



INDIAN AVIATION INDUSTRY

**Domestic passenger traffic reported ~6%
YoY growth in February 2024, ~3% higher
than pre-Covid levels**

March 2024

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Kinjal Shah
+91 22 6114 3442
kinjal.shah@icraindia.com

Suprio Banerjee
+91 22 6114 3443
supriob@icraindia.com

Karan Gupta
+91 22 6169 3416
Karan.gupta@icraindia.com

Roshan Dugar
+91 20 6606 9924
roshan.dugar@icraindia.com



BUSINESS OUTLOOK: STABLE



Click to Provide Feedback

ICRA expects the Indian aviation industry¹ to report a significantly lower net loss of ~Rs. 30-40 billion in FY2024 and FY2025 over Rs. 170-175 billion in FY2023.

Supply-chain challenges and engine failure issues remain near term headwinds.

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

For February 2024, domestic air passenger traffic was estimated at ~127.5 lakh, ~2.9% lower than ~120.7 lakh in January 2024. However, it grew by ~5.7% on a YoY basis and was higher by ~3.4% over pre-Covid levels (i.e., February 2020). Domestic air passenger traffic in 11M FY2024 (April 2023–February 2024) was 1,404.1 lakh, a YoY growth of 14%, and ~5% higher than pre-Covid levels (i.e., April 2019–February 2020). The airlines' capacity deployment in February 2024 was higher than February 2023 by ~3%, but lower by ~6% over pre-Covid levels (February 2020). Further, for 10M FY2024 (April–January 2024), the international passenger traffic for Indian carriers stood at ~244.6 lakh, a YoY growth of ~26%, which was higher than pre-Covid (April–January 2019) levels of ~198.8 lakh by 23%.

- **Stable outlook on the Indian aviation industry** – ICRA's outlook on the Indian aviation industry is Stable, amidst the continued recovery in domestic and international air passenger traffic, and relatively stable cost environment and expectations of the trend continuing in FY2025. Moreover, the industry witnessed improved pricing power, reflected in the higher yields (over pre-Covid levels) and, thus, the revenue per available seat kilometre – cost per available seat kilometre (RASK-CASK) spread of the airlines. The momentum in air passenger traffic witnessed in the current fiscal is expected to continue in FY2025, though further expansion in yields from the current levels may be limited.
- **Sequential decline in ATF prices; although the same remains elevated over pre-Covid levels** – Despite a healthy recovery in air passenger traffic and improvement in yields, the movement of the latter 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. 121,013/KL in FY2023 and Rs. 103,499/KL in FY2024 over Rs. 65,368/KL in FY2020 (pre-Covid). ATF prices, which were sequentially lower since April 2023, reversed their trajectory from July 2023 and increased by 1.3% on a YoY basis in October 2023. However, from November 2023, ATF prices again declined sequentially till February 2024. In March 2024, the ATF price was at Rs. 102,975/KL, marginally higher by 0.5% sequentially (higher for the first time since October 2023) but lower on a YoY basis by 6.8%. Fuel cost accounts for ~30-40% of the airlines' expenses, while ~45-60% 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.
- **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, driven by the airlines'

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

improved ability to shore up their yields without impacting demand. The net loss is further expected to reduce significantly to Rs. 30-40 billion in FY2024 and FY2025, as airlines continue to witness healthy passenger traffic growth and maintain pricing discipline.

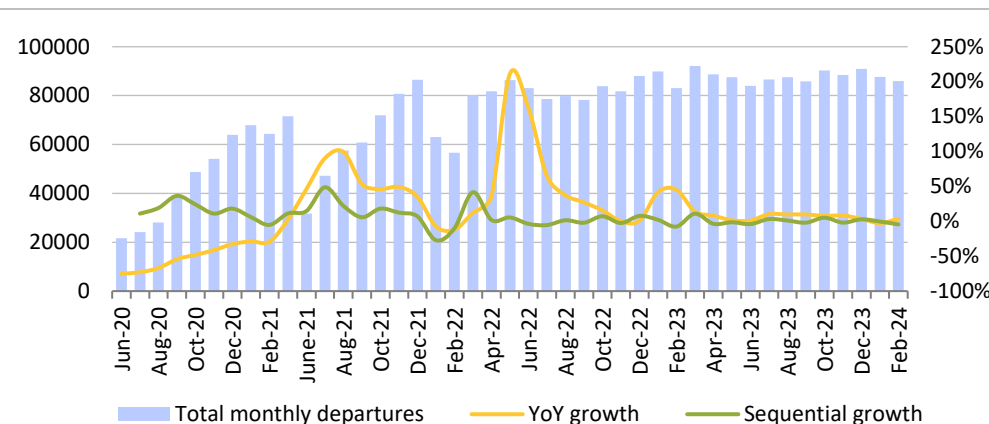
- **Supply chain challenges and engine failure issues impacting the industry's capacity** – The Indian aviation industry has been facing supply chain challenges and issues of engine failures for the Pratt and Whitney (P&W) engines supplied to various airlines. In FY2024, Go Airlines (India) Limited grounded half of its fleet due to faulty P&W engines, which led to the stalling of its operations. InterGlobe Aviation Limited (IndiGo) had also grounded 70-plus aircraft due to P&W engine issues, as on February 2, 2024, including due to a powder metal (used to manufacture certain engine parts) contamination issue with its P&W fleet. It is estimated that 24-26% of the total fleet of Indian airlines in operations will be grounded by March 31, 2024. Considering the bulk recall of the engines globally by P&W and other existing issues with the OEM's engines, the testing by P&W is likely to take longer at 250-300 days. This will result in high operating expenses towards the cost of grounding, increase in lease rentals due to additional aircraft being taken on lease to offset the grounded capacity, rising lease rates and lower fuel efficiency (due to replacement with older aircraft taken on spot lease), which will adversely impact an airline's cost structure. However, healthy yields, high passenger load factor (PLF) and partial compensation available from engine OEMs would help absorb the impact to an extent.
- **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 relative to the last few years. With Go Airlines (India) Limited's half the fleet grounded due to faulty P&W engines, it faced payment defaults with 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). The airline lost its airline code 'G8' assigned by International Air Transport Association (IATA) for being non-operational since May 2023. The NCLT in February 2024 extended the deadline for the completion of the resolution process of Go First by another 60 days. A two-member bench of the Delhi-based NCLT admitted the plea filed by the resolution professional (RP) of Go First seeking an extension of the timeline to complete the corporate insolvency resolution process (CIRP).



Domestic Passenger Traffic: ~6% YoY Growth In February 2024, Higher By ~3% Against Pre-Covid Levels

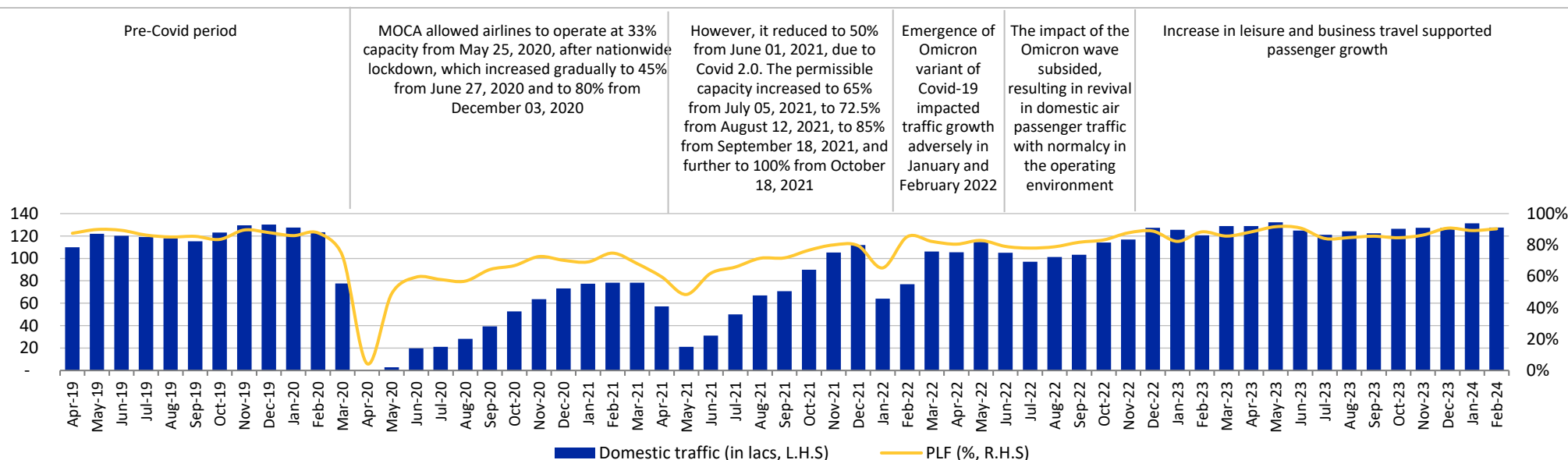
With the onset of Covid 2.0, the Ministry of Civil Aviation (MoCA) had reduced the permissible capacity deployment by airlines on domestic routes to 50% of the pre-Covid levels, with effect from June 01, 2021. The increase in the permissible capacity deployment was gradual before the restrictions were removed, with effect from October 18, 2021. The capacity deployment for February 2024 was, however, higher by ~3.4% over February 2023 (85,883 departures in February 2024 against 83,071 departures in February 2023). Further, the number of departures in February 2024 were lower by ~4.5% on a sequential basis and by ~5.6% compared to the departures of 90,959 in February 2020 (pre-Covid).

EXHIBIT 1: Trend in Capacity Deployment by Domestic Airlines



Source: MoCA, DGCA, ICRA Research

EXHIBIT 2: Domestic Passenger Growth & PLF



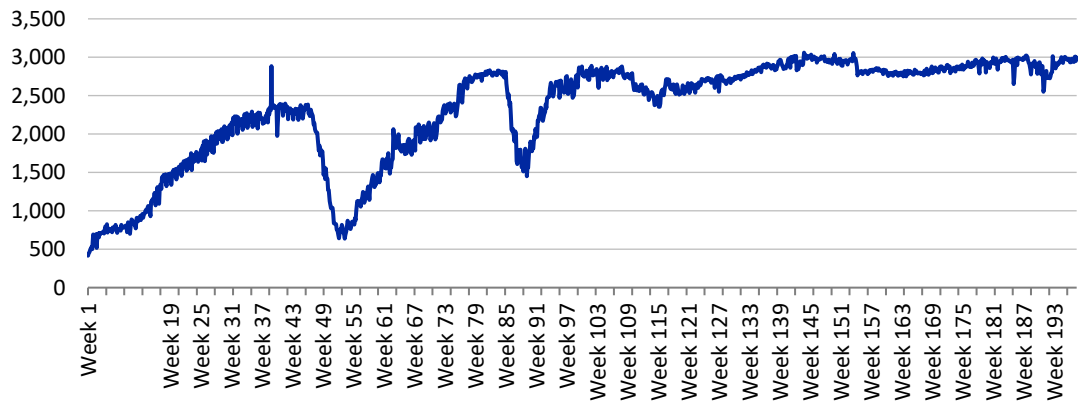
Source: MoCA, DGCA, ICRA Research

For February 2024, domestic air passenger traffic stood at ~128 lakh against ~121 lakh in February 2023, implying a YoY growth of ~5.7%. However, on a sequential basis, domestic air passenger traffic in February 2024 was lower by ~2.9%, with February having lower number of days compared to January.

As shown 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.

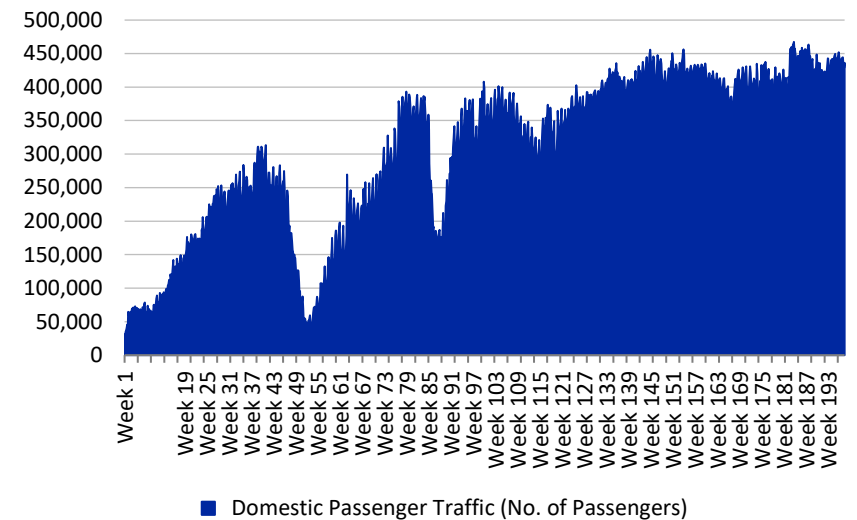
On April 17, 2022, domestic passenger traffic was 4,07,975, crossing the 4-lakh daily passenger mark for the first time since the start of the pandemic. Daily passenger traffic at 4,56,082, on April 30, 2023, surpassed the previous historic highs. For February 2024, the average daily departures were ~2,961, higher than the average daily departures of ~2,865 in February 2023 and lower than the average daily departures of ~3,137 during February 2020 (pre-Covid level). Further, on a sequential basis, it was lower than the average daily departures of ~2,827 in January 2024. The average number of passengers per flight in February 2024 was 148, marginally lower than 150 passengers per flight in January 2024, but higher than 145 passengers per flight in February 2023. The same was higher than ~136 in February 2020 (pre-Covid level). It is estimated that the domestic aviation industry operated at a PLF of ~90% in February 2024 against ~88% in February 2023 and February 2020.

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



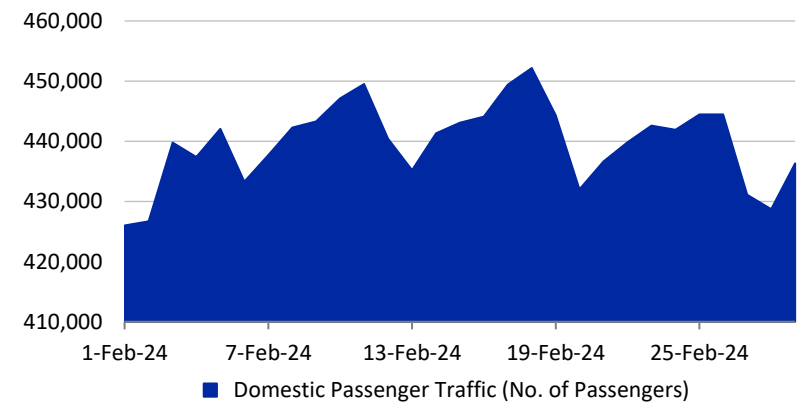
Source: MoCA, DGCA, ICRA Research

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



Source: MoCA, DGCA, ICRA Research

EXHIBIT 5: Daily Domestic Passenger Traffic in February 2024

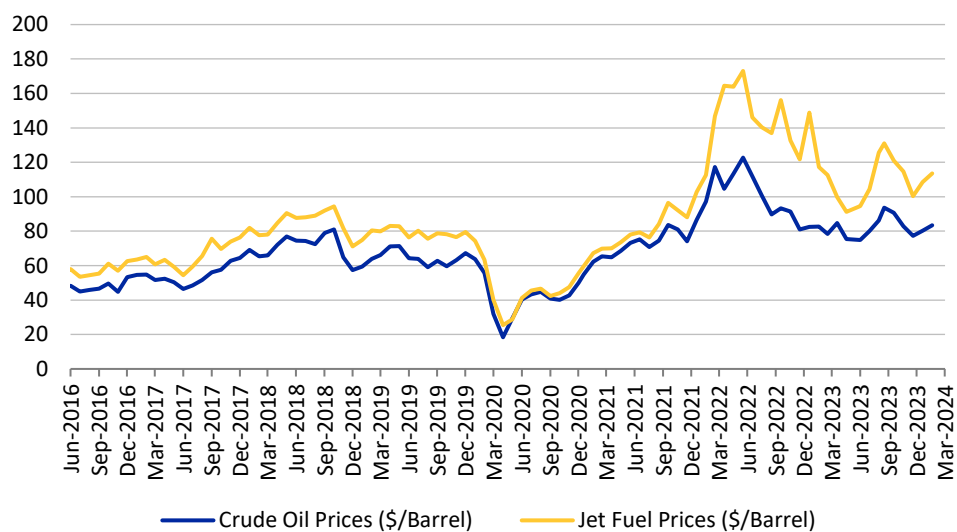


Source: MoCA, DGCA, ICRA Research

ATF Prices: Lower By ~6.8% On YoY Basis In March 2024, But Higher By ~0.5% Sequentially

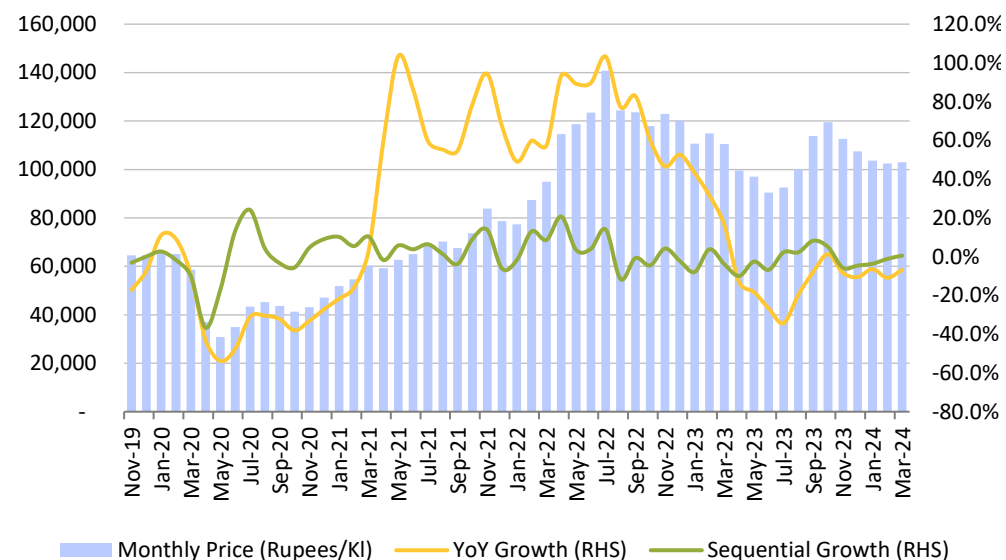
Following the pandemic, crude oil prices declined materially, reaching a low of ~\$19/ barrel in April 2020 (the sharpest decline since Q4 CY2018). However, the prices have increased gradually since then and are currently at around ~\$83/ barrel. The increase is attributable to geopolitical disruptions. Meanwhile, ATF prices gradually declined sequentially from August 2022 (barring November 2022 and February 2023) to June 2023. Subsequently, the prices increased sequentially by 2% in July 2023, 8% in August 2023, 14% in September 2023, and by 5% in October 2023. However, they decreased sequentially again by 6% in November 2023, 5% in December 2023, 4% in January 2024, and by 1% in February 2024. In March 2024, the prices were marginally higher sequentially by 0.5%. Between April and September 2023, the ATF prices were lower on a YoY basis, but 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, the prices were lower YoY by 8.3% in November 2023, 10.5% in December 2023, 6.4% in January 2024, 10.9% in February 2024 and by 6.8% in March 2024, following the trend in crude oil prices.

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 8, 2024

Company Name	Rating Outstanding	Last Rating Action
AIX Connect Private Limited	[ICRA]A1+	Assigned
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



[Click to Provide Feedback](#)

ABOUT ICRA

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange.

Alliance with Moody's Investors Service

The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder. The participation of Moody's is supported by a Technical Services Agreement, which entails Moody's providing certain high-value technical services to ICRA. Specifically, the agreement is aimed at benefiting ICRA's in-house research capabilities, and providing it with access to Moody's global research base. The agreement also envisages Moody's conducting regular training and business seminars for ICRA analysts on various subjects to help them better understand and manage concepts and issues relating to the development of the capital markets in India. Besides this formal training programme, the agreement provides for Moody's advising ICRA on Rating-products strategy, and the Ratings business in general.

The ICRA Factor

Our services are designed to

- Provide information and guidance to institutional and individual investors/creditors;
- Enhance the ability of borrowers/issuers to access the money market and the capital market for tapping a larger volume of resources from a wider range of the investing public;
- Assist the regulators in promoting transparency in the financial markets;
- Provide intermediaries with a tool to improve efficiency in the funds raising process.

Business Contacts

L Shivakumar

Chief Business Officer
E-mail: shivakumar@icraindia.com
022-61693304

Neha Agarwal

Head – Research Sales
E-mail: neha.agarwal@icraindia.com
022-61693338

Rohit Gupta

Head Business Development – Infrastructure Sector
E-mail: rohitg@icraindia.com
0124-4545340

Vivek Bhalla

Head Business Development – Financial Sector
E-mail: vivek.bhalla@icraindia.com
022-61693372

Vipin Saboo

Head Business Development
Corporate Sector – West & East
E-mail: vipin.saboo@icraindia.com
022-61693348

Shivam Bhatia

Head Business Development
Corporate Sector – North & South
E-mail: shivam.bhatia@icraindia.com
0124-4545803

Media and Public Relations

Naznin Prodhani

Head – Media & Communications
E-mail: communications@icraindia.com
0124-4545860

Registered Office

B-710, Statesman House 148,
Barakhamba Road
New Delhi-110001
Tel: +91 11 23357940-45

Corporate Office

Building No. 8, 2nd Floor,
Tower A, DLF Cyber City, Phase II,
Gurgaon - 122 002
Tel: +91-124-4545300

Ahmedabad

1809-1811, Shapath V,
Opp: Karnavati Club,
S.G.Highway, Ahmedabad - 380015
Tel: +91 79 4027 1500/501

Bengaluru 1

'The Millenia', Tower B Unit No. 1004,
10th Floor, 1 & 2 Murphy Road,
Bengaluru - 560 008
Tel: +91 80 4332 6400

Bengaluru 2

2nd Floor, Vayudooth Chamber
15-16, Trinity Circle, M.G. Road,
Bengaluru - 560 001
Tel: +91 80 4922 5500

Chennai

5th Floor, Karumuttu Centre
634, Anna Salai, Nandanam
Chennai - 600 035
Tel: +91 44 4596 4300

Hyderabad

Unit No 1006, 10th Floor, Gowra
Fountain Head, Patrika Nagar,
Madhapur, High-Tech City,
Hyderabad, Telangana – 500081
Tel: +91 040-69396464

Kolkata

A-10 & 11, 3rd Floor,
FMC Fortuna 234/3A,
A.J.C. Bose Road,
Kolkata -700 020
Tel: +91 33 7150 1100/01

Mumbai

3rd Floor, Electric Mansion
Appasaheb Marathe Marg,
Prabhadevi,
Mumbai - 400 025
Tel: +91 22 6169 3300

Pune

5A, 5th Floor, Symphony, S. No. 210
CTS 3202 Range Hills Road,
Shivajinagar, Pune - 411 020
Tel: +91 20 2556 1194

Email: info@icraindia.com

Helpdesk: 9354738909

Website: www.icra.in/ www.lcraesearch.in