



INDIAN AVIATION INDUSTRY

Domestic air travel witnessed sequential growth of ~5% in August 2022; international traffic for Indian carriers notably surpasses pre-Covid levels by ~32%

SEPTEMBER 2022

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Kinjal Shah
+91 22 6114 3442
kinjal.shah@craindia.com

Suprio Banerjee
+91 22 6114 3443
supriob@icraindia.com

Ruchi Shah
+91 79 4027 1500
ruchi.shah@icraindia.com

Srinivas Menon
+91 22 6169 3354
srinivas.menon2@icraindia.com



BUSINESS OUTLOOK: NEGATIVE



Click to Provide Feedback

ICRA expects a fast-paced recovery in domestic passenger traffic in FY2023, aided by normalcy in operations and widening vaccination coverage. However, the earnings recovery for domestic airlines will be slow-paced due to sharp escalations seen in ATF prices and depreciation of the INR against the US\$, in the backdrop of increased competitive intensity. ICRA expects the Indian aviation industry to report a net loss of ~Rs. 150-170 billion in FY2023. The debt levels (including lease liabilities) are expected to be ~Rs. 1,000 billion in FY2023.

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.

In August 2022, domestic air passenger traffic was estimated at ~102 lakh, ~5% higher compared to ~97 lakh in July 2022. Further, it witnessed a YoY growth of ~52%, in comparison to the domestic passenger traffic in August 2021, which was impacted by the second wave of Covid-19. However, it fell short by ~14% compared to pre-Covid levels of August 2019. The airlines' capacity deployment in August 2022 was ~37% higher than August 2021. However, it was lower by ~10% than the pre-Covid levels. On a sequential basis, the number of departures in August 2022 remained marginally higher by ~2%. International passenger traffic continues to rise since the resumption of the scheduled international operations with effect from March 27, 2022. In August 2022, international passenger traffic for Indian carriers stood at ~26.07 lakh, thereby strongly surpassing pre-Covid levels of ~19.8 lakh by ~32%.

A steady rise in prices of aviation turbine fuel (ATF) and general inflationary environment continue to dampen the industry earnings, with ATF prices in September 2022 higher by ~83% on a YoY basis. However, the same declined by 0.7% sequentially. While airlines have been increasing yields, the same has not been adequate to offset the impact of the rising ATF prices, in ICRA's view.

- **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, even as recovery in domestic passenger traffic has been healthy. Elevated ATF prices will continue to pose a major threat to earnings and liquidity profile of the airlines in the near to medium term. Also, the depreciation of the INR against the US\$ (which adversely impacts lease rentals, maintenance cost and other overheads) will have a major bearing on the cost structure of airlines. This apart, likely near-term relaunch of Jet Airways and the entry of low-cost domestic carrier, Akasa Air, will further intensify competition in the domestic aviation industry. The airlines' efforts to maintain and/or grow their market share will limit their ability to expand margins in an elevated fuel cost environment.
- **Elevated fuel price will decelerate the pace of earnings recovery in FY2023** - While a meaningful improvement in the passenger traffic is expected in FY2023, the pace of recovery in the industry earnings will be sluggish and the industry is expected to incur a net loss of ~Rs. 150-170 billion owing to elevated costs. However, this will be notably lower compared to the estimated net loss in FY2022, primarily driven by recovery in passenger traffic and lower interest burden, following the significant reduction in Air India Limited's debt before the divestment by the Government of India. The debt levels (including lease liabilities) are expected to be ~Rs. 1,000 billion in FY2023.
- **Hardening of airfares driven by strong cost headwinds; limited scope for further sharp fare hikes due to intense competition** – Lately, the airlines have been steadily raising air fares, however, the same has not been adequate to offset the impact of the sharp rise in ATF prices. In ICRA's view, the domestic yields (measured by Passenger Revenues/Revenue Per Kilometre (RPK)) in Q1 FY2023 are expected to have increased by 25-30% over the pre-Covid levels. However, further sharp air fare hikes will be deterred by the intense competition and endeavour of the airlines to maintain and/or expand their market shares.

- **Select airlines face financial distress, stretched liquidity issues** - While some airlines have adequate 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 over the past few years. To ease liquidity pressures, most airlines had undertaken several cost rationalisation measures, including salary cuts for their employees, leave-without-pay options and laying off of pilots and crew members to cut costs during the pandemic. Some airlines have also sought a deferment in their lease rental payments to improve their liquidity positions. Others have also entered sale and lease back transactions to shore up liquidity in the near term. However, until the RASK-CASK spread improves, the airlines will require funding support to meet expenses.

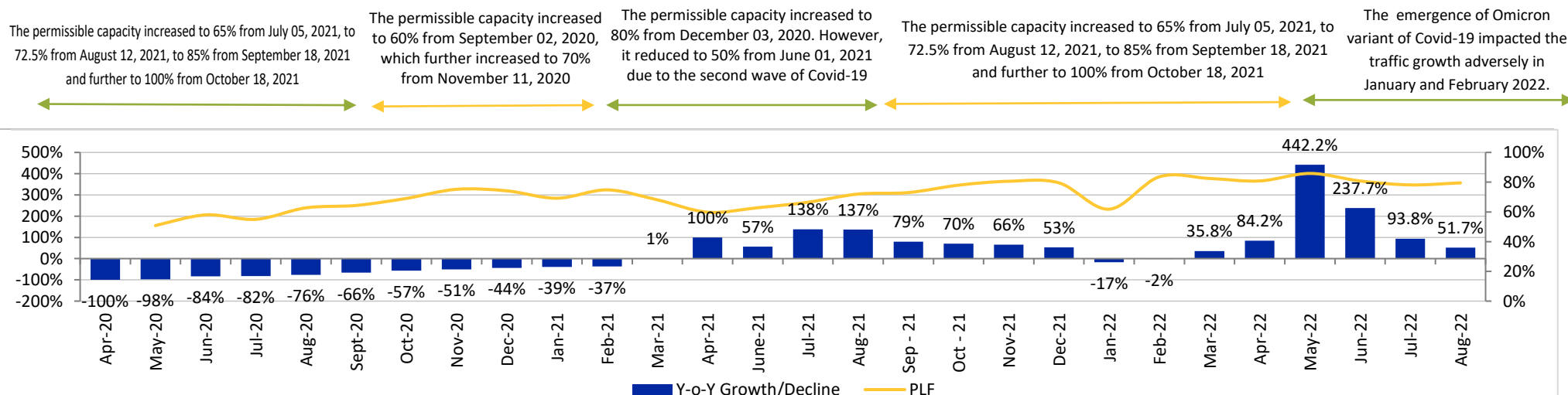
¹ Aggregate of Air Asia India Limited, Air India Limited, Go Airlines (India) Limited, Interglobe Aviation Limited, Tata SIA Airlines Limited and SpiceJet Limited; Excludes debt of Rs. 295 billion transferred from Air India Limited to a special purpose vehicle (SPV) with effect from October 01, 2019



DOMESTIC PASSENGER TRAFFIC: SEQUENTIAL GROWTH OF ~5% IN AUGUST 2022 AND LOWER BY ~14% THAN THE PRE-COVID LEVELS

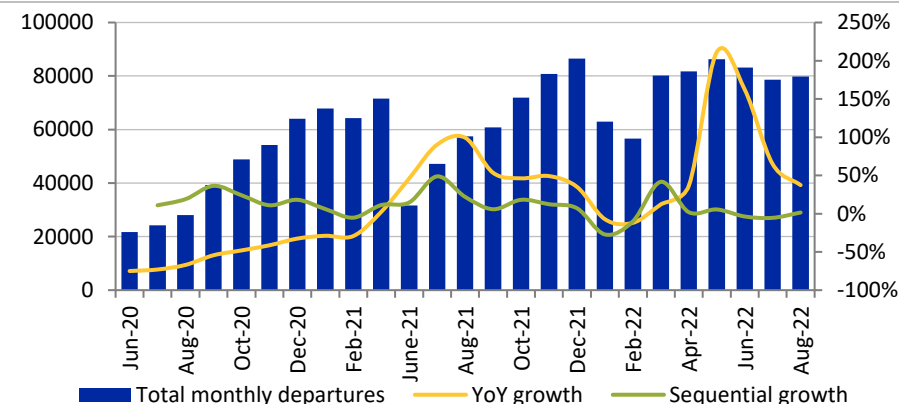
With the onset of Covid 2.0, the MoCA had reduced the permissible capacity deployment by airlines on domestic routes to 50% of the pre-Covid levels with effect from June 01, 2021. The permissible capacity deployment was gradually increased to 65% from July 5, 2021, to 72.5% from August 12, 2021 and to 85% from September 18, 2021, before removing restrictions with effect from October 18, 2021. The capacity deployment for August 2022 was notably higher by 37% than August 2021 (79,798 departures in August 2022 against 58,101 departures in August 2021) due to a significant decline in Covid-19 infections and near normalcy positions seen in business operations. The number of departures in August 2022 were marginally higher by ~2% on a sequential basis, however, lower by ~10% compared to departures of 88,215 in August 2019 (pre-Covid).

EXHIBIT 1: Domestic Passenger Growth & PLF



Source: MoCA, DGCA, ICRA Research

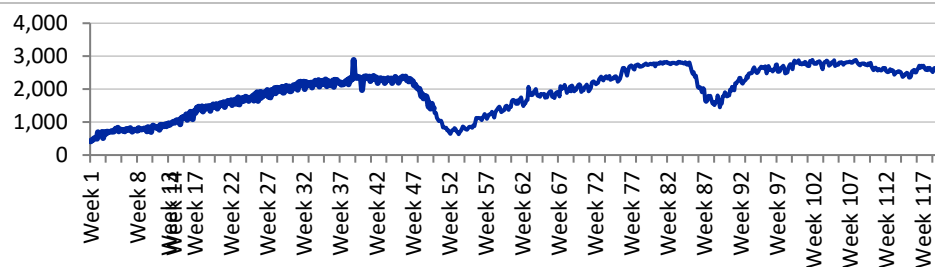
EXHIBIT 2: Trend in Capacity Deployment by Domestic Airlines



Source: MoCA, DGCA, ICRA Research

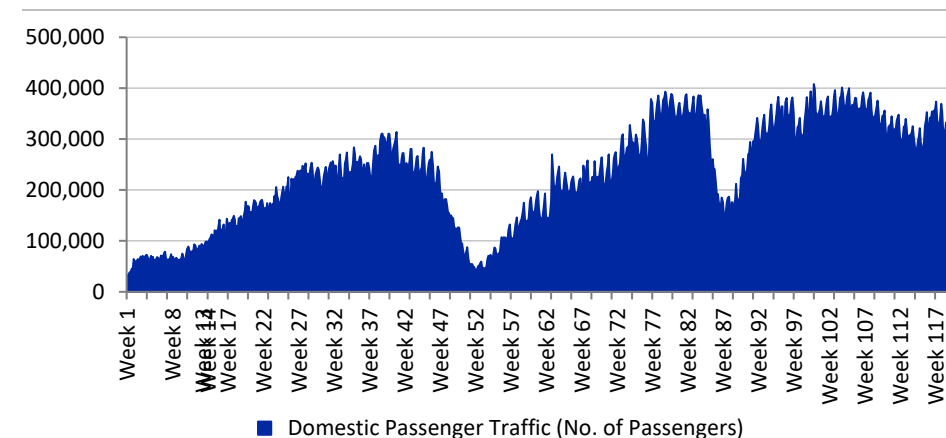
For August 2022, domestic passenger traffic stood at ~102 lakh, against ~67 lakh in August 2021, implying a significant growth of ~52% on a YoY basis. This is due to the low base of August 2021 which was yet to recover from Covid 2.0. On a sequential basis, domestic passenger traffic grew by ~5% over ~97 lakh in July 2022. 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 a 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. With the waning Omicron wave, however, passenger traffic witnessed a sequential growth of ~20% in February 2022, ~39% in March 2022 and ~2% in April 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 and it crossed the mark again on May 15, 2022 with traffic at 401,357. In August 2022, the highest daily passenger traffic was witnessed on August 16, 2022 at 373,414. For August 2022, the average daily departures were at ~2,574, notably higher than the average daily departures of ~1,874 in August 2021 and largely at similar level of ~2,536 in July 2022, but lower compared to average daily departures of ~2,846 during August 2019. The average number of passengers per flight during August 2022 was at 127, largely similar to 123 passengers per flight in July 2022, but higher than the average of 115 passengers per flight in August 2021. The average number of passengers per flight was however higher at ~133 during August 2019. **It is estimated that the domestic aviation industry operated at a passenger load factor (PLF) of ~80% in August 2022, against ~72% in August 2021 and ~85% in August 2019.**

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



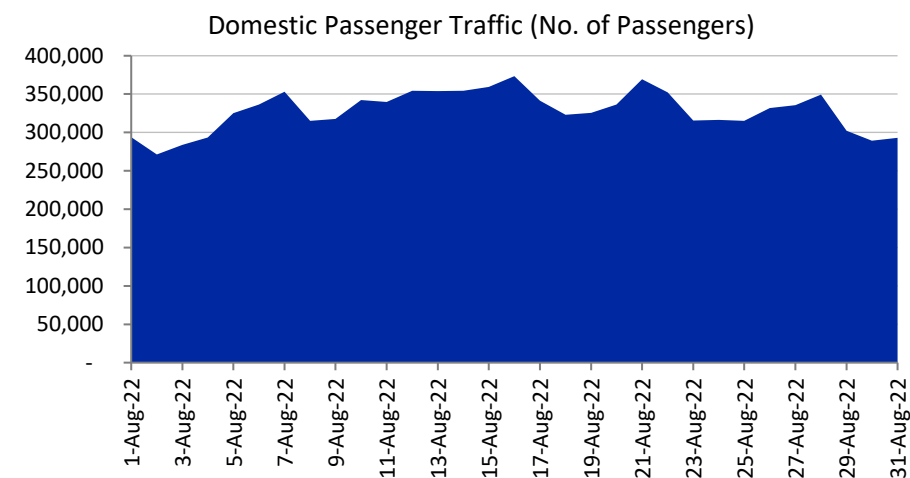
Source: MoCA, DGCA, ICRA Research

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



Source: MoCA, DGCA, ICRA Research

EXHIBIT 4: Daily Domestic Passenger Traffic in August 2022



Source: MoCA, DGCA, ICRA Research

The fare bands fixed by the MoCA with effect from May 25, 2020 have been discontinued with effect from August 31, 2022.

To ensure a curb on excessive fares, the MoCA fixed a fare band with effect from May 25, 2020. 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 bands. 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 the airlines to recoup a part of the increased ATF prices, thereby cushioning some of the airlines' losses. Further, effective September 18, 2021, the MoCA relaxed the fare band rules, wherein the fare restrictions in each of the bands are applicable only up to the next 15 days on a rolling basis, down from 30 days earlier. The MoCA has removed these fare bands with effect from August 31, 2022.

In ICRA's view, the removal of fare restrictions is a positive move by the regulator towards market-driven pricing, as applicable during pre-Covid times, wherein the fares were determined by the actual supply-demand dynamics. However, there is uncertainty with respect to the movement in fares. There are factors supporting both sides of the fare movement. The ongoing headwinds owing to higher ATF prices and INR depreciation (which adversely impacts lease rentals, maintenance cost and other overheads) will result in an increase in air fares; however, it will be limited by intense competition and endeavour of airlines to maintain and/or expand their market shares.

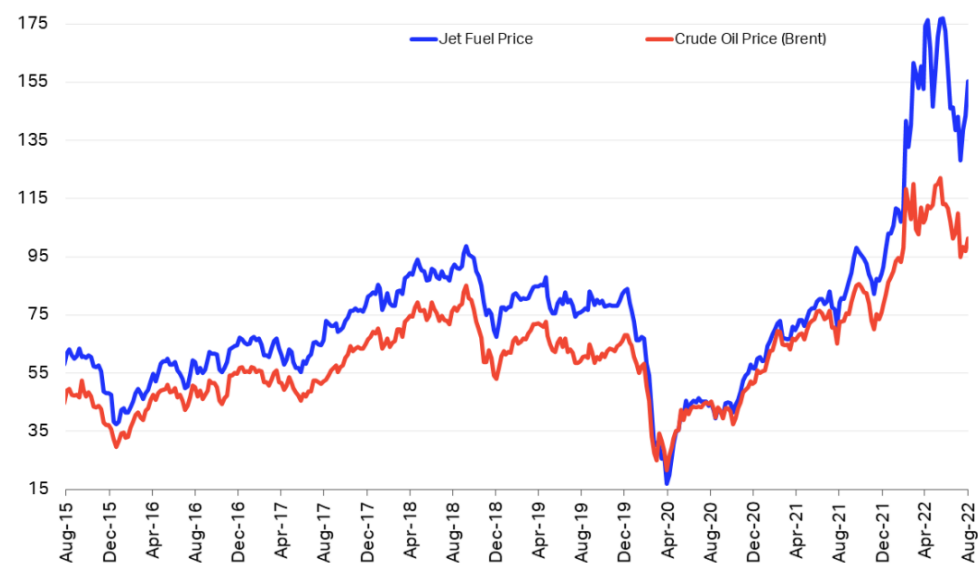
With the resumption of scheduled international operations since March 27, 2022, international passenger traffic for Indian carriers is on a growth trajectory, and surged to ~26.1 lakh in August 2022, which also notably surpassed the international passenger traffic of ~19.8 lakh witnessed in August 2019. For April-August 2022, the growth in international passenger traffic for Indian carriers was ~20%, compared to the same period during pre-Covid. Overall, the impact of the pandemic lasted longer on international travel than on domestic travel.

ATF PRICES: PRICES IN SEPTEMBER 2022 DECLINED SEQUENTIALLY BY ~0.7%; HIGHER BY ~83% 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\$ 92 / barrel. The increase in crude oil prices is attributable to the 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, 3.5% in May 2022, 4.1% in June 2022 and 14% in Mid-July 2022. However, it declined by ~12% sequentially in August 2022 and marginally by 0.7% in September 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 September 2022, the prices were notably higher by ~83% on a YoY basis, given the elevated crude oil prices, due to geo-political issues.

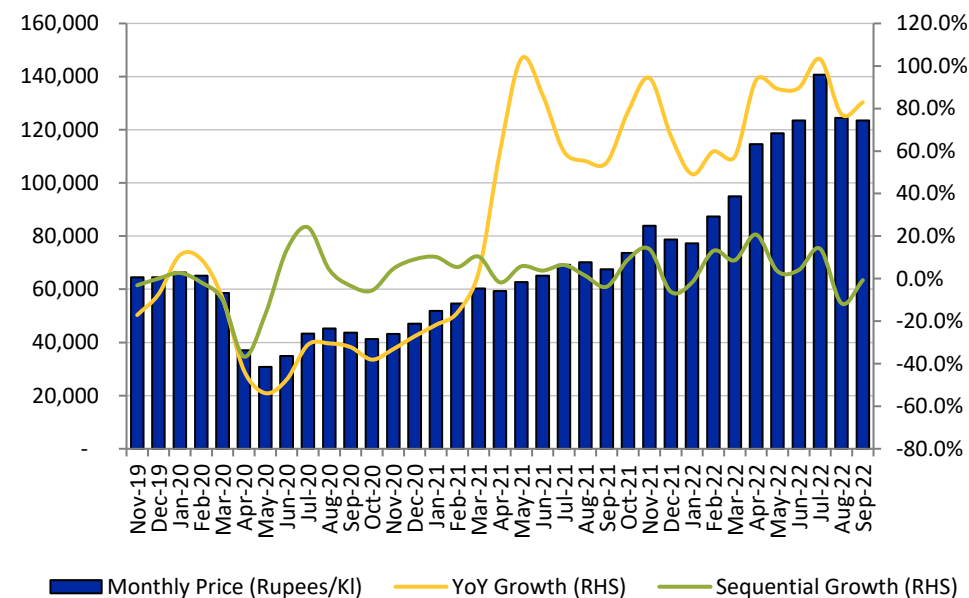
EXHIBIT 6: Movement in Crude Oil Price and Jet Fuel Price (Dollar/Barrel)

Jet Fuel & Crude Oil Price (\$/barrel)



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

EXHIBIT 7: Movement in Jet Fuel Price



Source: Indian Oil Corporation Limited, ICRA Research

ICRA-RATED AIRLINE COMPANIES

EXHIBIT 8: Rating Distribution of ICRA-Rated Universe of Airline Companies as on September 12, 2022

Company Name	Rating Outstanding	Last Rating Action
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



[Click to Provide Feedback](#)

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.

Business Contacts

Mr. L. Shivakumar
E-mail: shivakumar@icraindia.com
+91 22 6114 3406 / +91 98210 86490

Mr. Jayanta Chatterjee
E-mail: Jayantac@icraindia.com
Tel: +91 80 4332 6401 / +91 98450 22459

Media and Public Relations

Ms. Naznin Prodhani
E-mail: Communications@icraindia.com
Tel: +91 124 4545 860

Registered Office

B-710, Statesman House 148,
Barakhamba Road
New Delhi-110001
Tel: +91 11 23357940-45

Corporate Office

Building No. 8, 2nd Floor,
Tower A, DLF Cyber City, Phase II,
Gurgaon - 122 002
Tel: +91-124-4545300

Ahmedabad

1809-1811, Shapath V,
Opp: Karnavati Club,
S.G.Highway, Ahmedabad - 380015
Tel: +91 79 4027 1500/501

Bengaluru 1

'The Millenia', Tower B Unit No. 1004,
10th Floor, 1 & 2 Murphy Road,
Bengaluru - 560 008
Tel: +91 80 4332 6400

Bengaluru 2

2nd Floor, Vayudooth Chamber
15-16, Trinity Circle, M.G. Road,
Bengaluru - 560 001
Tel: +91 80 4922 5500

Chennai

5th Floor, Karumuttu Centre
634, Anna Salai, Nandanam
Chennai - 600 035
Tel: +91 44 4596 4300

Hyderabad 1

4th Floor, 'Shoban'
6-3-927/A&B. Somajiguda
Raj Bhavan Road,
Hyderabad - 500 082
Tel: +91 40 4067 6500

Hyderabad 2

No. 7-1-58, 301, 3rd Floor, 'Concourse',
Above SBI-HPS Branch, Ameerpet,
Hyderabad - 500 016
Tel: +91 40 4920 0200

Kolkata

A-10 & 11, 3rd Floor,
FMC Fortuna 234/3A,
A.J.C. Bose Road,
Kolkata-700 020
Tel: +91 33 7150 1100/01

Mumbai

3rd Floor, Electric Mansion
Appasaheb Marathe Marg,
Prabhadevi,
Mumbai - 400 025
Tel: +91 22 6169 3300

Pune

5A, 5th Floor, Symphony, S. No. 210
CTS 3202 Range Hills Road,
Shivajinagar, Pune - 411 020
Tel: +91 20 2556 1194

Email: Info@icraindia.com

Helpdesk: 9354738909

Website: www.icra.in/ www.lcraresearch.in