PRESS RELEASE

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Domestic air passenger traffic to expand by 8-13% each in FY2024 and FY2025; outlook Stable: ICRA

- ***Industry[1] net loss to shrink to Rs. 30-50 billion in FY2024 from an estimated Rs. 170-175 billion in FY2023 aided by improved yields and stable cost environment***
- ***However, supply chain issues will persist as ~22-24% of total fleet is likely to be grounded in the near term***

Building on the fast-paced recovery in FY2023, ICRA estimates the domestic air passenger traffic to grow by 8-13% in FY2024, thus reaching 150-155 million, surpassing the pre-Covid levels of 141.2 million seen in FY2020. The momentum is expected to continue in FY2025 as well with a similar estimated YoY growth, aided by rising demand for air travel and improving airport infrastructure. During 8M FY2024, domestic air passenger traffic stood at 100.7 million, witnessing a YoY growth of 17%, and 5% higher than the pre-Covid levels (8M FY2020) of 95.7 million. Further, the international passenger traffic for Indian carriers, at 23.9 million in FY2023, surpassed the pre-Covid levels, although it trailed the peak levels of 25.9 million in FY2019. The same is expected to cross this level in the current fiscal, with an estimated 25-27 million passengers.

Moreover, the airlines witnessed better pricing power, as reflected in improved yields and in the spread between revenue per available seat kilometre and cost per available seat kilometre (RASK-CASK) for the airlines. ICRA thus maintains its Stable outlook on the industry in view of healthy passenger traffic growth, improved yields and stable cost environment.

Commenting on this, **Mr. Suprio Banerjee, Vice President & Sector Head – Corporate Ratings, ICRA Limited,** said: *"The air passenger traffic momentum witnessed in the current fiscal is expected to continue in FY2025, though further expansion in yields from the current levels may be limited. Thus, the industry is estimated to report a similar net loss of ~Rs. 30-50 billion in FY2025 as well."*

Despite a healthy recovery in passenger traffic and improvement in yields, the movement of the latter will remain monitorable amidst elevated ATF prices and depreciation of the INR vis-à-vis the US$ compared to pre-Covid levels, both of which have a major bearing on the airlines' cost structure. The average ATF prices stood at Rs. 103,189/KL in 9M FY2024, 59% higher compared to an average of Rs. 64,715/KL during FY2020, albeit a decline of 17% compared to Rs. 121,013 /KL in FY2023. Fuel accounts for ~30-40% of the airlines' expenses, while ~35-50% of the airlines' operating expenses – including aircraft lease payments, fuel expenses, and a significant portion of aircraft and engine maintenance expenses – are denominated in US dollar terms. Further, some airlines have foreign currency debt. While domestic airlines also have a partial natural hedge to the extent of earnings from their international operations, overall, their net payables are in foreign currency.

"More recently, the Indian aviation industry has been facing significant supply chain issues, resulting in ~20-22% of the total fleet being on ground currently. The recent issue related to powder-coating related concerns in engines manufactured by Pratt & Whitney (P&W) is expected to lead to additional aircraft to be grounded by Q4 FY2024 of this fiscal – amounting to approximately 22-24% of the industry capacity. This will result in high operating expenses towards cost of grounding, increase in lease rentals due to additional aircraft being taken on lease to offset the grounded capacity, along with increasing lease rates and lower fuel efficiency, which adversely impact the airline's cost structure, and thus overall cash flow generation," **Mr. Banerjee** added.

[1] *Aggregate of Air Asia (India) Limited, Air India Limited, Interglobe Aviation Limited, SpiceJet Limited, Tata SIA Airlines Limited*

While capacity addition for the industry will continue with the total pending aircraft deliveries of ~1,500, supply chain issues at the aircraft OEMs also means that the addition could be gradual. Also, a large part of these is towards replacement of old aircraft with new fuel-efficient ones, and with the expected continued growth in passenger traffic, ICRA expects the demand-supply balance to be maintained in the medium-term. Furthermore, a sizeable part of the fleet addition by airlines will also be meant for expanding international operations. In FY2023, share of Indian carriers in international traffic (to and from India) stood at ~42%. This offers adequate growth potential for Indian carriers to gain traction in international traffic over the medium term.

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