



INDIAN AVIATION INDUSTRY

Domestic air travel sees ~60% YoY growth in FY2023, however, still ~4% lower than pre-Covid levels

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BUSINESS OUTLOOK: STABLE



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The airlines' ability to increase yields proportionate to their input cost increases will be the key to expand their profitability margins. ICRA expects the Indian aviation industry to report a lower net loss of ~Rs. 50-70 billion in FY2024.

For FY2023 (FY refers to April-March), domestic passenger traffic is estimated at ~1360 lakh, YoY growth of ~60%, and marginally higher than ICRA's estimates of 1300-1350 lakh.

For March 2023, domestic air passenger traffic has been estimated at ~130 lakh, ~8% higher than ~121 lakh in February 2023. However, it witnessed a YoY growth of ~22%, as March 2022 was marginally impacted by the Omicron variant of Covid-19. Domestic passenger traffic in March 2023 was higher by ~12% compared to the pre-Covid levels (i.e. March 2019). For FY2023, domestic passenger traffic is estimated at ~1,361 lakh, a YoY growth of ~60%, and marginally lower by ~4% compared to FY2020 (pre-Covid levels). The airlines' capacity deployment in March 2023 was higher by ~14% than that of March 2022, while it was higher by ~7% than the pre-Covid levels (March 2019). For 11M FY2023, international passenger traffic for Indian carriers stood at ~216.0 lakh, thereby almost matching the pre-Covid 11M FY2020 levels of ~217.8 lakh, although 9% lower than the peak levels of 238.0 lakh for 11M FY2019.

- **The outlook on the Indian aviation industry remains Stable** – The Stable outlook was revised from Negative in the recent past, on the back of fast-paced recovery in domestic passenger traffic in FY2023 and expected continuation of the same in FY2024. Moreover, the industry witnessed improved pricing power, as reflected in the improved yields and thus the RASK-CASK spread of the airlines. The same is expected to continue as the industry will regain some pricing discipline, coupled with the sequential decline in aviation turbine fuel (ATF) prices for last few months and relatively stable forex rates.
- **Elevated ATF prices and depreciation of INR vis-à-vis the US\$ continue to remain challenges** – Despite healthy recovery in passenger traffic, the domestic aviation industry continues to face challenges on account of elevated ATF prices and depreciation of the INR vis-à-vis the US\$, both of which have a major bearing on the airlines' cost structure. Fuel costs account 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\$ terms. Further, some airlines also 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. The airlines' efforts to ensure fare hikes proportionate to their input cost increases, will be the key to expand their profitability margins. This apart, the competitive landscape in the domestic aviation industry is set to change with the foray of new entrants, likely re-initiation of operations by Jet Airways and consolidation of Air India, Air Asia India and Vistara.
- **Gradual pace of recovery in earnings** – The pace of recovery in industry earnings will be gradual owing to the high fixed-cost nature of the business. The industry is estimated to report a net loss of ~Rs. 110-130 billion in FY2023 due to elevated ATF prices twined with depreciation of the INR against the US\$. However, the same is much lower than the net loss of ~Rs. 235 billion in FY2022 and ICRA's earlier estimated net loss of Rs. 150-170 billion in FY2023, primarily driven by improved ability of the airlines to shore up their yields

without impacting demand. The net loss is further expected to reduce to Rs. 50-70 billion in FY2024 as airlines continue to witness healthy passenger traffic growth and improve their RASK-CASK spread through better pricing discipline.

- **Capacity addition to be gradual; pace of aircraft delivery to be under scanner due to OEMs' supply challenges** – In ICRA's view, capacity addition in FY2023 will be limited to around 10% of the FY2022 fleet of airlines, which is close to around ~700 aircraft. There are large aircraft purchase orders announced by various players in the industry. As per the indicative numbers, the total fleet deliveries pending are close to ~1,100, which is ~1.5x the fleet currently under operation. However, these will be delivered over the medium to long term and a large part of these will be towards replacement of old aircraft with new fuel-efficient ones. In addition, supply-chain challenges faced by aircraft manufacturers are also likely to constraint their production schedules, which is also reflected by grounding of certain proportion of the airlines' fleet. ICRA believes that capacity additions for the industry will only be gradual.
- **Select airlines face financial distress, stretched liquidity issues** – While some airlines have adequate liquidity and/or financial support from a strong parent, which can help them sustain over the near term, for others, the credit metrics and liquidity profile will remain under stress over the near term, albeit better than over the past few years.

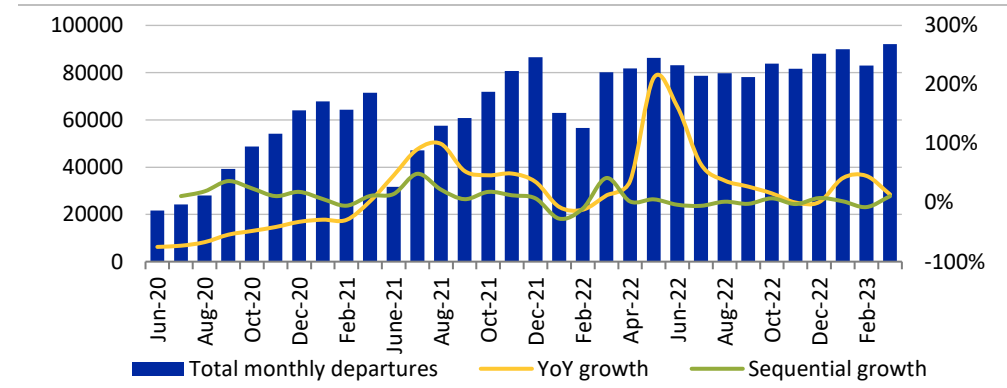
¹ Aggregate of Air Asia India Limited, Air India Limited, Go Airlines (India) Limited, Interglobe Aviation Limited, Tata SIA Airlines Limited and SpiceJet Limited; Excludes debt of Rs. 295 billion transferred from Air India Limited to a special purpose vehicle (SPV) with effect from October 01, 2019



DOMESTIC PASSENGER TRAFFIC: REPORTED YOY GROWTH OF ~60% IN FY2023 ON THE BACK OF SPEEDY RECOVERY POST COVID-19 AND STOOD LOWER BY ONLY ~4% THAN FY2020 (PRE-COVID LEVELS)

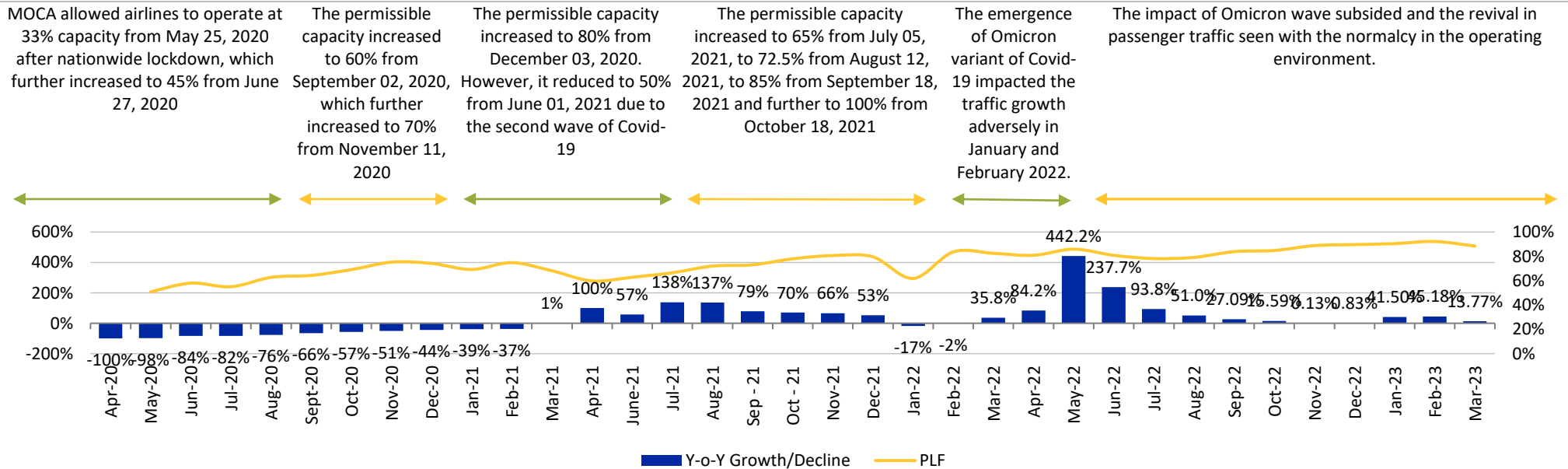
With the onset of Covid 2.0, the MoCA reduced the permissible capacity deployment by the airlines on domestic routes to 50% of the pre-Covid levels with effect from June 01, 2021. The permissible capacity deployment was gradual before removing restrictions, with effect from October 18, 2021. The capacity deployment for March 2023 was higher by ~14% over March 2022 (92,098 departures in March 2023 against 80,948 departures in March 2022). The number of departures in March 2023 were higher by ~11% on a sequential basis and also higher by ~7% compared to departures of 85,931 in March 2019 (pre-Covid).

EXHIBIT 1: Trend in Capacity Deployment by Domestic Airlines



Source: MoCA, DGCA, ICRA Research

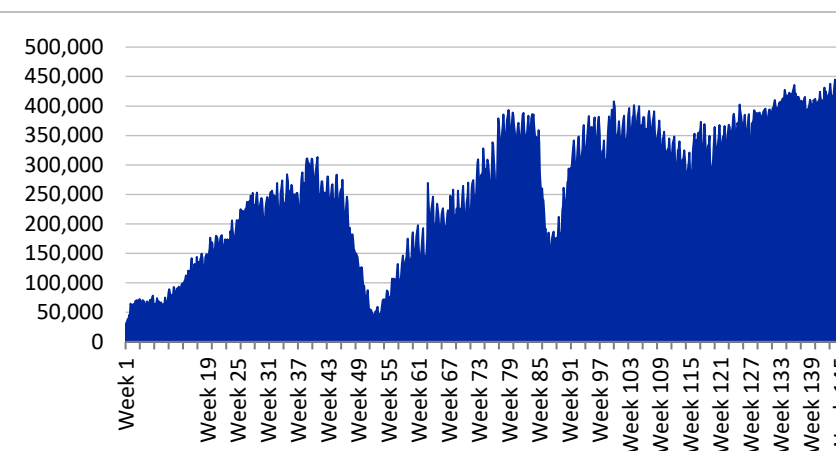
EXHIBIT 2: Domestic Passenger Growth & PLF



Source: MoCA, DGCA, ICRA Research

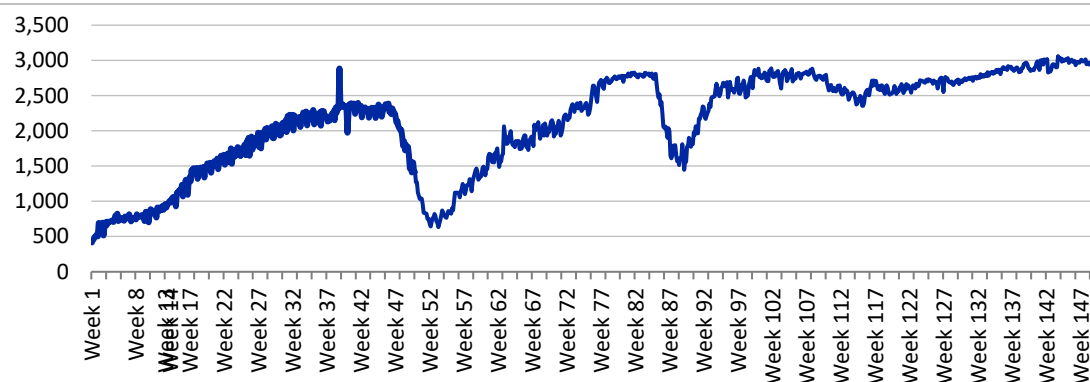
For March 2023, domestic passenger traffic stood at ~130 lakh, against ~106 lakh in March 2022, implying a growth of ~22% on a YoY basis. On a sequential basis, domestic passenger traffic increased by ~8% over ~121 lakh in February 2023. As seen in Exhibit 3, since March 2021, given the resurgence of the second wave of the pandemic, daily passenger traffic recorded a gradual decline to 70,098 on Day 372 (May 31, 2021). Later, with a decline in daily infections, domestic passenger traffic witnessed a gradual improvement with a new peak of 393,245 on Day 545 (November 21, 2021). However, the rising trend in passenger traffic witnessed a reversal in January 2022 with the emergence of the new variant of Covid-19 and reactionary restrictions by a few states on air travel. The waning Omicron wave, however, has seen a pick-up in passenger traffic in the subsequent months. On April 17, 2022, domestic passenger traffic was at 407,975, which crossed the 4-lakh daily passenger mark for the first time since the start of the pandemic. The highest daily passenger traffic was witnessed on March 12, 2023 at 447,492. For March 2023, the average daily departures were at ~2,971, notably higher than the average daily departures of ~2,611 in March 2022 and largely similar to ~2,967 in February 2023, but higher than the average daily departures of ~2,772 during March 2019 (pre-Covid levels). The average number of passengers per flight during March 2023 was at 141, lower than 145 passengers per flight in February 2023 but higher than 131 passengers per flight in March 2022. The same was also higher than ~134 during March 2019. **It is estimated that the domestic aviation industry operated at a passenger load factor (PLF) of ~89% in March 2023, against ~82% in March 2022 and ~87% in March 2019.**

EXHIBIT 3: Daily Domestic Passenger Traffic Since May 25, 2020



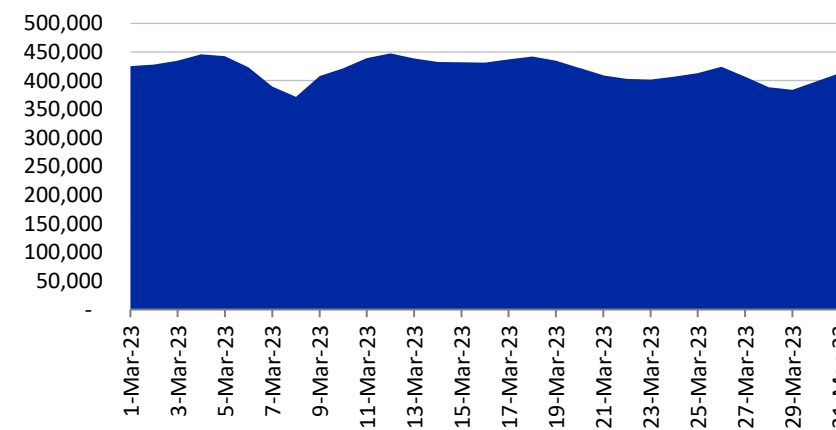
Source: MoCA, DGCA, ICRA Research

EXHIBIT 5: Domestic Daily Flight Departures Since May 25, 2020



Source: MoCA, DGCA, ICRA Research

EXHIBIT 4: Daily Domestic Passenger Traffic in March 2023

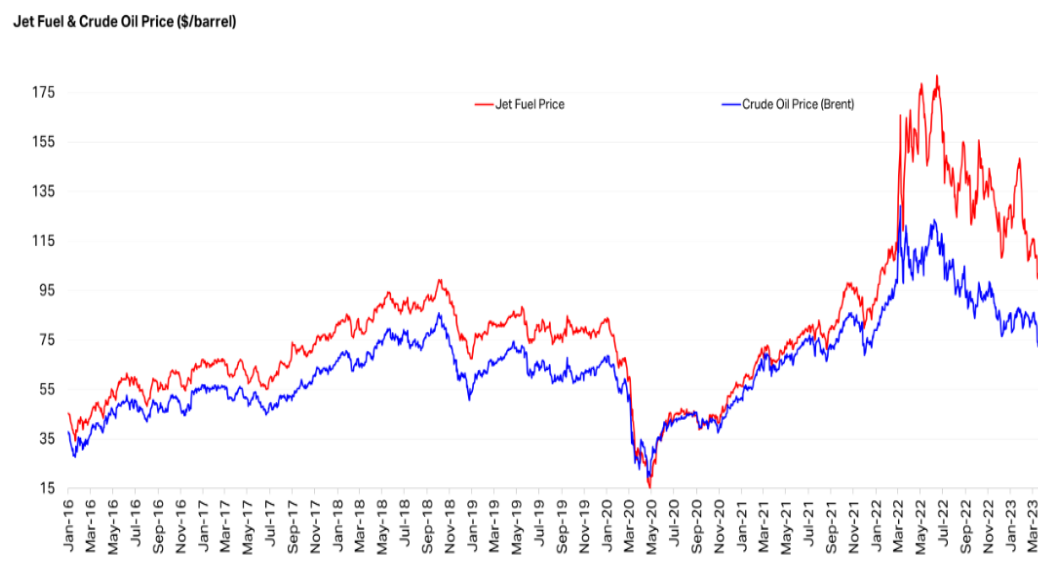


Source: MoCA, DGCA, ICRA Research

ATF PRICES: PRICES IN APRIL 2023 LOWER BY ~13% ON A YOY BASIS; LOWER BY ~10% SEQUENTIALLY

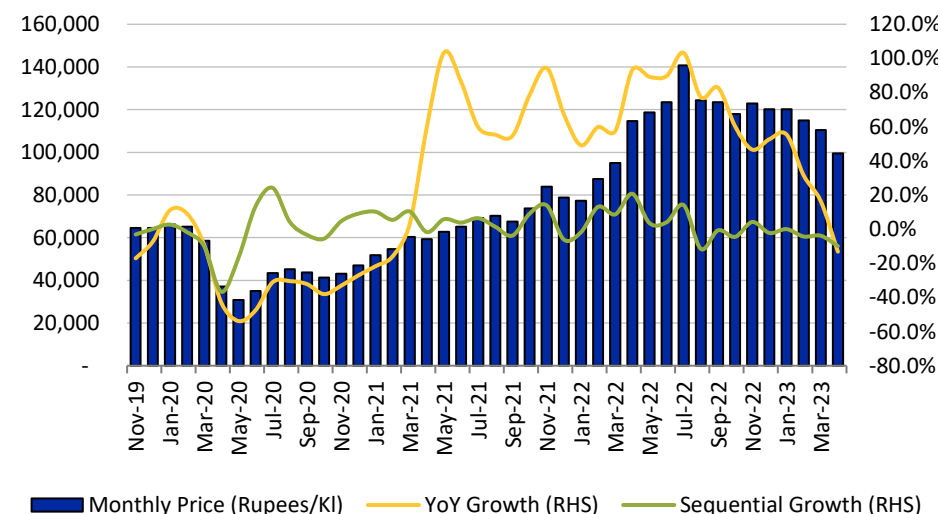
Following the pandemic, crude oil prices declined materially – reaching a low of ~\$19/ barrel in April 2020 (the sharpest decline since Q4 CY2018) – seeing a decline in ATF prices. However, crude oil prices increased gradually since then, and are currently at around ~\$85/ barrel. The increase in crude oil prices is attributable to the geo-political tension. Consequently, ATF prices increased sequentially until mid-July 2022. Though they declined sequentially from August 2022 to October 2022, they increased by ~4.2% in November 2022. They again declined by ~2% in December 2022, remaining range-bound in January 2023, declining by ~4% in February 2023, further declining by ~4% in March 2023 and again declining by ~10% in April 2023. Until February 2021, the ATF prices were lower on a YoY basis, while since March 2021, they have been substantially higher on a YoY basis. However, in April 2023, the prices were lower by ~13% on a YoY basis, first time post March 2021, driven by the decline in crude oil prices.

EXHIBIT 6: Movement in Crude Oil Price and Jet Fuel Price (Dollar/Barrel)



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

EXHIBIT 7: Movement in Jet Fuel Price



Source: Indian Oil Corporation Limited, ICRA Research

ICRA-RATED AIRLINE COMPANIES

EXHIBIT 8: Rating Distribution of ICRA-Rated Universe of Airline Companies as on April 09, 2023

Company Name	Rating Outstanding	Last Rating Action
Interglobe Aviation Limited	[ICRA]A (Stable) / [ICRA]A1	Ratings reaffirmed; Outlook revised to Stable
Tata SIA Airlines Limited	[ICRA]A% / [ICRA]A1%	Ratings placed on watch with positive implications

Source: ICRA Research



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ICRA Limited (formerly Investment Information and Credit Rating Agency of India Limited) was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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