

Press Release

New Delhi, 10th July 2019: This statement is issued to present a factual perspective to all stakeholders in connection with the controversy raised by Mr. Rakesh Gangwal relating to certain related party transactions entered between InterGlobe Enterprises and its Group entities (The IGE Group) and InterGlobe Aviation Limited (IGAL).

Background: IGE and its founders (Rahul Bhatia and family) are one of the two promoter groups of IGAL, which owns and operates IndiGo. For several decades, before IGAL was founded, IGE and its founders have been involved in diverse areas of aviation industry including provision of services to the aviation industry at large. This connect with, and experience in, the aviation sector was the fundamental reason for IGE to think about setting up an airline.

From the inception of IGAL and commencement of its flight operations in 2006, IGE and some of its group companies have provided certain services and facilities to IGAL. The dealings between IGAL and the IGE Group are “related party transactions” (or RPT) as defined in the Companies Act, 2013 and SEBI (LODR) Regulations, 2015. All RPTs have been executed on an arms’ length basis and in the ordinary course of business. The IGE Group has nurtured and supported IGAL through its formative and expansion years by making available these services.

Over the years, the RPTs between IGAL and the IGE Group have been in six areas: (i) Real Estate leased to IGAL; (ii) Call Centre and IT Services; (iii) Simulator Training Facilities; (iv) GSAs (originally for domestic passenger and cargo, and for certain foreign markets); (v) Shared Services; and (vi) Crew Accommodation at Accor Hotels.

As on date, RPTs exist only in four areas: (i) Real Estate leased to IGAL (ii) Simulator Training Facilities; (iii) GSAs (for limited foreign markets only); and (iv) Crew Accommodation at Accor Hotels. The table below gives the monetary value of RPTs in these four areas for the financial year 2017-18 and 2018-19:

Nature of RPT	2017-18 (Audited) Rs. (in crores)	2018-19 (Unaudited) Rs. (in crores)
Real Estate	15.73	15.83
Simulation Training	75.63	96.48
GSA (Commission + Rent)	6.58	18.04*
Crew Accommodation	21.02	19.77
Total	118.96	150.12
<u>Basis IGAL Financials:</u>		
% of IGAL Consolidated Turnover	0.50	0.53

**The amount reflects increase in flight operations and passenger traffic.*

The background and key details on each of these RPTs are set out as follows.

1. Real Estate:

The IGE Group entities have leased/licensed diverse office spaces to IGAL. By its very nature, these arrangements are long term – generally ranging from five to nine years. The rentals of these spaces have been benchmarked to the market rents prevailing at the time. Several of the terms and conditions have been more favourable to IGAL than market practice – for example, for leases executed before 2019, there is no (or lesser) security deposit; no lock-in period; favourable termination provisions; lower rent escalation; free signage; stamp duty and registration charges equally borne between lessor and lessee (normally entirely borne by the lessee). Most recent renewal of the lease has been for Global Business Park, Gurgaon where the rental was actually revised downwards for *bona fide* reasons including benchmarking with prevailing market rentals and IGAL provided for security deposit and IGAL also agreed to a longer termination period and a lock-in of three years. The benchmarking was based on comparative rentals in the relevant market.

2. Simulator Training Facility

In 2011, IGAL with a fleet size of 39 aircraft, placed an additional order for 180 aircraft. At that time, there was no single facility in India and South Asia that could cater to IGAL's growing pilot training requirements. Given that more than 60% of the pilots were based out of Delhi which did not have adequate FTS facilities, the following factors were important:

- a) Loss of pilot productivity (that is absence of pilots while they travelled for training);
- b) Rostering challenges due to absence of pilots away on training;
- c) No comparable facility was available in northern India in terms of quality and capacity; and
- d) Lack of dedicated training slots for IGAL pilots and no assurance of long term commitment.

It was in these circumstances that IGE reached out to CAE, the well-known Canadian company – world leader in setting up and operating FTS facilities - for establishing CAE Simulation Training Private Limited (CSTPL) as a 50:50 joint venture. CSTPL was established by CAE and IGE, with the object of providing fixed wing flight training services on flight simulators being airline flight crew training and student flight crew training services for IGAL's A320 family of aircraft type.

The Agreement between CSTPL and IGAL became effective from July 1, 2013 for a term of 15 years, with a provision to review it for pricing and other terms after every five years. IGAL expressly recognized that by establishing the training centre, CSTPL has made substantive investments so that IGAL can achieve operational savings. That is the reason why the Agreement had a validity of 15 years to make the project viable. IGAL has always been provided with more favourable terms as compared to any other customer of CSTPL.

3. GSA Arrangement

The IGE Group has been and continues to be one of the leading General Sales Agents (GSA) for several airlines. In 2006, IGAL appointed IGE as GSA for domestic cargo and domestic passengers. In 2015, a domestic cargo GSA arrangement was terminated arbitrarily by IGAL, IGE accepted the decision. In 2016, when the domestic passenger GSA arrangement came up for renewal, IGAL decided not to renew it. The

decision was accepted by IGE. Currently, the surviving GSA arrangement is for limited foreign markets and is on an arms' length basis.

4. Crew Accommodation

IGAL has a significant requirement of hotel accommodation for its crew as part of its normal course of business. IGE, which has interest in the hotel business in joint venture with Accor hotels – under which Ibis and Novotel hotels are owned / operated in India. Over the last several years, IGAL has invited RFPs from hotels for providing the crew accommodation in various cities, where Accor Hotels participated on an arms' length basis. The JV has both - won and lost while participating in these RFPs. Currently, Accor hotel provides just about 8% of the overall accommodation cost of IGAL (worldwide) while the rest of 92% is catered by other hotel chains for the FY 2018-19.

On the basis of the aforesaid details, we wish to emphasize that:

- a) Existence of RPTs was disclosed at the time of the IPO in 2015 in the public domain.
- b) Post the IPO, many of the RPTs have ceased to exist while others have been renewed on an arms' length basis as part of the normal course of business.
- c) The IGE Group has ensured that no entity of the group should take any advantage under RPTs. Without exception, IGAL has received more favourable treatment from the IGE Group entities as compared to their other customers.
- d) The materiality of the transactions for IGAL is not significant as is evident from the table above; it is only 0.53% of IGAL's consolidated turnover for FY 2018-19.