"IndiGo Second Quarter Fiscal 2018 Financial Results Conference Call"

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Moderator: Good evening ladies and gentlemen and welcome to IndiGo's Conference Call to discuss the second 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 Mr. Ankur Goel, Associate Vice President of Treasury & Investor Relations for IndiGo.

Ankur Goel: Good Evening, everyone, and thank you for joining us for the Second 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 second quarter fiscal 2018 financial results today. We reported a profit after tax of 5.5 billion rupees with an after tax profit margin of 10.4%. Our year-on-year profit improvement was favorably impacted by two factors: One - we did not optimally manage our revenue last year and as a result our RASK performance last year was sub-optimal. Since then, we have corrected this and have put in place new people and processes in our revenue management function. This has resulted in much better revenue performance for us in this fiscal year. And two - we were significantly helped this quarter by the credits we received from our manufacturers related to aircraft groundings and delivery delays.

Rohit will discuss this when he takes you through our numbers in detail.

We also continue to be the leading airline in terms of on-time performance and were ranked No. 1 in OTP in July, August and September with an average OTP of 87.0% for the quarter. Our technical dispatch reliability during the quarter was 99.84%. Our flight cancellation for the quarter was 0.37%. Our preparations for the launch of our Turboprop operations are on track for a year end start. The teams have put in a lot of hard work in order to launch our regional operations within a relatively short period of time. In fact, we have already started selling tickets and our first ATR aircraft is expected to commence operations from the 21st of December this year. We are excited at the opportunity of once again being able to redefine air travel in India by bringing the reliability and efficiency of IndiGo's operations to towns and regions in our country which so far have been devoid of reliable air service or have been subject to exorbitant air fares. With the commencement of our regional operations, we will introduce three new destinations: Tirupati, Rajahmundry and Vijayawada into our network between December 2017 and January 2018.

We added 6 aircraft during the quarter of which 2 were A320neos taking our fleet count to 141 and our A320neo fleet count to 24. As we have discussed previously, the challenges associated with the neo engines and the shortage of spare engines from Pratt and Whitney led to the grounding of as many as 9 neo airplanes at its peak last quarter. We have started receiving some of the spare engines and we currently have no A320neo on the ground awaiting spare engines. Having said that, we continue to monitor the situation closely and work with the manufacturer to maintain sufficient spares.

In parallel, we are also looking at various options to mitigate the shortfall in our desired capacity growth by looking at getting more aircraft from the secondary market on short term leases.

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 September 2017, we reported a profit after tax of 5.5 billion rupees with an after tax profit margin of 10.4% compared to a profit after tax of 1.4 billion rupees with an after tax profit margin of 3.4% during the same period last year. We reported an EBITDAR of 15.8 billion rupees with an EBITDAR margin of 29.9% compared to an EBITDAR of 9.8 billion rupees with an EBITDAR margin of 23.5% during the same period last year.

As Aditya mentioned, our profitability was favorably impacted this quarter because of the improvements we have made in revenue management as well as the credits we have received from our manufacturers related to aircraft groundings and delivery delays.

As far as the credits we received from our manufacturers are concerned, we will not be able to go in to the specific details of our confidential contractual arrangements. However, it is important for me to point out that we do get compensated by our manufacturers for the loss of revenue due to the grounding of planes as well as reimbursed for some operational expenses that we incur due to delays in deliveries of our aircraft. In the event there is an improvement in the situation related to the number of grounded planes and the delay in deliveries, we would not expect to receive the same magnitude of credits from manufacturers going forward.

That said, even if you exclude these credits, we saw a strong improvement in our year-over-year profitability this quarter.

Our total capacity for the September quarter was 15.1 billion ASKs, an increase of 13% compared to the same period last year. This is lower than our previously guided number of 15% due to the unavailability of some of our neos during the quarter.

Our revenue from operations in the September quarter was 52.9 billion rupees, an increase of 27.0% over the same period last year. Our other income was 2.1 billion rupees for the quarter.

Our RASK for the quarter was 3.52 rupees, an increase of 12.6% from 3.12 rupees during the same quarter last year. This increase in RASK was helped by both an increase in our load factors as well as yields. Our load factors were up by 1.8 points to 84% and our yields were up by 8.9% to 3.57 rupees. Our RASK performance was also helped by the two factors we have mentioned before – the improvement in revenue management and the credits received from manufacturers. Talking about the revenue management improvements, while we are pleased with the revenue performance this quarter, you should not expect to see these kinds of year-over-year improvements in RASK going forward.

On the cost side, our CASK was 3.01 rupees for the quarter compared to 2.99 rupees for the same period last year. CASK excluding fuel was 1.92 rupees in the current quarter, an increase of 5.0% from the same period last year. This was primarily on account of two issues. One, we had a reduction in ASKs due to grounding of our A320neos but still had to incur some of the associated costs; and two, the Indian currency depreciated over the quarter and we recorded a mark to market foreign exchange loss on our liabilities.

As you are aware, the new GST law went into effect from July this year. The airline industry in India as a whole has raised a number of concerns on certain aspects of the law as well as how it has been interpreted. The airline industry with the support of the Ministry of Civil Aviation is in active discussion with the Ministry of Finance on this subject and has represented to the government to help resolve this issue in a manner that does not impose an incremental financial burden on the airline industry. However, in the interim, we have paid GST of 784 million rupees under protest during the last quarter related to engine repairs which we believe should not be subject to GST. This has not been recorded as a cost this quarter but has been shown as a recoverable on the balance sheet.

During the quarter, our Company successfully completed an Institutional Placement Programme or IPP through an issue of 33.6 million shares consisting of a fresh issue of 22.4 million shares and an offer for sale of 11.2 million shares to comply with the minimum public shareholding requirement. The IPP proceeds which the Company has received will be primarily used for the purchase of aircraft.

Moving to the balance sheet, we had total debt of 25.4 billion rupees at the end of the quarter. Our cash balance at the end of the quarter was 129.3 billion rupees, comprising of 53.2 billion rupees of restricted cash and 76.0 billion rupees of free cash which includes the net IPP proceeds of 24.8 billion rupees.

Before I close my remarks, let me give you our capacity guidance for the coming quarter. We are expecting a year-over-year capacity increase in terms of ASKs of 14% for the third quarter. For the full year, we expect a year-over-year increase in capacity of 19%.

With this, let me hand over the call 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 Q&A.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Vishal Rampuria from HDFC Securities. Please go ahead.

Vishal Rampuria: Sir, I have one question on your fuel cost. On a quarter-on-quarter basis, ATF rates are up but fuel cost on per ASKM basis is down. Can you give more insight about what led to this drop in the fuel cost?

Rohit Philip: Are you talking about year-on-year or quarter-on-quarter?

Vishal Rampuria: Quarter-on-quarter

Rohit Philip: Our quarter-on-quarter improvement of CASK is a result of some of the things that we talked about on the last call. We said that we have taken a number of steps to improve our fuel cost and this is the result of those improvements.

Vishal Rampuria: Okay. And the second question is about the increase in yield. Does it also include the credit which you got from the supplier?

Rohit Philip: The yield amount is based on passenger revenue. While I will not be able to go into further details of the compensation, passenger revenue does not include any compensation.

Moderator: Thank you. We have the next question from the line of Saurabh from JPMorgan. Please go ahead.

Saurabh S. Kumar: Sir, just on this compensation, assuming that these engine issues are resolved, one should not expect an improvement in profitability at IndiGo. Right? At net income levels? Will that be a correct assumption?

Rohit Philip: If the question is specifically related to the fact of aircraft not being grounded and being able to fly again, obviously they will generate additional revenue. But it would not improve the overall profitability because, as we said, we have received credits from manufacturers to offset the costs we had due to the aircraft grounding. So your statement is correct.

Saurabh S. Kumar: Okay. And second question is, do you have an update from P&W about the time line as to when these engine issues resolve?

Aditya Ghosh: It is the same as we have guided before, which is, that it will take about another, 12 to 15 months. And that is why what we are focused on is getting the spare engines, while Pratt & Whitney is working at the design issues. And as you can see, once we started getting the spare engines we do not even have a single A320neo on the ground today.

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 to clarify the accounting of this compensation, is it on the revenue line or is it subtracted from cost or is it an element of both?

Rohit Philip: There is an element of both, but that is the extent I can go on to.

Pulkit Singhal: You mentioned that passenger ticket revenue does not have this cost. Right?

Rohit Philip: Yes.

Pulkit Singhal: So if I look at that, it is almost an 11% increase in average ticket price year-om-year which is pretty strong, and even 1Q was around 1%. So what I am seeing is, that this is possibly the first year where your ASK growth is coming down and that seems to be pushing up the average ticket prices. What is your view on the same?

Rohit Philip: So Pulkit, firstly, the yields are up 8.9% year-on-year from the same quarter last year and we look at yields rather than average fare as a better measure of where those fares are trending. So yes, it has been a strong improvement. But as I said, it is primarily driven by the fact that we did not optimally manage this activity in the same period last year.

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

Sonal Gupta: So just to try and understand, one, the engine rentals have actually dropped sequentially. And then the second thing is, could you tell us how much was the FX related gain or loss in this quarter?

Rohit Philip: On the aircraft and engine rentals, as we mentioned earlier, we do get credits from our manufacturers. I cannot get into the details of that, but that will explain some of the drop in rentals. As far as the foreign exchange is concerned, we booked a loss of Rs.460 million in the quarter compared to a gain of Rs.346 million in the same period last year. So, on a comparison basis, the difference is about Rs.800 million.

Sonal Gupta: Okay. So there is a loss of Rs. 460 million?

Rohit Philip: Yes, that is right.

Moderator: Thank you. We have the next question from the line of Yusufi Kapadia from Edelweiss. Please go ahead.

Yusufi Kapadia: Sir, I want to know about last year. I believe it was at Q2 of last year where we took a pricing correction to follow the competition, while in Q1, as you said, the revenue management was not there and the pricing was independent of the competition. Therefore, it was Q2 of last year when we took the price correction to reflect competition. So, how much is the yield increase because of the pricing correction we have taken? And how much is to do with the increase in cost during the quarter?

Rohit Philip: What we said at the end of the Q1 call last year was that we had not been matching the competition and we had signaled that we were going to match the competition aggressively going forward. And in Q2 of last year, you are right, we did start taking that strategy change of matching the competition forward. Now, what we are seeing here is that while we made that strategy change, we were still not managing the revenue optimally because we did not have the people, processes and tools to manage this operation the way we thought would be optimal, which we now have put into place. So, as a result, you can see that even though we had high load factors last year, we left some money on the table in terms of how we price manage that. So, we have taken those corrective steps and that is the reason why we are seeing an improvement in yield.

Moderator: Thank you. We have the next question from the line of Prashant Kothari from Pictet. Please go ahead.

Prashant Kothari: Slightly away from the quarterly numbers, I just wanted some update on the Air India bid that we are trying to make, is there any progress on the same? How is the government thinking about it and are they willing to sell it in parts like domestic and international, and which would be more amenable to us? Anymore updated thoughts on that.

Aditya Ghosh: Yes, Prashant, there are no further updates from the government. What we read in the newspapers is that they are in the process of appointing advisors. What we have always said is that we are interested in the international operations of Air India and we continue to be interested in that. But other than that, I have no further updates at the moment.

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

Anshuman Deb: First question is regarding the neo engine issues. So, I believe there has been a change in the strategy of the parent company of Pratt & Whitney, where they now have a plan to give as many spare engines as possible to current aircraft in need of engines rather than aircraft manufacturers. Will that help our spare engine outlook and the overall Neo capacity induction as far as FY18 and FY19 is concerned?

Aditya Ghosh: As I was saying, Anshuman, that we are focused on making sure that we have enough spare engines. And obviously, as the design issues get resolved over a period of time, the pressure of getting spare engines will come down. And I am guessing that gradually it will start going back to the original delivery schedule. What we are focused on, is to have enough spare engines and to keep our planes flying.

Rohit Philip: Anshuman, as Aditya mentioned earlier that we have gotten a fair amount of spare engines which has allowed us to have all the neos back up in the air right now.

Anshuman Deb: Right. And one follow-up, would you be disclosing your ancillary revenue this quarter?

Rohit Philip: Yes, it is in the press release.

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

Ambar Taneja: You mentioned last time, one of the strategies that you are using to reduce costs is direct import of fuel. I wanted to ask, is it a substantial component of your fuel bill? And if so, are there any savings vis-à-vis buying from the Indian oil majors?

Rohit Philip: As I mentioned last time, we look at a number of initiatives to reduce our fuel cost, including the import of fuel. But beyond that, it is a competitively sensitive information that we cannot give you. But, absolutely, we look at all the available opportunities as we try to lower our fuel cost.

Ambar Taneja: Okay. With the entry of Chinese lessor companies in addition to the traditional lessors from North America and Japan, are you seeing more competitive rates for smaller planes like the A320neos and ceos that you have? What I am trying to ask is that, is there a yield reduction in their expectation which is leading to a better negotiating position for you guys?

Aditya Ghosh: For lease rentals and the rates, there are a lot of different factors that go into play, like, the demand of that airplane in the market, how people value it and so on and so forth. But having said that, absolutely, as more lessors come in, it gives us more choices.

Rohit Philip: But the phenomenon you are talking about the Chinese lessors, has been in place for a number of years now, so it is not a brand-new phenomenon. Certainly maybe 10 years ago it was not the case, but more recently it has been the case. So, we have had that competitive dynamic in the marketplace for a while.

Moderator: Thank you. We have the next question from the line of Sanjay Bembalkar from LIC Mutual Fund. Please go ahead.

Sanjay Bembalkar: Sir, I am hearing media reports with respect to price corrections in the corporate jet market. In medium to long term, how does it impact us? Do we see it as a risk to our capacity addition or risk to our low-cost advantage in medium to long term?

Aditya Ghosh: Frankly, no.

Sanjay Bembalkar: So, you mean to say, that these are disjointed markets as such, the commercial and corporate jet market?

Aditya Ghosh: Well, if you just see the number of ASKs that corporate jets fly versus the billions of ASKs that commercial airplanes fly, we do not see corporate jets impacting us.

Sanjay Bembalkar: Okay. And then I have another follow-up, if you strip out the impact of extra cost for this ATR operation launch, can you give us some idea about what can be the profitability?

Rohit Philip: We obviously have some cost that we are incurring in terms of launch preparation, but they are not material in the scheme of things. While we would not be able to give you any further details, the launch expenses would not change the profitability significantly.

Moderator: Thank you. We have the next question from the line of Santosh Hiredesai from SBICAP. Please go ahead.

Santosh Hiredesai: Sir, I had a question on the compensation bit. Just want to check, is the compensation which has been booked reflective of only what has been pertaining to this quarter? Does it also reflect past components as well, I mean, from Q1 or probably some delays that we might have seen in terms of deliveries in FY17 as well?

Rohit Philip: So Santosh, unfortunately, I am not able to give you more details on the credits that we referred to. All I am able to say is that, as we see less issues going forward, we will not expect to see these credits continue.

Santosh Hiredesai: Sure. But if I were to look at the pieces where it has been booked, you said that it is a part of the revenue as well as cost, so is that understanding correct that you have some bit of compensation being booked as a revenue line item? And some bit of this credit is going to offset some of the cost items. Is that a correct understanding?

Rohit Philip: That is correct, that is what we said, there are credits in both the revenue line and the cost line.

Santosh Hiredesai: Sir, from what we could understand, there is a 5% levy on the lease rentals that we pay. Is there an offset which is available, because there was some confusion that the offset is available only for ticketing on the business-class but not for the economy? And there is confusion around these levies on the maintenance part also, where do we stand on that right now?

Rohit Philip: Sure. Firstly in terms of lease rentals, yes, there is GST applicable on lease rentals, and it is at 5%. So, if a lease is a service, it has been clarified that those are all subject to offset and you can claim input credits against the GST on the lease rentals. However, what is still not clarified and is still an open issue, if you actually purchase an aircraft outright, if it is not through a lease, there is a potential for GST to be imposed on the import of the aircraft. That is the issue that is still being worked through with the government. So, that is on the leasing side.

On the maintenance side, what I talked about earlier was that we had to pay Rs. 780 million this quarter related to engine repairs. And this relates to when we send out an engine for repair to the engine provider and they repair the engine and send it back, there is a potential for GST to be levied on this. We do not believe it is applicable and which is why we paid it under protest. This is the issue that the industry is trying to work through and resolve with the government. That percentage that they are levying right now is 18% on the repairs. And all the other airlines in India are facing the same issue.

Santosh Hiredesai: Sure. Sir, this 5% you mentioned, is it also applicable on the so-called maintenance reserves or the so-called secondary lease rentals that we have to provide for? Or is it only on the base lease rentals?

Rohit Philip: It is on all our lease rentals.

Moderator: Thank you. The next question is from the line of Sonal Gupta from UBS. Please go ahead.

Sonal Gupta: By when do we expect the GST issues to get resolved? Have you got any indications around that?

Aditya Ghosh: The entire industry is actively working along with the Ministry of Civil Aviation. We have had meetings even with the Minister of Finance. I do not have a time-line for it but I can definitely tell you that it is very high on everybody's priority, including IndiGo's.

Sonal Gupta: All right. And secondly, this quarter if I look at the capacity addition, it is mainly on international side. Can you talk about that? And is that because you added these destinations in this quarter and would we see aggressive international capacity expansion to continue?

Aditya Ghosh: So, we did not add any new destinations in the last quarter and it is not like we have taken some aggressive expansion on the international side. The way we look at it is that it is frankly the same product, the same airplane, the same flight attendants and the same seats, we just happen to cross an international border. For us, we just manage the network with a view of maximizing profitability and going to wherever people need to fly IndiGo.

Rohit Philip: Yes, just to add to that, as we get new planes, we look to deploy in all aspects of our network, whether it is domestic or international. So there is no specific push to go in one direction or the other.

Sonal Gupta: Sure. And, if I could take one more question, just in terms of the owned aircraft strategy. Do we have any number for the rest of the year or by end of this year over how many aircraft are we looking to add? And secondly, in terms of your guidance, it seems to imply a pretty strong growth in Q4 because Q3 again is going to be pretty muted in terms of ASK growth. So, are we expecting additional deliveries or have you tied up for more aircraft in short-term lease, if you could talk about that?

Rohit Philip: Sure. So firstly in terms of the capacity, the implied guidance of 19% for the full year means fourth quarter will ramp up. That is a result of us expecting to have, in the fourth quarter, availability of our neo fleet that we have not had full availability of, in the last couple of quarters, as well as some of the deliveries that we are getting in the fourth quarter. So, you will see both of that. Plus, some leases that we have got from the used market. So, a combination of all those factors.

Sonal Gupta: Right. And on the ownership side?

Rohit Philip: On the ownership side, we do not have a specific update. We have signaled that we will start to look at owning some aircraft going forward. We are looking at owning the ATR planes outright. We will start taking delivery of those in December and we fully intend to start buying planes. The IPP proceeds that we talked about, we expect to utilize that primarily to buy airplanes.

Moderator: Thank you. We have the next question from the line of Abdulkadir Raja from Ratnabali Capital Markets Private Ltd. Please go ahead.

Abdulkadir Raja: Sir, I just wanted to know, in terms of slots, the Mumbai and Delhi airports are almost chock-a-block. So how do you plan to get your increased capacity in place, sir?

Aditya Ghosh: Yes, there are challenges in obtaining slots at major airports, especially during peak times. Having said that, we see huge opportunities in adding flights throughout the day in all of these large airports. And then there is all this unmet demand in non-metro airports where we are currently flying to. And then there are another 36 A320 compliant airports that we have not even begun to serve yet, and I am not even talking about UDAN airports. So there is huge demand in India and this is something that we have always maintained, every quarter, every year.

Moderator: Thank you. We have the next question from the line of Vishal Rampuria from HDFC Securities. Please go ahead.

Vishal Rampuria: Sir, one question on the acquisition of the aircraft. Do you plan to do more CAPEX beyond what free cash you have in your books?

Rohit Philip: Firstly Vishal, we said we will utilize the IPP proceeds primarily to buy aircraft. We do have some excess free cash on our books that we will look to use as well. But we have also signaled on the last earnings call that on an ongoing basis we will use some of our free cash flow that we generate every year to buy airplanes. So we will do both, we will use some of the free cash that we have today plus we will use ongoing free cash flow as well.

Moderator: Thank you. We have the next question from the line of Yusufi Kapadia from Edelweiss. Please go ahead.

Yusufi Kapadia: Sir, I had a question on the up-gauge of A320neos to A321neos which are planned from CY2018, which you mentioned earlier on your call. So just wanted to know, do we have full flexibility to replace part of A320neos by larger A321neos with 50 more seats? Does the regulation allow you the full flexibility, because in constrained airports like Mumbai it always makes sense to fly a larger aircraft on the same slot? Just wanted to know about the regulatory angle on this? Thank you.

Aditya Ghosh: There is no constraint on us being able to change the equipment on these slots.

Rohit Philip: And relating to your question on the flexibility under our acquisition contract, with some notice period, we have the ability to tell Airbus on any particular delivery slot to give us an A320 or an A321, or for that matter A319. They are all from the A320 family. So, with the appropriate notice period we can get any of those aircraft.

Aditya Ghosh: We will get our first A321neo from October of next year, so about 12 months from now. And we will get a bunch of them one after the other. From a slot point of view, there is absolutely no restriction or constraint on us being able to put A321neos or ATRs, whatever we want in those slots.

Yusufi Kapadia: Probably we can improve the mix during peak hours through this?

Aditya Ghosh: Sure.

Moderator: Thank you. We have the next question from the line of Kunal Lakhan from Axis Capital. Please go ahead.

Kunal Lakhan: Any update on shifting operations to Terminal 2 at the Delhi airport?

Aditya Ghosh: So, it is a long, complicated discussion. And in a nutshell, it is simply this. While we are supportive of any expansion, any development of airport infrastructure, we do not want our operations to be split up. And therefore, we have given several options or solutions to the Delhi international airport, to other airlines and to the ministry where we just want to be in one terminal rather than splitting up our operations because it will be extremely painful for our customers. Imagine what is going to happen to customers who are trying to take connecting flight, or if there is an aircraft that is suddenly grounded. It just leads to a whole bunch of complications. So, at the moment, we are absolutely making representations and are in discussions with the government about staying in any one terminal.

Kunal Lakhan: Okay. But I believe there is a deadline set by DGCA I guess.

Aditya Ghosh: There is no deadline set by DGCA. In fact, DGCA is not involved. And if at all, DGCA would actually want to act in the interest of customers. There is a date that Delhi International Airport Limited had given in the middle of October. When we represented against it, they moved that date. Now the date is the 4th of January, which is in the middle of the fog period, and we have again represented against it. So, we are absolutely going to fight for the interest of the customer.

Kunal Lakhan: Sure, great. Secondly, what will be the CAPEX in terms of rupees, outlined over the next two to three years, year wise if you can share?

Aditya Ghosh: CAPEX in terms of airplanes?

Kunal Lakhan: Airplanes, yes.

Rohit Philip: We do not give specific CAPEX guidance in terms of airplanes. I think we have talked about an overall capacity addition at a compounded annual growth rate of 20% per year for the next three years. So you can imagine our fleet will increase roughly in that proportion. But beyond that, we have not given additional guidance.

Kunal Lakhan: Okay. But besides the ATR planes would we incur CAPEX? Like say, out of 20% capacity addition maybe half of that would be basically ownership based. We need to build that CAPEX in. Any color on that?

Rohit Philip: We are not able to give you further color on what I said earlier. We will expect to use the IPP proceeds that we got plus some of our free cash flow to buy aircraft. And then on an ongoing basis, depending on the free cash flow generation in the year, we will apply some of that free cash generation towards the purchase of aircraft.

Moderator: Thank you. We have the next question from the line of Chitrangda Kapur from Sameeksha Capital. Please go ahead.

Chitrangda Kapur: Two quick questions. One, is it possible to give a like-to-like comparison of the headline financials reported for this quarter with the same quarter last year? And the second question is, as per your current sale and leaseback model, one advantage that you have always enjoyed is the deep discounts that you have received on giving bulk orders of aircraft from Airbus. Is the similar strategy also playing out when you are shifting from leaseback model to outright purchase model for ATR because previously on the call you mentioned that you will be starting to purchase ATR outright.

Rohit Philip: Firstly on the headline financial numbers, I think I went through the comparisons of current period versus the same period last year in detail in the prepared remarks. And in our press release we actually have tables of all the key metrics comparing to the same period last year. So hopefully, that should answer your question.

In terms of the sale-leaseback question, I am not sure I fully understood the question, but from our perspective we see an opportunity. We talked about it in detail in the last quarter's earnings call, that we see an opportunity to lower our expenses by owning aircraft versus doing a sale and leaseback. And so, as we have free cash flow, we will look to deploy some of that to own aircraft rather than do a sale and leaseback.

Moderator: Thank you. We have the next question from the line of Chintan Gupta from Way2wealth. Please go ahead.

Chintan Gupta: Are we planning to take debt to fund our ATR fleet or will it be out of the IPP proceeds and the free cash flows which we have?

Rohit Philip: At this point in time, we do not intend to take on new debt to finance aircraft, so we would utilize our free cash to buy the ATRs.

Chintan Gupta: Okay. And so one more question, in the event of a successful bid for Air India, in what proportion of debt and equity are we planning to fund the cost?

Rohit Philip: It is too premature to comment on that. It is a long way before we even know what the process is.

Moderator: Thank you. We have the next question from the line of Prashant Kothari from Pictet. Please go ahead.

Prashant Kothari: Just a follow-up question on the GST impact. Even if we are buying aircraft with GST, would it be 18% or 28%? And whatever it is, would that affect our buy versus lease kind of decision?

Rohit Philip: Prashant, so firstly, the rate for the import of aircraft is 5%, neither 18% nor 28%. Yes, that does get factored into the buy versus lease analysis. And we are also working with the rest of the industry on representing to the government that this does not make sense. But we are factoring that into our calculations.

Prashant Kothari: But it would still be okay for us to buy even if there is a 5% GST?

Aditya Ghosh: The answer to that is, yes.

Prashant Kothari: Okay. And we are still looking to buy the ATR aircraft, right?

Aditya Ghosh: That is correct.

Rohit Philip: That is correct.

Prashant Kothari: How many of them, over what period?

Rohit Philip: We have 21 aircraft coming in between December of 2017 and January of 2019. We would expect to buy the majority of them. We would not confirm that we will buy all of them but we will expect to buy a significant portion of them with cash.

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

Pulkit Singhal: My question is again relating to the 8.9% increase in yields, and the two aspects to this. One is company specific aspect which are your efforts; and the other is industry specific aspects, which means competition, etc. So on the second part, industry specific aspect, are you seeing in general, over the last four quarters, a better pricing environment?

Rohit Philip: So, Pulkit, just on the previous quarter, I think you saw little better pricing overall in the industry with respect to prices within the last week of travel held up better than it has previously. But clearly, we made a lot of improvements in how we manage our yield as well, so it is a combination of both factors.

Pulkit Singhal: Right. And on the company specific aspects, again there are two things. I think, last year in the second quarter is when you decided to match the fares. Did you implement this particular revenue management, in the same quarter last year itself?

Rohit Philip: We started to put the team and processes in place in Q4 of last year. So that is why when we talked about Q1, we saw the significant year-over-year benefits and see that continue in Q2.

Pulkit Singhal: Okay. So it continues in 3Q, but not in 4Q then?

Rohit Philip: Yes. You will see some of that start to taper off, I am not commenting about forward-looking yields, I am just commenting about our base from last year. So some of that started to improve even in the third quarter and little bit more in the fourth quarter. But really Q1 was when we had most of it in place. That is pretty much all I can share on that.

Moderator: Thank you. We have the next question from the line of Saurabh from JPMorgan. Please go ahead.

Saurabh S. Kumar: Sir, just following up on this yield management. So, what exactly are we doing here? Are we booking less percentage of the aircraft one month to two months out? Can you give a color to what you mean when you say the yield management exercises? And second is, generally we have seen the load factors increase. So would it be fair to say that Q2 anyway saw in general, a yield increase across industry?

Rohit Phillip: So, on the last question, I think you will have to wait till you see the other carriers announce their results because we do not have insight into their books. So that will have to wait till you see others' results.

Aditya Ghosh: In terms of your question on yield management, it is a whole bunch of things. So, it is not like you book less or you book more or you sell more seats or less at different price points, but it is a whole bunch of things. It is a better automated system, better people and more analytics. And clearly there is a lot of hard work that goes behind this.

Rohit Philip: It is just something that when you get to the scale that we are at right now with the number of aircraft, number of flights, number of connecting opportunities that we have, you start to get exponentially more complicated and manual processes which work really well up to a certain point start to break down. And that is where you need to put into effect more systematic tools, demand forecasting by flight and changing inventory buckets real-time based on how the demand forecast is going. And these are all tools and systems that global airlines are adopting for many, many years. So it is not something that we are inventing, we are just trying to adopt those best practices because at this scale, for us, it matters a lot.

Saurabh S. Kumar: Okay, it is good to see IndiGo actually taking a lead on this. Secondly, on your free cash flow, so we have about Rs.7,500 crores free cash on the book plus we will generating through our operations through the year. I am just trying to figure out how much cash you have for acquisitions. Would you say that your dividend payout in absolute level will remain the same or do you think you will look to drop that level as well?

Rohit Philip: I think on the last call, we clearly signaled that our Board will look at the dividend question on an annual basis at the end of the fiscal year. And in determining the annual dividend our Board looks at the profit for the year, the cash needs to run the business and the prudent amount of cash that the company should maintain. That is always the case. But now the use of cash to purchase aircraft will also be factored in as one of the cash needs to run the business. And so that will be factored in, beyond that I cannot give you more specific guidance. All I can tell you is our board will be primarily focused on making decisions that create long term shareholder value.

Moderator: Thank you. We have the next question from the line of Santosh Hiredesai from SBICAP. Please go ahead.

Santosh Hiredesai: Sir, my question has more to do with the regional bit. While it will be too small in the overall scheme to begin with, but I just want to understand how does the cost structure actually change when we shift from the so called conventional, or rather the one fleet strategy of A320s to this mix. So what does it mean for the cost structure, how should one look at it?

Aditya Ghosh: First of all, yes, the overall turboprop operations will be a very small percentage of our overall ASKs. But now going on to cost, on a CASK basis while the A320s would have a lower CASK compared to ATRs, because of higher number of seat on a 320. The ATRs will, on the other hand, allow us to cost-effectively tap into those markets where flying a 180 seater jet may not be physically possible because the runway is not there or it is not commercially viable. The CASK in itself is not the decision criteria, since you also have to look at what is happening on the RASK side. And ultimately, the spread between RASK and CASK is what determines the feasibility of the operation, and we feel very confident that our turboprop operations will be very profitable.

Rohit Philip: If I can just add, when you look at the CASK of the two different fleets, they will serve two different markets. And so if you are flying in one market with a combination of both, then your average CASK on that particular market will be affected by the mix of fleet that you serve. But if you fly it on different markets, we focus on having the best cost structure for that particular market.

Santosh Hiredesai: Sure. And so would we be evaluating the second phase of the UDAN Scheme?

Aditya Ghosh: Yes, we are obviously looking at the UDAN scheme and the current process that is out there. Now it is too early for me, and obviously competitively sensitive for me to express exactly what we are going to bid for and to what extent. But yes, absolutely, we are looking at it seriously. But having said that, our ATR operation has nothing to do with UDAN scheme in itself, the UDAN scheme is one of those opportunities that will be available for turboprops.

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

Kaustav Bubna: What is the increase in ATF you are expecting for the coming quarter compared to last quarter and the year before?

Rohit Philip: I am sorry, we will not be able to give forward-looking guidance on ATF or any metric for that matter. Quite honestly, even if we have best experts come up with a forecast of fuel prices, I can guarantee one thing that they will be wrong. So we try to manage the business in the things that we can control, and that is pretty much all we can do.

Kaustav Bubna: Okay. And so could you somehow, I mean, to the best of your ability or if you can quantify the scale of the ATR business, let us say three years down the line compared to your overall business?

Rohit Philip: Yes, it is in the range of 5% of our overall capacity.

Kaustav Bubna: You think that is three years down the line?

Aditya Ghosh: No, we are saying it is more likely in the next couple of years. Beyond that it depends on how many A320s we get and how many more ATRs we get.

Kaustav Bubna: Okay. Your intention on Air India shows that you want to expand your international presence. So, let us say we do not get the Air India bid, do we have a long-term plan to expand internationally? Because, I mean, Air India would give us access to routes going to America etc. So I mean, what is our plan if we don't get the Air India bid?

Aditya Ghosh: My answers to that is, yes. We are interested in long-haul operations. Air India's international operation certainly gives us a jumpstart because of the slots and route authorities that come with that. If that does not work then we have a much slower and long process of building our long-haul operations.

Moderator: Thank you. We have a follow-up question from the line of Anshuman Deb from ICICI Securities. Please go ahead.

Anshuman Deb: I have two questions, one is regarding the ATR operations. Would we have a new management team or a new set of resources for that operation? That is one. And second, with crude at levels of $60 right now, are we looking into any active hedging policy going ahead? Thank you.

Aditya Ghosh: So I will take the ATR question. No, we are actually less than six weeks away from launching operations with the same management team. Of course, we will have a dedicated crew and pilots for that operation and dedicated teams of network planning or crew scheduling. But the rest of the synergy is drawn from the main line operations.

Anshuman Deb: And on the hedging policy, sir?

Rohit Philip: Yes, our hedging policy, as we said before, we do not believe in hedging fuel. Again, we think that ultimately it is a speculative activity. We manage the things that we can control and we do not hedge fuel.

Moderator: Thank you. We have the next question from the line of Miten Lathia from HDFC Mutual Fund. Please go ahead.

Miten Lathia: Does the compensation received reflect actual cost incurred or does it reflect profit forgone for the company?

Rohit Philip: It reflects both items.

Miten Lathia: And the basis of allocation of that compensation between revenue and cost items would be the potential impact that would have had if the aircraft would have come in on those respective line items, Is that broadly how it is gone to those line items?

Rohit Philip: I cannot provide any further clarity, I am sorry, for confidentiality reasons. But I think I have given you some broad guidelines in terms of how it occurs.

Moderator: 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 all for joining us on this call. We look forward to speaking to you again 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.