ICRA

INDIAN AVIATION INDUSTRY

Domestic passenger traffic in November 2022 marks a healthy growth of ~11% over November 2021, yet still below pre-Covid levels

DECEMBER 2022

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BUSINESS OUTLOOK: NEGATIVE

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ICRA expects a fast-paced recovery in domestic passenger traffic in FY2023, aided by normalcy in operations. However, the earnings recovery for domestic airlines is likely to be decelerated due to sharp escalations in ATF prices and depreciation of the INR against the US$, in the backdrop of increased competition. 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.

For November 2022, domestic air passenger traffic is estimated at ~117 lakh, ~3% higher compared to ~114 lakh in October 2022. Further, it witnessed a YoY growth of ~11%, as November 2021 was yet to recover fully from the second wave of Covid-19. It fell short by only ~10% compared to pre-Covid levels of November 2019. For 8M FY2023 (April-November 2022), domestic passenger traffic is estimated at ~858 lakh, a YoY growth of ~74%, and lower by ~10% compared to April-November 2019 (pre-Covid levels). The airlines' capacity deployment in November 2022 was slightly higher (by less than ~1%) than November 2021. However, it was lower by ~12% than the pre-Covid levels. In 7M FY2023, the international passenger traffic for Indian carriers stood at ~128.1 lakh, thereby inching towards the pre-Covid 7MFY2020 levels of ~131 lakh.

High aviation turbine fuel (ATF) prices and the general inflationary environment continue to stifle the industry earnings, with ATF prices in December 2022 being higher by ~53% on a YoY basis, although, the same declined by ~2.2% sequentially. While airlines have been increasing the yields, the same has not been adequate to offset the impact of the rising ATF prices, in ICRA's view.

- **ICRA maintains 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 the 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 airlines' cost structure. This apart, the entry of low-cost domestic carrier, Akasa Air, and likely near-term relaunch of Jet Airways 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 prices to pose a serious challenge to industry's earnings recovery in FY2023 -** While a meaningful improvement in 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 Rs.235 billion 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.

- **Surge in airfares driven by strong cost headwinds; supply disruptions for spares and components likely to impact capacity deployment –** 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)) for H1 FY2023 are expected to have increased by ~30-35% over the pre-Covid levels. In addition to the surge in airfares, delays in delivery of components and spares for aircraft and engines have been lately impacting the sector, thereby leading to grounding of certain aircraft for some domestic airlines. The airlines are in discussions with the OEMs for easing the supply issues and are also looking at leasing of aircraft (including wet lease) to counter capacity constraints during the upcoming winter holiday season.

- **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. Some others have entered the 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*

PASSENGER TRAFFIC

Domestic passenger traffic – **~117 lakh**

Sequential growth of **~3%**

YoY growth of **~11%**

YoY decline (pre-Covid) of **~10%**

CAPACITY DEPLOYMENT

Domestic capacity deployment – total **~81,723** departures

Sequential decline of **~2%**

YoY growth of **~0.13%**

YoY decline (pre-Covid) of **~12%**

DOMESTIC PASSENGER LOAD FACTOR

Estimated PLF of **~89%** against **~80%** in November 2021 & **~90%** in November 2019 (pre-Covid)

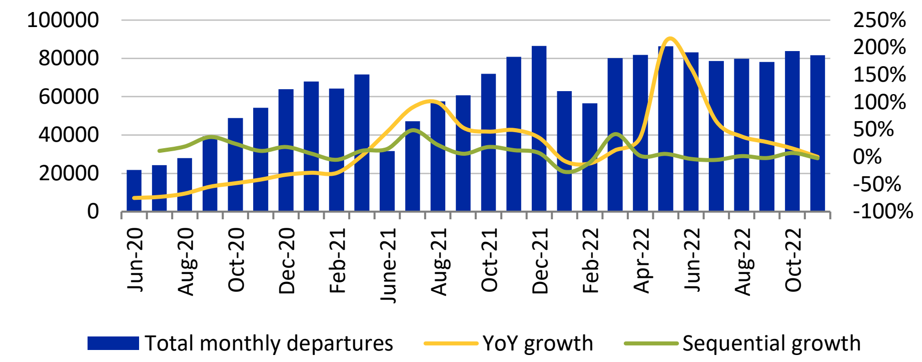
AVIATION TURBINE FUEL PRICES

Sequential decline of **2.2% in December 2022** vis-à-vis November 2022 and notable YoY increase of **~53%** vis-à-vis December 2021

Domestic Passenger Traffic: Sequential Growth of ~3% in November 2022 and Lower by ~10% than the Pre-Covid Level

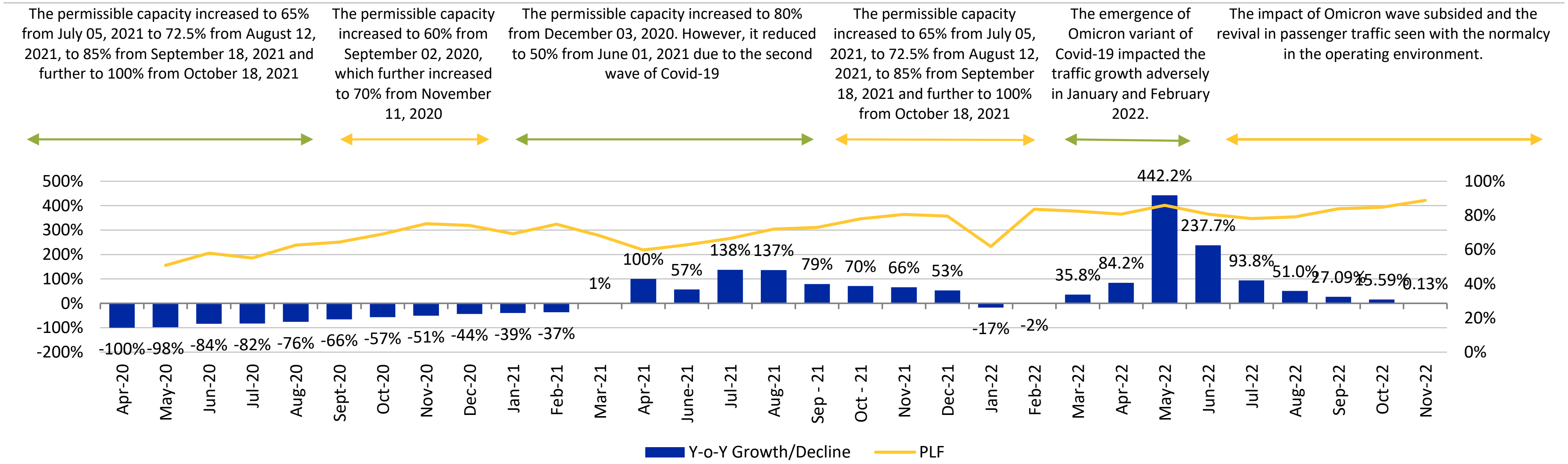
With the onset of Covid 2.0, the MoCA had reduced the permissible capacity deployment by the airlines on domestic routes to 50% of the pre-Covid levels with effect from June 01, 2021. The permissible capacity deployment was gradually increased to 65% from July 5, 2021, to 72.5% from August 12, 2021 and to 85% from September 18, 2021, before removing restrictions with effect from October 18, 2021. The capacity deployment for November 2022 was marginally higher by 0.13% over November 2021 (81,723 departures in November 2022 against 81,620 departures in November 2021). The number of departures in November 2022 were lower by ~2.5% on a sequential basis and also lower by ~12% compared to departures of 92,388 in November 2019 (pre-Covid).

EXHIBIT 1: Trend in Capacity Deployment by Domestic Airlines



Source: MoCA, DGCA, ICRA Research

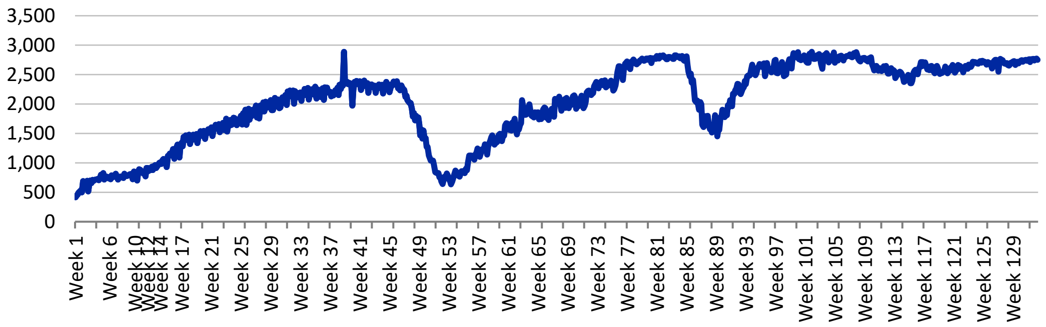
EXHIBIT 2: Domestic Passenger Growth & PLF



Source: MoCA, DGCA, ICRA Research

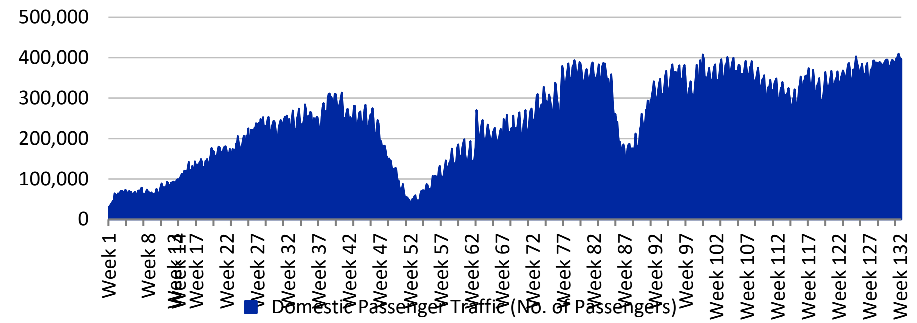
For November 2022, domestic passenger traffic stood at ~117 lakh, against ~105 lakh in November 2021, implying a growth of ~11% on a YoY basis. This is due to the low base of November 2021 which was yet to fully recover from Covid 2.0. On a sequential basis, domestic passenger traffic grew marginally by ~3% over ~114 lakh in October 2022 which had witnessed a surge in demand due to festivities. 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. However, with the waning Omicron wave, 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. In November 2022, the highest daily passenger traffic was witnessed on November 27, 2022 at 409,831. For November 2022, the average daily departures were at ~2,724, similar to the average daily departures of ~2,721 in November 2021 and marginally higher than ~2,703 in October 2022, but lower compared to the average daily departures of ~3,080 during November 2019. The average number of passengers per flight during November 2022 was at 143, higher than 136 passengers per flight in October 2022 and 129 passengers per flight in November 2021 and also higher than ~140 during November 2019. **It is estimated that the domestic aviation industry operated at a passenger load factor (PLF) of ~89% in November 2022, against ~80% in November 2021 and similar to ~90% in November 2019.**

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



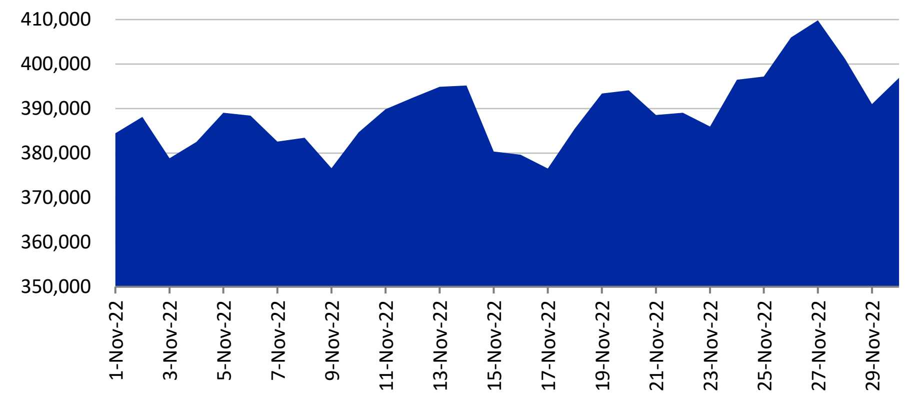
Source: MoCA, DGCA, ICRA Research

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



Source: MoCA, DGCA, ICRA Research (Placement of exhibits not correct. Please rectify sequence)

EXHIBIT 4: Daily Domestic Passenger Traffic in November 2022

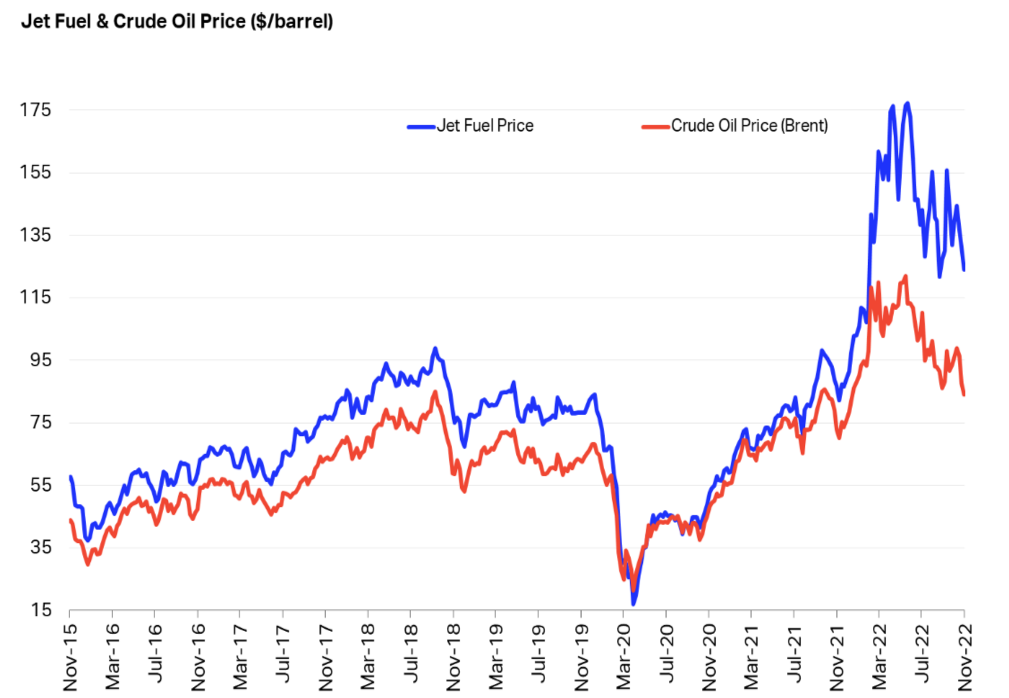


Source: MoCA, DGCA, ICRA Research

ATF PRICES: PRICES IN DECEMBER 2022 DECLINED SEQUENTIALLY BY ~2.2%; HIGHER BY ~53% ON A YOY BASIS

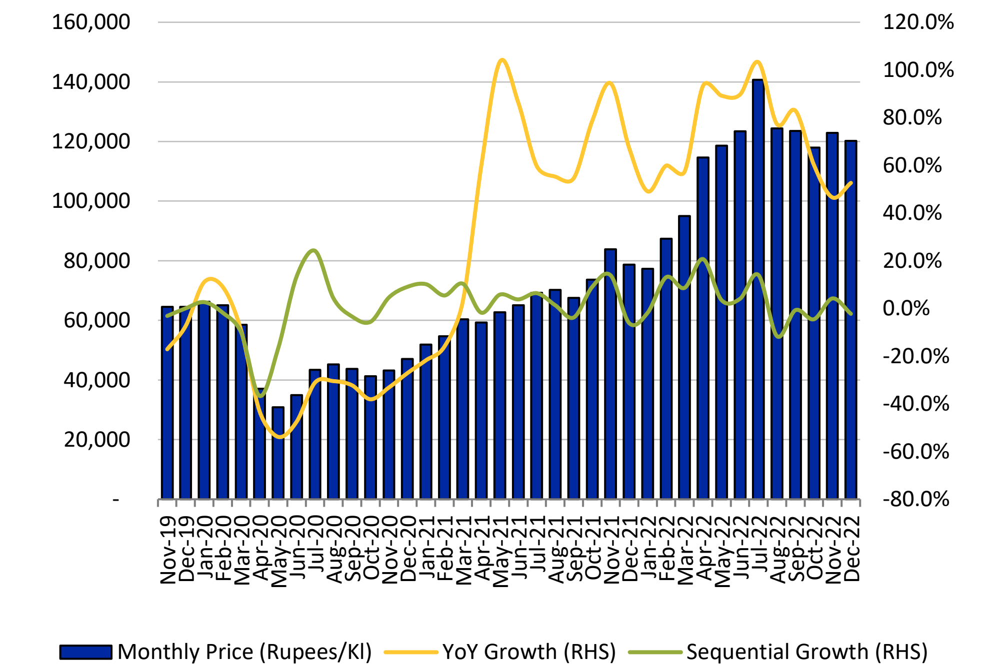
Following the pandemic, crude oil prices declined materially – reaching a low of ~US$ 19/ barrel in April 2020 (the sharpest decline since Q4 CY2018) – seeing a decline in ATF prices. However, crude oil prices increased gradually since then, and currently hovers at around ~US$ 88/ barrel. The increase in crude oil prices is attributable to the geo-political tension. Consequently, 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. Though it declined sequentially by ~12% in August 2022, marginally by 0.7% in September 2022, and by 4.5% in October 2022, it increased by ~4.2% in November 2022. In December 2022, it declined sequentially by 2.2%. Until February 2021, the ATF prices were lower on a YoY basis, while since March 2021, they have been substantially higher on a YoY basis. In December 2022, the prices were notably higher by ~53% 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)



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 December 07, 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

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ICRA

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.

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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.

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- 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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