



INDIAN AVIATION INDUSTRY

Domestic passenger traffic reported ~3% YoY growth in April 2024, ~21% higher than pre-Covid levels

May 2024

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BUSINESS OUTLOOK: STABLE



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ICRA expects the Indian aviation industry to report a similar net loss of ~Rs. 30-40 billion in FY2025 as seen in FY2024, which is significantly lower from levels of ~Rs. 170-175 billion in FY2023.

Supply chain challenges, engine failure issues, and crew and pilot availability 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 April 2024, domestic air passenger traffic was estimated at ~132.8 lakh, ~0.6% lower than ~133.7 lakh in March 2024. However, it grew by ~3.1% on a YoY basis and was significantly higher by ~21% than pre-Covid levels. The airlines' capacity deployment in April 2024 was higher than April 2023 by ~2%, but lower by ~3% over March 2024.

For FY2024 (FY refers to April–March), domestic air passenger traffic was ~154 million with 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. Further, for FY2024, the international passenger traffic for Indian carriers stood at ~296.8 lakh, a YoY growth of ~24%, and higher than the pre-Covid levels of ~227.3 lakh by 30%. In line with ICRA's estimates, the international passenger traffic for Indian carriers in FY2024 also surpassed the peak levels of ~259.0 lakh in FY2019 (April–March 2019).

- **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, with a 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 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. 103,499/KL in FY2024, which was lower by 14% than Rs. 121,013/KL in FY2023, but significantly higher by 58% than the pre-Covid levels of Rs. 65,368/KL in FY2020. In April and May 2024, ATF prices have remained higher by 3.1% and 6.4% on a YoY basis, respectively. 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. ICRA expects the Indian aviation industry to report a similar net loss of ~Rs. 30-40 billion in

FY2025 as seen in FY2024, which is significantly lower from levels of ~Rs. 170-175 billion in FY2023, as airlines continue to witness healthy passenger traffic growth and maintain pricing discipline.

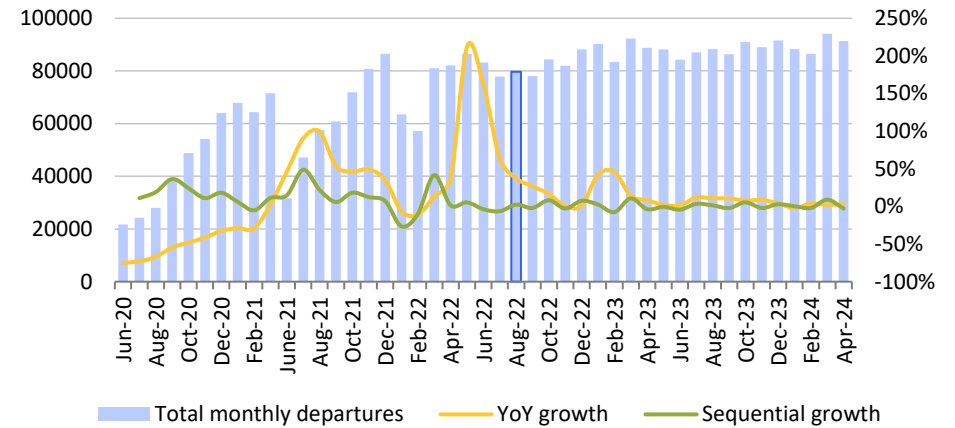
- **Supply chain challenges and engine failure issues impact industry capacity** – The Indian aviation industry has been facing supply chain challenges and issues of engine failures for the Pratt and Whitney (P&W) engines supplied to various airlines. In FY2024, Go Airlines (India) Limited grounded half 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. In the current fiscal, the industry has also faced challenges related to availability of pilot and cabin crew, leading to several flight cancellations and delays. In April 2024, Vistara had to cancel some of its scheduled flights, with many experiencing delays as well, due to shortage of cabin crew and pilots. Further, on May 8, 2024, Air India Express had to cancel over 100 flights due to similar reasons. Such issues impact the capacity availability and add to customer grievances.
- **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). The NCLT, in February 2024, extended the deadline for the completion of the resolution process of GoFirst by another 60 days, which ended on April 4, 2024. On April 8, 2024, The NCLT granted a further extension of 60 days till June 3, 2024, to complete the corporate insolvency resolution process (CIRP). On May 1, 2024, the Directorate General of Civil Aviation (DGCA), on the directive of the Delhi High Court Order, deregistered all 54 aircraft of GoFirst.



Domestic Passenger Traffic: ~3% YoY growth in April 2024, higher by ~21% against pre-Covid levels

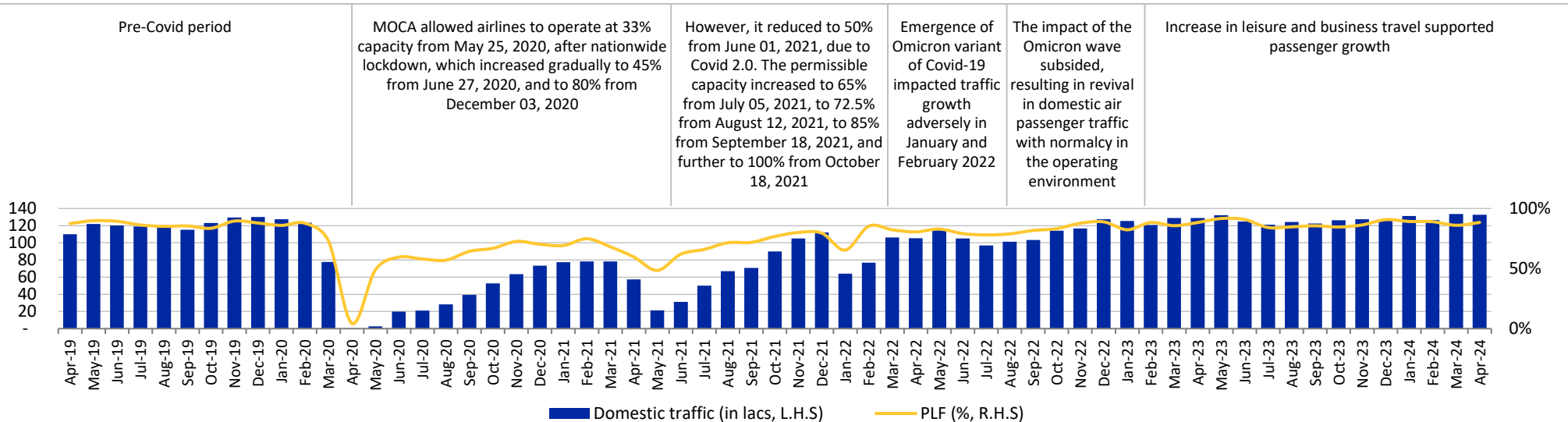
With the onset of Covid 2.0, the Ministry of Civil Aviation (MoCA) had reduced the permissible capacity deployment by airlines on domestic routes to 50% of the pre-Covid levels, with effect from June 01, 2021. The increase in the permissible capacity deployment was gradual before the restrictions were removed, with effect from October 18, 2021. The capacity deployment for April 2024 was higher by ~3.0% over April 2023 (91,363 departures in April 2024 against 88,734 departures in April 2023). However, the number of departures in April 2024 were lower by ~3.0% on a sequential basis.

EXHIBIT 1: Trend in Capacity Deployment by Domestic Airlines



Source: MoCA, DGCA, ICRA Research

EXHIBIT 2: Domestic Passenger Growth & PLF

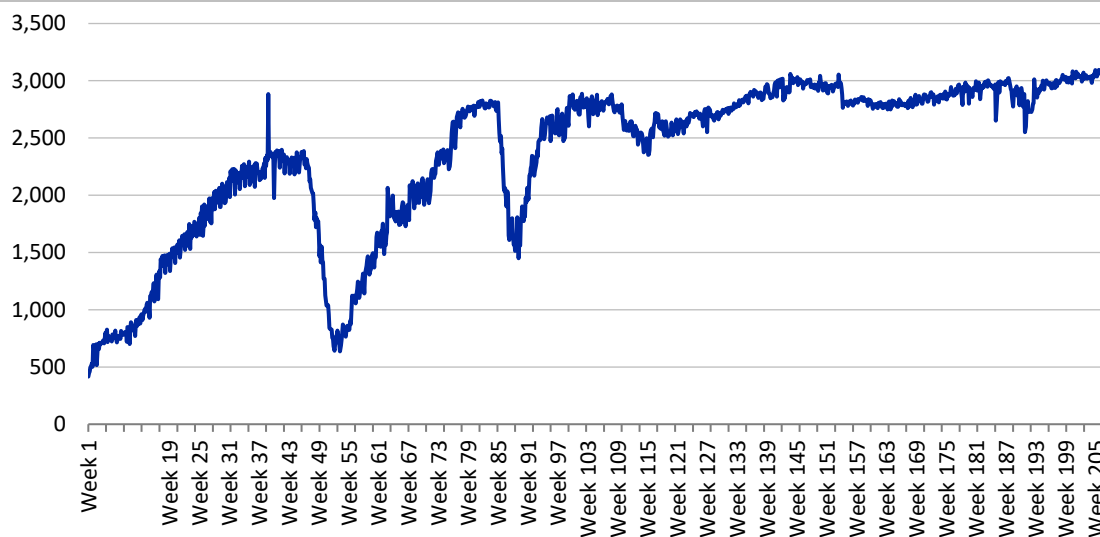


Source: MoCA, DGCA, ICRA Research

For April 2024, domestic air passenger traffic stood at ~133 lakh against ~129 lakh in April 2023, implying a YoY growth of ~3.1%. However, on a sequential basis, domestic air passenger traffic in March 2024 was lower by ~0.6%, with April having lower number of days than March.

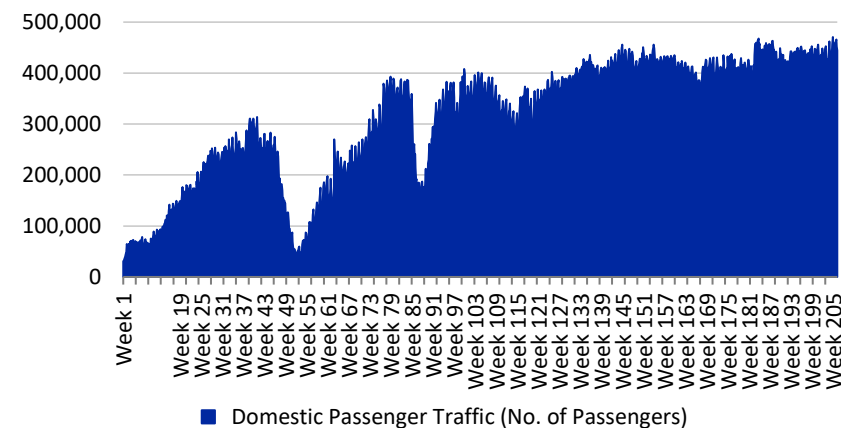
On April 17, 2022, domestic air passenger traffic was 407,975, crossing the 4-lakh daily passenger mark for the first time since the start of the pandemic. April 21, 2024 recorded the highest single-day traffic of 470,751, surpassing the previous historic highs. For April 2024, the average daily departures were ~3,045, higher than the average daily departures of ~2,958 in April 2023 and higher than the average daily departures of ~3,037 during March 2024. The average number of passengers per flight in April 2024 and April 2023 remained at 145; although remaining higher than 142 passengers per flight in March 2024. It is estimated that the domestic aviation industry operated at a PLF of ~88% in April 2024 and April 2023, and at 86% in March 2024.

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



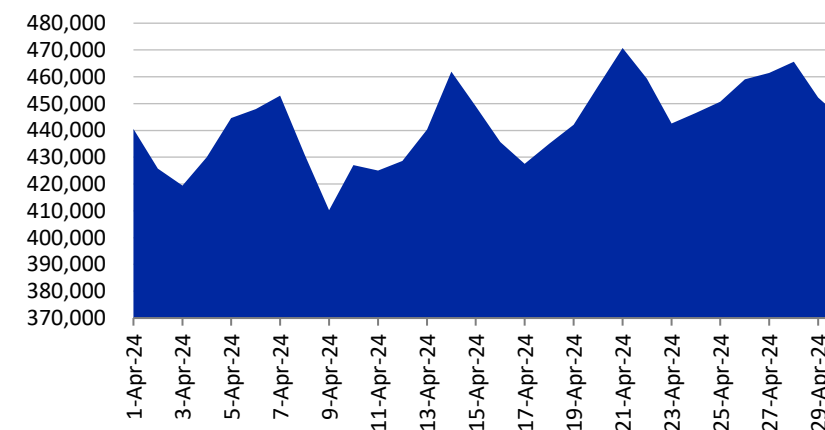
Source: MoCA, DGCA, ICRA Research

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



Source: MoCA, DGCA, ICRA Research

EXHIBIT 5: Daily Domestic Passenger Traffic in April 2024

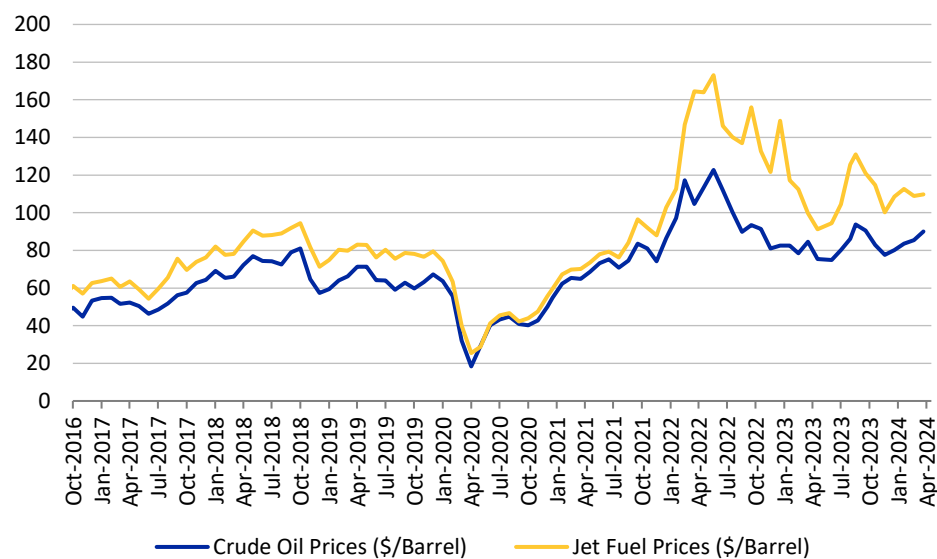


Source: MoCA, DGCA, ICRA Research

ATF Prices: Higher by ~6.4% YoY in May 2024 and by ~0.7% sequentially

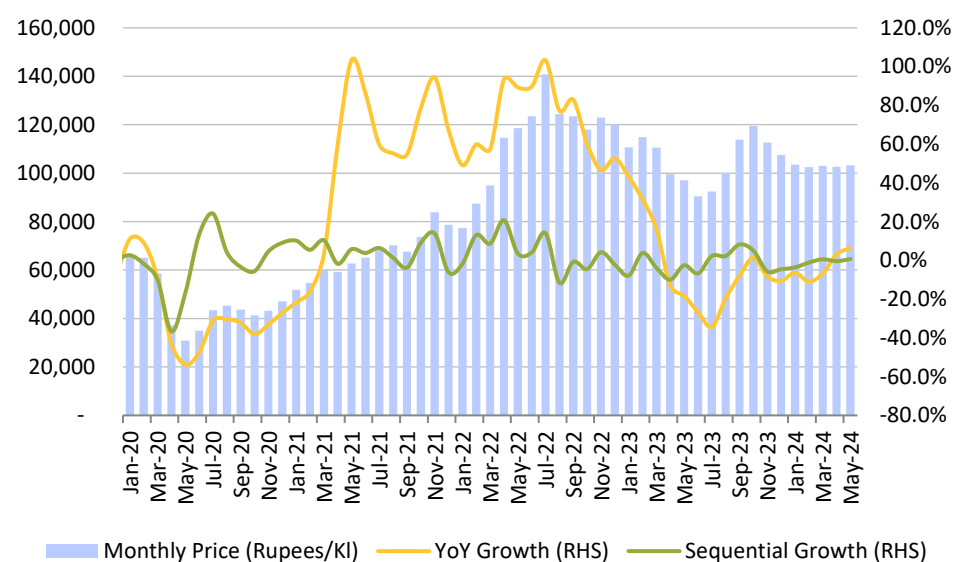
Following the pandemic, crude oil prices declined materially, reaching a low of ~\$19/ barrel in April 2020 (the sharpest decline since Q4 CY2018). However, the prices have increased gradually since then and are currently at around ~\$83/ barrel. The increase is attributable to geopolitical disruptions. Following a YoY decline of 14% in average ATF prices in FY2024, the prices in April 2024 declined by 0.4% sequentially and rose by 0.7% in May 2024. Between April 2023 and March 2024, the ATF prices were lower on a YoY basis, except in October 2023. In April 2024 and May 2024, the ATF prices were higher by 3.1% and 6.4%, respectively, 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 May 10, 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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ABOUT ICRA

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- Provide intermediaries with a tool to improve efficiency in the funds raising process.

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