"IndiGo Second Quarter Fiscal Year 2022 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 2022 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 would now like to turn the call over to your moderator, Ms. Richa Chhabra from the Investor Relations team of IndiGo.

Richa Chhabra: Good evening, everyone, and thank you for joining us for the second quarter of fiscal year 2022 earnings call. We hope that you and your families are safe and in good health.

We have with us our Chief Executive Officer – Ronojoy Dutta and our Chief Financial Officer – Jiten Chopra to take you through our performance for the quarter. Wolfgang Prock-Schauer, our Chief Operating Officer, Sanjay Kumar, our Chief Strategy and Revenue Officer and Kiran Koteshwar, our Head of Investor Relations and sustainability 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 be archived on our website. We will upload the transcript of today's prepared remarks by day end. 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 the call. Hope all of you are keeping safe through this covid period.

We announced our second quarter fiscal year 2022 financial results today. We reported a net loss of 14.4 billion rupees for the quarter ending September 2021 as compared to a net loss of 31.7 billion rupees for June quarter of fiscal 2022 and a net loss of 11.9 billion rupees for the September quarter last year. The reduction in Covid-19 cases in the country, increased pace of vaccination, and relaxation of the testing norms by the various State Governments has helped to stimulate demand during September 2021 quarter. In line with the increased demand, the Government initially raised the domestic capacity caps from 65 percent at the end of the June to 85 percent mid of September and recently removed these capacity restrictions altogether. Further, international destinations and frequencies were increased under the bubble arrangements. All these factors had a favorable impact on our revenues. We carried around 6.3 million passengers in June quarter which rapidly expanded to 11.2 million passengers in the September quarter, an increase of around 79 percent. Overall, we were able to deploy around 41 percent additional capacity in the September quarter as compared to the June quarter.

Our load factors increased to 71.1 percent in the September quarter as compared to 58.7 percent in June 2021 quarter and our yields have gone up by around 20 percent to 4.19 rupees. These factors have led to sequential increase in our RASK by 32.1 percent to 3.60 rupees.

On ancillary revenue, our Cargo operation continues to witness growth, in the September quarter cargo revenues have increased by 16 percent as compared to the June quarter. We anticipate a potential structural shift from traditional widebodies to narrow body cargo aircraft and with our upcoming freighters we will be able to take full advantage of this opportunity.

Our International capacity deployed increased by 58 percent as compared to the June quarter, reaching around one third of our pre-covid International capacity levels. We are in constant dialogue with the Ministry to open more International destinations. Also, we have recently entered one-way codeshare agreement with American Airlines. We are confident that this will be a strong partnership that will create increased opportunities for trade and tourism through IndiGo's seamless nationwide connectivity.

On the cost side, the deployment of higher capacity in this quarter has helped spread our fixed costs resulting in our CASK ex fuel reducing by 27.3 percent to 3.25 rupees, sequentially. However, due to headwind in fuel prices, our fuel CASK has gone up 16.2 percent on a sequential basis to 1.26 rupees. As you are aware our fleet modernization programme continues and during the quarter, we inducted 11 fuel efficient NEOs and returned 13 CEOs.

We of course continue to occupy the number one position when it comes to on-time performance. In addition to our targeted improvement in all our operational parameters, we are also driving our leadership in the area of sustainability by becoming the first Indian airline to release a comprehensive ESG report. “IndiGo Green” is a testimony to our commitment towards a sustainable future and towards responsible growth.

Our expectation is that our third quarter fiscal year 2022 capacity in terms of ASKs will increase by around 40 percent as compared to the second quarter of fiscal year 2022. We are encouraged by the booking trends in October and beyond. We are currently anticipating that our October Load factors will be around 76 percent. Our average revenue booked per day in October is now equal to pre-covid level of revenue booked per day in January 2020. It is important to note that we are matching January 2020 level daily booked revenues while offering 20 percent fewer ASKs.

On the negative side, oil prices continue to march relentlessly higher. Pre-covid, oil prices were averaging 65 dollars a barrel whereas now it is averaging 85 dollars per barrel. Thus, things are looking better on the revenue side but the increase in input costs are cause for concern.

Looking back, we have had several quarters of unacceptable losses which have dented our balance sheet. It is now time for repair and healing. But I want to take this opportunity to thank our employees for running a quality airline, paying attention to the customer and for being nimble in generating nontraditional sources of revenue such as Cargo and passenger charters. Now that it looks like we are finally emerging out of the Covid crisis, we are turning our attention back to the two key principles of our business model, namely: continue to keep our costs down and grow rapidly.

To summarize, revenues are fast returning to normalcy, fuel prices are worrisome, we need a rapid return to profitability in order to strengthen our balance sheet and we are excited about the growth opportunities that lie ahead of us.

With this, let me handover the call to our CFO, Jiten Chopra.

Jiten Chopra: Thank you Rono and good evening everyone. Hope all of you are safe and doing well. Thank you Rono and good evening everyone.

For the quarter ended September 2021, we reported a net loss of 14.4 billion rupees compared to a net loss of 31.7 billion rupees for the quarter ending June 21 and a net loss of 11.9 billion rupees for the September quarter last year. We reported a positive EBITDAR of 3.4 billion rupees compared to a negative EBITDAR of 13.6 billion rupees in the quarter ending June 21 and positive EBITDAR of 4.1 billion rupees for the September quarter last year.

In the September quarter, we operated at 61 percent of our pre-covid capacity as compared to 44 percent in the June quarter. This higher capacity deployment has helped improve our performance metrics. Some of the key measures for the September quarter as compared to the June quarter are:

1. We operated at a load factor of 71.1 percent, an increase of 12.4 points. We had a yield of 4.19 rupees, an increase of 20.4 percent and RASK of 3.60 rupees, an increase of 32.1 percent

2. Our CASK ex-fuel reduced by 27.3 percent primarily due to increase in capacity deployed and positive impact of foreign exchange movement.

3. We were though negatively impacted on the fuel cost as our fuel CASK increased by 16.2 percent compared to the June quarter.

Due to the improved revenue environment, our average cash burn per day reduced by around 39 percent in the September quarter. Further, we ended the quarter with a free cash of 63.5 billion rupees, a net increase of 7.3 billion rupees as compared to June end.

On the other key balance sheet numbers, we ended the quarter with total debt of 323.4 billion rupees including capitalized operating lease liability of 275.6 billion rupees.

With the impact of the second wave abating and additional capacity deployment, we are likely to show an improving trend in all performance metrics in the forthcoming quarters. We continue to focus on keeping our costs under control and providing world class services to our customers.

With this, let me hand it back to Richa.

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

Moderator: Ladies and gentlemen, we will now begin the question & answer session. The first question is from the line of Deepika Mundra from JP Morgan. Please go ahead.

Deepika Mundra: Sir, just a couple of questions. Firstly, regarding the yield. What is the key driver for the increase in the quarter? Is it just the fare cap or is it something else which can potentially be more sustainable? You mentioned about the path to profitability despite the higher cost structure. Again, can you talk about a little bit of that as to how you plan to get there?

Ronojoy Dutta: First on the yields. There clearly is some pent-up demand that is obvious, particularly the international market. As each market opens up - whether it is Oman or Kuwait or Dubai, every market that opens up, there is a huge surge of demand if you will and prices are high as a result. Fortunately, they are not also declining rapidly. They start off high, they come down a little, but they continue to remain at pretty attractive levels. The same is true domestically and we are pretty pleased with the pricing performance. Internationally, of course, it is not a pricing cap issue. On domestic, the pricing cap that the government puts in place I am sure has some impact, but remember, against that, fuel prices are really up. So, I think the industry has been fairly responsible and are being conscious of the cost pressures that the higher fuel raises and pricing responsibility. Your question is, is it sustainable? Yes, I think it is.

To your second question of what is the return to profitability? Clearly we have to work on the revenue front and cost front. The best thing that can happen on the cost front is to put more and more capacity into the market in a responsible fashion and we are pleased that our aircraft utilization continues to march upwards week over week as we add more and more capacity. As you know, the government has removed all capacity caps domestically. Internationally, we are hopeful more bubble arrangements will be signed with places like Singapore, Saudi Arabia, Malaysia – these all seem to be negotiations in progress. As that happens, we will benefit both on the revenue front and on the cost front. So, yes, I do believe that we are going to keep improving our profitability quarter over quarter that we can forecast.

Deepika Mundra: Sir, can I just followup on that since you mentioned international, the 40% growth on ASK, could you give a rough split as to what would be domestic versus international?

Ronojoy Dutta: We don't have that breakup handy right now but let me tell you roughly we had one-third of our pre-Covid capacity internationally and about 85% to 90% of our domestic capacity. On a weighted average basis, our capacity is down 20% from pre-Covid levels. Unfortunately, I don't have the breakup domestic versus international, but you can approach Richa and she would be happy to share that with you.

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

Binay Singh: First question, We are looking at October, where you are close to 80% of pre-Covid level, how close are you to cash break-even now? Secondly, any comments on corporate travel? Are you starting to see any pickup over there?

Ronojoy Dutta: Cash I won't be able to give you a forecast. I think Jiten talked about our cash numbers – burn numbers coming down – when does it go back to profitability? Let us talk about on a P&L basis. What do we think is going to happen? As I said, I think quarter over quarter, we will continue to improve. Fortunately, as you know, November and December are very strong months, but equally unfortunately, the following quarter, February-March tends to taper off a little. So, I think we will be skirting with profitability somewhere in there, but exactly when that happens is too early to say. Your second question was on corporate travel. I will let Sanjay Kumar answer that.

Sanjay Kumar: We have seen almost 50% recovery of the corporate travel compared to the pre-Covid levels of January 2020 and what we are seeing and getting the feedback from the market is post Deepawali, more and more corporates are going to start traveling. The limitations and the restrictions which were kind of ongoing by various corporate houses have been kind of taken away now by the end of September and partly after Deepawali and we hope that the corporate travel will gain momentum post Deepawali. That's what our view is and we are already seeing the growth of MICE segment. People have started travelling for meetings and conferences on the corporate side. That's a very welcome sign and people have started travelling on that. So, a lot of corporates are now taking group travel already for their meetings and conferences. That also is a good indicator that corporate travel is slowly coming back.

Binay Singh: Just to clarify what percentage of mix will it be now?

Sanjay Kumar: As I said, we have seen almost 50% recovery on the corporate side of the business when we talk about the contracted corporate business, which used to be about 24% of our overall business during the pre-Covid period. So, we have seen almost 50% recovery of that. Given the situation we are in today, we hope that post Deepawali, this will kind of gain momentum.

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

Achal Kumar: I have a couple of questions. First of all, I just want to understand about your networking strategy. You are growing your network, but then of course, as we have seen historically that when you go to the new station, it takes almost like between 6 to 24 months for the demand to develop depending on the situation. How do you see that in your case? Are you going to expand your network or are you going to consolidate on the existing stations? And then linked to that, how confident you are that you will be able to deploy your capacity more commercially or profitably going forward, especially given the fact that a lot of capacity could join as you said yourself will be focused on growth? How do you see that overall situation? Please discuss a bit more on that.

Ronojoy Dutta: A couple of good things that have happened to us. First is, we have discovered the strength of new markets. As we have said in the couple of last quarters I think, while metro to metro markets had some dampening in demand, we were very pleased with the growth we were seeing in Tier-2 and Tier-3 cities. As a result, a lot of our focus has been there. Now, as corporate travel comes back, we now have an opportunity to add back some capacity in metro to metro. That's one area of growth. The second one clearly is international. And international, while our revenue numbers are strong, they are on far lower capacity levels. So, getting back to that capacity level is again a huge growth opportunity for us. Then, thirdly would be actually pure growth into new markets internationally which we have not done. We have opened a lot of new stations domestically but as soon as either through bubble arrangements or through charters or through hopefully scheduled operations, we hope to grow internationally as well. So, I think growth opportunities are very very high. We are just waiting for this Covid and its subtle ramifications in terms of international barriers to go away and we will be then growing both domestically and internationally.

Achal Kumar: So, are you saying that you will continue to grow on your network or do you think once the demand returns or corporate demand returns, you will be focused on or more consolidation on the existing network?

Ronojoy Dutta: I will answer it as, are we adding more frequencies or are we expanding our network? The answer is both. We will be adding more frequencies into existing markets. But at the same time, we will be expanding our network and renew stations as well.

Achal Kumar: My second question is around the industry structure. Basically, as you know of course, although it is not clear how the Tata group will operate its overall aviation business, but assuming they will combine all the airlines into one, how do you see the overall competitive landscape changing for the industry? And of course linked to that, we are probably going to have 2 more airlines Akasa and Jet. Obviously, they will not be competitive in the air right from the start, but overall they will gain some bit of market share. So, overall how do you see the industry structure developing in the domestic as well as international skies? Could you please comment on that.

Ronojoy Dutta: I think the consolidation of the Tata group actually adds some clarity to the industry structure which would be very helpful because they will be a full-service carrier. Again, we are speculating. We don't know what the Tata group is going to do, but all indications are that they will be a full-service carrier and that they will be focusing a lot on international markets and markets that we don't even complete in – the Londons, the New Yorks, etc. Having that whole group sort of working in a full service carrier mode, I think it is good, it is healthy for us because there will be some sort of natural separation in the sense that we will be a low-cost carrier without business class, without premier, economy, etc., and flying narrow bodies in 7-hour market range and they will tend to be a Vistara type model with business class and premier and wide bodies flying into a bigger circle of international markets. I think that separation is actually healthy. It will create some discipline in terms of marketing and pricing and that's good.

To the question of Akasa, yes, they will be another low-cost carrier and I would say that the market in India clearly has scope for a full-service carrier but the fields for low-cost carriers will get crowded. There is IndiGo, there is GoAir, there is Spice, now there is Akasa. So, that field is getting crowded and there will be more competition there. That's how we see it.

Achal Kumar: And of course in case Tata decides to run 2 airlines parallelly – one low cost and one full service, then it will be another challenge do you think?

Ronojoy Dutta: We will have to see how that evolves.

Moderator: The next question is from the line of Aditya Makharia from HDFC. Please go ahead.

Aditya Makharia: Happy to hear the positive commentary after a long time. I just had a question on your planes. Obviously, you are phasing out the CEOs quite nicely and that helps at a time when fuel prices are going up. But I was also noticing the fleet of other competitors like GoAir or Vistara and we see that their NEO planes are also pretty much maybe 30% 50% whatever it is. So, do you think that this advantage which you have will not really last for that long because others are pretty much catching up?

Ronojoy Dutta: Lower fuel consumption is good and it is not a competitive advantage, it is an absolute advantage because given the pricing and the marketplace, we need to reduce our costs and our costs come down. It doesn't necessarily mean that prices will come down. As you can see, right now, we are witnessing a reasonably robust pricing environment and to the extent we bring our costs down, that is great. Other people cut their cost down, I mean, so what? It is not like the pricing is going to tumble as a result. I think the margins will just expand. We are doing everything we can to get to full NEO fleet. If other people should do the same, I don't see that as an issue for us.

Aditya Makharia: Second is, obviously your market share in Covid went up to I think 55% plus maybe on the domestic side. Is there any medium-term market share target which you would be happy with because clearly the moment you cross 50%, it gets that much more difficult to maintain share. There are certain costs which come with maintaining that higher market share. Is there any number you would like to have in mind?

Ronojoy Dutta: We do not target market share at all. Market share is just a byproduct or a consequence of our actions. What are our actions? Our actions are targeted towards running a darn good airline. We want to be a world-class airlines, we are a world-class airlines, and we continue to want to stay there. After that, if the customer prefers our product again, that's a nice byproduct. The second thing that we do is we expand our network. For example, we just added Dimapur to Delhi nonstop. We got a lot of thank you letters from Nagaland. "Hey! We have been waiting for this flight for so long". Now, does the market share go up as a result? Yes, sure, but we have no targets for market share. We only have targets for good customer service and network expansion.

Moderator: The next question is from the line of Sarfraz Bhimani from Motilal Oswal. Please go ahead.

Sarfraz Bhimani: Sir, my question is with respect to the discussion we already had in terms of new entrants coming into the industry. What are your thoughts in terms of say ULCC which the other peers are also talking about?

Ronojoy Dutta: ULCC we have obviously studied that model at great length. Let us take again the Spirit example because they are the sort of pioneers of ULCC and the way they got to where they are is by adding a lot of seats. They increased their density compared to the like in United and their costs were lower. In India, that game is played out. All of us – whether Spice, us, GoAir, we have the maximum number of seats in the airplanes. The regulations don't allow any more seats. So, you can't increase that. The second thing that a pioneer like Spirit would do is to charge for all kinds of things and most importantly for baggage. The DGCA again rules that prevailing order if you will and it is first 15 kg free, after that you can charge. That's the even-playing field for everyone. If the DGCA says, no, everyone can charge for the first 5 kg, then we will also be there. So, it's very hard for a new entrant to distinguish themselves from IndiGo in terms of, Oh! We will have lower costs. The fact is our aircraft ownership costs as you know are one of the lowest in the world, our seat density is the maximum it can be for everyone, baggage rules apply to everybody. So, you can brand it anything you want, but are there any really key distinctive features? We don't seem to think there are.

Sarfraz Bhimani: The second question is, now we will see more concerns on the demand side and definitely will grow from hereon as well. What do you think on the yield side? In the past quarters also, we have been talking that yields in India have been the lowest and would grow from hereon, but with this DGCA reviewing the air bands for say 16 days onwards, what do you see because the competition in that range has been strong? Any zest that you can give in terms of where the yields could settle?

Ronojoy Dutta: First of all, we have been pushing the DGCA and the Ministry of Civil Aviation to remove the fare cap beyond 15 days because earlier what was happening was, yes the fares were high, but they were high for too long and therefore we could not stimulate traffic. That's why our load factors were suffering. By restricting this higher fare for the first 15 days is good because from 16 days onwards, we are now able to stimulate our traffic and that's why we are seeing load factoring improvement. So, from an overall revenue management, this is very good. The government has been fairly responsive in sort of listening to the industry and doing the right thing. What happens if the government says, Ok, we are just getting out of this and you guys do what you need to do, I think that would be a welcome step too. I think the industry is mature enough, we can manage our own fortunes, and I think we will all behave responsibly.

Moderator: The next question is from the line of Pulkit Patni from Goldman Sachs. Please go ahead.

Pulkit Patni: My first question is on overall costs. Now that the government has sold Air India, I am sure there will be initiatives taken in order to support the industry's profitability. With that view, do you think this removal of VAT which has been done by I think 4 states on ATF is something that could be a big support to profitability if this is accepted by other states also?

Ronojoy Dutta: We certainly hope so. All the airlines, we have met with the ministry several times and we have showed them how out of line indirect taxes are in India. As you know, we pay central excise tax; we pay VAT fees; on repair parts, we pay excise taxes. Put it all together and we are like very highly taxed as an industry. So, the government is listening to us and they also acknowledged some of this inefficiencies that are there in the industry and I welcome the minister's first initiatives in terms of getting some states at least to remove them, but that's only a handful and they tend to be the smaller states. We need the bigger states in particular to jump in, but hopefully that is going to happen over time. We are hopeful and it would be a big support for the industry.

Pulkit Patni: Similarly, this whole GIFT City allowing leasing companies to come and given some tax incentives, do you think that could also be sort of profitable in terms of lower lease costs for us over the longer term if that is something that picks up. I am just trying to understand from an industry profitability perspective, what more could come through over the medium term?

Jiten Chopra: That's possible. The GIFT City is a model which once starts developing and when lessors coming through, that will definitely help us, but it's in a nascent stage today. So, it's very difficult to predict how it will evolve, but yes if the way it's structured and the way government is supporting it, if all players let us starts playing with that, I think it will help support the industry on an overall basis.

Ronojoy Dutta: In general, to the extent the entire ecosystem evolves. Okay, we were talking about GIFT City and so forth, and I was saying that the entire ecosystem around aviation to the extent it develops, it will be very very helpful for the airlines. As you know, whether it is line maintenance, whether it is engine maintenance, whether it is a aircraft maintenance, we pay a lot of precious foreign exchange in trying to get that work done. So, the government is making a big push that Listen! Some of this ecosystem needs to come back to India and they are trying to work with engine repair shops, trying to work with aircraft maintenance shops to get this done, and so, yes, we welcome the move. I think the government is very sort of aggressive and ambitious in what it wants to achieve and it will be very helpful for all of us.

Pulkit Patni: My last question is, just trying to understand yields a little better, can you share a sense of if it removes the whole charters from the base, how much have the yields increased in that case?

Ronojoy Dutta: Yields have increased across the board. Frankly, they have improved in cargo, they have increased in charters, they have increased domestically, they have increased internationally. So, we see a sort of comprehensive yield improvement in every segment of what we do. And to an extent as we have been saying, it's kind of inevitable. Yields in India just dropped way below reasonable level and they just had to come back and now I think with all the different strains of traffic – Yes, corporate travel is slowly coming back, the SMEs there is a lot of growth in them, construction companies, traders, and then there is movement of migrant labor as well – all of these things says that it is going to come back and that's I think is what we are seeing. It's a structural shift in my mind. It's not a one-time episodic or yields went up.

Pulkit Patni: Since we are speaking on the 28th of October, is that momentum continued even in October – the yield improvement?

Ronojoy Dutta: As I said in my opening remarks, October average revenues booked per day – that revenue hasn't travelled yet, it's just booking now, and therefore it will travel in November or December – average revenues booked per day is the same as it was in January 2020 pre-Covid and this has happened while we are offering 20% less capacity. So, you can see the strength in pricing from that one key number.

Moderator: The next question is from the line of Aditya Mongya from Kotak Securities. Please go ahead.

Aditya Mongya: I had a few questions from my side. First question is that, for long India's international traffic volumes have grown at 1x GDP whereas our domestic are growing much faster. Does privatization of airlines make any difference to this thesis and does international start growing faster in line with domestic growth from hereon and thus everyone benefits?

Ronojoy Dutta: I don't think I have an answer to that. Let me just say international, what do we see happening? International what we see happening is that a lot of carriers have been carrying international traffic in and out of India one stop. I was in Milan the other day – just to give you a little narrative here –

and I was desperately trying to get on different airlines. First I tried Etihad to Abu Dhabi and then Qatar to Doha and then Emirates to Dubai, and in every one of those airlines, there was a long line of people standing who were all Indians. And I was like, Oh! my God. These people are going to Abu Dhabi or they are going to Doha or they are going to Dubai ultimately to get to Delhi or Mumbai. And that happened in all directions – because of Singapore, because of Bangkok, because of Dubai – traffic is carried out of India on a one-step basis. Now, we have an opportunity – whether the Tatas do it or IndiGo does it – to carry this traffic nonstop. So, it's a shift from a type of traffic and one stop as you know is always low yielding. So, we see this as a great revenue opportunity for Indian carriers whoever makes use of it. Domestically also, we see growth as I said in cities that were before not even on the network. On both sides, international and domestic, I think that Indian aviation is going in for a period of good revenue growth.

Aditya Mongya: Coming onto the question on yields, let me put it separately. As things stand right now, you are seeing a comprehensive improvement across sectors in yields in the last quarter gone by and you are expecting that yields would probably remain pretty good incrementally also. What is the risk that you see to that happen because in 1Q and 2Q, yields have just gone very very differently. I am confused whether one can even take a call on yields in this sector? Any thoughts from your side, it will be stable from hereon and the risks to that would be useful.

Ronojoy Dutta: You are saying what are the risks to yield The risk to yield is that airlines start behaving irresponsibility that people run out of cash and say, Oh! my God, I need to raise cash. And this happens across the world. You have a couple of weak players who are focused on cash rather than profits and sort of do crazy things, but that is short-lived in my mind. Structurally, I think yields have improved and will continue to improve and we might have, like you said, what is the risk? There is a risk of one airline sort of trying to raise cash. Other than that, frankly, I don't see too much risk. We have been through a bad period frankly. Covid Oh! my God, it was awful, but we are coming out of it and I think the structural things are going to take over from the cyclical sort of panic we have had over Covid.

Moderator: The next question is from the line of Iqbal Khan from Edelweiss. Please go ahead.

Iqbal Khan: Just a couple of bookkeeping questions. The rest of the questions have already been answered by you. I just wanted to know the cash burn during the quarter and the cargo revenue which you mentioned that it has increased 16% sequentially.

Jiten Chopra: Cash burn, as I mentioned in my script, we have significantly improved from the last quarter, and right now, our cash burn is down from what we reported in the last quarter. Right now, we are at about 20 crore rupees per day compared to what we reported in the last quarter which is about 39% lower.

Ronojoy Dutta: Let me address that cargo question. There are some structural shifts taking place in cargo. First of all, let us keep in mind that both export-import volumes into India are growing, the economy is strong, and international trade is growing. That itself creates a volume of its own. Secondly, wide body capacity worldwide is down. Thirdly, is regulations. There were airlines like Cathay and Korean who were doing a lot of one-step cargo out of India and the government has recently put a kibosh on that, so that's not allowed. And the fourth is, as you know shipping itself is in some sort of congestion. Ports, etc., are congested and shipping is a challenge. Look at all these different factors. Regulation is in our favor, shipping to airlines substitution is in our favor, Indian volumes are growing. So, with all that, cargo really is a good story and will continue to be a good story going forward. So, yes, our cargo volumes are growing, but we haven't even started this freighter yet. As you know, from May onwards, we are getting 4 narrow-body freighters. So, we think cargo is going to be a good story going forward.

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

Binay Singh: I am trying to get a sense on does IndiGo have any sort of a pricing power or yield power over peers? Because post Covid, now your network is much stronger, the airlines has done quite well in terms of on-time performance and customer complaints. Does that give you some sort of an extra yield, sort of premium that you can charge to the consumer? Any sort of takeaways from how yields in high competition sectors are like the metros are doing for you versus your peer group?

Ronojoy Dutta: Let us first start with the basic fundamentals. Airlines worldwide have no pricing power. We are commodities. People will spend a thousand extra rupees on cabs and hotels and they won't spend 50 extra rupees on airlines. So, airlines have no pricing power. That's the point. Having said that, then it all comes to the mix of traffic you carry. Are you carrying all passengers who have booked 30 days in advance with the lowest fare or are you getting enough of the mix in the closing fares and then are you getting some better connectivity because you have better frequencies, you have better connectivity, and therefore you will get a better mix. So, the only way you get to a higher yield is not through a higher price per se. You match, you look us upon any of the OTAs, we all match each other. But hopefully with a better product, with better frequency, with better connectivity, you get a better mix of traffic on board. That's the only way you make yield differentiation. Fortunately, for us, we have those advantages, yes.

Moderator: The next question is from the line of Mitul Shah from Reliance Securities. Please go ahead.

Mitul Shah: My first question is on aircraft in terms of the CEO to NEO by next year. We earlier indicated that all the CEOs will get out and NEO conversion will happen. Do we still stick to that plan?

Wolfgang Prock-Schauer: Our plan is first of all, I can confirm that we have been having a very ambitious exchange program – modernization of the fleet. So, we have totally planned for FY20 and 2021 until March 22 to exchange something like 100 CEO aircrafts with NEO aircrafts because all the advantages the NEO fleet has and then looking forward further, by the end of 22, we should have basically all NEO fleet. There are a lot of things need to be done and still in progress, but we are confident that we can return to an all NEO fleet by the end of 22.

Mitul Shah: Sir, after this complete conversion to NEO – I know that you will not give probably exact number – but FY23 onwards, for the next 2-3 years, what would be the ballpark indication in terms of new aircraft addition? Also, if you can help me with what would be the combination in terms of finance lease and operating lease? Are we okay to have this current 14 number of the finance lease or we still would like to reduce it?

Ronojoy Dutta: For the next 2 years – and I'll just talk calendar years it's there in my mind – our fleet really count it's not growing much. Marginally, it might go up by 2, 5, those sort of numbers. We have a lot of churn. So, we will take delivery again. Broad numbers, we will take delivery of 50 airplanes, return 45 airplanes, and so on. But through that process though, our capacity will go up a little because we are getting a bigger number of A321s. After 2 years, we will start seeing the growth in the year 24 and beyond as the new orders come in, but until then, fleet count remains more or less stable with some capacity growth.

Mitul Shah: How are the incentives on SLB trending now directionally?

Ronojoy Dutta: We are happy with what we are getting and we are satisfied.

Mitul Shah: And that earlier question on finance lease and operating lease?

Ronojoy Dutta: As you know, we own 14 airplanes and our plan was to own a few more. However, in the meantime, our balance sheet as you know has weakened considerably and our first goal will be to repair our balance sheet. So, we are not eager to go out and pay cash for airplanes at this time. Our first focus is on getting balance sheet back to a healthy level and then we will probably go back to our original plan. As you know, airlines worldwide have a mix of lease versus owned aircrafts. We are almost close to 100% leased aircraft and we would like to move back a little more towards ownership, but that's a long way off. We need to repair our balance sheet before we even think of that.

Mitul Shah: I understand it's too early, but I have a question. In terms of April-May vacation, do you see any inquiry level compared to pre-pandemic kind of people used to inquire 4-5 months before or booking something like that for that period right now?

Ronojoy Dutta: April-May is way too far. We have visibility of 60 days, maybe 90 days. April-May, no, we have no idea frankly.

Mitul Shah: Right now, you don't see any inquiry levels or even booking for those periods?

Ronojoy Dutta: No. I mean marginal, might be a couple here and there, but nothing meaningful.

Mitul Shah: Lastly, on a broader sense, for the next 2 years or 3 years point of view, as the industry, how do you see cargo segment growth?

Ronojoy Dutta: We see a rapid growth. We are very bullish. People have asked questions on the cost side, people have asked questions on the revenue side, people have asked questions on international versus cargo versus domestic. We see a steadily improving revenue picture. We also are cautiously optimistic that we might get some cost breaks not because of something heroic that we are going to do but because of actions the government is taking – whether on VAT or whether on bringing in MROs in. Those sort of government actions might help us a little on the cost side. If you can get the revenue improvement that we anticipate and if the government helps also a little bit on the cost side, I think we will be okay.

Moderator: Our next question is from the line of Arvind Sharma from Citi. Please go ahead.

Arvind Sharma: Sir, 2 questions. First of all on the lease part – in the international travel which you said is almost back to one-third of the previous levels I believe it's mostly bubble side. As and when you shift from bubble side to more regular operations, where do you see this thing in that hunch international side?

Ronojoy Dutta: You have to think of the structural shifts that are happening. Let us take Middle East hub. They fly wide bodies into our markets, we fly narrow bodies. As you know, wide body cost per seat is almost the same as narrow bodies. We are very efficient, but we can't compete against white bodies. Now, there is more and more structural shift towards nonstops. Take the US market. Americans just said they will do Seattle to Bangalore, they will do JFK to Delhi. United is doing Delhi to Chicago to New York to San Francisco. These nonstops weren't there before. When all these nonstops take traffic away, they are taking traffic away from the Middle Eastern hubs. When that happens, there will be fewer wide bodies that can come into the Indian market. And if fewer wide bodies coming into the Indian market, that is good for our narrow body point to point to the Middle Eastern destinations. So, I see that as in yield improvement and structural shift, it will be with us for sometime to come.

Arvind Sharma: Even in a regular size start, there will not be much decline in the yields. That's what you are alluding to?

Ronojoy Dutta: Because I think the shift you will see in Indian aviation is Tatas will do more nonstops into various markets around us, IndiGo will do various nonstops in the market around us, and therefore, the yields in these sort of big hub markets whether it is Bangkok or Singapore or Doha will improve all of us. It's not going to happen next month. It's a long-term picture.

Arvind Sharma: The second question is on the financials part. I don't know if you can share that. In the reported depreciation amortization expense of 12.5 billion rupees, how much would be the amortization on the ROU assets? And similarly in the reported interest expense of 5.7 billion rupees, how much would be the interest accrued on the capitalized lease? Is it possible to share that?

Jiten Chopra: We don't normally share details on these numbers, but I can confirm the amounts. A large portion of the amounts are included in that – both amortization and risks. I can confirm that, but in terms of numbers, we don't share the numbers.

Moderator: The next question is from the line of Varun Ginodia from Ambit Capital. Please go ahead.

Varun Ginodia: I have two questions. 1) Your free cash balance increased quarter on quarter despite 20 crore rupees per day cash burn. If you can provide the liquidity injection measures that you undertook in the quarter gone by – how much did you add by way of liquidity injection and what is the amount that you expect to do in the remaining part of the year in the second half? Related part to that question is, any update on the QIP? If you can provide that as well, that will be really helpful.

Jiten Chopra: I will take the cash part. Our financing initiative, this time we released about 12 billion rupees. We did mention last time that we have visibility of 55 billion rupees during various measures taken in the quarter. That has increased to now 65 billion rupees. So, we have a total visibility of 65 billion rupees of which we have balance of about 39 billion rupees*. This quarter also saw increase in forward sales which has helped us enhance the number. Plus the contribution in terms of numbers are also looking better. On an overall basis if you look at the cash burn and the financial initiative as well as the forward sales, we have achieved the number incrementally. And as we speak, our forward sales looks stronger in the current month also.

Ronojoy Dutta: On the QIP, we have always struggled with this issue because we never felt a need for the cash as such. We don't need it for working capital, we don't need it for CapEx. It's like, why do we need the cash? And the only answer is, it is sort of a flood insurance. We don't know if there is Covid-3, what happens if the government shuts down again? Those sort of disaster scenarios that we were looking at QIP for. So, we continue to sort of review it with the board every time we meet, but no decision taken frankly.

Varun Ginodia: Just one quick followup on the cash burns. 20 crore rupees per day if I do that into a quarterly number, that comes to 1800 crore rupees per quarter of cash burn. So, your liquidity injection measure should be more than that for cash balance to go up quarter on quarter, right? I thought you mentioned 12 billion rupees liquidity injections in the quarter?

Jiten Chopra: Yes, we have got 12 billion rupees of that and we have positive forward sales also, as I said.

Ronojoy Dutta: The forward sales is giving us lots of cash coming in, thank God.

Varun Ginodia: Sorry to again harp on the yield side. One risk that you highlighted on the yield's momentum – the positive momentum – that we saw in 2Q is if a weaker airlines start putting down fares to raise cash. My sense is, isn't that a very high probability event given the broken balance sheets that the other LCCs in the market have? Just wanted to get comfort on this yield number going forward. That risk looks to be a very probable event to pan out over the coming quarters. What's your view on this?

Ronojoy Dutta: You know the competitors' balance sheets far better than I do because I never look at them. So, I really don't know. I can only tell you how the market is behaving and how we are behaving. These sort of risks, as I said, these are not structural. They will come and go. It might happen but it won't sustain itself. And you probably have a better understanding of it than I do, frankly.

Moderator: Ladies and gentlemen, we will be taking our last question from the line of Krupashankar Nj from Spark Capital. Please go ahead.

Krupashankar Nj: I had a couple of questions. First is on the yield, sorry to harp on that. I just wanted to check that with the current yields, what would be the break-even load factor given that fuel prices have been increasing in rest of the space? Can you highlight on that?

Ronojoy Dutta: Load factor and yields, they tend to move in opposite directions as you know. Ultimately, it's a question of what sort of RASK numbers are we going to produce. And I am sure the key question in everyone's mind is, when are you guys going to get profitable again. That's the question the board asks me, that's the question we ask ourselves. We don't know but we are closer to it than we were 2 months ago. We are closer to it than we were 1 month ago. Three months ago, we weren't even there thinking of profitability. When we had that huge quarterly loss last time we met with you, no one had thought of profitability. Now we are dreaming dreams about profitability again, but we don't no when it will happen.

Krupashankar Nj: So, no indication on the break-even load factor, perhaps something which we can look forward to?

Ronojoy Dutta: As I said, it would be more sensible to ask for a break-even RASK factor. We know what our unit costs are and what should our RASK be because as I said, we sort of manage between both load factor and yields to get to a good RASK number. So, we do have that number in mind, but I don't think we are willing to share it yet. I can only assure you that we are working hard to get there.

Krupashankar Nj: One more question from my side is that in the last conference call, you had mentioned that a lot of bookings are getting bunched up towards the last 15 days. Looking at the trend of forward sales what you have mentioned and the cash generated, how are you seeing the yield's differential in the less than 15 days lessors greater than 15 days.

Sanjay Kumar: What I can say is, we still have some regulations around fares within 15 days. So, obviously the average price during that time is much higher, but as far as booking curve is concerned or booking trends are concerned, we are now as Rono had mentioned earlier that we are all almost at par with our January 2020 tables as far as booking curves are concerned. We are getting almost 30% of our bookings 30 days out, out of the total bookings which we are getting on the day of booking. We are seeing the booking curve now getting to a pre-Covid level of January 2020 which is a very healthy sign and a good sign because if you book in advance, we are able to kind of push the load factor up to the required level. That is what we are seeing right now.

Moderator: Ladies and gentlemen, that was our last question for today. In case you have any further questions, feel free to reach the investor relations team of IndiGo. On behalf of IndiGo, that concludes this conference call. 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

** To be read as remaining liquidity of 39 billion rupees.*