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INDIAN AVIATION INDUSTRY

Weaker traffic and elevated ATF prices to deepen Indian aviation industry's losses in FY2027



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BUSINESS OUTLOOK: NEGATIVE

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ICRA has revised its FY2027 forecasts for domestic air passenger traffic to a decline of 1-3% (from growth of 3-6% earlier) and international air passenger traffic for Indian carriers to a reduction of 10-13% (from a contraction of 3-6% earlier). The downward revision is primarily due to the prolonged impact of the West Asia conflict on air travel demand. The lower passenger traffic and elevated ATF prices, which are not being adequately passed on through fare hikes, along with the weak INR and an estimated increase in lease rentals owing to continued aircraft deliveries, are expected to widen the net loss of the Indian aviation industry to Rs. 400-420 billion in FY2027, from Rs. 360-380 billion estimated earlier.

Domestic air passenger traffic stood at 132.9 lakh in October 2026, 5.2% lower than 140.3 lakh in October 2025, though it rose by 12.5% sequentially from 118.2 lakh in September 2026, aided by the onset of the festive season. The airlines' capacity deployment in October 2026 was 5.8% lower than in October 2025, but 12.7% higher than in September 2026. Domestic carriers' passenger load factor (PLF) stood at 80.4% in October 2026, compared with 81.4% in October 2025 and 81.1% in September 2026. Domestic air passenger traffic in 7M FY2027 (April-October 2026) stood at 919.1 lakh, reflecting a year-on-year (YoY) decline of 2.4% following a modest growth of 1.2% in FY2026 (April 2025-March 2026) to 1,674.2 lakh. International air passenger traffic for Indian carriers grew by 3.9% to 350.0 lakh in FY2026. However, it declined sharply by 18.4% YoY in 7M FY2027 (April-October 2026), primarily due to disruptions arising from the West Asia conflict, including airspace restrictions and network disruptions, while elevated aviation turbine fuel (ATF) prices have resulted in an increase in airfares, further weighing on air travel demand. In October 2026, international air passenger traffic for Indian carriers stood at 26.1 lakh, 12.7% lower than 29.9 lakh in October 2025, though it rose by 4.2% sequentially from 25.1 lakh in September 2026.

- **Negative outlook on the Indian aviation industry –** ICRA has a Negative outlook on the Indian aviation industry, reflecting the weakening of the revenue per available seat kilometre – cost per available seat kilometre (RASK-CASK) spread due to hardening of ATF prices and disruptions in the availability of certain international airspaces starting February 28, 2026, following escalation of the conflict in West Asia, coupled with continued depreciation of the INR against the USD. ICRA has revised its forecast for domestic air passenger traffic for FY2027 downwards to a decline of 1-3%, from an increase of 3-6% earlier. The international air passenger traffic for Indian carriers is also projected to reduce by 10-13% in FY2027, compared with a 3-6% contraction estimated earlier. These revised forecasts reflect the prolonged impact of the instability in West Asia, which has resulted in a hike in airfares due to the cost escalations for the airlines and the curtailment of discretionary spends because of heightened inflation. The pass-through of the higher operating costs by airlines by way of an increase in airfares (although not to the full extent of the cost inflation) is weighing on passenger traffic growth.
- **ATF prices in November 2026 increased on a sequential as well as YoY basis –** While ATF prices for domestic operations remained unchanged sequentially during April-June 2026 due to the absence of revisions by oil marketing companies (OMCs), they were, on average, 22.8% higher on a YoY basis during the period. Thereafter, ATF prices continued to be elevated, registering YoY increases of 18.0% in July 2026, 24.7% in August 2026, 33.4% in September 2026, 46.2% in October 2026 and 46.5% in November 2026, thereby exerting cost pressure on airlines. The ATF prices in November 2026 were 31.3% higher than June 2026 prices for the domestic carriers. Amid elevated ATF prices, IndiGo revised fuel surcharge on domestic and international bookings from October 6, 2026, while Air India, Air India Express and Akasa Air introduced or revised their surcharges for new bookings from October 9, 2026. The fuel surcharge varies by distance and route, ranging from Rs. 375 to Rs. 1,200 per ticket for the domestic sector routes, with higher charges on international routes.

Fuel remains a dominant cost, now accounting for 40-50% of airline operating expenses. Further, 35-50% of airline costs are dollar-denominated, including fuel, aircraft lease rentals and maintenance expenses. The sustained high crude prices and a relatively weaker rupee continue to result in elevated operating costs for the airlines. Some airlines also have foreign currency debt. Although domestic airlines benefit from a partial natural hedge through earnings from international operations, they have net payables in foreign currency. The yield movement, thus, remains monitorable in the current situation of escalating costs.

To support the industry amid elevated cost pressures, the Ministry of Civil Aviation (MoCA) had announced a 25% reduction in landing and parking charges for domestic airlines at major airports for a three-month period beginning in April 2026. However, with the temporary relief measure having lapsed, domestic carriers have been bearing full charges. On May 5, 2026, the Government of India approved the Emergency Credit Line Guarantee Scheme (ECLGS) 5.0 worth Rs. 5,000 crore to provide targeted support to the aviation sector by addressing near-term liquidity constraints and improving access to credit. The scheme enables scheduled passenger airlines to avail additional funding, with credit guarantee coverage of 90% and borrowing limits of up to 100% of the peak working capital utilised during Q4 FY2026 (capped at Rs. 1,500 crore per airline). This liquidity support, coupled with a longer repayment tenure of up to seven years (including a two-year moratorium), provides airlines with greater financial flexibility to manage operational disruptions arising from geopolitical uncertainties. Airlines' uptake under ECLGS 5.0 has remained moderate, with applications of Rs. 2,530 crore as of August 2026 and sanctions of around Rs. 1,240 crore, comprising Akasa Air (Rs. 740 crore) and SpiceJet (Rs. 500 crore, of which only Rs. 150 crore had been disbursed as of October 2026), while Air India and IndiGo, despite eligibility of up to Rs. 1,500 crore each, have not availed any funding through the scheme so far.

The Federation of Indian Airlines (FIA) has urged the Government of India to provide immediate financial and operational relief to domestic carriers facing severe liquidity and working capital pressures amid the ongoing West Asia conflict, airspace restrictions, rupee depreciation, elevated ATF prices and rising operating costs, with limited scope to pass on these costs through higher fares. FIA has sought timely disbursement of the remaining funds sanctioned under ECLGS 5.0, as the applicant member airlines have received only partial assistance due to delays by lending institutions. It has also proposed shifting ATF pricing from the international benchmark-based mechanism to a cost-plus model, replacing the 11% ad valorem excise duty with a fixed-rate levy, rationalising the value-added tax (VAT) rates across states and extending the reduction in airport charges.

In October 2026, the Tamil Nadu Government reduced VAT on ATF to 16% from 29% at Chennai airport and to 1% at other airports in the state for the November 2026 to October 2027 period, while Goa lowered its ATF VAT rate from 15% to 7%. The state governments of Maharashtra and Delhi had reduced the VAT on ATF for six months, with Maharashtra dropping VAT to 7% from 18%, effective May 15, 2026, and Delhi decreasing it to 7% from 25%, effective May 16, 2026. Subsequently, both states extended the concessional VAT rates, with Maharashtra extending the relief until April 14, 2027, and Delhi until May 16, 2027. While these measures offer only partial

mitigation against structurally high fuel costs and currency pressures, easing of ATF prices as and pressures on the INR remain critical for a sustainable revival in the sector's profitability.

- **Indian aviation industry[2] likely to report net losses of Rs. 400-420 billion in FY2027, over estimated net losses of Rs. 280-300 billion in FY2026 –** The Indian aviation industry is estimated to have reported a net loss of Rs. 280-300 billion in FY2026, primarily on account of moderation in passenger traffic growth, an increase in ATF prices and foreign exchange losses arising from the sharp depreciation of the INR. The prolonged West Asia conflict, which began in end-February 2026, is now expected to result in a decline in both domestic and international air passenger traffic in FY2027. The lower passenger traffic, coupled with elevated ATF prices which are not being adequately passed on through fare increases, is projected to widen the net losses to Rs. 400-420 billion in FY2027, from Rs. 360-380 billion estimated earlier. Additionally, the depreciation of the INR against the USD and a likely rise in lease rentals owing to continued aircraft deliveries will keep the cost structures elevated.

- **Supply-chain challenges persist –** The industry continues to face supply-chain challenges with respect to the engine failure issues with Pratt & Whitney (P&W). Overall, engine failures and supply-chain challenges resulted in the grounding of 99 aircraft for select airlines as of March 2026, accounting for 11-13% of the total industry fleet, affecting the overall industry capacity. This, however, was an improvement from 20-22% of the total industry fleet grounded as on September 30, 2023. The aircraft-on-ground situation has caused growing operating expenses owing to the cost of grounding, higher lease rentals on account of additional aircraft taken on lease (primarily wet leases) to offset the grounded capacity, rising lease rates and lower fuel efficiency (due to replacement by older aircraft taken on spot lease). These factors have also affected the impacted airlines' cost structures. However, healthy yields, high PLF and partial compensation from engine original equipment manufacturers (OEMs) are helping absorb the impact to an extent. Apart from the continued engine failure issues and supply-chain constraints related to P&W engines, international capacity rationalisation following the West Asia conflict has resulted in the aircraft on ground increasing to 19-20% of the total industry fleet, as of August 2026.

- **Select airlines face financial challenges, liquidity tightness –** While some airlines have adequate liquidity and/or financial assistance from strong parent companies, supporting their credit profiles, the credit metrics and liquidity profiles of others remain under pressure.

[2] *The industry refers to Air India Limited (Consolidated), Interglobe Aviation Limited, SNV Aviation Private Limited (Akasa Air), and SpiceJet Limited.*

PASSENGER TRAFFIC

Domestic passenger traffic: **132.9** lakh

Sequential growth: **12.5%**

YoY decline: **5.2%**

CAPACITY DEPLOYMENT

Domestic capacity: **Around 93,361 departures**

Sequential growth: **12.7%**

YoY decline: **5.8%**



DOMESTIC PLF

PLF of **80.4%** in October 2026 against **81.4%** in October 2025 and **81.1%** in September 2026

ATF PRICES

Prices for domestic routes in November 2026 are higher by **46.5%** against November 2025

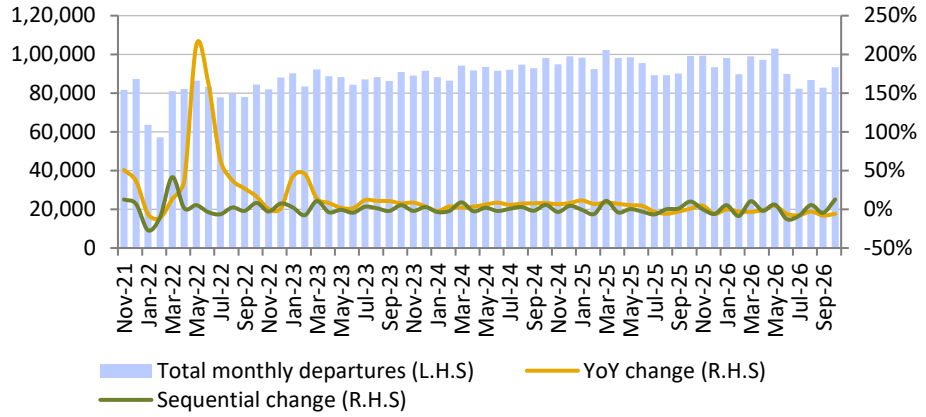
Domestic air passenger traffic: 5.2% YoY decline in October 2026

The capacity deployment for October 2026 declined by 5.8% over October 2025 (around 93,361 departures in October 2026 against 99,096 in October 2025), owing to muted passenger demand, with airlines rationalising capacity to support load factors. However, the number of departures in October 2026 was higher by 12.7% on a month-on-month (MoM) basis, as airlines added capacity during the festive season.

In October 2026, domestic air passenger traffic stood at 132.9 lakh against 140.3 lakh in October 2025, implying a YoY decline of 5.2%, due to elevated airfares and weaker discretionary travel demand amid inflationary pressures. On a sequential basis, domestic air passenger traffic in October 2026 increased by 12.5%, supported by festive season demand.

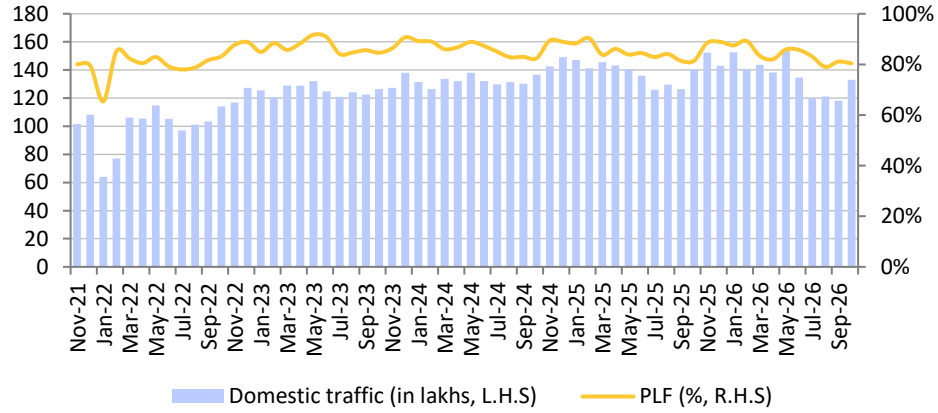
In October 2026, the average daily departures were around 3,012, 5.8% lower than around 3,197 in October 2025. The average number of passengers per flight was 142 in October 2026, in line with October 2025. The domestic aviation industry's PLF stood at 80.4% in October 2026 vis-à-vis 81.4% in October 2025 and 81.1% in September 2026. Despite the decline in domestic air passenger traffic, the PLF remained relatively stable due to lower capacity deployment.

Exhibit 1: Trend in capacity deployment by domestic airlines



Source: MoCA, DGCA, ICRA Research

Exhibit 2: Monthly domestic passenger traffic and PLF

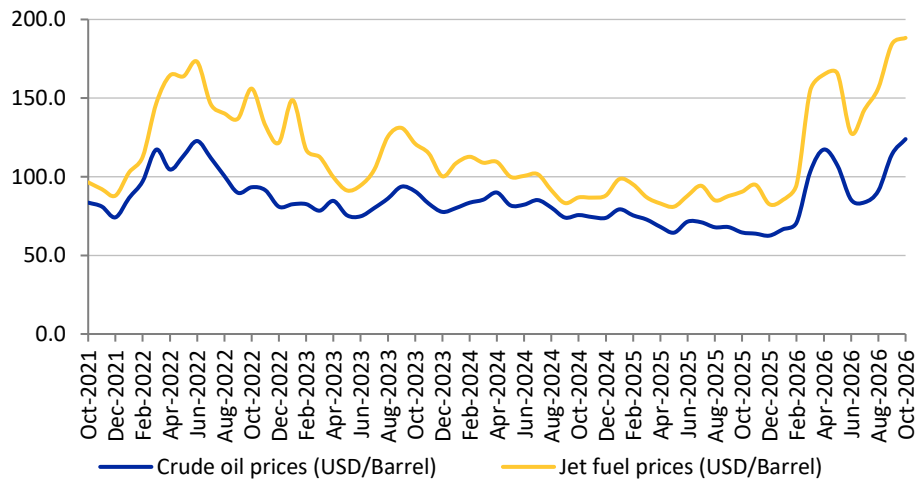


Source: MoCA, DGCA, ICRA Research

ATF prices for domestic routes higher by 46.5% YoY in November 2026

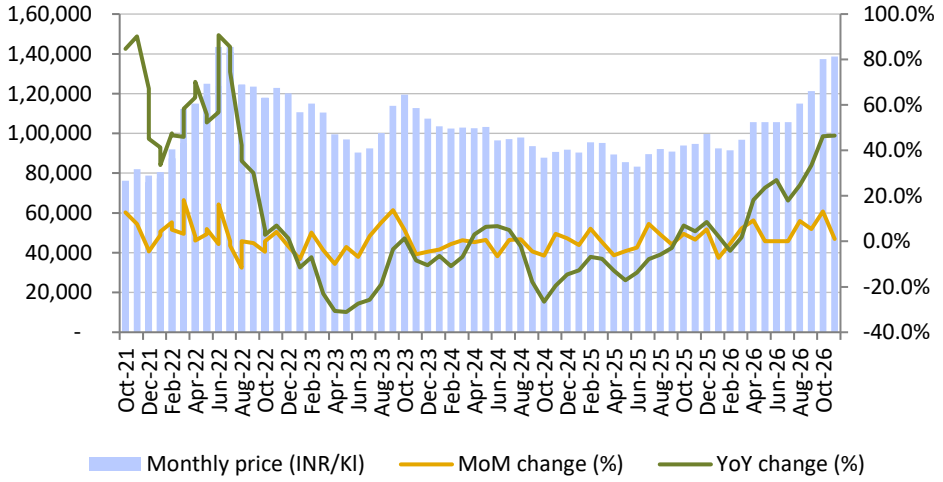
The ATF prices announced for November 2026 are higher by Rs. 1,370 per kilolitre compared to October 2026 for domestic routes, leading to an increase of 1.0% on a MoM basis and 46.5% on a YoY basis. For 8M FY2027 (April-November 2026), ATF prices rose by 30.0% on a YoY basis, continuing to exert pressure on airline cost structures. In FY2026, average ATF prices were lower by 4.1% than the average prices in FY2025, as crude oil prices moderated in most months on a YoY basis, before hardening after the conflict began in West Asia. Crude oil prices corrected sharply between mid-June 2026 and early July 2026, aided by expectations of a peace agreement and an improvement in market sentiment regarding the West Asia crisis. However, the subsequent escalation of hostilities renewed supply concerns, resulting in an increase in crude oil prices from early July 2026. Accordingly, the evolving geopolitical situation and its impact on key oil supply routes remain critical monitorable factors for crude oil price movements.

Exhibit 3: Movement in crude oil and jet fuel prices in the international market



Source: International Air Transport Association (IATA), ICRA Research

Exhibit 4: Movement in jet fuel prices in the domestic market



Source: Indian Oil Corporation Limited, ICRA Research

ICRA-rated airline companies

Exhibit 5: Rating distribution of ICRA-rated airline companies (as on November 19, 2026)

Company name	Rating outstanding
InterGlobe Aviation Limited	[ICRA]AA; Rating Watch with Negative Implications/[ICRA]A1+
SNV Aviation Private Limited (d.b.a. Akasa Air)	[ICRA]BBB- /[ICRA]A3; Rating Watch with Negative Implications

Source: ICRA Research



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