



INDIAN AVIATION INDUSTRY

**Domestic passenger traffic reported ~14%
YoY growth in November 2024; ~12%
higher than the pre-Covid level**

December 2024

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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 each.

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

For November 2024, domestic air passenger traffic was estimated at ~144.9 lakh, 6.1% higher than 136.6 lakh in October 2024. Further, it grew by ~13.8% on a YoY basis and was higher by ~11.9% than the pre-Covid levels, i.e., November 2019. The airlines' capacity deployment in November 2024 was higher than November 2023 by ~8.6% and lower by ~1.5% over October 2024.

For 8M FY2025 (April–November 2024), domestic air passenger traffic was ~1,074.9 lakh, a YoY growth of ~6.7%, ~12.3% higher than the pre-Covid level of ~957.0 lakh in 8M FY2020. Further, for 7M FY2025, the international passenger traffic for Indian carriers stood at ~190.3 lakh, a YoY growth of ~15.9%, higher than the pre-Covid level of ~131.0 lakh by 45.43%.

- **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 during FY2024, reflected in the higher yields (over pre-Covid levels) and, the revenue per available seat kilometre–cost per available seat kilometre (RASK–CASK) spread of the airlines. The momentum in the air passenger traffic growth witnessed in FY2024 is likely to marginally taper to 7-10% in FY2025 (compared to 13% in FY2024), given the high base of FY2024 and lower passenger traffic in H1 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). International passenger traffic for Indian carriers is expected to grow by 15-20% in FY2025.
- **ATF prices in 9M FY2025 were lower by 7.7% on a YoY basis but remained significantly elevated over pre-Covid levels** – The movement in the yields 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 9M FY2025 (April–December 2024), the average ATF price at Rs. 95,686/KL was lower by 7.7% on a YoY basis; however, it was higher by 47% than the pre-Covid level. Fuel cost accounts for ~30-40% of the airlines' expenses, while ~35-50% 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 a net profit of ~Rs. 16 billion in FY2024 due to anticipated pressure on yields as airlines strive to maintain adequate PLF amid continued elevated ATF prices. Further, the higher borrowing costs due to increased lease liabilities with the scheduled aircraft deliveries for select airlines is likely to increase the interest burden. Nonetheless, the expected losses are significantly lower than losses

of Rs. 235 billion and Rs. 174 billion reported in FY2022 and FY2023, respectively. The industry debt metrics in FY2025 are likely to remain range-bound, with interest coverage of 1.5-2.0x times.

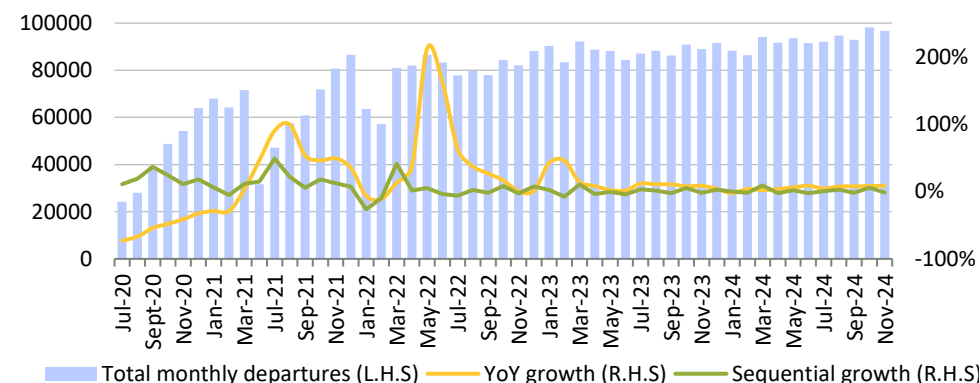
- **Supply chain challenges and engine failure issues impact industry capacity** – The industry has been facing supply chain challenges and issues of engine failures for the Pratt and Whitney (P&W) engines supplied to various airlines. In FY2024, Go Airlines (India) Limited grounded half of its fleet due to faulty P&W engines, thus stalling its operations. InterGlobe Aviation Limited (IndiGo) also had more than 70 aircraft grounded as on September 30, 2024, due to the P&W engine issue, including the powder metal (used to manufacture certain engine parts) contamination factor with its P&W fleet. However, the number of aircraft on ground for IndiGo reduced in October 2024 and is further expected to reduce by March 2025. Overall, the Indian aviation industry had ~144 aircraft for select airlines grounded as on September 30, 2024, which is 16-18% of the total industry fleet, thus impacting the 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) engines, the testing by P&W is likely to take longer. This will result in increased operating expenses towards the cost of grounding, increased lease rentals due to additional aircraft being taken on lease (primarily wet lease) to offset the grounded capacity, rising lease rates and lower fuel efficiency (due to replacement by older aircraft taken on spot lease). These factors 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 over the last few years. With half of Go Airlines (India) Limited's fleet grounded due to faulty P&W engines, the airlines 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.



Domestic Passenger Traffic: ~13.8% YoY growth in November 2024, higher by ~11.9% against pre-Covid level

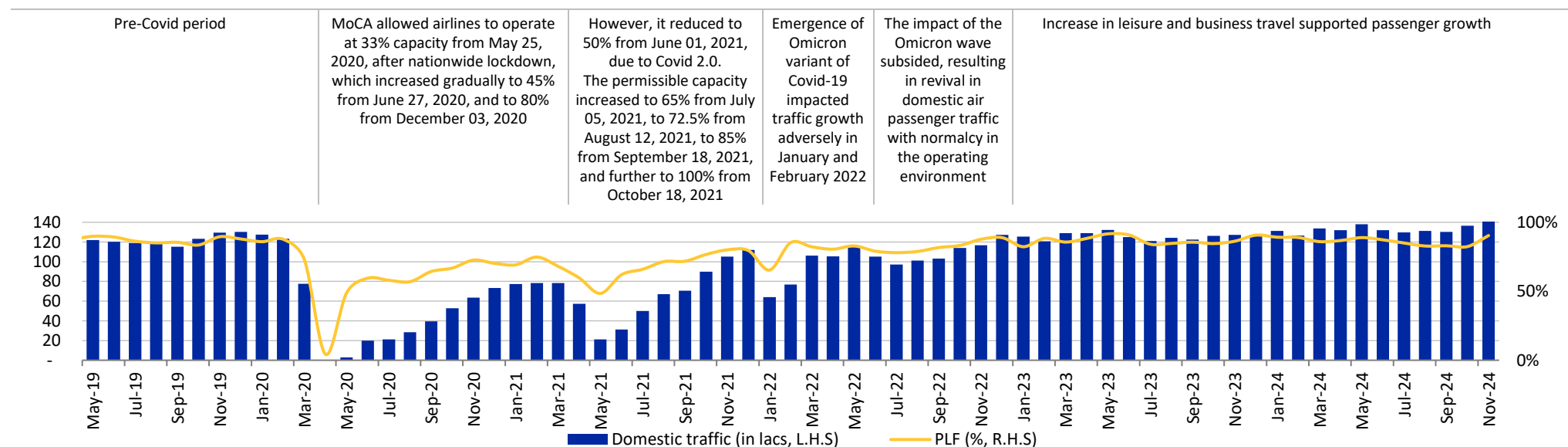
With the onset of Covid 2.0, the Ministry of Civil Aviation (MoCA) had reduced the permissible capacity deployment by airlines on domestic routes to 50% of the pre-Covid level, with effect from June 01, 2021. The increase in the permissible capacity deployment was gradual before the restrictions were removed, with effect from October 18, 2021. The capacity deployment for November 2024 was higher by ~8.6% over November 2023 (96,666 departures in October 2024 against 89,000 departures in November 2023). Further, the number of departures in November 2024 were lower by ~1.5% on a sequential basis.

EXHIBIT 1: Trend in Capacity Deployment by Domestic Airlines



Source: MoCA, DGCA, ICRA Research

EXHIBIT 2: Domestic Passenger Growth & PLF

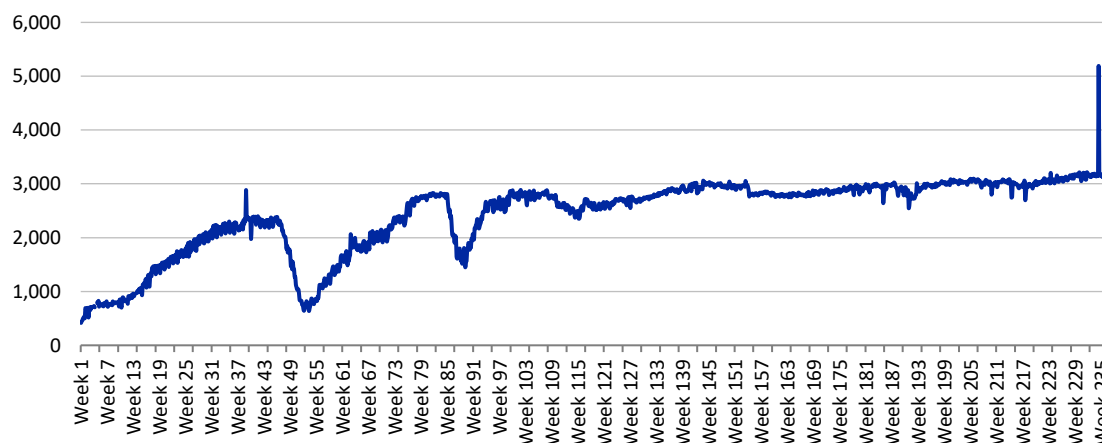


Source: MoCA, DGCA, ICRA Research

For November 2024, domestic air passenger traffic stood at ~144.9 lakh, against ~127.4 lakh in November 2023, implying a YoY growth of ~13.8%. On a sequential basis, domestic air passenger traffic in November 2024 was higher by ~6.1% over October 2024.

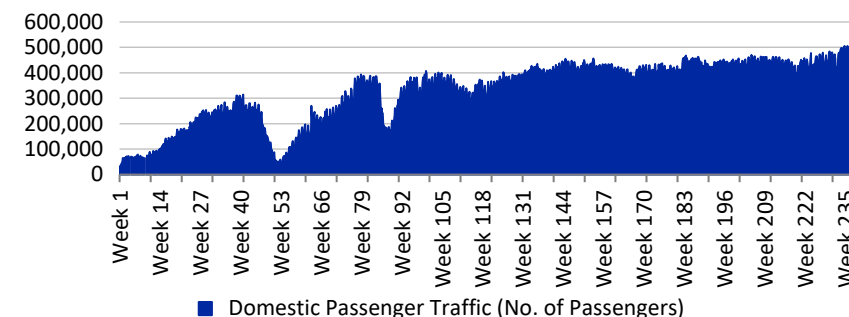
The highest single-day traffic of 505,611 was recorded on November 24, 2024, surpassing the previous historic highs. For November 2024, the average daily departures were ~3,222, higher than the average daily departures of ~2,967 in November 2023, and also higher than the average daily departures of ~3,167 during October 2024. At 150, the average number of passengers per flight in November 2024 was higher than 143 in November 2023 and 139 in October 2024. It is estimated that the domestic aviation industry operated at a PLF of ~90.4% in November 2024 against 86.3% in November 2023, and 81.0% in November 2019 (pre-Covid level).

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



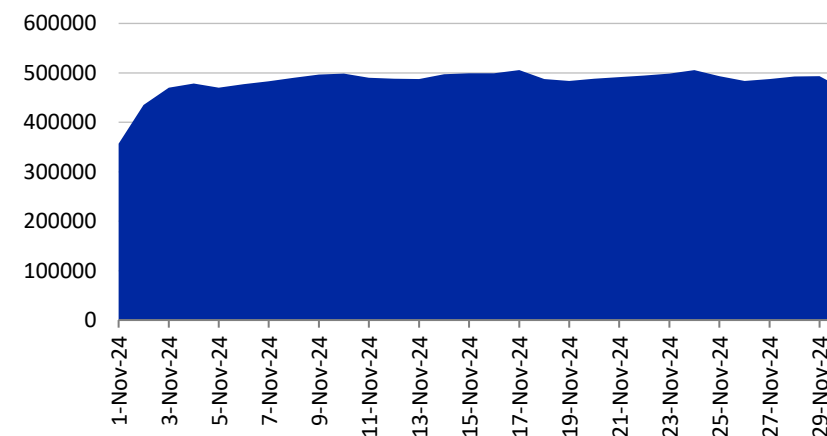
Source: MoCA, DGCA, ICRA Research

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



Source: MoCA, DGCA, ICRA Research

EXHIBIT 5: Daily Domestic Passenger Traffic in November 2024

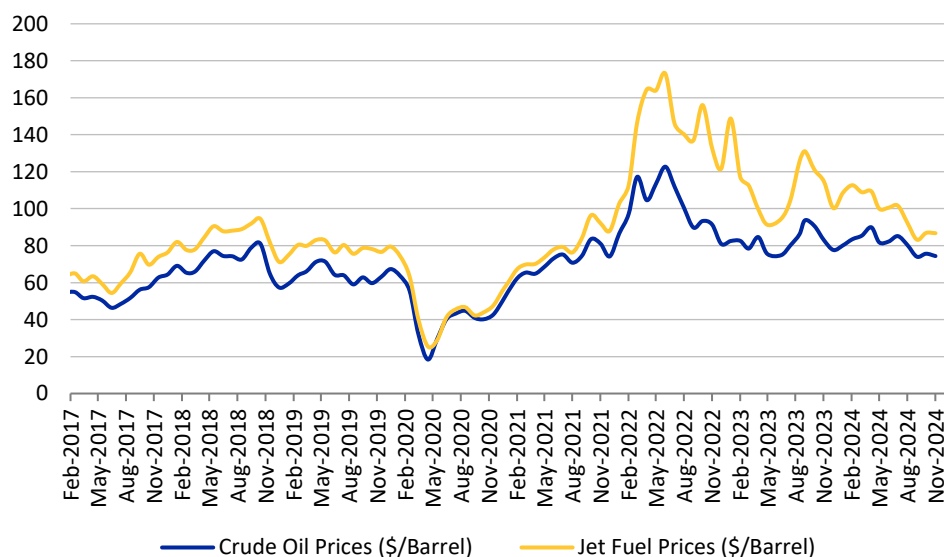


Source: MoCA, DGCA, ICRA Research

ATF Prices: Lower by ~14.5% YoY in December 2024 and higher by ~1.4% sequentially

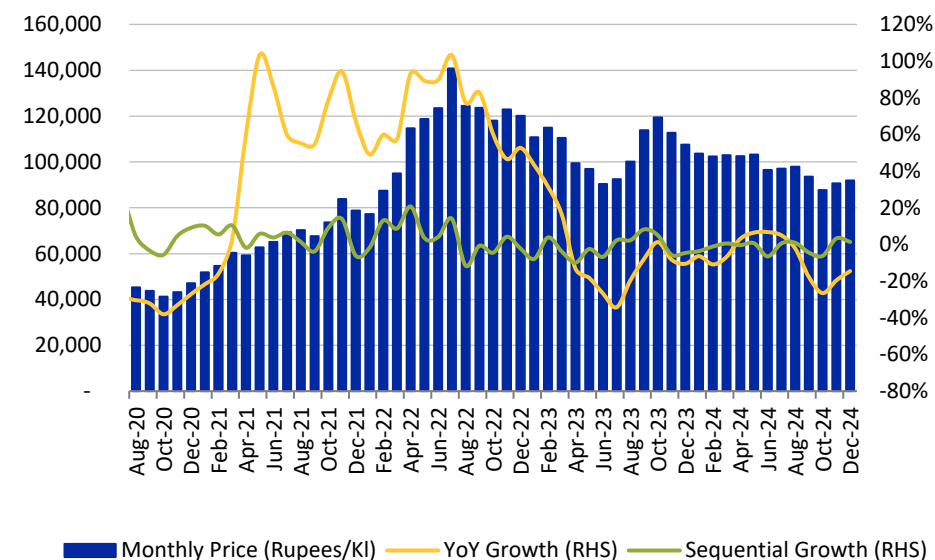
Following the pandemic, crude oil prices declined materially, reaching a low of ~\$19/ barrel in April 2020 (the sharpest decline since Q4 CY2018). However, **the prices increased gradually since then and are currently at around \$73/barrel**. The increase is attributable to geopolitical disruptions. Following a YoY decline of 14% in average ATF prices in FY2024, in April 2024 they declined by 0.4% sequentially and rose by 0.7% in May 2024. In June 2024, they declined by 6.5% sequentially. However, in July and August 2024, they rose marginally by 0.6% and 0.9%, respectively. In September 2024 and October 2024, the prices were lower by 4.5% and 6.2%, respectively, on a sequential basis. However, in November 2024 and December 2024, they again rose by 3.3% and 1.4%, respectively, on a sequential basis. 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. From August to December 2024, they were lower on a YoY basis by 2.2%, 17.8%, 26.5%, 19.6% and 14.5%, respectively.

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 December 19, 2024)

Company Name	Rating Outstanding	Last Rating Action
AIX Connect Private Limited	[ICRA]A1+; Withdrawn	[ICRA]A1+; Withdrawn
Interglobe Aviation Limited	[ICRA]AA- (Stable) / [ICRA]A1+	Long-term rating upgraded and short-term rating reaffirmed
Tata SIA Airlines Limited	[ICRA]A; Rating Watch with Positive Implications / [ICRA]A1; Rating Watch with Positive Implications; withdrawn	[ICRA]A; Rating Watch with Positive Implications / [ICRA]A1; Rating Watch with Positive Implications; withdrawn

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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- Provide intermediaries with a tool to improve efficiency in the funds raising process.

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