“IndiGo Fourth Quarter and 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 Fourth Quarter and Fiscal Year 2020 financial results. My name is Stanford 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, Head of Investor Relations for IndiGo. Thank you and over to you, sir.

Ankur Goel: Good Evening, everyone, and thank you for joining us for the Fourth Quarter and Fiscal Year 2020 Earnings Call. We hope that you and your family are safe and in good health.

We have with us our Chief Executive Officer – Rono Dutta and our Chief Financial Officer – Aditya Pande to take you through our performance for the quarter. Wolfgang Prock-Schauer, our Chief Operating Officer, and Sanjay Kumar, our Chief Strategy and Revenue 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: Thanks Ankur. Good evening everyone and thank you for joining us on this call.

This is a very difficult time for the world economy in general and for the travel sector in particular. The aviation sector has been through many ups and downs in its history but I think we can all agree that this crisis is unprecedented in its impact. In India, the Government had imposed a lockdown and as a result, there were no scheduled passenger flights operated during this period starting on 25th March 2020 and continuing through 24th May 2020.

This has, of course, materially impacted our financial results. For the quarter ended March 31, 2020, we reported a net loss of 8.7 billion rupees with a negative profit after tax margin of 10.5%. This includes a foreign exchange loss of 10.1 billion rupees due to weakening of the rupee primarily comprising of mark to market losses on our capitalized operating leases. Our full fiscal year performance was nearly break even with a net loss of 2.3 billion rupees and a negative profit after tax margin of 0.7%.

At the end of February, we were still profitable with our unit revenue up by 2.6% for Jan'20 and Feb'20 as compared to same period last year. However, as we entered into March our unit revenue started declining sharply and resulted into an operating loss of 3.8 billion rupees for the month excluding the foreign exchange loss.

At this time, we are all focused on the health and safety of our customers and our employees. With this mindset, the company took early and aggressive actions to mitigate the impact of COVID, and as a result our international operations were gradually reduced starting January and were completely halted by 22nd March. We recognised we need to change our product on a go-forward basis to ensure the safety of our customers and employees. For this purpose, we have laid out a new set of operating procedures that clearly defines the norms to be followed by employees to combat the virus. Some of these measures include:

- Disinfecting aircraft before every departure;
- Spray cleaning the aircraft at every arrival;
- Deep clean of the aircraft including wiping of all touch points;
- Providing safety kits to our passengers;
- Mandatory masks on board for both crew and passengers;
- Placing hand sanitizers at various places;
- Discontinuance of meal services;
- Operating our airport coaches at maximum of 50% percent loads;
- Ensuring social distancing norms at check in, boarding.

Let's review what all this means for our passengers. The Airbus aircraft cabin is equipped with HEPA filters, which ensures that the virus is not able to be recirculated. The surfaces are cleaned thoroughly and passengers are wearing face masks. So the risk of transmission by air or through droplets is really being minimized. It is important to know that recently, the Ministry of Civil Aviation organized a meeting between the airline industry and a team of doctors, who reviewed our procedures and agreed that the measures that the industry has been taking are really quite impressive. Therefore, I would like to stress that airlines are clearly the safest mode of transportation.

I am deeply impressed with the commitment and dedication of our front line employees during these unprecedented times. I would like to thank our airport ground staff, crew and engineering teams who made sure that our schedule was maintained right into the lockdown. With this level of dedication, we managed to operate about 900 flights on the final day before lockdown serving around 120,000 passengers. I am also very pleased with the customer relations team, who have showed exceptional commitment and dedication during the periods of uncertainty and managed large volumes of passenger enquiries with empathy and professionalism. I would like to thank each and every one of them for the way they stepped up to these challenging times.

I am also proud to say that IndiGo has stood up to help the community and country at this time of crisis. During the lockdown, we operated over 30 relief flights, transporting medical equipment and other requisite resources across the country at our own cost.

Let me now highlight some of the positives of our performance during the quarter. We reported ancillary revenue growth of 30% against a capacity growth of 4% compared to same period last year. Our cargo line of business has performed extremely well until the lockdown. Even during the lockdown, we utilized our cargo capacity to carry essential supplies. We have learned valuable lessons about the demand and scope for Cargo during this lockdown and these lessons will serve us well for augmenting our cargo operations in the months ahead.

Going forward, we want to emerge from this crisis stronger than ever and in that context we are paying particular attention to our product, our costs, our brand and our employee culture. Specifically, we will be:

- Paying a great deal of emphasis on the new norms of flying;
- Reducing our unit costs even further, making our fleet more efficient;
- Ensuring our capacity is right sized to the market, and
- Experimenting with new network and revenue models.

In times like these, we must shift our focus from profitability and growth to managing cash and liquidity. We have always prided ourselves on our strong balance sheet and we have been very prudent in shoring up our cash reserves over the past few years. As a result, we ended the quarter with a healthy total cash balance of 204 billion rupees of which 89 billion rupees is free cash. Given the need to preserve cash, we are not looking to pay any dividend this year. Along with this, we have taken and will continue to take, a number of actions to shore up our liquidity. Aditya will talk about these measures in detail.

Moving on to our capacity and growth plans, given the volatility and the uncertainty, it is difficult for us to provide any specific revenue guidance at this moment. We resumed our operations on May 25th. We have planned a phased ramp up of operations to ensure that we are able to enact on safety and social distancing norms and are at the same time able to cater to the available demand. We have sufficient aircraft, crew and other operating staff available to resume and scale-up operations rapidly. We are in the process of revising our full year capacity guidance and will share our projections subsequently.

In conclusion, let me summarise where we are at this point. We clearly have to rise up to this challenge to meet the new customer expectations in this changed environment. Against this we have the following formidable strengths

- We have a healthy balance sheet;
- We have a very energised workforce that is highly committed to IndiGo and its future;
- We have a very efficient fleet and this efficiency will only improve over time;
- We have a very strong cost position and we are one of the lowest cost producers not just in India but around the world;
- We also have a strong market position in India and in neighbouring countries.

Therefore, I am highly confident that we will meet our objective of emerging stronger from this crisis than we were when we entered into it.

And with that, let me hand over the call to Aditya to discuss the financial performance in further detail.

Aditya Pande: Thank you Rono and good evening everyone.

These are challenging times indeed for all of us but we are laser-focused on getting through them. As Rono mentioned earlier, for the quarter ended March 2020, we reported a net loss of 8.7 billion rupees with a negative profit after tax margin of 10.5% compared to a profit after tax of 6 billion rupees with a profit after tax margin of 7.6% during the fourth quarter last year. We reported an EBITDAR of 867 million rupees compared to an EBITDAR of 22 billion rupees during the same period last year.

Our revenue performance was materially impacted by the shutdown of air traffic as a result of the outbreak of COVID-19. Year-on-year our ASK growth for the quarter was 4.1% compared to our earlier guidance of 20%. As a result, our total revenue growth was 4.5% compared to the same period last year. Our RASK for the quarter for 3.65 rupees, which was higher by 0.5% compared to the same period last year. Rono has already discussed the RASK, split up into the pre-Covid and Covid-effected periods. Our ancillary revenue performed well during the quarter and grew by 30.2% compared to the same period last year.

Further, our costs were also impacted on a year over year basis and we reported an inflated CASK of 4.21 rupees for the quarter compared to a CASK of 3.35 rupees in Q4 last year, an increase of 25.8%.

We saw significant cost headwinds and in particular because of the rupee depreciation. The rupee closed at 75.35 at March end compared to 71.30 at December end, a depreciation of 5.7% during the quarter. As a result, we had a 10.1 billion rupee of foreign exchange loss primarily driven by mark-to-market loss on our capitalized operating leases. The mark to market loss is an accounting loss and has no cash flow impact associated with it at this stage. Excluding the impact of such adverse currency movement, our CASK would have been higher by 12.5% instead of the 25.8% increase that we reported. Apart from this, just like the previous quarters, we saw elevated maintenance costs related to re-assessment of accrual estimates for heavy maintenance and overhaul cost of our CEO engines, as well as our employee costs per ASK. Another point to be noted here is that we had lower ASKs which has led to fixed costs being spread over a smaller capacity base. Furthermore, our fuel CASK continued to perform better than the changes in the ATF prices. While there was an average increase in ATF prices of 2% in the quarter, our fuel CASK for the quarter decreased by 1.2% compared the same period last year.

Regarding cost reduction measures, we are working diligently to right-size our airline to the expected level of flying, to strenuously reduce costs, and to improve our liquidity. Specifically, we have taken the following actions

1. We have announced a salary cut in the range of 5 to 25% across the organization, except for certain employees with lower pay grades. We have also deferred all merit based salary increments.
2. We have also announced Leave Without Pay for the months of May, June and July. Going forward, we will be reviewing these numbers constantly and we will adjust them to the revenue environment.
3. We have put on hold all discretionary expenses, and have deferred certain capital expenditure projects.
4. We are looking at every element of cost and working hard with our partners to negotiate better prices and terms.
5. We value the efficiency and structural low costs associated with our new NEO aircraft, and thus we will continue to substitute them for the older CEO aircraft as fast as we can. We are therefore taking deliveries of all our new NEO aircraft and balancing these fleet additions by returning all the CEO aircraft that we had committed to earlier. Furthermore, depending on our capacity requirements, we will prioritize flying our NEOs over the older CEOs.

In addition to all these measures, we are taking a number of other actions to reduce our overall costs.

In terms of liquidity measures, we are working on a number of initiatives:

1. **Returning of older CEOs and taking deliveries of NEO aircraft:** The CEOs that we are operating have higher ownership cost, driven by higher maintenance cost and higher fuel burn. As part of our fleet plan, we are working on naturally retiring a number of these CEO aircraft. We will be taking the deliveries of new planes in quarter 1 and 2 of the current fiscal year 2021 which are much more cost efficient and we are in discussions with manufacturers regarding deliveries beyond this period. Further, we have already financed majority of the deliveries through operating lessors which will help in improving our liquidity.
2. **Now let me talk about freezing of Supplementary Rentals:** We have been talking to our lessors to freeze our supplementary rentals and better align these with our utilisation for a period of 9 months. Since a large number of aircraft are currently grounded and will be operating at much lower utilization levels going forward, thus there is no immediate need for us to provide for these.

3. We have also reached out to our various suppliers to provide us more favourable credit terms.
4. While we have paid dividends in the past, we will not pay dividends this year to conserve liquidity.

We expect all these measures to help us generate additional liquidity of approximately 30 - 40 billion rupees. We are also looking to raise finance against the various unencumbered assets of IndiGo which could be a source of additional liquidity for us.

While this is a tough time for the industry, we also place a lot of value to our long term relationships with our suppliers. We are confident that we are doing everything possible to ensure we emerge in a strong position out of the crisis.

Before I end, let me give you some balance sheet numbers. The capitalized operating lease liability as on 31st March, 2020 was 203 billion rupees. Our total debt, including the capitalized operating lease liability, was 227 billion rupees. We ended March with a total cash of 204 billion of which 89 billion was free.

With this, let me hand it back to Ankur.

Ankur Goel: Thank you Rono and Aditya. 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.

The above prepared remarks transcript will be replaced with a full conference call transcript (including the Q&A portion)