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**Chairperson,
Airport Economic Regulatory Authority of India
3rd Floor, Udaan Bhawan
Safdarjung Airport
New Delhi - 110003**

Dear Sir,

Comments on Consultation Paper No. 08/2025-26 in the matter of Determination of Aeronautical Tariff for Navi Mumbai International Airport for the First Control Period (01.04.2025 – 31.03.2030)

With reference to the captioned subject, I submit 2 comments on the Consultation Paper on determination of aeronautical tariff for Navi Mumbai International Airport.

I appreciate that Airport Economic Regulatory Authority (AERA) has conducted in depth study on each element of the proposed tariff and have given their own assessment on the tariff elements, following extant rules and practices prevailing at other similar airports and also in international airports. The consultation paper put up for stakeholder's study carries wealth of data, analysis and economic logics.

My comments are:

Comment no. 1 - Proposed Fair Rate of Return (FRoR) on Regulated Asset Base (RAB)

Comment no. 2 - Related Party Transactions (RPT) within the Contractual Network

Hope, the comments and logic advanced by me would be of use to AERA, and ultimately would help the purpose of setting the tariff for the new airport in Navi Mumbai.

Thanks and regards,

Dr. DC Patra

Comments from Dr. Debesh Patra on Consultation Paper No. 08/2025-26 in the matter of Determination of Aeronautical Tariff for Navi Mumbai International Airport for the First Control Period (01.04.2025 – 31.03.2030)

Comment no. 1 - Proposed Fair Rate of Return (FRoR) on Regulated Asset Base (RAB)

This has reference to Section 6 (page 107 to 118) of the Consultation Paper. Also refer to Clause 5.6.2 on page 191; table 94 of page 117 and table 163 of page 185.

AERA's determination of 12.49 % return on the Regulatory Asset Base (RAB), derived using a Weighted Average Cost of Capital (WACC) framework, is consistent with established regulatory principles for ensuring financial viability of infrastructure assets. However, its uniform application in all the 5 years during the first control period of a greenfield airport operating under a long-term DBFOT concession merits reconsideration from the standpoint of inter-temporal efficiency and tariff sustainability.

NMIAL operates under 40-year concession framework, whereas tariff determination is undertaken over discrete five-year control periods. In such a context, applying the full WACC based return in the initial years results in a front-loading of tariff burden, wherein early users bear a disproportionate share of capital cost recovery relative to the long-term utilization of the asset. This creates a potential inter-generational imbalance in tariff incidence.

Further, the initial years of operation are characterized by traffic ramp up and demand uncertainty, particularly in a dual-airport system alongside Chhatrapati Shivaji Maharaj International Airport. Elevated aeronautical charges in this phase may adversely affect airline network decisions and passenger uptake, thereby suppressing demand growth and delaying efficient capacity utilization. Such an outcome could be counterproductive, as it may undermine both near-term affordability and long-run revenue realization.

NMIA has tied up loans from diverse sources, which makes its debt-to-equity ratio approximately 63 to 65 percent. It is also relevant to note that a WACC derived from a highly leveraged capital structure may not fully reflect the broader economic cost of capital in a demand-evolving environment. When applied mechanically in the early years, it risks producing tariff levels that are misaligned with the maturity profile of the asset and its traffic base.

In view of the above, it is submitted that the AERA may consider a phased or deferred return framework for the initial control period. Specifically, a portion of the allowed return may be moderated or deferred and recovered in subsequent control periods, as traffic stabilizes and demand matures. Such an approach would:

- Align tariff levels with the evolving demand profile of the airport;
- Enhance competitiveness in attracting airlines and passengers;
- Avoid front-loaded tariff distortion while preserving overall investor returns over the concession horizon; and
- Improve long-term efficiency and sustainability of the airport's revenue model.

This approach does not seek to dilute the principle of a fair return but rather to re-time its recovery in a manner consistent with the economic life of the asset and the dynamics of demand realization.

Without prejudice to AERA's determination of WACC, it is proposed that the allowed return during the first control period be operationalized through a graduated adjustment factor (ϕt), which increases over time in alignment with traffic realization and demand stabilization.

Such an approach may be implemented either through (i) a traffic-linked factor based on actual-to-normative passenger levels, or (ii) a pre-declared glide path converging to unity by the end of the control period. This ensures that while the full WACC entitlement remains intact, its realization is aligned with the economic maturity of the asset, thereby avoiding front-loaded tariff distortion.

To demonstrate the practical application of the above approach, let's consider the AERA's proposed return of 12.49% on RAB for Navi Mumbai International Airport Limited. Instead of applying this uniformly over the first control period, a graduated adjustment factor may be employed to align return realization with demand maturation.

For instance, a pre-declared glide path for the adjustment factor (ϕt) over the five-year control period may be structured as follows:

Year of Control Period	Adjustment Factor (ϕt)	Effective Return (%)
Year 1	0.80	9.99
Year 2	0.85	10.62
Year 3	0.90	11.24
Year 4	0.95	11.87
Year 5	1.00	12.49

Under this framework, the full WACC entitlement remains unchanged; however, its realization is progressively aligned with traffic ramp-up and asset utilization. The moderated return in the initial years helps contain aeronautical charges during the demand-sensitive phase, thereby supporting traffic growth and enhancing airport competitiveness vis-à-vis Chhatrapati Shivaji Maharaj International Airport.

Any notional under-recovery in the initial years on account of the adjustment factor may be carried forward and recovered in subsequent control periods, ensuring that investor returns over the concession period are not compromised. This illustrative glide path is indicative in nature and may be refined by AERA based on traffic projections and observed demand conditions. The essential principle is to reconcile financial viability with inter-temporal tariff efficiency, particularly in the context of a long-duration concession with evolving demand characteristics.

Comment no. 2 - Related Party Transactions within the Contractual Network

Five major aviation-related activities have been awarded to entities that are closely related to the sponsoring company, Adani Airport Holdings Limited, which holds 54% controlling stake in the SPV, Navi Mumbai International Airport Private Limited. (Refer 2.5.9, page 32) This contractual arrangement appears to be inconsistent with Clause 5.6.2 of the Concession Agreement, which restricts related party transactions unless specific safeguards are met.

The Concession Agreement does, however, provide conditional flexibility through oversight mechanisms; namely, review by an Independent Probity Auditor, scrutiny by the Audit Committee, and prior written approval by the competent authority. It is noted that AERA has taken cognizance of this issue and has relied upon the certification of the Independent Probity Auditor (M/s CNK & Associates LLP), which affirms that due process of tendering has been followed and that the contracts have been awarded on an arm's length basis.

From economic perspective, such a related-party network may not be inherently inefficient. On the contrary, it may enable operational synergies, better coordination, and economies of complementarity through resource pooling and integrated service delivery. This kind of related party network may help seamless airport operation management. These efficiencies could potentially lower transaction costs and improve overall system performance.

However, the existence of procedural compliance does not automatically guarantee that the full economic benefits of such integration are passed on to airport users. Given the potential for

embedded margins within intra-group transactions, there is a reasonable basis for regulatory intervention on tariff determination.

Accordingly, it is proposed that AERA may consider identifying and quantifying the efficiency gains arising from this related-party structure and mandate an appropriate pass-through of such gains to passengers in the form of reduced operating cost allowances. As an indicative approach, a calibrated adjustment, potentially in the range of 10–20% of relevant operating expenses attributable to such transactions, may be examined, subject to detailed financial scrutiny and benchmarking.