"IndiGo Fourth Quarter and Fiscal Year 2021 Financial Results Conference Call"

June 07, 2021

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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 2021 financial results. My name is Aman and I will be your coordinator. At this time, all participants are in a listen-only mode. A question-and-answer session will follow today's management discussion.

As a reminder, today's conference call is being recorded. I would now like to hand the conference over to your moderator, Mr. Ankur Goel, Head of Investor Relations for IndiGo. 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 2021 Earnings Call. We hope that you and your families are safe and in good health.

We have with us our Chief Executive Officer – Rono Dutta and our Chief Financial Officer – Jiten Chopra 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 later today. 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 the call. Hope all of you are safe and doing well.

We have ended a very difficult year for the aviation industry. In the last quarter, we were seeing a lot of positive signs – the number of covid cases were steadily going down, the capacity allowed by the central and the state government was going up, consumers were showing their willingness to travel. As a result, we were showing an improving performance every quarter over quarter.

However, with the second wave of the Covid-19 hitting us, we have seen a significant drop in travel demand. This coupled with the fact that the average fuel prices went up by roughly 26% quarter over quarter impacted our results severely. As a result, for the quarter ended March 21, we reported a net loss of 11.5 billion rupees compared to a loss of 6.2 billion rupees for the December quarter and a loss of 8.7 billion rupees for the same quarter last year. For the full fiscal year 2021, we reported a net loss of 58.1 billion rupees.

Till the end of February, we saw a steady recovery in traffic with over 180 thousand passengers travelling with us daily, hitting peak load factors of 85% on certain days. Our daily bookings were also strong reaching a peak of 231 thousand bookings per day. Unfortunately, in March we saw a resurgence in the number of Covid cases across the country and we saw a 10% reduction in passengers. Our RASK for the quarter was 3.26 rupees which was roughly similar to the RASK that we had in the December quarter, but the sharp increase in fuel costs coupled with adverse foreign exchange impact increased our losses during the quarter.

During the quarter, we continued to increase capacity deployment in Tier 2 and Tier 3 markets to further strengthen our regional presence. We announced operations to 7 new airports during the quarter. Of this, we have already started operations to Leh, Kurnool, Rajkot and Agra.

On the international front, during the quarter we were operating air bubble flights to 10 cities mostly in the middle east as-well as charter operations to various destinations. Our international capacity deployment increased by 36% compared to the December quarter. Overall, our international capacity in the fourth quarter was at around 30% of our pre-covid international capacity.

For the fiscal year 2021, our cargo revenue increased by 9.6% compared to the previous year. This has really supported us during these difficult times when our passenger services have been severely impacted. Building on the success of the CarGo business we have initiated a freighter programme and are in the process of sourcing 4 A321CEO aircraft. The A321P2F - Passenger-to-Freighter conversion is the most efficient narrow-bodied freighter available, offering 24 container positions and supporting a payload of up to 27 tonnes. The delivery of our first freighter is expected in first half of CY2022. Our investment in the Freighter Programme will help strengthen our product and services in the segment, and not only accelerate our own business recovery but will also be a strong engine of economic growth for the country.

During the quarter, we also continued to have the best on time performance in the industry, with an OTP of 95.17 percent. With the rise in the COVID cases there were several additional restrictions imposed by various state governments and our customer relations team did a tremendous job in addressing them. Our customer complaints have been the lowest amongst all domestic carriers at 0.1 complaint per 10 thousand passengers. For this, I would like to thank all our employees, especially the operational staff for their tremendous performance over the year. It also gives me immense pleasure to also share that IndiGo is now certified as a great place to work.

Let me summarise the key highlights for the year:

1. We have focused on strengthening relationships with our key constituents including our lessors, vendors, customers, and employees.

2. We are replacing our older CEO aircraft with more efficient NEO aircraft.

3. Our cash position is of-course the most critical parameter in this crisis and we have managed our cash position prudently.

4. The covid crisis also gave us the opportunity to look at new ways of doing business. We have done charters for both passengers and cargo with great success. We were able to support the Government with their initiatives of repatriation flights.

5. We were number one on average OTP for the year and our net promoter score continued to be high, higher than what it was pre-Covid.

6. We are strengthening our domestic network, we have opened new stations, and we are increasing our penetration of smaller cities.

7. We are remaining true to our mission of being a catalyst in the economic growth of the country and are therefore deliberately and actively engaging and enhancing connectivity in areas which need it the most, such as in the North East.

8. The most important pillar of strength for IndiGo is its employee culture, and we are very focused on a high performance and high employee engagement.

In conclusion, we have our vision firmly rooted on the long term and we are not willing to be distracted by the trials of the pandemic. This means that we are constantly questioning ourselves on what actions we need to take to keep the foundations and the pillars of IndiGo strong so that when we do emerge from the crisis we are well positioned for the good times that will inevitably arrive.

Given this environment and lack of profitability for the year, our Board of Directors has not recommended dividend for the current year. While our cash position remains strong with free cash of 71 billion rupees as on 31 Mar 21, we remain committed to safeguard ourselves against the ongoing disruptions by exploring various options of raising funds. In line with this, our Board has approved raising of funds by way of qualified institutional placement of up to 30 billion rupees and we have already initiated the shareholder's approval process.

In terms of our short-term outlook, we started seeing the decline in airline travel in March but this decline accelerated in April and May. While May started off with very weak traffic, we did see a modest turnaround beginning from the last week of May and this has continued into early June. This shows that passenger confidence returns swiftly with the decline in covid. We are hopeful that with the reducing trend in covid cases and the increased pace of vaccination, passenger confidence and airline traffic will gain further momentum by early July.

So let me try to give you a broad brush picture on our best guess for the domestic revenue outlook. February'21 was the best month we had post covid and bookings on certain days in February peaked at approximately 80 percent of pre-covid levels. Our best guess scenario is that we will hit February'21 domestic travel levels again by third quarter of FY22.

The near-term outlook for International continues to be bleak, and a meaningful recovery of International traffic will probably be pushed to the fourth quarter of FY22. Given the weakness in revenue in April and May, we will of-course report deterioration in revenue performance for the quarter ending June'21 as compared to March'21 but after that we expect to see a steadily improving revenue trends for the rest of the year, provided of course the anticipated third covid wave is relatively flat.

However, despite all the near-term challenges, our belief in the long-term India growth story with explosive growth in aviation remains intact. It is important to note that IndiGo has dedicated the past 12 months to strengthening its competitive position in the industry in terms of fuel costs, liquidity, customer service levels, network, and employee trainings & culture. We are therefore poised to expand aggressively both domestically and Internationally once this pandemic is over.

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

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

For the full year fiscal 2021, we reported a net loss of 58.1 bn rupees, an EBITDAR of 6.2 billion rupees and an EBITDAR margin of 4.3 percent. For the quarter ended March 2021, we reported a net loss of 11.5 billion rupees, an EBITDAR of 6.5 billion rupees and an EBITDAR margin of 10.4 percent.

On the revenue side, the second wave of Covid-19 starting March'21 resulted in demand erosion thereby impacting RASK, which decreased marginally from 3.27 rupees in December quarter to 3.26 rupees in the March quarter. While our yields remained flat at 3.70 rupees, our load factors reduced from 72% in the December quarter to 70.2% in the March quarter.

On the cost side, we were adversely impacted by fuel and forex which was partially offset by additional capacity deployment. The fuel price went up significantly during the quarter by 26.1% thereby increasing our fuel CASK from 0.75 rupees in the December quarter to 1.0 rupee in the March quarter. The foreign exchange went against us during the quarter resulting in foreign exchange loss. While we had a gain of around 2 bn rupees in the December quarter, we had a loss of around 1.2 bn rupees in March quarter impacting our costs and profitability adversely by 3.2 bn rupees. As a result, our loss during the quarter widened, breaking the improving trend that we had been seeing in the past few quarters. Despite the significant jump in fuel prices during the quarter our CASK excluding foreign exchange compared to December quarter remained flattish at around 3.80 rupees.

Given the adverse profitability, our average net cash burn increased from 150 million rupees per day in the December quarter to 190 million rupees per day in the March quarter. Given the current performance erosion with second wave of Covid-19 we anticipate the cash burn to further increase in the June quarter.

Managing our cash position continues to remain our primary focus and we continue to work with all our stakeholders. For this purpose, we are working on securing credit lines from lenders and entering into sale and lease back arrangements for new aircraft. These two actions will likely result in additional liquidity of 45 bn rupees for the coming year.

Apart from this we have also secured a board approval for raising funds by way of qualified institutional placement up-to 30 billion rupees and this proposal is under consideration by the shareholders.

We ended the quarter with a free cash of 71 billion rupees and total cash of 185.7 billion rupees, a net reduction of 3.4 billion in free cash as compared to the December quarter. The capitalized operating lease liability was 257.4 billion rupees and total debt, including the capitalized operating lease liability was 298.6 billion rupees at March end.

With this, let me hand it back to Ankur.

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

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. First question is from the line of Lokesh Garg from Credit Suisse. Please go ahead.

Lokesh Garg: Basically, wanted to ask you, in this quarter we have observed increase in combined rental and maintenance costs. Is that natural or is there something else that we need to watch out for? Plus, particularly given that somewhere in FY 2020 we started with quarterly provision of Rs. 2.6 billion, which were supposed to run out sometime in FY 2022. So, can you just give us a perspective around that, please?

Jiten Chopra: Basically, our rentals are largely variable and going up because the capacity has gone up. This quarter if you see our capacity compared to last quarter has significantly gone up and that has added to our rental, which is primarily the supplement rental we have talked about, which is variable in nature. Other than that, there has not been a very significant change. And if you try and match that with the capacity movement, you will be able to get to the answer.

Ronojoy Dutta: And also, I would say, that we are returning a lot of planes. But right now, many of them are sitting around in MROs during the return process. So, they are not going out as fast as we would like. But that is, I think, adds some cost to the rental costs.

Lokesh Garg: I have very short follow-up. One thing is, how do you put in perspective the government tinkering of capacity down to 50% and increasing the fare, what objective does that serve in the current industrial context? Because industry could have chosen that itself. Second question, which is more number is, what is the per unit deficiency that you are achieving on a A321 NEO versus CEO aircraft that you used to have? Thanks.

Ronojoy Dutta: Okay. So, on the government capacity and fare band, IndiGo has consistently been against any kind of government regulation. And we have, of course, objected to these bans, and the capacity restrictions. And looking ahead, in July, we are scheduling exactly at 50% of capacity. So, we are going up to the limit. And again, we have written to the ministry that, hey, we would like to go higher. So, we are just hoping that the government will stay true to its word and July 31 they will remove the capacity restriction. The second question was regarding CEOs versus NEOs. So, let me tell you, we are very happy with A321 aircraft. It has a unit cost that is 10% lower than the A320s. So, that's a very good thing. And this has allowed us therefore to deploy the A321 in peak demand. So, in a multiple frequency market, we take the 7:30 departure and use a A321, and for the other departures we use A320. And, for strong markets we can use the A321. So, right now, our utilization is roughly equal, A321 NEOs. But clearly, we would like to use the A321 a lot more, it is a very efficient airplane.

Lokesh Garg: You said unit cost, which I take it as total CASK. So, basically fuel cost advantage is closer to 25% and total unit cost is probably closer to 10%?

Ronojoy Dutta: So, I am saying A320 NEO versus A321 NEO, they are the same engine, so you have got the fuel efficiencies, and then the larger number of seats helps you. That's why their unit costs are down by about 10%. Compared to A320 CEO, of course, it's more fuel efficient, but compared to a 320 NEO it's the same.

Lokesh Garg: Okay. And NEO versus CEOs is another 10%, right?

Ronojoy Dutta: NEO versus CEO, on fuel itself it is 15%.

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

Varun Ginodia: .First question is on your sequential fuel cost increase. We see that the fuel prices are up by 26% sequentially, and your capacity is up by 25%, which adds up to close to 50%. But sequential increase in fuel cost is about 68%. So, is there any other reason behind that? If you could just explain that. And second question is on your CEO aircraft, older engine aircraft phasing out, that seems to be at a much lower run rate than we would be happy with. So, if there are any issues with returning those older aircraft, those are my two questions.

Jiten Chopra: So, let me take the first question. You are absolutely right, the published rate of fuel prices have increased significantly by 26%. The other added factor which is there is our discounts which we get on our published rate, is a flat rate. So, as the prices go up, that percentage impact on fuel CASK becomes higher. So, that's the impact you are seeing, therefore, that increase you are seeing is coming out because of that. So, in a net net basis, it's all about fuel, which is there, the prices coming up.

Wolfgang Prock-Schauer: It is visible in the year end results is we are adopting 100% tempo of lease returns. But the time is, as we speak right now, we have gained momentum. So, was it 23 aircraft which went through lease return, and right now we are already at 40. So, because the last year was, let's say, the major obstacle in lease return was the Covid situation, the situation with the MROs and the supply chain. So, all this has eased out and regained momentum and making good what we have lost maybe in this Covid year at the beginning. But now we are confident that we can finish the backlog which is still there for us and continue also this coming year with something like what we have envisaged as lease return. So, you will see a speed up in the process, going quarter-by-quarter, going forward.

Varun Ginodia: So, the run rate that we are looking at will be close to 40, 45 aircraft per year, is that rate we will be looking at?

Wolfgang Prock-Schauer: It is a good run rate, yes.

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

Arvind Sharma: Sir the question on the fleet part. I think your return number of 45 per year, what is the net addition to fleet over FY 2022 and 2023, is there a planned number?

Ronojoy Dutta: So, our total fleet count will be about flat. So, we are taking deliveries and returning CEOs at the same speed. The total number of seats will go up a little because of the A321s.

Arvind Sharma: Sir, second question, sorry I didn't hear it correctly, what would be the daily cash burn rate in fourth quarter versus the third quarter? Sorry, I know you said it, but I just missed that number.

Jiten Chopra: 190 million per day compared to 150 million per day.

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

Achal Kumar: .So, first of all, on the demand, of course, last year if you remember, and we just said that demand was driven by Tier-2, Tier-3 cities. And the last year actually the fares were quite low, and we had seen some shift from trains to plane, and yet it took eight to nine months for the demand to reach about 70% to 80% of the pre-COVID levels. Now if you see, the more bigger impact is in Tier-2, Tier-3 cities, of course there's a positive vibe coming from metros. But if you see the non-metro like Pune, like Jaipur and all those sorts of cities are still suffering. So, how do you see the demand recovery this year? What makes you confident that the demand recovery could reach February 2021 level in FY 2022? That's my first question.

Ronojoy Dutta: So, let me try and answer that. So, in the first wave, it was a slow buildup and then a slow decline. This one is a sharp build up and all the analysts will tell you, it is a bell-shaped curve so the decline will also be sharp. In the first wave, we also had the problem that people were hesitating about not being sure about airline travel. So, the first few months, there was like vacancy, see if your friends are flying, what's going on. That hesitancy regarding airline travel being safe, I don't think it's there at all. People are paying attention to the Covid numbers in terms of total terms, should I go to the airport, should I take a taxi, etc. But regards airline travel itself, I mean, people are confident about airline travel. So, as Covid cases go up or down, we are really amazed that how strongly correlated it is to demand. Covid cases go up and demand plummets immediately. But equally, Covid cases go down, and therefore demand goes up just a shot. So, we have modelled all this actually, and this is what is giving us the confidence that yes, we will back to February levels by the end of the year.

Achal Kumar: But then Mr. Dutta, last year we had a lot of freight, passengers, shipping because the fare were too low, and now the fares are slightly higher. So, although the fares are not very high, but the fares are not low enough to attract many passengers. So, don't you think there will be a challenge in terms of getting the same amount of traffic,

Ronojoy Dutta: Actually, we don't, because people who are travelling are travelling, they are not being stimulated by low fares or sort of discouraged by high fares. There is a pent-up demand, and I will tell you, like from the latter half of May to the first week of June, we have seen a sharp increase again. So, it's very, very sensitive to Covid cases. Covid cases are coming down. And we are absolutely confident as COVID comes down, travel is going to go up. And we can see it before our eyes. So, there's very little doubt in our mind that as long as Covid is controlled, travel demand will return quickly.

Achal Kumar: Okay. My second question was around the aircraft economics. So, first, you said that the fuel, of course, they are more fuel-efficient aircraft. But if you see in terms of leases, of course, I mean, the difference is almost double, right. So, I mean, looking at net net basis, where do you see, I mean, do you really think, or of course on the per seat basis you might get some benefit, but do you really see any significant benefit coming out of this replacement of A320 vs. A321 NEO**.**

Ronojoy Dutta: Okay. So, the two replacement I think you are talking about, one is the Classic going to the NEO and then from the A320 to the A321. I think from the Classic to NEO, the numbers are clear to everyone, it's 15% lower cost and fuel, so it's a good deal. The A321 versus the A320 is also a very good transition for us. Yes, the leasing costs are higher, but leasing costs per seat is significantly lower in the A321. And then there is the added advantage that we have mix of fleet with no complexity and all, same pilot, same engine. And yet, we can target when we want to use the A321, when we want to use the A320. So, it's a very good deal for us to have it in our fleet.

Wolfgang Prock-Schauer: I just wanted to add one more element which would show that the cost savings can be even higher. When we go back in production, let's say, when we fly 16 times a day between Bombay and Delhi, these A321s could reduce it to 14, and that saves the money of two flights per day. And that’s at the same or more capacity. So, that shows the whole economics will come back in a much better way visibly when the demand comes back, and production comes back.

Ronojoy Dutta: And when Wolfgang says reduced from 16 to 14, the important thing is, we now have two slots freed up for something else.

Moderator: Thank you. The next question is from the line of Christopher Siow from RWC Partners. Please go ahead.

Christopher Siow: Just wanted to understand on cargo, how much more capacity can be added or shifted on the capacity before the freighters come online

Ronojoy Dutta: So, our freighters are coming in next year you know, in the meantime we have taken 10 of our airplanes and converted them to cargo in cabin. So, those are being used in charters. We are not planning to add to those. We have 10 with safety nets inside the cabin, so those are dedicated to cargo plus we will have the freighter, but we are not adding to the fleet in the interim period.

Christopher Siow: So, before the freighters are added, are we going to add more planes?

Ronojoy Dutta: No, we are not utilizing our existing fleet, therefore the cargo in the belly is less, because we are not flying enough. So, we carry cargo and belly, we carry cargo in cabin, and then we have the freighter. The cargo in belly is being suppressed because we are not flying enough. The cargo in cabin, we have 10 airplanes which we use for charter operations, we are not planning to add to those, and then we have the four freighters, the first freighter coming early next year.

Christopher Siow: And on the cargo yield, I mean, kind of what sort of trends are we looking at?

Ronojoy Dutta: So, cargo yields have been very good overall for the past 12 months. But at this point, they seem to be flattening a little. But as we reported, our overall cargo revenues are up almost 10% year-over-year.

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

Aditya Mongia: I had two questions. The first one that I had was more on the share of capacity that IndiGo would be having, let's say, a year or two down the line versus where we are at this point of time. So, in terms of fleet, or in terms of capacity, what would be the share of IndiGo, let's say, 12 months down the line or 24 months down the line? If you could give us some sense versus where we are at this point of time?

Ronojoy Dutta: Are you saying our capacity versus the industries capacity?

Aditya Mongia: Exactly. The fleet, your fleet versus the market as such.

Ronojoy Dutta: It is impossible for me to project; we can talk about our own capacity. But Go Air is buying airplanes, I don't know what Air India is going to do, we don't know what the competition is going to do. We can only talk about our capacity.

Aditya Mongia: I got that. Second thing, so the question that I would want to kind of put would be also on the money is being thought to be raised. Given how you are thinking for demand reviving pretty slowly, is it more of an insurance against something bad happening? Or do you think that this kind of money, Rs. 3,000 crores is actually going to be required?

Ronojoy Dutta: So, we have had extensive discussions on this at the board level, of course. And the fact is, it's hard to predict the future right now. It's a very volatile environment, third wave of Covid could or could not arrive. So, we don't really know. Therefore, you are right, it's mostly an insurance. It's not like we feel like we absolutely need the money but strengthening the balance sheet is always a good idea. As you know, major corporations in this country and around the world are doing it. So, it's all an attempt to strengthen the balance sheet even further.

Aditya Mongia: So, you mentioned pent up demand in that being a possibility, driving volumes let's say in FY 2023. I just want to ask you, basis your assessment of where capacity for IndiGo and others is and will be, if there is a possibility of a demand supply mismatch on the other side?

Ronojoy Dutta: On the other side meaning too much capacity?

Aditya Mongia: The demand is higher, and the capacity isn't up to match up for it.

Ronojoy Dutta: Look, this pent-up demand is a real factor on the table. Let me give you an example. Male, we used to fly Bombay and Bangalore. And we have looked and analyzed Delhi and Chennai and it never worked. Like Delhi and Chennai, there's not enough demand. While we come out of this sort of first wave in February, March and suddenly Delhi and Chennai showed immense potential. That, to me is an example of where there is a lot of pent-up demand, whether we are talking of island or domestically travel, there is a lot of pent-up demand. So, yes, I think there is a potential that for the industry as a whole we could be short of capacity as well, we just don't know.

Moderator: Thank you. The next question is from the line of Anshuman Deb from ICICI Securities. Please go ahead.

Anshuman Deb: I wanted more colour on the liquidity schemes which are available to us because last year we had managed it extremely well. This year you were saying about Rs. 45 billion of available liquidity which can come from SLB and other measures. First, if you could highlight on that part little bit, what are the avenues under that? Second is that we have been paying to all our lessors on time, what are the other ways maybe through some tactical negotiations, etc., can we kind of get to some more liquidity? What are the basically liquidity sources available to us at this point of time if you could share some colour on it. That will be all.

Jiten Chopra: So, as I mentioned, we have got this Rs. 45 billion is what we have the visibility today. And this is clearly on the table. And we are already in discussion, and we closed on few things around this. Beyond this, there are discussions which are going on, and we continue to explore options beyond this. On credit lines, there are lots of banks we are talking to, there are few who have firmed up. There are few who we are still talking to, and those have not been considered. Similarly, from financing perspective, we have got something on the table, there are a few things which we are still discussing with our vendors. So, on an overall basis, I think we are in a very comfortable position as we start off today, because our numbers along with our QIP numbers at the start of the year seem fine for us to carry forward. But we are not stopping any which ways to explore more possibilities. And maybe, as we go along during the quarters, you will see us calling out more numbers beyond the number we have already reported.

Anshuman Deb: Right. And this Rs. 45 billion is only SLB profits or is there any breakup of this available?

Jiten Chopra: So, it's a mix of credit lines and SLB.

Anshuman Deb: Right. And last question on that point is, if you could share what is the debt number that we have right now, apart from the finance lease and the capitalized leases?

Jiten Chopra: It is there in the report we have given. You can have a look at it.

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

Binay Singh: The first question was on the cargo side. Could you talk a little bit about what kind of industry growth do you expect in cargo? And what sort of a market share will IndiGo have within that with the cargo planes coming on board? That's the first question.

Ronojoy Dutta: I don't think we have the answer on the market share yet. Just to tell you what's happening on cargo. The overall dynamic is that there used to be a lot of wide bodies flying around in India and outside India, which used to carry a lot of cargo capacity. Since this wide body count has gone down, that's why there is a demand for cargo traffic, and that's what we are tapping into. So, it's not only domestic, it's also international. For example, traffic from Vietnam or Bangladesh trying to go to the Middle East, it used to go on the wide bodies before, now it is coming through India on our narrow body. So, that's where we are seeing a lot of growth. It's really the wide body capacity being going down, that is creating this generation. It's not like the cargo traffic overall has improved, but the mode of transportation is shifting towards narrow body. And market share data and all that, frankly, we do not have. We are doing a study on all that and looking at all the opportunities we have done our first step in terms of the four freighters, but we have a broader study going on a long-term strategic plan for the cargo business.

Binay Singh: And sir, linked to that, is there a risk that the cargo yield drop once the environment normalizes? Because almost every airline is focusing a lot on cargo, and in a normal environment I would assume the wide body planes to also come back. So, is it a risk on the cargo yields that we are seeing today?

Ronojoy Dutta: Well, the wide body planes are in trouble across the world, right? I mean, before they used to be carrying a lot of one-stop traffic. Let's take an example of the Middle East carriers. They used to carry passenger traffic from the U.S. to the Middle East to India. And now that is coming non-stop from the U.S. side. So, the one-stop traffic is in trouble. So, I don't see the wide bodies coming back in the same sort of magnitude as they were before. I think this is a permanent shift in my mind.

Binay Singh: Thanks, that's helpful. And the second question is on the regulations in India. So, this time in the downturn we have seen the regulators step back, in your view when do you see regulators pull back? Because, like, is there an understanding with the industry that once we go back to pre-COVID levels and the CASK and the fare flows and all those things will go away?

Ronojoy Dutta: I think the Minister, Mr. Puri, has been quite articulate in that regard. He has said consistently that this is a temporary measure, we want to get out of any kind of regulation. So, he says that in every public speech he's made.

Moderator: Thank you. The next question is from the line of Pradnya Ganar from UTI AMC. Please go ahead.

Pradnya Ganar: Thank you for taking my question. Sir, in your opening remarks you did mention that in the near-term the international segment there's a lot of uncertainty in that segment. But over a longer time period, what are your plans for expanding your business in the international segment in terms of adding new destination and whether long haul or short haul? And also, if you could give us a sense about the profitability of your international business versus domestic, and how do you see that going forward? Thank you.

Ronojoy Dutta: So, let's go back to the pre-Covid period and start from there as a benchmark. So, in the pre-Covid period, we were expanding international aggressively, and international was accounting for 25% of the total capacity. It also had higher margins than domestic. So, highest growth and higher margins, which is a wonderful combination to have. That's why we were very bullish in terms of international expansion. Now, our plans are already there for doing that, our fleet is in place to do that. So, as soon as this Covid crisis is over, we plan to sort of restore our original growth path in terms of international. And let me say that we talk about this wide body competition decreasing, especially during this COVID we are getting charter demand from such sort of esoteric places, if you will, which is giving us a very good sense of the traffic, which was being carried before one-stop through other hubs, which we can now carry non-stop. So, our growth plan again is in that six to seven hour range from Delhi, Mumbai, Chennai, Bangalore, Kolkata, and every major city in that circle falls into potential market. So, it is being delayed, of course, because of Covid, there will have to be some sort of understanding between governments about travel through the passports or some way or shape or form. But once all that sorts out, I think we will be going into international markets with rapid sort of growth. And again, as I said, pre-Covid our international margins were higher than our domestic margins.

Moderator: Thank you. The next question is from the line of Rahul Agarwal from ICICI Pru Life. Please go ahead.

Rahul Agarwal: I just have a couple of questions. So, from what I see in the balance sheet, we got Rs. 145 crores asset held for sale. So, if you could just give some sense of what it is. And if you are expecting Rs. 145 crores only or there could be some upside to it?

Jiten Chopra: So, this is basically one of the main engines for which the agreement was already signed, and it has not yet been converted into an SLB. So, that has been shown as on 31st March as assets held for sale. So, there is nothing more beyond that, this was a transaction which happened which was not completed at the year end. Had it been completed, we would have not had that.

Rahul Agarwal: And my second question is with respect to the tax credit that we don't have, we are not carrying for the last four quarters. So, we are almost at 0% tax credit. So, will this be used against the liability that could come up in Vivad se Vishwas?

Jiten Chopra: I am not clear on the question. Can you just elaborate on that question, please?

Rahul Agarwal: So, what I am trying to understand is that we have Vivad se Vishwas we have said that the liability could range from Rs. 500 crores to Rs. 1,400 crores, and I am seeing that no tax credit in terms of the loss, no tax credit is being carried forward which will make up for our…

Jiten Chopra: So, let me try and understand this question. So, basically you are saying, because of the Vivad se Vishwas I am not charging any tax amount into my P&L, is that the question?

Rahul Agarwal: Yes, I am just trying to understand whether the tax credit is being adjusted with the Vivad se Vishwas and we not really have any tangible cash outflow, that's what I am trying to understand.

Jiten Chopra: So, let me explain. So, in 2008-2009 assessment year we had losses, and those losses we have set off - we have set off against future profits. So, what has happened is, our reduction in losses has actually got offset with the MAT credit which we have written off subsequently - which otherwise we would have had to charge it into the P&L. So, in a normal circumstance, if we had carried, if we had just taken this VSVS deal and agreed on that, we would have had to pay some cash flow today. However, because of the write-off which we had taken on MAT credit, starting last year, that sets off my cost which results in no outflow for the company.

Rahul Agarwal: And the last three, four quarters the tax rate that we have seen, there is no tax credit being carried forward, any particular reason for that?

Jiten Chopra: So, we don't have any visibility as of now, we normally look at one or two years, right now we are in a situation where the future profitability and future revenues are under the Covid. So, everybody is looking at it. So, you assess it every quarter and take a charge into the books as per that. The current situation is that we are into Covid, we are into loss, so we are being more pessimistic, and we are not recording any income around that.

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

Prashant Kothari: My question is around the liquidity situation again. And I was just wondering how did you guys come up with this number of Rs. 30 billion? I mean, if there's some kind of thumb rule, some formula which kind of helps you to think about how much liquidity we need on the balance sheet. And also, kind of as a corollary, as we keep growing our scale, will we need more of cash on the balance sheet? And do we think of like free cash, or do we think of free cash less the debt we have, how do we think about these things? Thank you.

Ronojoy Dutta: So, how did we come up with the number of Rs. 30 billion? So, we have a worst-case scenario of how low could the cash flow. And we also have a number in mind, we are not willing to tolerate the cash from dropping below this level. That level actually compared to most of the airlines is quite high. So, we have pretty conservative that we need a minimum of this amount of cash. Now, frankly, we don't have any scenario which says we will go below that. And we have done a pessimistic scenario, blah, blah, blah, and we are still just about there. But then the question that the board asks is, what about extreme cases? What if there is a third wave Covid, what if there is another three months shutdown, what if international doesn't open for two years? Now those are truly our extreme cases, which no one can model frankly. So, it's against those extreme cases that we are saying that have this cash balances in insurance, it is almost like a disaster risk insurance, if you will. But besides all that, we think it is a good idea to have a lot of cash on our books, we want to have a strong, strong balance sheet. And we are going to do everything to make sure the cash liquidity comes through revenues and not anything else. But if the revenues were to shut down completely for whatever reason, we still want to have a strong balance sheet. So, we came to that answer of Rs. 3,000 crores based on that, what is the worst-case scenario that we can think of? We still want to have a certain amount of cash, and therefore we came up with this number. But it really is disaster risk insurance.

Prashant Kothari: Right. And is it that you think about free cash on a gross basis or on a net basis, like free cash less the debt you have?

Jiten Chopra: So, free cash is the cash which is available for us to spend, right. So, that's the way we look at it. Now, I am not sure when you say net basis or gross basis. Yes, free cash also takes care of my current liability which I am going to pay in next few months, so that we obviously keep in our mind. But that free cash takes care of that. When I look at my balance sheet at a particular date, we have that visibility that how much it will cover from that day onwards. So, for us, free cash is the cash which is available for us to use any point in time.

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

Pulkit Patni: Sir, a couple of quarters back you used to talk about where our cash burn would be. So, you did speak about the Rs. 19 crores odd which was the cash burn in the March quarter. Any guidance of what their number could be for the next couple of quarters, your daily cash burn?

Ronojoy Dutta: I don't remember giving that guidance. And frankly, the answer is I don't know. We have been very speculative to give that number, frankly.

Jiten Chopra: Absolutely. You cannot give a guidance of cash burn going forward. But obviously, the situation is there, in the Covid situation the revenues are not there, and we have already called out that we expect that our cash burn is going to be higher in this quarter at least.

Pulkit Patni: Sure. No, you used to say that it was about Rs. 40 crores a day, which you would bring down to about Rs. 30 crores. Anyway, my second question is related. Can you give a sense of what levers of cost cuts do we have? As you rightly highlighted, nobody knows if there is going to be a third wave or not, so what other levers do we have in terms of cutting costs further, assuming a worst-case scenario of this thing prolonging?

Ronojoy Dutta: So, look, fuel is obviously our biggest line item. And just reducing fuel consumption is a big deal for us and we are focusing on that. Employee costs, unfortunately we have taken a lot of pain already, as you know we had a layoff, we had pay cuts, then we did another leave without pay. So, the amount of further pain we can tolerate in that is very, very minimal. Then we are looking at every other opportunity, including of course aircraft ownership cost, talking to the lessors, seeing what sort of deals we can get. And then all the other non-discretionary costs, everything that we have we are cutting back on. But I wouldn't hold our breath in terms of we have major, major opportunity to reduce the unit costs further. What we need to do is get the airlines going and get more on the revenue side, frankly.

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

Sonal Gupta: First, I just want to understand in terms of, I mean, like given the sale and leaseback that you get on these new planes, I mean, even if the plane is standing for a year, does it still make sense for you to take a new plane? I mean, I am coming in context to the fact that last year you had guided for a flat fleet count, and our fleet count has grown by 9%. So, just trying to understand that.

Ronojoy Dutta: And the answer is yes, we have looked at all that very carefully. And no matter what scenario we look at, we say it's better to take the airplanes now. It's not like, oh, in six months we start bleeding on that cash that we got, no, it's a much, much longer term than that.

Sonal Gupta: Right. And just my second question, I had a similar question last quarter was like, I mean, like given that the industry scenarios and the demand, like you are seeing is not really getting stimulated, it's more of people who want to fly are flying. What is the ability, I mean, do you see to raise the yield, especially in the scenario that, I mean, historically, we used to operate at 85% load factor, but maybe for the foreseeable future we will have to probably do a 75% or something. In which case, are we going to adjust the yield to at least get a commensurate level of profitability at that sort of load factor?

Ronojoy Dutta: Yes. So, I think yields in India are really the lowest in the world, practically, and lower by about half. Average fares for a low-cost carrier like Spirit or Southwest in the U.S., it is 130 dollars, 140 dollars, in India it's like 60 dollars. And yet our cost structure as you know on aircraft and fuel is the same. So, the yields don't have much room to go down, frankly, and without more blood on the streets and more airlines collapsing. Then there is all the issues of middle-class growth of people substituting from rail to air, etc. So, I think over time, not in large numbers, but I think yields will generally tend to drift upwards.

Moderator: Thank you. Next question is from the line of Ankur Sharma from HDFC Life. Please go ahead.

Ankur Sharma: Just one question, on the employee cost, when I look at the capacity, there is a 25%, 26% increase quarter-on-quarter, with the employee cost kind of same Rs. 735 crores, Rs. 740 crores number, both in Q3 and Q4. So, if you can help me understand what's going on there? And also, for FY2022 what's the kind of number you are looking at on an annualized basis?

Ronojoy Dutta: I am not sure I understood your question, but to the extent I understand. On employee costs, what has happened, as you know, first of all, we took a 15% layoff, and then we all took severe pay cuts. And then we all added this leave without pay. So, year-over-year our employee costs are down about 30%, and that’s stabilized and stayed there.

Ankur Sharma: So, my question was, despite an increase in capacity in Q4 by about 25%, your employee costs are flat on Q-o-Q basis. So, why is that? Is it because you have taking any hike or are they at the same levels of Q3? And what would be the number you are looking at for FY 2022 on a full year basis on employee cost?

Ronojoy Dutta: So, for the following year, the first thing we will probably do is get rid of the leave without pay. And then gradually, we will bring the pay cuts back. So, it's impossible for me to predict what the number will be. But it will still be lower than before, but 30% is not sustainable, we need to climb back up. But I don't have a forecast for where it will end up.

Jiten Chopra: And to your question on the quarter four, it was flat because obviously we did not reinstate the cuts which we had done, so therefore it continued here

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

Ronojoy Dutta: So, I just wanted to conclude by talking broadly about what is the situation we find ourselves in. And many people have asked me, why are you so optimistic about IndiGo? And I just want to highlight why that is. So, let's look at the broad drivers of our performance. First is fuel, fuel as you know is our biggest cost item, and our cost of flying is down 10%. Now, that's a big deal, I think. And it will continue to get better as we take more and more NEOs.

Then we said cargo. Cargo was always a small item on our P&L, it is becoming a bigger and bigger piece. And that again is a structural change that will say for some time. Yields, as I said, yields are very low in India and I don't expect to see a dramatic change, but yields will only get better over time.

The A321 is camouflaged in all these statements. The first three you can see in our statement; you can see the A321 effect. But again, the A321 effect is driven by two things, it is more efficient, cost wise, and it allows us in a very targeted way to fly on the right place.

And then there's the quality of flying and customer service that we are offering. We are number one and OTP by file, our complaint ratio is the lowest it's ever been. Our net promoter score was at highest. So, all the broad matrices of our performance are in the right direction. There is only one negative, and the one negative is that we have not enough customer load factors.

Now the positives that I talked about are all structural, they are here to stay and probably get better over time. The one negative which is the customer load, is a very short-term cyclical factor. So, it is going to reverse and when it will reverse, the structural advantages of customer loads in terms of, as we said, railway substitution, middle income growth, etc. will show up. So, there is only one thing we are waiting for, and that’s for the load factors to improve.

And we all know that it's going to do so in some time. So, overall, I really think this is almost like a Cinderella moment for IndiGo. Where the bottom-line looks ugly, but very soon things are going to get a lot better. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of IndiGo, that concludes today's call. Thank you all for joining us. And you may now disconnect your line.

Note: This transcript has been edited for readability and is not a verbatim record of the call. Some data sets have been amended for factual accuracy.