

Indian Airlines to potentially narrow losses to Rs 3,000-5,000 crore this fiscal: ICRA

- A Monitor Desk Report

Date: 20 December, 2023



Mumbai: Indian airline industry is expecting to prune its net losses to Rs 3,000-5,000 crore in this fiscal from an estimated Rs 17,000-17,500 crore in FY2023 on the back of improved yields and stable cost environment, credit ratings agency ICRA said on Tuesday.

At the same time, ICRA also estimated that domestic air passenger traffic will expand by 8-13 per cent each in FY2024 and FY2025.

The rating agency has also maintained its stable outlook on the industry in view of healthy passenger traffic growth, improved yields and a stable cost environment.

Building on the fast-paced recovery in FY2023, ICRA at a webinar on Tuesday said it is expecting the domestic air passenger traffic to grow by 8-13 per cent in the ongoing financial year, thereby reaching 150-155

million and surpassing the pre-Covid levels of 141.2 million seen in FY2020.

The Industry's net loss (is expected) to shrink to Rs 30-50 billion in FY2024 from an estimated Rs 170-175 billion in FY2023, aided by improved yields and stable cost environment, ICRA said.

“The [air passenger traffic](#) momentum witnessed in the current fiscal is expected to continue in FY2025, though further expansion in yields from the current levels may be limited. Thus, the industry is estimated to report a similar net loss of ~Rs. 30-50 billion in FY2025 as well,” said Suprio Banerjee, Vice President & Sector Head, Corporate Ratings, ICRA Limited.

The momentum in air passenger traffic growth is expected to continue in FY2025 as well with a similar estimated year-on-year growth, aided by rising demand for air travel and improving airport infrastructure, ICRA said.

During the first eight months of this fiscal, domestic air passenger traffic stood at 100.7 million, witnessing a 17 per cent year-on-year growth, and 5 per cent higher than the pre-Covid levels (8M FY2020) of 95.7 million.

Further, the international passenger traffic for Indian carriers, at 23.9 million in FY2023, surpassed the pre-Covid levels, although it trailed the peak levels of 25.9 million in FY2019, ICRA said, adding the same is expected to cross this level in the current fiscal, with an estimated 25-27 million passengers.

Moreover, the airlines witnessed better pricing power, as reflected in improved yields and in the spread between revenue per available seat kilometre and cost per available seat kilometre (RASK-CASK) for the airlines, it said.

While capacity addition for the industry will continue with the total pending aircraft deliveries of around 1,500, supply chain issues at the aircraft OEMs also mean that the addition could be gradual, ICRA said.

Also, a large part of these is towards replacement of old aircraft with new fuel-efficient ones, and with the expected continued growth in passenger traffic, ICRA expects the demand-supply balance to be

maintained in the medium-term.

Furthermore, a sizeable part of the fleet addition by airlines will also be meant for expanding international operations, it said and added that in FY2023, the share of Indian carriers in international traffic (to and from India) stood at around 42 per cent.

This offers adequate growth potential for Indian carriers to gain traction in international traffic over the medium term, the rating agency noted.

However, despite a healthy recovery in passenger traffic and improvement in yields, the movement of the latter will remain monitorable amidst elevated ATF prices and depreciation of the Indian Rupee vis-a-vis the US Dollar compared to pre-Covid levels, both of which have a major bearing on the airlines' cost structure, the rating agency noted.

The average ATF (aviation turbine fuel) prices stood at Rs 103,189/KL in 9M FY2024, which were 59 per cent higher compared to an average of Rs 64,715/KL during FY2020, albeit a decline of 17 per cent compared to Rs 121,013 /KL in FY2023, it observed.

Fuel accounts for 30-40 per cent of the airlines' expenses, while around 35-50 per cent 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 dollar terms.

"More recently, the Indian aviation industry has been facing significant supply chain issues, resulting in around 20-22 per cent of the total fleet being on the ground currently.

"The recent issue related to powder-coating related concerns in engines manufactured by Pratt & Whitney (P&W) is expected to lead to additional aircraft to be grounded by Q4 FY2024 of this fiscal 'amounting to approximately 22-24 per cent of the industry capacity,'" said Banerjee.

This will result in high operating expenses towards cost of grounding, increase in lease rentals due to additional aircraft being taken on lease to offset the grounded capacity, along with increasing lease rates and lower fuel.

