

Airlines may face turbulence on weak demand, rising costs

Costlier fuel, tight capacity and softening domestic air travel to weigh down Q2 numbers

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India's aviation sector is headed for a challenging second quarter (Q2FY26), as softening domestic demand, higher fuel prices, and tighter capacity weigh on airlines' post-covid recovery, according to brokerage reports and data from Directorate General of Civil Aviation (DGCA).

The slowdown is most visible in the domestic segment, which accounts for nearly 80% of total air traffic. Domestic passenger traffic fell 3% year-on-year in July to 12.61 million. This was accompanied by a 0.81% overall flight cancellation rate in the month.

The decline is partly attributed to the fatal Air India crash in June, resulting in reduced capacity and a loss of market share for Tata Group firms. August passenger traffic stood at 12.9 million, a 1.4% decrease from the same period last year, according to DGCA data.

According to reports from J.P. Morgan, JM Financial and ratings agency Icria, daily domestic traffic declined around 1% year-on-year through mid-quarter, compared with a 6.5% expansion a year earlier. Departures also dropped 4% year-on-year to 89,217, and 10% to 89,251 in July and August.

DGCA is yet to release the traffic data for September.

Icria, in a report last month, said air passenger traffic that combines domestic and international traffic, is expected to be at 430-440 million in FY26, up 5-7% year-on-year. "This possibly is the slowest pace of expansion since covid," it said.

Data from GMR Airports suggests further weakness in September. Domestic passengers in Delhi fell 1% y-o-y to 4.2 million. For Q2FY26, domestic traffic declined 9% to 12.6 million, while for the first half of FY26, traffic was down 5.8% to 26.5 million.



Domestic passenger traffic fell 3% y-o-y in July and 1.4% in August, with Q2 FY26 domestic traffic down 9% to 12.6 million. MINT

GMR attributed the drop to runway upgrades at Delhi airport and airspace restrictions due to geopolitical tensions, but traffic is likely to recover with the runway reopening on 16 September 2025. To sustain yield amid weak

y-o-y, driven more by capacity control than demand strength.

IndiGo, which commands 64% of the domestic market, improved its load factors by 50-100 basis points and lifted domestic yields by 6% in Q2, it said.

to support this growth. While fuel cost was a tailwind in Q1, it has moved up in Q2. Oil prices may be benign near-term but rupee depreciation could drive upside risks to costs," it said.

Indigo's ASK was at 4,230 crore in Q1, while Spicejet's was at 218 crore.

Aviation turbine fuel (ATF), which accounts for 40% of airlines' operating costs, rose 3% in October to ₹93,766.02 per kilolitre, up from a nine-month (January-September) average of ₹90,151.44. JM Financial estimates Q2 ATF prices at ₹90,100/kL, compared with ₹85,200/kL in Q1, driven by higher crude oil.

Adding to the cost pressure, the Indian rupee's 2% depreciation since June has increased lease and maintenance costs, which are dollar-denominated and account for nearly half of airlines' total costs.

CHALLENGING Q2

DAILY domestic traffic fell 1% y-o-y through mid-Q2 versus 6.5% growth a year ago, reports say

THE decline is partly attributed to the fatal Air India crash in June, resulting in reduced capacity

GMR attributed the drop to Delhi runway upgrades, airspace restrictions due to geopolitical tensions

WHILE aviation turbine fuel cost was a tailwind in Q1 for airlines, it has moved up in Q2

demand, domestic airlines have reduced available seat kms (ASK)—effectively tightening capacity.

A J.P. Morgan analysis of 19 key domestic routes showed average round-trip fares increased on 15 routes, by mid-to high-single digits during July-August

J.P. Morgan in a report said, Indigo's FY26 ASK growth guidance is at "low double digits", with Q1 growth being at 16.5% and Q2 guidance being mid-to-high single digits. "It implies H2 9-10% growth on a base of 16%. Domestic demand trends must improve materially