ICRA

INDIAN AVIATION INDUSTRY

Domestic passenger traffic reported ~5% YoY growth in May 2024, ~14% higher than pre-Covid levels

June 2024

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BUSINESS OUTLOOK: STABLE

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ICRA expects the Indian aviation industry to report a similar net loss of ~Rs. 30-40 billion in FY2025 as seen in FY2024, which is significantly lower from levels of ~Rs. 170-175 billion in FY2023.

Supply chain challenges, engine failure issues, and crew and pilot availability remain near-term headwinds.

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

Domestic air passenger traffic for May 2024 was estimated at ~138.9 lakh, ~5.2% higher than ~132.0 lakh in April 2024. Further, it grew by ~5.1% on a YoY basis and was significantly higher by ~14.0% compared to pre-Covid levels. The airlines' capacity deployment in May 2024 was higher than May 2023 by ~6%, and higher by ~2% over April 2024.

For FY2024 (FY refers to April–March), domestic air passenger traffic was ~154 million with YoY growth of ~13%. It thus surpassed the pre-Covid levels of ~142 million in FY2020. Further, for FY2024, the international passenger traffic for Indian carriers stood at ~296.8 lakh, a YoY growth of ~24%, and higher than the pre-Covid levels of ~227.3 lakh by 30%, surpassing the peak levels of ~259.0 lakh in FY2019 (April–March 2019). For 2M FY2025 (April-May 2024), domestic air passenger traffic was ~270.9 lakh, reflecting a YoY growth of ~3.8% over 2M FY2024.

- **Stable outlook on the Indian aviation industry** – ICRA's outlook on the Indian aviation industry is Stable, amid the continued recovery in domestic and international air passenger traffic, with a relatively stable cost environment and expectations of the trend continuing in FY2025. 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 FY2024 is expected to continue into FY2025, though further expansion in yields from the current levels may be limited.

- **Sequential decline in ATF prices; although the same 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. 103,499/KL in FY2024, which was lower by 14% than Rs. 121,013/KL in FY2023, but significantly higher by 58% than the pre-Covid levels of Rs. 65,368/KL in FY2020. In Q1 FY2025, the average ATF price remained higher by 5.4% on a YoY basis. In June 2024, it declined by 6.5% sequentially. 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 along with the depreciation of the INR against the USD. ICRA expects the Indian aviation industry to report a similar net loss of ~Rs. 30-40 billion in FY2025 as seen in FY2024, which is significantly lower from levels of ~Rs. 170-175 billion in FY2023, as airlines continue to witness healthy passenger traffic growth and maintain pricing discipline.

- **Supply chain challenges and engine failure issues impact industry capacity** – The industry has been facing supply chain challenges and issues of engine failures for the Pratt and Whitney (P&W) engines supplied to various airlines. In FY2024, Go Airlines (India) Limited grounded half of its fleet due to faulty P&W engines, thus stalling its operations. InterGlobe Aviation Limited (IndiGo) has also grounded more than 70 aircraft due to the P&W engine issues, as on May 23, 2024, including the powder metal (used to manufacture certain engine parts) contamination factor with its P&W fleet. It is estimated that 24-26% of the total fleet of Indian airlines in operations was grounded by March 31, 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, around 250-300 days. This will result in increased operating expenses towards the cost of grounding, increased lease rentals due to additional aircraft being taken on lease to offset the grounded capacity, rising lease rates and lower fuel efficiency (due to replacement with older aircraft taken on spot lease), which will adversely impact an airline's cost structure. However, healthy yields, high passenger load factor (PLF) and partial compensation available from engine OEMs would help absorb the impact to an extent. In the current fiscal, the industry has also faced challenges related to availability of pilot and cabin crew, leading to several flight cancellations and delays. Such issues impact the capacity availability and add to customer grievances.

- **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. With half of Go Airlines (India) Limited's fleet grounded due to faulty P&W engines, it faced payment defaults with vendors, aircraft lessors and financial creditors. Consequently, GoFirst filed for insolvency with the National Company Law Tribunal (NCLT), which, in February 2024, extended the deadline for the completion of the resolution process by another 60 days, which ended on April 4, 2024. On April 8, 2024, the NCLT granted a further extension of 60 days till June 3, 2024, to complete the corporate insolvency resolution process (CIRP). On May 1, 2024, the Directorate General of Civil Aviation (DGCA), on the directive of the Delhi High Court Order, deregistered all 54 aircraft of GoFirst.

PASSENGER TRAFFIC

Domestic passenger traffic: **~138.9 lakh**

Sequential growth of: **~5.2%**

YoY growth of: **~5.1%**

CAPACITY DEPLOYMENT

Domestic capacity: **~93,252 departures**

Sequential growth of: **~1.7%**

YoY growth of: **~5.8%**

DOMESTIC PASSENGER LOAD FACTOR

Estimated PLF of **~91%** in May 2024 against **~92%** in May 2023 and **~90%** in May 2019 (pre-Covid)

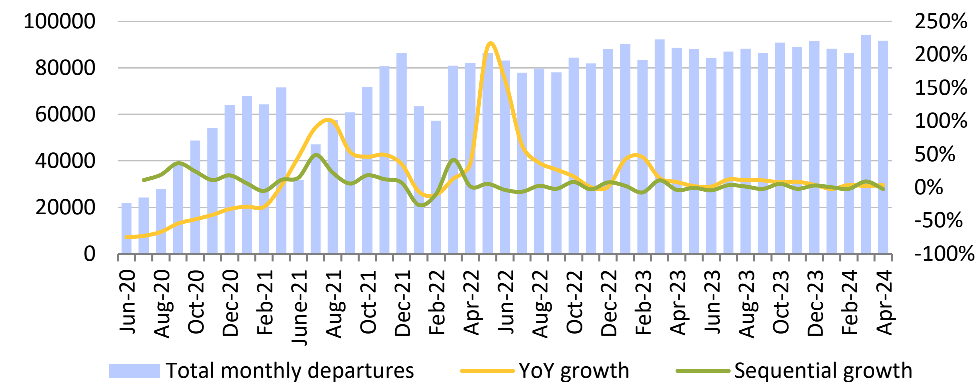
AVIATION TURBINE FUEL PRICES

Prices in June 2024 higher by **~6.7%** on a YoY basis over May 2023; sequential decline of **6.5%** (over May 2024)

Domestic Passenger Traffic: ~5% YoY growth in May 2024, higher by ~14% against pre-Covid levels

With the onset of Covid 2.0, the Ministry of Civil Aviation (MoCA) had 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 May 2024 was higher by ~5.8% over May 2023 (93,252 departures in May 2024 against 88,175 departures in May 2023). Further, the number of departures in May 2024 were higher by ~1.7% on a sequential basis.

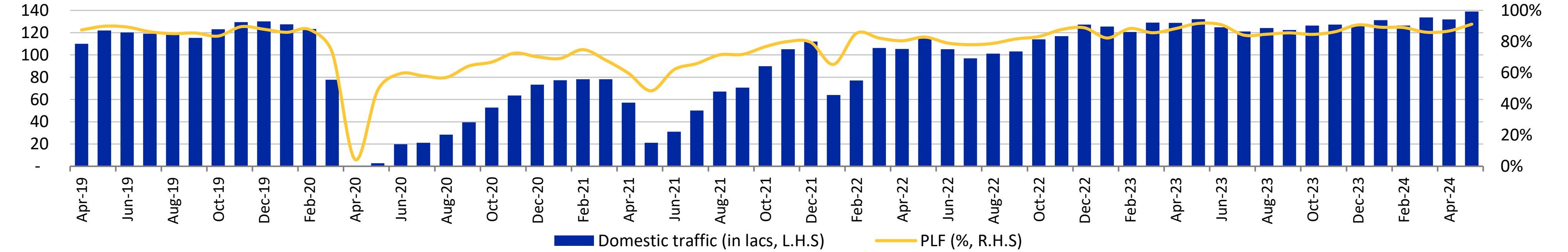
EXHIBIT 1: Trend in Capacity Deployment by Domestic Airlines



Source: MoCA, DGCA, ICRA Research

EXHIBIT 2: Domestic Passenger Growth & PLF

Pre-Covid period	MoCA allowed airlines to operate at 33% capacity from May 25, 2020, after nationwide lockdown, which increased gradually to 45% from June 27, 2020, and to 80% from December 03, 2020	However, it reduced to 50% from June 01, 2021, due to Covid 2.0. The permissible capacity increased to 65% from July 05, 2021, to 72.5% from August 12, 2021, to 85% from September 18, 2021, and further to 100% from October 18, 2021	Emergence of Omicron variant of Covid-19 impacted traffic growth adversely in January and February 2022	The impact of the Omicron wave subsided, resulting in revival in domestic air passenger traffic with normalcy in the operating environment	Increase in leisure and business travel supported passenger growth

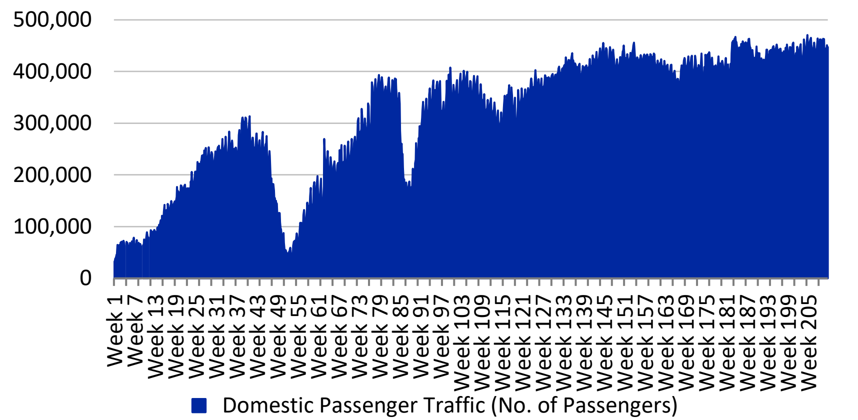


Source: MoCA, DGCA, ICRA Research

For May 2024, domestic air passenger traffic stood at ~139 lakh against ~132 lakh in May 2023, implying a YoY growth of ~5.1%. Further, on a sequential basis, domestic air passenger traffic in May 2024 was higher by ~5.2%, than April 2024.

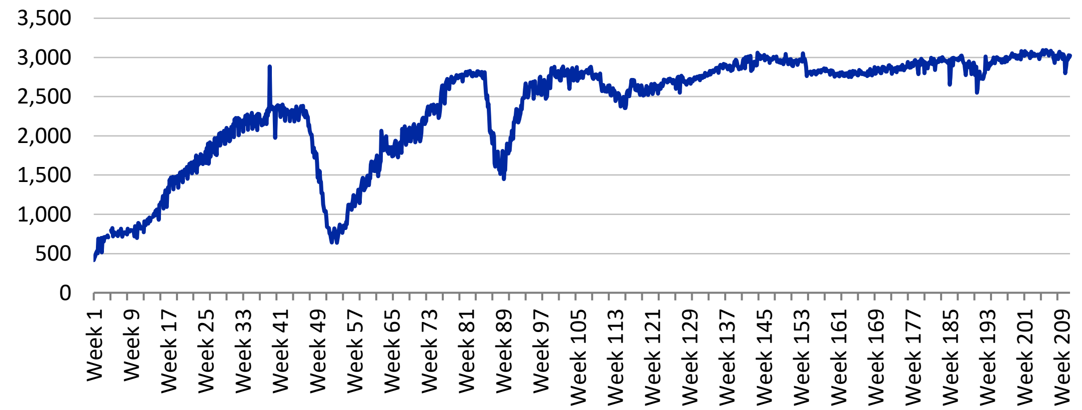
On April 17, 2022, domestic air passenger traffic was 407,975, crossing the 4-lakh daily passenger mark for the first time since the start of the pandemic. April 21, 2024 recorded the highest single-day traffic of 470,751, surpassing the previous historic highs. For May 2024, the average daily departures were ~3,008, higher than the average daily departures of ~2,844 in May 2023; however, lower than the average daily departures of ~3,058 during April 2024. The average number of passengers per flight in May 2024 and May 2023 was 150 and 149 respectively; also remaining higher than 144 passengers per flight in April 2024. It is estimated that the domestic aviation industry operated at a PLF of ~91% in May 2024 against 92% in May 2023, and 90% in May 2019 (pre-Covid levels).

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



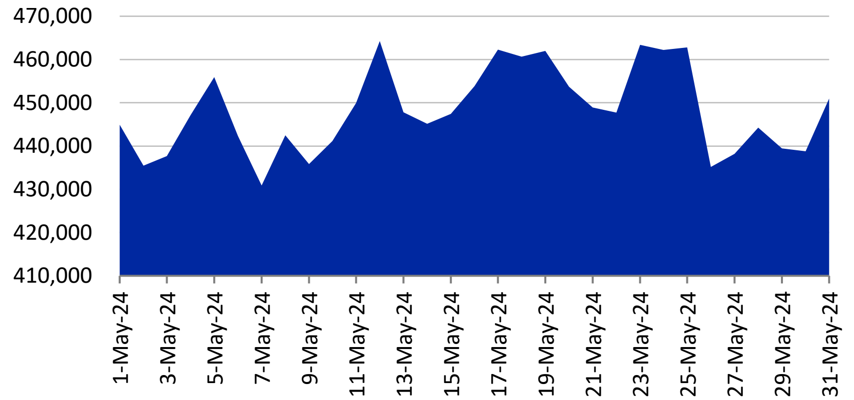
Source: MoCA, DGCA, ICRA Research

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



Source: MoCA, DGCA, ICRA Research

EXHIBIT 5: Daily Domestic Passenger Traffic in April 2024

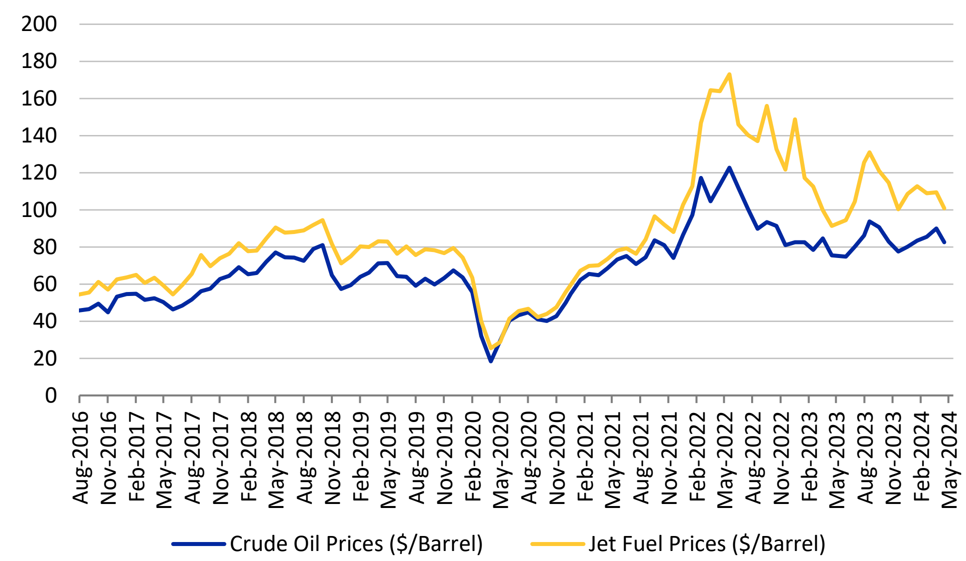


Source: MoCA, DGCA, ICRA Research

ATF Prices: Higher by ~6.7% YoY in May 2024, but lower by ~6.5% sequentially

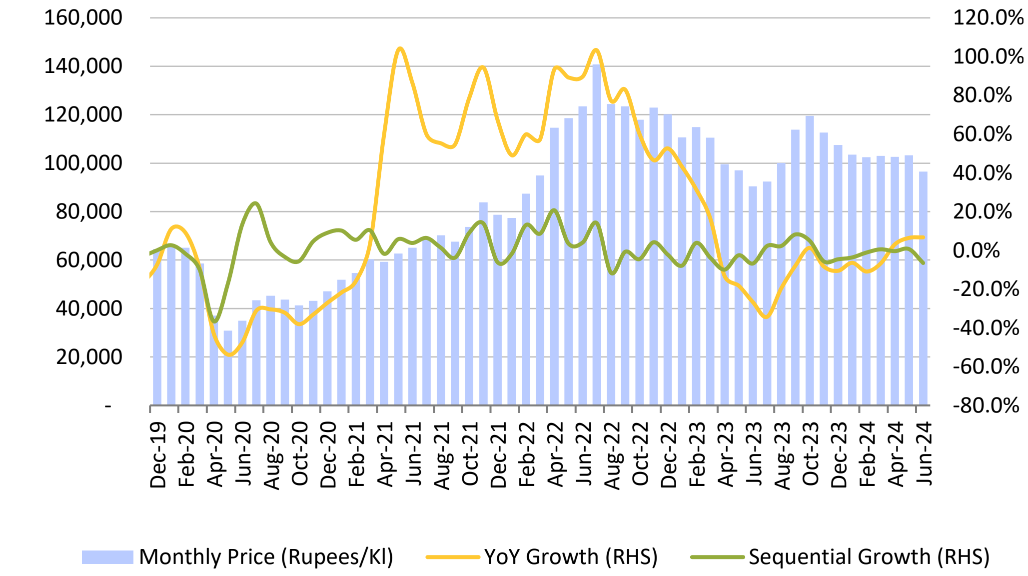
Following the pandemic, crude oil prices declined materially, reaching a low of ~$19/ barrel in April 2020 (the sharpest decline since Q4 CY2018). However, the prices increased gradually since then and are currently at around ~$78/ barrel. The increase is attributable to geopolitical disruptions. Following a YoY decline of 14% in average ATF prices in FY2024, the prices in April 2024 declined by 0.4% sequentially and rose by 0.7% in May 2024. In June 2024, it declined by 6.5% sequentially. Between April 2023 and March 2024, the ATF prices were lower on a YoY basis, except in October 2023. In April 2024, May 2024 and June 2024, the prices were higher by 3.1%, 6.4% and 6.7%, respectively, on a YoY basis.

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 June 5, 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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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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