"IndiGo First Quarter Fiscal Year 2020 Financial Results Conference Call"

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Operator: Good evening ladies and gentlemen and welcome to IndiGo's Conference Call to discuss the First Quarter Fiscal Year 2020 financial results. 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 now hand the conference to your moderator, Mr. Ankur Goel, Head of Investor Relations for IndiGo.

Ankur Goel: Good Evening, everyone, and thank you for joining us for the First Quarter Fiscal Year 2020 Earnings Call.

We have with us our Chief Executive Officer – Rono Dutta and our Chief Financial Officer - Rohit Philip to take you through our performance for the quarter. Wolfgang Prock-Schauer, our Chief Operating Officer and Willy Boulter, our Chief Commercial Officer are also with us and are available for the Q&A session.

Before we begin, please note that today's discussion may contain certain statements on our business or financials which may 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 Q&A session will be uploaded subsequently.

With this, let me hand over the call to Rono Dutta.

Rono Dutta: Good evening everyone and thank you for joining us on this call.

We announced our First Quarter Fiscal Year 2020 financial results today and I am pleased to inform you that we reported our highest ever quarterly profit with a profit after tax of 12 billion rupees. Our after tax profit margin was 12.8%. This improvement in profitability was primarily driven by strong revenue performance.

In our previous earnings call we gave you some indication on how the revenue performance was shaping up for the quarter. We continue to see a base increase of 5% in our unit revenues due to our various initiatives. Cessation of services of Jet Airways positively impacted our profits this quarter helping our unit revenues to grow by 2-3% to the best of our estimates. This quarter also saw higher percentage of bookings in the 0-15 day window with close-in fares also holding up and helping our revenue performance. In addition, we continue to optimize our network to drive our overall revenues. As you know, we are growing rapidly into new markets including international and we find that our growth has been accretive to the bottom line.

Cargo played an important role in our revenue performance. We have worked on improving our systems and processes and have increased the range of products that we now carry in our aircraft belly. As a result, our cargo revenue increased by 35% for the quarter helped of course partially by cessation of services of Jet Airways. I would like to acknowledge the efforts of our cargo team in implementing a significant improvement in performance.

Our capacity for the quarter increased by 30% compared to the same period last year. As we add more capacity, we see significant opportunities for profitable growth by increasing our connections to tourist destinations in India. We are developing the Buddhist circuit, providing interconnecting service between Varanasi, Gaya and Gorakhpur. The traffic flow into the Buddhist circuit will be enhanced as we add Vietnam and Myanmar to our network next quarter. Adding capacity in these markets not only makes a strong business case but also provides an economic boost to regions such as Eastern Uttar Pradesh and Bihar.

During the quarter, we placed an order with CFM International for the LEAP1A engines to power 280 Airbus A320neo and A321neo aircraft. With this order, we expect to maintain our strong focus on lowering operating costs and delivering fuel efficiency. This order also includes spare engines and an overhaul support agreement. We expect delivery of our first LEAP1A powered A320neo in the coming year.

Looking ahead at this quarter, we expect a continuation of the base increase of 5% in our unit revenue due to our previously discussed initiatives. However, we do not expect any meaningful impact of Jet Airways to continue as all airlines have now replaced the capacity vacated by Jet. Unfortunately, we are witnessing some lower fares in the 0-15 day booking window and expect this to add some pressure to our unit revenues in the second quarter. I want to remind our shareholders that in the second quarter last year we registered a negative 16% PBT margin. We will of course do better than that this year but how much better is still an open question. On our capacity guidance, we expect a year over year capacity increase in terms of ASKs of 28% for the second quarter of this fiscal year. For the full year, we expect capacity increase of 30%.

I feel proud to tell you that we received an award for the Best Low Cost Airline in Central Asia and India by Skytrax for the tenth year in a row and I wish to thank all our employees for the high levels of performance that we are witnessing across the Company.

With that, I would like to hand over the call to Rohit.

Rohit Philip: Thank you Rono and good evening everyone.

For the quarter ended June 2019, we reported a profit after tax of 12 billion rupees with an after tax profit margin of 12.8% compared to a profit after tax of 0.3 billion rupees with an after tax profit margin of 0.4% during the same period last year. We reported an EBITDAR of 27.8 billion rupees with an EBITDAR margin of 29.5% compared to an EBITDAR of 11.3 billion rupees with an EBITDAR margin of 17.4% during the same period last year.

As Rono mentioned, our profitability was better during the quarter compared to the same period last year mainly on account of strong revenue performance. Our revenue from operations in the June quarter was 94.2 billion rupees, an increase of 44.7% against a capacity increase of 30.3% compared to the same period last year. Our other income was 3.7 billion rupees for the quarter. Our RASK for the quarter was 4.10 rupees compared to 3.70 rupees during the same quarter last year, an increase of 10.7%. Our yield increased by 12.8% to 4.08 rupees and our load factor was nearly flat at 88.9%.

Our CASK for the quarter was 3.45 rupees compared to 3.69 rupees during the same period last year, a decrease of 6.3%. Our CASK excluding fuel was 2.11 rupees for the quarter, a decrease of 2.8% from the same period last year. Excluding the impact of foreign exchange, our CASK excluding fuel increased by 2.6%. This was primarily driven by an increase in employee costs and lower aircraft utilization which was partly offset by a reduction in maintenance cost. Let me talk about each of these factors:

Our employee costs this quarter was higher primarily due to three reasons. Firstly, we have given salary increments to all employees. Secondly, we have hired a large number of pilots who are currently undergoing training and as a result, while we are incurring salary expenses, we do not have the associated ASKs. And finally, we have insourced ground handling at most of the domestic airports through our wholly owned subsidiary, Agile Airport Services Private Limited. These services were previously outsourced and were recorded under the Other Expenses line item. So while this resulted in an increase in the Employee Cost line item, we have a corresponding reduction in Other Expenses.

We had an aircraft utilization of 11.7 hours during the quarter compared to 12.6 hours during the same period last year. This was partly due to the fact that with the uncertainty of how the Jet Airways' domestic slots and international traffic rights would be allocated, we held a certain number of aircraft in reserve till we had more clarity on the allocation. In addition to this, unavailability of pilots under training also impacted our utilization. We expect aircraft utilization to remain at similar levels in the second quarter but expect it to increase in the latter half of the year as we receive more clarity on slot allocation and the pilots that we have hired complete their training and start flying.

Now talking about the decrease in maintenance costs - we had a lower number of shop visits for our older A320ceo engines in the quarter compared to the same period last year.

Our balance sheet continues to remain strong. Our cash balance at the end of the period was 173 billion rupees comprising of 77 billion rupees of free cash and 96 billion rupees of restricted cash. As I mentioned on our previous call, we have now capitalized our operating leases in accordance with Ind AS 116. The capitalized lease liability as of 30th June, 2019 was 161 billion rupees. Our total debt, including the capitalized lease liability, was 184 billion rupees.

During the previous quarter, our Board of Directors recommended a dividend of 5 rupees per share for fiscal 2019. This will be placed for approval at our upcoming Annual General Meeting. Subject to us receiving this approval, the dividend will be paid shortly after the AGM.

With this, let me hand it back to Rono.

Rono Dutta: I just want to confirm that we had a board meeting today and this board meeting will continue tomorrow as well. The Board in its meeting today had a discussion on the appointment of an independent woman director to the Board of the Company. Of course, we have to take the step to comply with the law but in order to induct an independent woman director, we need to change the Articles of Association of the Company which now needs to be amended. We are working on this and a final decision on this subject will be made tomorrow.

And now I hand it over to Ankur.

Ankur Goel: Thank you Rono 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.

Operator: Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Kunal Lakhan from Axis Capital. Please go ahead.

Kunal Lakhan: Just on the last point that you mentioned. So, the Board is going to have discussion only on this one aspect of appointing an independent director or there are other certain aspects which get quoted in the media are also being discussed like increasing the overall directors in the Board?

Rono Dutta: The Board is having a fulsome discussion on all issues. We obviously had a number of committee meetings today, including audit committee and then the Board covered a whole range of issues and will continue to do so tomorrow. I mentioned the independent woman director issue because it is a compliance issue with the law. So, it is very urgent for us to resolve this and we hope to have a solution tomorrow. That is the only reason why I have mentioned it.

Kunal Lakhan: Secondly, on the unit revenue, you mentioned that this quarter also you will see a 5% increase; however considering the sales have again started to moderate in July and like you mentioned that most of the capacity of Jet is now absorbed by the airline, this 5% unit revenue growth is primarily on account of the internal measures that you are taking, will that assumption be right?

Rono Dutta: That is correct and as we said before the industry will cycle up and down based on seasonality and so on. And as you know this quarter that we are in is traditionally a very-very weak quarter. That is why we mentioned that we expect to see some downward pressure in revenue. But that is a cyclical effect, but on top of that, we have to add on the fact that we have a base level effect of 5% by our internal initiatives.

Operator: Thank you. The next question is from the line of Aimee Truesdale from Jupiter Asset Management.

Please go ahead.

Aimee Truesdale: I have seen that there was a positive outcome from the Ernst & Young review that have been done. I am just wondering when you will be releasing the terms of reference and the Ernst & Young report itself.

Rono Dutta: As you know we are responding to SEBI on an inquiry and we have given the report to SEBI and we do not plan to make it public at this time.

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

Achal Kumar: Wanted to understand a couple of things; first of all, on the engines, you have ordered CFM engines recently. So, now are you sort of planning to move completely to CFM or are you still going to have a mix of the CFM and Pratt and if you are going to have both, how would that impact your maintenance cost or inventory cost? Secondly, I wanted to understand about the international expansion. You said that you are going to have 50% of capacity coming to the international expansion and now looks like everybody is sort of running to grab the international pie. You are growing at about 90%, Spice Jet is about 80% and then GoAir, Vistara and AirAsia all are sort of struggling to win the silver medal. So, how do you see in that scenario - the yield and profit outlook on the international side and what is your strategy on the international? Are you still going to deploy 50% of the new capacity on the international side? And then lastly, I wanted to understand about your aircraft financing strategy. In such a wonderful favorable environment, do you plan to buy more aircraft or are you still planning to continue with the sale and leaseback model? When we say the favorable environment, do you expect this environment will sort of also promote the competition and bring more people and then yield and profitability come back to the normalized level, just wanted to have your views on that?

Rono Dutta: So, let me try and take these one at a time. So, first on the engines. Clearly, we have a large number of Pratt engines and they are still coming and CFM engines do not come till next year. So, no, we are not going back and sort of replacing the Pratt with the CFM. These are going to be two different pools of engines. To the issue of compatibility or commonality if you will, it is always better to have one than two, of course. But beyond a certain mass, the differences become very minor. You do have a sort of diminishing return. So, both pools are large enough; so we do not think that commonality is an issue. Then on the international, you said everyone is scrambling for international. True. I think we started little earlier than some of the carriers you have mentioned. And the scramble now really is to replace most of Jet. So, this is not added capacity. Jet capacity that went down is being replaced partially by us, partially by Spice, Vistara and so forth. So, you do not see a net-net increase in capacity. To our profitability on international, we are very-very pleased with what is happening with international; the unit revenue is strong, the profitability is strong, so we are very pleased with international. You might have had a few more. I will ask Rohit to talk about the financing issue.

Rohit Philip: So, on aircraft financing, I think our plan remains the same that we would like to use our excess cash to start buying aircraft outright in addition to supplement the sale and lease back model that we have historically relied on. We consider the minimum cash balance that we need to maintain is roughly 15% of revenues which roughly becomes about 4,500 crores rupees. So, based on that, we do have some excess cash. We are looking at all the options based on the aircraft deliveries that we have as to what is the optimal way to utilize them to buy some of the aircraft with cash. Obviously, we would not have enough cash to buy most of the aircraft that we would be taking delivery of. So, we primarily continue to rely on the sale and lease back model, but we like to buy some aircraft with the excess cash that we have.

Achal Kumar: How about my question on the competition, I mean, the favorable environment can actually promote the competition and people can come in and join and that could lead to yield in profitability back to the normalized level, any views on that, please?

Rono Dutta: So, you are suggesting that the revenue environment is strong; there could be some new entrant. Is that your question?

Achal Kumar: You can say that or we can see the race between the existing players to increase capacity in such a solid revenue environment. So, how do you see that as such?

Rono Dutta: As you know, we have an aggressive growth plan. We are growing at 30% a year. We are not going to change that based on, "Oh, this quarter was good or next quarter is weak. Therefore, we are going to slow it down or accelerate." So, our growth plan is set. We are going to grow at 30% a year. We have aircraft coming and we are very comfortable and happy with the growth. If other people tend to grow faster, I guess, we will just have to deal with it. But as of now, we are quite happy with the growth rate and the revenue environment. I do want to caution everyone though when we talk about the revenue environment, we are talking of sort of steady state for the whole year. As you know this second quarter is notoriously difficult quarter for the airline industry.

Operator: Thank you. The next question is from the line of Binay Singh from Morgan Stanley. Please go ahead.

Binay Singh: First question is on the financials sequentially. Like when we look at the lease rentals for the Company, I think in notes-to-accounts you are stating that in case we were to look at the earlier accounting standard, the lease rental will go up by around 9.7 billion rupees. Even if I add that, then the lease rental adjusted for a quarter comes to around 11 billion rupees Vs around 14.6 billion rupees that you did in the previous quarter. So, why would lease rentals be down so sharply on QoQ basis?

Rohit Philip: On a sequential basis, I think foreign exchange was one factor. On a YoY basis, you will see sort of the reverse effect actually happen with foreign exchange actually contributing to an increase in the lease rentals.

Binay Singh: Because the sequential drop even after adjusting for foreign exchange is sharp or maybe there is a very sizeable sale and lease back gains that you would have made that could explain this quite a sharp drop from 14.6 billion rupees to around 11 billion rupees?

Rohit Philip: Yes, in terms of that reconciliation, there was early termination of four leased aircraft in the fourth quarter last year and there was a charge associated with that in the fourth quarter that sort of on the QoQ comparison will show up in this calculation that we are doing.

Binay Singh: Secondly, when does the Company now reply to SEBI and to Ministry of Corporate Affairs? What is the timeline for these things?

Rono Dutta: SEBI submission went today or is going as we speak. For the Ministry of Corporate Affairs, we are planning end of next week.

Binay Singh: One last question on this issue. Media has talked a lot about promoter disagreement with regard to international strategy whether you go for long haul or short haul. Any comments on that?

Rono Dutta: There is absolutely no disagreement on international strategy. I think we have said many times that when it comes to overall strategy of growth, of international expansion, etc., the two promoters are totally in sync. They have confirmed that again today at the Board meeting. And the only issue of disagreement is the agreement between the two promoters. Nothing to do with the Company and strategy.

Operator: Thank you. The next question is from the line of Vijayant Gupta from Edelweiss Securities. Please go ahead.

Vijayant Gupta: I had a question around redistribution of Jet's slots. So, would it be possible to get a breakup of the domestic and international slots allotted to IndiGo and potentially what are the remaining slots which remain to be distributed?

Rono Dutta: Wolfgang Prock-Schauer is going to take that question.

Wolfgang Prock-Schauer: On the domestic slots, there were about 150 departure slots available both in Bombay and Delhi. This is actually less than what Jet Airways previously had. Jet Airways had around 200 slots, but one of the two airports just could not give as many slots that previously Jet Airways had. And out of these slots, we have got about 30% of the slots. We would have expected more because our market share is 50%, but that is where we stand at this point of time and we will see how it goes further when we move into September- October. We definitely expect more slots out of these to be available from both the airports, specifically in Delhi which has not given all the slots for certain reasons and also in Mumbai. So, we expect some significant impact of that going further. On international, we have half of the Jet Airways pool of traffic rights. We have been awarded 12 departures in a day. Again, this is much less than what Jet Airways had been flying. Out of these 12, we have already made 7 slots operational and gone for sale on them, and remaining 5 are still open because of slot issues we are having in major airports here in India. But we welcome it and we are very hopeful that these slots will be made available to us in the next one week or so, so we can use all the slots allocated to us. And then going further, after there is more clarity about what is happening to Jet Airways, we also expect to have major boost to our portfolio in international slots and traffic rights.

Vijayant Gupta: So, if I am correct in my calculation, Jet at least at its peak had a total international slot portfolio of 150 per day, would that be fair?

Rono Dutta: Is that both departures and arrivals, how you are counting it?

Wolfgang Prock-Schauer: Actually Jet Airways had more; 150 departure slots were made available in Delhi and in Bombay. In Bombay, it was 108, Delhi was 52, and as I said at the beginning, Jet Airways had got much more departure slots than 150 at its peak. But once certain constraints are removed, we expect that there will be additional slots- both departure and arrivals made available going forward, let us say starting most probably October-November. So, Jet Airways had more than 150 which were given to other airlines to take.

Vijayant Gupta: On the international front, as you said, we have just got 12 slots. How is the slot allocation being done and who has been the primary beneficiary on the international front?

Rono Dutta: So, this was a very complicated process if I may say. So, the Ministry kept calling us week after week about how do we do this. They were also not sure how best to do it. So, they asked every airline to give their priority-1, priority-2, and priority-3. So, we ranked. And then they called each of us and said, "Okay, lottery, Spice, you go first. What do you pick?" And let us say they said, I pick Bombay-Hong Kong. "Okay, GoAir, you are next. What do you pick?" And they might have picked Bombay-Kuwait. "Okay, IndiGo you are next." And so that is how it went round-after-round till all the slots were exhausted.

Vijayant Gupta: So, right now how many international slots are still in the distribution pool yet to be allocated?

Rono Dutta: I do not have a good feel for that. The Ministry told us, okay, these are the bilaterals that are available. I do not think they gave out everything. But, they gave us a limited number, and we all drew from that. They are still holding onto few I think, but I cannot be sure.

Operator: Thank you. The next question is from the line of Avinash Vazirani from Jupiter Asset Management. Please go ahead.

Avinash Vazirani: Am I correct in assuming that there are no directors on this call?

Rono Dutta: That is correct, yes.

Avinash Vazirani: Are there any members of the audit committee on the call? I assume they cannot be because there are no directors on the call.

Rono Dutta: Right. Our General Counsel, our CFO, they participate in the audit committee; they are not members of it.

Avinash Vazirani: So, when I look at the Business Standard report today, which says that they have looked at this audit committee report, I think as shareholders, we would quite like to see that report together with the full terms of reference of it. Clearly, it has been leaked and I think it is unfair on us as shareholders not to be aware of what is in the report and much more importantly what are the exact terms of reference of that report. I think in order for the Company to put this noise as some of your directors have said behind it, it will be best done in a transparent manner. If the report and the terms of reference of the report are put out in public domain, I think that will be the best way of dealing with this issue such that it does not come up again. So, would you please mind taking this recommendation to your Board and putting it out in the open?

Rono Dutta: We very much respect what you just said. We are taking it on the advisement. And yes, even as you are speaking, we are like, "Hey, we need to get together and decide how to deal with this." And yes, thank you for this input, it is very valuable and we will take action.

Operator: Thank you. The next question is from the line of Ashish Shah from Centrum Broking. Please go ahead.

Ashish Shah: Sir, my first question is on the accounting change just happened. So, we have said that the capitalized value of the lease is about 16,000 crores rupees. Would this represent the liability over the life of a lease for the aircraft or this is an estimate in terms of the life span of the aircraft? What I mean to say is that typically the way the aircraft rentals were earlier valued is that one would give it a factor of let us say 8 or 7 and which would represent the liability over the corresponding life of the aircraft in that sense. So, does this represent in terms of the life of the aircraft or is simply the liability over the residual period of our leases, how has this been taken?

Rohit Philip: It is done based on the standard which is basically a present value of the future lease payment. So, it is based on the lease commitment and that is what gets capitalized on the books.

Ashish Shah: Would I be fair in saying that as compared to the earlier practice where one would use a factor, whatever 7x or 8x which people used, this understates the liability to that extent?

Rohit Philip: Just to answer the question, I think capitalizing at the remaining lease period is the right way to look at the debt because that is the commitment. In most cases, people have a much longer lease term, and that is why typically the lease capitalization factors when people make an estimate are more like 6 to 7x. This standard is basically to say what is the actual commitment and what is the debt associated with the commitments that you have made, and that is what the standard says.

Ashish Shah: What would be the underlying period of the lease that we have taken here?

Rohit Philip: I think as we have always discussed, our lease terms are typically six years. So, when you talk about sort of the average remaining term of the lease, it is in the 3.5-to-4-year period. So, on an average that will be the lease term.

Ashish Shah: Sir, on the other parts of the balance sheet, on the asset side this would have bloated up our fixed asset as well. So, what would be the impact on the asset side of the balance sheet? Liabilities part is clear, 16,000 crores rupees. But what happens on the other side?

Rohit Philip: So, on the asset side, there are sort of two factors. What is called a Right-of-Use asset, an ROU asset that gets put on your balance sheet and we have a depreciation expense associated with that. But that asset also has an offsetting feature. As you know we had deferred incentives that was sitting on our balance sheet. From P&L perspective, we previously would deduct that from lease rentals and we will have a net lease rental and we report a net lease line net of deferred incentives. Now that deferred incentives balance sheet account is reduced from your Right-of-Use asset and we have a net asset and at the end of the quarter, it was about 8,900 crores rupees. So, the depreciation number is based on that net asset number that will hit the P&L.

Ashish Shah: Sir, if I understood correctly, you are saying that the deferred incentives that were earlier been amortized have been reduced from the cost of Right-of-Use assets and you stated 8,900 crores rupees is a net of the deferred incentives. Is that correct?

Rohit Philip: That is correct.

Ashish Shah: So, then how does the residual adjustment happen? Simply speaking, your liabilities side is inflated by 16,000 crores rupees. You have added 8,900 crores rupees to the asset side. So, what else increases to get the balance sheet sort of balanced?

Rohit Philip: There was already a liability on the books which was the deferred incentive liability. So, that liability is just netted off from the asset. So, it all syncs up from the accounts. We can walk you through a reconciliation offline with Ankur, but the deferred incentive liability is already in our books. Just in this presentation now it is netted from the Right-of-Use asset.

Ashish Shah: We have spoken about an assessment for the year '15-16 and a liability of about 635-odd crores rupees in case in this exposure could increase to 1,200 crores rupees. Could you just explain a little bit on this and how this is likely to crystallize or not according to the management's view?

Rohit Philip: So, you are talking about the contingent liability footnote that we have and it is the same footnote we had in the last quarter, and we have had that footnote in many quarters previously. I think we added some language into the footnote at the last quarter and this quarter it is the same as last quarter. It is just based on a tax dispute matter that is in litigation where we have favorable judgments for three prior years, and ongoing years are still under litigation. And while we have favorable judgments and we do not expect to have any negative outcome based on the litigation, in a continued liability we are disclosing what that amount could be. And then the reason why there are two numbers is because there could be two ways to interpret. In the unlikely event if it was determined to be taxable, there could be two methodologies to say that you tax it on a receipt basis or on an amortization basis, and that is why we have disclosed both numbers.

Operator: Thank you. The next question is from the line of Ansuman Deb from ICICI Securities. Please go ahead.

Ansuman Deb: My question was regarding the capacity outlook as far as FY'20 is concerned. So, we understand that 30 of the Jet aircraft have come back through Spice and possibly 6 to 10 might come back through Vistara. Still you will have a significant amount of capacity tailwinds in FY'20 so to say, because the Jet would have been much bigger. So, what is the overall fair outlook in FY'20? I understand that Q2 can be a very bad quarter, but overall FY'20 fair outlook if you could give some color that would be great?

Rono Dutta: It is hard to go that far out. I can tell you what we experienced last quarter and what we are experiencing this quarter. So, if you take some of the drivers- there is a lot of talk about the economy softening. So, we read in the paper, auto sales are down, fast moving goods are not moving fast enough, all of that. In the last quarter that we are reporting here, we did not see economic softness. Other industries might be getting hurt, but we were not. So, we were very comfortable in the quarter we have just reported. Now what is going to happen in this quarter? As we said, we are seeing some softness in the 0 to 15 days and it is hard to say whether that is just seasonal or that is an annual cyclical effect, we are not sure yet. So, again we can only comment on the quarter we are in and we do see some softness whether the third quarter is typically strong, whether it will be strong again, we do not know. So, we cannot look that far ahead frankly.

Ansuman Deb: Right, but my point was like the point that you alluded that there is no benefits of Jet. That was my question regarding because we still have some significant capacity which is not going to come back. So, to that extent, the benefit of Jet can come back in Q3 also.

Rono Dutta: We really do not see it. Who really benefited from Jet? We had a very small benefit and I will tell you why. First of all, Air India must have seen a huge benefit because Jet had 65% international, 35% domestic. So, Air India should have seen a big benefit. I am sure British Airways and the international carriers are seeing a big benefit. Domestically, we just do not see a big change. We said March was strong, April was strong, but by June, the effect is almost zero. And here is why. Most of the capacity came back as you know and we got like 30-35 slots/ departures in Mumbai which is very good, but these 35 departures out of our base of 1,400 departures. So, it does not really impact us that much. It is hard to move the needle on basis of 35 new departures in Mumbai. And finally also, the telltale sign is when we look at what happened in this quarter that we are reporting, where did the unit revenue improvement come from. If it was Jet driven, you would say, "Oh, Bombay must have got a big unit revenue improvement followed by Delhi because that is where the Jet capacity was in and out." The answer is 'no'. Of our six metros, Mumbai actually performed #2 and Delhi performed weak #5. So, most of the revenue impact that we are seeing is from our own internal reallocation of capacity, sales initiative, etc., We find very little evidence of a strong Jet tailwind.

Operator: Thank you. The next question is from the line of Mayur Milak from India Nivesh Securities. Please go ahead.

Mayur Milak: So, just wanted to get your attention back to the lease rental that you have mentioned, I checked that there is a difference of about 375 crores rupees. You mentioned that there is some benefit of favorable FOREX, and I thought you mentioned four aircraft were given back. Is it?

Rohit Philip: Just to repeat what I said earlier, on a sequential basis, there is a small benefit on FOREX and there was extra hit in rental expense last quarter due to early return of some older CEO aircraft. When you do early return, you take a charge against that, and that is what impacted. So, when you compare sequentially, that is what will explain the reconciliation. And on YoY basis, you see that foreign exchange was actually worse on a YoY basis and that is why you will get two opposite effects if you compare sequentially or YoY.

Mayur Milak: I was doing a lease rent per ASK kind of calculation, and if I look at your five quarters gone in the past, it was in the range of about Re.0.58 per ASK between 4Q and 2Q and then it drastically went up to Re.0.64 in Q3 and Q4 and now all of a sudden it comes down to Re.0.47. So, that is the understanding. So, what will be the normal per ASK kind of rental that we should actually look at?

Rohit Philip: So, I think one of the things that you need to adjust for is foreign exchange that actually affects it fairly significantly. This is just a detailed reconciliation that we can walk you through offline. One of the other factors that you should note is when you are looking at comparing lease rentals from prior periods to the current period; the prior periods had supplementary rent as part of lease rentals. In the current period, the supplementary rent is a separate line item and it is only the base lease rentals that have been capitalized. So, there is a line item called supplementary rent and aircraft maintenance. So, that is the reason why the number has dropped because there is just a portion of it in the line item, and the rest is in another line item. I think this is just a detailed reconciliation that Ankur can help you with offline.

Mayur Milak: Just one more question on the RASK part. So, yes, we do understand that Q2 is apparently the weakest quarter. When you say that you are already witnessing some pressure, it could of course be the seasonal pressure as well. What I am trying to understand is can we just have a kind of flavor that at least YoY the yields and the RASK looks better or we are still not in a position to determine that as well?

Rono Dutta: Like we said we lost 16% PBT. We are not expecting anything near that loss, but what we are pointing out is we have a steep hill ahead of us to climb. So, yes, things will be better than last year for sure, but we still have a deep hole we are trying to climb out of.

Operator: Thank you. The next question is from the line of Deepika Mundra from J P Morgan. Please go ahead.

Deepika Mundra: Just firstly wanted to clarify on the RASK bit. You mentioned that about 5% came from your internal efforts, another 2-3% from Jet Airways. Given that the increase was about 11%, what would be the balance attributed to?

Rono Dutta: I will answer and then Willy can also step in here. So, look, when we did our 5% and we said okay in the last quarter we did that and we said it is an ongoing effort, and we think on a full quarter basis should be 5%. That does not mean we stop there. We continue to reallocate, we continue to take sales initiatives. So, yes, we are seeing more than what we had expected. With that I will ask Willy to comment as well.

Willy Boulter: Thank you. I think there is another factor which has come into play which we have mentioned before on these calls, which is the proportion of revenue that is sold in the 0-14 day window as against that revenue that is sold at a much cheaper price further out. And what we saw in this quarter was that increased to about 42% compared to 38% in the previous quarter in the past year. So, that in itself had a positive effect on that yield number and accounts for a certain percentage of it.

Rono Dutta: We are doing several initiatives across the Company to improve revenue. We talked about cargo and how processes are changing. In revenue management as Willy was alluding to, we used to have this notion that, "Okay, let us go into the 0 to 15 at 50%." And now revenue management is saying, "Look, we can be more laser sharp than that." In certain months, it should be 47%. Why should it be 50%? Similarly, in the digital marketing, they are doing things that are bringing in online apps which is helping us. So, we do have initiatives across the Company. So, it is tough to now keep saying, okay, 1% was this and 2% was that, we just have a favorable revenue environment and lots of initiatives across the Company.

Deepika Mundra: Just a follow-up to that. You mentioned that the competition has been picking up. So, given that the number of initiatives you have underway, is it safe to say that irrespective of competition your base 5-6-7% whatever growth in RASK should be sacrosanct?

Rono Dutta: So, again I want to make a distinction between seasonal cyclicality and our base effect. So, yes, our base is definitely up 5%, maybe little more. But within that we have the seasonal cyclicality and we do not know the annual cyclicality of the economy weakening or not. So, you have all three dynamics playing out. The only one we are confident of is this 5-6% improvement.

Deepika Mundra: On the CASK ex-fuel side, any significant tailwind that you are seeing over there?

Rohit Philip: This quarter I mentioned a few factors - one of it was aircraft utilization which was a little lower because of what we think are some temporary sort of issues. As we get the aircraft utilization back to the levels that we had last year, you will see a lot of leverage on fixed costs especially in your aircraft ownership line items- your finance cost and depreciation. So, that scenario that we would expect to see some tailwinds. The other thing is just overall on CASK as the neos continue to come in, they help us and as the old planes go away, fuel cost get a lot better. If you just look at fuel CASK this quarter versus a year ago, fuel CASK was 11% better for us even though fuel prices were actually only like 1.2% better compared to the same quarter a year ago. So, that is already showing up in the fleet plan that we have. So, those are absolute tailwinds that we will have. And as you see A321s have also become a bigger percentage of our fleet. Those more seats on the plane actually create some unit cost advantages. So, I think the fleet plan will give us those natural advantages.

Operator: Thank you. The next question is from the line of Arvind Sharma from Citi. Please go ahead.

Arvind Sharma: My question is again on the accounting standard. Sir, we see that when the expense heads of the previous quarters have been reclassified, there has been actually a slight decline in EBITDAR. I am saying before reclassification on the rentals and after on the EBITDAR per se, purely because some of the supplemental rentals have moved above the EBITDAR line. So, will it be correct to assume that the current reported EBITDAR is actually lower than what would have been had you persisted with the previous categorization irrespective of the accounting changes, only because the supplementary rentals moving away from the rental line?

Rohit Philip: Yes, Arvind, that is absolutely right, the EBITDAR margin would have been about 33% if we added supplementary rent.

Arvind Sharma: On QoQ basis, it would have been a substantial increase versus what is reported right now?

Rohit Philip: That is correct. The way the accounting standards work, we are sort of reporting under the new standard and we are not restating the old. So, the comparison is not necessarily apples-to-apples. As we go forward in next quarter, we publish the balance sheet; we will try to do more sort of details that we can give to help all of you model this better. Having said that, I think when people look at EBITDAR to calculate firm value, typically, you look at EBITDAR, you take a multiple of that, and get enterprise value and then you deduct debt. So, one of the earlier questions that earlier people would make a higher estimate of debt and now the actual debt is slightly lower. EBITDAR is also slightly lower. So, ultimately on a like-for-like basis, we use EBITDAR to calculate an equity value, you will roughly get to the same answer. On a P&L basis also if you exclude the foreign exchange mark-to-market, which was a benefit in this quarter, if you exclude that, it is roughly sort of neutral. But yes, you are right, when you look at EBITDAR in isolation on like-to-like basis, the new standard would understate it compared to the old.

Arvind Sharma: On the supplementary rentals and aircraft repairs expenses that you shared of around 10 billion rupees, how much of it is supplementary rentals which is not directly related to the fleet part? Another part is maintenance and repairs, which could vary according to each of the overall fleet. So, will you provide some further granularity or do you think it is not really something that would change materially?

Rohit Philip: It is a good question, Arvind. It is about 50/50. It will change a little bit because on the maintenance side of it, as you know, there is a little bit of volatility based on the number of shop visits we have on the A320 CEO aircraft, so there is a little bit of volatility on that side while the supplementary rent will be based on the hours we fly the aircraft, but it is roughly 50/50.

Arvind Sharma: Again, on the supplementary rentals part, you gave an idea about the net assets increasing by around 8,900 crores rupees. So, if I understood correctly, essentially that deferred incentive, which were there in your balance sheet on the liabilities side and I believe in 2018 the last Annual Report was around 20.5 billion rupees, part of it would have moved to the assets side and net it against the ROUs, is that understanding correct?

Rohit Philip: That is correct. I think we will publish our Annual Report very shortly as we send out the notice for the AGM and so you will have the March 2019 detail figures out available shortly, but what you said is accurate.

Operator: Thank you. The next question is from the line of Santosh Hiredesai from SBICAP Securities. Please go ahead.

Santosh Hiredesai: I just want to go back to the last point that was discussed in terms of deferred incentives netted off from the right-to-use asset. For the incremental aircraft induction that is going to happen, would it mean that there would not be any SLB cash flows into the Company and the aircraft would be recognized at cost on the balance sheet or it would not actually be so?

Rohit Philip: No, the actual transaction will be exactly the same, cash flow will be exactly the same. The cash that you get and deferred incentive will come on your balance sheet just like it used to be. Just the P&L impact is that ends up reducing your depreciation expense instead of reducing lease rental expense that it would have done earlier. So, really not much material changes.

Santosh Hiredesai: So, the cash flows will continue to come. Instead of reducing your gross lease rentals, you will see lower depreciation on account of this netting off gross block from the deferred incentives?

Rohit Philip: Exactly, there will be no change in the cash flows.

Santosh Hiredesai: Second, a related one. I am also trying to understand in the past for the finance lease assets, you had talked about the depreciation being higher in the income tax books and because of which the effective tax rate is much on the lower side. Under the current arrangement of the new norms, would that still be the case so that your tax rate continues to be on the lower side as per income tax books?

Rohit Philip: I think we have talked about our tax rate being lower because of differences in our books and tax books on account of a number of factors. There are significant line items that are subject to tax and not to tax. So, there is a whole calculation and there is reconciliation in our Annual Reports every year and you will see it this year as well which will have the reconciliation of your effective tax rate for book purposes to the statutory tax rate. So, my suggestion is why don't you look at that disclosure that comes out in the Annual Report and if there are questions, you please call Ankur.

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

Ankur Goel: Sorry, we could not take all the questions because of lack of time, but I hope you found the call useful. Thank you.

Operator: Thank you very much. Ladies and gentlemen, on behalf of IndiGo, that concludes today's conference. Thank you all 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