



# INDIAN AVIATION INDUSTRY

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Flying towards new highs

February 2024





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*ICRA expects the Indian aviation industry to report a significantly lower net loss of ~Rs. 30-40 billion in FY2024 and FY2025 against Rs. 170-175 billion in FY2023.*

*Supply-chain challenges and engine failure issues have recently plagued the sector.*



- **The outlook for aviation industry** remains Stable, given the recovery in domestic passenger traffic and relatively stable cost environment. The domestic air passenger traffic growth in FY2025 is estimated at 8-13% to reach 165-170 million, post a similar growth likely in FY2024, with the traffic reaching 150-155 million when it will surpass the pre-Covid levels. International passenger traffic for Indian carriers already exceeded pre-Covid levels in FY2023 and is likely to surpass the peak of FY2019 in the current fiscal.
- **Moreover, the industry has witnessed improved pricing power**, as reflected in improved yields and thus the spread between revenue per available seat kilometer – cost per available seat kilometer (RASK-CASK) for the airlines. The same is expected to remain favourable aided by a decline in aviation turbine fuel (ATF) prices (down 15% in YTD FY2024 on a YoY basis) and the relatively stable foreign exchange rates.
- **ICRA expects the Indian aviation industry to report a significantly lower net loss of Rs. 30-40 billion in FY2024 and FY2025** from ~Rs. 170-175 billion in FY2023 as airlines continue to witness healthy passenger traffic growth and maintain pricing discipline. Further, the coverage indicators turned positive in FY2023 and are expected to improve in FY2024 owing to better profitability levels.
- **At present, the Indian aviation industry has a total order book of ~1,700 aircraft**, which is more than double the size of the current fleet. The deliveries, however, are likely to be gradual, spanning over the next decade, and will also be impacted by the current supply chain challenges encountered by aircraft and engine original equipment manufactures (OEMs). However, ICRA expects the demand-supply balance in the industry to be maintained in the medium to long term aided by improvement in air travel penetration levels.
- **However, the Indian aviation industry has lately been affected by engine failures and supply chain challenges.** This has seen the grounding of at least 154 aircraft for select airlines, thus impacting overall industry capacity (as measured by available seat kilometer or ASKMs), with nearly 20-22% of the total industry fleet grounded as on September 30, 2023. The recent powder-coating related concerns in engines are expected to result in additional grounding of aircraft in Q4 FY2024. This implies that ~24-26% of the industry capacity will be grounded by March 31, 2024, thus affecting the industry's ASKMs.



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# Analytical Contact Details

Name	Designation	Email	Contact Number
Shamsher Dewan	Senior Vice-President and Group Head	<a href="mailto:shamsherd@icraindia.com">shamsherd@icraindia.com</a>	0124 – 4545 328
Kinjal Shah	Co-Group Head	<a href="mailto:kinjal.shah@icraindia.com">kinjal.shah@icraindia.com</a>	022 – 6114 3442
Suprio Banerjee	Sector Head	<a href="mailto:supriob@icraindia.com">supriob@icraindia.com</a>	022-61143400
Karan Gupta	Senior Analyst	<a href="mailto:karan.gupta@icraindia.com">karan.gupta@icraindia.com</a>	022 6114 3416
Roshan Dugar	Analyst	<a href="mailto:roshan.dugar@icraindia.com">roshan.dugar@icraindia.com</a>	020 6606 9924





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# Business Development/Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	<a href="mailto:shivakumar@icraindia.com">shivakumar@icraindia.com</a>	022-61693304
Neha Agarwal	Head – Research Sales	<a href="mailto:neha.agarwal@icraindia.com">neha.agarwal@icraindia.com</a>	022-61693338
Rohit Gupta	Head Business Development - Infrastructure Sector	<a href="mailto:rohitg@icraindia.com">rohitg@icraindia.com</a>	0124-4545340
Vivek Bhalla	Head Business Development - Financial Sector	<a href="mailto:vivek.bhalla@icraindia.com">vivek.bhalla@icraindia.com</a>	022-61693372
Vipin Saboo	Head Business Development – Corporate Sector - West & East	<a href="mailto:vipin.saboo@icraindia.com">vipin.saboo@icraindia.com</a>	022-61693348
Shivam Bhatia	Head Business Development – Corporate Sector - North & South	<a href="mailto:shivam.bhatia@icraindia.com">shivam.bhatia@icraindia.com</a>	0124-4545803
Naznin Prodhani	Head – Media & Communications	<a href="mailto:communications@icraindia.com">communications@icraindia.com</a>	0124-4545860





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