INDIAN AVIATION INDUSTRY

Domestic air passenger traffic softened in July 2026

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BUSINESS OUTLOOK: NEGATIVE

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ICRA forecasts domestic air passenger traffic to grow by 3-6% in FY2027 and international air passenger traffic for Indian carriers to witness a decline of 3-6%. This is primarily due to the escalation of the West Asian conflict. The resultant adverse impact on passenger traffic, the INR and ATF prices, albeit partially mitigated by calibrated ATF price interventions by the Government of India, along with an estimated increase in lease rentals owing to continued aircraft deliveries is expected to result in a net loss of Rs. 360-380 billion for the Indian aviation industry in FY2027. Nevertheless, liquidity pressures for the relatively small airlines are likely to be partly alleviated by access to the ECGLS 5.0 scheme, while the larger ones either have sufficient cash balances or the backing of a strong parent.

Domestic air passenger traffic was 120.0 lakh[1] in July 2026, 4.8% lower than 126.1 lakh in July 2025 and 10.8% lower than 134.6 lakh in June 2026. The airlines' capacity deployment in July 2026 was 7.8% lower than July 2025 and 8.5% lower than June 2026. Amid a sluggish demand environment, domestic carriers achieved a passenger load factor (PLF) of 83.1% in July 2026 against 82.9% in July 2025 and 85.7% in June 2026, on the back of lower capacity deployment owing to operational disruptions. Domestic air passenger traffic in 4M FY2027 (April–July 2026) was 546.6 lakh, a year-on-year (YoY) growth of 0.1%. In FY2026 (April 2025-March 2026), the same was 1,674.2 lakh, reflecting a modest YoY growth of 1.2%. The international air passenger traffic for Indian carriers grew by 3.9% to 350.0 lakh in FY2026. However, the same declined sharply by 23.0% YoY in 4M FY2027 (April-July 2026) due to the disruptions caused by the West Asian conflict.

- **Negative outlook on the Indian aviation industry –** ICRA has a Negative outlook on the Indian aviation industry, reflecting the expected weakening of the revenue per available seat kilometre – cost per available seat kilometre (RASK-CASK) spread due to hardening of aviation turbine fuel (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 forecasts domestic air passenger traffic growth at 3-6% in FY2027. The international air passenger traffic for Indian carriers is projected to witness a 3-6% decline in FY2027. These forecasts reflect the impact of the instability in West Asia, which has resulted in a hike in air fares due to the cost escalations for the airlines and the anticipated curtailment of discretionary spends because of increased inflation. Further, flight cancellations amid airspace closures have affected international air travel demand, with some of the carriers having already curtailed international flights in the past few months. Any prolonged continuation or further escalation of the West Asian conflict could result in downside risks to ICRA's traffic growth forecasts, yields and profitability, owing to potential persistence of elevated fuel prices, airspace restrictions and inflationary pressures.

- **ATF prices in August 2026 increased on a sequential basis –** While ATF prices for domestic and international routes were unchanged during April-June 2026 owing to the absence of revisions by oil marketing companies (OMCs), fuel costs remain elevated relative to the previous year. ATF prices for domestic routes in August 2026 have increased by around 20.0% on a YoY basis, following the Rs. 5,000 per kilolitre hike announced by OMCs, which is likely to exert additional cost pressure on airlines. For international operations, ATF prices remained unchanged on a sequential basis.

  Although domestic ATF price hikes have been moderated through Government intervention, fuel remains a dominant cost, accounting for 30-40% of airline operating expenses. Further, with 35-50% of airline costs being dollar-denominated—including fuel, aircraft lease rentals and maintenance expenses—sustained high crude prices and a weak rupee continue to pose risks. Also, some airlines 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.

[1] *As per estimates released by the Ministry of Civil Aviation (MoCA)*

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 April 2026. However, with the temporary relief measure having lapsed, domestic carriers are once again required to bear the full charges. Further, on May 5, 2026, the Government 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). Such 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. As of July 2026, airline uptake under ECLGS 5.0 remained moderate, with applications of Rs. 2,530 crore translating into sanctions/disbursements of around Rs. 920 crore, largely driven by SpiceJet (Rs. 150 crore drawn) and Akasa Air (Rs. 740 crore sanctioned), while Air India and IndiGo, despite eligibility of up to Rs. 1,500 crore each, have not availed the scheme so far.

In addition, the state governments of Maharashtra and Delhi have undertaken reductions in value-added tax (VAT) on ATF for six months, with Maharashtra reducing VAT to 7% from 18%, with effect May 15, 2026, and Delhi implementing a decrease to 7% from 25% effective from May 16, 2026. While this measure offers only partial mitigation against structurally high fuel costs and currency pressures, easing ATF prices and overall operating costs remain critical for a sustainable revival in the sector’s profitability.

The Government of India’s approval of the ATF price stabilisation fund, announced on June 3, 2026, is another intervention for cushioning airlines from this extreme fuel price volatility. The scheme provides a one-time budgetary support, not exceeding Rs. 10,000 crore, to OMCs through interest-free advances, enabling them to offer more stable and predictable ATF pricing to scheduled Indian airlines for a 36-month period (with provision for annual review). By effectively smoothening out sharp fluctuations in international fuel prices, the mechanism creates a buffer for airlines and reduces their exposure to sudden cost spikes amid the West Asian crisis. The stabilisation fund is expected to improve cost visibility for airlines, particularly during a phase when profitability remains under pressure due to high fuel costs and competitive intensity. It will reduce the pass-through of fuel price shocks to passengers, thereby helping to moderate fare volatility, thus, assisting in sustaining passenger demand.

The mechanism can help limit margin volatility and support continuity of operations, reducing the likelihood of abrupt capacity cuts or network rationalisation that were visible in recent months due to elevated fuel prices. At the same time, the measure is structured as a temporary buffer. Nevertheless, the scheme involves price lock-in over an extended period. With global fuel prices having softened meaningfully since mid-June 2026, following expectations of a peace agreement to resolve the West Asian conflict, airlines opting for the mechanism may be unable to fully benefit from lower spot prices. Accordingly, the extent of participation, and the proportion of ATF requirements that airlines choose to route through this mechanism, will remain monitorable. Moreover, despite the scheme's approval, no airline has opted for it so far, reflecting the reduced economic attractiveness of the price lock-in arrangement amid the recent decline in international crude prices. The proposed ATF price stabilisation scheme has been discontinued due to the failure of airlines to formalise participation through the execution of the requisite Memorandum of Understanding (MoUs) with OMCs within the stipulated timeline.

- **Indian aviation industry[2] to report net loss of Rs. 360-380 billion in FY2027, over estimated net loss 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 the foreign exchange (forex) losses arising from the sharp depreciation of the INR, moderation in passenger traffic growth and an increase in ATF prices following the rise in crude oil prices amid the West Asian conflict towards the end of FY2026. The onset of the war in West Asia since end-February 2026 is expected to result in subdued air passenger traffic growth in FY2027. Additionally, increased costs due to depreciation of the INR against the USD, high ATF prices and an anticipated rise in lease rentals owing to continued aircraft deliveries are projected to cause net loss of Rs. 360-380 billion in FY2027, as these cost escalations may not be adequately passed on by way of fare hikes.

- **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, gradually improved from 20-22% of the total industry fleet grounded as on September 30, 2023. 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. 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 adversely 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.

- **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, despite some improvement in recent years.

[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: **120.0 lakh**

Sequential decline: **10.8%**

YoY decline: **4.8%**

CAPACITY DEPLOYMENT

Domestic capacity: **Around 82,258 departures**

Sequential decline: **8.5%**

YoY decline: **7.8%**

DOMESTIC PLF

PLF of **83.1%** in July 2026 against **82.9%** in July 2025 and **85.7%** in June 2026

ATF PRICES

Prices for domestic routes in August 2026 are higher by **20.0%** compared to August 2025

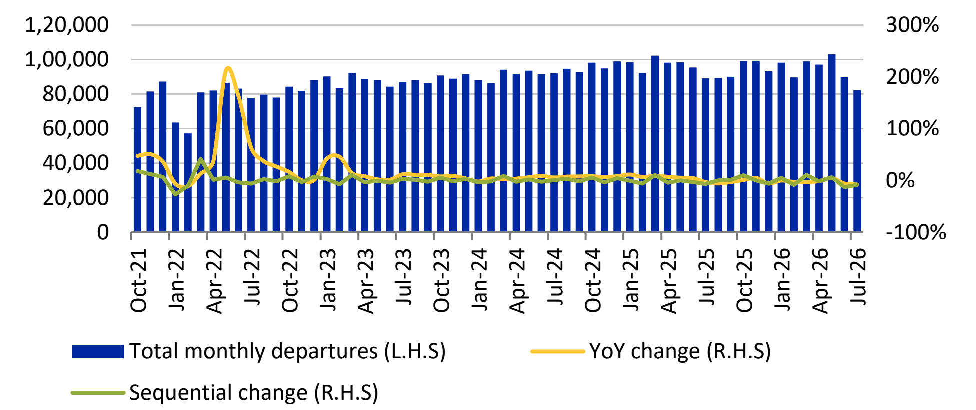
Domestic air passenger traffic: 4.8% YoY decline in July 2026

The capacity deployment for July 2026 declined by 7.8% over July 2025 (around 82,258 departures in July 2026 against 89,217 in July 2025). The number of departures in July 2026 was lower by 8.5% on a month-over-month basis owing to subdued demand amid high fares.

In July 2026, domestic air passenger traffic stood at 120.0 lakh against 126.1 lakh in July 2025, implying a YoY decline of 4.8%. On a sequential basis, domestic air passenger traffic in July 2026 declined by 10.8% owing to lower travel demand after the peak summer season and a reduction in capacity deployment by airlines during the month. In FY2026, domestic air passenger traffic stood at 1,674.2 lakh, reflecting a growth of 1.2% over FY2025.

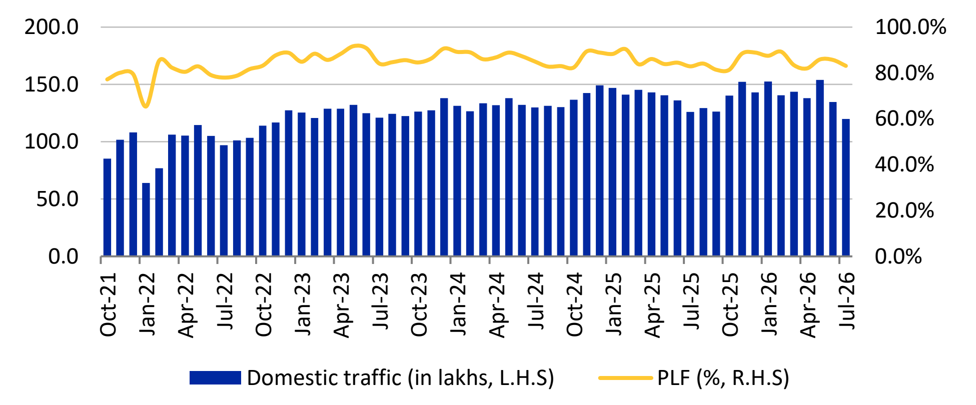
In July 2026, the average daily departures were around 2,653, 11.4% lower than around 2,878 in July 2025. The average number of passengers per flight was 146 in July 2026, higher than 141 in July 2025. The domestic aviation industry's PLF improved to 83.1% in July 2026 vis-à-vis 82.9% in July 2025 and 85.7% in June 2026.

Exhibit 1: Trend in capacity deployment by domestic airlines



Source: MoCA, DGCA, ICRA Research

Exhibit 2: Monthly domestic passenger traffic and PLF

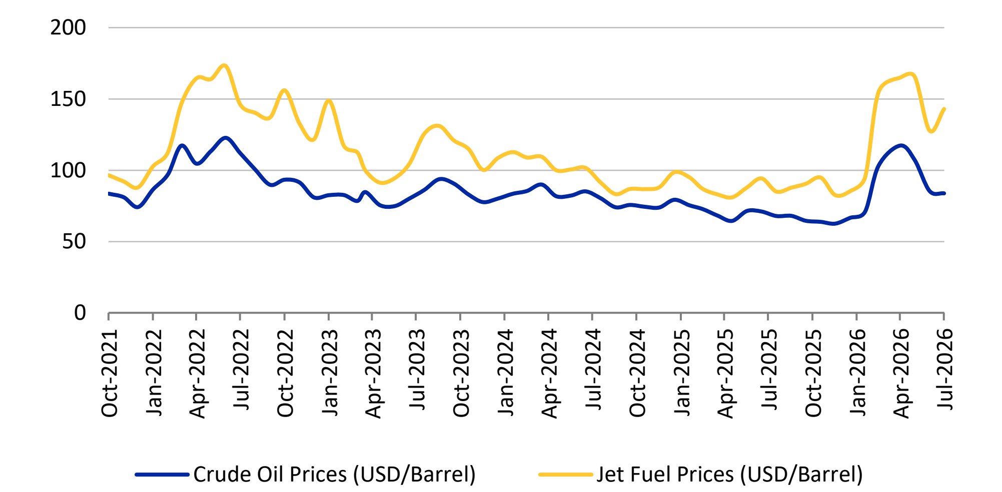


Source: MoCA, DGCA, ICRA Research

ATF prices for domestic routes were higher by 20.0% YoY in August 2026

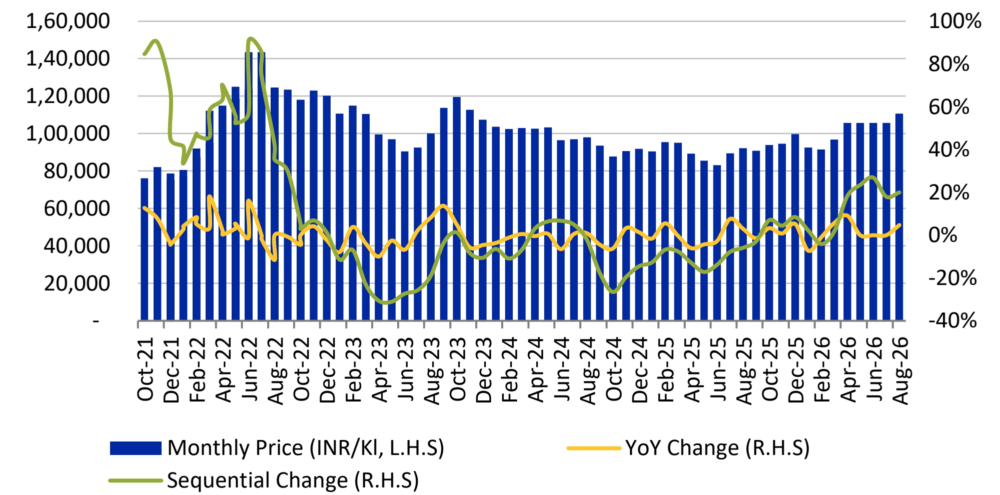
The ATF prices announced in August 2026 increased by Rs. 5,000 per kilolitre for domestic routes on a sequential basis and remained elevated by 20.0% on a YoY basis. For 5M FY2027, ATF prices rose by 21.2% on a YoY basis, continuing to exert pressure on airline cost structures. In FY2026, average ATF 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 from mid-June 2026, aided by expectations of a peace agreement and subsequent improvement in market sentiments regarding the West Asian crisis. That said, the renewed escalation of hostilities in the region during mid-July 2026 remains a key monitorable for crude price movements, going forward.

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 August 12, 2026)

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

Source: ICRA Research

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