



INDIAN AVIATION INDUSTRY

**Domestic passenger traffic reported ~5%
YoY growth in March 2024, ending FY2024
with a 13% YoY growth at ~154 million**

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BUSINESS OUTLOOK: STABLE



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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 FY2024 (FY refers to April-March), domestic air passenger traffic is estimated at ~154 million, YoY growth of ~13%, in line with ICRA's estimates. The domestic air passenger traffic in FY2024, thus, surpassed the pre-Covid levels of ~142 million in FY2020.

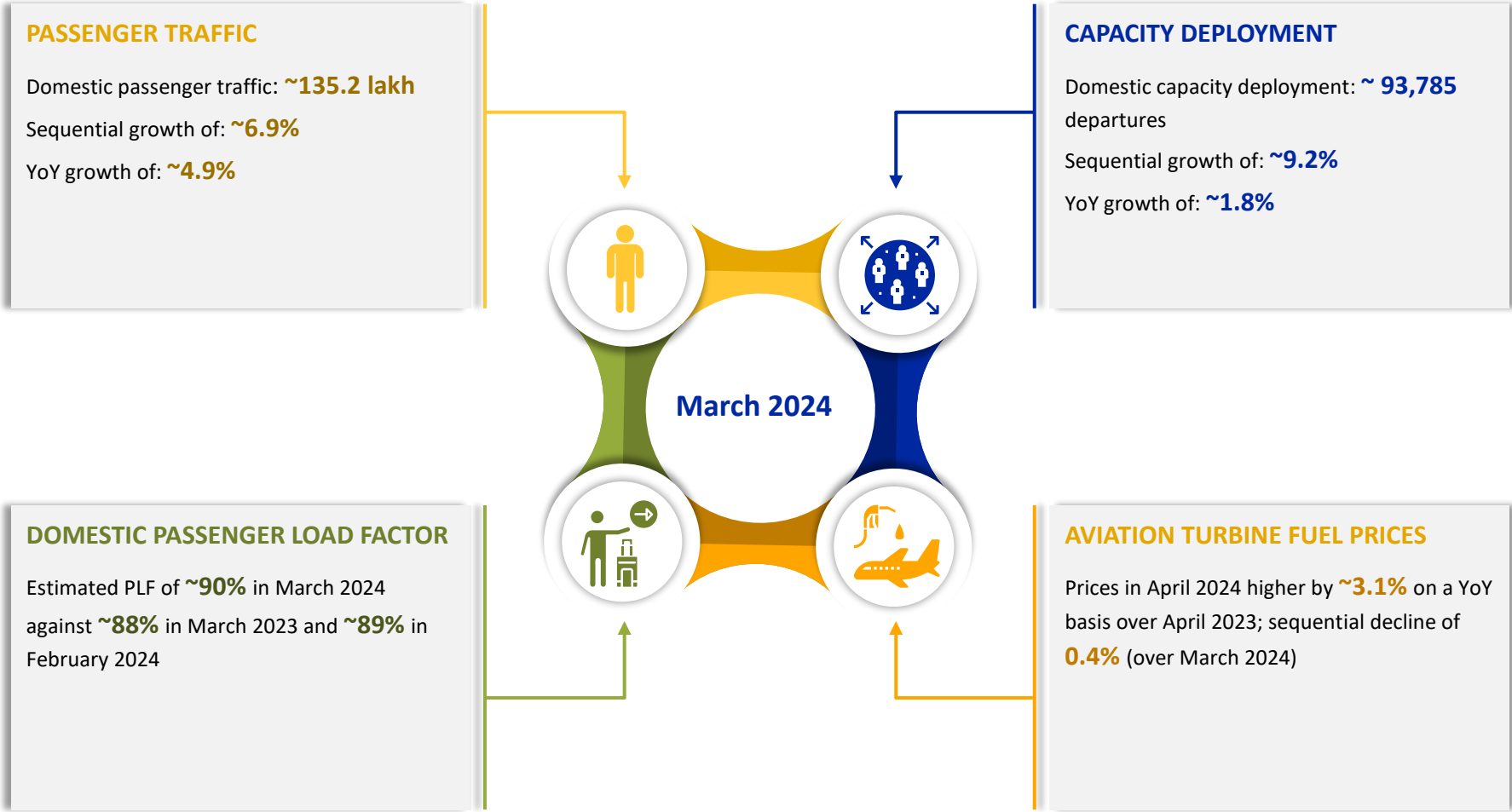
For March 2024, domestic air passenger traffic was estimated at ~135.2 lakh, ~6.9% higher than ~126.4 lakh in February 2024. Further, it grew by ~4.9% on a YoY basis. The airlines' capacity deployment in March 2024 was higher than March 2023 by ~2% and higher by ~9% over February 2024. Further, for 11M FY2024 (April-February 2024), the international passenger traffic for Indian carriers stood at ~270.1 lakh, a YoY growth of ~25%, and higher than the pre-Covid (April-February 2020) levels of ~218.1 lakh by 24%.

- **Stable outlook on the Indian aviation industry** – ICRA's outlook on the Indian aviation industry is Stable, amid 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—i.e., cost per available seat kilometre (RASK-CASK) spread of the airlines. The momentum in air passenger traffic witnessed in FY2024 is expected to continue into 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. 1,03,499/KL in FY2024, which was lower by 14% than Rs. 1,21,013/KL in FY2023, but significantly higher by 58% than the pre-Covid levels of Rs. 65,368/KL in FY2020. In April 2024, ATF prices have remained range-bound at March 2024 levels, but are higher by 3.1% on a YoY basis. 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

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

depreciation of the INR against the USD. 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.

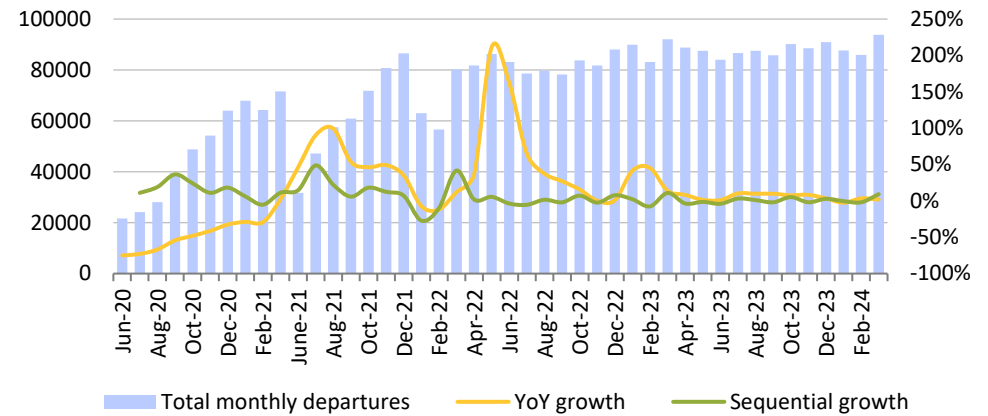
- **Supply chain challenges and engine failure issues impacting the industry's capacity** – The Indian aviation industry has been facing supply chain challenges and issues of engine failures for the Pratt and Whitney (P&W) engines supplied to various airlines. In FY2024, Go Airlines (India) Limited grounded 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 more than 70 aircraft due to P&W engine issues, as on February 2, 2024, including an issue from powder metal (used to manufacture certain engine parts) contamination with its P&W fleet. It is estimated that 24-26% of the total fleet of Indian airlines in operations was 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 half of Go Airlines (India) Limited's 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 GoFirst by another 60 days. A two-member bench of the Delhi-based NCLT admitted the plea filed by the resolution professional (RP) of GoFirst seeking an extension of the timeline to complete the corporate insolvency resolution process (CIRP). The maximum period of completing the resolution process as per Section 12 of the IBC (Insolvency and Bankruptcy Code) is 330 days, which ended on April 4, 2024. However, the NCLT on April 8, 2024, granted an extension of another 60 days till June 3, 2024, to complete the CIRP.



Domestic Passenger Traffic: ~5% YoY growth in March 2024, ending FY2024 with a 13% YoY growth to ~154 million

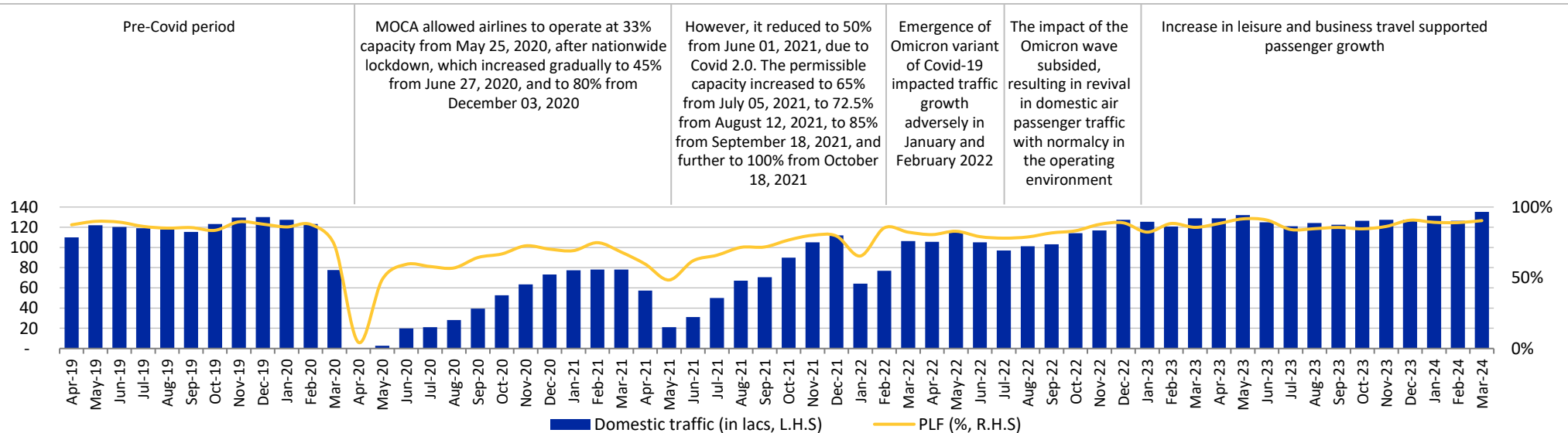
With the onset of Covid 2.0, the Ministry of Civil Aviation (MoCA) had reduced the permissible capacity deployment by airlines on domestic routes to 50% of the pre-Covid levels, with effect from June 01, 2021. The increase in the permissible capacity deployment was gradual before the restrictions were removed, with effect from October 18, 2021. The capacity deployment for March 2024 was higher by ~1.8% over March 2023 (93,785 departures in March 2024 against 92,098 departures in March 2023). Further, the number of departures in March 2024 were higher by ~9.2% on a sequential basis.

EXHIBIT 1: Trend in Capacity Deployment by Domestic Airlines



Source: MoCA, DGCA, ICRA Research

EXHIBIT 2: Domestic Passenger Growth & PLF



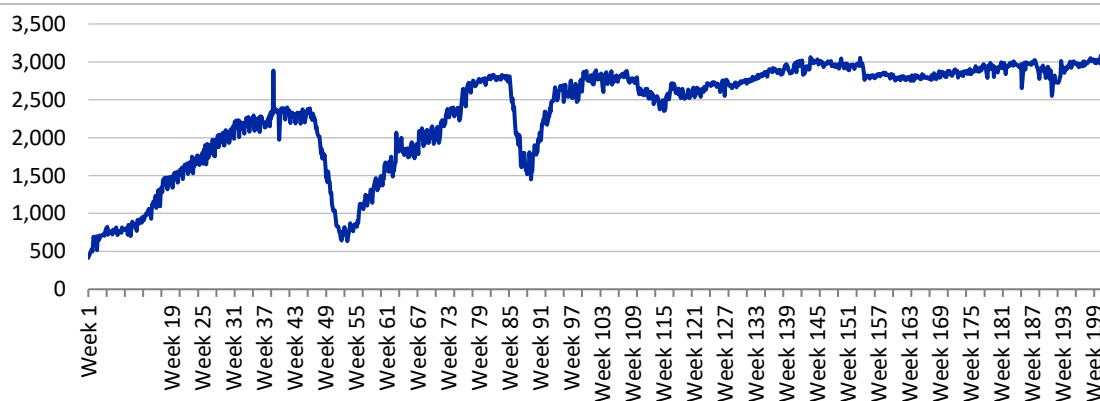
Source: MoCA, DGCA, ICRA Research

For March 2024, domestic air passenger traffic stood at ~135 lakh against ~129 lakh in March 2023, implying a YoY growth of ~4.9%. However, on a sequential basis, domestic air passenger traffic in March 2024 was higher by ~6.9%, with February having lower number of days than March.

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 393,245 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.

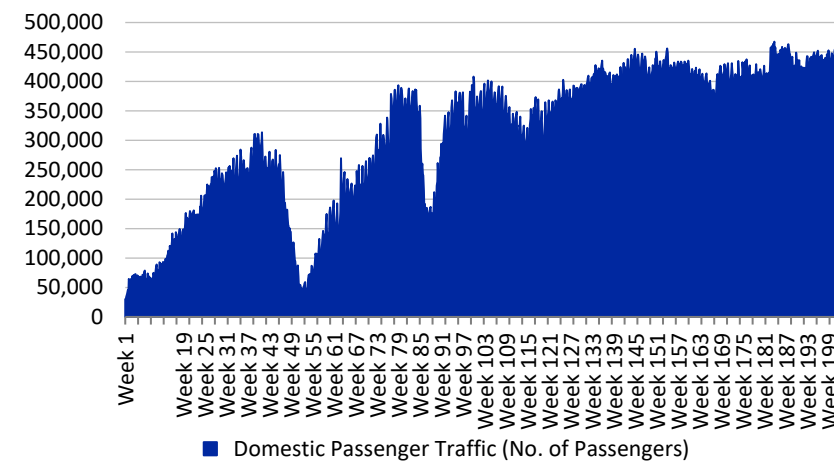
On April 17, 2022, domestic air passenger traffic was 407,975, crossing the 4-lakh daily passenger mark for the first time since the start of the pandemic. Daily passenger traffic at 456,082, on April 30, 2023, surpassed the previous historic highs. For March 2024, the average daily departures were ~3,025, higher than the average daily departures of ~2,971 in March 2023 and higher than the average daily departures of ~2,961 during February 2024. The average number of passengers per flight in March 2024 was 144, marginally lower than 147 passengers per flight in February 2024, but higher than 140 passengers per flight in March 2023. It is estimated that the domestic aviation industry operated at a PLF of ~90% in March 2024 against ~88% in March 2023 and 89% in February 2024.

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



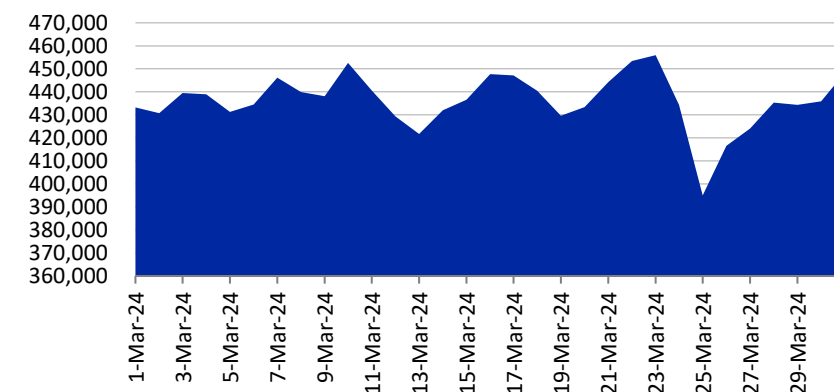
Source: MoCA, DGCA, ICRA Research

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



Source: MoCA, DGCA, ICRA Research

EXHIBIT 5: Daily Domestic Passenger Traffic in March 2024

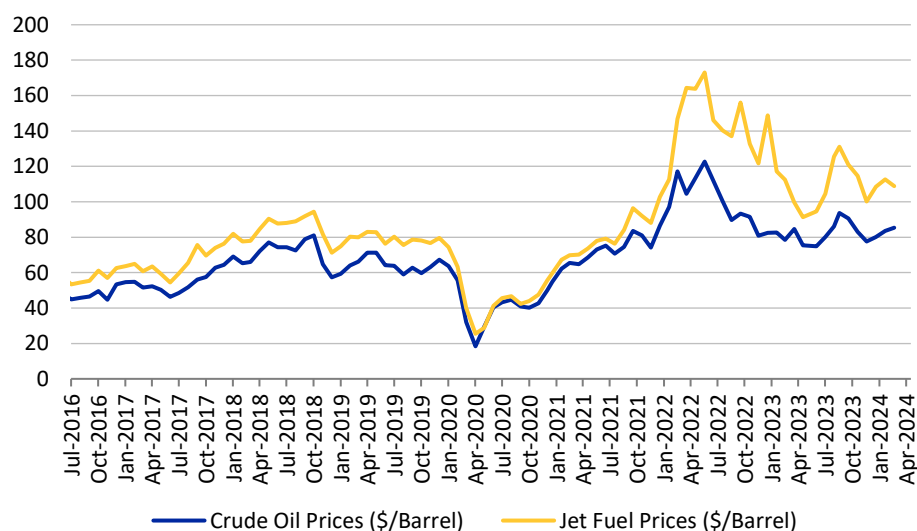


Source: MoCA, DGCA, ICRA Research

ATF Prices: Higher by ~3.1% YoY in April 2024, but lower by ~0.4% sequentially

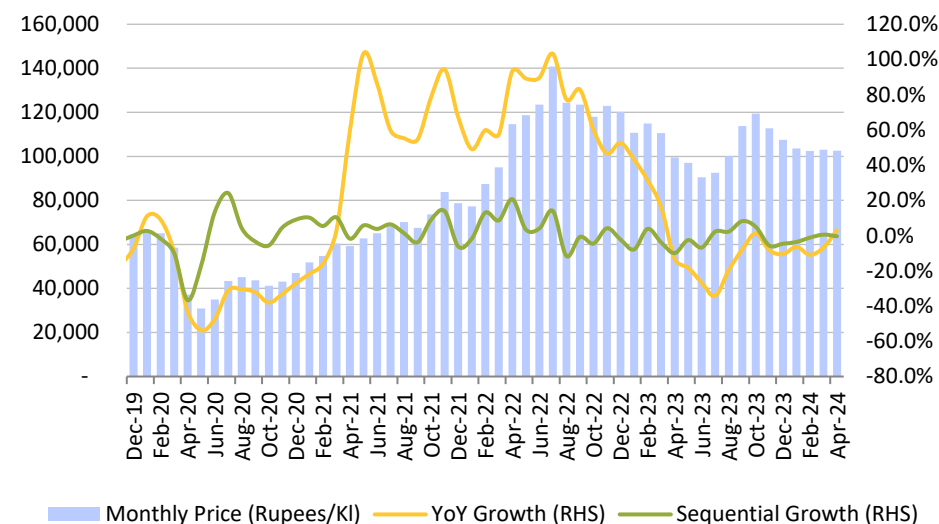
Following the pandemic, crude oil prices declined materially, reaching a low of ~\$19/ barrel in April 2020 (the sharpest decline since Q4 CY2018). However, the prices have increased gradually since then and are currently at around ~\$90/ barrel. The increase is attributable to geopolitical disruptions. 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. Although in March 2024, the prices were marginally higher sequentially by 0.5%, it again declined by 0.4% in April 2024, following the trend in crude oil prices. Between April 2023 and March 2024, the ATF prices were lower on a YoY basis, except in October 2023. In April 2024, the ATF prices were higher by 3.1% on a YoY basis.

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 April 11, 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



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