



INDIAN AVIATION INDUSTRY

Domestic passenger traffic reported ~5% YoY growth in January 2024, ~3% higher than pre-Covid levels

February 2024

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BUSINESS OUTLOOK: STABLE



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ICRA expects the Indian aviation industry¹ to report a significantly lower net loss of ~Rs. 30-50 billion in FY2024 over Rs. 170-175 billion in FY2023.

Supply chain challenges have recently plagued the sector.

The airlines' ability to raise yields proportionate to their input cost increases will be key to expand their profitability margins.

For January 2024, domestic air passenger traffic was estimated at ~131.1 lakh, ~5.0% lower than ~137.9 lakh in December 2023. However, it grew by ~4.5% on a YoY basis and was higher by ~3% over pre-Covid levels (i.e., January 2020). Domestic air passenger traffic in 10M FY2024 (April 2023–January 2024) was 1,276.4 lakh, a YoY growth of 15%, and ~5% higher than pre-Covid levels (i.e., April 2019–January 2020). The airlines' capacity deployment in January 2024 was lower than December 2023 by ~3% and by 8% over pre-Covid levels (January 2020). Further, for 8M FY2024 (April–November 2023), the international passenger traffic for Indian carriers stood at ~189.5 lakh, a YoY growth of ~28%, which was higher than pre-Covid (April–November 2019) levels of ~152.2 lakh by 24%.

- **Stable outlook on the Indian aviation industry** – ICRA's outlook on the Indian aviation industry is Stable on the back of the fast-paced recovery in domestic passenger traffic in FY2023 and 10M FY2024, and expectations of the trend continuing for the rest of FY2024. Moreover, the industry witnessed improved pricing power, reflected in the higher yields (over pre-Covid levels) and, thus, the revenue per available seat kilometre – cost per available seat kilometre (RASK-CASK) spread of the airlines. The momentum in air passenger traffic witnessed in the current fiscal is expected to continue in FY2025, though further expansion in yields from the current levels may be limited.
- **Sequential decrease in ATF prices; although the same still remains elevated over pre-Covid levels** – Despite a healthy recovery in air passenger traffic and improvement in yields, the movement of the latter will remain monitorable amid elevated aviation turbine fuel (ATF) prices and depreciation of the INR vis-à-vis the USD over pre-Covid levels, both of which have a major bearing on the airlines' cost structure. Average ATF prices stood at Rs. 121,013/KL in FY2023 and Rs. 103,547/KL in 10M FY2024 over Rs. 65,368/KL in FY2020 (pre-Covid). ATF prices, which were sequentially lower since April 2023, reversed their trajectory from July 2023 and increased by 1.3% on a YoY basis in October 2023. However, from November 2023, ATF prices have again declined sequentially. In February 2024, the ATF price, at 102,414/KL, is lower by 1.1% sequentially and by 10.9% on a YoY basis. Fuel cost accounts for ~30-40% of the airlines' expenses, while ~45-60% of the operating expenses—including aircraft lease payments, fuel expenses and a significant portion of aircraft and engine maintenance expenses—are denominated in dollar terms. Further, some airlines have foreign currency debt. While domestic airlines have a partial natural hedge to the extent of their earnings from international operations, overall, their net payables are in foreign currency. The airlines' efforts to ensure fare hikes, proportionate to their input cost increases, will be the key to expand their profitability margins.
- **Gradual pace of recovery in earnings** – The pace of recovery in industry earnings is likely to be gradual owing to the high fixed-cost nature of the business. The industry reported a net loss of ~Rs. 170-175 billion in FY2023 due to elevated ATF prices twined with the

¹ Aggregate of AIX Connect Private Limited, Air India Limited, Interglobe Aviation Limited, Tata SIA Airlines Limited and SpiceJet Limited

depreciation of the INR against the USD. However, it is much lower than the net loss of ~Rs. 217 billion in FY2022, driven by the airlines' improved ability to shore up their yields without impacting the demand. The net loss is further expected to reduce significantly to Rs. 30-50 billion in FY2024 and FY2025, as airlines continue to witness healthy passenger traffic growth and maintain pricing discipline, following the ongoing consolidation in the industry.

- **Engine failure issues impacting the industry's capacity** – The Indian aviation industry has been facing issues of engine failures for the Pratt and Whitney (P&W) engines supplied to various airlines. In FY2023, Go Airlines (India) Limited grounded half of its fleet due to faulty P&W engines, which led to the stalling of its operations. InterGlobe Aviation Limited (IndiGo) has also grounded 40-plus aircraft due to P&W engine issues. IndiGo has also announced that aircraft in the range of mid-thirties would be incrementally grounded in Q4 FY2024 due to a powder metal (used to manufacture certain engine parts) contamination issue with its P&W fleet. It is estimated that 20-22% of the total fleet of Indian airlines in operations was grounded as on September 30, 2023, and is expected to rise to 24-26% by March 2024. Considering the bulk recall of the engines globally by P&W and other existing issues with the OEM's engines, the testing by P&W is likely to take longer at 250-300 days. This will result in high operating expenses towards the cost of grounding, increase in lease rentals due to additional aircraft being taken on lease to offset the grounded capacity, rising lease rates and lower fuel efficiency, which will adversely impact an airline's cost structure, and thus the overall cash flow generation.
- **Select airlines face financial distress, stretched liquidity issues** – While some airlines have adequate liquidity and/or financial support from a strong parent, supporting their credit profiles, the credit metrics and liquidity profile of others will remain under stress over the near term, despite some improvement relative to the last few years. As mentioned above, Go Airlines (India) Limited grounded half of its fleet due to faulty P&W engines, which led to payment defaults to vendors, aircraft lessors and financial creditors. Consequently, GoFirst filed for insolvency with the National Company Law Tribunal (NCLT), which imposed a moratorium on the airline's assets and prohibited the lessors to repossess their aircraft, which was upheld in the National Company Law Appellate Tribunal (NCLAT). However, the Delhi High Court allowed leasing companies to inspect the aircraft and carry out maintenance work on their fleet, which was challenged in the Supreme Court. The Supreme Court dismissed GoFirst's plea, and GoFirst also lost its airline code 'G8' assigned by International Air Transport Association (IATA) for being non-operational since May 2023. In October 2023, the Union Corporate Affairs Ministry notified that no Indian airline will be able to hold on to its leased assets (aircraft and engines) under the asset protection (moratorium) provided for a limited time by the Insolvency and Bankruptcy Code (IBC) and lessors can repossess their planes after an airline files for bankruptcy.

PASSENGER TRAFFIC

Domestic passenger traffic: **~131.07 lakh**
 Sequential degrowth of: **~5.0%**
 YoY growth of: **~4.5%**
 YoY growth (pre-Covid) of: **~2.8%**

CAPACITY DEPLOYMENT

Domestic capacity deployment: **~87,633** departures
 Sequential de-growth of: **~0.4%**
 YoY de-growth of: **~2.5%**
 YoY de-growth (pre-Covid) of: **~8.2%**

DOMESTIC PASSENGER LOAD FACTOR

Estimated PLF of **~91%** in January 2024
 against **~85%** in January 2023 and **~86%** in
 January 2020 (pre-Covid)

AVIATION TURBINE FUEL PRICES

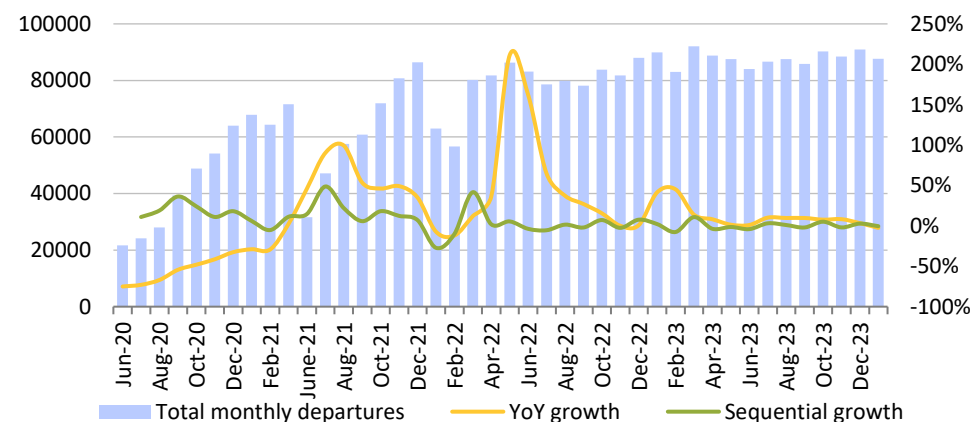
Prices in February 2024 lower by **~10.9%** on a
 YoY basis over February 2023; sequential
 decline of **1.1%** (over January 2024)



DOMESTIC PASSENGER TRAFFIC: ~5% YOY GROWTH IN JANUARY 2024, HIGHER BY ~3% AGAINST PRE-COVID LEVELS

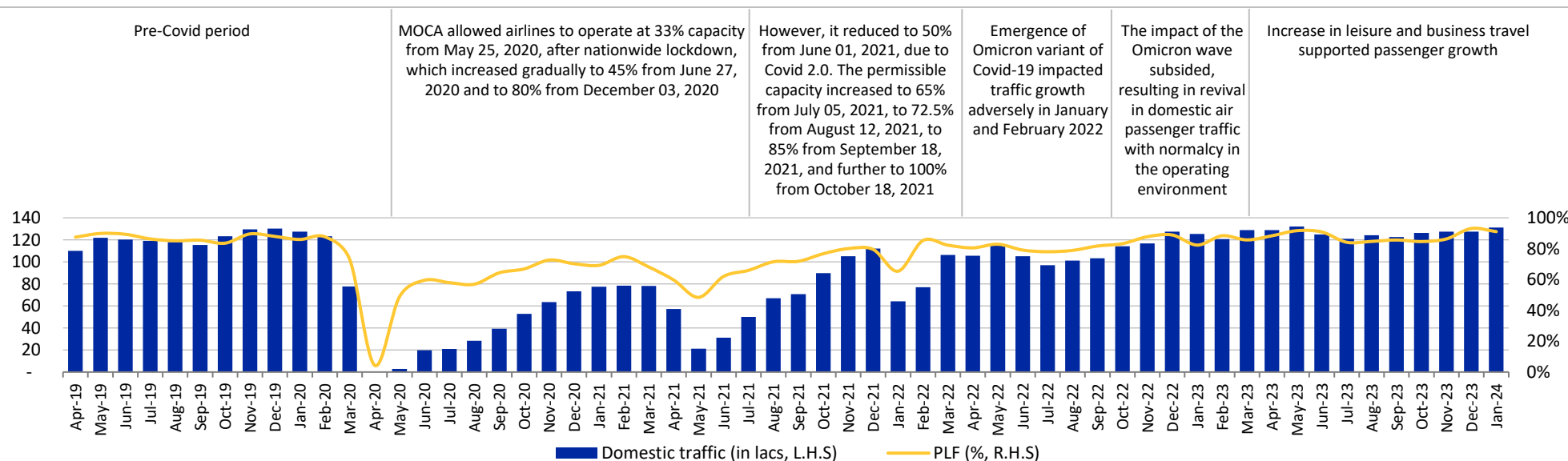
With the onset of Covid 2.0, the Ministry of Civil Aviation (MoCA) reduced the permissible capacity deployment by airlines on domestic routes to 50% of the pre-Covid levels, with effect from June 01, 2021. The increase in the permissible capacity deployment was gradual before the restrictions were removed, with effect from October 18, 2021. The capacity deployment for January 2024 was lower by ~3% over January 2023 (87,633 departures in January 2024 against 89,911 departures in January 2023). Further, the number of departures in January 2024 were lower by ~0.4% on a sequential basis and by ~8.2% compared to the departures of 95,487 in January 2020 (pre-Covid).

EXHIBIT 1: Trend in Capacity Deployment by Domestic Airlines



Source: MoCA, DGCA, ICRA Research

EXHIBIT 2: Domestic Passenger Growth & PLF



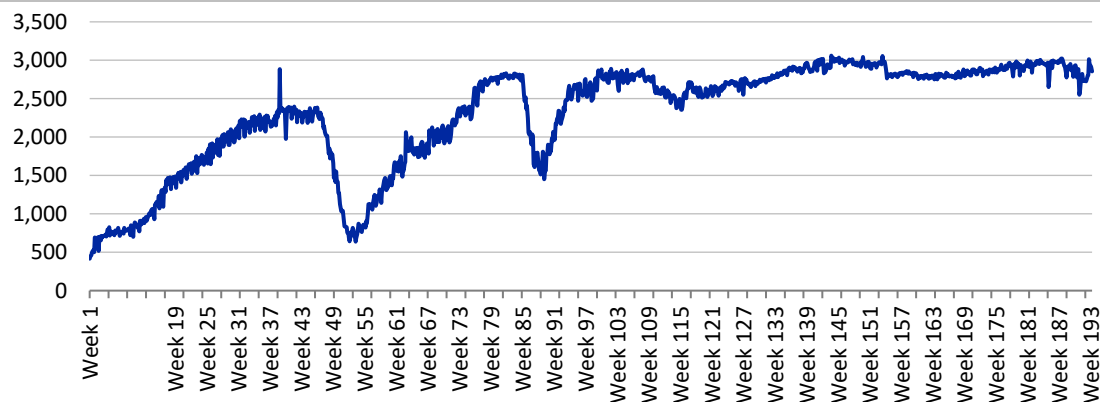
Source: MoCA, DGCA, ICRA Research

For January 2024, domestic air passenger traffic stood at ~131 lakh against ~125 lakh in January 2023, implying a YoY growth of ~4.5%. However, on a sequential basis, domestic air passenger traffic in January 2024 was lower by ~5.0%, with December being the Christmas/New Year holiday season.

As shown in Exhibit 4, passenger traffic dropped to 70,098 on Day 372 (May 31, 2021) during the second wave of Covid-19, but peaked at 3,93,245 on day 545 (November 21, 2021). However, in January 2022, due to a new Covid-19 variant and consequent travel restrictions, the traffic declined again. It subsequently picked up as the Omicron wave waned.

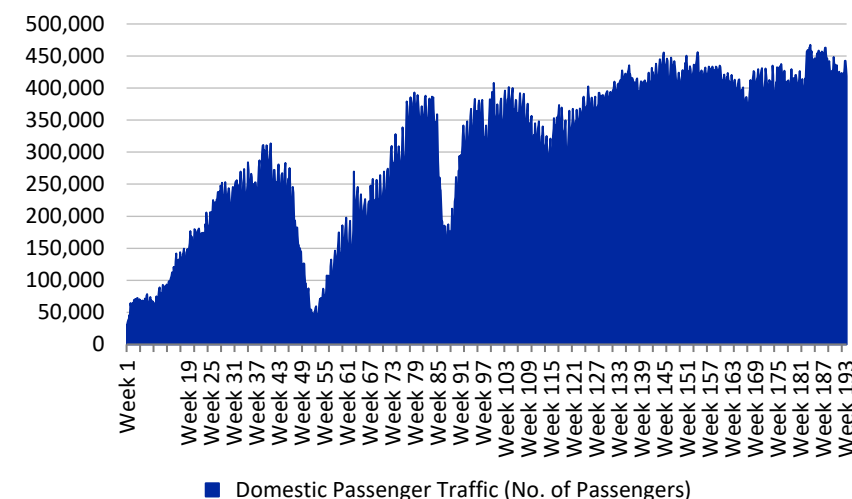
On April 17, 2022, domestic passenger traffic was 4,07,975, crossing the 4-lakh daily passenger mark for the first time since the start of the pandemic. Daily passenger traffic at 4,56,082, on April 30, 2023, surpassed the previous historic highs. For January 2024, the average daily departures were ~2,827, marginally lower than the average daily departures of ~2,900 in January 2023 and lower than the average daily departures of ~3,080 during January 2020 (pre-Covid level). Further, on a sequential basis, it was lower than the average daily departures of ~2,934 in December 2023. The average number of passengers per flight in January 2024 was 150, marginally lower than 152 passengers per flight in December 2023, but higher than 139 passengers per flight in January 2023. The same was also higher than ~133 in January 2020 (pre-Covid levels). It is estimated that the domestic aviation industry operated at a passenger load factor (PLF) of ~91% in January 2024 against ~85% in January 2023 and ~86% in January 2020.

EXHIBIT 3: Domestic Daily Flight Departures Since May 25, 2020



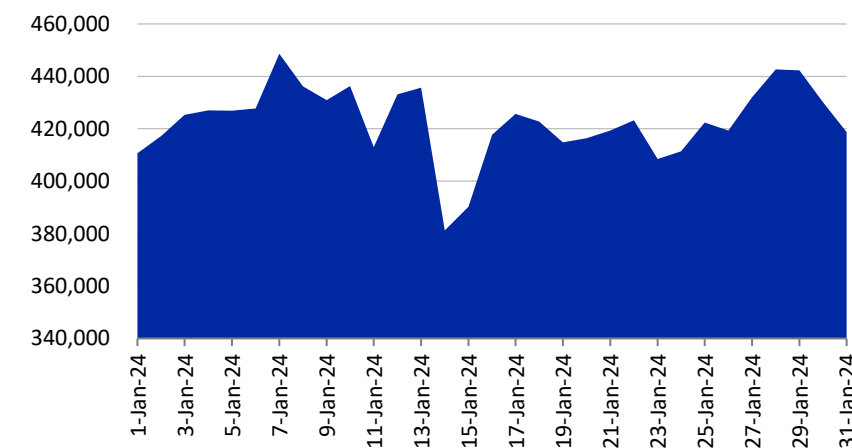
Source: MoCA, DGCA, ICRA Research

EXHIBIT 4: Daily Domestic Passenger Traffic Since May 25, 2020



Source: MoCA, DGCA, ICRA Research

EXHIBIT 5: Daily Domestic Passenger Traffic in January 2024

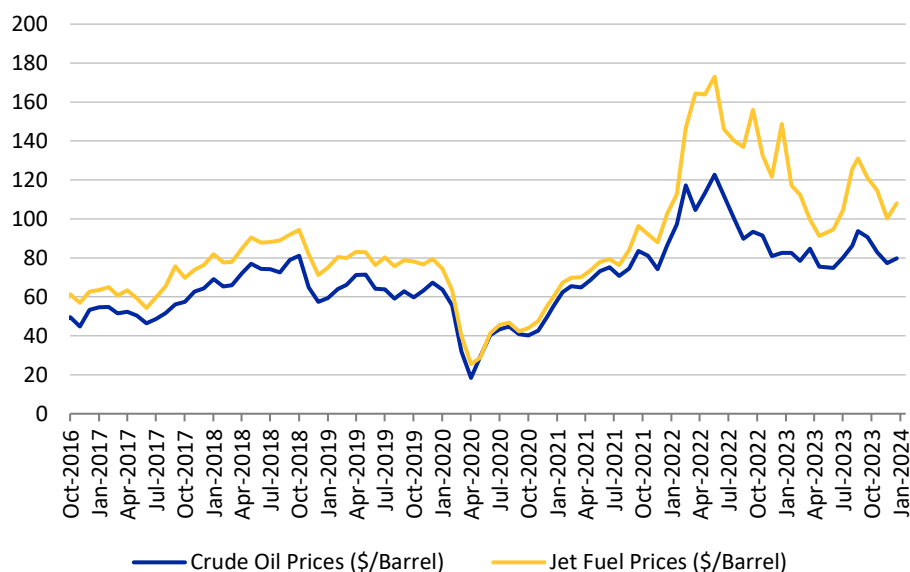


Source: MoCA, DGCA, ICRA Research

ATF PRICES: LOWER BY ~10.9% ON YOY BASIS AND BY ~1.1% SEQUENTIALLY, IN FEBRUARY 2024

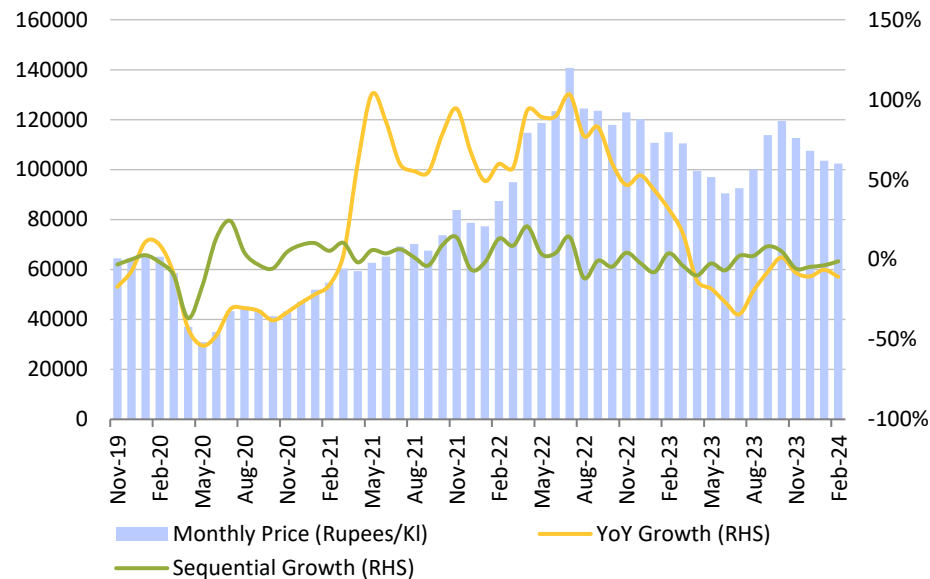
Following the pandemic, crude oil prices declined materially, reaching a low of ~\$19/ barrel in April 2020 (the sharpest decline since Q4 CY2018). However, crude oil prices have increased gradually since then, and are currently at around ~\$79/ barrel. The increase is attributable to geopolitical tensions. Meanwhile, ATF prices gradually declined sequentially from August 2022 (barring November 2022 and February 2023) to June 2023. Subsequently, the prices increased sequentially by 2% in July 2023, 8% in August 2023, 14% in September 2023, and by 5% in October 2023. However, they decreased sequentially again by 6% in November 2023, 5% in December 2023, 4% in January 2024, and by 1% in February 2024. Between April and September 2023, ATF prices were lower on a YoY basis, but increased by 1.3% YoY in October 2023, for the first time in FY2024, driven by rising crude oil prices over the past four months. Nevertheless, the prices were lower YoY by 8.3% in November 2023, 10.5% in December 2023, 6.4% in January 2024, and by 10.9% in February 2024, following the trend in crude oil prices.

EXHIBIT 6: Movement in Crude Oil & Jet Fuel Prices (\$/Barrel)



Source: International Air Transport Association (IATA), ICRA Research

EXHIBIT 7: Movement in Jet Fuel Prices



Source: Indian Oil Corporation Limited, ICRA Research

ICRA-RATED AIRLINE COMPANIES

EXHIBIT 8: Rating Distribution of ICRA-Rated Universe of Airline Companies as on February 12, 2024

Company Name	Rating Outstanding	Last Rating Action
AIX Connect Private Limited	[ICRA]A1+	Assigned
Interglobe Aviation Limited	[ICRA]A+ (Stable) / [ICRA]A1+	Upgraded
Tata SIA Airlines Limited	[ICRA]A% / [ICRA]A1%	Continues on rating watch with positive implications

Source: ICRA Research; %: Ratings on watch with positive implications



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