



INDIAN AVIATION INDUSTRY

Domestic passenger traffic in January 2023 witnessed a sharp YoY increase of 96%; only ~2% lower than pre-Covid levels

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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 gradual due to high ATF prices and depreciation of the INR against the US\$, in the backdrop of increased competition

For January 2023, domestic air passenger traffic has been estimated at ~125 lakh, ~2% lower than ~127 lakh in December 2022. Further, it witnessed a YoY growth of ~96%, as January 2022 was impacted by the Omicron variant of Covid 19. Domestic passenger traffic in January 2023 was short by only ~2% compared to the pre-Covid levels (i.e. January 2020). For 10M FY2023 (April-January 2023), domestic passenger traffic is estimated at ~1,110 lakh, a YoY growth of ~66%, and lower by ~9% compared to April-January 2020 (pre-Covid levels). The airlines' capacity deployment in January 2023 was higher by ~42% than January 2022, while it was lower by ~6% than the pre-Covid levels. In 9M FY2023, the international passenger traffic for Indian carriers stood at ~171.5 lakh, thereby inching towards the pre-Covid 9M FY2020 levels of ~175.6 lakh.

High aviation turbine fuel (ATF) prices and the general inflationary environment continue to suppress the industry earnings, with ATF prices in February 2023 being higher by ~32% on a YoY basis, though it declined by ~4% on a sequential basis.

- **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 though 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 ensure fare hikes proportionate to their input cost increases, will be the key to expand their profitability margins.
- **High fuel prices a major hindrance 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 gradual. However, the net loss in FY2023 is expected to be notably lower compared to Rs. 235 billion net loss in FY2022, primarily driven by recovery in passenger traffic, fare hikes and lower interest burden, following the significant reduction in Air India Limited's debt before the divestment by the Government of India.
- **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 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 – **~125 lakh**
 Sequential decline of **~2%**
 YoY growth of **~96%**
 YoY decline (pre-Covid) of **~2%**

CAPACITY DEPLOYMENT

Domestic capacity deployment –
 total **~89,911** departures
 Sequential growth of **~2%**
 YoY growth of **~42%**
 YoY decline (pre-Covid) of **~6%**

January 2023

DOMESTIC PASSENGER LOAD FACTOR

Estimated PLF of **~90%** against **~65%** in
 January 2022 & **~86%** in January 2020 (pre-
 Covid)

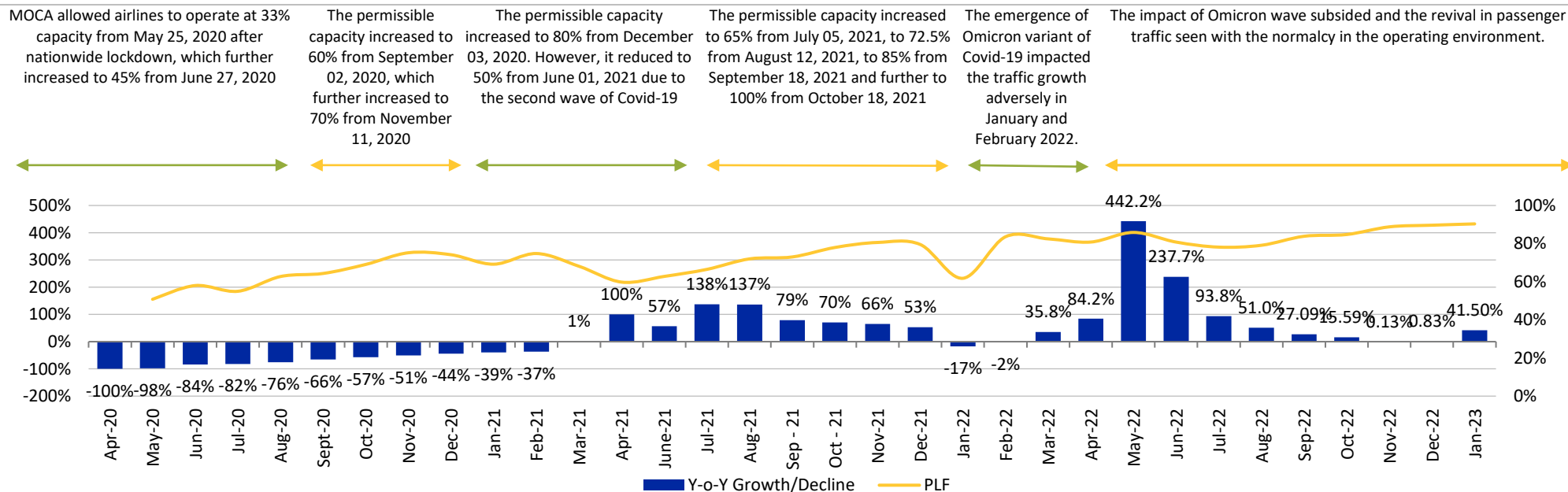
AVIATION TURBINE FUEL PRICES

Prices in February 2023 notably higher by
~32% on a YoY basis vis-à-vis February 2022

DOMESTIC PASSENGER TRAFFIC: LOWER BY ~2% ON A SEQUENTIAL BASIS THAN THE PRE-COVID LEVEL

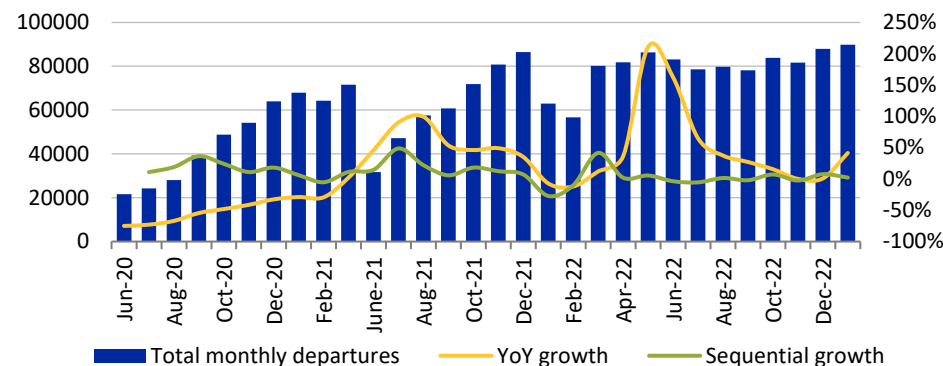
With the onset of Covid 2.0, the MoCA had reduced the permissible capacity deployment by the airlines on domestic routes to 50% of the pre-Covid levels with effect from June 01, 2021. The permissible capacity deployment was gradually increased to 65% from July 5, 2021, to 72.5% from August 12, 2021 and to 85% from September 18, 2021, before removing restrictions, with effect from October 18, 2021. The capacity deployment for January 2023 was higher by ~42% over January 2022 (89,911 departures in January 2023 against 63,541 departures in January 2022). The number of departures in January 2023 were higher by ~2% on a sequential basis, while it was lower by ~6% compared to departures of 95,487 in January 2020 (pre-Covid).

EXHIBIT 2: Domestic Passenger Growth & PLF



Source: MoCA, DGCA, ICRA Research

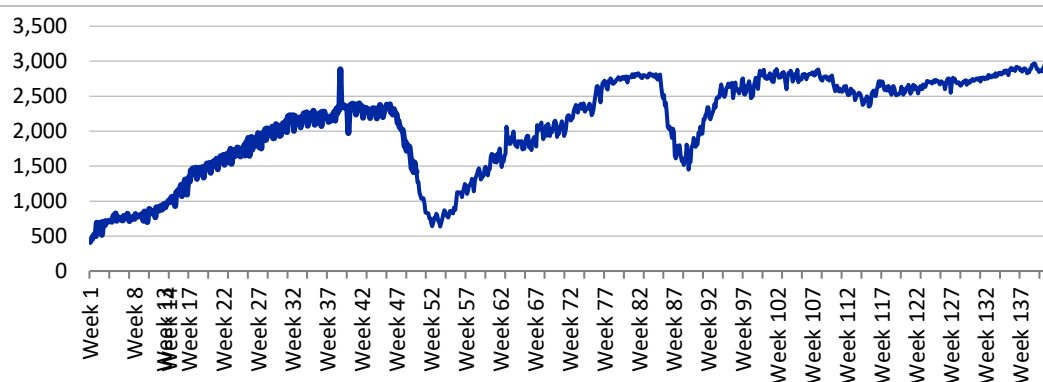
EXHIBIT 1: Trend in Capacity Deployment by Domestic Airlines



Source: MoCA, DGCA, ICRA Research

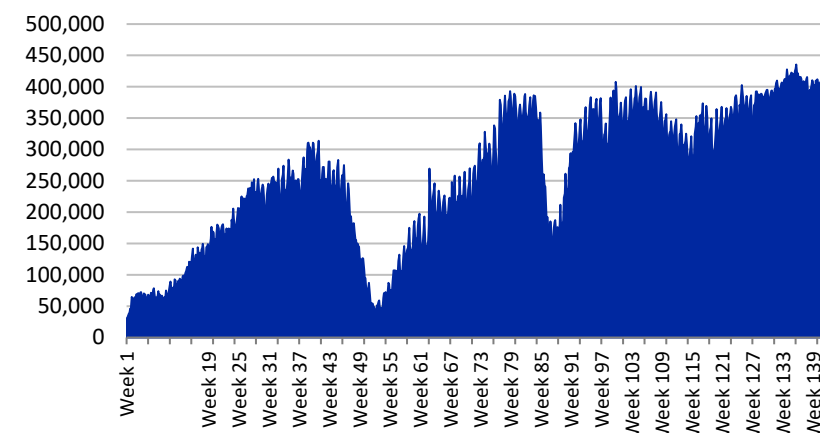
For January 2023, domestic passenger traffic stood at ~125 lakh, against ~64 lakh in January 2022, implying a growth of ~96% on a YoY basis. On a sequential basis, domestic passenger traffic declined marginally by ~2% over ~127 lakh in December 2022. As seen in Exhibit 3, since March 2021, given the 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. However, with the waning Omicron wave, passenger traffic has picked up in the subsequent months. 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. The highest daily passenger traffic was witnessed on January 29, 2023 at 424,224. For January 2023, the average daily departures were at ~2,900, notably higher than the average daily departures of ~2,050 in January 2022, higher than ~2,838 in December 2022, but lower compared to the average daily departures of ~3,080 during January 2020 (pre-covid levels). The average number of passengers per flight during January 2023 was at 139, lower than 145 passengers per flight in December 2022 but higher than 101 passengers per flight in January 2022. The same was also higher than ~134 during January 2020. **It is estimated that the domestic aviation industry operated at a passenger load factor (PLF) of ~90% in January 2023, against ~65% in January 2022 and ~86% in January 2020.**

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



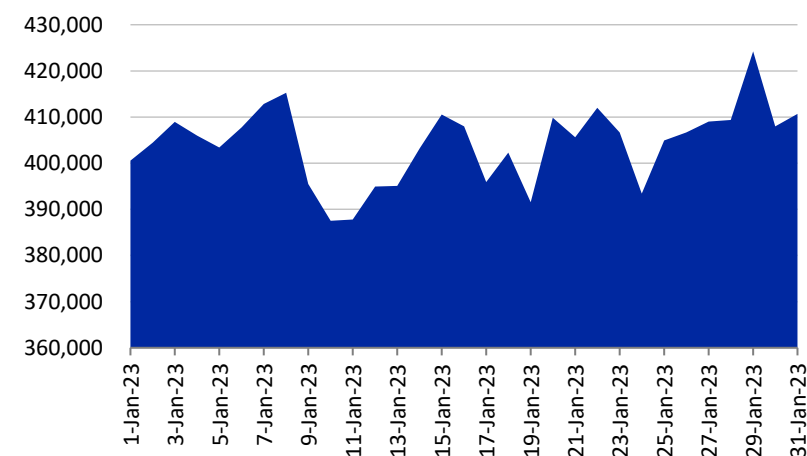
Source: MoCA, DGCA, ICRA Research

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



Source: MoCA, DGCA, ICRA Research

EXHIBIT 4: Daily Domestic Passenger Traffic in January 2023



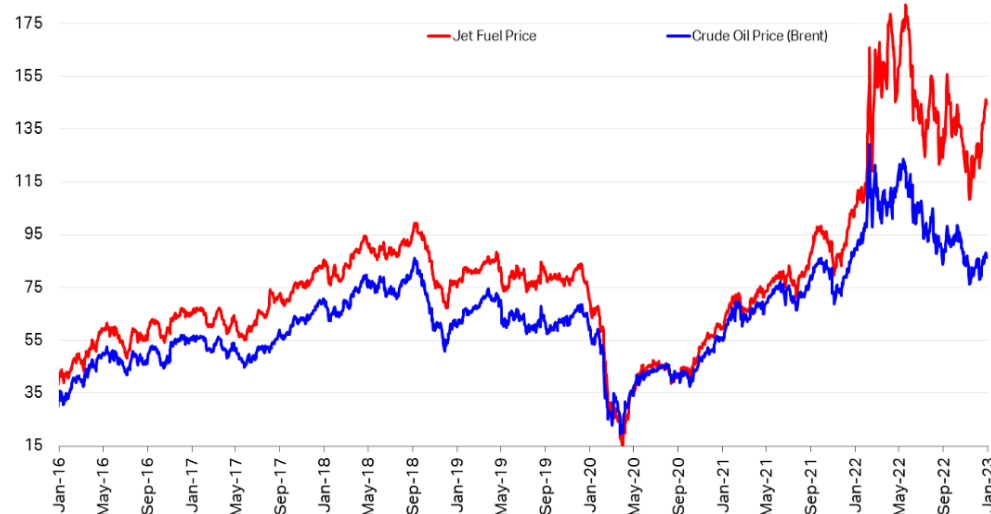
Source: MoCA, DGCA, ICRA Research

ATF PRICES: PRICES IN FEBRUARY 2023 HIGHER BY ~32% ON A YOY BASIS; LOWER BY ~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) – seeing a decline in ATF prices. However, crude oil prices increased gradually since then, and currently hovers at around ~\$80/ barrel. The increase in crude oil prices is attributable to the geo-political tension. Consequently, ATF prices increased sequentially until mid-July 2022. Though they declined sequentially from August 2022 to October 2022, they increased by ~4.2% in November 2022 and declined by ~2% in December 2022, remaining range-bound in January 2023 and further declining by ~4% in February 2023. 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 February 2023, the prices have been notably higher by ~32% on a YoY basis, given the elevated crude oil prices, due to geo-political issues.

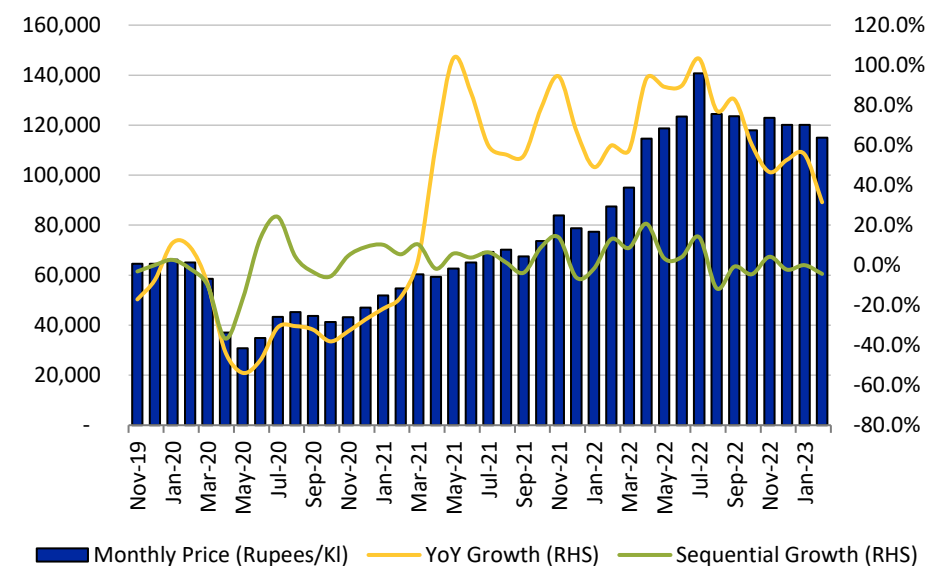
EXHIBIT 6: Movement in Crude Oil Price and Jet Fuel Price (Dollar/Barrel)

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 February 08, 2023

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% / [ICRA]A1%	Rating placed on watch with positive implications

Source: ICRA Research



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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.

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

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