



## INDIAN AVIATION INDUSTRY

**Domestic passenger traffic reported ~7% YoY growth in August 2024, ~13% higher than the pre-Covid level**

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## BUSINESS OUTLOOK: STABLE



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ICRA expects the Indian aviation industry to report a net loss of ~Rs. 20-30 billion in FY2025 and FY2026 (lower than the earlier estimates of Rs. 30-40 billion), against ~Rs. 10 billion in FY2024.

Supply-chain challenges and engine failure issues have impacted the industry capacity over the last 18 months and are expected to continue affecting it this year.

For August 2024, domestic air passenger traffic was estimated at ~132.9 lakh, ~2.3% higher than ~129.9 lakh in July 2024. Further, it grew by ~7.0% on a YoY basis and was notably higher by ~12.7% than the pre-Covid levels i.e. August 2019. The airlines' capacity deployment in August 2024 was higher than August 2023 by ~6.8%, and also higher by ~2.3% over July 2024.

For 5M FY2025 (April 2024 to August 2024), domestic air passenger traffic was ~664.7 lakh with a YoY growth of ~5.3% and was ~12.9% higher than the pre-Covid level of ~589.1 lakh in 5M FY2020. Further, for 4M FY2025, the international passenger traffic for Indian carriers stood at ~108.1 lakh with a YoY growth of ~15.8%, and higher than the pre-Covid level of ~72.4 lakh by 49.3%.

- Stable outlook on the Indian aviation industry** – The outlook for the Indian aviation industry remains Stable, driven by expectations of moderate growth in domestic air passenger traffic and a relatively stable cost environment 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 the air passenger traffic witnessed in FY2024 is likely to marginally taper down to 7-10% in FY2025 (compared to 13% in FY2024), pegged lower than ICRA's earlier estimate of 8-13%, given the high base of FY2024 and lower passenger traffic in Q1 FY2025, impacted by severe heat waves and other weather-related disruptions. The yields are also likely to be under pressure, as airlines strive to maintain adequate passenger load factor (PLF) amidst elevated aviation turbine fuel (ATF) prices. International passenger traffic for Indian carriers is expected to grow by 15-20% in FY2025 and FY2026 each.
- ATF prices in H1 FY2025 remained stable on a YoY basis but significantly elevated over pre-Covid levels** – Despite healthy growth in air passenger traffic and improvement in yields, the movement of the latter will remain monitorable amid elevated 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, lower by 14% than Rs. 121,013/KL in FY2023. In H1 FY2025, the average ATF price at Rs. 98,485/ KL was similar on a YoY basis; however, it was higher by 51% than the pre-Covid level. 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.
- Industry net losses to remain range-bound** – The pace of recovery in industry earnings is likely to be gradual owing to the high fixed-cost nature of the business. ICRA expects the Indian aviation industry to report a net loss of Rs. 20-30 billion in FY2025 and FY2026 compared to ~Rs. 10 billion in FY2024 due to anticipated pressure on yields as airlines strive to maintain adequate PLF and elevated ATF

prices. Further, the debt metrics for the industry improved in FY2024 owing to better profitability and are expected to remain range-bound in the medium term.

- 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) also grounded more than 70 aircraft due to the P&W engine issue, as on August 1, 2024, including the powder metal (used to manufacture certain engine parts) contamination factor with its P&W fleet. This has led to the grounding of ~134 aircraft for select airlines, which is 15-17% of the total industry fleet as on June 30, 2024, impacting overall industry capacity (as measured by available seat kilometre or ASKMs). Considering the bulk recall of the engines globally by P&W and other existing issues with the original equipment manufacturers' (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 by older aircraft taken on spot lease). These are likely to adversely impact an airlines' cost structure. However, healthy yields, high 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). After receiving multiple extensions to complete the resolution process, 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. In August 2024, the Committee of Creditors (CoC) voted in favour of liquidation of GoFirst after bids failed to materialise. The NCLT has now sought a response from the suspended management of the airline regarding the liquidation plea filed by the resolution professional.

### PASSENGER TRAFFIC

Domestic passenger traffic: **~132.8 lakh**  
 Sequential growth of: **~2.3%**  
 YoY growth of: **~7.0%**

### CAPACITY DEPLOYMENT

Domestic capacity: **~94,221 departures**  
 Sequential growth of: **~2.3%**  
 YoY growth of: **~6.8%**

**August 2024**

### DOMESTIC PASSENGER LOAD FACTOR

Estimated PLF of **~82%** in August 2024 against **~82%** in August 2023 and **~81%** in August 2019 (pre-Covid)

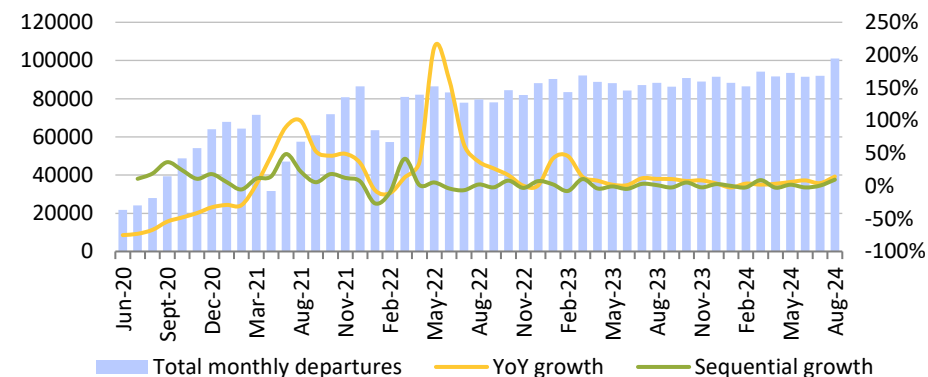
### AVIATION TURBINE FUEL PRICES

Prices in September 2024 lower by **~17.8%** on a YoY basis over September 2023 and lower by **4.5%** (over August 2024)

## Domestic Passenger Traffic: ~7% YoY growth in August 2024, higher by ~13% against pre-Covid level

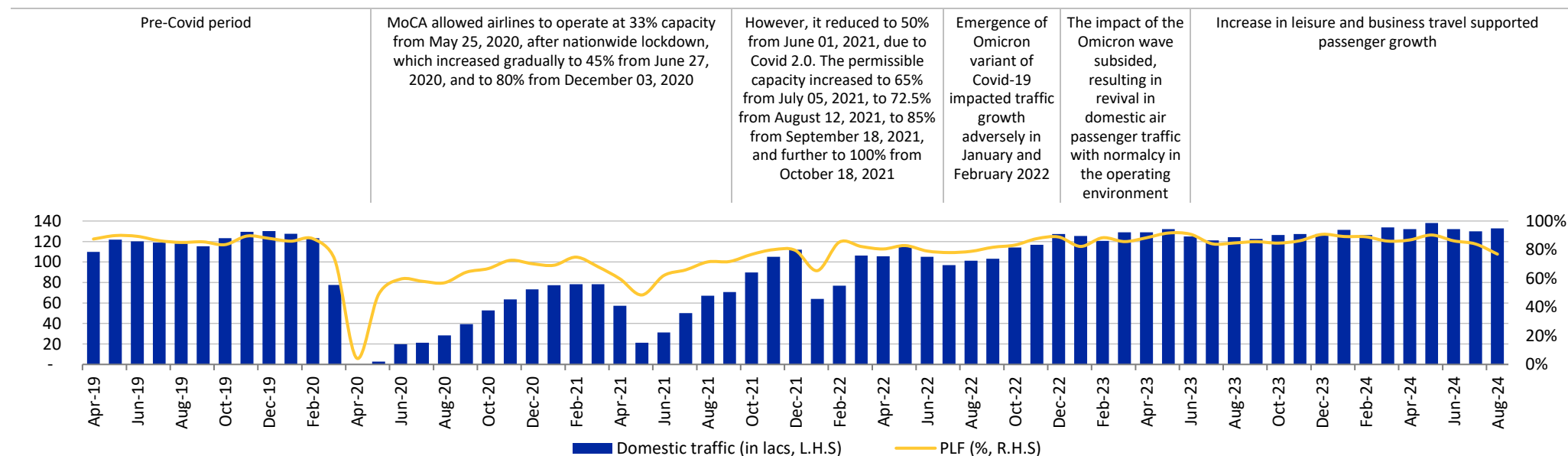
With the onset of Covid 2.0, the Ministry of Civil Aviation (MoCA) had reduced the permissible capacity deployment by airlines on domestic routes to 50% of the pre-Covid level, with effect from June 01, 2021. The increase in the permissible capacity deployment was gradual before the restrictions were removed, with effect from October 18, 2021. The capacity deployment for August 2024 was higher by ~6.8% over August 2023 (94,221 departures in August 2024 against 88,237 departures in August 2023). Further, the number of departures in August 2024 were higher by ~2.3% on a sequential basis.

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



Source: MoCA, DGCA, ICRA Research

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

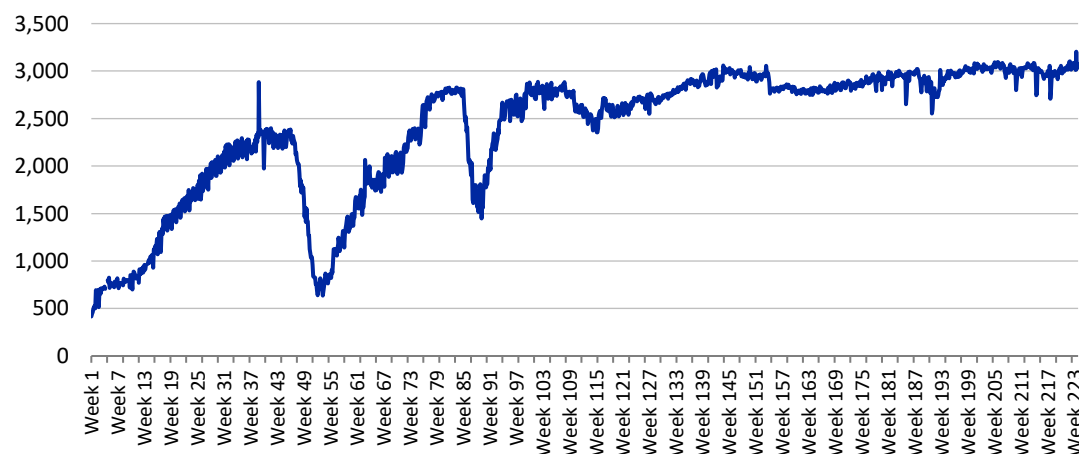


Source: MoCA, DGCA, ICRA Research

For August 2024, domestic air passenger traffic stood at ~133 lakh, against ~124 lakh in August 2023, implying a YoY growth of ~7.0%. Further, on a sequential basis, domestic air passenger traffic in August 2024 was higher by ~2.3% over July 2024.

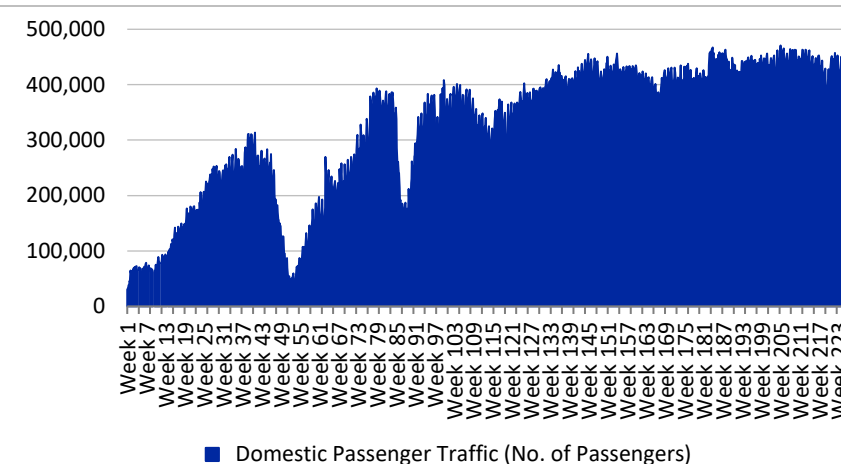
April 21, 2024 recorded the highest single-day traffic of 470,751, surpassing the previous historic highs. For August 2024, the average daily departures were ~3,039, higher than the average daily departures of ~2,846 in August 2023, which were also higher than the average daily departures of ~2,970 during July 2024. The average number of passengers per flight in August 2024 at 141 was similar to that in August 2023 as well as July 2024. It is estimated that the domestic aviation industry operated at a PLF of ~82% in August 2024 and August 2023, and 81% in August 2019 (pre-Covid level).

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



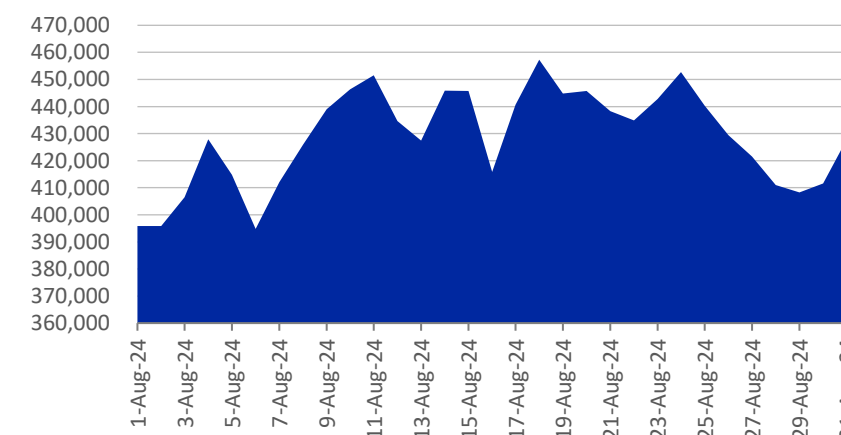
Source: MoCA, DGCA, ICRA Research

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



Source: MoCA, DGCA, ICRA Research

**EXHIBIT 5: Daily Domestic Passenger Traffic in August 2024**

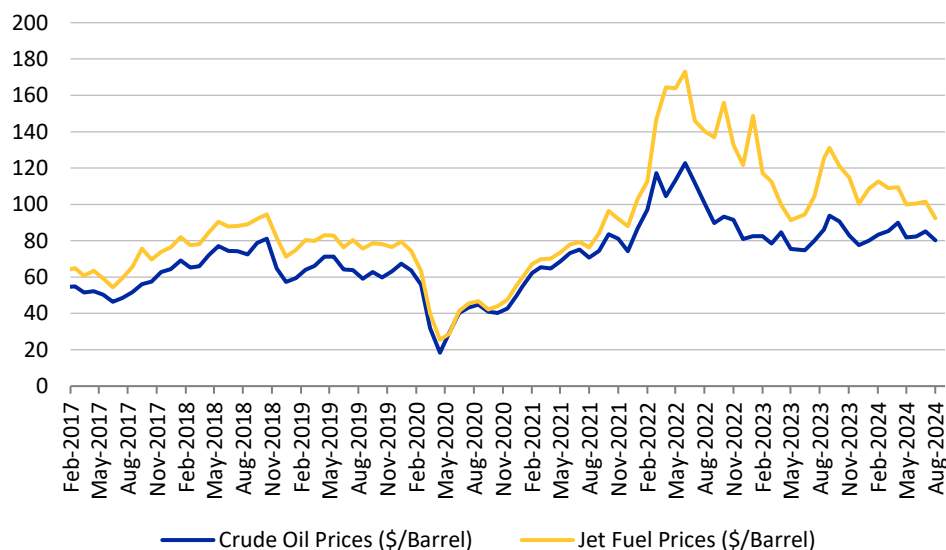


Source: MoCA, DGCA, ICRA Research

## ATF Prices: Lower by ~17.8% on YoY basis in September 2024 and lower by ~4.5% sequentially

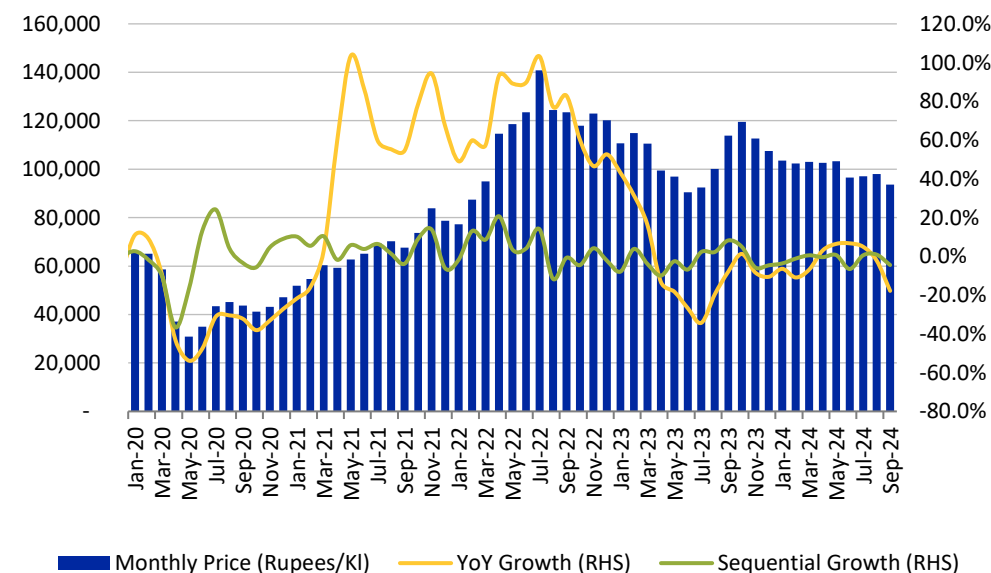
Following the pandemic, crude oil prices declined materially, reaching a low of ~\$19/ barrel in April 2020 (the sharpest decline since Q4 CY2018). However, **the prices increased gradually since then and are currently at around \$72 / barrel**. The increase is attributable to geopolitical disruptions. 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. However, in July and August 2024, it rose marginally by 0.6% and 0.9%, respectively. In September 2024, it was lower by 4.5% sequentially. Between April 2023 and March 2024, the ATF prices were lower on a YoY basis, except in October 2023. From April 2024 till July 2024, the prices were higher by 3.1%, 6.4%, 6.7% and 4.9%, respectively, on a YoY basis. In August and September 2024, the prices were lower on a YoY basis by 2.2% and 17.8%, respectively.

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



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

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 September 10, 2024)

Company Name	Rating Outstanding	Last Rating Action
AIX Connect Private Limited	[ICRA]A1+	Assigned
Interglobe Aviation Limited	[ICRA]AA- (Stable) / [ICRA]A1+	Long-term rating upgraded and short-term rating reaffirmed
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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- 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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