

Aviation in a tailspin, again

Disruptions from Iran war have sharpened underlying challenges in a sector that is still recovering from last year's shocks

DEEPAK PATEL
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India's aviation sector — already battered by a series of crises since the fatal Air India crash in June last year — has slipped into a rapid tailspin following the outbreak of war in West Asia, with fresh disruptions compounding operational failures, regulatory scrutiny, and financial stress across carriers.

A report by ratings agency Icria on March 27 summarised the scale of the downturn, cutting its outlook on the sector to negative from stable, citing "disruptions in the availability of international airspace... coupled with a sharp depreciation of the INR against the USD and expected hardening of aviation turbine fuel (ATF) prices".

Icria warned that flight cancellations, rerouting and fare increases — including a fuel surcharge of 5-6 per cent — would weigh on demand, while the removal of airfare caps would add

further downside risks if ticket prices rise sharply.

The timing of this shock is critical. The sector is still recovering from internal disruptions, most notably the December 2025 operational meltdown at IndiGo, which saw over 4,200 flight cancellations and eventually led to the resignation of CEO Pieter Elbers earlier this month. The crisis, triggered by the airline's inability to align crew rostering with stricter flight duty time limitation norms, exposed structural weaknesses in operational planning. Regulatory action that followed — including financial penalties, management warnings and mandated corrective measures — underscored the fragility of airline systems even in the country's largest and most profitable carrier.

At Air India, the regulator continues to deal with compliance lapses. Earlier this month, Air India sent an unapproved Boeing 777 variant aircraft on the Delhi-Vancouver route, and the plane was forced to turn around mid-air after entering Chinese airspace. This came months after the airline operated multiple commercial flights in November 2025 using an Airbus A320neo aircraft without a valid Airworthiness Review Certificate (ARC), which resulted in a fine and internal disciplinary action.

These incidents come at a time when the airline is undergoing an ambitious transformation. They also come in the shadow of the June 2025 crash, killing 241 people on board and 19 on the ground, that triggered heightened safety scrutiny across the industry and placed Air India under intense regulatory and public watch.

The West Asia conflict, which ignited on February

28 after the US and Iran invaded Iran, has sharply worsened the operating environment. For Indian carriers, the impact has been immediate and multi-layered. Flights not only to West Asia but also to Europe have been severely disrupted, especially since many of these routes were already being operated via the region due to the closure of Pakistan's airspace since Operation Sindoor last year. Airlines have been forced to either cancel services or operate significantly longer routes.

In several cases, flights from India to Europe are being diverted southwards to Africa before turning north, adding hours to flight times. These reroutings in-

crease fuel burn, require additional crew planning and reduce aircraft utilisation. All this is directly inflating operating costs. Additionally, carrying extra fuel reduces payload capacity, limiting

both passenger and cargo revenue. International operations, which typically contribute a disproportionately high share of airline profitability, have therefore taken a direct hit.

Air India alone has cancelled around 2,500 flights to the region and is operating just 30 per cent of its normal West Asian schedule. In a communication to staff on March 20, CEO Campbell Wilson cautioned that the financial impact is "yet to be fully felt", noting that although jet fuel prices have surged, the full cost-impact will only reflect with a lag. He also pointed to uncertainty around demand, stating that not all passengers would be willing to pay higher fares, thereby placing a natural cap on pricing power.

The regulator has acknowledged the strain. On March 26, Directorate General of Civil Aviation chief Faiz Ahmed Kidwai said airlines are facing "big challenges" due to longer routes, higher fuel consumption and reduced payload capacity, while also dealing with rising costs.

He noted that the situation is particularly difficult for Indian carriers given the simultaneous closure of Pakistan's airspace, and emphasised the need to support airlines even as passenger rights are protected.

Data trends underline the slowdown already underway. Icria estimates domestic passenger traffic at 14.25 million in February 2026, reflecting only marginal year-on-year growth but a notable sequential decline. Capacity deployment has also come down, indicating

that airlines are proactively cutting flights in response to operational constraints and uncertain demand. For the full financial year, domestic traffic growth is now expected to remain in a muted 0-3 per cent range, a sharp moderation from earlier expectations.

The pressure is visible in scheduling decisions. Airlines are set to operate about 10 per cent fewer domestic flights in the summer schedule starting March 29 compared to a year earlier, with weekly services estimated at around 23,000. Industry executives have indicated that even this reduced schedule may be subject to further revisions depending on how the geopolitical situation evolves and whether cost pressures intensify further.

Beyond geopolitical disruptions, structural supply-side constraints continue to weigh on the sector. Engine failure issues linked to Pratt & Whitney engines and broader supply chain bottlenecks have resulted in 13-15 per cent of the industry's fleet remaining grounded as of February. For IndiGo, this translates into roughly 40-49 aircraft being unavailable, even though the situation has improved from earlier peaks, Icria said. Grounded aircraft not only reduce capacity but also push up costs through higher lease rentals, reliance on older and less fuel-efficient replacement aircraft, and increased maintenance overheads.

Underneath all this, macroeconomic factors add another layer of stress. Crude oil prices have surged to around \$105 per barrel from about \$72 before the conflict, driving up aviation turbine fuel costs, which have already risen 5.7 per cent sequentially in March. The depreciation of the rupee against the US dollar is compounding the impact, as a significant portion of airline expenses — including fuel, leases and maintenance — is dollar-denominated.

In response, airlines have moved to pass on part of the cost to passengers. Air India, IndiGo and Akasa Air have all introduced fuel surcharges across domestic and international routes in March. However, there are limits to fare increases, beyond which demand could weaken, particularly in an environment of broader economic uncertainty.

The financial outlook, therefore, remains fragile. Icria noted that its earlier estimate of industry losses narrowing to ₹11,000-12,000 crore in FY27 now carries a "downward bias" due to the combined impact of flight cancellations, rerouting, higher fuel burn, increased airport-related costs and currency depreciation.

These pressures come on top of already elevated losses projected at ₹17,000-18,000 crore for FY26, driven in part by earlier disruptions and foreign exchange losses.

At a broader level, the crisis underscores the vulnerability of India's aviation sector to external shocks. Despite being one of the fastest-growing aviation markets globally, the industry continues to operate on thin margins, high leverage and significant exposure to global fuel prices and currency movements. The current situation — where geopolitical tensions, operational fragilities and cost

pressures have converged — highlights the limited resilience within the system. With uncertainty around the duration and intensity of the West Asia conflict, airlines are bracing for prolonged disruption. Government officials have already engaged with carriers to explore possible relief measures, including reductions in taxes on aviation turbine fuel and rationalisa-

FACING HEADWINDS

Sizeable losses this year. Losses expected to narrow next year, but geopolitical risks may derail recovery

Estimated net loss of Indian aviation industry (₹ crore)

17,000-18,000
FY26

11,000-12,000
FY27
(with "downward bias")



Sharp slowdown in domestic passenger traffic in FY26

	Domestic traffic (in million)	Growth (%)
FY25	165.38	7.6
FY26*	165-170	0-3

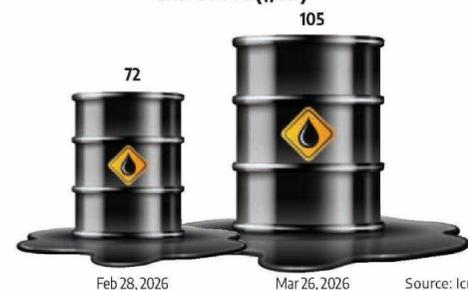
Financial stress peaks in FY26

Interest coverage ratio of Indian carriers (x)

FY25	1.8
FY26*	0.7-0.9
FY27*	1.3-1.5

*Estimated; Interest coverage ratio measures how easily a firm can pay its interest expenses using its operating earnings

Oil price surge driving aviation cost pressures
Brent crude (\$/bbl)



Source: Icria