PRESS RELEASE

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Domestic air passenger traffic to witness 7-10% YoY growth in FY2025: ICRA

- ***Losses for the Indian aviation industry[1] to remain range-bound at Rs. 20-30 billion in FY2025***

Rating agency ICRA has estimates increase in domestic air passenger traffic to 164-170 million in FY2025, reflecting a YoY growth of 7-10%. During H1 FY2025, the domestic air passenger traffic stood at 79.3 million, witnessing a YoY growth of 5.3%, partly impacted by the severe heat waves and other weather-related disruptions. The international passenger traffic growth for Indian carriers expanded and was healthier at 16.2% in H1 FY2025. This momentum is expected to continue for the balance part of FY2025 as well, reaching an estimated level of 34-36 million for the full year, representing a YoY growth of 15-20%. ICRA has maintained its Stable outlook on the Indian aviation industry**,** amidst the continued growth in domestic and international air passenger traffic.

Commenting further, **Kinjal Shah, Senior Vice President & Co- Group Head, ICRA,** said: *"ICRA expects the industry to report a net loss of Rs. 20-30 billion in FY2025 and FY2026 each, significantly lower than the losses witnessed in the past supported by improved pricing power of the airlines. The spread between revenue per available seat kilometre and cost per available seat kilometre (RASK-CASK) saw some moderation in H1 FY2025 over FY2024 due to higher fuel prices and overall increased costs amid grounding of aircraft, while yields moderated marginally as airlines strove to maintain adequate passenger load factors (PLFs). Nonetheless, the same is expected to pick up in H2 FY2025, amid healthy passenger traffic. The industry debt metrics in FY2025 are expected to remain stable, with interest coverage of 1.5-2.0x times."*

Airlines' cost structure is typically driven by two key components - aviation turbine fuel (ATF) prices and the INR-USD movement. The average ATF prices eased YoY by 6.8% to Rs. 96,192/KL in 8M FY2025, though exceeding the levels seen during pre-Covid period (8M FY2020) of Rs. 65,261/KL. Movement in the same will remain a key monitorable, going forward, the rating agency noted. Fuel costs account for ~30-40% of the airlines' expenses, while ~35-50% 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 also have foreign currency debt. While the domestic airlines also have a partial natural hedge to the extent of earnings from their international operations, overall, they have net payables in foreign currency.

Supply-chain challenges and engine failure issues continue to plague industry performance. It is estimated that almost 144 aircraft i.e. 16-18% of the total industry fleet as on September 30, 2024, have been grounded, thus affecting the overall industry capacity (as measured by available seat kilometres or ASKMs). The percentage of aircraft grounded has, however, reduced from 20-22% in September 2023. In addition, global supply chain issues have affected the availability of aircraft, engine and parts, thus preventing airlines from ramping up capacity. The industry ASKM for the current fiscal has also been impacted due to challenges related to availability of pilot and cabin crew for select airlines, leading to several flight cancellations and delays. These have, therefore, resulted 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) – thus adversely impacting airlines' cost structure.

"As on September 30, 2024, the industry had a total fleet of 853 aircraft (including ~144 aircraft on ground). There are large aircraft purchase orders announced by various players in the industry and as per the indicative numbers, the total pending aircraft deliveries is around 1,660, which is almost double the current fleet in operations. However, a large part of these is towards replacement of old aircraft with new fuel-efficient ones. ICRA believes that capacity addition for the industry will only be gradual as the supply chain challenges faced by the aircraft and engine OEMs may result in intermittent delays in deliveries.

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

Furthermore, a sizeable part of the fleet addition by airlines will be meant for expanding international operations. In FY2024 and H1 FY2025, the share of Indian carriers in international traffic (to and from India) stood at 43-44%. This offers adequate growth potential for Indian carriers to gain traction in international traffic over the medium term," **Shah** added.

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Media Contacts:	
Naznin Prodhani Head – Group Corporate Communications & Media Relations ICRA Ltd Tel: + (91 124) 4545300, Dir - 4545860 Email: naznin.prodhani@icraindia.com	**Shreya Bothra** Senior Manager - Corporate Communications & Media Relations ICRA Ltd Tel: + (91 022) 61693300, Dir - 61693367 Email: shreya.bothra@icraindia.com

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