

## AIRPORTS ECONOMIC REGULATORY AUTHORITY OF INDIA

Minutes of Stakeholders' Consultation Meeting held on 9<sup>th</sup> July, 2021 at 11:00 AM on Virtual Platform

### CONSULTATION PAPER No. 10/2021-22 TO CONSIDER THE MULTI YEAR TARIFF PROPOSAL FOR DETERMINATION OF AERONAUTICAL TARIFF FOR 3<sup>RD</sup> CONTROL PERIOD (FY 01.04.2021 TO FY 31.03.2026) IN RESPECT OF KEMPEGOWDA INTERNATIONAL AIRPORT, BENGALURU (BLR)

1. AERA Act, 2008, Sec.13 (iv) (a) empower AERA to ensure transparency in Consultation Process for determination of tariff in the wider interest of the public and the stakeholders. Accordingly, a Stakeholder Consultation Meeting was convened by the Authority on 09.07.2021 at 11.00 AM through Video Conferencing to elicit the views of the Stakeholders on the Consultation Paper No. 10/2021-22 dated 22.06.2021 issued by the Authority to consider the Multi-Year Tariff Proposal for the 3rd Control Period (FY.2021-22 to FY.2025-26) in respect of Kempegowda International Airport, Bengaluru (BLR). The list of participants is enclosed at Annexure-I.
2. Chairperson, AERA welcomed all Stakeholders present in the meeting and extended his greetings. With Government of Karnataka a shareholder in BIAL through Karnataka State Industrial Development Corporation Limited, the Chairperson invited Chief Secretary, Karnataka to express his views on the Consultation Paper issued by AERA for BIAL for the third control period.
3. **Government of Karnataka**

Mr. P. Ravi Kumar, Chief Secretary presented his comments to all the stakeholders present in the meeting highlighting that the aim of the tariff determination exercise should be to balance out the objectives of the government and the financial requirement of the airport considering the following as under:

- 3.1. BIAL is an important infrastructure asset for Karnataka and has served as a marketing agent by acting as a gateway to Karnataka for the world.
- 3.2. Traffic projections made by AERA in the Consultation Paper have been done on a higher side and the impact of COVID is much more lasting and severe in Karnataka, with the possibility of a third wave in couple of months. Travel restrictions from Maharashtra/ Kerala may be introduced in the short term owing to the rise in cases in these states. He suggested that AERA should review the traffic projections again based on the present traffic scenarios. He also stated that under recovery in revenues due to aggressive traffic projections may lead to default in lender covenants /reduced service standards at BIAL.
- 3.3. For the upcoming Terminal 2, there is a possibility of further delay beyond 31 March 2022 as many migrant workers have gone back to their hometowns. He suggested AERA to remove the proposed 1% penalty in case works of T2 do not get completed by 31 March 2022.
- 3.4. Government of India had proposed the metro line to the airport and have given aggressive timelines to Government of Karnataka to finish the works by June 2025. Accordingly, he requested AERA to include the capitalization of metro works in the third control period.
- 3.5. For the eastern connectivity tunnel, he mentioned that the airport was facing an entry bottleneck and hence a new access from the eastern side was envisaged. Accordingly, BIAL had undertaken the construction of the tunnel which has not been considered by AERA in its Consultation Paper. He suggested AERA to reconsider this decision.
- 3.6. He also mentioned about that non-aero revenue forecast undertaken by AERA is linked to traffic at the airport. He suggested AERA to review the non – aero revenues based on the revised traffic forecast.



- 3.7. On the cost of debt, he mentioned that SBI had offered loan to BIAL at a very competitive rate which might not hold true for the third control period. He suggested AERA to review the decision taken to maintain constant interest rates for the third control period and suggested if the rates can be increased.
- 3.8. He also suggested that the tariffs proposed by AERA should ensure adequate cash flows for BIAL during the third control period.
- 3.9. He also suggested that AERA may also take a midterm review for BIAL to minimize the impact of covid and the projections.
- 3.10. Mr. Kapil Mohan, **Principal Secretary** started by mentioning that the Chief Secretary of Karnataka has already covered majority of the points planned to be put forward by the government for the stakeholder consultation. He highlighted some other areas for consideration of AERA and the stakeholders.
- 3.11. He mentioned that the metro line to the airport which has an expected commissioning by June 2025 (including the line and the airport stations). He requested AERA to consider the capitalization of the metro line as June 2025.
- 3.12. On the Eastern Connectivity Tunnel (ECT), he suggested that it was necessary to provide more connectivity options to the airport and hence the tunnel was planned by the airport. In addition, he also mentioned that 2 more roads are planned which are expected to be completed in the next 6 – 8 months. He mentioned that if the ECT work was not planned as per the current timelines, there would have been challenges around security and operational issues for the airport. He suggested that BIAL should be given benefit of constructing the ECT by AERA.
- 3.13. **He also requested AERA to ensure consistency in its decisions and philosophy followed in the earlier control period orders for the third control period as well.**

#### 4. **Chairperson, AERA**

- 4.1. Mr. B.S. Bhullar, Chairperson, AERA extended his heartfelt thanks to Mr. P. Ravi Kumar and Mr. Kapil Mohan for taking out time to present their views on the consultation paper issued for Bengaluru airport for the third control period.
- 4.2. Chairperson commended that Bengaluru airport has been great asset for the country.
- 4.3. AERA also understand the challenges faced by the aviation industry due to the current pandemic and how it has led to a meltdown in air traffic across the country.
- 4.4. He also mentioned that the planning and manning of projects done by BIAL was before the pandemic had hit leading to a mismatch between capacity created and required by passengers.
- 4.5. On the Aggregate Revenue Requirement (ARR) proposed for BIAL, he said that if the entire ARR is recovered in the third control period then it will lead to increase tariffs rapidly and which will in turn be counterproductive for the aviation sector.
- 4.6. He suggested that a collaborative approach between all the stakeholders is needed for the revival of the sector.
- 4.7. On the capital expenditure proposed by BIAL for the third control period, Chairperson advised BIAL to reconsideration the proposed capex and accordingly proposed only capex which is absolutely necessary for operations at the airport.

5. **Kempegowda International Airport Limited, Bengaluru (BIAL)**

- 5.1. Mr. Hari Marar, MD and CEO of BIAL extended his greetings by thanking AERA for the timely and effective manner in which the entire tariff determination exercise was undertaken for Bengaluru airport.
- 5.2. On the performance of Bengaluru airport, he mentioned that BIAL has always ensured that all the projects/works should be completed in a timely and efficient manner. He also mentioned that BIAL has been a beneficiary of the Indian aviation growth story.
- 5.3. He mentioned that BIAL has ensured that right capacity is provided to the airlines to grow in an integrated ecosystem.
- 5.4. He also mentioned that prior to the pandemic, the country was growing in double digits and the questions related to capacity constraints always used to arise. However, with sudden onset of pandemic, there has been a drastic drop in the traffic which was unforeseen. Hence, decisions on tariffs for BIAL must be taken in such a manner that the needs of all stakeholders are met and balanced.
- 5.5. He also mentioned that BIAL has always worked in collaborative manner with the aviation value chain as well as with the government agencies. He mentioned some of the initiatives taken by BIAL to support the aviation community like vaccination programs, creation of covid hospitals etc. He also mentioned that BIAL has tried to ease burden of the stakeholders by ensuring that the tariffs are kept least during FY22 and FY23 and increased in a gradual manner during the third control period.
- 5.6. He further requested AERA to ensure a consistent regulatory regime across control periods for BIAL's investors and also requested AERA to kindly ensure that tariffs determined by AERA for BIAL must help them recover their operating cost, help them service their loans and meet their statutory dues. He also mentioned that the tariffs decided should be based on the value that is being delivered to the stakeholders and should not just be seen from a price perspective.
- 5.7. Mr. Hari Marar then requested Mr. Bhaskar Rao, CFO, BIAL to make a brief presentation on the CP No. 10/2021– 22 to the stakeholders.

**Mr. Bhaskar Rao, CFO, BIAL made the presentation on behalf of BIAL:**

Mr. Bhaskar Rao started the presentation to the stakeholders by mentioning that BIAL has been a success story in Indian aviation sector with its vision of being a transportation hub in India and at the same time, ensuring focus on providing long term capacity for medium and long term demand considering the following:

- 5.8. As per the Concession agreement (CA), BIAL must maintain a service quality of more than 3.5 for its operations. However, BIAL has achieved service quality levels of more than 4.9 which is far higher than what is mentioned in the CA for the second control period.
- 5.9. BIAL has received numerous awards and accolades such as the only airport to win the SKYTRAX arrival award in the recent past.
- 5.10. BIAL has taken the steps towards conservation of energy and natural resources such as 100% usage of renewable energy in December 2020 and having saved more than 2 million units in FY21 only. He also gave a mention of the rainwater harvesting ponds envisaged by BIAL for conservation of water.
- 5.11. BIAL's business, performance and revenues have been in line with AERA's projections for the second control period with the exception of FY21 being impacted due to covid.
- 5.12. Impact of covid pandemic on the delay in execution of projects under PAL-1 projects largely due to the migration of workers to their hometowns.



- 5.13. The impact of covid on air traffic at BIAL has also been severe leading to a significant impact on BIAL's financials. He mentioned that even after taking cost optimization measures, BIAL is estimated to incur loss of INR 573 crores for FY21.
- 5.14. BIAL has extended all possible support to the airlines operating out of BIAL in terms of discounts which were given to the tune of INR 4.6 crores. He mentioned that these discounts were not considered as a pass through by AERA and this proposal of AERA be relooked.
- 5.15. On the approval given for PAL-1 projects by AERA, he mentioned that BIAL had gone for a detailed design for the NSPR leading to a cost savings of INR 723 crores in the NSPR contract.
- 5.16. The forecourt design was revised by BIAL to incorporate the MMTH and the metro.
- 5.17. BIAL has a dedicated and exclusive team for large scale projects which expenses are bucketed under pre – operative expenses.
- 5.18. The costs incurred for Terminal 2 and NSPR were in line with the projections in the second control period order.
- 5.19. On the Terminal 2 capitalization, he mentioned that there could be further delays beyond the current expected timelines of 31 March 2022.
  - 5.19.1. On this, the Chairperson, AERA advised BIAL to let us know the revised timelines for capitalization of Terminal 2 by BIAL as per the latest estimates. Accordingly, AERA may shift the capitalization of Terminal 2 from FY 2022 to FY 2023.
- 5.20. As part of cost optimization initiatives, BIAL has revisited capital expenditure planned for the 3<sup>rd</sup> Control period and has subsequently reduced the capex needs by more than 60% compared to its MYTP submission to AERA.
- 5.21. BIAL has undertaken cost optimization program, which is titled BIAL 2.0, which has turned covid crisis into an opportunity for BIAL to optimize costs. He mentioned that Terminal 1 is a 13-year-old asset and needs refurbishment to sustain growth in operations. He mentioned about the need of the metro line to the airport and BIAL has maintained efficiency in operating costs and has worked on increasing employee productivity through automation without any impact on jobs and wages.
- 5.22. On the traffic forecast, BIAL saw only 2.7 Million pax using its services in Q1 of FY21 which was down 75% compared to pre-covid levels. He also mentioned that traffic has shown slight recovery in June 2021 as the covid cases and the impact of second wave starts to recede. He suggested that BIAL expects domestic traffic to recover sometime in FY23 while international may recover only in FY24 or FY25.
- 5.23. On the tariffs proposed by BIAL, he mentioned that BIAL has planned a progressive increase in tariffs. When the traffic is expected to reach pre-covid levels, only then an increase is planned by BIAL. He also mentioned that due to an over-recovery in first control period, tariffs of BIAL were reduced considerably in the second half of the second control period. As a result, the increase in tariffs should not be viewed only in terms of % increase. Also, he mentioned that BIAL plans to offer a variable tariff plan to airlines and cargo operators which is fair and non – discriminatory in nature.
- 5.24. Mr. Bhaskar ended the presentation by mentioning the concerns of the airport operator to the decisions taken in CP 10. He mentioned concern areas such as ensuring adequate cash flow to BIAL during these difficult times, traffic growth rates projected by AERA are unrealistic, and requested AERA to have a relook at 1% penalty clause proposed in the CP. He also requested AERA to ensure a consistency in regulatory approach in all areas some of them being Financing Allowance which was disallowed by AERA and also pre – operative expenses which were allowed in the second control period and disallowed in the third control period.

- 5.25. He concluded by requesting the Authority to kindly take a balanced view across all the stakeholders. He also suggested that BIAL shall submit a detailed response to AERA for the CP 10/2021 – 22.
6. Chairperson, AERA then requested the stakeholders to put forward their comments on the Consultation Paper 10/2021 – 22 issued by AERA for BIAL.

### **Airlines & Airlines Association:**

#### **7. Federation of Indian Airlines**

- 7.1. Mr. Ujjwal Dey representing FIA suggested that AERA should be conservative in its approach in determining tariffs for BIAL for the third control period.
- 7.2. He suggested that any project that can be pushed beyond the third control period by BIAL should be done and BIAL should only be allowed projects that are essential in the third control period.
- 7.3. He requested AERA that the tariffs at BIAL should not be increased in the third control period.
- 7.4. He also asked BIAL to share the % increase in tariffs for the third control period.
- 7.5. He also mentioned that airport operator have a cushion as they are getting fixed return using the regulatory framework in India. However, the same benefit is not available to airlines. He requested AERA to kindly consider the case of airlines as well and provide them support to better mitigate events such as covid-19 pandemic.
- 7.6. He mentioned that as per FIA, the traffic will reach pre-covid levels only by FY23.

#### **8. SpiceJet**

- 8.1. Mr. G P Gupta, SpiceJet suggested that the Indian airlines are expected to incur losses of around US \$ 8 bn for FY21 and FY22 as per CAPA study report.
- 8.2. He also mentioned that there is a permanent dent in corporate and business travel owing to the current pandemic situation which will take at least 3 – 4 years to reach pre-covid levels.
- 8.3. SpiceJet submitted that an increase in tariffs at this stage may lead to postponement of travel by prospective travellers or lead to a change of mode to other transport facility.
- 8.4. SpiceJet mentioned that in view of the pandemic, major airlines have renegotiated each and every contract signed by it and has also reduced pilot salaries and lease cost to the tune of 30 – 40%. Accordingly, SpiceJet requested BIAL to share the austerity measures taken by it in view of this pandemic.
- 8.5. SpiceJet raised concerns about FRoR being provided to the airport operators which he mentioned was on a very higher side compared to post tax return on fixed deposit. He suggested AERA to reduce the FRoR for the third control period.
- 8.6. SpiceJet also requested AERA to abolish royalty charged by airport operators (~ 30%) such as BIAL as it is banned in other major economies.

#### **9. Air Vistara**

- 9.1. Mr. Ajay Agarwal from Vistara requested AERA to not consider any increase in tariff charges for BIAL for the third control period.



#### 10. **Air Asia**

- 10.1. Mr. Jagtesh Saini from Air Asia mentioned that BIAL has been supportive to the airlines during the pandemic.
- 10.2. He requested AERA to postpone the tariff proposal submitted by BIAL to the next control period.

#### 11. **Blue Dart**

- 11.1. The representative from Blue Dart mentioned that they do not have any comments to put forward at the moment and they will be submitting written comments to AERA on the CP 10/2021- 22 for BIAL within the stipulated timelines.

#### 12. **IATA**

- 12.1. IATA mentioned about their concern regarding some of the charges increasing at BIAL by more than 400% by end of the third control period.
- 12.2. IATA also mentioned that the operating expenditure does not seem to reflect the drop in passenger traffic for FY20 and FY21 at BIAL which for other airports was around 40%. IATA requested AERA to have a relook at the opex numbers specifically for the covid years to ensure efficient opex.
- 12.3. IATA suggested AERA to ensure that there is no mismatch between capacity and its utilization, further suggesting that capitalization/ depreciation may be linked to utilization of the asset.
- 12.4. IATA also suggested AERA to review the 15% return on equity for BIAL as it is on a higher side considering the true-up offered by AERA minimizes the risks.
- 12.5. IATA also suggested AERA to link the need of new capacity/capital expenditure with demand. IATA suggested that the non-essential capital expenditure be shifted to the next control period.
- 12.6. IATA also mentioned that AERA could look at adopting IATA service manual which is adopted by 80% of the airports worldwide.
- 12.7. IATA further requested BIAL to share split of airport to non-airport users for the Multi Modal Transport Hub (MMTH).
- 12.8. IATA pointed out that the details provided in the Airport User Consultative Committee (AUCC) is not adequate to provide stakeholder comments.
- 12.9. IATA supported the proposals of AERA to levy the 1% penalty on delay of the capex project and disallowing the additional PMC cost due to delay in Terminal 2.

#### **Airport & Airport Associations:**

#### 13. **Association of Private Airport Operators**

- 13.1. APAO raised concerns around the passenger traffic projections for BIAL stating that the projections by AERA do not match with forecasts of major aviation agency such as IATA, ICAO etc.
- 13.2. APAO also mentioned the concerns from the passenger side in terms of fear of travelling due to risk on infection, acceptability of the vaccines worldwide, slow speed of vaccination and uncertainty in opening of travel to and from India.
- 13.3. APAO suggested AERA to accept the passenger projections submitted by BIAL for traffic BIAL and show consistency in regulations for the third control period.



#### 14. Airports Authority of India

14.1. AAI mentioned that they will submit written comments on the Consultation Paper No. 10/ 2021 – 22 for BIAL. However, AAI requested BIAL to let them know if there is any increase in UDF for the 3<sup>rd</sup> Control Period.

14.1.1. The Chairperson, AERA responded to this query raised by AAI stating that the detail of increase in UDF is given in the tariff card uploaded on the AERA website.

#### 15. Delhi International Airport Limited (DIAL)

15.1. DIAL requested AERA to reconsider the traffic projections for BIAL.

15.2. DIAL also submitted that the traffic projections given by BIAL should be considered by AERA as the airport operator is aware of the reality of traffic at the airport.

#### 16. Hyderabad International Airport Limited (HIAL)

16.1. HIAL submitted that they would submit their comments in writing to AERA as per the stipulated timelines.

#### 17. Adani Airports

17.1. Adani Airports mentioned that their concerns have already been raised by other stakeholders and they do not have any more comments in this regard.

#### 18. Siemens

18.1. Siemens being a shareholder in BIAL submitted that the investors globally rely on a stable regulatory and policy approach for the airport sector before making their investments. Hence, consistency should be maintained on the same.

18.2. Siemens also mentioned that AERA should ensure that the cash flows for BIAL are maintained during the control period and also ensure that BIAL is able to fulfil its obligations for the control period.

18.3. Siemens stated that they will give their detailed comments in writing to AERA within the stipulated timelines.

#### 19. Fairfax

19.1. Fairfax being a shareholder in BIAL submitted that any decision taken by AERA today for BIAL will impact not just the performance of BIAL for the next 5 years but also impact the investor interest/future bidding in PPP projects.

### Industry Body & Others

#### 20. FICCI

20.1. Mr. Manoj Mehta, FICCI suggested that AERA should look at the best practices taken by other airports such as Singapore, Dubai etc. on areas such as capital expenditure, UDF to tide over the covid crisis.

20.2. He also suggested that the trust on the travel community is picking up and AERA should look at issuing broad guidelines/vision on what airports should do going forward to tackle these crisis.

21. **FFFAI**

- 21.1. FFFAI stated that they are satisfied with the services provided by Bengaluru airport.
- 21.2. FFFAI also mentioned that BIAL has only projected single digit growth in cargo while cargo is increasing faster for BIAL due to the textile industry.
- 21.3. FFFAI suggested that BIAL should look at increasing cargo throughput at the airport and not the cargo charges as an increase in cargo will compensate for the increase in charges.
- 21.4. FFFAI suggested AERA to encourage airfield station to accept cargo and it would lead to an increase in competition.
- 21.5. FFFAI also mentioned about an upcoming mobile factory coming up in Bengaluru which could alone be a large source of cargo.
- 21.6. FFFAI requested AERA to keep the cargo charges same for 1 – 2 years and only consider an increase thereafter based on the cargo growth seen at BIAL.

22. **Dinesh Kumar, DACAAI**

- 22.1. Mr. Dinesh suggested that cargo at BIAL has grown by more than 3 times yet the charges are going up.
- 22.2. He suggested that charges should either come down or be fixed at current levels for the third control period.
- 22.3. He suggested to balance out increased tariff requirements with increased cargo volumes.
- 22.4. He also mentioned that perishables is a huge market for India and BIAL should offer lower freight charges to capture substantial share of the same.

23. **Airline Operator Committee, Bengaluru**

- 23.1. Mr. Samuel suggested AERA to have a moratorium on all tariff increase for some years for BIAL.
- 23.2. He also requested AERA to bring parity between domestic and international charges which is not there at the moment.
- 23.3. He also mentioned that the incentives offered by airport operator should not be considered as airport revenues as has been done by AERA.

24. **Counter comments from Kempegowda International Airport Bengaluru (BIAL)**

- 24.1. Mr. Hari Marar mentioned that he understand the impact that the airlines are facing due to the current pandemic. However, it is the government which should support the airline sector. He mentioned that if one player (airlines) in the value chain is under stress, it does not mean the other player in the value chain (airports) should also be put under stress. He mentioned that government should look at providing support package to the airlines to tide over these crisis.
- 24.2. On the cost efficiency/austerity measures, he mentioned that BIAL has undertaken the BIAL 2.0 program to transform BIAL into a leaner, fitter and cost-efficient organization. He said that the financing cost is a pass through as per the guidelines, yet BIAL negotiated significantly with the banks to bring down the interest rate leading to a saving of more than INR 200 crore only due to the low interest cost.



- 24.3. For the concern on royalty, he mentioned that it is aeronautical for BIAL and hence, shall be used to cross subsidize aeronautical charges.
- 24.4. For the concern on increase in operating expenditure, he mentioned that BIAL is larger than ever with 2 terminals, 2 runways and an increased space, so BIAL's operating costs should have been doubled ideally. Yet, it has increased only slightly reflecting the commitment of BIAL to reduce costs at the airport.
25. Other stakeholders informed that written comments would be submitted within stipulated timelines.
26. Member, AERA thanked all the Stakeholders for participation in the Stakeholder Consultation process and requested for submission of written comments within the stipulated timelines.



Jaimon Skaria  
AGM(Fin)

**List of Participants****Airports Economic Regulatory Authority of India**

1. Mr. B S Bhullar, Chairperson
2. Mr. Subrata Samanta, Member
3. Col. Manu Sooden, Secretary
4. Mr. Ram Krishan, Director (Tariff, P&S)
5. Mr. Jaimon Skaria, AGM (Tariff)
6. Ms. Geeta Sahu, AGM (Tariff)

**Airport Operator, Kempegowda International Airport, Bengaluru (BIAL)**

1. Mr. Hari Marar, MD & CEO
2. Mr. Bhaskar Rao, CFO
3. Mr. Bhaskar Venkatramani

**BIAL's Investors & Stakeholders**

1. Mr. P. Ravi Kumar, Chief Secretary, Government of Karnataka
2. Mr. Kapil Mohan, Principal Secretary to Government of Karnataka
3. Mr. Marcus Turnwald, Siemens
4. Mr. Sumit Maheshwari, Fairfax

**Representatives from other Private Airport Operators**

1. Mr. Satyan Nayar, Association of Private Airport Operators
2. Mr. Harsh Gulati, Delhi International Airport Limited
3. Mr. Madhur Arora, Adani Enterprises
4. Mr. Anand, Hyderabad International Airport Limited

**Airports Authority of India**

1. Mr. Ranjit Das

**Representatives from International Air Transport Association (IATA)**

1. Mr. Amitabh Khosla
2. Mr. Cesar Raffo
3. Mr. Allan Young
4. Mr. Ujjwal Bakshi

**Representatives from Airlines**

1. Mr. Ujjwal Dey, Federation of Indian Airlines
2. Mr. G P Gupta, Spicejet
3. Mr. Ajay Agarwal, Air Vistara
4. Mr. Jagtesh Saini, Air Asia
5. Mr. Samuel Prabhakar, Airline Operator Committee, Bengaluru

**Industry Associations**

1. Mr. Vipin Arora, FFFAI
2. Mr. Dinesh Kumar, DACAAI
3. Mr. Manoj Mehta, FICCI

**AERA Consultants**

1. Prof. Anshuman, IIM, Bagalore
2. Mr. Jodhbir Singh Sachdeva, KPMG
3. Mr. Abhishek Somani, KPMG
4. Mr. Siddharth Malhotra, KPMG