“IndiGo Second Quarter Fiscal Year 2024 Financial Results Conference Call”

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Operator: Good evening ladies and gentlemen and welcome to IndiGo's Conference Call to discuss the second quarter fiscal year 2024 financial results. My name is Neerav and I will be your coordinator. At this time, the participants are in a listen-only mode. A question-and-answer session will follow today's management discussion.

As a reminder, today's conference call is being recorded. I would now like to turn the call over to your moderator, Ms. Richa Chhabra from the Investor Relations team of IndiGo.

Richa Chhabra: Good evening, everyone, and thank you for joining us for the second quarter fiscal year 2024 earnings call.

We have with us our Chief Executive Officer - Pieter Elbers and our Chief Financial Officer – Gaurav Negi to discuss the financial performance and are available for the Q&A session.

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

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

We will upload the transcript of prepared remarks by day end. The transcript of the Q&A session will be uploaded subsequently.

With this, let me hand over the call to Pieter Elbers.

Pieter Elbers: Good evening, ladies and gentlemen and thank you for joining this call. Today, we announced our financial results for the second quarter of the financial year 2024.

We reported a net profit of 1.9 billion rupees for the quarter ended September 2023. With these results, we have completed a full cycle and remained consistently profitable for the last four quarters. In fact, this is the first time post financial year 2018 and after 5 years that we have again, achieved profitability in the seasonally weak second quarter. Excluding the impact of foreign exchange loss, we reported an operational profit of 8.1 billion rupees.

Further, as indicated in the last earnings call, while we faced some downward pressure on the yields in this quarter, the loads came in strong at around 83 percent.

During this September quarter, 26.3 million customers chose to fly with us, an impressive 33 percent increase as compared to the same period last year. Overall, our passengers in the first half of this financial year were around 52 million, which is 41 percent higher than pre-Covid levels. Through concerted efforts and execution of our strategy, we are well on our way to welcome 100 million passengers in this year. It is our customers' trust, feedback and support which has been the driving force in our journey and inspires us to reach new heights.

We continue to maintain an industry leading operational performance with an on-time performance of 86.5 percent and a very low cancelation rate. It is the countless hours of hard work, the commitment to excellence and the relentless pursuit of our goals that have placed us amongst the global leaders. And, I want to express my deepest gratitude for all 6E employees' hard work, determination, and the passion they bring to their roles, living to the principle of "Power of We" every day. And, even with the on-going supply chain disruptions, we have been augmenting our network both domestically and internationally.

We have recently started operations to four new domestic destinations Khajuraho, Jaisalmer, Salem, and Diu. And, we will also be starting operations to Jharsuguda soon. Additionally, we will also be commencing operations to Gondia. And, Ayodhya, the temple city of India, is also on the list to start in the coming quarters. These connections are poised to significantly bolster interstate connectivity and advance regional accessibility. These additions will take the number of our domestic destinations up to 86 and will help in reiterating our philosophy - India by IndiGo.

We are also focused on advancing our international strategy, leveraging our unique geographical position as an Indian airline. A sizable proportion of the world population is within 5-6 hours of flying range from multiple cities in India. Our growth aspirations, coupled with this advantageous geographical position, provides us with an opportunity to enhance international connectivity and redefine the passenger experience. We are executing our international strategy under three elements:

The first element is to further strengthen our own network. We took a massive step in this direction by adding an impressive six new destinations – Almaty, Tashkent, Nairobi, Jakarta, Tbilisi and Baku across Central Asia, Southeast Asia and Africa. We also resumed our operations to Hong Kong recently. We will be, further, densifying our international network and soon add two more destinations, Bali and Medina in the coming quarters. With this expansion to our network, we will be flying directly to 34 international destinations.

The second element of our international strategy is about developing more routes and frequencies, catering to rising demand for international travel. In the past one year, we have added almost 24 International routes to our network which is around 32 percent increase as compared to October last year.

With these expansions, our share of available seat kilometers has increased to 26 percent, and we aspire to reach 30 percent of international ASKs in the coming years.

The third element is enriching our reach through codeshare agreements and partnerships. In September, we signed a codeshare agreement with British Airways to further boost connectivity between India and the UK.

Further subject to necessary approvals, we will also be expanding our codeshare agreement with Qantas from the current unilateral one-way to bilateral two-way codeshare. This expansion will enable our IndiGo customers to book itineraries to several destinations in Australia through Singapore.

Starting September, we also revamped our in-flight menu incorporating feedback from our customers, cabin crew and service partners. Launched with an intent to improve service efficiency and reduce wastage, our new offerings will allow customers to pre-book from a specially curated menu options comprising regional favorites inspired by the streets and kitchens of India.

We are committed to the cause of diversity, equity, and inclusion. And, I am proud to state that we recently won the prestigious 'DEI Power Award' for inclusion of Persons with Disability at the Global Inclusion Summit 2023. This recognition was conferred for IndiGo's hiring, promoting, and advocating innovation, and creating a sense of belongingness for persons with disabilities.

Further, we are honored to receive the Environmental Sustainability Airline of the year award for the Asia region at the CAPA Global Environmental Sustainability Awards 2023. We are proud to be one of the lowest CO_2 per unit emitting airlines in the world. With our continuous and massive investments in new generation aircraft, we have been able to reduce our CO_2 footprint per available seat kilometer by around 20 percent in FY 2023 as compared to seven years ago. This award is a testimony to our strife to deliver our customer promises in the most sustainable way possible.

Looking ahead, demand remains robust, however, we have headwinds in the form of aircraft groundings due to engine issues pertaining to the Pratt & Whitney supply chain challenges. There is a mitigation plan under execution, and we are confident of meeting our financial year 2024 capacity guidance of the north of mid-teens addition and our long-term capacity guidance to double in size by 2030.

Let me now hand over the call to Gaurav to discuss the financial performance in detail.

Gaurav Negi: Thank you, Pieter and good evening, everyone.

For the quarter ended September 2023, we reported a net profit of 1.9 billion rupees compared to a net loss of 15.8 billion rupees for the quarter ended September 2022. It is after a gap of 5 years that we have reported a profit in a seasonally weak second quarter.

We reported an EBITDAR of 24.5 billion rupees with an EBITDAR margin of around 16 percent compared to an EBITDAR of 2.3 billion rupees for the quarter ended September 2022. This increase is primarily attributable to revenue growth, despite some softness in yields and due to reduction in fuel costs and foreign exchange loss.

For the quarter ended September 2023, our unit revenues came in at 4.25 rupees, which is around 7 percent lower compared to the quarter ended September 2022. The second quarter was largely in line with our initial assessment, the yields dropped by around 12 percent and load factors came in strong with an improvement of around 4 points compared to the same period last year. In terms of capacity, we have been able to meet our guidance as we added around 28 percent capacity as compared to September quarter last year. Overall, our revenues increased by around 21 percent as compared to the same period last year.

On the cost side, the fuel CASK reduced by around 27 percent, compared to September 2022 quarter, primarily due to reduction in fuel prices. The past few months have seen consecutive price hikes in the ATF. Considering such continuous increases, we have introduced a distance-based fuel charge on our domestic and international flights. While we remain committed to offer affordable fares to our customers, a large part of our operating expenses is fuel cost necessitating such fare adjustments.

Excluding the impact of forex, largely due to MTM, and fuel, the CASK ex fuel ex forex compared to the same period last year has reduced by around 4 percent to 2.36 rupees, primarily due to certain fees reversals and claims.

Excluding impact of these reversals and claims the CASK ex fuel ex forex increased marginally as compared to last year primarily on account of contractual escalations and increase in dollar denominated costs in rupee terms, partially offset by the impact of higher finance income.

Now moving to an important update. We have recently received further communication from our OEM, Pratt & Whitney, with respect to the powder metal issues. Globally, we understand that a large number of incremental engines are being removed for shop visits between 2023 and 2026 and majority of these incremental engine removals are planned for 2023 and early 2024.

Our current estimates indicate that, these accelerated removals and incremental shop visits will further adversely impact our operating fleet from Q4 onwards, which is post January 1st 2024, and would lead to higher number of groundings.

We are in constant touch with the OEM to navigate through these challenges. Further, to deliver on our planned capacity and to cater to the robust demand, we are executing a range of mitigation measures. In this direction, we started to take actions months ago and till date we have

- Retained 14 CEOs in our fleet
- Extended and re-inducted 36 aircraft
- Executed damp leases of 2 widebodies flying on our Istanbul route and damp leases of 11 additional aircraft which will be starting operations this month.
- Additionally, we are executing leases for 12 additional CEOs from secondary market with deliveries expected from January 2024 onwards

Apart from this, we will keep on exploring additional capacity from the secondary market. With these mitigation initiatives, we reiterate our financial year 2024 capacity growth guidance of north of mid-teens, and we also remain confident in meeting our long-term capacity guidance.

On the balance sheet side, our liquidity position has further improved as we ended the September quarter with free cash of 180.8 billion rupees. This translates to a net increase of 23.9 billion rupees as compared to the June quarter.

Further, we ended the September quarter with a capitalized operating lease liability of 455.2 billion rupees and a total debt, including the capitalized operating lease liability of 493.9 billion rupees.

We have also taken deliveries of 18 aircraft during the quarter and closed the quarter at a total fleet of 334 aircraft. Given our large order book of around 980 aircraft, one of our current endeavors is diversifying our source of financing. For this purpose, subject to regulatory approvals, we are in the process of setting up aircraft leasing unit in the GIFT City in Gujarat that will enhance our access to capital from lessors across the world. We are also exploring different forms of leases and have leased 2 aircraft on finance lease in this quarter. Given our healthy free cash, we are also considering purchase of certain aircraft and related assets in the coming quarters.

Moving on to the third quarter, while we are still awaiting the service bulletin from Pratt & Whitney, which will give us further clarity on our capacity, we are currently estimating around 25 percent capacity addition in the third quarter on a year-over-year basis. Further, as compared to the third quarter of the last financial year, we are expecting similar trends in yields and load factors.

Currently, we do have some challenges in the form of supply chain issues. However, we are navigating these headwinds with our mitigation plan and remain committed to generate shareholder value.

With this, let me hand it back to Richa.

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

Moderator: The first question is from the line of Amyn Pirani from J.P. Morgan. Please go ahead.

Amyn Pirani: My question is basically regarding the expenditure line items So, while yields and revenue have been like you guided. We have seen at least two-line items in the form of airport fees and supplementary rentals which have actually seen a sequential decline quarter-on-quarter so, can you help us understand what is the reason for these saving?

Gaurav Negi: If you look at the airport fees, actually was something that had been going up, but in this current quarter, we've taken a provision reversal which is impacting the current quarter. Just to give you some context around that, there was a notification related to increased airport fee through the RCS scheme that was there, which has been reversed out in the second quarter as a result. There is certain provision reversal that we've taken in Q2, because of which you are seeing a reduction in the airport rental. As far as the SR rentals are concerned, again, there's a certain amount of claims that we have received from our OEM partners, which is leading to a one-off in the form of a reduction in Q2. So, these are the two factors which are impacting a reduction at least for this quarter. Other than that, the airport fees, you would have seen a sequential increase quarter-over-quarter for the last few quarters.

Amyn Pirani: So just as a follow-up then, would it be fair to assume that given that there are some benefits of provision reversal and claim, in the second-half, these numbers could again move up in line with how 1Q was trending is that a fair assumption?

Gaurav Negi: That would be a fair assumption, not exactly in line with Q1, because the revised proposal that has been now given by the Ministry related to airport RCS fee that is there, that has now been revised from a Rs.5,000 that used to be there to a Rs.6,000. So, there will be a slight uptick that you will see in airport charges. Supplementary rentals you can them consider in line with the Q1.

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

Arvind Sharma: Speaking to these one-offs, if you could just give some idea of the quantum of the one-offs, because there is a substantial reduction and helps the profits, so, if you could give what would be the one-off exceptions in both these line items?

Gaurav Negi: On the airport side, it is close to Rs.150 crores that we have seen as a reversal in Q2. As far as supplementary rentals, like I said, you can probably take it in line with what we have in Q1.

Arvind Sharma: So, roughly around Rs.300 crores would be the one-off?

Gaurav Negi: You can extrapolate from the Q1, but as far as airport rentals are concerned, it's close to Rs.150 crores.

Arvind Sharma: Just a follow up on your opening remarks on the Pratt & Whitney impact. I know it's still a work-in progress, but could you give us an idea about how many planes would be grounded and for what duration are these groundings expected, so how long does the does the inspection take in terms of days or months?

Gaurav Negi: A lot of the information is coming in the public domain as we speak. There is lack of clarity because we are still awaiting, like I said, the service bulletin, which will then enable us to kind of narrow down. As soon as the service bulletin comes, we'll be in a position to then probably communicate a firmer kind of a number around that. So, until then, we'll not have exact kind of guidance related to how much is going to be the number of aircraft that are going to get impacted. Again, based on information that has been released by Pratt & Whitney in the public domain, the duration could range between 250 to 300 days. That's the extent of time that they're expecting. It is going to take them for the inspection to be carried out for all the engines that are going to be recalled.

Moderator: Next question is from the line of Krupashankar from Avendus Spark. Please go ahead.

Krupashankar: First question from my side is on the Pratt & Whitney issue again. I just wanted to understand as to given the aggressive stance taken by the OEM, is there any sense around what could be the peak grounding one can see during the mid of next year, an approximate number? And what would be the number of aircraft grounded because of this issue?

Gaurav Negi: So again, like I said, it's very difficult to guesstimate or estimate right now as we await the service bulletin, which will give us a better picture. So, until that happens, I'll just request that everyone needs to be patient because we'll wait for the service bulletin, then we'll probably work out what the impact is and then communicate accordingly. As things stand today, the amount of grounding is in the 40s. So, right now we've got close to 40s number moving in that particular 40s kind of a range. So that's the extent of grounding with the older issue, the powder metal issue, which is the new development that has happened related to which we are still awaiting the service bulletin that's going to be an incremental number to the 40s that we have today.

Pieter Elbers: Maybe let me add here. I'd like to underline that looking at the groundings and the potential future groundings is one angle to look at it. The other angle to look at it is the mitigating measures which we have been taken. As Gaurav just alluded in his explanation on the numbers, we have taken actually a whole range of measures which is making us comfortable in living up to our capacity guidance. And you may recall at the beginning of this year when the number of groundings were still significantly less as compared to the numbers we have today, we gave the capacity guidance in the north of the mid-teens. If you see where we are today, in fact, we are comfortably reaching those numbers till date and even for the third quarter, we're comfortable in reaching those numbers. So, we have taken a whole range of mitigating measures, and as Gaurav mentioned earlier, actually we started already very early with that with the damp leases of the wide body aircraft, the extension of leases, the reintroduction of some of the CEOs and the new damp leases which we have now recently inducted. So, I think there are really two angles to this. One of course is the situation and the supply chain challenges the ones we have today and even the one going forward. But for us, it's very important that we make sure that the market in India which today is one of the most vibrant markets in the world when it comes to passenger growth, we have been able to live up actually to our capacity guidance and be able to serve that. And if you look to our passenger number actually just in this second quarter alone, where we do have a passenger number of 26.3 million, which is significantly above last year, that basically speaks to our ambition to provide that capacity. And we continue to do so looking forward and the fact that we have announced even in the last couple of days, another four new domestic destinations is underpinning that ambition and also the fact that we are confident on our mitigating measures to make sure that we can live up to this year's capacity guidance.

Krupashankar: One follow up on this. So, given that there is a positive commentary from Airbus with respect to ramp up of A320 production, is there any way to expedite aircraft procurement from Airbus in the coming next two years?

Pieter Elbers: I think I've mentioned before at IndiGo, of course the number of groundings is something which has a lot of focus on us. But compared to some others, we're actually in a position whereby we do have a very significant order book and of course the overall number of the order book is still under 970 planes to be delivered, probably in the decade to come. And, if we see that the deliveries every quarter it is a significant number, and also for next year we have a very sizable number of almost every week we got one new plane coming in, and that's for the entire year going forward. So, if you look at that, for us, it's important that Airbus reconfirms basically their ability to deliver. If they can speed up a couple of airplanes, we will be of course very pleased with that. But the number of planes coming in one per week is already a very significant number. I don't think there's any airline in the world which for such an extended timeframe will have so many planes coming in on a weekly basis.

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

Pulkit Patni: Sir, two questions. One, on lease cost. Given the fact that we are going and taking more damp lease, given the fact that we are in an interest rate environment that's pretty high, can you give a sense of how should we look at lease cost say over the medium term for us?

Gaurav Negi: The lease cost, especially for the secondary or used planes that we are looking at, there has been a slight increase in the rental cost when the surge in the demand and the shortage of the supply. So, there is an increase that is being experienced. As we speak, we are looking at, like I mentioned, additional CEO aircraft that are potentially going to be a little more expensive. But at the same time, like we said, there's a capacity constraint environment. So, as a result, we feel that these aircraft are going to be coming in where we are able to meet the demand, which is going to support both the capacity side and for us to meet the demand. But at the same time be able to offset this increased cost also. So, overall, it should be a net neutral in terms of the increased cost being offset by the demand that we see and the shortage of capacity which is going to reflect even in the yields and the RASK.

Pulkit Patni: My second question is just to get a sense of the load factors. I mean as we track the data in the month of October, what I am a little surprised with is that while for some of your competitors who obviously have smaller capacities, load factors tend to be much higher than what is the status for us today. And I'm unable to figure a reason for this. Anything that you can help with as to why our load factors are generally 300 to 400 basis points lower than our competition right now?

Pieter Elbers: I think at this point in time it's probably a bit early. October is the first month of the next quarter to be done. So of course, we monitor our load factors, we keep a keen eye. We have developed a lot of new routes and new flying both domestic as well as international. I was mentioning the new destinations earlier, but next to the new destinations we've added a lot of new routes. It takes usually one to two months before they're really big. I think there's new routes like Delhi-Jaisalmer introduced on the 12th of October, that take a few weeks before these markets sort of get traction. So, we follow it closely. I wouldn't be able to draw any more firm conclusions at this point in time, other than a lot of new routes which have been added. And clearly there's a couple of seasonal days and traditionally the day before Dussehra is a bit slower and we have a couple of other days like that.

Moderator: Next question is from line of Venkatesh from Axis Capital. Please go ahead.

Venkatesh: My first question is so far in the month of October; how much are your yields up on a quarter-on-quarter basis vis-à-vis the previous quarter? And on a related note, what you and DGCA have agreed in terms of the winter schedule suggests that 30% capacity growth in the second half, whereas your guidance suggests only a 12% YoY growth. So, is your guidance a little too conservative?

Pieter Elbers: Could you repeat it? Your question is not exactly clear. Sorry about that.

Venkatesh: So, the first part of the question was how much are the yields up in the third quarter vis-à-vis the second quarter so far? And the second part of the question is, I guess, all airlines share a winter schedule, which is for the next six months you mutually agree on the slots with DGCA and according to that data on a YoY basis, in the next six months you will have 30% more slots and 13% more flights YoY, whereas your capacity growth guidance of mid-teens growth only suggests that 12% growth. So, is your second-half guidance a little too conservative?

Pieter Elbers: Let me address your second question and then Gaurav will do the first one. On your second question, when you look to a season, I think we should keep in mind here that within the season, there's a lot of fluctuation and a lot of variation. So, even if you take the entire IATA winter season running from the end of October till the end of March, there's a lot of weeks and periods in between. So, if you were to compare 30% over 30% and the total season over total season, you've probably come to a somewhat different number. So, that's one. Two, there's still a lot of uncertainties in the schedule, for example, new routes and new openings are depending on some of the processes and steps to be taken around that. So, the schedule also includes some of the uncertainties. And certainly, of course we take into account some consideration in terms of the capacity like we did in the previous quarter. So, a snapshot of season-over-season or week-over-week is not per se a full indicator for what it's there. And of course, there is some sort of cushion for the uncertainties around the fleet numbers. I think what's important that the beginning of the year we gave you the capacity guidance the north mid-teens, Q1 and Q2 we are significantly higher and that was also according to the plan, Q3 is around the corner and then Q4 is still a bit further away with lots of uncertainties as we indicated earlier.

Gaurav Negi: Related to the first question that you had for October, if you look at October on the year-over-year basis, we are trending actually lower than what we had versus last year. Again, that's largely because of the religious holidays as well as the fact that Diwali has shifted into November. So, year-over-year the trending has been lower on the yield side, so we're seeing at least on a high single digit basis, the yields have been lower. We expect that it's going to catch up in November and December where the yields will trend more in line with how they performed last year. So that's at least what we are observing right now.

Venkatesh: A follow up question. You mentioned about how short-term damp leases or wet leases, whichever you are taking are costlier than your normal leases. On a per plane basis, on an average, how much is your short-term leases costlier?

Gaurav Negi: We'll not be able to disclose that to you, please. Sorry.

Venkatesh: Where did you show up? You show up in the depreciation and amortization and interest cost, right, when it increases, where will it show up, the depreciation and amortization and interest cost related to lease liability that will go up, will the supplementary rental also go up?

Gaurav Negi: So, it will start showing up in your aircraft engine rentals, because it's going to be a damp lease, so it will start showing up in your aircraft engine rentals, it will not show up in the depreciation line items. We are usually using all these damp leases on ACMI basis, so the entire maintenance as well insurance is with the provider that we are able to sign up.

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

Achal Kumar: Two for me please. First, on the demand/supply yield. So, now you are saying that you will try to increase your capacity by mid-teen next year. Unfortunately, if you see the demand trend, we are still at 400,000 passengers and then of course, Air India said that they are adding more than 20 narrow bodies, SpiceJet has recently added five. So, what I'm trying to understand is that what gives you confidence, I mean I'm a bit concerned because we still had 400,000 passengers and while we're at the peak quarter, so what happens if the demand doesn't pick up, would you think you would be adding more capacity then on the international side or do you think it will add pressure on the fares? So, how do you see the demand versus supply versus fares and what gives you confidence that you would be able to fill up additional capacity which you're adding a lot of damp leases? And my second question is about the compensation from Pratt. So now of course Europeans are saying that they've been in discussion with Pratt and they're expecting compensation to flow simultaneously as there have been some grounding. So, what is the trend, I mean, do you expect compensation to come as the groundings are going on or do you think the compensation is sometimes next year only for these groundings?

Pieter Elbers: When it comes to the capacity and demand picture for next year, we should have a bit of a holistic view to what the Indian market is likely to further grow. And as we shared earlier, I think there are some, some pretty good reports, be it from IATA, be it from CAPA, there's some industry reports which are indicating that GDP times two plus little bit is roughly an indication for how traffic will grow, and India has sort of consistently either reach these numbers or extended these numbers. So, that that gives a form of indication for how demand will continue to develop next year. When it comes to capacity, I think there's still a lot of uncertainty, including for us, that's precisely why we have not given yet any precise capacity guidance for next year, we've given the capacity guidance for this year, and we still left it open for next year and also today we will not be issuing capacity guidance for next year. I think again, in general IndiGo is in a good position with so many leases and incoming aircraft that we can always tune the capacity if the capacity demand or the supply demand circumstances change. For the time being, we have the focus on mitigating measures in order to meet the demand, that's the measures we spoke about earlier. If for whatever reason, the demand would be less, we can always tune that going forward and again, I think we have demonstrated that in the past. So, we feel confident with what we have planned for the next six months. We have taken mitigation measures for that. We have not finalized our capacity guidance for next year and we will do that going forward. And the last point you rightfully so, addressed is our increasing international footprint. And today we're at 26% of all our available seat kilometers is international. We have the ambition to go up to 30%. We know that the share of Indian carriers on the international travel is still well below 50%, so there is still room to grow for the collective Indian carriers. So, even if domestic demand for whatever reason would be a bit softer than anticipated, we still have opportunities to further build on our international network and we can actually see that some of our recent additions are also helping to get more connecting traffic. So, the more we develop our network, the more we see that India is not only developing as a point-to-point market, but it's developing also in line with the vision of the Indian government, is developing also as a hub in aviation and that in itself is also a good way to deal with fluctuations in demand if any.

Moderator: Next question is from the line of Joseph George from India Infoline. Please go ahead.

Joseph George: Two questions. One is if you can spend a couple of minutes to elaborate on the subsidiary that you are setting up with a capital of Rs.30 crores and you also mentioned about corporate guarantees of close to a billion. What exactly is the business model is it a cost center or is it a profit center? Point #2 is you talked about a lot of mitigating factors to offset the engine issues starting January. Are these measures enough to completely offset the impending challenges or do you think it will be difficult to completely offset the impending challenges?

Gaurav Negi: Related to the first question, yes, we are in the process of creating an entity in the GIFT City because it provides us with options to access capital across a wider geography than what we currently have. So, that's one of the initiatives that we embarked on. It also gives us some tax benefits also because entities that are set up over there, do get some tax benefits in terms of tax holidays as well as waivers on capital gains. So, with that intent, it's going to be a profit center, it's going to be an entity largely for aircraft financing purposes. So, we are in the midst of getting the necessary approvals. Once those approvals are in place, then we'll be doing aircraft financing through that entity. So that's on the entity bit.

Pieter Elbers: When it comes to your second question on the capacity and the mitigating measures, whether that's enough to offset? I would say so far, yes, it has been. Again, looking at the capacity we provided in Q1, the capacity we provided in Q2, and the capacity which we will provide in Q3, we can say that all the mitigating measures in terms of capacity have been adequate to offset for the supply chain challenges. Going forward, the situation with planes on the ground is likely to increase given the powder metal issue, and that's precisely why we take up a whole new range of new measures and new mitigating measures. I would not be in a position today to precisely say that the impact will be offset by the mitigating measures. But I take confidence for what we have done over the past year really in order to get mitigating measures to have a set of measures in place helping us to deal with that situation. So, so far, yes, enough to offset. Going forward, we don't know what's the precise number, we know it's very likely to go up and therefore, we take new measures, and we are confident again that we will come up with the capacity guidance which we are able to deliver.

Joseph George: Just a follow up there. For the subsidiary, will it only be for captive use by IndiGo or will you be open to providing these services for other airlines as well?

Gaurav Negi: This is exclusively for captive purposes only.

Moderator: Next question is from the line of Prateek Kumar from Jefferies India. Please go ahead.

Prateek Kumar: My first question is on fuel charge. So, what is the understanding on this fuel charge which we introduced this year versus like we didn't have this fuel charge last year when also ATF prices were higher at least till the mid of the year, and also because the competition has not like followed suit with the rolling the fuel charge like yourself, so has this have any impact on base fare adjustment for yourself?

Gaurav Negi: When you compare this with the same period last year, actually we were in a regime where there was a pricing cap both on the upper end and the lower end. So that pricing caps were factoring in rather the fuel elements to it. As we've seen over the last few months, there's been a significant increase in the ATF, and as the outlook also the way one looks at the geopolitical situation that is developing, the ATF has been hovering on the higher end of at least the spectrum that we had earmarked for ourselves. So, as a result, that was the reason why we had to introduce a fuel charge, because the substantial portion of our cost obviously is ATF and that was to mitigate those increases that we had seen starting from largely June onwards, the ATF had gone up by close to 30%. So, that was the rationale to introduce that. Post the introduction of the fuel charges, there has been some adjustments that we've done to the base fare in line with ensuring that at least the demand holds because we want to optimize our revenue. So, while we've increased the fare side, there were some elements of base fare adjustments that we kept. But, we'll continue to keep the fuel charge because we do see that the ATF is still on the higher end of our spectrum that we had kind of laid out for ourselves. And we'll keep monitoring this space as and when things kind of change, we'll take a call on that. But as of now, yes, we continue with the fuel charge, and it was largely introduced to offset some of the increases in the ATF that we saw in the last three or four months.

Prateek Kumar: So, this fuel charge suggested like some 10% increase in yields as such, but not very clear at what was the base price of ATF, it was considered like while deciding. So, let's say ATF price dropped below Rs.80,000 per kiloliter, then we like to sort of get rid of this fuel charge or how does that work?

Gaurav Negi: We'll take that call. We haven't kind of disclosed that, in the sense that fuel is just one element like you've seen the expense side, there's significant increases that are happening across the line items. We've talked about airport charges been increased. Fuel is just one element of it. So, it's not going to be exclusively just a fuel reaching a certain level or going down a certain level that will influence that decision, it's a holistic decision that we take. But for the time being, it's going to be there.

Prateek Kumar: So, precisely what's not very clear, so we could have like anyway adjusted the base fares upwards and addressed all the increases in the cost of operations because other companies have anyway not followed suit. So, the decision on fuel charge also attracts government attention as well as consumers attention. So, the decision was sort of not very clear at the first point. So, yes, that's what the clarity I was looking for. But as you are saying that other charges are also increasing, so it will also address that. Yes, so that's what the question was.

Pieter Elbers: Let me be clear. The driver is a gradual increase of fuel prices and fuel prices are fluctuating and there are certain trends and certain expectations even also geopolitically what is happening with the fuel price going forward. Therefore, it was introduced as a way to mitigate the rising fuel prices. You mentioned competitors did not follow. It's totally up to the competitors themselves to decide what to do and what not to do. What is important for us is that we find a good balance and therefore in the dynamic movement of fares based on demand and elasticity, we make sure that the fuel prices are being reflected in the pricing of our tickets.

Moderator: Next question is from the line of Ansuman Deb from ICICI Securities. Please go ahead.

Ansuman Deb: I have two questions. First is on the secondary leasing efforts that we are doing, do we retain some kind of a competitive advantage even in the secondary markets like we do in case of primary markets because of our balance sheet and because of our high rating among the airlines, that is one? Second is that in terms of the international routes that we have already started and been there for some time, if you could share some of your experience in terms of how the actual experience has been versus what you expected when you started those routes? Which are the markets you think in international where you can see a better growth going ahead?

Gaurav Negi: The short answer to the first one is yes, we do see a significant advantage because again it's related to the brand that we have and what we kind of had experiences with a large part of the lesser community and various service providers who are willing to extend leases to us, damp leases or dry leases to us. So, we definitely do have an advantage.

Pieter Elbers: When it comes to these new destinations, I think Central Asia has been a very successful start with load factors above 80% roughly since the start of the operation, same would go for Jakarta. And for Nairobi, we're still a little bit more up in the startup phase. So, I would say in general the start has been actually very successful. It's just a couple of weeks. So, it's probably a bit too early to have any firm conclusions, but it just shows actually a couple of things that when it comes to international direct connections, India was to some extent somewhat underserved and for sure when it comes to offering international flights by Indian carriers, India was underserved. So, we are in fact inspired and then enthused by these first results, and it's also therefore that I mentioned Bali and Medina as potential new destinations in the quarters to come.

Moderator: Next question is from the line of Kushagra from Old Bridge Capital. Please go ahead.

Kushagra: Just two questions. One, last time you spoke about certain things on the balance sheet on the capital allocation side. So, anything concrete you've finalized in terms of investments and including the amount of cash you want to keep on a balance sheet? And a related question is, there was a press release from your side in terms of the tax demand to the tune of Rs.6,300 odd crores. Can you provide some more color as to how much merit is there in that demand and will it impact your future cash flows as well because it speaks about taxing your sales and lease back transition?

Gaurav Negi: So, related to the first one in terms of capital allocation, yes, we've started to make investments. We've talked about investments that we're doing in our digital transformation space. Beyond that, obviously, we've made some investments in our hangers in Delhi as well as Bangalore that we've come about. We talked about now making investments into buying of aircraft, especially starting with the smaller aircraft that we have, the ATR. So, there's some work that is happening on that front. So, we're looking at purchases in the coming quarters where we'll be utilizing some of our capital towards that. And then from a long-term standpoint, we will be looking at even associated assets like engines which can be procured on a cash basis. So that's largely the trajectory that we're looking at in terms of our capital deployment. The second question I'm not too sure related to what notice you're talking about, because if you can probably connect with the IR team separately because we are not aware of which notice you're refereeing to.

Kushagra: Sure, I'll connect it directly on this one.

Moderator: Next question is from the line of Jinesh Joshi from Prabhudas Lilladher. Please go ahead.

Jinesh Joshi: I just have one question with respect to our fleet size guidance, which we gave some time back at the analyst day. And if I recall properly, the guidance was at about 350-odd for FY24. But, if I look at the delivery schedule of Airbus, I mean, it has been consistently declining over the last four to five years. In fact, in September '23 delivery count was 488 and if I simply annualize that number for this year, I mean, they may not deliver something which can be higher than what they did last year. But despite that our deliveries are steady and we are already at 334 currently. So, what I want to understand is that are we getting a higher share in Airbus deliveries and how does this arrangement actually work? And given the count which we have currently, are we revising our guidance for 350?

Pieter Elbers: No, we're not. We're, in fact, right on track. And I think it was also related to some earlier question. So, we're right on track when it comes to the deliveries, we are not changing our guidance for the number of planes at the end of the year. Could shift one or two between the quarters, but we feel comfortable in terms of the guidance we have given earlier and these planes are not allocated at the beginning of the year precisely divided in equal numbers quarterly. So, some were even rolling over from last year to this year, then we have a breakdown in this year over the various quarters. You can't say that all these planes are precisely allocated over the 52 weeks of the year or the four quarters of the year. But today, 334 is what you mentioned, we are comfortable on our 350 guidance by the end of this financial year.

Jinesh Joshi: Just one follow up. I think in one of your opening remarks, you mentioned that we are expecting one fleet per week for the next financial year. I mean, is that understanding correct?

Pieter Elbers: That's for FY25. Yes, that's correct understanding. And then, of course, what is going to be the precise number? It depends on what's the redeliveries and I think it's actually also a reflection of one of the earlier questions on the capacity and the demand quotation. Again, we know how many planes there are coming and then we have some flexibility with redeliveries which is also scheduled for next year. So, what I mentioned indeed the number was for next year, yes.

Moderator: Next question is from Pramod Kumar from UBS Group. Please go ahead.

Pramod Kumar: Two questions, sir. First is on the compensation for the OEM. If you can just help us understand the economics of that for the existing 40 aircraft, how is it, generally is it more remunerative or how the economics versus say aircraft in the air? At the same time, on these rental grounded aircraft, how does the accounting work because these aircraft are something which have grounded?

Gaurav Negi: Pramod, Unfortunately, we can't get into the specifics of the compensation.

Pramod Kumar: But, Gaurav, directly one is the impact on market share and all of that because the aircraft are grounded. But from a composition perspective, how does as in one of the basic parameters with the OEM or how do you negotiate with them? Just to understand are we taking a big hit already for the 40 aircraft on the ground and as the number of aircraft gets larger and the leasing market also gets tighter, economically what will be the impact on P&L.

Gaurav Negi: Again, it's complex, it's not as simple, you kind of express something and you get what you kind of wish for. The whole idea is that the negotiations are ongoing with the OEMs primarily to get spares. So, the whole idea is to get the AOG reduced. Aside from that, obviously there's a dialogue that is happening related to compensation so that it's cost neutral. The whole idea would be towards work towards the cost neutral situation. Some of it get worked out in a particular financial year, some get deferred over a broader period of time. So, standalone it will be very difficult for us to go into more details around it, but rest assured, the dialogues that are happening with the OEMs are constructive right now to ensure that the AOGs are reduced at the earliest, and at the same time, if there is an incremental cost that is being incurred by the airlines, which is us, is kind of compensated. So, those dialogues are ongoing. It may happen that some amount of that compensation may come in a given quarter, some may come over an extended period of time. So, as a result, what we can assure you, those discussions are going in the positive directions as far as our dialogues with the OEMs have been thus far. So, I'll leave it at that. I can't get into more specifics related to compensation because I'm sure every airlines have their own contracts and they have their own set of negotiations that they may be doing.

Pramod Kumar: You guys talked about the salary increase from October. If you can just help us understand what is the order of increase what we're looking at here?

Gaurav Negi: Just if you don't mind, can you repeat the question?

Pramod Kumar: I was talking about the salary increases which will be kind of getting implemented for the staff? No issues. I'll take it offline.

Moderator: Ladies and gentlemen, we'll take that as a last question. I will now hand the conference over to Mr. Pieter Elbers for closing comments.

Pieter Elbers: Thank you so much, ladies and gentlemen. Thank you for being with us. I would like to express my deepest gratitude to all our loyal IndiGo customers and also our IndiGo employees for their hard work. And as we navigate through some short-term challenges, our customers' unwavering support and trust in IndiGo is what keeps us motivated to deliver better and reach even greater heights. And I'm sure you have seen, we're well on track in achieving our parameters. Ladies and gentlemen, thank you very much for your attention. Looking forward to talking to you next quarter and for now, Happy Diwali next week, full of lights and joy for all of you.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of IndiGo, that concludes this conference. Thank you for joining us. You may now disconnect your lines.

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