



भारतीय विमानपत्तन आर्थिक विनियमन प्राधिकरण
सफ़दरजंग हवाई अड्डा नई दिल्ली-110003

प्राप्त

क्रमांक 4870
दिनांक 10/3/16

भारतीय विमानपत्तन प्राधिकरण AIRPORTS AUTHORITY OF INDIA

No. AAI/CHQ/REV/AERA/MYTP-Chennai/2016

9th March, 2016

The Secretary,
Airports Economic Regulatory Authority of India,
AERA Building,
Administrative Complex,
Safdarjung Airport
New Delhi-110003

178/0.50-II
10/3/16

Sub:- Submission of up-dated MYTP (1st & 2nd Control) for Chennai Airport - reg.

Sir,

Reference is invited to AERA Order No. 38/2012-13 for the 1st Control Period. (01.04.2011 to 31.03.2016).

1. The year-wise capitalization during the 1st control period and 2nd Control period (proposed) in respect of Chennai Airport approved by the competent authority is furnished vide Form F10(a) of the up-dated MYTP enclosed herewith.
2. The traffic and Financial Statistics for F.Y.2011-12 to 2014-15 have been revised as per actuals and from F.Y. 2015-16 to 2020-21 on the basis of projection.
3. In the up-dated MYTP the effective corporate tax rate of 34.60% (F.Y.2015-16) and WACC at 14% at par with the Chennai & Kolkata airports has been considered.
4. Notes on AAI's Depreciation Policy is attached as per Annexure-'A'.
5. Note on Traffic Forecast Methodology is attached as per Annexure-'B'.
6. Form A as per Section A5.1 of Appendix 5 is attached at Annexure-'C'.
7. Business Plan for Chennai Airport is attached as per Annexure-'D'.
8. Brief note on taxation rates (effective tax rate) applicable to AAI is attached as per Annexure-'E'.
9. Fair Rate of Return is considered on the basis of report of M/s KPMG Advisory Services Pvt. Ltd. A copy of the same is attached as per Annexure-'F'.

Secretary - Nat in position

OSD-II

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10. The Annual Traffic Proposals (ATP) for the F.Y. 2016-17 (effective from 01.04.2016 to 31.03.2021) based on the up-dated MYTP is enclosed as Annexure-'G'.

11. The highlights of the proposal are as follows:-

- i) **Landing, Parking & Housing** – No increase is proposed in Domestic as well as International Landing Charges. Parking & Housing is proposed to increase by 20% on the existing rate in the F.Y. 2016-17 and no increase is proposed from F.Y. 2017-18 onwards.
- ii) **Fuel Throughput Charges** – No increase is proposed in 2nd Control period. The present rate of Rs.1774.43 per Kilo Ltr. will continue to exist.
- iii) **PSF – (Facilitation)** – The following PSF is proposed to be levied as under:-
 - a) Domestic departing PAX. - Rs. 99/- per PAX.
 - b) International departing PAX. - Rs. 190/- per PAX.

No increase is proposed in PSF during the entire 2nd control period.
- iv) **PSF – (Security)** – The present rate of Rs.130/- per Departing PAX will continue to exist.
- v) **UDF** – No UDF is proposed at Chennai Airport.
- vi) **Cargo** – The Cargo tariff is proposed to increase by 5% every year from 2016-17 onwards
- vii) The incentive in the Landing Charges for International Cargo Freighters attached as per Annexure-'H'. The landing charges are as under:-

No. of Cargo Freighters in a month	Percentage Concession on Applicable Landing Charges on Freighters
1-5	Not Proposed
6-10	10% - From 1 to 10
11-15	10% - From 1 to 10 20% - From 11 to 15
16 & Above	10% - From 1 to 10 20% - From 11 to 15 30% - From 16 & Above

- The scheme is applicable for all International Scheduled as well as International Non- Scheduled Cargo Freighters Aircraft.
- The incentive scheme is valid upto 31.12.2017.

viii) The incentive proposed for increasing the Domestic & International flight operation is as under:-

a) **Incentive for Domestic flight Operation:**

Percentage increase in Aircraft (Landing Domestic) per week per operator from the actual Aircraft movement or the summer schedule for the period 01.04.2016 to 07.04.2016 whichever is higher	Discount offered on total Landing Discount offered on all the movements per week per operator
10%	1%
20%	3%
30%	5%
40%	7%
50%	9%

b) **Incentive for International flight Operation:**

Percentage increase in Aircraft (Landing international) per week per operator from the actual Aircraft movement or the summer schedule for the period 01.04.2016 to 07.04.2016 whichever is higher	Discount offered on total Landing Discount offered on all the movements per week per operator
10%	1%
20%	3%
30%	5%
40%	7%
50%	9%

- The initial Aircraft movement per operator per week will be taken from 01.04.2016 to 07.04.2016. The actual Aircraft movement or the summer schedule per operator per week would be frozen for the above mentioned date for the entire control period (01.04.2016 to 31.03.2021) for the purpose of calculation.
- In case of **Domestic** Flight Operation Discount will be eligible to the operator if minimum movements (Arrival) of 100 is performed per week.
- In case of **International** Flight Operation Discount will be eligible to the operator if minimum movements (Arrival) of 15 is performed per week.
- Percentage increase in Aircraft will be rounded off to the nearest whole number.
- Discount on total Landing will be offered only if the payment is made within the stipulated time

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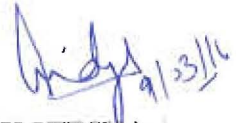
12. The short recovery of ARR in the 1st Control Period Rs. 106.47 Crores have been adjusted in 2nd control period.

13. The short recovery of ARR in the 2nd Control Period Rs. 0.38 Crores approx. may be allowed to recover during next control period.

14. The up-dated MYTP along with the Annual Tariff Proposal, Business Plan and Form A (ref section A5.1 of Appendix 5) are enclosed for your consideration and approval.

Thanking you,

Yours faithfully,



(V VIDYA)

General Manager (F&A)

Encl: a.a.

BEFORE THE AIRPORTS ECONOMIC REGULATORY AUTHORITY
OF INDIA AT NEW DELHI

Form A: (ref. Section A5.1 of Appendix 5)

**SUBMISSION OF MULTI YEAR TARIFF PROPOSAL FOR AND ON
BEHALF OF
CHENNAI AIRPORT**

I, S. Suresh, aged 55 years resident of Type-V, Quarter No.3, Jor Bagh, New Delhi-110003 acting in my official capacity as **Member (Finance)** in **Airport Authority of India** having its registered office at Rajiv Gandhi Bhawan, New Delhi-110003 do hereby state and affirm as under that:

1. That I am duly authorized to act for and on behalf of Airports Authority of India in the matter of making this submission before the Airports Economic Regulatory Authority of India, New Delhi (AERA);
2. I am competent to make this submission before AERA;
3. I am making this submission in my official capacity and the facts stated herein are based on official records;
4. The contents of this submission which include (i) Business Plan; (ii) Information pertaining to physical assets; (iii) Information relating to the Regulatory Building Blocks; (iv) Historical and Forecasted volumes; and (v) Historical revenues, are correct and true to my knowledge and belief and nothing material has been concealed therefrom.


(S. SURESH)

MEMBER (FINANCE)

Place: New Delhi

Date: 9th March, 2016

Annexure - A

Depreciation Policy of AAI

AAI is following Straight Line Method of providing depreciation in books of Accounts.

Determination of rates of depreciation

The minimum useful service life of various assets is reviewed from time to time for the purpose of scrap value and replacement considering the technical factors prevailing at the airports and also due to fast changes in technology and the obsolescence factor in aviation sector.

Depreciation rates were reviewed in 2006 by a Committee comprising of senior officers from Finance, Engineering, E&M, CNS (Planning), Technical and Electronics Departments.

On the basis of the review the depreciation rates were revised on the basis of the minimum Technical and useful service life of various assets under different categories.

The revised depreciation rates were approved by AAI Board in its 109th Board meeting held on 27th April 2007. The revised depreciation rates were made applicable w.e.f. 1st April 2006 (F.Y. 2006-07)

The salient aspects of the revised policy are as follows:

- a) Method of Depreciation – Straight Line Method
- b) No depreciation to be provided in the year the asset is disposed off/retired from active use.
- c) Residual value for each asset to be taken as Rs.1 balance to be provided by way of depreciation as per prescribed rates.

However w.e.f. F.Y. 2012-13 depreciation will be charged at 100% in case assets are used in financial year for 180 days or more whereas if the assets are used for less than 180 days the depreciation will be equivalent to 50% of the depreciation of the financial year.

In the MYTP depreciation is charged for full year even if the assets are used for less than 180 days.

The revised depreciation rates are given at annexure -1.

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SL. NO.	ASSET HEAD	EXISTING DEPRECIATION RATE	Annexure - I REVISED DEPRECIATION RATE w.e.f. 1.04.2006
	Leasehold	NIL	NIL
1	RUNWAYS, TAXIWAYS, APRONS, ROADS, BRIDGES & CULVERTS	12.17%	13.00%
2	BUILDINGS FREEHOLD		
	a) Terminal, Cargo & Operational Buildings	7.31%	8.00%
	b) Temporary Buildings	100.00%	100.00%
	c) Residential	4.00%	5.00%
	d) Others	7.31%	8.00%
3	BUILDINGS LEASEHOLD	7.31%	8.00%
4	SECURITY FENCING	100.00%	100.00%
5	Boundary wall (Operational)	7.31%	8.00%
	Boundary wall (Residential)	4.00%	5.00%
6	PLANT & MACHINERY	12.17%	11.00%
7	TOOLS & EQUIPMENTS		
	X-Ray Baggage Machines	12.17%	11.00%
	Others	12.17%	20.00%
8	FURNITURE & FIXTURES	20.00%	20.00%
9	COMPUTER & I.T. HARDWARE & ACCESS.	20.00%	20.00%
10	INTANGIBLE ASSETS - COMPUTER SOFTWARE	20.00%	20.00%
11	VEHICLES		
	Crash Fire Tenders & Fire Fighting Equip.	19.19%	13.00%
	Others	12.17%	14.00%
12	AIRCRAFT and AFIS	24.34%	10.00%
13	ELEC INSTALLATIONS	12.17%	11.00%
14	OTHER OFFICE APPLIANCES	20.00%	18.00%

Note : 1. Land Freehold - No depreciation.
2. Land Leasehold - Premium amortised over the lease period as per capitalisation policy

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Annexure - B

Methodologies and Assumptions involved in Traffic Forecast

The following methodologies are adopted and assumptions are made while preparing the traffic forecast :

- i) Bottom up approach is adopted i.e., the Traffic Forecast for individual airports are prepared and summed up to arrive at the traffic forecast of all the airports taken together.
- ii) While making forecast for individual airports the traffic trends of respective airport is a guiding factor.
- iii) A higher weightage is given to the traffic growth witnessed during recent past.
- iv) Regression/ Econometric Analysis are also undertaken with GDP, IIP and foreign tourist arrival as predictor variables for major airports
- v) Adequate infrastructure is created and capacity constraints are not allowed to operate.
- vi) The forecasts of other international organizations viz. ICAO, IATA, ACI and Aircraft manufacturers are also considered while finalizing the growth rates.
- vii) Adjustment for subjective factors viz., increase in oil prices, safe and secure environment for tourists, safe and secure air travel, other infrastructures like road and rail connectivity creation of adequate hotel/ motel capacity are also considered.
- viii) Fleet plans of airlines.
- ix) Factors contributing to the Traffic Growth as mentioned above will continue to operate to fuel the growth in the Civil Aviation Sector in the 12th Plan also.

The above methodologies are used both for passenger and cargo traffic, whereas the aircraft movements are projected based on the trends in passenger, aircraft movement ratios.

While making the traffic forecast, the opportunities that exist at various Indian airports and the concessions given by AAI to facilitate operation at its airports are also taken into consideration.

BUSINESS PLAN OF CHENNAI AIRPORT

Objectives

The objectives of this business plan are:

1. To submit to AERA for determination of the tariff for the aeronautical services namely Landing and Parking in respect of Chennai Airport.
2. As per AERA Consultation Paper the Multi Year Tariff Proposal should reconcile with the Business Plan submitted.

Mission

To achieve highest standards of safety and quality in air traffic services and airport management by providing state of the art infrastructure for total customer satisfaction contributing to the economic growth and prosperity of the nation.

Vision

To be a world class organization providing leadership in air traffic services and airport management and making India a major hub in Asia Pacific Region by 2016.

Keys to success

The keys to success for Airports Authority of India are;

Employing an experienced, highly professional management team that combines vision, realism and belief in the utilization and benefits of the latest aviation, electronic and information technologies; realization of the importance of an organization's personnel to its success and a total familiarity with and commitment to the overall mission and goals of the organization.

Concentration on safety with highly trained dedicated and professional personnel, induction of the latest state of the art equipment and also new facilities to improve standards of safety of airports. Adoptions of new and improved procedure go hand in hand with induction of new equipment.

Provision of excellent passenger facilities and related amenities at its terminals and meeting the customer's satisfaction.

Company Summary

AAI was constituted by an act of Parliament and came into being on 1st April 1995 by merging erstwhile National Airports Authority and International Airports Authority. The merger brought into existence a single organization entrusted with the responsibility of creating, upgrading, maintaining and managing civil aviation infrastructure both on the ground and space in the country.

AAI manages 125 airports which includes 11 International Airports ,8 Customs Airports ,81 Domestic Airports and 27 civil enclaves at Defence airfields.AAI provides air navigation services over 2.8 million square nautical miles of air space.

Company Locations and Facilities

Chennai airport is the premier international gateway and air hub for south India the busiest airport in India the main International airport in eastern India it is also its largest.

The modernization and expansion of Chennai airport is in full swing. The mega project comprising domestic and international terminal buildings and allied works including consultancy of construction of international and domestic building, construction of Common user cargo terminal and connectivity of tube to Metro Rail would be costing 2502 cr. in the second control period.

The international integrated terminal building are designed on the concept of 2 level structure with Departures at First floor and Arrivals at ground floor having M.S. profile sheet roofing on tubular trusses with an estimated cost of RS. 1357.00 crores . The new international terminal building will cater for four million passengers per annum.

Construction of Domestic Terminal phase-II which is proposed at Chennai airport capable to handle ten million passengers per annum. The Terminal Building shall be designed for amply commercial space which shall commensurate with traffic projections. The estimated cost of this proposed proposal is Rs. 754.00 crore.

It is also proposed to provide the latest IT systems, including Public Address Voice Alarm, Security Surveillance, CCTV covering the whole terminal building and the entire length of the conveyor, fire detection and alarm, very early smoke Detection and alarm and Building Management System (BMS).

Services

At Chennai airport, AAI is providing Terminal Building facilities as well as providing International Cargo Terminal facilities. There are 21 International and 24 Domestic Destinations connected from the Chennai International airport.

In order to achieve seamless flow of passengers between metro station and airport a 800 meter long connecting Tube is proposed on the city side providing two way travellers for movement. The estimated cost of the work would be Rs 79.00 crore.

The ATC tower is located at the Air Traffic Services Complex. There are two radars in Chennai the mono-pulse secondary surveillance radar at Porur and the Chennai Westing House (terminal) radar. Advance surface movement guidance and control system has been introduced in the ATC tower.

The new proposed MLCF to be constructed in front of existing Terminal building Total capacity of car parking after construction of MLCF Phase-I and Phase-II will be increased to 3350 cars against the present surface car parking capacity of 1575 cars. The estimated cost of the work would be Rs. 287.00 crore.

Cargo Operations:

At the cargo terminal, AAI functions as ground handling agency for airlines for handling or processing their cargo on ground and acts as custodian on behalf of customs import/export cargo under the customs act of 1962. Spread over an area of 19.5 acres, the complex uses cargo-handling equipments such as elevated transfer vehicle, forklifts, high-mast stackers, and power hydraulic pallet trucks for handling cargo. There are three ETV buildup/working stations and 18 manual buildup ETV loading positions at the complex.

The upcoming Work for international import Cargo storage and processing facility would have a capacity to handle almost 11,00,000 tonnes of cargo annually from the existing 350,000 tonnes. The conventional way of warehouse management will be replaced by automated storage and retrieval system (ASRS). The new facility would also have dedicated isolated storage locations for handling dangerous and hazardous cargo. The cost of the proposed to construct a Common User Domestic Cargo Terminal (CUDCT) at an estimated cost of Rs. 111.00 crores.

Market Analysis Summary

For the fiscal year 2014-15, it is the fourth busiest airport in India in terms of passenger traffic after Delhi, Mumbai and Bangalore and the third busiest after Delhi, Mumbai in terms of international passengers and cargo handled. In the recent past there has been a rapid increase in tourist traffic including foreign visitors as an international tourist destination.

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Being the premier international gateway and air hub for south India, the government of India, ministry of civil aviation has decided to expand the Chennai airport.

Passenger and Aircraft Traffic

The total passenger traffic handled during April –March 2014-15 has increased to 14.29 million from 12.90 million resulting in an increase of 10.9 % as compared to passenger handled during April –March 2013-14.

The total aircraft movements (International and Domestic) handled in 2014-2015 has shown a moderate increase of 0.5% as compared to the aircraft movements handled in 2013-2014

Freight Traffic

The total freight traffic has increased to 303904 tons from 292080 tons which has registered an increase of 4.00% during April –March 2014-15 as compared to freight traffic handled in April –March 2013-14. The increase is due to start of freight handling by low cost airlines.

It is forecasted by CPMS Directorate that there will be a growth of 6.00% in passenger traffic, aircraft traffic will grow by 4.4% and Freight Turnover will increase by 4.1% from the year 2015-16 onwards for another 5 years.

BASIS OF TAXATION RATES

The normal income tax rate for companies for the A.Y. 10-11, 11-12, 12-13 to 14-15 & 15-16 was 33.99%, 33.22%, 32.45% & 33.99% respectively considering the surcharge & cess respectively. Also income tax rate applicable to companies for the A.Y. 2016-17 is 34.60% (including Surcharge & Cess). However, the effective rate of tax for AAI, which is considered in the books for creation of provision for income tax comes to approx. 35 to 37% on the P.B.T.

The difference is due to the fact that, depreciation is calculated as per straight line method in the books of accounts, whereas under the Income Tax Act depreciation is calculated under W.D.V method. Further, under the Income Tax Act assets capitalized during the period October to March, the depreciation is allowed at 50% of the applicable rates, whereas in the books of accounts the same is calculated at full rate.

Certain amount of expenditure/provisions which are considered for calculation of book profit are not allowed as deductions under the Income Tax Act, are added back to the profit for calculation of the Income Tax. The examples of which are as follows:-

- a) Interest, Royalty, Fees for technical services payable outside India u/s 40(a) (i)
- b) Foreign Benefit Tax and Income tax u/s 40(a) (i)
- c) Tax on perquisite paid by employer u/s 40(a) (i)
- d) Contribute to non-statutory funds u/s 40(A) (9)
- e) Unpaid statutory liabilities u/s 43(b) i.e. payments of tax duty cess of fee contribution to PF bonus to employee interest on loan borrowed from Financial Institutions/PSU Banks any sum payable by employer in lieu of leave at the credit of the employee etc.
- f) Provisions for bad debts.