INDIAN AVIATION INDUSTRY

Muted start to FY2027 as domestic passenger traffic declines by 2.0% YoY in April 2026

May 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 (though the impact was moderated by the calibrated hikes in ATF prices by the Government of India) now pose a downward bias to the FY2027 net loss estimates. That said, support through credit lines guaranteed by the Government is likely to provide some relief to the liquidity position of airlines.

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

Domestic air passenger traffic has been estimated[1] at 140.8 lakh in April 2026, 1.6% lower than 143.1 lakh in April 2025 and 2.0% lower than 143.7 lakh in March 2026. The airlines' capacity deployment in April 2026 was 0.6% lower than April 2025 and 1.4% lower than March 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%. The international air passenger traffic for Indian carriers grew by 3.9% to 350.0 lakh in FY2026, lower than ICRA's estimate of 7-9% (drawn prior to the initiation of the West Asian conflict).

- **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 would improve pricing flexibility of the players, however, demand for air travel may soften if air fares go up significantly, posing further downside risks to passenger traffic growth. Besides, the Government's moral suasion to curb discretionary consumption is expected to weigh on travel, thereby pressurising the air passenger traffic growth. Some of the carriers have already announced curtailment of international flights in the coming few months amid the demand disruption and cost escalation caused by the West Asian conflict. This is likely to reverse the increase in share of international seat capacity witnessed in FY2026.
- **ATF prices in May 2026 remained unchanged on a sequential basis for domestic routes –** ATF prices announced on May 1, 2026, were kept unchanged for domestic routes, while ATF prices for international operations were increased moderately by 5.3% on a sequential basis. International routes accounted for around 35% of the Indian aviation industry's revenue passenger seat kilometres (RPKM) in March 2026, hence, the incremental impact of the moderate price increase in ATF for international routes would be limited.

  Although domestic ATF price increases have been moderated through government interventions over the last two months, since fuel remains a dominant cost, accounting for 30-40% of airline operating expenses. Further, with 35-50% of airline costs being dollar denominated—including fuel, aircraft lease rentals, and maintenance expenses—sustained high crude prices and a weak rupee continue to pose risks. Also, some airlines have foreign currency debt. Although domestic airlines benefit from a partial natural hedge through earnings from international operations, they have net payables in foreign currency. The yield movement thus remains monitorable in the current situation of escalating costs.

[1] *As per estimates released by the Ministry of Civil Aviation*

significant spike, resulting in lower demand for air travel.

To support the industry, in April 2026, the Ministry of Civil Aviation (MoCA) announced a reduction in the landing and parking charges for domestic airlines by 25% for three months starting April 2026. This is expected to provide some relief to the domestic carriers. However, ICRA notes that this measure offers only partial mitigation against structurally high fuel costs and currency pressures.

Further, on May 5, 2026, the Government approved the Emergency Credit Line Guarantee Scheme (ECLGS) 5.0 worth Rs. 5,000 crore to provide targeted support to the aviation sector by addressing near-term liquidity constraints and improving access to credit. The scheme enables scheduled passenger airlines to avail additional funding, with credit guarantee coverage of 100% and borrowing limits of up to 20% of peak working capital utilised during Q4 FY2026 (capped at Rs. 1,500 crore per airline). Such liquidity support, coupled with a longer repayment tenure of up to seven years (including a two-year moratorium), provides airlines with greater financial flexibility to manage operational disruptions arising from the geopolitical uncertainties. Overall, the measure is likely to support continuity of operations, sustain supply chains and aid in preserving employment within the sector.

In addition, the Governments of Maharashtra and Delhi have undertaken reductions in value added tax (VAT) on ATF — with Maharashtra reducing VAT to 7% from 18% effective May 15, 2026, and Delhi implementing a reduction to 7% from 25% effective May 16, 2026. Such state-level interventions are expected to provide immediate cost relief to airlines.

- **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 were caused by 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 99 aircraft for select airlines as of March 2026, accounting for 11-13% 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, liquidity tightness –** 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 remain under pressure, despite some improvement in recent years.

PASSENGER TRAFFIC

Domestic passenger traffic: **140.8 lakh**

Sequential decline: **2.0%**

YoY decline: **1.6%**

CAPACITY DEPLOYMENT

Domestic capacity: **Around 97,598 departures**

Sequential decline: **1.4%**

YoY decline: **0.6%**

DOMESTIC PLF

Estimated PLF of **85.9%** in April 2026 against **86.8%** in April 2025 and **83.4%** in March 2026

ATF PRICES

Prices for domestic routes in May 2026 higher by **23.5%** compared to May 2025 but unchanged from April 2026

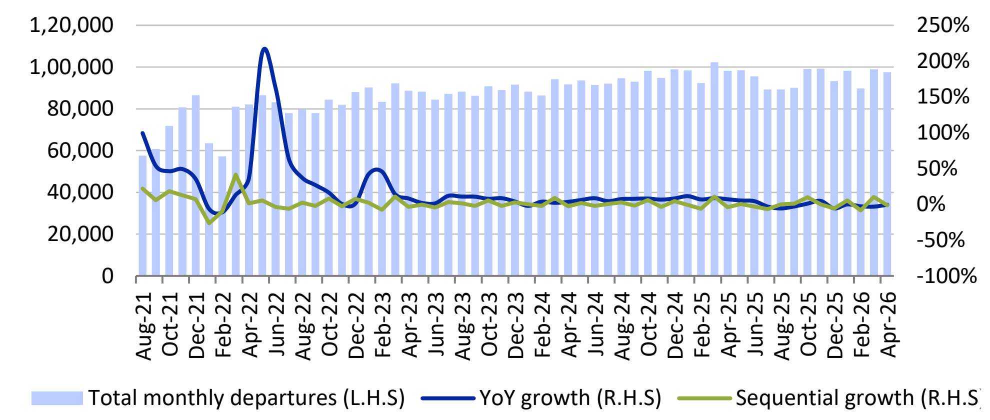
Domestic air passenger traffic: 1.6% YoY decline in April 2026

The capacity deployment for April 2026 was lower by 0.6% than April 2025 (around 97,598 departures in April 2026 against 98,211 in April 2025). The number of departures in April 2026 was lower by 1.4% on a month-over-month basis. In FY2026, the capacity deployment remained largely flat, after a rise in the same by 7.3% in FY2025.

In April 2026, domestic air passenger traffic stood at 140.8 lakh against 143.1 lakh in April 2025, implying a YoY decline of 1.6%. On a sequential basis, domestic air passenger traffic in April 2026 was lower by 2.0%. The decline may be attributed to a moderation in discretionary travel demand amid elevated airfares. In FY2026, domestic air passenger traffic stood at 1,674.2 lakh, reflecting a growth of 1.2% over FY2025, in line with ICRA's estimates of 0-3%.

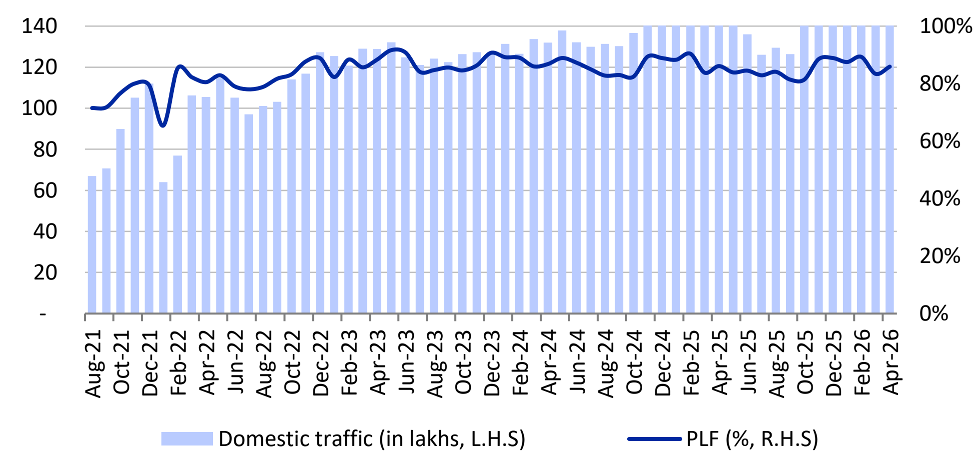
The highest single-day traffic of 5,38,429 was recorded on November 23, 2025, surpassing the historical level as passenger travel surged. In April 2026, the average daily departures were around 3,253, largely in line with around 3,274 in April 2025, but higher by 1.9% compared to around 3,193 in March 2026. The average number of passengers per flight was 144 in April 2026, largely in line with 146 in April 2025 and 145 in March 2026. It is estimated that the domestic aviation industry operated at a PLF of 85.9% in April 2026 vis-à-vis 86.8% in April 2025 and 83.4% in March 2026.

Exhibit 1: Trend in capacity deployment by domestic airlines



Source: MoCA, DGCA, ICRA Research

Exhibit 2: Monthly domestic passenger traffic and PLF

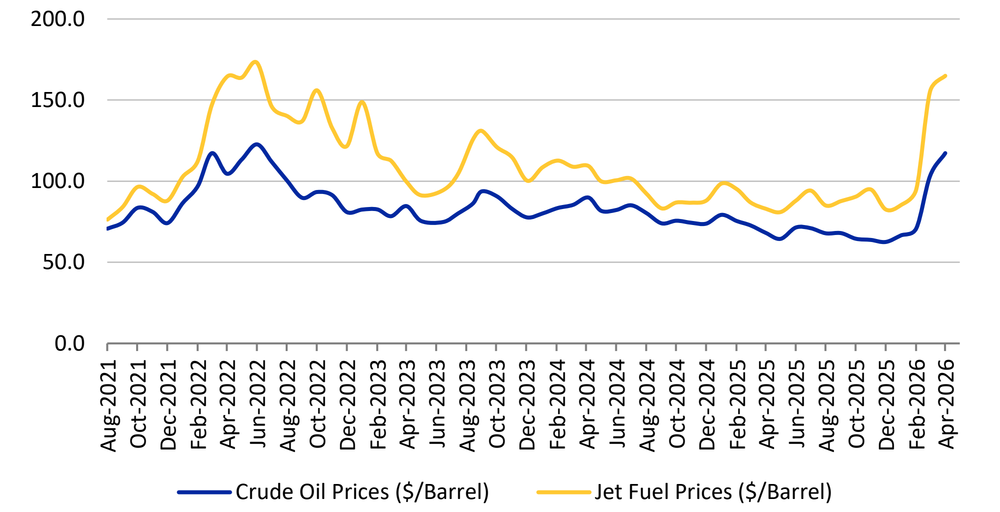


Source: MoCA, DGCA, ICRA Research

ATF prices in May 2026 increased by 23.5% YoY but remained unchanged on a sequential basis

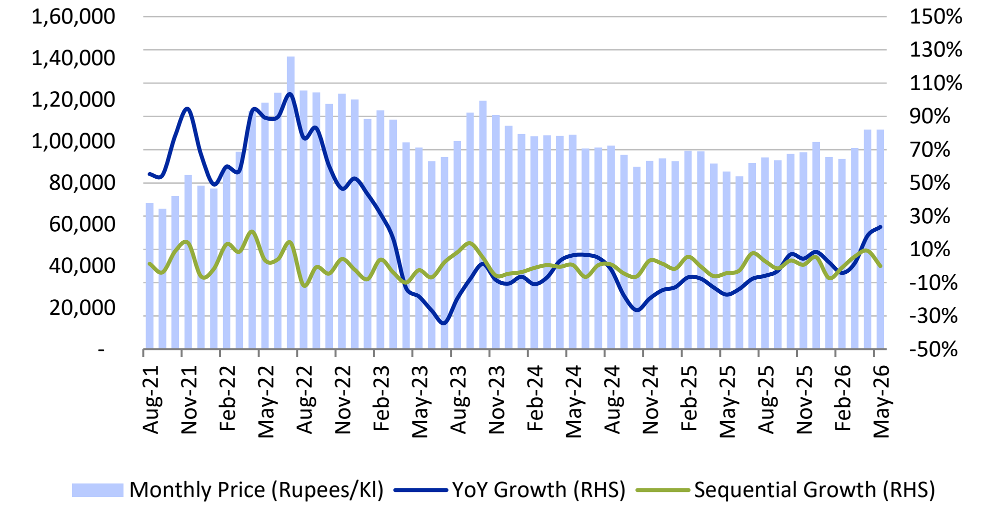
The ATF prices announced on May 01, 2026 remained unchanged on a sequential basis but increased by 23.5% on a YoY basis following a 9.2% sequential and 18.2% YoY increase in April 2026 as a result of the escalating West Asian conflict. In FY2026, the average ATF prices were lower by 4.1% than the average prices in FY2025 as crude oil prices moderated in most of the months in FY2026 on a YoY basis, before hardening after initiation of the conflicts in West Asia. Crude oil prices have firmed up significantly in the recent past, which can further impact the ATF prices.

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 May 26, 2026)

Company name	Rating outstanding
InterGlobe Aviation Limited	[ICRA]AA (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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ICRA

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