INDIAN AVIATION INDUSTRY

Domestic passenger traffic reported ~13% YoY growth in February 2025; ~16% higher than the pre-Covid level

March 2025

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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; however, it would be significantly lower than the losses witnessed in the past.

For February 2025, domestic air passenger traffic was estimated at 143.0 lakh, 2.1% lower than 146.1 lakh in January 2025. However, it grew by ~13.1% on a YoY basis and was higher by ~16.0% than the pre-Covid levels, i.e., February 2020. The airlines' capacity deployment in February 2025 was higher than February 2024 by ~5.1%, but lower by 7.2% over January 2025.

For 11M FY2025 (April 2024–February 2025), domestic air passenger traffic was ~1,551.0 lakh, a YoY growth of ~7.7% and ~12.9% higher than the pre-Covid level of ~1,338.0 lakh in 11M FY2020. Further, for 10M FY2025, the international passenger traffic for Indian carriers stood at ~280.9 lakh, a YoY growth of ~14.8%, higher than the pre-Covid level of ~198.8 lakh by 41.3%.

- **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 and FY2026. 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 and FY2026 (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 the adequate passenger load factor (PLF). International passenger traffic for Indian carriers is expected to grow by 15-20% in FY2025.

- **ATF prices in FY2025 were lower by 8.0% on a YoY basis but remained significantly elevated over pre-Covid levels** – The movement in the yields 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, lower by 14% than Rs. 121,013/KL in FY2023. In FY2025, the average ATF price at Rs. 95,181/KL was lower by 8.0% on a YoY basis, though higher by 47.1% than the pre-Covid level, i.e., Rs. 64,715/ KL. 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, their net payables are mostly 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's 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[1] 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, are 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.

- **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 60-70 aircraft grounded as on January 30, 2025, 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 same is expected to reduce by March 2025. Overall, the Indian aviation industry had ~117 aircraft for select airlines grounded in February 2025, which was 13-15% of the total industry fleet, thus impacting the overall industry capacity (as measured by available seat kilometre, or ASKMs). However, it remains significantly lower than the 154 aircraft on ground as on September 30, 2023. Considering the bulk recall of the engines globally by P&W and other existing issues with the original equipment manufacturers' (OEMs') engines, the testing by P&W is expectedly taking longer. This is also resulting 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 adversely impacting an airlines' cost structure. However, healthy yields, high PLF and partial compensation available from engine OEMs is helping absorb the impact to an extent. In the current fiscal, the industry has also faced challenges related to the 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. In January 2025, the NCLT ordered the liquidation of GoFirst.

[1] *Industry refers to Air Asia (India) Limited, Air India Limited, Interglobe Aviation Limited, SpiceJet Limited, Tata SIA Airlines Limited*

PASSENGER TRAFFIC

Domestic passenger traffic: **~143.0 lakh**

Sequential de-growth of: **~2.3%**

YoY growth of: **~13.1%**

CAPACITY DEPLOYMENT

Domestic capacity: **~91,292 departures**

Sequential de-growth of: **~7.2%**

YoY growth of: **~5.6%**

DOMESTIC PASSENGER LOAD FACTOR

Estimated PLF of **~95.3%** in February 2025 against **~89.0%** in February 2024 and **~87.7%** in January 2020 (pre-Covid)

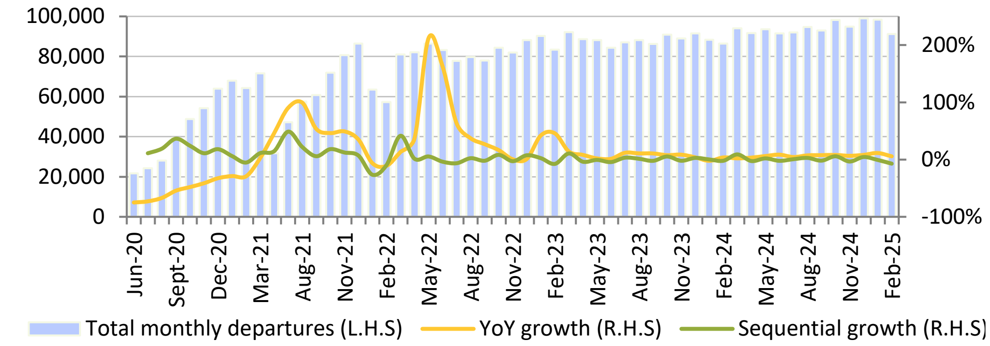
AVIATION TURBINE FUEL PRICES

Prices in March 2025 lower by **~7.6%** YoY over March 2024 and lower by 0.3% over February 2025.

Domestic Passenger Traffic: ~13.1% YoY growth in February 2025, higher by ~16% against pre-Covid level

The capacity deployment for February 2025 was higher by ~5.6% over February 2024 (~91,282 departures in February 2025, against 86,423 departures in February 2024). However, the number of departures in February 2025 were lower by ~7.2% on a sequential basis owing to less number of days in the month of February.

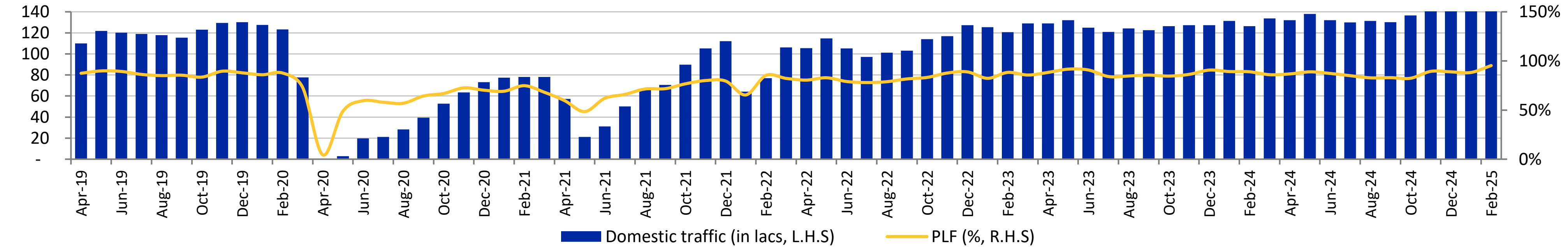
EXHIBIT 1: Trend in Capacity Deployment by Domestic Airlines



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

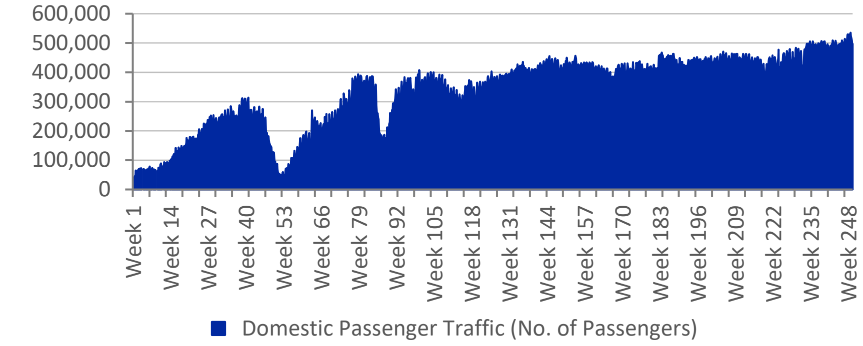


Source: MoCA, DGCA, ICRA Research

For February 2025, domestic air passenger traffic stood at ~143.0 lakh, against ~126.5 lakh in February 2024, implying a YoY growth of ~13.1%. On a sequential basis, domestic air passenger traffic in February 2025 was lower by ~2.1% over January 2025 owing to lesser number of days in February. For 11M FY2025 (April 2024–February 2025), domestic air passenger traffic was ~1,511.1 lakh, a YoY growth of ~7.7% and in line with ICRA's estimate of 7-10% growth in FY2025 on a YoY basis.

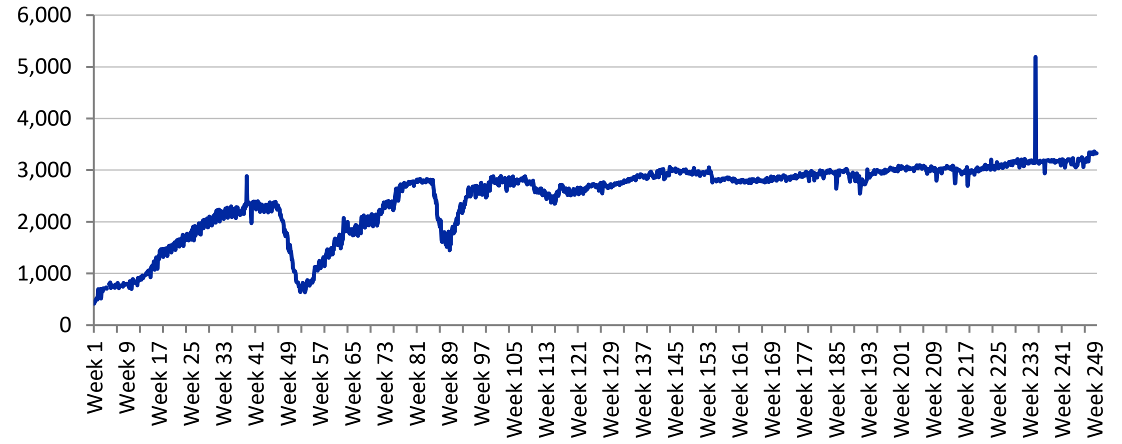
The highest single-day traffic of 535,343 was recorded on February 23, 2025, surpassing the previous historic highs. For February 2025, the average daily departures were ~3,260, higher than the average daily departures of ~2,980 in February 2024 and ~3,172 during January 2025. At 157, the average number of passengers per flight in February 2025 was higher than 146 in February 2024 and 149 in January 2025. It is estimated that the domestic aviation industry operated at a PLF of ~95.3% in February 2025, against 89.0% in February 2024, and 87.7% in February 2020 (pre-Covid level).

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



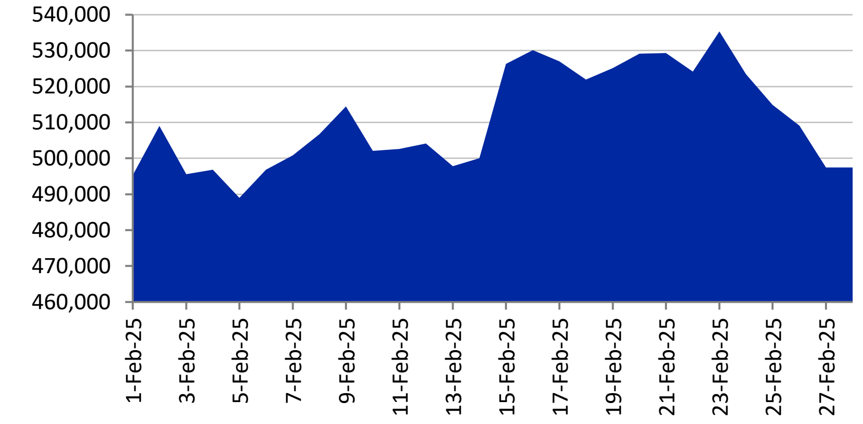
Source: MoCA, DGCA, ICRA Research

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



Source: MoCA, DGCA, ICRA Research

EXHIBIT 5: Daily Domestic Passenger Traffic in February 2025

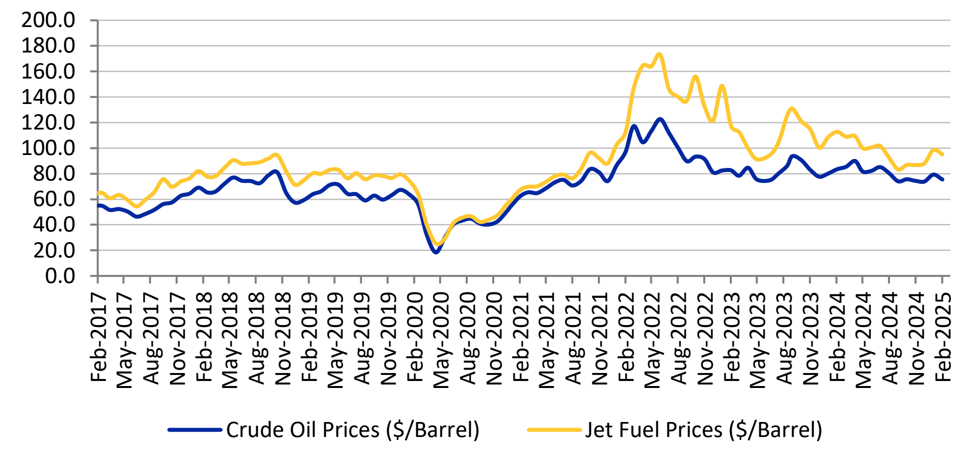


Source: MoCA, DGCA, ICRA Research

ATF Prices: Lower in March 2025 by ~7.6% YoY and ~0.3% sequentially

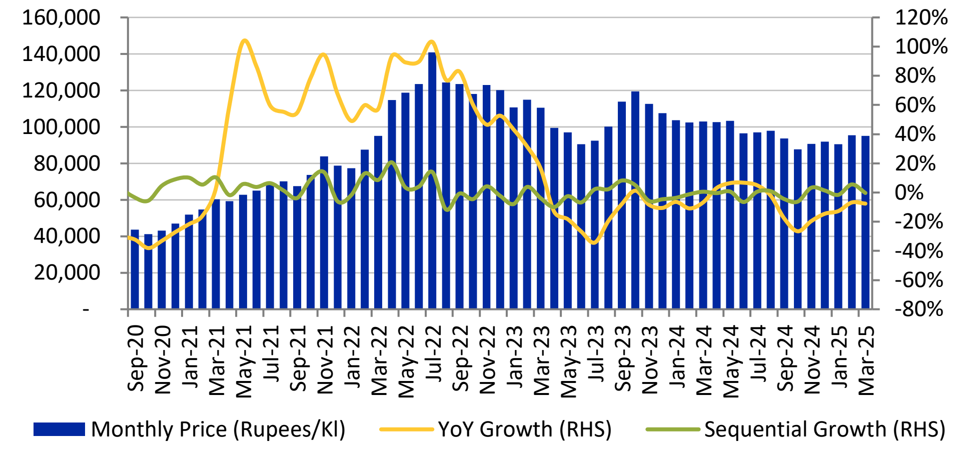
Following the pandemic, crude oil prices declined materially, reaching a low of ~$19/ barrel in April 2020 (the sharpest decline since Q4 CY2018). However, **the prices increased gradually thereafter and are currently at around $70/barrel**. Between April 2023 and March 2024, the ATF prices were lower on a YoY basis, except in October 2023, resulting in average ATF prices in FY2024 being lower by 14% on a Yoy basis. Further, between April 2024 and March 2025, the ATF prices were lower on a YoY basis in the months of April, June, September, October, January and March 2025, resulting in average ATF prices in FY2024 being lower by 8% 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 March 15, 2025)

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

Source: ICRA Research

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ICRA

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