



## INDIAN AVIATION INDUSTRY

**Domestic passenger traffic reported ~15%  
YoY growth in May 2023, 8% higher than  
pre-Covid levels**

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**June 2023**

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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.*

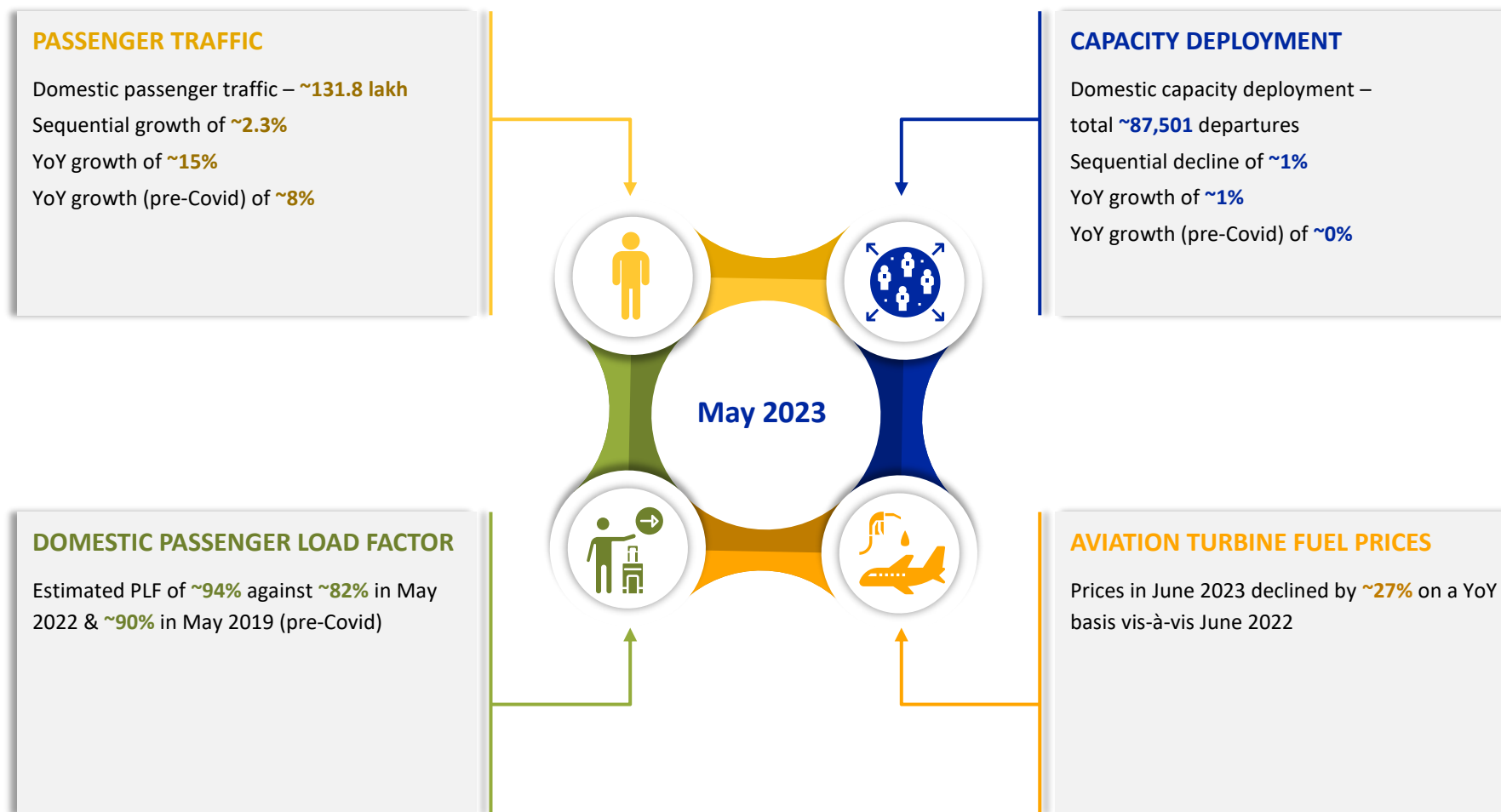
*Supply-chain challenges faced by aircraft manufacturers as reflected by grounding of certain proportion of some airlines' fleet.*

For May 2023, domestic air passenger traffic was estimated at ~131.8 lakh, ~2.3% higher than ~128.9 lakh in April 2023. Further, it witnessed a YoY growth of ~15%, compared to May 2022. Domestic passenger traffic in May 2023 was higher by ~8% compared to the pre-Covid levels (i.e. May 2019). The airlines' capacity deployment in May 2023 was higher by ~1.4% than that of May 2022, reaching the pre-Covid levels (May 2019). For FY2023, international passenger traffic for Indian carriers stood at ~239.4 lakh, thereby improving from the pre-Covid (FY2020) levels of ~227.2 lakh, although 8% lower than the peak levels of ~259.0 lakh of FY2019. Further, for April 2023, international passenger traffic for Indian carriers stood at ~21.8 lakh, higher than the pre-Covid (April 2019) levels of ~18.3 lakh by 20%.

- **Stable outlook on the Indian aviation industry** – ICRA's outlook on the Indian aviation industry has been revised to Stable 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 revenue per available seat kilometre – cost per available seat kilometre (RASK-CASK) spread of the airlines. The same is expected to continue as the industry regains some pricing discipline, coupled with the sequential decline in aviation turbine fuel (ATF) prices as witnessed over the last five months and relatively stable foreign exchange rates.
- **Sequential decline in ATF prices; however, they still remain at elevated levels than pre-Covid era** – 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\$ compared to pre-Covid era, both of which have a major bearing on the airlines' cost structure. The average ATF prices stood at Rs. 121,013/KL in FY2023 and Rs. 90,431/KL in June 2023 compared to Rs. 64,715/ KL in FY2020. Fuel cost 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\$ 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 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 have reported a net loss of ~Rs. 110-130 billion in FY2023 due to elevated ATF prices twined with the 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.

- **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, though better than over the past few years. The aircraft manufacturers are facing supply-chain challenges, resulting in the grounding of certain aircraft for some of the airlines. Following the challenges with respect to engines from Pratt & Whitney, Go Airlines (India) Limited has been forced to ground half of its fleet owing to faulty engines. Consequently, it started defaulting toward payments to vendors, aircraft lessors and received notices from the lessors seeking payment. It also defaulted towards interest dues of the financial creditors as on May 4, 2023. The company has filed for voluntary insolvency before the National Company Law Tribunal (NCLT). The admission of the bankruptcy plea led to a moratorium on the airline's assets, also prohibiting the lessor to repossess their aircraft. However, the lessors have appealed to the NCLAT challenging the NCLT order.

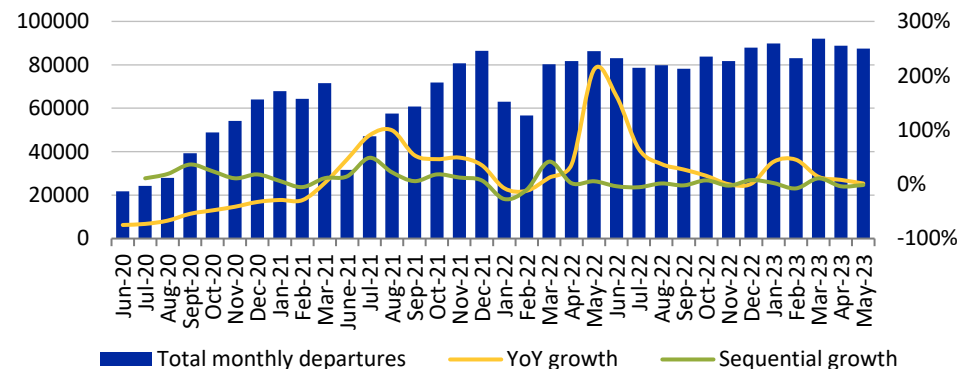
<sup>1</sup> Aggregate of Air Asia India Limited, Air India Limited, Go Airlines (India) Limited, Interglobe Aviation Limited, Tata SIA Airlines Limited and SpiceJet Limited; Excludes debt of Rs. 295 billion transferred from Air India Limited to a special purpose vehicle (SPV) with effect from October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



## DOMESTIC PASSENGER TRAFFIC: MAY 2023 REPORTED YOY GROWTH OF ~15% AND GROWTH OF ~8% AGAINST PRE-COVID LEVEL

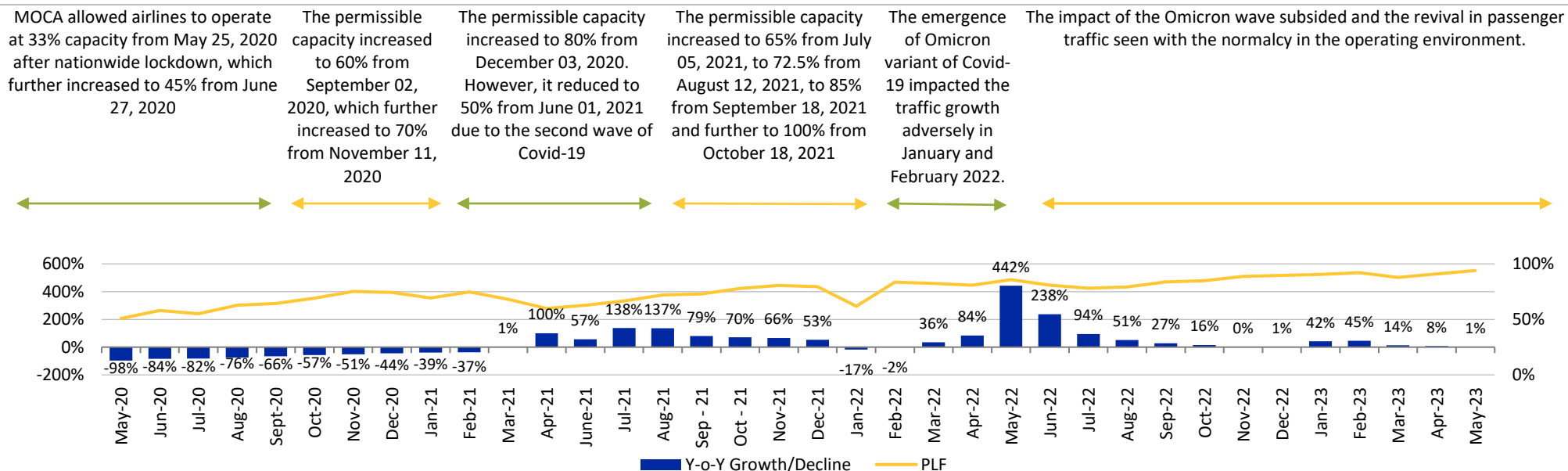
With the onset of Covid 2.0, the MoCA reduced the permissible capacity deployment by the airlines on domestic routes to 50% of the pre-Covid levels, with effect from June 01, 2021. The increase in permissible capacity deployment was gradual before removing restrictions, with effect from October 18, 2021. The capacity deployment for May 2023 was marginally higher by ~1% over May 2022 (87,501 departures in May 2023 against 86,289 departures in May 2022). The number of departures in May 2023 were lower by ~1% on a sequential basis and remained at similar levels when compared to departures of 87,461 in May 2019 (pre-Covid).

**EXHIBIT 1: Trend in Capacity Deployment by Domestic Airlines**



Source: MoCA, DGCA, ICRA Research

**EXHIBIT 2: Domestic Passenger Growth & PLF**

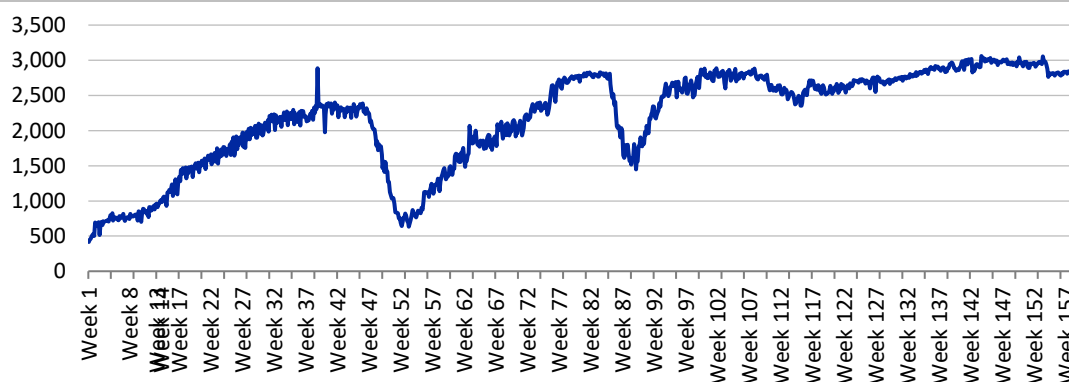


Source: MoCA, DGCA, ICRA Research

For May 2023, domestic passenger traffic stood at ~132 lakh, against ~115 lakh in May 2022, implying a growth of ~15% on a YoY basis. On a sequential basis, domestic passenger traffic improved by ~2.3% in May 2023 over ~129 lakh in April 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, witnessed 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. Daily passenger traffic on April 30, 2023, at 456,082, surpassed the previous highs. For May 2023, the average daily departures were at ~2,823, notably higher than the average daily departures of ~2,784 in May 2022 and marginally lower than ~2,958 in April 2023, but higher than the average daily departures of ~892 during May 2019 (pre-Covid level). The average number of passengers per flight during May 2023 was at 151, higher than 145 passengers per flight in April 2023 and 133 passengers per flight in May 2022. The same was also higher than ~139 during May 2019 (pre-Covid levels). It is estimated that the domestic aviation industry operated at a passenger load factor (PLF) of ~94% in May 2023, against ~83% in May 2022 and ~90% in May 2019.

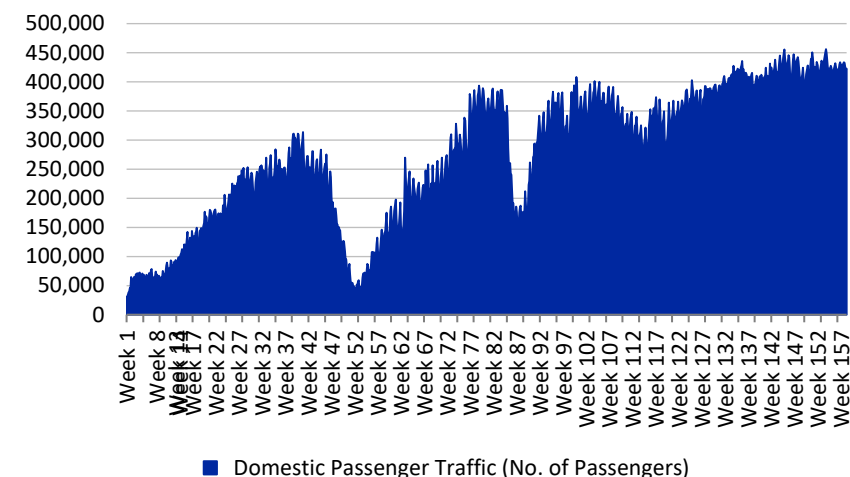
#### EXHIBIT 5: Domestic Daily Flight Departures Since May 25, 2020



Source: MoCA, DGCA, ICRA Research

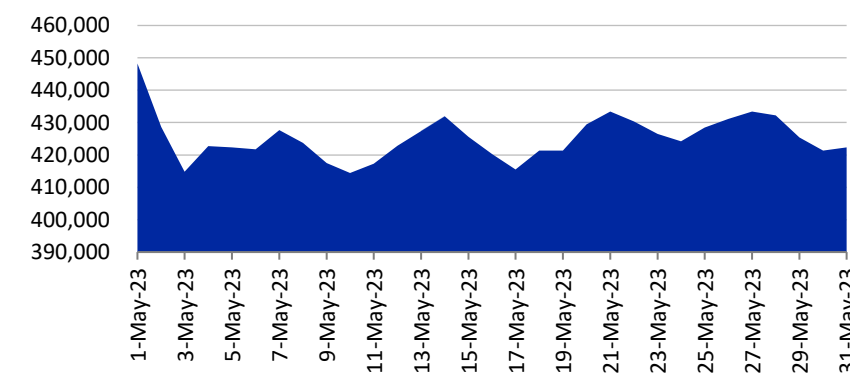
#### EXHIBIT 3: Daily Domestic Passenger Traffic Since May 25, 2020

##### Daily Domestic Passenger Traffic (No. Of Passengers)



Source: MoCA, DGCA, ICRA Research

#### EXHIBIT 4: Daily Domestic Passenger Traffic in May 2023

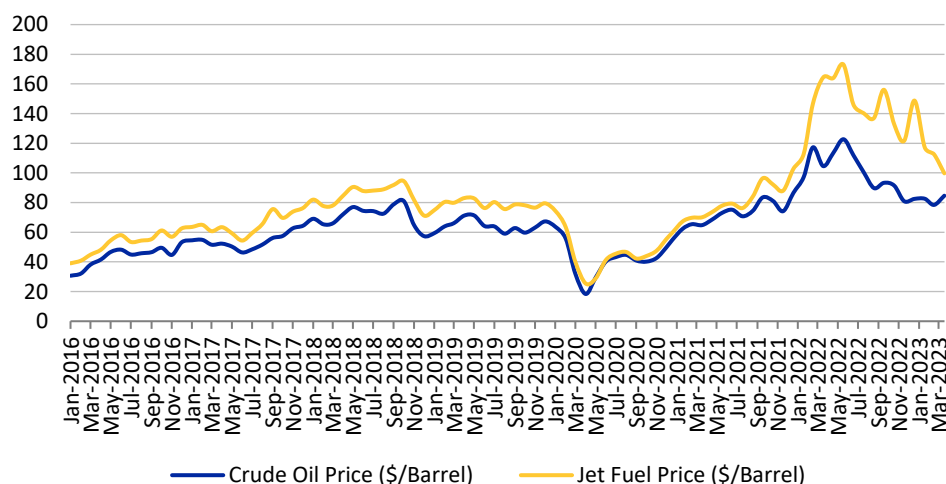


Source: MoCA, DGCA, ICRA Research

## ATF PRICES: PRICES IN JUNE 2023 LOWER BY ~27% ON A YoY BASIS AND BY ~7% SEQUENTIALLY

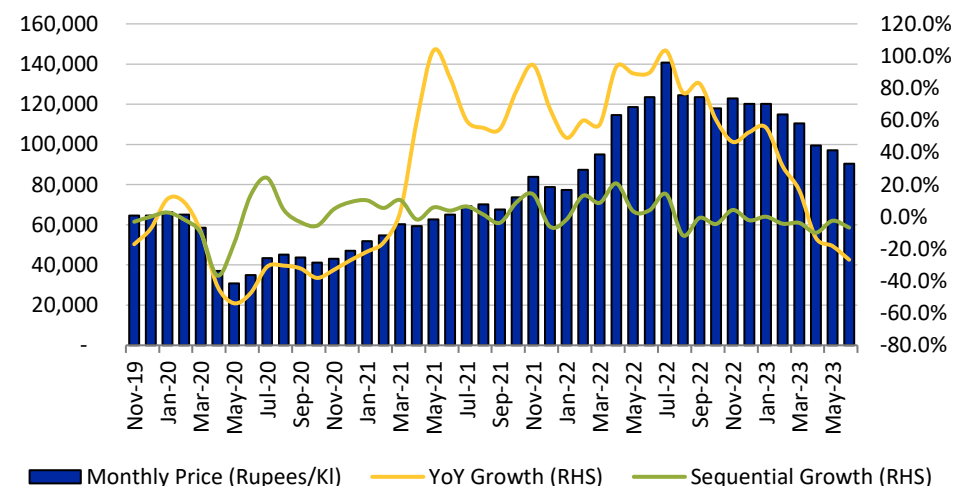
Following the pandemic, crude oil prices declined materially – reaching a low of ~\$19/ barrel in April 2020 (the sharpest decline since Q4 CY2018). However, crude oil prices increased gradually since then, and are currently at around ~\$75/ barrel. The increase is attributable to the geo-political tension. 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. For the past five months, the ATF prices gradually declined sequentially - by 4% in February 2023, 4% in March 2023, 10% in April 2023, 3% in May 2023 and 7% in June 2023. Until February 2021, the ATF prices were lower on a YoY basis, while since March 2021 to March 2023, they were substantially higher on a YoY basis. However, in April 2023, May 2023 and June 2023, the prices were lower by ~13%, ~18% and ~27% on a YoY basis, respectively, 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 June 12, 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; %: Ratings on watch with positive implications



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## ABOUT ICRA

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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- Assist the regulators in promoting transparency in the financial markets;
- Provide intermediaries with a tool to improve efficiency in the funds raising process.

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