

INDIAN AVIATION INDUSTRY

Headwinds from elevated ATF cost, INR depreciation and expectation of rising competition to maintain turbulence in the Indian aviation industry

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Highlights

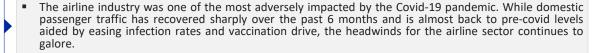


Domestic aviation industry continues to reel under elevated fuel cost aggravated by the depreciation of the INR against the USD.

Competition in the domestic aviation industry is set to intensify with the relaunch of Jet Airways and entry of low-cost airline – Akasa Air.

The cost headwinds will result in an increase in air fares; however, will be limited by intense competition and endeavour of airlines to maintain and/or expand their market shares.







 Despite healthy recovery in passenger traffic, the domestic aviation industry currently faces major turbulence because of elevated Aviation Turbine Fuel (ATF) prices, and recent depreciation of INR vis-à-vis US\$, both of which have major bearing on the cost structure of airlines.



Profit margins for the industry remain highly sensitive to ATF price movement and the ability of airlines to pass on such rise to the customers.



 Depreciation of the INR against the USD has further pressurised the earnings of the domestic aviation industry given the USD-denominated payouts for aircraft lease rentals, aircraft and engine maintenance and some other costs, and the linkage of domestic ATF prices to international fuel prices denominated in USD, thereby rendering even the ATF prices susceptible to exchange rate movements.



This apart, some airlines also have foreign currency debt. Although the domestic airlines also have a natural hedge to the extent of earnings from their international operations, overall, they have net payables in foreign currency.



• Although, the yields have improved significantly (up 25-30%% over pre-covid levels on domestic routes), the combined impact of higher ATF prices (currently at ~Rs. 1,24,400/litre vis-à-vis an average of ~Rs. 61,000/litre over FY2020-22) coupled with INR depreciation, will restrict airlines to turn profitable even in FY2023.



This apart, likely near-term relaunch of Jet Airways and the entry of low-cost domestic carrier, Akasa Air, will further intensify the competition in the domestic aviation industry. The airlines' effort to maintain and/or grow their market share will limit their ability to expand margins in an elevated fuel cost environment.





Mr. Shamsher Dewan

Vice President & Group Head

Ms. Kinjal Shah

Vice President & Co-Group Head Vice President & Sector Head

Mr. Suprio Banerjee



shamsherd@icraindia.com

kinjal.shah@icraindia.com

supriob@icraindia.com



+91-124 4545300

+91-22 6114 3442

+91-22 6114 3443



















Srinivas Menon

Analyst

Ruchi Shah

Senior Analyst

, ,



srinivas.menon 2@icrain dia.com

ruchi.shah@icraindia.com



+91-22 6169 3354

+91-79 4027 1500

















ICRA Business Development/Media Contact Details

	L. Shivakumar	Jayanta Chatterjee	Naznin Prodhani
	Executive Vice-President	Executive Vice-President	Head Media & Communications
	shivakumar@icraindia.com	jayantac@icraindia.com	communications@icraindia.com
C	022- 6114 3406	080 – 4332 6401	0124 – 4545 860



















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