



INDIAN AVIATION INDUSTRY

Domestic passenger traffic in March 2026 grew by a modest 1.0% YoY, ending FY2026 with a rise of 1.4%

April 2026

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BUSINESS OUTLOOK: NEGATIVE



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ICRA expects the Indian aviation industry to report a net loss of Rs. 170-180 billion in FY2026. Earlier, ICRA had projected the net losses to narrow to Rs. 110-120 billion in FY2027 owing to growth in passenger traffic. However, initiation of the West Asian conflict since the end of February 2026 and its consequent impact on the INR and fuel costs now pose a downward bias to the FY2027 net loss estimates.

Growth in domestic air passenger traffic is estimated to be in the range of 6-8% in FY2027, however, the same is subject to downside risks if air fares see a significant spike, leading to lower demand for air travel.

Domestic air passenger traffic has been estimated¹ at 146.8 lakh in March 2026, 1.0% higher than 145.4 lakh in March 2025 and 4.4% higher than 140.6 lakh in February 2026. The airlines' capacity deployment in March 2026 was 3.0% lower than March 2025 but was 10.6% higher than February 2026. In FY2026, domestic air passenger traffic stood at 1,677.4 lakh, reflecting a year-on-year (YoY) growth of 1.4%, in line with ICRA's estimates of 0-3%. In February 2026, international air passenger traffic for Indian carriers stood at 28.5 lakh, indicating a YoY decline of 0.3% and a sequential fall of 16.0%. However, in 11M FY2026 (April-February 2026), international air passenger traffic for Indian carriers grew by 7.7% (YoY) to 331.5 lakh.

- **Negative outlook on the Indian aviation industry** – In March 2026, ICRA revised its outlook on the Indian aviation industry to Negative from Stable owing to expected weakening of the revenue per available seat kilometre – cost per available seat kilometre (RASK-CASK) spread due to hardening of aviation turbine fuel (ATF) prices and disruptions in the availability of certain international airspaces starting February 28, 2026, following escalation of the geopolitical conflict in West Asia, coupled with continued depreciation of the INR against the USD. ICRA's forecasts (drawn prior to the initiation of the West Asian conflict) of 8-10% for international air passenger traffic growth for Indian carriers and 6-8% for domestic air passenger traffic for FY2027 now have a downward bias. Flight cancellations amid airspace closures and increase in air fares in view of the levy of fuel surcharge (to the extent of 5-6% of the average air fares) will weigh on passenger traffic growth. The removal of price caps on the air fares, which were earlier introduced by the Directorate General of Civil Aviation (DGCA) in December 2025 poses further downside risks to passenger traffic growth as demand for air travel may soften if air fares go up significantly.
- **ATF prices in April 2026 rose by 9.2% on a sequential basis, impacted by the West Asian conflict** – The average ATF prices announced on April 01, 2026, increased by 9.2% on a sequential basis and by 18.2% on a YoY basis on account of the impact of the West Asian conflict. While crude oil prices rose sharply (by 45.5% MoM in March 2026) due to the West Asian conflict, the pass-through to ATF prices was moderated. Further, although the MoCA capped domestic ATF price increases at 25% MoM, the oil marketing companies raised ATF prices by only 9.2% sequentially in April 2026 for domestic operations, tempering the immediate cost impact on the aviation sector. Nonetheless, crude oil prices remain elevated, which can impact ATF prices in the future. Continuous weakening of the INR against the USD is another concern. To support the industry, in April 2026, the MoCA announced a reduction in the landing and parking charges for domestic airlines by 25% for three months starting April 2026. These measures are expected to provide some relief to the domestic carriers.

Fuel costs account for 30-40% of airlines' operating expenses, including aircraft lease payments. Further, 35-50% of the operating charges, which include fuel expenses, lease payments, and a substantial share of aircraft and engine maintenance costs, are denominated in dollar terms. Also, some airlines have foreign currency debt. Although domestic airlines benefit from a partial natural

¹ As per estimates released by the Ministry of Civil Aviation

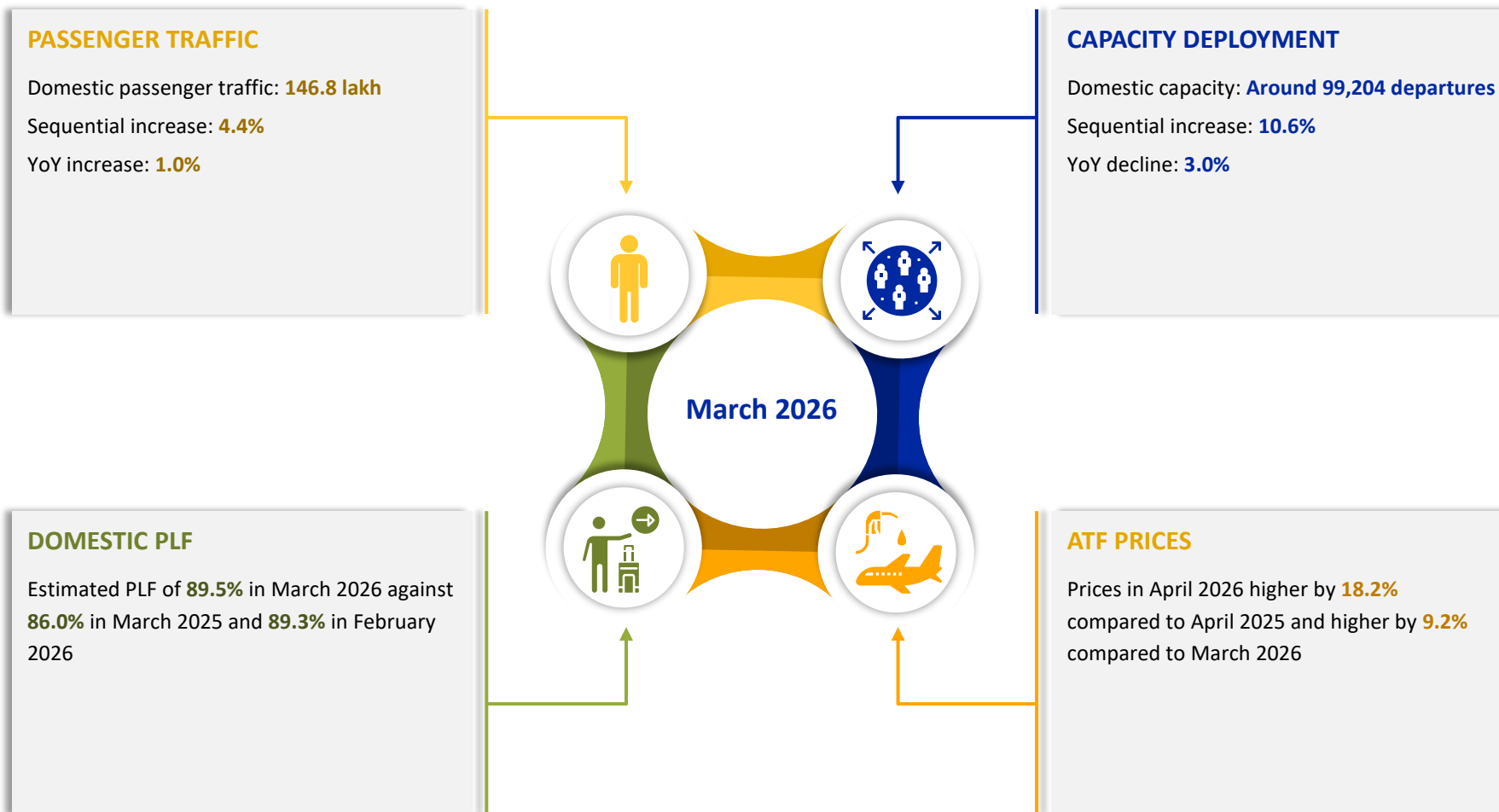
hedge through earnings from international operations, they have net payables in foreign currency. Thus, the yield movement remains monitorable in the current situation of escalating costs.

- **Downward bias to the industry's net loss estimate of Rs. 110-120 billion for FY2027** – ICRA's net loss estimates (drawn prior to the initiation of the West Asian conflict) for the Indian aviation industry for FY2026 stood at around Rs. 170-180 billion, stemming from a slowdown in passenger traffic growth amid a period of rising aircraft deliveries, IndiGo's elevated losses owing to the financial impact of flight cancellations, passenger refunds and increased operating expenses due to the operational disruptions experienced in the first week of December 2025, and the weakening of the INR against the USD since Q2 FY2026, which resulted in airlines reporting large foreign exchange losses. For FY2027, ICRA had projected net losses to narrow to Rs. 110-120 billion, supported by growth in passenger traffic. However, initiation of the West Asian conflict since the end of February 2026, resulting in flight cancellations, rerouting for select long-haul international routes, increasing fuel burn, higher costs owing to additional airport charges as more aircraft remain on ground, increase in fuel cost due to elevated ATF prices and depreciation of the INR against the USD pose a downward bias to the FY2027 net loss forecasts.
- **Supply chain challenges persist** – The industry has been facing supply chain challenges and engine failure issues related to Pratt & Whitney (P&W) engines supplied to various airlines. Overall, engine failures and supply chain challenges resulted in the grounding of 117 aircraft for select airlines as of February 2026, accounting for 13-15% of the total industry fleet, affecting the overall industry capacity. This, however, improved from 20-22% of the total industry fleet grounded as on September 30, 2023. The aircraft-on-ground situation has resulted in growing operating expenses owing to the cost of grounding, higher lease rentals on account of additional aircraft taken on lease (primarily wet leases) to offset the grounded capacity, rising lease rates and lower fuel efficiency (due to replacement by older aircraft taken on spot lease). These factors have adversely impacted airlines' cost structures. However, healthy yields, high passenger load factor (PLFs) and partial compensation from engine original equipment manufacturers (OEMs) are helping absorb the impact to an extent. Following an aircraft crash in June 2025 and the heightened safety checks that followed, Air India announced a temporary reduction of around 15% in its international flight capacity operated by wide-bodied aircraft.

During the first week of December 2025, IndiGo experienced major operational disruptions, causing flight cancellations to peak on December 5, 2025, when around 1,600 flights were cancelled, accounting for around 70% of its total daily flights. These problems were primarily triggered by the implementation of stricter flight duty time limitation (FDTL) regulations, especially tougher rules on night duties and landings, alongside adverse weather and technical challenges. IndiGo's reliance on high aircraft utilisation and extensive night-time operations left it with limited flexibility, making it more vulnerable than its competitors. The immediate impact was a sharp drop in on-time performance and widespread inconvenience for thousands of passengers, dampening domestic air passenger traffic growth. Other factors such as winter schedule enhancements, air traffic congestion, technical snags and adverse weather conditions on some routes posed further challenges for the industry during December 2025. In January 2026, the DGCA imposed a penalty aggregating to Rs. 22.2 crore on IndiGo for non-compliance with the revised FDTL guidelines. However, the DGCA had granted IndiGo temporary

relief from the new regulations until February 10, 2026, allowing partial recovery in passenger traffic growth. Effective February 11, 2026, IndiGo has had to comply with the new regulations.

- **Select airlines face financial challenges, stretched liquidity issues** – While some airlines have adequate liquidity and/or financial assistance from strong parent companies, supporting their credit profiles, the credit metrics and liquidity profiles of others continue to remain under pressure, despite some improvement in recent years.



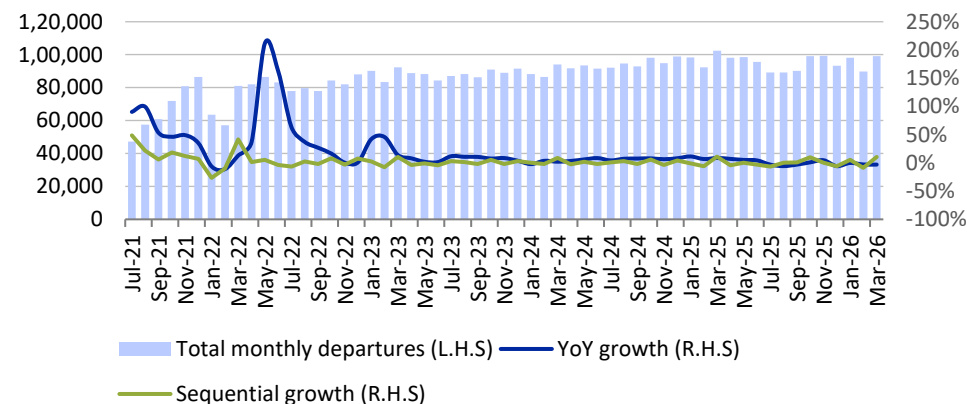
Domestic air passenger traffic: 1.0% YoY increase in March 2026 and 1.4% rise in FY2026

The capacity deployment for March 2026 was lower by 3.0% over March 2025 (around 99,204 departures in March 2026 against 1,02,319 in March 2025). The number of departures in March 2026 was higher by 10.6% on a MoM basis owing to less number of days in February. In FY2026, the capacity deployment remained largely flat, after a rise in the same by 7.3% in FY2025.

In March 2026, domestic air passenger traffic stood at 146.8 lakh against 145.4 lakh in March 2025, implying a modest rise of 1.0% YoY. On a sequential basis, domestic air passenger traffic in March 2026 was higher by 4.4%, despite a reduction in the average daily traffic, owing to higher number of days than February. In FY2026, domestic air passenger traffic stood at 1,677.4 lakh, reflecting a growth of 1.4% over FY2025 (in line with ICRA's estimates of 0-3%).

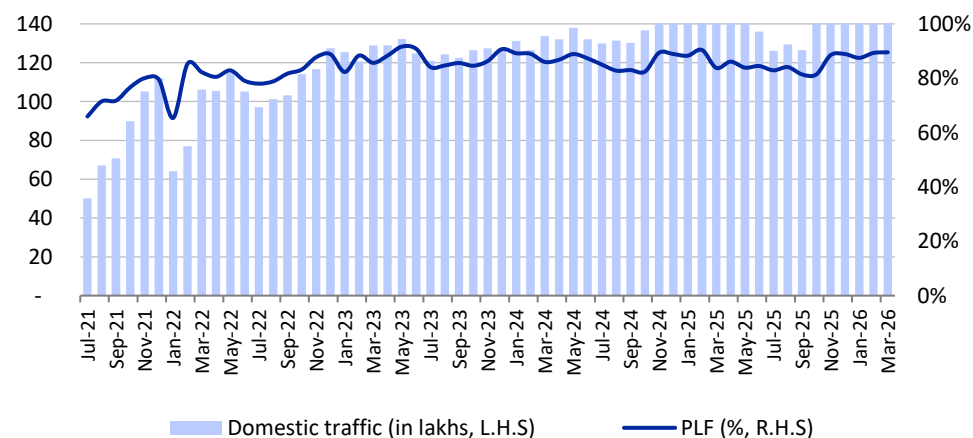
The highest single-day traffic of 5,38,429 was recorded on November 23, 2025, surpassing the historical level as passenger travel surged. In March 2026, the average daily departures were around 3,200, lower than around 3,301 in March 2025, but in line with around 3,203 in February 2026. The average number of passengers per flight was 148 in March 2026, higher than 142 in March 2025 but lower than 157 in February 2026. It is estimated that the domestic aviation industry operated at a PLF of 89.5% in March 2026 vis-à-vis 86.0% in March 2025 and 89.3% in February 2026.

Exhibit 1: Trend in capacity deployment by domestic airlines



Source: MoCA, DGCA, ICRA Research

Exhibit 2: Monthly domestic passenger traffic and PLF

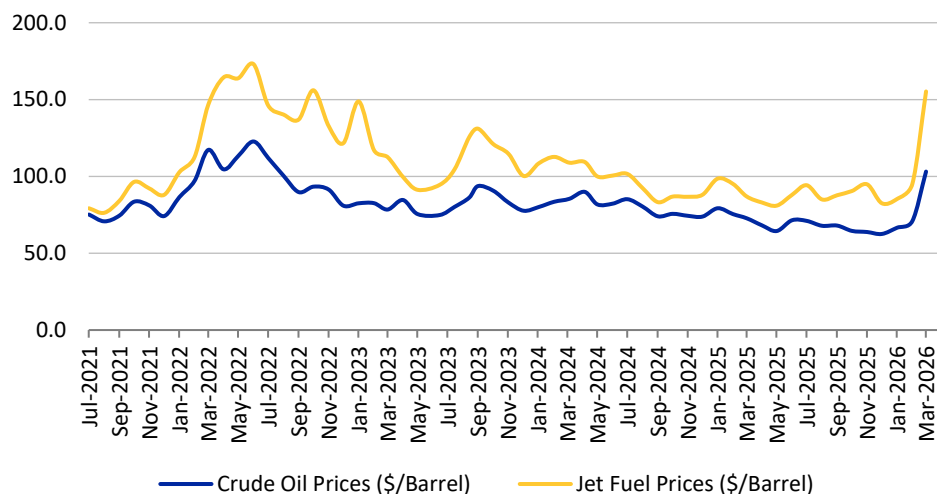


Source: MoCA, DGCA, ICRA Research

ATF prices in April 2026 increased by 18.2% YoY and by 9.2% sequentially

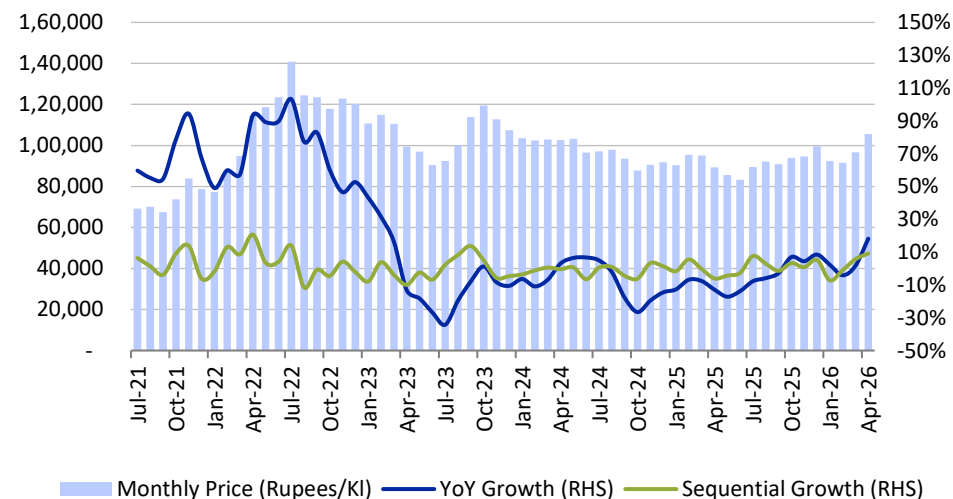
The ATF prices announced on April 01, 2026, increased by 9.2% on a sequential basis and by 18.2% on a YoY basis as a result of the escalating West Asian conflict, after having risen by 5.7% on a sequential basis and 1.7% on a YoY basis as on March 01, 2026. Further, crude oil prices remain elevated, which can further impact the ATF prices. In FY2026, ATF prices were lower by 4.1% YoY. ATF prices fell both on a YoY and MoM basis in February 2026 by 4.1% and 1.0%, respectively. In January 2026, the prices rose by 2.2% YoY but declined by 7.2% on a MoM basis. In October 2025, November 2025 and December 2025, prices rose both on a YoY and MoM basis. ATF prices recorded a YoY reduction each month from April to September 2025. However, on a MoM basis, prices fell during April to June 2025, before rising again in July and August 2025 and dropping in September 2025.

Exhibit 3: Movement in crude oil and jet fuel prices in the international market



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

Exhibit 4: Movement in jet fuel prices in the domestic market



Source: Indian Oil Corporation Limited, ICRA Research

ICRA-rated airline companies

Exhibit 5: Rating distribution of ICRA-rated airline companies (as on April 27, 2026)

Company name	Rating outstanding
InterGlobe Aviation Limited	[ICRA]AA (on Rating Watch with Negative Implications)/[ICRA]A1+
SNV Aviation Private Limited (d.b.a. Akasa Air)	[ICRA]BBB- / [ICRA]A3; on Rating Watch with Negative Implications

Source: ICRA Research



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