ICRA

PRESS RELEASE

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Indian airline losses to widen to Rs. 95-105 billion in FY2026 amid geopolitical and trade headwinds: ICRA

- ***Projection for year-on-year (YoY) domestic air passenger traffic growth in FY2026 lowered to 4-6% from 7-10%***

Rating agency ICRA forecasts a modest increase in domestic air passenger traffic to 172-176 million in FY2026, reflecting a growth of 4-6% over the previous year, lower than its earlier projections of a 7-10% increase. This slowdown in passenger traffic growth at a time when aircraft deliveries are rising, is estimated to widen the net loss of the Indian aviation industry[1] to Rs. 95-105 billion in FY2026 from Rs. 55 billion in FY2025.

Passenger traffic growth in Q1 FY2026 was 4.4% YoY, weighed down by cross-border escalations, that had led to flight disruptions and cancellations, as well as travel hesitancy post the aircraft accident tragedy. Accordingly, the yields declined by 4-5% YoY in Q1 FY2026. A prolonged period of monsoons is likely to have affected air travel in July-August 2025 and now trade headwinds emanating from US tariffs are set to dampen business sentiments in the coming quarters, bringing more circumspection to travel.

Kinjal Shah, Senior Vice President & Co-Group Head, ICRA, said: "*During FY2025, the Indian aviation industry benefited from improved pricing power, evident in higher yields, driven by healthy demand for air travel. However, the demand environment has turned more cautious in FY2026. ICRA forecasts the Indian aviation industry to report a wider net loss of Rs. 95-105 billion in FY2026 compared to an estimated Rs. 55 billion in FY2025. Losses are set to shoot up principally because passenger traffic growth will be slowing down amid a period of rising aircraft deliveries. The industry debt metrics are thus expected to weaken in FY2026, with interest coverage of 1.3-1.5x times compared to the estimate of around 1.5-1.7 times in FY2025*."

The losses forecast by ICRA for FY2026, however, remain significantly lower than those reported in FY2022 and FY2023 at Rs. 216 billion and Rs. 179 billion, respectively.

Aviation Turbine Fuel (ATF) prices and the rupee-dollar movement are two factors that have a significant bearing on the airlines' profitability. Fuel costs account for around 30-40% of the airlines' operating expenses. Airlines have experienced a reprieve on the ATF prices front so far this year with average ATF prices of Rs. 87,962/KL in 5M FY2026, 8% lower YoY, although higher than Rs. 64,715/KL that prevailed during the pre-Covid period (i.e. FY2020). In comparison, the INR depreciated against the USD by around 3% YoY in 4M FY2026. While currency depreciation of this order may not be materially disruptive in isolation, it adds pressure to the cost structure of a loss-making industry where key expenses—aircraft lease payments, aircraft and engine maintenance costs, and debt servicing—are highly sensitive to currency movements. Although the domestic airlines have a partial natural hedge to the extent of earnings from their international operations, overall, they have net payables in foreign currency.

The industry saw around 5% capacity addition in FY2025 to reach 855 aircraft as on March 31, 2025. Various industry players have announced large aircraft purchase orders and as per the indicative numbers, the total

[1] *Industry refers to Air India Limited (Consolidated), Interglobe Aviation Limited, SNV Aviation Private Limited (Akasa Air), SpiceJet Limited*

pending aircraft deliveries is more than 1,600, which are likely to be received over the next 10 years. A reasonably large part of these is towards replacement of old aircraft with new fuel-efficient ones.

"*Engine failures and supply chain challenges had caused 20-22% of the total industry fleet to have been grounded as of September 2023. This proportion has come down to around 15-17% as of March 2025, corresponding to around 130 aircraft*" **Shah** added.

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