



ICRA

A MOODY'S INVESTORS
SERVICE COMPANY

INDIAN AVIATION INDUSTRY

Continued recovery in domestic air travel in July 2021, with a sequential growth of ~56-57%, as Covid-19 infection trajectory drops

AUGUST 2021

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CREDIT OUTLOOK: NEGATIVE



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In the near term, the credit profile of Indian carriers will remain stressed until the carriers are able to reduce their debt burden through a combination of improvement in operating performance and / or by way of equity infusion

For July 2021, domestic passenger traffic is estimated at ~48-49 lakh, implying a sequential growth of ~56-57% compared to ~31.1 lakh in June 2021, and a YoY growth of ~132%. The airlines' capacity deployment for July 2021 was around 90% higher than July 2020. On a sequential basis, the number of departures in July 2021 were higher by ~49%, as Covid-19 infections demonstrated a downward trajectory.

The Ministry of Civil Aviation (MoCA) permitted increasing the capacity deployment on domestic routes to 65% with effect from July 5, 2021, applicable up to July 31, 2021. The aviation turbine fuel (ATF) prices in August 2021 have been higher by 55.3% on a YoY basis, attributed to the low base of August 2020, when the prices declined YoY by 30.5% due to the impact of the pandemic.

- **ICRA continues to maintain a Negative credit outlook on the Indian aviation industry** - The outlook reflects ICRA's view that the financial performance of Indian airlines is likely to remain weak in the near-to-medium term amidst weak air traffic, following continued restriction on international travel and subdued demand for domestic travel, owing to the sharp rise in infections. Notwithstanding the improving pace of vaccination, the measures taken to curb the rising infections continue to weigh on the recovery prospects of Indian carriers. Furthermore, the credit profile of most Indian carriers continues to be characterised by a weak liquidity position.
- **Recovery in domestic passenger traffic hindered by resurgence of second wave of Covid-19** - Post the gradual opening up of the domestic airline operations since May 25, 2020, domestic passenger traffic witnessed a QoQ recovery in FY2021, with Q2 witnessing a sequential growth (over Q1) of 292%, Q3 witnessing a sequential growth (over Q2) of 113% and Q4 witnessing a sequential growth (over Q3) of 23%. However, Q1 FY2022 witnessed a sequential decline of ~53% (over Q4 FY2021) in domestic passenger traffic, indicating averseness of consumers to travel due to the rise in Covid-19 infections.
- **ICRA expects industry earnings to be adversely impacted in FY2022 due to lower revenues and high fixed costs** - Given the onset of Covid-19 2.0, the demand recovery will be delayed for FY2022. Consequently, debt levels are likely to remain high for the industry¹ and are estimated to be range bound at around Rs. 1200 billion (including lease liabilities) for FY2022, with the industry requiring an additional funding support of Rs. 450-470 billion over FY2022 to FY2024.
- **Some airlines in financial distress, face stretched liquidity issues** - While some airlines have sufficient liquidity and/or financial support from a strong parent, which is likely to help them sustain over the near term, for others, the credit metrics and liquidity profile have deteriorated. Many have already undertaken several cost rationalisation measures, including salary cuts for their employees, leave-without-pay options and laying off pilots and crew members to cut costs. Some airlines have also sought deferment in their lease rental payments. Some airlines have also entered into sale and lease back transactions to shore up liquidity in the near term. However, until

the cash inflows improve, the airlines will require funding support to meet their expenses. The credit profile of domestic airlines will thus weaken materially over the near term.

- **Stressed credit profile of Indian carriers** - In the near term, the credit profile of Indian carriers will remain stressed until the carriers are able to reduce their debt burden through a combination of improvement in operating performance and / or by way of equity infusion.

¹ Aggregate of Air Asia India Limited, Air India Limited, Go Airlines (India) Limited, Interglobe Aviation Limited, Tata SIA Airlines Limited and SpiceJet Limited; Excludes debt of Rs. 295 billion transferred from Air India Limited to a special purpose vehicle (SPV) with effect from October 01, 2019

KEY UPDATES

Key Updates	ICRA Comments	Impact
Extension of ban on scheduled international operations	<ul style="list-style-type: none"> The Directorate General of Civil Aviation (DGCA) has further extended the ban on scheduled international operations to/from India till August 31, 2021. However, this restriction shall not apply to international all cargo operations and flights specifically approved by the DGCA. 	<p>Neutral: Given ICRA's estimates for FY2022 already consider a much-delayed recovery in international travel.</p>
Availing of ECLGS 3.0 facility by the aviation industry	<ul style="list-style-type: none"> As on July 16, 2021, the Indian aviation industry has utilised guarantee support to the extent of Rs. 349 crore. 	<p>Neutral: This scheme under ECLGS 3.0 was announced in May 2021 covering the civil aviation sector. As on July 16, 2021, the Indian aviation industry has availed guarantee support to the extent of Rs. 349 crore. While this will provide some immediate liquidity support, given the loss expectations for FY2022, the funding requirement remains much higher.</p>

PASSENGER TRAFFIC

Domestic passenger traffic – ~48-49 lakh
 Sequential growth of ~56-57%
 International passenger traffic under VBM
 – ~2.1 lakh
 Sequential growth of ~43%

CAPACITY DEPLOYMENT

Domestic capacity deployment –
 total ~47,200 departures
 Sequential growth of ~48-49%

Domestic Passenger Load Factor

Estimated PLF of ~71% as against ~58% in
 July 2020

AVIATION TURBINE FUEL PRICES

Sequential increase of 6.4% vis-à-vis
 June 2021 and sharp YoY increase of
 59.7% vis-à-vis July 2020



DOMESTIC PASSENGER TRAFFIC: SHARP SEQUENTIAL GROWTH OF ~56-57% IN JULY 2021, AS COVID-19 INFECTIONS DECLINE

Post the initial recommencement of operations of the scheduled domestic flights with effect from May 25, 2020 to a limited extent i.e. maximum 1/3rd of their respective approved capacity of Summer Schedule 2020, the MoCA permitted increasing the capacity to 45% with effect from June 27, 2020, to 60% with effect from September 02, 2020, to 70% with effect from November 11, 2020 and further to 80% with effect from December 03, 2020. Thus, the capacity deployed by the domestic airlines had also increased sequentially until March 2021. However, the MoCA reduced the permissible capacity deployment to 50% of pre-Covid levels with effect from June 01, 2021 due to the resurgence of the second wave of Covid-19. However, the permissible capacity deployment was increased to 65% from July 05, 2021 till July 31, 2021. The capacity deployment for July 2021 was around 90% higher than July 2020 (~47,200 departures in July 2021 against 24,770 departures in July 2020). On a sequential basis, the number of departures in July 2021 were higher by around 49%, as Covid-19 infections demonstrated a downward trajectory. However, domestic passenger traffic in July 2021 still remained lower than the October 2020 levels.

EXHIBIT 1: Domestic Passenger Growth & PLF

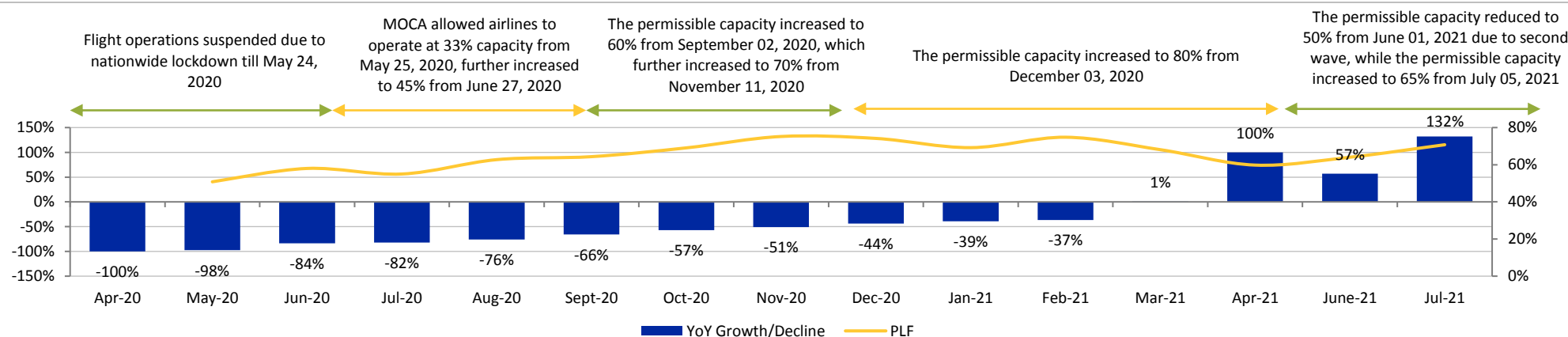
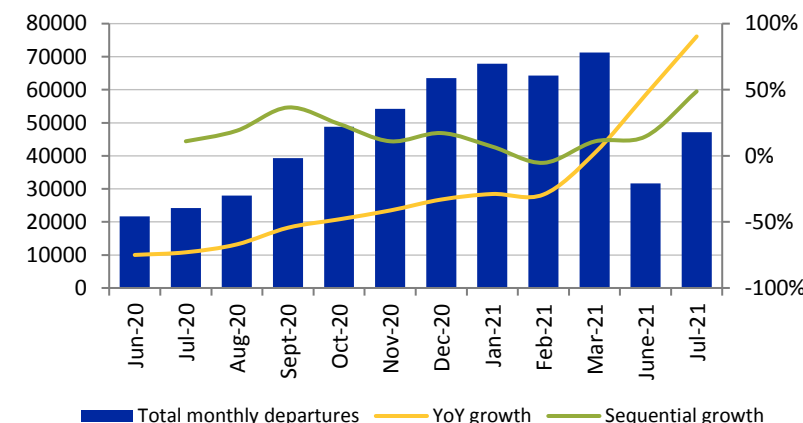


EXHIBIT 2: Domestic Passenger Growth Trend in Capacity Deployment by Domestic Airlines



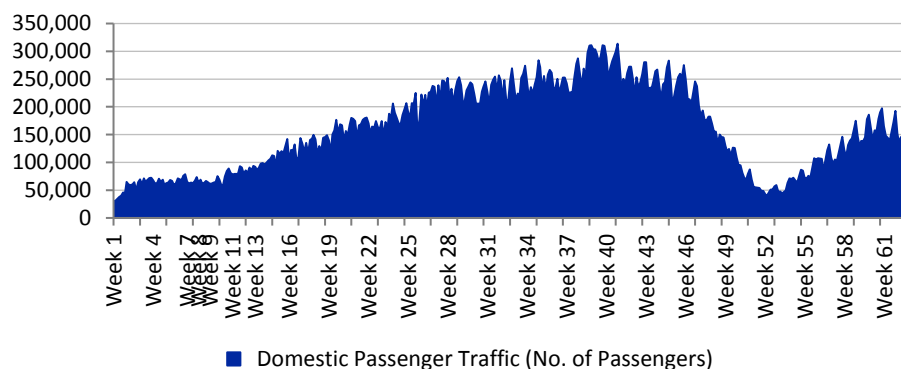
Source: MoCA, DGCA, ICRA Research

For July 2021, domestic passenger traffic is estimated at ~48-49 lakh, against ~21.1 lakh in July 2020, implying a growth of ~132% on a YoY basis. On a sequential basis, domestic passenger traffic witnessed a growth of ~56-57% over ~31.1 lakh domestic passenger traffic in June 2021.

As seen in Exhibit 3, Day 1 witnessed a passenger traffic of 30,550, with it gradually peaking to 313,668 on Day 280 (February 28, 2021). Since March 2021, given the resurgence of the second wave of the pandemic, the daily passenger traffic was on a continuous decline, with it gradually declining to 70,098 on Day 372 (May 31, 2021). However, with a decline in daily infections, the domestic passenger traffic is gradually improving with 197,672 on Day 420 (July 18, 2021).

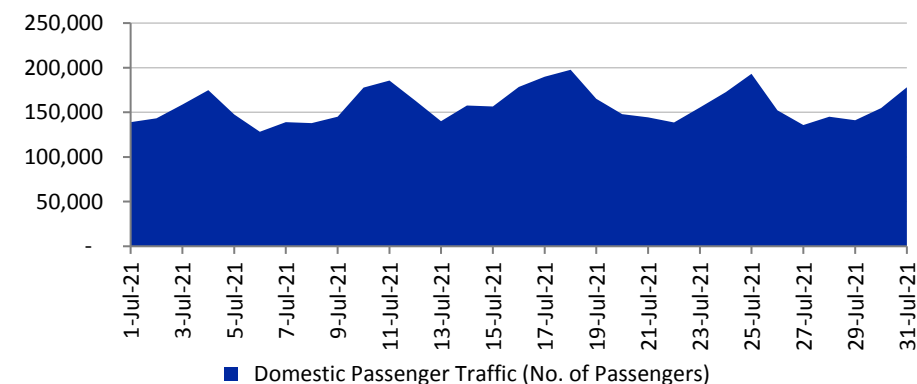
The number of flights departing also had gradually increased from 416 on Day 1 to peak at 2,885 on Day 266 (February 14, 2021). For July 2021, the average daily departures were at ~1,500, significantly higher than average daily departures of ~800 in July 2020, and higher than ~1,100 in June 2021. The average number of passengers per flight during July 2021 was 104, against an average of 85 passengers per flight in July 2020. Thus, it is expected that the domestic aviation industry operated at a passenger load factor (PLF) of ~71% in July 2021, against ~58% in July 2020, which was also impacted by the pandemic.

EXHIBIT 3: Daily Domestic Passenger Traffic since May 25, 2020



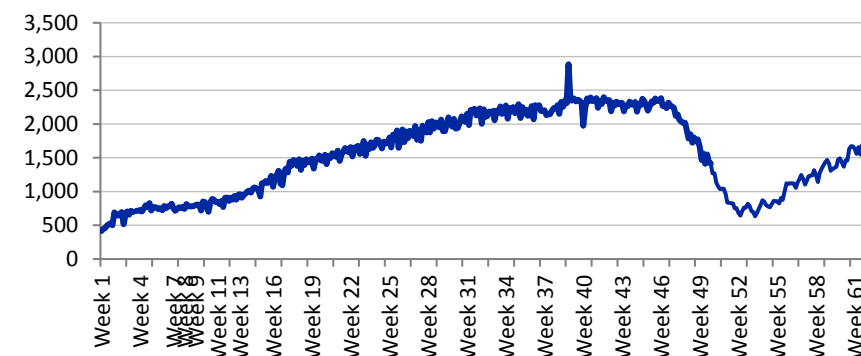
Source: MoCA, DGCA, ICRA Research

EXHIBIT 4: Daily Domestic Passenger Traffic in July 2021



Source: MoCA, DGCA, ICRA Research

EXHIBIT 5: Domestic Daily Flight Departures since May 25, 2020



Source: MoCA, DGCA, ICRA Research

To ensure a curb on excessive fares, the MoCA fixed a fare band which airlines are expected to adhere to. The restrictions on capacity and the fare bands are not applicable in case of the Regional Connectivity Scheme (RCS) Udaan flights and for the business class. Furthermore, at least 40% of the tickets of a particular flight are to be sold for the fare less than the mid fare - between the minimum and the maximum fares given above.

The restrictions on fares, which were earlier valid till August 24, 2020, were extended till November 24, 2020 and further to February 24, 2021. However, on February 12, 2021, the MoCA allowed an increase of 10%-30% on the fare caps. While a 10% increase was allowed on the shortest route, the longer routes were allowed an increase of 30%. These restrictions were extended till May 31, 2021. Furthermore, on May 28, 2021, the MoCA allowed an increase of 13-15% on the lower air-fare band, with effect from June 01, 2021, while keeping the upper limits unchanged. This increase will thus allow airlines to recoup some part of the increased ATF prices, thereby cushioning some impact on the airlines' losses. **In ICRA's view, the price increase may not materially impact the passenger traffic demand as in the current scenario, the travel is limited to only necessary travel, while both leisure and business travel have been curtailed due to various state-wide restrictions and the spread of the infections.** There is uncertainty with respect to the movement in fares once the restrictions are lifted. There are factors supporting both sides. While low air fares suit the expected weak demand and excess capacity in the industry, higher fares are a necessity for the additional cost to be incurred by the airlines towards enhanced safety measures and sanitisation, signifying a means of recouping the losses incurred due to the suspension of operations in addition to the increasing ATF prices.

While the scheduled international operations are yet to start, the MoCA has permitted international operations under the Vande Bharat Mission (VBM) and the Air Transport Bubbles (ATB). Under the VBM for evacuation of Indian citizens from foreign countries, which started from May 07, 2020, the international passenger traffic (inbound and outbound) for Indian carriers has been pegged at ~39 lakh for the period May 07, 2020 to

July 31, 2021. For July 2021, international passenger traffic for Indian carriers under the VBM was recorded at ~2.1 lakh, a sequential growth of ~43%. Overall, the impact of the pandemic will last longer on international travel than on domestic travel.

EXHIBIT 6: Changes in Fare Band for Domestic Operations (excluding Business Class) for Minimum Fare since operations commenced from May 25, 2020

Class of Sectors*	May 25, 2020 - February 24, 2021	February 25, 2021 - May 31, 2021	June 01, 2021 - July 31, 2021
A	2,000	2,300	2,600
B	2,500	2,900	3,300
C	3,000	3,500	4,000
D	3,500	4,100	4,700
E	4,500	5,300	6,100
F	5,500	6,400	7,400
G	6,500	7,600	8,700

EXHIBIT 7: Changes in Fare Band for Domestic Operations (excluding Business Class) for Maximum Fare since operations commenced from May 25, 2020

Class of Sectors*	May 25, 2020 - February 24, 2021	February 25, 2021 - May 31, 2021	June 01, 2021 - July 31, 2021
A	6,000	7,800	7,800
B	7,500	9,800	9,800
C	9,000	11,700	11,700
D	10,000	13,000	13,000
E	13,000	16,900	16,900
F	15,700	20,400	20,400
G	18,600	24,200	24,200

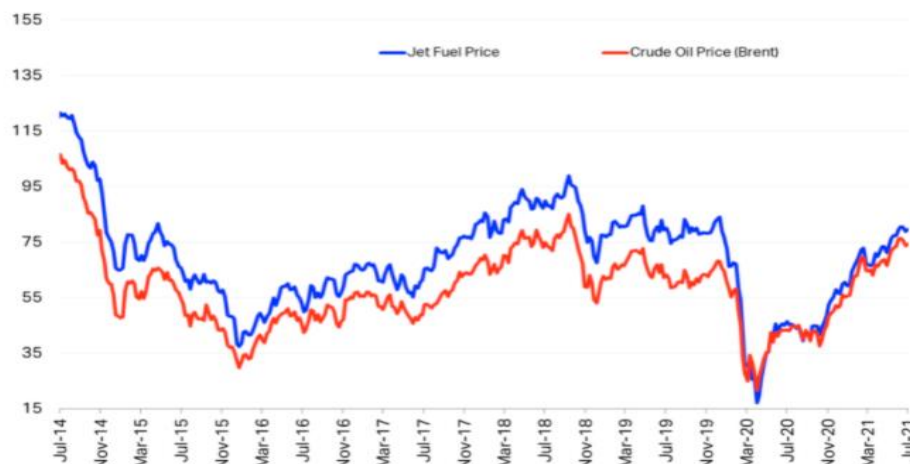
*Classified on the basis of approximate duration of flight; **Exclusive of applicable user development fee (UDF), passenger service fee (PSF) and goods & services tax (GST); **Source:** MoCA; **Source:** DGCA, ICRA Research

ATF PRICES: PRICES IN AUGUST 2021 INCREASED SEQUENTIALLY BY 1.3%; HIGHER BY ~55% ON A YOY BASIS

Following the pandemic, crude oil prices declined materially – reaching a low of ~US\$19/ barrel in April 2020 (the sharpest decline since Q4 CY2018) – seeing a decline in ATF prices. However, the crude oil prices increased gradually since then, and currently ranges at around US\$75/ barrel. Consequently, the ATF prices increased sequentially by 24.1% in July 2020 and by 4.2% in August 2020. However, it declined sequentially by 3.4% in September 2020 and by 5.6% in October 2020, before increasing by 4.6% in November 2020, by 9.1% in December 2020, by 10.2% in January 2021, and then by 5.4% in February 2021 and by 10.4% in March 2021. It declined sequentially by 1.8% in April 2021, but it increased sequentially again by 5.8% in May 2021, by 3.8% in June 2021, by 6.4% in July 2021, and by 1.3% in August 2021. While until February 2021, the ATF prices were still lower on a YoY basis, in March 2021, April 2021, May 2021, June 2021, and July 2021, the prices were higher by 3.0%, 59.8%, 103.4%, 86.3%, 59.7%, respectively, on a YoY basis. In August 2021, the prices have been higher by 55.3% on a YoY basis, attributed to the low base of August 2020, when the prices declined YoY by 30.5% due to the impact of the pandemic.

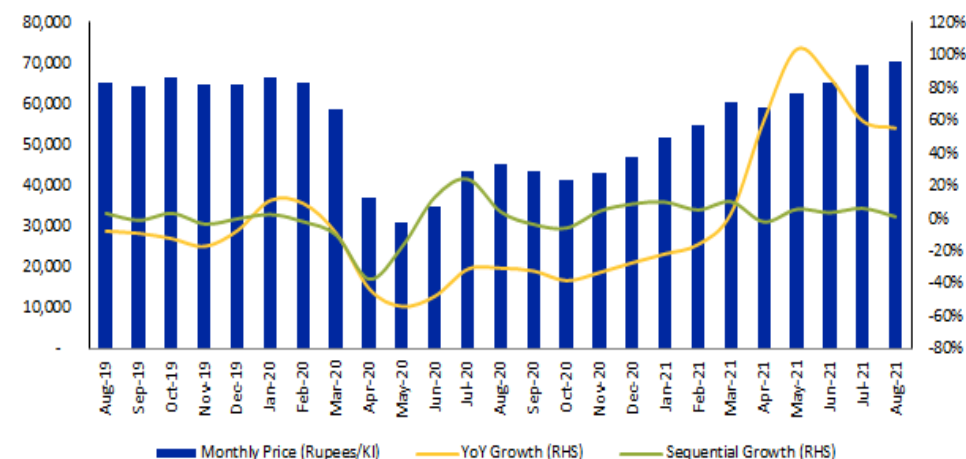
EXHIBIT 8: Movement in Crude Oil Price and Jet Fuel Price

Jet Fuel & Crude Oil Price (\$/barrel)



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

EXHIBIT 9: Movement in Jet Fuel Price



Source: Indian Oil Corporation Limited, ICRA Research

ICRA-RATED AIRLINE COMPANIES

EXHIBIT10: Rating Distribution of ICRA-Rated Universe of Airline Companies as on August 05, 2021

Company Name	Rating Outstanding	Last Rating Action
Air India Express Limited	[ICRA]A4	Rating downgraded
Air India Limited	[ICRA]AAA(CE) (Stable)	Rating reaffirmed
Interglobe Aviation Limited	[ICRA]A+ (Negative) / [ICRA]A1	Short-term rating downgraded; long-term rating reaffirmed
Jet Airways (India) Limited	[ICRA]D / [ICRA]D ISSUER NOT COOPERATING	Rating continues to remain under 'Issuer Not Cooperating' category
Tata SIA Airlines Limited	[ICRA]A (Negative) / [ICRA]A1	Rating reaffirmed

Source: ICRA Research



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ABOUT ICRA

ICRA Limited (formerly Investment Information and Credit Rating Agency of India Limited) was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange.

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The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder. The participation of Moody's is supported by a Technical Services Agreement, which entails Moody's providing certain high-value technical services to ICRA. Specifically, the agreement is aimed at benefiting ICRA's in-house research capabilities, and providing it with access to Moody's global research base. The agreement also envisages Moody's conducting regular training and business seminars for ICRA analysts on various subjects to help them better understand and manage concepts and issues relating to the development of the capital markets in India. Besides this formal training programme, the agreement provides for Moody's advising ICRA on Rating-products strategy, and the Ratings business in general.

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- Enhance the ability of borrowers/issuers to access the money market and the capital market for tapping a larger volume of resources from a wider range of the investing public;
- Assist the regulators in promoting transparency in the financial markets;
- Provide intermediaries with a tool to improve efficiency in the funds raising process.

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