"IndiGo Second Quarter Fiscal Year 2023 Financial Results Conference Call"

November 04, 2022

MANAGEMENT: **MR. PIETER ELBERS – CHIEF EXECUTIVE OFFICER**
MR. GAURAV NEGI – CHIEF FINANCIAL OFFICER
MR. WOLFGANG PROCK-SCHAUER – CHIEF OPERATING OFFICER
MR. SANJAY KUMAR – CHIEF STRATEGY AND REVENUE OFFICER
MR. KIRAN KOTESHWAR – CHIEF PROGRAMS OFFICER AND HEAD, INVESTOR RELATIONS
MS. RICHA CHHABRA – ASSOCIATE DIRECTOR, INVESTOR RELATIONS

Operator: Good evening ladies and gentlemen and welcome to IndiGo's Conference Call to discuss the second quarter of fiscal year 2023 financial results. My name is Inba 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 fiscal year 2023 earnings call.

We are pleased to have Pieter Elbers with us who has taken over as our CEO and will take you through our performance for the quarter ended September 2022.

Further, we have our Chief Financial Officer – Gaurav Negi, our Chief Operating Officer – Wolfgang ProckSchauer, our Chief Strategy and Revenue Officer - Sanjay Kumar, and our Chief Programs Officer and Head of Investor Relations – Kirankumar Koteshwar with us to discuss the financial performance and are available for the Q&A session.

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.

We will upload the transcript of 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 Pieter Elbers.

Pieter Elbers: Good evening, ladies and gentlemen and thank you for joining the call. It is my pleasure to be amongst you to announce financial results for the second quarter of fiscal year 2023. My name is Pieter Elbers and two months back, as per September I had the pleasure of joining IndiGo as the new CEO. For the past 30 years, I worked at KLM Royal Dutch Airlines, of which last 8 years as a CEO. I am super enthusiastic and excited actually to have moved to India and delighted to become a part of the next stage of this incredible journey of IndiGo, further fulfilling the vision of what our airline can do and will be for both our customers and India.

For the quarter ending in September 2022, we reported a loss of 3.8 billion rupees excluding foreign exchange loss as compared to a loss of 14.7 billion rupees for the same quarter last year and compared to a profit of 3.6 billion rupees for the quarter ending in June 2022.

Including foreign exchange loss of 12 billion rupees, net loss for this September quarter aggregated to some 15.8 billion rupees.

For the quarter ending September 2022, which is the seasonally weakest quarter – explaining the results of second quarter compared to first quarter, our capacity deployed was slightly higher than quarter ending June 2022. During this quarter, our international operations have increased by over 20 percent as compared to the previous quarter. Even at this higher capacity, we were able to maintain yields above 5 rupees at a load factor of around 79 percent. While historically, we have experienced unit revenue reductions of around 10 to 15 percent in the second quarter as compared to seasonally stronger first quarter, in second quarter of 2023 the sequential reduction was much lower by about 2.6 percent. This is reflective of the continued pricing discipline in the market combined with our revenue management practices.

The depreciation of the rupee and higher jet fuel prices continues to be the major headwind to our profitability and remains a concern. During this quarter CASK increased by 1.3 percent to 5.15 rupees in the September 2022 quarter as compared to the June 2022 quarter primarily due to an increase of fuel costs. I will let Gaurav discuss the cost elements in detail in his section.

We continue to recover from covid and have deployed more than pre-covid capacity. This has allowed us at IndiGo to make the best use of the opportunity presented by the robust demand in the market. International air travel has demonstrated a strong recovery, and we believe this will last while domestic demand continues to rise in the upcoming festive and winter season. We have strengthened our international network by introducing new flights and frequencies to international routes and added Ras Al-Khaimah as our 100th destination. Further to our ambitions of enhancing connectivity for our passengers we have signed a new code share agreement with Virgin Atlantic. This will allow us to access new markets from London's Heathrow airport to India.

On our Cargo operations, volumes have been increasing owing to our sheer network presence and we remain optimistic. CarGo "belly" capacity will be further augmented with the introduction of the first Airbus 321 freighter and we are also expecting second such aircraft to be operational by December. This dedicated freighter operations adds a new dimension to our existing cargo operations and offers a new product segment to our customers. These aircraft are on operating leases and are similar to our existing Airbus A320 family. This not only gives an added advantage on our costs but also enables us uniquely to service markets like China, Vietnam, Middle East and certain CIS countries.

One of the key after-effects of the pandemic in the aviation industry are the supply chain disruptions in aircraft manufacturing and subsequent shortage of spare engines worldwide. This has affected our operations due to grounding of aircraft and has impacted our ability to fully deploy capacity productively. However, we are looking at various options to mitigate the shortfalls in our capacity deployment such as slowing down the redeliveries, exploring introduction of aircraft into the fleet and adding capacity on ACMI basis.

We are now operating more than 1600 daily flights that requires enormous operation discipline and innovation. Going forward, our emphasis will be on three priorities.

- First one, reassure on the key pillars of our service 1) on time performance 2) affordable fares 3) courteous and hassle-free service and let me add here 4) an unparallel network coverage for our customers.
- The second pillar being, develop and align our internal structures, people and processes in line with the size of our operation, customer base and future ambitions.
- And, last and certainly not the least, create a future and in the coming years we will build on our strong foundations with international aspirations.

We at IndiGo remain in a strong position due to our consistent product delivery, low-cost structure, and sheer network presence. We are enabling air travel to all large, medium-sized, and even smaller cities across communities throughout India. Going forward we will continue to develop connectivity even more.

In line with our future growth ambitions, we are continuously evaluating and improving the measures to safeguard the climate and the environment, maintaining responsibility and transparent relations with our stakeholders, and actively engaging in numerous social initiatives. In line with our commitment to sustainable flying, recently IndiGo became a signatory in the 'Clean Skies for Tomorrow, India Coalition' a campaign, spearheaded by the World Economic Forum. Along with this we have published our second ESG report, 'Flying Responsibly'. As we progress in this agenda, we are constantly looking for feedback from our investors and our stakeholders.

And now with pleasure, let me now hand over the call to Gaurav to discuss in detail the financial performance.

Gaurav Negi: Thank you, Pieter, and good evening, everyone. For the September 2022 quarter, we reported a net loss of 15.8 billion rupees compared to a net loss of 10.6 billion rupees for the quarter ending June 2022. We reported an EBITDAR of 2.3 billion rupees with an EBITDAR margin of 1.8 percent compared to a EBITDAR of 7.2 billion with an EBITDAR margin of 5.6 percent for the quarter ending June 2022. The reduction in EBITDAR in the current quarter as compared to June quarter is primarily driven by increase in fuel costs, restoration of salaries and marginal reduction in revenue.

For a seasonally weak quarter, we produced strong unit revenues resulting in a steady revenue performance. Our RASK sequentially reduced marginally by 2.6 percent to 4.57 rupees driven by decrease in our yields by 3.1 percent to 5.07 rupees and a marginal reduction in load factors.

Our CASK for the September quarter was 5.15 rupees as compared to 5.08 rupees in the June quarter. Fuel CASK increased by 3.9 percent as compared to the June quarter to 2.26 rupees due to increase in the average fuel cost. As compared to the June quarter, while there are reduction in foreign exchange losses it was largely offset by increase in other line items leading to a flattish CASK excluding fuel of 2.88 rupees for the September quarter.

We continue to maintain a healthy free cash and have a good visibility in terms of our financing initiatives. We ended the September quarter with a free cash of 82.4 billion rupees, a net decrease of 0.7 percent as compared to the June quarter end. Our total cash as on 30 September 2022 was 196.6 billion rupees, a net increase of 3.1 percent.

We ended the quarter with capitalized operating lease liability of 361.3 billion rupees and total debt, including the capitalized operating lease liability of 409.5 billion rupees. Our right to use assets at the quarter end were 222.9 billion rupees.

If we look at our combined results for the 6 months ended September 2022, operationally (that is excluding the foreign currency loss) we are close to break even as compared to a loss of 42.8 billion rupees for the 6 months ended September 2021. This indicates a strong recovery in travel, and we expect this to trend to continue in the third quarter.

On the capacity side, sequentially for the third quarter the capacity will increase marginally, however, on a year over year basis it will increase by around 25 percent. Also, Q3 being peak festive and holiday seasons we are witnessing a good momentum in our demand parameters and uptick in the revenue metric. At this point we are carefully balancing the yields and loads to maximize the overall revenue.

Operationally, we are continuously focusing on strengthening our customer base, our fleet, network, processes, and employee talent pool to cater to the enormous opportunities that lie ahead. While fuel and forex continue to pose headwinds, we are reasonably confident that we will return to operational profitability in the third quarter.

With this, let me hand it back to Richa.

Richa Chhabra: Thank you Pieter and Gaurav. 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: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Binay Singh from Morgan Stanley. Please go ahead.

Binay Singh: Congratulations on good set of numbers and also good to see the work you're doing on the sustainability side. Just 2 questions. First is on yield and second on capacity. On yield down, could you break it up a little bit more that how was international doing in terms of revenues in quarter 1 to quarter 2? And within yields, how many routes is Indigo flying at where there is no competition and that, to an extent, is now getting pricing power? And further any commentary on the third quarter yields? And then second one on capacity is that if you analyze the capacity guidance for December quarter that we've given this will be an all-time high capacity for IndiGo. In that context, how to look at capacity growth in FY '24 over FY '23? Thanks. These 2 questions.

Pieter Elbers: This is Pieter Elbers. Let me start by answering on the capacity and then hand over your question on some of the yield developments to one of my colleagues. If we look to the capacity, clearly, this is the second consecutive quarter that we are back to a capacity level which is basically higher than the pre-COVID levels, and we expect to continue that development and indeed have for the next quarter another rise in capacity. As I mentioned in my introduction words, we are faced with some of the global supply chain issues, which we are trying to find solutions to mitigate that, but our objective clearly is to continue our part of capacity development and have a third quarter with a higher number.

As you have seen on our press release, we welcomed on board a passenger number this quarter of 19.7 million in this quarter. We expect to further develop that, and that means by the total year, we'll continue to develop our passenger numbers quarter-over-quarter in line with our expected capacity growth.

I'll ask Sanjay Kumar to give a feedback on your question on the revenue development.

Sanjay Kumar: Thank you, Pieter. And on the revenue side, I think we are seeing a very strong demand in the marketplace, especially coming out of the peak time, festival time, and also a strong recovery of the corporate business. So, all these 3 factors are really resulting in a very strong revenue performance going forward. And we continue to see that we will be able to maintain and further increase yield and the RASK going forward. It's difficult for us to kind of give a break up of this.

Moderator: Our next question is from the line of Lokesh Garg from Credit Suisse. Please go ahead.

Lokesh Garg: Basically, my question also pertains to capacity. Basically, there are several dimensions of that. One is, as you said, not sort of letting go off the CEO planes. Then there is, obviously, some plans to lease planes as we are sort of reading in press. So, what is it that you're planning in terms of end fleet by FY '24 or FY '25 or in terms of ASK capacity that you plan to offer in FY '24 in terms of international and domestic mix?

And then you are saying that there is shortage with manufacturers and with engines also, so there is something which is grounded as well apart from things not coming at the same pace from manufacturers as you might have expected. So, could you sort of put together all these dimensions with some outlook for '24 either in terms of ASK or in terms of end fleet.

Pieter Elbers: I think today we're elucidating on the '23 numbers and not yet on the '24 numbers. On the '23 numbers, we have given a capacity guidance earlier this year in the range of plus 13% to plus 17% as compared to the period prior pre-COVID. We maintain that very same capacity guidance for this year, plus 13% to plus 17% as compared to pre-COVID.

Lokesh Garg: But there are several subjective elements I touched. Could you sort of put them together as to how should we see this picture evolving, even if you can't give us specific guidance?

Pieter Elbers: I'm not sure if I understand your question. Could you repeat it, please?

Lokesh Garg: What I was saying is there are several elements of this capacity planning, which is related to old planes, widebody leasing or shortage of engines in the system. So, could you put at least some of the subjective elements in a little bit more detail for us to understand how you're thinking about these things?

Pieter Elbers: I think you're mentioning the list of elements we're working on, some of the redeliveries. It's a lot of work in progress. That's why we're not making any breakdown of the precise numbers. We're indeed working on a proposal also to have some wet lease. That's work in progress, some of the continuation, but we're not providing a breakdown of the precise numbers as to come to that 13% to 17% capacity guidance for this year.

Lokesh Garg: And could you share a little bit more on international additions also as you touched in the opening part of your speech? What would that entail? Does that mean more destinations, more frequencies? And what percentage of flying currently is international in ASK terms, and how would that evolve, if possible?

Pieter Elbers: Today, we do have some 25% of our flying is international. You've seen some recent openings. I had the pleasure of myself of being in the Mumbai, Ras Al Khaimah opening. That's one of them. We had the announcement for the Mumbai to Istanbul expansion. With the new fleet coming in, we do expect the coming years to have a higher number. Some of the markets are still close or relatively close, such as China, but other markets which are open, like the Middle East, Southeast Asia, you see a progressive return of our capacity. And indeed, today, it's around 25%, and it's a number which will go up in the years to come.

Moderator: Our next question is from the line of Ashish Shah from Centrum Broking. Please go ahead.

Ashish Shah: Sir, I have a question which is related to the asset utilization. So, one, in the peak times earlier, we have seen daily aircraft utilization going up to maybe 13 hours, 12.5 to 13 hours. Given our current route network and complexity, do we believe in the years to come we could reach to that number or a number of around 10, which is there currently is the right number to go by?

Pieter Elbers: Well, there's many different ways to look at aircraft utilization. And of course, IndiGo is in a very unique position with aircraft coming in and aircraft coming out. So, there's always some, I would say, aircraft in transition, and do we take them into consideration or not. But let me say it from my point of view, coming from a different airline in the different part of the world, the actual fleet utilization of IndiGo is a very efficient way of fleet utilization. And with COVID behind us, we're stepping up our efforts. And today, with the fleet we're having, we're operating at 1,600 flights. And I don't think we're giving any sort of new guidance on fleet utilization today, but we're using the assets to the max of our ability.

Ashish Shah: Sir, the second point is on the cargo business. So, we are adding cargo freighters, and we're looking forward to that business. So, any kind of indicative growth that you could guide us on what should we look forward to the cargo business in the years to come?

Gaurav Negi: Again, it's a little too early. We've just started into the freighter side. We'll not be giving any guidances, but the belly cargo has done well for us. And we've seen incremental growth on that particular side of the story. But as far as freighters are concerned, it's too early for us to give any guidances.

Ashish Shah: And just a last quick one from my side. After the fare regulations were taken out, could you just highlight how was the behavior or the change in the fares which happened during the quarter because it happened sometime during this quarter? So, any qualitative view on how did fares behave in the market after the caps and floors were taken off?

Sanjay Kumar: So, I think we have seen that there has not been much of impact. I mean, there was a lot of apprehension that once the fare bands are out of the system, there'll be dilution in the marketplace. Fortunately, we have not seen that happening. And you would have seen our quarter 2 yields, which are only about 3% down compared to quarter 1. So, it is fair to say that fares are holding up, yields are holding up.

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

Pulkit Patni: Sir, first question is on lease liability. The increase in lease liability is pretty significant. I'm guessing that's because of the new fleet that you have got in return of the CEOs. And can you give us a sense going forward while the NEOs are going to be cost-effective, they'll come at a higher lease cost. Any sort of guidance on what we should assume in terms of lease liability per plane or anything like that which helps us understand that a little better?

Gaurav Negi: So, I can't give you specifics, but you're right. The increase is largely on account of the new set of planes coming in and the older ones going out. At best the guidance that I can give you is that we've added 21 new set of planes in the first half of this year. So, with that, you can draw your extrapolations. But that's the best I can tell you. These are largely on account of 21 new planes that have come. And then along with that, we've got some incremental impact of the foreign exchange, which is embedded in these liabilities because the FX has been going higher, and that's also being incorporated into the lease liability number that you see.

Pulkit Patni: Fair point. My second question is, in your recent negotiations, given how interest rates are moving globally, how should one look at the lease cost for the new fleet that is going to come in? Is it something that we've already negotiated, so it should not go up? Or do we expect lease costs to go up in line with how interest rates are moving globally?

Gaurav Negi: So, large part of the fleet that we currently have is on a fixed rate. So, there's not going to be any impact because of the change that you're seeing in the interest rate environment. Any new leases that we are entering into, we are assessing them whether they're going to be fixed rate or we need to do a float. But 98% of our fleet is on a fixed-rate basis. So, there's no change that you'll see in that.

Moderator: Our next question is from the line of Venkatesh Balasubramaniam from Axis Capital. Please go ahead.

V. Balasubramaniam: I had a very, very simple question in the sense that, if you see over the last 6 to 9 months, it's almost been like a honeymoon period for IndiGo when it comes to competition. So, you had the likes of SpiceJet who's in real bad trouble. You had GO, which is also not doing too well because their financials are also not very good. So, you have exploited that.

You've done extremely well, increased your market share. But the fact of the matter is, all these things are not trickling down to numbers. If you look at your EBITDAR margins, both the first quarter number, second quarter numbers are weak. Both first quarter and second quarter, massive losses. So, it almost seems like whatever benefits you've had in terms of gaining market share has got completely wiped off by the fact that, one, the rupee has depreciated and kept on depreciating. And secondly, ATF prices in India doesn't seem to be falling at the same pace that crude is falling.

So, is there any thought process at a strategic level from the management that to take a relook at your historical policy of not hedging crude oil prices? You should perhaps be thinking about hedging crude oil prices? Or this linkage between brent crude prices falling, and it is not getting directly linked.

So, if you could throw some color on that. And is there any way to hedge the depreciating rupee because, historically, if you see over the last 10, 15 years, it's almost like the rupee depreciates against the U.S. dollar at least 3%, 4% every year. So, it's like you are in a very unenvious kind of a position longer term. So, any thought process on how the USD-INR risk can be hedged or something on the crude oil prices? Is there a possibility of looking at hedging?

Gaurav Negi: You kind of summarized it well. I think in the last 6 months, while we are very well placed in terms of the capacity that we've thrown in, fuel and FX have definitely been headwinds that we've kind of faced. As a result, you see what the results are. If you exclude FOREX, you'll see some positive story in the operational kind of a performance.

When it comes to hedging, candidly speaking, we do analyze, so it's not something that we have ignored. We do look at it, but there's a cost of hedging also. So, when you look at the short term, hedging does look very attractive from an outcome standpoint, but it does have an implication in terms of volatility because, if things are too volatile, one can actually get hit with hedging costs, which are disproportionately larger, especially given the volatility that is there, both in terms of fuel and, to some extent, on the FX side also.

If you look at a longer window, so we've analyzed this, if you look at a longer kind of a pattern over the 10 to 20 years, whether you hedge or don't hedge, depending on the cost of hedge, it kind of neutralizes. So, where we are today from a fuel standpoint, we are looking at that aspect, I would say, similarly on the FX side. But some of the internal assessments that we've done is not leading to us going into the market and placing hedge as an instrument to secure our position because the cost of hedges themselves are coming to be expensive for us.

V. Balasubramaniam: Just as a follow-up. Can you kind of explain what exactly is happening, I mean, we have some idea, but if you could give a ground-level kind of analysis about why the fall in crude oil prices is not having a commensurate fall in ATF prices in India? So, if you could give some explanation to that.

Gaurav Negi: That's a very good question. Candidly, it'll take me a long time to answer that. But what I'll give you on a positive front, the Ministry of Civil Aviation and the Ministry of Petroleum and Natural Gas have sat together on this particular subject, along with the airlines and the oil marketing companies. The way the pricing of ATF was being done is undergoing a change as we speak. It started to happen on the 1st of October. We are seeing trends of that.

There is now a lot more transparency that is coming in, in terms of how the prices of ATF are getting determined in India vis-a-vis the Brent because Brent is not the right reference point. The new reference point that is being linked to it is MOPAG, which is a mean of Platts Arab Gulf. So, already a change because of advocacy from the airlines has already started to happen.

There is probably not one-to-one correlation between the two because there's a refining cost that is imposed by the oil marketing companies. But over a period of time, with more kind of transparency coming in this space with ATF being linked to MOPAG, you'll probably get a better picture. But more to come on this, I would say, but the efforts are on both on the airline side. When I say airline, it's all the airline companies put together working with the oil marketing companies.

V. Balasubramaniam: Is the ATF price in India any way linked to the Singapore jet fuel prices? Because what I notice is, even though crude is falling, the jet fuel prices premium over the crude oil prices, which historically used to be, let's say, $5 or $6 per barrel or $12 per barrel have gone to almost $30 per barrel. And the Indian ATF prices seems to be following the Singapore jet fuel prices. So, is there a linkage between the Singapore jet fuel prices and ATF prices in India?

Gaurav Negi: There is a correlation between Sing-Jet and the ATF in India, but I will not say it's one-to-one correlation. So, there are elements to it, but it's a good proxy, I would say. But what you'll probably hear is, going forward, the pricing is going to be more not to the Sing-Jet, it's going to be more to the MOPAG pricing.

V. Balasubramaniam: And I hope you have a better second half when it comes to fuel prices.

Moderator: Our next question is from the line of Deepika Mundra from JP Morgan. Please go ahead.

Deepika Mundra: I got disconnected, so I just want to check if you've discussed your recent news flow on the widebody strategies.

Gaurav Negi: We touched a little in terms of some of the efforts that we are taking in order to expand on the capacity front.

Deepika Mundra: So, if I can just delve a bit further on that. Is this a long-term plan? Or is it just like a stopgap? And how do you think the operations as well as profitability is going to be on some of these widebodies as compared to the narrowbodies? And I'm assuming, again, this will this be single class or dual class for IndiGo?

Pieter Elbers: Let me try to fill you in. And indeed, some of these elements came earlier this evening. We're seeing a very rapid market recovery. If you see on the global level, markets are recovering, but the market in India is recovering even quicker and even faster recently. So, first of all, we see a very quick market recovery in India and a very robust demand.

Secondly, at IndiGo, we would like to serve our customers. And therefore, you've seen that our capacity deployment is slightly higher today than it was prior to COVID in order to accommodate that demand. So, the previous question was speaking about the honeymoon in India. I wouldn't call it like that. What we do see, though, is that there's a very robust demand, and we're in a good position to accommodate that demand.

However, some recent challenges in the supply chain, which is a global issue, those challenges are forcing us to look at different ways and means in order to make sure that we have the capacity to operate. One of the things we have been doing is extending some of the leases, postponing some of the redeliveries. And another element which is under discussion, today, we're still in the final stages of clarifying that, is a possible wet lease operation.

Today, we're not providing any further details because we're in the process of finalizing that. We're not providing any further details about classes, aircraft types and so on. But it's clearly with the objective to deal with the shortage on the supply chain on the one hand side and yet making sure that we are having the capacity to deal with that demand. That's the key driver behind this.

Deepika Mundra: And if I could just follow up with that. How long do you think the supply side challenges are likely to persist? And with that, if you continue extending leases, could you talk about a slightly more medium-term outlook on maintenance costs on the aircraft?

Pieter Elbers: Well, when you speak about the supply chain challenges, I would actually refer to some of the OEMs. They're probably in a better position to answer that question than we are. We're at the very end of the line and depending on the supply chain issues by the OEMs. What we take into consideration, and that's precisely why we are extending some of these leases and redeliveries that it's not solved tomorrow. It will take some time. Then what time precisely, again, I think you should be in another investor relations call for that.

But for us, we keep in mind that it will take for some time. That's why I earlier repeated our capacity guidance for this year in the range of plus 13% to plus 17% compared to pre-COVID. We're not giving in any capacity guidance for next year yet. We still would like to sort of finalize where we are ending up this year. I think it's a bit premature to come into expectations about maintenance costs going forward. Again, we're dealing with the situation now. We're taking all the steps to remain, as I mentioned in my introduction, to keep our low-cost basis. And with that, we move forward.

Moderator: Our next question is from the line of Vipul Garg from Kotak Mahindra Bank. Please go ahead.

Vipul Garg: My query is that though the number of planes are same in Q2 this year and last year, but there's a substantial change in the finance cost. So, is this due to lease rentals getting revised due to increasing rates or some other thing?

Gaurav Negi: No. Again, it's going to be largely driven by FOREX-related impacts that we are seeing. We have seen the FOREX going up significantly. So, that's what's the driver for us.

Vipul Garg: Sir, my query is that at what frequency are the interest rate reset in the leases for you?

Gaurav Negi: Like I mentioned in the earlier question that was raised, these are all fixed costs for us. So, there's no reset on the interest rate side. The change that is happening is only related to FX.

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

Achal Kumar: So, I have 2, please. First of all, on capacity demand yield, of course, you highlighted that yields are strong, and they're holding well. I mean, yes, of course, they are holding well. But then you know that SpieceJet was melting badly, Go was sort of, again, melting a bit. Akasa was in a startup phase. And TATA is still struggling to restructure. But then going ahead, there is a lot of capacity coming in. You yourself said that because you see the demand and you are taking the planes, you're holding the planes back. But then Akasa is growing aggressively, and TATA has already spoken about aggressive strategies. So, how do you see?

And of course, in terms of demand, come on, I mean on a good day, a boy is saying, okay, I'm going to see my girlfriend and traffic is 400,000 passenger maximum for the industry, but the industry is still trading at about 375,000, 380,000 passengers every day although it came down a bit in between. But in the busy quarter, it is touching about 375,000. So, the demand is actually not growing beyond that. And we are seeing a lot of capacity coming in next year. So, how do you see the demand versus supply versus yield situation going next year?

And then second question, in particular to Pieter. So, Pieter, you are in this role. So, what will be your strategy? Would your strategy be aligned to IndiGo's existing strategy? Or do you have some minor or major tweaks to that in terms of cargo business, in terms of overall growth plan, fleet type, mix widebody, narrowbody, but more importantly, growth on domestic versus international side?

Pieter Elbers: Let me start with that last question to me, and then I will give the first question to one of my colleagues. In my introduction words, I tried to emphasize what's going to be the priorities going forward. And let me take a little step back. What IndiGo has done in the past 16 years is impressive by any standard, basically from nothing to 279 aircraft operating today in a highly competitive market, spanning a network of 100 destinations.

Again here, the first priority would be to build on that strength of IndiGo. So, the first priority I mentioned is to build on the strength with an impressive network of 74 domestic destinations, 26 international with an on-time performance, with affordable fares and with hassle-free and courteous service. So, that's the first part of the strategy.

The second, I think it's fair to say that, during COVID, a lot of changes were made, and we need to get back to an operating rhythm today serving 1,600 flights per day. IndiGo today in terms of daily departures with 1,600 flights is the seventh-largest airline in the world measured in number of daily departures. I think that's an important element to take into account in how we organize ourselves and how we structure the organization.

Then the third pillar of that strategy is indeed focusing on a more international profile. Today, the total presence, and you have mentioned the share of IndiGo on the domestic side, which is significant. But the share on the international side is much less so. So, some of the new route openings we have done, and I mentioned the example of Mumbai to Ras Al Khaimah, I think are underlining the importance of further building on that international network. So, it's a bit of a long answer, but I would say the 3 important elements are: One, build on the strength of IndiGo, which is there historically, and to make sure that we continue to build on that; two, strengthen the internal teams and organization structure we're having, matching the size of the company as the seventh-largest airline in the world in terms of daily departures; and three, build on our international presence. For that, cargo is an element with developing our international network is equally important. I think this was your easy question. I did that. I'll give the difficult one on capacity, demand and yield to Gaurav.

Gaurav Negi: Again, on the capacity and the demand side, while the demand has kind of played around, candidly speaking, you would have heard on October 9, we had the biggest number. While it wasn't part of the quarter that we're talking, but on October 9, there was a substantial increase in the passenger travel that was close to 4 lakh that was communicated by the minister themselves. So, from that standpoint, we are seeing demand coming back. For us, we've seen incremental demand in the sense that we've already reached the pre-COVID levels. So, this is the second quarter in a row where the demand that we are seeing for IndiGo has been ahead of what it was for the pre-COVID level.

So, we're not seeing any kind of a softness for ourselves. Yes, the industry is still playing catch-up to the pre-COVID levels. It's a similar story that we're seeing in the international markets also as demand comes back for the others and the industry. At least, from an IndiGo standpoint, we're not seeing any softness, and we continue to see Q3 to be positive for us. And hopefully, going into Q4, we'll see a similar trend, subject to, obviously, the way the fuel and the FX is going to behave because that will become part of the consideration in terms of where the yields will land.

Moderator: Our next question is from the line of Krupashankar NJ from Spark Capital. Please go ahead.

Krupashankar NJ: I have a couple of questions, first, relating to the employee cost. I mean, we do realize that the private retention is a key challenge in this environment. Are we expected to see further revision in employee costs over the medium term just for retention? And if at all the ATF price correction comes through, would that offset that benefit and yields will remain elevated is one thing which I wanted to check.

Gaurav Negi: So, on that specific one, I think the last retraction that is happening or happened was 15th of October, so it's out beyond the quarter. So, what we're talking is Q2. But the final retraction to bring it back to the pre-COVID levels has already happened. So, this is the steady state that we are today in. And you're right, our focus now is going to be on pushing up capacity. So, on a unit level, this number will now move based on where the capacity settles. And Q3 is again going to be incremental. And likewise, we're looking forward to Q4 to being incremental also to achieve what Pieter just mentioned, the 13% to 17% capacity increase. So, on a unit level, it's going to stabilize at this level. Factoring in the October 15 revision also, we do not foresee any further increase in this.

Krupashankar NJ: That’s encouraging. And second question was on cargo operations. Wanted to check this. You did indicate that you're going to add 2 freighter aircraft. Has the second aircraft arrived in the third quarter? And are you intending to add more freighter aircraft to the operations?

Gaurav Negi: The second one is likely to arrive in November, December time frame for us. So, we've only received one. We do have 2 others in the pipeline, which will make it in total 4, but the other 2 are due some time, I would say, beginning of next financial year.

Krupashankar NJ: So, these operations would be predominantly focused on the international side of things and not domestically. Is my understanding correct?

Gaurav Negi: Yes. Largely, you're correct. We are focusing largely on the international side, but we'll not miss out on any opportunity that may be there domestically also. So, at least for the first few ones, we're looking more international, and then we'll see if there are opportunity sets domestically also available for us.

Moderator: We'll take our next question from Mitul Shah from Reliance Securities. Please go ahead.

Mitul Shah: Sir, I know that you replied on yield and trend on traffic. But sir, I have a question related to October, particularly Diwali vacation. How has been the passenger behavior change pre-COVID level versus currently after such a high increase in the airfare? And in terms of like any color on how behavior in terms of 15 days window booking or beyond 15 days and trend there?

Sanjay Kumar: I think we have achieved the pre-COVID level as far as advanced booking patterns are concerned. So, we are exactly more or less the same kind of advanced booking patterns, which we used to have pre-COVID level. I mean, almost 25% of our booking used to happen 30 days out, and that is the same trend we are looking at in the current quarter as well. As far as October numbers are concerned, I mean, what we can only make a comment on is on the yield side, our yields will be slightly on the higher side compared to quarter 1. So, we are kind of quite hopeful that with the current season, the festivities around us and also beginning of the corporate traffic in a much more demand compared to the pre-COVID level, I think we are seeing all side of businesses going up in a big way.

Mitul Shah: Second question, again on a long-term strategy related to this adverse FOREX as most people asked earlier also. but here, it seems to be not a phenomenon of few months if it can be a medium-term, near- to medium-term trend of rupee further getting depreciated. So, what we can do, sir, in terms of, not only ATF, but of course, we have a sizable exposure on FOREX side, direct, indirect. And follow up to that, sir, can you give ballpark number on the assets and liability side in terms of dollar-denominated and non-dollar?

Gaurav Negi: So, on the FX side, again, it's difficult to do a ball gazing over here. The rupee has depreciated significantly versus last year. So, it's like more than 10%. Like one of the participants had raised a point that typically the erosion is usually a 3 point every year. So, 10% depreciation has already happened. Now most of our obligations are long term in nature. So, no one can predict whether we'll see a similar trend to keep happening on the rupee side for a depreciation of that magnitude.

So, if you'll see the historical trends, the average over a 20-year period has been around Rs. 2.7 to 3. So, there are moments that have come where the depreciation has been significant, which we're experiencing currently. But then there is a level of stabilization also that one experience. So, factoring in those things, currently, we do not expect the rupee to depreciate significantly. Again, the jury is yet to be out on that. But we are not expecting the rupee to depreciate significantly. We are talking to our various banking relationship partners also to analyze that trend.

If a similar trend is coming where there's going to be significant depreciation, we'll look into hedging as an option. But at the moment, there are kind of conflicting views that are coming whether rupees will settle down. On a long-term basis, because our obligations are again long term, we do not at least see significant erosion as far as FX is concerned. Short term, there are. We've already seen what's happening over the last 12 months.

Mitul Shah: Sir, bifurcation on this nearly 40,000 on a debt side and 20,000 on a cash and cash equivalent side in terms of domestic as well as USD denominated.

Gaurav Negi: So, large part of our liabilities you'll see is operating lease liabilities. Those are all foreign-denominated liabilities and exposure. Against the $20 million, we've got a restricted cash, which is largely foreign denominated. We've parked it in foreign currency. Those are obligations related to SR. So, that's the breakup and the mix. And then there are some SR related obligations that you will see, aircraft maintenance obligations. So, all the stuff that is related to aircraft is usually a large part is all FX, foreign exchange denominated.

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

Aditya Mongia: I wanted to kind of focus more on consumer behavior and whether there's a possibility of further increasing yields from thereon, the airline as an industry have gone to probably 6 to 7 months of seeing this behavior. You've probably seen yields peak out in 1Q and reduce in 2Q. The question that I have is that, have we broadly seen the best yields that one can see and from here on? If cost was to become inferior, does that kind of start to bother us a lot more now?

Pieter Elbers: I'm not sure if I precisely understand your question. Is your question the focus whether we have reached the peak of the yields? Is that the question?

Aditya Mongia: Yes. So, my sense is that competition is benign, and the consumer is the real person who decides where he will go from there. And IndiGo has seen yields drop Q-on-Q, even though volumes have been broadly flat. The question is, can yields further go up from here? Will the customer be willing to pay more? Or should we be thinking of a precarious situation if let's say fuel cost was to go up, that the yields probably won't go up from here?

Pieter Elbers: Okay. Well, I'll ask Sanjay to give a bit more flavor to that. But I think in some of the previous questions, it already came up that yield at the end of the day is always a mixture of what routes are we flying, what's the mixture of domestic and international, what's the seasonality effect, what are the specific routes where we're expanding. So, there's a mixture.

But I think it's good that Sanjay maybe can give a bit of flavor to the consumer in the market, and I think one the previous question was about the demand around Diwali and the peaks there. So, I'll let Sanjay give a bit more flavor to the consumer behavior.

Sanjay Kumar: So, I think we have seen that there is a strong recovery from all segments of the marketplace. Now the couple of segments which were not kind of seeing the traction, I think we have started seeing the traction on the international tourist arrivals into the country, which was missing for last 2 years. Club with that, a lot of corporates, which were kind of not earlier doing their miles travel as a part of their overall policies had kind of stopped completely. They have started doing their miles travel back in the business. So, we are seeing a very strong demand on the corporate side as well, along with the international tourist arrival. So, that is one thing.

Second thing is, of course, due to the seasonal effect and the effect of the holidays, we are going to see much more demand in the marketplace, which will definitely help the industry to push up the yield as a whole, especially in the coming months until about month of February. So, we are quite optimistic about the environment overall. And we are seeing a new set of segments, new set of customers continue to fly with the airline industry as a whole. So, we are quite optimistic about the demand.

Pieter Elbers: And I think that's basically speaking to the point that all the initiatives we've been taking, opening up new routes, focus on internationalization, having some of the corporates coming back in the market, that all speaks that we have been very active in terms of managing the yield and making sure that the yields are holding up. And in my introduction, I said the decline of the yields in Q2 versus Q1 was below 3%. Well, if you would look historically, that decline is much higher. So, I think that speaks to the efforts which has been done and the efforts which have been undertaken in order to be very yield active and making sure that we dampen the seasonality effects with a whole range of actions.

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

Binay Singh: Just a follow-on question on operating leverage. In the past, we've talked about hour utilization per day as one driver of leverage for the business, and we've talked about that rising from around 10, 11 hours per day to around 13. Could you give us an update as to what was your hour utilization rate in the second quarter? Have you sort of gone back to normal levels now?

Gaurav Negi: We would not want to share that right now with you. So, all we can say is the utilization levels have been higher for us, and they continue to improve as we focus on putting in more capacity. So, we don't want to give any specific numbers.

Binay Singh: So, the idea was just to understand if there's any operating leverage left in the business or not. But that's fine also.

Gaurav Negi: I can tell you there is more leverage left, and we'll continue to push but we don't want to give any specifics out.

Pieter Elbers: Maybe just give a bit more flavor on that. The moment you start to reinstate flights and you see what we're doing by opening up new destinations, reinstating flights, there are some intermediate steps to be taken. So, IndiGo was a smooth-running machine prior to COVID. Then COVID came and all the network had to be adjusted, and the flights had to be rescheduled to a certain way. If we now see the speed and the comparison, our capacity in this quarter compared to the capacity of last year is plus 75%. So, that says something about the enormous speed of recovering and moving back in capacity. As we said earlier, it's slightly higher than Q2.

With that, some challenges in the utilization are coming. Clearly, it's our objective and our ambition to bring it back to the levels we had before, and it will continue to be a competitive advantage for IndiGo in terms of fleet utilization.

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

Pulkit Patni: This question is specifically for Pieter. Pieter, as you said, IndiGo is a very smooth-running machine. As you come in at the top of this airline, what are your top 2 or 3 priorities in terms of strategy?

Pieter Elbers: Yes. Let me sort of repeat what I mentioned earlier. One is building on the strength, which has been the historical strength of IndiGo, affordable fare, hassle-free service, and the on-time performance. And here, we really see that combined with an unparalleled network. So, that's really the key pillar, that was the strength of IndiGo towards COVID, then we have to deal with the COVID period, and we're building that back.

And as I repeated earlier, if you do 1,600 flights a day in an environment what we're operating, both domestic and international, that's impressive by any standard. So, priority one, getting back to the strength of IndiGo. Number 2, develop an internal structure and people and so on which is matching the size of our operation. Priority number 3 is further build on it and further broaden our horizon, including further scope on the internationalization of which cargo is a part of the business strategy.

Pulkit Patni: I mean, I wanted a little more specific. But yes, I think the international part is something that we hear is going to be the focus.

Pieter Elbers: Well, again, it's 1 of the 3 pillars. And I think we're in a position that we can do a couple of things at the same time. We should build on what's the original strength of IndiGo, and that's what we see every day. The fact that the market is recovering and not fully recovered, but IndiGo is doing today already more than we did prior to COVID, having more destinations, welcoming more customers, and making sure that we're able to accommodate all these customers in an on-time performance, I think that's a very important element. And then, yes, also the further international development comes to this.

And maybe to add to the words of Sanjay, the COVID has sort of stopped a lot of international travel, not only from India to other parts of the world but also incoming. We see that traffic coming back now. So, some of the partnerships we're having and, in my introduction, I mentioned the partnership with Virgin, but we do have more with Qatar and Turkish and Air France, KLM and indeed now very recently, Virgin. We see numbers of foreigners coming in, connecting on our network and making sure that, that is part of our strategy going forward.

Moderator: Thank you. That was the last question for today. Ladies and gentlemen, on behalf of IndiGo, that concludes this conference. We thank you 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