"Jet Airways Q3 FY19 Earnings Conference Call"

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MODERATOR: **MR. TEJA CHALASANI – SBICAP SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to the Jet Airways India Limited Conference Call hosted by SBICAP Securities. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal the operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Teja Chalasani from SBICAP Securities. Thank you and over to you sir.

Teja Chalasani: Thanks Nirav. On behalf of SBICAP Securities, I would like to thank the management of Jet Airways for giving us the opportunity to host this call.

To discuss the Quarterly Results we have the senior management of Jet Airways. With this I would like to hand over the call to Mr. Amit Agarwal – CFO and Deputy CEO, for initial comments followed by Q&A Session. Thank you, and over to you sir.

Amit Agarwal: Thank you Teja. This is Amit Agarwal. A very good afternoon to all of you. Please note that certain statements made during this call related to our future business, financial performance and future events or developments may be constituted as forward-looking statements which involve a number of risks and uncertainties that could cause actual results to differ materially from those in such forward-looking statements. We want to inform you all the numbers reported are in compliance with the provisions of IndAS.

Let me now hand over the call to our CEO – Mr. Vinay Dube.

Vinay Dube: Thanks Amit. Good afternoon everyone. I am pleased to extend a very warm welcome to all of you for this Earnings Call organized by SBICAP. I am grateful to all of you for the time and interest that you have shown in our company.

It is a pleasure to be here with my team. I am accompanied by Amit, as you know, CFO and Deputy CEO; Gaurang Shetty, Whole-time Director; Rajesh Prasad, Chief Strategy Officer; and Raj Sivakumar – SVP Worldwide Sales and Distribution.

Let us dive straight into the operational and financial performance of the company for the third quarter. Let me start with operations.

The airline's arrival on time performance in this quarter was 82%, which is a full 21 percentage points higher than Q3 of last year. Jet Airways rigorous efforts to enhance productivity and efficiencies helped the airline top the charts for operational performance as per report by OAG. OAG is a global industry leader in data and analytics.

Jet Airways was ranked number one in arrival OTP amongst the Indian carriers for both November and December of 2018. OAG also put Jet Airways at the top of the operational reliability table for the month of December based on the fewest cancellations by an Indian carrier. The technical dispatch liability of the airline during the quarter was at 99.52%.

On the capacity side, ASKMs reduced by 2.6% in the third quarter FY19 to 14.6 billion ASKs compared to the same quarter last year. As we have previously communicated, Jet has started a substantial restructure of its network over the course of the winter 2018 schedule. This included rationalization of loss-making ATR network, moving short-haul international operations from wide-body capacity to more profitable 737 aircraft and the concentration of capacity enhancing frequency density and hub connectivity.

Measures being implemented include rationalization of operations on uneconomic routes and redeployment of these assets to more productive and economically efficient international as well as domestic sectors, closely aligning capacity with demand characteristics of specific markets. Combined with increased maintenance activity on the worldwide body fleet, the overall outcome of this transition process resulted in a net reduction of capacity as I mentioned earlier.

As the transition to a fully restructured network is complete and current liquidity challenges have been addressed, deployed capacity will resume its growth track. This will include the addition of new long haul wide body routes as well as increased utilization of the 737 fleet to previous levels.

During this quarter we started daily non-stop services from Pune to Singapore effective 1st of December, which makes us the first airline to connect Pune directly with Singapore. This was introduced in response to a high-demand and leisure and corporate travel in this sector. Domestic additions include direct daily service on Bangalore to Vadodara, Delhi-Vadodara and Delhi-Coimbatore markets. Additional frequencies were also introduced from Delhi to Singapore, Bangkok, Katmandu and Doha, as well as Mumbai to Singapore, Doha and Dubai.

Earlier in November 2018 we launched the country's first non-stop service between Mumbai and Manchester. This became the fifth direct service between India and the UK making it increasingly convenient for business guests, leisure travelers as well as students to travel between India and the UK further strengthening commerce as well as tourism ties between the two countries. Manchester also becomes an additional gateway to North America, with seamless connectivity to New York, Atlanta and other destinations with our codeshare partners Virgin Atlantic and Delta. Moreover, our Manchester based guests can seamlessly connect on Jet Airways flights to Hong Kong, Singapore, Bangkok and Colombo.

In addition, we are also implementing new revenue management strategies that help us cope with the challenging fare environment. Implementation of these projects is well under way and we expect to see this bear fruit in our reported RASK performance over the coming quarters. We have expanded codeshare partnerships with Flynas, and improved connectivity between India and Saudi Arabia. Jet Airways will place its marketing codes for flights between the gateway cities of Dammam, Jeddah, Riyadh, Medina, Gizan, Qasim, Taif and Abha, thus extending our reach into Saudi Arabia. Revenues from codeshare and interline guests for the third quarter rose by 12.8% even as guest numbers grew by 1.1% on a year-over-year basis.

We are already seeing fuel efficiencies on our 737 Max aircraft along with positive feedback from guests about the overall flight experience of the 737 Max. We have so far inducted five Max aircrafts into our network. Starting 7th of January we introduced Jet Bistro, our specially curated ready-to-eat buy and board menu serving on flights within India. Guests can now choose from a variety of meals and beverages and pay using debt or credit cards. Guests who have booked a fare choice option which includes a complimentary meal will also have the option to buy additional meals of their choice from Jet Bistro.

In other noteworthy developments, we announced changes to our distribution strategy which will be effective from the 1st April 2019. This distribution strategy allows us to remain competitive without compromising our global distribution reach. The new distribution strategy also benefits our travel agency partners and customers alike.

Jet privilege memberships for the quarter increased to 9.36 million as of 31 December 2018, compared to 7.44 million last year, up by 26%. Our digital footprint has grown also with Jet Airways becoming the first Indian airline to have reached over 200,000 followers on Instagram.

Now, let’s move to the results for the third quarter of FY 2019. This quarter we reported a loss of Rs. 732 crores at a consolidated level. Amit will be taking you through the results in detail later during the call but let me touch upon some of the highlights.

We carried 7.17 million passengers in the current quarter, a reduction of 6.9% over the last year same period largely due to the network restructuring I covered earlier in the call. We reported a RASK of Rs. 4.39 for the third quarter which was higher by 2.6% compared to the third quarter of last year. Fuel prices in the third quarter were at USD75 per barrel which was high by 29% compared to the USD59 per barrel rate we had in same period last year. As a result fuel CASK in the third quarter FY19 was 32% higher as compared to the third quarter of FY18. Additionally, the rupee depreciated over 10% in Q3 FY19, this lead to our overall CASK increasing to Rs. 5.16 in Q3 FY19 as compared to Rs. 4.33 in Q3 FY18.

Despite various cost reduction initiatives, non-fuel CASK increased by 13.7%, mainly on account of depreciated rupee by over 10% as well as lower ASKMs that we deployed this quarter. Excluding the impact of foreign exchange, non-fuel CASK increased by 7.5%.

Before I hand over to Amit, I would like to express our gratitude to our employees. We are indebted to these employees who despite our interim challenges have worked tirelessly to ensure the highest levels of operation, reliability and customer service for our guests, in line with our core values. We are also very grateful to our guests for their continued support and words of encouragement which had been a source of inspiration and strength for all of us.

Jet Airways continues to make steady progress on its operational and financial turnaround and with yesterday’s approval of the bank led provisional resolution plan by the Board of Directors of the company, we remain confident of delivering a more strategic, efficient and financially viable airline.

Now, let me request Amit to take you through the financial and operating highlights.

Amit Agarwal: Thanks Vinay. Let me first talk about the Jet Group's consolidated performance for the third quarter fiscal 2019 vis-à-vis third quarter fiscal 2018.

The ASKMs were down by 2.6% as compared to same period last year. We have achieved a seat factor of 83.7% in third quarter fiscal 2019, similar to the levels achieved in Q3 fiscal 2018. In spite of lower capacity and lower number of passengers carried compared to third quarter fiscal 2018, consolidated gross revenue remained the same at Rs. 6,411 crores in the current quarter.

The total cost per ASKM increased by 83 paisa or 19% to Rs. 5.16 in the current quarter versus Rs. 4.33 in the third quarter fiscal 2018. This was mainly due to the fuel CASK increasing by 41 paisa or 32% from Rs. 1.31 to Rs. 1.72 in the same period.

CASK, excluding fuel has gone up by 13.7% and if we were to exclude FOREX impact of 19 paisa, CASK excluding fuel would have been 7.5% higher compared to the previous quarter last year.

EBITDAR for the quarter was Rs. 53 crores as compared to Rs. 1,051 crores in third quarter fiscal 2018. This quarter's results were adversely impacted by increase in fuel prices and the rise in the Brent prices had given a negative impact of over Rs. 600 crores in this quarter. This quarter includes mark-to-market gain on account of unrealized foreign exchange gain of Rs. 350 crores. Aircraft maintenance cost increased over last quarter is due to FOREX impact and increased maintenance events.

Continuing on the operational highlights for the domestic operations, :

The share of domestic revenues to total revenues accounted for 44% for the quarter. ASKMs were down by 0.9% as compared to third quarter of last year. Passenger carried decreased from 5.53 million in third quarter fiscal 2018 to 5.19 million in third quarter fiscal 2019, reflecting a decrease of 6.3%.

Gross revenue decreased by 8.3% to Rs. 2,825 crores in the current quarter from Rs. 3,080 crores in the same quarter of last year, primarily due to lower fares and lower number of passengers carried. Overall seat factor for domestic operations was 83.4%.

Moving on to international:

The share of international revenues to total revenues was 56% for the quarter and the ASKMs decreased by 3.7% compared to third quarter of last year. Passenger carried were 1.99 million in third quarter fiscal 2019, a decrease of 8.4% from 2.17 million in third quarter fiscal 2018.

The gross revenue from international operations increased by 6.8% to Rs. 3,586 crores in the current quarter. The overall seat factor in the international market was 83.8%.

Let me now take you through the details of debt and liquidity position of the Jet Group:

As on 31 December 2018, the gross debt on our balance sheet stood at Rs. 7,654 crores or $1.09 billion, a reduction of about Rs. 750 crores in the quarter compared to second quarter fiscal 2019. Of this, aircraft debt stands at Rs. 1,585 crores, about 60% of the total debt is denominated in US dollar. The net debt as on 31 December, 2018, stood at Rs. 7,299 crores, a reduction of Rs. 753 crores over September.

Let me now talk about the bank-led provisional resolution plan which yesterday Jet Airways Board has considered and approved it. The BLPRP proposes restructuring under the provisions of RBI circular of 12 February, 2018, in order to meet a funding gap of nearly Rs. 8,500 crores, which is to be met by an appropriate mix of equity infusion, debt restructuring, sale and sale and lease back, refinancing of aircraft among other things. As a part of next step the BLPRP is to be presented for consideration of each of the following consortium of lenders, the overseeing committee of the Indian bankers association, the Board of Directors of Etihad Airways and the promoter. The implementation and or any action there on will be under the provisions of, and subject to receipt of all applicable, statutory, regulatory, contractual and corporate approvals and concepts. The BLPRP envisages the company receiving the requisite approvals from shareholders at their meeting scheduled to be held on 21 February, 2019, for conversion of lender's debt into appropriate equity shares that would result in lenders becoming the largest shareholders in the company and appointment of lenders nominee to the Board of Directors of the company under the provisions of RBI circular. Such allotment of shares shall be made at an aggregate consideration of Rs. 1 in accordance with 12 February 2018, circular. Conversion of lenders debt into 11.40 crores shares of Rs. 10 each by allotment of such number of equity shares to the lenders that would result in the lenders becoming the largest shareholders in the company. Such allotment of 11.40 crores shares will be made at an aggregate consideration of Rs. 1 only. Since under the RBI circular lenders can convert debt into equity at Rs. 1, but in the book value per share of the company is in negative.

Accordingly, the BLPRP also envisages sanction of interim credit facilities by domestic lenders on terms to be agreed as well as appropriate governance structure, including the board composition in accordance with applicable statutory and regulatory requirements.

We fully understand and anticipate questions related to greater details on the BLPRP. The BLPRP has been discussed exhaustively and in detail with all involved stakeholders as well as yesterday's board meeting prior to approval. However, as ask for everyone's understanding that greater details can only be disclosed once it receives approval from all stakeholders boards. For these reasons we are unable to provide greater details than what has already been provided in our filings with the stock exchanges and press release. We are confident of the implementation of the BLPRP solution in a manner and scope that will enable the sustainability and the long-term viability of the company.

Now, turning on to the current quarter and the outlook thereof:

While the aviation market in India continues to be challenging, fares are showing signs of improvement as we enter the fourth quarter of the current financial year. As Vinay mentioned, our net restructure is already in process. As a part of rationalization of process we have announced a decision to withdraw some of our international and domestic stations. However, this does not mean that we have curtailed our growth ambitions. We are still growing an aircraft that are freed up are being redeployed on other routes.

In terms of major runway closures, operations in fourth quarter will also be impacted due to closure of Mumbai Airport for maintenance and repair activity between 11am to 5pm for three days every week, between 7th February to March 31st. Both runways would be shut on Tuesdays, Thursdays and Saturdays.

Let me now open the call to questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. We have the first question from the line of Ronan Dalal from AMBIT Capital. Please go ahead.

Ronan Dalal: Sir, my question is, your ASKs have contracted and two of your listed competitors also reported numbers and they expanded ASKs by 15% to 30%. So, my first question is that do you think that this would lead to irreversible market share losses because of freeing up of slots which you all were occupying? And my second question is, we have launched Jet Bistro, earlier we launched Jet Flexi Fares, and also you had mentioned the distribution strategy change. So you are selling and distribution costs are down by around 17%. So are we moving towards something like a LCC model? That is my second question. And in that case, how would we differentiate ourselves versus the competition? I mean, maybe there are three, four things which are looking or seeming like a LCC model, like Flexi Fare, Bistro.

Vinay Dube: Let me address your two questions, first on the ASK growths. I would like to assure you that there is nothing that is irreversible despite a dip in ASKs. As Amit has pointed out, we have not curtailed our growth ambitions, we are still growing. And aircraft that we get and currently that are being freed will continue to be redeployed. So there is nothing that affects this in the future. In terms of Jet Bistro, we are extremely proud of that. The reception we have received from our customers is exceptional, they are enjoying the food. It is just part of a continued unbundling strategy of the airline as we said. We continue to maintain a brand differential, we continue to maintain several aspects of differentiated service, that is part of our DNA. And our customers recognize that. So my view is that we will continue to separate ourselves, as we have for 25 years from the competition.

Amit Agarwal: Just to give you perspective look, we have not lost any of the slots, we continue to maintain the network sanctity and we will continue to maintain the sanctity of the network. So therefore, there is no loss of slot and therefore Vinay has absolutely correctly said that it is nothing that we have lost the market share, we have clearly the ability to get to the market share. In terms of the differentiation, it is not just the differentiation via the food or any one particular aspect, Jet continues to be a network carrier having the presence both widely into the domestic and the international network, as well as which we talked about in terms of our loyalty program, that our loyalty program continues to grow and over the last one year we have seen a 26% growth in terms of the membership. So there are many attributes which makes us the proper full service carrier, or differentiated service carrier, and we continue to work on this strategy.

Ronan Dalal: Sure. And one last thing, so you had mentioned that around 11.4 crores shares are going to be converted at Rs. 1. Just if you can tell me, what would be the equity dilution for current shareholders, in case there is anything beyond this 11.4 crores?

Amit Agarwal: So, basically as we mentioned that there is a certain restriction from our side in terms of disclosing anything beyond this at this juncture. We have talked about an equity infusion into the company. So based on the equity infusion the new equity structure will be dependent upon the equity infusion and the people who will participate into the equity infusion.

Moderator: Thank you very much. Our next question is from the line of Ayush Jain from HSBC. Please go ahead.

Ayush Jain: Sir, I understand that there might be some restrictions in terms of being able to answer this question, but I will try my luck. So you mentioned that there is a funding gap of Rs. 8,500 crores which has been identified to be met through a combination of equity infusion, debt restructuring and other asset monetization plans, like sale and lease back. Could we have some detail on what will be the split between the three of them?

Amit Agarwal: Ayush, as I said, at this juncture for me it is difficult to pronounce the individual items. But the plan envisages clearly a combination of all these three items and gives company a more sustainable capital structure.

Ayush Jain: Understand, that sir. Secondly, in terms of the issuance of 11.4 crores share happening to the lenders. In terms of regulatory, obviously that is debt being converted to equity, but in terms of preferential issue guidelines will it have to happen at a preferential issue floor price?

Vinay Dube: Okay. This is happening, as I mentioned, under the RBI circular of 12 February 2018, which enables the banks, the Indian lenders upon a default of a borrower that they can convert the shares when the net worth of the company is negative at a consideration of Rs. 1. So, since the whole reorganization or the restructuring of the debt is being done under that circular, therefore, any of these preferential pricing norms or SEBI guidelines are exempted under the provisions of that circular.

Ayush Jain: So that is an aggregate consideration of Rs. 1 for 11.4 crores?

Vinay Dube: Yes.

Moderator: Thank you. Our next question is from the line of Vineet Maloo from Birla Asset Management Company. Please go ahead.

Vineet Maloo: I have one simple question on this restructuring plan. Once the equity shares are issued to the lenders on conversion of debt of about 11.4 crores shares, does it mean this is all that is going to be issued to the lenders on conversion of debt, right? I mean, any other equity dilution is on account of fresh money coming into the company from any investors, is that a fair understanding?

Amit Agarwal: So, basically, we have said very clearly, there will be the participants, including the lenders who would participate in the equity issuance of the company over and above the 11.4 crores shares as well.

Vineet Maloo: Yes. So what I am asking, that will be in consideration of some capital coming into the company, right?

Amit Agarwal: Absolutely.

Vineet Maloo: Current equity issuance is only on conversion of debt, right?

Amit Agarwal: Correct.

Vineet Maloo: And just want to understand, this11.4 crores share is being issued at Rs. 1, you also spoke about this second step about some debt conversion or some debt reduction. So, if you could just clarify is there the amount of debt on the balance sheet coming down because of conversion into equity or it will come down only on further equity infusion from various investors?

Amit Agarwal: So, we have talked about that there will be equity infusion, sale and sale and lease back, debt restructuring as well as refinancing of the aircraft. So a combination of all this would enable us to have a certain debt reduction on the balance sheet. But at this juncture I would not be able to give the numbers of the debt reduction.

Vineet Maloo: Sure, I am not asking about the number. Just to be clear on my question, I am asking you, is conversion of debt into equity part is already being done currently, right? And the next step is actually raising of equity from various investors. There is no further conversion of debt which will happen. So any reduction in debt which happens will happen through actually equity coming into the company which is used to repay debt, or debt being restructured, etc, right?

Amit Agarwal: Correct.

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

Achal Kumar: So, definitely I will not ask about this plan which I think you are restricted in what you can say. But on the operational side I have a few questions. One about your operational challenges, I mean, previous of course you said that you are facing some operational challenges and of course your employees have been patient. But now of course what sort of other operational challenges are you facing, as in, I can see that your capacity was down 2.5% and yet your load factor was still down. Your yield was up 2.5% which is lower than the peers, which raised the capacity significantly. So, why is this sort of overall combination looks sort of worse than what peers have done or being doing? Second question about the cost, you have been saying that you have cost cut targets and now of course this quarter again your cost is up quite a lot, I mean, of course partly due to the FOREX. So, where are we in terms of those cost cut targets, are you still targeting those cost cuts or you need to sort of relook at the plan, where are you in terms of costs? And then final question, sorry, I have on terms of raising the finance through the sale of aircraft and the JPPL. So previously you were looking for a partner where you are planning to sell JPPL's stake and you were selling the aircraft, so where are you on those two transactions? Thank you.

Vinay Dube: So, let me address the first part on the operations. And honestly, I am not sure I got all of it, certainly the gist of what you are saying because as I said in my pre-log our operational liability is one of the tops we have in Indian industry, if you look at on-time performance, certainly if you look at our unit revenue performance it is about as good as it has been reported. So, I would say that operationally we continue to run an efficient airline. Of course, like anyone we would like to continue to service our guests as best as we can and our view is that our operations are running in this particular manner because of the level and proficiency of our employees, so we thank them for it as well. And on the cost side, we will continue with several aspects of our cost reduction efforts, as we have announced from a long-time back that numbers that we have implemented successfully, one of them on the distribution side that we have announced that will take effect from 1 April, but certainly there continue to be several other aspects of costs that we have identified that we will continue to attack in the coming months.

Amit Agarwal: And very clearly, the cost targets we have defined, we are well on that. As you rightly pointed out, there is this FOREX movement and some of the changes which has lead to a cost increase in this quarter. And on the JPPL, very clearly, we have this and we will continue to work on a JPPL stake sale, but not immediately, at a later stage, and that is why that is not part of the resolution plan BLRPP. But as far as the aircraft is concerned, very clearly, we have identified the potential buyers, both for sale as well as sale and lease back of some other aircrafts, and we are well on track, and that is considered as part of the resolution plan which has been approved by the board yesterday.

Moderator: Thank you very much. Our next question is from the line of Vijay Gupta from Edelweiss. Please go ahead.

Vijay Gupta: A couple of questions. Firstly, of the funding gap of Rs. 8,500 crores, is it possible to give the breakup, how much of this is actually financial debt and how much would be operational creditors? And secondly, is the entire debt of Rs. 7,650 crores going to be converted to those

140 million shares, or is it just going to be the current portion of debt, maybe the debt restructuring in this year?

Amit Agarwal: Okay. So just to give you, as we have clearly identified in the gap of Rs. 8,500 crores, there is a repayment of Rs. 1,700 crores which has been identified as a proposed fee payment, so that is clearly a debt repayment of Rs. 1,700 crores. Rest would include all the other items in order to bridge the gap. As far as the conversion of debt is concerned, as explained that 11.4 crores shares will be issued for an aggregate consideration of Rs. 1 and not Rs. 7,650 crores or the current portion of the debt.

Vijay Gupta: So, the debt outstanding of Rs. 7,650 crores, will that reduce on account of this conversion?

Amit Agarwal: Yes, by Rs. 1.

Vijay Gupta: Okay. And that funding gap, so Rs. 1,650 crores, all of that is operational creditors?

Amit Agarwal: No, so basically there are few other things which needs to be done for the company, it is not just the operational creditors. What we have shown and announced is that out of Rs. 8,500 crores, Rs. 1,700 crores is a specific for the aircraft debt repayment.

Moderator: Thank you very much. Our next question is from the line of Anshuman Ved from ICICI Securities. Please go ahead.

Anshuman Ved: I had just one small question, among the various methods prescribed in the resolution plan, one is debt restructuring. So any possibility of any debt waiver is there in that debt restructuring?

Vinay Dube: Anshuman, that is what I said, for me to detail out any of the steps would be not possible. And therefore I would not be able to comment.

Anshuman Ved: I understand, absolutely. So just one thing, is there a possibility also, the debt waiver can happen or it is not a possibility?

Vinay Dube: So, as I said, there are combination of debt restructurings which include various things, and I would just stay at that and cannot go beyond this.

Moderator: Thank you. Our next question is from the line of Pavan Kumar from CRISIL Research. Please go ahead.

Pavan Kumar: Sir, my question is regarding your aircraft utilization. So, you did mention that your utilization has come down because of your sorting of the routes and all that. But it has come down by 10%, could you just give us any guidance on when will you are looking it will improve again back to the levels you have seen in last year's same quarter?

Vinay Dube: Yes, so our aircraft utilization, as we had few of the changes in the network considering the seasonality, especially in the Gulf areas and such things where we have not taken these aircraft to fly, that has come down. But we expect let's say in the next one to two quarters the utilization to be back into operations when we implement the whole transition of a new network plan.

Pavan Kumar: Sir, is it because of your grounding of aircrafts as well, will it include debt as well?

Vinay Dube: So, basically if you know that we have also taken the ATRs, especially on the ATR side we have cut down the operations, simple reason is being the unprofitable routes because of the higher fuel prices. That has impacted a reduction in the drop by almost over 40%. That has lead to a drop in the ASKM and therefore the utilization of the aircraft overall.

Pavan Kumar: Okay. So my second question is regarding your yields, so you told that now the total yields have went up by 2.6%, but if we dissect that the domestic yields have come down by about 4%, 5%, whereas international yields are up by about 10%. So, is it because of the fare and bundling that has been happening in domestic market? And what do you expect the fare will be down going forward as well, considering that Mumbai airport is having some shutdown during February and March?

Amit Agarwal: So basically if you look at it, we have seen some bit of positive movement also in the domestic market in the fare environment. And it will be difficult for us to say that this fare regime which we are seeing, the improvement we are seeing will continue. But we believe that the improvement is necessary for the market. As you rightly pointed out, Bombay having the shutdown of runway for a certain period of time and we continue to be very well positioned vis-à-vis competition on the fare in the market place.

Pavan Kumar: Sir, a bit clarity on my earlier part of the question where I mentioned that your domestic fares are down for Q3 whereas international fares are up by 10 percentage. So is it because of fare unbundling, sir?

Amit Agarwal: Not, really. That is the nature of the market.

Rajesh Prasad: I wouldn't attribute that to the fare unbundling at all. In fact, our unbundling strategy is squarely aimed at achieving up-sell where possible and allowing our customers to chose the right product for themselves. Like Amit mentioned, in terms of our average fares and yields, we are quite well positioned vis-à-vis our competition and the relative positioning of Jet Airways vis-à-vis competition has not altered as you look at it on a year-over-year basis.

Moderator: Thank you very much. Our next question is from the line of Sakshi Mhant from IndiaNivesh Securities Limited.

Participant: Hi, this is Mayur. Just wanted to understand two things, right now what we are seeing is what I understand is once we issue the 11.4 crores share to SBI they become the lead promoters, and then accordingly Mr. Goyal and Etihad's stake come down. And then there will be fresh equity from these existing promoters. So, even SBI will pump in money in the same proportion that Etihad and Mr. Goyal will infuse, is that right?

Amit Agarwal: First of all, banks would not become a promoter that is very clear. Second thing, the shares subscription or the infusion of capital by the various shareholders will be appropriately disclosed once the whole scheme will be announced in terms of the shareholding of the various partners.

Participant: Yes, so these new shares will come probably as a right issue, and will it come only to the erstwhile promoters or it will come to all the existing shareholders?

Amit Agarwal: So, I am not commenting whether which mode of issuance will happen. So, that I am not commenting, but it will be available to the various shareholders.

Participant: Alright. And coming to the operational side, we have seen both Spice Jet and Indigo see a significant expansion in their RASK compared to previous quarter, almost to the tune of 20 paisa and above. But we have not seen a similar performance by Jet, any specific reason?

Vinay Dube: I think you need to check your numbers, because based on what we have seen from reported earnings we are not seeing that, we are seeing our revenue performance actually being close to the top end of the industry.

Participant: Alright. And could you help me with how many aircrafts we own at this point in time?

Vinay Dube: We own 16 aircrafts.

Moderator: Thank you. Our next question is from the line of Vineet Maloo from Birla Asset Management Company. Please go ahead.

Vineet Maloo: Just wanted to clarify, these 16 aircrafts that we own, the debt against them is about Rs. 1700 crores, right, is that the fair understanding?

Amit Agarwal: Yes, absolutely.

Moderator: We have the next question from the line of Tanvi Mehta from Reuters. Please go ahead.

Tanvi Mehta: So, I understand you are not going to be disclosing a lot on your lender plan, but I am just wondering if you could help us understand how the stake of the main promoter, Naresh Goyal, and Etihad Airways will change? Because I understand there will be some sort of dilution once the lenders become a large shareholder. So could you help us understand how the rest of the promoter and the shareholder stake will be?

Amit Agarwal: Immediately upon this conversion of or issuance of 11.4 crores shares, because our current outstanding shares is 11.36 crores, so you can very well calculate that how the shareholding would change immediately after this. But thereafter, you will have the infusion of equity capital into the company which would again change the shareholding structure. And that is something which we will not be able to explain to you, give you the numbers as of now.

Tanvi Mehta: Okay. And just one more question in terms of the operational control of the airline. So once the lenders get the majority control who has the operational control of the airline, if you could just help us understand that?

Vinay Dube: This is a professionally run airline with a Board of Directors, and that is going to remain the same.

Tanvi Mehta: Okay. And what about the main promoter?

Vinay Dube: Well, the main promoter is the Chairman of the Board. As we have said before, we continue to be run by professional management team that reports to Board of Directors and that structure of professional management team reporting to a Board of Directors will remain the same.

Moderator: Thank you very much. Our next question is from the line of Vineet Maloo from Birla Asset Management Company. Please go ahead.

Vineet Maloo: Just want to understand that Rs. 1,700-odd crores debt is against these 16 aircrafts, is that a correct understanding?

Amit Agarwal: Absolutely correct, that is the correct understanding.

Vineet Maloo: Secondly, I wanted to know, what is the level of overdue creditors currently?

Amit Agarwal: Look, as far as the overdue creditors, we are working very well with our various stakeholders, be it vendors, lessors, partners in terms of managing on a win-win situation for both the parties. And we would not be in a position to disclose that number of the quantum of overdue creditors.

Vinay Dube: But only thing we would like to assure that the quantum of overdue creditors has been incorporated in the resolution plan and will be taken care of to the satisfaction of everybody.

Vineet Maloo: Okay. So the resolution plan you said, it will be needed to be approved on meeting on 21st, this is what an AGM for shareholders?

Amit Agarwal: No, I think there is a slight confusion maybe. We have said very clearly that the company is seeking for three items on the shareholder's meeting held on 21st, one is the enabling decision of conversion of debt into equity, nominee directors and some of the changes in the articles of the association. So there is no requirement of approval of resolution plan in to the AGM.

Vineet Maloo: Okay. So when does the resolution plan become public, when do we get more details on that, I mean, timeline wise?

Amit Agarwal: I can only say we are working through this and as we continue to progress on implementing and getting the various requisite approvals from the various stakeholders and the consents, we will be keep on announcing and informing all of you.

Moderator: Thank you. Our next question is from the line of Saket Kapoor from Kapoor Company. Please go ahead.

Saket Kapoor: Sir, firstly, if you could give us the seasonality factor that plays in our numbers, both for the domestic and international part to have a better understanding on the numbers, the fluctuations that happen due to the season factor?

Vinay Dube: You are talking on the revenue side?

Saket Kapoor: On the revenue side only. And for the ticket pricing which we contemplate say around two, three months, how is our fuel hedged according to that? Because as the date comes nearer, the travel date, the prices certainly start moving up, so how does this dynamism play and what is the benefit the airlines derive in this process?

Vinay Dube: Okay. So first of all, this is the classical role of a revenue management department which Jet Airways have successfully managed to have. As well as, we have embarked on a greater initiative which we outlined in earlier calls that the whole revenue management department has taken a large initiative in order to improve the RASK performance of the company in the forthcoming quarters. So, that is something it is clearly the job how do you manage the inventory, what price and when do you sell at this price. As far as the hedging of the fuel is concerned, Jet Airways is not hedging the fuel. And in terms of seasonality, it is a standard seasonality which all the airlines have to follow in India and the global space.

Saket Kapoor: Sir, I will just give a very small example. If a customer books a ticket for a Delhi-Mumbai flight for 22nd of March today, it is booked at a price of say Rs. 3,000. So the airline must be making some yields on that Rs. 3,000. And when the same ticket is booked say on 20th March, it costs the customer Rs. 7,000. So, just wanted to understand what does this translate, this higher pricing towards the end, it is detrimental to your customer only. So what is the gain the entire airline industry gets from this dynamic pricing where the loser is your end customer only, the one who is trying to book the ticket at the last moment is the one who is paying the highest price. So just wanted that rationale that what advantage the airline is getting if one month ahead you are getting at one-third the price?

Raj Sivakumar: I want to make it very clear here, the winner is the customer and not the loser, because at the end of the day there is the customer that is willing to lock-in his rupees or dollars or whatever currency it is several days out, and he gets advantage of being able to lock this several days out. There is a certain set of customers, for all the right reasons, like you all, the corporate travelers are unable to book their tickets farther out and they want to wait till the last minute to book their tickets and they expect the airline to keep the seats open. And these seats that are left open for these last minute travelers, because they are corporate travelers and such, the airline has to charge a certain price for these customers because any unfilled seats when the flight takes off is a perishable commodity. So, it is wrong to look at this as a customer that lost out. The customer is actually is schedule sensitive, date sensitive customer that is less price sensitive as opposed to a leisure customer that is lot more price sensitive and less date sensitive. So, I just want to make sure that that notion is dispelled completely. And this is a global practice that is followed by all the airlines, not just in this industry but in several other industries.

Saket Kapoor: But we as customers have found out many seats vacant and checked the prices on the day of travel being double the price. So if we follow the practice of lowering of prices on an average ticket pricing also, I think so it will boost your empty seats, and the number of seat yields will go up I think. It is not good for you to carry the plane vacant with five, ten seats offering Rs. 8,000 and Rs. 9,000 for a seat where the average yield is not more than Rs. 3,500. That was my understanding of the same as a customer which I have availed for the last three years travelling through both Jet and IndiGo. Secondly, for the cancellation part, what kind of revenue are we booking on the cancellation of tickets and where are these clubbed into?

Vinay Dube: On the first part, let me say that if you decide to change professions and would like a job in our revenue management department, I look forward to receiving your resume. And then once you are here at Jet we can debate the merits of various revenue management pricing strategies.

Moderator: Ladies & gentlemen, due to time constraint that will be the last question for today. I would now like to hand the conference over to the management for closing comments.

Amit Agarwal: Thank you. We would like to thank all investors, analysts and participants on the call for taking interest in the performance of the company and to SBICAP for hosting this call. Thank you everyone. Talk to you next quarter.

Vinay Dube: Thanks.

Moderator: Thank you very much. On behalf of SBICAP Securities Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.