"IndiGo Fourth Quarter and Fiscal Year 2020 Financial Results Conference Call"

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Operator: Good evening ladies and gentlemen and welcome to IndiGo's Conference Call to discuss the Fourth Quarter and Fiscal Year 2020 financial results. My name is Stanford 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 Operator, Mr. Ankur Goel, Head of Investor Relations for IndiGo. Thank you and over to you, sir.

Ankur Goel: Good Evening, everyone, and thank you for joining us for the Fourth Quarter and Fiscal Year 2020 Earnings Call. We hope that you and your family are safe and in good health.

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: Thanks Ankur. Good evening everyone and thank you for joining us on this call.

This is a very difficult time for the world economy in general and for the travel sector in particular. The aviation sector has been through many ups and downs in its history but I think we can all agree that this crisis is unprecedented in its impact. In India, the Government had imposed a lockdown and as a result, there were no scheduled passenger flights operated during this period starting on 25th March 2020 and continuing through 24th May 2020.

This has, of course, materially impacted our financial results. For the quarter ended March 31, 2020, we reported a net loss of 8.7 billion rupees with a negative profit after tax margin of 10.5%. This includes a foreign exchange loss of 10.1 billion rupees due to weakening of the rupee primarily comprising of mark to market losses on our capitalized operating leases. Our full fiscal year performance was nearly break even with a net loss of 2.3 billion rupees and a negative profit after tax margin of 0.7%.

At the end of February, we were still profitable with our unit revenue up by 2.6% for Jan'20 and Feb'20 as compared to same period last year. However, as we entered into March our unit revenue started declining sharply and resulted into an operating loss of 3.8 billion rupees for the month excluding the foreign exchange loss.

At this time, we are all focused on the health and safety of our customers and our employees. With this mindset, the company took early and aggressive actions to mitigate the impact of COVID, and as a result our international operations were gradually reduced starting January and were completely halted by 22nd March. We recognised we need to change our product on a go-forward basis to ensure the safety of our customers and employees. For this purpose, we have laid out a new set of operating procedures that clearly defines the norms to be followed by employees to combat the virus. Some of these measures include:

- Disinfecting aircraft before every departure;
- Spray cleaning the aircraft at every arrival;
- Deep clean of the aircraft including wiping of all touch points;
- Providing safety kits to our passengers;
- Mandatory masks on board for both crew and passengers;
- Placing hand sanitizers at various places;
- Discontinuance of meal services;
- Operating our airport coaches at maximum of 50% percent loads;
- Ensuring social distancing norms at check in, boarding.

Let's review what all this means for our passengers. The Airbus aircraft cabin is equipped with HEPA filters, which ensures that the virus is not able to be recirculated. The surfaces are cleaned thoroughly and passengers are wearing face masks. So the risk of transmission by air or through droplets is really being minimized. It is important to know that recently, the Ministry of Civil Aviation organized a meeting between the airline industry and a team of doctors, who reviewed our procedures and agreed that the measures that the industry has been taking are really quite impressive. Therefore, I would like to stress that airlines are clearly the safest mode of transportation.

I am deeply impressed with the commitment and dedication of our front line employees during these unprecedented times. I would like to thank our airport ground staff, crew and engineering teams who made sure that our schedule was maintained right into the lockdown. With this level of dedication, we managed to operate about 900 flights on the final day before lockdown serving around 120,000 passengers. I am also very pleased with the customer relations team, who have showed exceptional commitment and dedication during the periods of uncertainty and managed large volumes of passenger enquiries with empathy and professionalism. I would like to thank each and every one of them for the way they stepped up to these challenging times.

I am also proud to say that IndiGo has stood up to help the community and country at this time of crisis. During the lockdown, we operated over 30 relief flights, transporting medical equipment and other requisite resources across the country at our own cost.

Let me now highlight some of the positives of our performance during the quarter. We reported ancillary revenue growth of 30% against a capacity growth of 4% compared to same period last year. Our cargo line of business has performed extremely well until the lockdown. Even during the lockdown, we utilized our cargo capacity to carry essential supplies. We have learned valuable lessons about the demand and scope for Cargo during this lockdown and these lessons will serve us well for augmenting our cargo operations in the months ahead.

Going forward, we want to emerge from this crisis stronger than ever and in that context we are paying particular attention to our product, our costs, our brand and our employee culture. Specifically, we will be:

- Paying a great deal of emphasis on the new norms of flying;
- Reducing our unit costs even further, making our fleet more efficient;
- Ensuring our capacity is right sized to the market, and
- Experimenting with new network and revenue models.

In times like these, we must shift our focus from profitability and growth to managing cash and liquidity. We have always prided ourselves on our strong balance sheet and we have been very prudent in shoring up our cash reserves over the past few years. As a result, we ended the quarter with a healthy total cash balance of 204 billion rupees of which 89 billion rupees is free cash. Given the need to preserve cash, we are not looking to pay any dividend this year. Along with this, we have taken and will continue to take, a number of actions to shore up our liquidity. Aditya will talk about these measures in detail.

Moving on to our capacity and growth plans, given the volatility and the uncertainty, it is difficult for us to provide any specific revenue guidance at this moment. We resumed our operations on May 25th. We have planned a phased ramp up of operations to ensure that we are able to enact on safety and social distancing norms and are at the same time able to cater to the available demand. We have sufficient aircraft, crew and other operating staff available to resume and scale-up operations rapidly. We are in the process of revising our full year capacity guidance and will share our projections subsequently.

In conclusion, let me summarise where we are at this point. We clearly have to rise up to this challenge to meet the new customer expectations in this changed environment. Against this we have the following formidable strengths

- We have a healthy balance sheet;
- We have a very energised workforce that is highly committed to IndiGo and its future;
- We have a very efficient fleet and this efficiency will only improve over time;
- We have a very strong cost position and we are one of the lowest cost producers not just in India but around the world;
- We also have a strong market position in India and in neighbouring countries.

Therefore, I am highly confident that we will meet our objective of emerging stronger from this crisis than we were when we entered into it.

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.

These are challenging times indeed for all of us but we are laser-focused on getting through them. As Rono mentioned earlier, for the quarter ended March 2020, we reported a net loss of 8.7 billion rupees with a negative profit after tax margin of 10.5% compared to a profit after tax of 6 billion rupees with a profit after tax margin of 7.6% during the fourth quarter last year. We reported an EBITDAR of 867 million rupees compared to an EBITDAR of 22 billion rupees during the same period last year.

Our revenue performance was materially impacted by the shutdown of air traffic as a result of the outbreak of COVID-19. Year-on-year our ASK growth for the quarter was 4.1% compared to our earlier guidance of 20%. As a result, our total revenue growth was 4.5% compared to the same period last year. Our RASK for the quarter for 3.65 rupees, which was higher by 0.5% compared to the same period last year. Rono has already discussed the RASK, split up into the pre-Covid and Covid-effected periods. Our ancillary revenue performed well during the quarter and grew by 30.2% compared to the same period last year.

Further, our costs were also impacted on a year over year basis and we reported an inflated CASK of 4.21 rupees for the quarter compared to a CASK of 3.35 rupees in Q4 last year, an increase of 25.8%.

We saw significant cost headwinds and in particular because of the rupee depreciation. The rupee closed at 75.35 at March end compared to 71.30 at December end, a depreciation of 5.7% during the quarter. As a result, we had a 10.1 billion rupees of foreign exchange loss primarily driven by mark-to-market loss on our capitalized operating leases. The mark to market loss is an accounting loss and has no cash flow impact associated with it at this stage. Excluding the impact of such adverse currency movement, our CASK would have been higher by 12.5% instead of the 25.8% increase that we reported. Apart from this, just like the previous quarters, we saw elevated maintenance costs related to re-assessment of accrual estimates for heavy maintenance and overhaul cost of our CEO engines, as well as our employee costs per ASK. Another point to be noted here is that we had lower ASKs which has led to fixed costs being spread over a smaller capacity base. Furthermore, our fuel CASK continued to perform better than the changes in the ATF prices. While there was an average increase in ATF prices of 2% in the quarter, our fuel CASK for the quarter decreased by 1.2% compared the same period last year.

Regarding cost reduction measures, we are working diligently to right-size our airline to the expected level of flying, to strenuously reduce costs, and to improve our liquidity. Specifically, we have taken the following actions

1. We have announced a salary cut in the range of 5 to 25% across the organization, except for certain employees with lower pay grades. We have also deferred all merit based salary increments.
2. We have also announced Leave Without Pay for the months of May, June and July. Going forward, we will be reviewing these numbers constantly and we will adjust them to the revenue environment.
3. We have put on hold all discretionary expenses, and have deferred certain capital expenditure projects.
4. We are looking at every element of cost and working hard with our partners to negotiate better prices and terms.
5. We value the efficiency and structural low costs associated with our new NEO aircraft, and thus we will continue to substitute them for the older CEO aircraft as fast as we can. We are therefore taking deliveries of all our new NEO aircraft and balancing these fleet additions by returning all the CEO aircraft that we had committed to earlier. Furthermore, depending on our capacity requirements, we will prioritize flying our NEOs over the older CEOs.

In addition to all these measures, we are taking a number of other actions to reduce our overall costs.

In terms of liquidity measures, we are working on a number of initiatives:

1. **Returning of older CEOs and taking deliveries of NEO aircraft:** The CEOs that we are operating have higher ownership cost, driven by higher maintenance cost and higher fuel burn. As part of our fleet plan, we are working on naturally retiring a number of these CEO aircraft. We will be taking the deliveries of new planes in quarter 1 and 2 of the current fiscal year 2021 which are much more cost efficient and we are in discussions with manufacturers regarding deliveries beyond this period. Further, we have already financed majority of the deliveries through operating lessors which will help in improving our liquidity.
2. **Now let me talk about freezing of Supplementary Rentals:** We have been talking to our lessors to freeze our supplementary rentals and better align these with our utilisation for a period of 9 months. Since a large number of aircraft are currently grounded and will be operating at much lower utilization levels going forward, thus there is no immediate need for us to provide for these.
3. We have also reached out to our various suppliers to provide us more favorable credit terms.
4. While we have paid dividends in the past, we will not pay dividends this year to conserve liquidity.

We expect all these measures to help us generate additional liquidity of approximately 30 - 40 billion rupees. We are also looking to raise finance against the various unencumbered assets of IndiGo which could be a source of additional liquidity for us.

While this is a tough time for the industry, we also place a lot of value to our long term relationships with our suppliers. We are confident that we are doing everything possible to ensure we emerge in a strong position out of the crisis.

Before I end, let me give you some balance sheet numbers. The capitalized operating lease liability as on 31st March, 2020 was 203 billion rupees. Our total debt, including the capitalized operating lease liability, was 227 billion rupees. We ended March with a total cash of 204 billion rupees of which 89 billion rupees was free.

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.

Operator: Thank you very much, sir. Ladies and gentlemen, we will now begin the questions-and-answer session. The first question is from the line of Deepika Mundra from JP Morgan. Please go ahead.

Deepika Mundra: Hi, good evening and thank you for taking the question. Sir, firstly, given the disruption in the industry, are you seeing any opportunities of domestic consolidation amongst your peers? Or, in general, do you think that the capacities or growth will come off quite sharply? Secondly, even in international markets, are you seeing any spots open to expand capacity post the COVID crisis subsides?

My second question is just on the yield outlook. In fourth quarter, it seems that the yield has held up pretty nicely. Could you comment a little bit about that? And your outlook, once operations normalize? Thank you.

Ronojoy Dutta: Okay. I think that's four questions. To start with industry consolidation. We are very focused on IndiGo and ourselves. We have no plans of buying or selling. We don't want to buy any other airline and we don’t want to sell our airline to anyone else, we are very focused on ourselves. What happens around us, I don't know, I don't want to speculate on that at all. But we clearly are a go-alone strategy.

Two, the issue of outlook and capacity and yield – in normal circumstances, airlines plan on an annual basis. So we have an annual plan, we have an annual budget, based on that we do aircraft acquisitions, we do hiring, all of that, new station openings. Clearly, this environment doesn't lend itself to that long-term planning, because there are so many unknowns. Therefore, our planning horizon now is three months. So I can tell you what we are planning to do for the next three months, and after that we will take another call. So every month we will say, 'Okay, how are we looking? What do the next three months look like?'

So let's start with the important decisions we make, which are fleet and capacity. As Aditya said, we see an opportunity here to make the fleet more efficient, particularly with the old classic CEOs whose maintenance costs, as you know, have been a real problem for us all through the year and we are going to return them as rapidly as possible, and therefore reduce our maintenance costs. At the same time, we will be taking deliveries of new NEOs, which will help us on our fuel cost efficiency.

As to the capacity, the government said, you can fly at 33% capacity, that’s for the near-term. We wanted to fly 33%, unfortunately, many of the states still haven't removed their restrictions. Therefore, right now we are at 20% capacity, roughly. We tried to ramp up to 30% quickly. And as we ramp up, we want to see, 'Hey, should we could go to 50%? Should we go to 60%?' So these will be now sort of quarterly decisions we will make for a very shorter time horizon.

How does it look since the lockdown has been lifted? And you had asked what is the yield outlook and so forth. It is somewhat expected that there would be a lot of pent up demand. And therefore, when the lockdown is lifted, the revenue will be reasonably strong. And I think that has panned out as expected. There is a lot of pent up demand, we do see strong loads, and we are not a 90% or anything, but reasonably strong loads given the environment, with reasonably strong yields.

So if you said, how are you feeling about the last 10 days and the next five days? I am like, 'Oh, things are looking reasonably good'. But I also know that this is a pent-up demand issue. And therefore you asked me about, what will be like the beginning of July? I don't know yet. So I don't want to sort of jump ahead too far, but so far so good. Since the lockdown has been lifted the revenue picture has been reasonably strong. Wolfgang wanted to say something on operation, he is jumping in right now, one second.

Wolfgang Prock-Schauer: This is Wolfgang here, hello. So I just wanted to say that, when we stopped flying, 25th of March, we were number one in on-time performance. As Rono has mentioned, we brought so many passengers home on that day. And when we restarted, I can also mention that we restarted in a nearly perfect way despite the fact that it was not very clear how the operating procedures in the states are. We managed to start very well and with exception of day one and two, we are in the mid-90s in on-time performance. We see our load factor rising now and we see more than 70% load factor. So actually, we started very stable, and we have also got feedback from the airports that passengers have confidence in these new rules and they will get used to it. So we are very positive on that matter.

Ronojoy Dutta: And Deepika, you had asked another question which I omitted to answer, which was to do over the international I think. Let me say that all through last year international was one of our strongest performers. So international was doing better than domestic, right through December and January, international was performing very well. So we are very anxious to start international again. When that will happen? I don't know. But international, I don't see any reason that once the travel restrictions are removed, that the international will not again be one of our strong performers.

Deepika Mundra: Got it. Thank you so much for the clarity.

Operator: We take the next question from the line of Binay Singh from Morgan Stanley. Please go ahead.

Binay Singh: Hi team, thanks for the opportunity. Two questions actually, first, a continuation of Sonal's question. If you look at the gain that you used to make from sale and leaseback, of NEOs, versus any penalties that you will pay on return of CEOs, could you comment on that? Because we gather that the NEO pricing is holding well, whereas the CEOs pricing has come off quite sharply. So that is first question.

Secondly, could you also share what will be your cash burn per quarter, given where the environment is? And within that, clarify what this 30 billion to 40 billion rupees' sort of liquidity saving that you talked about, is this over a period of nine months some maintenance costs not being paid or is it quarterly or an annual thing? So these two questions. Thank you.

Ronojoy Dutta: So let me take the first half of the question on the NEO versus CEO, and then I will hand over to Aditya to comment on cash position and so on. So, when we return the CEOs, there is no penalty for us, because one of the good things about our fleet is that all this function churn, as you know, we keep aircraft only for five to six years. So these planes were due to be delivered back to the lessors anyway. So now if the market had been very strong, we might have extended the leases, but of course, in this sort of market we don't want to, engine costs are high, etc.

So we are happy to return the CEO classics with no penalties and also simultaneously reducing our maintenance cost. To the NEOs, you are absolutely right, they have held up quite well. So the sale and leaseback market also has held up quite well. So we are happy with the NEO deliveries that we are anticipating. And we are happy with the way the residual value of those aircraft are holding up, if you will. And Aditya, do you want to comment on cash?

Aditya Pande: Right. So on a fixed cost perspective, about roughly 40% of our costs are fixed. And as I mentioned on the call, we are doing everything in terms of reducing those fixed costs, in terms of employee costs, in terms of all other costs that we can control are the ones that we are trying to fix, and we are trying to control. So, that is on the on the fixed cost one.

The other question you asked in terms of, in what period do we expect these 3,000 to 4,000 crore rupees of liquidity to come through? So, yes, supplementary rentals I did mention will be over the next nine months. And similarly, in terms of the deliveries that we are taking, the dividends that we won't pay this year, and also the various supplier arrangements that we are fixing right now, would be roughly in the same period. So, I would say, prior to the nine-month period we should have 3,000 to 4,000 crore rupees of additional liquidity.

Binay Singh: Any number you would like to put on, what is your actually sort of our cash burn per quarter?

Aditya Pande: So, 40% of our costs are fixed. I mean, so we have had this discussion, we have mentioned this number before, 40% of our costs remain fixed. We talked about the various salary actions we have taken. We are not deferring any of our lease rentals, we are current in everything that we are seeing on lessors. But every other cost element which has got to do with payouts related to all the discretionary expenses, we are taking a hard look at and trying to control.

Ronojoy Dutta: So really on this cash burn issue, there are two ways to come at it, right. One is to try and reduce the cash burn. And as Aditya said, we are taking all these measures, including reducing our fixed costs, etc. And on the other side, of course, is to try and get the revenue in. So even during the lockdown we were very active on the cargo side of the business. And we were very pleased with the results there. And now since the lockdown has come up, we are also contributing from the revenue side. And so we are anxious to ramp up our capacity and add more and more revenue to deal with this cash burn problem.

Binay Singh: This is very helpful. I will come back and let you.

Operator: Thank you. Next question is from the line of Pulkit Patni from Goldman Sachs. Please go ahead.

Pulkit Patni: Thank you gentlemen for taking my question. My first question is in continuation of the previous one. Since you mentioned that there is going to be some natural leases are going to be or planes are going to be returned, the CEOs, could you highlight what that number is? Because we have more than 100 of these planes, what over the next 12 months could we assume number of planes that you could actually return back to the lessors?

Ronojoy Dutta: We are having a little discussion here as to whether we are going to go public with that number or not.

Okay, so I have been advised to make the following statement. So we have 120 CEOs in our fleet, which will be going out over the next two years. The rate at which they go out is up to us. So it's a throttle that we use to send them out faster or slower, depending on how the revenue revives.

Pulkit Patni: Understood. And could you talk about what is the total addition of NEOs that we could expect in the next 12 months?

Ronojoy Dutta: Again, we are in active discussions with Airbus. We will take a large number, but, again, it's a fungible number, it will all depend on the revenue picture and the pricing we get and so forth. But we will take a large number. Clearly, our fleet is not going down by 120 airplanes over the next two years, you can imagine that. That's not something that is going to happen. So we will replace, I would like to say, almost all or close to all or something depending on the revenue picture.

Pulkit Patni: Understood. And my last question is on international, while you did allude to the fact that you are quite excited, as soon as it starts you expect traffic to come through. But given the amount of restrictions that globally different countries have put on international, do you think there is a structural growth problem in the international traffic? Or the fact that it could take significantly longer than domestic to come back? If you could throw some light on that particular issue.

Ronojoy Dutta: Yes. So you are absolutely right. When we look at what's going to recover quickly and what is going to recover slowly, clearly domestic will recover fast, international will recover slowly. Part of it, of course, is the travel restrictions, both countries have to agree their quarantine, people will be nervous of getting stuck in some distant land, etc. So I would say, international will probably pick up, let's say, six months beyond, I am making up this timeframe. But there will be a lag for international to pick up. But at the same time, I think we will see structural changes in international, which will work to the benefit of Indian carriers in general. I mean, we have had too many hubs around us that, I won't say don't belong, but, over-built would be the right word to use. So there have been too many foreign hubs all around India, over-built in terms of capacity with a lot of connecting traffic, and therefore somewhat fragile in the future. So along the longer term, and I am not talking three months, four months, I am talking a year ahead, etc., we think there will be more opportunities for us to expand internationally.

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

Sonal Gupta: Hi good evening. Thank for taking this question again. Sir, could you just on the domestic side, again, help us think through the demand as to what percentage of your demand currently comes from the business side? And I would guess that the business will probably take a little longer to recover on the domestic side. So just in terms of that sense, could you give us a sense of how things could pan out?

Ronojoy Dutta: So, let's talk about the element of demand for the domestic market. So first, let me state clearly that there are a lot of dampening effect on the revenue, right. There is the customer fear effect, of course, and we all know how strong that is. On top of that, the economy is weak. So even if the customers are willing to travel, the economy would have depressed. Then there are these restrictions and uncertainty about restrictions, what will Karnataka allow? What will Kerala allow?

All those three things are hugely dampening for the traffic. So clearly, we have to work our way through that. Now, what is the longer term sustainability of the airline traffic? Remember, India is sort of, I wouldn't say unique, but an outlier in the terms of sort of the VFR traffic. I mean, Indians have family everywhere and they are like, 'Hey, I don't care if I die, I am going to meet my sister or whatever', there is a very strong VFR component. You have a few weddings and people will travel, they will go to their cousins' weddings. So I think this VFR traffic sort of distinguishes India from the other thing. Then there is a huge amount of rail traffic. And we have always said, Southwest took people out of cars, and that's how Southwest became successful. And IndiGo has always felt, 'Hey, we can take people out of railways and be successful'. With all this COVID, all of these issues, longer term, yeah, we think that as the economy recovers, as this fear factor goes down, this VFR traffic, this train traffic substitution, all those will be longer term sort of potential for growth for IndiGo.

Sonal Gupta: Right. And just, I mean, like any number for business? And then, sorry, just to get the facts right, I mean, the government is currently allowing 50% load factor or is there any restriction there on that?

Ronojoy Dutta: Okay. So corporate versus leisure, it's clearly the demand right now is leisure, there is low corporate demand. Now, as far as this 50% and so forth, as I said, we have been working very closely with this government on the safety issues, middle seat issues, etc. And we have taken steps as an industry, not just IndiGo, the Ministry, IndiGo, we have worked very closely together. And when you look at these sort of sources of potential contamination, air contamination is sort of reduced to very small, I don’t want to say nil or anything, but small, because of the HEPA-filters, and I am sure you have read about the airflow is not front to back but up and down. So air transmission is reduced. Then the surface contact issue, all this deep cleaning, surface wiping, all that will help. Then there is the issue of, 'Well, what if people cough or sneeze', everyone is wearing a face mask.

So, we have reviewed this with a team of doctors, first, we reviewed it with our own doctors, then we reviewed it as an industry with Ministry, put together a panel of doctors and we told them everything we are doing. And they came up and said, 'Yes, that's pretty good'. And the thing that they suggested was this middle seat issue, that if you do have people sitting next to each other, what if they rub shoulders and cloths transmit or something. And therefore, they suggested this additional PPE for the middle seat passenger. So beyond that we are allowed to carry traffic. If the middle seat is used, then we have this additional gown. And like I said, we have talked this through internally, we have talked this through as an industry, we have talked it with the health experts, and I think we have a very good product to offer for the customers.

Sonal Gupta: Ok sir, thank you.

Operator: Thank you. The next question is from the line of Lokesh Garg from Credit Suisse. Please go ahead.

Lokesh Garg: Hi sir, just wanted to ask you in terms of balance sheet at this point of time. There is a fairly large balance sheet number, which is advance ticket sales, which in a running business is always fine. But given that we haven't flown for two months, those advance ticket sales would have gone out. Could you update us what was that number at March end and what is that number now which would mean that corresponding cash would have got reduced?

Aditya Pande: So, you are right. I mean, our forward sales obviously have got impacted because there hasn't been any business for about two months. So clearly the forward sales have gone down substantially. But as we have seen in the past 10 days or 8 days that we have been booking tickets, it is also gradually picking up. So while we did see this number coming down through this period of two months' shutdown, we also see it getting up back again. So that's all I will be able to say in terms of what we look at forward sales right now.

Lokesh Garg: Sure. My other question is in relation to CEOs return. You said that you have almost complete flexibility, but we were sort of given to believe that they are to be retired in some kind of schedule by end of FY '22 or maybe December 2022. Now, obviously, so underlying that assumption must have been contracts, so were the contracts flexible? That is one thing. And if CEOs retire early, because CEOs were contributing to a lot of maintenance events, given we are not flying some of these maintenance events may not need to be incurred, and does that lead to change in maintenance cost view also?

Ronojoy Dutta: That is absolutely right. We are keeping a very sharp eye on the maintenance cost of the CEOs. We will fly them only if we have to, and to try and avoid these engine shop visits and so forth. So, yes. And in terms of how quickly do we return them? We will try and follow the schedule. Because, look, our relationship with the lessors is very, very critical to us. It's one of our core success factors, if you will. Since its very inception, IndiGo has been very close to the lessors, has worked very closely with them. So we respect our relationship and we want to nurture it. So we are not going to do anything to upset that. But we will return them in a scheduled time. And if we have mutually agreed upon, we might do it a little faster, a little slower, we will see about that. But it was already built in, so it's a great sort of relief valve we have of, 'Hey, you want to bring down capacity efficiently, just keep returning these airplanes'.

Lokesh Garg: Sure. And my last question relates to basically NEO induction. There are two factors really to this. First of all, we haven't inducted NEOs at a pace at which others are doing, during last few months, April and May have been nothing. And also NEO induction is also contingent on DGCA order which says that, until and unless you have changed your engines completely, you can't induct a new aircraft, for which you have got time till August 31st now. Which means that till August 31st, let's say, give or take roughly, you can't induct NEO, which means four or five months of this year are gone, which is something like 20 NEO induction, which is one per week gone. So would you plan to make it up? Would you stay on one week per addition? How do you sort of put these things together?

Wolfgang Prock-Schauer: Okay Wolfgang here. So I think it has already been mentioned that we will be taking the next 30 deliveries, so we will continue on that path and we will be inducting the aircraft. With respect to the order of DGCA, yes, we have got more time. However, we will not use about 40 aircraft having one unmodified engine. So, we will be using them in a careful way because we want to push to get all aircraft completely modified. Right now this is a bad situation because we now have enough aircraft available to do it. So, basically we want to come out when production resumes, with completely clean, everything modified and then we are fully ready to fly all the aircraft. So, we have a certain restraint which we on ourselves undertake to do that.

But, yes, we have got this extension which is very helpful, and we will push to get it completed even earlier than that.

Lokesh Garg: Sure. If I can just ask last one. Basically, what is the absolute fixed cost reduction? If you look at 4Q, if we leave the fuel cost, then you have roughly 60 billion rupees of cost, all inclusive, from revenue to PBT line, which will roughly cost out, which is clearly variable. What is the fixed cost reduction that we have achieved related to that benchmark as of now?

Aditya Pande: So, as I said, about 40% of our cost is fixed. Within that, on an employee cost basis, we expect on a full year basis we will be able to save 25% on our total employee cost, that's the goal that we are working towards. And all other costs in terms of our fixed cost plan, outside of lease rentals, are things that we are still working with various suppliers and various partners of ours. So, that is the guidance we can give right now on our fixed cost part.

Ronojoy Dutta: We have reached out to all our suppliers and basically asked for a fairly substantial percentage cost reduction. And I am pleased to say, many of them have already sort of, as a result of negotiation, agreed to that. But they are continuing negotiations to try and reduce all of our purchase service costs by a substantial amount.

Lokesh Garg: Sure. Thanks a lot.

Operator: Thank you. The next question is from the line of Abhinav Bhandari from Nippon Indian Mutual Fund. Please go ahead.

Abhinav Bhandari: Thanks for taking my question and a commendable job by the team in the current situation. A couple of things. One is, you had a very strong cargo growth in last year. Any outlook which you can give for this year? Because cargo operations have still been continuing in the lockdown period as well. And the second one was on the fuel tailwinds which would be available for at least a good part of this year, any comment on that?

Ronojoy Dutta: Yes. So on the cargo, I have to say I am also pleasantly surprised by the strength. I didn't expect it. And I think a lot of it was driven by our international expansion. As international expanded, cargo expanded faster than we had anticipated. Along with that, I think we have said before, our management team there in cargo has turned out to be really a high performance team. They are working very well together, they have put in some systems in place, very aggressive in the marketplace. So cargo has been a very good story and we expect, and not only expect, it has been during the shutdown one of our few bright spots. So we are doing flights into China and Middle East, etc., even with the lockdown, carrying very good cargo.

And as you know, before we were limited to carrying cargo in the belly only, which is about 6 tonnes to 9 tonnes capacity, and now we have taken about 10 of our airplanes and converted them into all cargo operations and carry 17 tonnes to 20 tonnes of capacity. So we are looking at all that and saying, 'Hey, even when we come back to full operation, shouldn't we do some all-cargo operations to these international destinations?'

Because there is some sort of little channels which we have discovered, which are like, 'Wow, these are really strong niche markets'. And so I expect cargo to continue to do very well in the future. What was your second question?

Abhinav Bhandari: On fuel cost.

Aditya Pande: So on fuel cost, you are absolutely right. I mean, fuel is a tailwind for us. And whatever flying we are seeing right now, it is cash contributory, primarily because fuel is down quite sharply as you notice. So whatever flying we are doing in the past seven, eight days, and what we are flying for the next few days is cash contributory, so it contributes towards our fixed cost as we look forward.

Ronojoy Dutta: And just to expand an Aditya's point of view. So we have obviously done sort of stress test at different levels of view. And it's quite encouraging to us that in a wide band of fuel cost we will cover all our variable costs, if you do a lot of flying. So again, to get the capacity up there, it will contribute only to the cash situation.

Abhinav Bhandari: Sure. On the cargo side, just one related question. Have we been able to take some realization hike as well during the period? And unlike some other airlines, we have not utilized the entire aircraft for cargo, so any thoughts on that?

Ronojoy Dutta: Well, as I mentioned, we have taken 10 of our airplanes and made them all cargo operations. So basically you put lashing nets inside the cabin and carry cargo inside the cabin. So, just to give you the number, if we use just the belly of the aircraft, we can carry between 6 tonnes to 9 tonnes because of the volumetric sort of restrictions. But these 10 aircraft that we have sort of converted to all-cargo, they are carrying up to 20 tonnes. So yes, as you said some airlines are doing it, we are one of them, we are doing it.

Abhinav Bhandari: Sure. And just one clarification on the supplementary rental. So, when you said there has been a freezing on those rentals, is this a deferment or how should one think about it? And what would be the quantum if you can help us?

Aditya Pande: So, supplementary rentals are purely driven by the amount of flying that you do. So, till the time, if we are flying we need to put the supplementary rentals up. If you are not flying, then obviously these supplemental rentals don't accrue. But the way the agreements are written, I mean, you actually at the beginning agree that you will put a certain amount of cash towards supplementary rentals. What we have gone and spoken to our lessors is that since we are not going to do the flying, can we defer the supplement rentals, because they won't really accrue to them, because the flying is not happening. So on those supplementary rentals we have got relief to the extent of about 50% of our total supplementary rentals that are there right now.

Abhinav Bhandari: Sure, got it. Thanks for the detailed explanation and best of luck.

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

Ashish Shah: Thank you for the opportunity. So, my first question is on the maintenance cost and the extra provisions that we are doing with respect to the CEO aircraft. So, assuming let's say we have some sort of pre-ponement of the retirement schedule, does this mean that the extra provisions of, let's say, 300 crore rupees per quarter that we are making, now those have to be accelerated? Or some amount of those provisions would not be required at all because maybe the aircraft are not getting used as much? So if you could help clarify that aspect it would be helpful.

Aditya Pande: So I will start with maintenance overall. So maintenance contains two elements, one is the supplementary rentals, which are variable. If we don't fly, we don't need to put out those supplementary rentals. But the provisions that we are making on aircraft for future maintenance, the cost that we bear for FHAs and all of the maintenance costs of the aircraft, they are fixed in nature. So they will not vary based on we fly or we not fly, because we have certain lease return conditions under which we need to make good those expenses. So think about the supplementary rentals to be variable and think about everything else to be fixed.

Ronojoy Dutta: And I think you were also raising the point of, will we be able to defer some of these engine maintenance? So if you were running at full speed, our maintenance cost would be higher on engine maintenance. Now we have been very choosy that, listen let's fly the NEOs more, let's fly the CEOs less and avoid those maintenance costs. Now, if you say what is that number? We don't know yet. But engineering has a target to try and avoid those costs.

I want to come back, if I may, to this whole safety issue. And there is another point I would like to make. I am sure you have read in the paper that on these eight flights so many people had virus and so forth. I think it's important to keep in mind that those people had the virus before they got on the airplane, they didn't contact it on the airplane. And what is sort of noteworthy is that, they have done this tracing after that. And to-date there is no evidence of transmission on board the airplane. So the fact that these people came with the virus, sat with maybe 80 people on the plane for two hours, then they got out. And to the extent the states and cities have done tracing, no one else has contacted it. I think that's a very encouraging sign about the safety of airline travel.

Ashish Shah: Sure. Just to wind up on the maintenance part. So while we may see the baseline level of maintenance provision continue, as you are saying. But what I am probably coming to the point is that there is no chance of an accelerated provision that might be needed because we are going to retire, I mean, that's not a scenario that might pan out, right?

Ronojoy Dutta: Not at all.

Aditya Pande: No, that will not.

Ashish Shah: Sure. Second thing, we have this you know note number 15 in results where we have said that, you have raised an invoice to the extent of about 216 crore rupees for I think those engine replacements which were being carried out. So, it will help me if you can elaborate a little bit on that, because I guess my own understanding was that we need to incur these costs around the engine replacements.

Aditya Pande: So, we are in dialogue with Airbus on a particular clause in the contract in terms of what benefits are we allowed to in terms of some of the groundings of the aircraft that we see. So that's a matter that we are discussing with Airbus right now, so we don't want to comment on that. But we don't expect any adverse financial impact from that for us. That would be suffice to say right now.

Ashish Shah: Thank you.

Operator: Thank you. The next question is from the line of Vineet Maloo from Aditya Birla Sun Life Asset Management. Please go ahead.

Vineet Maloo: Hi, good evening. I have two quick questions. One is, as you said, fuel is currently a tailwind, so are you considering hedging your fuel costs to cover it up for this time period? And if you could just share your thought process around it? And secondly, just a bookkeeping question, your restricted cash that you have in your balance sheet, this is against the already provided and already made provisions in the balance sheet or is it also against some of the provisions that you expect in the future, based on contract?

Ronojoy Dutta: Okay, let me take the fuel hedging issue first. And I can't overemphasize what a dumb idea it is for an airline to do fuel hedging. I mean, I have looked at it from different angles, it's not a good idea. Airline after airline has got burnt terribly. And look, we are naive operating people, what the hell do we know about the commodity market? And if we did a hedging, we would be doing it on the forward curve against some very smart people from Goldman Sachs and whatever, and they will just eat our lunch. So no, that's not something we want to do. And remember, the airlines adjust to fuel up and down. I mean, capacity goes up, capacity goes down, prices go up, prices go down. So that's our way of responding to it, and hedging just makes you more inflexible. So absolutely not. We have looked at hedging, again, we talked about it today at the Board level, and we said no, we are not going to hedge. Aditya?

Aditya Pande: On supplementary rentals, I want to clarify, this is for all the flying that we have done so far, this is not future looking in terms of the flying that we will do in the next month or the next quarter or the next year.

Vineet Maloo: Not supplemental, I am talking about the restricted cash that you have on the balance sheet. That is again what you are going to do or that is what you have already done?

Ronojoy Dutta: No. So this is for what we have already done, that's why we put up restricted cash for, for flying that we have already done.

Vineet Maloo: Ok, thank you very much.

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

Chintan Sheth: Thanks for the opportunity, sir. In terms of the number of aircraft in the NEO front, can you please provide, you already mentioned that 120 won't be replaced immediately over the next two years. But incrementally, what numbers we should start looking at? A percentage will also do.

Ronojoy Dutta: Just to be clear, I didn't say they won't be replaced. I said of course they will be replaced, maybe not one to one, but a very large proportion of those will be replaced.

Chintan Sheth: Sure. And on the cost front, given the number of SOPs we have included, like cleaning and deep cleaning and other stuff, what will result in higher cost because of that? And what will happen to the block hours because we have to deep clean after departure or sanitize the entire fleet after every departure, what will happen to the block hours?

Wolfgang Prock-Schauer: So, in terms of material we invest, or we provide PPE for crew and passengers, if you are in the airline business you would talk big money, this amount which is actually something. Let's say a PPE costs something like 200 rupees, you can imagine this is an amount. If it's just temporary in nature, it is absolutely not an amount which changes our cost structure substantially, this is one element. So, the other element is, naturally we need some more staff at the airport to handle all these things. So, our estimate is, around 10% to 15% more people are needed to accommodate and to undertake all these procedures, because naturally procedures are more complex now, and we want to take care of our passengers and our crew so that everything goes fine. So, this is a temporary cost which we will have to handle in terms of turn times and all that.

Actually, we left our turn times unchanged, so our aircraft rotation, which is a high cost item, rotates in the same way. But the cleaning takes 10 minutes longer approximately. But we make good for that, because there is less ATC congestion and these kind of things. So we can keep our on-time performance, I mentioned we have 95% on-time performance, and we get it from shorter flying, quicker taxi times. And nevertheless, we can fulfil all the requirements which are there in this SOPs. So I do not expect to have a major, let's say, negative effect on our cost because of these SOPs. That's my summary on that.

Ronojoy Dutta: The reduction in ATC times, at times, is something that's quite significant for the airline industry. As you know, we circle around Mumbai for quite a few minutes before we land, burning fuel, burning crew time, burning maintenance time, all that reduction is quite significant.

Chintan Sheth: From that you are saving and making up of lost time?

Ronojoy Dutta: Yes, but lost time on the ground, doesn't result in higher maintenance cost or fuel cost.

Wolfgang Prock-Schauer: If I may add, every crisis has also a benefit. So, we could achieve something through these new SOPs, which will also include savings for us. For example, all of you are frequent fliers in India, you all are already used to that, your boarding pass gets stamped, you have to go to the counter and you get this checked again. Now, we have actually moved to a ticketless travel and we jump in one go. We are one or two steps ahead in the development of how we deal at the airport with passengers and how much more optimized we are getting. So actually, this was a big achievement.

All of us, and I'd say, the Ministry, all the stakeholders, the airports, the airlines came to a really good conclusion, which makes our whole system more efficient going forward.

Chintan Sheth: Sure, thank you for the explanation.

Operator: Thank you. The next question is from the line of Joseph George from IIFL. Please go ahead.

Joseph George: Hi, thank you for this opportunity. Just a couple of small questions. One is on the lease rentals, is there any moratorium or discounts or anything that you are getting from the lessors? Or are you paying out the rentals at the same rate as you were paying pre-COVID? So that was one.

And the second question was, the flights that you are operating now, what utilizations are they running at, maybe an approximate number, so this whole thing about leaving the middle seats empty, is that actually being implemented or is it not mandatory yet? So these two clarifications, thank you.

Ronojoy Dutta: Okay. With the lessors, again, I am restating and reemphasizing what I said before. IndiGo's relationship with its lessors is one of the key success factors. So, we cherish it, we nurture it, we are working very closely with them. And we hope to make this relationship even stronger as we go ahead. So, if we do anything, it will be through mutually agreed upon terms. So we are not in any way sort of rethinking on any commitments we have made.

The second question was on load factor and should we have the middle seat empty? Remember, the airline business is cyclical, seasonal, time sensitive, direction sensitive. So yes, you could be doing Delhi - Ranchi at 90% load factor, and Ranchi - Delhi at 20% load factor. So there is no point looking at Ranchi - Delhi and saying, 'Oh, its 20% load factor, why don't I just keep the middle seat empty?' Of course we will. But don't impose it on Delhi – Ranchi, which is the only place where we are making money, by forcing this middle to empty. So we will keep the middle state empty wherever we can. But to the extent that we need to build the middle state, we will have this extra productive gown. And again, I have to stress guys, there is no evidence yet of contamination on an aircraft, you can come in, contaminate it, but so far there is no evidence of you passing it on to your fellow passengers.

Operator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Ankur Goel for closing comments.

Ankur Goel: Thank you. Thank you, all for joining us. Due to paucity of time, we could not take all the questions. But I hope you found the call useful.

Operator: Thank you very much, sir. Ladies and gentlemen, on behalf of IndiGo, that concludes this

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