“IndiGo Second Quarter Fiscal Year 2021 Financial Results Conference Call”

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Operator: Good evening ladies and gentlemen and welcome to IndiGo's Conference Call to discuss the Second Quarter of Fiscal Year 2021 financial results. My name is Aman and I will be your coordinator. At this time, all 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 hand the conference over 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 Second Quarter Fiscal Year 2021 Earnings Call. We hope that you and your families are safe in these difficult times.

We have with us our Chief Executive Officer – Ronojoy 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: Good evening everyone and thank you for joining us on this call. I trust all is well at your end.

We reported a net loss of 11.9 billion rupees in the September quarter compared to a net loss of 10.6 billion rupees in the same period last year. Given the government restrictions in place for capacity deployment, we could only deploy around 37 percent of last year's capacity. We were able to add capacity throughout the quarter and ended up in September at around 47 percent of last September's capacity.

As you all know, IndiGo has always been an exceptionally well-run airline and since we were restarting the airline after the lockdown, we were determined to use this opportunity to get better at everything we do. Thus, we set aggressive goals for ourselves for improving our product delivery, customer service, brand value, employee engagement, cost reduction, liquidity and revenue generation.

I would like to share some of the specific changes that our teams have implemented since the re-start of operations

- Our Operations team developed new processes for customer service to ensure the highest standards of public health and safety.

- Our Digital Team is on an ambitious plan for digitizing all customer touch points, from the initial reservation to bag delivery. The new mantra of our digital team is, no more paper work, no queue of phone calls. Lets digitize everything.

- We launched all cargo flights as a stand-alone revenue stream. Somewhat incredibly, we are now carrying more cargo at much lower capacity, than we did at 100 percent capacity.

- We set sensible goals for cost reduction and are making good progress on several fronts. Once we get our capacity back to reasonable levels, our unit costs will probably be lower than what we had before the operational shutdown.

- We focused on our cash balance as a key priority. Aditya will give you an update on our cash position and cost reduction measures when he takes you through the financial performance in detail.

- Our commercial team has artfully fashioned a new network, that observes all the capacity restrictions and yet maximizes revenue. Simultaneously, we have been able to transform ourselves from a purely scheduled carrier to one also adding charter operations and this has significantly enhanced our revenue performance.

- Our operations team set higher goals for On- time performance, customer complaint handling and baggage delivery. Since Jun'20, we have been number one or number two in terms of the on time performance.

- We continue to return our classic engine aircraft thereby increasing our overall fleet efficiency.

- We wanted to improve our brand perception. Our 'Lean Clean Flying Machine' seems to be having a lot of traction in the marketplace.

- While we wanted to design an even better and upgraded IndiGo, we very much wanted to preserve our greatest and most critical strength which is our tightly bonded and enthusiastic employee culture.

I am pleased to report that we are encouraged with the progress we are making on several underlying measures of strength

1. We are ranked as the safest airline in India by the Safe Travel Barometer, which is the

world's most comprehensive database for COVID-19 traveller health and safety and has released the safe travel scores for airlines worldwide.

2. Our net promoter score continues to improve and is even higher than the last quarter. Further, improvement in our product has resulted in a higher customer preference for our airline and as a result we are carrying higher number of passengers at around 58 percent of domestic passengers in September versus 48 percent in January.

3. I am pleased to be able to report that IndiGo is now positioned as the 33rd most valuable brand in India by Campaign India. This is a significant jump of 52 positions from a year ago.

4. Our internal employee engagement scores are at an all-time high, it is heartening to know that employees feel inspired and motivated even during these difficult times.

Our low levels of aircraft utilization continue to remain a major concern and the fact that we were only able to fly around 37 percent of our capacity had a significant impact on our financial performance. However, we have been gradually increasing our capacity and we hope to be utilizing around 60 percent of our third quarter fiscal year 2020 capacity in terms of ASKs in third quarter fiscal year 2021.

Talking about the revenue performance during the quarter, on a year over year basis our yield has improved by almost 9 percent, but our load factors are down by 18.5 points leading to reduction in RASK by 5.4 percent.

I am pleased to note that our September end free cash balance was 69.7 billion rupees which is higher than our internal forecasts. We acknowledge that we still have a lot to do in terms of complete recovery to pre-pandemic levels but I would like to assure you that this Management team is working diligently to address all the risks and opportunities that are on the table.

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.

For the quarter ended September 2020, we reported a net loss of 11.9 billion rupees compared to a loss after tax of 10.6 billion rupees on a YOY basis. We reported an EBITDAR of 4.1 billion rupees compared to an EBITDAR of 2.6 billion rupees during the same period last year.

During the quarter, we operated at 36.7 percent of our YOY capacity, this is somewhat lower than our previous guidance of 40 percent. The gap was primarily driven by capacity restrictions imposed by various state governments for a considerable part of the quarter which had an impact on the pace of our capacity deployment.

The key highlights of our performance during the quarter can be best summarized by the following points:

- We operated at load factor of 65.1 percent, an increase of 3.8 points as compared to the previous quarter, sequentially.

- On a year over year basis, our yields increased by 8.9 percent to 3.83 rupees, However, our RASK reduced by 5.4 percent to 3.24 rupees primarily driven by reduction in our load factors by 18.5 points. Our passengers and cargo charters continue to perform well, adding to our overall revenue performance.

- Our fuel CASK decreased by 43.4 percent compared to 32.2 percent reduction in average ATF prices on a year over year basis. Our overall fuel management policies including a mix of efficient engines, effective purchasing contracts and initiatives for reducing fuel burn are one of the bright spots in our performance.

- Our ancillary revenues including cargo continues to be strong helping us to generate much needed revenue at this time.

Moving on, to the most important update on our cash position and liquidity

1. We ended the quarter with a free cash of 69.7 billion rupees a reduction of 5.6 billion rupees as compared to free cash at 30 Jun 20.

2. As we have added more capacity, our net cash burn per day reduced from 300 million rupees per day in Jun'20 to an average of 250 million rupees per day in the quarter.

3. We have spoken about various liquidity initiatives totalling to 60 billion rupees in our past calls. During the quarter, despite a tough environment, we have secured sanction for working capital from a bank that can help infuse additional liquidity of 6 billion rupees. This sanction also demonstrates the faith lenders have in the balance sheet and resilience of the Company. Of the 66 billion rupees of potential liquidity increase, half has already been raised and the other half will be raised in the next couple of quarters. We continue to work on more options to enhance liquidity even further.

4. While our Board has approved raising of funds by way of qualified institutional placement aggregating 40 billion rupees, we are currently looking at all the debt options before we take any decision for this fund raise. Further, on the basis of the current revenue improvements we are deferring the decision of QIP till the end of December 2020.

Now let me give you an update on the cost front:

- Supplementary Rentals & Maintenance Cost: This cost comprises two major components 1) supplementary rentals that are largely variable and 2) Other maintenance costs that are largely fixed or event based. Given that we have deployed only 37 percent of our capacity compared to the pre-Covid period, this number is lower than historical levels. We expect this number to increase as we keep on deploying more capacity.

- Our payroll costs reduced by 35.5 percent as compared to the March quarter as all our initiatives on payroll cost reduction have taken full effect in this quarter.

On the other key balance sheet numbers, we ended the quarter with capitalized operating lease liability of 229.3 billion rupees and total debt, including the capitalized operating lease liability of 254.2 billion rupees.

In summary, we are in a stable position with respect to our liquidity, our costs have come down and the increase in capacity is further improving our net cash burn. However, we also understand that times are still unpredictable and we need to continue to fight our battle against this pandemic.

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.

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