

Jet Airways Limited
Quarter One Earnings Conference Call- Financial Year 2009-2010
July 27, 2009

- Moderator: Good afternoon Ladies and Gentlemen. I am Manjula, the moderator for this conference. Welcome to Jet Airways Conference Call hosted by IDFC-SSKI Securities. For the duration of the presentation, all participants' lines will be in the listen-only mode. After the presentation, the question and answer session will be conducted for participants connected to International Bridge. After that, the question and answer session will be conducted for participants in India. Now, I would like to handover to Mr. Nikhil Vora from IDFC-SSKI. Thank you and over to you sir..
- Mr. Nikhil Vora: Thanks Manjula. It is a pleasure to welcome you all for the Jet Airways Conference Call for the First Quarter FY '10. We have with us representing the management Mr. Saroj Datta, Executive Director; Mr. Wolfgang, CEO; Mr. Sivakumar, Senior Vice-President, Finance; and Vishy, Vice-President, Commercial, Strategy and Investor Relations. I will handover the floor to Vishwanath and then Mr. Wolfgang to make initial comments on the company's operational numbers as also the way forward, and then we can open the floor for Q&A. Over to you Vishy.
- Mr. Vishwanath: Thanks Nikhil.
Ladies and Gentlemen my name is K. G. Vishwanath. Welcome to Jet Airways' first quarter results call. I have with me today Mr. Wolfgang Prock-Schauer, our CEO, Mr. S. K. Datta, our Executive director, and Mr. Shivkumar, Senior VP Finance. We will first go through the highlights of the results for Jet Airways and Jet Lite and then get to Q&A thereafter. I hope all of you would have seen both the presentation we have put up on our website as well as the press release and MD&A that we have issued. Let me take you through the key highlights and the Industry scenario after which I will take you through the detailed performance.
The current quarter in question continued to be a challenging one for corporate around the world and airlines bore a major brunt of this economic slowdown. Domestic Corporate traffic has witnessed a slowdown and companies are reducing their travel requirements and using alternatives to transact business. The business class traffic has also shown a decline of 24% year on year. This has left airlines chasing lower yield traffic and has led to fare discounting in the market. The Indian domestic market, which had shown a decline of around 10% for the year ended March 2009, is slowly showing signs of slow down in this declining trend. The month of June 2009 saw an increase in passengers carried by around 6% as compared to June 2008. For the quarter as a whole, traffic fell by 5% as compared to the same period last year.
As against this, industry capacity offered for the quarter reduced by 8% for the period as against same period last year, suggesting that the achieved seat factors for the industry has gone up. But this has come at the expense of yields due to discounting of fares as also lower occupancy in the business class.

Our passenger market share for the quarter was 16.2% for Jet and 7.4% for Jetlite. As against this, our capacity shares were 17.1 % and 7.8% respectively. We continue to experience high seat factor levels in the International business. For this quarter, our overall EBITDAR margin was 16.5% compared to -8.4% in Q1 FY09 and 20.8% in Q4 FY09 and this is despite increases in fuel prices in Q1, which were in the order of 8.2% as compared to the previous quarter or Q4 FY09.

Moving to the operational highlights for Jet Airways for the quarter just ended, we achieved a system wide seat factor of 73.4% versus 67.4% in the same period a year ago. Our system-wide breakeven seat factor was 85.9% versus 86.1% in the same period a year ago, as compared to this, the breakeven for Q4 FY09 was 79.8% Domestic and international yields, as measured by revenue per revenue passenger kilometer, were Rs. 5.65 and Rs. 2.68, respectively, as compared with Rs 6.07 and Rs. 3.28 in the same period a year ago. During this quarter, our capacity on the international routes went down by around 15.0% as compared to Q1 last year and by 4.5% as compared to Q4 FY09. Domestic capacity was down by 23.2% as compared to Q1 last year and by 3.1% as compared to Q4 FY09. Overall revenues were down by 16.2% versus the same period a year ago and down by 3.7% versus the immediately preceding quarter. Our domestic seat factor was 67.3% versus 72.3% in the same period a year ago and our international seat factor was 76.5% versus 64.7% in the same period a year ago. Our operations, as a whole, showed a pre-tax loss of INR 2,253 million (US\$ 47.0 mio) versus a profit of INR 2,191 million (US \$ 50.9 mio) during the same period last year. The breakdown of this number shows a loss of INR 1,482 million (US\$ 30.9 mio) on the domestic operations and a loss of INR 772 million (US\$ 16.1 mio) on the International operations. The figures for Q1 FY 09 had an exceptional impact of write back of depreciation and excluding the impact of the same, the losses would have been INR 6,941 million (US \$161.3 mio), of which both domestic and International losses contributed ~ 50% each. Overall, our operating performance has shown improvements over the last 3 quarters and this is largely due to the initiatives that we have undertaken in the areas of Costs, network rationalization both in domestic and international as well as our ability to lease out excess capacities over the last few months. This has resulted in a lower burden of aircraft on ground as well as lower operating and other costs. In this difficult revenue environment, we believe that these initiatives will help us keep our cost structure lean and once the yield and market situation improves, we can capitalize on this base to show even more improved results.

The key operating highlights for the quarter in the case of JetLite are as under :-

- 1) Revenues for the period were INR 4,211 million (US\$ 87.9 mio),
- 2) Profit after tax was INR 22 million (US\$ 0.5 mio) as compared to a loss of INR 1347 million (US\$ 31.3 mio) for Q1 FY 09.

These results include an Fx gain of INR 201 million for the quarter. EBITDAR was INR 784 million or a margin of 19.9 %. Let me now hand it over to Wolfgang who will place these results in context.

Mr. Wolfgang
Prock-Schauer:

Thank you Vishy. Good afternoon everybody. Let me begin with domestic operations. The overall domestic market is starting to see a recovery of sorts in so far as the traffic and industry seat factor numbers are concerned. This is largely due to the low fare levels, which are being offered by airlines as well as some stability in other key economic indicators. Despite such improvement in traffic, we expect the market yields to be under pressure, especially because the next three months are the worst in the domestic business. The industry capacity reduced by 7.8 % for the first quarter versus the same period a year ago.

Jet Airways' achieved SLF of 67.3% & Jet Lite SLF of 73.5% for the quarter which is in line with Industry SLF. The average fuel rate in Q1 for our domestic operations was Rs 32.7 per litre, which was lower than Q1 FY09 rates by 45.3 % and higher than Q4 FY09 by 10.4%. Other exceptional items for Q1 include Fx gains, gains on Mark to Market transactions of Rs. 506 million (US\$ 10.5 million). The company has reduced domestic aircraft capacity by 3 aircraft starting May 2009 and two out of the said aircraft were returned to the lessors during the quarter. The balance one aircraft is getting deployed on International routes. Starting May 2009, we introduced Jet Airways Konnect, our no frills single class product in the domestic business. Under this service, we have converted our 2 class B737 aircraft to a single class configuration, which has increased the seats by around 20 - 25% on such aircraft. Till date, we have 9 B737 and 10 ATR aircraft operating under the JAK brand and this represents over a 3rd of our total seat capacity in the domestic market. By October 2009, we will have 16 B737 and 10 ATR aircraft under JAK service at which point in time, close to 2/3rd of our domestic seat capacity will be on JAK. This strategy has been implemented due to a marked reduction in business class traffic. We have seen a very positive response to this and has resulted in a net revenue gain of around 6% on the flights which have been converted to JAK. The domestic EBITDAR margin was 8.8% in Q1 FY10 compared to a negative margin of 9.4% in Q1 FY09.

Current fuel surcharges are Rs.2,550 per coupon for distances less than 750 kms and Rs.3,400 for the passengers traveling more than 750 kms.

Moving to international, International operations of Jet Airways have been in a stabilization mode for the last two quarters and seat factors have shown improved performance over the last few quarters. However, in line with other markets across the world, yields have declined as compared to the previous year. We are also seeing the impact of the network restructuring initiatives and leasing out of excess capacities.

The share of International operating revenues to total was 56.8% for the quarter. Our international operations as a whole showed a pre-tax loss of INR 772 million (US\$ 16.1 mio) versus a pre tax loss of Rs.2,831 million (US \$ 65.8 million) for the same period last year.

The average seat factor for key International routes for Q1 were

USA routes were 80%

SAARC routes were 72%

UK routes for the quarter were 71%

ASEAN routes were 83%

Gulf routes were 73%

At these levels of load factors, with the exception of our ultra long haul routes, all of the other routes in the network are in the profitability zone.

We have also moved capacity from domestic to International and additionally, are inducting B737 capacity into new International routes or adding frequencies. As part of this initiative we have launched BOM-JED and we would be launching BOM-RUH, BOM-BKK, HYD-DXB, BOM-DAC & COK-SHJ shortly. We are also evaluating operating a 2nd frequency to Singapore from Delhi and Chennai and to Kuala Lumpur and Kathmandu from Mumbai. The ASEAN and SAARC routes being serviced by B737 aircraft have shown improvement in the operating results and these network initiatives will strengthen our feed potential and will further improve International profitability. There were still some instances of aircraft on ground for the quarter, the impact of which was approx \$ 4 mio for the quarter. EBITDAR margin in the international operation was 22.3% for Q1 FY10 versus -7.4% for Q1 FY09 and 24.0% for Q4 FY09. The long haul operations are experiencing high levels of seat factors and with an improvement in the market conditions and yields, these routes will move to break even or positive territory. The short haul routes have been consistently profitable and with additional capacity on the short haul routes, we expect to improve the overall international performance in the coming quarters. We have postponed future deliveries of our wide body aircraft for a year or two and we will only selectively add new routes which justify better network revenues.

Let me now spend a moment to update you on the Jetlite operations:

The operating results of Jet Lite for the 1st quarter are as under:

Achieved seat factor of 73.5% (vs 72.4 %for Q1 FY 09) Revenues of Rs. 4,211 million (US\$ 87.9 million) vs Rs. 4,280 million (US\$ 99.5 million) in Q1 FY 09 EBITDAR of Rs. 784 million (US\$ 16.4 million) in Q1 FY10 versus negative Rs. 1137.38 Million (US\$ 26.4 million) in Q1 FY09 and positive Rs. 165 million (US\$ 3.3 million) in Q4 FY09. EBITDAR margin at 19.9% in Q1 FY10 versus negative 26.7% in Q1 FY09 and positive 5.3% in Q4 FY09. Profit after tax Rs. 22 million (US\$ 0.5 million) vs loss of Rs 1,347 million (US\$ 31.3 million) in Q1 FY09. Revenue per RPKM is Rs. 3.5 in Q1 FY'10 which remains unchanged as compared to the same period last year . These numbers include a positive impact on account of gains due to foreign exchange fluctuation amounting to INR 201 Mio (USD 4.21 Mio). Jet Lite operations have also been very strong during this quarter despite the forex gain. The overall seat factors have been 73.5% and we have seen yield improvements, which has resulted in very healthy EBITDAR margins of 19.9% versus a negative EBITDAR margin of 26.7% for the same period last year representing a significant turnaround. We have fully implemented code share for all/ most of the Jet Lite flights with Jet Airways and are able to offer more convenient choice of flight timings for passengers. The Jet Lite fleet, over a period will be renewed with newer aircraft replacing the old leases, which start expiring in some months. The code sharing agreement between Jet Airways and Jet Lite is helping the company in improving traffic as well as our network coverage.

Turning to the current quarter and outlook: The yield environment in the domestic business is very subdued and is expected to stay this way for the next few months until we see any improvement in the economic environment and its impact on growth in traffic. Airlines are offering low

fares in a bid to improve seat factors in the lean season. Any structural improvement to this environment will have to come from increased yields and a controlled approach to capacity additions. On the International routes, our seat factors are in the high seventies and are very close to break even levels even in these difficult market conditions. We do not expect significant yield improvements in the next few quarters and our focus will be on maximizing revenues through higher seat factor levels. Our cost reduction initiatives in the areas of rationalization of manpower and renegotiation of agreements will start showing full impact in the coming quarters and will lead to a lower unit cost of operation.

Our “Jetairways Konnect” will help us improve seat factors and overall revenues in the domestic business and this phase of shift of capacity from 2 class FSC to a single class will get completed by October 2009. We are also evaluating a single class product offering on the short haul international routes to enable us to compete with International LCCs more effectively.

Let me close by addressing the balance sheet and our funding position. Our cash position as at June end was at Rs. 9.3 billion. (US\$ 194.4 Million). On balance sheet, debt was Rs. 148.58 billion. (US\$ 3.1 billion) while Shareholders funds were Rs. 29.2 billion (US\$ 610 million). Ladies and gentlemen, let me now open the call to questions.

Moderator:

Thank you very much sir. At this moment, I would like to handover the proceedings to International Moderator to conduct the Q&A for participants connected to SingTel. After this, we will have a question and answer session for participants at India Bridge. Thank you and over to you International Moderator.

International Moderator:

Thank you manjula. We will now begin the question and answer session for participants connected to the International Bridge. Participants connected to the International Bridge, please press 01 to ask the question. At this moment, there are no questions from participants at the International Bridge. I would like to handover the proceedings back to Manjula. Over to you.

Moderator:

Thank you very much. We will now begin the Q&A interactive session for India participants. Participants who wish to ask questions, please press *1 on your telephone keypad. On pressing *1, participants will get a chance to present their questions on a first in line basis. Participants are requested to use only handsets while asking a question. To ask a question, please press *1 now. First in line, we have Mr. Mahantesh from Centrum. Please go ahead with the question.

Mr. Mahantesh:

Sir, two questions actually. One is on your EBITDAR performance. Your domestic EBITDAR performance sequentially has fallen down from 17% to 9%. I was hunting for reasons related to that, that is one and two, can you comment upon your Bandra-Kurla Complex bid. that you had done.

Mr. Wolfgang Prock-Schauer: Okay, let me start with the first question on EBITDAR margin. Quarter Four is always the best seasonality in the whole year, so that has had a certain impact on decline in EBITDAR margins in domestic. Secondly, the market continues to have excess capacity which naturally gets compounded in the quarter with lower seasonality which is traditionally there in Q1 also.

Mr. Vishwanath: And one other point, fuel prices actually went up by 10.5% in quarter one as compared to quarter four of last year,

Mr. Mahantesh: But you had raised your fuel surcharge, that is one, and two, I also had related question below EBITDAR level which is your domestic P&L, we were led to believe that you have given up certain aircrafts, so your lease rental should have fallen down, and that does not seem to have taken place. Even, your interest cost has actually not come down, it has gone up substantially. Can you enumerate the reasons for these?

Mr. Wolfgang Prock-Schauer: I can tell you the net yields which we had achieved in the first quarter FY'10 compared to Q4 is actually lower by 9%, this is despite the fact that there was some adjustment in fuel surcharge, our yields have actually come down, and this is due to the intense competitive environment and the prevailing passenger demand.

Mr. Vishwanathan: And the fuel surcharges were increased only on the 17th of June, so the impact of that will not be seen in Q1. They will be seen only in the current quarter.

Mr. Mahantesh Sabarad: Okay, and the reasons for the lease rentals and interest costs not falling down?

Mr. Vishwanathan: The interest costs, it is basically the impact of all of the term loans that we have borrowed in the month of December and January as well as working capital loans that we have taken to be able to bridge the gap, and effectively what has happened is in terms of these aircrafts which I spoke about, those aircrafts were on D-check, they came back only in June and July.

Mr. Mahantesh Sabarad: Okay, so we should see the lease rentals falling down going forward.

Mr. Vishwanathan: On the domestic business, yes.

Mr. Mahantesh Sabarad: By how much, would you think, we should consider a drop in lease rentals.

Mr. Vishwanathan: We are only talking about 2 aircrafts which were being shifted from domestic to international.

Mr. Mahantesh Sabarad: Okay, but then overall for the company, there is no drop in lease rentals, is that what it means?

Mr. Vishwanathan: That is correct. We have not reduced our fleet size.

Mr. Mahantesh Sabarad: And your interest costs, what should be considered going ahead with the impact, because your debt on the balance sheet seems to have come down.

Mr. Vishwanathan: Debt on the balance sheet is largely an FX impact which is the balance sheet date impact because in March we had revalued our FX loans at 50.7, which has now come down to 47.9, and it is the FX impact which is showing the on-balance sheet debt to be lower.

Mr. Mahantesh Sabarad: And there is a corresponding change in the fixed assets?

Mr. Vishwanathan: Yeah, that is correct.

Mr. Mahantesh Sabarad: Okay, on BKC land.

Mr .Shivkumar We are evaluating this option on Bandra-Kurla. There are two featured corporates who have shown interest. However, we will be able to let you know about 2 to 3 months down the line as to whether that particular deal will materialize or not. If it materializes, it will solve most of our problems, and BKC will get resolved.

Mr. Mahantesh Sabarad: You are supposed to make a payment, the payment has been held back by you right?

Mr .Shivkumar There are two things. One is that the existing land on which the development is underway and the second is the land which we have paid some 2 million dollars and asked for some extension, for which application is under process.

Mr. Mahantesh Sabarad: When do you expect that to close?

Mr .Shivkumar In terms of the first deal, we are talking, and the first deal will actually take another 2 to 2-1/2 months.

Mr. Mahantesh Sabarad: Okay.

Mr .Shivkumar But there is some good signs coming up on the way. We will know only after some time exactly.

Mr. Mahantesh Sabarad: On the land front?

Mr .Shivkumar: On the land front, yeah.

Mr. Mahantesh Sabarad: Okay, you are actually trying to give up a portion of the land so that your burden comes down?

Mr .Shivkumar No, no, nothing like that. We are talking of joint development and to the benefit of all.

Mr. Mahantesh Sabarad: Okay, fine, that is all from my side. Thank you very much.

Moderator: Thank you very much sir. Next in line, we have Mr. Hemant Patel from Enam Securities. Please go ahead with the questions.

Mr. Hemant Patel: Yeah, hello everyone. One question on Jet Konnect which I had even last time. What I wanted to know is there a complete change of thinking in terms of the domestic business model is concerned because in your press release you mentioned that 2/3rd of the total fleet of Jet will be on the economy class configuration, which has been no-frills, so what I wanted to understand is what is the thinking behind this.

Mr. Wolfgang Prock-Schauer: Well, you have seen during the current economic crisis and changing consumer behavior, trends towards more price-sensitive segments have emerged, so this is a step towards the development. We always believe that there is a room for host of business models in the market, for this reason we have Jet Airways Konnect and JetLite. Jet Airways Konnect has helped us to move very fast into this market segment, but having said that, we believe that there are certain routes in the country where business class service is in high demand, we will continue to serve these routes and on routes which are more price sensitive and where there is hardly any business traffic demand, we will offer Jet Airways Konnect or JetLite. So, we believe in the changed business environment there is room for both business models.

Mr. Hemant Patel: Question on EBITDAR margins, and would that look completely dissimilar from the full-service carrier segment. What I was asking is will Jet Konnect eventually if you were to look at the current business trend and the cost structures, have a much lower margin.

Mr. Wolfgang Prock-Schauer: EBITDAR margin, we expect to be very similar. It will depend where we deploy this. In the market where we deploy Jet Airways Konnect, we think that we can achieve higher revenues per flight, this will enable us to achieve a better EBITDAR margin as compared to scenario where we would continue this traditional product. But there are markets where demand for business class is high, we explore such markets with our traditional product which will give us better EBITDAR margin. We constantly align our capacities in the markets where we get the right product offering, this will enable us to optimize our EBITDAR margin in both segments.

Mr. Hemant Patel: And just a final question. Does this mean that eventually if you start seeing more traction in the domestic legs, you will scale up capacity on your CAT-1 domestic routes.

Mr. Wolfgang Prock-Schauer: Jet Airways Konnect is not necessarily a CAT degree one issue. Jet Airways Konnect is deployed all over the country. I mean, what we have in hand is a very flexible instrument, and we will monitor very carefully how this concept is received by the passenger, and depending on this, we will turn our planes up to 2/3rds of our capacity to Jet Konnect, but we will always be flexible to market demands to deploy right capacity and the right business model. But I don't see a quick reversal in the

current trend, and consumer behavior right now is towards lower fares, and we have to adjust our strategies accordingly.

Mr. Hemant Patel: And the JetLite numbers are part of your domestic segment, if I am not mistaken?

Mr. Wolfgang Prock-Schauer: They are separate set of figures when you look in the presentation.

Mr. Hemant Patel: I am sorry, Jet Konnect. I am sorry, I mean Jet Konnect.

Mr. Wolfgang Prock-Schauer: Part of Jet Airways.

Mr. Hemant Patel: Okay, thanks a lot.

Mr. Vishwanathan: Thanks.

Moderator: Thank you very much sir. Next in line, we have Mr. Jaimin Shah from CRISIL Research. Please go ahead.

Mr. Jaimin Shah: Hi everyone.

Mr. Vishwanathan: Hi Jaimin. Go ahead Jaimin.

Mr. Jaimin Shah: Just wanted to know what are the breakeven load factors for Jet Konnect.

Mr. Vishwanathan: Breakeven load factors in Jet Konnect is in the low to mid 70s.

Mr. Jaimin Shah: Low to mid 70s?

Mr. Vishwanathan: Yeah.

Mr. Jaimin Shah: There is a price differential between Jet and Jet Konnect right?

Mr. Vishwanathan: Yes, there is.

Mr. Jaimin Shah: And then what happens in the rising oil price scenario. I mean, how would Jet Konnect be profitable then?

Mr. Vishwanathan: I think in a rising oil price scenario, it is not only about Jet Konnect, it is about the aviation business as a whole. So, it is going to be equally challenging for both full-service carriers and for LCC kind of model. What we are looking at essentially is revenue maximization than typically looking at the seat factors achieved on a particular flight. We believe that with a 20 to 25% incremental seats, even with the yield differential of around 10% to 15%, if we achieve similar or higher levels of load factor, we will be able to improve the revenues per departure in so far as the Jet Airways Konnect services are concerned.

Mr. Jaimin Shah: Thanks.

Mr. Vishwanathan: Thanks.

Moderator: Thank you very much sir. Next in line, we have Mr. Jamshed from Citi Group. Please go ahead sir.

Mr. Jamshed: Hi Vishy.

Mr. Vishwanathan: Hi.

Mr. Jamshed: A quick one for me. The cost per ASKM, how much is it lower for Jet Konnect versus mainline Jet, that is one. Two, what is your cash debt and net worth position on a consolidated basis end of the quarter, and three, how many planes that you all operate this quarter on the domestic and international side, including JetLite.

Mr. Vishwanathan: Okay, in terms of the planes, I will separately send that numbers to you.

Mr. Jamshed: Okay.

Mr. Vishwanathan: In terms of the cost per ASKM, given the current mix of the Jet Airways Konnect fleet, the cost per ASK is down by around 10% to 15%, but you also have to keep in mind that Jet Konnect also includes ATR related routes, where the unit cost is higher and so are the unit cost revenues. Going into a fully-blown Jet Konnect model by October 2009, we are looking at 25% to 30% lower unit cost per ASKM on a 737 kind of a fleet.

Mr. Jamshed: Right now, you said at 15% lower.

Mr. Vishwanathan: That is correct, because today we have got more of ATR operating routes.

Mr. Jamshed: Okay.

Mr. Vishwanathan: But once we convert more and more 737s, that is where you will start seeing a much lower unit cost.

Mr. Jamshed: But then the fuel differential goes up, right. Fuel cost goes up?

Mr. Vishwanathan: Yeah, but on a cost per seat basis, or cost per ASKM basis, 737 will be technically lower.

Mr. Wolfgang Prock-Schauer: You know, we can technically, expand 20% to 25% more seats in the Boeing 737, this will automatically brings the cost down and then you will have cost savings because of catering where you require less flight attendants on the flight, so it all adds up to the 30% Vishy has mentioned.

Mr. Jamshed: Okay, fine.

Mr. Sivakumar: I am Sivakumar here. Just wanted to ask you, what is the question you have raised on cash to net worth, what is it?

Mr. Jamshed: No, no, I just wanted to know what is your total cash, total gross debt, and net worth position as of the end of this quarter on a consolidated basis.

Mr. Sivakumar: Cash is about 900 crores, and debt is 16,188 crores, and net worth is about 1,900 crores.

Mr. Jamshed: Alright, thank you, why is it 1,900. The PBT shows 3,400. Is there such a big swing between..?

Mr. Vishwanathan: We have accumulated losses on JetLite.

Mr. Jamshed: Okay, fine, alright, thanks.

Moderator: Thank you very much sir. Next in line, we have Mr. Aniruddha Dutta from CLSA. Please go ahead.

Mr. Aniruddha Dutta: Good afternoon everybody. My questions are i) On the debt covenants, has there ever a relaxation or what is the situation right now, given the fact that the gearing would have probably pierced all the ceilings that were originally imposed?

Mr. Vishwanath: There were no specified debt covenants that we had in any of our aircraft purchase agreements, but obviously you know we have been in dialogue with both US Exim and European and they tend to understand our situation. I guess for them it is important that the aircraft which is a security for these loans carry a significantly higher market value than the loan outstanding at this point, but having said that, there were no specified debt covenants in any of the agreements.

Mr. Aniruddha Dutta: Okay, and any update on your fund raising sir?

Mr. Shivkumar: We will be closing out in the next 1-1/2 months' time to come with a proposal so as to which route we will be taking, and what will be the quantum of the fund size, and it also depends on the market position.

Mr. Aniruddha Dutta: Sure, and my second question is once the Sahara dispute is resolved, would you at any point of time look to merge that with Jet Konnect and the JetLite Services or would you still like to retain two brands?

Mr. Wolfgang Prock-Schauer: I don't want to answer this question right now. We will keep the options open. There are pros and cons to it. There are certain advantages that we have set for it. We have cost structure advantages. On the other hand, there are also disadvantages in merging. I want to keep it open this for the time being, and we see when the time is right and take a final call. At this point of time, it is better to keep the company separate. Currently we have achieved a very good cost structure for JetLite, so we want to keep it like it is.

Mr. Aniruddha Dutta: Okay, and in the revenue breakup that is there in the domestic and international businesses, there is a line of other income in domestic business which says 520 million rupees. There is a reasonable rise over the last year same quarter, could you tell me what does other income comprises of?

Mr. Vishwanath: There are two components to this. One is the foreign exchange gain, and the other one is the CENVAT credit.

Mr. Aniruddha Dutta: Okay, what is the Cenvat credit, is it about 30 crores?

Mr. Vishwanath: 23 crores.

Mr. Aniruddha Dutta: Sorry?

Mr. Vishwanath: 23 crores.

Mr. Aniruddha Dutta: Similarly other operating costs have declined significantly. Could you give a breakup of what the declines have been?

Mr. Vishwanath: The other operating cost largely includes traveling, printing and stationery, rentals, repairs and maintenance, communication cost, in-flight and other amenities and maintenance costs. So, in terms of actual breakup, I can send a file as to how these numbers have moved on a quarter by quarter basis, but these are largely impacts of all the ceiling that we have imposed internally and the cost reduction initiatives that we have undertaken, which is starting to show numbers. At the same time, if you compare one year ago our levels of operations have also gone down, so that has also got some impact in terms of other operating income.

Mr. Aniruddha Dutta: It is down about 31%, about 270 crores or so came from there.

Mr. Vishwanath: That is correct.

Mr. Aniruddha Dutta: Thanks. Yeah, that is all I had to ask sir. Thank you very much.

Moderator: Thank you very much sir. Next in line, we have Tanu from Quantum AMC. Please go ahead with the question.

Ms. Tanu: Hello.

Mr. Vishwanath: Hi.

Ms. Tanu: Well, most of my questions have been answered. Just two more questions. On the domestic side, the EBITDAR margins have become profitable mostly because fuel has gone down. So I was just wondering ,even beside fuel do we have scope for cost per ASKM without fuel further going down because that has actually gone up in this quarter vis-à-vis Q1 of FY '09.

Mr. Vishwanath: So, the increase in cost per ASKM with fuel is largely because our capacity reduction was around 20% to 25% as compared to the same period last year. All of these costs cannot be shed out of the business almost immediately, so that will take some time. As we speak, we are going through rationalization of our manpower cost and some of our expatriate pilots are being phased out to the extent that contracts are getting over. So, I guess in the next one or two quarters you will see a higher impact on that score. More importantly because of Jet Airways Konnect, you will feel that with the same airplane we will now add 20% to 25% more seats, so our ASKMs automatically will start to go up. Because of that you will feel much lower unit cost going forward.

Mr. Wolfgang Prock-Schauer: And the cost excluding fuel, we also have to take into account that certain cost factors which we cannot influence, for example the whole range of airport related costs have gone up significantly. Landing charges & rental at airports have increased, so these are costs which are out of our control. We have achieved savings on the costs where we have control and this is also one of the reasons why the costs had gone up compared to a year ago. If you look at quarter over quarter, you would actually see certain improvements in the cost excluding fuel, you would actually see the costs have come down.

Ms. Tanu: Okay, and just to understand Jet Konnect better. Would you be moving people that you have in the main company to Jet Konnect, and therefore because it is a lower yield business, we could see a lower employee cost for example, is that is the way you look at it?

Mr. Vishwanath: Jet Konnect is part of Jet Airways. They are not two different companies.

Ms. Tanu: No, why I am saying this is because you are saying 2/3rd of this capacity going forward by October will be under Jet Konnect which will be lower yields, and you did explain that margins won't get impacted, but I just wanted to know how will that happen in terms of costing?

Mr. Wolfgang Prock-Schauer: If you move to such a concept, naturally you can save cost in many, many areas. Low cost or low price concept requires less personnel to deliver these products in terms of at the airport, in terms of cabinet entrance, it requires lesser cost and catering cost, so in terms of lounges, so there is quite a number of cost items which gets reduced because you move to such a concept. Here, you don't see the reduced cost, and if you take it and proceed, you will have the advantage of 25% plus seats in the plane, so all these aircrafts do significant decrease in the cost structure per seat.

Mr. Vishwanathan: On the revenue side, it is about again 20 to 25% of higher seats, and if you are technically able to achieve the same seat factor on a higher capacity, even with the 10% to 15% yield decline, we are still revenue positive.

Ms. Tanu: And just one last question from my end. The international business is doing quite better than what the domestic business is doing for you all,

despite the fact that global economies are in the worse of shape than what India is, so just wanted to understand why is that international is faring better?

Mr. Wolfgang
Prock-Schauer:

The network we have seen in the last 1 or 2 years, we were focusing on network of Brussels which is functioning very well now, we have well established partnerships with Brussels Airlines, which is also working very well. We have reduced the capacity actually on the North Atlantic so that helps us to achieve a good load factor, and we also have started developing a hub concept through Mumbai and Delhi where we get connecting traffic from our long-haul flights from Gulf connecting to domestic points in India and to other points, so all these measured together has helped us to increase our performance in the international markets.

Ms. Tanu:

Sir, are we not in the same level of fair discounting on the international price which is what facing on the domestic side?

Mr. Wolfgang
Prock-Schauer:

Now, actually, we live in a scenario both domestically and internationally Where low fares are predominantly prevailing. I would say, however, the pricing scenario domestically is a little bit more irrational than on international scenario.

Mr. Raj Sivakumar:

Hi, this is Raj Sivakumar, the head of the revenue management here. To echo lot of what Wolfgang said, this finding is prevalent throughout the world, and all carriers are trying to fill their plates, clearly bringing the yields down, but we have got it much better over the last several months is have ability to have a network that is lot more synergized and lot more connected between both domestic and international as well as some of the international points readily taking advantage of the fixed rate and flows that we have ability to. So, we are able to more smartly manage the business, you know, where certain markets are able to still accommodate the yields, and sharing of the seats for those markets as opposed to markets that are not able to. I want to add that not only the international network well connected from the East to West standpoint as well as hub and spoke standpoint in Bombay and Delhi. We also have done a much better job of integrating the domestic network with international, and not only for Jet Airways but also JetLite, so considerable portion of the JetLite traffic and the Jet Airways International traffic are connecting between each other, and it helps both the Jet Airways International network as well as the JetLite network. So, our network connectivity is, an ongoing one; however, we are seeing a big jump in the traffic, the cross connecting traffic between domestic, international, and the various international points.

Ms. Tanu:

So, what is the kind of percentage share of international revenues going forward that we can expect. It is already 53% odd?

Mr. Vishwanathan:

No, I think both on the domestic and international, for the next 1 or 2 years, you will see a lot of stabilizing happening. Very selectively, we will have regional and international routes, and that is about the only

expansion that we are talking about over the next 12 to 18 months, so I guess the ratio is not going to be far different in the coming quarters.

- Ms. Tanu: Alright, thanks, thanks so much all of you.
- Moderator: Thank you very much ma'am. Next in line, we have Mr. Miten Lathia from HDFC Mutual Fund. Please go ahead.
- Mr. Miten Lathia: Thanks very much. What is the non-aircraft debt out of the 16,188 crores?
- Mr. Vishwanathan: About 5,000 crores.
- Mr. Miten Lathia: Okay, and could you share some details of the sub-leases and the corresponding revenues that number of aircrafts and the corresponding revenues?
- Mr. Vishwanathan: So, for the period in question, we had 9 aircrafts on lease viz seven 777s and two A330s, and they generated an income of around 48 million dollars for the quarter, under the international operations. Going forward, starting from this month, directly this gets transferred and shifted into a dry lease arrangement, and by October we will have around 4 aircrafts that will be on dry lease with Turkish, and we are evaluating the other aircrafts once the existing lease expires in terms of remarketing them.
- Mr. Miten Lathia: Okay, thanks very much.
- Moderator: Thank you very much sir. Next in line, we have Ms. Deepika from Birla Mutual Fund. Please go ahead.
- Ms. Deepika: Hi everybody.
- Mr. Vishwanathan: Hi.
- Ms. Deepika: I just wanted to check what are the average stage length now on domestic and international as also JetLite and how is the change by October as you ship more aircraft to Konnect?
- Mr. Vishwanathan: So, the average stage-length on JetLite is around 1,000 km, and in the case of Jet Airways, it is around 850 km. On the international, it is a bit tricky because we have just introduced more short-haul routes, so I will separately get that to you on the International, and that will also tell you how it will move over the next 3 to 6 months.
- Ms. Deepika: What is the average fare for passenger in the International?
- Mr. Vishwanathan: The average fare per passenger on International is around 11,300 rupees net yields.
- Ms. Deepika: And in the domestic please.

Mr. Vishwanathan: Domestic, it is 4,800.

Ms. Deepika: What is the yield on cargo currently and has anything changed in that business.

Mr. Vishwanathan: So, on cargo it is again pretty much similar from a competitive environment standpoint, yields have been lower as compared to the previous few quarters. The average yield on cargo for the domestic business is around 18 to 19 rupees a kilo, and in the case of International, it is around 40 to 45 rupees a kilo.

Moderator: Thank you very much. Next in line, we have Nadeem Parkar from Dolat Capital. Please go ahead.

Mr. Nadeem Parkar: Yeah, hi, just a couple of quick questions. With Jet Konnect in the picture, I just wanted to have a sense on do we see any kind of push in the domestic passenger, revenue passenger that we are carrying for FY '10 because everything gets consolidated in October, and also I would like to have view on the capacity as well because I believe with Jet Konnect you might increase the capacity. In fact, you will increase the capacity, so I want to know two views on that.

Mr. Vishwanathan: I will take the second question and let Wolfgang take the other one. We currently operate close to 33,000 odd seats in the domestic network that is the Jet Airways. Once, the Jet Konnect fleet gets fully converted, that 16 aircrafts by end of October, we will go to a scenario of 38,000 seats per day.

Mr. Nadeem Parkar: Okay.

Mr. Vishwanathan: So, that is the kind of increase in seats that we are taking about.

Mr. Nadeem Parkar: Alright.

Mr. Wolfgang Prock-Schauer: Okay, in terms of revenue, we expect that we can increase revenues per flight by around 5% in the respective markets where we are deploying Jet Airways and Konnect, in the market where you do not have this kind of business class demand.

Mr. Nadeem Parkar: Okay....

Mr. Wolfgang Prock-Schauer: Where we want to deploy it, we expect that compared to the overseas scenario, something like 5% increase in revenue per flight.

Mr. Nadeem Parkar: Alright. Sir, just to give a perspective, say you have carried close to 8 million passengers in FY '09.....

Mr. Vishwanathan: Okay.

Mr. Nadeem Parkar:with Jet Konnect what kind of numbers do we see? Sir, do we see an increase because of an increase in market share because of Jet Konnect?

Mr. Vishwanathan: It is hard to give a sense on the number of passengers. As Wolfgang said, I think the intent is to maximize revenue and that is what we are looking at.

Mr. Nadeem Parkar: Alright, and sir, with Jet Konnect on board, what kind of gross yields are we looking at because I am seeing quarter-on-quarter your yields have actually dropped from say last quarter it was 3000 and now it is 2740. Do we see this to be stabilizing at this level or are we seeing some more drop?

Mr. Vishwanathan: So, are you talking about the yields excluding YQ?

Mr. Nadeem Parkar: Yes, yes, excluding YQ.

Mr. Vishwanathan: So, I think you will have to look at yield including YQ.

Mr. Nadeem Parkar: Right.

Mr. Vishwanathan: So, those numbers are around 4819 rupees for the quarter.

Mr. Nadeem Parkar: Right.

Mr. Vishwanathan: This has presumably had some impact of Jet Konnect, but the bigger impact has been because of the seasonality because Q1 is technically a weaker quarter as compared to Q4, and that is why you are seeing a drop.

Mr. Nadeem Parkar: Okay, but sir, if you are flying all economy....

Mr. Vishwanathan: Yeah.

Mr. Nadeem Parkar: Do we see this net yield dropping further or we stabilize at 4819?

Mr. Vishwanathan: No, you will actually see a drop.

Mr. Nadeem Parkar: Right and what would be the drop in percentage if you could?

Mr. Vishwanathan: It again depends on market-to-market.

Mr. Nadeem Parkar: Alright, alright. Yeah, that is all, thanks a lot sir.

Moderator: Thank you very much sir. Next in line, we have Mr. Vijay from Centrum Broking. Please go ahead. Mr. Vijay your lines are open, please go ahead with your questions. As there is no response, we will move on to the next question. Next in line, we have Mr. Mahantesh from Centrum. Please go ahead.

Mr. Mahantesh Sabarad: Sorry, this is Mahantesh again. Just a followup question again on your EBITDAR margins. Going forward, do we expect the EBTIDAR margins

to actually go better because you have raised the fuel surcharges now. So, is that what we should expect for your total operations?

Mr. Wolfgang
Prock-Schauer:

Okay, in the current quarter, we don't see an improvement in the EBITDAR margins, but coming into the high season in the third and fourth quarter, we definitely expect our EBITDAR margins going up here, and where we achieved profit margins one year ago for the Q4 of 17%, and actually JetLite we have achieved the EBITDAR margin of 20%. So, this gives you some indications in which direction we are going to move.

Mr. Mahantesh Sabarad:

Okay and since you mentioned that your wet leases are going to convert into dry leases and that would mean your revenue flow, revenue stream actually falls. How does that really affect the profitability going forward because the 48 million revenue that you got this quarter will change to what kind of numbers next quarter?

Mr. Wolfgang
Prock-Schauer:

A conversion from a wet lease into a dry lease, it will not affect our bottomline. What will happen, you will see a drop in the topline of around 40% to 45% when you convert from a wet lease to a dry lease. At the same side, you will see the cost are dramatically reduced accordingly. So, for example, we release expatriate pilots who are associated with the long haul aircraft or any other cost items which are associated, maintenance cost will be lower. So, basically we will relieve those from the topline and the cost line respectively.

Mr. Mahantesh Sabarad:

Okay, thank you. Thank you very much.

Moderator:

Thank you very much sir. Participants who wish to ask questions, may kindly press * followed by 1 on your telephone keypad. Next, we have a followup question from Ms. Deepika of Birla Mutual Fund. Please go ahead.

Ms. Deepika:

Hi. I just wanted to check, what is the kind of sensitivity of your cost over rupee? Say if your rupee saving is by 1%, how do your cost structure, gets impacted by that?

Mr. Vishwanathan:

Well around 25% of our revenues are in foreign currency and around 33% of our costs are in foreign currency. So, that is the gap that you are looking at.

Ms. Deepika:

Okay. Sir, what is your outlook on the resale market per se? I mean, how is the valuation of your aircraft panning out?

Mr. Wolfgang
Prock-Schauer:

We operate all modern aircrafts like 777, like Boeing 737s next-generation, A330, and all these aircrafts in this current scenario tend to keep the value they have, and yes, we have been reading about delays as for example 787, so actually in the current scenario, this keeps the aircraft value of existing aircrafts like A330 or 777 up because naturally there is a demand for more efficient aircrafts. Same applies to 737 New Generation, there are still old... lot of old Boeing aircraft flying around.

So, in that sense, it is an advantage to us that we operate a modern fleet which tends to keep its value.

Ms. Deepika: Sir, I was more worried actually about JetLite. How does it now fit into your plans because you are running Konnect and you are having JetLite simultaneously and you have I think older aircrafts on JetLite?

Mr. Wolfgang Prock-Schauer: With JetLite, we have leased aircraft, which will in the coming months in the next financial year will get expired and will be replaced by newer ones.

Ms. Deepika: Alright. What is your outlook on currency and all that you have been hedging, and any hedging that you have under taken on fuel because you were evaluating it sometime back?

Mr. Vishwanathan: No, at this juncture, we will not be taking any hedging on fuel.

Moderator: Thank you very much. Next we have a followup question from Mr. Nadeem from Dolat Capital. Please go ahead.

Mr. Nadeem Parkar: Yeah, sorry again. Can you give me the fleet size please?

Mr. Vishwanathan: Fleet size as of June 2009 is 86 aircrafts.

Mr. Nadeem Parkar: 86?

Mr. Vishwanathan: Yeah.

Mr. Nadeem Parkar: Sir, nine you said are on wet lease?

Mr. Vishwanathan: Those are part of the 86.

Mr. Nadeem Parkar: Yeah, and of which four are likely to be converted into dry lease in October 2009?

Mr. Vishwanathan: By October, yes.

Mr. Nadeem Parkar: Yeah, and any further programs of any leasing of aircrafts going forward?

Mr. Wolfgang Prock-Schauer: Well, we had discussions with several parties to whatever leases get returned to transit to other parties.....

Mr. Nadeem Parkar: Right.

Mr. Wolfgang Prock-Schauer:or alternatively use it for our own product, but we are having discussions with several parties on that subject.

Mr. Nadeem Parkar: Right. So, to safely assume you say, 86 aircrafts is what we are going to continue for FY '10?

Mr. Wolfgang Prock-Schauer: Yeah.

Mr. Vishwanathan: It may be increased by two or three aircrafts, largely 737 aircrafts which we will use for regional and international flying.

Mr. Nadeem Parkar: Right, right. Alright sir. Thanks a lot.

Moderator: Thank you very much sir. I finally repeat, participants who wish to ask questions, may kindly press * followed by 1 on your telephone keypad. Next we have a followup question from Mr. Mahantesh of Centrum. Please go ahead.

Mr. Mahantesh Sabarad: Let me take this opportunity for another question. The LIBOR rates are actually down, yet I don't find your interest cost nor your lease rentals falling down with the static fleet. Why is that?

Mr. Vishwanathan: Okay, if you remember in the last two conference calls, we told you that we have already fixed around 60% of our dollar related liability at 3.8% to 3.9%. That is reason why we are largely flattish.

Mr. Mahantesh Sabarad: Okay and when are these contracts going to expire on the LIBOR?

Mr. Vishwanathan: No, these are basically for the balance part of the loan.

Mr. Mahantesh Sabarad: So, that means it will continue to be impacting you, you won't be able to take the low-cost interest cost advantage right now?

Mr. Vishwanathan: No, no, our average borrowing cost in terms of aircraft loans are about 3.8% to 4%.

Mr. Mahantesh Sabarad: But then in the reduced LIBOR environment, shouldn't it be dropping by one percentage points or thereabouts or 70 bps?

Mr. Vishwanathan: See, it is only 10% or 15% of our loan are on floating rates. The rest all of it are on a fixed rate basis, other than contracted out two years back.

Mr. Mahantesh Sabarad: Okay, okay. So, they are not on a floating rate basis?

Mr. Vishwanathan: Not all, not for the ones that is fixed.

Mr. Mahantesh Sabarad: Okay, okay, I understand. Thanks.

Moderator: Thank you very much sir. At this moment, there are no further questions from the participants. I would like to handover the floor back to Mr. Nikhil Vora for final remarks.

Mr. Nikhil Vora: Sorry, just one question from my side. Just wanted to know the government's thought process and also Jet Airways' thought process on FDI in aviation. While you guys already have a stated intent on this of not being comfortable with FDI, just wanted to get the thought process on this, especially in the context where I would imagine that incremental leverage is going to be pretty much impossible and equity capitalization seems to be difficult right now?

Mr. Vishwanathan: I would like Mr. Datta to respond to this.

Mr. Nikhil Vora: Yeah sure.

Mr. Saroj K. Datta: Hello everyone, good afternoon. I think all of you know that this is a rather difficult question to respond to because no one is very clear on what the government's policy itself is going to be on FDI. There have been different views sung by different participants from the government level, and I think the government is very busy with other things at the moment. So, it is a little difficult to say whether the government will liberalize FDI in civil aviation and to what extent, and I think the important point is that the liberalization only talked of allowing foreign airlines to participate in investment in domestic Indian carriers, and with the shape of the aviation industry worldwide being what it is, I do not know how many carriers today have the ability to pump in money into an ailing industry in domestic India itself. So, it is a bit debatable question. As far as we are concerned, we have consistently maintained that the present environment is not correct, it is not right to pursue liberalization of the FDI policy, firstly for the same reason that the foreign airlines would not presently be interested in investing in India in carriers who are losing very heavily because they themselves require the funds, and secondly in any event the foreign airlines' interest we believe are largely expanding their entry into the Indian market rather than promoting either the private traffic to and from India or helping Indian carriers to improve their performance. So, that is the position as we stand today.

Mr. Nikhil Vora: Sir, just one followup on this. If the guys who are operating in aviation, you think they are going to be skeptical of investing in aviation today before they are sailing, why would the other investors invest in it?

Mr. Saroj K. Datta: No, no, I think you have misunderstood.

Mr. Nikhil Vora: Yeah.

Mr. Saroj K. Datta: It is not that they are skeptical about investing. The problem is that they themselves require the funds for their own current operations and investments and expansion. So, that becomes a priority before they will be in a position to invest in India.

Mr. Nikhil Vora: Okay, okay. Yeah, thanks Saroj. Mr. Wolfgang, do you want to make any closing remarks and then we can close the call.

Mr. Wolfgang Prock-Schauer: Yeah, I think we have covered most of the subjects. I mean, to summarize that it is a difficult market environment we all know, but in this difficult environment, I think we are best positioned to come out as a

strong airline, and this is best demonstrated if you look quarter-over-quarter how our EBTIDAR margins have moved but naturally we have a high debt burden, which needs to be addressed, but operationally, you see, with times that all our measures show results, and all of you are expecting that figures will speak for themselves, but let us say balance sheet issues need to be addressed.

Mr. Nikhil Vora: Thank you. Just hope that we come out of this sooner. Thank you the entire management team of Jet Airways and all the participants for being on the call. Thank you.

Mr. Wolfgang
Prock-Schauer: Thanks.

Mr. Vishwanathan: Thanks.

Mr. Nikhil Vora: Thanks Vishy.

Moderator: Thank you very much sir. Ladies and Gentlemen, thank you for choosing WebEx's Conferencing Service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you and have a great day.
