DELHI INDIRA GANDHI INTERNATIONAL AIRPORT

Delhi International Airport Limited
(Formerly known as Delhi International Airport (P) Limited)

GMR

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DIAL/2024-25/Regulatory/2522

Date 29th May, 2024

To,
The Chairman,
Airport Economic Regulatory Authority
AERA Building, Administrative Complex,
Safdarjung Airport,
New Delhi 110003

Subject: MYTP for the fourth control period (FY 2024 – 2029) of IGI Airport New Delhi

Respected Sir,

We write with reference to the regulatory requirement under section 13 of the AERA Act 2008 read with the concession awarded by Govt. of India to Delhi International Airport Limited (DIAL). In this regard we herewith enclose the Multi Year Tariff Proposal (MYTP) for the fourth control period starting from 1st April 2024 to 31st March 2029. The MYTP submission includes the true-up of building blocks of first control period, second control period, third control period and projected building blocks, Target Revenue for the fourth control period.

This submission also includes the changes in building blocks on account of the implementation of Hon'ble Supreme Court's Judgement on first control period tariff order (Judgement dated 11th July, 2022) and Hon'ble TDSAT Order dated 21st July, 2023 on second control period and third control period.

The detailed Multi Year Tariff Proposal along with annexures is attached herewith. Basis, our submission the X-Factor works out to be 730.84%.

As regards the Annual Tariff Proposal it is submitted that a detailed pricing proposal (rate card) will be submitted based on the receipt of the approval of MYTP from the Authority. Pending the finalization for 4th control period, we request you to increase the tariff as an interim arrangement to the extent of 50% of our proposed eligibility on account of following valid reasons:

1. U/S 13 (1)(i)(v) of AERA Act, while determining the tariff, the Authority is required to take care and ensure economic and viable operation of major airports.

   Further even as per our Concession Agreement namely OMDA and State Support Agreement (SSA) signed by Government of India ensuring and providing support for viability of airport is one of the primary criteria. Following are the details of Concession Agreement and State Support Agreement:

   OMDA: Chapter IX of OMDA, states that the DIAL shall always require to adhere to the service quality requirements and development standards. In absence of the adequate funds generated from the operations and absence of interim revision of tariff, it would be difficult for DIAL to generate sufficient cashflows for meeting the requirements of the OMDA.

SSA: The preamble of the SSA, it is explicit that the GoI is agreeable to provide support for viability of the Airport Operator. Extract as follows:

*In consideration of the JVC having entered into OMDA and to enhance the smooth **functioning and viability of the JVC**, in addition to the obligations of the AAI under the OMDA, the GOI is agreeable to provide some support to the JVC.*

Further, the Schedule 1 of the SSA also states as follows:
"Principles...
...
2. Commercial: In setting the price cap, AERA will have regard to the need for the JVC to generate sufficient revenue to cover efficient operating cost, obtain the return of capital over its economic life and achieve reasonable return on investment commensurate with the risk involved"

2. The current applicable tariff to DIAL, is one of the lowest amongst major airports in India. DIAL has been incurring losses in the last four years as per the following details. Even in current financial year 2024-25, DIAL is projected to have huge losses mainly on account of lower tariff:

Financial Year	**Loss (Rs. In Crs)***
2020-21	(634)
2021-22	(369)
2022-23	(402)
2023-24	(390)
Total	**(1796)**
Projected loss for FY 2024-25	*(1794)*

**As per IGAAP Financials*

With the above losses by March 2025, not only entire equity is wiped out, but DIAL will have negative net worth.

Incurring continuous losses coupled with erosion of capital, and reaching negative net worth will have serious impact on Credit rating of company, a matter of concern to the bond holders and future lenders as DIAL needs to incur future capex requiring further borrowings.

3. **Future Capex of DIAL:** DIAL has plans to explore development of new Terminal-4 in future and Automatic People Mover (APM), modalities for which are yet to be finalized. Unless the financials for the company are in good shape the funding for such projects would be a significant challenge.

4. **Highly Leveraged with Original Loans still outstanding**: DIAL had taken debts for the airport modernization for the first phase of capex, which is yet to be repaid in full. Further, for undertaking development work under Phase 3A, it has raised debt of Rs. 7,850 Cr. Currently DIAL has a total debt of Rs. 14,786 Cr as on 31st March 2024, which is due for repayment in the coming years. With this erosion of net worth estimated by 31st March 2025, DIAL's credit rating will be adversely affected and its ability to raise further debts

will be limited/restricted. In case DIAL is not provided with any ad-hoc revision in tariff, interest servicing of debts will also be a challenge in the current financial year.

5. **Base Airport Charges (BAC) Rates since December 2018:** The Authority vide its order no. 57/2020-21 dated 30th December 2020, has decided that the DIAL is eligible to collect the Base Airport Charges + 10% thereof in accordance with the Schedule 6 read with Schedule 8 of the State Support Agreement (concession given by the Govt. of India). However, the same was concluded in the Third Control Period where complete benefit of Phase 3A capex through higher return and depreciation was not available. However, since DIAL has now completed Phase 3A expansion, Fourth Control Period is projected to yield higher tariff on account of greater return through RAB, depreciation and higher opex with increased capacity and implementation of various judicial pronouncements. It would be not in the economic interest of DIAL to be kept at same tariff level in the current financial year (FY 2025) when it is certain that DIAL is bound to be eligible for higher tariffs.

6. **Maintaining the service levels on consistent basis:** At the time of privatization in 2006, in terms of service levels, Delhi Airport progressed to No. 1 level from bottom level at 106 rank due to continuous improvement of airport operations which requires high quality of maintenance, safety, security of airport. To maintain these service levels, DIAL is required to spend a significant amount of operational capex and to incur high maintenance costs so as to retain and maintain its No. 1 position globally.

7. The adhoc increase in tariff approved would be subject to true up in final tariff determination. Further, giving adhoc increase preferably from 01-10-2024 will help gradual increase of airport charges in a phased manner instead of sudden increase post final determination of tariff.

Conclusion: In view of above genuine reasons, we request your good-self to consider the request of DIAL to grant adhoc increase in the existing tariff to the extent of 50% of our eligibility with effect from 01-10-2024 pending the final determination of tariff for Control Period 4 which may kindly be finalized by end of March 2025. This decision of AERA will be of great help for DIAL in running its operation smoothly in the current financial year.

Thanking you,
With regards,

For Delhi International Airport Ltd.,

NARAYANA
RAO KADA

Digitally signed by NARAYANA RAO KADA
DN: c=IN, postalCode=400101, st=MAHARASHTRA, street=MUMBAI, l=MUMBAI, o=Personal, serialNumber=1d111a9b85fa931ac57bff9bb2f110c25db133b0d1c3ec8b68035fb5c131a3c1, pseudonym=6c45c1c6717a4483816a94bb360b7216, 2.5.4.20=a2e918eab37778f14cfd7522d392ec18978281dabf52a842eb187736754d3867, email=NARAYANARAO@GMRGROUP.IN, cn=NARAYANA RAO KADA
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K Narayana Rao

Multi Year Tariff Proposal for CP-IV (FY 2024 – FY 2029)

Delhi International Airport Limited

May 29, 2024

Contents

1. Background

1.1. Introduction

DIAL executed the Operation, Management and Development Agreement (OMDA) with AAI on April 04, 2006 and commenced operations from May 03, 2006. Under OMDA, AAI granted DIAL the exclusive right and authority to undertake some of the functions of AAI being the functions of operations, maintenance, development, design, construction, up gradation, modernizing, finance and management of the IGI Airport and to perform services and activities constituting aeronautical services and non-aeronautical services (but excluding Reserved activities) at the airport in accordance with terms and conditions of OMDA.

Simultaneously several agreement were entered into such as Lease Deed dated April 25, 2006, Shareholders' Agreement dated April 04, 2006, State Support Agreement dated April 26, 2006, State Government Support Agreement dated April 26, 2006, Airport Operator Agreement dated May 01, 2006 between DIAL and Fraport AG, CNS/ ATM Facilities and Services Agreement dated April 25, 2006 and Escrow Agreement dated April 28, 2006 for smooth and efficient functioning of the grant under the principal agreement. OMDA and these agreements are collectively known/ treated as Concession Agreements and meet the criteria for the concession offered by central government in terms of clause 13 (1) (a) (vi) of the Airport Economic Regulatory Authority Act 2008.

The State Support Agreement dated April 26, 2006 ("SSA") signed with Government of India outlined the support from Government of India and also laid down the principles of for tariff fixation. Clause 3.1 read with Schedule 6, 1 and 8 in SSA inter-alia lay down the methodology and the principles for the Regulatory Authority ("AERA"/"Authority") for fixation of the charges for Aeronautical Services and consequent recovery of costs relating to Aeronautical Assets collectively called as Aeronautical Charges (refer Chapter XII of OMDA) as defined in OMDA and SSA.

The OMDA has a term of 30 years, with DIAL having a right to extend the agreement for a further period of 30 years, subject to its satisfactory performance under the various provisions governing the arrangement between DIAL and AAI. Besides OMDA and SSA, the airport operator has also entered into other agreements with the state government and other agencies in order to complete the project and provide various services at the airport, collectively referred to as the Concession.

In view of the above governing contracts, DIAL has prepared its 4th Control Period Multi Year Tariff Proposal (MYTP) which has been discussed in detail in the forthcoming chapters.

1.2. List of important dates pertaining to determination of Tariff at IGI Airport

Date	Activity
01.03.2006	DIAL was incorporated with Airports Authority of India ("AAI") and the GMR consortium holding equity in the ratio 26:74 in it.
04.04.2006	OMDA executed between the AAI and DIAL.
26.04.2006	State Support Agreement entered between DIAL and GoI (Concession given by the Central Government).
28.04.2006	Escrow Account Agreement entered between DIAL, AAI and ICICI Bank.
02.05.2006	Handover of the operations by the AAI to DIAL.

Date	Activity
20.06.2011	DIAL submitted proposal for tariff determination for first control period i.e. 01.04.09 to 31.03.2014
24.04.2012	The Authority issued the First Tariff Order determining the Aeronautical Tariffs for the IGI Airport for the First Control Period, i.e., from 01.04.2009 to 31.03.2014.
23.05.2012	DIAL filed Appeal No.10/2012 before the Hon'ble Tribunal challenging the First Tariff Order on various grounds.
11.11.2013	DIAL filed its tariff proposal for the Second Control Period (without prejudice to its rights and contentions in the appeal pending before this Hon'ble Tribunal).
22.01.2015	The Division Bench of Hon'ble High Court allowed the LPA No.670/2014 and directed that the tariff determined by the Authority for the First Control Period shall continue till the disposal of the appeals pending against the First Tariff Order by the Hon'ble Tribunal.
28.01.2015	The Authority issued Consultation Paper No.16/2014-2015 on Determination of Aeronautical Tariff in respect of IGI Airport for the Second Control Period from 01.04.2014 to 31.03.2019.
10.12.2015	The Authority issued order no 40/2015-16 for second control period from 01.04.2014 to 31.03.2019 with an X factor of (-) 89.40%. However, same was not implementable due to above stated High Court order.
11.01.2016	DIAL filed appeal against the order no 40/2015-16 dtd. 10.12.2015 before the AERAAT/TDSAT.
03.07.2017	The Hon'ble Supreme Court of India, on SLP filed by Air India, has vacated the order of Hon'ble High Court of Delhi and directed TDSAT to dispose of the appeals of DIAL no 10/2012 for first control period.
08.07.2017	DIAL implemented the Tariff order No. 40/2015-16 dated 10.12.2015.
23.04.2018	The Hon'ble TDSAT pronounced order on DIAL appeal no 10/2012.
21.07.2018	DIAL had filed a limited appeal in the Hon'ble Supreme Court of India for certain issues qua TDSAT judgment dated 23.04.2018 vide Civil Appeal no. 8378 of 2018.
19.11.2018	The Authority accorded DIAL to charge Base Airport Charges (BAC) + 10% of BAC from 01.12.2018. The order acknowledged the eligibility of DIAL to charge minimum tariff of BAC +10% of BAC any year during the term of the concession.
10.01.2019	The Authority accorded DIAL to charge X-Ray Baggage Charges as part of Base Airport Charges + 10% of BAC from 1st February 2018.
30.12.2020	The Authority issued Order no 57/2020-21 for third control period from 01.04.2019 to 31.03.2024 with the tariff fixed as Base Airport Charges + 10% BAC.
28.01.2021	DIAL filed appeal against the Order no 57/2020-21 dtd. 30.12.2020 before the TDSAT.
11.07.2022	Supreme Court pronounced order on DIAL Civil Appeal No. 8378 of 2018 with respect to issues pertaining to CP-I.
13.01.2023	The Hon'ble TDSAT had pronounced judgement on the appeals made by DIAL concerning the consideration of Cargo and Ground Handling services as Non-Aeronautical Services.

Date	Activity
21.07.2023	The Hon'ble TDSAT had pronounced order on the appeals made by DIAL pertaining to the second control period tariff order and third control period tariff order.
06.10.2023	The Hon'ble TDSAT had pronounced order on the appeals made by MIAL pertaining to the second control period tariff order and third control period tariff order.
14.02.2024	The Hon'ble TDSAT had pronounced order on the appeals made by GHIAL pertaining to the third control period tariff order.

2. Principles for Tariff Determination

2.1. Tariff Setting Principles of SSA

2.1.1. Aeronautical Charges and its determination as per the Concession granted

The Aeronautical Charges are defined in SSA/OMDA (concession given by the GoI vide agreement between GoI and DIAL) as "*the charges to be levied at the Airport by the JVC for the provision of Aeronautical Services (and consequent recovery of costs relating to Aeronautical Assets);*"

The Authority is required to determine the Aeronautical Charges in accordance with the principles of the tariff fixation set out in schedule 1 to the SSA and in the manner as stated in Clause 3.1.2 of the SSA

The extract of Clause 3.1.2 of the SSA is as follows:

> *'The Aeronautical Charges for any year during the Term shall be calculated in accordance with Schedule 6 appended hereto. For abundant caution, it is expressly clarified that the Aeronautical Charges as set forth in Schedule 6 will not be negotiated post bid after the selection of the Successful Bidder and will not be altered by the JVC under any circumstances.'*

Thus, the Aeronautical Charges are required to be determined to be the Authority basis the Clause 3.1 and Schedule 6 of the SSA.

2.1.2. Schedule 6 of the SSA for determination of tariff

> ***"Schedule 6: Aeronautical Charges***
>
> *Aeronautical Charges, for the purposes of this Agreement, shall be determined in the manner as set out hereunder:*
>
> *1. The existing AAI airport charges (as set out in Schedule 8 appended hereto) ("Base Airport Charges") will continue for a period of two (2) years from the Effective Date and in the event the JVC duly completes and commissions the Mandatory Capital Projects required to be completed during the first two (2) years from the Effective Date, a nominal increase of ten (10) percent over the Base Airport Charges shall be allowed for the purposes of calculating Aeronautical Charges for the duration of the third (3rd) Year after the Effective Date ("Incentive"). It is hereby expressly clarified that in the event JVC does not complete and commission, by the end of the second (2nd) year from the Effective Date, the Mandatory Capital Projects required to be completed and commissioned, the*

Incentive shall not be available to the JVC for purposes of calculating Aeronautical Charges for the third (3rd) year after the Effective Date.

2. From the commencement of the fourth (4th) year after the Effective Date and for every year thereafter for the remainder of the Term, Economic Regulatory Authority / GOI (as the case may be) will set the Aeronautical Charges in accordance with ***Clause 3.1.1 read with Schedule 1 appended to this Agreement, subject always to the condition that, at the least, a permitted nominal increase of ten (10) percent of the Base Airport Charges will be available to the JVC for the purposes of calculating Aeronautical Charges in any year after the commencement of the fourth year and for the remainder of the Term."***

(Emphasis supplied)

2.1.3. Tariff principles as set forth in Schedule 1

The relevant extracts of the Schedule I of SSA are as follows:

"In undertaking its role, AERA will (subject to Applicable Law) observe the following principles:

1. Incentives Based: *The JVC will be provided with appropriate incentives to operate in an efficient manner, optimising operating cost, maximising revenue and undertaking investment in an efficient, effective and timely manner and to this end will utilise a price cap methodology as per this Agreement.*

2. Commercial: *In setting the price cap, AERA will have regard to the need for the JVC to generate sufficient revenue to cover efficient operating costs, obtain the return of capital over its economic life and achieve a reasonable return on investment commensurate with the risk involved.*

3. Transparency: *The approach to economic regulation will be fully documented and available to all stakeholders, with the Airports and key stakeholders able to make submissions to AERA and with all decisions fully documented and explained.*

4. Consistency: *Pricing decisions in each regulatory review period will be undertaken according to a consistent approach in terms of underlying principles.*

5. Economic Efficiency: *Price regulation should only occur in areas where monopoly power is exercised and not where a competitive or contestable market operates and so should apply only to Aeronautical Services. Further in respect to regulation of Aeronautical Services the approach to pricing regulation should encourage economic efficiency and only allow efficient costs to be recovered through pricing, subject to acceptance of imposed constraints such as the arrangements in the first three years for operations support from AAI.*

6. Independence: *The AERA will operate in an independent and autonomous manner subject to policy directives of the GOI on areas identified by GOI.*

7. Service Quality: *In undertaking its role AERA will monitor, pre-set performance in respect to service quality performance as defined in the Operations Management Development Agreement (OMDA) and revised from time to time.*

8. Master Plan and Major Development Plans: *AERA will accept the Master Plan and Major Development Plans as reviwed and commented by the GOI and will not seek to question or* *change the approach to development if it is consistent with these plans. However, the AERA would have the right to assess the efficiency with which capital expenditure is undertaken.*

9. Consultation: *The Joint Venture Company will be required to consult and have reasonable regard to the views of relevant major airport users with respect to planned major airport development.*

10. Pricing responsibility: *Within the overall price cap the JVC will be able to impose charges subject to those charges being consistent with these pricing principles and IATA pricing principles as revised from time to time including the following:*

> ***(i) Cost reflectivity:*** *Any charges made by the JVC must be allocated across users in a manner that is fully cost reflective and relates to facilities and services that are used by Airport users;*
>
> ***(ii) Non discriminatory:*** *Charges imposed by the JVC are to be non discriminatory as within thesame class of users.;*
>
> ***(iii) Safety:*** *Charges should not be imposed in a way as to discourage the use of facilities and services necessary for safety;*
>
> ***(iv) Usage:*** *In general, aircraft operators, passengers and other users should not be charged for facilities and services they do not use.*

Calculating the aeronautical charges in the shared till inflation – X price cap model

The revenue target is defined as follows

$TR_i = RB_i\ x WACC_i + OM_i + D_i + T_i - S_i$

Where

TR = target revenue

RB = regulatory base pertaining to Aeronautical Assets and any investments made for the performance of Reserved Activities etc. which are owned by the JVC, after incorporating efficient capital expenditure but does not include capital work in progress to the extent not capitalised in fixed assets. It is further clarified that working capital shall not be included as part of regulatory base. It is further clarified that penalties and Liquidated Damages, if any, levied as per the provisions of the OMDA would not be allowed for capitalisation in the regulatory base. It is further clarified that the Upfront Fee and any pre-operative expenses incurred by the Successful Bidder towards bid preparation will not be allowed to be capitalised in the regulatory base.

WACC = nominal post-tax weighted average cost of capital, calculated using the marginal rate of corporate tax

OM = efficient operation and maintenance cost pertaining to Aeronautical Services. It is clarified that penalties and Liquidated Damages, if any, levied as per the provisions of the OMDA would not be allowed as part of operation and maintenance cost.

D = depreciation calculated in the manner as prescribed in Schedule XIV of the Indian Companies Act, 1956. In the event, the depreciation rates for certain assets are not available in the aforesaid Act, then the depreciation rates as provided in the Income Tax Act for such *asset as converted to straight line method from the written down value method will be considered. In the event, such rates are not available in either of the Acts then depreciation rates as per generally accepted Indian accounting standards may be considered.*

T = corporate taxes on earnings pertaining to Aeronautical Services

S = 30% of the gross revenue generated by the JVC from the Revenue Share Assets. The costs in relation to such revenue shall not be included while calculating Aeronautical Charges.

"Revenue Share Assets" shall mean (a) Non-Aeronautical Assets; and (b) assets required for provision of aeronautical related services arising at the Airport and not considered in revenues from Non-Aeronautical Assets (e.g. Public admission fee etc.)

i = time period (year) i

$RB_i = RB_{i-1} – D_i + I_i$

Where: RB_0 for the first regulatory period would be the sum total of

(i) the Book Value of the Aeronautical Assets in the books of the JVC and

(ii) the hypothetical regulatory base computed using the n prevailing tariff and the revenues, operation and maintenance cost, corporate tax pertaining to Aeronautical Services at the Airport, during the financial year preceding the date of such computation.

I = investment undertaken in the period"

2.1.4. Primacy of the OMDA and SSA

Judgment dated April 23, 2018 passed by Hon'ble TDSAT (Telecom Dispute Settlement Appellate Tribunal) concerning DIAL's First Control Period (April 2009-March 2014): TDSAT held that in terms of the statutory mandate contained in Section 13(1)(a)(vi) of the Airport Economic Regulatory Authority Act, 2008 the concessions granted and the commitments made by the Government of India, inter alia, through the provisions of the OMDA and the SSA – have to be honoured by the AERA. (Paras 31, 119)

Relevant extracts of the TDSAT Judgement dated April 23, 2018 are as follows:

"……Para 31. The issue, though a minor one, with respect to inter se precedence of OMDA and SSA, needs to be answered in a simple manner by pointing out that both the agreements are essentially parts and parcel of a composite whole aiming to secure a common purpose, viz., to attain the purpose of Policy on Airport Infrastructure and promote creation of world class infrastructure, at least at major airports of the country. Both the agreements clearly have the approval and concurrence of the Central Government either directly through the MOCA or through AAI, an instrumentality of the Government of India. Whatever concessions have been offered under these two agreements, they deserve consideration by AERA in a judicious, fair and transparent manner. It does not really matter whether the power of such consideration flows from sub-clause (vi) or sub-clause (vii) of Section 13(1)(a) of the Act. In exercise of this power, AERA is required to respect rights/concessions flowing from lawful agreements/instruments/directives of Central Government on policy matters…..

…..Para 119. Some of the salient observations and directions on material issues are summarized hereinbelow for the purpose of easy reference so that these directions and

observations are carried out and/or kept in mind by AERA at the time of tariff formulation for Aeronautical Services for the next control period that may be falling for consideration:

(i) In exercise of powers under Section 13 of the Act, AERA is required to respect rights/concessions etc. (See Para 31).

(ii) Contractual rights can be voided only on the basis of explicit statutory provisions or implications from statutory provisions permitting no other option (See Paras 34 and 36).

(iii) ……"

2.2. Supreme Court order and its impact on current tariff filing

DIAL has appealed in the Hon'ble Supreme Court of India (SCI) on 5 items against the Judgment dated 23.04.2018 of the Hon'ble TDSAT in the matter of First Control Period Order dated 24.04.2012 attached herewith as Annexure-1. Hon'ble Supreme Court has pronounced its judgement in this matter on 11.07.2022 post issue of the Third Control Period Order dated 30.12.2020 by the Authority.

This judgement of the Hon'ble Supreme Court has resulted in settlement of few tariff setting principles followed by the Authority till the passing of tariff order for third control period on 30.12.2020. The changes in the tariff determination apart from others because of Hon'ble SCI Judgment is summarised as follows:

- **Calculation of tax for determining the Target Revenue:** DIAL appealed that the calculation of tax in accordance with the SSA refers to tax pertaining to the Aeronautical Services and it is not dependent on the actual tax paid by DIAL. Further, while calculating theT in the building blocks, no Annual Fee should be reduced. The Hon'ble Supreme Court found merit in the DIAL's case and pronounced the Judgement in favour of DIAL. The relevant extracts of the Supreme Court order dated 11.07.2022is reproduced below for ready reference:

  "…….Para 111. No doubt, it is a principle of taxation that it is the actual tax which is paid and which has to be taken into account. This is what the AERA and the TDSAT have done ostensibly on the premise that there should not be any undue enrichment of the Airport Operators. ***However, to our mind, the more important factor is to look at what the contract says and whether some other construction would be required to be given to the contract****.*

  Para 112. ***If we turn to the express language of 'T' in Schedule 1 of the SSA the wordings are clear and unequivocal. The determination has to be made of "corporate taxes on earnings pertaining to Aeronautical Services" (emphasis supplied).*** *'T' is part of a formula. No doubt it refers to taxation, but how it would apply to the formula has to be determined from the definition of 'T' and not from how generally 'tax' is understood. These are complex formulas settled by experts and various factors weigh in arriving at them.*

  Para 113. In the overall scenario, it is the TR which is crucial where 'T' is only a component. No one is saying that a different methodology and not the common practice has to be followed for payment of tax. ***It is for the component 'T' to be calculated in the formula for TR that 'T' has been defined. 'T' has to be computed based solely on regulatory accounts prepared by the Authority for the TR formula. If the Annual Fee is the component which is taken out of aeronautical services, the definition of 'T' would have to be read completely differently****.*

Para 114. The focus of all stakeholders has resulted in a particular formula in with various components whereby aeronautical services are controlled. Non-aeronautical services are more revenue generating aspects. In order to balance the interest of the other stakeholders with the Airport Operators, 30 per cent of the non-aeronautical revenue is subtracted from the aeronautical revenue. In this larger philosophy, it would be imprudent and contrary to the express terms of the contract to seek to re-define any component other than the manner in which it is specifically mentioned. To that limited extent, Mr. Datar was right in invoking the principle of business efficacy as that was the result intended by the parties…….

*…….Para 116. The first part of the proviso is clear in its terms that upfront fee and the Annual Fee paid/payable by the Airport Operators to AAI under the OMDA shall not be included as part of costs for provision of Aeronautical Services. There is no doubt a second part to it which states that "no pass-through would be available in relation to the same". It is the latter part which is sought to be emphasised in the decision-making process of the AERA. This is because if the first part is implemented there will be an element of pass-through. However, if we were to accept the view of the AERA, it would be in a sense amount to nullifying the first part of the proviso. No construction should be given to a contract where the first part itself is nullified by a reading of the latter part. **This clause is more general in its terms. Pass-through would not be permitted in normal circumstances as per the clause. However, insofar as the tax element is concerned, there appears to be an exception because of the manner in which the 'T' in the formula itself has been derived.** Qua the Annual Fee, the SSA does not contemplate a subtraction from the expenses. There is also no direct extraction from other stakeholders qua the annual fee and thus there is no pass-through. This would also be harmonious construction of the clauses of the contract so that one part of it does not do violence to the other.*

*Para 117. **Thus, the aforesaid is the only aspect on which we are inclined to interfere with the impugned orders and find merit in the contention of the Airport Operators that the Annual Fee paid by them should not be deducted from expenses pertaining to aeronautical services before calculating the 'T' element in the formula**…."*

Para 113 of the Judgement clearly, identifies that the calculation of the T in the building blocks which shall be arrived only based on the component of the regulatory building blocks. Thus, the tax block shall be calculated by considering all the components forming part of Target Revenue formula. Further, the Hon'ble Supreme Court, through its judgement in para 117, adjudicated that the Annual Fee payable by DIAL shall not be considered as an expense and shall not be reduced while calculating the earnings from the Aeronautical Services.

Further, through para 111 of the said judgement, Hon'ble Supreme Court of India directed that the actual tax paid is not relevant and only the tax calculation as per the contract is relevant for the purpose of the SSA. This has been reiterated through para 112, that the general understanding of tax is not relevant for the purpose of the calculation of tax and construction of the tax in accordance with the contractis relevant and shall be calculated on the notional basis based on the building blocks of the tariff determination as explained above.
Detailed calculation methodology required to be applied by the Authority for the purpose of tariff determination from the First Control Period is explained in the Sections below.

Annexure 1: Hon'ble Supreme Court Judgement dated 11.07.2022

2.3. TDSAT Judgement dated 21.07.2023 in reference to the appeal filed by DIAL against Order no 40/2015-16 and Order no 57/2020-21

DIAL has filed appeals in TDSAT against the Authority's tariff orders for Control Period-2 and Control Period-3 respectively. The TDSAT had pronounced its combined Judgement on 21.07.2023. The copy of the Judgement is attached herewith as Annexure-2 for ready reference. Summary of order that impact the tariff determination principles set by the Authority are as follows:

i. ***True-up of over recovered revenue on account of levy of Base Airport Charges (BAC):***

TDSAT had adjudicated that in case DIAL fall under the regime of Base Airport Charges + 10% in accordance with Schedule 6 of SSA, then the concept of true-up of such revenue doesn't arise while calculating revenues from Schedule 1.

Relevant Excerpts of decisions of TDSAT are as follows:

"…..Whether there can be True Up of over recovered revenue on account of levy of Base Airport Charges (BAC)?......

……Para 67. *Once, AERA has concluded that target revenue (TR) for 3rd Control Period (Rs.3869.09 Crores from table 140) is lesser than the BAC (Rs. 3914.85 Crores as per table 140) and when AERA has permitted to recover the BAC, then in that eventuality, Schedule-6 has been followed by AERA of SSA where there is no true up methodology to be followed because it is a bare minimum amount to be recovered by DIAL as permitted by Government of India and, therefore, there is no question whatsoever arising for truing up of any amount of 3rd Control Period while calculating aeronautical charges in 4th Control Period.* ***We, therefore, quash and set aside the decision of AERA as mentioned in paragraph 12.9.2 in the impugned order dated 30th December, 2020 which is at ANNEXURE A-1 to the memo of AERA Appeal No.1 of 2021.*** *There cannot be any true up of Rs.1267 Crores in 4th Control Period because in the 3rd control period, Schedule-6 of SSA has been followed by AERA itself…..*

Para 68. *Thus, true up of revenue collected in the earlier Tariff Period by terming such levy as "over-recovered" would render the provisions which is in fact a promise, given in SSA in Schedule-6, nugatory. When the BAC+10% thereof is permitted to be recovered as per Schedule-6 of SSA, then no true up can ever be done under that Schedule which is, a bare minimum tariff and a safety net, provided to DIAL under SSA. Once the Schedule-6 formula (BAC+10% charges) is allowed by AERA, there cannot be any carry forward of the true up amount in the 4th Control Period.*

Para 69. If the submissions of the respondents are allowed for truing up of the amount even after following Schedule-6 of SSA then the net effect will be "as if there is nothing like Schedule-6 to be read with Schedule-8 in the SSA".

Para 70: *….We, therefore, quash and set aside the Authority's decision for truing up of an amount with carrying cost at the time of tariff determination for the 4th Control Period as stated in paragraph 12.9.2 of the impugned order. Thus, in view of the aforesaid facts and reasons, Issue No. I is answered in negative that there cannot be true up of revenue for the 4th Control Period once the Schedule-6 formula of BAC + 10% charges is allowed by AERA……"*

The Hon'ble TDSAT has placed reliance on the Schedule 6 of the SSA, where the Target Revenue as calculated under Schedule 1 is compared with the revenue from Aeronautical Charges of Schedule 8 and then eventually it will be decided whether Aeronautical Charges as per Schedule I or as per Schedule 8 (Base Airport Charges) are allowed. In the event the Base Airport Charges plus 10% thereof under Schedule 6 of SSA are applicable then there is no-true up is allowed in accordance with the Schedule 6. Further Hon'ble TDSAT also concluded that true up concept of Base Airport Charges plus 10% thereof would render the provisions nugatory, which is in fact a promise by the Government of India.

Thus, the true-up of Base Airport Charges are not required to be considered by the Authority if in case the net Target Revenue in any control period is below the revenue from Base Airport Charges.

ii. Other Income as part of revenue from Revenue Share Assets:

TDSAT adjudicated this matter in favour of DIAL and adjudged that the purpose of defining Revenue Share Assets itself is nullified if the Authority increases the ambit of it without adhering to the definitions and contractual obligations as per SSA. Since the income is not generated from Revenue Share Assets, this shall not be considered as part of building block S.

Relevant Excerpts of decisions of TDSAT are as follows:

"…..Whether "Other Income" is to be treated as part of revenue from Revenue Share Assets?

……Para 100. *Thus, in view of the aforesaid decision, it has been observed by Hon'ble the Supreme Court of India that OMDA and SSA have pre-legislative features and AERA has to, duly honour and consider the same.*

Para 101. This Tribunal in its Judgment dated 22nd December, 2022 in Delhi International Airport Ltd. Vs. AERA in AERA Appeal No. 7 of 2021 has observed that AERA has to appreciate the concession given by Central Government. AERA has to appreciate the same under Section 13(1)(a)(vi) of AERA Act, 2008.

……Para 103: *In view of the aforesaid decision also, once the definition of "Revenue Share Assets" defines "shall mean" meaning thereby to that, it is an exhaustive definition. This definition is not extensive. It would cover only those assets which are defined as Revenue Share Assets. Thus, addition is not permissible. This aspect has not been properly appreciated by AERA while treating "other income" as part of revenue, generated from Revenue Share Assets. We, therefore, quash and set aside the impugned orders in both the aforesaid the Authority Appeals which are for 2nd and 3rd Control Periods so far as they are affecting other income as a part of revenue, from revenue share assets and consequently, true-up has to be given for the earlier Control Periods also.*

……Para 105: *In view of the aforesaid reasons, "other income" cannot be a part of revenue, from Revenue Share Assets and consequently, in calculation of "S" factor in target revenue formula which is TR= RB x WACC + OM + D + T – S. To the aforesaid extent, the impugned orders which are under challenge in both the aforesaid the Authority Appeals which are at ANNEXURE A-1 in both the aforesaid the Authority appeals are hereby quashed and set aside.*

Thus, in view of the aforesaid facts and reasons, Issue No. II is answered in negative. "Other income" cannot be treated as a part of revenue from Revenue Share Assets……"

The Hon'ble TDSAT has placed reliance on the definition of the Revenue Share Assets which is exhaustive. As per the Judgement the Authority cannot increase the scope of the Revenue Share Assets. Since, the other income is not generated from the sources is allowed under contract, it should not be considered as part of the revenue from the Revenue Share Assets.

Further, the Hon'ble TDSAT has placed reliance on Section 13(1)(a)(vi) of the AERA Act, 2008 and has directed that the concession provided by the Central Government has to be appreciated by the Authority.

Thus, the true up for all the Control Periods shall stand revised based on the Judgement of the TDSAT and this shall be continued for the future control periods as well.

iii. ***Annual Fee in calculation of revenue from Revenue Share Assets in determining "S" factor:***

TDSAT has pronounced that the Annual Fee is not a cost for generating revenue from Revenue Share Assets and adjudicated this matter in favour of DIAL that Annual Fee shall be reduced from calculation of revenue from Revenue Share Assets.

Relevant Excerpts of decisions of TDSAT are as follows:

"…..Whether Annual Fee is to be included in revenue from Revenue Share Assets in determining "S" factor?.....

……Para 117. *We do not agree with the aforesaid contentions of the respondent.* ***Annual Fee payable to Airport Authority of India (AAI) is not a cost, because the cost is an amount paid to acquire the revenue.*** *Cost is that amount which the entrepreneur pays for procuring the revenue.* ***The cost is an expenditure incurred by any company or firm to produce the goods or services for sale****. The cost is an amount that is incurred to earn that revenue prior to such revenue is being earned. In the facts of the above case, if the aforesaid concept is applied, Annual Fee accrues to AAI after "Revenue" (as defined under OMDA) has been earned by DIAL.* ***This aspect of the matter has not been properly appreciated by AERA and hence the decision of AERA of inclusion of Annual Fee in determination of "S"-factor is hereby quashed and set aside……***

……Para 120*. Looking to the Escrow Account Agreement which is at Schedule-13 to the OMDA, a separate account is to be opened known as "Escrow Account" which is having a sub-account as mentioned in Clause-2 of Schedule-13 to the OMDA. For the ready reference, the said Clause-2 of Escrow Account Agreement which is at Schedule-13 reads as under: -*

"2. Establishment of Escrow Account and Declaration of Trust
2.1 Establishment of the Accounts
The Company and the Escrow Bank confirm that the Escrow Bank has established, in the name of the Company at the Escrow Bank's New Delhi branch, an account titled the "Escrow Account". The Escrow Account shall have the following sub accounts, maintained, controlled and operated by the Escrow Bank for the purposes of this Agreement, namely:
(a) a sub account maintained, controlled and operated by the Escrow Bank, titled the "Receivables Account";

(b) a sub account maintained, controlled and operated by the Escrow Bank, titled the "Proceeds Account" which shall have the following sub accounts:

(i) a sub-account maintained, controlled and operated by the Escrow Bank, titled the "Statutory Dues Account";

(ii) a sub-account maintained, controlled and operated by the Escrow Bank, titled the "AAI Fee Account"; and

(iii) a sub-account maintained, controlled and operated by the Escrow Bank, titled the "Surplus Account"."

As per Clause-3 thereof, it appears that revenue comes in the hands of the JVC only in the "Surplus Account". Clause 3.2 of the Escrow Account Agreement makes it explicitly clear that the revenue meant for this appellant is in "Surplus Account". Thus, out of total "gross revenue", amount equal to Annual Fee never comes in the hands of or in the account meant for appellant and, therefore, while calculating gross revenue generated by JVC from the Revenue Share Assets, the amount of annual fee ought to be excluded……

***…….Para 124**. We therefore, quash and set aside the decision of AERA to the extent it includes the Annual Fee in gross revenue generated by JVC from the Revenue Share Assets for calculation of "S" factor and we thereby hold that Annual Fee payable to AAI should be excluded from the revenue generated by JVC from the Revenue Share Assets for the calculation of "S" factor. And consequently, true-up has to be given for the earlier Control Periods also…..*

***……..Para 128:** In view of the aforesaid decisions, the Authority cannot re-write SSA nor can it ignore the terms of the SSA especially the two lines mentioned in Clause 1.1 of SSA after the definitions given in SSA. Similarly, the Authority cannot ignore the "waterfall mechanism" mentioned in Escrow Account Agreement which is at Schedule-13 to the OMDA.*

Thus, in view of the aforesaid facts and reasons, Issue No. III is answered in negative. Amount equal to Annual Fee cannot be included in revenue from Revenue Share Assets, in determining "S-factor". Amount equal to Annual Fee is to be excluded from revenue from "Revenue Share Assets" in determining "S-factor……".

The Hon'ble TDSAT adjudicated on the matter whether the Annual Fee is a cost for generating revenue from Revenue Share Assets or not. TDSAT has considered various factors in assessing whether this is a cost as per Article 3.1.1 of the OMDA, Escrow Agreement and whether the incurrence of such cost is necessary for the purpose of the generating revenue. Based on this analysis through para 117, the Hon'ble TDSAT has concluded that the Annual Fee is not a cost for generating revenue from Revenue Share Assets.

Further the reliance was placed by the Hon'ble TDSAT on the Escrow Agreement, where in there is a waterfall mechanism of the withdrawal of the proceeds from the revenue streams to DIAL. The initial deductions from the revenue proceeds are statutory dues and then the Annual Fee payable to AAI, post which the surplus will be transferred to the DIAL for their operations. Thus, the Annual Fee payable is not accrued to DIAL and not a cost for generating revenue from the Revenue Share Assets. Hence, in accordance with the Judgement and the Concession, in the calculation of the S-factor in the TR formula the revenue from Revenue Share Assets should be considered post deduction of Annual Fee paid on such portion.

Accordingly, the true up for all the Control Periods stands revised based on the Judgement of the TDSAT and this shall be continued for the future control periods as well.

iv. ***Consideration of "S-factor" as part of Aeronautical Revenue base for computation of taxes (i.e. T):***

TDSAT had adjusted that while calculating the building block T (taxes pertaining to Aeronautical Services), the building block S shall also be considered which is part of the tariff determination. TDSAT has found merit in the contention of the DIAL, and adjudged that the building block T shall be calculated considering the 'S' component. This has been presented by the relevant extracts of TDSAT order.

Relevant Excerpts of decisions of TDSAT are as follows:

"Whether "S" factor can be considered a part of aeronautical revenue base while determining aeronautical taxes (i.e. T)?

…….Para 134: *Looking to the impugned order passed by AERA, it appears that AERA has calculated tax on the amount =* ***RB x WACC + OM + D****, out of:*

$$TR_i = RB_i \times WACC_i + OM_i + D_i + T_i - S_i$$

Thus, upon the aforesaid encircled amount, the AERA has permitted the addition of amount equal to tax, whereas, this appellant's contention is that the amount of tax upon "S" should also be calculated.

Para 135: We are in full agreement with the contention of this appellant mainly for the reason that:

a. *The basic function of AERA under the AERA Act to be read with SSA and OMDA is to control and guide and determine* ***the tariff for aeronautical services****. Non-aeronautical services, non-aeronautical charges and nonaeronautical tariffs like tariff of the hotel, rent of the shops, entry fee for the visitors at IGI Airport, Delhi, vehicle parking charges etc. which are referred in Schedule-6 appended with OMDA is in the control of the JVC.*

b. *Looking to the formula of target revenue $TR_i = RB_i \times WACC_i + OM_i + D_i + T_i - S_i$,* ***it is to be kept in mind that by addition of various components as stated hereinabove in the formula what is arrived at is the target revenue for aeronautical services.***

c. *Once the amount of "S-factor" which is 30% of the gross revenue generated from Revenue Share Asset becomes* ***part and parcel of the target revenue, it also having a color of aeronautical revenue and, therefore, tax-T ought to be calculated even upon amount equal to "S" factor****.*

………Para 136: *Looking to the impugned order for 3rd Control Period (F.Y 2019-2024) which is at ANNEXURE A-1, it has been observed in paragraph 2.5.7 and 2.5.8 by AERA that in pursuance of the order passed by this Tribunal for Mumbai International Airport Ltd. (MIAL) dated 15th November, 2018 in AERA Appeal No. 04 of 2013, the matter was remanded upon the issue of "S-factor" for being considered as a part of aeronautical revenue and it has been decided by AERA that the amount equal to "S-factor" is not aeronautical revenue base for computation of aeronautical taxes for 1st Control Period. As per paragraph 8.5.1 of the Impugned Order for 3rd*

Control Period (ANNEXURE A-1), it has been decided by AERA that since "S-factor" does not find place in aeronautical services earning pertaining to Aeronautical Services should not include "S-factor" and addition of tax in target revenue upon an amount of S-factor would result in undeserved enrichment to the airport operator effectively reducing the cross-subsidy benefit.

Para 137: *We do not agree with the aforesaid reasons by AERA mainly for the reason that because the target revenue as per the aforesaid formula is determined,* ***based on aeronautical building block post cross subsidy of 30% revenue from Revenue Share Assets and, therefore, out of total target revenue, 30% has been recovered from the revenue generated by JVC from Revenue Share Assets. In view of this formula of Target Revenue, it is abundantly clear that in a recovery of Target Revenue for aeronautical services, "S-factor" is one of the mechanism of calculation in the formula of TR thus, the amount of "S-factor" partakes the character of aeronautical revenue and, therefore, once the part of aeronautical revenue has been recovered from 30% of revenue from Revenue Share Assets, the effect of "S-factor" should also be given in "T" (i.e. corporate tax pertaining to aeronautical services)……***

………Para 139: *The Hon'ble Supreme Court in Delhi International Airport Ltd. v. Airport Economic Regulatory Authority of India, 2022 SCC Online SC 850 has rejected AERA's methodology of calculating 'T' by basing it on the Corporate Tax paid by DIAL and held that 'T' must be calculated based on regulatory accounts prepared for arriving at TR as defined in the SSA and not from how generally 'tax' is understood……*

……Para 142: *Thus, in view of the aforesaid facts and reasons, in the formula of Target Revenue, amount equal to "S factor" also partakes the color of aeronautical revenue and looking to the definition of "T" in SSA which is a corporate taxes on earnings pertaining to aeronautical services and it is not on target revenue thus, upon an amount equal to S-factor also, an amount equal to corporate tax should be calculated…..*

……Para 145: *…..We, therefore, quash and set aside observations of the Authority for 2nd Control Period as well as for 3rd Control Period, so far as they are related to exclusion of "S" factor as part of aeronautical base, while determining aeronautical taxes (i.e. T). We, hereby hold to include "S"-factor as part of aeronautical revenue base while determining aeronautical taxes (i.e. T), for 2nd as well as 3rd Control Period.*

Thus, in view of the aforesaid facts and reasons, Issue No. IV is answered in affirmative. "S-factor" should be considered as a part of Aeronautical Revenue Base while determining Aeronautical taxes (i.e. T), and consequently true up has to be given for the earlier control periods also.

(Refer pg no. 155 - 156)…."

The Hon'ble TDSAT has examined the building blocks forming part of the Target Revenue and concluded that 'S' factor is part of the tariff determination process and Target Revenue should be arrived only after considering it. Once, 'S' is part of the tariff determination process then same should become part and parcel of the Target Revenue. Further it is also having a color of aeronautical revenue and it should be considered as aeronautical revenue while determining the taxes on earnings from Aeronautical Services. Hence, S-factor should be considered as part of Aeronautical Revenues while calculating tax for building blocks.

Thus, the true up for all the Control Periods shall stand revised based on the Judgement of the TDSAT and this shall be continued for the future control periods as well.

v. ***Revenue accruing from Existing Assets/Demised Premises can be considered as part of revenue from Revenue Share Assets:***

TDSAT has adjudicated its order in favour of DIAL on the stated matter and adjudged that Existing Assets/ Demised Premises are not part of the Revenue Share Assets as per SSA. Further, the construction of the clauses relevant for the determination of building block S, is univocal and unambiguous that the Existing Assets/Demised Premises doesn't form part of the Non-Aeronautical Assets, thus the same are excluded from the calculation of the revenue from Revenue Share Assets and building block S.

Relevant Excerpts of decisions of TDSAT judgment are as follows:

"……Whether revenue accruing from Existing Assets/Demised Premises can be considered as part of revenue from Revenue Share Assets?.....

…..Para 147. *In view of the aforesaid definitions[1], it is submitted by counsel appearing for respondent nos. 1 and 2 that revenue earned by this appellant from existing assets/demised premises should be treated as "Revenue Share Assets" and 30% of the gross revenue generated by this JVC-Appellant will be calculated towards the calculation of "S" factor. This contention is not accepted by this Tribunal because looking to the definition of "Revenue Share Assets", as stated hereinabove it shall mean a Non-Aeronautical Assets and the assets required for provision of aeronautical related services arising at the Airport and not considered in revenues from Non-Aeronautical Assets. Looking to the definition of Non-Aeronautical Assets, all the assets required or necessary for the performance of Non-Aeronautical Assets at the Airport as listed in Part-I of Schedule – 6 of OMDA as located at the Airport irrespective of whether they are owned by JVC or any third party to the extent such assets are located within or form part of any terminal building or are conjoined to any other Aeronautical assets, asset including in Paragraph (i) above , and such assets are incapable of independent access and independent existence or are prominently serving/catering any terminal complex/categorically complex and shall specifically include all the additional land (other than demised premises), property and structures thereupon acquired or leased during the Term in relation to such non-aeronautical assets.*

Para 148: *Non-Aeronautical Services means such services as are listed in Part- I and Part-II of Schedule – 6 of OMDA. In view of the aforesaid definition of Revenue Share Assets, Non-Aeronautical Assets and Non-Aeronautical Services, it is explicitly clear that Non-Aeronautical Revenue accruing from exiting premises/ demised premises could not be considered as part of revenue from "Revenue Share Assets" and consequently it cannot be used for cross subsidization.*

Looking to the definition of ***"Third Party"*** *as per lease agreement it appears that Third Party means an entity other than party to the leased agreement* ***meaning thereby to Third Party means a party which is neither the AAI nor the DIAL****. The word "entity"* ***has also been defined*** *as per OMDA means any Person, Body Corporation, Trust, Partnership Firm or other Association of persons/individuals whether registered or not.* ***Upon conjoint reading of the definition of "Entity"*** *(from OMDA), of "****Third Party****" (as per Lease agreement) and definition of* ***"Revenue Share Assets", it is explicitly clear that the "Third Party" as mentioned in the definition of "Non-Aeronautical Assets" cannot include AAI. Meaning thereby to, any asset which is owned by***

[1] List of definitions referred by the Hon'ble TDSAT in the above mentioned paragraph are i) Aeronautical Assets (OMDA); ii) Non-Aeronautical Assets (OMDA); iii) Existing Assets (OMDA); iv) Non-Transfer Assets (OMDA); v) Demised Premises (Lease Deed); vi) Entity (OMDA); vii) Third Party (Lease Deed) and viii) Revenue Share Assets (OMDA).

<u>AAI and is leased to DIAL, but, not categorised as "Aeronautical Assets" or "Non-Aeronautical Assets", cannot be considered as</u> *"Non-Aeronautical Assets". As a resultant effect, the revenue accrued from such asset cannot be considered towards calculation "**<u>S factor</u>**" or it cannot be considered for cross subsidization.*

Para 149: *<u>In fact, demised premises have been expressly excluded from the Third Category of "Non-Aeronautical Assets".</u>*

Para 150: *Looking to the definition of* ***<u>"Revenue Share Assets" as stated hereinabove, it is an exhaustive definition</u>****. It starts with the term "Non-Aeronautical Assets"* ***shall mean****...............meaning thereby to,* ***<u>no other assets, than those which are expressly mentioned in the definition of "Non-Aeronautical Assets" can be classified as "Non-Aeronautical Assets". The terms of the agreement cannot be modified unilaterally and much less, it can be presumed to have been modified</u>****……*

……Para 154: *We, therefore, quash and set aside the decision of the Authority bearing No. 57/2020-21 dated 30th December, 2020 (for 3rd Control Period) of inclusion of revenue from existing assets/demised premised in the calculation of "S"-factor.*

Para 155: *We hereby hold that looking to the provisions of OMDA to be read with the provisions of SSA and of the definitions as stated in this point, we hereby hold that revenue accrued from the existing assets/demised premises by the appellant cannot be considered as part of revenue from "Revenue Share Assets" for the calculation of "S" factor and consequently, true up has to be given for the earlier Control Periods also.*

Thus, in view of the aforesaid facts and reasons, Issue No. V is answered in negative. As stated hereinabove, we hold that revenue accrued from the existing assets/demised premises cannot be considered as a part of revenue from "Revenue Share Assets"………"

(Refer pg no. 166 - 167)

The Hon'ble TDSAT has examined and established detailed corelation various definitions to be considered to determine what constitutes Revenue Share Assets. The definitions of Non-Aeronautical Assets, Demised Premises, Third Party, Existing Assets, Transfer Assets and Non-Transfer Assets will lead to a conclusion that the Existing Assets / Demised Premises does not form part of Non-Aeronautical Assets and in turn doesn't constitute as part of Revenue Share Assets.

The Hon'ble TDSAT has further directed that the definition of "Revenue Share Assets" as stated hereinabove, it is an exhaustive definition and the revenue from existing asset cannot be considered as part of Revenue Share Assets.

Hence, in the calculation of the S-factor in the TR formula the revenue from Revenue Share Assets will be considered post exclusion of revenue from Demised Premises/Existing Assets.

Thus, the true up for all the Control Periods shall stand revised based on the Judgement of the TDSAT and this shall be continued for the future control periods as well.

vi. Capex for Phase 3A expansion project of IGIA, proposed by the Appellant to be allowed as part of RAB, can be reduced by the Authority:

DIAL contended that the cost submitted by it for Phase 3A construction is market discovered competitive market bidding price. The Authority cannot artificially reduce the market discovered competitive price and the Authority shall consider such costs as the base. Further, the Authority has to check the efficiency of the costs which are over and above the market discovered competitive price while true-up.

Relevant Excerpts of decisions of TDSAT are as follows:

"….Whether Capex for Phase 3A expansion project of IGIA, proposed by the Appellant to be allowed as part of RAB, can be reduced by AERA?

….Para 166: *…..Under the Electricity Act, 2003 while determining the tariff for the Electricity the appropriate commission has to give due weightage to competitive bidding price. Though there is no such provision in the AERA Act, 2008 but The Electricity Act, 2003 provides sound and transparent policy, as to determination of the tariff. Though this provision is not available in theAERA Act, 2008, it ought to be kept in mind that competitive bidding price arrived at through legal, valid and transparent bidding process cannot be brushed aside or cannot be given go-bye by the Authority under the guise of efficient cost, just by taking consultant's report and by ignoring OMDA, the AERA Act, 2008 and by re-writing the terms of the contract. The judgments upon which the counsels for the respondents are relying upon for the aforesaid point are not applicable to the facts of the present case especially that bidding process followed by the appellant is never called in question by the respondents nor there is any allegation that bidding process was tainted by fraud or by procedural lapse and, therefore, the bidding process followed by this appellant in pursuance of clause 8.5.7(i)(c) of OMDA is by transparent bidding process and the competitive price arrived at after negotiations with the lowest bidder is "real and efficient cost". Such cost is a "market discovered price" through competitive global bidding process. In this set of circumstances of the present case makes the present case different from the facts of the cases upon which reliance is placed by counsels for the respondents and, therefore, the judgments are not applicable in the present the Authority Appeal No. 1 of 2021. In fact, as per Section 13(1)(a)(i) of the Authority Act, 2008, the expenditure incurred ought to be considered by the Authority. Thus, in the facts of the present case without any justifiable reasons, arbitrarily, the Authority has partly rejected the capital expenditure undertaken by DIAL for Phase 3A expansion of IGIA, Delhi under the guise of "the efficient cost" which is not permissible. Consultant's report gives probable cost whereas the figure arrived at for capital expenditure for Phase 3A expansion of IGIA through competitive bidding process is a "real cost" which is also reduced in writing by the way of a separate contract between the JVC and the lowest-1 (L-1).*

Thus, in view of the aforesaid facts and reasons, Issue No. VI is answered in negative. the Authority cannot reduce an amount of Capex for Phase 3A expansion project of IGIA, Delhi proposed by appellant which is a bidding price of L-1 for which separate contract has also been entered into between appellant and L-1…."

(Refer pg no. 182 - 184)

The Hon'ble TDSAT has placed reliance on the fact that the competitive bidding price arrived through legal, valid and transparent process and further held that the same cannot be brushed aside or cannot be given go-bye by the Authority under the guise of efficient cost, just by taking consultant's report and by ignoring OMDA, the AERA Act, 2008 and by re-writing the terms of the contract.

Thus, the Authority should consider the total cost incurred as per the awarded EPC contract as submitted by the DIAL. The Authority is required to apply this principle for the future control periods.

vii. Expenses towards CSR can be considered as part of operating expenses:

"Relevant Excerpts of decisions of TDSAT are as follows:

…..Whether expenses towards CSR can be considered as part of operating expenses?.....

…..Para 167*: As per Section 135(5) of Companies Act, 2013, the company has to use 2% of Average Net Profit for the activities enumerated in Schedule VII of the Companies Act, 2013, this amount is known as Corporate Social Responsibility (CSR) amount. The expenditure of the CSR is must for the appellant. In the formula of the target revenue operating expenses has been referred as O.M. For the ready reference the said formula reads as under: -*

$$TRi = RBi \times WACCi + OMi + Di + Ti - Si$$

OM=efficient operation and maintenance cost pertaining to aeronautical services. It is submitted by counsel appearing for respondent no. 1 that CSR expenses are not the operating expenses, pertaining to aeronautical services, therefore, CSR expanses could not be recovered by the appellant. AERA has decided not to include CSR expanses as part of Operating Expenses for the First, Second and Third Control Periods. This contention of the learned senior counsel for respondent no. 1 has not accepted by this Tribunal because it has already been decided by this Tribunal in AERA Appeal No. 8 of 2018 judgment dated 16th December, 2020 in paragraph nos. 77 to 81, in case of Bangalore International Airport Ltd. (BIAL) Vs. Airport Economic Regulatory Authority (AERA). It has been held by this Tribunal that expenditure on CSR will be a part of operating expenses and CSR amount was allowed as a cost of pass-through…….

Para 168: *The aforesaid decision is binding upon the Authority. We are in full agreement with the respondent given hereinabove in the Authority Appeal No. 8 of 2018 for quashing and setting aside the decision of the Authority for disallowing CSR expenses as part of operating expenses. Necessary true up shall be given of the CSR expenses which have already been incurred by the appellant.*

Thus, in view of the aforesaid facts and reasons, Issue No. VII is answered in affirmative. Amount equal to CSR ought to be considered as part of operating expenses……"

(Refer pg no. 189)

Impact on tariff determination of DIAL:

The Hon'ble TDSAT had directed that in order to provide the fair rate of return to the investor, it is necessary for the Authority to allow the CSR expenditure as part of the Target Revenue.

Thus, the true up for all the Control Periods shall stand revised based on the Judgement of the TDSAT and this shall be continued for the future control periods as well.

The Authority is requested to give effect to findings and decisions of Hon'ble TDSAT on the issues presented above while determining the Tariff for fourth control period. In this process, the Authority is also requested to give similar treatment through true up mechanism for all the previous control periods as well as apply this principle for the future control periods.

Annexure 2: Hon'ble TDSAT Judgement dated 21.07.2023 in case of DIAL

2.4. TDSAT Judgement dated 06.10.2023 in reference to the appeal filed by MIAL against Order No. 13/2016-2017 and Order No. 64/2020-21

MIAL has filed appeals in TDSAT against the Authority's tariff orders for Control Period 2 and Control Period 3. The TDSAT had pronounced its Judgement on 06.10.2023 and copy of the Judgement is attached as Annexure-3 for your ready reference. Following items are directly impacting the tariff determination principles for the purpose of the DIAL:

- **Cost of RSD:** The Hon'ble TDSAT had directed the Authority to consider the RSD as equity and provide the return equivalent to cost of equity. The Hon'ble TDSAT had relied on the fact that the Airport Operators is already having amount of RSD on their hands which has been utilise for the project. The assumption of the Authority that these amounts can be raised from the Debt are not justified and directed to consider the amount of RSD as equity.

  Relevant Excerpts are as follows:

  "….Whether the decision of AERA to allow return on Refundable Security Deposit (RSD) at weighted average Cost of Debt is correct, proper and justified?.....

  ……173. It is submitted by Learned Senior Advocate appearing on behalf of the appellant that other infrastructure sector regulators such as Petroleum and Natural Gas Regulatory Board (PNGRB) and Tariff Authority for Major Ports (TAMP) where the tariff is regulated have allowed return on capital employed. These regulators do not provide return on the basis of source and associated cost of funds. Hence, we are of the considered opinion that once RSD has been utilised for meeting the capital expenditure, it should be treated as a part of Equity Share Capital invested by the appellant in the business and, therefore, this appellant is entitled to reasonable rate of return treating RSD as equity.

  174. Moreover, RSD raised by the appellant has been deployed for meeting the project cost of the Chhatrapati Shivaji Maharaj International Airport, Mumbai. If this fund is not available with this appellant, they would have been compelled to infuse same amount of equity for the project of Chhatrapati Shivaji Maharaj International Airport, Mumbai.

  175. It is presumed by AERA that if the amount of RSD would not have been available, the appellant would have incurred a debt and, therefore, AERA has given return on debt on an amount equal to RSD. This is an error on the part of AERA, in fact, if the amount of RSD would not have been available with this appellant, this amount equal to RSD would have been brought by this appellant through equity infusion.

  176. Looking to the facts of the present case, there is no need of presumption by AERA that had there been no amount of RSD with this appellant, they would have incurred debt. This appellant is already having amount of RSD on their hands which has been utilised for the project of Chhatrapati Shivaji Maharaj International Airport, Mumbai and hence, return on amount equal to RSD should be given treating an amount of RSD as equity and to that extent impugned orders passed by AERA dated 29.09.2016 as well as impugned order dated 27.02.2021 for 2nd Control Period and for 3rd Control Period respectively are hereby quashed and set aside……"

The Hon'ble TDSAT had directed that the funds from Refundable Security Deposits (RSD) should be considered as equity in case of MIAL. Similarly in case of DIAL, as the RSD amount was utilised for the project, the same should be considered as equity by the Authority for the purpose of WACC calculation.

The true up for all the first control period and second control period shall stand revised based on the Judgement of the TDSAT.

- **<u>Deletion of the Regulatory Base:</u>** The Authority till the Third Control Period considered the deletion of the Regulatory Base from the opening block and no return is provided to the Airport Operators for the no. of days it is deployed. This has been appealed by the MIAL in Hon'ble TDSAT and TDSAT in turn directs AERA to consider the actual usage of these assets and provide necessary return to the Airport Operators.

  <u>"Relevant Excerpts are as follows:</u>

  …..Whether the decision of AERA not to allow return on assets disposed of during the year based on actual usage in the year is correct, proper and justified?......

  …..Para 298. In view of these limited submissions, we hereby direct AERA to appreciate return on assets disposed of during the year based on actual usage in the year meaning thereby to we hereby direct AERA if the asset is disposed of e.g. on first day of December of any FY the same will be treated as disposed of w.e.f. the very same date and not from the first of April of the FY. <u>Thus, return will be allowed by AERA on assets disposed of during the year, based on actual usage in that very FY. Appellant shall supply the necessary data and figures which will be verified on actual basis the aforesaid return on assets, disposed of during the year shall be allowed by AERA based on the actual usage in that very FY.</u> This exercise will be done as a true up in the next Control Period as we have already reached the month of September, 2023 and the next control period i.e. 4th Control Period will start w.e.f. 1.4.2024 to 31.3.2029….."

  The Hon'ble TDSAT had directed that the amount invested by the Airport Operator has been considered based on the no. of days it was deployed. In the similar analogy the Authority shall consider the deletions also based on the no. of days it has been deployed.

  Annexure 3: Hon'ble TDSAT Judgement dated 06.10.2023 in case of MIAL

2.5. TDSAT Judgement dated 14.02.2024 in reference to the appeal made by GHIAL against Order No. 12/2021-2022

GHIAL has filed appeals in TDSAT against the Authority's tariff orders for Control Period 3 (Order No. 12/2021-22. The TDSAT had pronounced its Judgement on 14.02.2024 and copy of the Judgement is attached as Annexure 4 for your ready reference. Following items are directly impacting the tariff determination principles for the purpose of the DIAL:

- **Interest During Construction:** The Hon'ble TDSAT has adjudicated that the Authority should not consider the interest income earned during the construction period on surplus funds available with the Airport Operator, since it is not earned from aeronautical services and consideration of interest income is beyond the regulatory ambit of AERA because it does not accrue from any services rendered by the Airport Operator. Further, the Hon'ble TDSAT has also opined that the funding for projects shall be secured in advance instead of a piecemeal manner and arrangement fees/charges for these funding should be allowed as costs.

<u>"Relevant Excerpts are as follows:</u>

…..Whether the decision of AERA to consider interest income at 6.5% for the utilised debt and reduction of IDC to that extent and not to consider amortization of Arrangement Charges of the bond during 3rd Control Period and to consider the same during 4th Control Period is correct, proper and justified?.....

…..495. Looking to the facts of the present case, this appellant – Airport Operator had issued bonds of USD 300 Million in February, 2021 at 9.65% per annum (including hedging), payable semi-annually for undertaking, the capital expenditure at RGIA. Moreover, an arrangement fee of Rs.40.54 Crores was also incurred for the bond and that would be amortized over bond tenure (till February, 2026). Therefore, it is submitted by Learned Senior Counsel Mr. Ramji Srinivasan that AERA should have considered the New Debt Facility and its arrangement fee while computing interest during construction (IDC) for the 3rd Control Period.

496. AERA has decided to consider the new bond issued by this appellant, while computing the Interest During Construction (IDC), but, AERA considered interest income at 6.5% for the unutilised debt and reduced IDC to that extent. Moreover, AERA has decided not to consider the amortization of Arrangement Charges for the bond during the 3rd Control Period and decided to consider the same during the tariff determination for the 4th Control Period.

497. There is an inbuilt fallacy in the decision of AERA because project funding should be secured at a time. Project funding cannot be secured in a piecemeal manner. Moreover, if the project funding is secured in small denomination, then the cost of debt will be a higher one and there is also a risk in getting the funds. It may happen that after half the project is over, the borrower – Airport Operator – Present Appellant may not get the loan because of these inbuilt difficulties especially when 300 million USD is required. On the contrary, if the project funding is secured at a time, the benefit of lower borrowing cost will be attracted and to that extent the stakeholders will be benefitted in the form of lower value of FRoR…..

498. … AERA has to calculate IDC taking into consideration the costs of the entire debt facility. This aspect of the matter has not been properly appreciated by AERA while passing the impugned order dated 31.08.2021 mainly for the reason that project funding cannot be procured intermittently or in a piecemeal manner. On the contrary, it should be procured <u>well in advance for the planned expenditure</u>.

499. AERA has deducted interest at the rate of 6.5% per annum for the unutilised debt and has reduced IDC to that extent. This is not permissible in the eyes of law and this deduction is beyond the regulatory ambit of AERA because interest does not accrue from any services rendered by the Airport Operator. Much has been argued out by the counsel for AERA that interest earned upon the unutilised debt has to be deducted from the calculation of IDC. This contention of the counsel for Respondent No.1 - AERA is not accepted by this Tribunal mainly for the reason that –

a. The earning of interest is not arising out of aeronautical services;

b. Consideration of interest income is beyond the regulatory ambit of AERA because it does not accrue from any services rendered by the Airport Operator;

c. The formula for calculation of Financing Allowance which is set out in paragraph number 5.2.7(a) of the Tariff Guidelines, 2011 is unequivocal and unambiguous. Thus, it is explicitly clear that calculation of financing allowance given in para 5.2.7(a) does not require netting-off interest;

d. The rate of interest fixed by AERA at 6.5% is without any basis and no reasons have been given by AERA for the same and, therefore, it is arbitrary in nature and excessive.

*500. **The aforesaid aspects of the matter have not been properly appreciated by AERA while calculating IDC and, therefore, the decision of calculation of IDC by AERA in the impugned order is hereby quashed and set aside.** Moreover, AERA has not considered the amortization of charges related to bonds over the 3rd Control Period.*

501. Arrangement Fee has been borne by the Airport Operator – Appellant and accordingly being amortized in the 3rd Control Period as part of the project cost till March, 2023 and thereafter this Arrangement Fee has become a part of Profit & Loss account of this appellant till February, 2026 and, therefore, the Arrangement Fee which is Rs.40.54 Crores should have been considered by AERA as part of Project Costs.

502. Nowadays, no loan can be obtained and that too of such a huge magnitude without Arrangement Charges and, therefore, it has to be amortized during the 3rd Control Period and, therefore, it has to be considered by AERA as part of the project cost. We, therefore, direct AERA to consider (i) the amortization of Arrangement Charges during 3rd Control Period, and (ii) Arrangement Fee of Rs.40.54 crores (as per HIAL's audited financial statements), at the time of True-Up for the Fourth Control Period……"

The Hon'ble TDSAT has concluded that the interest income arising from the debt funds raised during the construction period shall not be considered as part of Regulatory Asset Base. Similarly in case of DIAL, the project funds are drawdown for the purpose of executing Phase 3A works in the control period 3. The interest income earned on the borrowings during the project phase shall not be considered as part of the capex cost as these not generated from Aeronautical Services or revenue from Revenue Share Assets.

Annexure 4: Hon'ble TDSAT Judgement dated 14.02.2024 in case of GHIAL

2.6. Tariff Principles applied by DIAL for the MYTP of Fourth Control Period

The tariff principles basis the following Judgements has been considered in this Multi Year Tariff Proposal (MYTP):

- Supreme Court Judgement dated 11.07.2022 for the First Control Period Order
- The TDSAT Judgement dated 21.07.2023 for the Second Control Period Order and Third Control Period Order of DIAL
- The TDSAT Judgement dated 16.10.2023 for the Second Control Period Order and Third Control Period Order of MIAL
- The TDSAT Judgement dated 14.02.2024 for the Third Control Period Order of GHIAL

This section details the impact of the tariff setting principle on account of the above judgements to DIAL's Target Revenue.

a) *Regulatory Base (RB) and Depreciation (D)*

Project Cost for Phase 3A:

The EPC contract cost awarded by DIAL through competitive bidding should be considered by the Authority without giving effect to the reductions proposed by the Authority's consultant in determining of Phase 3A costs.

Interest During Construction:

As detailed in the Hon'ble TDSAT Judgement dated 14.02.2024 for third control period order of GHIAL, the DIAL proposes not to consider the interest income generated from the borrowed funds as part of the Regulatory Building Block. Further, the DIAL has secured loans through Foreign Currency Bonds and Non-Convertible Debenture's in phased manner as required for the project which has been considered. As detailed in Hon'ble TDSAT Judgement DIAL proposes to consider the borrowing costs during construction at actuals costs as part of the Regulatory Building Blocks.

Deletion of the Assets:

The Authority till the Third Control Period considered the deletion of the Regulatory Base from the opening block and no return is provided to the Airport Operators for the no. of days it is deployed. This has been appealed by the MIAL in Hon'ble TDSAT and its order direct AERA to consider the actual usage of these assets and provide necessary return to the Airport Operators.

DIAL as part of its submissions for the Third Control Period has considered the information pertaining to the deletions of the assets based on the no. of actual days of usage.

b) *Weighted Average Cost of Capital (WACC)*

Cost of Refundable Security Deposits:

Based on the Hon'ble TDSAT decision in the case of the MIAL, the DIAL has revised the WACC for the First Control Period and Second Control Period where the return on RSD is considered at Cost of Equity instead of Cost of Debt.

However, from the Third Control Period, the Authority has approved normative approach and considered the notional gearing ratio, hence it will not effect the WACC.

c) *Operation and Maintenance Cost (O&M)*

CSR Expenditure:

Based on the Judgement of the Hon'ble TDSAT judgement, the Authority is requested to allow the CSR Expenditure as part of building block OM.

d) *Taxation (T)*

Based on the Judgement of the Hon'ble Supreme Court and Hon'ble TDSAT referred in previous sections, it is clear that the tax is required to be calculated based on the regulatory accounts and all the building blocks are required to be considered for the calculation of tax, bereft of actual tax consideration.

The basis for such interpretation is already explained in Section 2.2 and Section 2.3 above.

The application of the Judgements results into following manner of determination of the Tax.

A. Aeronautical Revenue
B. Add: 'S' 30% revenue from Revenue Share Assets
C. Less: 'OM' Operation and Maintenance Expense
D. Less: Interest (Aeronautical portion determined based on Approved RAB * Approved/ Eligible Debt Gearing * Approved cost of debt
E. Less: Depreciation (Calculated as part of building block D)
F. Earnings pertaining to Aeronautical Services: (F = A+B-C-D-E)
G. Corporate Tax Rate
H. Aeronautical Tax (building block T) (H = F*G)

e) S - factor

Revenue from Existing Assets:

The Hon'ble TDSAT vide its Judgement dated 21.07.2023 adjudicated that, revenue accruing from Existing Assets/ Demised Premises should not be considered as part of revenue from "Revenue Share Assets" and consequently it cannot be used for cross subsidization.

As per SSA "Revenue Share Assets" shall mean (a) Non-Aeronautical Assets; and (b) assets required for provision of aeronautical related services arising at the Airport and not considered in revenues from Non-Aeronautical Assets (e.g. Public admission fee etc.)

It is clear that as per the calculation of Target Revenue in terms of Schedule 1 of the SSA, S -factor is 30% of the gross revenue generated by DIAL from Revenue Share Assets. Hence, in order to accurately calculate the gross revenue from Revenue Share Assets, the definition of 'Non-Aeronautical Assets' as provided in the OMDA has to be considered and applied.

From the definition of Non-Aeronautical Assets, it clearly transpires that Existing Assets (also known as Demised premises or AAI Assets) lie outside the purview of Non-Aeronautical Assets as also upheld by Hon'ble TDSAT. This is explained in Section 2.5 (e).

DIAL has identified below assets as Existing Assets in the Airport Site:

a. Entire land demised by the Airports Authority of India;
b. Following structures built in the airport:
    1) Terminal 1 (1B and 1C);
    2) Terminal 2 (International Terminal)
    3) Cargo Terminal;
    4) Constructed Hangars;
    5) Flight Kitchens constructed on the site and contractually obliged to continue its operations;
    6) Other administrative buildings existing on the date of transfer.

DIAL has prepared a detailed concept note on identification of the Existing Assets and revenue accrued to DIAL from such contracts. These have been provided to the Statutory Auditor of DIAL for verification of these items and a Statutory Auditor's report has been issued by the auditor post the verification of these items.Hence, revenue from Existing Assets are excluded while calculating revenue from Revenue Share Assets.

Other Income:

As per the decision of the Hon'ble TDSAT dated 21.07.2023, other income shall not be considered as part of revenue accruing from Revenue Share Assets.

DIAL has identified the list of components forming part of the Other Income and presented at the respective sections of this MYTP.

Deduction of Annual Fee while calculating revenue from Revenue Share Assets:

As explained in the Section 2.3, the Annual Fee is not a cost for generating revenue from Revenue Share Assets. Hence, Annual Fee shall be deducted while calculating the same. Accordingly, 'S' has to be calculated after deducting Annual Fee from revenue from Revenue Share Assets.

3. True-up for the First Control Period (April 01, 2009 to March 31, 2014)

The Authority vide tariff order no. 57/2020-21 dated December 30, 2020 has considered the true-up for the First Control Period post consideration of TDSAT order dated April 23, 2018 with respect to DIAL Appeal no. 10/2012 for First Control Period.

The Hon'ble Supreme Court had pronounced its Judgement on the First Control Period Order and the Hon'ble TDSAT had pronounced its Order on the Second Control Period Order and Third Control Period Order of DIAL and MIAL as referred in the previous sections. The excerpts of these Judgements and Orders are presented in the Sections 2.1; 2.2; 2.3; 2.4 above and its impact on the tariff principles already set by the Authority are explained in the Section 2.5.

Accordingly, the building blocks for respective periods are updated basis the above judgements only and presented in the below sections for the first control period. The changes are made in the respective Building Blocks and accordingly Target Revenue for the first control period stands revised. Below are changes proposed by DIAL on building block forming part of the Target Revenue along with the revised under recovery.

3.1. Operating and Maintenance Cost ('OM')

TDSAT vide its Judgement dated 21.07.2023, further directed the Authority to consider the CSR expenditure as part of Operation and Maintenance cost as it is mandated by the Law. However, there was no expenditure incurred by the DIAL towards the CSR expenditure during the first control period. Therefore, DIAL has not recalculated the building block O&M and adopted the amounts approved vide Order No.57/2020-21 as it is.

3.2. Revenue from Revenue Share Assets ('S')

The Authority vide Order No. 57/2020-21, the Authority has determined the revenue from Revenue Share Assets for the first control period as follows:

Table 1: 'S' considered by the Authority for the First Control Period vide no. Order No. 57/2020-21

INR in Crores

Particulars	FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14
Revenue from Revenue Share Assets considered by the Authority	608	599	799	905	1,051
S = 30% of gross revenue from Revenue Share Assets	**182**	**180**	**240**	**271**	**315**

Refer table 17 of the Third Control Period Order No. 57/2020-21

The Hon'ble TDSAT Order in AERA Appeal No. 01/2021 has pronounced that the Other Income, revenue from Existing Assets and Annual Fee payable to AAI are required to be excluded from the calculation of building block S, since these are not part of the revenue from Revenue Share Assets. Detailed interpretation is explained in Section 2.5(e), extracts are presented in Section 2.3 and the impact of these items are considered in calculation of building block S is presented below.

- ***Exclusion of revenue from Existing Assets/ Demised Premises from the calculation of revenue from Revenue Share Assets:***

  The revenue from Existing Assets/Demised Premises as defined under OMDA have to be excluded from the calculation of revenue from Revenue Share Assets. As explained in the Section 2.6 of this MYTP, DIAL has arrived at the revenue from Revenue Share Assets and the Statutory Auditors of DIAL have performed procedures on these items and provided their report;

  Annexure 5: Statutory Auditor's report on revenue from Existing Assets from April 01, 2009 to March 31, 2018

- ***Exclusion of other income from the calculation of revenue from Revenue Share Assets:***

  The DIAL proposes to exclude the other income considered by the Authority (as considered by it in determination of the building block 'S' for the first control period);

- ***Deduction of Annual Fee payable to AAI from revenue from Revenue Share Assets***
  Deduction of Annual Fee payable to AAI as referred in Clause 3.1.1 in calculation of revenue from Revenue Share Assets.

Accordingly, DIAL in accordance with the TDSAT judgment proposes the following for true up for the Building Block 'S':

Table 2: 'S' proposed by DIAL for the First Control Period **INR in Crores**

Particulars		FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14
Revenue from Revenue Share Assets as considered by the Authority	(A)	608	599	799	905	1,051
Less:						
Other income		8	5	1	1	27
Revenue from Demised Premises / Existing Premises		524	294	232	221	223
Sub-total	**(B)**	**533**	**299**	**233**	**222**	**251**
Sub-total (C = A-B)	**(C)**	**75**	**300**	**566**	**683**	**800**
Less: Annual Fee (D = C*45.99%)	(D)	35	138	260	314	368
Revenue from Revenue Share Assets (E = C-D)	**(E)**	**41**	**162**	**306**	**369**	**432**
S = 30% of gross revenue from Revenue Share Assets (F = 30% * E)	**(F)**	**12**	**49**	**92**	**111**	**130**

The Authority is requested to consider the above calculation for the first control period for implementation of the TDSAT Judgement referred above.

3.3. Aeronautical Tax ('T')

The Judgement dated 11.07.2022 of Hon'ble Supreme Court, has adjudicated that the actual tax paid by DIAL is not relevant for the calculation of the building block T. Further, the Hon'ble Supreme Court has adjudged that the Annual Fee payable by DIAL in accordance with the clause 3.1.1 is not a cost and the same shall not be considered while calculating the taxes pertaining to Aeronautical Services, detailed explanation is provided in the Section 2.2.

In addition to the above judgement the Hon'ble TDSAT in AERA Appeal No. 1/2021 has adjudged that the building block S is inherent part of the Aeronautical Revenue and thus required to be included as part of the revenue while calculation of the taxes pertaining to Aeronautical Services as the amount of "S-factor" which is 30% of the gross revenue generated from Revenue Share Asset becomes part and parcel of the target revenue, it also having a colour of aeronautical revenue and, therefore, tax-T ought to be calculated even upon amount equal to "S" factor. DIAL has recalculated building block T and the resultant amount is as follows:

Table 3: 'T' proposed by DIAL based for the First Control Period

INR in Crores

Particulars		FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14
Aeronautical Revenue		507	571	611	2,248	2,806
S as part of Target Revenue		12	49	92	111	130
Sub-total	**(A)**	**519**	**619**	**703**	**2,359**	**2,936**
<u>**Less:**</u>						
Operation and maintenance cost ('OM')		367	511	934	565	670
Depreciation on Regulatory Base ('D')		111	221	370	331	367
Interest Cost^		143	300	476	438	420
Sub-total	**(B)**	**621**	**1,033**	**1,780**	**1,334**	**1,457**
Earnings pertaining to Aeronautical Services (C = A - B)	**(C)**	**(101)**	**(413)**	**(1,077)**	**1,025**	**1,479**
Opening Accumulated Losses		-	101	515	1,592	567
Current losses		101	413	1,077	-	-
Current year set-off		-	-	-	(1,025)	(567)
Closing Accumulated Losses	**(D)**	**101**	**515**	**1,592**	**567**	**-**
Earnings pertaining to Aeronautical Services	**(E)**	-	-	-	-	912
Corporate Tax Rate	(F)	33.99%	33.22%	32.45%	32.45%	33.99%
Building Block T (G = E*F)	**(G)**	**-**	**-**	**-**	**-**	**310**

^DIAL has considered the Interest cost as follows:

Approved RAB X Approved/Eligible Debt Gearing X Approved cost of debt

The Authority has considered the building block T as nil for the First Control Period. The Authority is requested to consider the above calculation for the first control period for implementation of the TDSAT Judgement and Supreme Court Judgement referred above.

3.4. Weight Average Cost of Capital ('WACC')

The Authority vide its Order No. 57/20202-21 has determined the WACC for the first control period as follows:

Table 4: 'WACC' considered by the Authority for the first control period

Particulars	Ref	CP - I
Return on Equity	(A)	16.00%
Return on Refundable Security Deposits	(B)	10.00%
Cost of Debt	(C)	10.00%
Weightage of Equity	(X)	27.50%
Weightage of Refundable Security Deposits	(Y)	14.82%
Weightage of Debt	(Z)	57.69%
WACC [A*X + B*Y + C*Z]		**11.65%**

Refer table 8 of the Third Control Period Order No. 57/2020-21

The Judgement dated 14.02.2024 of Hon'ble TDSAT in case of MIAL appeals and explained in detailed in the Section 2.6 above, the DIAL proposes to revise the WACC for the first control period after considering Return on RSD equivalent to Return on Equity :

Table 5: Revised 'WACC' proposed by the DIAL for the first control period

Particulars	Ref	CP - I
Return on Equity	(A)	16.00%
Return on Refundable Security Deposits	(B)	16.00%
Cost of Debt	(C)	10.00%
Weightage of Equity	(X)	27.50%
Weightage of Refundable Security Deposits	(Y)	14.82%
Weightage of Debt	(Z)	57.69%
WACC [A*X + B*Y + C*Z]		**12.54%**

The Authority is requested to consider the above calculation for the first control period for implementation of the TDSAT Judgement referred above.

3.5. Revised true-up for First Control Period

The Authority has decided to consider the following true-up for the first control period:

Table 6: True-up considered by the Authority for the first control period

INR in Crores

Particulars	Ref	FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14	Total
Regulatory Asset Base ('RB')	(A)	2,480	5,208	8,254	7,595	7,290	

Particulars	Ref	FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14	Total
WACC	(B)	11.65%	11.65%	11.65%	11.65%	11.65%	
Return on RAB (C = A * B) (RB*WACC)	(C)	289	607	962	885	849	3,591
Depreciation ('D')	(D)	111	221	370	331	367	1,399
Operation and maintenance cost ('OM')	(E)	367	511	934	565	670	3,047
Taxes pertaining to Aeronautical Services (T)	(F)	-	-	-	-	-	-
Sub-total (G = C+D+E+F)	**(G)**	**767**	**1,339**	**2,266**	**1,781**	**1,886**	**8,037**
Less: Building Block S	(H)	182	180	240	271	315	1,188
Target Revenue (I = G-H)	**(I)**	**584**	**1,159**	**2,026**	**1,509**	**1,571**	**6,849**
Aeronautical revenue	(K)	507	571	611	2,248	2,806	6,743
Under Recovery/(Over Recovery) (L=I-K)	**(L)**	**77**	**588**	**1,415**	**(739)**	**(1,236)**	**106**
PV factor based on WACC	(M)	1.55	1.39	1.25	1.12	1.00	
Under Recovery/(Over Recovery) as on April 01, 2014	**(N)**	**120**	**819**	**1,764**	**(825)**	**(1,236)**	**642**

Refer table 20 of the Third Control Period Order No. 57/2020-21

After taking into consideration the proposals made by the DIAL in the above sections from 3.1 to 3.4, the DIAL proposes the following revised true-up for the first control period

Table 7: Revised true-up proposed by the DIAL for the first control period

INR in Crores

Particulars	Ref	FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14	Total
Regulatory Asset Base ('RB')	(A)	2,480	5,208	8,254	7,595	7,290	
WACC	(B)	12.54%	12.54%	12.54%	12.54%	12.54%	
Return on RAB (C = A * B) (RB*WACC)	(C)	311	653	1,035	952	914	3,865
Depreciation ('D')	(D)	111	221	370	331	367	1,399
Operation and maintenance cost ('OM')	(E)	367	511	934	565	670	3,047
Taxes pertaining to Aeronautical Services (T)	(F)	-	-	-	-	310	310
Sub-total (G = C+D+E+F)	**(G)**	**789**	**1,385**	**2,339**	**1,848**	**2,260**	**8,621**
Less: Building Block S	(H)	12	49	92	111	130	393
Target Revenue (I = G-H)	**(I)**	**776**	**1,337**	**2,247**	**1,738**	**2,131**	**8,229**
Aeronautical revenue	(K)	507	571	611	2,248	2,806	6,743
Under Recovery/(Over Recovery) (L=I-K)	**(L)**	**269**	**766**	**1,636**	**(510)**	**(676)**	**1,485**
PV factor based on WACC	(M)	1.60	1.43	1.27	1.13	1.00	
Under Recovery/(Over Recovery) as on April 01, 2014	**(N)**	**432**	**1,091**	**2,072**	**(574)**	**(676)**	**2,346**

The Authority is requested to consider the above calculation for the first control period for implementation of the TDSAT Judgement and Supreme Court Judgement referred above.

4. True-up for the Second Control Period (April 01, 2014 to March 31, 2019)

TDSAT has pronounced the judgement for appeals on Second Control Period Order and Third Control Period Order where in TDSAT has allowed DIAL appeals partly as explained in the previous sections. Accordingly, the building blocks for respective periods are updated and presented in the below sections for the second control period. The changes are made in the Building Blocks of OM, T and S and accordingly Target Revenue for the second control period stands revised.

4.1. Operating and Maintenance cost ('OM')

The Authority vide its Order No. 57/2020-21, has approved the below Operating and Maintenance cost in the Second Control Period vide its decision no. 3.11.7 in the erstwhile order.

Table 8: OM considered by the Authority for the Second Control Period vide no. Order No. 57/2020-21

INR in Crores

Operating & Maintenance Cost	FY 14-15	FY 15-16	FY 16-17	FY 17-18	FY 18-19
VRS -AAI	17	16	16	15	15
Manpower expense	117	111	116	146	167
Admin & General expense	253	143	234	204	211
Utility expense	112	122	107	113	103
Operating expense	248	251	261	314	333
Airport Operator Fee	84	89	102	118	51
Forex	243	6	38	(0)	10
Property tax	20	5	28	6	7
Total	**1,095**	**743**	**902**	**916**	**896**

Refer table 49 of the Third Control Period Order No. 57/2020-21

The TDSAT Order dated has adjudicated that the CSR expenditure be allowed as part of the Operating and Maintenance expenditure. In deciding the matter TDSAT had observed that AERA shall pass consequential orders so that no loss due to reduction in determined fair return is caused to the equity holders on account of expenditure on CSR. Accordingly, DIAL has considered the CSR expenditure as Aeronautical expenditure.

The revised Operating and Maintenance cost including CSR expenditure for the second control period are as below:

Table 9: Revised 'OM' cost proposed by the DIAL for the Second Control Period

INR in Crores

Operating & Maintenance Cost	FY 14-15	FY 15-16	FY 16-17	FY 17-18	FY 18-19
VRS -AAI	17	16	16	15	15
Manpower expense	117	111	116	146	167
Admin & General expense	253	143	234	204	211
Utility expense	112	122	107	113	103
Operating expense	248	251	261	314	333
Airport Operator Fee	84	89	102	118	51
Forex	243	6	38	(0)	10

INR in Crores

Operating & Maintenance Cost	FY 14-15	FY 15-16	FY 16-17	FY 17-18	FY 18-19
Property tax	20	5	28	6	7
CSR Expenditure	-	4	8	11	10
Total	**1,095**	**748**	**910**	**927**	**906**

The Authority is requested to consider the above calculation for the second control period for implementation of the TDSAT Judgement referred above.

4.2. Aeronautical Tax ('T')

As explained in detail at Section 3.3, DIAL has recalculated building block 'T' and the resultant amount is as follows:

Table 10: Revised 'T' proposed by DIAL for the Second Control Period

INR in Crores

Particulars		FY 14-15	FY 15-16	FY 16-17	FY 17-18	FY 18-19
Aeronautical Revenue		2,951	3,408	3,932	1,705	988
S as part of Target Revenue		146	175	189	222	260
Sub-total	**(A)**	**3,097**	**3,582**	**4,121**	**1,928**	**1,247**
Less:						
Operation and maintenance cost ('OM')		1,095	748	910	927	906
Depreciation on Regulatory Base ('D')		532	533	541	547	554
Interest Cost^		355	329	307	283	262
Sub-total	**(B)**	**1,982**	**1,610**	**1,758**	**1,757**	**1,723**
Earnings pertaining to Aeronautical Services (C = A - B)	**(C)**	**1,116**	**1,972**	**2,363**	**171**	**(475)**
Opening Accumulated Losses		-	-	-	-	-
Current losses		-	-	-	-	475
Current year set-off		-	-	-	-	-
Closing Accumulated Losses	**(D)**	**-**	**-**	**-**	**-**	**475**
Earnings pertaining to Aeronautical Services	**(E)**	1,116	1,972	2,363	171	-
Corporate Tax Rate	(F)	33.99%	34.61%	34.61%	34.61%	34.94%
Building Block T (G = E*F)	**(G)**	**379**	**682**	**818**	**59**	**-**

^DIAL has considered the Interest cost as follows:

Approved RAB X Approved/Eligible Debt Gearing X Approved cost of debt

The Authority is requested to consider the above calculation for the second control period for implementation of the TDSAT Judgement referred above.

4.3. Revenue from Revenue Share Assets ('S')

The Authority vide its Order No. 57/2020-21 determined the revenue from Revenue Share Assets for the second control period as follows:

Table 11: 'S' considered by the Authority for the Second Control Period

INR in Crores

Particulars	FY 14-15	FY 15-16	FY 16-17	FY 17-18	FY 18-19
Revenue from Revenue Share Assets considered by the Authority (A)	1,211	1,479	1,641	1,963	2,563
S = 30% of gross revenue from Revenue Share Assets (B = 30% * A)	**363**	**444**	**492**	**589**	**769**

Refer table 62 of the Third Control Period Order No. 57/2020-21

The Hon'ble TDSAT vide its Judgement dated 21.07.2023 passed in AERA Appeal No. 01/2021 has pronounced that the Other Income, Annual Fee payable to AAI and revenue from Existing Assets are required to be excluded from the calculation of building block S, since these are not part of the revenue from Revenue Share Assets. Detailed interpretation is explained in Section 2.5(e), extracts are presented in Section 2.3 and the impact of these items are considered in calculation of building block S is presented below:

- ***Exclusion of revenue from Existing Assets/Demised Premises from the calculation of revenue from Revenue Share Assets:***

  The revenue from Existing Assets/Demised Premises as defined under OMDA have to be excluded from the calculation of revenue from Revenue Share Assets. As explained in the Section 2.6 of this MYTP, DIAL has arrived at the revenue from Revenue Share Assets and the Statutory Auditors of DIAL have performed procedures on these items and provided their report;

  Annexure 6: Statutory Auditor's report on revenue from Existing Assets from April 01, 2018 to March 31, 2019

- ***Exclusion of other income from the calculation of revenue from Revenue Share Assets:***

  The DIAL proposes to exclude the other income considered by the Authority (as considered by it in determination of the building block 'S' for the second control period) in accordance with the judgement;

- ***Deduction of Annual Fee payable to AAI from revenue from Revenue Share Assets***
  Deduction of Annual Fee payable to AAI as referred in Clause 3.1.1 in calculation of revenue from Revenue Share Assets.

Accordingly, DIAL proposes the following calculation of Building Block 'S' as follows:

Table 12: 'S' proposed by DIAL for the Second Control Period

INR in Crores

Particulars		FY 14-15	FY 15-16	FY 16-17	FY 17-18	FY 18-19
Revenue from Revenue Share Assets as considered by the Authority	(A)	1,211	1,479	1,641	1,963	2,563
Less:						
Other income		65	119	150	217	530
Revenue from Existing Assets/Demised Premises		243	282	324	374	431
Sub-total	**(B)**	**308**	**401**	**475**	**591**	**961**
Sub-total (C = A-B)	**(C)**	**904**	**1,078**	**1,167**	**1,372**	**1,602**
Less: Annual Fee (D = C*45.99%)	(D)	416	496	537	631	737
Revenue from Revenue Share Assets (E = C-D)	**(E)**	**488**	**582**	**630**	**741**	**865**
S = 30% of gross revenue from Revenue Share Assets (F = 30% * E)	**(F)**	**146**	**175**	**189**	**222**	**260**

The Authority is requested to consider the above calculation for the second control period for implementation of the TDSAT Judgement and Supreme Court Judgement referred above.

4.4. Weight Average Cost of Capital ('WACC')

The Authority vide its Order No. 57/20202-21 has determined the WACC for the second control period as follows:

Table 13: 'WACC' considered by the Authority for the second control period

Particulars	Ref	CP - II
Return on Equity	(A)	16.00%
Return on Refundable Security Deposits	(B)	9.28%
Cost of Debt	(C)	9.28%
Weightage of Equity	(X)	27.16%
Weightage of Refundable Security Deposits	(Y)	16.32%
Weightage of Debt	(Z)	56.52%
WACC [A*X + B*Y + C*Z]		**11.10%**

Refer table 32 of the Third Control Period Order No. 57/2020-21

Based on the Judgement dated 14.02.2024 of Hon'ble TDSAT in case of MIAL appeals and explained in detailed in the Section 2.6 above, the DIAL proposes to revise the WACC for the second control period after considering Return on RSD equivalent to Return on Equity:

Table 14: Revised 'WACC' proposed by the DIAL for the second control period

Particulars	Ref	CP - II
Return on Equity	(A)	16.00%
Return on Refundable Security Deposits	(B)	16.00%
Cost of Debt	(C)	9.28%

Particulars	Ref	CP - II
Weightage of Equity	(X)	27.16%
Weightage of Refundable Security Deposits	(Y)	16.32%
Weightage of Debt	(Z)	56.52%
WACC [A*X + B*Y + C*Z]		**12.20%**

The Authority is requested to consider the above calculation for the second control period for implementation of the TDSAT Judgement and Supreme Court Judgement referred above.

4.5. Revised true-up for Second Control Period

The Authority has decided to consider the following true-up for the second control period:

Table 15: True-up considered by the Authority for the second control period

INR in Crores

Particulars	Ref	FY 14-15	FY 15-16	FY 16-17	FY 17-18	FY 18-19	Total
Regulatory Asset Base ('RB')	(A)	6,768	6,282	5,849	5,391	5,004	
WACC	(B)	11.10%	11.10%	11.10%	11.10%	11.10%	
Return on RAB (C = A * B) (RB*WACC)	(C)	752	698	650	599	556	3,254
Depreciation ('D')	(D)	532	533	541	547	554	2,707
Operation and maintenance cost ('OM')	(E)	1,095	743	902	916	896	4,553
Taxes pertaining to Aeronautical Services (T)	(F)	-	51	97	-	-	148
Sub-total (G = C+D+E+F)	**(G)**	**2,379**	**2,025**	**2,190**	**2,062**	**2,006**	**10,661**
Less: Building Block S	(H)	363	444	492	589	769	2,657
Target Revenue (I = G-H)	**(I)**	**2,015**	**1,581**	**1,698**	**1,473**	**1,237**	**8,004**
True-up of First Control Period	(J)	642					
Adjusted Target Revenue (K=I+J)	(K)	**2,657**	**1,581**	**1,698**	**1,473**	**1,237**	**8,004**
Aeronautical revenue	(L)	2,951	3,408	3,932	1,705	988	12,983
Under Recovery/(Over Recovery) (M=K-L)	**(M)**	**(294)**	**(1,826)**	**(2,234)**	**(233)**	**249**	**(4,979)**
PV factor based on WACC	(N)	1.52	1.37	1.23	1.11	1.00	
Under Recovery/ (Over Recovery) as on April 01, 2019	**(O)**	**(448)**	**(2,504)**	**(2,757)**	**(259)**	**249**	**(5,721)**

Refer table 71 of the Third Control Period Order No. 57/2020-21

After taking into consideration the proposals made by the DIAL in the above sections from 4.1 to 4.4, the DIAL proposes the following revised true-up for the second control period.

Table 16: Revised true-up proposed by the DIAL for the second control period

INR in Crores

Particulars	Ref	FY 14-15	FY 15-16	FY 16-17	FY 17-18	FY 18-19	Total
Regulatory Asset Base ('RB')	(A)	6,768	6,282	5,849	5,391	5,004	
WACC	(B)	12.20%	12.20%	12.20%	12.20%	12.20%	
Return on RAB (C = A * B) (RB*WACC)	(C)	826	766	714	658	611	3,574
Depreciation ('D')	(D)	532	533	541	547	554	2,707

Particulars	Ref	FY 14-15	FY 15-16	FY 16-17	FY 17-18	FY 18-19	Total
Operation and maintenance cost ('OM')	(E)	1,095	748	910	927	906	4,585
Taxes pertaining to Aeronautical Services (T)	(F)	379	682	818	59	-	1,939
Sub-total (G = C+D+E+F)	**(G)**	**2,832**	**2,730**	**2,982**	**2,191**	**2,071**	**12,806**
Less: Building Block S	(H)	146	175	189	222	260	992
Target Revenue (I = G-H)	**(I)**	**2,685**	**2,555**	**2,793**	**1,969**	**1,811**	**11,814**
True-up of First Control Period	(J)	2,346					
Adjusted Target Revenue (K=I+J)	(K)	**5,031**	**2,555**	**2,793**	**1,969**	**1,811**	**11,814**
Aeronautical revenue	(L)	2,951	3,408	3,932	1,705	988	12,983
Under Recovery/(Over Recovery) (M=K-L)	**(M)**	**2,080**	**(852)**	**(1,138)**	**263**	**823**	**(1,170)**
PV factor based on WACC	(N)	1.58	1.41	1.26	1.12	1.00	
Under Recovery/ (Over Recovery) as on April 01, 2019	**(O)**	**3,297**	**(1,204)**	**(1,433)**	**295**	**823**	**1,779**

The Authority is requested to consider the above calculation for the second control period for implementation of the TDSAT Judgement and Supreme Court Judgement referred above.

5. True-up for the Third Control Period (April 01, 2019 to March 31, 2024)

5.1. Traffic for the third control period

The traffic proposed by the AERA for the Third Control Period is 267 Mn and cargo movement was projected at 4,455 (000's of MT).

Table 17: Traffic projected by the AERA for IGI Airport for the third control period

Particulars	FY 20	FY 21	FY 22	FY 23	FY 24
Passengers (Mn)					
Domestic	49.47	15.09	27.75	38.86	52.84
International	17.83	3.29	8.40	12.64	19.75
ATM (Billable)					
Domestic	181.58	67.23	111.22	181.58	182.25
International	49.76	15.34	31.11	49.76	58.22
Cargo (000's MT)					
Domestic	352.69	214.20	296.64	339.02	403.60
International	603.16	401.14	526.61	601.84	716.48

Refer table 131 of the Third Control Period Order No. 57/2020-21

DIAL proposes to consider the actual traffic at the IGI Airport as follows:

The billable passengers and billable Air Traffic Movements for the third control period are as follows:

Table 18: Actual traffic at the IGI Airport for the third control period

Particulars	FY 20	FY 21	FY 22	FY 23	FY 24
Passengers (Mn)					
Domestic	49.47	19.38	32.82	49.68	54.20
International	17.83	3.21	6.52	15.65	19.47
Billable Passengers (Mn)					
Domestic	21.80	6.74	11.74	19.17	21.21
International	7.28	1.08	2.70	6.65	7.90
ATM (Billable)					
Domestic	173.24	87.38	129.73	165.64	180.72
International	49.76	19.12	28.78	46.62	57.99
Cargo (000's MT)					
Domestic	352.69	272.54	321.21	345.44	356.67
International	603.16	464.89	603.14	550.48	646.64

The above information is in accordance with the reports provided by the Statutory Auditor's in connection to this matter. List of reports are as follows:

Annexure 7: Statutory Auditor's report on Billable Air Traffic Movements at IGI Airport from April 01, 2019 to March 31, 2020

Annexure 8: Statutory Auditor's report on Air Traffic Movements at IGI Airport from April 01, 2020 to March 31, 2024

Annexure 9: Statutory Auditor's report on Billable Passenger at IGI Airport from April 01, 2019 to March 31, 2020

Annexure 10: Statutory Auditor's report on Billable Passenger at IGI Airport from April 01, 2020 to March 31, 2024

DIAL has proposed to true up in accordance with the existing principles established by the Authority and concession given by the Government of India, except for the items discussed above in the background section, in the third control period and has arrived at the below Building Blocks.

5.2. Regulatory Asset Base ('RB')

(i) Project Capex

DIAL experienced the huge growth in passenger traffic post construction of Terminal 3 of IGI Airport. In order to cater to the demand, DIAL had planned for expansion of the infrastructure. Detailed submission of the same was made to the Authority during the CP3 filing.

DIAL has awarded the contract for the construction of Phase 3A to L&T the successful bidder from the global tendering for the construction of Phase 3A. The aspect of the funding of the project, cost of the project has deliberated, debated and discussed in the board meeting on January 30, 2019 and Board of Directors has initially approved the cost of this project, means of finance and contract award to L&T.

The EPC contract has been divided into 5 packages and the details of the packages are as follows:

- **Package 1:** Expansion of Terminal 1 and associated facilities (Capacity planned for T1 increased from 17 MPPA to 40 MPPA);

  Expansion of departures /arrival buildings with a new architectural façade on the city side; Integrating with existing Terminal buildings, demolition of some of the existing facilities to facilitate expansion of the terminal footprint and airside asset to meet passenger requirement as per the master plan forecast. The above expansion will increase the terminal area from the current 64,140 Sq.M to 2,06,950 Sq.M. Following features are available at the expanded terminal:

    - 13 Entry Gates (26 CISF Positions);
    - 5 Check in islands
    - 108 CUSS
    - 36 Self baggage drop facilities
    - 20 Hand baggage X-Ray machines with a facility to expand upto 25 and having a capacity of processing 250-300 Bags/Hr and having Automated Tray Retrieval System (ATRS)
    - Check in baggage screening capacity is at 5,000-6,000 Bags/Hr
    - 22 Contact stands
    - 13 Bussing Gates
    - 9 Baggage Carousels

  - 10 Arrival Baggage Belts 70 Mtrs each

- **Package 2:** Airfield works including development of 4th Runway:

  Construction of 4th RWY & associated Rapid Exit Taxiways – parallel to RWY 11/29, of the size 4375 M X 60 M plus 7.5 M wide shoulders, suitable for operation of A-380 /other equivalent Code F aircraft, in compliance with ICAO Standards & recommend practices / DGCA Civil aviation requirements, pavement designs based on LEDFAA design program and existing soil characteristics, RWY geometry / RET and other Taxi links as per Aircraft Mix as defined in the Master Plan of IGI Airport.

  The RWY is designed with Cat 3B AGL & navigational aids at both ends. The RWY strip is graded as per ICAO standards. Its drainage designs is developed so as to integrate with the over-all drainage system of the airport, leading to the eventual out-fall of the airport. This new RWY is supported by an additional ARFF Station suitable for Cat 10 requirements as per ICAO standards as per Master Plan.

- **Package 3:** Landside/Connectivity works:

  DIAL has carried major upgrade to all the roads leading to the Airport and exit points from the Airport. The major landside works are as follows:

  - Extension of the central spine road to 12 lanes (6 lanes each side)
  - Widening the northern access road towards NH-8 to 10 lanes (5 each side)
  - Road works connecting inter terminals for smooth shifting of passengers across three terminal along with a flyover
  - Underpass from the entry from NH-8
  - Enhanced connectivity (signal free) to the various exit points from Airport to various parts of the NCR

- **Package 4:** Easter Parallel Cross Taxiways

  New Eastern Parallel Cross Taxiways (A 2.4-KM code F taxiway, which at certain locations is above the airport approach roads with vehicular traffic underneath). New Taxiway in between TWY Y and TWY Z7 isolation bay. The DIAL has developed rapid exit taxiways on RWY 11L-29R and other taxiways associated with RWY 11L-29R.

- **Package 5:** Modifications to Terminal 3 and associated facilities, to have improved facilities for transfer passenger and improved levels of services for International and Domestic passengers. Construction of additional transfer area for I-I (international to international) in Terminal 3. The floor plate at the arrival of Pier A & B junction area will be increased for I-I transfer to the tune of 3000 SqM area. Installation of the 7th check in island along with its Baggage Handling & screening systems, additional arrival baggage carousels (2 Nos), increase in the number of emigration and immigration counters and other related IT & MEP works; installation of baggage carousals at the arrival with necessary IT & MEP works; creation of swing corridors to handle I-D & D-I passengers along with its related equipment & IT /MEP Systems.

The detailed submissions to the Authority during the third control period submission includes the design specifications, cost of the project and other relevant information.

(ii) DIAL Submission during the Third Control Period

DIAL in consultation with AECOM and NACO prepared Major Development Plan (Phase 3A) and submitted to the Authority for its consideration. DIAL submitted that as part of prudent process, they had approached the Authority for in-principle approval of capex based on preliminary designs and estimates. DIAL conducted consultation with various stakeholders and submitted capex plan to relevant authorities including the Authority. the Authority had appointed KITCO to independently review the capex plan submitted by DIAL. KITCO has reviewed DIAL's submission and reported its recommendations to the Authority.

The independent study analysed the submissions by DIAL including the need for the proposed Project and its capacity including assessment of cost-effective alternatives, examination of whether the building standards and designs are in line with the IMG/IATA norms and analysis of the reasonableness of the proposed cost with reference to the tentative ceiling as decided by the Authority.

DIAL has given public notice for a global tender for performing the Phase 3A expansion works. DIAL received three bids for the construction of Phase 3A. The evaluation of these bidders were made considering the technical expertise, technical capabilities, past performance and track record, financial capability and the price quoted by the bidders. Post evaluation of these contracts and negotiations with all the bidders, the L&T (EPC Contractor) was emerged as L1 bidder for this works.

DIAL has awarded contract to EPC contractor in the month of Feb 2019 and the award was based on the lump sum EPC contract basis post international competitive bidding. The successful bidder i.e., L&T had estimated package wise payment mechanism for the decided lump sum cost. DIAL had estimated the cost of expansion at INR 9,794 Crores post consideration of the input tax credit of INR 450 Crores.

The total cost proposed to be incurred by DIAL for Phase 3A during the CP3 filing was estimated as follows:

Table 19: Project Capex for Phase 3A submitted by DIAL during the third control period

INR in Crores

Particulars	Revised Cost as on January 31, 2024
EPC Contract Cost + Expenses during construction period (net-off of GST Input Credit)	9,794
Financing Allowance	1,490
Total Capex	**11,284**

Table 20: Board Approved means of finance for the Phase 3A project cost:

INR in Crores

Particulars	Jan 30, 2019
Internal Accruals/Cash Surplus	3,800
Refundable Security Deposits	1,500
Finance Lease	850
External Debt including (IDC & EDC) through Bank FI's / Capital Market (Dom/Intl')	4,400
Total	**10,550**

(iii) AERA Approved Cost

The Authority recommended cost as per the independent study of KITCO in May 2018 dated regarding Expansion Capex pertaining to Phase 3A project of DIAL is INR 7,968.60 Crores.

The Authority examined DIAL's submission on the factors for increase in the cost due to GST impact and inflationary impact and allowed increase in the cost estimate of KITCO by INR 502.81 Crores (6.31% inflationary impact) and INR 655 Crores (GST Impact) and allowed the project cost only to the extent of INR 9,126.42 Crores.

The Authority vide its decision through Para No. 4.6 for Third Control Period order decides to consider the cost of Phase 3A expansion as INR 9,126.42 Crores and shall considered any further escalation if submitted with reasons deemed justifiable at the time of tariff determination for the Fourth Control Period.

Table 21: Project Capex for Phase 3A Considered by AERA during the third control period

INR in Crores

Particulars	Approved by AERA
EPC Contract Cost + Expenses during construction period (net-off of GST Input Credit)	9126
IDC	427
Total Capex	**9,553**

Refer table no. 93 of the AERA Order No. 57/2020-21

(iv) TDSAT Judgement on consideration of the project cost

Hon'ble TDSAT vide its Judgment dated 21.07.2023 has held that figure arrived at for capital expenditure for Phase 3A expansion of IGIA through competitive bidding process is a "real cost" as such cost is a "market discovered price" which is derived through competitive global bidding process. AERA cannot reduce an amount of Capex for Phase 3A expansion project of IGIA, Delhi proposed by DIAL which is a bidding price of L-1.

As explained above along with the excerpts in Para 2.3 above, the Hon'ble TDSAT has placed strong reliance on the fact that the competitive bidding price arrived at through legal, valid and transparent bidding process cannot be brushed aside or cannot be given go-bye by the Authority under the guise of efficient cost, just by taking consultant's report and by ignoring OMDA, the AERA Act, 2008 and by re-writing the terms of the contract.

Thus, DIAL proposed that the Authority should consider the total cost as per the awarded EPC contract as submitted by the DIAL.

(v) Revised Project Cost for Phase 3A

DIAL had considered project cost and means of finance of Phase 3A originally on January 30, 2019 for project capex. However, it undergone changes due to delay in the execution of the project because of the world wide pandemic of Covid 19 in 2020 and second wave of Covid 19 in 2021. This is further impacted with the worldwide supply disruption due to disruptions in Seuz Canal and Conflict between various Europe/Asian countries, farmers protest in NCR and resultant road blocks, Environment Pollution (Prevention and Control) Authority (EPCA) construction bans during 2019 to avoid dust pollution in Oct'19, Dec'19, etc. The revised approved costs for Phase 3A are as follows:

Table 22: Revised Project Capex for Phase 3A proposed by DIAL for the third control period

INR in Crores

Particulars	Cost submitted by DIAL during the Third Control Period	Variation	Revised Cost
EPC Contract Cost + Expenses during construction period (net-off of GST Input Credit)	9794	-	9794
Financing Allowance	1490	-	1490
Total Capex	**11,284**	**-**	**11,284**
Relocation of BSF Hangars for execution of Eastern Cross Taxiway works and others	-	92	92
Reduction of GST Input Credit based on the actuals	-	155	155
Increase in the expenses during the construction period	-	130	130
Provision for claims expected from EPC Contractor	-	621	621
Less: Financing Allowance (not being claimed now)	-	(1,490)	(1,490)
Interest During Construction period	-	1,825	1,825
Sub-total	**11,284**	**1,332**	**12,616**
Interest income on borrowings netted off	-	399	399
Total	**11,284**	**1,731**	**13,015**

<u>Major items contributing the change in the revised cost are as follows:</u>

- ***<u>Relocation of BSF Hangars for execution of Eastern Cross Taxiway works and others</u>***

  During execution of project, it was required to relocate the BSF Hangars from their existing location for construction of the Eastern Cross Taxiways. It was finally agreed by BSF to relocate provided the construction cost of these hangars were required to be undertaken by the DIAL at their own cost and up to the satisfactory requirements of the BSF.

  In addition to the above, few change orders have been issued to EPC contractor to meet the project requirements increase in numbers of security checkpoints/Nakas at Terminal-1, revision of alignment of left carriageway of Parallel Access Road between Automated Mail Sorting Centre and New Custom House and other misc. change orders, which has resulted into additional project cost.

The cost contributing to the increase in the construction costs of INR 92 Crores.

- ***Reduction of GST Input Credit based on the actuals***

During the initial project cost estimation, based on the components of equipment on which GST input tax credit could be availed at the prevailing rates, an amount of INR 450 crores was estimated as GST input credit and same was adjusted while arriving the total Project cost of INR 9,794 Crores. This was based on an estimate that around. Rs. 2500 crores of items would be as Plant & Equipment that could be eligible for GST input credit tax (Plant & Equipment assumed as 30% of total project cost of Rs. 8,323 Cr. on which average 18% GST is applicable).

However, the changes in tax rates, actual cost distribution of the EPC contract to various components i.e. Civil and Plant & Equipment based on actuals has resulted in a decrease in the GST input tax credit. Currently, GST Input credit available is around INR 295 crores as against earlier estimate of INR 450 crores and resulted into additional project cost of INR 155 crores.

- ***Increase in the expenses during the construction period***

Certain additional requirements which were originally not anticipated as part of Phase 3A project cost or wherein additional scope has occurred had to be executed as part of the Project, which includes PIDS for Eastern Cross Taxiway, Self-Baggage Drop (SBD), additional enabling works related to relocation and miscellaneous finishing works in the existing terminal and linked soft costs.

Total estimated impact these items considered by DIAL are INR 155 crores.

- ***Provision for claims expected from EPC Contractor***

The contract was originally to be completed in June 2022. As explained above, the contract execution is severely delayed due to those conditions and the contract execution is completed in the month of Mar'24 predominantly. Due to the delay in execution of the project DIAL, the EPC contractor has raised the claims worth of INR 1,035 Crores. The EPC contractor had made these claims attributable to additional expenses incurred by it due to Covid 19 protocols, increase in overhead costs during the execution of the project and unprecedent increase in the prices of commodities.

DIAL has internally evaluated the claims made by the EPC contractor and decided to consider the provisional claim up to INR 621 crores. However, the negotiations for these amounts are yet to be initiated by DIAL with the EPC contractors. The major items considered by the internal evaluation team are as follows:

a) **Delay in execution of the project:** The claim was deliberated on the overall additional timeline of around 21 months (i.e. July 22 to March 24). At the stoppage of works due to Covid on March 25th 2020, the Contractor was in delay by about 2 months from the original programme primarily due to EPCA restrictions (restriction to avoid dust pollution in Delhi NCR) in 2019 which is considered as compliance with applicable laws for which only time extension can be provided.

   The overall Covid extension was given for 12 months initially and extended to 15 months. It is highly unjust and inequitable to expect the contractor to bear entire 15 months of extended cost. A Force Majeure period of 4 months due to various waves of Covid between March 20 and May 21 and the delays of 2 months as set out above cannot be compensated for additional costs.

Out of the balance 9 months, it is deliberated on a just and equitable distribution of the period that could be compensated. Considering that the GOI had recommended that a period of 6 months could be provided to contractors as extension to complete the works without compensation or levy of damages (including 4 months above) and the fact that in a contract of this nature the contractor would have built in some inherent delays.

While evaluating internally, DIAL took a view that 50% (i.e. 4.5 months) period considered for extension with cost and balance 50% taken as a Force Majeure where only time extension could be provided without costs.

BCAS approval delays and stoppage during G-20 contributed to 6 months. These cannot be attributed to the contractor and hence complete period of 6 months considered with cost.

On a contract of this nature, the price schedule has two components, the first component being Preliminaries and General Requirements and the second the Works. The Preliminaries considers the Contractor general obligations and has one-time costs and costs that are time related like supervision, guarantees, running costs etc. The Preliminary Schedule was examined, and the monthly impact of the recurring costs has been evaluated. The monthly impact has been evaluated at about INR 23 crores. DIAL considered it reasonable to recommend a cost of INR 20 crores/month towards the costs that could be related to extension of time.

Hence, the overall impact due to this is estimated at INR 210 Crores (i.e. 20 Crores x 10.5 mths)

b) Impact due to increase in the prices:

As is the methodology followed in major contracts where price escalation is available, the DIAL has evaluated the increase based on WPI. WPI is used as the base when calculating the payment towards escalations in various Govt contracts and also when unit rates are revised in the Schedule of rates. Hence, the DIAL had considered that the same could be considered as equitable and fair method of evaluation. Further, the balance works at the end of the original contract period of June 22 was considered and the impact of the WPI increase applied on the same.

The impact works out to about INR 358 Crores. Further, there was reduction in scope amounting to INR 50 Crores and other minor variations amounting to increase of INR 7 Crores.

Conclusion: The impact of these two items including GST on these expenses are estimated at INR 621 Crores.

- ***<u>Interest During Construction period</u>***

DIAL has initially estimated that the costs of the interest during the construction project for Phase 3A as INR 650 Crores, after considering the estimated completion in Jun'22. However, cost of the IDC has increased due to following factors:

a. Delay in the execution of the project from Jun'22 to Mar'24 on account of Covid 19 has attributed towards huge increase in the interest cost (around 21 months of the extension of the contract).

b. Decrease in the Finance Lease from original estimation of INR 850 Crores to INR 400 Crores.

c. Decrease in the utilisation of the internal accruals from INR 3,800 Crores to INR 2,866 Crores.

d. Increase in the hard costs of the project attributable to additional relocation costs, increase in GST Cost, increase in expenses during the construction costs and claim of the EPC contractor.

This resulted into increase in the IDC costs up to INR 2,224 Crores (without net-off of interest income earned on the borrowings).

(vi) Revised means of finance for project Phase 3A including IDC

DIAL has revisited its means of finance owing to the changes in the approved project costs. Details are as follows:

Table 23: Revised means of finance for the Project Capex for Phase 3A

INR in Crores

Particulars	Jan 30, 2019	Jan 31, 2024
Internal Accruals/Cash Surplus	3,800	2,866
Refundable Security Deposits	1,500	1,500
Finance Lease	850	400
Debt including (IDC & EDC) through Bank FI's / Capital Market (Dom/Intl')	4,400	7,850
Total	**10,550**	**12,616**

Following is the detailed breakup of debt availed by DIAL for the purpose of Project Cost for Phase 3A

Table 24: Details of the debt availed by DIAL for the purpose of Phase 3A

Name of the borrowing	INR in Crores	Interest Rate	Hedge	Date of drawdown
USD 500 Mn (350 Mn)	2,424	6.45%	Principal hedged with call spread option	07.06.2019
USD 500 Mn (150 Mn)	1,076	6.45%	Principal hedged with call spread option USD Interest swapped to INR at 8% of rate	26.02.2020
NCD INR 3,257 Crores	1,350	10.964%	Not Applicable	31.03.2021
NCD INR 1,000 Crores	1,000	9.52% (first 3 years) 9.98%	Not Applicable	22.06.2022
NCD INR 1,200 Crores	1,200	9.75%	Not Applicable	13.04.2023
NCD INR 800 Crores	800	9.75%	Not Applicable	22.03.2024
Total	**7,850**			

Details of the various covenants of the external debts are presented in Para 5.4 (ii) of this MYTP.

(vii) Allocation Methodology

The Authority vide it Order No. 57/2020-21 has adopted the Independent Study on Allocation of Assets between Aeronautical Assets and Non-Aeronautical Assets. DIAL had followed the similar mechanism for allocation of the assets for the true-up of Third Control Period. The methodology for allocation of expenditure is as follows:

<u>Classification of Assets:</u>

The Independent Study, based on their analysis, classified the aggregate assets of DIAL under the following categories:

- ***<u>Aeronautical Assets:</u>*** *All assets which are exclusively utilised for activities covered under Schedule 5 of the OMDA are tagged as "Aeronautical" Assets. Examples - Runways, drainage and culverts, taxiways, aprons and bays, airfield ground lighting, etc. Additionally, any service bought under the scope of Aeronautical services by TDSAT order dated 23rd April 2018 are also classified under Aeronautical Assets.*
- ***<u>Non-Aeronautical Assets:</u>*** *All assets which are exclusively required or necessary for the performance of Non-Aeronautical services at DIAL as listed in Schedule 6 of the OMDA are tagged as "Non- Aeronautical". Examples - Development of the retail stores, cargo assets, Metro Station Development*
- ***<u>Inadmissible Assets:</u>*** *Upfront fee paid to Airports Authority of India (AAI) (of INR 150 crores) has been tagged as an In-Admissible asset and does not qualify for consideration in the RAB as per the definition of RAB in the State Support Agreement of DIAL*
- ***<u>Common Assets:</u>*** *Assets which are not directly allocable to either Aeronautical or Non-Aeronautical are classified as Common assets. During the course of our study, based on the understanding gained by us from the nature of assets, its location, usage and criteria defined under relevant documents, we have determined the basis for appropriately apportioning the common assets in to "Aeronautical" and "Non-Aeronautical", in a fair proportion.*

Principles for Segregation of Assets:

Aeronautical Assets

- *All assets that are exclusively utilised for Aeronautical activities under Schedule 5 of OMDA are treated as Aeronautical assets*
- *Capital Expenditure incurred to improve the look and feel of the Airport except areas identified as Non-Aeronautical, which helps maintain the ASQ rating mandated by the OMDA are classified as Aeronautical assets*
- *Capital Expenditure on Reserved Activities (as defined in OMDA) like Customs, Immigration, security, health meteorology, plant and animal quarantine and CNS/ATM services are classified as Aeronautical assets*
- *Assets related to the services bought under the scope of Aeronautical Services through the decision of the Telecom Dispute Settlement and Appellate Tribunal (TDSAT) dated 23rd April 2018*

Non-Aeronautical Assets

- *All assets that are exclusively utilised for Non-Aeronautical activities covered under Schedule 6 of OMDA are treated as Non-Aeronautical assets. Examples are Cargo, Ground Handling and Retail Spaces*

- *Common Use Terminal Equipment (CUTE) and Common Use Self Service (CUSS) software are classified as Non-Aeronautical Assets in accordance with the DGCA AIS number 7/2007 dated 28 September 2007 and OMDA read along with section 13 of the Authority Act. (Refer section number 19 on Segregation of Concession fee and Premium)*

Common Assets

- *Assets for which the benefits or use cannot be exclusively linked to either Aeronautical or Non-Aeronautical are classified as Common Assets*
- *Assets primarily used for provision of Aeronautical services but are also used for provision of Non-Aeronautical services are classified as Common Assets. Examples are Civil and Electrical Works for terminal building.*
- *Assets which are used for general corporate purposes including legal, administration, and management affairs are treated as Common Assets. Examples are Transit house and Corporate Headquarter expenditures*
- *Common Assets which are situated within the terminal buildings are apportioned to Aeronautical activity in the ratio of the space allocated for Aeronautical and Non-Aeronautical services*
- *Common assets which are situated outside the terminal buildings are apportioned to Aeronautical activity based on an appropriate cost driver. However, in the absence of any information regarding the location of the asset or a specific cost driver, a reasonable ratio is determined based on discussions with management and our review of the FAR and other records of the Airport.*

The allocation of the assets have been made in accordance with the principles enumerated above. Further, the details are verified by the Statutory Auditor of the DIAL and their report has been attached for reference.

Annexure 11: Statutory Auditors certificate on asset allocation from April 01, 2021 to March 31, 2024

The resultant regulatory Building Block RB and D as per SSA are as follows:

Table 25: Regulatory Asset Base and Depreciation proposed by DIAL for the third control period

INR in Crores

Particulars	Ref	FY 19-20	FY 20-21	FY 21-22	FY 22-23	FY 23-24
Opening RAB	**(A)**	**4,772**	**4,525**	**4,268**	**4,046**	**4,698**
Additions (Prorata basis)						
- Current Year		102	91	172	428	4,303
- Carried forward previous year		400	119	72	776	581
Total Additions	**(B)**	**502**	**209**	**244**	**1,204**	**4,884**
Depreciation	**(C)**	501	466	466	546	677
Deletions		16	0	0	6	46
DF Adjustments		232	-	-	-	-
Disallowance by the Authority		-	-	-	-	-

INR in Crores

Particulars	Ref	FY 19-20	FY 20-21	FY 21-22	FY 22-23	FY 23-24
Total Depreciation, Deletion, Adjustments, Disallowance	**(D)**	**749**	**466**	**466**	**552**	**723**
Closing RAB (E = A + B - D)	**(E)**	**4,525**	**4,268**	**4,046**	**4,698**	**8,859**
Opening HRAB	**(F)**	**219**	**193**	**170**	**147**	**124**
Depreciation on HRAB	(G)	26	23	22	24	20
Closing HRAB (G=E-F)	**(H)**	**193**	**170**	**147**	**124**	**104**
Average HRAB (F= (E+G)/2)	**(I)**	**206**	**181**	**158**	**135**	**114**
RAB for calculation of Return (J = E + I)	**(J)**	**4,730**	**4,449**	**4,204**	**4,834**	**8,973**
Depreciation (K = C + G)	**(K)**	**527**	**489**	**488**	**569**	**696**

The Authority is requested to consider the above calculation of RAB and Depreciation for the third control period.

5.3. Operation and Maintenance ('OM')

The Authority vide Order No. 57/2020-21 has decided to consider the allocation methodology adopted by the Independent Consultant appointed by the AERA for verification of the efficient operation and maintenance cost of the DIAL. The major highlights of the allocation methodology vide the report given by the Independent Consultant is as follows:

"***3.2 Expense Classification:*** *For the purpose of tariff determination and reporting the total operating and maintenance expenses of DIAL have been classified under the following categories:*

- *Terminal Operating Expenses such as Utilities, Consumables, Housekeeping, Insurance, Repairs and Maintenance, Security and Landside expenses, IT JV expenses (Gap Funding) etc.*
- *Administration and General Expenses such as Advertising and Sales Promotion, Charities and Donations, Consultancy, Office Maintenance, Rent, Traveling and Conveyance, Chartering expense, allocation of Corporate costs etc.*
- *Manpower expenses*

3.4 Basis for Segregation of Costs

As described in our work steps in paragraph 3.3 of this Report, we have reviewed the various cost centres and developed a basis for segregation into Aeronautical and Non-Aeronautical activities. We have also determined the appropriate proportion of Common Cost Centre that may be included in Aeronautical activity, in order to determine the total Aeronautical cost. Broadly, our principles for segregation of costs (also described as Segregation Logic in this Report) are as follows:

Aeronautical Costs

- *Expense incurred for operation and maintenance of Aeronautical assets.*
- *All costs incurred for Aeronautical activities under Schedule 5 of OMDA are segregated as Aeronautical Costs.*

Non-Aeronautical Costs

- *Expense incurred for operation and maintenance of Non-Aeronautical assets.*
- *Costs incurred for Non-Aeronautical activities covered under Schedule 6 of OMDA are treated as Non-Aeronautical expenses. Examples are Cargo, Ground Handling and Retail Spaces.*

Common Costs

- *Costs for which the benefits or use cannot be exclusively linked to either Aeronautical or Non-Aeronautical are segregated as Common Costs.*
- *Costs primarily incurred for provision of Aeronautical services but are also used for provision of Non-Aeronautical services are segregated as Common Costs. Examples are costs for Civil and Electrical Maintenance for Terminal Building.*
- *Costs which are used for general corporate purposes including legal, administration, and management affairs are treated as Common Costs. Examples are Transit House and Corporate Headquarters.*
- *Common costs are apportioned to Aeronautical activity based on an appropriate cost driver. However, in the absence of any specific information regarding the purpose of incurring the cost, a reasonable ratio is determined based on discussions with management and our review of other records of the Airport."*

DIAL has adopted the allocation methodology of the operating and maintenance expenditure adopted by the Authority in the Third Control Period vide its decision no. 3.11.10 based on the Independent Study and followed those principles for the true-up of the expenditure.

<u>Following are additional considerations DIAL proposes for the third control period:</u>

<u>Refinancing Cost:</u> DIAL as part of cost efficiency and cash flow management had refinance its bonds and high interest cost bearing NCD's. As part of refinancing DIAL had to incur various cost in the form of upfront fee, prepayment charges, and processing fee etc. The cost to the extent of revenue in nature has been considered as part of operating expense and aeronautical portion of such operating expense has been considered as part of aeronautical expense. Such expense have been allocated in asset allocation ratio and shown separately administrative expense. These expenses are supported by the Statutory auditor certificate on the amount of the expenditure incurred. Details are as follows:

Table 26: Prepayment and amortisation of the borrowing costs for the third control period

INR in Crores

Particulars	FY 19-20	FY 20-21	FY 21-22	FY 22-23	FY 23-24
Senior Secured Foreign Currency Notes - $ 288.75 mn	6.25	6.23	5.26	-	-
Senior Secured Foreign Currency Notes - $ 522.60 mn	2.66	2.77	2.68	2.74	2.74
NCD 3257.10 Crores	-	0.03	5.22	3.84	2.98
Sub – total	**8.91**	**9.03**	**13.16**	**6.58**	**5.72**
Discount on NCD 3257.10 Crores	-	0.03	6.10	6.24	6.03
Prepayment/Redemption Premium	-	15.41	1.94	-	41.73
Other expenses	0.10	0.17	3.18	0.94	0.94
Total	**9.01**	**24.64**	**24.38**	**13.76**	**54.42**

Annexure 12: Statutory Auditor's certificate on the amortisation of the borrowing costs and pre-payment charges

Lease Financing: DIAL as part of its funding mechanism for the project costs, has availed the equipment lease financing to the tune of INR 400 Crores. DIAL is required to pay the lessor INR 18/1000 of cost per month. The equipment leasing period is for 7 years. Post completion of the lease period, DIAL possess the right to purchase these assets at market value less actual consideration already paid.

DIAL proposes to consider the lease payments as the Operation Maintenance expenditure whereas in the books of account it is forming part of the Fixed Assets as Right of Use assets. The detailed lease payment schedule is as follows:

Table 27: Details of the lease payment to be made by DIAL for current and next control period

INR in Crores

Particulars	FY 23-24	FY 24-25	FY 25-26	FY 26-27	FY 27-28	FY 28-29
Lease Payments	14.47	86.40	86.40	86.40	86.40	86.40

Property Tax: The Airport land leased out to DIAL falls partly under the jurisdiction of South Delhi Municipal corporation (SDMC) and partly under Delhi Cantonment Board (DCB). DIAL has to pay property tax to both the municipalities. Authority in previous control period had considered such tax amount on actual payment basis. DIAL has followed the same principal for the third control period and considered the same on payment basis for the third control period. Further, the DCB has raised several demands on DIAL for payment of the Property Tax since May 02, 2006 till date. There were deliberations and discussions with the DCB and the matter has been finally settled in the Hon'ble High Court of Delhi vide their judgement dated 09.08.2023. DIAL has paid ~INR 60 Crores for the period from April 2016 till March 23 based on this judgement and further agreed to pay ~INR 42 Crores for the period from May 2006 to March 2016. Accordingly, the DIAL has considered the property tax on payment basis in accordance with the Authority's treatment. However, the INR 42 Crores related to May 2006 to March 2016 is not discharged by the DIAL till March 31, 2024 and the same is proposed to be considered in the fourth control period.

These details of property tax paid for the third control period as certificated by the Statutory auditor are as follows:

Table 28: Details of the property tax paid during the Control Period 3:

INR in Crores

Particulars	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
SDMC/MCD	9.96	9.35	12.44	7.23	34.79
Delhi Cantonment Board	9.10	1.10	1.10	1.07	52.39
Total	**19.06**	**10.45**	**13.54**	**8.30**	**87.18**

Annexure 13: Statutory Auditor's certificate on the property tax paid from April 01, 2019 till March 31, 2020

Annexure 14: Statutory Auditor's certificate on the property tax paid from April 01, 2020 till March 31, 2024

Further, DIAL has considered the allocation of CSR expenditure in accordance with the principles enumerated by TDSAT in case of Appeal No. 01/2021. Accordingly, following building block of O&M is arrived:

Table 29: Revised 'OM' proposed by the DIAL for the Third Control Period

INR in Crores

Operating & Maintenance Cost	FY 19-20	FY 20-21	FY 21-22	FY 22-23	FY 23-24
VRS -AAI	1	-	-	-	-
Manpower expense	188	190	205	229	263
Admin & General expense	239	165	237	240	292
Utility expense	70	30	44	76	69
Operating expense	342	375	370	391	441
Airport Operator Fee	30	28	12	19	28
Forex	30	55	132	50	59
Property tax	16	9	12	7	77
Total	**916**	**852**	**1,012**	**1,013**	**1,230**

The Statutory Auditor of the company has reviewed the allocation methodology and given a report on the allocation for operation and maintenance expenditure from April 01, 2020 to March 31, 2024.

Annexure 15: Statutory Auditor's report on the allocation of the operation and maintenance costs from April 01, 2020 to March 31, 2024

The Authority is requested to consider the above calculation of operation and maintenance cost for the third control period.

5.4. Weighted Average Cost of Capital ('WACC')

The Authority vide its Order No. 57/2020-21, has approved the below weighted average cost of capital after the scientific approach of calculating WACC based on the Independent Study conducted by the IIM Bangalore. The Authority has considered the normative debt equity ratio while calculating the cost of equity as well weighted average cost of capital.

(i) Cost of Equity

DIAL had adopted the IIM Bangalore study instituted the cost of equity as approved by the Authority for the Third Control Period for the purpose of calculation of cost of equity.

(ii) Cost of Debt

The actual cost of debt is arrived at by the DIAL after considering into account all the debt outstanding as during the third control period. Below are the details of loans availed by the DIAL and outstanding as at March 31, 2024.

Table 30: Details of the debt during the third control period

Name of the borrowing	INR in Crores	Interest Rate	Hedge	Date of drawdown
USD 288.75 Mn	1,779	6.125%	Principal hedged with call spread option Interest hedged	03.02.2015
USD 522.60 Mn	3,494	6.125%	Principal and interest hedged with call spread option	22.10.2016
USD 350 Mn	2,424	6.45%	Principal hedged with call spread option	07.06.2019
USD 150 Mn	1,076	6.45%	Principal hedged with call spread option USD Interest swapped to INR at 8% of rate	26.02.2020
NCD INR 3,257 Crores	3,257[2]	10.964%	Not Applicable	31.03.2021
NCD INR 744 Crores	744	9.75%	Not Applicable	23.08.2023
NCD INR 1,000 Crores	1,000	9.52% (first 3 years) 9.98%	Not Applicable	22.06.2022
NCD INR 1,200 Crores	1,200	9.75%	Not Applicable	13.04.2023
NCD INR 800 Crores	800	9.75%	Not Applicable	22.03.2024

Update on the existing debt as on March 31, 2019:

- **USD 288.75 Mn:** Bond – 1, USD 288.75 Mn has been availed for refinancing the external commercial borrowing of DIAL availed for the Phase 1 and Phase 2. The effective interest was 6.475% including 0.35% of withholding tax. As part of minimizing foreign exchange exposure DIAL has fully hedged the principal amount of the loan through call spread options. Out of the total exposure USD 80 Mn was hedged in Jan'17 and balance USD 208.75 Mn in Jan'18. The effective cost of hedge comes to 4.24% accordingly the overall cost of debt is 10.72% (Base rate 6.125%+ withholding tax 0.35%+ hedge cost 4.24%).

  DIAL had taken call spread options for USD 80 mn at the rate of Rs. 68.00 in Jan'2017 and balance USD 208.75 Mn was hedged at the rate of Rs 63.80 per USD in Jan'2018. The call spread option covers hedge risk upto Rs. 85 per USD till maturity of the bond any risk beyond this level has to be borne by DIAL. Accordingly, DIAL had minimized the foreign exchange risk against the principal outstanding however risk during unhedged period still remain i.e. exchange rate at which the loan is hedged versus the rate at which the loan had been drawn. DIAL during the FY 19-20 has entered into the hedge transaction for interest as well.

  These bonds were partly refinanced in Apr'21 (USD 105 Mn) and balance (USD 183) was refinanced Feb'22. The repayment was made at the hedge rate as explained above as the hedge was effective completely till the date of repayment.

[2] This loan is partly refinanced through NCD 744 Crores and the current outstanding balance against this loan is INR 2,513 Crores.

- **USD 522.60 Mn:** The outstanding balance of ECB-2 facility of USD 100.12 Mn (outstanding USD 83.92 Mn) part of Phase 1/2 project and RTL of INR 3047.50 cr (Outstanding Rs 2928.20 Cr) has been refinanced in FY 2016-17 by long term bond worth of USD 522.6 Mn payable after 10 year. The effective interest was 6.475% including 0.35% of withholding tax. The principal payment in this loan is also fully hedged and the effective hedge cost is 3.55%.

  The principal repayment of the loan has been fully hedged. DIAL had taken call spread option with a range starting from for Rs 66.85 per USD with an upper limit of Rs 101.86 per USD for principal obligation. The repayment of this bond is due in current control period.

  During FY 21-22, DIAL had hedged the interest cost through call spread strips due on each coupon period having a lower limit of INR 72.80 Crores effective from Jun'21. Thus, DIAL had minimised the foreign currency exposure on these interest costs as well.

<u>Highlights of the External Debt availed by DIAL for Project Costs is as follows:</u>

- **USD 500 Mn:** DIAL has drawn an amount of INR 2,424 crores on 07.06.2019 through Foreign Currency Bonds of USD 350 Mn at an interest rate of 6.823% (6.45% interest + 0.373% of withholding tax). The debt availed by the DIAL is at an exchange rate of INR 69.27/USD. DIAL has hedged the foreign currency fluctuation towards the principal repayment through a call spread option with a bandwidth of INR 69.25/USD to INR 102.25/USD at hedge cost of INR 3.10%

  During the initial period of the Covid 19 first wave in Asian countries, DIAL in order to protect the funding requirements of Phase 3A project, has availed additional loan (tapping) of USD 150 Mn at an exchange rate of INR 71.78/USD amounting to INR 1,076 Crores. DIAL has hedged the foreign currency fluctuation towards the principal repayment through a call spread option with a bandwidth of INR 71.78/USD to INR 102.25/USD at hedge cost of INR 3.09%. DIAL has received a premium of INR 86.14 crores towards the interest from first coupon date falling on 06.12.2019 till 26.02.2020.

  Further, DIAL has entered into interest swap agreements for USD 150 Mn. The interest cost to be paid by DIAL on USD 150 Mn is 6.823% (6.45% interest + 0.373% of withholding tax). In accordance with this Swap Transaction, DIAL is obligated to pay interest at 8% on the drawdown rate + 0.373% of withholding tax at USD Rate. The effective hedge cost for the interest is 1.55%

  Accordingly, DIAL had minimized the foreign exchange risk against the principal outstanding and foreign exchange risk towards the interest on USD 350 Mn is unhedged whereas, the interest on USD 150 Mn is completely hedged.

- **NCD 3,257 Crores:** As referred above, the existing debt of USD 288.75 Mn is due in FY'22. With the prevailing market conditions, DIAL has decided to avail Non-Convertible Debentures (NCD) of INR 3,257 Crores (Due in 2025) to partly finance Phase 3A and refinance the existing loan of USD 288.75 Mn. DIAL has availed these loans with a discount of INR 43 Crores. Out of the total proceeds i.e., INR 3,213 crores, DIAL has utilised INR 1,350 crores towards part financing of Phase 3A project and the balance amount has been utilised towards the refinancing of USD 288.75 Mn and issue expenses of NCD's.

- **NCD 1,000 Crores:** The further funding of the project is made via listed non-convertible debenture through private placements. DIAL has issued the NCD's of INR 1,000 Crores having interest rate of

9.52% for the first 3 years of the loan and thereafter 9.98% till its due in Jun'27. Since, the funds are raised in India, there is no hedging requirement for these transactions.

- **NCD 1,200 Crores:** For funding of loans from FY 23-24. DIAL consistently explored low interest cost bearing debts especially privately placed listed non-convertible debentures. INR 1,200 Crores has been availed by DIAL in Apr'23 with initial interest bearing of 9.75% per annum. The interest rates are currently rating linked, having a good credit rating, the year the interest rate has been reset to 9.6% per annum with effect from February 20, 2024.

- **NCD 800 Crores:** The last funding for Phase 3A was concluded in Mar'24 through low interest cost bearing debts privately placed listed non-convertible debentures. INR 800 Crores has been availed by DIAL in Apr'23 with initial interest bearing of 9. 5% per annum. The interest rates are currently rating linked.

- **NCD 744 Crores:** As explained above, through the constant endeavour for low interest bearing bonds, DIAL has partly refinanced the NCD 3,257 Crores through NCD's of INR 744 Cr in Aug'23 with initial interest bearing of 9.75% per annum. The interest rates are currently rating linked, having a good credit rating, this year the interest rate has been reset to 9.6% per annum with effect from February 20, 2024.

Statutory Auditor certificate for calculation of the cost of debt for the Third Control Period is attached as follows:

Annexure 16: Statutory Auditor's report on cost of debt from April 01, 2019 to March 31, 2024

(iii) Calculation of WACC

DIAL has followed the approved methodology of the Authority in third control period and calculated WACC for the Third Control Period. Calculation as below.

DIAL is continuing with the same approach for true-up process of third control period. Below is the calculation of WACC for the third control period basis the approached approved by the Authority in the Third Control Period order:

Table 31: 'WACC' considered by the Authority for the third control period

Particulars	Ref	CP - III
Return on Equity	(A)	15.41%
Cost of Debt	(B)	9.87%
Normative Equity	(X)	52.00%
Normative Debt	(Y)	48.00%
WACC [A*X + B*Y]		**12.75%**

DIAL requests the Authority to consider the WACC after considering the actual cost of debt. The resultant WACC is as follows:

Table 32: Revised 'WACC' proposed by the DIAL for the third control period

Particulars	Ref	CP - III
Return on Equity	(A)	15.41%
Cost of Debt	(B)	10.55%
Normative Equity	(X)	52.00%
Normative Debt	(Y)	48.00%
WACC [A*X + B*Y]		**13.08%**

5.5. Aeronautical Tax ('T')

As explained above in Para 2, Para 3 and Para 4 above, DIAL has calculated building block T and requests the Authority to consider the following amount for true-up during the Third Control Period:

Table 33: 'T' proposed by DIAL for the Third Control Period

INR in Crores

Particulars		FY 19-20	FY 20-21	FY 21-22	FY 22-23	FY 23-24
Aeronautical Revenue		949	400	627	938	1,062
S as part of ARR		248	104	164	289	356
Sub-total	**(A)**	**1,197**	**504**	**792**	**1,227**	**1,418**
Less:						
Operation and maintenance cost ('OM')		916	852	1,012	1,013	1,230
Depreciation on Regulatory Base ('D')		527	489	488	569	696
Interest Cost^		240	225	213	245	455
Sub-total	**(B)**	**1,683**	**1,567**	**1,713**	**1,827**	**2,381**
Earnings from Aeronautical Services (C = A - B)	**(C)**	**(486)**	**(1,063)**	**(921)**	**(600)**	**(963)**
Opening Accumulated Losses		475	961	2,025	2,946	3,545
Current losses		486	1,063	921	600	963
Current year set-off		-	-	-	-	-
Closing Accumulated Losses	**(D)**	**961**	**2,025**	**2,946**	**3,545**	**4,509**
Earnings from Aeronautical Services	**(E)**	-	-	-	-	-
Corporate Tax Rate	(F)	34.94%	34.94%	34.94%	34.94%	34.94%
Building Block T (G = E*F)	**(G)**	**-**	**-**	**-**	**-**	**-**

^DIAL has considered the Interest cost as follows:

Approved RAB X Approved/Eligible Debt Gearing X Approved cost of debt

5.6. Revenue from Revenue Share Assets ('S')

The Hon'ble TDSAT Order in AERA Appeal No. 01/2021 has pronounced that the Other Income, Annual Fee payable to AAI and revenue from Revenue Share Assets are required to be excluded from the calculation of building block S, since these are not part of the revenue from Revenue Share Assets. Detailed interpretation is explained in Section 2.5(e), extracts are presented in Section 2.3 and the impact of these items are considered in calculation of building block S is presented below:

- ***Exclusion of revenue from Existing Assets/Demised Premises from the calculation of revenue from Revenue Share Assets:***

  The revenue from Existing Assets/Demised Premises as defined under OMDA have to be excluded from the calculation of revenue from Revenue Share Assets. As explained in the Section 2.6 of this MYTP, DIAL has arrived at the revenue from Revenue Share Assets and the Statutory Auditors of DIAL have performed procedures on these items and provided their report;

  Annexure 17: Statutory Auditor's report on revenue from Existing Assets from April 01, 2019 to March 31, 2020

  Annexure 18: Statutory Auditor's report on revenue from Existing Assets from April 01, 2020 to March 31, 2024

- ***Exclusion of other income from the calculation of revenue from Revenue Share Assets:***

  The DIAL proposes to exclude the other income considered by the Authority;

- ***Deduction of Annual Fee payable to AAI from revenue from Revenue Share Assets***

  Deduction of Annual Fee payable to AAI as referred in Clause 3.1.1 in calculation of revenue from Revenue Share Assets.

Accordingly, DIAL proposes the following calculation of Building Block 'S' as follows:

Table 34: 'S' proposed by DIAL for the Third Control Period

INR in Crores

Particulars	FY 19-20	FY 20-21	FY 21-22	FY 22-23	FY 23-24
Air traffic Related Revenue:					
Ground Handling- Registered	72	40	61	116	159
Ground Handling - Third Party	43	26	33	45	54
Bridge Mounted Equipment Revenue	8	5	7	8	10
	122	**71**	**102**	**169**	**223**
Passenger Related Revenues:					
Flight Kitchen- Concession Fee	51	16	30	61	82
Cark Park (MLCP)	34	20	35	73	93
Cark Park (Radio Taxi)	17	4	8	18	23
Retail Duty Paid	168	44	93	179	190

Particulars	FY 19-20	FY 20-21	FY 21-22	FY 22-23	FY 23-24
Food & Beverages	110	29	75	143	164
Lounge Income	52	19	35	71	106
Others	16	4	10	23	36
	447	**135**	**286**	**567**	**693**
International Passenger Revenue:					
Duty Free License Fees	469	89	212	507	640
Contract linked Revenues:					
Advertisement License Fee	157	51	95	167	203
Forex	65	9	18	55	71
Land & Space	361	364	377	430	478
Hangar	25	22	10	0	-
Common Area Management	5	15	19	25	25
Transit Hotel	4	2	3	5	6
Airport Service Charges	12	3	3	2	2
Bank/ATM	17	6	8	9	9
Telecom	6	2	1	5	5
Misc- contract linked	2	1	2	3	2
IT Concession	22	6	10	20	33
	676	**480**	**546**	**721**	**833**
Cargo Revenue	270	299	331	336	404
Sub-total (A)	**1,985**	**1,076**	**1,476**	**2,301**	**2,793**
Less:					
Revenue from Existing Assets/Demised Premises	455	435	462	515	594
Inclusion of Annual Fee for S	703	295	467	821	1,011
Sub-total (B)	**1,159**	**730**	**928**	**1,337**	**1,606**
Gross revenue from Revenue Share Assets (C)	826	346	548	964	1,188
S = 30% of gross revenue from Revenue Share Assets (D = 30% * C)	**248**	**104**	**164**	**289**	**356**

The above breakup of the Non-Aeronautical Revenue is derived based on the Statutory Auditor's Certificate as disclosed in the special purpose audited financial statements.

5.7. True-up for Third Control Period

Aggregate revenue requirement approved by the Authority for the Third Control Period is as follows:

Table 35: Aggregate revenue requirement considered by the Authority for the Third Control Period

INR in Crores

Particulars	Ref	FY 19-20	FY 20-21	FY 21-22	FY 22-23	FY 23-24	Total
Regulatory Asset Base ('RB')	(A)	4,913	4,730	5,343	7,841	11,237	
WACC	(B)	12.75%	12.75%	12.75%	12.75%	12.75%	
Return on RAB (C = A * B) (RB*WACC)	(C)	626	603	681	1,000	1,433	4,344
Depreciation ('D')	(D)	876	831	925	1,068	1,246	4,945
Efficient operation and maintenance cost ('OM')	(E)	521	471	462	583	748	2,786
Taxes pertaining to Aeronautical Services (T)	(F)	-	-	-	-	-	-
Sub-total (G = C+D+E+F)	**(G)**	**2,024**	**1,905**	**2,068**	**2,651**	**3,427**	**12,074**
Less: Building Block S	(H)	694	247	401	536	607	2,484
Target Revenue (I = G-H)	**(I)**	**1,330**	**1,658**	**1,667**	**2,115**	**2,820**	**9,590**
True-up of Second Control Period	(J)	(5,721)					
Adjusted Target Revenue (K=I+J)	**(K)**	**(4,391)**	**1,658**	**1,667**	**2,115**	**2,820**	**3,869**
Actual Aeronautical Charges	(L)	949	278	611	994	1,082	3,915
Under Recovery/(Over Recovery) (M=K-L)	**(M)**	**(5,340)**	**1,380**	**1,056**	**1,121**	**1,738**	**(45)**
PV factor based on WACC	(N)	0.89	0.79	0.70	0.62	0.55	
Under Recovery/(Over Recovery) as on April 01, 2024	**(O)**	**(4,736)**	**1,085**	**737**	**694**	**954**	**(1,267)**

Refer table 140 of the Third Control Period Order No. 57/2020-21

Basis the submissions made by DIAL in the earlier paragraphs the revised Building Blocks pertaining to aeronautical assets proposed by DIAL for the third control period is as follows:

Table 36: True-up proposed by the DIAL for the third control period

INR in Crores

Particulars	Ref	FY 19-20	FY 20-21	FY 21-22	FY 22-23	FY 23-24	Total
Regulatory Asset Base ('RB')	(A)	4,730	4,449	4,204	4,834	8,973	
WACC	(B)	13.08%	13.08 %	13.08 %	13.08 %	13.08 %	
Return on RAB (C = A * B) (RB*WACC)	(C)	619	582	550	632	1,174	3,556
Depreciation ('D')	(D)	527	489	488	569	696	2,770
Operation and maintenance cost ('OM')	(E)	916	852	1,012	1,013	1,230	5,024
Taxes pertaining to Aeronautical Services (T)	(F)	-	-	-	-	-	-
Sub-total (G = C+D+E+F)	**(G)**	**2,062**	**1,924**	**2,050**	**2,214**	**3,100**	**11,350**
Less: Building Block S	(H)	248	104	164	289	356	1,162
Target Revenue (I = G-H)	**(I)**	**1,814**	**1,820**	**1,885**	**1,925**	**2,744**	**10,188**
True-up of Second Control Period	(M)	1,779					
Adjusted Target Revenue (K=I+J)	**(L)**	**3,593**	**1,820**	**1,885**	**1,925**	**2,744**	**11,967**
Actual Aeronautical Charges	(K)	949	400	627	938	1,062	3,976
Under Recovery/(Over Recovery) (M=K-L)	**(N)**	**2,644**	**1,420**	**1,258**	**987**	**1,682**	**7,991**
PV factor based on WACC	(O)	1.64	1.45	1.28	1.13	1.00	
Under Recovery/(Over Recovery) as on April 01, 2024	**(P)**	**4,323**	**2,053**	**1,608**	**1,116**	**1,682**	**10,783**

The audited financial statements of the DIAL for the third control period are as attached as Annexure 19

Annexure 19: Audited financial statements of DIAL for the third control period

6. Projection for Fourth Control Period (April 01, 2024 to March 31, 2029)

6.1. Traffic Projection for Fourth Control Period

In accordance with the requirements of the OMDA, DIAL had to develop an initial master plan and revise the same every ten year or at a shorter interval if traffic forecast or other reasons require an earlier assessment.

DIAL had developed an initial master plan in Sep'2006 and later appointed Landrum & Brown (L&B) to review the master plan in 2015.

L&B is the industry expert in master planning and strategy, airfield and airspace, terminal planning and design, development, environment, financial/business planning, ground transportation, commercial development, and activation planning services.

The L&B had completed the Master Plan in 2016 considering the various forecasts and accordingly proposed the various development activities based on the triggering events/time periods.

In accordance to the master plan of L&B, Phase 3A project was initiated by DIAL in 2019. However, in 2020 aviation business faced an unprecedented challenge in the form of COVID-19 pandemic. The pandemic halted traffic in first half of 2020 and saw a slow recovery post reopening from various phases of lockdowns. In addition to COVID-19, the Noida International Airport in Jewar is expected to compete for DIAL's market share which is proposed to start its operations in FY 2025.

Considering changes in business scenario, DIAL has appointed ICF International Inc., for performing a traffic study of IGI Airport and provide the tariff forecasts.

Key considerations taken by the ICF for undertaking the traffic forecast for DIAL as discussed below:

- ICF has developed a bottom-up view forecast for the DEL in the short term (FY24 - FY25) and a top-down forecast for the long term (FY26 – FY29).
- ICF performed an analysis of actual traffic from AAI's monthly publications to gain insights into how Delhi has performed in April – March – 24 and where they are in terms of recovering from the COVID-19 pandemic.
- ICF reviewed schedules from OAG to get an understanding of –
    - Airlines' plans to bring back capacity at the market level after the impact of COVID-19 pandemic, over the short term.
    - Impact and recovery of the Indian market because of Go First shutdown.
- Unconstrained forecasts were first developed. ICF tested regressions of multiple markets and explanatory variables. Based on the best fit in the long term, our forecast is driven by elasticities to GDP and airfares. We use-
    - Indian GDP for the domestic market.
    - A blend of India and World GDP for the international market based on point-of-sale data.
- Over the forecast period, ICF tapered elasticities to more mature market rates to reflect the growth profile of more developed airports, considering the aspects of the Indian market which are expected to continue supporting relatively strong growth, such as differentiating between Tier 1 and Tier 2/3 growth outlooks. From unconstrained passenger demand, we forecast ATMs based on a combination of seats per ATM, fleet mix and load factors.

- Impact of the competition from Jewar Airport in passenger operations as well as cargo movements.

Table 37: Traffic projections proposed by DIAL for the Fourth Control Period

Particulars	FY 25	FY 26	FY 27	FY 28	FY 29
Passengers (Mn)					
Domestic	56.45	59.42	63.41	67.05	70.15
International	21.15	22.17	23.36	24.46	25.43
Total	**77.59**	**81.59**	**86.77**	**91.51**	**95.58**
ATM (Billable No.'s)					
Domestic	174.12	183.28	195.59	206.82	216.39
International	59.31	62.18	65.52	68.59	71.33
Total	**233.42**	**245.46**	**261.11**	**275.41**	**287.72**
Cargo (In MT)					
Domestic	375.27	382.21	388.97	394.50	396.31
International	688.07	718.23	741.59	765.49	794.76
Total	**1,063.34**	**1,100.44**	**1,130.56**	**1,159.99**	**1,191.07**

Annexure 20: Traffic Study of IGI Airport by the ICF

6.2. Master Plan and Major Development Plan

The Master Plan prepared by L&B for DIAL after consultation with all the relevant stakeholders and regulations has segregated the development of IGI Airport into 3 phases as follows:

- Phase 3A : From 2016 to 2020
- Phase 3B : From 2021 to 2025
- Phase 4 : From 2026 to 2034

It was projected that by 2020 IGIA would reach 60 Mn passenger and thus L&B has recommended the major development plans such as fourth runway, eastern crossfield taxiway and other airfield improvements, expansion of Terminal 1, improvement to central spine road and northern access road, reconfiguration of Terminal 3 and the APM connecting the two precincts.

DIAL has refurbished the existing Terminal 2 instead of demolishing to cater the actual passenger growth was high when compared to the forecast of L&B. Simultaneously, initiated the development of Phase 3A. The capacity of terminal post completion of the Phase 3A as follows:

Table 38: Terminal Capacity post phase 3A

Terminal	Passenger Handling Capacity (Millions)		
	Before Phase 3A	Phase 3A	After Phase 3A
Terminal 1	17	23	40
Terminal 2	15	0	15
Terminal 3	34	11	45
Total Handling Capacity	**66**	**34**	**100**

Terminal capacity post Phase 3A	Passenger Handling Capacity (Millions)		
	Domestic	International	Total
Terminal 1	40	-	40
Terminal 2	15	-	15
Terminal 3	25	20	45
Total Handling Capacity	**80**	**20**	**100**

Terminal	Area (Sqm)		
	Before Phase 3A	Phase 3A	After Phase 3A
Terminal 1	64,140	1,42,810	2,06,950
Terminal 2	54,729	-	54,729
Terminal 3	5,50,193	3,000	5,53,193
Total Handling Capacity	**6,69,062**	**1,45,810**	**8,14,872**

The existing domestic capacity of DIAL will get exhausted in FY 2028 which will require a new Pier E to be added to Terminal 3. This will result in allocation of Pier A, B and C (C is currently used for Domestic Operations) for the International traffic. Whereas, Pier D, E and will be completely utilised for domestic operations. The terminal capacity post construction of Pier E would be as follows:

Table 39: Terminal Capacity post Pier E

Terminal	Passenger Handling Capacity (Millions)		
	Before Pier E	Pier E	After Pier E
Terminal 1	40	-	40
Terminal 2	15	-	15
Terminal 3	45	10	55
Total Handling Capacity	**100**	**10**	**110**

Terminal capacity post Pier E	Passenger Handling Capacity (Millions)		
	Domestic	International	Total
Terminal 1	40	-	40
Terminal 2	15	-	15
Terminal 3	25	30	55
Total Handling Capacity	**80**	**30**	**110**

Terminal	Area (Sqm)		
	Before Pier E	Pier E	After Pier E
Terminal 1	2,06,950	-	2,06,950
Terminal 2	54,729	-	54,729
Terminal 3	5,53,193	55,532	6,05,193
Total Handling Capacity	**8,14,872**	**55,532**	**8,66,872**

The construction of Pier E is part of master plan in Phase 4 for which consultation is already conducted while designing the Master Plan.

6.3. Regulatory Asset Base ('RB')

DIAL has applied the principles followed by the Authority vide its order for Third Control Period for calculation of RAB for the projection period, which are as follows:

Opening RAB (Closing RAB of Third Control Period) (A)

Add: Carried forward pro-rata assets (if any)

Add: Projected Capital Expenditure

Less: Projected Disposals (if any)

Less: Projected Depreciation

Closing RAB for each tariff year (B)

RAB for calculation is return considered as Average of A & B. Further, Average HRAB is also considered for calculation of RB*WACC.

Additions to Regulatory Asset Base in Fourth Control Period:

DIAL would reach its maximum capacity for catering the needs of the international passengers by FY 25-26, and would be breaching to 90% handling capacity of the terminal by FY 25-26. In order to cater these demands, DIAL proposes following expansion capex for IGI Airport:

- Conversion of Terminal 3 PIER C from domestic to international in FY 24-25;
- Construction of Pier E in Terminal 3 proposed to be completed by FY 27-28
- Construction of parking stands of Code E and C proposed to be completed by FY 27-28

- *Construction of Code E and C stands:*

IGIA is being developed as a hub airport and it requires adequate infrastructure to support the hub operation. Currently, DIAL has very limited number of wide body (Code E) stands to support long haul aircrafts. Airlines in India has placed a large order for fleet addition and are expanding their fleet across narrow and wide body aircrafts.

DIAL has been getting many requests for providing night parking to the aircrafts at IGIA. Additionally, at IGIA, many of the parking stands remain occupied due to grounding of aircrafts and hence lower number of stands are there to support the daily operations.

In order to support the increasing demand of stands from aircrafts and also to facilitate seamless operation for all kind of aircraft operation, DIAL will be developing parking stands phase wise to cater to wide body and narrow body operations.

Below is the proposed details of development of parking stands at IGIA.

Particulars	Number of Stands	Estimated Cost
Code E (Wide Body)	7	INR 105 Cr
Code C (Narrow Body)	56	INR 392 Cr

The above project is estimated to be funded by Debt Equity at 70:30 and estimated to complete by FY 28-29.

- *Construction of Pier E:*

IGIA Master Plan 2016 proposed for addition of Pier E with Domestic in-fill to the eastern side of existing integrated Terminal 3 (T3) for enhancing Terminal 3 domestic Capacity by 10mn. Around 3600sqm of T3 PTB requires reconfiguring and refurbishing as part of this project: Salient features of the proposed development (Pier E and domestic Infill) are:

Domestic Infill:

- The total area of domestic infill is approximately 12,650 sqm covering 2 levels for serving departures, arrivals and transfer passengers.
- The domestic infill mainly accommodates security screening processing area, administration offices and few retail, transfers etc.

Pier E:

- Pier E will have 12 contact stands
- Pier E apron will have 6 remote stands for serving the remote parking of code C aircraft stands.
- The pier E consists of three levels, namely Departures, Arrivals and Apron level.
- The extent of area considered for MEP works would be approximately 55,532 sqm.
- The apron of Pier E consists of two types of pavements (flexible and Rigid Pavements)
- The scope includes Airport Systems and Apron Lighting also.

Further, the DIAL is in the process of engaging the Technical Consultant for updating the existing Master Plan in accordance with the requirement of the OMDA Clause 8.3.5. DIAL will inform the Authority in case any major change in the Master Plan of DIAL in the due course before stake holder consultation process.

The PIER E results into the increase of the passenger handling capacity by more than 10 MPPA and caters the needs of the Delhi airport for fourth control period.

The total estimated cost of the project is INR 1,500 crores and project is estimated to be funded by Debt Equity at 70:30 and estimated to complete the project by FY 2027-28.

- *General Capex:*

  DIAL is currently operating two old terminals (T2 and T3) where many of its equipment have either surpassed their useful life or are running close to their end of life. DIAL with the introduction of new technology has been extending the life of many of these equipment. However, to provide enhanced passenger experience, it is required for DIAL to invest in replacing/upgradation of these equipment on timely basis. Further, there are requirements for compliance/ directives from various regulatory authorities including BCAS, DGCA etc. which requires requirement of incurring the capital expenditure. Such capital expenditure forms major portion of the General Capex proposed for fourth control period. Details of the major general capex proposed during the Fourth Control Period is provided in annexure.

  Annexure 21: Details of the proposed general capital expenditure for the fourth control period

- *Depreciation:*

  The depreciation for the projected period is arrived based on the ERP System (SAP) followed by the DIAL for all the assets existing as on March 31, 2024. For the assets proposed to be capitalised during the fourth control period DIAL proposes to consider the depreciation rate of 4.51% as approved by the AERA during the third control period.

  The calculation of depreciation from April 01, 2024 to March 31, 2029 on the assets existed as on March 31, 2024 have been verified by the Statutory Auditor and the details are provided below.

  Annexure 22: Statutory Auditor's report on the projected depreciation for the assets capitalised till March 31, 2024.

  Further, for the future capex i.e., Expansion Capex, General Capex, the general rate of depreciation @ 4.51% is applied. Accordingly, the following depreciation is considered for the projection period.

  Table 40: Regulatory Asset Base and Depreciation proposed by DIAL for the fourth control period

INR in Crores

Particulars	Ref	FY 24-25	FY 25-26	FY 26-27	FY 27-28	FY 28-29
Opening RAB	**(A)**	**14,732**	**15,227**	**14,785**	**14,333**	**15,189**
Additions						
- Current Year		1,466	524	469	1,819	920
Total Additions	**(B)**	**1,466**	**524**	**469**	**1,819**	**920**
Depreciation	**(C)**	971	966	921	963	1,014
Total Depreciation, Deletion, Adjustments, Disallowance	**(D)**	**971**	**966**	**921**	**963**	**1,014**

INR in Crores

Particulars	Ref	FY 24-25	FY 25-26	FY 26-27	FY 27-28	FY 28-29
Closing RAB (E = A + B - D)	**(E)**	**15,227**	**14,785**	**14,333**	**15,189**	**15,095**
Opening HRAB	**(F)**	**104**	**83**	**63**	**45**	**26**
Depreciation on HRAB	(G)	21	20	19	18	18
Closing HRAB (G=E-F)	**(H)**	**83**	**63**	**45**	**26**	**8**
Average HRAB (F= (E+G)/2)	**(I)**	**93**	**73**	**54**	**35**	**17**
RAB for calculation of Return (J = E + I)	**(J)**	**15,073**	**15,079**	**14,613**	**14,796**	**15,159**
Depreciation (K = C + G)	**(K)**	**992**	**986**	**940**	**981**	**1,032**

6.4. Weight Average Cost of Capital ('WACC')

(i) Cost of Equity

The Authority vide its Order No. 57/2020-21, vide its decision no. 5.6.1 decides to consider cost of equity as 15.41% as per the out of Independent Study conducted by the IIM Bangalore.

DIAL requests the Authority to consider the cost of equity of 15.41% for the fourth control period.

(ii) Cost of Debt

The cost of debt is projected based on the outflows of the existing loans as on March 31, 2024 at the original drawdown foreign currency rate. Detailed cost of each loan existing as at March 31, 2024 is explained in Para 5.4.(ii) above.

In addition to the existing loans, DIAL has proposed to avail loan for capital projects i.e., construction of Pier E and construction of Code C and D stands. The projects are funded by way of 70:30 (Debt to Equity) of the cost proposed.

Projected cost of the proposed Loans:

- **Rupee Term Loan of INR 1,547 Crores:** DIAL has projected drawn of loan amounting to INR 1,547 Crores for its capital projects in FY 26-27. The loans are projected to be availed at a rate of 10.00%. The current interest rates are based on the credit rating of the DIAL which is subject to changes. Acting prudently, DIAL has proposed to consider the NCD 1,547 Crores as part of its funding mechanism.

The detailed calculation of the projected cost of debt for the future control period is prepared by DIAL based on the loan covenants. Refer the Annexure mentioned below for details:

Annexure 23: DIAL proposed cost of debt for the fourth control period

DIAL has followed the same approach approved by the Authority in third control period and calculated WACC for the Fourth Control Period. Calculation as below:

Table 41: Weighted Average Cost of Capital (WACC) for the Fourth Control Period Proposed

Particulars	Ref	CP - IV
Return on Equity	(A)	15.41%
Cost of Debt	(B)	10.24%
Normative Equity	(X)	52.00%
Normative Debt	(Y)	48.00%
WACC [A*X + B*Y]		**12.93%**

6.5. Operating Expenditure (‘OM’)

In terms of the SSA, in calculation of TR in accordance with the Schedule I, the building block OM has to be arrived by considering the efficient operating expenditure. Further, SSA also acknowledges that there may be certain mandated cost which would be borne by DIAL (subject to the imposed constraints as referred in point 5 of Schedule 1 laying down the principle of tariff fixation) and the same should be considered in the building block OM.

The building block OM for the fourth control period has been arrived scientifically by DIAL and has adopted following principles for determination:

Key driving factor for the expenditure are as follows:

- **Base year for the projection:**

  DIAL considered the base year for projections for the Fourth Control Period as FY 23-24.

- **Inflationary Increase:**

  For the purpose of inflation DIAL has considered the RBI Survey of professional forecasters on macroeconomic indicators – result of the 87th round.

  As per the survey, we have considered the Annual Forecasts for FY 2023-24 and mean of inflation based on the CPI Combined Headline.

  The resultant inflation is 4.6% and the same has been applied for the entire Fourth Control Period.

- **Impact of Phase 3A on operating expenditure:**

  As explained in the above paragraphs, DIAL through Phase 3A is projected to increase the overall terminal area by ~ 22% and passenger handling capacity by ~52%. The increased terminal area is directly proportion to the increased costs in the operating expenses of the company i.e., House Keeping, Repairs & Maintenance (predominantly due to the CMC/AMC contracts of DIAL with OEM manufactures for Plant & Machinery items), Manpower and Security expenses to manage the increased operational area.

- **Basis for projection of the operating expenditure:**

  - **Manpower Expenditure:** DIAL has projected increase of the head counts for operations at Delhi airport by approximate of 21% corresponding to FY 24-25 to cater to the needs of the manpower due to increase of operations post Phase 3A in airside, landside, terminal side and support functions. Further, from Jan’25 the second airport (Jewar Airport) within the vicinity of Delhi is going to be operationalised, thus there is a need for the Delhi airport to retain the employees specialised in the operations and require additional cashflows from DIAL by way of increments/retentions and other payments. Thus, DIAL projected the increase in these costs by inflation of 4.6% p.a and real growth in manpower cost by 7% p.a and a further increase of employees due to expansion works at 21% in FY 24-25 due to Phase 3A, and at 4% in FY 27-28 due to Pier E.

- **Utility Expenses:** The power and water demand at Delhi Airport is expected to rise due to increase of passengers, and expansion. DIAL has projected to increase power expenses by increase in the area to be served by DIAL and inflation increase of tariff by power suppliers.

- **Admininstrative and General Expenses:**

  i. **Professional and Consultancy expenditure:** Due to increase in the passenger capacity, operation of four runways coupled with the competition from the Jewar Airport in the near future, DIAL is projected to incur the professional and consultancy expenditure for various improvements in its processes in order to sustain its operations. Thus, DIAL has projected for increase of these expenditure at Inflation of 4.6% and real growth of 10% year on year for the entire fourth control period.

  ii. **Advertisement and Business Promotion:** In order to protect the interest of the IGI Airport due to the competition from the Jewar Airport in the near future, DIAL projected to attracting the passengers by way of various advertisements on passenger experience, facilities, service quality and ratings of IGI Airport. Thus, DIAL had projected for increase of the expenditure by passengers growth and inflation year on year. DIAL has considered the base for this expenditure as FY 22-23 instead of FY 23-24, considering the one-time expenditure in FY 23-14.

  iii. **Corporate Cost allocation:** DIAL had projected for increase of these costs by growth in the ratio of manpower cots, increase in the manpower and inflation year on year.

  iv. **Rent, Rates & Taxes:** These costs are projected for increase year on year by inflation from the base year charges.

  v. **Travelling and Conveyance expenditure:** DIAL had projected these administrative costs would increase in consonance with the increase in the manpower of the no. of personnel in IGI Airport and inflation year or year.

  vi. **Bank Charges:** Bank charges are projected based on the estimates of amortisation of the transaction costs incurred for availing the loan facilities for means of finance for the projects.

  vii. **Others:** Other administrative expenditure are relating to various miscellaneous expenditure incurred by DIAL including collection charges. These expenditures are projected to be increased by passenger handling capacity, inflation and real growth.

b. **Operating Expenses**

  i. **Repairs & Maintenance expenditure:** The major part of the repairs and maintenance expenditure are relating to the AMC and CMC cost of plant and machinery. DIAL has already started replacing few of the plant and machineries in phased manner either due to completion of the useful life of the assets or in line with the requirements of BCAS on various equipment required as part of the guidelines. Further, due to expansion of the

Terminal 1, construction of New Runway 4 and Eastern Cross Taxiway, the no. of equipment which is required to be covered under AMC/CMC has increased at DIAL. Thus, the repairs and maintenance of the plant and machinery is projected to increase in proportion to the increase in the area and inflation costs from the base year. This has a similar effect on the R&M of IT Equipment which are required for the purposes of the operations at Delhi airport.

Due to increase in the total area to be catered for maintenance of the civil structure such as buildings, roads and taxiways, the R&M relating to these items are projected to increase in proportion to the increase in the area and inflation costs from the base year.

ii. **House Keeping expenses and consumables:** The existing terminals of the DIAL (T3 and T2) are getting older, and post COVID-19 the awareness of the cleanliness, and requirement for upkeeping of ambience in surroundings has a greater impact on meeting the service requirement of the OMDA along with the greater passenger experience for users. The completion of the Phase 3A, leads a significant increase in the terminal area of the IGI Airport in Terminal 1 and the expenditure for housekeeping would increase in consonance with increase in terminal area. Thus, the projection for housekeeping expenses and consumables are considered to be increased by one time on account of increase in the terminal area and every year on account of inflation as well as growth in manpower cost.

iii. **Insurance:** DIAL has completed project for Phase 3A in the second half of FY 23-24. Thus, the assets base would be increased for the future period for the purposes of the payment of insurance premium. This has been considered based on the estimates of the insurance premium on various insurance policies considered by DIAL.

iv. **Manpower Hire Charges:** Post completion of Phase 3A, the operational area to be covered by the DIAL would be increased, thus the expenditure relating to manpower hire charges is projected based on the inflation, growth in manpower cost and one time increase in the expansion factor due to increase in area.

v. **Security Expenses:** Post completion of Phase 3A, the area to be covered by the DIAL for the security purposes would be increased, thus these expenditure is projected based on the inflation, growth in manpower cost and one time increase in the expansion factor due to increase in area.

vi. **Equipment Lease Rental:** DIAL as part of the project Phase 3A, has entered into a finance lease for procurement of the assets worth INR 400 Crores as part of its funding charges. The lease payments of these equipment's are considered as part of the operating expenditure of the DIAL amounting to INR 7.2 Crores per month.

The detailed schedule of the lease payments are provided in the Para 5.3 and DIAL has considered these expenditure as part of the Operation and Maintenance expenditure.

c. **Airport Operator Fee**

DIAL has considered the contractual obligation of the payment of Airport Operator fee @ 3% of the projected revenue in line with its earlier submissions.

d. **Property Tax**

DIAL has projected the property tax outflows based on the settled principles for the assessment of the property tax by the area covered by the SDMC (South Delhi Municipal Corporation) and DCB (Delhi Cantonment Board). DIAL has projected that the projected outflow for the Fourth Control Period to SDMC would be at INR 34.79 Crores and DCB would be ranging from INR 23 Crores in FY 24-25 to INR 31 Crores in FY 28-29. Further, property tax is considered on payment basis by AERA and we are expected to discharge pending dues of INR 52 Crores in FY 24-25.

e. **CSR Expenditure**

DIAL has projected the CSR expenditure and considered the amount as part of Aeronautical Charges.

Table 42: OM' proposed by the DIAL for the Fourth Control Period

INR in Crores

Operating & Maintenance Cost	FY 24-25	FY 25-26	FY 26-27	FY 27-28	FY 28-29
Manpower expense	355	398	445	518	580
Admin & General expense[3]	270	291	319	392	472
Utility expense	88	92	96	108	113
Operating expense	654	703	751	850	912
Airport Operator Fee	32	34	292	324	357
Forex	51	51	41	32	32
Property tax	98	53	54	56	58
Total	**1,549**	**1,621**	**2,000**	**2,280**	**2,524**

6.6. Revenue from Revenue Share Assets ('S')

In terms of the State Support Agreement, in calculation of the Target Revenue (TR) in accordance with the Schedule I, the building block S has to be arrived by considering 30% of the gross revenue generated from the Revenue Share Assets.

The revenue projections for the 4th Control Period have been arrived at considering the following operations at the Airport Site:

- Fully Operated Terminal 3 (Existing + Pier E for FY 28)
- Fully Operated Terminal 2 (Existing)
- Fully Operated Terminal 1 (Constructed in Phase 3A)

The streams of Non Aeronautical Revenues are as follows:

- Air-traffic related:
    - Ground Handling (Registered/Third Party)
    - Bridge Mounted Equipment (BME)
- Passenger related:
    - Inflight Kitchen
    - Multilevel Car Parking
    - Radio Taxi
    - Food & Beverages
    - Retail Duty paid

[3] Includes CSR Expenditure

    - Lounges
    - Others
- International Passenger related:
    - Duty Free
- Contract Linked:
    - Advertisement
    - Forex
    - Land & Space
    - Hangar
    - Others
- Cargo Operations

Basis for projection is as follows:

- ***Ground Handling:***

  The revenue that accrues to DIAL from Ground Handling – Registered Parties is directly proportional to the international ATMs. Hence, DIAL has considered the revenue growth linked to the growth of International ATMs. Further, DIAL has projected the tariff rate of Ground Handlers to increase by 5% in FY 2025-26 and FY 2028-29.

  In case of Ground Handling handled by third parties, due to implementation of the Ground Handling rules in 2018, there is clear decrease in the third-party Ground Handling revenue for DIAL. Major domestic schedule domestic airport operators are as follows:

    - Indigo - Self-handling
    - Air India - AISATS (No revenue share on domestic ground handling)
    - Vistara - AISATS (No revenue share on domestic ground handling)
    - SpiceJet - Sefl-handling

  Above are major parties who cater the domestic passengers and DIAL doesn't foresee any increase in the revenue share from third party Ground Handling. However, DIAL has considered inflationary growth of 4.6% for every year on the base year revenue of FY 2023-24.

- ***Bridge Mounted Equipment:***

  The revenue accrued to DIAL is directly in proportion to the growth of the ATMs. Thus, DIAL has considered the growth of overall ATM for projection of revenue from Bridge Mounted Equipment.

- ***Inflight Kitchen:***

  The revenue accrued to DIAL is directly in proportion to the growth of passenger growth especially on international flights. DIAL has considered overall passenger growth for the purpose of the traffic projection along with a inflationary increase of prices charged by IFK's in FY 25-26 and FY 28-29 by 5% for the purpose of traffic projection.

- ***Multilevel Car Parking:***

  In accordance with the contract, price revision is allowed to the MLCP concessionaire for every 3 years. Thus, DIAL has considered overall passenger growth as well as 5% increase in the tariffs of MLCP in FY 25-26 and FY 28-29 for projection of the revenue.

- ***Radio Taxi:***

  As the connectivity of metro across all terminals have improved the passengers prefer to travel through metro. In view of the availability of cab aggregators such as Ola, Uber and Blu, DIAL is foreseeing de-growth in the earnings from Radio Taxi. However, for the purpose of projection DIAL has considered the base year revenue in FY 23-24 for all the projected years.

- ***Food & Beverages, Retail Duty Paid and Lounge income:***

  The revenues accrued to DIAL from F&B, Retail and Lounge concessionaries are directly linked to the passenger spend. Hence, DIAL has considered the passenger growth as well as inflationary growth for projecting the revenue for the future periods.

- ***Others passenger linked revenue:***

  DIAL has considered the passenger growth as well as inflationary growth for projecting the revenue for the future periods.

- ***Duty Free:***

  DIAL has considered a inflationary increase of prices at 4.6% along with the international passenger growth for the purpose of projections.

- ***Advertisement:***

  IGIA is a matured asset and has reached its maximum capacity both in terms of advertisement space and the pricing is also the highest in Delhi NCR. Further, there is an increase trend of digital advertising in comparison to the traditional hoardings and its impact. Considering this impact, DIAL has considered only inflationary increase in the prices for the purpose of projections, along with the increase in existing concession fee by 11% from the base year of FY 24-25.

- ***Forex:***

  Due to increase in usage of credit card and proposed UPI for foreign nationals, DIAL is expecting a moderate growth in the Forex revenues. For the fourth control period, forex revenue is expected to be increased by international passenger growth only.

- ***Land & Space:***

  DIAL has reached its saturation in land & space across all the terminals and land blocks, thus DIAL has considered only contractual increase of 7.5% for every year. However, post completion of Phase 3A, the DIAL is projecting one time increase of revenue by 10% in FY 24-25 due to additional space available inside the Terminal 1 for letting out.

- ***Other contract linked revenue:***

  Other revenue like Common Area Management (CAM), Airport Service Charges (ASC), transit hotel and telecom are expected to grow by CPI linked inflation.

- ***Cargo:***

  DIAL has considered the independent study conducted by the ICF to assess the traffic at IGI Airport. Accordingly, it is requested to the Authority to considered Cargo Revenue linked with the cargo traffic projection. Further, DIAL has considered inflationary increase in the rate of Cargo concessionaires by 5% in FY 25-26 and FY 28-29.

Table 43: 'S' proposed by DIAL for the Fourth Control Period

INR in Crores

Particulars	FY 24-25	FY 25-26	FY 26-27	FY 27-28	FY 28-29
Air traffic Related Revenue:					
Ground Handling- Registered	166	183	191	198	214
Ground Handling - Third Party	56	59	62	65	68
Bridge Mounted Equipment Revenue	10	11	11	12	12
	233	**253**	**264**	**274**	**294**
Passenger Related Revenues:					
Flight Kitchen- Concession Fee	86	95	101	106	117
Cark Park (MLCP)	97	108	114	121	132
Cark Park (Radio Taxi)	23	23	23	23	23
Retail Duty Paid	209	230	256	282	308
Food & Beverages	181	199	221	244	267
Lounge Income	117	129	143	158	173
Others	38	40	42	45	47
	751	**823**	**901**	**979**	**1,066**
International Passenger Revenue:					
Duty Free License Fees	727	797	879	962	1,047
Contract linked Revenues:					
Advertisement License Fee	203	225	225	225	225
Forex	77	81	85	89	93
Land & Space	565	607	653	702	754
Common Area Management	27	29	31	33	35
Transit Hotel	6	6	7	7	7
Airport Service Charges	2	2	2	2	2
Bank/ATM	9	9	9	9	9
Telecom	5	5	5	5	5
Misc- contract linked	2	2	2	2	2
IT Concession	35	37	39	41	43
	930	**1,003**	**1,057**	**1,115**	**1,176**
Cargo Revenue	428	466	478	491	529
Sub-total (A)	**3,070**	**3,341**	**3,580**	**3,822**	**4,112**
Less:					
Revenue from Existing Assets/Demised Premises	594	594	594	594	594
Inclusion of Annual Fee for S	1,138	1,263	1,373	1,484	1,618
Sub-total (B)	**1,733**	**1,858**	**1,967**	**2,079**	**2,212**
Gross revenue from Revenue Share Assets (C)	1,337	1,484	1,612	1,743	1,900
S = 30% of gross revenue from Revenue Share Assets (D = 30% * C)	**401**	**445**	**484**	**523**	**570**

6.7. Taxation (‘T’)

DIAL has calculated the building block T i.e., *corporate taxes on earnings pertaining to Aeronautical Services* in accordance with the settled principles by the Hon’ble Supreme Court of India and Hon’ble TDSAT as explained in the above sections. The resultant building block T arrived by DIAL is as follows:

Table 44: 'T' proposed by DIAL for the Fourth Control Period

INR in Crores

Particulars		FY 24-25	FY 25-26	FY 26-27	FY 27-28	FY 28-29
Aeronautical Revenue		1,117	9,748	10,805	11,887	12,968
S as part of ARR		401	445	484	523	570
Sub-total	**(A)**	**1,518**	**10,193**	**11,289**	**12,410**	**13,538**
<u>Less:</u>						
Operation and maintenance cost ('OM')		1,549	1,621	2,000	2,280	2,524
Depreciation on Regulatory Base ('D')		992	986	940	981	1,032
Interest Cost^		764	764	740	750	768
Sub-total	**(B)**	**3,304**	**3,372**	**3,680**	**4,011**	**4,324**
Earnings pertaining to Aeronautical Services (C = A - B)	**(C)**	**(1,786)**	**6,822**	**7,609**	**8,399**	**9,214**
Opening Accumulated Losses		4,509	6,295	-	-	-
Current losses		1,786	-	-	-	-
Current year set-off		-	(6,295)	-	-	-
Closing Accumulated Losses	**(D)**	**6,295**	**-**	**-**	**-**	**-**
Earnings pertaining to Aeronautical Services	**(E)**	-	527	7,609	8,399	9,214
Corporate Tax Rate	(F)	34.94%	34.94%	34.94%	34.94%	34.94%
Building Block T (G = E*F)	**(G)**	**-**	**184**	**2,658**	**2,935**	**3,219**

^DIAL has considered the Interest cost as follows:

Approved RAB X Approved/Eligible Debt Gearing X Approved cost of debt

6.8. Inflation

For the purpose of inflation DIAL has considered the RBI Survey of professional forecasters on macroeconomic indicators – result of the 87th round.

As per the survey, we have considered the Annual Forecasts for FY 2023-24 and mean of inflation based on the CPI Combined Headline.

The resultant inflation is 4.6% and the same has been applied for the entire Fourth Control Period.

Annexure 24: Extract of RBI Survey of Profession Forecasters 87th Round

6.9. Building Block and X-Factor

As explained in the principle of tariff determination the tariff for IGI Airport will be determined based on building block approach defined under SSA. Accordingly, DIAL made its submission on various building block under above referred sections. In line with the above submission following are the resultant building blocks and X-Factor for IGIA:

Table 45: Target Revenue proposed by DIAL for Fourth Control Period

INR in Crores

Particulars	Ref	FY 24-25	FY 25-26	FY 26-27	FY 27-28	FY 28-29	Total
Regulatory Asset Base ('RB')	(A)	15,073	15,079	14,613	14,796	15,159	
WACC	(B)	12.93%	12.93%	12.93%	12.93%	12.93%	
Return on RAB (C = A * B) (RB*WACC)	(C)	1,948	1,949	1,889	1,913	1,960	9,659
Depreciation ('D')	(D)	992	986	940	981	1,032	4,931
Operation and maintenance cost ('OM')	(E)	1,549	1,621	2,000	2,280	2,524	9,974
Taxes pertaining to Aeronautical Services (T)	(F)	-	184	2,658	2,935	3,219	8,997
Sub-total (G = C+D+E+F)	**(G)**	**4,489**	**4,741**	**7,487**	**8,109**	**8,735**	**33,561**
Less: Building Block S	(H)	401	445	484	523	570	2,423
Target Revenue (I = G-H)	**(I)**	**4,088**	**4,296**	**7,004**	**7,586**	**8,165**	**31,138**
True-up of Third Control Period	(J)	10,783					
Adjusted Target Revenue (K=I+J)	**(K)**	**14,870**	**4,296**	**7,004**	**7,586**	**8,165**	**41,921**
Actual Aeronautical Charges	(L)	1,117	9,748	10,805	11,887	12,968	46,526
Under Recovery/(Over Recovery) (M=K-L)	**(M)**	**13,753**	**(5,452)**	**(3,802)**	**(4,301)**	**(4,803)**	**(4,605)**
PV factor based on WACC	(N)	0.89	0.78	0.69	0.62	0.54	
Under Recovery/(Over Recovery) as on April 01, 2024	**(O)**	**12,179**	**(4,275)**	**(2,640)**	**(2,648)**	**(2,615)**	**-**

X-factor as on April 01, 2024 is 730.84%

7. Multi Year Tariff Proposal

We request the Authority to consider the above building blocks and Target Revenue for the fourth control period along with the true-up of previous control periods and approve the X-factor of 730.84% as proposed above.

Further, with regard to the annual tariff proposal, DIAL shall submit the detailed pricing on receipt of approval of MYTP from the Authority.

8. List of Tables

9. List of Annexures