

June 28, 2013

Capt. Kapil Chaudhary (Retd.)
Secretary
Airports Economic Regulatory Authority of India
AERA Building,
Administrative Complex,
Safdarjung Airport,
New Delhi- 110003

Ref: Your letter DO. No. T-12023(14)/1/2012-Tariff-Vol. III/4186

Sub: Our views on Consultation Paper No. 09/2013-14 related to Determination of Aeronautical Tariff in respect of GMR Rajiv Gandhi International Airport, Hyderabad for the 1st Regulatory Period(01.04.2011 to 31.03.2016).

Dear Madam,

Airports Economic Regulatory Authority of India (hereinafter referred as "AERA") has, vide its above referred letter, had invited our comments, views, etc., in respect of the proposal contained in Consultation Paper No. 09/2013-14 related to Determination of Aeronautical Tariff in respect of GMR Rajiv Gandhi International Airport, Hyderabad for the 1st Regulatory Period(01.04.2011 to 31.03.2016). Our views and suggestions are as under;

1. In the said Consultation Paper, AERA is proposing to consider final User Development Fee(UDF) for domestic and international departing passengers and proposes to determine the other charges in the tariff card, namely, Landing and Parking Charges, Common Infrastructure charges, Fixed Electricity Ground Power Charges and Fuel charges as proposed by Hyderabad International Airport Limited(herein after referred as "HIAL"). As per the Consultation Paper, the Landing, Parking and Housing (LPH) charges were taken as per existing rates for the year 2010-11 and the 10% escalation was considered, year on year, starting from 2011-12.
2. The said Consultation Paper broadly discusses only about the changes in UDF charges and other aeronautical charges have remained constant. The consultation Paper is silent on the basis of which 10% increase on the landing, Parking and Housing have been arrived and basis on which other aeronautical charges will be decided in the 1st Regulatory Period. The projected increase of 10% year over year seems arbitrary in nature and very high and is not in line with the current inflation rate. Inflation should be linked to WPI Index and must have a scientifically tested formula.



Further increasing the already high charges will further cripple the financial health of the airlines operating at HIAL

As all the Airlines will be directly impacted due to any increase in aeronautical charges, we request HIAL to provide the basis on which the increase in aeronautical charges have been arrived and further request AERA to validate the increase on comparison with similar airports around the globe.

With the increase in volume , the cost actually should start going down. We do not see the benefits of economies of scale being built in the entire consultation paper

3. As AERA rightly pointed out in the Consultation Paper, as long as fair rate of return is given to Airport Operator, he should be indifferent to regulatory till. Hence as an Airport user, we recommend AERA to determine the aeronautical tariffs under single till to avoid substantial increase in the aeronautical charges. Any increase in aeronautical charges will substantially affect the bottom line of already beleaguered airline companies operating out of HIAL.
4. HIAL has proposed 24% as return of equity. AERA has appointed National Institute of Public Finance and Policy(NIPFP) to estimate the cost of equity. NIPFP has arrived at a cost of equity of 13.2% considering asset beta 0.4% and debt equity ratio of 1.17:1. However, AERA has considered asset beta 0.5% and debt equity ratio of 1.5:1 and arrived at 16% as cost of equity. As NIPFP has determined 13.2% to be the cost of equity after detailed analysis, we request AERA to consider 13.2% as the final return on equity.
5. The Regulatory Asset Base (RAB) has been arrived at without subtracting the fair market value of real estate development (outside the terminal building). The land outside the terminal building was given to HIAL to make the project viable, hence, we request AERA to reduce the fair market value of land from RAB. This will result in the reduction of Aeronautical charges to Airport User.

Thanking You,



Blue Dart Aviation Limited

Palaniappan

N. Palaniappan
Company Secretary & Manger - Finance