

Ancillary Revenue and Its Impact on IndiGo's Profitability

Dr. S Ramasubramanian
Associate Professor
Department of Aviation,
Vels Institute of Science, Technology &
Advanced Studies,
Chennai, India

Mrs. Jeyamathuri
Associate Professor
MH Cockpit Private Limited – 600117,
Tamil Nadu, India

Anthony Mercy A
Student
Department of Aviation,
Vels Institute of Science, Technology &
Advanced Studies,
Chennai, India

Awishmridhini M
Student
Department of Aviation,
Vels Institute of Science, Technology &
Advanced Studies,
Chennai, India

Caroline Christina A
Student
Department of Aviation,
Vels Institute of Science, Technology &
Advanced Studies,
Chennai, India

Santhoshini Ravichandran
Student
Department of Aviation,
Vels Institute of Science, Technology &
Advanced Studies,
Chennai, India

Abstract

This study analyses the growing importance of non-ticket revenue streams for India's largest low-cost carrier, IndiGo. Operating in a highly competitive, price-sensitive market, IndiGo faces limited margins on base fares due to fluctuating fuel prices and regulatory constraints. Ancillary revenue, comprising income from seat selection, excess baggage, in-flight meals, priority services, and strategic partnerships, allows IndiGo to improve profitability while keeping ticket prices competitive. This study employs a qualitative-descriptive methodology grounded in secondary data from IndiGo's annual reports, financial statements, and aviation industry publications, supplemented by primary survey data from approximately 100 respondents. Findings show that ancillary services, while constituting only 9-11% of total revenue, contribute an estimated 20-30% of total profit due to high gross margins of 60-80%. The study establishes that demand is primarily necessity-driven, satisfaction rates exceed 93%, and spending behaviour is moderate but predictable, confirming that ancillary revenue is a fundamental pillar of IndiGo's business model.

Keywords: Ancillary revenue, IndiGo, low-cost carrier, profitability, unbundling, aviation, India, passenger behaviour, revenue management, 6E Prime, in-flight meals, excess baggage

I. INTRODUCTION

The airline industry has transformed significantly with the rise of low-cost carriers (LCCs). Where ticket sales once constituted the sole revenue stream, intensifying competition and price sensitivity have compelled carriers to pursue diversified income sources. Ancillary revenue, earned from optional services beyond the base fare, has emerged as the central strategy enabling LCCs to remain profitable without raising ticket prices.

IndiGo (InterGlobe Aviation Ltd.), India's largest airline by market share, exemplifies this approach. Founded in 2006 and headquartered in Gurugram, IndiGo built its brand on punctuality, affordability, and operational efficiency. Its single-fleet strategy (Airbus A320 family) reduces maintenance and training costs, enabling quicker turnaround and more daily rotations. The airline's profitability model is deliberately built around ancillary income: low base fares attract volume, while paid add-ons capture additional margin.

The Indian aviation market has seen rapid growth driven by rising incomes, expanded connectivity, and the democratisation of air travel. Low-cost airlines dominate domestic capacity, competing primarily on price. In this environment, airline profitability cannot rest on ticket revenue alone, especially when fuel costs constitute 35-45% of operating expenditure and margins on base fares are thin. This study examines the structure, growth, and financial significance of IndiGo's ancillary revenue streams and analyses customer behaviour to assess the demand-side dynamics sustaining those revenue streams.

A. Objectives of the Study

The study aims to: (1) understand the structure and evolution of ancillary revenue in the airline industry; (2) analyse the range of ancillary services offered by IndiGo and their financial contribution; (3) evaluate the impact of ancillary revenue on IndiGo's profitability and operating margins; (4) examine customer behaviour regarding ancillary services; and (5) propose strategic recommendations for optimising ancillary revenue generation.

II. LITERATURE REVIEW

A systematic review of academic papers, industry reports, and airline financial publications was conducted to contextualise this study, revealing three interconnected themes.

A. Growth and Institutionalisation

O'Connell and Warnock-Smith [1] documented a secular shift in passenger acceptance of ancillary pricing, finding that willingness to pay for optional services increases with travel frequency and income level. Maleki and O'Connell [6] traced the rapid institutionalisation of ancillary revenue across global LCCs from 2005 onwards, noting that carriers such as Ryanair and Spirit built entire business models around ancillary-first pricing. Hawlena, Dudek, and Kowalska [2] confirmed that by the early 2020s ancillary revenue had become the primary financial differentiator between profitable and loss-making carriers in competitive markets.

B. Pricing Strategies and Revenue Management

Wittmer and Oberlin [12] analysed ancillary pricing strategies across European LCCs and found that dynamic pricing consistently outperforms static pricing in yield per passenger. Shukla and Kolbeinsson [11] demonstrated that AI-driven pricing models improve ancillary revenue capture by 12-18% over rule-based systems. Marla and Yellepeddi [7] noted the outsized contribution of a small number of high-demand services to total ancillary income, an observation directly relevant to IndiGo's Pareto distribution of service usage.

C. Customer Behaviour and Satisfaction

Liu and Abdullah [5] found that necessity-driven services such as luggage and meals achieve higher uptake than comfort-oriented premiums. Bas and Aksoy [1] confirmed high gross margins of 60-80% for ancillary revenue compared to 5-15% for base fares, making ancillary income disproportionately valuable per rupee earned.

Author/Study	Methodology	Key Finding
O'Connell & Warnock-Smith	Survey & Regression	Acceptance grows with travel frequency
Maleki & O'Connell	Longitudinal Secondary	LCCs institutionalise ancillary-first pricing
Wittmer & Oberlin	Comparative Case Study	Dynamic pricing outperforms static by 10%+
Shukla & Kolbeinsson	ML Modelling	AI pricing improves capture 12-18%
Marla & Yellepeddi	Quantitative Airline Data	Pareto distribution in service usage
Bas & Aksoy	Financial Ratio Analysis	Ancillary margins 60-80% vs. 5-15% for fares

Liu & Abdullah	Literature Review	Necessity services outperform premium services
----------------	-------------------	--

TABLE I. Summary of Key Literature Reviewed

III. RESEARCH METHODOLOGY

This study adopts a qualitative-descriptive research design combining longitudinal financial analysis with cross-sectional primary survey data. Secondary data analysis examines IndiGo's annual reports and financial statements from FY 2019-20 to FY 2024-25, tracking ancillary revenue trends, growth rates, margin contributions, and service composition. Primary data draws on survey responses from approximately 100 participants, providing behavioural insights into awareness, usage, spending, and satisfaction.

Primary data was collected via an online structured questionnaire administered through Google Forms and distributed through social media and personal networks in April 2026. The sample comprises approximately 100 respondents representing diverse travel profiles, income groups, and occupational categories. Convenience sampling was used given the exploratory nature of the study. Analytical tools included percentage analysis, frequency distribution, trend analysis, comparative analysis against global LCC benchmarks, and measures of central tendency for spending behaviour.

IV. INDIGO: COMPANY PROFILE AND ANCILLARY SERVICES

IndiGo is India's largest airline by domestic market share, with a consistent share exceeding 55% (approximately 57% in FY 2024-25). Its single-fleet strategy, operating the Airbus A320/A320neo/A321 family exclusively, reduces maintenance complexity, training costs, and spare-parts inventory, enabling competitive cost-per-available-seat-kilometre (CASK) figures. IndiGo's ancillary revenue model is built on a deliberate unbundling strategy: base fares cover the seat and a modest baggage allowance, while all additional services are priced separately.

Service Category	Specific Offering	Target Segment
Seat Selection	Window, aisle, extra-legroom, IndiGo Stretch	Comfort-conscious travellers
Excess Baggage	Pre-purchased allowance beyond standard	Students, long-distance travellers
In-flight Meals (6E Eats)	Pre-booked meals and beverages	All segments

Priority Services (Fast Forward)	Priority check-in, security, boarding	Business travellers
Bundled Packages (6E Prime)	Seat + meal + priority at discount	Frequent travellers
Travel Insurance	Trip cancellation, baggage, medical	Risk-averse travellers
Flexible Booking	Reduced cancellation fees, fare hold	Uncertain itineraries

TABLE II. IndiGo Ancillary Services: Comprehensive Overview

V. DATA ANALYSIS AND RESULTS

A. Ancillary Revenue: Financial Trend Analysis

IndiGo's ancillary revenue has grown at over 20% annually, significantly outpacing total revenue growth of 7-10%. While ancillary income represents approximately 9-11% of total revenue, it contributes an estimated 20-30% of total profit due to its structurally superior gross margins of 60-80% compared to base fares at 5-15%.

Fiscal Year	Total Revenue (Rs. Cr)	Ancillary Revenue (Rs. Cr)	Ancillary Share (%)	YoY Growth (%)
FY 2019-20	24,052	~2,165	~9.0	--
FY 2020-21	9,058	~905	~10.0	-58.2 (COVID)
FY 2021-22	15,972	~1,677	~10.5	+85.3
FY 2022-23	54,196	~5,961	~11.0	+255.4
FY 2023-24	67,802	~7,458	~11.0	+25.1
FY 2024-25 (P)	~75,000	~8,250	~11.0	+10.6

TABLE III. IndiGo Ancillary Revenue Trend FY 2019-20 to FY 2024-25 (Estimates based on published annual reports)

B. Margin Comparison

Revenue Stream	Gross Margin (%)	Share of Total Revenue (%)	Share of Total Profit (%)
Base Ticket Fares	5-15	89-91	70-80
Ancillary Services	60-80	9-11	20-30

TABLE IV. Margin Comparison: Ticket Revenue vs. Ancillary Revenue

This structural margin asymmetry is the core financial justification for IndiGo's ancillary-first philosophy. A unit of ancillary revenue is four to sixteen times more profitable than a unit of base fare income, making growth in ancillary uptake disproportionately valuable to the airline's bottom line.

C. Primary Survey Results: Passenger Behaviour

Approximately 100 respondents participated in a structured questionnaire examining five dimensions: awareness, usage, spending, satisfaction, and service influence on airline choice.

Service Awareness: Overall awareness was high across the sample. In-flight meals led at 97%, followed by excess baggage (95%), seat selection (88%), priority boarding (75%), and travel insurance (48%), consistent with global literature on ancillary service visibility.

Service Usage: Usage mirrors a Pareto distribution. Approximately 91% of respondents used in-flight meals and 80% paid for extra baggage. All other services, including seat selection (22%), priority boarding (18%), and travel insurance (10%), saw usage below 25%, confirming that essential, high-frequency services drive the bulk of ancillary revenue volume.

Spending Behaviour: The majority of respondents spend between Rs. 500 and Rs. 2,000 per trip on ancillary services, with moderate-range spenders (Rs. 1,000 to Rs. 2,000) forming the largest cohort at 38%. Respondents spending Rs. 500-Rs. 1,000 constituted 35%, below Rs. 500 at 18%, and above Rs. 2,000 at 9%. This predictable spending cluster supports stable revenue forecasting.

Customer Satisfaction: Satisfaction levels are strikingly high: 93% of respondents reported being satisfied (52%) or very satisfied (41%) with IndiGo's ancillary services, with only approximately 2% expressing dissatisfaction.

Airline Choice Influence: When asked whether ancillary services influenced their choice of airline, 68% of respondents answered affirmatively. This

finding has strategic significance: ancillary services are not merely revenue add-ons but actively function as competitive differentiators that attract and retain passengers.

Bundled Service Preference: A substantial 76% of respondents indicated a preference for bundled services (combining seat + meal or priority boarding packages) over purchasing individual add-ons separately. This preference directly validates IndiGo's 6E Prime and 6E Seat and Eat bundling strategy.

VI. DISCUSSION

A. Revenue Growth Diagnosis

Ancillary revenue's 20%+ annual growth rate far outpaces total revenue growth of 7-10%. This divergence is structural, not cyclical: high-margin, low-incremental-cost services generate a disproportionate share of profit improvement. The COVID-19 period demonstrates the resilience of the ancillary model relative to base fare revenue alone, as ancillary revenue recovered sharply due to necessity-driven demand.

B. Profitability Multiplier

The margin differential between ancillary services (60-80%) and base fares (5-15%) creates a profitability multiplier effect. A 1% shift in revenue mix toward ancillary income produces a 4-16% improvement in per-unit margin. For IndiGo, maintaining this mix discipline is the primary lever of financial performance. The finding that ancillary income representing 9-11% of revenue contributes 20-30% of profit is the clearest quantitative evidence of this dynamic.

C. Necessity-Driven Demand

With approximately 71% of survey respondents travelling for business or education purposes, ancillary purchases are predominantly necessity-driven rather than discretionary. Meals are needed during long flights; excess baggage is required for education or work trips. This makes ancillary demand more stable and less cyclical than luxury-oriented premium services.

D. SWOT Analysis

Strengths	Weaknesses
Market leadership (57%+ domestic share) creates unmatched volume for ancillary cross-sell	High concentration in 2 services (meals, baggage): vulnerability if usage drops
93% customer satisfaction: strong retention and repeat purchase likelihood	Price-sensitive market cap on spending per passenger (Rs. 1,000-Rs. 2,000 range)

Bundled packages (6E Prime) show clear passenger preference (76%)	Limited awareness of newer or niche ancillary offerings
---	---

TABLE V. SWOT Analysis: IndiGo Ancillary Revenue Model

5	Improve transparency in ancillary fee communication	Medium
6	Develop third-party ancillary partnerships (hotels, car rental)	Medium

TABLE VI. Strategic Recommendations for IndiGo (2025-2028)

VII. CONCLUSION

This study examined the role of ancillary revenue in IndiGo's profitability within the Indian aviation market. The evidence is unambiguous: ancillary revenue has evolved from a supplementary income source to a strategically critical financial pillar. In a market defined by intense price competition and thin base-fare margins, ancillary income, with its structurally superior gross margins of 60-80%, provides the financial resilience that ticket sales alone cannot deliver.

The primary survey findings reinforce the financial picture: high awareness (97% for meals), concentrated usage (91% meals, 80% baggage), moderate but predictable spending (Rs. 500 to Rs. 2,000 per trip), and exceptional satisfaction (93%) combine to create a demand model that is stable, scalable, and loyalty-positive. The high proportion of necessity-driven travel (71% business/education) further insulates ancillary revenue from discretionary spending downturns.

Critically, 68% of respondents indicate that ancillary services influence their airline choice, confirming that IndiGo's ancillary model is not merely a revenue mechanism but a competitive positioning tool. Combined with 76% bundle preference, the data points to a clear strategic path: deepen the bundle proposition, improve service quality in the two dominant categories, and use technology and personalisation to convert high-awareness, low-adoption services into additional revenue streams. Effective ancillary revenue management is foundational: the airline's ability to combine cost efficiency with selective service unbundling and customer-focused pricing sets the standard for Indian LCC operations.

A. Strategic Recommendations

No.	Recommendation	Priority
1	Optimise pricing and quality of meals and excess baggage	Critical
2	Expand bundled package offerings (6E Prime variants)	High
3	Deploy targeted digital marketing for low-adoption services	High
4	Implement AI-driven dynamic pricing for ancillary services	High

REFERENCES

[1] O. Bas and T. Aksoy, "Impact of ancillary revenue on airline profitability ratios," International Journal of Aviation Management, 2020.

[2] J. Hawlena, M. Dudek, and G. Kowalska, "Global airline revenue strategies in the LCC era," Journal of Air Transport Management, 2021.

[3] IndiGo (InterGlobe Aviation Ltd.), Annual Reports FY 2019-20 to FY 2023-24, InterGlobe Aviation, New Delhi.

[4] IATA, World Air Transport Statistics, International Air Transport Association, 2024.

[5] H. Liu and N. H. Abdullah, "A review of ancillary services in airlines: Passenger perspectives," Journal of Aviation Technology and Engineering, 2019.

[6] M. Maleki and J. F. O'Connell, "Trends in airline ancillary revenue: A global study," Journal of Air Transport Management, 2020.

[7] L. Marla and K. Yellepeddi, "Dynamic pricing and Pareto distribution in airline ancillary revenue," Transportation Science, 2021.

[8] Ministry of Civil Aviation, Government of India, National Air Cargo Policy 2019, MoCA, 2019.

[9] J. F. O'Connell and D. Warnock-Smith, "Traveller preferences and acceptance of ancillary revenue services," Journal of Air Transport Management, 2018.

[10] M. Shaw and S. Tiernan, "Third-party ancillary revenue and airline partnerships," International Journal of Aviation Management, 2022.

[11] N. Shukla and A. Kolbeinsson, "Revenue management and ancillary services: The machine learning frontier," Journal of Revenue and Pricing Management, 2021.

[12] A. Wittmer and N. Oberlin, "Ancillary pricing strategies in European LCCs," Journal of Air Transport Management, 2020.