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Kempegowda
INTERNATIONAL
AIRPORT
BENGALURU

BIAL/2020-21/Finance

24th November 2020

The Director (P&S, Tariff),
Airport Economic Regulatory Authority
AERA Administrative Complex
Safdarjung Airport,
**New Delhi-110002**

**Sub: Response to Consultation Paper no. 35/2020-21, for Mumbai International Airport Ltd for 3rd Control Period**

Dear Sir,

We write with in response to the consultation paper no. 35/2020-21 issued by the Authority for Mumbai International Airport for 3rd control period.

In terms of the Section 13 (1)(a)(vi) of the AERA act 2008, the Concession Agreements entered into between Government of India and airport operator needs to be honoured in letter and spirit by the Authority and due regard should be given to the provisions of the Concession Agreements while determining airport tariffs.

In this regard, please find below our response to the following issues:

a) Fuel Throughput Charges (FTC) being considered as aeronautical revenue:

Section 2 (a)(vi) of the AERA Act, 2008 refers aeronautical service to mean any service provided 'for supplying fuel to the aircraft at an airport'. The airport operator is not providing any service here. The FTC levied by airport operator is not for supplying fuel to the aircraft at an airport. FTC, is royalty levied by airport operator, in lieu of providing access rights to fuel suppliers.

Further, the provisions of ICAO document 9562 considers the revenue from fuel farm as non-aeronautical activity. Hence, FTC should be treated as non-aeronautical activity. Hence, we request Authority to reconsider its proposal for considering the FTC as aeronautical and consider the same in terms of the respective concession agreement.

b) Other Income being considered for 30% cross subsidization:

Other Income, not being revenue from Revenue Share Assets, should not be included for cross subsidization. Authority, while truing up the under/over recovery in subsequent control periods considers the over/under collection with carrying cost on WACC basis. This means that the Authority has considered any potential interest income on the surplus during the current control period with a rate of WACC. Considering the treasury income over and above the present value of the surplus would lead to double accounting of the same income.

c) Cost of Equity

Ministry of Civil Aviation had appointed SBI-CAPS to conduct a study in order to arrive at an optimal rate of return on equity to cover the risks of an investor. The results of the study indicated that the rate of return for the airport operator considering all risks should be in the range of 18.5% to 20.5%.

However, the Authority had considered return on equity at 16% for the 1st and 2nd control periods and has now provided only 15.13% return on equity in case of 3rd control period for MIAL which is far less than the assessment done by Ministry through SBICAPS.

Therefore, it is suggested that the airport operators be accorded adequate return as per the SBICAPS report. Further, IIM Bangalore, while evaluating beta for cost of equity for MIAL, has mainly considered developed countries. The Authority should have used beta of developing countries similar to India in order to arrive at fair comparison.

d) Levy of 1% penalty in case of over-run:

The Authority has proposed to introduce a penalty clause whereby if the project is committed to be completed by MIAL in each control period and if the same is not completed, then the ARR shall be reduced by 1% penalty of the total project cost.

In this connection, we wish to state that COVID-19 has affected all the industries across the board including aviation and the future scenario is still uncertain. In view of this pandemic, project construction may not be in line with planned schedule, due to various reasons like non-availability of human resources, social distancing norms to be followed etc. In view of such unprecedented situation, such proposal to levy penalty should not be considered when issuing the final order.

e) Marketing Fund (MF) being treated as Non-Aeronautical Revenue:

The marketing fund is earmarked for promotion of retail revenue at the Airport and accounted as earmarked fund in the liability side of the airport operator's balance sheet. The Authority has, not considered the fact that MIAL cannot use the funds for its own purposes and has instead proposed to treat it as non-aeronautical revenue.

This shall be a taxing proposal for the airport, since as per the terms of the fund, MIAL is not entitled to use the it for its own purposes or expenses. This proposal by the Authority shall result in lower promotional events and would ultimately result in lower non aeronautical revenues. In light of the above, it is submitted that the Authority should not consider this Marketing Fund as a non-aeronautical revenue.

f) Impact of COVID on traffic and non-aeronautical revenues

The Authority has considered passenger traffic for FY21 - 50% of traffic for FY20, for FY22 - 75% of traffic for FY20 and for FY23 – 100% of traffic for FY20. As of now, the international flights are suspended till 30th November 2020 and there is no sign yet for their start in December 2020, which is normally the peak season for international travel. IATA and CAPA have in their recent reports indicated that Traffic is expected to be reach pre-covid levels, only in 2024. Hence, the Authority, must consider the above, while finalising the traffic for the 3rd control period.

As far as Non-aeronautical revenue projections are concerned, Authority has to consider the fact that many concessionaire outlets are closing down / pruning their operations with re-negotiated terms, leading to lower revenues, on account of drastic reduction in current year traffic and the outlook for the future. Further, the passenger profile and the spend habits have also changed and the same needs to be considered.

In light of the continuing impact of the COVID 19 pandemic, the non-aeronautical revenues need to be considered as assessed by the Airport operator in the given circumstances.

g) Adhoc UDF request by MIAL

Current Pandemic has put severe stress on airport revenue and operating margin. Airport operators face severe challenges in meeting its debt and operational obligations. In order to ensure viable airport operations, we request the Authority to provide much needed cash supports to airport operators so that it will help them to sustain operations in current pandemic scenario.

We request the Authority to consider the above issues, before issue of final order for determining the aeronautical tariff for CSMI Airport, Mumbai.

Yours Faithfully,
For **Bangalore International Airport Ltd.**

**Bhaskar Anand Rao**
**Chief Financial Officer**