

Outlook for Indian domestic aviation looks stable: ICRA

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Ratings agency ICRA has revised the outlook for Indian aviation industry to stable from negative on the back of fast-paced recovery in domestic passenger traffic in the current financial year and the expected continuation in the next financial year as well.

The industry has witnessed improved pricing power, that has resulted in healthier yields and thus, the revenue per available seat kilometer- cost per available seat kilometer (RASK-CASK) spread of the airlines has also fared better, ICRA said.

“The same is expected to continue, given the sequential decline in aviation turbine fuel (ATF) prices from the peak of June 2022 and the anticipation of relatively stable foreign exchange rates,” the ratings agency said.

Indian airlines and airport operators are swinging back to profit after a challenging two years when the pandemic sapped demand for air travel.

Among those scoring a turnaround is state-run Airports Authority of India (AAI), which expects to report a net profit of ₹1,900 crore for FY23, mirroring the success of airlines in the third quarter. IndiGo, India’s largest airline by market share, has announced record profit, and privately-held Vistara said it has broken even for the

first time since inception. SpiceJet Ltd also unexpectedly reported a fourfold jump in net profit to ₹106.8 crore.

ICRA projects domestic passenger traffic growth at 8-13pc in FY24 to reach 145-150 million, which is much higher than the pre-Covid levels. The domestic air traffic in calendar year 2019 stood at 144.2 million passengers.

Further, international passenger traffic for Indian carriers is on a growth trajectory and was lower only by 2.4pc in Apr-Dec of FY23 when compared to pre-Covid levels, the ratings agency said. ICRA estimates international passenger traffic for Indian carriers to witness a year-on-year growth of 10-15pc in FY24.

The international passenger traffic for Indian carriers is likely to surpass the pre-Covid levels in FY2023 itself while exceeding the peak of FY19 in FY24, it added.

“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 (₹11,000-13,000 crore) in FY23 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 (₹23500 crore) in FY22 and ICRA’s earlier estimated net loss of Rs. 150-170 billion (₹15,000-17,000 crore) in FY23, primarily driven by the improved ability of the airlines to shore up their yields without impacting the demand,” Mr. Suprio Banerjee, Vice President & Sector Head – Corporate Ratings, ICRA Limited said.

“The net loss is further expected to compress to Rs. 50-70 billion (₹5000-7000 crore) in FY24, as airlines continue to witness healthy passenger traffic growth and improve their RASK-CASK spread through better pricing discipline,” he added.

While 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, ICRA estimates the capacity addition in FY23 to be limited to around 10% of the FY22 fleet of airlines, which was close to around 700 aircraft.

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