



INDIAN AVIATION INDUSTRY

Earnings pressure to rise significantly following adverse currency and fuel price movement; outlook changed to Negative

March 2026

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BUSINESS OUTLOOK: NEGATIVE



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ICRA expects the Indian aviation industry to report a net loss of Rs. 170-180 billion in FY2026. ICRA projected net losses to narrow to Rs. 110-120 billion in FY2027 owing to growth in passenger traffic. However, the initiation of the West Asian conflict since the end of February 2026 and its consequent impact on the INR and fuel costs now poses a downward bias to the FY2027 net loss estimates.

ICRA estimates the domestic air passenger traffic in FY2026 to grow by 0-3%, reaching 165-170 million. Although the growth in domestic air passenger traffic is estimated to be in the range of 6-8% in FY2027, the same is subject to downside risks if air fares see a significant spike, leading to lower demand for air travel.

For February 2026, domestic air passenger traffic was estimated¹ at 142.5 lakh, 1.5% higher than 140.4 lakh in February 2025 but 6.5% lower than 152.5 lakh in January 2026. The airlines' capacity deployment in February 2026 was 2.9% lower than February 2025 and 8.8% lower than January 2026. For 11M FY2026 (April-February 2026), domestic air passenger traffic stood at 1,532.4 lakh, reflecting a year-on-year (YoY) growth of 1.6%. For January 2026, international air passenger traffic for Indian carriers was 34.0 lakh, indicating a YoY growth of 6.4% and a sequential growth of 3.8%. For 10M FY2026 (April-January 2026), international air passenger traffic for Indian carriers stood at 303.0 lakh, a YoY growth of 8.5%.

For FY2025 (April 2024-March 2025), domestic air passenger traffic stood at 1,653.8 lakh, a YoY growth of 7.6%. Further, for FY2025, international passenger traffic for Indian carriers stood at 338.6 lakh, a YoY growth of 14.1%.

- **Negative outlook on the Indian aviation industry** – ICRA has changed its outlook on the Indian aviation industry to Negative from Stable owing to disruptions in the availability of international airspace starting February 28, 2026, following escalation of the geopolitical conflict in West Asia, coupled with a sharp depreciation of the INR against the USD and expected hardening of aviation turbine fuel prices. ICRA expects the domestic air passenger traffic growth in FY2026 to be in the range of 0-3% on a YoY basis and international air passenger traffic growth for Indian carriers to be in the range of 7-9%. However, ICRA's growth forecast for FY2027 (drawn prior to the initiation of the West Asian conflict) in terms of domestic air passenger traffic at 6-8% and international air passenger traffic for Indian carriers at 8-10% now has a downward bias. Flight cancellations amid airspace closures and increase in air fares in view of the levy of fuel surcharge (to the extent of 5-6% of the average air fares) will weigh on passenger traffic growth. The removal of price caps on the air fares, which were earlier introduced by the Directorate General of Civil Aviation (DGCA) in December 2025 poses further downside risks to passenger traffic growth as demand for air travel may soften if air fares go up significantly.
- **ATF prices in March 2026 were higher by around 5.7% on a sequential basis, impacted by the West Asian conflict** – The yield movement will remain monitorable due to its linkage with aviation turbine fuel (ATF) prices and the INR to USD exchange rate, both of which have a significant bearing on airlines' cost structures. The average ATF prices increased by 5.7% as on March 01, 2026, on a sequential basis and by 1.7% on a YoY basis. Further, as a result of the escalating West Asian conflict, crude oil prices (Brent) have already risen significantly since February 28, 2026 – to \$105/bbl as on March 26, 2026, from \$72/bbl. This is set to push up ATF prices too. The continuous weakening of the INR against the USD is another concern.

ATF prices from April 1, 2025, to March 1, 2026, had been lower by 3.7% on a YoY basis. Fuel costs account for 30-40% of airlines' operating expenses, including aircraft lease payments. Further, 35-50% of the operating charges, which include fuel expenses, lease payments, and a substantial share of aircraft and engine maintenance costs, are denominated in dollar terms. Also, some airlines have

¹ As per estimates released by the Ministry of Civil Aviation

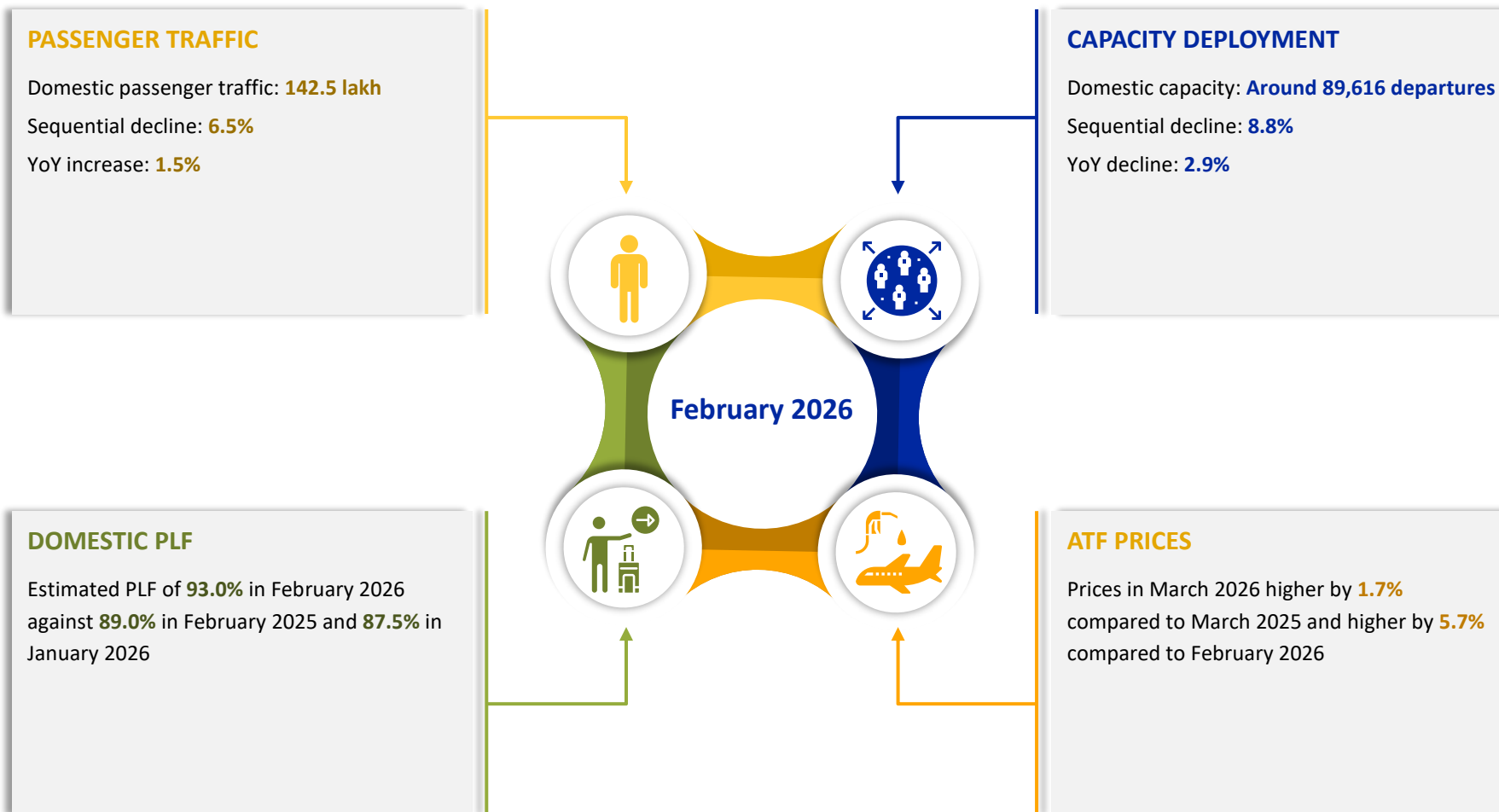
foreign currency debt. Although domestic airlines benefit from a partial natural hedge through earnings from international operations, they have net payables in foreign currency.

- **Downward bias to the industry's net loss estimate of Rs. 110-120 billion for FY2027** – ICRA's net loss estimates (drawn prior to the initiation of the West Asian conflict) for the Indian aviation industry for FY2026 stood at around Rs. 170-180 billion. The primary reason behind this was IndiGo's elevated losses, stemming from the financial impact of flight cancellations, passenger refunds and increased operating expenses due to the operational disruptions experienced in the first week of December 2025. The weakening of the INR against the USD since Q2 FY2026 also resulted in airlines reporting large foreign exchange losses since the said period. The losses have also widened due to a slowdown in passenger traffic growth amid a period of rising aircraft deliveries. For FY2027, ICRA had projected net losses to narrow to Rs. 110-120 billion, supported by growth in passenger traffic. However, the initiation of the West Asian conflict since the end of February 2026, resulting in flight cancellations, rerouting for select long-haul international routes, increasing fuel burn, higher costs owing to additional airport charges as more aircraft remain on ground, increase in fuel cost due to the elevated crude oil prices and depreciation of the INR against the USD now pose a downward bias to the FY2027 net loss forecasts. The industry's interest cover is expected to weaken to 0.7-0.9 times in FY2026 from 1.8 times in FY2025 but is expected to improve to 1.3-1.5 times in FY2027 as per current forecasts, assuming no prolongation of the ongoing conflict.
- **Supply chain challenges and engine failure issues impact industry capacity** – The industry has been facing supply chain challenges and engine failure issues related to Pratt & Whitney (P&W) engines supplied to various airlines. Overall, engine failures and supply chain challenges resulted in the grounding of 117 aircraft for select airlines as of February 2026, accounting for 13-15% of the total industry fleet, affecting the overall industry capacity. This, however, improved from 20-22% of the total industry fleet grounded as on September 30, 2023. The number of grounded aircraft stood at 40-49 as of February 2026 for IndiGo and is expected to remain at similar levels till the end of the year. However, the same has declined from around 70 aircraft grounded as on March 31, 2024, owing to the powder metal contamination (used to manufacture certain engine parts) in its P&W fleet. Initially, as on September 30, 2023, IndiGo had grounded more than 40 aircraft, owing to the P&W engine issue. In FY2024, Go Airlines (India) Limited had grounded half of its fleet due to faulty P&W engines, stalling its operations. The aircraft-on-ground situation has resulted in 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 adversely impacted airlines' cost structures. However, healthy yields, high passenger load factor (PLFs) and partial compensation from engine original equipment manufacturers (OEMs) are helping absorb the impact to an extent. Following the aircraft crash in June 2025 and the heightened safety checks that followed, Air India announced a temporary reduction of around 15% in its international flight capacity operated by wide-bodied aircraft.

During the first week of December 2025, IndiGo experienced major operational disruptions, causing the flight cancellations to peak on December 5, 2025, when around 1,600 flights were cancelled, representing around 70% of its total daily flights. These problems were

primarily triggered by the implementation of stricter flight duty time limitation (FDTL) regulations, especially tougher rules on night duties and landings, alongside adverse weather and technical challenges. IndiGo's reliance on high aircraft utilisation and extensive night-time operations left it with limited flexibility, making it more vulnerable than its competitors. The immediate impact was a sharp drop in on-time performance and widespread inconvenience for thousands of passengers, dampening domestic air passenger traffic growth. Other factors such as winter schedule enhancements, air traffic congestion, technical snags and adverse weather conditions on some routes posed further challenges for the industry during December 2025. The DGCA had granted IndiGo temporary relief from the new regulations until February 10, 2026, allowing partial recovery in passenger traffic growth. Effective February 11, 2026, IndiGo has had to comply with the new regulations. In January 2026, the DGCA imposed a penalty aggregating to Rs. 22.2 crore on IndiGo for non-compliance with the revised FDTL guidelines.

- **Select airlines face financial challenges, stretched liquidity issues** – 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 continue to remain under pressure, despite some improvement in recent years.



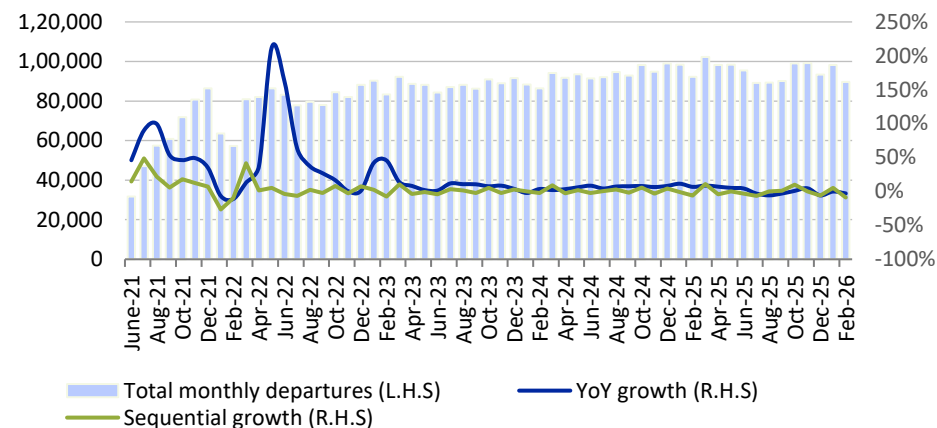
Domestic air passenger traffic: 1.5% YoY increase in February 2026

The capacity deployment for February 2026 was lower by 2.9% over February 2025 (around 89,616 departures in February 2026 against 92,291 in February 2025). The number of departures in February 2026 were lower by 8.8% on a month-on-month (MoM) basis owing to less number of days in February. For 11M FY2026 (April 2025 to February 2026), the capacity deployment was largely flat on a YoY basis. For FY2025, the capacity deployment was 7.3% higher on a YoY basis.

For February 2026, domestic air passenger traffic stood at 142.5 lakh against 140.4 lakh in February 2025, implying a rise of 1.5% YoY. On a sequential basis, domestic air passenger traffic in February 2026 was lower by 6.5% owing to lesser number of days in February. For 11M FY2026 (April 2025 to February 2026), domestic air passenger traffic was at 1,532.4 lakh, reflecting a YoY growth of 1.6%.

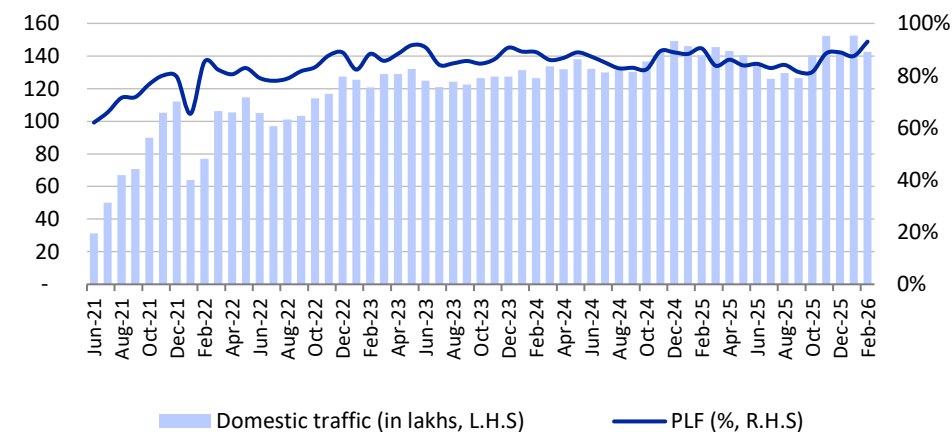
The highest single-day traffic of 538,429 was recorded on November 23, 2025, surpassing the historical levels as passenger travel surged. For February 2026, the average daily departures were around 3,201, lower than around 3,296 in February 2025 but higher than around 3,169 in January 2026. The average number of passengers per flight was 159 in February 2026, higher than 152 in February 2025 and 155 in January 2026. It is estimated that the domestic aviation industry operated at a PLF of 93.0% in February 2026 over 89.0% in February 2025 and 87.5% in January 2026.

Exhibit 1: Trend in capacity deployment by domestic airlines



Source: MoCA, DGCA, ICRA Research

Exhibit 2: Monthly domestic passenger traffic and PLF

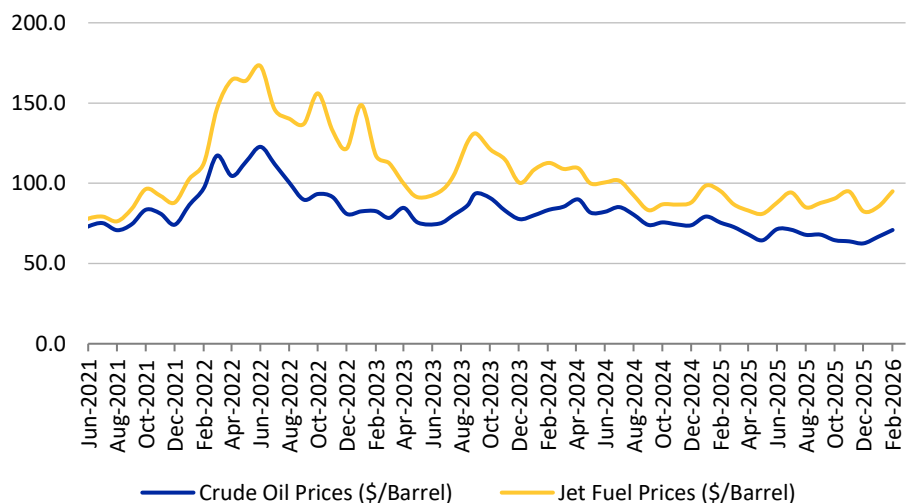


Source: MoCA, DGCA, ICRA Research

ATF prices in March 2026 increased by 1.7% YoY and by 5.7% sequentially

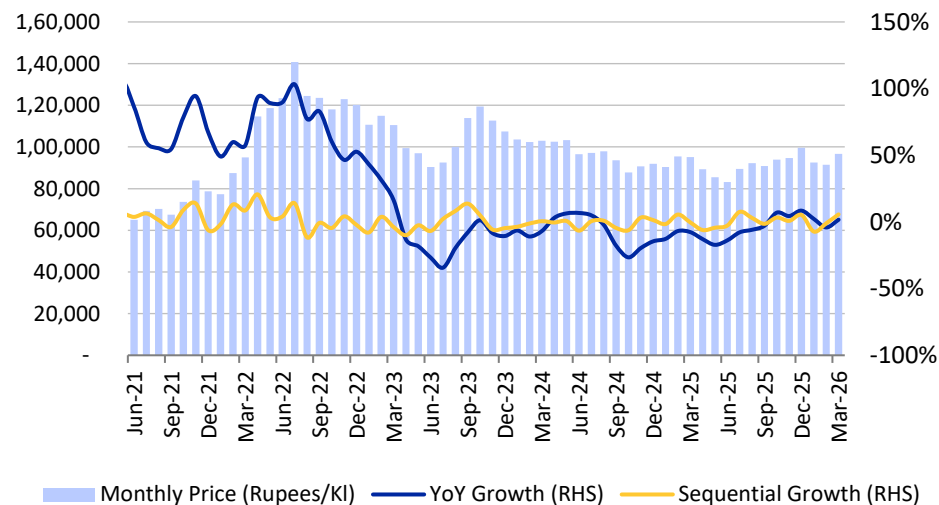
The average ATF prices increased by 5.7% as on March 01, 2026, on a sequential basis and by 1.7% on a YoY basis. Further, as a result of the escalating West Asian conflict, crude oil prices (Brent) have already risen significantly since February 28, 2026 – to \$105/bbl as on March 26, 2026, from \$72/bbl. This has had the contagion effect on ATF prices spiking up. For FY2026 (April 2025 to March 2026), ATF prices have been lower by 4.1% YoY. ATF prices fell both on a YoY and MoM basis in February 2026 by 4.1% and 1.0%, respectively. In January 2026, the prices rose by 2.2% YoY but declined by 7.2% on a MoM basis. ATF prices recorded a YoY reduction each month from April to September 2025. However, on a MoM basis, prices fell during April to June 2025, before rising again in July and August 2025 and falling in September 2025. In October 2025, November 2025 and December 2025, prices rose both on a YoY and MoM basis. Between April 2024 and March 2025, ATF prices were lower on a YoY basis in April, June, September, October, January and March 2025, leading to average ATF prices for FY2025, which were 8% lower on a YoY basis.

Exhibit 4: Movement in crude oil and jet fuel prices (\$/barrel)



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

Exhibit 5: Movement in jet fuel prices



Source: Indian Oil Corporation Limited, ICRA Research

ICRA-rated airline companies

Exhibit 6: Rating distribution of ICRA-rated airline companies (as on March 26, 2026)

Company name	Rating outstanding
InterGlobe Aviation Limited	[ICRA]AA / [ICRA]A1+; Long-term rating placed on Watch with Negative Implications and short-term ratings outstanding
SNV Aviation Private Limited (d.b.a. Akasa Air)	[ICRA]BBB- / [ICRA]A3; Placed on Watch with Negative Implications

Source: ICRA Research



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