

PRESS RELEASE  
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## Industry losses to decline by one-third in 2026-27 as domestic passenger traffic growth projected to recover to 6-8%: ICRA

*USD-INR movement would continue to be a critical monitorable, impacting profitability*

Rating agency ICRA estimates the domestic air passenger traffic to grow by 6-8% and touch 175-179 million passengers in 2026-27. ICRA, in December 2025, had revised its domestic air passenger growth estimates to 0-3% for 2025-26 from 4-6% envisaged earlier. The international air passenger traffic growth for Indian carriers is expected to remain relatively stronger, aided by low base effect, expanding e-visa/visa-on-arrival coverage, and the Government of India's focus on developing theme-based and iconic tourist destinations. ICRA estimates international air passenger traffic growth at 7-9% for 2025-26 and 8-10% for 2026-27. Moreover, ICRA projects the net loss of the Indian aviation industry to reduce to Rs. 110-120 billion in 2026-27 from an elevated Rs. 170-180 billion in 2025-26.

The current fiscal year has seen a period of modest domestic air passenger traffic growth due to cross-border escalations, weather-related disruptions, travel hesitancy following the June 2025 aircraft accident, the impact on business travel owing to the headwinds stemming from elevated US tariffs and operational disruptions at IndiGo in December 2025.

**Kinjal Shah, Senior Vice President & Co-Group Head, ICRA, said:** *"ICRA has maintained a Stable outlook for the Indian aviation industry, supported by expectations of modest growth in domestic air passenger traffic and a gradually improving operating environment, despite near-term challenges. The Indian aviation industry is expected to report a net loss of Rs. 170-180 billion in 2025-26, significantly higher than the estimated net loss of around Rs. 55 billion in 2024-25. However, the same is likely to reduce to Rs. 110-120 billion in 2026-27, led by growth in domestic air passenger traffic and expected normalisation of operations post disruptions seen in 2025-26 that had resulted in flight cancellations and passenger refunds. The industry's debt metric, which weakened in 2025-26 with an estimated interest cover of 0.7-0.9 times from 1.8 times in 2024-25, is also expected to improve to 1.3-1.5 times in 2026-27, despite increasing debt linked with new aircraft deliveries."*

Aviation turbine fuel (ATF) prices and the rupee-dollar movement have a significant bearing on the airlines' profitability. Fuel costs account for 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. 91,173/KL in 11M 2025-26 (April 1, 2025, to February 1, 2026), 4% lower on a YoY basis, although higher than Rs. 64,715/KL prevailed during the pre-Covid period (i.e. 2019-20). Meanwhile, the INR depreciated against the USD by around 3.2% on a YoY basis in 9M 2025-26. While currency depreciation of the said extent may not be materially disruptive in isolation, it adds pressure to the cost structure of a loss-making industry where key expenses like aircraft lease payments, aircraft and engine maintenance costs, and debt servicing are highly sensitive to the 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 yields of the industry have declined in 9M 2025-26 on a YoY basis due to a series of external events like cross-border escalations, airplane crash and operational disruptions at IndiGo in the first week of December 2025. Despite these challenges, the drop in yields was not as steep as the reduction in fuel Cost per Available Seat Kilometre (CASK), as airlines strived to sustain the yield levels amid rising cost pressure from currency fluctuations and operational expenses related to flight cancellations and delays. ICRA expects the yields to improve in the near term as temporary disruptions ease. Nonetheless, the movement in prices of ATF and the USD-INR rate will remain key monitorable.

The industry saw around 4% capacity addition in CY2025 and the total number of aircraft stood at 865 as on December 31, 2025. Various industry players have announced large aircraft purchase orders and as per the indicative numbers, the total pending aircraft deliveries stand at more than 1,700 as on January 31, 2026, which are likely to be received over the next 10 years. A large part of these orders is towards replacement of old aircraft with new fuel-efficient ones.

Grounded aircraft have been a cause of concern for the industry over the past few years. Addressing the same, **Shah** added: *“Engine failures and supply chain challenges had resulted in grounding of 20-22% of the total industry fleet as of September 2023. The same has come down to 13-15% as of February 2026, corresponding to 117 aircraft.”* As the count of grounded aircraft reduces further over time and fresh supply comes in, the balance between supply and the secularly rising demand from domestic and international travellers should move towards a more stable equilibrium.

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**For further information, please contact:**

Media Contacts:	
<b>Naznin Prodhani</b> Vice President, Head - Group Corporate Communications & Media Relations ICRA Limited Tel: + (91 124) 4545300, Dir - 4545860 Email: <a href="mailto:communications@icraindia.com">communications@icraindia.com</a>	<b>Ashwani Kumar Singh</b> Deputy Manager - Media & Communications ICRA Limited Tel: + 91 - 9560842447  Email: <a href="mailto:communications@icraindia.com">communications@icraindia.com</a>

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