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Date: 29 August 2016

The Chairperson,  
Airport Economic Regulatory Authority of India,  
AERA Building,  
Safdarjung Airport Airport,  
New Delhi - 110 003.

Dear Sir,

Sub: Updated Tariff Submissions - MYTP- Control Period 2016-17 to 2020-21 for Kannur International Airport Limited

We had submitted the tariff related submissions online on 31 March 2016. We had also submitted a copy of the online submission along with a note and CD containing the business models and other agreements etc. in person, on 22 April 2016 at your office.

After our submissions, we have evaluated the progress of the project and we now expect the Airport to commence operations from 1 April 2017 as against October 2016 as submitted earlier. We have accordingly updated the Business model and our tariff submissions, along with some other changes to the Capital cost and the charges proposed to be levied. We are enclosing herewith the updated submissions including under Shared Revenue Till model as required by your letter dated 4 August 2016.

We request you to kindly acknowledge the same and do the needful at the earliest.

Thanking you in anticipation,

Yours truly,

For KANNUR INTERNATIONAL AIRPORT LIMITED

JAYAKRISHNAN S  
Chief Financial Officer

Encl: a/a



Kannur International Airport Limited  
CIN: U6033KL2009SGC025103

KANNUR INTERNATIONAL AIRPORT LIMITED  
TARIFF SUBMISSIONS  
TO  
AIRPORT ECONOMIC REGULATORY AUTHORITY  
CONTROL PERIOD: APRIL 2016 TO MARCH 2021  
-Updated-  
August 2016

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## About Kannur International Airport Limited - The Company (KIAL)

1.1 Kannur International Airport Limited (KIAL/ Company) was incorporated on 3<sup>rd</sup> December 2009 with the objective to establish, operate, manage, undertake and maintain airports and allied aircraft infrastructure facilities in Kannur and / or other parts of India.

1.2 The Authorised Share Capital of KIAL is Rs. 1000 Crore and the Paid up Share Capital as of 31<sup>st</sup> March 2015 is Rs. 864.76 Crores.

1.3 The proposed structure of the overall authorized share capital is as follows:

Category	% of shareholding
Government of Kerala	35%
PSU - General	23%
PSU - Airport (AAI etc.)	26%
Private Sector	16%
<b>TOTAL</b>	<b>100%</b>

1.4 Shareholding structure as revised and approved in the Board meeting held on 29<sup>th</sup> December 2015 is as follows:

Category	% of shareholding
Government of Kerala	35%
PSU - General	25%
PSU - Airport (AAI etc.)	10%
Private Sector	30%
<b>TOTAL</b>	<b>100%</b>

1.5 Registered office of the company is in Trivandrum with an Operations office and Project office located in Kannur.

1.6 Government of Kerala, Bharat Petroleum Corporation Limited (BPCL), Kerala State Beverage Corporation Limited (KSBCL), Kerala Minerals & Metals Limited, Kerala State Industrial Enterprises Limited and Kerala Hotels & Resorts Limited are the key shareholders of the company.

1.7 The Shareholding Pattern of KIAL (with individual details of persons holding over 5%) as of 31<sup>st</sup> March 2016 is as given below:

Party	% Holding
Government of Kerala	40.47%
BPCL	19.66%
AAI	11.56%

Party	% Holding
Mr. Yusuf Ali	5.20%

- 1.8 The Operations of the Company are managed by the Board of Directors of whom Chief Minister of Kerala is the Chairman. The day to day operations are headed by Mr. Thulasidas, Managing Director. Composition of the Board of Directors of the Company is as given below:

Name	Category
Shri Pinara Vijayan, Chief Minister of Kerala	Chairman & Director
Shri E Chandrasekharan, Minister of Revenue and Housing	Director
Shri E P Jayarajan, Minister for Industries and Sports	Director
Shri A K Saseedran, Minister for Transport	Director
Shri Ramachandran Kadannappally, Minister for Ports, Museum and Archeology	Director
Smt K K Shylaja Teacher, Minister for Health and Social Justice	Director
Shri S M Vijayanand, Chief Secretary, GoK	Director
Shri.Vattavayalil Joseph Kurian, Addl. Chief Secretary (Water Resources and Aviation)	Director
Shri B Srinivas, Addl Chief Secretary (Water Resources and Aviation)	Director
Shri V Thulasidas	Managing Director
Shri G C Gopala Pillai, MD Kinfra	Director
Shri M A Yusuffali, MD EMKE Group	Director
Dr. Shamsheer V P, MD - VPS Health Care	Director
Shri M M Somaya, ED (Aviation) BPCL	Nominee Director
Shri Prasad Panicker, ED I/C, BPCL	Nominee Director
Shri R Bhandari, ED (Finance) AAI	Nominee Director
Smt. Krishnaiyer Parvathy Ammal	Independent Director
Shri. Madhavan Nambiar M	Independent Director

## Kannur International Airport - An Overview

- 2.1 KIAL was given the right to construct Kannur International Airport (KIA), in Moorkhanparambu in Kannur District of Kerala vide Government of Kerala (GoK) Government Order MS No. 2/98/Tran dated 17th January 1998.
- 2.2 Ministry of Civil Aviation (MoCA), Government of India (GoI) granted the licence to KIAL for operations of the Airport.
- 2.3 Land for construction and operation of airport was brought in by GoK as part of the Share Capital Contribution.
- 2.4 Finance Close for the project was tied up with the Lenders on 20<sup>th</sup> May 2015.
- 2.5 Construction activities are expected to be completed by March 2017 and the Commercial operations at the airport are expected to commence by 1<sup>st</sup> April 2017.
- 2.6 Key dates in the history of KIA are as given below:

S #	Activity	Date
1)	In-principle approval from MoCA	December 1997
2)	Order for establishment and running of Airport	January 1998
3)	Approval from MoCA to GoK proposal for Airport	February 2008
4)	Formation of the Company	December 2009
5)	Award of Contract for Airside works	November 2013
6)	Airside works - Construction work inauguration	February 2014
7)	Award of contract for Terminal Building works	July 2014
8)	Terminal Building - Construction work inauguration	July 2014
9)	Financial Closure of the Project	May 2015
10)	Award of Equipment supply contracts	
	ACFT & BHS	September 2015
	PBB, Escalators, Elevators	October 2015
	Escalators	October 2015

2.7 Key stakeholders/ parties involved in the construction of KIA are as given below:

Lenders	Canara Bank, South Indian Bank, Federal Bank
Design and Project Management Consultants	AECOM Asia – Runway and airside works KITCO – Terminal Building and allied works
Key Contractor	Larsen & Toubro

2.8 Overview of the Project is given below:

Land area owned (Capital contribution by GoK)	1192.18 acres
Land area proposed to be leased from KINFRA – nodal agency of GoK	888.6 acres (includes 612 already acquired, possession still with KINFRA. 70.40 acres possession with KIAI, yet to be leased, 131.20 acres to be acquired in Phase 3, 75 acres to be acquired for Runway extension to 3400 metres)
Land area used for current Airport Project	500 Acres
Runway specification	3.05 km works – Contract awarded for Rs. 694 crores
Terminal Building specification	95000 sq. m – Contract awarded for Rs. 475 Crores
Passenger Capacity planned for the first 5 years	2.51 Million passengers as at March 2022

### 3. Tariff Submission Overview

- 3.1 KIAL has prepared the Tariff submissions in line with the Airport Economic Regulatory Authority (AERA) Order No. 13/2010-11 dated 12<sup>th</sup> January 2011 and under Single Till as per the methodology prescribed in Direction 5/2010-11 dated 28<sup>th</sup> February 2011.
- 3.2 Also, submissions are made under Shared Revenue Till as per AERA letter dated 4<sup>th</sup> August 2016.
- 3.3 KIAL has prepared a Financial Model in line with which the different Regulatory Building Blocks (RBB) have been computed and prepared based on detailed projections and estimates/benchmarks.
- 3.4 The Financial Model is enclosed herewith and given below are the detailed explanations and overview on each of the Regulatory Building Blocks.
  - 3.4.1 Capital Expenditure and Regulatory Asset Base
  - 3.4.2 Traffic Forecasts
  - 3.4.3 Cost of Debt
  - 3.4.4 Cost of Equity
  - 3.4.5 Fair Rate of Return
  - 3.4.6 Depreciation
  - 3.4.7 Non-Aeronautical Revenues
  - 3.4.8 Operating Expenditure
  - 3.4.9 Taxation
  - 3.4.10 Aggregate Revenue Requirements
  - 3.4.11 Aeronautical Revenue estimates
  - 3.4.12 UDF Estimates



#### 4. Capital Expenditure and Regulatory Asset Base

- 4.1 Capital Expenditure Estimates of KIAL have been approved by the Board of Directors (Board/ BoD) in their meeting held on 3<sup>rd</sup> February 2014 along with the Project Information Memorandum and Detailed Project Report. Broad elements of Capital Costs approved are as given below:

Particulars	Amount (Rs. Crore)
Land	315.94
Building and Civil Works	810.24
Runway, Road way and Culverts	298.74
Electrical Installations	79.16
Other Equipments	113.94
Furnitures & Fixtures	5.00
Aerobridges	12.00
Firefighting Equipments	0.50
Computers & Accessories	1.00
Vehicles	16.44
Preoperative Expenses	53.48
Contingency	67.25
Margin Money	4.86
Interest During Construction	113.4
<b>TOTAL</b>	<b>1892.00</b>

- 4.2 Within this overall Budget, contracts have been awarded based on competitive tenders floated and after due approvals by the Board of Directors. Details of Key contracts awarded and in execution as of date are as follows:

Party	Broad Description	Award Value (Rs. Cr.)	Award date
Larsen & Toubro	Earthwork and Runway works	694 Crores	Nov 2013
Larsen & Toubro	Terminal Building works	475 Crores	July 2014

- 4.3 Contractor bills are checked and approved by the Project Management Consultant and also reviewed by the Site Engineering team of KIAL after which they are paid.
- 4.4 No non-airport activity related developments are proposed to be carried out in the initial years of the Airport Project.

- 4.5 Summary of costs proposed to be capitalized and considered as Initial Regulatory Asset Base for the Project (including Interest during construction etc.) on which return is claimed, is as given below:

Particulars	Amount (Rs. Crore)
Land	316.00
Building and Civil Works	847.48
Runway, Road way and Culverts	365.14
Other Equipments	321.38
<b>TOTAL</b>	<b>1850.00</b>

- 4.6 At the time of tariff submissions, these costs have not been capitalized in books as yet, as the Airport Opening Date (AOD) is planned for 1<sup>st</sup> April 2017. In view of capitalization still pending due to the ongoing construction of the new airport, KIAL submits that the Capital Expenditure and the resultant RAB be trued up based on actual expenditure, at the beginning of the next control period.

- 4.7 Summary of Average RAB, under Single Till, computed based on the above Capital Expenditure and depreciation considering Para 9 below, from the model, is as given below:

Particulars	2016-17	2017-18	2018-19	2019-20	2020-21
Opening RAB		1850.00*	1682.47	1603.86	1525.25
Additions	-	-	-	-	-
Deductions	-	-	-	-	-
Depreciation	-	(82.77)	(82.77)	(82.77)	(82.77)
Closing RAB	-	1767.22	1684.45	1601.67	1518.89
<b>Average RAB</b>	-	<b>1808.62</b>	<b>1725.83</b>	<b>1643.06</b>	<b>1560.28</b>
Less: Land not used for project	-	(184.33)	(184.33)	(184.33)	(184.33)
<b>Average RAB for Tariff</b>	-	<b>1624.28</b>	<b>1541.50</b>	<b>1458.72</b>	<b>1375.95</b>

\* Opening RAB capitalized as of 1<sup>st</sup> April 2017.

Of the total area of 1200 acres of owned land, around 500 acres is used for Airport Project. Hence proportionately, of the capitalized land value of Rs. 316 Crores, Rs. 184.33 crores (for 700 acres not used) is proposed to be reduced from average RAB workings.

- 4.8 In view of capitalization still pending and construction of the new airport, KIAL submits that the Capital Expenditure and the resultant RAB be trued up based on actual expenditure, at the beginning of the next control period.

## 5. Traffic Forecasts

- 5.1 KIA proposes to commence commercial operations at the Airport from 1st April 2017.
- 5.2 Traffic study for KIA has been carried out by AECOM Asia Company Limited (AECOM Asia) – a consortium between AECOM India Private Limited and CRISIL. The study was conducted in August 2013.
- 5.3 In the traffic study AECOM Asia has evaluated the aviation industry, trends in Indian aviation, aviation sector in Kerala and have estimated the traffic volumes for Kannur International Airport.
- 5.4 Traffic estimates were made for KIA from 2015-16 onwards. However, in view of Airport Opening date (AOD) being planned as 1st April 2017, traffic estimates have been shifted by 2 year in the business model, for projections, from the estimates provided by AECOM Asia.
- 5.5 Traffic estimates considered in the Business Plan are as follows:

Particulars	UOM	2016-17	2017-18	2018-19	2019-20	2020-21
Domestic Pax	Mn.	-	0.14	0.16	0.18	0.20
Intl. Pax	Mn.	-	1.47	1.65	1.85	2.06
Total Pax.	Mn.	-	1.61	1.81	2.03	2.26
Depax of the above	Mn.	-	0.81	0.91	1.02	1.13
Domestic ATM	#	-	2015	2246	2481	2737
Intl. ATM	#	-	13372	14746	16139	17637
Total ATM	#	-	15387	16992	18620	20374
Domestic Cargo	MT	-	241	252	262	273
Intl. Cargo	MT	-	18116	20674	23438	26570
Total Cargo	MT	-	18357	20926	23700	26843

- 5.6 In view of the new Airport being established, where there are no established trends, KIAI submits that the traffic estimates submitted as part of tariff proposals may be trued up based on actual traffic, at the beginning of the next control period.

## Cost of Debt

- 6.1 KIAL has tied up a total debt finance of Rs. 892 Crore for the Airport Project. Details Lenders and the interest rate agreed with the lenders is as given below:

Lender	Loan Amount	Interest Rate
Canara Bank	Rs. 692 Crore	Base rate plus 0.40% spread - 10.40%
South Indian Bank	Rs. 110 Crore	Base rate plus 0.20% spread - 10.40%
Federal Bank	Rs. 90 Crore	Base rate plus 0.20% spread - 10.40%
<b>TOTAL</b>	<b>Rs. 892 Crore</b>	

- 6.2 KIAL has till end June 2016 drawn down a loan of Rs. 557 Crores. Balance loan of Rs. 293 Crore to Rs. 335 Crores approx. (considering the mix for the proposed capex plan) is proposed to be drawn down over the balance period of construction. Draw down (Actual and proposed) schedule is as given below:

Drawdown date	Amount
June 2015	Rs. 150 Crore
March 2016	Rs. 150 Crore
June 2016	Rs. 257 Crore
September 2016	Rs. 70 Crore
December 2016	Rs. 70 Crore
February 2017	Rs. 153 Crore
March 2017	Rs. 42 Crore (Based on need)
<b>TOTAL</b>	<b>Rs. 892 Crore</b>

- 6.3 Cost of debt has been considered as 10.05% throughout the majority period of loan (Except initial 3 months) for the purpose of estimating the return on RAB.
- 6.4 KIAL submits that the Cost of Debt may be trued up, based on the actual cost incurred in the project, at the end of the current control period.

## Cost of Equity

- 7.1 KIAL has considered a cost of Equity of 16% in forecasting the Fair Rate of Return (FRoR) on RAB.
- 7.2 The estimation made by KIAL is in line with the Cost of Equity values considered by AERA in its Tariff Orders relating to various Airport Operations such as Delhi International Airport, Mumbai International Airport, Bangalore International Airport and Hyderabad International Airport.

## 8. Fair Rate of Return

- 8.1 Fair Rate of Return (FRoR) for the Control period has been computed based on the Weighted Average ratio of the Debt and Equity outstanding for the entire control period, considering 10.05% as Cost of Debt and 16% as cost of Equity.
- 8.2 KIAL proposes to make the tariff in the initial years reasonable and attractive for passengers which would need to be competitive. As a result, there may not be recovery of the entire eligible Aggregate Revenue Requirement, which also would have an impact on the Retained earnings impacting the Gearing and Fair Rate of Return, as given below:
- 8.3 Computation of Fair Rate of Return for the control period (without considering the Retained earnings) is as given below:

Particulars	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Share Capital	818.41	1000.00	1000.00	1000.00	1000.00	1000.00
Retained Earnings		(0.00)	(116.80)	(223.53)	(317.44)	(393.75)
Debt	350.00	850.00	850.00	850.00	772.72	695.45
Average Equity		909.20	1000.00	1000.00	1000.00	1000.00
Average Retained Earnings		(0.00)	(58.80)	(170.17)	(270.48)	(355.59)
Average Debt		575.00	850.00	850.00	811.36	734.09
Gearing Ratio <i>without Retained earnings</i> (Debt: Equity)		39:61	46:54	46:54	45:55	43:57
Cost of Debt		10.05%	10.05%	10.05%	10.05%	10.05%
Cost of Equity		16%	16%	16%	16%	16%
Average Fair Rate of Return				13.335%		

- 8.4 KIAL submits that the FRoR shall be trued up at the end of Control period when computing the actual ARR, based on any changes in Cost of Debt and actual position of Equity and Debt at the end of each year and also based on the Aggregate Revenue Requirement actually to be provided.

## Depreciation

- 9.1 KIAL provides for depreciation on assets in line with the Companies Act 2013, after considering the useful life of the assets under different categories and after evaluating the practice followed by AAI.
- 9.2 KIAL is in the process of determining the Depreciation policy and getting the Board of Directors' approval for the same.
- 9.3 For the purpose of tariff submissions, KIAL has considered depreciation for different categories of assets on the basis of following useful lives and depreciation as given below.

Asset Category	Useful Life	Depreciation rate
Civil works	60 years	1.67%
Plant & Machinery	10 years	10.00%
Aerobridges & Equipments	10 years	10.00%

- 9.4 In accordance with the aforementioned useful lives and costs proposed to be capitalized under different asset categories, depreciation proposed to be incurred is as given below:

Asset Category	2016-17	2017-18	2018-19	2019-20	2020-21
Civil works	-	14.12	14.12	14.12	14.12
Plant & Machinery	-	36.51	36.51	36.51	36.51
Runway & Related	-	32.14	32.14	32.14	32.14
<b>TOTAL</b>	-	<b>82.77</b>	<b>82.77</b>	<b>82.77</b>	<b>82.77</b>

- 9.5 In view of capitalization still pending KIAL submits that the Depreciation as given above be tried up based on actual expenditure, at the beginning of the next control period.

## 10. Non-Aeronautical Revenues

- 10.1 Kannur International Airport has planned for the facilities relating to Food & beverage, Duty free shops, Shopping area, car parking etc. as part of its Terminal Building plan.
- 10.2 The services are proposed to be outsourced to concessionaires by way of concession agreements, who will provide the services to passengers and users of the Airport.
- 10.3 KIAL proposes to collect a specific % as revenue share from the concessionaires. The business model estimates the collections from these concessionaires over the concession period as given below, considering revenue per passenger and other benchmarks.

Nature of Service	2016-17	2017-18	2018-19	2019-20	2020-21
F&B Services	-	2.26	2.74	3.31	3.98
Duty Free Shop	-	9.03	10.95	13.25	15.94
Space Lease rental	-	1.30	1.44	1.58	1.74
Car Park Revenue	-	2.61	3.17	3.84	4.61
Public Admission Charge	-	0.83	1.01	1.22	1.47
Flight Catering	-	1.42	1.66	1.92	2.22
Advertising	-	0.28	0.30	0.33	0.37
<b>TOTAL</b>	-	<b>17.87</b>	<b>21.40</b>	<b>25.60</b>	<b>30.47</b>
# of passengers	-	0.16	0.18	0.21	0.23
NAR per passenger Rs.	-	112	119	122	132

- 10.4 In view of the new airport and absence of confirmed trends on the traffic of passengers and ATMs and Non-Aero Revenues, KIAL submits that the Non Aeronautical Revenues estimated herein may be trued up based on actuals at the end of the current control period.



## 11. Operating Expenditure

- 11.1 KIAL Operating Expenditure consists of Personnel costs, Operations and Maintenance Expenditure and other costs. Cost estimates have been made considering comparable trends across other similar airports. Summary of Operating and Maintenance expenditure proposed to be incurred is as given below:

Nature of Expenditure	2016-17	2017-18	2018-19	2019-20	2020-21
Employee Costs	-	8.69	10.56	12.79	15.37
Repair & Maintenance	-	13.71	13.71	14.81	15.99
Security	-	4.83	5.86	7.10	8.54
Stores & Spares	-	1.63	1.63	1.76	1.90
Utilities	-	3.22	3.91	4.74	5.69
Administration Expenses	-	4.83	5.86	7.10	8.54
Land Lease Rental	-	0.01	0.01	0.01	0.01
Marketing Costs	-	0.53	0.63	0.74	0.86
<b>TOTAL</b>	-	<b>37.46</b>	<b>42.17</b>	<b>49.04</b>	<b>56.91</b>
# of passengers	-	0.16	0.18	0.21	0.23
Operating Expenditure per passenger Rs.	-	234	234	233	247

- 11.2 A note on each expenditure estimate is as given below:

### a. Personnel Expenditure

- 11.3 Personnel expenditure estimate is considering an average cost of Rs. 54 per passenger with a year on year increase of 8% planned on the cost. Detailed working of the personnel expenditure projected is as given below:

Particulars	2016-17	2017-18	2018-19	2019-20	2020-21
Cost per passenger opening Rs.		54.00	54.00	58.32	62.98
Increase per annum - 10%		-	8%	8%	8%
Cost for the year - Rs.		54.00	58.32	62.98	68.02
# of passengers (Crore)		0.16	0.18	0.21	0.23
<b>Personnel cost estimated (Rs. Crore)</b>	-	<b>8.69</b>	<b>10.56</b>	<b>12.79</b>	<b>15.37</b>

- 11.4 KIAL is currently in the process of recruiting the staff members and the estimates may undergo a change based on the actual costs of hiring the resources etc.

## Repair and Maintenance Expenditure

- 11.5 Operating and Maintenance Expenditure estimate is made considering the Cost of Machinery and equipment needing repair and projecting the O&M cost as a % of the cost of equipment.
- 11.6 Details of computation of the O&M cost is as given below:

Particulars	2016-17	2017-18	2018-19	2019-20	2020-21
Capital cost of equipment	-	326.31	326.31	326.31	326.31
Capital cost of Civil works	-	1044.55	1044.55	1044.55	1044.55
% AMC - Equipment	-	1%	1%	1%	1%
% AMC - Civil works	-	1%	1%	1%	1%
Escalation rate	-	-	-	8% YOY	8% YOY
# of months	-	12	12	12	12
<b>Cost for the year</b>	-	<b>13.71</b>	<b>13.71</b>	<b>14.81</b>	<b>15.99</b>

## Power and Water Expenditure

- 11.7 Power and Water costs are estimated based on the expected usage of the same at the Airport.
- 11.8 Power and Water expenditure has been estimated on the following basis:

Particulars	2016-17	2017-18	2018-19	2019-20	2020-21
Cost per passenger opening Rs.	-	20.00	20.00	21.60	23.33
Increase per annum - 8%	-	-	8%	8%	8%
Cost for the year - Rs.	-	20.00	21.61	23.33	25.19
# of passengers (Crore)	-	0.16	0.18	0.21	0.23
<b>Utilities cost estimated (Rs. Crore)</b>	-	<b>3.22</b>	<b>3.91</b>	<b>4.74</b>	<b>5.69</b>

## Other Expenditure

- 11.9 Summary of other expenditure proposed to be incurred and its broad basis is as given below:

Expenditure	Basis	2016-17	2017-18	2018-19	2019-20	2020-21
Security	Rs. 30 per	-	4.83	5.86	7.10	8.54

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Expenditure	Basis	2016-17	2017-18	2018-19	2019-20	2020-21
	passenger 8% increase y-o-y					
Marketing	1% on revenue excluding UDI <sup>1</sup>	-	0.53	0.63	0.74	0.86
Admin Overheads	Rs. 30 per passenger 8% increase y-o-y	-	4.83	5.86	7.10	8.54
Land lease	Rs. 100 per acre per annum	-	0.01	0.01	0.01	0.01
Stores and Spares	0.5% of equipment cost with 8% y-o-y increase from 2019	-	1.63	1.63	1.76	1.90
<b>TOTAL</b>		<b>6.67</b>	<b>15.55</b>	<b>18.41</b>	<b>21.70</b>	<b>25.56</b>

11.10 In view of all expenditure proposed being dependent on the traffic movement and actual cost estimates which are not fully under control of KIAL, KIAL submits that the Operations Expenditure proposed may be trued up based on actuals at the end of the current control period.

## 12. Taxation costs

- 12.1 KIAL is eligible to claim exemption u/s 80IA from Income tax in 10 out of 15 years from commencement of operations. However, KIAL has to pay Minimum alternate tax (MAT) in the tax holiday period.
- 12.2 Tax payable is on profits which is directly related to the Aeronautical charges and UDF determined Tax and approved by AERA. In the computation of ARR by KIAL, a tax of 20% has been considered on the estimated profits as given below, in Single Till:

Particulars	2016-17	2017-18	2018-19	2019-20	2020-21
Return on RAB	-	216.59	205.55	194.51	183.48
Less: Interest on Loan	-	(86.63)	(86.70)	(82.89)	(75.19)
Profit estimated	-	129.96	118.84	111.62	108.28
MAT at 20.96% grossed up	-	34.46	31.51	29.60	28.71

- 12.3 However, in view of collections proposed being lower than the ARR, there may not be a tax payable in the first control period. Accordingly, when the shortfall in collection is trued up later, the tax cost should also be reimbursed on the same.
- 12.4 As the tax estimates provided here above are subject to truing up based on all other parameters, and based on tariff to be approved by AERA. KIAL submits that the tax estimates made herein be trued up based on actual expenses incurred by KIAL during the control period, at the commencement of the next control period.

### 13. Wholesale Price Index estimations and Aeronautical revenue rates revisions.

- 13.1 Whole sale price index estimates have been estimated at 4% considering the indication for the next 5 years as per the RBI report issued in February 2015.  
<https://www.rbi.org.in/scripts/PublicationsView.aspx?id=16202#>
- 13.2 KIAI, proposes to have the aeronautical revenues increase by 5% year on year and keep the UDF constant for the first 2 operational years and has accordingly worked out the rates for various charges.

#### 14. Aggregate Revenue Requirement (ARR) computations

- 14.1 Considering the various estimates of different Building blocks as given above, the Aggregate Revenue Requirement for various Regulatory Building Blocks, the estimated Aggregate Revenue Requirement (ARR) is as given below:

Particulars	2016-17	2017-18	2018-19	2019-20	2020-21
Average RAB	-	1624.28	1541.50	1458.72	1375.95
Weighted Average Cost of Capital	-	13.335%	13.335%	13.335%	13.335%
Return on RAB	-	216.59	205.55	194.51	183.48
Operating Expenditure	-	37.46	42.17	49.04	56.91
Taxation	-	34.46	31.51	29.60	28.71
Depreciation	-	82.77	82.77	82.77	82.77
Less: Non-Aeronautical Revenues	-	(17.87)	(21.40)	(25.60)	(30.47)
<b>Aggregate Revenue Requirement</b>	-	<b>353.42</b>	<b>340.63</b>	<b>330.34</b>	<b>321.41</b>

- 14.2 These revenue requirements are proposed to be met through levy of Aeronautical charges viz. Landing, Parking and Housing fee, Cargo, Ground Handling and Fuel Farm revenues and through levy of UDF as detailed below.

## 15. Aeronautical Revenue projections (Other than UDF)

- 15.1 Proposed Kannur International Airport is located near Calicut and Mangalore Airports. Considering the task of attracting airlines and passengers to fly out of the new Kannur Airport and generating a market for the airport, KIAL has a need to keep tariff rates competitive.
- 15.2 To this end, KIAL proposes the following rates for Landing Charges for the first 2 years of operation (2017-18 and 2018-19). Aeronautical Charges will be proposed for the balance periods in the Control period based on the actual experience in Kannur Airport post its commencement of operation, for the first 2 years.

Landing Charges	Domestic	International
2017-18	Rs. 161.7 per MT upto 100 MT, After 100 MT - Rs. 16170 plus Rs. 216.3 per MT in excess of 100 MT	Rs. 215.25 per MT upto 100 MT, After 100 MT - Rs. 21525 plus Rs. 288.75 per MT in excess of 100 MT
2018-19	Rs. 169.75 per MT upto 100 MT, After 100 MT - 16975 plus Rs. 227.10 per MT in excess of 100 MT	Rs. 226 per MT upto 100 MT. After 100 MT - Rs. 22600 plus Rs. 303.20 per MT in excess of 100 MT

- 15.3 No Passenger Service Fee (PSF) is planned in view of recent AERA orders issued merging PSF with UDF.
- 15.4 Cargo, Ground Handling and Fuel Farm revenues are proposed to be received from Concessionaires to whom these services will be outsourced.
- 15.5 Detailed computation of the charges is as given below *(Please note that the projections have been made for 2019-20 and 2020-21 considering 55 increase over the proposed Aeronautical charges for 2018-19 for the purposes of estimation. However as stated in Para 15.2 above ATP for 2019-20 and 2020-21 will be submitted based on actual experience in first 2 years of Airport operations)*

Particulars	2016-17	2017-18	2018-19	2019-20	2020-21
<b>Domestic</b>					
Aircraft - Small	-	1008	1123	1241	1369
Rate per small aircraft	-	12936	13583	14262	14975
<b>Total Charge (Rs. Crore)</b>	-	<b>1.30</b>	<b>1.52</b>	<b>1.77</b>	<b>2.05</b>
<b>International</b>					

Particulars	2016-17	2017-18	2018-19	2019-20	2020-21
Aircraft – Small	-	5349	5898	6456	7055
Aircraft – Medium	-	735	811	888	970
Aircraft – Large	-	602	664	726	794
Rate per small Aircraft	-	17220	18081	18985	19934
Rate per medium aircraft	-	59062	62016	65116	68372
Rate per Large aircraft	-	89381	93850	98543	103470
Collection – Small (Rs. Crore)	-	9.21	10.66	12.25	14.06
Collection – Medium (Rs. Crore)	-	4.34	5.02	5.78	6.63
Collection – Large (Rs. Crore)	-	5.38	6.23	7.15	8.21
<b>Total Charge (Rs. Crore)</b>	-	<b>18.93</b>	<b>21.91</b>	<b>25.18</b>	<b>28.90</b>
<b>Total Revenue from Landing charges (Rs. Crore)</b>	-	<b>20.24</b>	<b>23.45</b>	<b>26.96</b>	<b>30.96</b>

Parking and Housing charges as % of Landing charges	-	3%	3%	3%	3%
<b>Parking and Housing charges (Rs. Crore)</b>	-	<b>0.63</b>	<b>0.71</b>	<b>0.79</b>	<b>0.88</b>

Particulars	2016-17	2017-18	2018-19	2019-20	2020-21
Cargo Tonnage Domestic ('000 MT)	-	0.24	0.25	0.26	0.27
Cargo Tonnage International ('000 MT)	-	18.12	20.67	23.44	26.57
Rate	-	2625	2756	2894	3039
<b>Collection (Rs. Crore)</b>	-	<b>4.81</b>	<b>5.76</b>	<b>6.86</b>	<b>8.16</b>
Cargo Revenue share %	-	20%	20%	20%	20%
<b>Cargo revenues to KIAL (Rs. Crore)</b>	-	<b>0.96</b>	<b>1.15</b>	<b>1.37</b>	<b>1.63</b>

Fuel charges per ATM	-	214	218	223	227
# of KL	-	7	7	7	7
# of ATMs	-	15387	16992	18620	20374
<b>Revenue from Fuel farm (Rs. Crore)</b>	-	<b>2.31</b>	<b>2.60</b>	<b>2.90</b>	<b>3.24</b>

Estimated Ground handling revenues	-	54.05	64.35	76.10	89.85
Ground handling Revenue share %	-	20%	20%	20%	20%
<b>Ground handling revenues (Rs. Crore)</b>	-	<b>10.81</b>	<b>12.87</b>	<b>15.22</b>	<b>17.97</b>

Particulars	2016-17	2017-18	2018-19	2019-20	2020-21
Landing Revenue	-	20.24	23.45	26.96	30.96
Parking and Housing Revenue	-	0.63	0.71	0.79	0.88
Cargo Revenue	-	0.96	1.15	1.37	1.63
Fuel Farm Revenue	-	2.31	2.60	2.90	3.24
Ground Handling Revenue	-	10.81	12.87	15.22	17.97



X-ray fee revenue (Rs. 800 per aircraft escalated at 2% from April 2016)	-	0.63	0.71	0.79	0.88
<b>Total Aeronautical Revenues</b>	-	<b>35.55</b>	<b>41.48</b>	<b>48.06</b>	<b>55.61</b>

## 16. UDF Proposed and Shortfall

- 16.1 KIAL proposes to collect User Development Fee (UDF) from passengers as a means of meeting part of the revenue gap.
- 16.2 UDF has been computed considering the Aggregated Revenue Requirement and the Aeronautical Revenues computed as given above to be charged on Domestic and International departing passengers.

Proposed Kannur International Airport is located near Calicut and Mangalore Airports. Considering the task of attracting airlines and passengers to fly out of the new Kannur Airport and generating a market for the airport, KIAL has a need to keep tariff rates competitive. To this end, KIAL proposes the following rates for UDF on Departing Passengers for the first 2 years of operation (2017-18 and 2018-19).

UDF	Domestic	International
2017-18	Rs. 100	Rs. 500
2018-19	Rs. 100	Rs. 500

- 16.3 Considering the above rates, the estimated UDF collection is as given below. *(Please note that the projections have been made for 2019-20 and 2020-21 considering same UDF rates, for the purposes of estimation. However as stated in Para 16.2 above ATP for 2019-20 and 2020-21 will be submitted based on actual experience in first 2 years of Airport operations)*

Particulars	2016-17	2017-18	2018-19	2019-20	2020-21
Departing Domestic Passenger	-	0.007	0.008	0.009	0.010
Rate per domestic Passenger	-	100	100	100	100
Departing International Passenger	-	0.0735	0.0825	0.0925	0.1030
Rate per International Passenger	-	500	500	500	500
<b>Total Collections</b>	-	<b>37.45</b>	<b>42.05</b>	<b>47.15</b>	<b>52.50</b>

- 16.4 Comparative analysis of ARR and collections proposed is as given below:

Particulars	2016-17	2017-18	2018-19	2019-20	2020-21
Aggregate Revenue Requirement	-	353.42	340.63	330.34	321.41
Less: Aeronautical Revenues as above	-	35.55	41.48	48.06	55.61

Particulars	2016-17	2017-18	2018-19	2019-20	2020-21
Less: UDF Collections proposed as above	-	37.45	42.05	47.15	52.50
Balance of ARR to be recovered/ Shortfall	-	280.42	257.10	235.13	213.30

- 16.5 KIAL submits that the shortfall in collection be allowed to be carried forward for recovery along with carrying cost in the next control period(s) where there is a higher passenger traffic. While the projected shortfall in the years 2019-20 and 2020-21 have been computed considering the revenue basis as explained above, KIAL would like to submit a revised ATP for 2019-20 and 2020-21 based on the experience of actual scenario in 2017-18 and 2018-19 after commencement of its operations.

## 17. Shared Revenue Till estimations

- 17.1 KIAI is in the process of developing the Airport and the Project is underway. KIAI has not yet firmed up detailed plan for allocation of space for Non-Aeronautical activities and a break-up of costs for Aero and Non-Aero activities.
- 17.2 Segregation of costs and expenses have been made in the following overall ratio between Aeronautical and Non-Aeronautical services as 95% and 5%, considering the fact that investments relating to Non-Aeronautical services and Non-Aero related operating costs are not expected to be significant in the first control periods.
- 17.3 ARR computation and shortfall considering the above segregation is as given below:

Particulars	2016-17	2017-18	2018-19	2019-20	2020-21
Average RAB	-	1543.03	1464.43	1385.79	1307.15
Weighted Average Cost of Capital	-	13.294%	13.294%	13.294%	13.294%
Return on RAB	-	205.13	194.67	181.22	173.77
Operating Expenditure	-	35.58	40.06	46.59	54.06
Taxation	-	31.42	28.63	26.87	26.14
Depreciation	-	78.63	78.63	78.63	78.63
Less: Non-Aeronautical Revenues	-	(5.36)	(6.41)	(7.67)	(9.14)
<b>Aggregate Revenue Requirement</b>	-	<b>345.42</b>	<b>335.60</b>	<b>328.64</b>	<b>323.47</b>
Aeronautical Charges estimated	-	35.55	41.48	48.06	55.61
UDF estimated	-	37.45	42.05	47.15	52.50
<b>Shortfall</b>		<b>272.42</b>	<b>252.06</b>	<b>328.64</b>	<b>323.47</b>

## 18. Abbreviations used

AERA	- Airport Economic Regulatory Authority
AOD	- Airport Opening Date
ARR	- Aggregate Revenue Requirement
BoD	- Board of Directors
BPCL	- Bharat Petroleum Corporation Limited
FRoR	- Fair Rate of Return
GoI	- Government of India
GoK	- Government of Kerala
KIAL	- Kannur International Airport Limited
KIA	- Kannur International Airport
KSBCCL	- Kerala State Beverage Corporation Limited
MAT	- Minimum Alternate Tax
MOCA	- Ministry of Civil Aviation
NAR	- Non-Aeronautical Revenue
RBB	- Regulatory Building Blocks
UDF	- User Development Fund