



## INDIAN AVIATION INDUSTRY

**Domestic passenger traffic reported ~22% YoY growth in April 2023, 17% higher than pre-Covid levels**

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### May 2023

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

Karan Gupta  
+91 22 6169 3416  
Karan.gupta@icraindia.co

Sanket Jangale  
+91 22 6606 9919  
Sanket.jangale@gmail.com



## 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.*

*Supply-chain challenges faced by aircraft manufacturers are also likely to constrain their production schedules; issues are already evident as reflected by grounding of certain proportion of some airlines' fleet.*

For FY2023 (FY refers to April-March), domestic air passenger traffic was at ~1360 lakh, a YoY growth of ~60%, and marginally lower by 4% compared to ~1416 lakh in FY2020 (pre-Covid level). It was marginally higher than ICRA's estimates of 1300-1350 lakh.

For April 2023, domestic air passenger traffic was estimated at ~128.6 lakh, ~0.2% lower than ~128.9 lakh in March 2023. However, it witnessed a YoY growth of ~22%, as April 2022 was marginally impacted by the Omicron variant of Covid-19. Domestic passenger traffic in April 2023 was higher by ~17% compared to the pre-Covid level (i.e. April 2019). The airlines' capacity deployment in April 2023 was higher by ~8% than that of April 2022, while it was higher by ~9% than the pre-Covid levels (April 2019). For 11M FY2023, international passenger traffic for Indian carriers stood at ~216.0 lakh, thereby almost reaching the pre-Covid (11M FY2020) levels of ~217.8 lakh, although 9% lower than the peak levels of 238.0 lakh for 11M FY2019.

- **Stable outlook on the Indian aviation industry** – The outlook on the Indian aviation industry was revised to Stable from Negative in the recent past, on the back of fast-paced recovery in domestic passenger traffic in FY2023 and expected continuation of the same in FY2024. Moreover, the industry witnessed improved pricing power, as reflected in the improved yields and thus the RASK-CASK (revenue per available seat kilometre – cost per available seat kilometre) spread of the airlines. The same is expected to continue as the industry regained some pricing discipline, coupled with the sequential decline in aviation turbine fuel (ATF) prices as witnessed over the last four months and relatively stable foreign exchange rates.
- **Sequential decline in ATF prices; however, they still remain at elevated levels than pre-Covid era** – Despite healthy recovery in passenger traffic, the domestic aviation industry continues to face challenges on account of elevated ATF prices and depreciation of the INR vis-à-vis the US\$ compared to pre-Covid era, both of which have a major bearing on the airlines' cost structure. The average ATF price stood at Rs. 121,013/Kl in FY2023 and Rs. 99,506/Kl in April 2023 compared to Rs. 64,715/ Kl in FY2020. Fuel cost accounts 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, their net payables are 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 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 have reported a net loss of ~Rs. 110-130 billion in FY2023 due to elevated ATF prices twined with the 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 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 scanner due to supply challenges** – In ICRA’s view, capacity addition in FY2023 has been limited to around 10% of the FY2022 fleet of airlines, which was 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 faced by aircraft manufacturers are also likely to constrain their production schedules as is reflected in the grounding of certain aircraft for some of the airlines. ICRA believes that capacity addition 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, though better than over the past few years. Following the challenges with respect to engines from Pratt & Whitney, Go Airlines (India) Limited has been forced to ground half of its fleet owing to faulty engines. Consequently, the company defaulted in the payment of lease rentals to lessors. The company has also filed for voluntary insolvency before the National Company Law Tribunal (NCLT). The outcome of the same has come in favour of the airline, under which it has been granted bankruptcy protection, leading to interim moratorium on payments to creditors.

<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 – **~128.6 lakh**  
 Sequential decline of **~0.2%**  
 YoY growth of **~22%**  
 YoY growth (pre-Covid) of **~17%**

### CAPACITY DEPLOYMENT

Domestic capacity deployment –  
 total **~88,749** departures  
 Sequential decline of **~4%**  
 YoY growth of **~8%**  
 YoY growth (pre-Covid) of **~9%**

April 2023

### DOMESTIC PASSENGER LOAD FACTOR

Estimated PLF of **~91%** against **~81%** in April 2022 & **~88%** in April 2019 (pre-Covid)

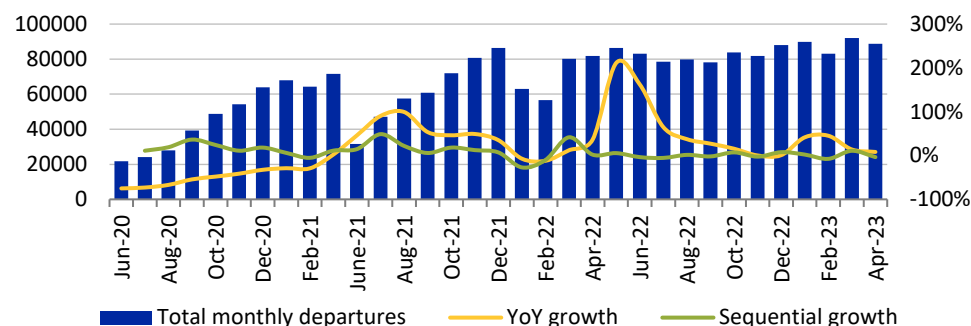
### AVIATION TURBINE FUEL PRICES

Prices in May 2023 declined by **~18%** on a YoY basis vis-à-vis May 2022

## DOMESTIC PASSENGER TRAFFIC: APRIL 2023 REPORTED YOY GROWTH OF ~22% AND GROWTH OF ~17% AGAINST PRE-COVID LEVEL

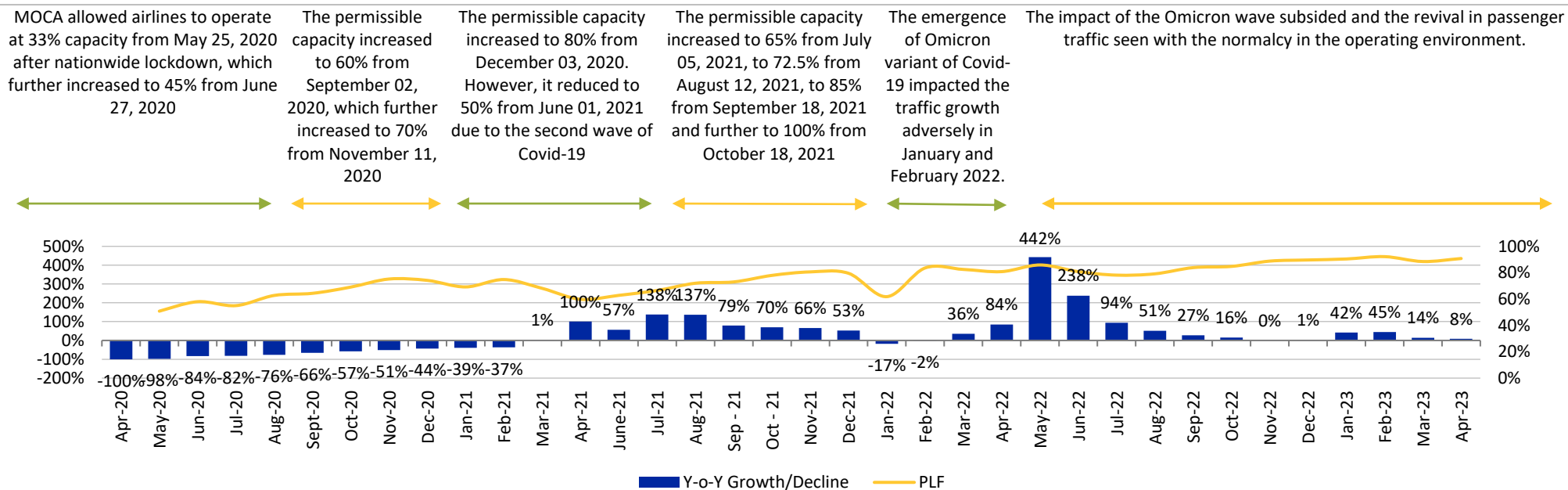
With the onset of Covid 2.0, the MoCA reduced the permissible capacity deployment by the airlines on domestic routes to 50% of the pre-Covid levels, with effect from June 01, 2021. The permissible capacity deployment was gradual before removing restrictions, with effect from October 18, 2021. The capacity deployment for April 2023 was higher by ~8% over April 2022 (88,749 departures in April 2023 against 82,056 departures in April 2022). The number of departures in April 2023 was lower by ~4% on a sequential basis and higher by ~9% compared to departures of 81,266 in April 2019 (pre-Covid).

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



Source: MoCA, DGCA, ICRA Research

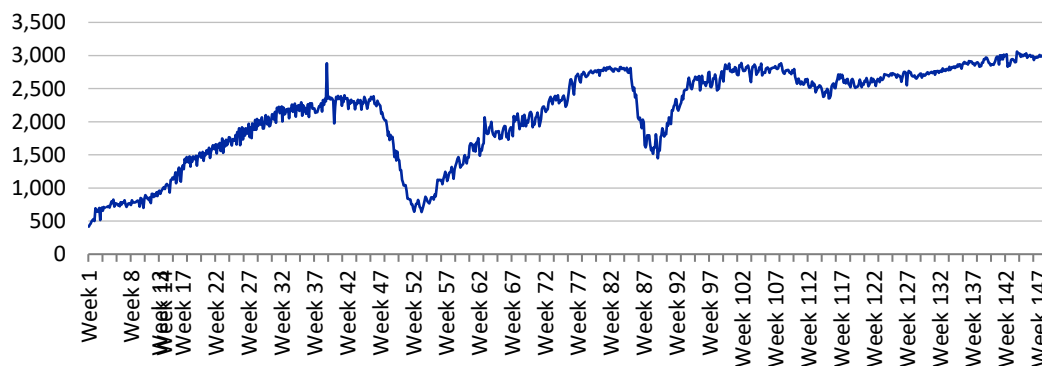
**EXHIBIT 2: Domestic Passenger Growth & PLF**



Source: MoCA, DGCA, ICRA Research

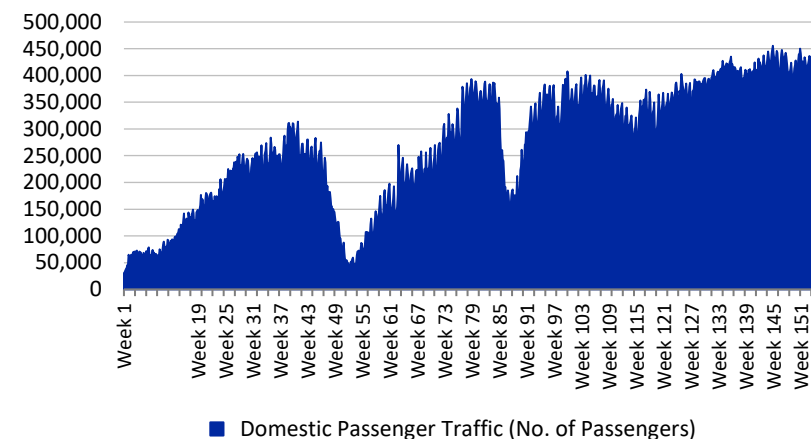
For April 2023, domestic passenger traffic stood at ~129 lakh, against ~105 lakh in April 2022, implying a growth of ~22% on a YoY basis. On a sequential basis, domestic passenger traffic decreased by ~0.2% over ~128.9 lakh in March 2023. As seen in Exhibit 3, since March 2021, given the resurgence of 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, witnessed 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. Daily passenger traffic on April 30, 2023, at 456,082, surpassed the previous highs. For April 2023, the average daily departures were at ~2,958, notably higher than the average daily departures of ~2,735 in April 2022 and marginally lower than ~2,971 in March 2023, but higher than the average daily departures of ~2,709 during April 2019 (pre-Covid level). The average number of passengers per flight during April 2023 was at 145, higher than 141 passengers per flight in March 2023 and 129 passengers per flight in April 2022. The same was also higher than ~135 during April 2019. **It is estimated that the domestic aviation industry operated at a passenger load factor (PLF) of ~91% in April 2023, against ~81% in April 2022 and ~88% in April 2019.**

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



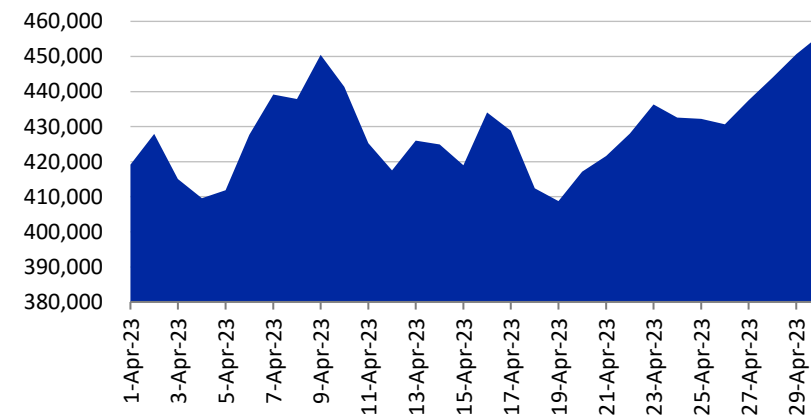
Source: MoCA, DGCA, ICRA Research

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



Source: MoCA, DGCA, ICRA Research

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

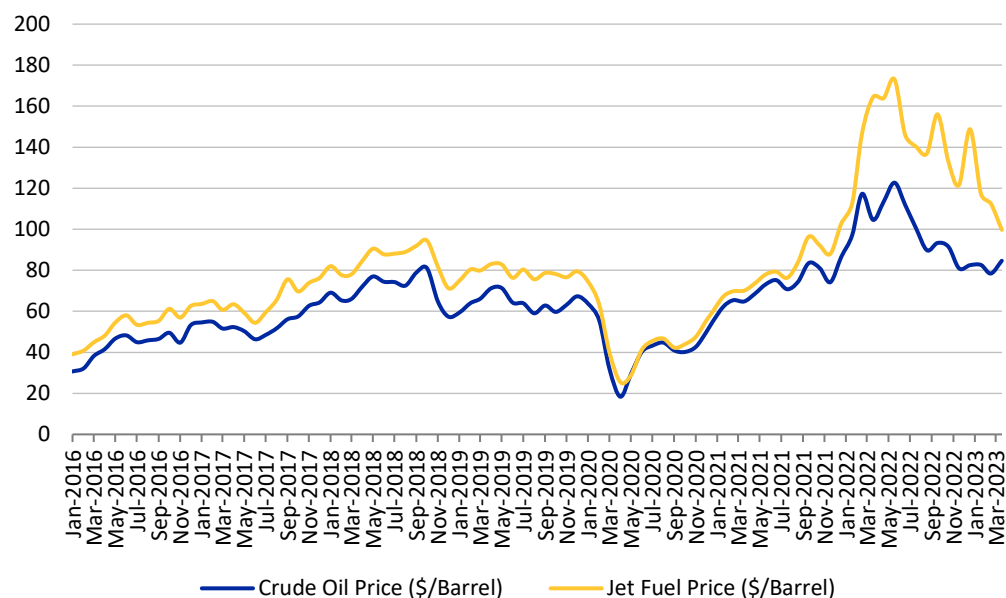


Source: MoCA, DGCA, ICRA Research

## ATF PRICES: PRICES IN MAY 2023 LOWER BY ~18% ON A YoY BASIS AND BY ~3% SEQUENTIALLY

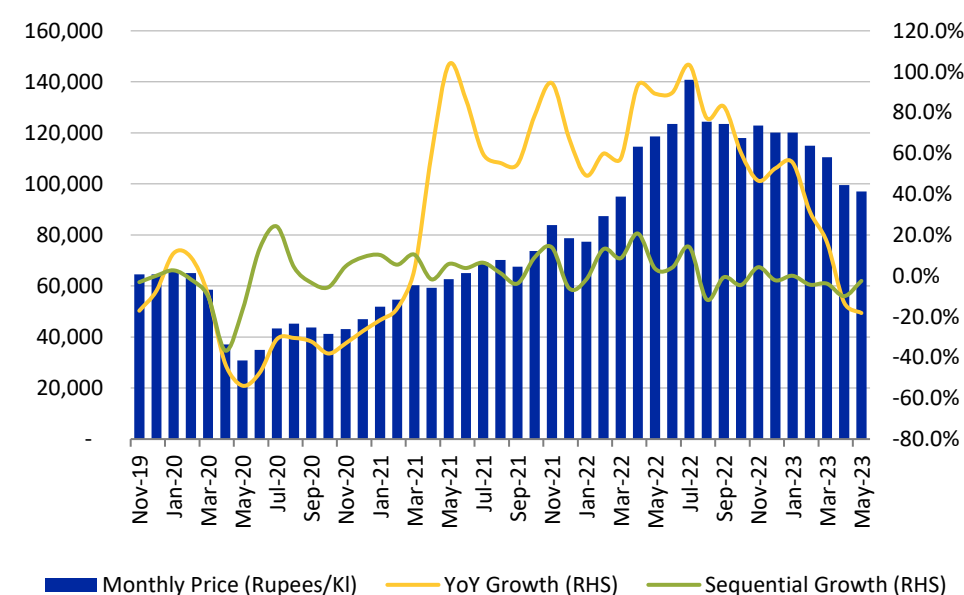
Following the pandemic, crude oil prices declined materially – reaching a low of ~\$19/ barrel in April 2020 (the sharpest decline since Q4 CY2018) leading to a decline in ATF prices. However, crude oil prices increased gradually since then, and are currently at around ~\$76/ barrel. The increase is 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. For the past four months, the ATF prices gradually declined sequentially by 4% in February 2023, 4% in March 2023, 10% in April 2023 and 3% in May 2023. Until February 2021, the ATF prices were lower on a YoY basis, while since March 2021 to March 2023, they were substantially higher on a YoY basis. However, in April 2023 and May 2023, the prices were lower by ~13% and ~18% on a YoY basis, respectively, driven by the decline in crude oil prices.

**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 May 10, 2023

Company Name	Rating Outstanding	Last Rating Action
Interglobe Aviation Limited	[ICRA]A (Stable) / [ICRA]A1	Ratings reaffirmed; Outlook revised to Stable
Tata SIA Airlines Limited	[ICRA]A% / [ICRA]A1%	Ratings placed on watch with positive implications

Source: ICRA Research; %: Ratings on watch with positive implications



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## ABOUT ICRA

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- 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

### L Shivakumar

Chief Business Officer

E-mail: shivakumar@icraindia.com

022-61693304

### Neha Agarwal

Head – Research Sales

E-mail: neha.agarwal@icraindia.com

022-61693377

### Rohit Gupta

Head Business Development – Infrastructure Sector

E-mail: rohitg@icraindia.com

0124-4545340

### Vivek Bhalla

Head Business Development – Financial Sector

E-mail: vivek.bhalla@icraindia.com

022-61693372

### Vipin Saboo

Head Business Development

Corporate Sector – West & East

E-mail: vipin.saboo@icraindia.com

022-61693348

### Shivam Bhatia

Head Business Development

Corporate Sector – North & South

E-mail: shivam.bhatia@icraindia.com

0124-4545803

## Media and Public Relations

### Naznin Prodhani

Head – Media & Communications

E-mail: communications@icraindia.com

0124-4545860

## 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](mailto:info@icraindia.com)

**Helpdesk:** 9354738909

**Website:** [www.icra.in/](http://www.icra.in/) [www.lcraesearch.in](http://www.lcraesearch.in)