



## INDIAN AVIATION INDUSTRY

**Domestic passenger traffic in February 2023 reported YoY growth of 54%, only ~4% lower than pre-Covid levels**

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### MARCH 2023

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## BUSINESS OUTLOOK: STABLE



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*The airlines' ability to increase yields proportionate to their input cost increases will be the key to expand their profitability margins. ICRA expects the Indian aviation industry to report a lower net loss of ~Rs. 50-70 billion in FY2024.*

For February 2023, domestic air passenger traffic has been estimated at ~119 lakh, ~5% lower than ~125 lakh in January 2023. However, it witnessed a YoY growth of ~54%, as February 2022 was marginally impacted by the Omicron variant of Covid 19. Domestic passenger traffic in February 2023 was lower by only ~4% compared to the pre-Covid levels (i.e. February 2020). For 11M FY2023 (April-February 2023), domestic passenger traffic is estimated at ~1,229 lakh, a YoY growth of ~65%, and lower by ~8% compared to April-February 2020 (pre-Covid levels). The airlines' capacity deployment in February 2023 was higher by ~45% than February 2022, while it was lower by ~9% 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.

- **ICRA has revised its outlook on the Indian aviation industry to Stable from Negative** – The outlook on the Indian aviation industry has been revised to Stable from Negative, given the fast-paced recovery in domestic passenger traffic in FY2023 and expected continuation of the same in FY2024. Moreover, the industry has witnessed improved pricing power, as reflected in the improved yields and thus the RASK-CASK spread of the airlines. The same is expected to continue as the industry will regain some pricing discipline, coupled with the marginal decline in aviation turbine fuel (ATF) prices and relatively stable foreign exchange rates.
- **Elevated ATF prices and depreciation of INR vis-à-vis the US\$ continue to remain challenges** - Despite healthy recovery in passenger traffic, the domestic aviation industry continues to face challenges on account of elevated ATF prices and depreciation of INR vis-à-vis the US\$, both of which have a major bearing on the airlines' cost structure. Fuel costs account for ~30-40% of the airlines' expenses, while ~35-50% of the airlines' operating expenses – including aircraft lease payments, fuel expenses and a significant portion of aircraft and engine maintenance expenses – are denominated in US\$ terms. Further, some airlines also have foreign currency debt. While domestic airlines also have a partial natural hedge to the extent of earnings from their international operations, overall, they have net payables 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. This apart, the competitive landscape in the domestic aviation industry is set to change with the foray of new entrants, likely re-initiation of operations by Jet Airways and consolidation of Air India, Air Asia India and Vistara.
- **Gradual pace of recovery in earnings** - The pace of recovery in industry earnings will be gradual owing to the high fixed cost nature of the business. The industry is estimated to report a net loss of ~Rs. 110-130 billion in FY2023 due to elevated ATF prices twined with depreciation of the INR against the US\$. However, the same is much lower than the net loss of ~Rs. 235 billion in FY2022 and ICRA's earlier estimated net loss of Rs. 150-170 billion in FY2023, primarily driven by improved ability of the airlines to shore up their yields without impacting the demand. The net loss is further expected to reduce to Rs. 50-70 billion in FY2024 as airlines continue to witness healthy passenger traffic growth and improve their RASK-CASK spread through better pricing discipline.
- **Capacity addition to be gradual; pace of aircraft delivery to be under check due to supply challenges faced by OEMs** - In ICRA's view, capacity addition in FY2023 will be limited to around 10% of the FY2022 fleet of airlines, which is close to around ~700 aircraft. There

are large aircraft purchase orders announced by various players in the industry. As per the indicative numbers, the total fleet deliveries pending are close to ~1,100, which is ~1.5x the fleet currently under operation. However, these will be delivered over the medium to long term and a large part of these will be towards replacement of old aircraft with new fuel-efficient ones. In addition, supply-chain challenges being faced by aircraft manufacturers are also likely to constraint their production schedules, which is also reflected by grounding of certain proportion of the airlines' fleet. ICRA believes that capacity additions for the industry will only be gradual.

- **Select airlines face financial distress, stretched liquidity issues** - While some airlines have adequate liquidity and/or financial support from a strong parent, which can help them sustain over the near term, for others, the credit metrics and liquidity profile will remain under stress over the near term, albeit better than over the past few years.

<sup>1</sup> 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 – **~119 lakh**  
 Sequential decline of **~5%**  
 YoY growth of **~54%**  
 YoY decline (pre-Covid) of **~4%**

### CAPACITY DEPLOYMENT

Domestic capacity deployment –  
 total **~83,071** departures  
 Sequential growth of **~7%**  
 YoY growth of **~45%**  
 YoY decline (pre-Covid) of **~9%**

February 2023

### DOMESTIC PASSENGER LOAD FACTOR

Estimated PLF of **~91%** against **~85%** in  
 February 2022 & **~88%** in February 2020 (pre-  
 Covid)

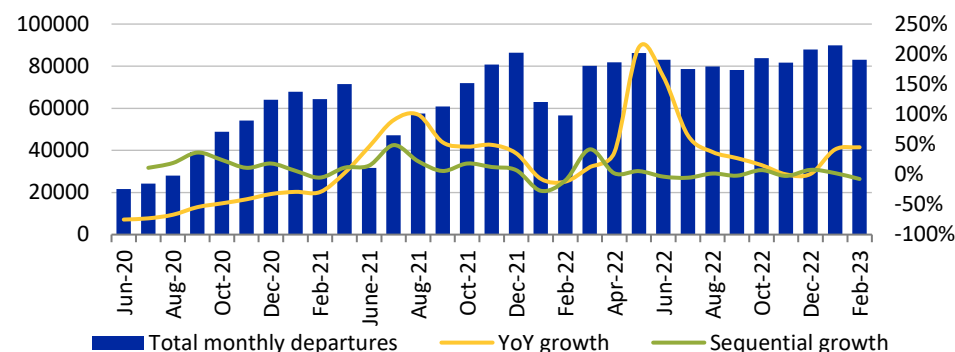
### AVIATION TURBINE FUEL PRICES

Prices in March 2023 notably higher by **~16%**  
 on a YoY basis vis-à-vis March 2022

## DOMESTIC PASSENGER TRAFFIC: LOWER BY ~5% ON A SEQUENTIAL BASIS AND ~4% THAN THE PRE-COVID LEVEL

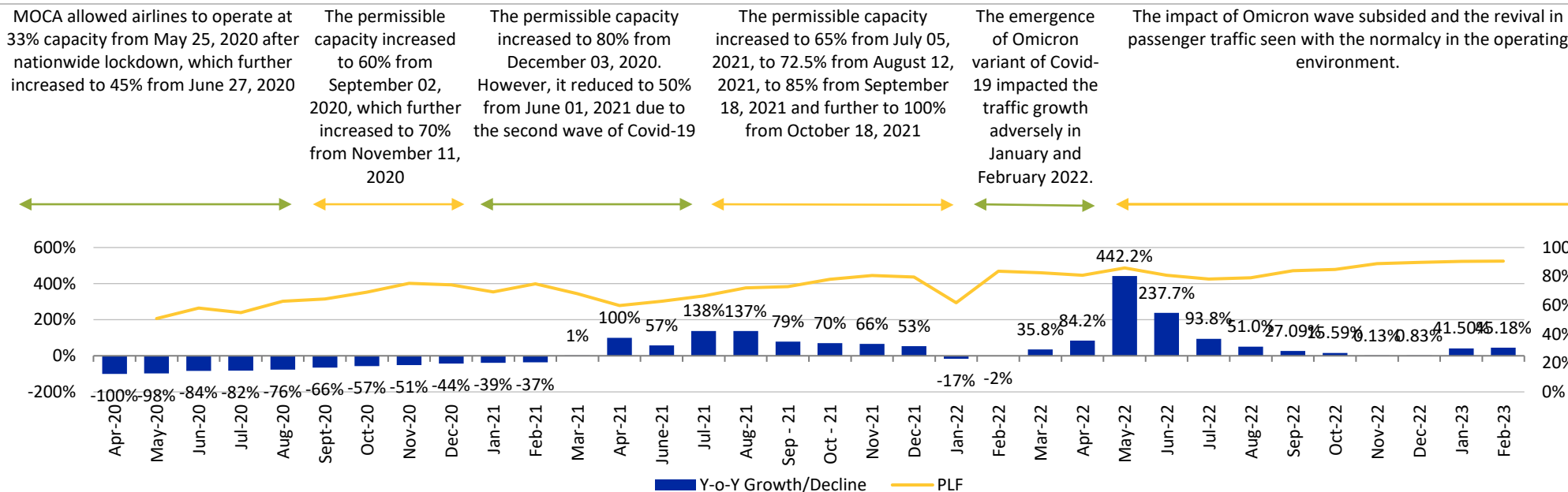
With the onset of Covid 2.0, the MoCA had reduced the permissible capacity deployment by the airlines on domestic routes to 50% of the pre-Covid levels with effect from June 01, 2021. The permissible capacity deployment was gradual before removing restrictions, with effect from October 18, 2021. The capacity deployment for February 2023 was higher by ~45% over February 2022 (83,071 departures in February 2023 against 57,220 departures in February 2022). The number of departures in February 2023 were lower by ~8% on a sequential basis, while it was lower by ~9% compared to departures of 90,959 in February 2020 (pre-Covid).

**EXHIBIT 1: Trend in Capacity Deployment by Domestic Airlines**



Source: MoCA, DGCA, ICRA Research

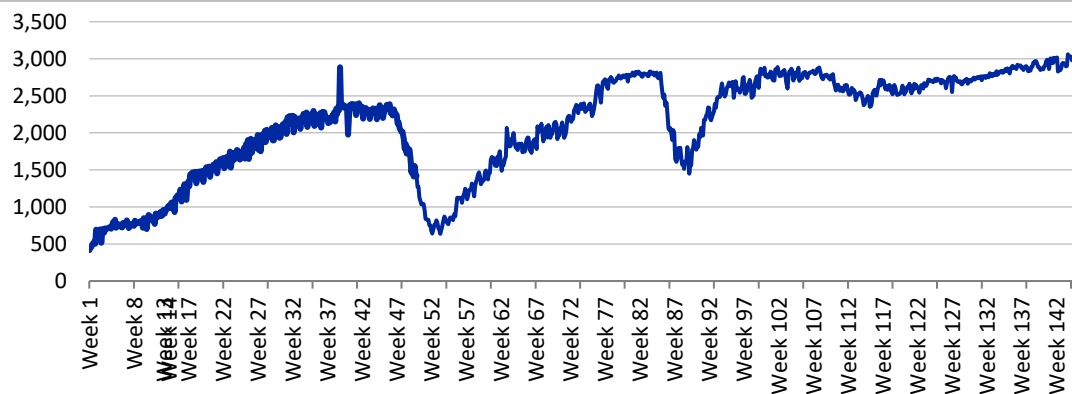
**EXHIBIT 2: Domestic Passenger Growth & PLF**



Source: MoCA, DGCA, ICRA Research

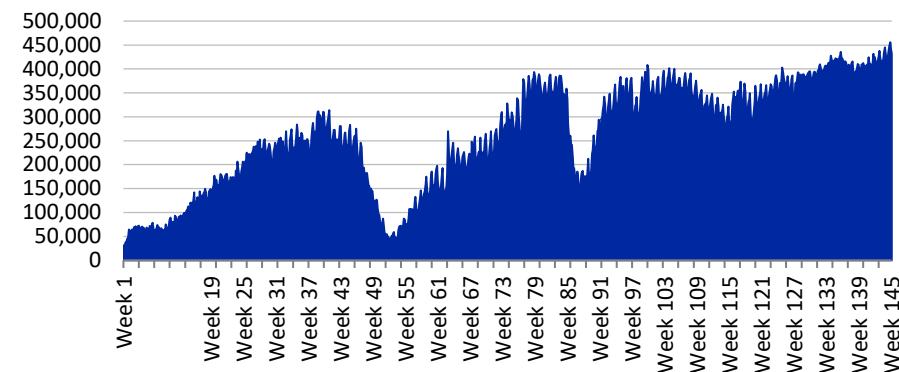
**For February 2023, domestic passenger traffic stood at ~119 lakh**, against ~77 lakh in February 2022, implying a growth of ~54% on a YoY basis. On a sequential basis, domestic passenger traffic declined marginally by ~5% over ~125 lakh in January 2023. As seen in Exhibit 3, since March 2021, given the resurgence of the second wave of the pandemic, daily passenger traffic recorded a gradual decline 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. The waning Omicron wave, however, has seen a pick-up in passenger traffic in the subsequent months. On April 17, 2022, domestic passenger traffic was at 407,975, which 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 February 26, 2023 at 455,605. For February 2023, the average daily departures were at ~2,967, notably higher than the average daily departures of ~2,044 in February 2022 and higher than ~2,900 in January 2023, but lower compared to the average daily departures of ~3,137 during February 2020 (pre-Covid levels). The average number of passengers per flight during February 2023 was at 143, higher than 139 passengers per flight in January 2023 and also higher than 135 passengers per flight in February 2022. The same was also higher than ~136 during February 2020. **It is estimated that the domestic aviation industry operated at a passenger load factor (PLF) of ~90% in February 2023, against ~85% in February 2022 and ~88% in February 2020.**

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



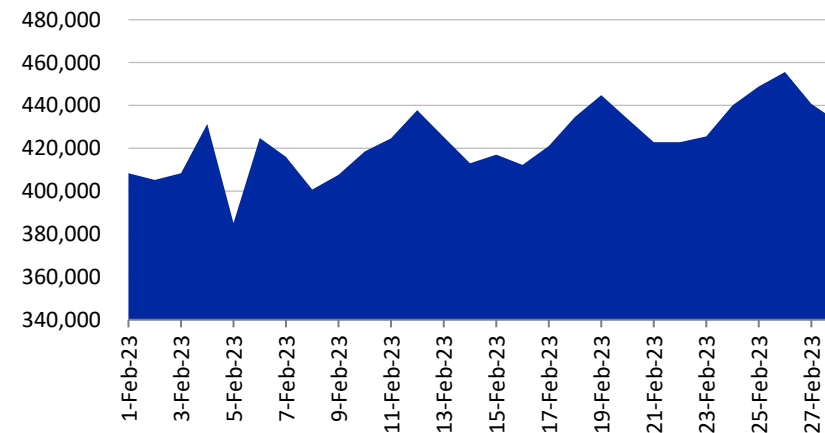
Source: MoCA, DGCA, ICRA Research

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



Source: MoCA, DGCA, ICRA Research

**EXHIBIT 4: Daily Domestic Passenger Traffic in February 2023**



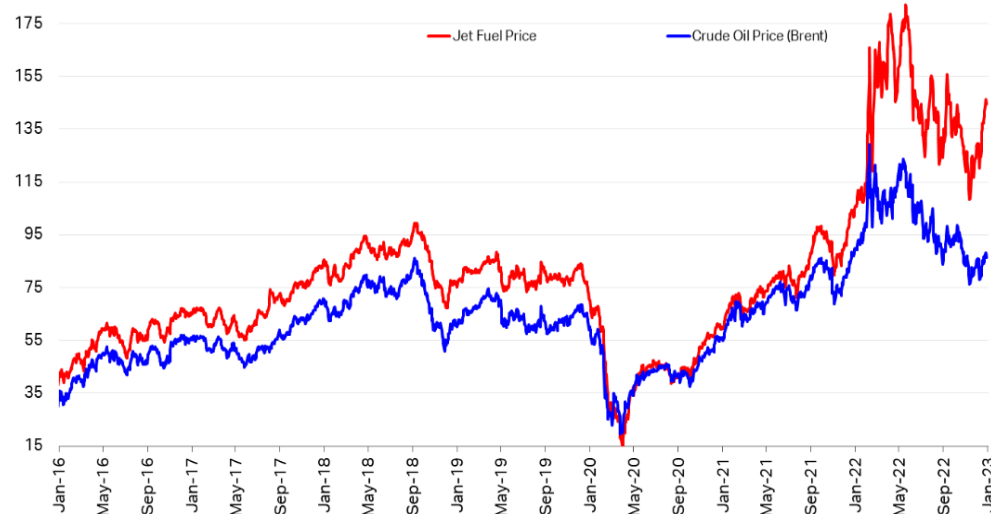
Source: MoCA, DGCA, ICRA Research

## ATF PRICES: PRICES IN MARCH 2023 HIGHER BY ~16% 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 are currently at around ~\$85/ 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. They again declined by ~2% in December 2022, remaining range-bound in January 2023, declining by ~4% in February 2023 and further declining by ~4% in March 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 March 2023, the prices have been higher by ~16% on a YoY basis, given the elevated crude oil prices, due to geo-political issues.

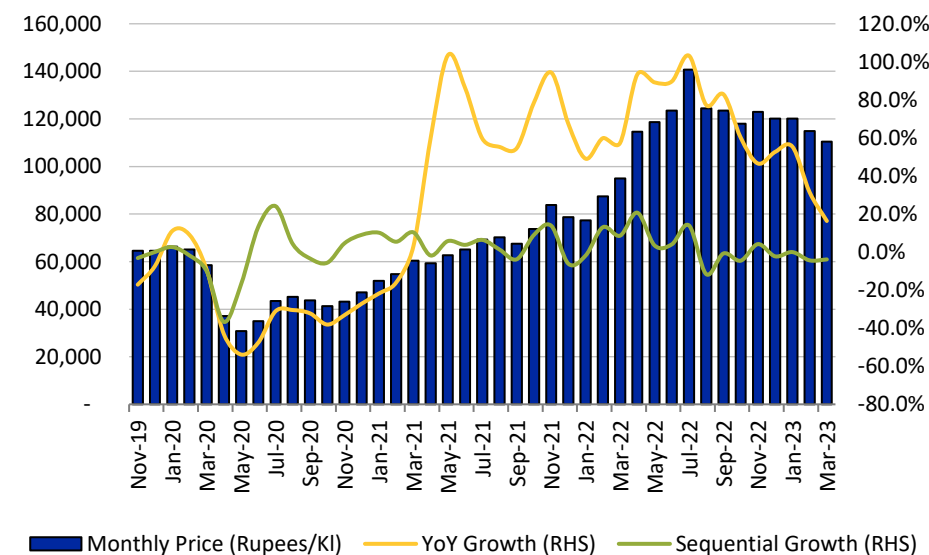
**EXHIBIT 6: Movement in Crude Oil Price and Jet Fuel Price (Dollar/Barrel)**

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 March 07, 2023

Company Name	Rating Outstanding	Last Rating Action
Interglobe Aviation Limited	[ICRA]A (Negative) / [ICRA]A1	Rating reaffirmed
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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- 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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