GALGOTIAS UNIVERSITY

ADMISSION NUMBER												

School of Business

Bachelor of Business Administration
Mid Term Examination - Mar 2024

Duration : 90 Minutes
Max Marks : 50

Sem VI - D1UB601T - Airline Economics

General Instructions
Answer to the specific question asked
Draw neat, labelled diagrams wherever necessary
Approved data hand books are allowed subject to verification by the Invigilator

1) Based on the data shared below, analyse the trend curve of demand for airline ticket prices and passenger movement. K4 (4)

Ticket prices(JFK-LAX)	Quantity Demanded (No of Passengers)
100	730
200	695
300	615
400	540
500	465
600	390
700	315
800	240
900	165

2) Explain the role of disruprive technologies such as AI and NLP influencing the traditional airline distribution system. K5 (5)

3) Explain the three categories of operating costs collected by the the Airline Cost Management Group. K5 (5)

4) Identify the key elements of the airline product that contribute to enhance the overall travel experience for long-haul passengers. K3 (6)

5) IndiGo is grappling with operational challenges with 30 aircraft being grounded leading to a significant reduction in capacity despite surging passenger demand past pandemic. Now, IndiGo is resorting to wet leasing Boeing 777 aircraft from Turkish Airlines for high-density international routes Despite the cost, IndiGo has chosen this option due to limited alternatives. But the airline's decision to utilize 777s could signify a strategic exploration of potential operational models amidst current challenges. K4 (8)

Based on the above answer the following Questions:

1. Considering IndiGo's challenges, do you believe leasing aircraft during such shortages is a viable strategy for airlines? (4 marks)

2. Analyse how this decision impact the airline's market positioning and competitive advantage in the long run. (4 marks)

6) The government'sUDAN, or Ude Desh ka Aam Naagrik, was started with a vision to creating a new category of scheduled commuter airlines (SCAs) that would fly on unserved and underserved routes. In the seven years since its induction the story of its growth is rather disappointing. Out of the 493 routes, 228 have been stopped due to lack of infrastructure and low passenger demand. The idea behind the scheme was to collect levy from passengers travelling routes not under the UDAN scheme and pass on the benefit to flights operating from Tier 2/3 cities. Regional airline like FlyBig, which had 22 routes under UDAN, also stopped operations as the lack of instrument approach system at Gondia Airport increased delays. Moreover, passengers are unable to perceive the benefits of cheaper flight tickets and also lack of awareness adds to its woes. Alliance Air, IndiGo, and SpiceJet have stopped operations on 51, 23, and 46 routes operated so far. Even upcoming regional carriers like Fly91 and Jettwings Airways are looking to operate on routes under the UDAN scheme, but they are looking to offer "premium services" which will be a factor. K5 (10)

Based on the above answer the following:

1. From your perspective, explain the relevance of the UDAN scheme in Indian aviation insustry, considering the challenges it faces. (5 marks)

2. Evaluate what steps do you believe can be taken to enhance the effectiveness of the UDAN scheme? (5 marks)

7) Ratings impact on aviation:CRISIL ratings conducted an analysis of three major airlines in India which revealed a promising outlook for the industry, with passenger traffic projected to rise by 18–20% in the current fiscal year.This surge is driven by increased business and leisure travel, supported by favorable economic growth prospects. K6 (12)

Despite fuel prices more than doubling over the past three fiscal years, the gross margin of the airlines has remained steady. Diminished foreign exchange losses compared to the preceding fiscal year have also contributed to enhanced profitability.

Approximately two-thirds of the capital expenditure for fleet expansions will be financed through debt, including lease liabilities. While net debt, including lease liabilities, is expected to double to approximately Rs 1 lakh crore by the end of the next fiscal year compared to fiscal 2023, credit metrics are projected to strengthen.

The net debt to Ebitdar ratio is anticipated to improve to less than 5 times over the current fiscal year and the next, down from 8.6 times in fiscal 2023 and significantly below pre-pandemic levels.

ased on the above answer the following questions:

a) Why has the gross margin of the airlines remained steady despite fuel prices more than doubling over the past three fiscal years? (3 marks)

b) How do reduced foreign exchange losses impact airline profitability, considering a significant portion of their debt and costs are denominated in foreign currency? (3 marks)

c) What factors contribute to the favorable outlook for fleet expansions in the Indian airline industry? (3 marks)

d) How does CRISIL Ratings anticipate credit metrics to strengthen despite a doubling of net debt by the end of the next fiscal year? (3 marks)