“IndiGo Second Quarter Fiscal Year 2021 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 of 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.

Ankur Goel: Good Evening, everyone, and thank you for joining us for the Second Quarter Fiscal Year 2021 Earnings Call. We hope that you and your families are safe in these difficult times.

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

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

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

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

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

Ronojoy Dutta: Good evening everyone and thank you for joining us on this call. I trust all is well at your end.

We reported a net loss of 11.9 billion rupees in the September quarter compared to a net loss of 10.6 billion rupees in the same period last year. Given the government restrictions in place for capacity deployment, we could only deploy around 37 percent of last year's capacity. We were able to add capacity throughout the quarter and ended up in September at around 47 percent of last September's capacity.

As you all know, IndiGo has always been an exceptionally well-run airline and since we were restarting the airline after the lockdown, we were determined to use this opportunity to get better at everything we do. Thus, we set aggressive goals for ourselves for improving our product delivery, customer service, brand value, employee engagement, cost reduction, liquidity and revenue generation.

I would like to share some of the specific changes that our teams have implemented since the re-start of operations

- Our Operations team developed new processes for customer service to ensure the highest standards of public health and safety.
- Our Digital Team is on an ambitious plan for digitizing all customer touch points, from the initial reservation to bag delivery. The new mantra of our digital team is, no more paper work, no queue of phone calls. Lets digitize everything.
- We launched all cargo flights as a stand-alone revenue stream. Somewhat incredibly, we are now carrying more cargo at much lower capacity, than we did at 100 percent capacity.
- We set sensible goals for cost reduction and are making good progress on several fronts. Once we get our capacity back to reasonable levels, our unit costs will probably be lower than what we had before the operational shutdown.
- We focused on our cash balance as a key priority. Aditya will give you an update on our cash position and cost reduction measures when he takes you through the financial performance in detail.
- Our commercial team has artfully fashioned a new network, that observes all the capacity restrictions and yet maximizes revenue. Simultaneously, we have been able to transform ourselves from a purely scheduled carrier to one also adding charter operations and this has significantly enhanced our revenue performance.
- Our operations team set higher goals for On- time performance, customer complaint handling and baggage delivery. Since Jun'20, we have been number one or number two in terms of the on time performance.
- We continue to return our classic engine aircraft thereby increasing our overall fleet efficiency.
- We wanted to improve our brand perception. Our 'Lean Clean Flying Machine' seems to be having a lot of traction in the marketplace.
- While we wanted to design an even better and upgraded IndiGo, we very much wanted to preserve our greatest and most critical strength which is our tightly bonded and enthusiastic employee culture.

I am pleased to report that we are encouraged with the progress we are making on several underlying measures of strength

1. We are ranked as the safest airline in India by the Safe Travel Barometer, which is the

world’s most comprehensive database for COVID-19 traveller health and safety and has released the safe travel scores for airlines worldwide.

2. Our net promoter score continues to improve and is even higher than the last quarter. Further, improvement in our product has resulted in a higher customer preference for our airline and as a result we are carrying higher number of passengers at around 58 percent of domestic passengers in September versus 48 percent in January.

3. I am pleased to be able to report that IndiGo is now positioned as the 33rd most valuable brand in India by Campaign India. This is a significant jump of 52 positions from a year ago.

4. Our internal employee engagement scores are at an all-time high, it is heartening to know that employees feel inspired and motivated even during these difficult times.

Our low levels of aircraft utilization continue to remain a major concern and the fact that we were only able to fly around 37 percent of our capacity had a significant impact on our financial performance. However, we have been gradually increasing our capacity and we hope to be utilizing around 60 percent of our third quarter fiscal year 2020 capacity in terms of ASKs in third quarter fiscal year 2021.

Talking about the revenue performance during the quarter, on a year over year basis our yield has improved by almost 9 percent, but our load factors are down by 18.5 points leading to reduction in RASK by 5.4 percent.

I am pleased to note that our September end free cash balance was 69.7 billion rupees which is higher than our internal forecasts. We acknowledge that we still have a lot to do in terms of complete recovery to pre-pandemic levels but I would like to assure you that this Management team is working diligently to address all the risks and opportunities that are on the table.

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

Aditya Pande: Thank you Rono and good evening everyone.

For the quarter ended September 2020, we reported a net loss of 11.9 billion rupees compared to a loss after tax of 10.6 billion rupees on a YOY basis. We reported an EBITDAR of 4.1 billion rupees compared to an EBITDAR of 2.6 billion rupees during the same period last year.

During the quarter, we operated at 36.7 percent of our YOY capacity, this is somewhat lower than our previous guidance of 40 percent. The gap was primarily driven by capacity restrictions imposed by various state governments for a considerable part of the quarter which had an impact on the pace of our capacity deployment.

The key highlights of our performance during the quarter can be best summarized by the following points:

- We operated at load factor of 65.1 percent, an increase of 3.8 points as compared to the previous quarter, sequentially.

- On a year over year basis, our yields increased by 8.9 percent to 3.83 rupees, However, our RASK reduced by 5.4 percent to 3.24 rupees primarily driven by reduction in our load factors by 18.5 points. Our passengers and cargo charters continue to perform well, adding to our overall revenue performance.

- Our fuel CASK decreased by 43.4 percent compared to 32.2 percent reduction in average ATF prices on a year over year basis. Our overall fuel management policies including a mix of efficient engines, effective purchasing contracts and initiatives for reducing fuel burn are one of the bright spots in our performance.

- Our ancillary revenues including cargo continues to be strong helping us to generate much needed revenue at this time.

Moving on, to the most important update on our cash position and liquidity

1. We ended the quarter with a free cash of 69.7 billion rupees a reduction of 5.6 billion rupees as compared to free cash at 30 Jun 20.

2. As we have added more capacity, our net cash burn per day reduced from 300 million rupees per day in Jun'20 to an average of 250 million rupees per day in the quarter.

3. We have spoken about various liquidity initiatives totalling to 60 billion rupees in our past calls. During the quarter, despite a tough environment, we have secured sanction for working capital from a bank that can help infuse additional liquidity of 6 billion rupees. This sanction also demonstrates the faith lenders have in the balance sheet and resilience of the Company. Of the 66 billion rupees of potential liquidity increase, half has already been raised and the other half will be raised in the next couple of quarters. We continue to work on more options to enhance liquidity even further.

4. While our Board has approved raising of funds by way of qualified institutional placement aggregating 40 billion rupees, we are currently looking at all the debt options before we take any decision for this fund raise. Further, on the basis of the current revenue improvements we are deferring the decision of QIP till the end of December 2020.

Now let me give you an update on the cost front:

- Supplementary Rentals & Maintenance Cost: This cost comprises two major components 1) supplementary rentals that are largely variable and 2) Other maintenance costs that are largely fixed or event based. Given that we have deployed only 37 percent of our capacity compared to the pre-Covid period, this number is lower than historical levels. We expect this number to increase as we keep on deploying more capacity.

- Our payroll costs reduced by 35.5 percent as compared to the March quarter as all our initiatives on payroll cost reduction have taken full effect in this quarter.

On the other key balance sheet numbers, we ended the quarter with capitalized operating lease liability of 229.3 billion rupees and total debt, including the capitalized operating lease liability of 254.2 billion rupees.

In summary, we are in a stable position with respect to our liquidity, our costs have come down and the increase in capacity is further improving our net cash burn. However, we also understand that times are still unpredictable and we need to continue to fight our battle against this pandemic.

With this, let me hand it back to Ankur.

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

Moderator: Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Sonal Gupta from UBS. Please go ahead.

Sonal Gupta: Just wanted to understand, one, what I was trying to understand is, what is the clarity there is now on the international operations? Because when you are guiding for like 60% utilization of fleet, and last year almost like 25% of fleet was sort of deployed on international, so I mean, you are sort of implying if there was no international that almost 80% of domestic would be sort of back. So just wanted to get what is the clarity on the international side? How do you see that ramping up?

Ronojoy Dutta: So, let me answer the question more broadly, on overall capacity, because I am sure there will be other follow-up questions on this. So first, let's talk about domestic and then I will also go into international. Domestic, at this point, as we said, last quarter, we ended September with about 47%. Today, as we speak, we are close to 60%, slightly short of 60%. Now, all indications are that the government will be lifting that capacity cap, which right now is 60%, domestically, to around 80% soon. We don't know when that will happen, but we are encouraged by the discussions that are going on. So our best guess is, domestically, we will be at 80% capacity by the end of the year, early next year.

Now, let me talk about international specifically. We have been doing international in various ways through, as you know, Vande Bharat flights, charters and bubble flights. How much exactly are we doing? Well, September over September, if you look at all international flights, they were at 20% of last September, last September to this September this is where we are. The government continues to increase more bubble flights, Bangladesh is opening up and so forth. We know there will be no scheduled service till the end of November at least, after that how quickly it will progress, we don't know. But to answer your question, right now we are at about 20% internationally, and then we will have to wait and see. Domestically, we are a little more aggressive in terms of our expectations.

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

Ashish Shah: Just wanted to check in terms of the lease rentals, which we would have deferred during the first half. We see that in the cash flow statement, there are probably about Rs. 1,300 crores of lease rental payments which are reflected. So how much of the rentals would be deferred here and not reflected in the cash flow?

Aditya Pande: So as we said, even during the last quarter, we have not deferred any lease payments. So we are current on all our lease payments. And we continue to honor them as per their schedule. We were current in Q1, and we continue to be current in second quarter as well. There is no pendency on the lease payments as such.

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

Lokesh Garg: Sir, I wanted to ask you a question on fleet plan. Basically, we have seen fleet has continued to grow, while obviously the utilization, as you said, remains in the 37% range. So, should we expect a large, bunched fleet sort of leased plane returns at the end of the year? And there are planes coming up currently also, which is both 320 and 321 NEOs. Is there any update that you can share in terms of renegotiation with Airbus on any delivery delays or any delivery timeline renegotiations?

Ronojoy Dutta: So, we always had the plan to return the classic CEO aircraft, and we are still on track on that. We are returning them as fast as we can, but according to our old plan. And between operations team and maintenance and aircraft finance, they have done a great job despite the disruptions that you are seeing worldwide. A lot of planes have been placed with them across the world in terms of returning with airplanes. So we on track on that and those numbers are quite large over, 30, 40 a year, and we continue to return those.

As far the deliveries are concerned, we are not doing any major renegotiations with Airbus, we are taking whatever was on plan. There is a push-pull every month-to-month because they want to delay one, we want to accelerate one. But largely, we are on track. So our fleet plan is very stable, it hasn't changed much and we are proceeding according to our plans.

Lokesh Garg: Sure. So basically between, let's say, June to September, there is only six CEO planes that seems to have reduced. If the plan is to do 30, 40 each year, then a lot of them would go towards December, is it?

Ronojoy Dutta: Wolfgang, you want to take that question?

Wolfgang Prock-Schauer: Yes, basically you are on the right track, so to say. Because, if during this lockdown situation there was a slight delay, but it was always on track. And now the returns are catching up and we see getting the least returns getting momentum. So we can balance whatever comes in, we balance somehow with lease returns. And that is our strategy with this fast return psyche that we keep, we make our fleet younger by this way, and stabilize the fleet, as Rono has mentioned.

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

Vipul Garg: The question is that, how is the cash position? Because at present, this quarter we had a loss of about Rs. 1,100 crores, out of which Rs. 500 crores were boosted by the forex gains, so effectively loss of Rs. 1,600 crores if we leave aside the forex part. But the cash position has not decreased by that much amount. So, whether any monetization of assets, etc., have taken place? And then there is the second question regarding the supplementary rentals, though the flights have improved vis-à-vis Q1, supplemental rental amount is same. So, is any renegotiation or some deferment has taken place on the supplementary rental part?

Aditya Pande: So, I will take these. So you are right, I mean, we have infused liquidity. Even if you recall, at the end of last quarter, we had mentioned that we will generate Rs. 6,000 crores of liquidity. So we have infused some liquidity out of that, including selling some of our assets, as we had called out earlier. So that's why you see the delta between the losses and the net cash burn. So, our cash is down from around Rs. 7,400 crores to around Rs. 6,900 crores, so net cash burn for us is close to Rs. 500 crores for the quarter. So, that's answer to your first question. So supplementary rentals between second quarter and third quarter are up, they are up by about roughly Rs. 100 crores, and that's primarily driven by the fact that we put more capacity. Since we put more capacity, supplementary rentals driven by capacity have obviously increased. So you have seen an increase, it is not to the range of where it originally was in March or in periods which were prevailing earlier. But there has been an increase, largely driven by capacity. So last quarter, this number was Rs. 739 crores, this has gone up to Rs. 842 crores in the current quarter.

Vipul Garg: Sir, earlier I think there was some deferment of the supplemental rental. So, still that deferment is continuing?

Aditya Pande: So, the way to think about deferment of supplementary rental is that we neither owe them as well. So how the process works is that we were to put up an LC upfront at the beginning of the year and that reconciles at the end of the year, basis the usage of the aircraft. The fact that we are not deploying capacity anyway, because of the situation, we have worked with our lessors to make sure that we don't put up those LCs as well. So effectively, we are neither putting them up nor paying. So it's not as if there will be a catch up of this after six months or nine months.

Vipul Garg: Okay, and sir, how much monetization was done during this quarter?

Aditya Pande: So we did an overall monetization of Rs. 1,800 crores in the quarter.

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

Achal Kumar: I had first follow-up on cash, just taking the last question forward. So, I can see that the owned aircraft has reduced from 29 to 22, so does that mean you have done the sale and leaseback of all the unencumbered aircraft and you don't have any more aircraft through the sale and leaseback?

Aditya Pande: No, we have got seven more ATRs that we are going to put on a sale and leaseback structure in the current quarter. What we have done so far are four ATRs and three CEO planes that we own.

Achal Kumar: That is what you are showing Rs. 1,000 crores in your cash flow statement, right?

Aditya Pande: Right.

Achal Kumar: Okay. The second thing I also want to understand, the PDP burden. So now what is the status with your CFM engine? And what kind of PDP burden you see due to the CFM and due to new aircraft coming in? Is there any change in the PDP burden because the leasing market is changing, so what kind of PDP burden you are expecting?

Aditya Pande: So there is no incremental PDP burden on us. I mean, this is as per contract that we have negotiated with Airbus, and we continue on the same path, it has neither gone up, nor has it come down. So we continue with the same PDP payments that are per our contract and plan with Airbus.

Achal Kumar: Even with the CFM?

Aditya Pande: Yes. I mean, this is with Airbus, these payments are through Airbus. CFM is an engine provider to Airbus. So whatever our contract is with Airbus, we continue down the same path.

Achal Kumar: Okay, right. The last question, I wanted to understand about the yield, because the fares remain so low and still the yields are very high. So, basically, what is the situation with the underlying yield? And what is it that is feeding into this yield to be so strong?

Ronojoy Dutta: I will let Sanjay answer that question, since he worked his magic. What did you do, Sanjay?

Sanjay Kumar: So, yields are better compared to last year same quarter. And I would contribute this to be, basically the directional demand. If you remember, in the first quarter of the year, we had people moving out from metro to non-metros and other cities. But now what we saw in the quarter two was traffic returning back to the metros. So that was one reason we saw huge demand in those markets for non-metro to metro. And then also there was a limitation on the capacity side, there is still some constraint as far as the markets are concerned like Calcutta and Mumbai which are still constrained due to the local and state regulations. And also because of the lack of capacity in those markets we are seeing better yields. So overall, it is a combination of lesser capacity, increased demand in the marketplace, which has kind of helped us in terms of yield improvement.

Ronojoy Dutta: And I would add to that, the charter yields have also been very good. So we are pushing that as hard as we can.

Aditya Pande: It's a combination of all these. I mean, charter also is an important aspect of this.

Ronojoy Dutta: Look, we said always that as we restart, we will design the network as artfully as possible in order to pick the right markets, the right frequencies and that's what you are seeing in the yield improvement. I think our commercial team between planning, sales and revenue management have done a great job in picking all the right destinations and schedules.

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

Deepika Mundra: Just a couple of questions from my side. So firstly, on the ASK. I think last quarter you all mentioned 60% to 70% in the December quarter, it should be operational. Now you are mentioning 60%. Are your expectations slightly lower for the festive period? And secondly on the yield, I mean, last two quarters have been very strong. As more of your capacity becomes operational, do you see this advantage dissipating? Thanks.

Ronojoy Dutta: Okay, so let's clarify the capacity issue. We are close to 60% right now, as we speak today, we are not at 60%, we are at around 58%. So we are not saying 60% by the end of the year. Now can we go above 60%? That will depend mostly on the government, because we are capped at 60% right now. We are hopeful that the government is going to increase it to 80% in the next couple of weeks or so. And if the government does, then we will be at 80% by the end of the year. I hope there is no confusion on that. We are at 60% now, hope to be at 80%. As to the yields, what happens is, capacity grows up. One of the problems we are facing, of course, is, normally as you know, we like to have a three-month booking curve. So when we open new capacity, we said let it book for three months before we actually start flying. That's obviously not happening today. So if the government says add 80%, we will go to 80% within 10 days, which means 10 days of booking. So obviously, it starts off somewhat soft, but then it picks up very quickly. So that's why we are saying we are stepping away to higher revenues, because it's not moving smoothly. It's like, okay, the government says the 45, yes 45, the government says 60, we open up a bunch of new cities and schedules and frequencies. They don't book immediately, obviously. So there is a lag for two weeks, but then it picks up nicely. So that's what we are seeing. And if the government now goes to 80%, we will have a temporary stall, if you will, our revenue won't immediately go up. But it seems to go up in three weeks, that's why we are quite positive on it.

And look, I think it's important to make this statement. Back in March, we had no idea what's going to happen, right? I mean, we had all these scenarios from things are really bad to things getting better quickly. The good news is, given this last four or five months of experience, all those really bad scenarios are off the table. Yes, things won't get great quickly, but things are definitely not as bad as we might have feared back in March. So all that gives us room for some optimism.

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

Binay Singh: Apologies in case this question has already been answered. But what would be your exit cash burn for Q2 per month? Like in Q1 we were saying it was around $120 million.

Aditya Pande: So, our average cash burn for the quarter is Rs. 25 crores a day, this number was Rs. 30 crores a day at the end of last quarter.

Binay Singh: Okay. And the salary number that is being reflected into the quarter, is it reflecting the staff cuts that you had had?

Aditya Pande: Yes, the staff cuts got effective this quarter, so that does reflect the staff cuts as well.

Ronojoy Dutta: It actually captures three things, the staff cuts, the pay cuts, and the leave without pay, all those three things are coming into it.

Aditya Pande: Right. It's a combination of all the three.

Binay Singh: So, in a way this number will not fall further, it should largely remain around this level?

Aditya Pande: So, yes, it will not change too much. But, I mean, as capacity comes back the leave without pay may settle back a little bit. So there will be some differences around that. But we are sticking to our earlier guidance of this being 30% lower than the pre-COVID levels. So we are comfortable with that.

Binay Singh: Right. And just lastly, one question, could you talk a little bit about customer mix change pre-COVID to now, anything on corporate or what sort of customers are travelling today versus earlier? That's it. Thanks.

Sanjay Kumar: So, the pre-COVID level, the corporate business and the business travel, if I may put it, used to be about 50% of the overall traffic. But now post-COVID and since the resumption of the flight, this traffic is still yet to come back to the original level. I think, as we are expanding and opening up our capacity on a month-on-month basis, and more and more customers are flying, and with the experience which we are getting, I think it is a matter of time we will start seeing the corporates also coming back. Just to kind of put some perspective, we are seeing some traction already happening, especially from the SMEs and these are businessman coming on board, travelling for their business. So that thing is already happening. While it is nowhere in comparison to the pre-COVID level, but we hope that next few months I think things will start to change there as well.

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

Abhinav Bhandari: Just continuing on the staff cost once again. There was expected to be a one-time settlement fee, if you can say that, to come in Q2 as well, for the 10% of the workforce. So is that included in this number of the employee cost for this quarter?

Aditya Pande: Yes, that number, the severance pay that we paid out to the employees is included in this number.

Abhinav Bhandari: So to that extent, the next quarter may not have that number. So if you can guide what is the ballpark number for that?

Aditya Pande: So, we are not giving a quarterly guidance of this number, what we are saying is that we will be 30% lower than what we committed, that we guided earlier from the pre-COVID levels.

Abhinav Bhandari: Sure. And the other question was on the other current liabilities, which have fallen sharply in balance sheet. So if you can just guide on what has happened there.

Aditya Pande: Other current liabilities?

Abhinav Bhandari: Yes, it has come up from about, I think, Rs. 2,400-odd crores to Rs. 1,700-odd crores, if I am not wrong.

Aditya Pande: I got the answer. I mean, so a couple of things have happened over here. One, we were carrying a large credit shell at the beginning of the quarter, that credit shell has come down. Secondly, also, we were carrying forward sales which were higher at the end of March, from where you are seeing the comparisons, those forward sales are lower as well. As you can imagine, our capacity that we are deploying is much lower. So those are two factors driving this Rs. 2,415 crores down to Rs. 1,758 crores.

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

Aditya Mongia: The question which I had was more on the international aspirations of IndiGo, and the recent ATMs or slots that IndiGo has won at the London Heathrow Airport. Wanted to get a sense from you that is this a serious step towards starting flights from London to India or more like an experiment at this point of time?

Ronojoy Dutta: So look, our international aspirations are high, but geared towards narrow bodies and sort of a narrow body range. So as soon as the international opens up, we hope to again expand in all directions as fast as we can, but with the narrow bodies. And the wide bodies, we have looked at it many times and, again, until the numbers work for us, we are not going to do it. And I have to say, the numbers are looking better now than they did before, primarily because the wide body costs have come down so much, fuel is down, all that has helped, but still not in the green, it is still showing red. So we don't want to do it till the numbers turn green, basically, this is our viewpoint. So it's still a watch and wait. But without that, on the narrow body side we want to expand very quickly, as soon as the capacity restrictions are removed.

Aditya Mongia: Fair. Just a second question from my side. You talked about a loss number of Rs. 25 crores on an average basis. Would you be able to provide loss summer as of end of September or the current number on a daily basis?

Aditya Pande: We guide based on what is in the quarter, because there's a lot of seasonality in this number. For example, as we are now getting into the festive season, we will see an improvement in this cash burn. So I think it's good to look at it from an overall quarter perspective. We were Rs. 30 crores last quarter, we are Rs. 25 crores on an average this quarter. And we hope, as you keep on building capacity and as business starts coming back, this number will keep on decreasing as we go ahead.

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

Pulkit Patni: My first question is for Aditya. Aditya, just wanted to help this reconciliation, the cash balance that we started March with versus the cash burn that you speak about, Rs. 30 crore and Rs. 25 crore, and the Rs. 1,800 crores monetization that you mentioned you did in this quarter. Based on that, our sense is that probably another Rs. 3,000 crores worth of monetization is what we could do to achieve that number. Is that the ballpark right, another Rs. 3,000 crores worth of monetization that could happen over the next three to six months?

Aditya Pande: So you are bang on, on the number. We will be just slightly ahead of Rs. 3,000 crores of monetization in the next couple of quarters. So your number is absolutely right.

Pulkit Patni: Okay. Thanks for that. And secondly, just to double check, when we talk about the yield, in case of charter flights we are also taking into consideration the ASKs for the charter flight, right, that's how we get to these yields?

Aditya Pande: Yes.

Moderator: Thank you. The next question is from the line of Mayur Milap from BOB Capital. Please go ahead.

Mayur Milap: So, was going through the numbers, just wanted to understand here so when you said that the ASK for the quarter stands here, ideally I am trying to understand that this is more like a supply, right, so how did the supply really come off? I mean, from the quarterly perspective.

Ronojoy Dutta: Supply of the ASKs you are saying?

Mayur Milap: Yes.

Ronojoy Dutta: Well, I mean, the supply of the ASKs is based mostly on the government restrictions. So when we started in March, the government said, everyone and not just IndiGo, you can all fly 25% of capacity, so we all did. And then the government said you can now fly 45% capacity, so we bumped up there. Then the government said, you can fly 60% capacity, so we bumped up to 58%. And although the central government is saying 60%, state governments are sort of restricting us, as you know, Mumbai, Chennai, Kolkata, they have their own restrictions. So we don't quite reach 60% as a result. So is that the question you are having, why is the supply restricted? It is restricted by government restrictions.

Mayur Milap: Yes. And then when this happens, all the other expenses relating to the aircraft, the fixed cost, whether it is the maintenance cost or the rental cost, does that also get down to the supply that is available during the quarter or that really stays for the entire fleet that we have?

Aditya Pande: Well, the leasing costs are fixed. So those are period costs, and we incur them irrespective of the capacity. Maintenance costs have got two elements of it, one is the variable element, which you are right, varies based on how much you fly, which is supplementary rentals. But there are fixed elements that are independent of capacity. So, you have to incur the fixed element. So that's how our costs are overall made up of.

Mayur Milap: All right. And fuel, of course, I want to believe only to the tune that you fly, but you incur the entire cost, right? And part of it would have got covered into the cargoes also that you would have typically taken?

Aditya Pande: So, fuel is variable, fuel is based on how much capacity we fly. For example, if we are not flying an aircraft of that capacity, we will not incur the fuel costs associated with it. Therefore, you will see a fairly sharp drop in our fuel costs, even as compared to our capacity deployed, that's primarily because, the rates are lower from last year; and, we are flying more efficient planes than we were doing last year, the NEO aircraft. Fuel is totally variable.

Mayur Milap: All right. And just last question, we have seen the other income also come off. So is that more in relation to the kind of cash burn that we have had and that is why you see the other income really come off?

Aditya Pande: Look, other income doesn't have any relation, because our average cash for the quarter has not been down that much compared to last year. That you are seeing because, as you are aware, I mean, our rates have come down fairly dramatically. What we earn on the assets or the or the investments that he put in the market. I mean, the mutual fund returns are down, fixed deposit returns are down. I mean, you know, compared to last year those yields are down fairly significantly. That's contributing to our interest income being down.

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

Arvind Sharma: Just wanted to get some more clarity on the non-scheduled and scheduled operations. So if you could give a breakup of ASKs and RPKs between scheduled and non-scheduled, that would be really great.

Ronojoy Dutta: So, I think we told you what the international is that, international we are doing 20% of last September's capacity, and most of the non-scheduled charters, Vande Bharat, bubbles are all international, there is some domestic but very little.

Arvind Sharma: Okay. And in the domestic, there is no non-scheduled flight, so whatever we see beyond the monthly data that you showed is essentially the non-scheduled international flights, that's all is there?

Ronojoy Dutta: I say 95%. There is about 5%, 6% of domestic charter, sometimes people want to do something to Jaipur for a wedding or something. So there are a few of those, but very few.

Arvind Sharma: And this number should sustain till the regular operations start?

Ronojoy Dutta: Well, we hopefully will grow because more countries are coming into the bubble flight. As I said, Bangladesh just opened, we are hoping Nepal opens. And we are pushing the government to include more and more, like Kuwait came online a few weeks ago. So we hope that it will grow, but it's not growing in leaps and bounds, it is growing slowly.

Arvind Sharma: But it may not be on monthly basis, so it would be a very lumpy sort of an operation?

Ronojoy Dutta: Yes, I guess you could say that. But we are hoping that after November things will open up more aggressively.

Moderator: Thank you. The next question is from the line of Aditya Makharia from HDFC. Please go ahead.

Aditya Makharia: Sir, just a couple of questions. Our fleet was 245 planes last year, this year we are already up to 282.

I understand there is going to be a rundown on the CEO's and a scale up on the NEO's. But what is the peak plane capacity we would reach from which we would start stabilizing?

Ronojoy Dutta: So look, for the next couple of years, we will see a slow drip down, it's not going to be sharp, we will continue to take delivery of new airplanes, we will continue to push out the CEO's. So our fleet count will stagnate and go down a little. But from 2023, we will be back up again. So I would say flat to down for a couple of years, and then up again.

Aditya Makharia: So you are saying, in 2022 we would still be up and then in 2023 we will be down?

Ronojoy Dutta: The other way around. In 2022 we will be down slightly, by 2023 we will be up again.

Aditya Makharia: Okay. Fair. Second, sir, obviously, because of what's happening in terms of the volumes coming down sharply, are you seeing any players who are withdrawing from the market?

Ronojoy Dutta: None whatsoever, no. I mean, Jet is coming into the market, so there will probably be more players.

Aditya Makharia: Okay. So nothing on the competitive intensity easing in that sense?

Ronojoy Dutta: No, not at all.

Aditya Makharia: Okay. And just last, one housekeeping question. The cargo revenues, what were they this quarter and how we have accounted for it?

Ronojoy Dutta: Well, cargo is a very good story for us. So, year-over-year, if you look at this quarter versus last year this quarter, cargo revenues are up 20%, which is a pretty staggering number, in my mind, given that the capacity was down to 37%. And as you know, we don't even have any freighters. So I think our people, both in operations and cargo, have been very, very innovative in dealing with this whole opportunity. No freighters at all, and yet, just with cargo in the cabin and so forth, our cargo revenues are up 20%. Not only is it up, the trend is also up. So if I look at the year-over-year numbers, in July, our cargo revenue was up 9%; in August, our cargo revenue was up 20%; in September, our cargo revenue year-over-year was up 27%. I am like, wow, this is a good trend. And again, hats off to our people in cargo division sales, in operation for making this all work. But cargo has been a very good story for us.

Aditya Makharia: Sure. Could you just quantify the revenue from cargo this quarter?

Aditya Pande: We don't give a breakup of the of the cargo revenue, it's very strong as we said, and we see the trend continuing.

Ronojoy Dutta: You can see the strength in the ancillary revenue, most of that is driven by cargo.

Moderator: Thank you. The next question is from the line of Sarfraz Bhimani from Motilal Oswal. Please go ahead.

Sarfraz Bhimani: So, I wanted to have a further understanding on the cash part. So, last quarter we saw that we had a loss of around Rs. 2,800 crores, whereas our cash in down by only Rs. 14 crores. This quarter we had this monetization around Rs. 1,800 crores, still we are losing around Rs. 500 crores of cash. So, any understanding or equation that you can give for this calculation, please?

Aditya Pande: I can talk about the current quarter, in current quarter we started at around Rs. 7,400 crores of cash. I said we burn Rs. 25 crores a day, so that makes your cash burn about Rs. 2,300 crores for the quarter. And then on top of that, we added Rs. 1,800 crores of liquidity that gets us to our Rs. 6,970 crores of cash. So, that's a little bit of the math on the cash.

Sarfraz Bhimani: Got it. So, again, a follow-up on the previous question that was asked by somebody else, that we are almost close to around Rs. 3,200 crores to Rs. 3,300 crores of liquidity generated in last six months, and still we have around Rs. 2,700 crores, Rs. 2,800 crores of liquidity to be generated. So, assuming that employee cost stays around current level, as you said that the loss without pay guys can come back, this happened only with further, say, sale and leaseback of the asset that you already own in terms of the planes that we have? Or do we have other avenues also?

Aditya Pande: So those are largely all the liquidity actions that we laid out, I mean, it includes the sale and leaseback of the assets that we own, it includes aircraft deliveries that we take, any gain that we make on that. We have had some very fruitful discussions with our vendors and partners, so we have got additional liquidity coming out of it, which is permanent. We also talked about bank giving us a working capital line, which adds another Rs. 600 crores of liquidity to us. So it's a bunch of different things that brings a liquidity here. And we continue to run down all options from a liquidity perspective. I mean, we are hopeful that we will add more as we go along the way.

Ronojoy Dutta: I just wanted to clarify something on the employee cost side. There have been a number of questions about you were down 35% and so forth, will it stay there. As we add capacity back, you should expect our employee cost to go up. Because we do have leave without pay and our goal is to remove that leave without pay as quickly as possible. And as soon as our capacity goes up, we will remove those pay restrictions. So you shouldn't expect that the employee costs will stay at these levels, they will creep up.

Aditya Pande: But we do stick to our guidance of what we gave right at the beginning, 30% lower employee costs from pre-pandemic levels.

Sarfraz Bhimani: Which is almost closely achieved, I believe. And I also have this one last question to Rono, sir, he said we might be around 80% of the capacity by the end of this calendar year or fourth quarter of FY 2021. Just to have a ballpark number, when can we expect it to reach 100% domestically, if not internationally, be it first quarter of next year? Asking in terms of the challenge that we are seeing in terms of PLF, so what can those be around like, when metro-to-metro is coming back can we see it going back to, say, 80% odd?

Ronojoy Dutta: So, again, the capacity of 80% is very much dependent, first of all, on the government lifting the cap to that level, that hasn't happened yet. We are hoping it happens by the end of the year. If the government is ready, we are ready. Then from 80% to go to 100%, again, the same dynamics apply, if the government lifts it we will lift it. And what seems to be happening is the government is watching it for three, four months and saying, okay, now lift it. So they go from 25% to 45%, watch it, go from 45% to 60%, 60% to we are hoping 80%, I don't know; and even if it goes to 100% the next month they will probably wait for three or four months. So if you follow that trajectory, we would hope, this is all forecasting, not real confidence that it will happen, is that by December we will be at 80% and hopefully by April, May of next year we will be at 100%, if the government in fact allows that. And that's domestic only, by the way, we are not talking international.

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

Ashish Shah: Just one question. In terms of the pricing which is prevailing in the market right now, do you think that the floor on the fares which is imposed by the government, that is keeping the pricing above the floor? And once the floor goes away, would you believe that there is a potential for prices to correct further? Or there is rationality prevailing and that might not happen?

Ronojoy Dutta: Look, we don't operate our airline to yields or prices, we look at unit revenues. And we feel, the less restrictions the better. We can be creative in different markets and different times. As you know, airline traffic is very, very dynamic and volatile. The demand on Tuesdays is very different from demand on Fridays; the demand in November is very different from demand in February; the demand one way to Ranchi is very different from demand out of Ranchi. So we are like, hey, how can you fix fare? Just leave it up to the different airlines to decide what is right and what is wrong. Any kind of sort of restriction, caps, guidelines might work on a certain day of the week, it might work in a certain market, it might work in a certain month. But on a month-to-month, week-to-week, day-to-day, hell no, no one can decide what the fare cap is. So we are saying, just open it up, let the airlines decide.

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

Chintan Sheth: Just one clarification on the working capital. You said 50% we have availed, that has come in Q2 or in the month of October?

Aditya Pande: No, the 50% that we have availed has come in over the six months from the pandemic, so that is from April to September.

Chintan Sheth: Okay. And in terms of we are still at Rs. 25 crores daily average cash burn, at 80% and our load factors are still like around 60%, 65%, given all the cost control and cost optimization we have done so far last six months, what can be our breakeven, if at all, when we reach at 80% or 100% or the next year?

Aditya Pande: So, it's a tough question to answer, because there are so many factors associated with breakeven. I mean, the yields have to continue, competitive behaviour has to continue the same way, fuel and FX have to remain where they are. So it's very difficult to give a guidance as to where do you end up being breakeven as such. So, you will be very careful to estimate a particular number as to at what level of breakeven, there are just so many variables at play at it, it is very difficult to call out a number at which you will get to breakeven. But if everything remains the way it is today, and nothing really changes, upwards of 85% odd or slightly higher, we can achieve breakeven. But again, I would caution you against the fact that there are too many underlying assumptions to it, and even one assumption changing can fairly dramatically change that number. So it's not a number that you should go to the bank with.

Chintan Sheth: Right. And Rs. 1,800 crores asset monetization, it doesn't include the Rs. 300 crores of working capital, right?

Aditya Pande: Rs. 300 crores of working capital, I didn't understand. I mean, we said Rs. 3,300 crores of overall liquidity over the last six months.

Chintan Sheth: Yes. So working capital, you have tied around the Rs. 600 crores, of which 50% has came, right, over the past six months?

Aditya Pande: No, it's not. I got your question now. So the working capital is a line available to us, we have not tapped into it so far. So it's available for us to grab. It's something that we have signed up only this quarter, in the current quarter. It wasn't effective last time. So it's something that we can tap into if we have a need.

Chintan Sheth: So that is where I was getting confused on the cash burn, where you explained Rs. 2,300 crores of cash loss, Rs. 1,800 crores of asset monetization, I was considering Rs. 300 crores, which you mentioned that 50% we have. That is where I got confused.

Aditya Pande: Just to clarify, that number is something that we have not tapped into so far, the working capital line.

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

Rahul Agarwal: Sir, I have just got two questions, both in terms of SLB margins and the lease cost. So, we have seen the SLB margins this quarter and how is it going to trend it is what the sense I wanted from you. And also, in terms of the lease cost, what kind of renegotiations are happening on that front, given the competition is deferring every payment while we are paying very concrete. So what kind of benefits could come, accrue to us in the coming quarters on the front? That’s it from my side.

Aditya Pande: We are current on our lease cost, and there is no renegotiation to reduce the lease costs. In fact, there is really no renegotiation that the lessors will entertain, and this is not about IndiGo, this is about any other enterprise that they would be dealing with. I mean, these are fairly period in nature and fixed in nature and there will not be any renegotiations on them. These are costs that we keep on holding. Obviously, as new planes come in, they have their own separate economics, but old planes that we have acquired at earlier dates, they continue to be at the level that they were, and we continue to honor them, and we have not been delaying any of our lease payments. And your first part of your question I didn't, if you repeat that again, please?

Rahul Agarwal: So, just carrying forward on the least cost, what I am saying is that, given the environment that is currently, and the interest cost fall and everything that has happened, the lease rentals on the new planes, let's say, what kind of benefits are we seeing on that sense?

Aditya Pande: So, the way to think about it is, yes, leave rents have fallen, the interest rates have fallen, but also remember that the risk perception for an airline typically has gone up. So net, net, if you balance both out, there has not been any dramatic change in the economics of leasing, overall. So, that's something that you should keep in mind. I mean, yes, your headline rates that you see globally have obviously reduced, but risk perception of airlines has also gone up. So our economics remain similar to what they were earlier.

Rahul Agarwal: Okay. First part of my question was basically in terms of the SLB profits that we delivered this quarter. How are those profits going forward? Do we see that to sustain or is the trend falling?

Aditya Pande: The trend is stable, it is neither falling, is neither rising. I mean, we continue to get similar economics we had last quarter in the current quarter, and the market actually is coming back, I won't use the word strongly, but it's coming back well. There are more players who had exited the market are coming back again, so the market is getting more liquid as we speak.

Ronojoy Dutta: And I will just point out that there has been a lot of disruption on the wide-body side, residual values have fallen, lease rates have come down, etc., etc., a lot of volatility and disruption. On the narrow-body side, and particularly on the Airbus side, is a relatively stable market. Residual values have not plummeted, lease rates have held up reasonably well, so it is a stable market.

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

Ankur Goel: Thank you all for joining us. Hope to see you next quarter as well.

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

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