

Explainer

● Recent ATF price trends and impact on Indian airlines

A KEY DRIVER of financial stress for airline companies is the sharp hardening of aviation turbine fuel (ATF) prices, compounded by the depreciation of the rupee against the dollar. ATF prices rose by 18.2% year-on-year (YoY) and 9.2% sequentially in April 2026, following a sharp escalation in global crude oil prices triggered by geopolitical developments in West Asia. Although, the ministry of civil aviation (MoCA) capped domestic ATF price increase at 25% on a month on month basis, the oil marketing companies raised ATF prices by only 9.2% sequentially in April 2026 for domestic operations, tempering the immediate cost impact on the aviation sector. Nonetheless, crude oil prices remain elevated, which can impact ATF prices in the future. Although domestic ATF price increases were moderated through government intervention, fuel remains a dominant cost, accounting for 30-40% of airline operating expenses. Further, 35-50% of airline costs are dollar denominated, including fuel, aircraft lease rentals and maintenance expenses, exposing airlines to sustained rupee weakness.

● Impact on air passenger traffic growth in FY26

PASSENGER DEMAND HAS remained resilient but subdued. Domestic air passenger traffic grew by only 1.2% in FY2026, with a decline of 1.2% YoY in March 2026, reflecting moderation in travel demand amid higher airfares, operational disruptions and macro economic uncertainties.



Why domestic carriers are issuing Mayday calls

Air India, IndiGo and SpiceJet have recently said the aviation industry is facing severe financial challenges & could be forced to curtail services. The stress is driven by a simultaneous hike in operating costs, especially due to jet fuel prices, & a moderation in traffic growth amidst the West Asia war, explains *Kinjal Shah*

International air passenger traffic for Indian carriers grew by a modest 3.9% during FY2026, affected by cross-border escalations that led to flight disruptions and cancellations during the year, as well as travel hesitancy following the Air India accident in Q1 FY2026.

Further, due to disruptions in the availability of certain international airspaces starting February 28, 2026, following escalation of the geopolitical conflict in West Asia, the international passenger traffic growth witnessed a YoY decline of 36% and sequential decline of 35% in March 2026.

9.2%
SEQUENTIAL RISE IN ATF PRICES IN APRIL 2026

FLIGHT CANCELLATIONS AMID AIRSPACE CLOSURES & INCREASE IN AIR FARES DUE TO FUEL SURCHARGE WILL WEIGH ON PASSENGER TRAFFIC GROWTH

● What are the other challenges?

OPERATIONAL DISRUPTIONS HAVE exacerbated cost pressures, particularly on international routes. The closure of the Pakistani airspace in early 2026 and ongoing restrictions across certain West Asian war zones have forced airlines to reroute select long-haul flights, resulting in longer flying times, higher fuel burn and additional navigation and airport charges. These have had a disproportionate impact on international operations, which are otherwise more yield-accretive and support overall profitability. Parallely, airlines continue to face significant supply-side and operational challenges. Engine issues related to Pratt & Whitney aircraft and global supply-chain constraints resulted in the grounding of several aircraft, necessitating higher-cost wet leases, deployment of older aircraft with lower fuel efficiency, and elevated maintenance costs.

● How acute is the financial crisis?

ICRA'S NET LOSS estimates (drawn prior to the West Asian conflict) for the Indian aviation industry for FY2026 stood at ₹17,000-18,000 crore, stemming from a slowdown in passenger traffic growth amid a period of rising aircraft deliveries, IndiGo's elevated losses due to flight cancellations, passenger refunds and increased operating expenses due to the disruptions in December 2025, and the weakening of the rupee since Q2 FY26. For FY27, ICRA had projected net losses to narrow to ₹11,000-12,000 crore, supported by growth in passenger traffic.

However, the West Asian conflict since the end of February 2026, resulting in flight cancellations, rerouting for select

● Passenger traffic growth forecasts

ICRA'S FORECASTS DRAWN prior to the initiation of the West Asian conflict of 8-10% for international air passenger traffic growth for Indian carriers and 6-8% for domestic air passenger traffic growth for FY2027 now have a downward bias. In FY2026, domestic air passenger traffic stood at 167.74 million. 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) due to the West Asia conflict 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.

long-haul routes, increasing fuel burn, additional airport charges as more aircraft remain on ground, hike in fuel cost due to elevated ATF prices and rupee depreciation pose fresh challenges. The government cut landing and parking charges for domestic airlines by 25% for three months starting April 2026. It also reduced export duty on ATF from May 1 but did not give any direct relief to on domestic ATF costs. These measures offer only partial mitigation against structurally high fuel costs, currency pressures and disruption related expenses.

The writer is senior vice president & co-group head, Corporate Ratings, ICRA