

What will it take for this flight to take off?

Facing soaring costs across fronts, airlines in India sounded the alarm to the authorities. The government has announced a ₹10,000-crore support to stabilise aviation turbine fuel (ATF) prices — oil marketing companies' losses from sales to airlines will be offset from this fund.

While the latest measure will definitely help to an extent, it is not the answer to all the airlines' woes which seem to be mounting amid uncertainties. A deeper dive and a more permanent solution to the disparity in ATF pricing vis-à-vis international carriers will be required in the longer term. This financial year (FY27) began on a particularly dismal note: For the first time since the Covid-19 pandemic, traffic crawled to a virtual standstill in March 2026 — registering a growth of 1% over March last year — according to a recent report by credit rating agency ICRA. With fares rising sharply, passengers held back on air travel. Air India announced and embarked upon cutting up to 40% of its international and 5% of its domestic flights and IndiGo too trimmed its summer schedule. As the mercury rises, passengers are looking to travel either domestically or to short-haul regional destinations, with the steep rise in international fares. The war in West Asia and its ripple effects have hit India's travel and airline industry quite hard.

In fact, the 1.6% growth in FY26, over the previous financial year (FY25), speaks volumes. Fliers do feel airplanes are uncomfortably full, creating some illusion of growth — passenger load factor (PLF) stood at 89% in March this year versus 86% last year. But this is primarily because very little capacity has been added by Indian carriers. On the contrary, supply chain hiccups have ensured that many aircraft remain grounded across airlines. Capacity deployment in March 2026 was 3% lower than a year ago.

All of this has cast a shadow over the prognosis for the current financial year. As of March 2026, ICRA has revised its outlook on the Indian aviation industry to negative from stable, citing a host of factors. The lower revenue per available seat kilometre-cost per available seat kilometre (RASK-CASK) results not only from hardening of ATF prices but also the disruptions in the availability of certain international airspaces and the continued depreciation of the rupee

against the dollar.

Flight cancellations amid airspace closures and increase in air fares due to the levy of fuel surcharge (5-6% of the average air fare) will weigh on passenger traffic growth. The removal of airfare caps, introduced earlier by the Directorate General of Civil Aviation (DGCA), will pose "further downside risks to passenger traffic growth as demand for air travel may soften if air fares go up significantly", argues ICRA. The ratings agency has revised upwards its total expected loss for FY27, which, prior to the conflict in West Asia, it had estimated to fall.

After the West Asia troubles intensified, airlines requested the government for concessions on ATF pricing and other duties and levies. Although the Centre capped ATF price increases at ₹15 per litre for domestic operations, the price of fuel for international operations soared, making international operations unviable and resulting in significant losses for the sector in April 2026. Those losses will be difficult to recoup.

Since ATF accounts for 30-40% of the cost for an airline, this has led to an overall cost upsurge. The rupee, seemingly in free fall for many months now, hasn't helped matters. In a recent letter to the government, the aviation industry sought a control mechanism — akin to diesel and petrol — for ATF. Excise duties levied on ATF remain a concern, and the Federation of Indian Airlines (FIA) has sought a temporary suspension of the excise duty on ATF for domestic operations. This could provide some relief in the form of VAT on ATF. FIA points out that the largest aviation hub in the country, Delhi, charges the second-highest VAT on fuel (25%), with the highest being Chennai's (Tamil Nadu) 29%; Mumbai, Bangalore, Hyderabad, and Kolkata have VAT rates ranging between 16 and 20%. These six cities cover more than 50% of airline operations within India. Therefore, the VAT rates burn a hole in the airlines' pockets.

The industry also feels the need for an empowered government committee that can take quick decisions on the sector's financial and other troubles. Until then, airlines will continue to operate on a wing and a prayer.



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The views expressed are personal