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Indian Airlines To Face Supply Chain Woes & Rising Costs In 2025

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Article Content:

The current average load factor of above 80 per cent indicates a robust demand for air travel in India, but the profitability outlook for Indian airlines in FY25 remains cautious

Post -pandemic, the performance of the Indian airlines might have improved, however, its progress is effectively capped by supply chain issues. Indian airlines, with a combined order book of nearly 2,000 aircraft, are facing significant global supply chain disruptions, including raw material shortages (like titanium), engine production delays, and labour shortages. Geopolitical tensions, such as the Russia-Ukraine war, have further disrupted the supply of critical materials. The market will continue to face the supply chain woes and rising costs, all of which will impact fleet expansion and operational efficiency.

The International Air Transport Association (IATA) predicted severe supply chain issues to continue to impact airline performance into 2025, raising costs and limiting growth. Globally, aircraft deliveries have fallen sharply from the peak of 1,813 aircraft in 2018. The estimate for 2024 deliveries was 1,254 aircraft, a 30 per cent shortfall on what was predicted going into the year. In 2025, deliveries are forecast to rise to 1,802, well below earlier expectations for 2,293 deliveries with further downward revisions in 2025 widely seen as quite possible.

Recent performance issues with Pratt & Whitney engines, which power nearly 70 per cent of India's narrow-body fleet, are worsening delays. "While some aircraft are grounded due to engine defects, the more critical challenge is delivery delays of new aircraft, slowing fleet expansion and route growth for airlines. In the short term, delivery delays are causing a capacity crunch, leading to higher airfares and constrained service reliability. In the long term, these disruptions may hurt airlines' ability to modernize fleets, achieve fuel efficiency, and remain cost-competitive, particularly for low-cost carriers (LCCs)," said Pragya Priyadarshini, vice president, Primus Partners.

Load factors are at record highs, however, as airlines do not have enough aircraft, revenues are being compromised. The current average load factor of above 80 per cent indicates a robust demand for air travel in India, but the profitability outlook for Indian airlines in FY25 remains cautious. "This anticipated downturn is attributed to escalating operational costs, including fuel expenses and maintenance. Additionally, supply chain disruptions and delays in aircraft deliveries may hinder capacity expansion, further impacting profitability. Therefore, despite higher load factors, Indian airlines may continue to be

under strain in FY25 due to rising costs and operational constraints," she added.

"Capacity challenges will continue and airlines will need to focus on diversifying supply chain partnerships, leveraging customized aviation technologies, and optimizing operations to maintain profitability," explained Girish Nair, partner and head - aviation sector, KPMG in India.

To minimize the impact, taxes need to be reduced on aviation turbine fuel (ATF). Airlines have been lobbying for ATF to be taxed under GST to standardise levies across the country, simplifying the taxation process and reducing costs. However, state governments have opposed the move, fearing a loss of revenue. In the Goods and Services Tax (GST) Council meeting, the central government rejected a long-standing proposal from the airline industry to include ATF under the GST regime. This decision maintains the status quo, where state governments independently decide the tax rates for ATF.

The government is encouraging domestic MRO capabilities, pushing for improved infrastructure which will help airlines lower turnaround times, and cut maintenance costs, mitigating some financial pressures.

"Currently, we have around 100 aircraft on ground, and we must see this number reduced as stakeholders are working jointly to address the issue at the earliest. In 2025, the outlook remains optimistic, with expected passenger traffic growth which will impact load factors driven by rising disposable incomes, government support for UDAN and investments in airport infrastructure," added Nair of KPMG India.

Civil aviation minister KR Naidu indicated in a conference that India would soon enter into aircraft manufacturing: We would make the nation a global hub for aircraft manufacturing, Naidu said.

India is pushing towards becoming a global aviation manufacturing hub, with significant milestones like the Tata-Airbus facility in Vadodara, Gujarat, which will produce C-295 military transport aircraft, showcasing the potential of domestic manufacturing. However, this ambitious goal faces notable challenges. These challenges include availability of critical components, impacting global and domestic manufacturing alike. Aircraft manufacturing is a very complex process requiring thousands of parts sourced from various manufacturers over the world. The basic design, the prototype and finally the flyable version may take anywhere from 10 -15 years and another 3-4 years for its international certification.

"Additionally, India faces infrastructure limitations, skilled labor shortages, and complex regulatory frameworks that hinder rapid progress," Priyadarshini of Primus Partners added.

The government of India's focus on making India an aviation hub, will be supported by the airline's renewed network strategy, which will see carriers arresting the traffic leakages to overseas hubs. "India has tremendous potential to emerge as an aviation hub with our government focusing on setting up manufacturing centers to support the larger aviation ecosystem," Nair said.

Explaining the initiatives further, Priyadarshini said, "The government is taking several steps to capitalize on the growth opportunities given the Indian aviation outlook in the coming years, including policy reforms like the implementation of a uniform 5 per cent tax on aircraft and engine parts to simplify taxation and attract investment."

Significant investments are being made to enhance airport infrastructure, with plans to expand operational airports to around 350 by 2047. The success will depend on addressing the infrastructure, policy matters and skill challenges by collaborating with global aviation markets. Investments in advanced and emerging technology with focus on sustainability will be critical to gain a competitive edge.