



ICRA

A MOODY'S INVESTORS
SERVICE COMPANY

INDIAN AVIATION INDUSTRY

**Domestic air travel in April 2022 only
~5% lower than pre-Covid levels;
international passenger traffic
surpassed pre-Covid levels**

MAY 2022

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BUSINESS OUTLOOK: NEGATIVE



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In the near term, the credit profile of Indian carriers will remain stressed until they are able to reduce their debt burden through a combination of improvement in operating performance and / or by way of equity infusion

For April 2022, domestic passenger traffic is estimated at ~105 lakh, largely flattish compared to ~107 lakh in March 2022. However, it witnessed a YoY growth of ~83%, given that passenger traffic was severely hit in April 2021 due to Covid 2.0. The airlines' capacity deployment for April 2022 was ~36% higher than April 2021. Further, capacity deployment for April 2022 has almost reached the pre-Covid levels. On a sequential basis, the number of departures in April 2022 were higher by ~2%, given the normalcy seen in business operations due to a significant dip in fresh Covid-19 infections. Further, with resumption of scheduled international operations since March 27, 2022, the international passenger traffic for Indian carriers in April 2022 surged to ~18.5 lakh, which also marginally surpassed pre-Covid levels the international passenger traffic of ~18.3 lakh.

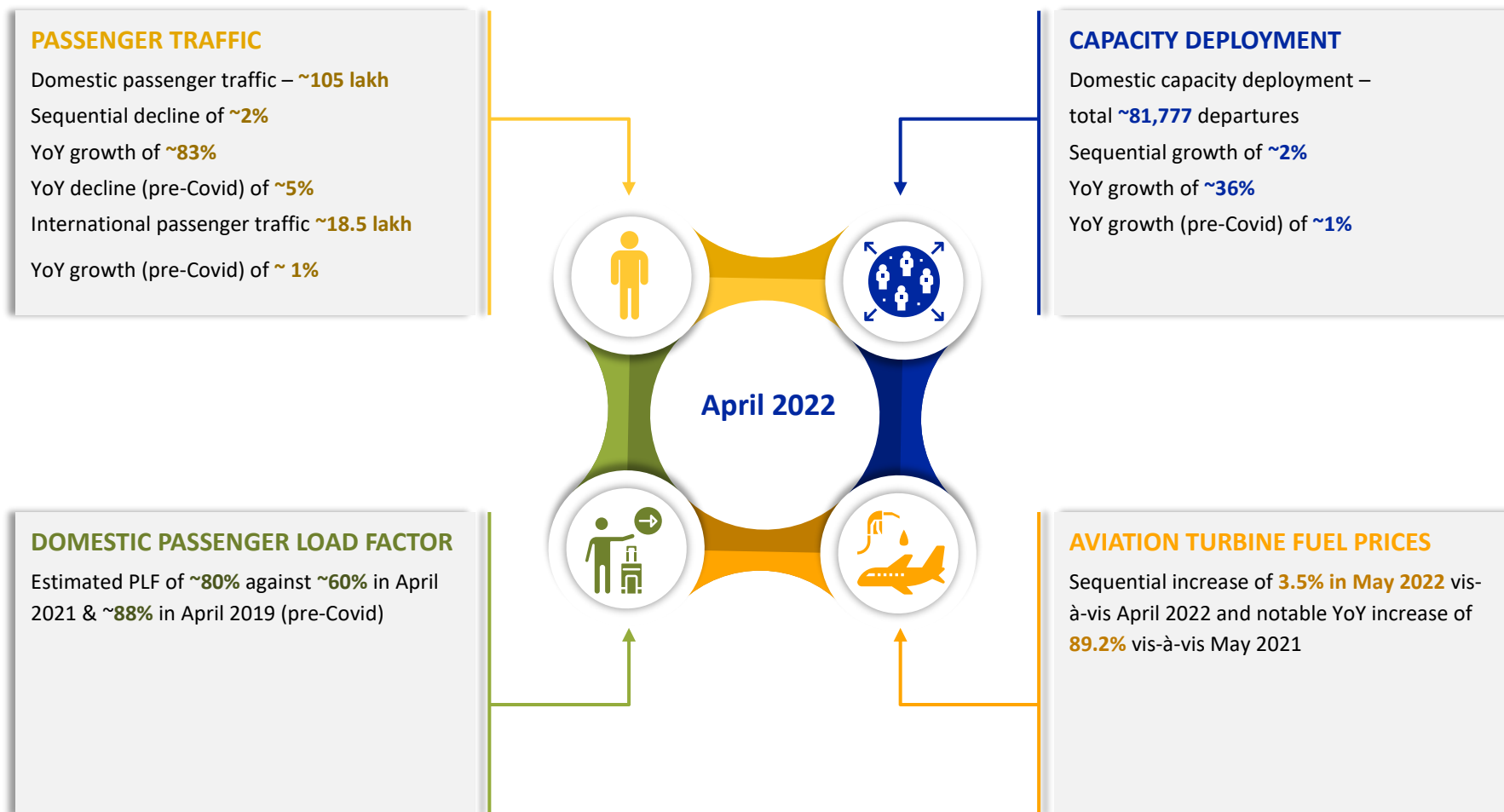
The rising aviation turbine fuel (ATF) prices continue to dampen the industry earnings, with prices in May 2022 being higher by 89.2% on a YoY basis, a direct result of increased crude oil prices due to ongoing geo-political issues.

- **ICRA continues to maintain a Negative outlook on the Indian aviation industry** - The outlook reflects ICRA's view that the financial performance of Indian airlines is likely to remain under pressure in the near term, as recovery in domestic passenger traffic to pre-Covid levels is likely only by FY2024, in addition to the escalating ATF prices, which will continue to pose a major threat to the profitability of the airlines in the near term.
- **The recovery in domestic passenger traffic is expected to be fast paced in FY2023 fuelled by normalcy witnessed in domestic airline operations** - A steady decline in Covid-19 infections from June 2021 onwards and easing restrictions by various state governments enabled the domestic passenger traffic to grow sequentially by 61% in July 2021, 34% in August 2021, 5% in September 2021, ~27% in October 2021, ~17% in November 2021 and ~6% in December 2021. While in January 2022, it declined sequentially by a sharp ~43% due to the emergence of the new variant of Covid-19 and related restrictions, it grew by ~19% in February 2022 with the waning Omicron wave and further grew sequentially by ~37% in March 2022. The domestic passenger traffic stood at ~105 lakh in April 2022 compared to ~107 lakh in March 2022, indicating a marginal sequential decline of ~2%, which is largely attributable to lower number of operational days in April than the preceding month. On a YoY basis, the domestic passenger traffic was notably higher by ~83% in April 2022, however, ~5% lower than pre-Covid levels i.e. April 2019. Though recovery in passenger traffic is expected to be relatively fast paced in FY2023, given the near normalcy situation seen in domestic airline operations, an overhang of any further Covid wave looms on the sector in case the recent rise in Covid infections in certain pockets of the country spreads nationwide.
- **Earnings recovery in FY2023 to be under check owing to escalating fuel prices** - The onset of Covid-19 3.0 along with continued high fuel prices delayed the demand recovery in FY2022. Consequently, the industry is expected to report loss of ~Rs. 250-260 billion in FY2022. Further, the recovery in industry earnings in FY2023 will be gradual due to the steep increase in fuel prices. However, the industry loss is expected to moderate to ~Rs. 140-160 billion in FY2023 due to the expected recovery in passenger traffic and lower debt

due to reduction in debt of Air India Limited before the sell-off. Overall, the industry will require additional funding support of ~Rs. 200-220 billion over FY2022 to FY2024.

- **Some airlines face financial distress, stretched liquidity issues** - While some airlines have sufficient liquidity and/or financial support from a strong parent, which is likely to help them sustain over the near term, for others, the credit metrics and liquidity profile have been under significant stress. To ease liquidity pressures, most airlines have undertaken several cost rationalisation measures, including salary cuts for their employees, leave-without-pay options and laying off pilots and crew members to cut costs. Some airlines have also sought a deferment in their lease rental payments. Others have also entered sale and lease back transactions to shore up liquidity in the near term. However, until profitability and cash inflows improve, the airlines will require funding support to meet their expenses.

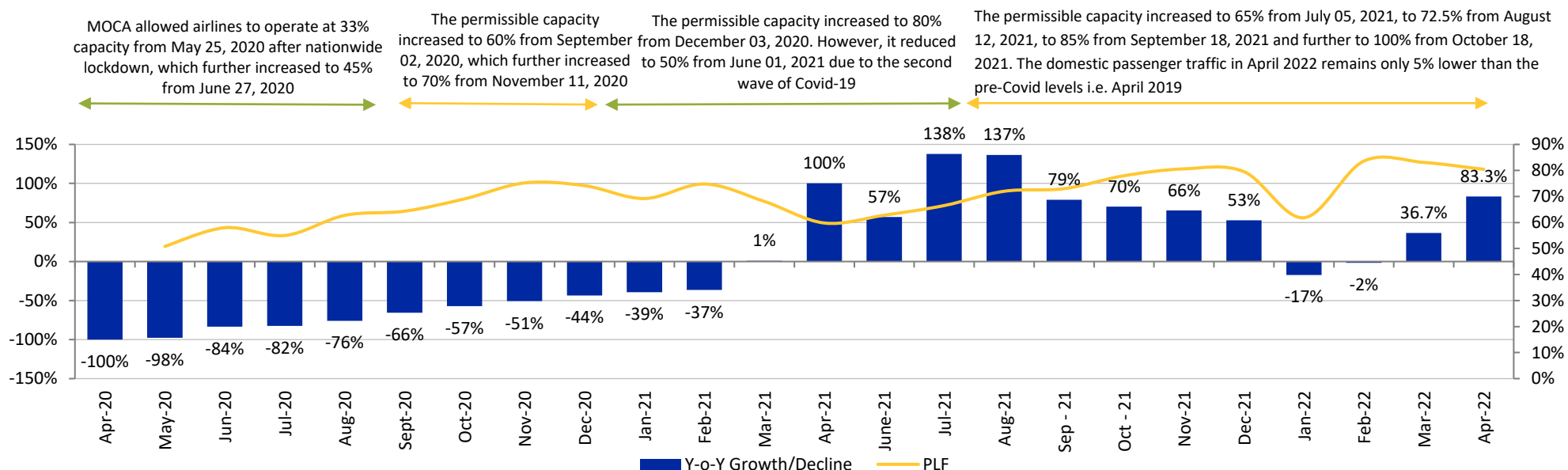
¹ Aggregate of Air Asia India Limited, Air India Limited, Go Airlines (India) Limited, Interglobe Aviation Limited, Tata SIA Airlines Limited and SpiceJet Limited; Excludes debt of Rs. 295 billion transferred from Air India Limited to a special purpose vehicle (SPV) with effect from October 01, 2019



DOMESTIC PASSENGER TRAFFIC: REACHED PRE-COVID LEVELS IN APRIL 2022, WITH A MARGINAL 5% DECLINE OVER APRIL 2019

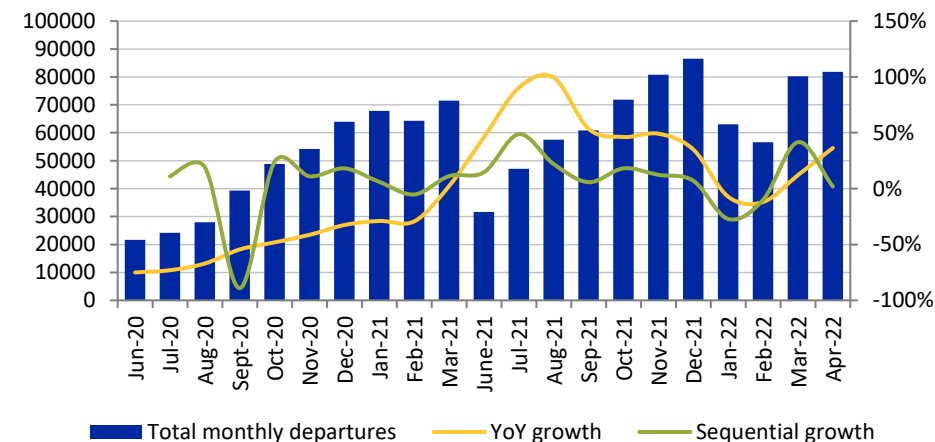
With the onset of Covid 2.0, the MoCA had reduced the permissible capacity deployment by airlines on domestic routes to 50% of pre-Covid levels with effect from June 01, 2021. The permissible capacity deployment was gradually increased to 65% from July 5, 2021 to 72.5% from August 12, 2021 and to 85% from September 18, 2021 before removing restrictions with effect from October 18, 2021. The capacity deployment for April 2022 was ~36% higher than April 2021 (81,777 departures in April 2022 against 59,967 departures in April 2021) driven by a significant decline in Covid-19 infections and near normalcy position seen in business operations. On a sequential basis, the number of departures in April 2022 was higher by around 2% and higher by around 1% compared to departures of 81,266 in April 2019.

EXHIBIT 1: Domestic Passenger Growth & PLF



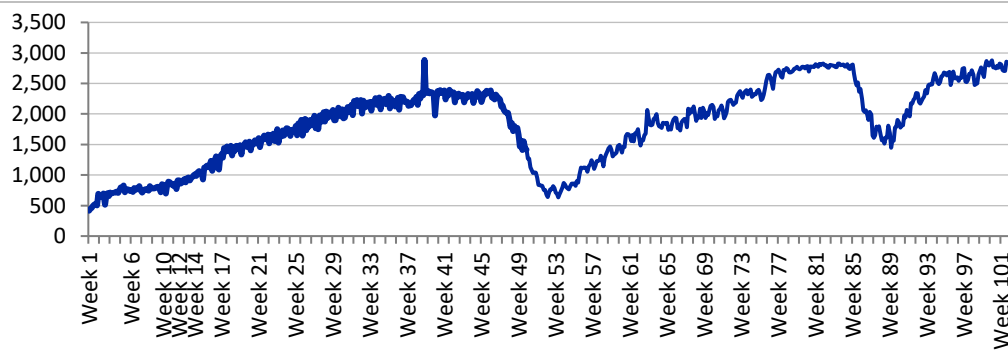
Source:

EXHIBIT 2: Trend in Capacity Deployment by Domestic Airlines



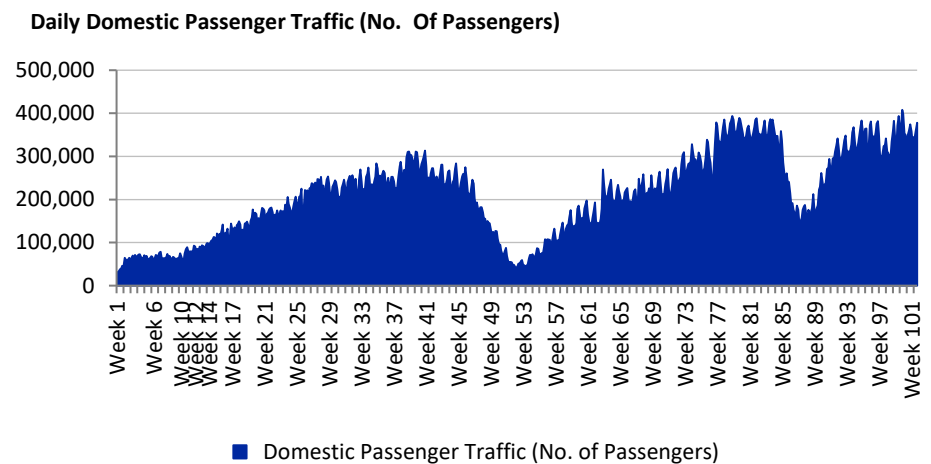
For April 2022, domestic passenger traffic stood at ~105 lakh, against ~57 lakh in April 2021, implying a growth of ~83% on a YoY basis. On a sequential basis, domestic passenger traffic declined marginally by ~2% over ~107 lakh in March 2022, which is largely attributable to lower number of days in April than the preceding month. As seen in Exhibit 3, Since March 2021, given the resurgence of the second wave of the pandemic, daily passenger traffic was on a continuous decline, gradually declining to 70,098 on Day 372 (May 31, 2021). Later, with decline in daily infections, domestic passenger traffic witnessed a gradual improvement with a new peak of 393,245 on Day 545 (November 21, 2021). However, the rising trend in passenger traffic witnessed a reversal in January 2022 with the emergence of the new variant of Covid-19 and reactionary restrictions by a few states on air travel. Though with the waning Omicron wave, passenger traffic witnessed a sequential growth of ~20% in February 2022 and ~39% in March 2022. On April 17, 2022, domestic passenger traffic at 407,975 crossed the 4-lakh daily passenger mark for the first time since the start of the pandemic. For April 2022, the average daily departures were at ~2,726, notably higher than the average daily departures of ~2,000 in April 2021, higher than ~2,588 in March 2022 and also slightly higher when compared to the average daily departures of ~2,709 during April 2019. The average number of passengers per flight during April 2022 was at 128, against an average of 133 passengers per flight in March 2022 and an average of 95 passengers per flight in April 2021. The average number of passengers per flight was higher at 135 during April 2019. It is estimated that the domestic aviation industry operated at a passenger load factor (PLF) of ~80% in April 2022, against ~60% in April 2021 and ~88% in April 2019.

EXHIBIT 5: Domestic Daily Flight Departures since May 25, 2020



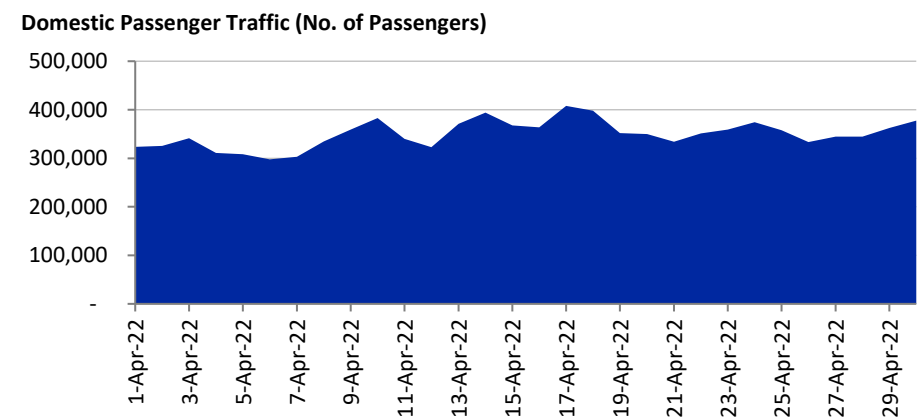
Source: MoCA, DGCA, ICRA Research

EXHIBIT 3: Daily Domestic Passenger Traffic since May 25, 2020



Source: MoCA, DGCA, ICRA Research

EXHIBIT 4: Daily Domestic Passenger Traffic in April 2022



Source: MoCA, DGCA, ICRA Research

To ensure a curb on excessive fares, the MoCA fixed a fare band which the airlines are expected to adhere to. The restrictions on capacity and the fare bands are not applicable in case of the Regional Connectivity Scheme (RCS) Udaan flights and for the business class. Furthermore, at least 40% of the tickets of a particular flight are to be sold for the fare less than the mid fare - between the minimum and the maximum fares given above.

The restrictions on fares, which were earlier valid till August 24, 2020, were extended till November 24, 2020 and further to February 24, 2021. However, on February 12, 2021, the MoCA allowed an increase of 10%-30% on the fare caps. While a 10% increase was allowed on the shortest route, the longer routes were allowed an increase of 30%. These restrictions were extended till May 31, 2021. Furthermore, on May 28, 2021, the MoCA allowed an increase of 13-15% on the lower air-fare band, with effect from June 01, 2021, while keeping the upper limits unchanged. The band was further increased by 10-13% on both the minimum and the maximum limits, with effect from August 12, 2021 on a 30-day rolling basis. This increase thus allowed airlines to recoup a part of the increased ATF prices, thereby cushioning some of the airlines' losses. However, effective September 18, 2021, the MoCA relaxed the fare cap rule wherein the fare caps in each of the bands shall be applicable up to the next 15 days on a rolling basis, down from 30 days earlier.

In ICRA's view, the reduction in fare cap roll-over period from 30 days to 15 days is a move towards market-driven pricing as applicable during pre-Covid times, wherein the pricing was determined by the actual supply-demand dynamics and the actual PLF. There is uncertainty with respect to the movement in fares once the restrictions are lifted with factors supporting both sides. While low air fares suit the weak demand and excess capacity in the industry, higher fares are a necessity for the additional cost to be incurred by the airlines towards enhanced safety measures and sanitisation. It signifies a means of recouping the losses incurred due to the earlier suspension of operations, in addition to the increasing ATF prices.

While the scheduled international operations had ceased till March 27, 2022, the MoCA had permitted international operations under the Vande Bharat Mission (VBM) and the Air Transport Bubbles (ATB). Under the VBM for evacuation of Indian citizens from foreign countries, which started from May 07, 2020, international passenger traffic (inbound and outbound) for Indian carriers has been pegged at ~81.44 lakh for the period May 07, 2020 to March 26, 2022. With resumption of scheduled international operations since March 27, 2022, the international passenger traffic for Indian carriers in April 2022 surged to ~18.5 lakh, which also marginally

surpassed the international passenger traffic of ~18.3 lakh witnessed in April 2019. Overall, the impact of the pandemic lasted longer on international travel than on domestic travel.

EXHIBIT 6: Changes in Fare Band for Domestic Operations (excluding Business Class) for Minimum Fare Since Operations Commenced from May 25, 2020

| Class of Sectors* | May 25, 2020 - February 24, 2021 | February 25, 2021 - May 31, 2021 | June 01, 2021 – August 11, 2021 | August 12, 2021 – October 31, 2021 |
|-------------------|----------------------------------|----------------------------------|---------------------------------|------------------------------------|
| A | 2,000 | 2,300 | 2,600 | 2,900 |
| B | 2,500 | 2,900 | 3,300 | 3,700 |
| C | 3,000 | 3,500 | 4,000 | 4,500 |
| D | 3,500 | 4,100 | 4,700 | 5,300 |
| E | 4,500 | 5,300 | 6,100 | 6,700 |
| F | 5,500 | 6,400 | 7,400 | 8,300 |
| G | 6,500 | 7,600 | 8,700 | 9,800 |

EXHIBIT 7: Changes in Fare Band for Domestic Operations (excluding Business Class) for Maximum Fare Since Operations Commenced from May 25, 2020

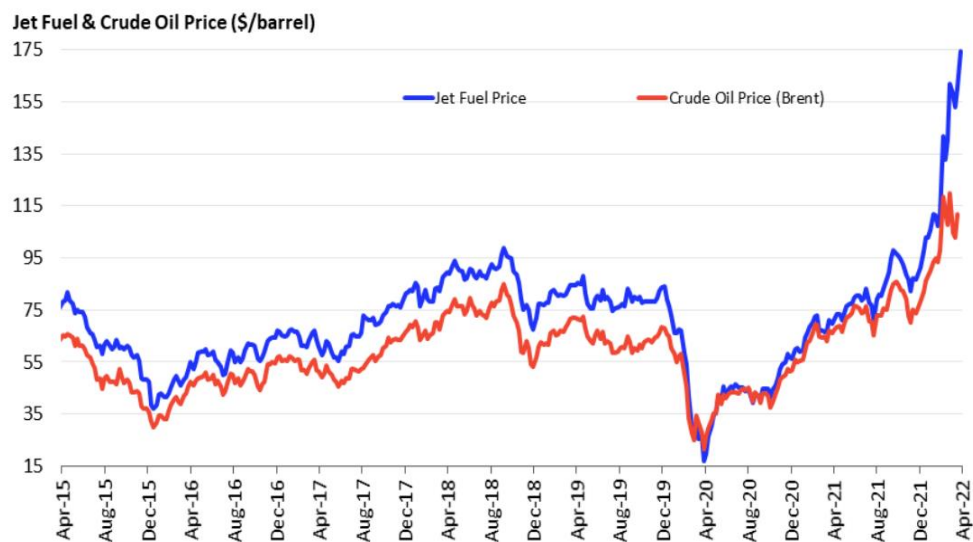
| Class of Sectors* | May 25, 2020 - February 24, 2021 | February 25, 2021 - May 31, 2021 | June 01, 2021 – August 11, 2021 | August 12, 2021 – October 31, 2021 |
|-------------------|----------------------------------|----------------------------------|---------------------------------|------------------------------------|
| A | 6,000 | 7,800 | 7,800 | 8,800 |
| B | 7,500 | 9,800 | 9,800 | 11,000 |
| C | 9,000 | 11,700 | 11,700 | 13,200 |
| D | 10,000 | 13,000 | 13,000 | 14,600 |
| E | 13,000 | 16,900 | 16,900 | 19,000 |
| F | 15,700 | 20,400 | 20,400 | 23,000 |
| G | 18,600 | 24,200 | 24,200 | 27,200 |

**Classified on the basis of approximate duration of flight; **Exclusive of applicable user development fee (UDF), passenger service fee (PSF) and goods & services tax (GST); Source: MoCA; Source: DGCA, ICRA Research*

ATF PRICES: PRICES IN MAY 2022 INCREASED SEQUENTIALLY BY ~3.5%; HIGHER BY ~89% ON A YOY BASIS

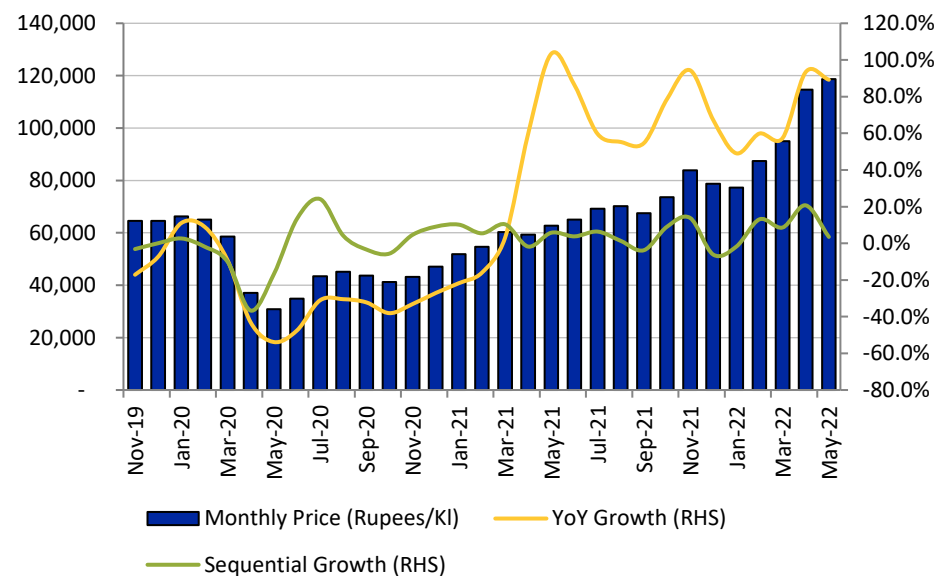
Following the pandemic, crude oil prices declined materially – reaching a low of ~US\$19/ barrel in April 2020 (the sharpest decline since Q4 CY2018) – seeing a decline in ATF prices. However, crude oil prices increased gradually since then, and currently ranges at around ~US\$111/ barrel. The recent increase in crude oil prices is attributable to the ongoing geo-political tension. Consequently, the ATF prices increased sequentially by 13.1% in February 2022, 8.6% in March 2022, 20.7% in April 2022 and 3.5% in May 2022. Until February 2021, ATF prices were lower on a YoY basis, while since March 2021, they have been substantially higher on a YoY basis. In May 2022, the prices were notably higher by 89.2% on a YoY basis, given the elevated crude oil prices, due to geo-political issues.

EXHIBIT 8: Movement in Crude Oil Price and Jet Fuel Price (Dollar/Barrel)



Source: International Air Transport Association (IATA), ICRA Research

EXHIBIT 9: Movement in Jet Fuel Price



Source: Indian Oil Corporation Limited, ICRA Research

ICRA-RATED AIRLINE COMPANIES

EXHIBIT 10: Rating Distribution of ICRA-Rated Universe of Airline Companies as on May 09, 2022

| Company Name | Rating Outstanding | Last Rating Action |
|-----------------------------|--|--|
| Air India Express Limited | [ICRA]A4& | Rating placed on watch with developing implications |
| Interglobe Aviation Limited | [ICRA]A (Negative) / [ICRA]A1 | Rating reaffirmed |
| Jet Airways (India) Limited | [ICRA]D / [ICRA]D ISSUER NOT COOPERATING | Rating continues to remain under 'Issuer Not Cooperating' category |
| Tata SIA Airlines Limited | [ICRA]A (Negative) / [ICRA]A1 | Rating reaffirmed |

Source: ICRA Research / *& - watch with developing implications



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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.

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