

Date: 22nd Oct'2018

To,
The Secretary,
Airports Economic Regulatory Authority of India
AERA Building, Administrative Complex,
Safdarjung Airport,
New Delhi – 110 003

Subject: In the matter of Determination of Fair Rate of Return (FRoR) to be provided on Cost of Land incurred by various Airport Operators of India

Reference: Supplementary Consultation Paper No. 17/ 2018- 19

Dear Madam,

This is with reference to the supplementary consultation paper referred above, first of all we would like to appreciate authority's consideration of need of return on the capital investment made by the airport operator/state government towards land. Further, please find below our comments on the consultation paper for your kind consideration:

Comment or Suggestion by Hon'ble Authority (AERA)	Our comments
<p>Authority view at Page (11/27)</p> <p>The land acquisition depends on many factors including social impact of rehabilitation. It is for the land acquiring agency to carry out due diligence process and study such impact and take a view on acquisition <u>Cost towards displacement and rehabilitation is to be absorbed by the Private Airport Operator and not passed on to the other stakeholders/ passengers.</u></p>	<p>It is important to note that any cost incurred in making the land useful for the purpose of airport forms part of acquisition cost of land. The Hon'ble Authority is requested to reconsider the proposal of excluding cost towards displacement and rehabilitation as without this the land acquired has no meaning.</p> <p>This cost should be included into to the cost of respective asset as part of land development cost.</p>
<p>Authority view at Page (17/27)</p> <p>In case of acquisition by Airport Operator, the Authority proposes to compensate the Airport Operator by giving a return by way of EMI over original lease period or 30 years whichever is less. <u>The calculation of EMI takes into account the amount paid towards the interest component and</u></p>	<p>This cost of land can be funded through various means of finance viz. debt or equity. Hence, we request Authority to consider Weighted Average Cost of Capital (WACC) instead of only cost of debt while calculating EMI.</p> <p>Also, the period of amortization should be 15 years as there is no funding available for 30 year period. In case of 30 year amortization there will</p>



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<p><u>time value of money. The EMI is to be calculated taking the cost of debt for the Airport.</u></p>	<p>be mismatch between loan tenure and pay-back period; accordingly the funding will be challenging.</p>
<p>Authority's Proposal para 12.1.6 Page (26/27)</p> <p>The cost of land will be subject to due diligence. The Authority will allow compensation only on fair value of the land.</p>	<p>The Hon'ble Authority is requested to consider the actual cost of land for calculating return as the cost of land depends on various factors viz. location, compensation to existing land owners, timing etc. and accordingly the fair value may differ at different point of times.</p> <p>Also, the cost of land including rehabilitation & resettlement cost, may differ from one state to another. Further, fair value may not yield the right result since the cost determination methodology set for one state may differ from another state. Therefore, to avoid any confusion, it is suggested to allow compensation on actual cost incurred towards land.</p>
<p>Authority's Proposal para 12.1.5 Page (26/27)</p> <p>In the case of Government acquired land handed over to the airport- as part of equity infusion, the land cost shall be amortized over a period of 30 years. The amortized amount will be a pass through in case the amount is paid to the Govt. However, any dividend paid by the operator to the Govt. during the year will be deducted from the amortized amount.</p>	<p>In this instance, there are two distinct transactions viz. sale of land by Govt. to Airport SPV and using these proceeds for investing in equity of SPV. The cost of land should be amortized over a reasonable period say 15 years. The tariff so determined would have an element of RoE which will be used to pay dividend to all shareholders. If dividend paid to Govt is to be taken as a reduction of amortized cost, the consequential impact is to the detriment of non govt shareholders. Hence the Authority may reconsider this approach of reducing dividends paid to govt shareholders in determining amortized cost of land.</p>
<p>Authority's Proposal para 12.1.2 Page (26/27)</p> <p>The return will be given only on land used for aeronautical activities marked and approved by the Leasing Authority.</p>	<p>Land development has long gestation period. It takes long time to start revenue generation from land hence the airport operator earn revenue only for partial period of concession. However, Airport Operator has to pay lease rental/associated cost for full concession period. Hence, Authority should not consider the revenue from commercial land for cross subsidy purpose. Further, this is also outside regulatory purview.</p>

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Authority's Proposal para 12.1.2 Page (26/27) The Authority may also assess the requirement of land for aero purpose.	The requirement of land for aero is generally governed by master plan and the arrangement between the State Government and airport operator. Hence there is no requirement for further reassessment by the Authority.

For GMR Airports Ltd.



Sidharath Kapur
Executive Director