. Please go ahead.

Achal Kumar: I had two questions. One, about the fuel cost and I am talking about quarter-on-quarter, from Q2 the fuel cost in Q3 is up by 22%, so I am not sure if you can really help us, how we can make that? I understand that capacity increased by 8% and then of course price increased by about 13% - 14%. So how do you see that? And similarly on the lease cost, the lease cost has gone up by almost 22% and you have added eight aircraft. So, if you could help us in making those two things out. And of course, we just want to understand how do we model it? That is first question on the cost. And on the price war, recently we saw that there was a price war and IndiGo joined that price war. So, do you really see that happening, given that we are still in the peak season? January is a good season of course, how do you see that? Do you see another price war or is it a short-term funda? Thanks.

Rohit Philip: So, first on the cost side, I think you were talking about sequential quarter-over-quarter of fuel CASK?

Achal Kumar: Yes.

Rohit Philip: So, firstly, there is always a danger in looking at our business sequentially and that is why we always look at it on a year-over-year basis. But essentially what happens in fuel is, because of the fog season in November and December, the same flight tends to burn more fuel because it circles in the air a little longer. So, to generate the same ASKs you actually fly more block hours, which is what has happened if you look sequentially. So, even if you are paying the exact same rate for the fuel and fly the exact same missions, you just burn more fuel and your fuel cost will go up during the fog season. So, that will largely drive almost entirely the cost difference if you try to look at it sequentially. So, that was on the fuel side. You had a question on the lease rentals. I mentioned that there are some credits that are booked that offset lease rentals on the last quarter's call and that would explain why there is a sequential difference there. I obviously cannot give you more details but directionally I can point to that as a reason.

Your question on pricing, well, there is always fare sales in the market, I would not really call them a price war. Sales are sometimes done just to stimulate demand and people match them. So, those are really normal things in the industry and you will see that happening all the time. In this industry, competitors usually match these fare sales. So this is a normal demand generative activity that happens.

Achal Kumar: Okay. Again coming back to the fuel, as you rightly said, because of the fog and all, the fuel burn - that was exactly my question. You must have calculated that, okay fine, due to the volume, we have increased this much fuel cost, but due to the currency and capacity we have got this much of benefit. So that was exactly what I wanted to understand, how do we make it? I am not sure, but if you can elaborate on that.

Rohit Philip: I tried to explain it as best I could, maybe we can do this off-line. You can talk to Ankur Goel, our Investor Relations Head and he can help you model it. But directionally, I think I explained it as best I could.

Moderator: Thank you. We have the next question from the line of Arvind Sharma from Citi. Please go ahead.

Arvind Sharma: So, I understand that RASK includes some of credits from your manufacturers. Just want to clarify that the yields, i.e. the passenger revenues per RPK, would that also include the credits or are the yields clean of those credits received?

Rohit Philip: So, Arvind, we clarified this on the last call that the passenger revenue that we report in the press release does not include any of these credits.

Arvind Sharma: So, just as a corollary, I understand that YoY increase would not be sustainable going forward. But, if you see the sequential increase in the past that is Q4 versus Q3, could we expect the similar trend to continue this year as well?

Rohit Philip: Yes, there is always the seasonality issues that you see, but that is why we do not really track sequential changes because there is always seasonality. So, it is difficult for me to even answer that because we do not track it.

Arvind Sharma: I understand. I am just saying there is no big change in seasonality. It is as it was in the previous years.

Rohit Philip: There might be new factors that happen in the fourth quarter relative to the fourth quarter last year, but the seasonality element should be no different.

Moderator: Thank you. We have the next question from the line of Kaustav Bubna from SKS capital and research. Please go ahead.

Kaustav Bubna: So, with crude prices going up, could you give us some indication of yield pressure in Q4? And as we expect 24% capacity growth in Q4, do we see this translating into a robust revenue growth which should partially offset our yield pressure? Could you give me some sort of indication around how Q4 will be?

Rohit Philip: So, firstly, we do not comment on forward-looking results, that has just always been our policy. So, we will talk about Q4 only at the Q4 call after the quarter. In terms of fuel, we have talked about it many times, that we have seen historically that fuel price gets passed on only with a lag.

Aditya Ghosh: And just stepping back into the fundamentals of the business. We have 32 neos in our fleet which burn 15% less fuel than a comparative legacy aircraft. So, in a strange way, as fuel prices go up, our cost advantage vis-à-vis another competitor, who has older airplanes or older generation airplanes only increases.

Kaustav Bubna: Okay, could you explain how this 24% capacity growth is firming for next quarter? And also, could you shed some light on, let us say, we do not get Air India's international business, how do we plan to expand our international business?

Rohit Philip: So, on the 24% capacity addition, it is coming from additional aircraft that we are taking. We have taken delivery of both, neos and some used aircraft. Some of it was originally scheduled to be delivered earlier in the year but because of delivery delays that we have talked about, we are getting them in this quarter. So, that is what you see. And we have gotten a fair number of aircraft even at the end of Q3 as well, which will add capacity obviously in Q4, because in Q3 we did not have them for the full quarter. So, that is really the capacity addition. It is well in line with our longer-term plan. It is just that it got more lumped into Q4 than the earlier part of the year because of delivery delays.

Aditya Ghosh: As far as Air India piece is concerned, since we do not have any details of the process I cannot comment on the Air India transaction. But again, I will just repeat what I have said in the past, that we were anyway going to look at long-haul with or without Air India, and we will do whatever we need to do, in the right timeframe.

Moderator: Thank you. We have the next question from the line of Garima Mishra from Kotak Securities. Please go ahead.

Garima Mishra: Could you shed some light on the neos' addition in this calendar year and what is the latest that you have been hearing from Pratt & Whitney and what is the latest on the issue of the engines wearing down faster than expected?

Aditya Ghosh: So, as I have said in the past, the issue is around these components which are discussed probably on two calls in the past, I would not go over that again. But, we have made it very clear that, essentially, all we were looking for is, spare engines, so, that we quickly swap the engines out and the planes are flying, which is exactly what is happening now. So, all our neos are flying up in the air.

Garima Mishra: But there was also this talk that Pratt & Whitney is looking for a fix of the engine so that this whole spare engine requirement itself gets curtailed. Is there any update on that?

Aditya Ghosh: That is correct, and there is a time frame to it and I think two quarters back we had said that it will take about 12 to 18 months, and there is nothing that changes our guidance on that.

Garima Mishra: Okay. And lastly, any guidance or indication that you can give on the neo addition for this calendar year?

Aditya Ghosh: So, we have given ASK capacity guidance, and we have kind of moved away from trying to give number of shells and number of specific aircraft. But, I think we should just look at that ASK guidance.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to Mr. Ankur Goel for closing comments. Thank you and over to you, sir.

Ankur Goel: Thank you for joining us. Hope to talk to you again in the next quarter.

Moderator: Thank you very much. Ladies and Gentlemen, with that we conclude today's conference call. Thank you for joining us and you may now disconnect your lines.

Note: This transcript has been edited for readability and is not a verbatim record of the call.