INDIAN AVIATION INDUSTRY

Domestic passenger traffic reported ~9% YoY growth in November 2023, ~2% lower than pre-Covid levels

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BUSINESS OUTLOOK: STABLE

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ICRA expects the Indian aviation industry[1] to report a significantly lower net loss of ~Rs. 30-50 billion in FY2024 over Rs. 170-175 billion in FY2023.

Supply chain challenges have recently plagued the sector.

The airlines' ability to increase yields proportionate to their input cost increases will be the key to expand their profitability margins.

For November 2023, the domestic air passenger traffic was estimated at ~127.1 lakh, ~0.6% higher than ~126.4 lakh in October 2023. Further, it grew ~9% YoY, but was lower by ~2% than the pre-Covid levels (i.e., November 2019). Domestic air passenger traffic in 8M FY2024 (April–November 2023) was 1,007.0 lakh, a YoY growth of 17%, and ~5% higher than the pre-Covid levels (i.e., April–November 2019). The airlines' capacity deployment in November 2023 was higher by ~8% than that of November 2022 and lower by 4% over the pre-Covid levels (November 2019). Further, for H1 FY2024 (April–September 2023), the international passenger traffic for Indian carriers stood at ~140.2 lakh, a YoY growth of 29%, and higher than the pre-Covid (April–September 2019) levels of ~111.0 lakh by 26%.

- **Stable outlook on the Indian aviation industry** – ICRA's outlook on the Indian aviation industry is Stable on the back of the fast-paced recovery in domestic passenger traffic in FY2023 and 8M FY2024; and expectations of the trend continuing for the rest of FY2024. Moreover, the industry witnessed improved pricing power, reflected in the improved yields (over pre-Covid levels) and, thus, the revenue per available seat kilometre – cost per available seat kilometre (RASK-CASK) spread of the airlines.
- **Sequential decrease in ATF prices; however, still at elevated levels over pre-Covid levels** – Despite a healthy recovery in air passenger traffic, the domestic aviation industry continues to face challenges from elevated aviation turbine fuel (ATF) prices and depreciation of the INR vis-à-vis the USD compared to the pre-Covid levels, both of which have a major bearing on the airlines' cost structure. The average ATF prices stood at Rs. 121,013/KL in FY2023 and Rs. 103,668/KL in 9M FY2024 compared to Rs. 65,368/KL in FY2020 (pre-Covid). ATF prices, which were sequentially lower since April 2023, reversed their trajectory from July 2023 and also increased by 1.3% on a YoY basis in October 2023. However, in November and December 2023, the ATF prices again declined sequentially. In December 2023, the ATF prices at 107,496/KL were lower by 4.6% sequentially and by 10.5% on a YoY basis. Fuel cost accounts for ~30-40% of the airlines' expenses, while ~45-60% of the airlines' 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 earnings from their 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.
- **Gradual pace of recovery in earnings** – The pace of recovery in industry earnings is likely to be gradual owing to the high fixed-cost nature of the business. The industry reported a net loss of ~Rs. 170-175 billion in FY2023 due to elevated ATF prices twined with the depreciation of the INR against the USD. However, it is much lower than the net loss of ~Rs. 217 billion in FY2022, primarily driven by the airlines' improved ability to shore up their yields without impacting the demand. The net loss is further expected to reduce

[1] *Aggregate of AIX Connect Private Limited, Air India Limited, Interglobe Aviation Limited, Tata SIA Airlines Limited and SpiceJet Limited*

significantly to Rs. 30-50 billion in FY2024 as airlines continue to witness healthy passenger traffic growth and maintain pricing discipline, following the ongoing consolidation in the industry.

- **Engine failure issues impacting the industry's capacity -**– The Indian aviation industry has been facing issues of engine failures for the Prat and Whitney (P&W) engines supplied to various airlines. In FY2023, Go Airlines (India) Limited grounded half of its fleet of aircrafts due to faulty P&W engines, which led to the stalling of its operations. InterGlobe Aviation Limited (IndiGo) has also grounded 40-plus aircraft due to P&W engine issues. IndiGo has also recently announced that aircraft in the range of mid-thirties would be incrementally grounded in Q4 FY2024 due to a powder metal (used to manufacture certain engine parts) contamination issue with its P&W fleet. Hence, on an overall basis the issue has been impacting the sectors capacity as a whole and will remain a near term challenge for the domestic aviation industry.

- **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 profile, the credit metrics and liquidity profile of the others will remain under stress over the near term, despite some improvement relative to the last few years. As mentioned above, Go Airlines (India) Limited grounded half of its fleet due to faulty P&W engines, which led to payment defaults to vendors, aircraft lessors and financial creditors. Consequently, GoFirst filed for insolvency with the National Company Law Tribunal (NCLT), which imposed a moratorium on the airline's assets and prohibited the lessors to repossess their aircraft, which was upheld in the National Company Law Appellate Tribunal (NCLAT). However, the Delhi High Court allowed leasing companies to inspect the aircraft and carry out maintenance work on their fleet, which was challenged in the Supreme Court. However, the Supreme Court dismissed GoFirst's plea. GoFirst also lost its airline code 'G8' assigned by International Air Transport Association (IATA) for being non-operational since May 2023. On October 3, 2023, the Union Corporate Affairs Ministry notified that no Indian airline will be able to hold on to its leased assets (aircraft and engines) under the asset protection (moratorium) provided for a limited time by the Insolvency and Bankruptcy Code (IBC) and lessors can repossess their planes after an airline files for bankruptcy. With 270 days' prescribed deadline for completing cases under IBC ending soon, the Committee of Creditors (CoC) is going to decide whether to opt for liquidation or invite for a second round of express of interest (EoI).

PASSENGER TRAFFIC

Domestic passenger traffic: **~127.06 lakh**

Sequential growth of: **~0.6%**

YoY growth of: **~9%**

YoY degrowth (pre-Covid) of: **~2%**

CAPACITY DEPLOYMENT

Domestic capacity deployment: **~88,476** departures

Sequential degrowth of: **~1.9%**

YoY growth of: **~8.3%**

YoY de-growth (pre-Covid) of: **~4.2%**

DOMESTIC PASSENGER LOAD FACTOR

Estimated PLF of **~88%** in November 2023 against **~88%** in November 2022 and **~90%** in November 2019 (pre-Covid)

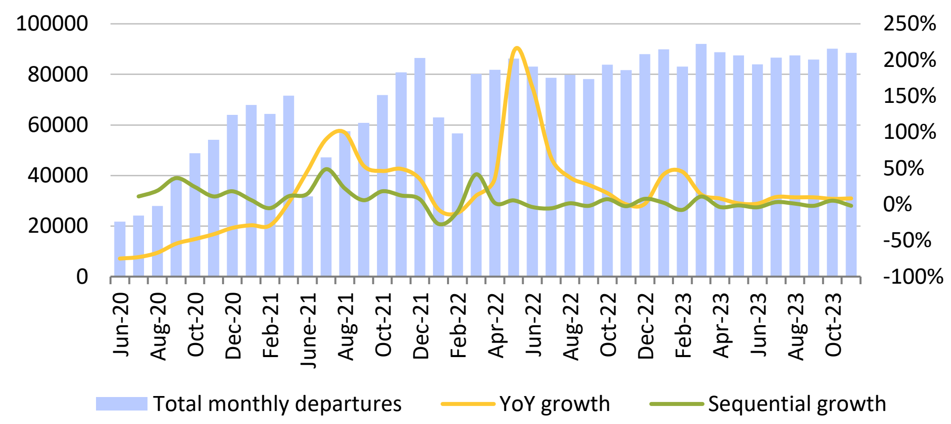
AVIATION TURBINE FUEL PRICES

Prices in December 2023 lower by **~10.5%** on a YoY basis over December 2022; sequential decline of **4.6%** (over November 2023)

Domestic Passenger Traffic: YoY Growth of ~9% in November 2023 and lower by ~2% against Pre-Covid Levels

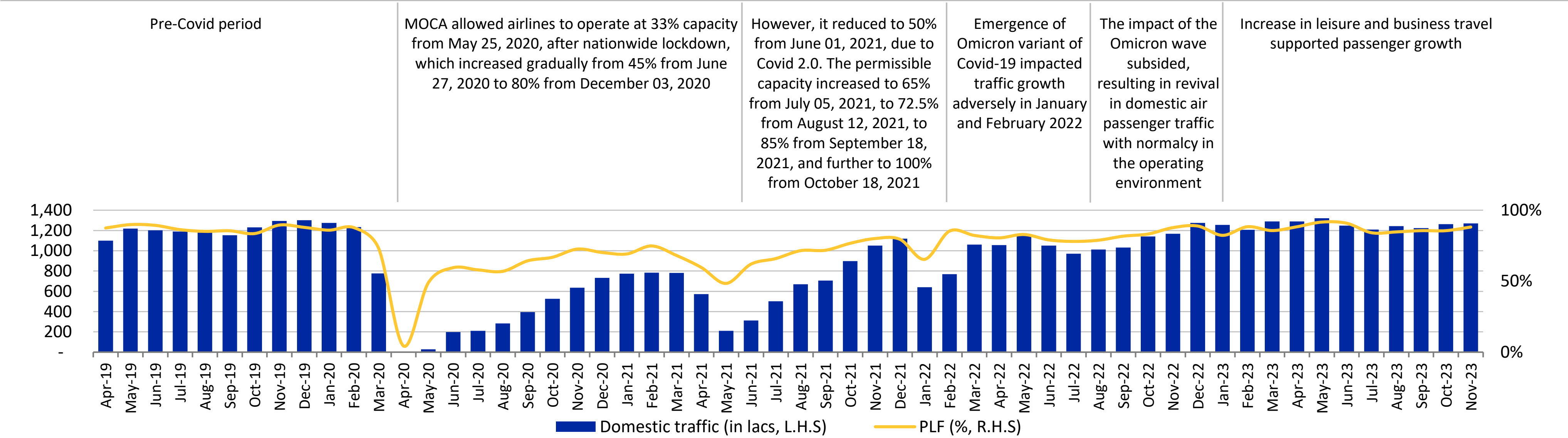
With the onset of Covid 2.0, the Ministry of Civil Aviation (MoCA) reduced the permissible capacity deployment by airlines on domestic routes to 50% of the pre-Covid levels, with effect from June 01, 2021. The increase in permissible capacity deployment was gradual before removing the restrictions, with effect from October 18, 2021. The capacity deployment for November 2023 was higher by ~8% over November 2022 (88,476 departures in November 2023 against 81,723 departures in November 2022). However, the number of departures in November 2023 were marginally lower by ~1.9% on a sequential basis and lower by ~4.2% compared to the departures of 92,388 in November 2019 (pre-Covid).

EXHIBIT 1: Trend in Capacity Deployment by Domestic Airlines



Source: MoCA, DGCA, ICRA Research

EXHIBIT 2: Domestic Passenger Growth & PLF



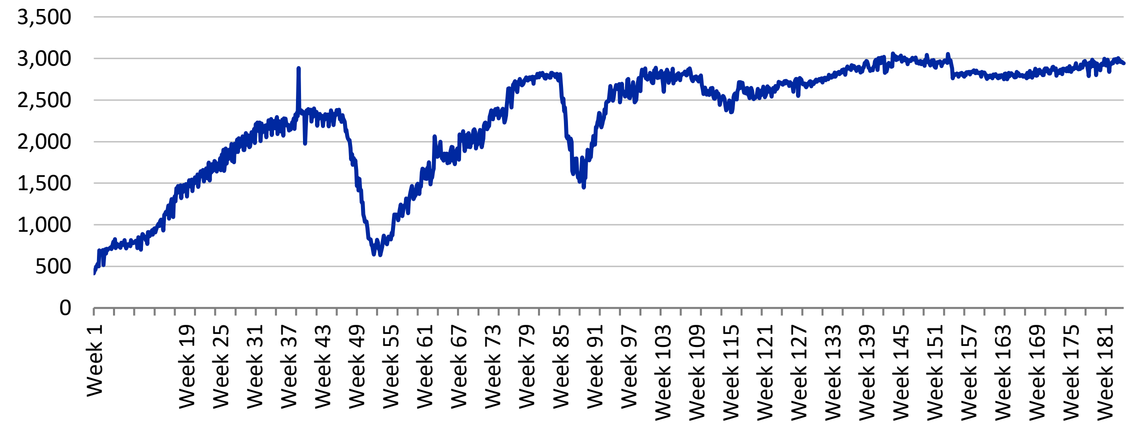
Source: MoCA, DGCA, ICRA Research

For November 2023, domestic air passenger traffic stood at ~127 lakh against ~117 lakh in November 2022, implying a YoY growth of ~9%. Further, on a sequential basis, domestic air passenger traffic in November 2023 was higher by ~0.6%.

As seen in Exhibit 4, passenger traffic dropped to 70,098 on Day 372 (May 31, 2021) during the second wave of Covid-19 but peaked at 3,93,245 on day 545 (November 21, 2021). However, in January 2022, due to a new Covid-19 variant and consequent travel restrictions, the traffic declined again. It subsequently picked up as the Omicron wave waned.

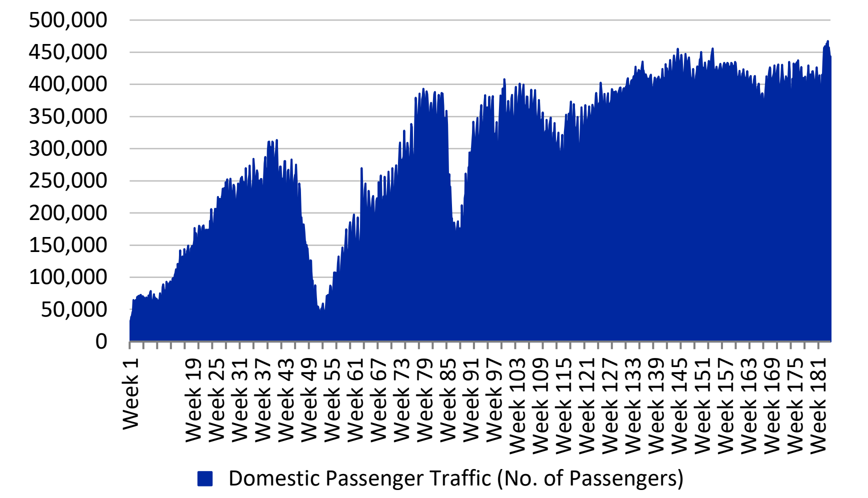
On April 17, 2022, domestic passenger traffic was 4,07,975, crossing the 4-lakh daily passenger mark for the first time since the start of the pandemic. Daily passenger traffic at 4,56,082, on April 30, 2023, surpassed the previous historic highs. For November 2023, the average daily departures were ~2,949, higher than the average daily departures of ~2,724 in November 2022, but lower than the average daily departures of ~3,080 during November 2019 (pre-Covid level). Further, on a sequential basis, it was higher than the average daily departures of ~2,910 in October 2023. The average number of passengers per flight during November 2023 was 144, higher than 140 passengers per flight in October 2023 and 143 passengers per flight in November 2022. The same was also higher than ~140 during November 2019 (pre-Covid levels). It is estimated that the domestic aviation industry operated at a passenger load factor (PLF) of ~88% in November 2023 against ~88% in November 2022 and ~90% in November 2019.

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



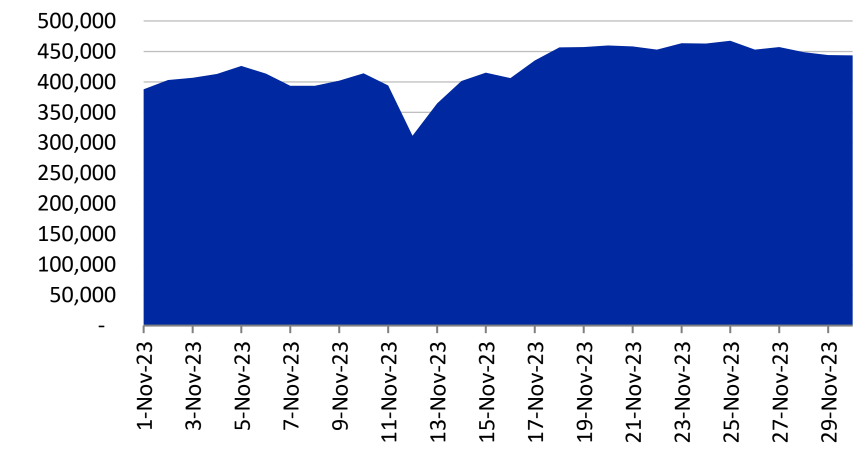
Source: MoCA, DGCA, ICRA Research

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



Source: MoCA, DGCA, ICRA Research

EXHIBIT 5: Daily Domestic Passenger Traffic in November 2023

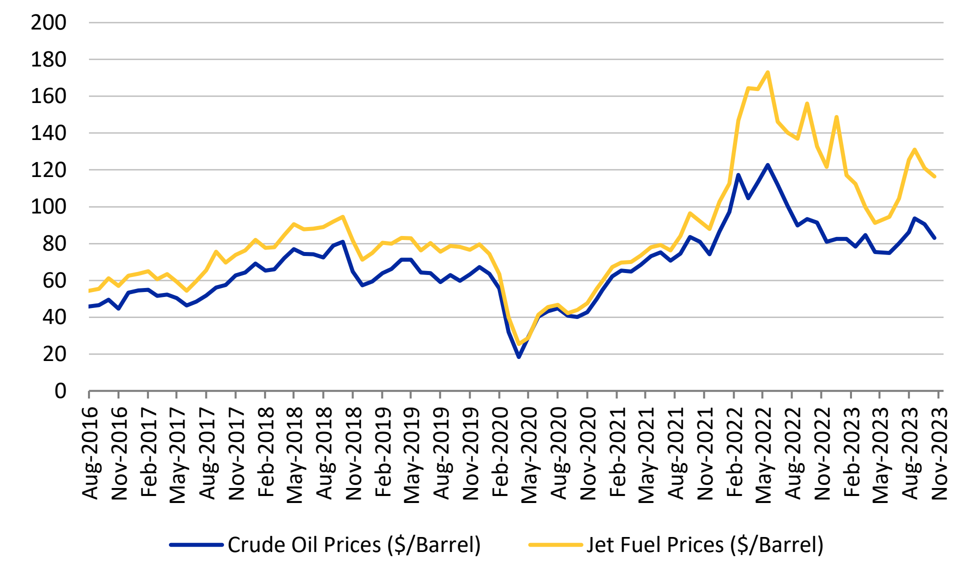


Source: MoCA, DGCA, ICRA Research

ATF PRICES: PRICES IN DECEMBER 2023 LOWER BY ~10.5% ON A YOY BASIS AND BY ~4.6% SEQUENTIALLY

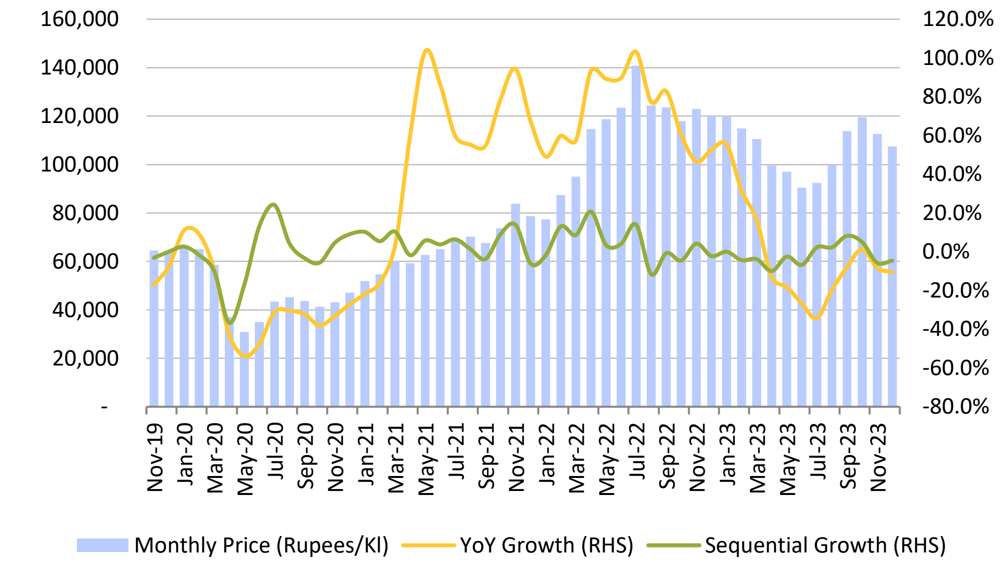
Following the pandemic, crude oil prices declined materially, reaching a low of ~$19/ barrel in April 2020 (the sharpest decline since Q4 CY2018). However, crude oil prices have increased gradually since then, and are currently at around ~$75/ barrel. The increase is attributable to geopolitical tensions. The ATF prices gradually declined sequentially until June 2023. Subsequently, they increased by 2% sequentially in July 2023, by 8% in August 2023, by 14% in September 2023 and by 5% in October 2023. However, in November and December 2023, they were lower by ~6% and ~5%, respectively, on a sequential basis. From April 2023 to September 2023, ATF prices were lower on a YoY basis; but they increased by 1.3% YoY in October 2023, for the first time in FY2024, driven by rising crude oil prices over the past four months. Nevertheless, in November and December 2023, the ATF prices were lower by 8.3% and 10.5% on a YoY basis, respectively, following the trend in crude oil prices.

EXHIBIT 6: Movement in Crude Oil & Jet Fuel Prices (Dollar/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 11, 2023

Company Name	Rating Outstanding	Last Rating Action
Interglobe Aviation Limited	[ICRA]A+ (Stable) / [ICRA]A1+	Upgraded
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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