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INDIAN AVIATION INDUSTRY

Demand recovery continues in FY2023; however, earnings to remain constrained due to cost pressures

AUGUST 2022

Highlights

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Given the waning effect of the pandemic, the recovery in passenger traffic is expected to be fast paced in FY2023, with the domestic passenger traffic expected to reach pre-Covid levels by FY2024. Elevated ATF prices and depreciation of the INR against the US$ poses a twin challenge for the profitability of the airlines.

ICRA expects the Indian aviation industry to report a net loss of ~Rs. 150-170 billion in FY2023. The debt levels (including lease liabilities) are expected to be ~Rs. 1,000 billion in FY2023.

- For domestic Indian carriers, FY2022 started with a muted demand scenario due to the emergence of Covid 2.0; however, it saw sequential growth from June 2021 till December 2021, before being hit by the Omicron wave in Q4 FY2022. Despite this, passenger traffic reported a healthy YoY growth of 57.7% in FY2022 on the back of the fast pace of vaccination and lower incidence of fresh infections post June 2021 and decline in intensity of the infection. During Q1 FY2023, domestic passenger traffic was short only by 7.33% from pre-Covid levels (Q1 FY2020).
- While the capacity deployment restrictions were removed from October 2021, the ASKMs remained low in FY2022 compared to pre-pandemic levels. During FY2022, the PLF continued to rise gradually post the second wave of the pandemic i.e. from June 2021. The PLF for FY2022 stood at 73.4%, compared to 86.2% in FY2020 (pre-Covid levels). During Q1 FY2023, the PLF stood at 80.9%, reflecting an improvement over FY2022, but still lower than the pre-Covid levels i.e. 88.9% in Q1 FY2020.
- The scheduled international operations were suspended from March 23, 2020 till March 27, 2022, leading to a sharp drop in passenger traffic in FY2021 and FY2022 compared to pre-Covid levels. With the resumption of scheduled international operations since March 27, 2022, international passenger traffic for Indian carriers is on a growth trajectory and is short only by ~7% in Q1FY2023 when compared to pre-Covid levels.
- Despite healthy recovery in passenger traffic, the domestic aviation industry currently faces major turbulence because of elevated aviation turbine fuel (ATF) prices, and recent depreciation of INR vis-à-vis the US$, both of which have a major bearing on the cost structure of airlines. Although the yields have improved significantly (up by 25-30% over pre-Covid levels on domestic routes), the combined impact of higher ATF prices (currently at ~Rs. 124,400/litre vis-à-vis an average of ~Rs. 61,000/litre over FY2020-22) and INR depreciation will restrict airlines to turn profitable even in FY2023.
- While some airlines have sufficient liquidity and/or financial aid from a strong parent, which is likely to help them sustain over the near term, for others, the credit metrics and liquidity profile have deteriorated. Competition is also set to intensify gradually, with the entry of Akasa Air and expected launch of Jet Airways. Until the RASK-CASK spread improves, the airlines will require funding support to meet expenses. The outlook for the Indian aviation industry continues to be Negative.

Agenda

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1 Industry trends

2 Outlook - Negative

3 Performance update

4 International traffic trends

5 Financial analysis

6 Impact on credit profile of domestic airlines

Agenda

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7 Drivers of growth in FY2023

8 Peer comparison

9 Rating actions

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Thank You!