ICRA

PRESS RELEASE

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Indian aviation industry likely to navigate towards clearer skies; losses to remain range-bound at ~Rs. 20-30 billion in FY2025 and FY2026: ICRA

- ***Domestic passenger traffic to witness 7-10% YoY growth in FY2025***
- ***Forecast of net losses of Indian aviation industry[1] in FY2025 and FY2026 lowered to ~Rs. 20-30 billion, from Rs. 30-40 billion***

Rating agency ICRA has lowered its estimates for the domestic air passenger traffic growth in FY2025 to 7-10% from 8-13%, owing to the high base of FY2024 and lower passenger traffic in Q1 FY2025 following the impact of severe heat waves and other weather-related disruptions. ICRA forecasts the domestic passenger traffic to reach 164-170 million in FY2025. The international air passenger traffic for Indian carriers is expected to expand by a healthier 15-20% in FY2025. The industry continues to demonstrate improved pricing power, as reflected in the increased spread between revenue per available seat kilometre – cost per available seat kilometre (RASK-CASK) for the airlines. ICRA maintains a Stable outlook on the Indian aviation industry**,** amidst the continued growth in domestic and international air passenger traffic, and a relatively stable cost environment.

Commenting further, **Suprio Banerjee, Vice President & Sector Head – Corporate Ratinngs, ICRA,** said: *"ICRA expects the industry to report a net loss of Rs. 20-30 billion in FY2025 and FY2026, slightly higher than the estimated net loss of ~Rs. 10 billion in FY2024 due to anticipated pressure on yields as airlines strive to maintain adequate passenger load factor (PLF) amid a modest increase (4% YoY) in aviation turbine fuel (ATF) prices witnessed in 5M FY2025 (April-August 2024). The estimated loss for FY2025 is lower than earlier estimates of Rs. 30-40 billion on account of better pricing discipline witnessed by the airlines in FY2024 and YTD FY2025 as compared to our earlier expectations and a relatively stable cost environment. The industry debt metrics in FY2025 are expected to remain range-bound at the improved levels of FY2024, with Total Debt/ OPBDITA in the range of 6-6.5x times and interest coverage of 2-2.5x times."*

ATF prices and the rupee-dollar movement are two factors that have a major bearing on the airlines' cost structure. The average ATF prices increased to Rs. 99,468/KL in 5M FY2025, from Rs. 65,309/KL during pre-Covid period (i.e. 5M FY2020) and Rs. 95,906 /KL in 5M FY2024. 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 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 have affected the industry capacity over the last 18 months and the impact will continue in the balance part of the current fiscal as well. It is estimated that almost 134 aircraft i.e. 15-17% of the total industry fleet as on June 30, 2024, have been grounded, thus affecting the overall industry capacity (as measured by available seat kilometres or ASKMs). In addition to this, 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 the availability of pilots

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

and cabin crew for select airlines, leading to several flight cancellations and delays. This will result in increased operating expenses towards the cost of grounding, increased 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 by older aircraft taken on spot lease), which are likely to adversely impact an airline's cost structure.

"Although the industry witnessed a 10% capacity addition in FY2024 over 725 aircraft as on March 31, 2023, the total number of aircraft in operation reduced to 664 as on March 31, 2024, due to the grounding of several aircraft of select airlines. 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 1660, which is more than double of 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," **Banerjee** added.

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