Chhatrapati Shivaji Maharaj
INTERNATIONAL AIRPORT
MUMBAI

Ref no : MIAL/CP/2025-26/01

Date: 16th April 2025

To,
The Director (P&S, Tariff),
Airports Economic Regulatory Authority of India,
AERA Building, New Administrative Block,
Safdarjung Airport,
New Delhi-110003.

Sub: Comments on the Consultation Paper No. 08/2024-25 dated 10th March 2025 in The Matter of Determination of Aeronautical Tariff for Chhatrapati Shivaji Maharaj International Airport. Mumbai (CSMIA) for the Fourth Control Period (01.04.2024 - 31.03.2029)

Dear Sir,

This is in respect to the Consultation Paper No. 08/2024-25 dated 10th March 2025 in the Matter of Determination of Aeronautical Tariff for Chhatrapati Shivaji Maharaj International Airport. Mumbai (CSMIA) for the Fourth Control Period (01.04.2024 - 31.03.2029), we hereby submit our written comments chapter-wise.

We shall be pleased to provide any further information that the Authority may require in this regard.

Thanking you,

Yours sincerely,

For Mumbai International Airport Ltd.

Ashu Madan
Authorized Signatory

Mumbai International Airport Limited
Chhatrapati Shivaji Maharaj International Airport
1st Floor, Terminal 1B, Santacruz (E),
Mumbai 400 099,
Maharashtra, India
CIN: U45200MH2006PLC160164

Tel +91 22 6685 0900 / 6685 0901
csmia.adaniairports.com

Registered office: office of the Airport Director, Terminal-1B, CSMI Airport, Mumbai – 400099, Maharashtra, India

MUMBAI INTERNATIONAL AIRPORT LTD.

16th April 2025

Response to Consultation Paper No. 08/2024-25 dated 10th March 2025

Contents

Disclaimer

This document has been prepared by Mumbai International Airport Limited (MIAL) in response to AERA's Consultation Paper No. 8/2024-25 dated 10th March 2025 in the matter of determination of Aeronautical Tariff for Chhatrapati Shivaji Maharaj International Airport. Mumbai (CSMIA) for the Fourth Control Period (01.04.2024 - 31.03.2029).

The purpose of this document is to solely provide a response to the tentative decisions proposed by AERA in Consultation Paper (CP) and should not be referred to and relied upon by any person against MIAL. This document includes statements, which reflect various assumptions and assessments by MIAL and relevant references to various documents. Same does not purport to contain all the information to support our response.

This document may not be appropriate for all persons, and it is not possible for MIAL to consider particular needs of each party who reads or uses this document.

Whilst every effort has been made to ensure the accuracy of the information provided herein, MIAL cannot be held responsible for any errors or omissions. MIAL shall have no liability to any person under any law for any loss, damages, cost, or expense on account of anything contained in this document.

The response set out below to the CP shall not be construed as an acceptance by MIAL of the various assumptions undertaken by the Authority in the CP.

We request the Authority to follow the previous orders passed in case of other airports by AERA, Hon'ble TDSAT, as well as orders concerning the points raised in the MYTP and this response. It is settled law that juridical discipline requires the Authority and/or courts of law to follow the previous orders to maintain certainty of things. At the same time, the Airport Operator is always entitled to raise / agitate the points which are not in consonance with the relevant guidelines and judicial pronouncements irrespective of previous orders in this regard.

The response is without prejudice to MIAL's rights, submissions, contentions available to it in accordance with applicable laws.

Response to Consultation Paper No. 08/2024-25 dated 10th March 2025

A. Hon'ble TDSAT Directions Regarding the Decisions taken by the Authority for the Second and the Third Control Period

1. Non-Implementation of TDSAT Judgement

Authority's Submission

Para 1.9 MULTI YEAR TARIFF PROPOSAL SUBMISSIONS BY MIAL FOR THE FOURTH CONTROL PERIOD

Para 1.9.1 MIAL submitted the Multi Year Tariff Proposal (MYTP) document on 6th June 2024 seeking revision of tariffs for aeronautical services at CSMIA, for the Authority's consideration and approval for the Fourth Control Period (from 1st April 2024 to 31st March 2029). MIAL has factored in the decisions of the Hon'ble TDSAT on various issues and of Hon'ble Supreme Court judgement on the issue of corporate tax pertaining to earnings from Aeronautical services. These decisions have an impact on the First, Second and Third Control Period along with the treatment of Regulatory Building Blocks for the Fourth Control Period

Para 1.9.2 However, the Authority has challenged the decisions of the Hon'ble TDSAT by filing Civil Appeals in the Hon'ble Supreme Court under Section 31 of AERA Act, 2008. These Civil Appeals were opposed by MIAL and DIAL on the ground that AERA, being a Tariff determining Authority, is a quasi-judicial body and therefore, it cannot file Appeal against the judgement of Hon'ble TDSAT which is an appellate Authority.

Para 1.9.4 The Authority has carefully examined the issue of implementation of the above-mentioned orders of the Hon'ble TDSAT. The Authority has utmost regards for the directions of the Appellate Authority. However, the Authority has challenged these orders in Hon'ble Supreme Court under section 31 of AERA Act, 2008, and Hon'ble Supreme Court is presently hearing the matter. Thus, the issues raised in the Civil Appeal filed by the Authority are not finally settled and the Hon'ble Supreme Court is seized up of the matter. Therefore, the Authority notes that under such circumstances if it decides to implement the Hon'ble TDSAT order without finally settling the issues before the Hon'ble Supreme Court and increase in tariff is effected considering MIAL's submissions on the basis of Hon'ble TDSAT judgments for the Fourth Control Period, then it shall lead to a significant increase in Aeronautical tariff which will have to be borne by the Airport users as MIAL will start recovery of increased tariff from the Airport users. If at a later stage, the Civil Appeals filed by the Authority are upheld or decided in its favor, then it will not be possible to refund the excess charges collected from the Airport users during this period on account of the increase in tariff. Due to all these factors, MIAL would have unjust enrichment at the cost of Airport users. All these factors clearly establish that considering MIAL submissions of giving effects to Hon'ble TDSAT judgements without finally settling the issues before Hon'ble Supreme Court, is not in public interest, more so when the Hon'ble Supreme Court is seized up of all these issues and is hearing these Civil Appeals. On the contrary, public interest would be better served if Authority takes the decisions on the basis of final decision of Hon'ble Supreme Court of India on these issues.

Para 1.9.5 Considering the above and in public interest, the Authority proposes to continue the tariff determination exercise consistent with the decisions taken in the Tariff Order for the Third Control Period. The final decision regarding the issues raised by the Authority in the Civil Appeal will be taken once the matter attains finality in the proceedings before the Hon'ble Supreme Court.

MIAL's Comment

The Authority has challenged the Hon'ble TDSAT Judgement dated 6.10.2023 before the Hon'ble Supreme Court. However, it is an admitted position that no stay has been granted against the judgment & order dated 6.10.2023 passed by the Hon'ble TDSAT. Thus, in view of catena of judgements & established legal position that in absence of stay by the higher court, the parties to the judgment are bound by it and have to unequivocally implement the same. Thus, the Authority should have implemented the judgement & order dated 6.10.2023 of the Hon'ble TDSAT. However, the Authority has taken a view to wait for the outcome of the appeals filed by them, which amounts to violation of the said judgment.

In this regard, it is imperative to note that as per Order 41 Rule 5 of the Code of Civil Procedure, 1908, unless there is an interim order, mere pendency of the appeal before the Hon'ble Supreme Court will not amount to the stay on the operation of the order passed by the Hon'ble TDSAT.

We wish to rely upon the following judgments in support of our contention, amongst many such other judgments which may be relied upon in future, if required.

I. The statutory authorities are bound to carry out their statutory functions and comply with the orders of the Superior Courts in letter and spirit. Otherwise, the contempt proceedings may be initiated against them by the Superior authority/Appellate Tribunal. **[Refer Bhopal Sugar Industries Vs. Income Tax Officer, Bhopal AIR 1961 SC 182 Para 7-12; RBF Rig Corporation, Mumbai Vs. Commissioner of Customs (Imports), Mumbai (2011) 3 SCC 573 Paras 17-19, 23 to 27]**

II. Principle of judicial discipline require that the orders of the higher appellate authorities should be followed unreservedly by the subordinate authorities. The mere fact that the order of the Appellate authority is the subject matter of an appeal cannot furnish any ground for not following it unless its operation has been suspended by a competent court. **[Refer Union of India Vs. Kamlakshi Finance Corporation Limited (1992) Supp (1) SCC 443 Para 6; Kashi Vishwanath Steels Ltd. Vs. Uttaranchal Electricity Regulatory Commission and Ors. Appeal No. 169 of 2006 Para 4]**

III. The Regulatory Authorities are bound by this principle of judicial discipline. The orders passed by the Regulatory Authorities are appealable to the concerned Appellate Tribunal under the statute and any order passed in such appeal by the Appellate Tribunal is required to be carried out by the Regulatory Authority unless and until the order of the Appellate Tribunal is stayed, set-aside or modified by the Apex Court to which the second Appeal lies under the scheme of such statute. **[Refer Judgment dated 23.09.2013 passed by APTEL in Appeal No. 52 of 2012- Para 121-124]**

IV. Mere pendency of appeal before the Supreme Court against the order does not absolve the party not to comply with the order. Provisions of appeal, even if availed without any stay, will expose the party to contempt proceedings, for non-compliance. **[Refer Dr. Sajad Majid Vs. Dr. Syed Zahoor Ahmed and Anr.; 1989 Cri LJ 2065 Para 8]**

V. As per the Supreme Court Judgement in the case of 414 of 2007 delivered on 05-10-2023 in respect of Odisha Electricity Regulatory Commission (OERC) and APTEL, following are the important observations at Page 22 at para 26 and at page 47 – para 76): **The Commission is bound**

by the orders of the Appellate Tribunal. (page 22- para 26) It is the duty of the Commission to implement the orders of the Appellate Tribunal as an Appellate Authority (page 47, para 76).

In view of the above legal position, while the Authority is duty bound to implement the Hon'ble TDSAT Judgement, we request the Authority to implement the same in the Tariff Order to be passed for the Fourth Control Period. Without prejudice to this and in the alternate, we humbly request the Authority to be kind enough to implement the said Judgement as soon as Hon'ble Supreme Court disposes off the pending appeals by conduct of mid-term review of MIAL's tariff for the Fourth Control Period and not the same pending until the commencement of tariff determination process for Fifth control period (2029-34), which would be detrimental to the interest of the airport users.

2. Normative Costing methodology - not applicable to MIAL

Authority's Submission

Para 1.5.1 Normative approach to Building Blocks in Economic Regulation of Major Airports – Capital Costs Reg.

(i) The Authority issued Order No. 07/2016-17 dated 06th June 2016, in the matter of Normative Approach to Building Blocks in Economic Regulation of Major Airports – Capital Costs Reg.

(ii) Normative Approach Order is applicable to CSMIA as it is a major airport and will be appropriately applied by the Authority in tariff determination process.

MIAL's Comment

TDSAT vide order dated 16th April 2025 has observed that no benchmarks with respect to capital costs should be used by AERA. Following is the excerpt from the order:

*"If impugned order is held as a valid one and if the cost of runway has to be revaluated by AERA and subsequently allowed to be reduced, it will have a disastrous effect because with a lower cost, lower quality of runway will be given. This is not permissible, especially for the construction at the airport because every construction at the airport has a definite specification and sometimes as per international standards (i.e. for runway etc.). If the international standards are to be maintained, then the cost arrived at after due process of bidding which is known as "**market discovered price**" ought to have been allowed by AERA because it is a "**cost incurred**" as per Section 13(1)(a)(i) of AERA Act, 2008. At no cost, the project cost can be reduced by AERA which has a direct bearing upon the operational efficiency of the airport and, therefore, Section 13(1)(a) of AERA Act, 2008 has used the words "the Capital Expenditure incurred". Thus, by virtue of the impugned order (**Annexure A-1**), AERA cannot provide benchmark of capital expenditure."*

We request Authority to not apply normative benchmarks while approving the costs of Terminal Building and Runway/Taxiway/Apron projects.

B. True-up of First Control Period

3. Aero tax - previous year losses Set off

Authority's Submission

2.5.1 As per MIAL, the Hon'ble Supreme Court vide its judgment dated 11th July 2022 has decided that Component 'T' in the formula of Target Revenue (TR) in SSA has to be computed based solely on regulatory accounts for the TR formula. Corporate Tax has to be calculated based on provisions of the SSA, and Annual Fees paid to AAI needs to be excluded from the Aeronautical Expenses to compute aeronautical tax.

2.5.2 Further TDSAT vide its order dated 6th October 2023 has held that amount equal to "S factor" partakes the color of aeronautical revenue and also looking to the definition of 'T' in SSA, which is, "Corporate taxes is on earnings pertaining to aeronautical services" and it is not on Target Revenue. Accordingly, TDSAT has directed 'S' factor should be added to aeronautical revenues to compute 'T'.

*2.5.3 In addition to the above, MIAL has claimed depreciation as per the Companies Act for the tax computation in the First Control Period True up and has adjusted for the Interest cost based on the allowances for Return on RAB, i.e., RAB * Actual Gearing Ratio * Cost of Debt.*

2.5.4 Based on the above Hon'ble Supreme Court and Hon'ble TDSAT Judgements and additional submissions, MIAL has revised the calculation of Aeronautical Tax for the First Control Period as shown below:

Table 20: Computation of 'T' for the True up of the First Control Period as proposed by the Authority as a part of the Tariff Determination exercise for the Fourth Control Period

(Rs. in crores)

Particulars	Ref	FY 10	FY 11	FY 12	FY 13	FY 14	Total
Aeronautical Revenue	A	476.44	486.11	507.16	621.84	1,280.26	**3,371.81**
Aeronautical Operating Expenses	B	374.98	190.58	311.46	382.04	502.71	**1,761.76**
EBITDA	C=A-B	**101.45**	**295.53**	**195.70**	**239.81**	**777.55**	**1,610.04**
Depreciation	D	53.69	83.84	107.43	123.22	141.88	**510.06**
Interest Expense-aeronautical	E	57.48	88.53	123.87	146.30	219.62	**635.79**
Profit Before Tax	F=C-D-E	(9.71)	123.16	(35.61)	(29.70)	416.05	**464.19**
Opening Accumulated (Losses)	G	-	(9.71)	-	(35.61)	(65.31)	
Current (Losses)	H	(9.71)	-	(35.61)	(29.70)		
Current Year Set Off	I	-	123.16	-	-	416.05	
Closing Accumulated (Losses)	J=G+H-I	(9.71)	113.45	(35.61)	(65.31)	350.74	
Profit for Taxation	K	-	113.45	-	-	350.74	**464.19**
Tax Rate	L	33.99%	33.22%	32.45%	32.45%	33.99%	
Tax	M=K*L	-	**37.68**	-	-	**119.22**	**156.90**

Note: As per the order of the Hon'ble Supreme Court, the Annual Fee has not been treated as an expense (Refer para 2.1.5).

MIAL's Comment

The Authority while calculating Aero tax has set off previous year's losses against current year's profits.

There is no concept of adjustment of the previous year's losses while computing the tax liability of the company under Regulatory books under SSA.

Therefore, we request the Authority not to set off previous year losses against current year`s profits while computing aeronautical tax for all control periods.

C. True-up of Second Control Period

4. Adjustment in TR on account of Return on RAB and Depreciation allowed on Alleged Assets as per the Self Contained note (SCN) of Authorized Investigative Agency (AIA)

Authority's Submission

Para 3.1.6 Additionally, the Authority has received a letter dated 30.08.2023 with a Self-Contained Note ("SCN") from the Authorized Investigation Agency (AIA). In the said SCN, AIA has intimated the completion of the investigation and has requested AERA to adjust the excess amount of tariff claimed by MIAL. The relevant para 12 of the aforesaid SCN is reproduced as below:

"In view of the aforesaid facts revealed during investigation, you are hereby requested to kindly adjust the excess amount of tariff of Rs. 305 /- Crores claimed by M/s. MIAL in the 3rd Control Period (01.04.2019 to 31.03.2024). The same has to be trued up during the tariff determination of M/s MIAL (Airport Operator of CSMIA, Mumbai) for the 4th Control Period which will be starting from 1st April 2024."

As per the extract of para 48 of the notes to special purpose standalone financial statements of MIAL of FY 2023-24 as reproduced below:

"… The management has received legal advice that the observations / allegations in the chargesheet are not to be treated as conclusive, final or binding till the time it is confirmed by the Court…"

Accordingly, the Authority, through its Independent Consultant, in compliance of the above mentioned SCN, has given effect to this request by adjusting the excess amounts of tariff claimed by MIAL under the heads Depreciation (Refer Table 35) and Return on RAB (Refer Table 50) in the True Up of the Second Control Period and subsequent control periods subject to the final outcome in the matter.

MIAL's Comment

The contention of the Authority that since they have received a letter dated 30.08.2023 with a Self – Contained Note from the Authorized Investigation Agency (AIA) whereby AIA has intimated the completion of the investigation and has requested AERA to adjust the alleged excess amount of tariff to the tune of Rs.305 Crs claimed by MIAL.

MIAL submits that it is not privy to any such letter dated 30.08.2023 with a Self-Contained Note from the Authorized Investigation Agency (AIA), as no such document is provided by the Authority to MIAL. Any reliance by the Authority on the said letter dated 30.08.2023 of AIA without providing a copy of the same to MIAL would amount to violation of the principles of natural justice and it is void ab initio. Additionally, the said AIA has no right and/or authority to interfere with the tariff determination process, much less to give any such directives to the Authority.

We therefore request the Authority to kindly discard the said letter dated 30.08.2023 with a Self – Contained Note from the Authorized Investigation Agency (AIA) whereby AIA has intimated the completion of the investigation and has requested AERA to adjust the excess amount of tariff to the tune of Rs.305 Crs claimed by MIAL.

Without prejudice to the above, we submit that the Authority cannot place reliance upon the same, as the investigation is being concluded, and the matter is now pending before the criminal court. At the highest after the conclusion of trial, if the allegations of prosecution are found to be true and any civil liability is arising out of it to MIAL, necessary true up can be given in the next control period in accordance with the direction of the competent final appellate court, in accordance with OMDA, SSA and in accordance with the provisions of AERA Act, 2008.

Here, we are concerned with the true up from the Second Control Period onwards and not with criminal liability. Any civil liability can always be adjusted in the next Control Period which is known as true up in the next control period. Hence, we see no reason to adjust the alleged excess tariff of Rs. 305 /- Crs claimed by MIAL, much less any justifiable reason.

5. WACC of Second Control Period not changed on account exclusion of depreciation of runway recarpeting expenses from total depreciation while computing the reserves and surplus of Second Control Period

Authority's Submission

3.5.4 The Authority examined the revised submission by MIAL for the Fair Rate of Return and noted that changes made by MIAL in FRoR is as per the TDSAT judgements.

3.5.5 The Authority consistent with the decision taken during the tariff determination for the Third Control Period proposes to retain the same approach, as mentioned in para 3.1.4 of this Consultation Paper.

3.5.6 Consequently, the Authority proposes to consider the FROR for the true up of the Second Control Period as approved by the Authority in the Third Control Period Order as per Table 38 above.

MIAL's Comment

During tariff determination of TCP, the Authority had considered the entire expenditure incurred on the re-carpeting of Runway / Apron /Taxiway as part of O&M expenditure in the year of incurrence up till FY18. However, from FY19 onwards, any expenditure incurred on the Re-carpeting of RWY/Apron/TWY is amortized over a period of 5 years.

To give effect of this adjustment, the Authority should have reduced capex incurred on re-carpeting of Runway / Apron /Taxiway from Regulatory Asset Base, and at the same time adjusted Depreciation and Operational and Maintenance expenditure. The Authority has reduced the amount from Regulatory Asset Base, increased O&M expenditure but failed to reduce the depreciation amount in the computation of Profit and Loss.

Owing to the above error, the profit and loss amount in all the years of Second Control Period are reduced, which has impacted the gearing ratio and ultimately the WACC computation for Second Control Period. MIAL has corrected the above mistake in MYTP of FoCP. However, the same has been overlooked and not given effect to in the ongoing tariff determination exercise of FoCP.

During the course of proceedings of TCP tariff order before TDSAT, the Authority has agreed to correct the above mistake. Except from the reply filed by the Authority on this matter is reproduced below:

> 1. It is pertinent to note that the concern regarding impact on the gearing ratio and ultimately Weighted Average Cost of Capital computation for Second Control Period was not raised by the Appellant during the consultation process.
> 2. However, as the impact is miniscule (estimated to be Rs. 2.03 crores), Respondent No.1 will undertake to adjust it by effectuating requisite true-up during tariff determination of the Fourth Control Period provided it is properly justified and all details are provided in a timely manner by the Appellant.

It is requested to true-up the WACC as has been committed by the Authority to the Appellate Court.

D. True-up of the Third Control Period

6. Right of Use Asset capitalized in FY22-23 not considered in RAB and depreciation not allowed on the same

Authority's Submission

Table 86: Depreciation on RAB as proposed by the Authority for the True up of the Third Control Period as a part of the Tariff Determination exercise for the Fourth Control Period

** On 29th April 2022 MIAL acquired 100% of equity shares of Regency Convention Centre and Hotels Private Limited for total consideration of Rs. 64 Crores. MIAL in its submissions claimed depreciation on this ROU asset as a part of Aeronautical Depreciation. However, the Authority notes that this is only an investment in equity shares and does not form part of RAB. Accordingly, the Authority proposes not to consider the depreciation on this asset as a part of Aeronautical Depreciation.*

MIAL's Comment

The amount of Rs. 64 Crs has been paid by MIAL for land which will be used for airport development and aeronautical purposes. On 20th November 2024, MIAL provided a detailed note on the requirement and justification of this land and subsequent payment done to Regency, however the same is not reflected in the consultation paper. For quick reference, we reiterate our position on this matter in the following paragraphs.

The dispute between the Airports Authority of India (AAI) and Regency Convention Centre and Hotels Private Limited (Regency) with respect to the land measuring 31,000 square meters (CTS No. 145A (Part) of Village Sahar and CTS No. 1405 (Part) of Village Marol situated at Village Sahar and Marol , Andheri) near Terminal-2 of CSMIA has been subject matter of pending litigation before the Hon'ble Bombay High Court for almost 25 years, with interim court orders of the years 2001 and 2006 prohibiting creation of third party interest in such land without the permission of Court.

Thereafter, in the interest of airport development and aviation community as a whole, MIAL and Regency engaged in discussions for arriving at a mutually agreeable settlement and to resolve the long pending litigation. It was paramount that the said land was made available for the purposes of various critical projects, inter alia, **construction of the proposed Airport Metro Station, a project of immense public importance undertaken by Mumbai Metro Rail Corporation Limited (MMRCL) and construction of at-grade and elevated airport access roads and other passenger facilities.**

In order to resolve the above issues and to ensure airport development in an expeditious manner and to avoid any future disputes, it was decided that MIAL acquire Regency and in turn Regency to withdraw the suit. On 29th April 2022, MIAL acquired Regency for total consideration of Rs. 64 Crs. MIAL Board took note of the same and ratified the decision of management for the above payment and purchase of equity shares of Regency Company in 85th Board Meeting held on 2nd May 2022.

This investment was pursuant to Regency agreeing to unconditionally waive all its rights, title, claims and interest in a land area which had been a disputed matter between Regency, Airports Authority of India ('AAI') and MIAL. Since the above investment was essential to enable the execution of various critical projects related to airport development, the same has been considered as enabling cost of above-mentioned aeronautical projects and included in the RAB of the Third Control Period.

In May 2022, Regency had filed an application to Ministry of Corporate Affairs for striking off the company's name from Registrar of Companies. Considering that the parcel of land was no longer under dispute as Regency had unconditionally waived all its rights, title, claims and interest prior to application for striking off, the land now formed a part of the demised premises and can be used by MIAL as per OMDA. The application for strike off has been approved by Registrar of companies on 02 November 2022 and the name has been struck off from the register of companies and the company is dissolved.

Considering that the total consideration of Rs. 64 Crs was to enable MIAL to obtain the right to use the aforementioned parcel of land, as per accounting norms the consideration so paid has been treated as Right-to-Use asset which will be depreciated over the remaining primary period of the Grant under OMDA.

If consideration had been paid to take over the operations of the company for some strategic purposes, the same would have distinctly appeared under the head Non-Current Investments in Financial Statements, which is clearly not the case in this matter.

It is acknowledged that MIAL has added above enabling costs in the opening balance of RAB but inadvertently missed adding the same in the closing balance of RAB of FY23 in the financial model. The Authority is requested to rectify this mistake and revise the closing balance of the RAB of FY23 and subsequent years.

In light of the above, the Authority should consider this as a part of RAB as enabling cost for the construction of various aeronautical projects and accordingly provide depreciation and Return on RAB on it.

7. Runway Intersection Overlays works classified from Aero Capex to Aero Opex but not included in Operational Expenditure

Authority's Submission

Table 72: Revised allocation ratios proposed by the Authority for assets capitalized in the Third Control Period

Asset description	Asset Category	Actual Cost in FAR	Allocation used by MIAL	Allocation proposed by Authority	Reason for Change
	and Equipment				
GA Terminal Refurbishment and related works	Furniture and Fixtures	2.55	Common - 95.3%	Non-Aero	
GA Terminal Refurbishment and related works	Office Equipment	0.74	Common - 95.3%	Non-Aero	
GA Terminal Refurbishment and related works	Plant & Machinery	0.55	Common - 95.3%	Non-Aero	
Integrated SHA-Civil-T2	Building	2.82	Aero	Common - T2 86.84%	Since it is a part of Terminal Building
Runway intersection overlay works	Runways, Taxiways & Aprons	2.18	Aero	Considered as Aero Opex	No increase in PCN value
Smart Timer Switch Street light-T2	Electrical Installations & Equipment	0.10	Aero	Common - T2 86.84%	Since it is a part of Terminal Building
Lamps & Fans MLCP (T2)	Office Equipment	0.02	Common 86.84%	Non-Aero	Since it is at the MLCP
AGL Intersection Overlay	Electrical Installations & Equipment	0.01	Aero	Considered as Aero Opex	No increase in PCN value

Table 126: Operating Expenses as proposed by the Authority for True up of the Third Control Period

(Rs. in crores)

Particulars	FY 20	FY 21	FY 22	FY 23	FY 24	Total
Employee Cost	217.68	220.79	168.02	146.12	159.37	**911.98**
Utilities (net of recoveries)	120.95	63.53	73.40	108.40	132.75	**499.03**
Repair & Maintenance Expenses	179.53	127.17	164.41	205.41	180.29	**856.81**
Rent, Rate and Taxes	45.97	43.84	48.05	53.88	57.25	**248.99**
Advertisement Expenses	5.17	2.28	3.06	8.17	3.58	**22.26**
Administrative Expenses	77.09	59.33	23.87	41.79	59.82	**261.89**
AOA Fees	10.53	8.81	-	-	-	**19.34**
Insurance Expenses	9.15	15.54	15.13	16.05	17.83	**73.70**
Consumption of store	8.63	5.12	9.05	20.41	17.47	**60.68**
Operating Expenditure	159.30	150.12	127.61	161.58	174.71	**773.32**
Interest on Working Capital	24.98	28.00	27.23	17.50	17.50	**115.21**
Financing Charges	24.74	14.98	59.28	23.86	15.47	**138.33**
Runway Recarpeting along with carrying cost on unamortized portion	52.00	55.91	51.83	46.89	59.39	**266.03**
Corporate Cost Allocation	-	-	89.97	97.93	74.00	**261.90**
Total	**935.72**	**795.42**	**860.91**	**947.99**	**969.43**	**4,509.47**

MIAL's Comment

The Authority has proposed 2 assets related to runway intersections works viz. Runway intersection overlays (Rs. 2.18 Crs) and AGL intersection overlays (Rs. 0.01 Crs) to be reclassified from Aero Capex to Aero Opex (Refer above table 72)

However, while doing the true up of the Aero opex of TCP, the same is not included in O&M expenses.

By doing so, the Authority has nullified the impact of above projects in TR computation.

We request the Authority to add the above Rs. 2.19 Crs in opex as same has not been included in RAB.

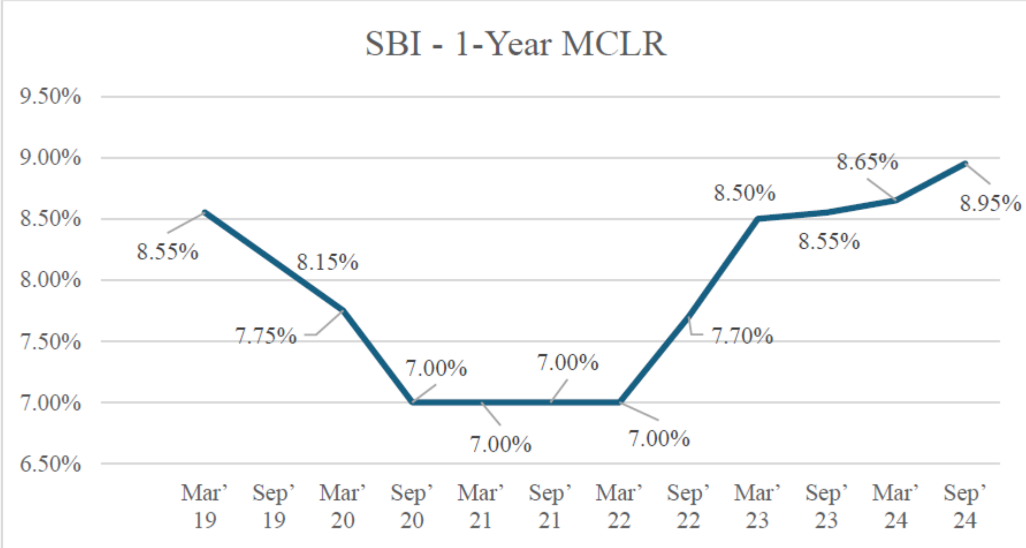
8. Cost of Debt capped at 10.3% for Third Control Period

Authority's Submission

Para 4.8.24 The Authority's examination is summarized below:

(i) MIAL states that it had to restructure the borrowing arrangement with SBI due to defaulting loans under the previous management. MIAL stated that even if it had continued with the borrowings from SBI, the rate of interest would have been substantially higher and would have resulted in a weighted average cost of borrowing of 11.17% as stated in Para 4.8.13. The Authority analyzed the movement in SBI MCLR in the table below:

Figure 2 - SBI – 1 Year MCLR ranging from March 2019 to September 2024



From the above figure, it is clearly seen that the SBI MCLR rate experienced a significant decline from the beginning of FY 20 and remained at those levels for about two years before returning to its precovid range by FY 24. This indicates that if MIAL had continued with the same debt facility during this period, it could have benefitted from the reduced interest rates, resulting in lower borrowing costs for most part of the Third Control Period. Based on the movement of SBI MCLR, even considering the highest interest rate, the Authority finds that cost of debt would have only increased to 10.15% (MCLR – 8.65% + 1.50% Spread) as per ***Figure 2****.*

(ii) The Authority also notes the inter-corporate loan being availed at the highest rate of 12.50%, is quite high in the context of funding available in the Indian market at that relevant time for the infrastructure sector. The trend of SBI MCLR in ***Figure 2*** *clearly indicates that finance was available to MIAL at a substantially lower rate than its current borrowing rate. Therefore, availing the inter-corporate loan from AAHL at 12.50% has increased the cost of debt substantially when compared to the borrowing from SBI.*

(iii) In view of the foregoing analysis and reasoning, the Authority proposes not to consider the weighted average costs of debt and is continuing with its decision to apply the cap on the interest rate at 10.30% as decided in the Third Control Period.

MIAL's Comment

Cost of debt allowed only on basis of MCLR (benchmark rate) without considering credit spread

Cost of debt is dependent on two factors, which are benchmark rates like MCLR, Base rate etc. and credit spread which in turn is dependent on business risks as perceived by the lenders. Greater is the risk perceived, greater is the credit spread.

The Authority have relied on trajectory of SBI 1 year MCLR which declined in 2020 on account of reduction in benchmark rates by RBI and concluded that if MIAL had continued with the same debt facility during TCP, it could have benefitted from the reduced interest rates, resulting in lower borrowing costs. Above inference is flawed as the Authority has completely ignored the second factor of credit spread which ballooned in the wake of the financial stress induced by COVID. This was on account of deterioration in credit rating of MIAL which was downgraded to Default (D) . Below table demonstrates how credit spread widens with downward revision in credit rating (source: state of the economy report published by RBI on 24 December 2020).

Ratings	3-year Corporate Bond Spread		
	Pre-COVID		
	31-Dec-19	31-Jan-20	28-Feb-20
	1	2	3
AAA	59	60	90
AA+	103	104	128
AA	136	140	167
AA-	175	178	207
A+	315	278	307
A	345	328	357
A-	425	378	407
BBB+	475	403	432
BBB	500	428	457
BBB-	550	453	482

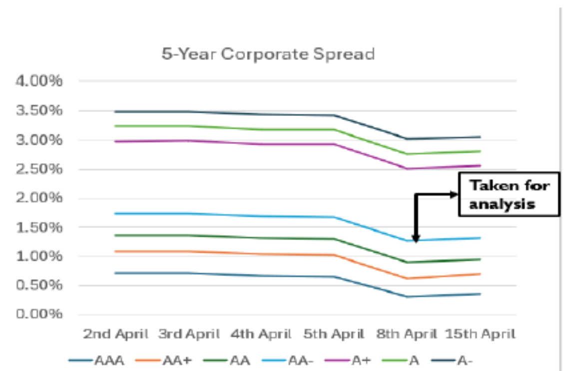
As is amply clear from table above, credit spread on AAA rated entities was 90 basis points and it was 482 basis points for BBB- rated entities. Spread of the entity rated C or D (comparable to MIAL rating in 2020 and 2021) will be much higher.

Following table demonstrates that even if we consider lowest MCLR rate in the entire control period (as considered by the Authority above) of 7% and apply spread of rating "BBB-" of 482 basis points (whereas actual rating D), cost of debt comes to 11.82%.

Calculation of cost of debt as per the Authority methodology	
Particulars	**Rate**
MCLR rate (A)	7.00%
Spread (B)	4.82%
Cost of Debt (A+B)	**11.82%**

Further reference is invited to figure 41 of the Consultation Paper giving details of 5 year Corporate Bond Spread.

Figure 41: 5-year Corporate Bond Spread – Data Source: FIMMDA



Data in the above figure has been used to compute the cost of debt of 10.15% for FoCP based on MCLR of 8.65% and spread of 1.5% assuming rating of AA-. Authority itself has relied on credit spread to arrive at cost of debt of Fourth Control Period. However, this factor has been ignored while allowing the cost of debt of TCP.

As per this figure the spread of entity rated A- is ~3.5% which is almost 200 basis points higher than entity which is rated 3 notches higher at AA-. It is to be noted that MIAL rating was downgraded to default in 2021 (CRISIL Report attached as Annexure A) and accordingly the risk perception and credit spread for MIAL would have been much higher.

The increased risk perception of airport business is clearly evident in the report published by World Bank titled "Infrastructure Financing in Times of COVID-19: A Driver of Recovery" (Annexure B)

The Covid-19 outbreak constitutes a demand and a supply shock that has caused a disruption in infrastructure projects both during construction and operation. Construction has been interrupted or delayed due to a lack of personnel, supply chain disruptions, or delays in government approvals. ***Assets in operation dependent on user fees have, in many sectors, faced a drastic decrease in demand that has led to revenue losses for project sponsors****. This has in turn increased project risks, such as default events, termination, insolvency or government breaching of contracts, among others.*

For demand-risk projects that are more linked to the economy's performance, such as the transport sector (roads, airports, ports), the significant reduction in demand has caused revenues to plummet*. This will likely lead to contract renegotiations and debt restructurings. According to ACI5,* ***total airport revenues fell by 35 percent worldwide in Q1 2020 (equivalent to $14 billion) and by 90 percent in Q2 2020 (equivalent to $39 billion).***

Facility wise Analysis of cost of debt

It is to be noted that MIAL had availed three external lending facilities in the TCP which are as below

Name	Tenure	Interest Rate
SBI Facility	Till July-21	10.3% (MCLR+180 bps)
Bridge to Bond Loan	July-21 to April-22	11%
External Commercial Borrowing	April 22 to March-24	10.3% till April-25*

**Effective interest rate (EIR) on ECB facility as on March-24 was 10.3%. However, EIR considering entire tenure of the facility is 11.93% due to step up of 50 bps in coupon rate every year starting from FY26*

Out of the above three facilities, only the cost of bridge to bond loan is higher than 10.3% whereas cost of other two facilities is ~10.3%.

The cost of bridge debt incurred by MIAL in July 2021 was higher due to several critical factors. MIAL was tagged a RFA account by lenders, with a default credit rating that rendered it ineligible for any new borrowing and made all outstanding debts immediately callable. Furthermore, One Time Restructuring (OTR) sought by lenders would have led to further deterioration in the capital structure.

Amidst these challenging scenarios, MIAL received new sponsor support from the Adani Group, which incentivized MIAL to opt for new financing which did not impose any amortization structure, allowing for cash accumulation essential for capital expenditures and improved liquidity. During the pandemic, which severely impacted business operations, the bridge debt (by SCB) was highly competitive and refinanced the entire SBI loan, along with additional debt for general corporate purposes for MIAL. All these factors combined justify the 11% interest rate, reflecting the increased risk and liquidity constraints while ensuring that MIAL had the necessary funds to continue its operations and development projects uninterrupted.

Considering the above, we request the Authority to allow costs of debt of 11% for a period corresponding to bridge to bond. It is to be noted that this was the worst period for Aviation Sector in the recent past.

TDSAT Judgment dated 6th October 2023

We also request the Authority to take cognizance of the TDSAT Judgment dated 6th October in which TDSAT has ruled that

"AERA ought to have allowed actual cost of debt incurred by the appellant especially looking to the fact that debt availed by this appellant is from reputed lenders. Putting a cap upon cost of debt is uncalled for as AERA has in fact, allowed actual interest rate for First Control Period and Second Control Period and therefore the same methodology should be applied for Third Control Period as well. We therefore direct AERA to consider actual cost of debt and necessary true up shall be done accordingly.

Further, this action of AERA is also in violation of provisions of AERA Act, 2008 especially Sec. 13 thereof because the expenditure incurred ought to be allowed to be recovered as per formula of Target Revenue given in SSA"

Practice adopted by other Sectoral Regulators

We have reviewed the tariff orders issued by CENTRAL ELECTRICITY REGULATORY COMMISSION (CERC) and found that CERC allows actual cost of debt in the regulatory framework. For quick reference extract from tariff order w.r.t. Petition for truing-up of tariff for the period 2014-19 and for determination of tariff for the period 2019-24 in respect of 262.5 MW gross capacity sale from Kamalanga Thermal Power Plant of GMR-Kamalanga Energy Limited (1050 MW) to GRIDCO is as follows: -

*(5) The rate of interest shall be the weighted average rate of interest calculated on the basis of the **actual loan** portfolio after providing appropriate accounting adjustment for interest capitalized*

vi) The weighted average rate of interest on the loan has been arrived at after rectifying the computational error in Form-13. Accordingly, the WAROI has been calculated as 12.708% in 2014-15,12.222% in 2015-16,12.470% in 2016- 17, 11.875% in 2017-18 and 12.483% in 2018-19.

(Rs. in lakh)

	2014-15	2015-16	2016-17	2017-18	2018-19
Gross opening loan (A)	356447.79	382205.89	389569.93	392989.78	393487.87
Cumulative repayment of loan up to previous year (B)	12307.60	38799.68	66491.25	94594.03	122757.57
Net Loan Opening C= (A-B)	344140.19	343406.21	323078.67	298395.75	270730.30
Addition due to additional capital expenditure (D)	25758.10	7364.03	3419.85	498.10	497.68
Repayment of loan during the year (E)	26495.66	27709.32	28107.94	28253.83	28282.83
Less: Repayment adjustment on account of de-capitalization (F)	3.58	17.75	5.16	90.29	138.61
Net Repayment of loan during the year (G=E-F)	26492.08	27691.57	28102.78	28163.54	28144.22
Net Loan Closing (H= C+D-G)	343406.21	323078.67	298395.75	270730.30	243083.76
Average Loan (I= (C+H)/2)	343773.20	333242.44	310737.21	284563.02	256907.03
Weighted Average Rate of Interest of loan (J)	12.708%	12.222%	12.470%	11.875%	12.483%
Interest on Loan (K= I*J)	**43687.86**	**40728.81**	**38748.49**	**33791.62**	**32068.97**

CERC tariff order for Udupi Thermal Power Plant (1200 MW).

82. The Petitioner, vide ROP dated 25.5.2021 was directed to submit the 'statement showing changes in the rate of interest corresponding to each loan, if any, from 1.4.2014 till 31.3.2019; along with documentary evidence in respect of interest rates considered for the calculation of weighted average rate of interest in Form-13'. In response, the Petitioner has submitted the details of ***actual rate of interest*** *charged by various banks corresponding to each loan as per its Books of Accounts along with the Statutory Auditor Certificate as submitted vide its affidavit dated 18.1.2021, as a and 11.200% in 2018-19 as claimed by the Petitioner has been considered for the purpose of tariff. documentary evidence. Hence, the Weighted Average Rate of Interest (WAROI) of 14.448% in 2014-15, 12.780% in 2015-16, 11.133% in 2016-17, 11.292% in 2017-18*

Thus, it is requested that the actual cost of debt as submitted in MYTP and which is also followed by other regulatory commissions as efficient cost, should be used for computation of WACC.

9. Financing Charges related to bridge to bond short term loan not allowed as part of O&M expense

Authority's Submission

4.9.88 The Authority observes that MIAL's Comment for financing charges substantially exceed the costs approved in the Third Control Period order, primarily due to two refinancing charges incurred during the Third Control Period:

(i) an interim arrangement (Bridge-to-Bond Loan) in FY 2021-22 of Rs. 7,250 Crs.

(ii) a long-term (i.e., 7.25 years) ECB Loan in FY 2022-23 of Rs. 8,294 Crs. The financing charges for this ECB loan is being amortized over the loan period.

MIAL submitted the following details for refinancing charges incurred:

(i) MIAL paid re-financing charges of Rs 100.94 Crores for an interim bridge-to-bond loan. This was acquired partly as a Non-Convertible Debenture and partly as a Short-Term Loan at an interest rate of 11%. The arrangement was funded by lenders including Standard Chartered Bank, Aseem Infrastructure Finance Limited, Deutsche Bank AG, DB International (Asia) Limited, J.P. Morgan Securities India Pvt. Ltd., J.P. Morgan Securities Asia Pvt. Ltd., and Arka Fincap Limited. MIAL paid an upfront fee of 1.39%, increasing the effective cost of this borrowing to 11.16%.

(ii) Additionally, MIAL paid refinancing charges of Rs. 107.52 crores (being 1.70% of the ECB Loan of USD 75 million), which is being amortized over the tenure of the loan of 7.25 years starting July 2022.

4.9.90 The Authority notes that the bridge-to-bond refinancing arrangement was executed at a notably high cost, which is considered inefficient. While the Authority has allowed refinancing charges in cases where they lead to more efficient borrowing, this arrangement presents a high-cost structure. The total upfront charges (100.94 + 107.52 = Rs. 208.46 Crores) for the total borrowing, which comes to almost 3.28%, exceeds industry benchmarks. The upfront fee of Rs. 100.94 crore incurred in FY 2021-22 represents 11.74% of MIAL's total operating expenditure for the year, which is considered very high.

4.9.91 The Authority observes that financing costs in India typically range from 9.5% to 10.15%. By comparison, MIAL's refinancing charges during the Second Control Period (FY 2016-17) amounted to Rs. 50 Crores, which reflected a more cost-effective arrangement. Given the critical importance of financing efficiency for large projects, the Authority proposes to exclude the one-time refinancing fee of Rs. 100.94 crores, considering it inefficient.

4.9.92 The Authority further observes:

(i) The ADF Loan Advisory Fees of Rs. 23.65 crores (Ref 'd' in Table 115) pertain to assets funded through DF and cannot be included in the tariff computation.

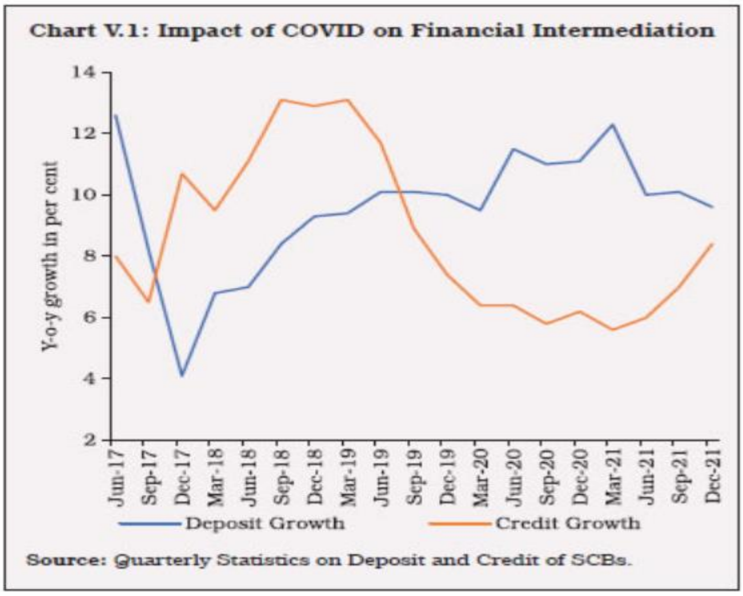
(ii) The Exchange Rate Differential of Rs. 3.72 crores (Ref 'e' in Table 115) is a notional cost related to financial instruments, which is ultimately included in interest and finance costs upon settlement. Therefore, it cannot be considered under operating expenditure.

MIAL's Comment

Deteriorated Economic Environment in 2020 and 2021

We want to draw the attention of the Authority to deteriorated credit conditions in the peak COVID period of 2020-21. Same is corroborated from RBI report titled "The Role of Finance in Revitalizing Growth" (Annexure C)

As a first reaction to the pandemic-related lockdowns, supply chains froze, demand declined, and precautionary/ forced savings increased due to lack of opportunities to spend, particularly on contact-intensive services. ***The confluence of these factors resulted in a sharp decline in credit growth*** *even as deposits increased, affecting banks' net interest margins*



*Despite the recovery in economic activity since H2:2020-21, **credit growth remains muted, indicative of pandemic scarring as also risk aversion of banks.***

*The COVID outbreak stifled risk appetite**, resulting in a hardening of money market rates, widening of risk spreads**, and a drop in equity market indices.*

From the above it is amply clear that credit growth had deteriorated and access to the same had become very difficult in COVID period.

MIAL Specific Factors

In November 2020, during the tariff determination process of TCP, MIAL requested the Authority to approve the one-time restructuring/refinancing cost of Rs. 55 Crs (as per the preliminary estimates based on limited discussion with lenders). However, the Authority did not take cognisance of the same in the TCP Order

Subsequently, due to severe liquidity crunch caused by substantial reduction in revenue, MIAL was not able to fulfil its debt servicing obligations resulting in Credit Ratings being downgraded to D (Default). MIAL bank accounts were tagged as RFA by the lenders, and was under scrutiny by various sovereign agencies

It is noted that existing facility from SBI Consortium was callable facility after MIAL defaulted on payments. One Time Restructuring (OTR) as sought by lenders would have led to a further deterioration in the capital structure.

Restructuring of existing debt even if done would not have yielded any results as same would completely disregarded the liquidity profile of MIAL due to fixed amortization schedule and severe restrictions on incurrence of Capital expenditure

Since tough economic environment made restructuring of existing debt infeasible, it was decided to go for refinancing of all existing loans. Due to weaker financial strength and existing uncertainties around the traffic in wake of COVID pandemic, MIAL was not able to raise funds through long term bonds.

In July 21, MIAL, with the Corporate Guarantee and support from AAHL and AEL refinanced its existing debt with short term bridge to bond facility which had a tenure of 1 year. This helped to resolve the issue of RFA, and default rating assigned by the Credit Rating agencies.

MIAL along with its parent Adani Group ensured to keep Airport operations sustainable. It first cleaned the RFA tag and removed default rating by doing immediate short-term financing by replacing SBI facility with other debts and same was further refinanced into long term ECB facility in line with liquidity profile of MIAL. The timely response of the new management to the claims of sovereign agencies helped build transparency and accountability in the company.

We request the Authority to kindly re-assess the reasonable cost of impact on airline operations, passengers flying cost, direct / indirect / implied economic impact vs the additional costs of financing incurred by MIAL, if the operations of India's second largest Airport are interrupted. For reference MIAL contributes 3.35% to the GDP of Maharashtra. (Source: https://ncaer.org/wp-content/uploads/2022/09/1426851446NCAER-Report-Economic-Impact-Study-1.pdf)

Airport Operator did its best to keep Indian passenger/airlines flying without any adverse effect on normal airport operations. We request the Authority not to penalize MIAL by not allowing the costs. The same will be in contravention to principles of the AERA Act which mandates the Authority to ensure economic and viable operation of Airport

Response to the Authority contention of refinancing costs being high and inefficient

The Authority has opined that the bridge-to-bond refinancing arrangement was executed at a notably high cost, which is considered inefficient. It is to be noted that refinancing cost was ~Rs. 100 Crs and total loan refinanced was Rs. 7,250 Crs which translates to refinancing costs of 1.3% of loan amount and same is in line with industry benchmarks.

The Authority has also noted that MIAL's refinancing charges during the Second Control Period (FY 2016-17) amounted to Rs. 50 Crs, which reflected a more cost-effective arrangement. It is clarified that financing charges were lower in SCP as amounts of loan refinanced was also lower and no unforeseen events like COVID happened during that time. Hence comparison of financing charges of SCP and TCP is not correct and justified.

TDSAT Judgment dated 6 October 2023

We request the Authority to take note of the TDSAT Judgment which also directs to true up refinancing costs on actual basis.

"Similarly, the financing charges, actually paid by this appellant to the financial consultant for restructuring of the loan should also be treated as operation and maintenance expenses. The restructuring of loan was a necessary expenditure for running Chhatrapati Shivaji Maharaj International Airport, Mumbai (CSMIA) efficiently. This aspect of the matter was also highlighted during the consultation process by the present appellant though it was not a part of MYTP. We, therefore, direct AERA to consider financing charges incurred by this appellant during 3rd Control Period as a true-up in 4th Control Period on actual basis."

Looking into circumstances under which refinancing of entire debt was necessary for survival of airport, expenditure related to refinancing of debt is justified. Hence, we request the Authority to allow the same.

10. Corporate allocation – legal expenses

Authority's submission

Para 4.9.107 In view of the above, the Authority proposes to consider the Corporate Cost Allocation sought by MIAL. However, the Authority observes that the aforementioned cost includes the allocated costs of legal team of AEL (Rs. 1.99 Crores) and AAHL (Rs. 3.58 Crores), *which is in addition to the cost of employees of Legal department available at MIAL, already considered under the employee expenses (Refer Table 97 above) and is not justified. Hence, the Authority proposes to exclude these legal costs of Rs. 5.67 Crores and consider only the remaining amount submitted by MIAL.*

MIAL's Comment

Regarding the Authority's proposal to exclude the cost of legal employees from Corporate Support Services' cost, as the Authority has allowed corporate cost allocation for other departments like Operations, Finance, etc. it is logical that corporate cost allocation for legal department should also be allowed. Similar to other functions, the Legal department also has different roles and responsibilities at Airport company and Corporate Level

Roles and Responsibilities at Corporate Level

- Providing business and legal perspective and advice on a wide range of strategic, tactical, and operational issues to all Airports teams
- Determination of legal interests and options and counsel to top leadership on legal matters
- Coordinating and giving directions with external counsels
- Participating in the formulation of general management policy as a member of the executive management team
- Developing and leading internal audit and corporate compliance programs

Roles and Responsibilities at Airport Level

- Transaction support, including in relation to contracting and compliance.
- Drafting and vetting of RFP/RFQs,
- Applicability and compliances of local laws applicable to the Airport and maintaining proper corporate interactions with the relevant local, state and federal governmental bodies, legislatures.

In the recently issued tariff order no 20/2045-25 for DIAL, no such deduction of legal expenses from the Corporate Cost Allocation has been done by the Authority. It is to be noted that the Corporate Cost Allocation of DIAL also includes costs for legal resources at the Corporate office.

We request the Authority to take reference from Consultation Paper No. 15/2020-21 of DIAL for Third Control Period which clearly demonstrates that legal costs of legal department of Group company have been allocated to DIAL. The extract from DIAL Consultation Paper No. 15/2020-21 is provided as follows:

13.6.1 GMR AIRPORTS LIMITED

Table 80Cost Objected allocated from GAL to DIAL

S.NO	DEPARTMENT COST CHARGED	COST TYPE	BASIS OF APPORTIONMENT
1	GCM Office	Fully Chargeable	Weighted Average Ratio of Assets*
2	BCM Office	Fully Chargeable	Weighted Average Ratio of Assets
3	CEO Office	Fully Chargeable	Weighted Average Ratio of Assets
4	Stakeholder Management	Fully Chargeable	Weighted Average Ratio of Assets

R. Subramanian and Company LLP Page | 125

AERA RFP 02/2018-19
Study on Efficient Operation and Maintenance Costs

S.NO	DEPARTMENT COST CHARGED	COST TYPE	BASIS OF APPORTIONMENT
5	Commercial and BD	Semi- Chargeable*	Weighted Average Ratio of Assets
6	Legal	Fully Chargeable	Weighted Average Ratio of Assets
7	Sector HR	Semi- Chargeable*	Weighted Average Ratio of Assets
8	Sector IT	Semi- Chargeable*	Weighted Average Ratio of Assets
9	Strategic Planning Group	Fully Chargeable	Weighted Average Ratio of Assets
10	Finance and Accounts	Semi- Chargeable*	Weighted Average Ratio of Assets
11	Regulatory	Fully Chargeable	Weighted Average Ratio of Assets

It is important that a consistent approach is followed for DIAL and MIAL as both airports have similar concession agreements, i.e. OMDA and SSA. This is essential to foster consistency in the regulatory framework.

We request the Authority to allow the full corporate cost allocation without any downward adjustment for legal department costs.

11. Bad debts should be allowed

Authority's submission

Para 4.9.109 The Authority notes that, while all of these expense are non-aeronautical in nature, MIAL has considered a portion of Bad Debts Written Off as Aeronautical Expenditure. MIAL has explained that the reason for this to be as majority of the bad debts arise from unreconciled amounts for services rendered to Air India Ltd.

Para 4.9.110 The Authority observes that MIAL has failed to reconcile these receivables and collect its dues, resulting in the recovery of inefficient costs through the tariff. Based on this assessment and upon review, the Authority has determined that all these expenses listed in Table 125 related to non-core services and all of these services are non-aeronautical in nature. Therefore, the Authority proposes to reject MIAL's claim and has not considered these expenses for tariff computation.

MIAL's Comment

MIAL has segregated bad debts into aeronautical and non-aeronautical and only aeronautical bad debts (on account of default by airlines) have been considered as part of O&M expenses. There is huge administrative effort involved on part of MIAL in following up with airlines to clear the outstanding dues. Airport Operator has to make various legal attempts to recover these expenses. However, if the airlines default, the same is beyond the control of MIAL. Airport Operator should not be punished for inefficiencies of airlines.

Airlines are important stakeholders. They have been providing suggestions/comments/public advocacy to the Authority. The Authority considers their valuable inputs while formulating tariff orders, guidelines, rules, etc. It is the fiduciary duty of Airlines to make timely payments corresponding to approved tariffs of the Airport Operator. We request the Authority to not penalize the Airport Operator by not allowing the pass through of bad debts.

The Authority has allowed bad debts related to aeronautical activities in the previous control periods. Relevant excerpt from third control period is as follows: -

Bad debts written off	*0.05*	*6.87*	*6.92*	• *Bad debts have been classified based on the nature of debt written off. Aero dues written off have been classified as aeronautical and non-aero dues written off have been classified as non-aeronautical*

We request that a consistent approach be followed, and bad debt written off to be allowed.

12. Fuel Farm Rental and Dividend income considered as aeronautical income

Authority's Submission

Para 4.10.7 The Authority proposes to reclassify the Revenue earned from the Fuel Farm Facility from NAR to Aeronautical Revenue. This is in alignment with the Authority's consistent position of classifying all Fuel related activities as aeronautical (as per Schedule 5 of OMDA), a classification that has been upheld by the Hon'ble Supreme Court in their Order dated 11th July 2022 ruling out that all revenue related to Fuel and Into Plane Services are Aeronautical in nature. Thus, the Authority proposes to re-classify the revenue from the Fuel Farm Facility (Refer 4.10.9 and Table 137) from NAR and add it to the Aeronautical Revenue portion (Refer Table 146 and para 4.12.6).

MIAL's Comment

Inconsistent approach as compared to previous control periods

Rental and dividend income of Fuel Farm (MAFFFL) has been considered as Aeronautical Revenue in the tariff determination of Fourth Control Period whereas same was considered as non-aeronautical revenue in previous control periods. We request the Authority to maintain a consistent approach with respect to classification of various revenue streams.

Inconsistent approach as compared to recently issued tariff order no. 20/2024-25 for DIAL

In case of the recently issued tariff order no. 20/2024-25 for DIAL, the Authority has classified entire land rentals as non-aeronautical revenue without going into nature of service from which the land rental has been received. Since MIAL and DIAL have similar Concession agreements, the Authority should apply the same principles for both the airports.

Wrong interpretation of Supreme Court order

It is to be noted that the Supreme Court Judgement dated 11th July 2022 deals with the issue of Fuel Throughput Charges levied by MIAL to Oil Marketing Companies only. Land Lease Rental Income, which is levied by MIAL to Fuel Farm Operator i.e. MAFFPL, was not subject to the appeal filed by Airport Operators as same has always been considered as non-aeronautical by the Authority. Hence reliance by the Authority on the Supreme Court is not applicable.

Excerpts from the Supreme Court Judgment are as below:-

"21. The fuel supply chain at the airport begins from entry of Aviation Turbine Fuel (for short 'ATF') into the airport premises and extends up to fuelling the aircraft. Fuel Throughput Charge (for short 'FTC') is a fee collected by the airport operators from Oil Marketing Companies (for short 'OMCs') for providing fuel to the aircraft. If FTC is treated as an aeronautical revenue, it would be covered within the TR and in case it is treated as non-aeronautical revenue, only 30 per cent of the fee recovered from FTC will be covered in the TR. Thus, the ***controversy as it appears before this Court is whether FTC is a service or an access fee and if FTC is a service, whether FTC falls within the category of aeronautical services."***

"45. We thus have no hesitation in upholding the view taken by the AERA and the TDSAT opining that the ***FTC was a part of the "Aeronautical Service****."*

It is clear from the above the issue of contention was limited to Fuel Throughput Charges (FTC) and SC Judgment has given the judgment is limited to this issue only.

Inconsistent approach within this Consultation Paper

As per Para 4.7.8 footnote to Table 86 of the Consultation Paper, the Authority is of the view that investment in equity shares does not tantamount to investment in RAB. Similarly in the case of Fuel Farm infrastructure, MIAL has invested in Fuel Farm joint venture through investment in equity share and that investment is not considered by the Authority as RAB too. Accordingly, any income generated as dividend from such equity investment cannot be considered as Aeronautical income attributable from RAB.

Hence in light of above clarifications, it is requested that land rentals and Dividend Income from Fuel Farm operator to be re-classified as Non-Aeronautical Revenues.

E. Capex for the Fourth Control Period

13. MIAL comments on NATS study, Master Plan and Requirement on T1 demolition and reconstruction

Authority's Submission

Para 6.2.20 In view of the foregoing, although a need has been felt for demolition and reconstruction of Terminal 1 at CSMIA from a safety aspect, considering the air side constraints and Navi Mumbai International Airport getting built, the Authority in the light of the factors mentioned at above para 6.2.19 would require further clarity on the aforesaid issues based on the inputs from the stakeholders, including AAI and MoCA in order to take an informed decision in this matter. Accordingly, in the interim, the Authority has included the reconstruction of T1 with some area and cost rationalization in this Consultation Paper as discussed in para 6.3.105 to para 6.3.133 . However, a final view will be taken on the basis of updated status and comments by Airport Operator and other stakeholders on the following:

(i) NATS Study

(ii) Master Plan

(iii) Requirement of T1 demolition and reconstruction

MIAL's Comment

MIAL, through "CSMIA Master Plan-2024", has planned augmentation of both terminal capacity and airside capacity. The said Master Plan has been submitted to MoCA and AAI in September 2024 and subsequently, after incorporating all observations/suggestions, was subsequently finalized in January 2025 as per the provisions of SSA. The finalized Master Plan proposes various projects in order to augment both airside and terminal capacity. Various airside infrastructure which will facilitate to increase the airside capacity from 46 to 52+ ATMs have been ratified/validated by NATS. Detailed evaluations of NATS have been captured in the report which has been submitted to both AAI and AERA.

MIAL will augment the terminal capacity approx. 55 MPPA to approx. 65 MPPA (T1: approx. 20 MPPA from current approx. 15 MPPA and T2: approx. 45 MPPA from current approx. 40 MPPA through modifications and expansion of Northwest Pier), to accommodate growing passenger traffic, enhance service quality, and improve convenience and facilities for passengers. It may be noted that CSMIA has recorded 52.8 million passengers in FY 2023-24 and similar passenger number is also expected to be recorded in FY24-25 too.

As regards demolition and reconstruction of Terminal 1, it may be noted that MIAL has also submitted a structural study report recently conducted by IIT Mumbai, which indicates that Terminal T1A (approximately 30 years old) and T1B (more than 60 years old) show signs of distress and require structural and non-structural measures to improve serviceability. In terms of T1C, which currently houses the Security Hold Area (SHA), the current spatial arrangement of the building leads to mix of departure and arrival passengers, which is in violation of security regulations. Segregation of departure and arrival passengers will call for addition of floors, which will necessitate major alteration of the existing structure. In view of these issues in T1A, T1B and T1C, which cannot be rectified/retrofitted to achieve higher capacity coupled with safe passenger handling, MIAL has proposed demolition of the entire T1 complex (comprising T1A, T1B, and T1C) and reconstruct a new Terminal 1 building that will offer passenger convenience at par with Terminal 2.

During demolition and reconstruction of Terminal 1, associated aircraft parking stands will be closed, and peak early morning operations will be carefully planned and managed from Terminal 2 and its associated stands, including the newly proposed parking stands on the Southern side of RWY 09-27. MIAL has indicated that this period is ideal for reconstructing Terminal 1, as it will minimize operational difficulties and passenger inconvenience.

14. General Aviation (GA) Terminal considered as non-aeronautical asset

Authority's Submission

Para 6.3.140 The Authority notes that there is increased demand for GA flights to Mumbai, especially from business travelers. Also, there is increased movement of International Charter flights, which justifies the need for expansion of GA Terminal.

Para 6.3.141 The Authority notes that as per Part 1 of Schedule 6 of the OMDA, "General Aviation" is considered as a non-aeronautical service. Accordingly, the Authority proposes consider this project as non-aeronautical asset for the purpose of Tariff determination.

MIAL's Comment

Need for new GA terminal

General Aviation (GA) Terminal of CSMIA handles non-scheduled flights and is located at Kalina. Current GA terminal is very small single level facility (~750 sq.m.) handling both domestic and international passengers from the same terminal. There is mixing of domestic and international passengers in the processing area and also since levels are not segregated, there is mixing of arriving and departing passengers resulting in violation of BCAS guidelines. Hence, there is need for bigger GA terminal which has separate processing areas for domestic and international passengers and segregated levels for arriving and departing passengers. In addition to GA flights, there is an increasing trend for using bigger Charter flights (Code C equivalent, with 180 average seating capacity) by the corporates, which are currently being operated from T2. With commissioning of new GA terminal, these bigger charter flights can be operated from new terminal. It will also have dedicated areas for customs, security, and immigration for the quick and efficient movement of passengers. Accordingly, MIAL proposes to expand the existing GA Terminal by constructing another approx. 9,893 Sqm of Gross Floor Area.

GA terminal is akin to any other Terminal Building

GA Terminal Building is akin to passenger terminal building (PTB) and offers similar facilities to passengers like check in, security, customs, immigration and some area is reserved for non-aeronautical activities like F&B, Lounges etc. Hence GA terminal building should be considered as common asset like passenger terminal building. Users of GA Terminal building pay various charges like UDF (for int pax only), Landing, Parking, Unauthorized Stay charges as per the rate card approved by the Authority and same is classified as aeronautical in financial statements and hence charges to be recovered from the passengers travelling on scheduled flights and passing through PTB are reduced to that extent. In addition to Aero revenues, GA passenger pays for using the F&B, Lounge facilities in the GA Terminal, which are classified as Non-Aero revenues and used for cross-subsidization of aeronautical revenues.

Treatment of GA Terminal in TCP Order

The Authority has considered GA terminal as common asset in computation of weighted average terminal space ratio while determining tariff for Third Control Period

3.4.43 This ratio was computed based on the report of IRCLASS Systems and Solutions Private Limited (IRCLASS), appointed by MIAL [hereinafter referred to as "IRCLASS report"] which has also been verified by the independent consultant appointed by the Authority. In this report, the areas occupied by non-aeronautical services were measured and the aeronautical to non-aeronautical space in each of the terminals (T1, T2 and General Aviation (GA)) was computed. Based on the ratios of each of the terminals, the combined weighted average terminal space ratio was computed.

Costs related to refurbishment of GA terminal has been approved as aeronautical capex in TCP tariff order.

30	GA Terminal (Refurbishment/Expansion)	Individual projects below Rs. 10 crore	Buildings/Improvements	2.12
102	Refurbishment of GA Terminal - External	Individual projects below Rs. 10 crore	Buildings/Improvements	0.50

- It is clarified that project related to GA Terminal Refurbishment, being approved project of TCP, has been classified as non-aeronautical while doing up true-up of RAB of TCP. By doing so, the Authority has challenged its own decision taken in TCP Order.
- TDSAT vide judgement dated 6.10.2023 (shared as part of FoCP MYTP) has ruled that GA terminal is common asset.

- MIAL therefore requests the Authority to allow construction of new GA Terminal as a common asset.

15. Eastern Taxiway (E5-E7) and ATC Technical Block allowed on actual incurrence basis should be included in RAB

Authority's Submission

Para 6.3.28 The Authority, in its examination through the Independent Consultant, noted that the project is needed for improving the airside operations at CSMIA. However, the Authority notes that this construction is dependent on the following enabling works:

(i) Relocation of the ATC Technical Block,

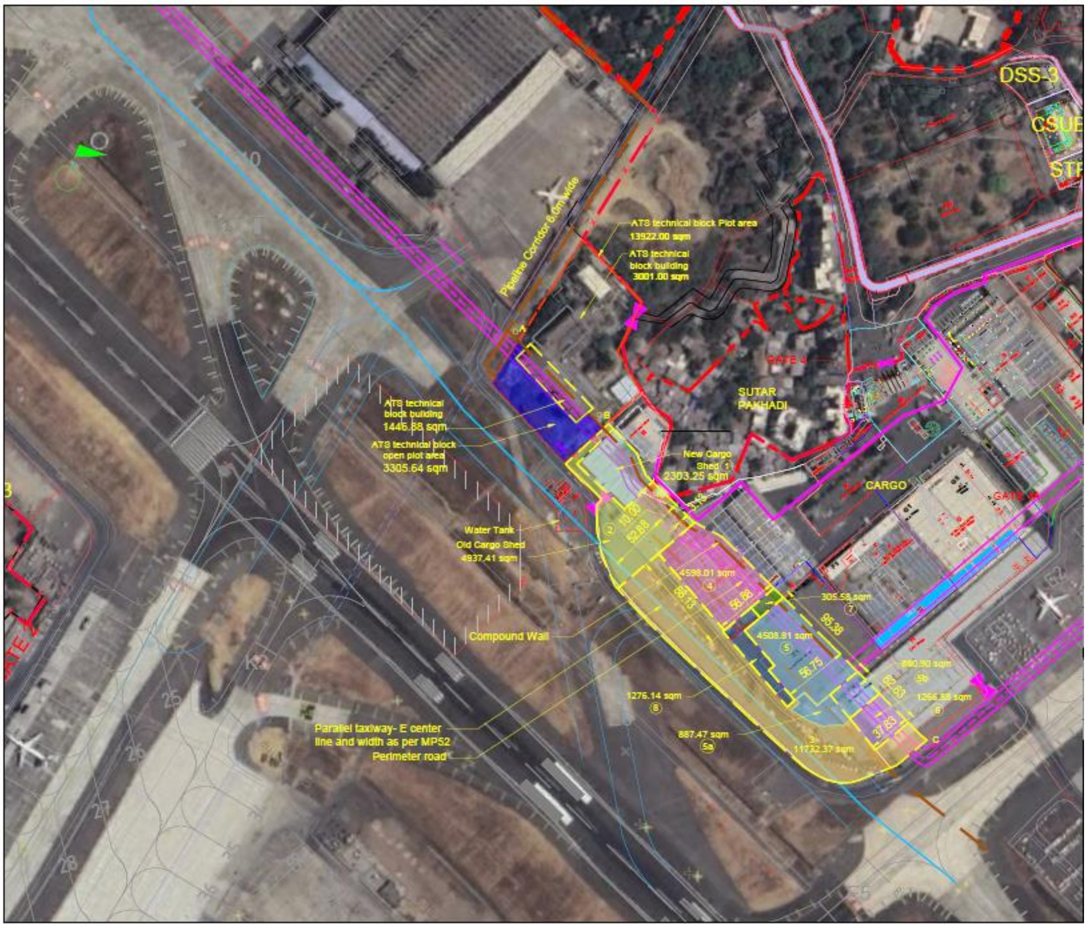
(ii) Relocation of the pump house, water tank, cargo sheds, and cargo buildings.

Para 6.3.29 The Authority observes that the relocation of the ATC Technical Block is contingent on the conclusion of ongoing discussions with AAI. This dependency is critical, as the relocation is a prerequisite for executing this project. Given that the ATC Technical Block falls under the purview and operational control of AAI, its relocation is outside the immediate control of the Airport Operator.

Para 6.3.30 In view of these external dependencies, the Authority proposes not to consider this project cost at this stage as part of additions to RAB. If the project is commissioned and put to use in the fourth control period, the same will be considered based on incurrence, at the time of true up, subject to evaluation of efficiency and reasonableness.

MIAL's Comment

The construction of the Eastern Taxiway is contingent upon two projects: the relocation of the ATC Technical Block and the relocation of cargo sheds. The relocation of the ATS Technical Block is necessary to accommodate Code F aircraft movement, which requires a 51-meter object clearance from the taxiway centerline as per ICAO requirements. MIAL is in advanced discussions with AAI regarding the relocation of the existing ATC Technical Block. In the interim, MIAL has decided to construct a parallel taxiway (geometric and pavement design) in compliance with Code F standards but will operate only Code C aircraft (Maximum movement for Code C only), which requires only 26-meter object clearance from the taxiway centerline, which avoids any conflict with the ATS Technical Block building. Hence Code C aircraft operations can be done from Eastern Taxiway without relocating the existing ATC technical block.



As far as relocation of cargo sheds is concerned, MIAL has already instructed the cargo concessionaire to move the cargo shed from its current location (letter sent to Cargo Concessionaire attached for reference as Annexure D). The relocation of the cargo infrastructure is scheduled to be completed before October 2027, with the parallel taxiway construction work commencing from October 2027 to May 2028.

Therefore, we request the Authority to consider these two projects as part of the RAB rather than on an incurrence basis.

16. 100% of Cost related to basements of metro station should be allowed in RAB

Authority's Submission

E-3-1 Cost of 3 levels of basements for 2 metro stations and E-3-2 Additional Cost of T-1 Metro Station payable to MMRC

Para 6.3.193 The Authority has examined the correspondence with MMRC, and the cost estimate submitted by MIAL for the construction of basements. The Authority notes that this is necessary for the smooth operations of the metro stations. Accordingly, the Authority proposes to consider the cost of Rs 216.00 Crores towards the construction of Metro Stations and basements at CSMIA.

Para 6.3.194 Though the Authority notes that the basement work is required for ensuring the structural stability, it is observed that the planned usage of these basements has not been provided by MIAL. In the Authority's view, it is likely that this basement space will be used for non-aeronautical activities in the future. Accordingly, the Authority proposes to consider 50% of the basement cost as a non-aeronautical asset (refer Table 207 under the Section on Asset Allocation).

MIAL's Comment

MIAL has provided various letters received from MMRC as part of on-going tariff determination exercise where it is clearly mentioned that the basements are required for various operational and safety purposes. (letter attached as Annexure E)

Basements were not required to be constructed, and MIAL would not have incurred this cost if same had not been for **safety purposes**.

Since the decision to invest in the project is based on safety considerations only and not from the expected future use of it, we request the Authority to consider the same as 100% aeronautical.

Although use of the basements has not been finalized, the same is expected to be used for predominantly for aeronautical purposes like Utility services, storage facility, etc.

Therefore, we request the Authority to consider this as a 100% aeronautical capex.

17. Development of T2 Forecourt allowed on actual incurrence basis should be included in RAB

Authority's Submission

Para 6.3.199 The Authority notes the need for the development of this facility at the metro stations once the route becomes operational. The inclusion of check-in and baggage drop facilities in the basement will ease the flow of passengers within the terminal and enhance the overall passenger experience.

Para 6.3.200 The Authority notes that while the cost summary is provided, a detailed cost breakdown has not been provided by MIAL since the project is at the concept stage. Given the *present stage project, the Authority recommends this project on an incurrence basis, subject to evaluation of efficiency and reasonableness.*

MIAL's Comment

The Authority has concurred with MIAL submission on the need for the development of check-in and baggage drop facilities in T2 forecourt as same will ease the flow of passengers within the terminal and enhance the overall passenger experience

Project has already transitioned from concept and design stage to construction stage. Currently, the construction works on the project are underway and the project will be completed in the current control period. Refer below pictures of the construction: -

It is to be noted that metro station on which T2 forecourt is proposed is already operational.

MIAL therefore requests the Authority to allow this project as part of RAB and not on actual incurrence basis.

18. Refurbishment of Washrooms at Terminal 2

Authority's Submission

The Authority's analysis is given for category-wise as detailed below:

Public Washrooms

6.3.234 MIAL proposes a refurbishment cost of Rs. 0.89 Crores per set for 14 sets of public washrooms, amounting to a total of Rs 12.46 Crores. The Authority recommends a cost per set to Rs. 0.81 crores after excluding contingency, resulting in a revised cost of Rs 11.37 Crores for 14 sets.

Staff Washrooms

6.3.235 MIAL proposes a refurbishment cost of Rs. 1.81 Crores per set for 36 sets of staff washrooms, totaling Rs. 65.16 Crores. The Authority notes that while staff washrooms require refurbishment, the level of wear and tear observed was not as severe as that seen in public washrooms. Hence, the Authority recommends refurbishment at 50% of the proposed cost after excluding contingency, at Rs. 0.82 Crores per set, resulting in a total cost of Rs. 29.69 crores for 36 sets of staff washrooms.

Passenger Washrooms

6.3.236 MIAL proposes a refurbishment of all passenger washrooms at a cost of Rs. 2.54 Crores per set for 41 sets, totaling Rs. 104.14 Crores. Based on the site visit, the Authority recommends a phased approach, focusing initially on high-priority areas such as arrival zones where passenger footfall is the highest, while deferring other zones to later phases. Accordingly, the Authority recommends a soft refurbishment of 14 sets in the arrival zone at 50% of the proposed cost after excluding contingency, resulting in a revised cost of Rs. 1.15 Crores per set for 14 sets at a total cost of Rs 16.17 Crores.

BBA/BMA Washrooms

6.3.237 For BBA/BMA washrooms, MIAL proposes a cost of Rs. 0.45 crores per set for 18 sets, totaling Rs. 7.31 Crores. The Authority, through its Independent Consultant / Aviation Expert, finds the cost reasonable based on similar works / market rates, and proposes allowing the cost after excluding contingency, resulting in a revised cost of Rs. 0.41 Crores per set for 18 sets at a total cost of Rs 7.31 Crores.

The table below summarizes the Authority's recommended costs for the refurbishment of various categories of washrooms at T2:

Table 188: Cost proposed by the Authority for Refurbishment of Washrooms at Terminal 2

(Rs. in crores)

Category	Cost / Unit	Number	Base Cost Proposed by the Authority
Public Washroom	0.81	14	11.37
Staff Washroom	0.83	36	29.69
Passenger Washroom	1.15	14	16.17
BBA/BMA Washroom	0.41	18	7.31
Cost recommended			**64.54**

MIAL's Comment

Need of the Project

The infrastructure of Terminal- 2, CSMIA is nearly 10 years old and since 2014 no major renovation has been carried out in washrooms. Due to heavy usage there has been a degradation of fittings & fixtures. Further it is also proposed to install new technology and upgraded fittings and fixtures in washrooms. In view of above it is proposed to undertake Refurbishment of all Washrooms at Terminal-2.

Technological interventions available today enable smart washrooms which mean touchless systems, smart mirrors etc. Also, we have concealed leakages in most of the washrooms due to wear and tear of plumbing lines which makes the maintenance of the washrooms very cumbersome causing unpleasant passenger experience.

Current progress

MIAL has already placed the Purchase Order (PO) for refurbishment of 41 sets of passenger washrooms with value of Rs. 159 Crs (excluding taxes).

We request the Authority to allow the cost of the washroom based on PO. (PO copy attached as Annexure F).

19. 5G Implementation considered as non-aeronautical asset.

Authority's Submission

Table 193 The Authority recognizes the need for better internet facility to passengers. With the VNO license, MIAL can offer mobile network services, potentially leasing the infrastructure to telecom companies. This creates a revenue opportunity from telecoms. Premium connectivity services can also be provided to passengers and businesses at the airport.

However, such revenues would be nonaeronautical in nature. Accordingly, the Authority considers this as Non-aeronautical asset and proposes not to consider this cost for RAB.

MIAL's Comment

MIAL does not envisage any revenue generation opportunity from implementation of 5G project and we request the Authority to consider the same as common asset.

20. Additional Aircraft Parking stand adjacent to Apron J: Awarded Cost should be allowed

Authority's submission

Table 168 MIAL has proposed a cost of Rs 47.20 Crores, but has provided detailed cost breakup for only Rs 23.08 Crores. The Authority has considered only the cost estimate provided by MIAL for further analysis.

MIAL's Comment

This project is an awarded contract and cost submitted by MIAL is based on Purchase Order of Rs. 47.20 Crs.

The Authority has considered the cost based on block level estimates.

We request the Authority to consider actual cost as per the contract price awarded (Snapshot attached below).

BOQ For 00060. Parking stand adjacent Apron J.
Plant : 1771

Serial No.	Service Code/Description	UOM	Quantity	Unit Rate	Total Amount
10.	120021702 CGST-ND%: 9.00% CGST-ND Amount: SGST-ND%: 9.00% SGST-ND Amount: SAC Code: 995429 PROJECT CONSTRUCTION WORK ENGINEERING, PROCUREMENT AND CONSTRUCTION OF THE MAIN WORKS. INCLUDES PASSENGER TERMINAL DEVELOPMENT, AIRFIELD DEVELOPMENT, LANDSIDE DEVELOPMENT, SUPPORT AND UTILITY BUILDINGS, PROVISIONAL SUM WORKS ETC. Line text:Parking stand adjacent Apron J	LUMP SUM	1.000	401238000.00 /1	401238000.0 0 36111420.00 36111420.00

No. of Items : 1

Subtotal : 473,460,840.00

21. Adjustment on account of demolition of T1 in HRAB in FY29

Authority's submission

6.6.11 In the opinion of the Authority, since the above-mentioned buildings (Terminal-1) and its related assets are being allowed to demolish, the operator ought not to get a return on these assets nor claim Depreciation reimbursement on the same. Like mentioned in the Third Control Period Order in para 4.4.10,

"If both return on assets and Depreciation is continued to be allowed, then the operator gets a double benefit – both on the non-existent assets and the new assets which are rebuilt. In order to ensure fairness, the Authority proposes that the cost which is attributable to old T2 and T1B which is included in the HRAB ought to be removed from HRAB."

6.6.12 The Authority notes that for Terminal-1 being demolished in this control period, it necessitates a corresponding reduction in the HRAB value from the time the Terminal-1 restarts functioning.

MIAL's Comment

At the outset it is stated that Terminal 1B building is more than 60 years old and Terminal 1A is more than 30 years old. The Structural Audit Report of T1 prepared by IIT Bombay has summarized that:

"The T1A and T1B buildings has several structural and nonstructural distresses related to corrosion and leakage and seepage. These have resulted in the formation of longitudinal cracks and spalling of concrete at several places on the building."

Delhi Airport and few other AAI Airports experienced unfortunate events in FY24-25 highlighting the concerns surrounding the stability of the old terminal building structures. It is imperative that reconstruction of old terminal buildings which have outlived their useful life should be taken by airport operators on priority basis in order to avoid such incidents in future. Hence demolition and reconstruction of Terminal-1 is critical project from safety perspective and essential for the passenger convenience and for expansion of the airport to enhance the functionality at the airport.

Cost associated with old T1 is enabling cost for new T1

Construction of the New T1 can be done only once old T1 is demolished. Hence, whatever cost or value that was attributable to the old T1 by the Authority as per its assumptions would be considered as enabling cost for the construction of the new T1, as a result of which, there would be a deduction as well as addition of similar amounts to RAB.

Provisions of SSA

The SSA does not restrict to actual existence of assets for the purposes of computation of HRAB which is also evident from the language employed in the SSA of using the word *'Hypothetical Asset Base while arriving to Regulatory Base'*.

It is to be noted that opening HRAB as on 01.04.2009 has to be determined based on the specific formula provided under the SSA. Once opening HRAB is determined that figure is sacrosanct, and it cannot be changed, as it is only determined for the first year of the First Control Period. The whole purpose of HRAB is to provide the hypothetical base for the first year.

When HRAB was computed by the Authority, no reference was ascribed to any asset. Computation of HRAB was based on revenue and expenses for FY08-09, hence discarding any asset does not trigger reduction of HRAB, if any attempt is made to do so it would be against the provisions of SSA since there are no provisions regarding such reduction from HRAB in either SSA or OMDA.

The Authority has computed value of Old T1 assuming that HRAB contained value of then existing Terminals and Airside and proceeded to derive the value of aero assets and Terminal assets based on composition of assets in 2012-13, which is a flawed contention. The computation of value attributable to Old T1 based on composition of assets in 2012-13 is altogether wrong and unjustified. As mentioned in CP itself T1 structures are over 60 or 30 years old and as per the Authority useful life, it has already outlived its life and hence it carries Zero Written Down Value in the regulatory books.

Non-Adherence of accounting norms

As per Accounting Standard, if any asset is scrapped, the same is reduced from the asset base and any loss or profit arising from its sale is charged to Profit and Loss account. The Authority has failed to comply with the Accounting Standards in its entirety and further, failed to consider the fact that the residual amount (difference between Written down value and value realized on scrapping of asset) will go to the Profit and Loss Account if the asset being scrapped is reduced from the asset base. The Authority has provided for loss on scrapping of other assets amounting to Rs. 244.59 Crs in FY15 and similar principle should be applied in this case as well. This is the principle that the Authority adopts in case of assets written off.

Inconsistent Approach for airports operating on similar Concession Agreements

DIAL/IGIA as part of the phase 3A expansion has demolished old T1A and made new Terminal 1 with enhanced capacity of 40 mn in 2024. However, no reduction in HRAB has been proposed by the Authority on account of demolition of old T1 in the recently issued tariff order of Fourth Control Period. Authority is requested to adopt a similar and consistent approach for tariff determination of Delhi and Mumbai airports as both airports are governed under similar concession agreements (OMDA and SSA).

Therefore, we request that no adjustment to be made in the HRAB on account of demolition of T1.

22. Additional opex capex under security head: Installation of Radiological Detection Equipment (RDE) as per BCAS directions

MIAL's Comment

Need of the project

As per BCAS Circular no. 08/2024 dated 28th October 2024 (attached as Annexure G), BCAS has directed to all the "Hypersensitive & Sensitive "category Airports having passenger footfall more than 3MPPA to install Radiological Detection Equipment (RDE) within 18 months from the date of issue of order.

RDE is used to detect any radiological material present in baggage, vehicle or passenger for security at the entry/ exit points of Airport. If the initial check shows the radiation level above the permissible limit it will raise an alarm and automatically capture the image of the person or the vehicle.

As the alarm is raised, security personnel will check the baggage or the vehicle with the portable survey meter and if the survey meter shows the radiation level above the limits, then the security staff will ask for the valid certificate for carrying the radio-isotope.

Baggage will be confiscated if no valid documents are shown and Department of Atomic Energy will be informed, as per Standard Operating Procedure (SOP) issued by BCAS vide AVSEC Circular 01/2020 dated 07.02.2020.

Types of equipment to be installed

1. Radiation Portal Monitor for Pedestrian for the purpose of Gamma & Neutron detection on Person (94)
2. Radiation Portal Monitor for Vehicles for the purpose of Gamma & Neutron Detection on vehicles (36)
3. Radiation Portal Monitor for baggage for the purpose of Gamma & Neutron Detection on baggage (9)
4. Control Room Infrastructure

Current Status

MIAL, BCAS and CISF conducted a joint survey on 7th March 2025 regarding proposed and existing locations where RDEs are to be installed. A total of 89 locations have been identified to install RDE as per attached (as Annexure H) MoM of the survey.

Currently, this project is in advanced stage, specifications for the project have been finalized and MIAL is negotiating with various vendors (vendor quote attached as Annexure I). Project is proposed to be completed by March 2026.

We request the Authority to approve this project (cost of Rs. 194.60 Crs) while determining tariff for the fourth control period.

23. Soft Cost, Indexation and IDC cost not considered while computing cost of Runway Recarpeting projects

Authority's Submission

Para 6.3.25 The Authority notes that MIAL has not provided sufficient evidence to indicate that the proposed recarpeting will result in an increase in the Pavement Classification Number (PCN) of the runway, and accordingly proposes that the recarpeting should be treated as Operation and Maintenance expenses and amortized over a period five years as per Table 267.

Based on the above examination, the Authority proposes to consider Rs. 106.00 Crores for Recarpeting of RWY 09-27.

Para 9.2.81 Similarly, the Authority notes that the following runway recarpeting expenses are proposed to be incurred by MIAL starting from the Fourth Control Period:

(i) Runway 9/27: Current period amortization of Rs. 21.20 to be incurred from FY 2029.

(ii) Runway 14/32: Current period amortization of Rs. 13.13 to be incurred from FY 2027.

Table 267: Runway Recarpeting Cost proposed by the Authority for the Fourth Control Period

(Rs. in crores)

Particulars	FY 25	FY 26	FY 27	FY 28	FY 29	Total
Runway Recarpeting – 09/27	0.83	0.83	0.07	0.07	-	1.80
Runway Recarpeting – 14/32	23.05	22.94	22.94	22.94	-	91.86
Runway Recarpeting – 09/27	-	-	-	-	21.20*	21.20
Runway Recarpeting – 14/32	-	-	4.38	4.38	4.38**	13.13
Total Runway Recarpeting Cost	**23.89**	**23.77**	**27.38**	**27.38**	**25.58**	**127.99**

**Rs. 106 Crores pertaining to RWY 09/27 is amortized over 5 years as Rs. 21.20 Crores starting from FY 29 till FY 33.*
*** Rs. 21.89 Crores pertaining to RWY 14/32 is amortized over 5 years as Rs. 4.38 Crores starting from FY 27 till FY 31.*

MIAL's Comment

Runway recarpeting additions proposed in FoCP have been reclassified from capital to operational expenditure by the Authority

Runway Recarpeting expenses with hard cost of Rs. 21.89 Crs for Runway 14/32 is proposed to be capitalized in March 2026 and of Rs. 105.99 for Runway 09/27 proposed to be capitalized in May 2028.

It is to be noted that although these projects are considered as Opex by Authority. However, the same are capital expenditure projects in nature (similar treatment as per financial accounting standards) and will be subject to other costs like soft cost, Indexation and IDC over and above the hard costs.

We request the Authority to allow the soft cost, indexation and IDC on the two Runway Recarpeting projects proposed to be executed in Fourth Control Period.

24. Calculation error in computation of Depreciation of FoCP on account of Runway Recarpeting additions

Authority's Submission

Para 6.5.9 Based on changes in the asset allocation of opening gross block of assets, proposed capital expenditure, and reallocation of cost incurred on runway recarpeting of runway 9/27 and 14/32 submitted as Capital Expenditure by MIAL to Operating and Maintenance Expenditure, the Authority proposes the following depreciation for the Fourth Control Period:

Table 212: Depreciation proposed by the Authority for the Fourth Control Period

(Rs. in crores)

Particulars	FY 25	FY 26	FY 27	FY 28	FY 29	Total
Aero Allocation Ratio for Depreciation	83.38%	83.38%	83.38%	83.38%	83.38%	
Terminal Building	155.51	159.08	162.47	165.37	208.16	850.60
Runway, Taxiway and Apron	114.48	98.51	99.24	108.54	101.78	522.56
Cargo Building	-	-	-	-	-	-
Cargo Equipment	-	-	-	-	-	-
Boundary Wall	0.54	1.63	2.78	7.08	11.44	23.47
IT equipment	40.26	72.98	79.03	53.77	23.71	269.75
Security equipment	-	-	-	-	-	-
Plant and Machinery	65.56	84.27	94.82	98.37	99.84	442.86
Other Buildings	21.07	30.95	47.93	59.81	57.21	216.97
Access Road	34.18	34.59	35.80	45.91	46.44	196.92
Fuel	-	-	-	-	-	-
Electrical Installation and Equipment's	30.41	29.65	23.93	26.40	28.16	138.55
Bridges	11.41	11.41	11.41	11.41	11.41	57.06
Computers - Servers & Networks	20.23	25.69	26.70	26.84	24.94	124.39
Office equipment	1.83	1.72	1.64	1.11	0.32	6.62
Furniture & fixtures	5.96	9.96	12.91	14.55	15.83	59.21
Vehicles	3.10	3.32	3.59	4.05	4.71	18.78
Total	**504.55**	**563.79**	**602.26**	**623.23**	**633.96**	**2,927.79**
Aeronautical Depreciation as per FAR	443.69	410.44	385.14	372.69	338.09	1,950.05
Add: Aeronautical Depreciation on New Additions	60.86	153.35	217.12	250.54	295.87	977.74
Total	**504.55**	**563.79**	**602.26**	**623.23**	**633.96**	**2,927.79**
Less: Runway recarpeting amortize separately as O&M	56.57	30.37	34.01	33.88	32.98	187.81
Less: Depreciation on disallowed projects	3.19	3.57	3.46	3.41	2.93	16.57
Less: Higher depreciation in books as compared to the Authority (614-line items)	17.69	17.53	17.51	13.81	13.34	79.88
Less: Aeronautical Depreciation on the assets as per SCN	7.12	7.07	7.01	7.01	7.01	35.22
Aeronautical Depreciation on RAB (a)	**419.98**	**505.25**	**540.26**	**565.13**	**577.70**	**2,608.31**
Average Depreciation Rate	3.59%	4.01%	3.89%	3.83%	3.29%	
Aeronautical Depreciation on HRAB (b) – Refer Table 216	**25.76**	**28.76**	**27.93**	**27.49**	**19.74**	**129.68**
Total Aeronautical Depreciation (a+b)	**445.73**	**534.01**	**568.19**	**592.62**	**597.44**	**2,737.99**

ltation Paper No. 08/2024-25 Page 268 of 349

CAPITAL EXPENDITURE (CAPEX), DEPRECIATION AND REGULATORY ASSET BASE (RAB) FOR THE FOURTH CONTROL PERIOD

MIAL's Comment

Runway recarpeting additions proposed in FoCP have been reclassified from capex to operational expenditure by the Authority

Runway Recarpeting expenses of Rs. 21.89 Crs for Runway 14/32 proposed to be capitalized in March 2026 and of Rs. 105.99 for Runway 09/27 proposed to be capitalized in May 2028 have been reclassified from capex to O&M expenses to be amortized in 5 years.

As per the amortization schedule worked out by the Authority, runway recarpeting expenses of ~Rs. 13 Crs for Runway 14/32 and ~Rs. 21 Crs for Runway 09/27 has been allowed as operational expenditure in FoCP. This approach is in line with approach followed by the Authority in tariff determination of other airports. However, the Authority inadvertently has reduced the amortization of Rs. 34 Crs from total depreciation while computing the aeronautical depreciation.

We request the Authority to not reduce runway recarpeting amortization expenses from total depreciation as these projects are not included in Aeronautical Capex.

25. 1% penalty on capex not incurred

Authority's Submission

Para 6.3.292 The Authority observed that in the past, the Airport Operator got the CAPEX approved but not executed within the timelines. Thereby, the Authority proposes to reduce (adjust) 1% of the uncapitalized project cost from the ARR / target revenue as re-adjustment in case any particular capital project is not completed/ capitalized as per the approved capitalization schedule. It is further proposed that if the delay in completion of the project is beyond the timeline given in the capitalization schedule, due to any reason beyond the control of the MIAL or its contracting agency and is properly justified, the same would be considered by the Authority while truing up the actual cost at the time of determination of tariff for the next Control Period. The re-adjustment in the ARR/ Target Revenue is to protect the interest of the stakeholders who are paying for services provided by the AO and is also encouragement for the AO to commission/ capitalize the proposed assets as per the approved CAPEX plan/ schedule.

MIAL's Comment

The principles of tariff fixation as per SSA stipulate for incentives for undertaking investments in a timely manner. The imposition of penalty for delays is neither provided nor contemplated under the said principles. If the intention was to impose a penalty for delay, the SSA would have mentioned it explicitly while it stated about incentive.

There is no such provision in the AERA Act and hence this order of the Authority amounts to the Authority acting in excess of its jurisdiction

The Authority has proposed to disincentivize the AO by reducing 1% of the project cost in case of delay in implementation of the project. Such a proposal puts MIAL in double jeopardy because any delay in completion of project implies denial of return and depreciation and further any excess revenue generated is clawed back with carrying costs. It is abundantly clear that it is in the interest of MIAL to complete the project as per schedule, however there could be delays due to various uncertainties.

In light of the above reasons, we request the Authority not to include this proposal in the final Order.

26. Soft cost as 8% instead of 16% proposed by MIAL

Authority's Submission

Para 6.3.286 The Authority has taken note on MIAL's submission and observes the following:

(i) Many of the CAPEX allowed to the AO are bought out items like crash fire tenders, SBDs, CT Xray machines etc, wherein quotations are obtained / orders are placed on Supply, installation, Testing & Commissioning (SITC) basis. Hence, soft costs such as PMC, Design etc. are not required to be incurred on such items.

(ii) The proposed CAPEX for the Fourth Control Period includes works on the airside. On air side works such as Apron, Taxiway etc., Design / PMC charges are normally only in the range of 1% to 3%

(iii) There are many projects like refurbishment of toilets etc. for which only a nominal consultant fee is required.

(iv) Technical consultancies, contingencies, pre-operative cost, design cost, PMC, preliminary expenses claimed by the AO includes contingencies also, which do not come as a separate line item while capitalizing the assets and is not to be claimed without any contingent activity.

Hence, taking an overall view, cost for technical consultancies, contingencies, pre-operative cost, design cost, PMC, preliminary expenses @ an average 8% of total capital expenditure is reasonable and justified.

MIAL's Comment

Indian and International Standards/benchmarks for soft costs

As per recent released CPWD SOP 2022 dated 13.07.2022 https://cpwd.gov.in/Publication/sop2022.pdf, the Project Estimation should take of the following requirements: -

10. Preliminary estimate (PE) is to be prepared on the basis of Plinth Area Rates or length of road etc. worked out on the rate per unit area/length/number, or such other method adopted for ready and rough calculation, so as to give an idea of the approximate cost involved in the proposal.

11. Prevailing Cost Index over the plinth area rates, effect of ESI & EPF leviable (rates as given in Annexure -14, Contingencies and Departmental Charges (if applicable) are to be added in the PE.

As per CPWD norms the various costs to be considered while preparing the preliminary estimates and should include the following components: -

1. Planning Consultancy 4% and Project Management Consultancy 5% (refer below PART 1 as the relevant extract from CPWD SOP2022)

2. Other Technical Services like Preliminary Sketches, Detailed Drawings, Preliminary Estimates, Structural Design, Execution, Audit & Account etc. is ranging between 7% to 24% depending upon size of the project (refer below PART 2 as the relevant extract from CPWD SOP2022)
3. Contingency cost is 3% (refer below PART 3 as the relevant extract from CPWD SOP2022)
4. ESI & EPF ranging between 0.85% to 4.2%, say average of 2% (refer below PART 4 as the relevant extract from CPWD SOP2022)

The overall Soft Costs including Consultancy, Technical Services, Contingency based on CPWD norms will be in the range of 15-20%.

Transport Research Board (under FAA)

As per "Airport Capital Improvements: A Business Planning and Decision-Making Approach" study conducted by Airport Cooperative Research Program (ACRP), Transport Research Board (sponsored by US Government's Federal Aviation Administration). The soft costs range between 10% to 30%. The extract from Page 48 the report is as follows: -

"Soft costs typically range from 10% to 30% of total project costs. These include design fees, permitting fees, utilities, costs associated with inspections and land acquisition, costs associated with the bidding and procurement process, and project administration and management costs"

PART 1

SOP No. 8/7: Levy of Fees by CPWD for Consultancy Services (Para 8.20)

CPWD handles consultancy works of planning and designing (with or without construction) of various projects including high-rise buildings, housing complexes etc. of Public Sector Undertakings and other organizations to undertake construction on turnkey basis, or for Mission's buildings abroad, etc. at negotiated rates. Fee for the Consultancy Services is charged by CPWD as given below.

FEES FOR CONSULTANCY SERVICES

(a) Planning 4%

(b) Construction Management 5%

(c) Visits of CPWD Officers from India 1%

For planning and designing work, the following charges is levied:

(i) Development of Master Plan Rs.10000/- per hectare

(ii) Architectural plans and drawings 3 % for original work ½ % for repetition

(iii) Structural designs and drawings 1% for original work ½ % for repetition

PART 2

ANNEXURE- 5

(Reference Para 3.1.1.4 (1))

RATES OF DEPARTMENTAL CHARGES

Objectives of works	All maintenance works, and minor works costing upto Rs. one lakh	Construction works costing upto Rs. Two Crores	Construction works costing between Rs. Two and five Crores	Construction works costing more than Rs. five crores
1	2	3	4	5
(A) Establishment Charges				
1. Preparation of preliminary sketches	½%	¼%	¼%	¼%
2. Preparation of detailed working drawings	1%	¾%	½%	¼%
3. Preparation of preliminary estimates	¼%	¼%	¼%	¼%
4. Preparation of detailed estimates	½%	¾%	½%	¼%
5. Preparation of structural designs	1%	1%	¾%	¾%
6. Execution	19-¼%	7-¾%	4-¾%	4-¼%
Total Establishment charges	22-½%	10-¾%	7%	6%
(B) T&P (Machinery Equipment)	¾%	¾%	½%	½%
(C) Audit & Account	¼%	¼%	¼%	¼%
(D) Pensionary	¼%	¼%	¼%	¼%
	23-¾%	12%	8%	7%

PART 3

SOP No. ¾: Provision for Contingencies and its Utilization (Refer Para 3.1.1.3 (3))

1. In addition to the provision for all expenditure which can be foreseen for a work, a provision of contingency is kept as follows: (i) Estimated cost up to Rs. 1 Crore .... 5% (ii) ***Estimated cost more than Rs. 1 Crore ... 3%, subject to minimum of Rs. 5 Lakh***

PART 4

ANNEXURE- 14

(Refer SOP No. 3/2)

STATEMENT SHOWING THE RATES OF EPF and ESI CHARGES TO BE INCLUDIED IN PRELIMINARY ESTIMATE

Category of work	Component of Labour	EPF @12.5 % of labour Component	ESI @ 4.5 %of labour Component	Total of EPF & ESI
Buildings	25%	3.125%	1.125 %	4.25%
Road Works & pavements in airfields	5%	0.625%	0.225%	0.85%
External sewerage	10%	1.25 %	0.45%	1.70%
External water supply	5%	0.625%	0.225%	0.85%
Bridge/Flyover works	25%	3.125%	1.225%	4.25%
Maintenance works engaging only labour component	100%	12.50 %.	4.50%	17.00 %
Other Maintenance work	70%	8.75%	3.15%	11.9%

MoPA Goa Tariff Order

Further, in Tariff Order No. 27/2023-24 dated 07th December 2023 issued for Mopa Goa Airport, the Authority has approved soft cost (design consultancy, PMC expenses, pre-operative expenses and contingencies) at 13%-16%.

Table 73: CAPEX proposed by the Authority for the First Control Period at Consultation Stage

(Rs. in crores)

S.No	Description	Amount
1	Runway, Taxiways and Apron - (Phase-I, II & III)	526.17*
2	Passenger Terminal Building including Fit Outs (for 7.7 MPPA) (Phase-I, II & III)	1,283.98
3	Airside buildings, Airside roads & Drainage System (Phase-I & III)	346.65
4	Site Preparation/ Earthwork	628.43
5	Administrative building & Site office	50.37
6	ATC Technical Block and Tower	87.43
7	Main Access Road, Spine Road and Car park	104.71
8	Additional Works (Phase-I & III)	63.59
9	Permanent Water & Electricity	20.00
10	ASDC	7.66
11	General Capex	50.00
A	**Sub Total (1 to 11)**	**3,168.99**
12	Design Consultancy & PMC Expenses	120.52
13	Independent Engineer Services	15.07
14	Pre-operative Expenses (Phase-I, II & III)	251.36
15	Contingencies (Phase-I & III)	18.38
B	**Sub Total (12 to15)**	**405.33**
16	Financing Allowance	321.88
17	DSRA	-
C	**Sub Total (16 & 17)**	**321.88**
	Grand Total (A+B+C)	**3,896.20**
18	**Phase-I**	**3,225.79**
19	**Phase-II**	**179.28**
20	**Phase-III**	**441.14**
21	**General Capex**	**50.00**

Soft Cost Rs. 405 Crs over the Project Cost of Rs. 3,169 Crs (approx. 13%). If the Site Preparation/ Earthwork of Rs. 628 Crs is removed from the project cost as it is not applicable for MIAL, then the like-to-like soft cost will be approx. 16%.

Based on information from reputed agencies from India and Overseas and recent tariff orders, it is evident that soft costs requested by MIAL is based on rational estimates and within the acceptable reasonable range. We therefore request the Authority to allow the soft cost which is based on best practices subject to true-up on actual incurrence basis.

F. FRoR for the Fourth Control Period

27. Cost of Equity allowed at 15.13%

Authority's Submission

Para 7.2.2 The Authority in the Third Control Period had commissioned an independent study by IIM Bangalore on the determinants of Cost of Capital pertaining to Mumbai Airport. Vide this study, the Cost of Equity was determined to be 15.13% for MIAL, using the CAPM methodology.

Para 7.2.3 The Authority proposes to consider the same cost of equity as decided in the Third Control Period i.e., 15.13% for the Fourth Control Period as against the cost of equity submitted by MIAL.

Para 7.2.4 The Authority finds that the traffic has already reached pre-Covid levels at CSMIA, and also notes that all the potential and constraints of CSMIA was known to MIAL since the beginning *of the concession. No new developments or anticipated events have arisen that would result in additional risk beyond the levels that have existed since the beginning, and which MIAL has taken into account while accepting the concession. Further the COE has been determined on an objective basis through an expert study (IIM Bangalore) which has taken into account all risks both favorable and unfavorable that MIAL faces. Therefore, the Authority is not inclined to accept MIAL's claim for a 1% upward risk adjustment in COE.*

MIAL's Comment

MIAL has considered Cost of Equity based on PWC study carried out for Ahmedabad Airport. Ahmedabad Airport engaged the services of PriceWaterhouse Coopers Services LLP (PwC) to carry out a study on evaluating the applicable Cost of Equity (CoE). Based on this study carried out in March 2021, MIAL considered the base CoE as 17.30%. An additional 1% risk premium for Mumbai Airport has been considered due to lesser growth in the past and capacity saturation in the near future resulting in CoE of 18.3%. The methodology used to compute the CoE is the Capital Asset Pricing Model (CAPM).

Primary reason for difference in CoE as per the Authority and as per MIAL is predominantly on account of computation of unlevered beta which in turn is based on beta of other airports considered in the study.

IIM B study considered 12 airports, out of which only two airports belong to developing countries. Airports in developing markets are exposed to each of these risks differently when compared to developed markets which are listed as follows

1. **Demand Risk** – Apart from the economic conditions which affect demand, demand for air travel is also highly elastic with respect to air fare in India and other developing economies. Any increase or decrease in air fare due to fuel prices or other input costs results in relatively higher traffic volatility.
2. **Counterparty Risk** – Airports in developing countries typically derive a major part of their revenue from aeronautical services, as against the developed markers where non-aeronautical revenue is higher.
3. **Regulatory Risk** – Regulations in developing countries are still evolving and are not stable.

Asset beta of airports in developing countries is consistently higher than the asset beta of airports in developed economies. This can be demonstrated by the data provided in the IIM B study in which the asset beta for Sydney airport is 0.40 whereas the asset beta for Airport of Thailand is 0.86. This shows the quantum of variation in risk perception between developed and developing countries.

Study done by PwC includes balanced mix of developed economies like France, Spain and Switzerland and developing economies like Mexico, Malaysia, Thailand. Following are the asset betas of various airports as per PWC study:

S.No	Airport Operator	5-year asset beta on 5 year average DER	5-year asset beta on latest DER
1.	Sydney Airport Holdings Private Limited	0.692	0.719
2.	Auckland International Airport Limited	1.030	1.052
3.	Flughafen Zurich	0.865	0.838
4.	Groupe Aeroports De Paris	0.922	0.922
5.	Aena	0.102	0.121
6.	Asur (Aeroporte Del Sureste)	1.338	1.340
7.	Københavns Lufthavne	0.423	0.416
8.	Grupo Aeroportuario Del Centro Norte S.A.B. De C.V. Adr	0.960	1.020
9.	Grupo Aeroportuario Del Pacifico, S.A.B. De C.V	1.430	1.428
10.	Aeroporto Guglielmo Marconi Di Bologna S.P.A	0.642	0.649
11.	Fraport Ag	0.686	0.669
12.	Airport Of Thailand Public Limited Company	0.984	1.002
13.	Malaysia Airport Holdings Berhad	0.848	0.893
14.	Flughafen Wien Ag	0.527	0.610
15.	Gruppo Toscana Aeroporti	0.457	0.455

It is evident from table above, asset betas of airports in developing economies like Mexico (Grupo Aeroportuario Del Centro Norte, Grupo Aeroportuario Del Pacifico) and Thailand (Airports of Thailand) have asset betas of more than 1.

We hereby request the Authority to accept the CoE of 18.3% based on correct asset beta as submitted by MIAL in the MYTP

28. Cost of Debt of FoCP capped at 10.15%

Authority's Submission

Para 7.2.6 The Authority has re-worked the Cost of Debt that would have prevailed if MIAL had continued with the existing loan arrangement as at the start of the Third Control Period.

(i) The old loan arrangement with SBI was based on an RBI mandated MCLR (8.50%) + Spread Rate (1.80%). Thus, continuing the same would have resulted in a lower interest rate for MIAL from March 2019 to May 2022, in which period the MCLR fell from 8.50% to 7.00%.

(ii) From May 2022, there was a gradual increase in the MCLR, which touched 8.65% by March 2024.

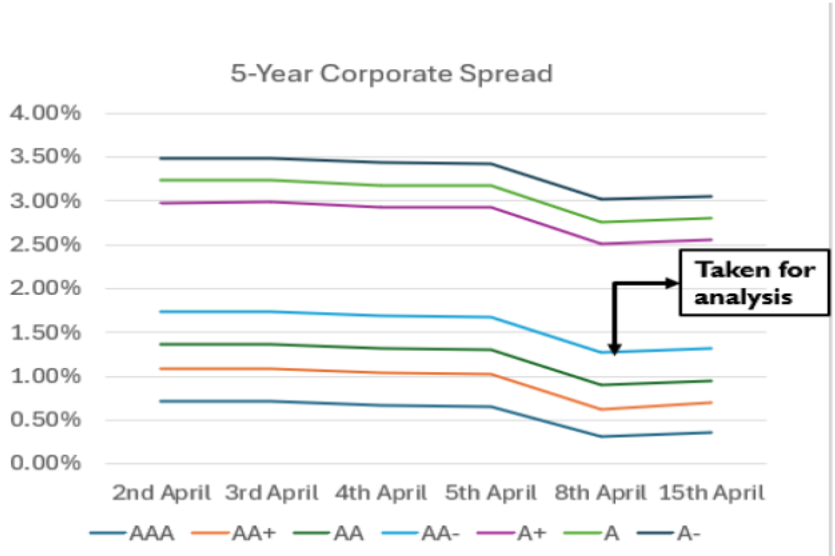
Para 7.2.7 Recomputing the CoD based on the para above, the Authority notes that the rate would have been lower had MIAL continued with the original loan arrangement.

Para 7.2.8 Therefore, the Authority has proposed not to consider MIAL's Comment regarding the cost of debt for the Fourth Control Period. Instead, it has determined the cost of debt based on the State Bank of India's Marginal Cost of Funds-based Lending Rate (MCLR) as of March 2024, which is 8.65%.

Para 7.2.9 The Authority has examined the spread relevant to MIAL's credit rating based on data taken from Fixed Income Money Market Derivatives Association (FIMMDA), as of April 2024. Basis this, the spread applicable to MIAL's credit rating of AA- is 150 basis points as shown in Figure 41.

Para 7.2.10 Considering a spread of 150 basis points as per Para 7.2.9 and the MCLR as per Para 7.2.8, the total Cost of Debt for the Fourth Control Period is recalculated as follows: 8.65% (MCLR) + 1.50% (Spread for AA-) = 10.15%.

Figure 41: 5-year Corporate Bond Spread – Data Source: FIMMDA



Para 7.2.11 Accordingly, the Authority proposes to consider the Cost of Debt at 10.15% for the Fourth Control Period. However, the Cost of Debt shall be trued up based on actual (or) SBI average 1-year MCLR plus 150 bps (whichever is lower) at the time of determination of tariff for the 5th Control Period.

MIAL's Comment

MIAL requests the Authority to consider the actual cost of debt incurred by MIAL, since these debts are issued at market discovered price which in turn are based on financial performance and many external factors like global interest rates, inflation etc.

MIAL debt has been financed by External Commercial Borrowings (ECB) and Intercompany Deposit (ICD) from holding company AAHL.

In April 2022, MIAL raised USD 750 million (~Rs. 5,500 Crs) through 7.25-year USD Notes/Bonds through US Private Placement (USPP). USD Notes are repayable in 7.25 years on the last day of Tenor (Bullet Repayment on last date of Tenor). As per the existing loan agreements, the effective interest rate is ~11.5% (7.25% effective coupon rate + 3.8% hedging cost+6% TDS on coupon payments). Since debt tenor will be over after 7.25 years in 2029 (end of current control period), the Authority is requested to considered actual cost of ECB rather than notional cost of debt arrived by using MCLR and spread.

The interest rate on ICD from AAHL is 12.5%. It is to be noted that AAHL has raised ECB from a consortium of banks and all in borrowing cost of this facility is 12.69%.

In case the Authority is not inclined to consider cost of debt of ICD, it is requested that at least cost of debt equivalent to market discovered interest rate on ECB i.e. 11.5% is allowed.

Variable nature of MCLR and Credit Spread

We would like to reiterate the highly dynamic nature of MCLR and Credit Spread. Both these factors are beyond the control of the company. It is to note that the current one-year MCLR is already at 9% whereas the Authority has considered MCLR of 8.65% as was prevalent at the start of Control Period.

Tenor-wise MCLR effective from 15th March, 2025 is as under:

Tenor	Existing MCLR (In %)	Revised MCLR (In %)*
Over night	8.20	8.20
One Month	8.20	8.20
Three Month	8.55	8.55
Six Month	8.90	8.90
One Year	9.00	9.00
Two Years	9.05	9.05
Three Years	9.10	9.10

*No Change

Further spread of 1.5% is based on rating of AA-. It is to noted that there is significant capital expenditure of Rs. 10,000 Crs planned in the Fourth Control Period. Aeronautical Revenues of MIAL are limited to the extent of tariff approved by the Authority. Non-aero revenues will also take a hit on account of reduction in passengers. Hence MIAL is highly susceptible to change in credit rating on account of the above factors. We request the Authority to consider these factors and allow actual cost of debt in true up of Fourth Control Period rather than capping the same at 10.15%.

We also request the Authority to consider the practice followed by other sectoral regulators while allowing actual cost of debt as explained in point no. 8 above.

Thus, it is requested that the actual cost of debt, should be used for computation of WACC at the time of true up of Fourth Control Period.

G. Operation & Maintenance Expenses for the Fourth Control Period

29. Aeronautical allocation of Digitalization Cost computed using Multi Criteria Decision Analysis without using objective and scientific approach

Authority's Submission

Para 9.3.13 The Authority observes that it is a challenging task to clearly differentiate the costs between Aeronautical and Non-Aeronautical services. The Authority notes that MIAL, in its MYTP submission, had allocated the costs based on the average aeronautical percentage (at 90.00%) of all the major Opex costs in the Third Control Period. Later as a part of the clarification submitted to the Authority, it has revised the cost allocation based on the Manpower cost ratios to Aeronautical services (82.00%), provided through the Adani One App. However, MIAL could not provide adequate data point to support such allocation.

Para 9.3.14 The Authority is reaching a conclusion that the allocation of the costs must be based on the utility of the service coverage through the App, the nature of revenues generated through the platform and the passenger feedback rather than employing cost drivers alone. After *evaluating a couple of options, the Authority is tentatively considering a **Multi-Criteria Decision Analysis (MCDA**) approach to allocate the Costs between Aeronautical and Non-Aeronautical.*

Para 9.3.15 This MCDA approach employs a list of variables to segregate the costs. Each variable has been assigned a score between 1 to 5, where 1 being the lowest and 5 being the highest. The Aeronautical and Non- Aeronautical Services offered in the App have been grouped into different categories based on the nature / similarity of their functions. Following which, each of the categorizations is assigned a score under each variable based on their function. Each variable and its categorization is detailed below:

(i) Different variables have been assigned and segregated into Aeronautical and Non-Aeronautical Services availed at the Airport using the Digitalization App:

a) Necessity (Is it a Necessary Service for an Airport Passenger?)

b) Channel Usefulness (Is it an Exclusively Provided Service / Information for an Airport Passenger? And how useful is it for them ?)

c) Revenue Generating Capacity (Is it a Revenue Generating Service or Not?)

Para 9.3.16 Each variable has been given a judgmental score between '1' to '5' ('1' being the lowest and '5' being the highest).

Para 9.3.17 The Aeronautical services and the Non-Aeronautical services offered have been classified into different categories based on the kind/variety of services they offer and ranked for each of the variable mentioned above.

Table 278: Digitalization Cost Allocation – Multi Criteria Decision Analysis Approach – Score card based on functionalities available in Adani One App

Particulars	Necessity	Channel Usefulness	Revenue Generating Capability	Total Score
Aeronautical Services:				
Flight Tracking Information	5	2	-	7
Baggage Belt Information	5	2	-	7
Other Aeronautical Services	5	2	-	7
Total Aero Score				**21**
Non-Aeronautical Services:				
Concessionaires	5	5	5	15
Porter Services & Baggage Wrapping	5	5	5	15
Bills Payments & Banking Related Services	-	-	1	1
Other Bookings	4	3	5	12
Other Non-Aeronautical Services	1	1	4	6
Total Non-Aero Score				**49**

Table 280: Digitalization Cost Aeronautical Allocation as proposed by the Authority

Total Score's	
Total Aeronautical Score (a)	21
Total Non-Aeronautical Score (b)	49
Total (c)	70
Aeronautical Allocation (%) (d = a/c)	**30.00%**

MIAL's Comment

In light of extensive capex planned in next few years, MIAL needs to focus on augmenting airport infrastructure and enhancing passenger handling capacity along with improving overall service quality. MIAL does not have bandwidth nor expertise to achieve digitalization of airport experience. It will have to be done with the help of respective subject matter experts from the respective field.

MIAL rationale for computing aeronautical allocation based on manpower

Based on agreement with third party service provider who will provide digital transformation services, MIAL will incur annual expense for maintenance and development of the Digital platform. This platform will provide wide array of services, both aeronautical and non-aeronautical to passengers. MIAL has proposed aeronautical allocation of 82% which is based on activity wise manpower allocation of each type of service which in turn is based on complexity of service being offered.

Most of the intangible services like software development, professional and consultancy services, Data Processing etc. are human resource intensive activities and cost of these services is directly proportional to manpower deployed to develop them. Therefore, we request the Authority to use the aeronautical allocation based on deployment of manpower to calculate aeronautical expense.

While determining aeronautical ratio for other expenses like R&M, Operating Contracts, etc. allocation is done based on actual expense incurred for aeronautical and non-aeronautical activities which in turn is dependent on Goods (like consumables, spares etc.) and Servies (like manpower) deployed to perform these activities. Allocation of these expenses is neither based on usage nor necessity nor revenue generating capacity of these activities. Hence, we request the Authority to reconsider the logic of applying allocation cost based on parameters like necessity, usefulness and revenue generating capability.

Shortcomings in the approach MCDA approach followed by the Authority

The Authority has followed Multi-Criteria Decision Analysis approach to allocate the costs between Aeronautical and Non-Aeronautical. Various services being offered on digital platform have been grouped under aeronautical and non-aeronautical activities. MCDA approach employs a list of variables like Necessity, Channel Usefulness, Revenue Generating Capacity to segregate the costs for each of this service/activity. Each variable has been assigned a score between 1 to 5, where 1 being the lowest and 5 being the highest.

Many essential Aeronautical services, such as maps, lost and found, and Wi-Fi, which are crucial for ensuring a seamless passenger experience, have been consolidated under the category 'Other Aeronautical Services. This in-turn has effectively resulted in various aeronautical activities being grouped under three heads only whereas non-aeronautical activities have been grouped under five different heads. This approach is subjective and highlights potential bias towards minimizing the allocation for aeronautical services.

Additionally, no basis is provided for assigning judgmental scores ranging from 1 to 5 to each variable. For example, the 'channel usefulness' variable has been subjectively assigned low scores for aeronautical activities and high scores for non-aeronautical activities, without any justification for these discrepancies.

One of the variables used is “Revenue Generating Capability”. MIAL is not allowed to earn any revenue other than what is approved by the Authority for providing aeronautical services. Therefore, score against this variable will always be “0” for aeronautical activities. Further the scoring for Concessioniare is “5” which is also distorted as concessionaire revenue generation has multiple channels and digital is only one of them which is too at nascent stage. Currently most of the revenues generated by concessionaire are dependent on actual billing at the physical counter. This approach has serious cascading impact in widening the gap in the weightage scores being calculated for aeronautical and non-aeronautical activities.

Modified Approach addressing anomalies

MIAL proposes an alternative approach as demonstrated in the table below which will address various biases and anomalies highlighted above and make the computation of aeronautical allocation more objective and scientific. In this alternate approach, two important activities which are “Maps” and “Lost and Found” have been considered as separate activity altogether rather than bundling it with all other aeronautical activities. Further it is proposed that “Passenger convenience” is considered as variable in place of “Revenue generating capability” as ultimate objective of all activities done by Airport Operator is Passenger Convenience.

Particulars	Necessity	Channel Usefulness	Passenger Convenience	Total Score
Aeronautical Services:				
Flight Tracking Information	5	2	4	11
Baggage Belt Information	5	2	4	11
Maps	5	5	4	14
Lost & Found	5	5	4	14
Other Aeronautical Services	5	2	3	10
Total Aero Score				**60**
Non-Aeronautical Services:				
Concessionaires	5	5	3	13
Porter Services & Baggage Wrapping	5	5	2	12
Bills Payments & Banking Related Services	-	-	2	2
Other Bookings	4	3	2	9
Other Non-Aeronautical Services	1	1	2	4
Total Non-Aero Score				**40**

Total Score	
Total Aeronautical Score (a)	60
Total Non-Aeronautical Score (b)	40
Total (c)	100
Aeronautical Allocation (%) (d = a/c)	**60%**

Since the use case and efficacy of the platform will evolve over the period, we request the Authority to kindly conduct detailed independent study on digitalization expense through relevant subject matter expert during the tariff determination of Fifth control period and allow true-up of aeronautical allocation on Digital transformation expenses of Fourth Control Period based on the recommendation of the study. Therefore, in the interim, we request the Authority to consider aeronautical allocation of 60% (based on above analysis) while estimating Digitalization expenses of Fourth Control Period subject to true-up based on the outcome of the independent study.

30. Disallowance of Legal Expenses of FoCP

Authority's Submission

Para 9.2.51 The Authority also observes that Legal expenses incurred are not predominantly related to the airport operations. Further, there are legal officers who are on rolls of MIAL for handling operational matters, and their costs are being allowed under Employee costs. The Authority also finds that in the recent concession agreements entered by AAI, legal costs are not to be included as a part of the pass-through costs of Airport operations. Therefore, the Authority proposes not to consider legal costs as part of the Operating Expenses.

Para 9.2.52 The Authority notes that an amount of Rs. 8.69 Crores of Legal charges has been inadvertently included in Professional Charges in FY 2024. Therefore, the Authority has adjusted the base cost of Professional Charges for FY 24 by this sum and proposes to only consider Rs. 15.01 Crores (Rs. 23.70 Crores – Refer Table 106 less Rs. 8.69 Crs) as the base for estimating the Professional Charges for the Fourth Control Period. The Administrative expenditure proposed by the Authority, as recomputed after aforesaid adjustments as below:

Table 252: Administrative Expenses as proposed by the Authority for the Fourth Control Period

(Rs. in crores)

Particulars	FY 25	FY 26	FY 27	FY 28	FY 29	Total
Miscellaneous Expenses	7.46	7.79	8.13	8.49	8.86	40.73
Travelling and Conveyance	1.78	1.85	1.94	2.02	2.11	9.70
Communication Expenses	0.83	0.86	0.90	0.94	0.98	4.51
Director's Sitting Fees	0.37	0.39	0.41	0.43	0.44	2.04
Professional Charges	15.69	16.38	17.10	17.85	18.63	85.64
Remuneration to Auditors	1.24	1.30	1.36	1.42	1.48	6.80
Total Administrative Expenses	**27.36**	**28.57**	**29.83**	**31.14**	**32.51**	**149.40**

MIAL's Comment

Legal Expenses are part and parcel of Airport Operations

The legal expenses incurred by MIAL are part and parcel of operation & maintenance expenditure and claimed on an actual incurrence basis. Legal expenses are incurred mainly to defend the litigation cases filed against MIAL and to initiate litigation to defend & protect interest, commercials, reputation and brand MIAL, which will have direct bearing on the credit worthiness of MIAL. There cannot be any doubt that these are essential expenses and not discretionary or wasteful expenses.

From First Control Period (2009-14) onwards, legal expenses are never disallowed by the Authority. This is the first time the Authority has taken a view that the same will not be allowed since the Authority finds that in the recent concession agreements entered by AAI, legal costs are not to be included as a part of the pass-through costs for Airport operations.

Provisions of AERA Act and Bar Council of India Rules

AERA Act provides for appeal against orders passed by AERA before the Appellate Tribunal. Airport Operator aggrieved by AERA Order/direction can prefer an appeal to this Appellate Tribunal. By disallowing the legal expenses, AERA has gone beyond its jurisdiction and taken away rights of the Airport Operator given to it under this Act.

Further, the Airport Operator will never initiate unwarranted litigation. As legal expenses is inevitable business expenditure, MIAL cannot be asked to bear the legal cost from its Profit & Loss Account. This is neither contemplated under the AERA Act nor OMDA, SSA, etc. Engagement of advocates / counsels is done basis their expertise and no one advocate / lawyer can handle all type of litigation before all forums.

Even AERA is engaging advocates / counsels in Court(s) to represent AERA such expenses are borne by AERA and money spent by AERA for such purposes is allotted by the Central Government as grant which is also nothing but the public money.

Therefore, it is unimaginable to ask MIAL to handle its court cases through its in-house legal team. This is more so because having opted for employment with MIAL, its in-house legal team cannot practice in Court(s), as the same is prohibited by the Bar Council of India. The relevant provision in this regard is appended below.

Section 49 in Bar Council Of India Rules

49. An Advocate shall not be a full-time salaried employee of any person,Government, firm, corporation or concern, so long as he continues to practise,and shall, on taking up any employment, intimate the fact to the Bar Council on whose roll his name appears, and shall thereupon cease to practise as an Advocate so long as he continues in such employment.

In light of the above, it is clear that MIAL employees cannot argue or defend MIAL in legal matters in various courts. Disallowing these costs will make the company vulnerable to adverse actions of Courts in these legal matters.

Provisions of the Concession Agreements viz. OMDA, State Support Agreement

Schedule 1 to the State Support Agreement dated 26.4.2006 for MIAL does not exclude the legal expenses from operation & maintenance expenditure and legal expenses are very much part of the same & available as the pass-through costs for Airport operations. In absence of any carve out in the SSA, the Authority is bound to include the legal expenses as part of operation & maintenance expenditure. This is not left to the discretion or wisdom of any party, and everyone is bound by the SSA.

Further, Section 13(1) (a)(vi) of the AERA Act provides that the Authority, while determining the tariff for the aeronautical services, shall take into consideration the concession offered by the Central Government in any agreement or memorandum of understanding or otherwise. In view of this, we respectfully submit that the Authority cannot exclude the legal expenses from the operation & maintenance expenditure and the same should be allowed.

Bearing of Concession Agreement of six Airports privatized in February 2020

Legal cost was allowed in tariff orders of various airports like DIAL, MIAL, BIAL, HIAL, MoPA issued in the year 2021 to 2023 after the six AAI Airports were privatized, and concession agreement were in place and effective was (signed in February 2020). Hence the reason provided by the Authority that legal service expense is not allowed as pass-through expense in the recently signed concession agreement is not applicable.

We submit that the Authority cannot look into other concession agreements entered by AAI to decide whether legal costs are to be included as a part of the pass-through costs for Airport operations or not, for a simple reason that the Authority, MIAL and all other stakeholders are bound by OMDA and SSA in respect to the tariff determination process of MIAL. No other agreement can be looked into and/or relied upon in this regard.

MIAL is merely seeking pass-through its legal expenses which is admittedly not profiteering. Again, out of Rs. 100 received by MIAL, Rs. 38.7 will go to the Airports Authority of India as revenue share / annual fee. Additionally, depriving MIAL of such pass-through of legal expenses will have a direct impact on the Profit & Loss Account of MIAL. The Airports Authority of India is also a shareholder of MIAL. Thus, depriving legitimate pass-through of legal expenses to MIAL will directly amount to causing loss to the exchequer.

In light of above, we request the Authority to kindly allow legal expenses based on expenses incurred by MIAL in TCP and true-up the same based on actual incurrence at time of tariff determination of fifth control period.

31. Allocation of Financing Charges (upfront fees) on Aero Capex

Authority's Submission

Para 9.2.77 The Authority has reviewed the computation of interest on finance charges and notes that MIAL has considered finance charges at the rate of 1.50% of the debt drawdown during the Fourth Control Period. The Authority proposes to consider the recomputed Finance charges set out in the below table for the Fourth Control Period as Operating Expenses.

Table 265: Financing Charges as proposed by the Authority for the Fourth Control Period

(Rs. in crores)

Particulars	FY 25	FY 26	FY 27	FY 28	FY 29	Total
Amortization of existing ECB loan (From Table 263)	13.47	14.64	15.81	16.98	18.13	**79.04**
Performance Bank Guarantee Fees	4.50	4.73	4.96	5.21	5.47	**24.87**
Other finance charges	2.61	2.74	2.89	3.02	3.17	**14.43**
Upfront fee of 1.50% on future debts	23.71	15.31	19.66	14.47	2.06	**75.21**
Financing Charges	**44.29**	**37.42**	**43.32**	**39.68**	**28.83**	**193.54**

Cost Head	Aeronautical % as submitted by MIAL	Aeronautical % as per Authority Analysis	Rationale behind MIAL decision	Rationale behind Authority decision
				considered as 100% Aero.
Financing Charges	83.40%	83.38% (Refer 9.2.2(v))		Considered fully as Corporate Overheads.

Table 283: Aeronautical Portion of Total Operating and Maintenance Expenditure proposed by the Authority for the Fourth Control Period

(Rs. in crores)

Particulars	FY 25	FY 26	FY 27	FY 28	FY 29	Total
Employee Costs	169.90	180.10	190.90	202.36	250.40	**993.66**
R&M Expenses	189.94	197.16	217.55	240.04	264.85	**1,109.54**
Operating Contract's	166.63	158.38	149.02	155.57	195.27	**824.87**
Utilities Expenses	155.17	146.38	136.51	142.52	181.42	**762.00**
Administrative Expenses	22.01	22.98	23.99	25.04	26.14	**120.16**
Rents, Rates & Taxes	59.53	60.00	60.49	62.04	62.57	**304.63**
Insurance Expense	16.38	17.20	18.37	19.14	21.69	**92.77**
Advertisement Expense	3.29	3.44	3.59	3.75	3.91	**17.97**
Consumable Stores	15.98	15.19	14.29	14.92	18.73	**79.12**
Corporate Cost	72.95	77.33	81.97	86.88	92.10	**411.22**
Runway Recarpeting	23.89	23.77	27.38	27.38	25.58	**127.99**
Carrying Cost on Runway Recarpeting	10.41	7.38	5.51	3.42	6.80	**33.51**
Digitalization Cost	27.00	28.50	29.70	31.20	32.70	**149.10**
Other Expenses	3.15	3.15	3.15	4.08	4.12	**17.65**
Working Capital Interest	-	-	-	-	-	-
Financing Charges	36.93	31.20	36.12	33.09	24.04	**161.38**
Total Aero Operating Expenditure	**973.15**	**972.15**	**998.54**	**1,051.42**	**1,210.32**	**5,205.57**

MIAL's Comment

The Authority has computed financing charges for future debts of proposed capital expenditure based on upfront fee of 1.5% on contracted debt corresponding to Aeronautical capex only (assuming gearing of 70%). It has further applied an aeronautical ratio of 83.38% on the above computed aeronautical upfront fees which translates to further allocating the already allocated aeronautical portion of expense.

We request the Authority to apply an aeronautical ratio of 100% on upfront fees computed in the first step based on 1.5% upfront fees on aeronautical capex.

32. Increase in Operating contracts restricted to inflation rather than based on CAGR

Authority's Submission

Para 9.2.46 The Authority notes that all these costs under the operating contracts are labor related and therefore proposes to consider an increase based on the CPI (as per OMDA) Inflation Rate as per para 8.3.2 instead of the CAGR rate considered by MIAL.

MIAL's Comment

Operating contracts which relate to housekeeping, horticulture, security, trolley management contracts, etc. are long-term contracts and labor intensive. The airport cannot function without these services being a necessity for passengers.

Since the COVID-19 pandemic coincided with large part of Third Control Period, resulting in under-utilization of various assets, CAGR of TCP will not exhibit the correct picture. Hence, MIAL has provided projections with an annual increase at a CAGR of 12.3% based on second control period expenses.

Also, in Cochin Airport, the Authority has allowed CAGR basis for operating contracts (snapshot attached below) and therefore, we request the Authority to follow same approach as Cochin airport and allow the increase based on CAGR of 12.3%.

Snapshot from Cochin Airport TCP Order where AERA allowed 10% for various operating expenses:

9.2.14. The projections made by the Airport Operator regarding the consumption of power, water and fuel seemed reasonable. The Authority proposed to revise the escalation of power costs of KSEB as discussed above and consider "Power, water and fuel charges" for the Third Control Period as given in the table below, and true up the same based on actuals at the time of tariff determination for the Fourth Control Period.

Table 164: Utility expenses proposed by the Authority for the Third Control Period as part of the Consultation Paper

Particulars (in INR crores)	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	Total
Power, water and fuel charges	27.47	32.05	34.83	36.41	38.70	169.46

Other operational expenses

9.2.15. The Authority had compared the growth rates used by CIAL for projecting operational expenses against the actual growth in the last 5 years. The details are given below.

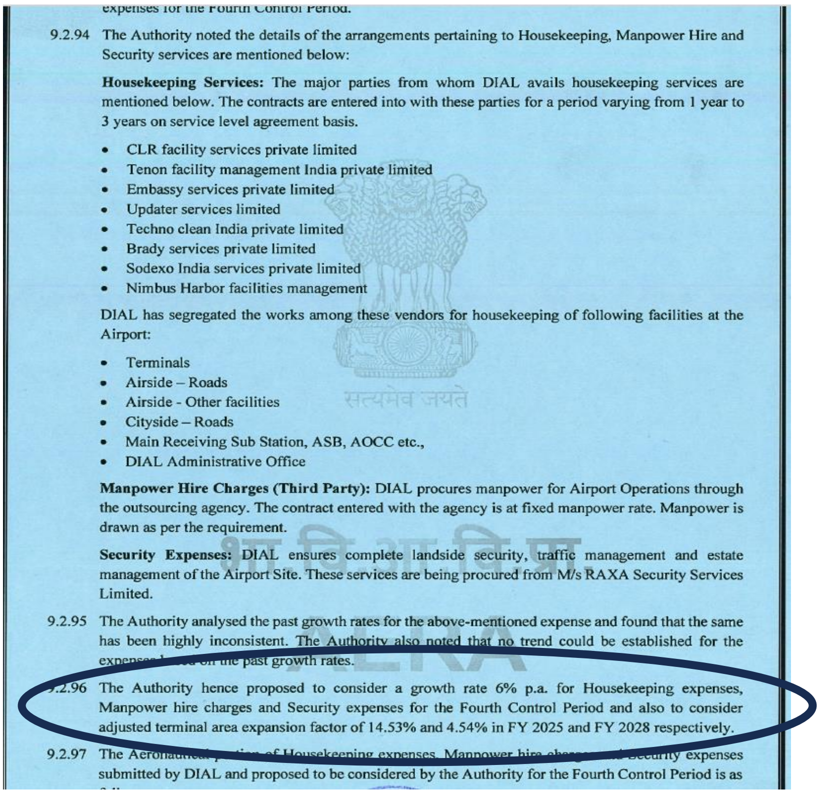
Table 165: Analysis of growth of operational expenses as part of the Consultation Paper

Expense Item	Growth rate considered by CIAL	5-year CAGR (FY 2015-2020)
Safety & Security	10.00%	24.31%
Housekeeping	10.00%	17.18%
Consumables	6.61%	6.61%
Miscellaneous	4.09%	4.09%

9.2.16. The Authority noted that CIAL had used 5-year CAGR for forecasting "Consumables" and "Miscellaneous" expenses. Further, the Airport Operator had used an annual growth rate of 10% in the case of "Safety and Security" and "Housekeeping" expenses despite their actual growth rate in the past being higher than 10%. Therefore, the Authority proposed to consider these expenses as submitted by CIAL for the Third Control Period and true up the same based on actuals at the time of tariff determination for the next control period.

Alternatively, it is proposed that the annual growth rate of at least 6% is allowed by the Authority (in line with the growth rate of employee expenses since most of the operating contracts are also labor intensive). It is worth mentioning that in the recently issued tariff order no. 20/2024-45 for

DIAL, the Authority has applied 6% growth factor for these categories of expenses. Given below relevant extract from the order



expenses for the Fourth Control Period.

9.2.94 The Authority noted the details of the arrangements pertaining to Housekeeping, Manpower Hire and Security services are mentioned below:

Housekeeping Services: The major parties from whom DIAL avails housekeeping services are mentioned below. The contracts are entered into with these parties for a period varying from 1 year to 3 years on service level agreement basis.

- CLR facility services private limited
- Tenon facility management India private limited
- Embassy services private limited
- Updater services limited
- Techno clean India private limited
- Brady services private limited
- Sodexo India services private limited
- Nimbus Harbor facilities management

DIAL has segregated the works among these vendors for housekeeping of following facilities at the Airport:

- Terminals
- Airside – Roads
- Airside - Other facilities
- Cityside – Roads
- Main Receiving Sub Station, ASB, AOCC etc.,
- DIAL Administrative Office

Manpower Hire Charges (Third Party): DIAL procures manpower for Airport Operations through the outsourcing agency. The contract entered with the agency is at fixed manpower rate. Manpower is drawn as per the requirement.

Security Expenses: DIAL ensures complete landside security, traffic management and estate management of the Airport Site. These services are being procured from M/s RAXA Security Services Limited.

9.2.95 The Authority analysed the past growth rates for the above-mentioned expense and found that the same has been highly inconsistent. The Authority also noted that no trend could be established for the expenses based on the past growth rates.

9.2.96 The Authority hence proposed to consider a growth rate 6% p.a. for Housekeeping expenses, Manpower hire charges and Security expenses for the Fourth Control Period and also to consider adjusted terminal area expansion factor of 14.53% and 4.54% in FY 2025 and FY 2028 respectively.

9.2.97 The Aeronautical portion of Housekeeping expenses, Manpower hire charges and Security expenses submitted by DIAL and proposed to be considered by the Authority for the Fourth Control Period is as

33. Cost of deployment of CISF for GA, Cargo and MRA should be allowed

Authority's Submission

Para 9.2.47 On the cost of deployment of CISF personnel, the Authority notes that the letter the Ministry of Civil Aviation clearly states the following:

"In the above meeting, it was decided that expenditure towards Cost of Deployment of CISF personnel deployed at GA Terminal, Cargo and MRO to be borne by the Airport operator, and not to be charged to the ASF collected from embarking passengers under scheduled operation."

Para 9.2.48 The Authority notes that this additional cost is a Non-Aero expense and therefore will not form part of Aeronautical Operating Cost. The Authority has included this cost in the table below for the sake of completeness and to be consistent with other heads under which total cost is considered.

MIAL's Comment

As per MOCA letter dated 27th March 2024, the cost of deployment of CISF at GA terminal, Cargo and MRO is to be borne by airport operator. Earlier it was borne by NASFT and collected in the form of ASF from embarking passengers under scheduled operations. So, it was collected as Aeronautical charge (ASF) from the users.

It is to be noted that the security expense related to deployment of CISF is a statutory requirement, it is aeronautical in nature and cannot be considered non-aeronautical. It can be correlated with an example as follows; Airport operator provides landing services to Airlines wherein landing services are aeronautical services availed by non-regulated Airlines. This is similar situation in the instant case whereby CISF services, which are aeronautical services rendered to Cargo non-aeronautical service receiver.

As per schedule 5, Aeronautical Services of OMDA, "ensuring the safe and secure operation of the Airport, excluding national security interest." is aeronautical services. It includes safety and secure operations of ***the entire airport and is not specific to any area.***

Therefore, we request the Authority to allow the cost of deployment of CISF as an aeronautical expense.

34. Rentals related to additional land leased from AAI at Sahar Road and Marol allowed at 50% rather than considering the same as common expense

Authority's Submission

Para 9.2.40 The Authority further notes that AAI has given 23,930 sqm land to MIAL on lease rent of Rs. 13.66 Crores plus applicable taxes. The said amount shall be escalated at the rate of 15% after every three years. AAI has not intimated the purpose for which this land can be used. MIAL has stated that the supplementary lease deed is yet to be executed. As per MIAL, land will be used for common purpose and they have applied a ratio of 88.33% as aeronautical. However, AAI letter on this piece of land as reproduced at para 9.2.37 is not very clear on the actual usage or purpose allowed for this land, i.e., whether Aeronautical or not. The Authority would require further clarity on this issue from AAI and MIAL during the stakeholder consultation process. Hence, in the interim, the Authority tentatively proposes to apply an Aeronautical ratio of 50%, pending feedback from AAI and MIAL on the usage of the land. Accordingly, a final view on the issue will be taken at tariff order stage based on comments / views received from the stakeholders during the consultation process.

MIAL's Comment

As per letter dated 22nd May 2024 from AAI, MIAL is required to pay annual lease rent of Rs. 13.66 Crs p.a. with an escalation clause of 15% increase every 3 years.

This land, which was under legal dispute for many years, has been used to create various aeronautical assets. AAI has acknowledged that the certain portion of the land has **already been utilized** for public purposes in the above letter. Excerpt is as below

"7,070 sqm has already been utilized for public purposes i.e. exclusive connectivity for Terminal-2, for benefit of Airport users at large at Mumbai Airport."

Accordingly, MIAL has considered it as a common expense with an aeronautical allocation of 87.43%. This approach is similar to what the Authority has followed while approving the aeronautical opex of common activities outside the terminal building.

It is to be noted that MIAL is not allowed to earn any revenue other than what is approved by the Authority for providing aeronautical services. Hence no additional aeronautical revenue will accrue to MIAL other than this cost (once approved by the Authority). It is requested that the treatment proposed by MIAL is to be accepted.

35. Working capital to be allowed for FoCP same as TCP

Authority's Submission

Para 9.2.70 The working capital computed in the above Table 260, indicates that the working capital requirement is negative, clearly indicating that there is no necessity for a working capital loan for the whole control period. Consequently, the Authority proposes not to include any working capital interest expenses as part of the operating expenditure in the computation of TR for the Fourth Control Period. However, working capital interest, if any paid by the MIAL on aeronautical working capital shall be evaluated during the True up of the Fourth Control Period, subject to MIAL providing adequate justifications and demonstrating reasonableness.

MIAL's Comment

At the start of TCP, MIAL had cash credit/working capital limits of up to Rs. 330 Crs which it used for working capital purposes. The average utilization of these facilities varied with time depending on business requirements and average utilization was in the range of Rs. 180 to Rs. 200 Crs. MIAL has paid interest on working capital of Rs. 17.56 Crs and Rs 17.76 Crs in FY20 and FY21 respectively.

In July-2021, MIAL, with the support from AAHL and AEL, refinanced its existing debts (including outstanding working capital debt of approx. Rs. 180 Crs) with short term bridge to bond facility which was mix of 11% Non-Convertible Debentures redeemable at the end of one year and Term Loans with interest rate of MCLR plus spread of 4.65% (effective interest rate of 11%) repayable at end of one year. As part of this refinancing and restructuring, working capital facility got extinguished and merged with the main facility.

Considering the fact that MIAL used the working capital facility in the past and has been paying interest on the same of approx. Rs. 17.5 Crs with average utilization of facility of Rs. 180 Crs, MIAL had proposed amount of interest on working capital of Rs. 17.5 Crs for FY22, FY23 and FY24 and same has been approved by the Authority in CP.

It is submitted that existing debts (which included working capital portion) will remain outstanding during the fourth control period and airport operators inherently require working capital.

Based on computation of working capital done by the Authority for years FY22 to FY24, it is evidently clear that average working capital requirement will be Rs 150 Cr and same is expected to continue in FoCP as well.

MIAL requests the Authority to continue to provide interest on working capital of Rs. 17.5 Crs p.a. for each year of the fourth control period as well.

36. Annual escalation in employee cost based on inflation rather than CAGR

Authority's Submission

Para 9.2.2 The Authority has reviewed the O&M Expenses and proposes to adopt the following broad methodology for determining the O&M expenses for the Fourth Control Period.:

(iii) ***Inflationary increase:*** *MIAL has considered an inflationary increase towards expenses. The CPI (as per OMDA) inflation rate is considered based on the results of the 90th round of RBI Professional Forecasters Survey as mentioned in Section 8.3, except in the case of:*

a) Employee costs and corporate costs, where inflation of 6% has been considered.

MIAL's Comment

The Authority has considered 6% Year on Year increase on employee cost compared to 10% increase of MIAL's submission.

It is to be noted that Mumbai, known as the financial capital of India, has significantly higher cost of living compared to other cities.

Based on below article it is to be note that India will see average salary increase of 9.4% this year,

https://economictimes.indiatimes.com/jobs/hr-policies-trends/india-inc-to-see-average-salary-increase-of-9-4-this-year-ecommerce-to-lead-the-way-ey-report/articleshow/118597806.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst

Further we have analyzed the employee cost incurred by AAI from FY09 to FY24 and it is found that it has increased by CAGR of 9%.

	FY09	FY13	FY24
No of Employees	19573	18573	16078
Cost (Rs Cr)			
Total Cost	1425	2000	4403
Avg Cost per employee	728044	1076832	2738525
CAGR 11 years	9%		
CAGR 15 years	9%		

We request the Authority to allow 10% increase in case of employee cost.

H. Non-Aeronautical Revenue (NAR) for the Fourth Control Period

37. True-up of non-aeronautical revenues of FoCP only if the same are higher than that projected by the Authority

Authority's Submission

Para 10.3.2 To consider true up of Non-Aeronautical Revenues at the time of the determination of tariff for the Next Control Period if it is higher than that proposed by the Authority in Table 297.

MIAL's Comment

The Authority has considered the true-up of non-aeronautical revenue only if the non-aeronautical revenue is more than projections made by the Authority.

There is no provision in OMDA & SSA for notional increase in the non-aeronautical revenues while determining tariffs. As per Schedule 1 of SSA, the target revenue is defined as follows

$TR_i = RB_i \, x WACC_i + OM_i + D_i + T_i - S_i$

Further S = 30% of the gross revenue **generated** by the JVC from the Revenue Share Assets.

From the above it is clear that only the revenue generated from Revenue Share Assets has to be considered for the purpose of computing Target Revenue. There is no provision in SSA which sets the floor for the revenues from Revenue Share Assets. Hence proposal by the Authority to consider non-aeronautical revenues if the same is higher than that projected by the Authority tantamount to the Authority modifying the terms of the Concession agreement and same is beyond the jurisdiction of AERA.

As per clause 12.2 of the OMDA
"Subject to Applicable Law, the JVC shall be free to fix the charges for Non-Aeronautical Services, subject to the provisions of the existing contracts and other agreements."

The Authority while providing a minimum threshold for Non-Aeronautical Revenues is indirectly regulating the price of Non-Aeronautical Services, which is not the mandate of the Authority.

We request the Authority to true-up non-aeronautical revenues based on actuals consistent with the practice in previous control periods.

I. Target Revenue for the Fourth Control Period

38. Change in Return on RAB for the Fourth Control Period as proposed by the Authority based on the SCN

Authority's Submission

As per section 3.1.6. of the Consultation Paper, following communication has been received by the Authority from AIA

"*In view of the aforesaid facts revealed during investigation, you are hereby requested to kindly adjust the excess amount of tariff of Rs. 305 /- Crores claimed by M/s. MIAL in the 3rd Control Period (01.04.2019 to 31.03.2024). The same has to be trued up during the tariff determination of M/s MIAL (Airport Operator of CSMIA, Mumbai) for the 4th Control Period which will be starting from 1st April 2024.*"

MIAL's Comment

Going purely by portion of the SCN as reproduced in the Consultation Paper by the Authority, the Authority is required to adjust the amount of Rs. 305 Crs as part of the true up exercise. However, the Authority has adjusted the amount of Rs. 404.93 Crs (refer table 305 of the Consultation Paper). This amount with carrying costs will be much higher.

Although MIAL maintains its stand that no amounts should be adjusted until the conclusion of the matter in competent final appellate court. At the same time, it is requested that if adjustment, if any, it should not exceed the amount that is mandated by AIA.

Further we request that no adjustments should be made in TR of Fourth Control Period as directions of AIA are only limited to computation of true-up and does not direct the Authority to do adjustment for future periods.

J. Annexures

Annexure	Description
A	CRISIL Rating
B	Infrastructure financing in times of COVID19 - A driver of recovery
C	RBI Report - Role of Finance in Revitalising Growth
D	Letter to Cargo Concessionaire
E	MMRCL Letter dated 30th Nov'21
F	PO Refurbishment of washroom
G	BCAS Circular for RDE
H	Signed RDE Minutes survey
I	Vendor Quotation