Jet Airways Limited
Quarter Three Earnings Conference Call- Financial Year 2010
27th January '2010

Moderator:

Good afternoon ladies and gentlemen. I am Shirley, moderator for this conference. Welcome to the conference call of Jet Airways Ltd. At this moment, all participants are in listen-only mode. Later, we will conduct a question and answer session. At that time if you have a question, please press * and 1 on your telephone key pad. Please note this conference is recorded. I would now like to hand over the conference to Mr. R. Sreesankar, Senior Vice-president & Head-Institutional Equity of Tata Securities Ltd.

R. Sreesankar:

Thank you Shirley. This is Sreesankar here. Let me first welcome the management of Jet Airways and all the participants for logging on to the conference call for the third quarter results of Jet Airways, for the financial year ending Mar10. We have with us from the management, Mr. M. Shivkumar, Senior Vice-president Finance, Mr. K. G. Vishwanath, Vice-president, Commercial Strategy and Investor Relations and Mr. Farazad Patrawala, Deputy General Manager. Over to you, Vishwanath.

K. G. Vishwanath
:

Thank you Sreesankar. Ladies and gentlemen, good afternoon. Welcome to the call. We will go through the highlights of Jet Airways and Jetlite and then get into Q&A thereafter. I hope all of you would have taken a look at the presentation that we have put up on the website as well as the press release that we have issued in this regard. Let me take you through the key highlights and the industry scenario, after which Shiv will take you through the detailed performance.

The Jet group has maintained its leadership in the Indian aviation industry with the highest market share of 26.9% for the quarter-ended Dec09. The domestic air traffic market had seen a reviving trend over the past few months, based on the recent traffic data. Airlines have achieved very high levels of seat factors, as well as the yield growth during the quarter. The industry traffic grew by 29% in Q3 fiscal 2010 as compared to Q3 fiscal 2009. High yields, growth in traffic and cost efficiencies have resulted in improved EBITDAR margins for Jet Airways. On our international routes, we were able to achieve record high levels of seat factor of 82.5% for the quarter-ended Dec versus 67.8% for the same quarter last year. And we are experiencing a consistent growth in operating margins in the international business. Our overall EBITDAR margins were at 24.7% for Q3 FY10 versus 11.8% in Q3 FY09.

Moving to the operational highlights for Jet Airways:
We achieved a system-wide seat factor of 80% versus 66.2% in the same period, a year ago. Our overall yields are measured by revenue per RPK and were Rs 3.65 as compared to Rs 4.5 for the same period a year ago. This is largely due to the increased proportion of international operations which forms close to 56% of the top line for the quarter.
During this quarter, our domestic capacity in terms of ASKMs increased by 13.3% as compared to Q3 last year, which reflects the increasing impact of our Jet Airways Konnect product.As a whole, Jet Airways showed a pre-tax profit of Rs 1,058 mn or equivalent of US$ 22.7mn versus a loss of Rs 2,498mn or US $ 51.3mn during the same period last year. A breakdown of that numbers shows a profit of Rs 716mn or US $ 15.4mn on the domestic operations and a profit of Rs 342mn or US$ 7.4mn on the international operations.

The demand continues to grow at a very healthy pace. This, coupled with a stable business scenario and a steady GDP growth, is an ideal environment for yields to go up from the existing levels. For the quarter ending Dec09, the domestic and international traffic for Jet grew by 38% and 24% respectively with the onset of a favorable environment in the aviation industry. As the tide turns, Jet Airways was well-equipped to consolidate its gains on all fronts.

The key operating highlights for the quarter in the case of Jetlite were as under:

Revenue for the period was Rs 4,318mn or US $ 92.8mn and profit after tax was Rs 39mn or US $ 0.8mn, as compared to a loss of Rs 220mn or US $ 4.5mn for Q3 FY09.Our EBITDAR was Rs 788mn or US $ 16.9mn, which gives us a margin of 18.9% as compared to the 11.6% that we achieved a year ago. Let me now hand over the floor to Mr. Shivkumar, who will take you through in greater detail.

M. Shivkumar:

Hi, this is Shivkumar here.
Let me begin with domestic.
The domestic market has shown a revival in demand and the traffic increase for the quarter ending Dec was about 29%. This is largely due to the economic stability and stable capacity environment. The industry capacity rose by 9% for the third quarter versus the same period ago. Jet Airways achieved a load factor of 75.4% for the quarter, while Jetlite achieved a load factor of 78.8%. The average fuel rate in Q3 for our domestic operations was about Rs 39.4 per liter, which is higher than Q2 rates by 12.6%. The domestic capacity for Jet Airways for Q3 is higher by 13.3% as compared to the same period a year ago, due to the introduction of Jet Airways Konnect (JAK) services from May'09, as compared to the Q2 for the current financial year our capacity higher by 18%.

During this quarter, the JAK network was fully operational. We have 17 B737s and 10 ATR aircraft operating under the Jet Konnect brand. The domestic EBITDAR margin is 24.3% for Q3 compared to 12.6% in Q3 for last year and negative 14.3% for Q2 for the current financial year. Domestic operations as a whole showed a pre-tax profit of Rs 716 mn that is US $ 15.4mn versus a pre-tax loss of Rs1, 307mn, which is US$ 26.8mn for the same period in the last year.

Moving to international
The international operations have been consistently showing higher seat factors over the past few months, and this is reflecting in high operating margins. The share of international operating revenues of the total was 56% for the quarter.

The average seat factors in key segments of few international routes were:

US 86%,
UK 89%,
Asean 82%,
Gulf 71% and
Saarc 80%.

With these levels of load factors, most of our routes in the network were in the profit zone. We are increasingly adding short haul routes to improve our network connectivity and which is contributing to the overall network revenue. As a part of this, we have added new flights to the Middle East and Saarc regions.

We have started new flights from Bombay to Kathmandu and Dhaka. We have also started Delhi - Hong Kong and Gaya - Bangkok via Varanasi sectors.

EBITDAR margin in the international operations was about 25% for Q3 FY10 versus 11.2% for the same period in the previous year. Our international operations as a whole showed a pre-tax profit of Rs 342mn, US$ 7.4mn versus a pre-tax loss of Rs 1,191mn or US$ 24.4mn for the same period last year.

We have leased out four B777 aircraft currently and a further three aircraft are expected to be leased out by March. We expect the international network to be largely stable for the next few quarters. With the revival in the business sentiment, improved network connectivity, we expect to improve both load factor and yields in the coming quarters.

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

The operating result of Jetlite for the third quarter is as under:

Seat factor is 78.8%, vs 67.8% for the last year, same period;
Revenue Rs 4,318mn, US $ 92.8mn versus Rs 4,741mn, (US$ 97.3 mn) in the previous year;
EBITDAR Rs 788mn (US$ 16.9 mn) versus Rs 509mn (US$ 10.5mn)for the same period in the previous year versus negative Rs 350mn in Q2 FY'10.

We have done extremely well over Q2 in both Jet and Jetlite.

EBITDAR margins are at 18.9% in Q3 FY'10 versus 11.6% in the same period in the previous year.
Profit after tax Rs 39 mn (US$ 0.8 mn) versus a loss of 220mn (US $ 4.5mn) in the last year. Revenue per RPKM is Rs 3.80 in Q3 versus Rs 4.3 in Q3 '09 last year.

Turning to the current quarter in the outlook,

The domestic traffic has seen a reviving trend over the past few months based on recent traffic data. Airlines have achieved high levels of seat factors as well as yield growth. The industry grew by 29% in Q3 as compared to the last quarter, also the same period in the previous year. The trends for the next few months look healthy and the capacity situation appears to be under control.

On the international routes, we were able to achieve a seat factor of 80% for the past few months and are experiencing a consistent growth in operating margins. We expect to see a premium demand revival in the next few quarters.

Our "Jet Airways Konnect" known for its all economy class service has helped us to improve seat factors and overall revenues in the domestic business and we are now in full-fledged operations as per our original plan.

This strategy has helped us to cement our position as the leader in the domestic industry and we are clearly ahead of competition by a good margin. The difference in market share of the Jet group and the second biggest carrier is 6% points for Q3 in the current financial year.

We have been successful in adapting to market realities and have been able to lease out excess capacity for medium term. Our cost initiatives are leading to lower cost per ASKM, while we continue to focus on premium traffic and improvements in revenues per departure.

Let me close by addressing the balance sheet, and the funding position

Our cash position as on 31st December is about 810 crores.
On balance sheet debt was about 14,000 crores. Shareholders funds were about 25.95 billion.

That will be all, gentlemen. We are now open to questions that you may pose on us.

K. G. Vishwanath:
Let's take questions now.

Question and Answer Session

Michael C Joseph (HDFC): Okay. How many aircraft are leased out now?

K. G. Vishwanath: Currently, we have four B777s which we have leased out and in the next few weeks, we will finalize the lease-out plan for three more B777 aircraft.

Michael C Joseph: Fine. And as regards to the aircraft in the pipeline, how many aircraft are there in the pipeline for delivery?

K. G. Vishwanath: We have very limited aircraft, just one or two aircraft for the calendar year 2010. As you'll recall most of our aircraft deliveries, which were due to come in, in fiscal 2011 and 2012 have been postponed by anywhere between 12 to 18 months. Short to medium term, there is very little capacity addition that we are planning.

Saurabh Das (Sundaram BNP): Good afternoon everybody. Thanks for the opportunity. My first question is regarding our international operations. You broadly broke up the seat factors across the various routes, if you can just broadly give a sense of the revenue contribution to the international routes from each of these regions? US, Europe, Asean and Saarc, that will be very helpful.

K. G. Vishwanath: The US routes contribute to around 31% of the total top line. The UK route is around 22-25%, similar number with the Asean routes. The Gulf route is around 20% and the balance is Saarc.

Saurabh Das: Okay. And this is regarding the international routes seat factors and along with that competition you are facing in those routes. If I look at the seat factors, it's very stable at 82% and if I remember previously we had discussed, that this is probably the best an airline can try and achieve. So are we constrained in terms of capacity or do we see that any further addition of aircraft in that particular route may distort the supply demand dynamics? And if I see the other airlines, especially the Asian airlines for instance, AirAsia and Tiger being now very aggressive on the India, Asean routes. What's your sense on competition on those routes?

***K. G. Vishwanath**:* Regarding competition, we are not seeing incremental capacity come to a very large extent in all of these markets. You will see the odd ball airlines trying to connect newer points in India, with their hubs anywhere in the world. Having said that, a lot of our incremental traffic has come because of the improved connectivity that we have had or we have built over Bombay and Delhi, which are key hubs for us. At the infancy of our international operations, we were largely dependent more on point to point traffic between India and UK. But in time, we have managed to build our network in such a way that we are able to connect other points in South East Asia to Europe, US and UK. And that's what actually resulted in an increase in such load factors.

***M. Shivkumar**:* To an extent that even Virgin's withdrawal has also helped in reducing the capacity in the market.

***K. G. Vishwanath**:* Correct. So we are seeing a more stable capacity environment in the international market. A lot is still to be achieved in terms of the front-end or the business traffic starting to revive. And I think it will take some more months before which we can see that period. But going forward, I guess we can start peaking out at somewhere between 85 and 88% on a year round basis and that's the environment where we will first shoot for yield improvement before adding new capacity.

M. Shivkumar: There was also news yesterday that the UK recession is formally over and they have clocked in higher GDP growth.

Saurabh Das: Right. This is again regarding your outlook on the ASKMs for this route. You've mentioned that you are making Delhi and Bombay hubs and you are connecting to further places. So does that mean that with the same fleet size, we'll be able to attain higher ASKMs, clock higher ASKMs going forward, or we have reached kind of?

K. G. Vishwanath: So we will see marginal improvements on the utilization and in the ASKMs. What we are doing is, we are using the 737 aircraft for domestic operations during the day and we are operating them in the night to other shorter distance points like the Gulf or South East Asia or Saarc, to be able to improve the utilization on the 737 fleet. We are currently at close to 11 hours of utilization on the narrow body fleet. And we are looking to increase it further by about 5% to 10% in the short to medium term.

Saurabh Das: And my second question is related to your deleveraging plans, if you can throw some light on that?

M. Shivkumar: We are working towards raising these funds through the QIP route and the process in currently underway. At least, we hope that over the next eight weeks time, we will cement to where we are actually going to go ahead and what is the amount that we are going to be contemplating. At this juncture, our thinking is about 150-200mn. Coupled with, we have also got proposals for undertaking sale and leaseback of aircraft which we have to go through a court route, to close out, due to Sahara's ongoing litigation. And both of these proposals, we expect it to materialize over the next 12 weeks.

Saurabh Das: The sale and leaseback for CY10, any broad idea of that?

M. Shivkumar: We have proposals; we are talking about B737 going out of our system. There will be a lot of cash available in this, so we are evaluating all the options that are available with us at this juncture.

***K. G. Vishwanath** :* *O*n an average in the previous fiscal years, we have done anywhere between 4 to 5 aircraft each year. At this point in time, we are still yet to determine how many aircraft.

Saurabh Das: And sir going forward, do we intend to use the leased model carefully, because if I look at some of the Indian airlines, the low cost ones especially, they seem to be having the best of worlds, wherein, when the asset prices were low, the lease rentals severed. Even when the asset prices were going up, the lease rentals haven't changed much. So do you think that model works better in an Indian scenario or what's your take? You still stick to the 50-50 split between leased and owned?

K. G. Vishwanath: Yeah, we will stick to the model of 50-50. Even in the leased ones, what you are talking about sale and leaseback is with respect to those leases where we are having currently high rates. There are some rupee borrowings also which we would like to convert into US dollar, and that also will give us substantial benefits over a period of time.

Anirudh Dutta (CLSA): Hi, good afternoon. A couple of things, one is the sale and leaseback, you need to go to the court for approval for finalizing or how does the process work? And what is the timeline or the event timeline at least in terms of the Sahara court case?

K. G. Vishwanath*:* On the Sahara court case, there is a date which has been given towards the end of this month, that's in two days time, where the court will decide on a further date, when both the parties' rejoinders will be heard. The approval is largely because, initially when the case was filed, the high court had precluded Jet from selling off its, any of its major assets. And that's the reason why we will have to specifically go to the court to be able to seek permission. We are confident of receiving the permission but what we are parallelly doing is, we are working with various lessors to get the deal done.

Anirudh Dutta: Right. And then looking at the quarterly results, there is a substantial reduction in operating expenses in the case of domestic operations. I was wondering, one is, is this the level from which cost can further come down? Is this mostly due to the fact that your capacities are moved to Jet Konnect and is there any forex gains etc which is part of this?

K. G. Vishwanath: Okay. The operating cost reduction has largely come about in two line items. One is of course the payroll and the salary line, where our head count has actually gone down from 13,400 in Jan09 to around 11,400 in Dec09.

Anirudh Dutta*:* I am not talking about the salary. Sorry. Sorry Vishi, I am not talking about the salaries, which is?

M. Shivkumar: Okay, I'll answer this. You see, there are no forex gains involved in these expenses. Forex gains are reflected in other income and that also this financial year was not much marginal. Last year, it was reflected, the way of reporting other operating expenses include forex losses and the gains are taken in other income. And this year, other income is not much. Last year, forex loss was about 70 odd crores.

K. G. Vishwanath: The other operating expenses, there was a reduction in maintenance cost, as we have been talking about the fact that we have been renegotiating most of our maintenance agreements. That's also reflecting a lower and a much more steady charge that you will see from here on, on a quarter on quarter basis. Other than that, it's been most of the other operating expenses on which we have had a tight control and we are actually starting to see the impact of that, in terms of the lower cost per ASKs. In terms of how much it can go down further, I would think on a year on year basis, you'll see another 5% to 10% lower cost per ASK going into the next year.

Anirudh Dutta: Sorry, this engine bit, could you explain again Vishi, I missed that?

K. G. Vishwanath: Earlier, at least for the past 12 to 18 months, we did not have a contract for engine repair on a power-by-the-hour basis. With the result, we were only able to account for engine expenses only at the time when the engine event actually occurred. And if you see, over the past 3 or 4 quarters, there have been significant charge on a maintenance cost largely because of such engine removals. Now, it will be more of a steady charge as and when we keep flying these engines at a much lower price than what we have been paying in the past.

Rahul Bhangadia (Lucky Securities): Thanks for taking my question sir. If you could just throw some light on the kind of capacity additions that you are seeing in, on the domestic side of the business. We understand that Jet by itself is not doing too much but what are others up to and your perspective on that?

K. G. Vishwanath*:* What we know that, today the total industry for the domestic business is around 240 aircraft. What we understand based on the orders placed by the other carriers, which are largely the LCCs like Spice and IndiGo, we believe that capacity will increase, assuming that all of these aircraft do get delivered, anywhere between 12 to 15 aircraft for the next year, represents close to a 5 to 6% increase in capacity. But having said that, we also realize that carriers like Spice now will have an opportunity to fly international. So we need to wait and see what proportion of the existing capacity gets diverted into international. But I would think broadly, any capacity addition to the extent it's below 8% is still a manageable number, largely because the demand is outgrowing supply. And in this kind of a scenario, we expect yields to be more stabilized and we also see improvement in yields going forward.

Rahul Bhangadia Do you have a similar sense on 2011 as well, this was for 2010?

K. G. Vishwanath: I guess both of these carriers are looking at adding anywhere between 4 to 6 aircraft every year. So basically we are saying that 5% to 7% capacity addition every year is possible from these guys, if all the orders do materialize.

***Rahul Bhangadia**:* Okay. And sir, given the yields that you got in December, are those the peak kind of yields that you can get? Or you expect, going ahead, to get something better than that, maybe next year, December quarter or this year December quarter?

***K. G. Vishwanath**:* Yields achieved in December were at least 35% lower than the historic peaks that we had achieved in December 2009. And that was the point in time where fuel prices had peaked out at close to 147 dollars. What remains to be seen whether we will be able to achieve those kinds of yields in the immediate future. But I am very confident that on a step by step basis, we should be able to reach that over the next few quarters.

***Rahul Bhangadia**:* And just a short term thing, you are already, almost through with January. How has this quarter been?

***K. G. Vishwanath**:* So the load factors for January were around 75-76% for domestic and around 84% for international.

***Rahul Bhangadia**:* Sir, where do you see the demand in the domestic sector in CY10?

K. G. Vishwanath: We would expect a growth of 1.5x to 2x of GDP growth, which makes that 15% number doesn't seem to be unrealistic.

Rahul Bhangadia: So, which you mean that the load factors would improve, because you are talking about 5% capacity addition?

K. G. Vishwanath: Correct. So this will either result in higher load factor or improvement in yields given that once the airlines start hitting 80-85% on a sustained basis, that's the time to add new capacity or even increase yields.

***Rahul Bhangadia**:* Do we look at taking back some of the aircraft that we have leased out, to be able to capture these upside?

K. G. Vishwanath: The aircraft that we have leased out wide body aircraft, which largely cater to international business. On that leg of the business, we are not looking to expand very rapidly over the next few quarters. We will have more of a stabilised fleet. We will only look at adding short haul routes, which will be operated on a 737, which is a smaller aircraft.

***Rahul Bhangadia**:* So you look to take something on a lease basis sometime sir? Or you would be sweating the existing assets?

K. G. Vishwanath: At this point in time, it's possible for us to sweat the existing aircraft by operating them in the night into international operations. But to the extent we require newer aircraft, we can always go to the leasing market. In a matter of 1 or 2 months, we can still get newer aircraft.

Rahul Bhangadia: Okay. And just one final short question, you said about 75% occupancies in January. How much have the yields dropped by? Or are they stable in comparison with the December quarter?

***K. G. Vishwanath**:* Yes, it has been stable as compared to December.

Mahantesh Sabarad (Centrum Broking): Hi Vishi. One question, maybe if you can tell us of the 2.4 million domestic passengers that you carried in the quarter, how many flew the Jet Konnect route? If you can provide a similar number for those previous quarters, September quarter?

K. G. Vishwanath: Yes. It is only the Q3 number which is largely comparable for Jet Konnect. So I will give you that number. Out of the 2.4, around 1.57 traveled on Jet Airways Konnect and there is no comparable number largely, because only from October we went full steam with Jet Airways Konnect.

Mahantesh Sabarad: Okay. Yet I find that your average gross revenue per passenger is up sequentially from 4,080 to 4,904.

K. G. Vishwanath: Correct.

Mahantesh Sabarad: How was that possible?

K. G. Vishwanath: In September-end and in October we had two rounds of fare increase in the domestic market. And both of them resulted in around 15% to 20% increase on an overall basis. And that's the reason why we are seeing an increase in the domestic yields. And given that both November and December were very high seat factor month, we didn't see discounting in the market coming from the other airlines.

Mahantesh Sabarad: So if I were to just, if you can just colour the revenue per RPKM, in Indian rupees that you achieved a 5.35 for the quarter. How much of these 1.57 million passengers would account for in term of their rupees per RPKM? Will it be around the Rs3 and 3.2, the typical LCCs would have or…?

K. G. Vishwanath: It would be higher by around 10% as compared to the other LCC.

Mahantesh Sabarad: So you are at around 3½ rupees per RPKM for the Konnect?

K. G. Vishwanath: That is correct.

Mahantesh Sabarad: Okay. And secondly, another similar question on the expenses side. You have done a great job of reducing your expenses, the part of which you explained. But your selling and distribution expenses in the domestic side are still prevailing high. When I say high, my analysis are limited to the fact that Jet Konnect comes in and should have actually lesser S&D expenses. So am I missing something here?

K. G. Vishwanath: No, what has happened is, on the selling and distribution, it is largely because of the GDS cost, which is still done more on a passenger basis. So to the extent, we had more of passengers that we operated on the Jet Konnect. Because of this, the GDS cost, which is the unit cost on a per passenger basis, that has gone up. Commission levels broadly have remained flat. And over the next few quarters with our initiatives on the direct connect model as well as getting more passengers on the website, you'll see that going down.

***Mahantesh Sabarad**:* How much is the GDS cost per passenger?

K. G. Vishwanath: 3½ dollars, my apologies.

***Mahantesh Sabarad**:* Okay, you can do away with that on the Jet Konnect, is what you are trying to tell, right?

K. G. Vishwanath: That is correct.

Mahantesh Sabarad: Okay, I think, that's fair enough. Thanks for answering my questions.

Miten Lathia (HDFC Mutual Fund): Three questions. I think in the answer to the previous question, you had mentioned that you expect to get your peak yields again over the next few quarters. That would imply YoY improvement of 30%-35% of yields, is that what you are trying to say?

***K. G. Vishwanath**:* No, I am only trying to say that our yields are still lower by around 30%-40%. Not in any way suggesting that we will get there in the next few quarters. But having said that, if the capacity demand situation continues to behave the way it has been, it provides considerable scope for yield improvement going forward.

Miten Lathia: Okay. And based on forward booking trends, could you give us some sense of what your January to March quarter would look like, vis-à-vis either Q3 or Q4 of last year?

K. G. Vishwanath: On the international business, we have some sense as I mentioned in January, we are already at 84%-85% for the month. Feb and March also looks strong, at this point in time both Feb and March are in the high 70's, low 80's. On the domestic business, 74% is the achieved seat factor for January. February is historically a little bit weak. But we expect March to be much stronger month going forward.

Miten Lathia: So, a 10% decline in traffic on a sequential basis could be reasonable? That is the normal seasonality that you would see from Q3 to Q4 in any case?

K. G. Vishwanath: It won't be as high as 10%. I would think that it would be anywhere between 5% to 7%.

Miten Lathia: Okay. Another one on costs that you mentioned earlier, you expect a 5% to 10% decline in overheads next year. That was for this quarter 3 of this year or the average of this year?

K. G. Vishwanath: I am talking about fiscal 11 versus fiscal 10.

Miten Lathia: Okay. So all overheads including employees, you are saying should be 5 to 10%?

K. G. Vishwanath: Correct. All costs excluding fuel. Our target is to achieve a 10% reduction.

R. Sreesankar (TATA Capital): Yeah, I have got a couple of questions, Vishwanath. We have got this Jet Konnect, which is a full economy class airline. When the market became a bit tight and the passengers number started dwindling off, with the passenger number coming back up in a strong manner, is there any kind of thoughts on your side to go back to convert some of these Jet Konnect flights back into the full service carrier, like the business class as well?

K. G. Vishwanath: Yes. We want to wait for another 1 or 2 months, because Feb is when the demand softens to some extent. We would like to wait for the end of Feb to be able to see whether there is a revival in the business segment of the demand. Jet Konnect was largely created to be able to take care of a reduction in the business class of the premium traffic that we had, which was starting to go down. The last 1 or 2 months, we have seen some push up in terms of the business class demand as such. What we will look at is in the next 3 to 6 months is that whether some of the existing rotations on Jet Airways Konnect can be taken back into Jet Airways full service or even look at a smaller business class cabin, in terms of whether we can introduce something like that in stronger routes where we are seeing demand revival.

R. Sreesankar: Okay. And my second question is regarding the yields in international routes. You mentioned that in the international routes, you are fairly comfortable on the long haul, and you are trying to look at the short haul. But traveling on the long haul, I see most of this, I think the load factors are pretty good. Does it mean that there is too much of capacity coming in or rather getting added from other carriers in this region?

K. G. Vishwanath: Lot of the capacity on the long haul routes is actually from the Gulf carriers like Etihad or Qatar or even Emirates getting into markets like India and having passengers over Dubai to give a huge connection over their points as such. In fact, that we have seen a lot of traffic from Europe to be able to feed in both to India and to the US. And incrementally, what we are doing is, we are back filling the aircraft with traffic into Kathmandu, into Dhaka and into Colombo. Our intention is to go and be clear market leaders in the other Saarc countries as well, given that those countries do not have a strong national carrier. So beyond India we are looking to strengthen our markets in the Saarc regions, which is largely Bangladesh, Nepal and Sri Lanka. So to the extent, even if there is a capacity glut, we can start shifting our demand focus to all of these new points.

Shweta Dewan (IDFC SSKI): Hello, hi Vishi. Congratulations on a great set of numbers. I just wanted to know, what is the consolidated debt in dollar terms on our balance sheet right now?

M. Shivkumar: 3.1 billion.

Shweta Dewan: 3.1 billion. And we have not done any repayments as of now. And how does our repayment schedule look now that we have started making some money?

M. Shivkumar: We have been making repayments. In the normal course, per annum it is about 1000 crores.

K. G. Vishwanath: We have 200 million dollars of aircraft loan repayment on an annual basis. So every quarter we typically repay 50 million dollars on the aircraft loans.

M. Shivkumar: And the leases that we are making and there are some other payments also that we have repaid in this current financial year, which includes some of the loans which we have taken for aircraft financing on a short term basis. And that process will continue going forward as well. In case we receive, when we do these large transactions like sale and leaseback or the QIP, then we will reduce all the rupee debts to an extent that could be possible out of those processes.

K. G. Vishwanath: So that time we will look at pre-payment option for some of these rupee debts which are at high cost of around 12% or 13%.

Shweta Dewan: So as of now, interest cost will broadly be maintained? Until and unless the cash comes in, we are able to repay out?

K. G. Vishwanath: Yes, yes, correct.

Shweta Dewan: And what are the other big outstanding that we have in the near term except for debt repayment?

M. Shivkumar: Other than debt repayment, there is only certain working capital related thing and that will be there about 250 crores at best.

Shweta Dewan: Okay, okay. And just one more thing, on the supply side, just wanted to understand, is it possible to lease aircraft at the same level at which we did earlier? Or are we getting lower rentals lease? And also, do you think, the ability to sale and leaseback in this market is probably lower than what it was a couple of quarters back or has it improved? Can you shed some colour on that?

K. G. Vishwanath: It depends on the kind of fleets that we are talking about. The 737 is still a very good marketable aircraft in today's environment. And we are getting very good offers from lessors, who are willing to do a sale and lease.

In terms of lease rates per se, we have not seen any softening in the lease market, so the rates seem to be pretty much stable as compared to what they were quarter or two quarters ago. But having said that from the lessors standpoint, India is being looked at as a very high risk market, given that some cariers have not had very good history in terms of repayment, and the difficulties that the lessors have been facing in terms of repossessing the aircraft. So I guess to the extent we have a good credit rating and a good relationship with the lessors, only that will enable you to get lower rates from the existing market rates at this point in time.

Shweta Dewan: Okay. And just one last thing, do we have a significant part of our fleet is leased by us. Is any of that coming up for renewal? Are we planning to renew any of that or how does the timeline work in terms of that?

***K. G. Vishwanath**:* In calendar year 2010, we have around two aircraft redeliveries. In calendar 2011, we have another three or four such redeliveries planned. Closer to such re-delivery dates, we will negotiate, whether we need to increase the lease period or even re-deliver the aircraft. We are looking at, to be able to replace these older aircraft with newer leases. To the extent, that is not possible in the short term, we will extend the existing deadlines that we have. And on Jetlite, though we are looking to, we have already figured out and most of the older aircraft, which are coming up for lease expiries, are being replaced with newer leases.

Shweta Dewan: Right. And that's happening substantially in the calendar year?

***K. G. Vishwanath**:* In the calendar year. So by September, all of the seven CRJ aircraft which are in the Jetlite fleet will get out of the system. We will replace them with either 737 aircraft or smaller ATR aircraft.

Shweta Dewan: Just one last question, once we do this and we replace the older aircraft with new aircraft, that would probably mean higher lease on them as well. So what would be the cost benefit, in terms of probably lower maintenance in the new aircraft, we will probably pay higher lease?

K. G. Vishwanath: In fact the lease rentals that we are going to pay are going to be pretty much similar to what we have been paying, because these aircraft were taken in 2003, and they were on a seven-year lease. At which point in time, the lease costs were broadly the same. Incrementally, we will have benefits on the maintenance as well as on the fuel consumption, given that they are newer aircraft.

***Mahantesh Sabarad**:* Hi Vishi. Just one question, just to clarify, the Turkish Air still has our aircraft and they are on dry lease and not on wet lease, am I right?

K. G. Vishwanath: That's a correct statement.

Mahantesh Sabarad: And those are four 777s, correct?

K. G. Vishwanath: And we are looking to lease out three more 777s by end of February.

Mahantesh Sabarad: You had these 330s returning back to your fleet. Where have you deployed them?

K. G. Vishwanath: They are currently being deployed in the UK for some days in a week and on the US routes.

Mahantesh Sabarad: Okay. And just one final question, this pertains to your BKC plot. Any updates you can provide us on that?

M. Shivkumar: We have 3-4 proposals which are still under examination. We have not closed out anything yet.

Mahantesh Sabarad: And will it be linked to your equity issue kind of thing?

M. Shivkumar: Not necessarily. As you have seen in the paper, everyday you see different hikes being granted. If we do anything in a premature way, possibly we will lose out on whatever better rates that we would get.

Mahantesh Sabarad: And this is a four FSI kind of?

M. Shivkumar: Currently, this plot we can make one million square feet of construction there, today.

Miten Lathia (HDFC Mutual Fund): Hi. Just one follow-up on the international side. On the UK and US routes we have fairly strong load factors. Does that mean going forward in FY11, the way it is largely yield improvements and of what magnitude should one expect? And then I have one more in Jetlite.

K. G. Vishwanath: It is very difficult to put a number on what the kind of yield improvement will be. But what I can only say is to the extent we see a revival in the direct point to point traffic. We will start dropping off passengers which, today we are carrying onwards to Kathmandu or Dhaka or any other point in the South East Asian market. Or you are in the domestic and start improving the yields per seat on that route. Having said that, there is also potential for us to increase the business class load factor and yields on that route. We are currently running at the low to mid 60's in terms of our business class load factor.

And we can see that going up to the high 70's or even in the 80's. Incrementally, we have the Commonwealth Games, which will get us a lot of traffic from Europe, from South East Asia and even from the US and also the World Cup which is going to happen. So we are expecting a good year going forward on both the UK and US routes.

Miten Lathia*:* Okay. And obviously the Middle East which was I think mentioned at 71% still has a long way to go in terms of load improvements.

K. G. Vishwanath: Right. See on the Gulf routes, November was a bad month and it is historically so. So October and December have actually pushed the seat factors to a number which is as much as 71%. On a year round basis, we expect to achieve close to 75% to 80% on that, on the Gulf routes as such.

Miten Lathia: Okay. And if one were to look at some LCCs results for the December quarter, they had a fairly good run in terms of profits. What would differentiate Jetlite from those LCCs? And Jetlite probably has just about broke even, so how can we take that up to probably what the other LCCs are managing to achieve?

K. G. Vishwanath: I would think there are two or three reasons, because of which Jetlite at this point in time is not performing as well as the other LCCs. One is of course the perception in the minds of the consumer, where they believe that Jetlite is inferior to all of the other LCCs and that's something which will change over the next few months.

Secondly, because of the fact that out of the 23 aircraft in the fleet, at this point in time, we still have two classics, which are not being operated and which are on the ground. And around two to three CRJs, which are due for re-delivery. And all of the CRJ fleet which will get re-delivered by the end of September. At that point in time, we will have largely a 737 fleet, all of which will be operating and the revenue potential of those aircraft will be very similar to the other LCCs in the market. On the cost side, we are more or less similar in terms of the cost per ASK, on the Jetlite fleet as compared to all of the other LCC operators.

Miten Lathia: So would FY11 be a year when we would be able to benchmark Jetlite to other LCCs or that would still not happen in FY11?

K. G. Vishwanath: Third quarter of FY11, you will see pretty much a comparable number to all of the other LCCs.

Moderator:
Thank you sir. There are no further questions. Now I hand over the floor to Mr. R. Sreesankar, Head-Institutional Equity of Tata Securities for closing comments.

R. Sreesankar: Thank you Shirley. Let me take this opportunity to thank all the participants and also Mr. Shivkumar, Mr. Vishwanath and Mr. Patrawala for joining us on this call and giving us more insight into the working of Jet Airways for the third quarter FY10. Thank you very much.

M. Shivkumar: Thank you.

K. G. Vishwanath: Thank you so much. Thank you all of you.

Moderator:
Thank you sir. Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a pleasant evening.