Subject: **Reg Consultation Paper No. 10 for determination of Aeronautical Tariff in respect of Chhatrapati Shivaji International Airport, Mumbai**

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Industry Representation on Consultation Paper No. ... (41kB)

Dear Ma'am,

Sub: Consultation Paper for Determination of Aeronautical Tariff in respect of Chhatrapati Shivaji International Airport, for the second Regulatory Period (01.04.2014 – 31.03.2019).

FICCI appreciates the efforts taken by the Authority in issuing a very comprehensive Consultation Paper for Determination of Aeronautical Tariff in respect of Chhatrapati Shivaji International Airport, Mumbai for the second Regulatory Period and seeking inputs from the industry stakeholders'.

I enclose the inputs received from our members for your kind consideration.

Thanking you and best regards.

Yours sincerely,
Abdul Salam

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Industry inputs on Consultation Paper No. 10/ 2015-16

issued on 16th March 2016 by Airports Economic Regulatory Authority of India for Determination of Aeronautical Tariff in respect of Chhatrapati Shivaji International Airport, Mumbai for the 2nd Control Period (01.04.2014 – 31.03.2019)

1. Return on Equity

It is noted from the Consultation Paper that AERA has proposed a return of 16% on equity based upon a study by National Institute of Public Finance and Policy (NIPFP). However, considering higher risk associated with the Airports and Aviation Sector, our members feel that it is not adequate for the risk taken by the private investors.

As per the study conducted by SBI Capital Markets Limited (engaged by AAI) to assess fair rate of return on equity for Indian Airport Sector, 18.5% to 20.5% has been considered as the reasonable rate of return for the Airport Sector

Considering that there is a huge requirement of private investments, both foreign and domestic over the next 10 to 15 years for Airport Development and Modernization, it is imperative that attractive returns are provided to investors. We feel that the proposed 16% rate of return is not lucrative enough for attracting private investors for the airport projects.

Furthermore, it is critical to note that Mumbai and Delhi Airports are liable to share a major part of their revenue with AAI before making the payment to their equity investors. It is pointed out by our members that the available net return to equity investors after the revenue share is very low and is not rewarding for the private investors. This factor needs to be taken into consideration while determining return on equity for Mumbai Airport.

2. Refundable Security Deposit (RSD)

AERA has proposed in the Consultation Paper not to give any return on the Refundable Security Deposit (RSD) proposed to be utilized by MIAL for funding of the project.

It is pertinent to note that if MIAL had funded the project through any other means of finance i.e. either equity or debt in the place of RSD, AERA would have allowed cost of such funds.

Industry feels that it's not an investment friendly approach by not giving any return on RSD since these funds have inbuilt opportunity cost and MIAL had decided to use these funds for project funding in absence of any other means of finance.

Further under the provisions of Concession Agreement MIAL was not obliged to use these funds for the project funding and funds from Real Estate development are not subject to cross subsidy but it had used in the interest of overall airport development because there were no other funds available that point in time. Considering the above we strongly recommend that Authority should give suitable returns on RSD.

3. **Allocation ratio for assets and operating expenses**

It is noted that AERA has used the allocation ratio for bifurcation of common areas in T2 at CSIA based on ratio of T3 at IGIA. AERA should consider the asset allocation ratio based upon actual area at T2 rather than assuming the same based on T3 of DIAL.

Further, Authority has assumed allocation ratio for operating expenses for the second control period based on allocation ratio of first control period. However, there is a significant change in the ratio for the second control period and therefore authority should consider latest numbers instead of continuing with numbers for first control period.

4. **Reduction of reserves by losses incurred by MIAL and MAT credit entitlement**

Reserves and Surplus of a company are part of Shareholders funds. Since, CSIA was a Brownfield airport, shareholders of MIAL did not took out reserves of the company by declaring dividends and instead choose to plough back the same for project funding. Hence, Reserves used by MIAL for project funding is nothing but only equity / shareholders' funds. Having invested these funds in project, not giving any return on the same is unjustifiable. Any subsequent losses due to operations do not reduce the investment already done by the shareholders. This lead to double whammy to the shareholders; on one side they are incurring huge losses and on the other side return on RAB get further reduced.

Similarly AERA has reduced the profit during the year with MAT credit entitlement without any substance. This is completely against all the accounting principles and standards.