"IndiGo First Quarter Fiscal Year 2021 Financial Results Conference Call"

July 29, 2020

MANAGEMENT: MR. RONOJOY DUTTA – CHIEF EXECUTIVE OFFICER
MR. ADITYA PANDE – CHIEF FINANCIAL OFFICER
MR. WOLFGANG PROCK-SCHAUER – CHIEF OPERATING OFFICER
MR. SANJAY KUMAR – CHIEF STRATEGY AND REVENUE OFFICER
MR. ANKUR GOEL –HEAD, INVESTOR RELATIONS

Operator: Good evening ladies and gentlemen and welcome to IndiGo's Conference Call to discuss the First Quarter of Fiscal Year 2021 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 now hand the conference over to your moderator, Mr. Ankur Goel, Head of Investor Relations for IndiGo. Thanks you and over to you, Sir.

Ankur Goel: Good Evening, everyone, and thank you for joining us for the First Quarter Fiscal Year 2021 Earnings Call. In light of the developments regarding COVID-19, we hope that you and your families are safe. Also, our thoughts are with those affected by the virus.

We have with us our Chief Executive Officer – Rono Dutta and our Chief Financial Officer – Aditya Pande to take you through our performance for the quarter. Wolfgang Prock-Schauer, our Chief Operating Officer, and Sanjay Kumar, our Chief Strategy and Revenue Officer are also with us and are available for the Q&A session.

Before we begin, please note that today's discussion may contain certain statements on our business or financials which may be construed as forward-looking. Our actual results may be materially different from these forward-looking statements.

The information provided on this call is as of today's date and we undertake no obligation to update the information subsequently.

A transcript of today's call will also be archived on our website. We will upload the transcript of today's prepared remarks within an hour. The transcript of the Q&A session will be uploaded subsequently.

With this, let me hand over the call to Rono Dutta.

Rono Dutta: Good evening everyone and thank you for joining us on this call.

The last few months have been very difficult for the aviation industry. As you all know, our operations were pretty much grounded from March 25, 2020 to May 24, 2020 except for charter and cargo flights. As the Government allowed partial resumption of flights starting May 25, 2020, we resumed operations with much fewer flights than our pre-covid capacity. We ended the quarter at about one fourth of our original capacity and we hope to slowly build this up in a phased manner in the coming months. Due to these on-going COVID-19 related disruptions, we reported a net loss of 28 billion rupees during the quarter.

I think it will be helpful, if we structured our discussions along four topical areas. - First - Health and safety of our customers, Second - The revenue situation in these difficult times, Third - Our liquidity position and finally - the cost reduction measures.

Let me first talk about health and safety. Ensuring the health and safety of our customers is of paramount importance to us. Our teams have worked together with planning and discipline to ensure the highest level of hygiene in our aircraft, our airports and our offices. In this context, we believe that the risk of transmission of Covid-19 from one passenger to another on-board is very low because

- The use of HEPA filters in Airbus aircraft cabin and the direction of the air flow on board from ceiling to floor ensures that the virus is not recirculated;

- The customers sit facing forward and not towards each other, with seat backs providing a barrier;

- Frequent deep cleaning procedures are executed at all touch points;

- There is limited movement on-board our aircraft once passengers are seated and finally

- Safety gear for customers and crew is mandatory on board

We have seen a very positive response from our customers with respect to the procedures which we have adopted. We are very pleased that despite the complex new procedures, our operations are proceeding very smoothly with industry leading on-time performance. The customer confidence is captured by our Net Promoter Score, is at an all-time high and the customer feedback is also very encouraging.

Now let me take you through the revenue situation and the various changes that we have done operationally to adapt to the current environment:

- We maintained a low scale operation in the form of some cargo flights and domestic passenger charters till May, 24 2020. Post resumption of operations we have also started international charters and Vande Bharat flights. The contribution of our charter flights after covering for our variable costs has been quite encouraging. We intend to continue with charter flights even as we ramp up our capacity for scheduled flights.

- As the largest airline in the country, we take our national responsibilities very seriously.

    - We undertook more than 290 repatriation flights evacuating around 44k passengers.

    - We transported 395 tonnes of medical cargo and we will continue to help in times of distress.

- We have witnessed a great deal of potential in our cargo business. To explore this opportunity further, we have converted 10 aircraft to "All cargo airplanes''.

- We continuously re-worked domestic routes keeping in mind the guidelines issued by state authorities.

- We maintained our aircraft in flight ready conditions at all times that allowed us to resume operations seamlessly with 1,582 scheduled flights operated within first week of operations.

- We have kept our crews current in this new environment and re-worked the standard protocols.

We started our scheduled passenger service from 25th May and we are encouraged by the early signs. Our unit revenues are reasonably strong although at very low capacity levels. Some of the specifics that I would like to share are

- Our average load factor was more than 60 percent for the month of June, with a peak load factor of around 70 percent during the period.

- Our unit revenue, RASK has outperformed during the quarter at 4.19 rupees, an improvement of 2.2% year over year. This was driven both by the initial surge in demand, and passenger and cargo charters.

- We have seen a 11.1 percent improvement in yield during the quarter as compared to the same period last year, which as you know was also the Jet Airways shutdown period.

- On the flights we operated, we remained significantly contribution positive, which has helped us offset part of our fixed costs.

On the basis of current trends and the pool of resources available to us in the form of aircraft, crews, operating staff and infrastructure, we aim to deploy around 60-70% capacity in the third quarter of 2021, on a year over year basis. This is of course subject to the Government lifting the capacity restrictions currently at place.

Now to the all-important question of liquidity, we ended the quarter with a total cash of 184 billion rupees and a free cash of 75 billion rupees which is a reduction of 14 billion rupees of free cash from March end. Through all our efforts of cost reduction and revenue generation, we have managed to reduce our fixed cash burn. Aditya will talk about this in great detail. We are focusing on strengthening our liquidity by optimal working capital management, obtaining additional liquidity through various sources and most importantly by adding capacity.

We are working on our cost structure and taking various initiatives to reduce our fixed costs. The major components of our fixed costs can be categorised into the following three areas:

1. Our leasing cost- As we have mentioned previously, we view our relationships with our lessors as one of our key success factors. We are therefore managing our leasing costs from a long term perspective and honouring all our commitments.

2. The second important bucket relates to the payroll costs. Here we have two objectives to consider. We of course have no choice but to reduce our payroll cost given the current situation but at the same time we know how important it is to enhance our employee motivation and engagement. We are a customer service company and we know how critical it is to have an enthusiastic and motivated workforce in order to deliver high levels of service. Under these circumstances, this is clearly a difficult balancing act but our long term employee culture is very important for us and therefore we are going about this exercise in a very thoughtful and prudent manner.

3. Other costs make up 20-25% of our fixed costs. We are reducing our costs in areas such as maintenance costs, non-aircraft rentals and IT cost.

In summary, we are clearly in an unchartered territory. However, we also recognize that the industry is going through a very disruptive phase, which presents us with a unique opportunity to strengthen our airline in the key areas of customer preference, cost reduction, employee motivation and network optimization. Our business fundamentals remain strong, our optimism in the future is undiminished and we are fully confident that we will emerge from this crisis in a stronger position. As you can see we are using this opportunity to focus and strengthen each one of our business fundamentals.

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

Aditya Pande: Thank you Rono and good evening everyone.

For the quarter ended Jun 2020, we reported a net loss of 28.4 billion rupees compared to a profit after tax of 12 billion rupees on YOY basis. We reported an EBITDAR of negative 14.2 billion rupees compared to an EBITDAR of 27.8 billion rupees during the same period last year.

As a result of the government-imposed lockdown, we did not operate our flights till the 24th May. We resumed our flights from 25th May with roughly 200 flights a day and we have since doubled the number to over 400 flights a day. While the load factors have been understandably low, we have seen better yields in the quarter. We had load factors of 61.3% during the quarter. Our yields increased by 11.1% to 4.53 rupees and our RASK increased from 4.10 rupees in the same period last year to 4.19 rupees in the quarter, an increase of 2.2%. Our passenger and cargo charter flights have contributed to our performance. Looking at the current booking trend, most of July was strong but the trend has weakened some-what in the last few days. We attribute this weakening to the spike in Covid-19 cases, the sporadic lockdowns in various states and the seasonality in demand. This volatility in the numbers is what is making our future revenue trends hard to predict. The flights that we have been operating have been contribution positive and are therefore helping us partly cover our fixed costs.

Given that we were not operational for almost two third of the quarter, our unit costs have been inflated as we did not have enough ASKs to offset our fixed costs. We reported a CASK of 17.7 rupees in the quarter and CASK excluding fuel of 17.1 rupees. Since the unit cost comparisons will not be relevant in the quarter, let me talk about some specific line items in the P&L:

- Employee Cost: Compared to the March quarter, our employee costs have reduced by 17.5% in the quarter. We have taken various cost reduction measures such as salary reductions, leave without pay etc. Unfortunately, given the volatile revenue environment, we also have had to take the painful decision of employee separation. Basis all the actions that we have taken we expect to end the current fiscal year with about 30 percent lower employee costs than the pre-covid levels.

- Supplementary Rentals & Maintenance Cost: Compared to the March quarter, this cost is lower by about 56%. Supplementary rentals are largely variable in nature and given that we operated very limited capacity during the quarter, our supplementary rentals have correspondingly been lower. Going forward, as our capacity is fully redeployed, supplementary rental costs would increase and this overall cost line item should reach back to the number that we have been seeing in the past.

In Mar'20, our fixed cash burn was roughly 400 mn rupees a day. In Jun'20, this has reduced to around 300 mn rupees a day because of the various cost reduction initiatives and cash contribution from our limited operations. As our operations scale up we expect our cash contribution to increase further, helping our liquidity position.

Managing cash continues to remain our primary focus and we continue to work with all our stakeholders to raise liquidity. We spoke about these initiatives in the last quarter which were expected to provide us further liquidity of 30-40 billion rupees. In addition to those initiatives, we are working on sale and lease back of our unencumbered assets which are in advanced stages of discussion. We are also in discussions with Export Credit Agencies for obtaining moratorium towards principal repayment for aircraft on finance leases. We expect that these actions will help us raise additional liquidity of approximately 20 billion rupees.

So in summary, the following is our cash position

1. Our free cash reduced by 14 billion rupees during the quarter and we ended with a free cash balance of 75.3 billion rupees in the quarter. If you recall, we had a free cash balance of 89.3 billion rupees in the previous quarter. This is despite the fact that we were shut down for a large part of the quarter.

2. We have started phase-wise operations of flight and we are currently running over 400 flights a day. These flights are contribution positive and will help us set off our fixed costs partially.

3. We have taken a number of actions to reduce our fixed costs and a number of additional measures are underway. As stated before, our daily fixed cash burn has reduced from 400 million rupees to 300 million rupees.

4. We have capitalised on new business opportunities and are profitably pursuing repatriation flights, charter flights and cargo flights.

5. We spoke about certain initiatives in the last call such as taking deliveries of new aircraft, freezing of supplementary rentals and negotiating favourable terms with our suppliers which is expected to help us generate liquidity of 30-40 billion rupees.

6. As explained earlier, we are further working on raising additional 20 billion rupees of liquidity.

We have a strong balance sheet and we remain laser-focused on reducing costs and shoring up liquidity. Our cash balance remains healthy and our debt levels remain manageable. We ended the quarter with capitalized operating lease liability of 211.8 billion rupees and total debt, including the capitalized operating lease liability of 235.5 billion rupees.

Before I close my remarks, let me give you our broad capacity guidance for the coming two quarters. Subject to the Government lifting the capacity restrictions, we expect our second quarter fiscal year 2021 capacity to be at around 40 percent and our third quarter fiscal year 2021 capacity to be at 60-70%, on a YOY basis. However, the external environment is highly volatile and therefore our planning horizons are short and we are continuously making course corrections as we navigate through this uncertainty.

With this, let me hand it back to Ankur.

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

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Manish Ostwal from Nirmal Bang Securities Private Limited. Please go ahead.

Manish Ostwal: I have only one question on the capital raise. So, how much we are looking to raise? And secondly, how long this will be sufficient for our set of operations? Thank you.

Aditya Pande: So this is a matter that we are discussing at the Board meeting tomorrow. So the Board needs to deliberate on that matter and as soon as we know what our next steps are on that, everybody would get to know.

Moderator: Thank you. The next question is from the line of Deepika Mundra from JPMorgan. Please go ahead.

Deepika Mundra: Just on the liquidity bit, you mentioned two numbers actually, you mentioned 30 billion rupees to 40 billion rupees which was similar to last quarter's call, and additional 20 billion rupees. So could you just clarify on the same, 20 billion rupees a subset of that 30 billion rupees to 40 billion rupees mentioned earlier? And how much of that was already packed into in the previous quarter?

Aditya Pande: Right. So the 30 billion rupees to 40 billion rupees that we mentioned continues, and the 20 billion rupees is in addition to the 30 billion rupees to 40 billion rupees. So overall, you can read that as 50 billion rupees to 60 billion rupees from our perspective from a liquidity perspective.

Deepika Mundra: Sorry, if I may follow-up on that. So the 20 billion rupees is the sale and leaseback of the owned aircraft and some moratorium on lease rentals. So could you tell us what the 30 billion rupees to 40 billion rupees is then?

Aditya Pande: 30 billion rupees to 40 billion rupees, as we mentioned earlier, was our supplementary rental benefits that we are getting, our sale and leaseback that we continue to do on our assets and all other vendor payments that we are negotiating with them. So that is the breakup of the 30 billion rupees to 40 billion rupees. The 20 billion rupees are the assets that we own that we are putting onto our sale and leaseback structure.

Deepika Mundra: Got it. And just lastly, was any of this packed into in the quarter?

Aditya Pande: Yes. Out of the 30 billion rupees to 40 billion rupees, we have packed about 35% of that in the quarter.

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

Sonal Gupta: Just on the fixed cash burn number that you gave, so just to clarify, so this is the absolute fixed cash burn in terms of when you have no revenues or, I mean, how do you read this?

Aditya Pande: So, the 400 million rupees that we mentioned was our fixed cash burn at the time of the pandemic. With the contribution that we are making so far on the flights that we are operating and the cost actions that we are taking, as of 30th June, the fix burn was down to 300 million rupees a day.

Sonal Gupta: But if you were to sort of look at fixed versus pegged, then how much reduction is there?

Aditya Pande: So as we mentioned, I mean, most of our reduction is coming out of employee cost. And our employee cost on a year-over-year basis, earlier from a pre-COVID levels we had mentioned, the number would be down about 25%. We expect from a pre-COVID level, now the number to be down 30%. So that is on the employee side. On lease rentals that we had mentioned, we are continuing to honor all the lease rentals, we will continue to pay them. And all other fixed costs, we are seeing about a 15% to 20% reduction on all of the fixed costs.

Sonal Gupta: The other fixed cost which we defined as 20% to 25% of overall fixed cost?

Aditya Pande: Yes.

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

Binay Singh: Just for clarification, is my understanding correct, continuing with the earlier question; the cash burn per day was around 300 million rupees in end of June and that number incrementally will go down as the recent staff cost cut comes in, and you also further cut down on fixed cost on the maintenance and IT side. So could you give us the cash burn per day that you see at a similar capacity level, like two quarters down the line?

And linked to that, where do you see the cash burn breaking even? I know it depends a lot on yields also, but if yields were to remain at current levels, then at what percentage capacity would you see cash burn breaking even?

Aditya Pande: So the 300 million rupees that we mentioned, as we continue to deploy flights and those continue giving us contribution, that fixed burn is expected to go down. You are right, as the employees actions come into play, that fixed burn will go down further. Given the fact that the market is very volatile, it is very tough to give an estimate right now as to how much will it go down by. But we are confident, as we put more flights out there, and they all are contribution positive, that number will keep on improving month-over-month.

Binay Singh: And then just a clarification, you said 25% to 30% of your costs are fixed, within which you are targeting a 15% to 20% cut. How much of that is already built into the June number that we are talking about?

Aditya Pande: So most of that is already built in, but we are continuing to work on incremental measures.

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

Varun Ginodia: Sir, my first question is on the maintenance cost provisions on your older aircrafts. So as I see, in 1Q there was no return of those aircraft to the lessors. So how do you see that from 2Q onwards? And is it fair to assume the 400 crore rupees per quarter charge that you were taking on these older aircraft, they won't continue from 2Q onwards? So that is my first question.

And my second question is, from the lessors in U.S. and Europe, we are hearing that the spreads between older generation and newer generation lease rates on narrow-body aircraft has gone down significantly in the recent months. So are you hearing the same from your own counterparties? And have you seen your leasing rates go down on 321NEOs that are coming into the service? These are my two questions.

Aditya Pande: So our supplementary rentals, as I mentioned, I mean, we expect all our returns to go on as per track. We have got 106 planes to return between now and December 2022. Yes, there was a little bit of a disruption because of pandemic in 1Q, but we expect all that to come on track as we go ahead. And those will continue to be on schedule. So, therefore, those will remain the way we have mentioned earlier, those costs will remain the way we have mentioned earlier. On your second point...

Varun Ginodia: Sorry. So the maintenance cost provisions that you have booked per quarter of 400 crore rupees, that will continue on those aircraft? Because we are not flying them right now so I thought you won't need to book those provisions in a post-pandemic world.

Aditya Pandey: No, it doesn't work that way. We have certain return conditions under which we need to return those aircrafts. And those return conditions will warrant us to maintain those aircrafts. And therefore, those provisions will continue. So we don't expect any significant savings coming out of that. Quarter-on-quarter, those numbers will obviously keep going down as we keep returning the aircraft. But it's not as if we will have a write-back associated with them.

Varun Ginodia: And that number is there in your June quarter as well in this number?

Aditya Pande: Yes, that number is there.

Varun Ginodia: So 400 crore rupees number is there in this 740-odd crore rupees number as well, right?

Aditya Pande: It's not 400 crore rupees. For this quarter that number is about 230 crore rupees, the number keeps on going down. But the number is definitely there.

Varun Ginodia: Okay. Thanks a lot. And the second question, yes, you were answering to that. Yes.

Aditya Pande: So from whatever we see in the marketplace, what you are mentioning on the lease spreads changing is largely on the wide-body aircraft. The NEO family of aircraft, just because of where the market is in terms of no other similar kind of aircraft available in the market, we are not seeing any major changes in these rates over there. Also, we have a long-term contract with Airbus, which is something that we like, and we continue to work with Airbus on that contract.

Varun Ginodia: Okay. So there is no significant reduction in the lease rates for the NEO aircraft coming in, we are not seeing that on that?

Aditya Pande: And that is the market as well, yes, as we understand.

Moderator: Thank you. The next question is from the line of Vipul Garg from Kotak. Please go ahead.

Vipul Garg: Sir, first question is that you told that cash burn is 300 million rupees per day. So if we take for this 90-day quarter, then the cash burn itself would be 2,700-odd crore rupees, but sale is not reflected in the cash depletion from March numbers to June numbers.

Aditya Pande: Right. And as I mentioned, beyond the cash burn that we are talking about, we are also working on the 30 billion rupees to 40 billion rupees of all items that I mentioned that we are generating cash on, and the 20 billion rupees additional items that we are generating cash on. So beyond what you see, those items are also throwing cash back to us. So you would not see that burn at the same rate, and that's the reason why you don't see that depletion.

Vipul Garg: Pardon, sir, how the gap has been reached?

Aditya Pande: So if you recall, I had mentioned that we have 30 billion rupees to 40 billion rupees of additional financing that we are getting, and there is another 20 billion rupees that we are working on. So that quarter-on-quarter also accretes on our cash reserves. So, therefore, when we are talking about the 30 billion rupees, just to clarify, is clearly only a fixed cost. On top of that, we have liquidity measures that will help us get more cash in. So the net cash burn that you see on the numbers will be smaller than that.

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

Pulkit Patni: So my first question is, you mentioned about 30% expected reduction in employee cost. Now, if you look at the first quarter, this is about 17%. So when you say 30%, should we assume that the FY '20 number would go down by 30%? Or this is incrementally for the other three quarters, we should assume a 30% lower employee cost?

Aditya Pande: So it will be 30% lower cost from the pre-COVID level. So if you look at your March number, from that level it will be 30% lower. Why you see it's only down 15%, if you recall, we started taking those employee cost actions only from the month of May. So there is only a partial impact of that for the quarter. And then incrementally we have taken more actions as we go into July, including the separation that we have talked about earlier. So, therefore, you will see that playing out over the next three quarters.

Pulkit Patni: Sure. Fair point. My second question is just on yields. Given that right now we are operating in an environment where there are caps and floors, and the fact that it seems it's continued till November, does it work well for us in yields in the current scenario? And what would be your comments on that particular front?

Ronojoy Dutta: We would like the fare caps to be removed as quickly as possible. The markets are very dynamic, directional, it's seasonal, it's impossible for anyone to predict and decide what the right level of fare should be. So we would like to see this removed quickly, and we think we can do a better job in managing the revenues without the fare caps. And that will work to the advantage of the customer as well.

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

Achal Kumar: So, I had a couple of questions. One was about the forward bookings. So previously you mentioned that the bookings are taking place now, we cautioned you in advance, a month beyond that. And that is creating problems for you to manage fares and capacity. So how the situation looks like? I mean, has that changed or that remains same, what sort of challenges are you facing because of that?

And similar to that, just on the previous point, you said that you want the fare capping to go away. But generally if I see, I mean, the fares are anyway low, so how the fare capping has been impacting your fare levels?

Ronojoy Dutta: Okay. So regarding this volatility in demand, how is it shaping up? So the first 20, 22 days of July were, in our mind, quite strong. And then it becomes very news dependent. So if people say, Oh, the virus is spiking, Kolkata is closed for few days, Mumbai may not open its cap, Lucknow shutdown per day, Patna shutdown for a few days. The forward bookings reacted very strongly to that. Mostly, I would think, because of the uncertainty. Should I book, should I not book, will be able to fly. And obviously, as they keep making these changes, the cancellations also go up. So all that I believe is affecting the last seven, eight days. Because in the last seven, eight days, as you know, there have been all these sporadic lockdowns in different cities. Once that stabilizes, I do believe it will improve.

Now, as to the fare cap issue. The question clearly is a measure of capacity, fare, direction, time of day, so many things are affected by it. Our morning fare should be so different from an afternoon fare, one way fare out of Ranchi is very different from an incoming fare into Ranchi. All those factors are playing out. And no one knows, as I said, what the right level should be. But we would like to be able to leverage those changes and say, okay, in the afternoon let me put a real low fare, in the morning let me put a real high fare, and use that both to our advantage. And as I said, to the customer's advantage too. If we can have some lower fares, we can also have some higher fares as a result. So I mean, it's a very flexible environment, as you well know, in pricing. And I think in opening it up, let people get creative with it, let people experiment with it and let's give see what the right answer is. But let's not have it dictate by someone by saying this is what the fare should be.

Achal Kumar: Right. That's very clear. My second question was around the cost. I mean, you have cut down your cost by 52% and your other expenses are down by 65%. Going ahead, as you increase your capacity, don't you think some of these costs would come back? So rather than just one way going down, don't you think there will be a pressure on the cost, and that could have an impact on the profitability given that revenues are anyway uncertain? So that is my second question, if you could help.

Ronojoy Dutta: Well, the pressure on cost. As we know, many of our employee costs are fixed. Now we have reduced them both through pay cuts and through some leave without pay. But clearly, our employee utilization is not high. Most important thing is the aircraft utilization. We have got all these leasing costs. And if the planes are sitting on the ground, our leasing costs are absorbed by 30% of our capacity. If we can improve that capacity to 50%, then the leasing cost, which as you know is the most important cost, gets spread out over bigger base. So no, our costs don't go up, our unit costs for sure go down a lot.

Achal Kumar: Even the other costs which is 25% of the total cost you said?

Ronojoy Dutta: Well, other costs are what, they are IT cost, maintenance cost. So IT costs are not going down just because we are flying less, I mean, most of the network costs are also truly fixed. So basically, the most important dynamic is this, what is the denominator in terms of the capacity, right? You know how important the denominator is in setting a unit cost. Our denominator is very small now, that's why you see a big spike in unit cost. If you could make our denominator bigger with more capacity, our unit cost would go down significantly. Ultimately, it's a game of unit revenue minus unit cost, right, that's the only math that really matters. And right now our unit revenues are good and our unit costs are pathetic, terrible, they are obnoxious. So we need to get our unit costs down.

Achal Kumar: Absolutely. No, the last question I had, so even the A320NEOs and A321NEOs, I could see that the prices are down by 10% to 15%. So just wanted to understand whether do you have possibility or do you have opportunity to renegotiate your prices with OEMs? Or that's all fixed?

Ronojoy Dutta: Nothing is fixed. But I think we have stressed this many times. We take a long-term view of this whole equation. We can get some short-term gains with some long-term pain, or we can reverse that and get some short-term pain with long-term gain, etc., etc. So we are continuously in discussions with the OEMS and we look at a full long-term horizon and say, what's happening in each year and how do we manage the overall net present value, if you will, of that whole relationship? So yes, you could say, okay, today you can get a lower use cost, maybe; but I have this fleet of plane order that's coming, and I need to place them with the lessors at the right price. So if we look at the whole long-term horizon and do the best net present value of that.

Moderator: Thank you. The next question is from the line of Atul Mehra from Motilal Oswal Portfolio Management. Please go ahead.

Atul Mehra: Sir, if you could broadly split up the travel between leisure and business prior to COVID in terms of how is the split like?

Ronojoy Dutta: I will ask Sanjay Kumar to answer that.

Sanjay Kumar: The travel between leisure and corporate or business traveler used to be almost 50% - 50% prior to the COVID situation. But post-COVID, of course, we are seeing travel from the corporates not coming back right now, they are taking much longer time than what we would otherwise expect. So it is basically the travelers who are kind of traveling for aid or urgency or medical or shifting, whatever reasons they have, they are flying for that reason. So post-COVID, still we have to see the business travel coming back.

Atul Mehra: Right. And sir as a follow-up on this point. Just want to understand, at the company level how are we thinking about longer-term implications on travel, both business as well as leisure? Given that nowadays, especially like post-COVID, a lot of us have been at business also being accustomed to digital means of communication and so on and so forth. So as you think about the long-term and also as you plan your fleet going forward, how do you think about longer-term implications for this?

And at the same time, I just want to check on whether we have any exit clauses for our contracted for fleet? Say for example, if you are not seeing demand to improve quite materially and coming back to normalcy, do we have an exit clause with whatever penalty, but to actually modulate our fleet to the extent of our demand expectation?

Ronojoy Dutta: Okay. I love the first part of your question, because it is something very near and dear to my heart. What is the long-term view of the airline? Well, the long-term view of IndiGo in particular is highly bullish, and again I say long-term. So people say, are you pessimistic, are you optimistic? Near-term, meaning in the next 10 months, things are obviously tough. But going further out, 18 months out, very bullish about IndiGo. And I will tell you why.

Yes, corporate travel is going down, so we are going to lose customers at the top end. However, we think we will gain a whole lot of customers at the bottom end. India has about 140 million passengers a year by air. It has 1.6 billion passengers by train, and I am counting the top 2 classes of train. And given the issue of safety, you can fly somewhere in 3 hours or you can fly or you can travel by train somewhere in two nights. I think there will be a lot of substitution into airlines from trains, particularly because of safety and also because the cost of flying is coming down with lower fuel, our cost structure is going down, etc., etc. So very bullish about growth at the bottom end, despite the fact that we will lose corporate travel, I understand that.

Secondly, I think the competitive structure will change in favor of us. We have had too much capacity, chasing too little demand, especially internationally, when there have been a lot of overbuilt hubs all around us in the Southeast Asia, in the Middle East. And I think a lot of that capacity will come down. And as someone mentioned earlier, wide-body prices are a reflection of that. All this connecting people from Amsterdam to somewhere to Calicut, people will be sort of cautious about taking one stops. They would rather take non-stops or they will take a one-stop through an Indian hub. Because they say I have an aunt in Delhi, I would rather connect in Delhi than go to some other destination where I don't know if I have to be stuck for 14 days for Coronavirus. All that helps narrow-body, it helps Indian carriers. And therefore, overall, I am very bullish about our prospects long-term. What was the second question again?

Atul Mehra: Second question has to do with, if at all you have any exits, like how are you planning your fleet accordingly and your upcoming fleet? And if at all, you would like to in terms of restructure or push like maybe delay some of the incoming fleet and so on and so forth.

Ronojoy Dutta: So look, we really see this as a long-term process almost, if you will, of let's say Airbus manufacturing airplanes, us buying them, the lessors doing a sale-leaseback in between. And we want this whole pipeline to work and work well. If one of us upsets this, then the other two guys also don't gain, they lose. So we are in a very close relationship with our lessors, with Airbus and ourselves, saying how does this whole pipeline work effectively? So is there negotiations? Of course there’s negotiation. But again I am trying to tell you, it's not a transaction-based negotiation, it's a relationship-based negotiation.

Atul Mehra: Right. And sir, one final question, if I may. In the competitive environment, domestically how are you seeing that? Because we have always seen IndiGo as the largest player and the most efficient player, and the current times are such that even the efficient player is having issues given the way the scenario is at this point in time. So how do you see the competitive environment after the dust settles down and also in the middle as we are in at this point in time. So how do you see that angle as well?

Ronojoy Dutta: Really to a large extent we focus on what makes sense for us and how do we maximize our revenue up, our profitability and so forth. So we are very much IndiGo focused. And the rest of it is news that I read in the paper just like you do. So I don't really know what is going to happen to anyone else. But the competitive situation is such that we feel the best thing we can do is to grow fast and get some of our capacity back. That's what we would like to do and that is what we are focused on.

Moderator: Thank you. The next question is from the line of Abhinav Bhandari from Nippon India. Please go ahead.

Abhinav Bhandari: Just two questions. So one is on this 20 billion rupees additional liquidity which you said would be arranged by selling the own aircraft and keeping them on leaseback model. Just to understand, how much of gross block goes out of this exercise? And how much would be the increase in rentals and capitalized lease liability because of it?

Aditya Pande: I don't have the number of what gross block goes down by. But economically, this sale and leaseback is not going to cost us anything materially. And we have done that analysis, we don't see - those numbers are not material, from a materiality perspective. But it's important from an liquidity perspective, and therefore we are going forward with it.

Abhinav Bhandari: Sure. Any ballpark number on the number of planes that would help us to do the reverse calculation?

Aditya Pande: Well, we have 12 ATRs that we own, and we have 3 A320 CEOs that we own.

Abhinav Bhandari: Okay. Sure. The second one was on, how are we progressing on that engine replacement issue that we had?

Ronojoy Dutta: Wolfgang is going to take that question.

Wolfgang Prock-Schauer: Right now we are coming close to finish this whole exercise. And we have all the airway bills from the replacement engines already visible. So by end of August, everything will be done and the whole fleet will be refurbished. Right now, as we speak we have still 14 aircraft, which need to be refurbished, and we can see from the pipeline of incoming engines it's finished by end of August.

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

Prashant Kothari: I have two questions. One is, do we have any undrawn working capital lines from the banks, if you can share the amount there? And the second question is, again, on the competition side. We kind of were expecting that during this pandemic, some of your competitors who don't have enough balance sheet strength might actually fall down, but we haven't seen anything of that sort happening in the domestic space. Do you have any insights on why that is the case?

Ronojoy Dutta: On your second question, we definitely do not have any insight. You should call them. We have no idea. And what was the first question?

Aditya Pande: On undrawn working capital. So we do not have any undrawn working capital lines. In fact, we do not have a working capital line. We are working on building those right now, but there is nothing undrawn right now.

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

Arvind Sharma: Sir, on the capacity front, the guidance that you have given that hopefully the regulations permit 50% in 2Q and 60% to 70% in 3Q. Is that the guidance for only the domestic part or does that include international ASKs as well? Because that would then include that you are hoping some improvement or some relaxation in international traffic as well. So just wanted your clarification on that.

Ronojoy Dutta: The answer is, it does include some international. Now the fact is, we are doing a fair amount of international with all these charters between Kuwait, Saudi Arabia and now UAE is opening up, we are doing a fair amount of charters. So yes, we are expecting that some of these charter flights get converted into schedule and that way some amount of international does happen in that period.

Arvind Sharma: This 40% to 50% and 60% to 70% is the ASK guidance that you are giving for the entire operation?

Ronojoy Dutta: Yes, for the whole network.

Arvind Sharma: Thank you so much, sir. And sir, just on capacity. Will you be in a position to give any guidance on your fleet strength over FY '21-'22? Or is it just too early to surmise that at the moment?

Aditya Pande: I think it is too early to go there. I mean, we continue to work on our fleet plan. And as we get towards the latter half of the year, we can talk about it.

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

Ashish Shah: Just wanted to check, there had been news around IndiGo participating in the long-haul flights under these arrangements made by the government. So any clarity that you could provide on the same?

Ronojoy Dutta: So, as we have said before, we continuously look at this whole wide-body equation. And I think almost a year ago there was flurry of news items about, Oh, IndiGo is looking at wide-body, and that was true, and we continue to look at it. The trouble is, wide-body has always been a sort of touch-and-go issue for us. The numbers are sort of okay, but we know there is a risk to it, so we keep saying, Okay, let's wait and see, wait and see. And frankly, to some extent, the wide-body equation might be working in our favor now. And again, I am not making any kind of decision yet, but I am just telling you what is changing. First of all, as we know, wide-body prices are down, that helps a lot. Secondly, fuel costs are down. And part of the problem with going long-haul is that your fuel burn rate is so high, as you go further away you are carrying more weight, etc., etc., so the fuel burn rate goes up. So lower fuel cost also helps. And the third is this issue of one-stop versus non-stop. Between India and London, last time I accounted, in the height of the sort of expansive phase a year ago, there are almost 20 different ways you could book from Delhi to London, through Oman Air and Saudi Air and God knows who else is there. So as this one-stop becomes less competitive to non-stop, I think that's an advantage. So these are all factors to be studied. We are in the same situation we were a year ago, we are still studying it. We don't have an answer.

Ashish Shah: Sure. Just second one. Sir, basically, I know it seems a little over the top right now to think about Air India. But hypothetically, if the government were to be going ahead, are we still interested in the international operations of Air India? Or given where we are in terms of the whole pandemic, we are just like not now?

Ronojoy Dutta: At this point, we are not interested in Air India.

Moderator: Thank you. The next question is from the line of Paarth Gala from Prabhudas Lilladher. Please go ahead.

Paarth Gala: Sir, if you could just help us better understand the supplementary rental and aircraft maintenance cost items. So if you look at the pre-COVID levels, it has come off quite sharply. So, do the maintenance costs also have a high degree of variable nature embedded into them?

Aditya Pande: Right. Absolutely, they do. So supplementary rentals, a large part of the supplementary rentals overall in this last quarter's number was 1,600 crore rupees, this quarter it is 739 crore rupees. More than half of this is variable in nature. Based on how much we fly, we put up those supplementary rentals. So obviously, as we are flying lesser, this amount is much lesser. The fixed element of that, we obviously continue to incur. Therefore, you are seeing from last quarter this cost going down from 1,680 crore rupees to 739 crore rupees in this quarter.

Paarth Gala: Sir, any understanding on what the fixed number could be, because even if I assume that your supplementary rentals are anywhere around 50%, the number that we have reported for this quarter is on the higher side of pre-COVID levels?

Aditya Pande: So pre-COVID levels, this number was 1,680 crore rupees. Today we are reporting 740 crore rupees, so less than 50% of pre-COVID levels. So I don't understand why you say it is high.

Paarth Gala: No, if 50% is fixed in terms of contract, I mean, the cost that we are incurring, like for the CEOs also that you are doing, 230-odd crore rupees. If that number stays intact, then this number is a bit on the lower side. That is what I was pointing out. So is there a variability involved in your fixed maintenance cost, is there a reduction there?

Aditya Pande: Yes. I mean, it really depends on how much are we flying and what capacity are we deploying. So a lot of that is dependent on that as well. So that is what drives it overall.

Moderator: Thank you. The next question is from the line of Ashutosh Somani from JM Financial. Please go ahead.

Ashutosh Somani: Sir, this is regarding one of the notes of accounts. So if you look at one of the notes, it says that the OEM supply for new engines, there is an invoice raised to the tune of, I believe, this is million, 2,278 million rupees, which is around 227 crore rupees, which as per legal council we have decided not to pay. So can you elaborate on the nature of this cost? And whether it has been provided for in the accounts or not provided and not paid?

Aditya Pande: So, it is not provided and it is not paid. I must also add that we also have a counterclaim, if you read the entire note, we also have a counterclaim from the OEM which is much larger than this, and that is something that we are in negotiations with them. And as those negations progress, we will let you know where they head. So that is what we want to share at this stage on those negotiations.

Ashutosh Somani: This unit is rupees million, I believe. So this is 227 crore rupees, is that correct?

Aditya Pande: It's 227 crore rupees. You are right.

Ashutosh Somani: And this generally reflects in which line item in the P&L?

Aditya Pande: It is not included in the P&L.

Ashutosh Somani: If it was provided, it would have been in which line item?

Aditya Pande: It will be part of our supplementary rentals and those costs. And it's a buildup, it's not a one quarter item by the way.

Moderator: Thank you. The next question is from the line of Chintan Sheth from Sameeksha Capital. Please go ahead.

Chintan Sheth: One question was on the airport charges. I believe it was fixing nature, but we see sharp drop in fee charges as well. So just wanted to clarify whether it's a variable in nature or fixed in nature?

Aditya Pande: No, it is mostly fixed in nature, largely fixed in nature. It's our parking and landing charges, it is a route navigation fees, it's totally dependent on how much we fly. So since the fact that we have flown less, therefore, it's a variable expense, and therefore it's down about 82% for the quarter.

Chintan Sheth: Okay. So as you feel far much more, this cost will continue to increase?

Aditya Pande: Yes. Based on how much the capacity we deploy.

Chintan Sheth: Sure. And if you can give some indication on the right-to-use asset value as of June and the forward sales booking sitting under the liability as of June?

Aditya Pande: So our ROU assets as of 30th June are 142 billion rupees, that's the number.

Chintan Sheth: Okay. And on forward sales?

Ronojoy Dutta: Forward booking number. You are saying end of June?

Chintan Sheth: Correct. Yes.

Ronojoy Dutta: No, we don't give that number.

Moderator: Thank you. The next question is a follow-up question from the line of Deepika Mundra from JPMorgan. Please go ahead.

Deepika Mundra: I have a follow-up. I just wanted to get a sense on the ancillary revenue. I would have thought it would have been slightly better within the push on cargo. As the capacity normalizes, how do you see that panning out through the year?

And secondly, I just wanted to check on the maintenance expenses. So I understand that the supplementary rental and maintenance expense is down quite significantly. Could you like, of the regular maintenance, I am not talking about the extra provisions for the CEO aircraft. But of the regular maintenance, how much of it is discretionary and how much of it would be fixed?

Sanjay Kumar: So I can talk about the ancillary revenue. Of course, ancillary revenue is up primarily because of two reasons. One is, of course, cargo. Cargo has done pretty well for us. And the second part is that we have been able to push through the seat assignment bags and other kind of fees, despite the lower number of passengers which we are flying right now, we have been able to kind of increase our ancillary revenue per passenger quite significantly compared to pre-COVID levels.

Ronojoy Dutta: And that is because customers are more conscious about which seats they sit in. So that has been a factor.

Deepika Mundra: Okay. The second question on maintenance, please, how much is discretionary and how much is fixed?

Aditya Pande: I mean, its variable. So our supplementary rentals are variable, but we put up this based on how much we fly. Our FHA agreements are variable, it is depending on how much we fly. So those two elements are variable. Obviously, reassessment of future maintenance, cost that we have for general maintenance. I mean, those continue to be fixed in nature.

Moderator: Thank you. Next question, a follow-up question from the line of Sonal Gupta from UBS. Please go ahead.

Sonal Gupta: Yes. So just wanted to understand, I mean, like you have given the capacity guidance and just also, I believe, previously you had sale and leaseback agreement already for 13 NEOs for the first half of the year. So I mean, so just wanted to understand like if what happens if the capacity is not ramping up as the way you are hoping for it? Do we see a pushback? I mean, incrementally beyond this? I mean, if there is a much more negative scenario, you are not really able to get beyond 40, 50 and even in Q3. So how will your strategy change here, I just wanted to understand, what's the fallback option?

Ronojoy Dutta: So I think this is an internal debate that we are having of what should our planning horizon be. And many people say, why don't we plan for 2022 and see what it looks like and so forth. And the fact is, this is such a volatile environment that I think any kind of long-term planning at this point, for a while at least, is almost futile, because we don't really know. So we can put some numbers together and say we think this, we think that. We know revenue is going to go down. But we also know there will be capacity shifts all across the globe, which may hurt us, which might help us. And we think, given the uncertainty on both industry revenue, industry capacity, where it's coming from, where it's shrinking, we are saying let's just plan for now on a three, four month basis. Let's get through till the end of the year, and then pause, take a deep breath, and we will do this long-term plan all over again. So unfortunately, right now we are not doing long term planning. We are doing three months planning, and we are willing to wait a while and then get back into long-term planning.

Sonal Gupta: Sure. No, what I am trying to understand is that in that case do we see a pause here? I mean, clearly if you don't see that your capacity is going to be more than 70% utilized, say, in FY '22, I mean, do we stop taking new aircraft and that the existing fleet sort of run down? I am just trying to understand.

Ronojoy Dutta: Wolfgang is going to jump in at this point.

Wolfgang Prock-Schauer: So all of you see naturally the new deliveries, this is more prominent, naturally. But many of you don't see the lease returns, the planned lease returns. And actually the planned lease returns for this year are higher than the planned deliveries. So that in itself assures us that the capacity is balanced. And so that is one thing where we can, let's say, moderate the fleet growth or even keep it at balance. And another element which is not so seen very much in the actual figures in the fleet numbers is that we can use, for example, to a lesser degree CEO aircraft, which enables us to optimize engine shop visits and bring the engine costs down. So there are many ways in, let's say, adapting the fleet size and capacity size, which we are actively using. And one of our top project is to get all these aircraft out, the lease returns in the phased manner and at the time that we have planned for.

Moderator: Thank you. Ladies and gentlemen, that would be the last question for today. I now hand the conference over to Mr. Ankur Goel for closing comments. Thank you, and over to you, sir.

Ankur Goel: Thank you all for joining the call. I hope you found the call useful.

Ronojoy Dutta: Thanks, everyone.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of IndiGo, that concludes this conference call. 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