



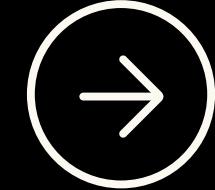
Airline Industry

STRATEGIC RESPONSE TO FUEL PRICE VOLATILITY IN A REGIONAL AIRLINE

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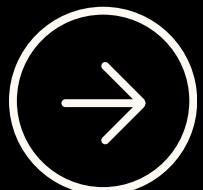
TODAY'S AGENDA



- 1 Problem Statement
- 2 Strategic Alternatives
- 3 Recommendation
- 4 Key Performance Indicators
- 5 key Takeaways



PROBLEM STATEMENT



How much of current losses are fuel-driven vs structurally embedded?

- Fuel is the biggest day-to-day expense for the airline.
- When fuel prices went up sharply, many routes that were just breaking even started making losses.
- Internal estimates show that around 30–40% of routes may no longer make sense to operate if fuel prices stay high.

Which routes are fundamentally broken vs salvageable?

- Fundamentally broken routes: Routes where the airline now needs unrealistically high passenger numbers just to break even, and where increasing ticket prices would drive customers away.
- Salvageable routes: Routes supported by the government (UDAN) that offer revenue guarantees and subsidies, making them financially viable even when fuel prices are high.

How do fuel shocks propagate across the system?

When fuel prices increase, the cost of flying each passenger goes up, many routes stop making sense financially, fixed aircraft lease costs drain cash faster, and investors start worrying about the airline's future.

STRATEGIC ALTERNATIVES

Network Optimization and Pricing

Government-Backed Route Expansion

Structural Redesign

Upside

- Margin recovery on core routes
- Higher yields on business-heavy sectors

- Revenue stabilization
- Downside protection

- Long-term fuel resilience
- Structural cost competitiveness

Key Risk

- Demand elasticity
- Load factor collapse

- Operational inflexibility
- Capped long-term margins

- High execution complexity
- Capital intensity

Time to Impact

3-6 months

Immediate to short-term

12-24 months

RECOMMENDATION

Prioritize government-backed route participation (UDAN) as the primary strategy over the next 18-24 months.



Profitability

Government revenue guarantees and subsidies help cover higher fuel costs, so the airline can avoid losses and keep earning steady margins on these routes.

This helps the airline avoid broad-based fare hikes in price-sensitive regional markets



Network Stability

The airline can continue flying to regional cities instead of suddenly shutting down routes, which helps keep the overall network intact.

This helps the airline avoid large-scale fleet or network restructuring during the fuel shock period

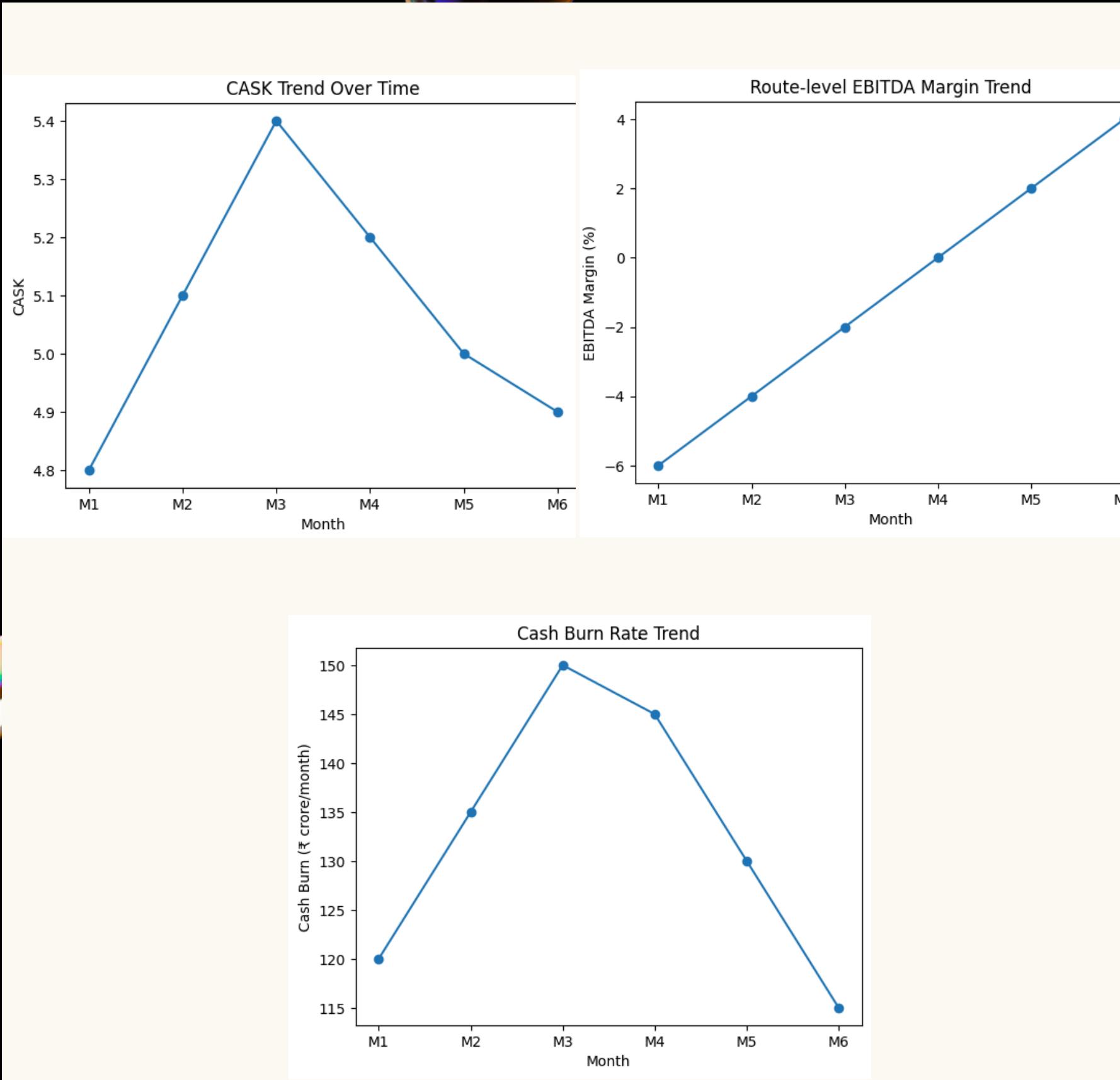


Growth Optionality

By staying present in these markets and keeping aircraft active, the airline can easily shift back to normal or expansion mode once fuel prices come down.

This helps the airline avoid rapid exit from marginal routes that risks long-term network erosion

KEY PERFORMANCE INDICATORS



CASK (Cost per Available Seat Kilometer)

- Initially, the cost per seat increases due to fuel price shock. Overtime CASK starts coming down as government subsidies and selective route optimization kick in.
- This shows that the airline is slowly controlling how much it costs to fly one passenger, even though fuel prices are high.

Route-level EBITDA Margin

- Routes start with losses (negative margin) and gradually move toward break-even and then profit.
- This shows that Individual routes stop losing money and start becoming profitable again due to revenue guarantees and better route selection.

Cash Burn Rate

- Cash losses increase initially because fixed lease costs remains and cash burn reduces over time as losses are controlled
- This shows the the airline is losing money at first, but the speed at which cash is being spent slows down, improving survival chances.

KEY TAKEAWAYS

RISK AND MITIGATION

Risk 1: Sustained Fuel Price Volatility

Reduce fuel risk by locking some fuel prices, adjusting flights based on demand, and exiting routes that keep making losses.

Risk 2: Demand Erosion in Price-Sensitive Regional Markets

Adjust ticket prices smartly for different customers and routes, and change flight frequency where needed instead of increasing fares for everyone.

MANAGERIAL IMPLICATIONS

Trade-offs & What the Airline Is Accepting

Reduced pricing, fleet flexibility and capped margins in exchange for short-term financial stability allows the airline to survive the fuel shock while keeping future growth options open.

Success Strategy

The strategy is successful if costs stabilize, supported routes remain profitable, and overall cash burn is controlled during fuel volatility.





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THANK YOU

for your time and attention

