

APAO/AERA/ 2024-25

Date: 6th July 2024

Director (P&S, Tariff)
Airports Economic Regulatory Authority of India (AERA),
Udaan Bhawan, 3rd Floor D Block,
Rajiv Gandhi Bhawan,
Safdarjung Airport,
New Delhi – 110 003

Subject: APAO's response to Consultation Paper No. 01/2024-25 dated 6th June 2024 in the matter of determination of aeronautical tariff for Lokpriya Gopinath Bordoloi International Airport, Guwahati (LGBIA) for the Third Control Period (01.04.2022 - 31.03.2027)

Dear Sir,

As the apex industry association of all major private airports operating in India, APAO is pleased to share its responses on the proposals in the abovementioned Consultation Paper for the kind consideration of the Authority.

It is pleased to note the efforts put in by AERA to take a comprehensive view considering the complexities involved in the Concession Agreement. However, there are certain key issues which are not addressed that are critical to assess the economic viability of the Airport Operator.

Given the above background, we would like to highlight our inputs on certain key matters.

1. Cash flow requirement and recovery of ARR

The Authority has mentioned that based on proposed rate card it would look into various issues and impact of increase in tariff on the potential air travel demand. In the regard, we would like to share that airport charges are only 6-7% of overall cost of airline's operations. The airline ticket prices are based on dynamic systems built on demand and supply of the relevant markets. Since airport charges are very small in proportion of the airline's operating cost structure, it does not play any significant role in airline ticket prices.

Further, Airports being of infrastructure nature has largely fixed costs of operations, unlike airlines where cost are variable or semi variable. Therefore, in order to recover the cost and to run the operations efficiently and safely Airport Operators are required to have regular stream of cash inflows through airport charges.

We are pleased to note that the Authority has taken a comprehensive and thorough view while deciding the tariffs in the recently released tariff order for Thiruvananthapuram Airport. On the similar basis, we request Authority to consider cash flow requirements of the Guwahati Airport while making a decision on the deferment of ARR. It is to be noted that Deferment of ARR is not in interest of airport

users too as they will have to pay for any shortfall in ARR with higher amounts (with carrying costs) in the next Control Period.

2. Cost of debt

Guwahati International Airport Limited (GIAL) has taken debt from group company Adani Airport Holdings Limited (AAHL) which in turn has availed borrowing from global institutions. Debt was availed by holding company AAHL at rate of 12% which is market driven rate as per risk perceived by investors of airport business of Adani Group. It is an innovative and cost-efficient measure to take consolidated debt at holding company level instead of obtaining debt at single Airport level which will be costly and lack economies of scale.

The authority has proposed cost of borrowing to be considered at 9% p.a. being the average of other five PPP airports viz. DIAL, MIAL, GHIAL, BIAL and CIAL. This approach is erroneous and penalizing for Guwahati Airport and same will result in GIAL generating returns below its cost of capital and loss-making proposition, which is not the intent of AERA guidelines, NCAP and against vision of GOI to encourage the private investments in the airport sector.

We request Authority to consider 12% as cost of debt for the third control period and true up of the same in the subsequent control period.

3. Cost of Equity

In this regard it may be pertinent to mention that to attract investors in the airport development it is essential to accord an optimal rate of return for equity investments. The 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 considered return on equity at 15.18% for GIAL based on average of cost of equity allowed by AERA for 5 PPP airports which is far less than the assessment done by the Ministry through SBICAPS. Therefore, it is suggested that the airport operators be accorded adequate return, in this regard Authority should allow the Return on Equity requested by the respective airport operators of 17.30% which is lesser than the assessment of SBI CAPS. Further, IIM B while evaluating beta for return on equity for PPP airports has majorly considered developed countries. In order to arrive at a true reflection of risk the Authority should have used beta of developing countries similar to India.

4. Soft Cost claimed towards technical services, PMC, Preliminaries and Pre-operatives, Contingencies, Statutory approvals, Labor Cess, Site-preparation, Insurance etc.

AERA has allowed 8% of capex costs as cost claimed towards technical services, PMC, Preliminaries and Pre-operatives, Contingencies, Statutory approvals, Labour cess, Site-preparation, Insurance etc. as against 16% proposed the airport operator.

AERA has allowed the cost based on the past order issued for other PPP Airports in the previous control period. However, AERA in the recently issued order for MoPA Airport has approved cost which is much higher than these levels. It is understood that soft cost of 16% proposed by GIAL is based on cost structure and complexities prevalent in today's scenario. We request authority to take pragmatic view while deciding the level of soft cost in the projection which anyhow is subject to true-up/down in the next control period.

We earnestly request the Authority to give a serious consideration to the points raised by us in the above response, before issue of the final order determining the aeronautical tariff for Guwahati International Airport Limited for the Third Control Period.

In case any other information/ clarification is required in this connection, please inform the undersigned.

Thanking you,

Yours Sincerely

For The Association of Private Airport Operators (APAO)

A handwritten signature in blue ink, appearing to read 'Satyan Nayar', is positioned above the typed name.

Satyan Nayar
Secretary General

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