HYD RAJIV GANDHI INTERNATIONAL AIRPORT
GMR AERO ENTERPRISE

Letter No. - GHIAL/ 2026-27/SPG/2225

Date – 20th July 2026

To,
The Director (P&S, Tariff),
Airport Economic Regulatory Authority of India (AERA),
Udaan Bhawan, 3rd Floor, D Block, Rajiv Gandhi Bhawan,
Safdarjung Airport,
New Delhi - 110003

Sub: Responses to Consultation Paper No. 02/2026-27 dated 19th June 2026 for the 4th Control Period of Rajiv Gandhi International Airport (RGIA), Hyderabad (HYD)

Reference: Consultation Paper no 02/2026-27 dated June 19, 2026

We thank you for the release of consultation paper of RGIA for the fourth control period. The Authority had directed HIAL to submit the comments on the Consultation Paper No. 02/2026-27 by July 20, 2026.

The detailed responses on the Consultation Paper is attached herewith as Annexure A.

As part of the tariff determination process, in case there is a variation between the ARR on which Annual Tariff Proposals (ATPs) was submitted dated 26th June 2026 and the final approved ARR by the Authority, we request the Authority to allow us to resubmit the ATP as the change in ARR may require us to rework on the recovery strategy.

Thanking You,
For GMR Hyderabad International Airport Limited

K Narayana Rao
Authorized Signatory

Encl : Annexure A - Responses to Stakeholder Comments

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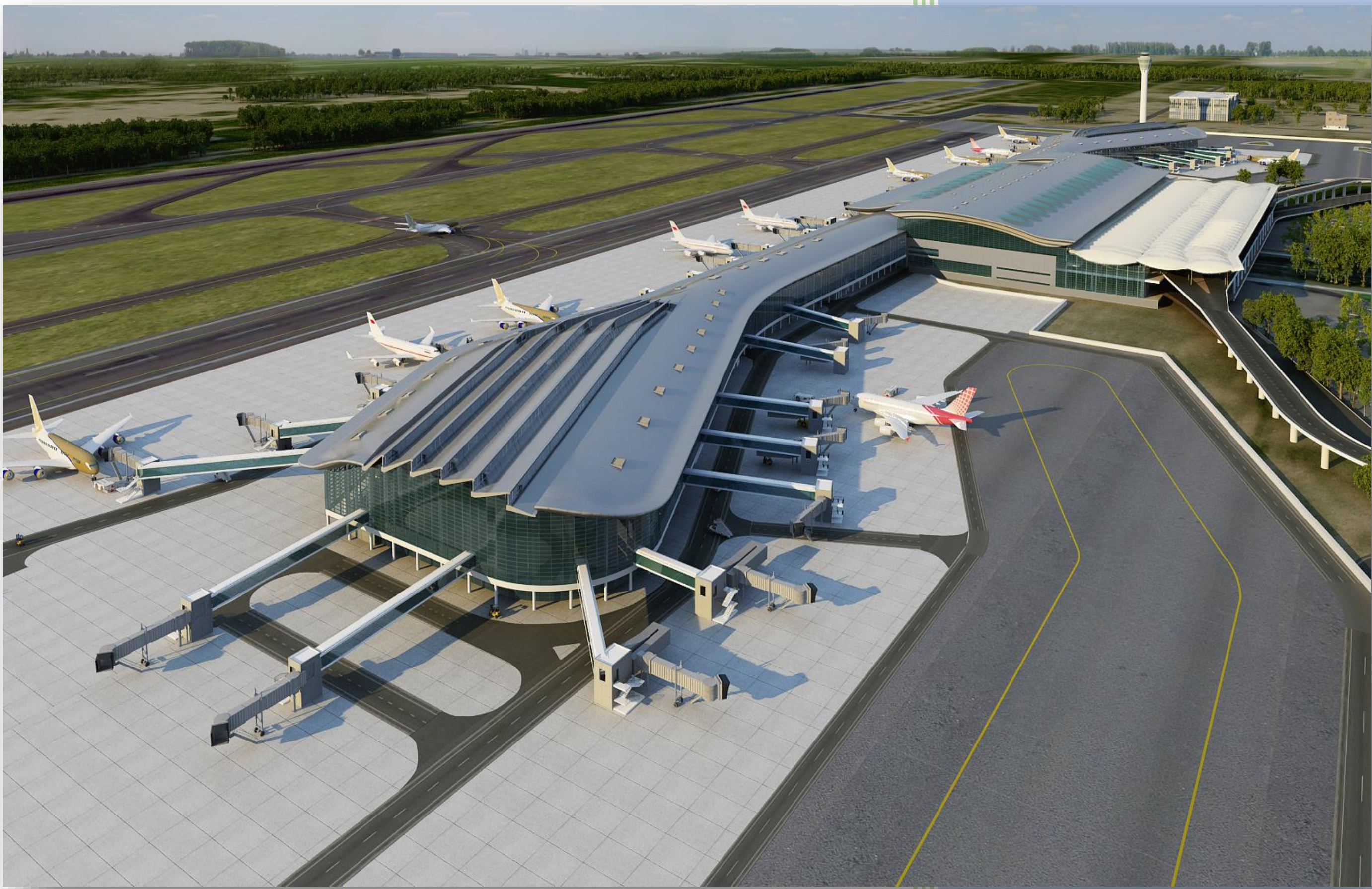
Response to Consultation Paper No. 02/ 2026-27 dated June 19, 2026



GMR Hyderabad

International Airport Ltd

20th July, 2026

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1. Non – Implementation of Hon'ble TDSAT Judgements

A. GHIAL's submission on non-implementation of TDSAT Judgements

GMR Hyderabad International Airport Limited (GHIAL), through its Multi Year Tariff Proposal (MYTP) for CP-4, filed with Airport Economic Regulatory Authority (AERA / Authority) to implement the Hon'ble TDSAT judgements on various issues as discussed below:

- ***Para 1.7 of CP**: GHIAL had filed appeal in TDSAT against the Authority's tariff order for the Third Control Period (Order No. 12/2021-22). TDSAT had pronounced its Judgement on 14.02.2024. Following judgements on specific issues raised by GHIAL were considered in respective control periods, which is impacting the building blocks:*
    - *Pre-Control Period Entitlement (PCPE).*
    - *Treatment of Cargo, Ground Handling & Fuel Services as Aeronautical Services.*
    - *Treatment of income from Real Estate Development.*
    - *Treatment of Other Income.*
    - *Capital expenditure for phase expansion of GHIAL to increase capacity from 20 MPPA.*
    - *Treatment of Cargo Satellite Building (CSB).*
    - *Non-Consideration of 30% of Non-Aero revenue as part of Aeronautical Revenue Base for calculation of aeronautical taxes.*
    - *Allocation of various assets (reservoir, parking stand, IDAT & IIDT, Township & Landscaping).*
    - *Failure to consider depreciation as per the Audited Financials.*
    - *Correction in Cost of Debt.*
    - *Interest Charges on Delayed Payments of Advance Tax.*
    - *Benefit received by Airport Operator from "Served From India Scheme (SFIS)" whether is aeronautical or non-aeronautical income?*
    - *Postponement of Partial Recovery of ARR.*
    - *Penalty in case of delayed execution of projects.*
    - *Interest income on debt adjusted against Interest During Construction (IDC).*

Proposal of the Authority vide Consultation Paper

The Authority has considered for non-implementation of the Hon'ble TDSAT Judgements. Relevant Extracts as follows:

"1.7.2. 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 filed by AERA were opposed by the Airport Operators 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.

1.7.3. The Hon'ble Supreme Court vide its judgement dated 18th October 2024, rejected the contentions of Airport Operators and has held that the appeals filed by the Authority under Section 31 of the AERA Act, 2008, against the Hon'ble TDSAT orders are maintainable on the ground that AERA is a necessary party in the Appeals filed before the Hon'ble TDSAT and the Authority is the custodian of public interest and for protecting public interest it can file Civil Appeal under Section 31 of the AERA Act, 2008. The Hon'ble Supreme Court has now listed these Civil Appeals filed by the Authority for hearing on merit and are pending before Hon'ble Supreme Court for final settlement and thus are sub-judice.

1.7.4. The Authority has carefully examined the issue of factoring the above-mentioned orders of the Hon'ble TDSAT in the Fourth Control Period Tariff Order. 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 these matters. Thus, the issues raised in these Civil Appeals filed by the Authority are not finally settled and the Hon'ble Supreme Court is seized of the matters. 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 revision in tariff is effected considering GHIAL'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 GHIAL will start recovery of increased tariff from the Airport users. However, if at a later stage, the Civil Appeals filed by the Authority are upheld or decided in AERA's favour, then it will not be possible to refund excess charges collected from the Airport users during this period on account of increase in tariff. Thus, there will be substantial over recovery by the Airport Operator at the cost of Airport Users. Due to all these factors, GHIAL would have unjust enrichment at the cost of Airport users. All these factors clearly establish that considering GHIAL submissions of giving effects to the Hon'ble TDSAT judgement 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, Authority is of view that public interest would be better served if Authority takes decisions on the basis of final decision of Hon'ble Supreme Court of India on these issues.

1.7.5. 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 with regard to the issues raised by the Authority in the Civil Appeals will be taken once the matters attain finality in the proceedings before the Hon'ble Supreme Court."

GHIAL's Response

With regard to TDSAT Judgement, although the authority has challenged it in Supreme Court, in the absence of stay order, based on earlier Supreme Court Judgements and legal positions, authority should have implemented the referred TDSAT Judgement. However, the authority has taken a view to wait for the outcome of Supreme Court Judgement. In this regard, it is imperative to note that as per Order 41 Rule 5 of the CPC, 1908 unless the appeal is listed and there is an interim order and merely pendency of the appeal before the Supreme Court will not amount the stay on the operation of the order passed by the Court/Tribunal.

Following Supreme Court Judgements support the implementation of TDSAT Judgement in the absence of stay order by the Honourable Supreme Court:

I. 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]**

II. Mere pendency of appeal before the Supreme Court against the order does not absolve the party not to comply 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]**

Even in the Recent TDSAT judgement dated 29th May 2026 in case of MIAL and judgement dated 11th Sep 2025 in case of GGIAL, TDSAT has specifically directed AERA to implement the impact of said judgement within 3 months. TDSAT, in paragraphs 412–450 of the Order (dated 29th May 2026), reiterated that its earlier judgments continue to be binding and must be followed unless they are specifically stayed or overturned by the Supreme Court. The Tribunal emphasized that the mere pendency of an appeal does not diminish the precedential value of its decisions, as doing so would undermine regulatory certainty, consistency, and the rule of law. Accordingly, TDSAT held that AERA is required to apply established TDSAT jurisprudence while determining tariff and regulatory matters and cannot disregard such precedents solely because they are under challenge before a higher court.
Excerpts from the Hon'ble TDSAT's judgment in the matter of MIAL dated 29th May 2026 are reproduced below:

> *“**441.** It is the foundational rule of Indian precedent law is that a judgment of a competent court or tribunal is binding both as an operative order and as a statement of the applicable law from the moment of its pronouncement. The pendency of an appeal does not suspend this effect, until reversal or stay by a superior court suspends or extinguishes it; the mere filing of an appeal does not. This principle has deep roots in various decisions of the Hon’ble Supreme Court.*
>
> ***442.** The doctrine of merger in relation to special leave to appeal being granted under Article 136, as explained by the Hon’ble Supreme Court in Kunhayammed v. State of Kerala , (2000) 6 SCC 359, rests on the principle that once a superior forum has finally adjudicated upon a decree or order passed by an inferior court, tribunal or authority, the operative order thereafter becomes the order of the superior forum into which the earlier order merges.*
>
> ***443.** However, the Hon’ble Court was careful to emphasise that the doctrine is neither automatic nor of universal application. Its operation depends upon the nature and scope of the jurisdiction exercised by the superior forum and the extent of the controversy that is actually placed before it. For ready reference Para 12 of the aforesaid judgement reads as under:*
>
>> ***12.** The logic underlying the doctrine of merger is that there cannot be more than one decree or operative orders governing the same subject-matter at a given point of time. When a decree or order passed by an inferior court, tribunal or authority was subjected to a remedy available under the law before a superior forum then, though the decree or order under challenge continues to be effective and binding, nevertheless its finality is put in jeopardy. Once the superior court has disposed of the lis before it either way — whether the decree or order under appeal is set aside or modified or simply confirmed, it is the decree or order of the superior court, tribunal or authority which is the final, binding and operative decree or order wherein merges the decree or order passed by the court, tribunal or the authority below. However, the doctrine is not of universal or unlimited application. The nature of jurisdiction exercised by the superior forum and the content or subject-matter of challenge laid or which could have been laid shall have to be kept in view.*

***444**. The Hon'ble Supreme Court expressly clarified that the mere invocation of appellate or supervisory jurisdiction does not, by itself, bring about merger of the impugned order into the order of the superior forum. The applicability of the doctrine must be determined with reference to the character of the jurisdiction exercised by the superior court and the precise subject-matter that forms the basis of the challenge. In other words, unless and until the superior forum has actually exercised its jurisdiction to examine and determined the issues raised before it, the order under challenge continues to subsist and operate in law.*

***445.** The sound structural logic of this principle is inescapable. Every judgment of every court below the Hon'ble Supreme Court is, in principle, amenable to further appeal. If the pendency of an appeal were sufficient to extinguish a judgment's precedential force, no judgment of any inferior court or tribunal, indeed, no judgment other than those of the Supreme Court itself would ever have any binding or even persuasive authority.*

***446.** The doctrine of stare decisis , which the Hon'ble Supreme Court has repeatedly held to be a cornerstone of the rule of law in India, would be rendered meaningless. This consequence is obviously contrary to the constitutional and legal order and resultantly anti-thesis to rule of law.*

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450. As a cumulative effects of the aforesaid facts, arguments, findings and applicable legal principles, discussed hereinabove, this AERA Appeal no. 2 of 2025 is hereby allowed and accordingly stands disposed of. Consequently, AERA order no. 01/2025-26 issued on 07.05.2025 (Annexure A-1 to the memo of this appeal) passed by Respondent no.1-AERA stands modified to the extent the issues allowed in the present appeal. AERA is directed to consider giving effect to the same within a period of three months from the date of the receipt of the copy of this judgment. All the pending miscellaneous applications connected with this appeal are also disposed of."

Excerpts from the Hon'ble TDSAT's judgment in the matter of GGIAL dated 11th Sep 2025 are also reproduced below:

178. Earlier decisions rendered by this Tribunal are binding upon AERA. AERA must have followed the decision given by this Tribunal. All the decisions given by this Tribunal are binding even in the cases where appeal has been preferred by AERA and no stay has been granted by Hon'ble the Supreme Court of India. The Judgments are delivered by this Tribunal not only for reading but for understanding it and for following the same.

……………..

186. It is trite to state that it is elementary principle of law that the determinations of this Tribunal binds AERA unless and until stayed or set aside by the Hon'ble Supreme Court. The mere pendency of an appeal does not dilute the ratio decidendi. Where no interim stay is in force, the Tribunal's pronouncement operates proprio vigore and must be implemented inter partes in the very matter decided and, on parity, in cognate cases presenting the same point.

187. That non-adherence to a binding precedent constitutes a jurisdictional error and a breach of judicial discipline in the statutory hierarchy. The emerging practice of deferring obedience on the footing of a pending but unstayed appeal is deprecated. If the Authority considers a prior ratio inapplicable, it must identify the material distinctions, record reasons, and, where necessary, seek clarification; it may not simply ignore the ruling.

188. The AERA tariff framework already contains a safety-valve in the form of true-up. Should the Hon'ble Supreme Court subsequently vary the governing law, symmetrical adjustments can be effected at the next determination without unsettling settled accounts. The availability of true-up removes any rationale for holding back compliance with binding Tribunal law in the interim.

189. In the present case, the binding pronouncements dated 21.07.2023 and 06.10.2023 were in the Authority's knowledge when it framed the impugned order. In the absence of a stay, AERA is obliged to align its determinations with those rulings both for this appellant and for other similarly situated airports.

…………….

191. Delay also inflicts irremediable economic prejudice as airlines and passengers are inherently transient; non-aeronautical users (F&B, retail) are diffuse; and over a span of four- or five-years retrospective recovery becomes, in practice, illusory. Deferral of compliance therefore distorts competitive dynamics and burdens the very users whom the statute seeks to protect.

*192. Accordingly, AERA shall give immediate effect to the controlling decisions of this Tribunal specifically the judgments dated 21.07.2023, 06.10.2023 and **14.02.2024** in this matter and in all like cases, subject only to any express order to the contrary passed by the Hon'ble Supreme Court. If the law is later modified, AERA shall apply the true-up mechanism to reconcile accounts in the succeeding control period.*

…………….

202. Thus, AERA cannot wait till the final decision is given by the Hon'ble the Supreme Court of India to comply with directions given by TDSAT because sometimes airlines are winding up and those passengers will not be available at all for recovery. AERA should not have treated the mere filing of appeal as a stay granted by the Hon'ble the Supreme Court of India.

In view of the above, where TDSAT has mentioned the specific Judgement dated 14th Feb 2024 and basis various legal position, we once again request Authority to be kind enough to implement the TDSAT Judgement in the current dispensation of CP-4 tariff order.

B. Non-Consideration of True-up of Previous Periods (PCPE, CP-1 & CP-2)

Proposal of the Authority vide Consultation Paper for PCPE

2.4.1. To consider True Up for the PCPE as per Table 9 of this Consultation Paper in line with the Tariff Order for the Third Control Period.

Proposal of the Authority vide Consultation Paper for True-up of CP-1

3.4.1. To consider True Up for the First Control Period as per Table 9 of this Consultation Paper in line with the Tariff Order for the Third Control Period.

Proposal of the Authority vide Consultation Paper for True-up of CP-2

4.4. Authority's proposals regarding True up for the Second Control Period

Based on the material before it and its examination, the Authority proposes the following with respect to True-up of the Second Control Period:

4.4.1 To consider True Up for the Second Control Period as per Table 9.

4.4.2 To retain the over-recovery of Rs. 441.60 Cr as determined during True up for the Second Control Period as part of the tariff determination exercise for the Third Control Period.

GHIAL's Response

GHIAL would like to request Authority to consider implementing the TDSAT judgement dated 14th Feb 2024 bases the request discussed in the section-A above.

2. True-up for the Third Control Period (April 01 2021, to March 31, 2026)

GHIAL has provided a detailed response regarding the non-implementation of the Hon'ble TDSAT Judgements in Section 1 above. Thus, certain sections are not being repeated for the sake of simplicity.

2.1. Regulatory Asset Base

(i) Project Capex

a) <u>Authority's proposal for Soft Costs (PMC):</u>

5.4.73. With respect to Design Development and PMC, the Authority notes that M/s RITES Limited had recommended a cost of Rs. 132.67 Crores in the Tariff Order for the Third Control Period. The Authority notes that at the time of the tariff determination for the Third Control Period, M/s RITES Limited had recommended restricting the soft cost, including PMC and Design fee, to 3% of the hard cost on the grounds that the PMC had been awarded by GHIAL to its group company, GADL, without competitive bidding.

5.4.74. The Authority notes that the actual hard cost of the expansion project proposed to be considered by the Authority is Rs. 5,227.84 Crores. In line with the approach adopted by RITES during the Third Control Period tariff determination, the Authority proposes to restrict the soft cost, including Design Development and PMC, to 3% of the actual hard cost. Accordingly, the allowable Design Development and PMC cost works out to Rs. 156.84 Crores as against the Design Development and PMC cost of Rs. 253.40 Crores submitted by GHIAL. The Authority therefore proposes not to deviate from the stand taken during the tariff determination for the Third Control Period and restrict the Design Development and PMC cost to Rs. 156.84 Crores for the purpose of true-up of the Third Control Period. Further, the amount remaining under CWIP amounting to Rs. 14.36 Crores as on 31.03.2026 shall not be considered for capitalization during Third Control Period and may be considered in FY2027, subject to actual capitalization and prudence check.

<u>GHIAL's Response:</u>

In the recent TDSAT judgement dated 29th May 2026 TDSAT has allowed actual soft cost as incurred by MIAL and has invalidated artificial cap on soft cost which is against the applicable law. Excerpts from the judgement have been presented below:

"229. The Soft Cost claimed by the Appellant deserves to be allowed, as the issue is no longer res integra in view of judgment dated 11-09-2025 delivered by this tribunal in AA no. 1 of 2023 and in connected appeals, wherein it has been expressly held that AERA shall allow the actual Soft Cost incurred by the Airport Operator and that introducing an artificial cap on Soft Cost is not contemplated under the applicable law. Once this Tribunal has already laid down that actual Soft Cost is to be allowed and necessary true-up is to be granted accordingly, AERA could not have mechanically imposed a uniform cap of 8% of the total capital expenditure in derogation of the binding findings of this Tribunal.

230. The decision of AERA to restrict the Soft Cost to 8% is arbitrary and unsupported by any cogent material, particularly when the material placed on record by the Appellant demonstrates that the Soft Cost claimed is based on recognised norms, industry practice and rational estimation.

240. We hereby quash and set aside the decision of AERA in so far as it relates to Soft Cost, and we hereby direct AERA to allow Soft Cost incurred by the appellant. Putting artificial cap upon Soft Cost is not contemplated under the applicable laws and therefore, AERA shall allow actual Soft Cost incurred by the appellant."

In case of Noida International Airport, Authority has approved more than 3% of PMC cost which has been approved in the pretext of Airport being a greenfield project. However, PMC services do not have any bearing on projects being a greenfield or an operational one. Challenges at an operational airport is more complex since works are required to be undertaken along with normal day-to-day operations which makes it more challenging. Extract from the Noida Airport order dated 12th May 2026 is presented for reference.

<u>The Authority's examination of Design Consultancy and PMC expenses:</u>

5.3.191 The Authority had reviewed the contract award process for design and PMC expenses and examined the costs in relation to the scope of work. Also, as referred to in Para 5.3.216 of this consultation paper, costs aggregating to Rs. 5.25 crores are reclassified from Pre-operative expenses to Design and PMC expenses and as detailed in Para 5.3.178 of this consultation paper, costs aggregating to Rs. 16.43 crores are reclassified from Common expenses to Design and PMC expenses. The net impact, after considering the GST @ 15.07% as detailed in Para 5.3.179 above, is an addition to Design and PMC expenses of Rs. 24.95 crores. The total cost arrived at is Rs. 345.23 crores after minor round-off adjustments based on comparison of contract cost with those submitted by YIAPL.

5.3.192 The Authority had reviewed the percentage of Design and PMC as a % of hard costs. It is noted that the PMC and design cost as a percentage of hard costs is 6.62%, which appears reasonable given the nature of the project.

Table 77: Computation of Design and PMC Cost as a percentage of Hard Cost during Consultation Stage

(Rs. in crores)

Particulars	Amount
Total Hard Cost (refer Table 96)	5,217.94
Design and PMC Cost (refer Table 96)	345.23
Design and PMC Cost as a % of Hard Cost	6.62%

5.3.193 As a Greenfield airport, the services under this involves master advisory services, overall airport planning, the first comprehensive master plan, which includes traffic projections for all future years. Given these unique requirements, the costs appear justified within the broader context of long-term infrastructure planning and strategic airport development.

It is pertinent to note that the restriction of Design Development and PMC cost to 3% of hard cost has been carried forward from the approach adopted during the Third Control Period solely on the grounds that the PMC services were awarded to GADL without competitive bidding. However, GHIAL had submitted that the PMC engagement was undertaken on an arm's length basis and was supported by an independent consultant's benchmarking study for the charge out rates for the manpower deployed. Further, the Authority has not identified any specific inefficiency, imprudence or excess cost in the actual expenditure incurred. Given that Design Development and PMC costs are directly linked to the scale and complexity of the project, application of a blanket cap of 3% of hard cost may not appropriately reflect the actual project requirements. Accordingly, GHIAL requests the Authority to consider the Design Development and PMC costs as submitted by GHIAL, subject to prudence review.

b) <u>Authority's Proposal for Uncapitalized Balance by GHIAL</u>

5.4.65. GHIAL has further submitted that the above balance amount of ₹168.50 crore is expected to be capitalized in FY 2027.
5.4.66. Based on the submission made by GHIAL, the Authority has considered and allowed capitalization of only ₹107.07 crore during FY 2026, being the amount actually capitalized during the year. The remaining amount of ₹168.50 crore, comprising CWIP of ₹92.53 crore and carry-forward amount of ₹75.97 crore as on 31 March 2026, has not been considered for capitalization in FY 2026, since the same has not been capitalized/put to use during the year.
5.4.67. Accordingly, the Authority has deferred/shifted the remaining amount of Rs. 168.50 Crores to FY 2027 (i.e. 1st tariff year of the 4th Control Period) which includes Rs. 152.59 Crores towards hard cost, and Rs. 15.92 Crores pertaining to soft cost.

<u>GHIAL Response:</u>

GHIAL respectfully submits that the proposed adjustment of ₹168.50 Crores requires reconsideration as the said amount has already been excluded from the capitalization considered by GHIAL in its revised submission.

As noted by the Authority in **Paras 5.4.63 to 5.4.65**, GHIAL, in its revised submission, confirmed that only **₹107.07 Crores** was capitalized towards 34 MPPA expansion project during FY 2026 and further submitted that the balance amount of **₹168.50 Crores** comprising CWIP of **₹92.53 Crores** and carry-forward amount

of **₹75.97 Crores** remained uncapitalized as on 31st March 2026 and is expected to be capitalized in FY 2027. The revised FY 2026 capitalization submitted by GHIAL was supported by the **Fixed Asset Register (FAR)** containing only assets capitalized during FY 2026. Accordingly, the CWIP balance of ₹92.53 Crores and carry-forward amount of ₹75.97 Crores were not included in the capitalization claimed by GHIAL.
Accordingly, GHIAL requests the Authority to reconsider the proposed adjustment and ensure that no deduction is made on account of CWIP and carry-forward balances which were not included in the capitalization submitted by GHIAL.

c) Authority's Proposal for Retrospective Capitalisation of GST ITC

5.4.94. The Authority proposes to consider the GST ITC of Rs. 323.79 Crores as submitted by GHIAL for the purpose of determining the net capitalisation towards the expansion project
5.4.95. The retrospective capitalisation relating to GST input amounting to Rs. 129.85 Crores, for the period prior to the Third Control Period has been considered as part of the opening RAB for the Third Control Period, since the claim for the same has been submitted as part of the true-up for the Third Control Period.

GHIAL Response:

GHIAL respectfully submits that the Authority has proposed to consider the retrospective capitalisation of GST Input Tax Credit ("GST ITC") amounting to ₹129.85 Crores as part of the opening RAB for the Third Control Period. While GHIAL appreciates the Authority's consideration of the underlying capitalisation, it is observed that the corresponding regulatory benefits in the form of depreciation and return on RAB associated with such capitalisation have not been considered.

As detailed in Annexure 9 of the MYTP Application, the retrospective capitalisation pertains to GST on civil works incurred during FY18 to FY21. The underlying expenditure had already been incurred and the related assets had already been created, commissioned and put to use in the airport operations during the respective years. Therefore, the retrospective capitalisation does not represent a new investment made during the Third Control Period but rather the recognition of an asset cost that was always an integral part of the project cost. Accordingly, the Airport Operator is entitled not only to recognition of the capitalised amount in the RAB but also to the associated depreciation and return that would have accrued had the amount been capitalised in the respective years.

The retrospective adjustment arose due to the evolving legal position regarding the eligibility of GST Input Tax Credit on civil works. Following the favourable judgment of the **Hon'ble Orissa High Court in Safari Retreats Pvt. Ltd. vs. Chief Commissioner of CGST,** GHIAL had treated GST on civil works as eligible input credit. Subsequently, the Revenue Department challenged the said ruling before the Hon'ble Supreme Court. Given the uncertainty surrounding the final legal position and the pending adjudication before the Hon'ble Supreme Court, GHIAL continuously reassessed its accounting treatment. Based on the subsequent developments and a prudent evaluation of the matter, GHIAL decided to retrospectively capitalise the GST on civil works in its books as of 31 March 2023.

GHIAL submits that the timing of the claim was therefore driven by the legal uncertainty and the delayed finality of the judicial proceedings, and not by any delay in incurring the expenditure or creating the underlying assets. Since the cost had already been incurred in earlier years and has now been accepted by the Authority as forming part of the capital cost through retrospective capitalisation, the associated depreciation and return should also be recognized to ensure that the Airport Operator is restored to the same regulatory position that would have prevailed had the amount been capitalised originally.

Accordingly, GHIAL has undertaken a detailed computation of the depreciation and return attributable to the retrospective GST capitalisation for FY18 to FY21. Based on the calculations submitted, an amount representing the present value of the associated return and depreciation on the retrospectively capitalised GST should be considered as part of the Third Control Period true-up and included while determining tariffs for the Fourth Control Period.

GHIAL therefore requests the Authority to consider, in addition to the retrospective capitalisation of ₹129.85 Crores, the corresponding depreciation and return on RAB arising from such capitalisation, as detailed in Annexure 9 and the accompanying calculations submitted by GHIAL.

Table 1: Return & Depreciation on Retrospective Capitalisation on GST on Civil Portion (Rs Crores)

GST on Civil Portion		FY18	FY19	FY20	FY21
Opening	(A)	-	0.45	59.33	115.61
Additions	(B)	0.46	59.88	60.51	20.51
Depreciation	(C)	0.01	1.00	4.24	6.27
Closing	(D) = (A)+(B)-(C)	0.45	59.33	115.61	**129.85**
Average RAB	(E) = {(A) + (D)}/2	0.23	29.89	87.47	122.73
FRoR	(F)	10.73%	10.73%	10.73%	10.73%
Return on RAB	(G)= (E)*(F)	0.02	3.21	9.39	13.17
ARR	(H) = (C) + (G)	0.03	4.21	13.63	19.44
PV factor as on 01-04-2027	(I)	9.00	8.00	7.00	6.00
FRoR CPIV	(J)	12.56%	12.56%	12.56%	12.56%
PV Value Factor	(K) = (I)*(J)	2.90	2.58	2.29	2.03
To be included in the true up	**(H) * (K)**	**0.09**	**10.84**	**31.19**	**39.53**

d) <u>Authority's proposal for Interest during Construction (IDC):</u>

5.4.89. Further, the Authority notes that, based on the prudence check of the capital expenditure proposed for the Expansion to 34 MPPA project, the allowable capital cost, excluding IDC, has been assessed at Rs. 5,406.27 Crores as against Rs. 5,671.34 Crores submitted by GHIAL, as detailed in Table 40. Accordingly, the reduction in capital expenditure works out to Rs. 265.07 Crores, representing 4.67% of the capital expenditure, excluding IDC, submitted by GHIAL. The Authority further notes that GHIAL has submitted IDC of Rs. 1,459.55 Crores in respect of the said project, as detailed in Table 37. Since IDC is incidental to, and arises from, the underlying capital expenditure, the Authority is of the view that IDC should be allowed only to the extent it is attributable to the capital cost found reasonable and efficient after prudence check. Accordingly, the Authority has proportionately disallowed IDC to the extent of 4.67%, in line with the disallowance made in the underlying capital expenditure. The proportionate IDC disallowance works out to Rs. 68.22 Crores.

5.4.91. Accordingly, the Authority proposes to consider IDC of Rs. 1,459.55 Crores for the Third Control Period, being the IDC capitalised during FY 2021-22 to FY 2023-24 as per the capitalisation schedule *submitted by GHIAL. The IDC of Rs. 46.62 Crores capitalised during the Second Control Period has been considered as part of the Second Control Period true-up and is not being double-counted. Further, IDC amounting to Rs. 68.22 Crores has been deducted from the IDC on proportionate basis.*

GHIAL's Response:

Disallowance of IDC Capitalised in the Second Control Period (₹46.62 Crores)

GHIAL respectfully submits that there is no instance of double counting of IDC in the additions proposed for the Third Control Period. While the total IDC of ₹1,506.17 Crores submitted by GHIAL represents the cumulative IDC pertaining to the overall expansion project period from FY 2017-18 to FY 2023-24, the additions capitalised and submitted for consideration under the Third Control Period are based on the Fixed Asset Register (FAR) maintained by the Company and include only those assets capitalised during the Third Control Period.

It is pertinent to note that the IDC amounting to ₹46.62 Crores, which was capitalised during the Second Control Period, does not form part of the capital additions submitted by GHIAL for the Third Control Period. Therefore, the same has not been claimed again for regulatory consideration and is inherently excluded from the asset additions considered for the Third Control Period.

The Authority's proposed deduction of ₹46.62 Crores appears to arise from the reconciliation of the total project IDC submitted by GHIAL; however, such deduction effectively results in an unwarranted reduction from RAB because the amount has already been excluded from the actual capital additions recognised in the FAR for the Third Control Period.

Accordingly, GHIAL submits that the proposed deduction of ₹46.62 Crores may kindly be reconsidered, as the capital additions submitted for the Third Control Period do not include any IDC capitalised in prior control periods and therefore do not result in any double counting.

Reduction of IDC on Proportionate Basis Due to Carry forward capex of ₹ 168.50 Cr (₹43.37 Crores)

GHIAL respectfully submits that the proposed reduction of IDC by ₹43.37 Crores on account of the deferred/carry-forward capex of ₹168.50 Crores is not correct. As evident from Table 36 of the Consultation paper (Year-wise IDC Computation), the IDC claimed by GHIAL has been incurred and fully capitalized by FY 2024, with the total IDC amounting to ₹1,506.17 Crores. No IDC has been claimed or capitalized beyond FY 2024.

Therefore, the carry-forward capex of ₹168.50 Crores, which remains uncapitalized as of 31 March 2026 and is proposed to be considered in FY 2027, is incurred out of board approved means of finance other than debt. Since the IDC has already been computed up to FY 2024 and no IDC has been considered for the period subsequent to FY 2024, the proportionate reduction of IDC by ₹43.37 Crores on account of the deferred capex is not correct.

Accordingly, GHIAL requests the Authority to restore the disallowed IDC of ₹43.37 Crores.

e) <u>Authority's proposal for Depreciation</u>

"5.4.116. The Authority notes that there were certain line items in the Fixed Asset Register where GHIAL <u>had depreciated the entire remaining depreciable value of the asset, despite the useful life of such assets not being fully exhausted</u>. The asset classes in which <u>such accelerated depreciation was claimed by GHIAL included Buildings, Other Roads, and Plant & Machinery</u>. Further, in respect of assets capitalised during the middle of the <u>year, GHIAL had considered depreciation for the full year</u>. The Authority has recomputed depreciation <u>on a pro-rata basis from the date of capitalisation of the respective assets</u>, in line with the principle that depreciation should be allowed only from the date on which the asset is capitalised and put to use."

5.4.120. The Authority, based on the <u>adjustments and disallowances in the aeronautical asset additions to RAB in the Third Control Period</u> proposes to consider proportionate adjustment in depreciation as follows:

<u>GHIAL Response:</u>

GHIAL would like to appraise following points to the Authority for its consideration with respect to depreciation:

a. GHIAL special purpose financial statements for the year ended March 31, 2023 had specifically highlighted that certain portions of Goods & Services Tax which were under contest before the Hon'ble Supreme Court was not capitalised till March 31, 2023, however, based on the justification provided by the Management in the Note No. 56 of the financial statements it had specifically informed that the GST had been retrospectively capitalised.

   This resulted into manual calculation of the GST for retrospective capitalisation and entire impact of such depreciation is given impact in the FY 23-24 in the financial statements. Further, GHIAL in its financial model, specifically identified the depreciation pertaining to the past periods in the model itself. However, the Authority did not consider the retrospective depreciation on GST capitalisation part even though there treatment of the assets capitalisation is accepted by the Authority. We humbly request the authority to consider the same.

b. With respect to pro-rata calculation, GHIAL statutorily obligated under Schedule II of the Companies Act, 2013 to adopt the pro-rata depreciation i.e., from the date of capitalisation of the assets. GHIAL had applied this policy consistently across all the classes of depreciation. These are thoroughly verified by the management of the Company, Internal Auditors and Statutory Auditors.

c. We note the Authority's proposal to consider proportionate adjustment in depreciation based on the adjustments and disallowances in aeronautical asset additions to the RAB during the Third Control Period.

   However, we are unable to trace the detailed adjustments/disallowances referred to by the Authority and, therefore, are presently not in a position to reconcile or verify the basis of the proposed depreciation adjustment.

   Without prejudice to the above, it is pertinent to note that any adjustment to depreciation arising from the disallowance of asset additions should be effected only from the respective date of capitalization of the concerned asset(s). Depreciation is chargeable only from the date an asset is capitalized and ready to use in accordance with the applicable accounting and regulatory principles. Consequently, any reduction in depreciation on account of disallowed capitalization should be calculated proportionately from the date of capitalization of such asset(s) and should not be applied retrospectively for the entire Control Period.

We therefore request the Authority to provide the detailed asset-wise adjustments/disallowances considered for this purpose and ensure that the corresponding depreciation adjustment is restricted to the period commencing from the date of capitalization of the relevant asset(s). We would like to request an opportunity to the Authority, to provide the desired clarifications for various category of issues found by the Authority in the calculation of depreciation.

2.2. Aeronautical Tax

Proposal from Authority:

5.9.8 The Authority also notes that for the purpose of tax calculation, GHIAL has considered interest cost by applying notional gearing ratio. However, the Authority has considered actual aeronautical gearing for calculation of interest expenses.

5.9.9 The Authority has relied upon the judgement of Hon'ble Supreme Court dated 11.07.2022 and worked out corporate tax based on regulatory accounts/regulatory building block. The Authority notes that Aeronautical Taxes are to be computed only on earnings pertaining to regulated charges after adjustment of accumulated losses. In case accumulated losses are available, the same are to be set off against the earnings pertaining to regulated charges before computing the tax liability.

5.9.10 GHIAL has computed the interest expenses considering that 48% of the average RAB is financed through debt. However, it is observed that, in actuality, 70% of the average RAB has been financed through debt. Accordingly, the interest expenses have been reworked by considering debt financing at 70% of the average RAB.

GHIAL's Response:

The Authority has referred to the Hon'ble Supreme Court Judgment dated 11th July 2022 and has computed the income tax component based on regulatory earnings after adjustment of accumulated losses. GHIAL respectfully submits that, while computing the tax component, the underlying regulatory accounts and assumptions used for determination of Target Revenue ("TR") must be applied consistently across all building blocks of the tariff framework.

In this regard, GHIAL notes that the Authority has considered interest cost based on **70% of Average RAB**, whereas the **Weighted Average Cost of Capital (WACC)** framework adopted by AERA is based on a **48:52 debt-equity ratio**. Such differential treatment of gearing assumptions across regulatory building blocks results in an inconsistency in the computation of regulatory returns and related tax impact.

GHIAL respectfully submits that the Hon'ble Supreme Court, in Paragraph 113 of its judgment, has unequivocally clarified that the tax component ("T") is required to be computed solely on the basis of the **regulatory accounts prepared by AERA for the Target Revenue formula**, as reproduced below:

"113. In the overall scenario, it is the TR which is crucial where 'T' is only a component. No one is saying that a different methodology and not the common practice has to be followed for payment of tax. It is for the component 'T' to be calculated in the formula for TR that 'T' has been defined. 'T' has to be computed based solely on regulatory accounts prepared by AERA for the TR formula. If the Annual Fee

is the component which is taken out of aeronautical services, the definition of 'T' would have to be read completely differently."

The above principle necessitates that all inputs and assumptions used in the determination of regulatory income, including financing assumptions, should remain aligned with those adopted in the overall Target Revenue framework. Consequently, where AERA has determined the financing structure for WACC purposes using a gearing ratio of **48% debt and 52% equity**, the same gearing assumption should also be adopted while computing the interest component embedded in the regulatory accounts and the consequential tax calculation.

It is further observed that in the recent tariff determinations of **DIAL, MIAL and Navi Mumbai International Airport**, the Authority has consistently computed interest cost using the same **48% gearing ratio** adopted for WACC/FRoR calculations. In particular, the Authority's Order dated 20 May 2026 for Navi Mumbai International Airport reflects this consistent regulatory approach.

10.2 Authority's examination regarding aeronautical taxation for the First Control Period at Consultation Stage

10.2.1 The Authority noted that NMIAL had considered 30% NAR in the estimation of aeronautical Profit Before Tax (PBT), which was then used in the computation of aeronautical taxes. The fact that a part of NAR is used for cross subsidisation as per the hybrid till mechanism does not change the nature of such revenue to aeronautical. Further, the cross subsidisation as per the hybrid till mechanism is done in order to reduce tariff pressure on passengers and to incentivize NMIAL to make effective investments in non-aeronautical income generating sources.

10.2.2 Authority also noted that for the purpose of tax calculation, NMIAL had considered interest cost in proportion of notional gearing ratio.

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10.2.3 Therefore, the Authority is of the view that:

- 30% NAR should not be treated as a subsidy for NMIAL as NMIAL had already earned it from non-aeronautical services and is meant as a cross subsidy to the airport user.
- The consideration of 30% NAR as part of revenue from aeronautical services would result in an unfair enrichment to NMIAL, effectively reducing the cross-subsidy benefit to the airport user from the present 30% non-aeronautical income.

Accordingly, since the WACC framework already provides reimbursement of debt costs and return on equity through the prescribed **48:52 capital structure**, there is no regulatory justification for adopting an alternative gearing ratio exclusively for the computation of interest cost. Applying different debt proportions for separate elements of the Target Revenue calculation would be inconsistent with the regulatory methodology and the principle laid down by the Hon'ble Supreme Court.

GHIAL, therefore respectfully requests the Authority to consider the approved 48% debt ratio for computation of interest cost in the regulatory tax calculation, ensuring consistency across all regulatory building blocks and alignment with the approach followed in the tariff determinations for other major airport operators.

2.3. Operation and Maintenance Expenses

i. Legal Expenses for CP-3

Proposal from Authority:

The Authority has revised the allocation of the legal expenses for the aeronautical purposes. Relevant Extracts are as follows:

5.6.160. The Authority recalls that, in the Tariff Order for the Third Control Period, it had been specifically provided that Legal expenses, forming part of Professional and Consultancy expenses, shall be allowed only to the extent the same are incurred for purposes related to Aeronautical Services, and shall be subject to the tests of efficiency and necessity of incurrence.

5.6.161. Having regard to the Aeronautical Legal Expenses claimed by GHIAL, the Authority sought a detailed break-up of the legal expenses attributable to Aeronautical Services, along with the underlying basis of allocation as between Aeronautical and Non-Aeronautical Services, for the purposes of detailed examination.

5.6.163. The Authority observes that the detailed break-up of the Legal expenses attributable to Aeronautical Services has not been furnished by GHIAL. In the absence of the requisite information, the Authority proposes to allocate the Legal expenses on the basis of the ratio of Aeronautical Revenue to the total income of GHIAL in the respective financial years.

GHIAL's Response:

The Authority's proposed to apportion legal expenses based on the ratio of aeronautical revenue to total revenue represents a significant and unjustified deviation from its established principles. Historically, AERA has followed rational and objective methodologies—such as allocation based on the Terminal Area Ratio or the Gross Fixed Assets (GFA) Ratio—to distribute common expenditures between aeronautical and non-aeronautical services. These methods are rooted in tangible parameters that reflect the actual usage of resources and infrastructure by each segment. In contrast, revenue-based allocation introduces a subjective and financially driven approach, which lacks the physical or operational correlation traditionally relied upon by the Authority.

Further, the revenue-based allocation of legal expenses is misaligned with the fundamental principle of cost causation, which is central to any sound regulatory framework. Legal expenses, by their nature, are context-specific and not always linked to revenue-generating activities. **Therefore, GHIAL request Authority to use GFA ratio or Terminal Aera Ratio for allocating the cost.**

ii. CSR disallowance for CP3

Proposal from Authority:

The Authority has proposed to not consider the CSR and donation as part of the regulator building block O&M. Relevant extract are as follows:

Corporate Social Responsibility

2.6.231. The Authority took cognizance of the statutory provisions of the Companies Act, 2013 towards allowance of CSR expenses and the extract of the same has been provided below:

i. 'Section 135 (1) of Companies Act, 2013 states that 'Every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during immediately preceding financial year shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which at least one shall be an independent director.' Further section 135(5) states that 'The Board of every company referred in section 135(1), shall ensure that the company spends, in every financial year, at least two percent of the average net profits of the company made during the three immediately preceding financial years, in pursuance of its Corporate Social Responsibility.'

2.6.232. In this regard, the Authority is of the view that the CSR is a mandatory Social Responsibility of the Company (as per Section 135(1) of Companies Act). As the CSR expenditure is to be incurred by Companies out of their net profits, it is to be regarded as an element of appropriation of Net Profits and not as a part of their Operating Expenditure. Therefore, CSR expenses could not be construed as a passthrough expenditure of the companies, otherwise, it would defeat the very purpose of the social responsibility entrusted on the companies. Further, Section 37(1) of Income Tax Act also disallows CSR expenses, as these are not considered expenses incurred wholly and exclusively for the purpose of business of the entity.

2.6.233. The Authority hence proposes not to consider CSR expenses as part of Aeronautical O&M expenses for the Third Control Period.

GHIAL's Response:

Community Development:

The expenditure pertaining to the Corporate Social Responsibility was allowed by the Authority to Hyderabad International Airport Limited for previous control periods. Below is the extract of the same:

1) First Control Period:

Table 51: Operating expenses considered by the Authority in the current Control Period

(Rs in crore)	2011-12	2012-13	2013-14	2014-15	2015-16
Payroll Expenses					
Salary and Wages	45.69	48.02	52.37	57.13	62.31
Staff Welfare	5.71	5.31	5.79	6.31	6.88
Training	1.51	0.48	0.53	0.57	0.63
Total Payroll expense	52.91	53.80	58.69	64.01	69.82
Utility expenses					
Utility Costs	15.89	23.48	23.48	23.48	20.48
General / Admin expenses					
Auditors Fee	0.31	0.40	0.44	0.48	0.52
Directors Sitting Fee	0.07	0.08	0.09	0.10	0.11
Communication Expenses	1.72	1.38	1.50	1.64	1.79
Travelling Expenses	8.13	6.57	7.17	7.82	8.53
Rent	6.78	6.83	7.45	8.13	8.87
Rates and Taxes	6.99	14.99	14.99	14.99	14.99
Advertisement	1.96	10.72	11.70	12.76	13.92
Ofc Maintainanance	2.78	2.57	2.81	3.06	3.34
Printing and Stationary	0.56	0.33	0.36	0.40	0.43
Event Management	0.34	0.13	0.14	0.16	0.17
Recruitment	0.43	0.16	0.18	0.19	0.21
Community Development	1.47	1.35	1.47	1.61	1.75

2) True-up of Second Control Period:

Table 54: Efficient O&M proposed to be considered by the Authority for True up of the Second Control Period

Particulars (In Rs. Crores)	2017	2018	2019	2020	2021	Total
Employee Cost (a)	53.44	64.40	89.68	108.18	101.76	417.46
General Admin Cost (b)	42.44	60.52	65.29	84.23	54.76	307.23
Lease Rent to GoT (c)	2.38	2.48	2.61	2.73	2.88	13.09
Rates & Taxes (d)	5.13	5.35	5.38	6.13	5.01	27.00
Community Development (e)	0.00	0.00	3.17	7.02	7.66	17.85
Security Cost (f)	9.68	14.17	16.15	21.12	15.86	76.98
Bad Debts Written Off (g)	0.00	0.00	0.00	0.00	0.20	0.20
Bank Charges (h)	3.55	116.23	0.72	30.23	7.48	158.21

GHIAL submits that the Authority has consistently recognized and allowed CSR expenditure as part of Operation and Maintenance Expenses across previous control periods. In the present case, the proposed disallowance of CSR expenditure represents a departure from the Authority's established regulatory approach without any change in the underlying facts or regulatory framework.

Similarly, the expenditure pertaining to the Corporate Social Responsibility is allowed by the Authority to the Bangalore International Airport Limited for the third control period. Below is the extract of the same:

3.7.39 Based on the above, the aeronautical operating expenditure decided by the Authority for the true-up of Second Control Period is given below:

Table 40: Aeronautical operating expenditure decided by the Authority for true-up of Second Control Period

Operating expenses adjustments	FY 2017	FY 2018	FY 2019	FY 2020	FY2021	Total
Personnel expenses	107.37	110.43	137.41	174.29	157.35	686.84
O&M	83.03	98.97	96.93	117.09	123.78	519.80
Lease Rent	13.01	13.42	13.83	14.24	18.72	73.22
Utilities	36.45	41.92	34.86	34.22	25.20	172.66
Insurance	1.57	2.22	1.94	3.25	5.66	14.64
Rates & taxes (other than IT)	7.48	5.62	8.02	7.63	7.17	35.91
Marketing & Advertising	7.90	9.02	14.91	19.62	6.27	57.73
CSR	2.14	4.23	6.99	6.85	5.10	25.30
General admin costs	23.40	27.34	17.28	19.90	13.32	101.24
Total operating expenses - Aero	**282.35**	**313.15**	**332.18**	**397.08**	**362.57**	**1687.33**
Concession fee	39.67	44.65	38.14	32.88	13.99	169.32
Waiver and bad debts	0.00	0.00	0.00	0.00	0.00	0.00
Total operating expenditure - Aero	**322.02**	**357.80**	**370.32**	**429.96**	**376.56**	**1856.66**

However, in the case of the current consultation paper for GHIAL, the Authority has completely taken a different stand while assessing the CSR and community development expenditure

GHIAL submits that the issue of admissibility of Corporate Social Responsibility (CSR) expenditure has also been conclusively examined by the Hon'ble TDSAT in the matter of Bangalore International Airport Limited (BIAL) vs. AERA dated 16.12.2020. The Hon'ble Tribunal, while considering the treatment of CSR expenditure in a regulated environment, held that CSR expenditure, once mandated by law, cannot be disallowed in a manner that effectively reduces the fair return on equity determined by the regulator. The relevant observations of the Hon'ble TDSAT are reproduced below for:

"81. Learned counsel for AERA has, on the other hand placed reliance upon Section 37(1) of the Income Tax Act which has already been noted by the Authority because this provision clarifies that expenditure on CSR will not be accepted as an expenditure for business. However, the other argument that in a regulated environment the fair return of equity determined and allowed must be real as determined by the Regulator, has not been answered effectively. There is no difference between expenditure towards CSR once it is mandated by law vis-à vis an expenditure in the nature of income tax which is allowed as a cost pass-through. Not allowing such cost amounts to indirectly lowering the percentage fixed as a fair return on equity, because if the impugned decision of the Authority is accepted, the expenditure towards CSR has to come out from such return allowed for the equity holders. In view of the above discussions, the grievance of BIAL in respect of expenditure on CSR is found to have merits. The impugned decision on this issue is, therefore, set aside. The Authority shall pass consequential orders so that no loss due to reduction in determined fair return is caused to the equity holders on account of expenditure on CSR. Necessary truing up exercise shall be done by the Authority accordingly."

In view of the above, it is submitted that CSR expenditure is a statutory obligation under the Companies Act, 2013 and is not a discretionary expenditure. Further, the Authority has also allowed CSR expenditure in earlier tariff orders of GHIAL and BIAL.

Accordingly, GHIAL requests Authority to consider and allow the CSR expenditure incurred during the Control Period as a part of admissible operating expenditure for tariff determination purposes, consistent with the applicable legal framework, regulatory precedents, and findings of the Hon'ble TDSAT.

iii. Donations disallowance for CP3

Proposal from Authority:

5.6.236. The Authority is of the considered view that donations to electoral funds, electoral bonds, or any form of political contributions cannot be treated as a legitimate cost recoverable through the aeronautical tariff, for the following reasons:

(i) No Nexus with Aeronautical Service Delivery: Such contributions have no demonstrable connection with the provision of aeronautical services to airlines, passengers, or cargo operators. They neither contribute to the operations, maintenance, or development of the airport infrastructure, nor enhance the quality of aeronautical services rendered to the users.

(ii) Discretionary and Voluntary in Nature: Donations of this nature are wholly discretionary and voluntary acts of the corporate entity, undertaken in pursuit of considerations extraneous to the regulated aeronautical business. They do not arise from any statutory obligation, regulatory mandate, or operational necessity associated with the running of the airport.

5.6.237. Further, the Authority consistent with the decision taken in the past proposes not to consider Donations as part of Aeronautical O&M expenses for the Third Control Period.

<u>GHIAL's Response:</u>

GHIAL respectfully submits that contributions made through Electoral Trusts are lawful corporate expenditures expressly recognised under Indian law, including Section 182 of the Companies Act, 2013, the Electoral Trusts Scheme, 2013 and Section 80GGB of the Income Tax Act, 1961. Such contributions are made through a transparent and regulated framework established by the Government of India and are subject to prescribed governance, disclosure and compliance requirements.

Further, contributions made through Electoral Trusts support's the broader democratic and governance framework of the country through a transparent mechanism recognised by the Government of India.

Further, neither the AERA Act nor the AERA Tariff Guidelines specifically prohibit or exclude such expenditure from consideration. **Accordingly, GHIAL respectfully requests the Authority to reconsider the expenditure as part of admissible operating costs.**

iv. Travelling and Conveyance Expenses

Proposal from Authority:

5.6.180. The Authority, upon detailed examination of the Travelling and Conveyance Expenses incurred by GHIAL during the Third Control Period, observes that the said expense head is predominantly attributable to *business travel, the said component constituting approximately 78% of the total cost incurred. The balance of the said expense pertains to employee transportation and ancillary travel-related costs.*

5.6.181. The Authority notes that the Aeronautical Travelling & Conveyance expenses of Rs. 174.01 Crores have been computed by GHIAL by considering aeronautical component of Rs. 12.83 Crores which is directly attributable to aeronautical services and the balance common component of Rs. 188.90 Crores apportioned into aeronautical and non-aeronautical using the Gross Fixed Assets (GFA) ratio

5.6.182. The Authority notes that the Travel Costs incurred by GHIAL cannot be accurately segregated between Aeronautical and Non-Aeronautical Services on the basis of direct identification.

5.6.183. Accordingly, and consistent with the approach adopted in past tariff determinations, the Authority proposes to allocate the common Travelling & Conveyance Costs incurred by GHIAL during the Third Control Period between the Aeronautical and Non-Aeronautical in the ratio of 50:50.

5.6.184. Based on the foregoing, the Aeronautical Travelling and Conveyance expenses proposed to be considered by the Authority for the Third Control Period are provided below:

Table 113: Aeronautical Travelling and Conveyance Expense proposed by the Authority for True up of the Third Control Period

(Rs. In crores)

FY ending March	FY22	FY23	FY24	FY25	FY26	Total
Aero Cost (A)	1.13	1.77	2.92	3.29	3.73	12.83
Common Cost (B)	26.46	36.76	41.63	43.73	40.32	188.90
Total Aeronautical Travelling and Conveyance expenses (A+B*50%)	**14.36**	**20.15**	**23.73**	**25.15**	**23.89**	**107.28**

<u>GHIAL's Response:</u>

GHIAL submits that Travelling and Conveyance expenses are incurred by various functional teams in connection with the operation, development and management of airport assets and related infrastructure. As these expenses are common operational expenses, allocation based on the Gross Block Ratio provides a more appropriate representation of the underlying airport assets and activities supported by such expenditure as compared to a blanket 50:50 allocation.

Further, the Authority, in the tariff determination of first control period for Noida International Airport (YIAPL), proposed allocation of Travelling and Conveyance expenses based on Gross Block Ratio, recognizing the linkage of such costs with airport assets and operational activities. Below is the extract of the same:

Allocation of General Administration Cost

8.2.99 The Authority noted that YIAPL has allocated General Administration Cost based on Terminal Building Ratio (TBLR). However, the Authority proposed to allocate these expenses based on the Authority's decision in other airports, specifically Mopa (Goa), as follows:

- Professional and consultancy fees – Based on Gross Block Ratio
- Traveling and conveyance – Based on Gross Block Ratio
- Office costs and others – Based on Terminal Building Ratio

Accordingly, GHIAL requests the Authority to allocate Travelling and Conveyance expenses based on the Gross Block Ratio, in line with the methodology adopted in YIAPL, ensuring consistency in regulatory treatment across airports.

v. Advertising and Sales Promotion Expenses

Proposal from Authority:

5.6.191. The Authority has examined the expenses incurred by GHIAL under the head "Advertisement and Business Promotion" during the Third Control Period and the projections proposed for the Fourth Control Period. Upon a detailed review of the nature, purpose, and beneficiary of each activity comprised within this head, the Authority has classified the following sub-heads for the purpose of determining their appropriate treatment within the aeronautical tariff framework:

Table 117: Classification of Expenses by the Authority under Advertisement & Sales Promotion

S. No.	Expense Sub-Head	Nature	Aero Allocation %
1	Business Promotion	Common	50%
2	Event Management Expenses	Common	50%
3	Guest Protocol	Common	50%
4	Gifts & Compliments	Non-Aeronautical	0%
5	Advertisement – Others	Common	50%

Table 118: Aeronautical Advertising and Sales Promotion expenses proposed by the Authority for True up of the Third Control period

(Rs. In crores)

FY ending March	FY22	FY23	FY24	FY25	FY26	Total
Aeronautical Advertising and Sales Promotion expenses	2.48	3.44	5.96	6.91	8.27	27.06

5.6.205. The Aeronautical Advertising and Sales Promotion expenses proposed to be considered by the Authority for the Third Control Period is higher than GHIAL's submission on account of segregation of common Advertisement & Sales expense based on Aero-Non Aero Expense ratio which is higher than the submission of GHIAL due to reclassification of certain expenses based on AERA principles, including treatment of Cargo, Ground Handling and Fuel Farm ("CGF") expenses.

GHIAL's Response:

GHIAL submits that advertisement expenses are intrinsically linked to the terminal infrastructure and commercial spaces utilized for advertising activities.

In this regard, the Authority has adopted similar allocation methodologies in previous tariff determinations. For instance, in the tariff order of first control period for Noida International Airport (YIAPL), advertisement cost was allocated based on the Terminal Building Ratio (TBLR), which was considered reasonable by the Authority. Below is the extract of the same:

> **Allocation of Advertisement Cost**
>
> 8.2.118 The Authority noted that YIAPL has allocated Advertisement Cost based on Terminal Building Ratio (TBLR). The Authority deemed this allocation basis to be reasonable and, therefore, proposed adopting the same allocation basis, taking into consideration the revised ratios detailed in Table 131.

Similarly, for true up of third control period in DIAL, the Authority proposed allocation of advertising and sales promotion expenses based on the GFA/Terminal Building Ratio, as applicable. Below is the extract of the same:

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- Marketing surveys/researches towards consumer preference of brands.
- Appointment of consultants to focus on enhancing passenger spend through analytics, training, visual merchandising and experience.

4.6.80 The Authority through its Independent Consultant/Aviation Expert found the justifications provided by DIAL as reasonable and acceptable.

4.6.81 The Authority proposed to allocate the Advertising and Sales Promotion expenses based on the GFA/Terminal Building ratio, as applicable.

4.6.82 The Aeronautical Advertising and Sales Promotion expenses proposed to be considered by the Authority for the Third Control Period is as follows:

Table 123: Aeronautical Advertising & Sales promotion expenses proposed to be considered by the Authority for the Third Control Period

Particulars (Rs. Cr)	2020	2021	2022	2023	2024	Total
Aeronautical Advertising and Promotion expenses proposed to be considered by the Authority	12.02	3.87	6.52	9.33	21.04	**52.78**

In view of the above precedents, GHIAL submits that the allocation of advertisement expenses based on Terminal Building Ratio/GFA Ratio, as appropriate, would be consistent with the Authority's established approach in other PPP airports. Accordingly, it is requested that the same allocation methodology be adopted for GHIAL to ensure regulatory consistency and equitable cost attribution between aeronautical and non-aeronautical activities.

vi. Strategic, Management & Technical Service Fee

<u>Proposal from Authority:</u>

5.6.254. The Authority notes that, as per the present shareholding pattern of GHIAL, 26% of the shareholding is held by Government entities, comprising 13% held by AAI on behalf of the Government of India, and 13% held by the Government of Telangana, while the remaining 74% is held by GMR Airports Limited (GAL). GHIAL has referred to certain provisions of the Shareholders' Agreement and submitted that the Board of GHIAL has decided to make payments to its shareholders towards services stated to be provided by them in relation to strategic leadership, governance and business sustainability. GHIAL has proposed that such consideration would be paid at the rate of 3% of standalone gross revenue, with effect from FY 2025-26, on a quarterly basis.

5.6.255. The Authority has analysed GHIAL's submission and observes as under:

5.6.256. Clauses 3.4 and 3.5 of the Shareholders' Agreement set out the roles of the Sponsors and the State Promoters in providing support to GHIAL. The activities listed for the State Promoters primarily relate to the initial support required for commencement of airport operations. The activities listed for the Sponsors also relate to commencement of airport operations and include reference to services to be provided in the ordinary course of business for operation, management and development of the airport and for provision of airport services.

5.6.257. The aforesaid clauses are general enabling provisions defining the broad roles and obligations of shareholders in relation to the airport project under the Concession Agreement framework. The Authority does not find any specific provision in the Shareholders' Agreement which provides for payment of separate consideration to shareholders towards advice, consultation, strategic leadership, governance or business sustainability services.

5.6.258. The Authority is of the view that Hyderabad Airport was awarded to GAL through a transparent competitive bidding process with a clear mandate of development, construction, operation and maintenance of the airport for the concession period. Further, at the time of evaluation of the bids, GAL was shortlisted considering their ability to develop and manage the airport operations. Considering the Strategic, Management and Technical Service Fee to run the airport operations would defeat the above purpose and will lead to an additional fee being rendered to the shareholders in addition to the return on their invested equity.

5.6.259. The Authority further observes that GHIAL is a separate legal entity having its own senior management, personnel and functional structure for operating, managing and developing the airport. In addition, GHIAL already avails expert services from personnel of group companies and engages consultants/domain experts in various fields in the ordinary course of its business. Therefore, the Authority is of the view that a blanket quarterly payment to shareholders would lead to a risk of overlap between the proposed fees and costs already embedded in GHIAL's existing expenditure base, including employee costs, administrative expenses, consultancy charges and other management-related expenses and may result in duplication of costs and consequential double recovery from airport users.

5.6.260. Accordingly, the Authority proposes not to consider the payment towards Strategic, Management, and Technical Service Fees to shareholders.

GHIAL's Response:

GMR Airports Limited (GAL) is a listed company and is the largest airport operator by traffic in India and the major shareholders include GMR Enterprises Limited as well as Groupe ADP. GAL and Groupe ADP combinedly operates around ~ 250 Mn p.a passengers across the global and operates over 25 airports across their network. GMR and Groupe ADP combinedly has a high level of expertise, strategic think tank, diversified management techniques and network of partners.

This enhances the role of these two shareholders, apart from being a shareholder and technically eligible bidder, their role is vast in providing continuous support through the network of partnership to enhance the business opportunities, development strategies and growth prospects of RGI Airport to achieve the primary and the important objectives of PPP partnership.

Similarly, Government of Telangana & Airports Authority of India, apart from being shareholder provide various category of services for the airport.

The primary difference between the shareholder and service provider / strategic partner is that shareholders are the investors who will look after for the return on the investment, whereas a strategic partner will provide essential services involving strategy, management and pooling of opportunities for betterment of the Airport ecosystem.

Technically, the Company and its Shareholders are distinct entities, and shareholders are responsible for setting out the rules under which the Company shall operate such as Memorandum of Association and

Articles of Association and also appoints the Board of Directors who are technically sound and qualified for operating the Company in accordance with the laws of land and MoA / AoA.

Any activity performed by any Shareholder apart from these activities involve efforts, costs, and generate opportunities for the Company and are to be rationally viewed as distinct business transaction and a compensation should be paid in compliance with the related party transactions applicable under Companies Act, 2013 or under erstwhile Companies Act, 1956.

<u>Contentions of AERA:</u>

AERA in its consultation paper has raised following constraints / concerns regarding the payment made to the shareholders for strategic, management and technical services (SMT). Reasons are cited below:

- The Shareholder's Agreement does not contain any specific provision for payment of separate consideration to shareholders.
- GAL was selected through a competitive bidding process and therefore payment of SMT Fee would amount to additional compensation over and above return on equity.
- There may be overlap with employee costs, administrative expenses and consultancy expenses

<u>Responses from GHIAL on the above contentions:</u>

A. <u>Distinction between Shareholder's Agreement and SMT Fee:</u>

The Shareholder's Agreement is a contractual agreement / arrangement between the Shareholder's of a Company wherein the Company will also be a party. These agreements are entered to pursue the following objectives:

- *<u>Governance & Control</u>*: The procedures and protocols for board composition, nomination rights, reserved matters, veto rights, quorum and other similar matters pertaining to the Governance & Control;
- *<u>Economic & Ownership Protections</u>*: These rights are for protection of pre-emption rights / right of first refusal to prevent dilution, liquidation preference etc., This will also contains restriction for transfer of the ownership in the Company and its procedures and protocols as well.
- Deadlock Resolution
- Founder/Promoter-Specific
- Confidentiality & IP Transfer Restrictions & Exit
- Role of the shareholder's in operating the business
- Survival of the Shareholder's Agreement even after the exit

The Recital H of the Shareholder's Agreement referred by the Authority also reflects the same i.e., "*GoAP, AAI, GMR and MAHB desire to record herein their agreement on the structure, scope, management and operation of HIAL and wish to set forth their respective rights, obligations and relationship as shareholders and joint venture partners inter se, which are subject to the terms and conditions of this Agreement*"

The GHIAL being a special purpose vehicle to serve the purpose of operating Rajiv Gandhi International Airport, the shareholder's had entered into an agreement with the above said objectives including definition of roles of the each of the shareholder among themselves. The essence of the agreement is towards defining the rights and obligations between shareholders of the Company including their roles as a shareholder. However, the Authority had interpreted the same as a service provider agreement between the Shareholder's and the Company and interpreted roles as the services. This is completely against the harmonious interpretation of the agreements and dilute its purposes.

However, GHIAL had not entered into a specific service for these defined roles and other activities to promote the RGI Airport eco-system separately with its Shareholder's. GoT had entered into a State Support Agreement which is a sovereign function that is required to be provided free of charge by GoT to GHIAL with regard to the same. However, in addition to these services, GoT had provided various inter-ministerial support and services to enhance the ecosystem of RGI Airport.

Appreciating the role of the Shareholder's the Board of Directors of GHIAL had conducted extensive study, deliberated at multiple instances and since these activities invaluable and cannot be quantified on a specific scale, decided to pay a fee based on their roles among themselves and kept at limit of 3% on revenue.

The Authority may note that the Shareholder's Agreement never provide the consideration for such roles of the Shareholder's because the contract is not a service provider contract.

B. ***<u>SMT Fee is an additional compensation over and above return on equity</u>***:

We request Authority to have a re-consideration of its interpretation that Strategic, Management and Technical Fee is an additional compensation over and above return on equity. The roles of the shareholders is essential to invest their capital into the Company and ensure adequate governance, controls and mechanism for operating on their own. In addition to that GHIAL also appreciates that the GAL along with its consortium is eligible technical bidder for operation of the RGI Airport. However, to avail these services, GHIAL would have had to recruit the entire requisite manpower directly under GHIAL or these services would have been requested from the technical eligible bidder.

Hence, the underlying fundamental principle here is an attributability of costs towards, development, management, operation and financing of the RGI Airport. Shareholder's under the Companies Act, 2013 are distinguished from the Company and their roles are clearly as defined there in.

Further, we would like to highlight the following essential services for better understanding to arrive at an informed decision by the Authority:

a. **Strategic Development**
b. **Operations & Safety**
c. **Regulatory & Compliance**
d. **Commercial & Growth**
e. **Stakeholder & Policy Engagement**
f. **Talent & Capability Building**

Thus, the Authority's interpretation of SMT Fee is addition to the return on equity is incorrect and requires re-consideration.

C. Overlap with employee costs, administrative expenses and consultancy expenses:

The Authority had opined that there is a risk of overlap between fees and costs already embedded in GHIAL's existing expenditure base.

Extract as follows:

Para 5.6.259: *The Authority further observes that GHIAL is a separate legal entity having its own senior management, personnel and functional structure for operating, managing and developing the airport. In addition, GHIAL already avails expert services from personnel of group companies and engages consultants/domain experts in various fields in the ordinary course of its business. Therefore, the Authority is of the view that a blanket quarterly payment to shareholders would lead to a risk of overlap between the proposed fees and costs already embedded in GHIAL's existing expenditure base, including employee costs, administrative expenses, consultancy charges and other management-related expenses and may result in duplication of costs and consequential double recovery from airport users.*

- **Engagement of expert services:** GHIAL humbly agrees that it engages experts in various subject matters for availing the services such as accounting, finance and various other activities. However, there are certain activities where expert services are difficult to be engaged such as strategy, partnership management and business development.
  These are business specific requirements which can be facilitated only by the corporates itself directly. For the purpose of confidentiality we may not be willing to disclose the complete list of activities, however for the sake of clarity we would like to touch upon one of the example. GMR and Groupe ADP being shareholders of GAL, and also one of the largest group which handles ~ 250 Mn of pax per annum, has lot of synergy benefits including route optimisation, network integration, stakeholder confidence in promoting the business activities.
  These activities can neither be performed by any expert on their own nor can it be achieved strategically. However, for conduct of these activities, the shareholders would incur their own share of costs for these items which required to be attributed to GHIAL only.
  Thus, the consideration of the Authority, to consider these items as overlapping costs needs a complete relook considering the business scenarios under which the Airport is operated.

- **Basis for determination of Fee:** The fee for any activity is related based on the level of activity performed, goods / services transferred. However, in the circumstances referred above for which the SMT fee is being paid, the nature of services is target oriented / performance oriented which can only be linked with the performance metrics. The industry standard for such performance metrics are revenue, EBIDTA, PBT, PAT or any other directly linked items.

Board of Directors after deliberations in multiple rounds concluded that such fee shall reflect these targets and found that gross revenue is most reasonable, and this was also suggested by a Big 4 accounting firm after conducting detailed research on this activity.

As discussed above, GHIAL would like to request Authority to consider the above expenditure part of the operating cost while true-up of CP-3 and for CP-4 while determining the final ARR.

vii. Bad Debts, Provision of Bad Debt and Assets Written Off

<u>Proposal from Authority:</u>

5.6.235. The Authority notes that although GHIAL availed the credit facility from Yes Bank but never drew the fund from it. Further, GHIAL opted to avail the FCBs with a blended rate of 10.10% vis-à-vis the Yes Bank credit facility of 9.95% (YBL MCLR + 0.10%) in order to manage their cashflows for repayment of the loan, which doesn't have any direct bearing on the airport users and is solely a business decision. Therefore, the Authority is of the view that the Airport Users will not accrue any benefit on account GHIAL availing FCDs instead of the Yes Bank Credit facilities and may lead to a higher weighted average cost of debt for the calculation of Weighted Average Cost of Capital.

<u>GHIAL's Response:</u>

As per the master plan submitted by the GHIAL, any expansion in infrastructure is to be carried out in line with the traffic demand. Accordingly, GHIAL had initiated expansion of the airport capacity from 12 million passengers per annum (MPPA) to 34 MPPA in the year of 2018. Since the project required huge capital, GHIAL had approached lenders/banks for project funding.

<u>Credit facilities from Yes Bank Limited (YBL):</u>

As part of the process, GHIAL had estimated the project cost of ~ Rs.6,739 Cr and proposed the funding plan with a Debt / Equity ratio of 70:30 as given below:

Particulars	Amount in Cr.	%
Project Cost	6,739	100%
Debt*	4717	70%
Equity	2022	30%

** Out of the Debt requirement of Rs.4,717 Crore, Yes Bank Ltd (YBL) had sanctioned credit facilities vide its facility letter no. YBL/MUM/CF/FL/0758/2018-19 dated December 29, 2018 and addendum no. YBL/MUM/CF/FL/759/2018-19 dated December 29, 2018 for Rs.4,200 Cr.*

Interest rate as per the credit facility letter was 1-year MCLR of YBL plus 0.10% i.e. 9.95% p.a.p.m (10.42% p.a) at the time of sanction. Interest rates were linked to existing MCLR at the time of withdrawal.

As per the credit facility letter, GHIAL had to pay 1.5% upfront non-refundable facility fees to YBL on the proposed sanction amount of Rs.4,200 Cr on acceptance of facility letter, which is one of the standard clause for such huge debt deals. Accordingly, GHIAL has paid an up-front processing fee of Rs. 63 crore plus applicable taxes being 1.5% of the sanction facility of Rs.4,200 Cr to YBL.

For the expansion project of the proposed size, it was preliminary requirement to complete the financial closure, so that project can be kick started successfully. Accordingly, on achievement of the above financial closure, the project got initiated.

<u>Raising of funds through Foreign Currency Bonds (FCBs):</u>

As part of continuous improvement initiatives, GHIAL had found that the foreign currency bonds more attractive than the domestic Term loans as detailed below:

a. Conducive market conditions – Due to change in Federal Reserve of USA (Fed) rate outlook and other external factors, the USD Bond market was favourable for Indian Corporates to meet their funding requirement offering funding at competitive prices as compared to Indian Capital Market.

b. Pricing structure: The FCBs being fixed coupon structure carries no risk of increase in coupon as against RTL carrying the risk of increase of benchmark MCLR & Spread moving upward on yearly resets.
c. Cash Flow – Bonds have the bullet repayment as against amortization structure, facilitating GHIAL to manage its cash flow effectively in the interim period.

In view of the above, Company has raised USD 300 Mn (INR 2067 cr) at a coupon rate of 5.375% + hedge cost in April 2019 (Effective cost of 9.96% plus Withholding tax).

Fund raising through foreign debt market FCBs was more conducive for GHIAL during Covid situations as well as availability of funds was very vital for GHIAL to continue the expansion works considering the above said benefits.

Because of, on set of Covid-19 pandemic, GHIAL had to raise another Foreign Currency bond of USD 300 Mn (INR 2,188 cr) in February 2021 at a coupon rate of 4.75% + hedge cost (Effective cost of 9.39% plus Withholding tax), having favourable interest rate in comparison to YBL. GHIAL further, requested for refund of fee. However, the fee was not refunded by YBL as per the agreement.

Find the below comparison of interest rates

YBL Interest Rate	Blended FCB Interest Rate	Saving (A)	Loan (B) INR Cr	Term (C)	Savings INR Cr
10.42% p.a.	10.10% p.a.	0.32%	4255 (2067+2188)	5 Years	68 Cr

The above saving in interest rate resulted in lesser interest expense for GHIAL. Company has raised the funds required for project expansion through FCBs in the wake of better borrowing options and inability of YBL to disburse sanctioned loan and Covid-19 impact. Company has shown the upfront fee of Rs.63 Cr paid to YBL under other financial assets as these fees are to be amortised upon withdrawal of borrowings over the tenure as per the Accounting Standards. Company has accounted the upfront fee paid to YBL and debited to P&L in the financial year 2022-23 with the approval of the Board of Directors.

Further, the upfront fee cannot be viewed in isolation. The fee was incurred as part of the financial closure process for a major infrastructure expansion project and enabled GHIAL to secure committed funding and commence project execution. The subsequent decision to avail alternative funding was based on more favorable market opportunities and resulted in overall economic benefits exceeding the upfront fee incurred.

It is further submitted that had GHIAL proceeded with the Yes Bank facility, the higher financing cost would have ultimately increased the overall cost base of the airport. By availing a more economical source of funding, GHIAL mitigated financing costs and thereby protected airport users from a higher long-term cost burden. Accordingly, disallowing the upfront fee while simultaneously recognizing the benefits arising from the lower-cost financing would not present a holistic view of the transaction.

Hence, the upfront fee of Rs.63 Cr paid to YBL is purely the funding cost for expansion purpose and the same is an allowable expense.

Hence, request AERA to consider this as business expense and allow the same.

Proposal from Authority towards provision of Bad Debt:

The authority in addition to above cost disallowed towards Yes Bank, also has not allowed provision of Bad Debt as submitted by GHIAL as under:

Bad Debts, Provision for Bad Debts, Donations and CSR Expenses:

5.6.230. The expenses for the Third Control Period submitted by GHIAL in the MYTP for the Fourth Control Period are as follows:

Table 129: Bad Debts, Provision of Bad Debts, Donations and CSR Expenses submitted by GHIAL for the Third Control Period

(Rs. In crores)

FY ending March	FY22	FY23	FY24	FY25	FY26	Total
Total Expenses submitted by GHIAL						
Bad Debt	-	63.00	-	-	-	63.00
Provision of Bad Debt	-	-	5.06	1.17	0.15	6.38
Donation & Contribution to Electoral Fund	20.00	-	-	7.50	0.85	28.35
CSR	8.20	8.20	8.50	8.50	11.95	45.35
Aero Portion of Expenses submitted by GHIAL						
Bad Debt	-	51.13	-	-	-	51.13
Provision of Bad Debt	-	-	4.44	-	-	4.44
Donation & Contribution to Electoral Fund	17.63	-	-	6.62	0.74	24.99
CSR	6.76	6.65	7.45	7.42	10.34	38.62

GHIAL's Response:

The Authority has not provided any specific rationale for the disallowance of the provision for bad debts. In this regard, GHIAL respectfully submits the following for consideration:

GHIAL entered into a Concession Agreement with the Ministry of Civil Aviation on 20 December 2004 for the development, construction, operation, and maintenance of Rajiv Gandhi International Airport, Hyderabad. Pursuant to the obligations under the Concession Agreement, GHIAL constructed the Main Access Road (MAR) connecting NH-7 at Shamshabad to the main passenger terminal intersection as a two-lane dual carriageway, along with a two-lane road extending eastward towards the Srisailam State Highway. The total cost incurred by GHIAL for the construction of the MAR was ₹42.98 crore.

Subsequently, upon completion, GHIAL handed over the MAR to the designated Committee for maintenance and operation. At the time of the handover, GHIAL requested the Committee to assume responsibility for the asset, considering that the Nagar Panchayat (NAC) had been constituted under the Municipalities Act, and sought reimbursement of the construction cost amounting to ₹42.98 crore together with the applicable interest of ₹10.66 crore.

The matter was deliberated by the Committee in its 3rd meeting held in February 2009, wherein the Committee agreed to reimburse GHIAL for the cost of construction of the MAR along with the corresponding interest. Thereafter, in July 2010, the Committee communicated the decision of the NAC to the State Government and sought the necessary approval for reimbursement. However, despite the lapse of considerable time, the State Government has not accorded its consent or approval for settlement of the balance amount.

Notwithstanding the pending approval, the Committee made payments aggregating to ₹48.58 crore during the period from March 2008 to February 2013, comprising ₹37.92 crore towards the principal construction cost and ₹10.66 crore towards interest. As a result, the amount of ₹5.06 crore remains outstanding and recoverable by GHIAL from the NAC.

Given that the amount continues to be legally receivable and the delay in recovery is attributable solely to the pending approval from the State Government, GHIAL submits that the outstanding balance cannot be considered recoverable. Owing to the delay in receipt of money from NAC, GHIAL in the FY 2023-24 has made provision Rs.5.06 Cr in its books of accounts.

Description	Amount in Crs
Main access road cost incurred (A)	42.98
Interest on the above (B)	10.66
Total to be recovered from NAC (C=A+B)	**53.64**
Repayment (D)	48.58
Provision made in FY 2023-24	**5.06**

Looking to the facts of the above case, GHIAL recognised bad debt of only 9.4% i.e. 5.06 Crores out of 53.64 Crores, rest 90.6% already recovered by GHIAL.

Such recognition is in accordance with the prudential accounting principles prescribed under the applicable Indian GAAP framework, which require provision for doubtful debts based on an assessment of the recoverability of outstanding receivables

Further, the provision does not represent an inefficiency, avoidable expenditure, or cash outflow incurred by GHIAL, but merely reflects a prudent accounting assessment of recoverability of an asset. Non-recognition of such impairment would result in overstatement of assets and would be contrary to the principles of faithful representation.

Reliance may be made to paragraphs 338-347 of the Hon'ble TDSAT's judgement dated 29.05.2026 in the matter of Mumbai International Airport, wherein the Tribunal held that such unrecoverable receivables constitute genuine business expenditure and cannot be excluded from O&M costs in the absence of any demonstrated inefficiency on the part of the airport operator.

Therefore, the provision should be treated as a legitimate accounting charge arising in the ordinary course of business and should not be disallowed for tariff determination purposes. Accordingly, GHIAL requests AERA to allow the above expenditure.

Proposal from Authority towards Assets Written Off:

Table 128: Aeronautical Assets Written off submitted by GHIAL for True up of the Third Control Period

(Rs. In crores)

FY ending March	FY22	FY23	FY24	FY25	FY26	Total
Aeronautical Assets Written off submitted by GHIAL	0.05	0.66	0.88	0.00	0.00	1.59

5.6.229. The Authority notes that the operator has not provided details on the salvage value recovered on account of the assets written off. In view of this the authority proposes to disallow the expenses associated with the assets being written off and may revisit again at the time of issuance of tariff order subject to submission of relevant data by the Airport Operator.

GHIAL's Response:

GHIAL submits that the assets written off were disposed of through the normal asset disposal process and any recoveries realized therefrom have already been accounted for under the non-aero income heads. As such disposals comprise multiple assets sold on an aggregated scrap basis, asset-wise correlation of salvage value may not be readily available. GHIAL shall, however, provide any further details specifically required by the Authority. Accordingly, GHIAL requests the Authority to consider the asset write-offs as submitted.

viii. Bank Charges, Exchange Fluctuations

Proposal from Authority:

Forex Fluctuations

5.6.61. The Authority notes a substantial rise in forex loss in FY23, which is attributed to refinancing FCB 2024 and FCB 2026 by raising domestic NCDs to mitigate forex exposure. The amount of Rs.90.77 Cr is on account of breaking of hedge contract.

5.6.62. The Authority, in this regard, sought a Cost-Benefit Analysis from GHIAL in respect of the Hedge Break Cost. Upon examination of the "Note on Hedge Break Cost" submitted by GHIAL, the Authority observes that the FCBs which were due to mature in April 2024 and February 2026, were refinanced in Dec 2022 i.e. just 16 months and 26 months prior to their maturity date. Also, ECD 2024 was refinanced in March 2023. Further, the Authority observes that the cost benefit analysis as submitted by GHIAL considers a period of 5 years. Considering only the remaining period to maturity for these FCDs and ECD, the computation resulted in net loss on account of breaking of Hedge for the existing FCDs and ECD.

5.6.63. Therefore, the Authority observes that the decision to break the hedge contract resulted in net loss to the airport users. In the absence of such cost-benefit substantiation, the Authority is of the considered view that the Hedge Break Cost of ₹90.77 Crore is not to be allowed as pass through to airport users, and accordingly proposes to disallow the same. Further the other marginal costs incurred on account of foreign exchange fluctuations related to travel and procurement etc during the Third Control Period amounting to Rs 1.78 Crores is also disallowed.

5.6.64. Based on the foregoing, the Authority proposes to consider the Aeronautical Bank Charges and Forex Fluctuations for the True-up of the Third Control Period at Rs. 115.95 Crores, as against Rs. 198.16 Crores submitted by GHIAL, as per the table below:

GHIAL's Response:

GHIAL respectfully submits that the Authority's analysis considers only the immediate hedge break cost and the residual maturity period of the refinanced borrowings, while disregarding the broader and enduring benefits arising from the refinancing transaction. The refinancing decision should be evaluated in its entirety as a prudent treasury and risk-management exercise rather than as an isolated hedge termination event.

The refinancing of FCB 2024, FCB 2026 and ECB borrowings through domestic NCDs was undertaken with the objective of reducing financing costs, mitigating forex risk and improving the overall debt profile. The hedge break cost was an unavoidable one-time consequence of implementing a refinancing strategy that generated long-term economic benefits for the Company and its stakeholders.

The Authority has evaluated the refinancing benefits only up to the residual maturity of the refinanced borrowings. However, the relevant comparison is between the overall cost and risk profile of the existing debt structure and that of the replacement debt structure. Accordingly, the benefits of refinancing accrue over the tenure of the replacement debt and cannot be restricted to the residual tenure of the original borrowings.

The refinancing resulted in reduction in interest costs of approximately 70 - 150 basis points compared to the corresponding foreign currency borrowings. Based on the actual refinancing transactions undertaken, the Company estimated net savings of approximately Rs.42 crore even after considering the hedge break losses associated with the refinancing

Further, the refinancing materially reduced GHIAL's foreign currency exposure and protected the Airport from future exchange-rate volatility, the benefit of which has not been considered in the Authority's analysis. The refinancing also extended debt tenor by 8-10 years, converted bullet repayments into an amortizing structure and strengthened GHIAL's credit profile.

Accordingly, the hedge break cost cannot be viewed in isolation. It was an integral and unavoidable transaction cost incurred for achieving lower borrowing costs, reduction in foreign currency risk and improvement in the overall debt structure. Therefore, the hedge break cost constitutes a legitimate financing cost incurred in the interest of the airport business and should be allowed as part of the true-up.

Without prejudice to the above, even if the Authority evaluates the refinancing transaction only over the residual tenure of the refinanced borrowings, the hedge break cost and the refinancing benefits should be considered together as part of a single financing transaction. Accordingly, GHIAL requests the hedge break cost should be treated in a tariff-neutral manner and not be disallowed in isolation while recognizing the benefits arising from the refinancing transaction.

Authority's Proposal for GFA Ratio and Aero – Non Aero Ratio

5.4.106. The methodology for allocation ratios adopted by the Authority in the Tariff Order of the Third Control Period has been considered for the purpose of True Up of the Third Control period by taking into consideration the following:

i. Each asset has been identified and verified from the Fixed Asset Register and classified into Aeronautical, Non Aeronautical and Common categories based on its nature and utility. Further, certain capital assets which are common in nature have subsequently been allocated between Aeronautical and Non Aeronautical activities on the basis of Aeronautical Gross Block for individual years.

ii. Assets related to the passenger terminal building have been apportioned between aeronautical and non-aeronautical assets using the Terminal Area Ratio of 84.6% (Aero) and 15.4% (Non-Aero) as adopted in the Third Control Period Tariff Order.

iii. Re-computation of Gross Fixed Asset Ratio for apportionment of common assets pertaining to assets other than the terminal building. The variation between the ratio submitted by GHIAL and the ratio proposed by the Authority is primarily on account of reclassification of certain assets based on AERA principles, including treatment of Cargo, Ground Handling and Fuel Farm ("CGF") assets. While GHIAL has treated CGF assets as non-aeronautical, the Authority has continued to treat the same as GHIAL's Response on Re-computation of Gross Fixed Asset (GFA) Ratio

FY ending March	FY22	FY23	FY24	FY25	FY26
Gross Fixed Asset (GFA) Ratio	91.24%	90.02%	88.92%	88.85%	88.77%

5.6.32. The Authority based on its examination and considerations has reevaluated the GFA (treating CGF assets as aeronautical) and Aero-Non Aero Expense Ratio (Aero Opex: Non-Aero Opex) to apportion the common expenses as per the table below:

FY ending March	FY22	FY23	FY24	FY25	FY26
Aero–Non Aero Opex Ratio	92.54%	89.57%	92.06%	90.77%	92.16%

GHIAL's Response on Re-computation of GFA Ratio

GHIAL notes the Authority's proposal to recompute the Gross Fixed Asset (GFA) Ratio based on the reclassification of certain assets and the treatment of Cargo, Ground Handling and Fuel Farm ("CGF") assets. The Authority has proposed GFA ratios that differ from those submitted by GHIAL for FY22 to FY26; however, the detailed workings and asset-wise reconciliation supporting the revised ratios have not been provided in the Consultation Paper.

While the Authority has stated that the variation is primarily on account of reclassification of certain assets, including the treatment of CGF assets, GHIAL is unable to fully verify, trace and reconcile the proposed GFA ratios in the absence of detailed computations. Given that the GFA ratio directly impacts the allocation of common assets, depreciation, RAB and other regulatory building blocks, it is essential that the basis of computation is transparent and verifiable.

Accordingly, GHIAL respectfully requests the Authority to provide a detailed reconciliation of the GFA ratio proposed for each year of the Third Control Period, including the asset-wise classification adopted, treatment of CGF and other reclassified assets, and the corresponding computations used in deriving the revised GFA ratios. This will enable GHIAL to reconcile the Authority's proposed ratios with the Fixed Asset Register and regulatory submissions and provide meaningful comments thereon.

GHIAL's Response on Re-computation of Aero–Non Aero Expense Ratio

GHIAL notes that the Authority has re-evaluated the Gross Fixed Asset (GFA) Ratio and Aero - Non-Aero Expense Ratio for the purpose of allocation of common operating expenses, including the treatment of CGF assets as aeronautical assets. However, the detailed workings and computations underlying the revised allocation ratios have not been provided in the Consultation Paper.

Given that the allocation ratios directly impact the apportionment of common operating expenses and consequently the determination of aeronautical operating expenditure, GHIAL is unable to fully reconcile the ratios adopted by the Authority with those submitted by GHIAL. Accordingly, GHIAL respectfully requests the Authority to provide a detailed reconciliation and supporting computations for the revised GFA Ratio and Aero–Non-Aero Expense Ratio, including the treatment of CGF assets and any other adjustments considered while deriving the allocation ratios presented in Table 69. This would enable GHIAL to reconcile the Authority's proposed ratios with its submissions and provide meaningful comments thereon.

2.4. True-up of CP-3 - Non-Aeronautical Revenue

Proposal from Authority

5.7.13 The Authority in line with the treatment adopted during Tariff determination of the Third Control Period proposes the following treatment for the issues raised by GHIAL:

• The Authority proposes to treat CGF services as aeronautical service and consequently the income from these services including cargo, ground handling and fuel farm including CSB and GPU as aeronautical revenue.

• The Authority proposes to treat income from ICT as aeronautical revenue.

• The Authority in the Tariff Order for the Third Control has evaluated that township is housing both critical and non-critical employees. Critical employees are typically employed for handling aeronautical related services such as CISF, critical airport operations, airport fire safety services, security services etc. Hence the building blocks pertaining to Township are proposed to be treated based on critical staff ratio as aeronautical and remaining as non-aeronautical for purpose of tariff determination in this consultation Paper. This ratio is calculated every year based on actual occupancy and the Authority has decided to continue with the same treatment for the purpose of this Tariff Order. The Authority hence proposes to consider rental from township in the ratio of critical to non-critical staff (i.e. 85.7 % aero and 14.3% non-aero).

• The Authority, in the Tariff Order for the Third Control Period, has duly considered the submissions made by GHIAL with respect to the treatment of dividend income and interest income earned on investments, and is unable to accept the Operator's contention that revenue considered for the determination of the Aggregate Revenue Requirement (ARR) must invariably arise from assets forming part of the Regulatory Asset Base (RAB), the said contention being unsupported by any established regulatory principle. The Authority reiterates that, consistent with the classification adopted under the regulatory framework, the treatment of incidental income shall follow the classification of the underlying activity accordingly, cargo operations being classified as aeronautical, the income incidental thereto shall be treated as aeronautical, while duty-free operations being classified as non-aeronautical (as concurred with by GHIAL), the income incidental thereto shall be treated as non-aeronautical and reckoned for the purpose of computation of cross-subsidisation under the Shared Till framework. The Authority further proposes to treat Other Income and Income from Real Estate as non-aeronautical revenue.

• The Authority in the Tariff Order for the Third Control after giving due consideration to GHIAL's comments has decided to treat the fuelling station on landside (city side) as common in the ratio of 50:50 (aeronautical: non-aeronautical) as this service is used by both airport users and other users as stated by GHIAL.

GHIAL's Response:

Interest Income and Dividend

It is respectfully submitted that dividend income, interest income, treasury income and other similar receipts arising from investment or treasury management activities ought not to be considered as **Non-Aeronautical Revenue ("NAR")** for the purpose of tariff determination and cross-subsidisation under the Aggregate Revenue Requirement ("ARR") framework.

At the outset, it is submitted that the regulatory framework for tariff determination is premised on revenues arising from airport-related activities. The ARR formula is structured as follows:

ARR = (FRoR × RAB) + D + O + T – NAR

The purpose of deducting NAR under the above formula is to ensure that revenues generated from non-aeronautical activities carried out at the airport are appropriately considered while determining the aeronautical tariff. Therefore, only those revenues which have a direct and proximate nexus with the provision of airport services, airport assets, or airport operations can be considered as NAR for the purpose of cross-subsidisation.

In this context, it is submitted that interest income, dividend income, treasury income and similar investment-related receipts do not arise from the rendering of any aeronautical or non-aeronautical service at the airport. Such income is not earned from passengers, airlines, concessionaires, cargo operators, commercial tenants, or any other users of airport facilities. Rather, these receipts arise from treasury management, temporary deployment of surplus funds, investments, or returns from shareholding in separate legal entities. Accordingly, such income lacks the necessary operational and regulatory nexus with airport services, which is the foundational basis for inclusion within the ARR framework.

Further, there is no specific provision under the Concession Agreement which mandates inclusion of “Other Income”, such as interest income, dividend income, treasury income or investment returns, in the computation of ARR or in the determination of NAR. In the absence of an express contractual or regulatory provision, such income cannot be brought within the tariff determination framework merely because it is reflected in the statutory financial statements of the airport operator. Accounting classification in financial statements cannot, by itself, determine regulatory treatment unless such income is connected with regulated airport activities.

It is also submitted that interest income earned by HIAL/GHIAL does not correspond to any service rendered by the airport operator. No airport asset, facility or service is used for generating such income. The income arises only on account of prudent treasury management of available funds. Such receipts are therefore outside the regulatory ambit of AERA, as they do not constitute consideration for any regulated or airport-related activity.

Similarly, dividend income received from subsidiaries or investee companies cannot be treated as NAR. Such subsidiaries are separate legal entities and operate independently from HIAL/GHIAL. The investment made in such subsidiaries is not included in the Regulatory Asset Base (“RAB”) for tariff determination. Once the investment itself is outside the RAB boundary, any return generated from such investment, in the capacity of an equity shareholder, must also remain outside the regulatory boundary. It would be inconsistent and inequitable to exclude the investment from RAB while simultaneously appropriating the return from such investment for cross-subsidisation of aeronautical tariffs.

The principle of symmetry is important in regulatory determination. If an asset or investment is not recognised as part of the regulated asset base, then the income arising from such asset or investment should also not be treated as regulated income. Inclusion of such income would amount to selective regulatory treatment, where the downside or cost of investment is excluded from the regulatory framework, but the upside or return is captured for reduction of aeronautical tariff. Such an approach would be contrary to settled principles of fairness, consistency and regulatory neutrality.

It is further submitted that AERA, while truing up under-recovery or over-recovery in subsequent control periods, already applies the time value of money or carrying cost at the applicable WACC. This effectively recognises the notional financing cost or return associated with the timing difference in recovery. Therefore, where a surplus or over-recovery is determined, AERA already computes the present value impact by applying WACC. This means that the Authority has already factored in a notional return on such regulatory surplus at the regulatory rate of return. In such circumstances, any further inclusion of actual treasury income earned on deployment of such surplus would result in double counting. On the one hand, the Authority considers the present value of over-recovery at WACC for true-up purposes; on the other hand, if actual interest or treasury income earned on the same surplus funds is also treated as NAR, the same economic benefit would be captured twice. This would be impermissible, inequitable and contrary to sound regulatory principles.

Moreover, the actual interest income earned through treasury deployment may be materially lower than the carrying cost or WACC applied by AERA for true-up purposes. Therefore, by treating the present value impact of surplus at WACC as aeronautical in nature, and additionally considering actual treasury income as NAR, the airport operator is effectively penalised. Such treatment overstates the benefit available to the operator and artificially reduces the ARR, without any corresponding airport-service-related revenue having been earned.

It is also relevant to note that the approach of excluding interest income, dividend income, treasury income and similar investment-related receipts from NAR is consistent with the position adopted in the case of HIAL, which was subsequently upheld by the Hon'ble TDSAT. The Hon'ble TDSAT, in its judgment dated 14 February 2024 in the matter pertaining to GHIAL, has also held that income from interest and dividend is not to be considered as part of revenue for the purpose of calculating cross-subsidisation. The said finding reinforces the principle that income which does not arise from airport operations or airport services cannot be treated as NAR merely because it appears as income in the books of the airport operator.

Further, the Hon'ble TDSAT, in its judgements in the matters pertaining to the Mumbai International Airport (MIAL), Delhi International Airport (DIAL) and GOA International Airport (GGIAL) have pronounced that Income from Interest and Dividend not to be considered as part of revenue for calculation of Cross-Subsidization. Extracts of judgement dated 06.10.2023 in the case of MIAL CP 2 and CP 3 and in the case of GGIAL dated 11.09.2025 are produced below:

"We, therefore, quash and set aside the impugned orders in both the aforesaid AERA Appeals which are for 2nd and 3rd Control Periods so far as they are affecting "other income" as a part of revenue, from revenue share assets and consequently, true-up has to be given for the earlier Control Periods also. We, therefore, direct AERA to give true-up for 2nd and 3rd Control Periods for "Other Income" as stated hereinabove."

"204. In view of the aforesaid facts, reasons, and judicial pronouncements; we, hereby, quash and set aside the decision of AERA to classify and include the appellant's interest/treasury income as non-aeronautical revenue for ARR computation and cross-subsidisation.

205. We hereby direct AERA to treat interest/treasury income as "Other Income," and to exclude it from NAR."

Accordingly, GHIAL respectfully submits that dividend income, interest income, treasury income and other similar investment-related receipts should be excluded from NAR for tariff determination purposes. Such income is outside the scope of regulated airport activities, does not arise from aeronautical or non-aeronautical services, is not linked to assets forming part of RAB, and its inclusion would result in an inequitable and duplicative reduction of ARR. Therefore, the same should not be considered for cross-subsidisation while determining aeronautical tariffs.

Real Estate Revenue:

The Hon'ble TDSAT, in its judgment dated **14 February 2024** in the matter pertaining to **GMR Hyderabad International Airport Limited (GHIAL)**, held that income from Real Estate Development (RED) constitutes **Non-Airport Activity** revenue. The Hon'ble TDSAT further held that such revenue can neither be treated as Aeronautical nor as Non-Aeronautical revenue and that AERA does not have the power or jurisdiction to regulate such revenue. The relevant extract of the judgment is reproduced below for ready reference:

For GHIAL dated 14 February 2024

"342. In view of the aforesaid facts and reasons, provisions of land lease agreement to be read with provisions of AERA Act, 2008, the decision of AERA to consider income of appellant from Real Estate Development under its regulatory purview is incorrect, improper and not justified. We, hereby, hold that income from Real Estate Development (RED) is from Non-Airport Activities and it cannot be treated as Aeronautical, nor it can be treated as Non-Aeronautical but they are simply 'Non-Airport Activity' revenue. AERA has no power or jurisdiction over such revenue."

GHIAL submits that income from Real Estate Development, as per the Concession Agreement and the aforesaid judgment of the Hon'ble TDSAT, constitutes **Non-Airport Activity** revenue. Accordingly, GHIAL requests the Authority to consider revenue from Real Estate Development outside its regulatory purview.

Cargo, Ground Handling, Fuel and ICT Charges:

The Hon'ble TDSAT, in its judgment dated **14 February 2024** in the matter pertaining to **GMR Hyderabad International Airport Limited (GHIAL)**, held that income from CGF in case of GHIAL are non-regulated activities and the revenue received by the Airport Operator, Appellant from the service providers of CGF are non-aeronautical charges. The relevant extract of the judgment is reproduced below for ready reference:

For GHIAL dated 14 February 2024

"315. This aspect of the matter has not been properly appreciated by AERA while passing the impugned order for the Third Control Period and hence, so far as Issue No. II, we hereby quash and set aside the decision of AERA, and we hold that the decision of AERA to treat Cargo, Ground Handling and Fuel Services as aeronautical services and the revenue generated therefrom as aeronautical revenue is incorrect, improper & unjustified. We hereby hold that the activities of CGF in case of HIAL are non-regulated activities and the revenue received by the Airport Operator – Appellant from the service providers of CGF are non-aeronautical charges."

GHIAL submits that income from CGF and ICT, as per aforesaid judgment of the Hon'ble TDSAT, constitutes **non-aeronautical** revenue. Accordingly, GHIAL requests the Authority to consider revenue from CGF and ICT as non aeronautical revenue.

Rentals from Cargo, Ground Handling, Fuel and Other Rentals:

The Authority's proposal to classify revenues from rentals of Cargo, Ground Handling, Fuel and similar rental arrangements as aeronautical revenue is inconsistent with internationally accepted ICAO principles.

ICAO's *Airport Economics Manual (Doc 9562)* expressly recognizes that revenues arising from rentals and leasing arrangements constitute **non-aeronautical revenues**.

The definition of Non-Aeronautical Revenue as per ICAO's *Airport Economics Manual (Doc 9562)* is produced below:

> ***"Revenues from non-aeronautical sources.*** *Any revenues received by an airport in consideration for the various commercial arrangements it makes in relation to the granting of concessions,* ***the rental or leasing of premises and land****, and free-zone operations, even though such arrangements may in fact apply to activities that may themselves be considered to be of an aeronautical character (for example, concessions granted to oil companies to supply aviation fuel and lubricants and the rental of terminal building space or premises to aircraft operators). Also intended to be included are the gross revenues, less any sales tax or other taxes, earned by shops or services operated by the airport itself."* ***(Emphasis Supplied)***

Chapter 4 – **"The process of setting airport charges"** of ICAO's *Airport Economics Manual (Doc 9562)* lists **Revenues from non-aeronautical activities.** Paragraph 4.23 belongs to rentals which has been included under the head of **"Revenues from non-aeronautical activities"**. Relevant extract is produced below:

> *"4.23 Rentals. Rentals payable by commercial enterprises and other entities for the use of airport-owned building space, land or equipment. Such rentals should include those payable by aircraft operators for airport-owned premises and facilities (e.g. check-in counters, sales counters and administrative offices) other than those already covered under "air traffic operations" above."*

Therefore, as per ICAO's Airport Economics Manual (Doc 9562), any kind of rentals for use of airport-owned building space, land or equipment payable by aircraft operators are part of Non-Aeronautical Revenue.

The treatment of revenues from rentals of Cargo, Ground Handling, Fuel and similar rental arrangements as aeronautical revenue would be contrary to the framework prescribed under the GHIAL Concession Agreement as well as the statutory mandate contained in Section 13(1)(a)(vi) of the AERA Act.

Article 10.2.1 of the GHIAL Concession Agreement expressly provides that the Airport Charges specified in Schedule 6 constitute the **"Regulated Charges"**. Schedule 6 exhaustively identifies the charges that are subject to tariff regulation, namely:

- Landing, Housing and Parking Charges (Domestic and International);
- Passenger Service Fee (PSF) (Domestic and International); and
- User Development Fee (UDF) (Domestic and International).

Notably, revenues from rentals of Cargo, Ground Handling, Fuel and similar rental arrangements **do not form part of the Regulated Charges specified under Schedule 6**. Consequently, the Concession Agreement does not envisage regulation of revenues from rentals of Cargo, Ground Handling, Fuel and similar rental arrangements under the framework governing regulated aeronautical charges.

Further, Section 13(1)(a)(vi) of the AERA Act specifically requires the Authority, while determining tariff for aeronautical services, to take into consideration inter alia **"the concession offered by the Central Government in any agreement or memorandum of understanding or otherwise."** Therefore, the provisions of the Concession Agreement are a relevant and mandatory consideration in tariff determination.

In line with the principles prescribed under **ICAO's Airport Economics Manual (Doc 9562)**, the framework embodied in the **GHIAL Concession Agreement**, and the statutory mandate under **Section 13(1)(a)(vi) of the AERA Act**, GHIAL requests the Authority that revenues from rentals of Cargo, Ground Handling, Fuel and similar arrangements should be classified as **Non-Aeronautical Revenue (NAR)** and excluded from the aeronautical revenue base for tariff determination purposes.

<u>Maintenance, Repair and Overhaul Services (MRO) revenue (Line Maintenance Revenue):</u>

<u>Proposal from Authority</u>

The Authority has considered revenue from MRO services (Line maintenance revenue) as Aeronautical Revenue, below is the extract of the same:

Table 143: Aeronautical Revenues proposed to be considered by the Authority for True-up of the Third Control Period

(Rs. In crores)

Particulars	2022	2023	2024	2025	2026	Total
Landing Revenues	84.97	148.74	214.49	300.91	352.64	1,101.75
Parking Revenues	7.68	5.59	6.32	14.69	24.07	58.34
Revenues from User Development Fee	144.83	440.97	844.94	1029.76	1044.92	3,505.41
Subtotal - L&P, UDF	**237.48**	**595.30**	**1065.74**	**1345.35**	**1421.63**	**4,665.50**
Fuel Farm	57.81	85.86	93.59	91.83	82.18	411.27
Cute, Cuss, BRS (ICT)	45.39	11.77	3.17	3.66	3.89	67.89

TRUE UP FOR THE THIRD CONTROL PERIOD

Particulars	2022	2023	2024	2025	2026	Total
Cargo	18.15	20.25	30.76	43.08	56.00	168.24
GH + GPU	16.83	40.29	47.56	56.77	81.70	243.15
Subtotal - CGF revenues	**138.19**	**158.18**	**175.07**	**195.35**	**223.77**	**890.56**
Other Aero Revenues						
CSB Rentals	12.01	13.46	0.56	-	0.02	26.05
Income from vehicle fueling services - airside + landside	0.52	0.72	0.78	0.16	0.70	2.87
ATC Tower Rentals	0	0	0	0	14.14	14.14
Incidental Income - Township rentals	0.93	0.33	0.11	0.10	1.75	3.21
MRO revenue	0.02	0.66	1.22	1.34	1.40	4.64
Subtotal - Other Aero revenue streams	**13.48**	**15.17**	**2.66**	**1.59**	**18.01**	**50.90**
Total	**389.14**	**768.64**	**1243.48**	**1542.29**	**1663.41**	**5606.96**

GHIAL's Response:

The Maintenance, Repair and Overhaul (MRO) services (Line maintenance services) are distinct commercial and engineering activities that fall outside the core aeronautical functions performed by airport operators. Airports neither provide MRO services directly nor integrate such activities into their operational delivery of aeronautical services. Rather, land is leased or licensed to specialized third-party MRO entities for developing and operating these facilities. Accordingly, the airport operator's role is limited to granting access to land, making the arrangement akin to a real estate concession rather than a service directly connected to aeronautical operations.

1. Concession Agreement provisions

The treatment of MRO revenue (Line maintenance revenue) as aeronautical revenue would be contrary to the framework prescribed under the GHIAL Concession Agreement. Article 10.2.1 of the GHIAL Concession Agreement expressly provides that the Airport Charges specified in Schedule 6 constitute the **"Regulated Charges"**. Schedule 6 exhaustively identifies the charges that are subject to tariff regulation, namely:

- Landing, Housing and Parking Charges (Domestic and International);
- Passenger Service Fee (PSF) (Domestic and International); and
- User Development Fee (UDF) (Domestic and International).

Notably, **MRO charges or revenues do not form part of the Regulated Charges specified under Schedule 6**. Consequently, the Concession Agreement does not envisage regulation of MRO tariffs or MRO-related revenues under the framework governing regulated aeronautical charges.

Further, Section 13(1)(a)(vi) of the AERA Act specifically requires the Authority, while determining tariff for aeronautical services, to take into consideration inter alia **"the concession offered by the Central Government in any agreement or memorandum of understanding or otherwise."** Therefore, the provisions of the Concession Agreement are a relevant and mandatory consideration in tariff determination.

In this regard, reliance is placed on the judgment of the Hon'ble Supreme Court dated **11 July 2022** in the matter of **Delhi International Airport Limited v. AERA**. The relevant observations are contained in paragraphs 18 and 19 of the judgement. For ease of reference, the extract of paragraph 19 is produced below:

> *"19. Clause (vi) of sub-section (1) of the said Act clearly stipulates that in the determination of tariff for the aeronautical services, one of the considerations, is the concession offered by the Central Government in any agreement or memorandum of understanding or otherwise. Thus, the principle that legislative intent must prevail over any prior agreement would not really apply in the present scenario as the legislative intent itself incorporates and requires the prior agreements to be taken into consideration albeit along with certain other parameters/requirements."*

In view of the above, the Authority is required to give due regard to the contractual framework agreed between GHIAL and the Central Government. Since the Concession Agreement does not recognize MRO services as a regulated aeronautical service and MRO charges are not included within the scope of Schedule 6 Regulated Charges, **classification of MRO revenue (Line Maintenance revenue) as aeronautical revenue would be inconsistent with both the Concession Agreement and the statutory requirement under Section 13(1)(a)(vi) of the AERA Act. Accordingly, MRO revenue ought to continue to be treated as non-aeronautical revenue for tariff determination purposes.**

2. AERA Act, 2008 and relevant sections

Further, under the Airports Economic Regulatory Authority of India Act, 2008 ("AERA Act") and the tariff framework prescribed thereunder, AERA's regulatory jurisdiction is limited to the determination and regulation of tariffs for aeronautical services. The exhaustive list of aeronautical services is defined under section 2 of the AERA Act which is reproduced below:

"..(a) "aeronautical service" means any service provided—

- *(i) for navigation, surveillance and supportive communication thereto for air traffic management;*
- *(ii) for the landing, housing or parking of an aircraft or any other ground facility offered in connection with aircraft operations at an airport;*
- *(iii) for ground safety services at an airport;*
- *(iv) for ground handling services relating to aircraft, passengers and cargo at an airport;*
- *(v) for the cargo facility at an airport;*
- *(vi) for supplying fuel to the aircraft at an airport; and*
- *(vii) for a stake-holder at an airport, for which the charges, in the opinion of the Central Government for the reasons to be recorded in writing, may be determined by the Authority;"*

In this regard, it is submitted that Maintenance, Repair and Overhaul (MRO) facilities do not qualify as "aeronautical services" within the meaning of Section 2(a) of the AERA Act, which provides an exhaustive definition of such services.

Further, inclusion of aircraft maintenance under the definition of "airport" as per 2 (b) of AERA Act, as shown below, is only with reference to it being in the airport premises, it does not conclude it as an aeronautical activity. Even passenger facilities have also been included in the definition of "airport" which in many cases are not regulated.

3. Past Practice

In the past determinations of tariff, the MRO services have never been considered as aeronautical in any of the control period orders for GHIAL. The sudden departure for the treatment of such service is incorrect and will create regulatory uncertainty.

4. Peer Comparison

It is also pertinent to note that, across various tariff orders issued for major airports, AERA has consistently adopted the principle that only revenues derived from activities fall within the scope of Section 2(a) of the AERA Act., subject to the concession, qualify as aeronautical revenues. Revenues arising from other commercial activities, including land-based commercial developments, have generally been treated as non-aeronautical in nature or kept outside the scope of regulatory determination. This regulatory approach is reflected in the Third Control Period Tariff Order of Bangalore International Airport Limited (BIAL), wherein the Authority observed as follows:

8.2.46 BIAL in its submission dated 12 April 2021 provided the details of additional revenues streams in the miscellaneous non-aeronautical revenues for the Third Control Period. These included the rentals from the petrol pump and MRO facility. The Authority has included these rentals as part of the miscellaneous non-aeronautical revenues (new).

8.2.47 The miscellaneous non-aeronautical revenues considered by the Authority for the Third Control Period is given below:

Table 165: Miscellaneous non-aeronautical revenues considered by the Authority for the Third Control Period

Particulars	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	Total (FY22-FY26)
Miscellaneous non-aeronautical revenues	14.29	7.77	22.89	25.32	27.62	30.20	33.05	**139.08**
% change in revenue projections	45%	-46%	194.7%	10.64%	9.07%	9.32%	9.44%	

The relevant extract of paragraph 8.5.13 of the Tariff Order of third Control Period in the case of BIAL is as below:

Table 169: Non-aeronautical revenues decided by the Authority for the Third Control Period

Particulars	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	Total
Car Park revenue	37.40	80.63	110.04	134.44	163.97	526.48
Retail Revenue	27.69	113.63	145.36	175.51	209.49	671.69
F&B Revenue	23.73	54.37	72.42	88.36	107.58	346.47
Lounge Revenue	10.25	27.74	37.22	48.64	63.23	187.08
Advertising & promotion	38.94	84.41	103.96	127.01	154.91	509.23
Rent and land lease	38.88	50.29	52.78	59.27	62.14	263.37

Particulars	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	Total
Flight catering	8.35	9.08	11.71	12.74	13.87	55.75
Miscellaneous non-aeronautical revenues	22.89	25.32	27.62	30.20	33.05	139.08
Utility charges	3.07	3.07	3.37	3.54	3.71	16.76
Real estate	4.17	12.82	20.90	38.73	61.40	138.03
Interest income	20.84	12.77	3.51	5.38	19.40	61.91
Total NAR	**236.21**	**474.15**	**588.89**	**723.84**	**892.75**	**2915.84**

In addition to above, it can be inferred from the Consultation Paper for fourth control period of BIAL that AERA has proposed to consider MRO revenue i.e. line maintenance as part of Miscellaneous Non-Aeronautical revenue. The relevant extract from Paragraph 9.1.4 and 9.2.12 of the Fourth Control Period Consultation Paper for BIAL is reproduced below:

Other Non-Aeronautical Revenue

Table 229: Basis for Projection of Other Non-Aeronautical Revenue as BIAL for the Fourth Control Period

S. No.	Particulars	Basis of Projection as adopted by BIAL
1	Rent and Land Lease	Lease rent for office space considered with annual escalation of 5% up to FY 2029-30 and 10% in FY 2030-31, while other lease rentals escalated at 5% per annum over the control period.
2	Utility Charges	Current level of consumption expected to remain broadly constant during FY 2025-26 to FY 2030-31, with only normal growth of 3% considered, in line with trends observed in previous Control Period.
3	Other Income	Comprises majorly of revenue from Tender fees, Award fees, Interest from Security deposit with BESCOM, Interest on IT refund, and Exchange gain/loss. These cannot be projected and can only be accounted for on actual basis. Hence other income revenue is not projected from FY2026-27 to FY2030-31.
4	Miscellaneous Income	Includes income from annual passes, smoking lounges, meet and assist services, third-party security and line maintenance, and fines and penalties. FY 2025-26 actuals considered as base and projected across FY 2026-27 to FY 2030-31. While minor upward trends observed, not yet consistent enough to warrant revision; revenue projected to remain broadly stagnant.
5	Real Estate Income	Citing paragraphs 341 and 342 of Hon'ble TDSAT Order dated 14.02.2024, BIAL considers income from Real Estate Development as non-airport activity which cannot

Table 234: Other Non-Aeronautical Revenue – Basis of projection for the Non-Aeronautical Revenue as submitted by BIAL for the Fourth Control Period and as considered by the Authority for the Fourth Control Period

S. No.	Particulars	Basis of Projections adopted by BIAL	Basis of Projections proposed by the Authority
4	Miscellaneous Income	FY 2025-26 actuals considered as base; revenue projected to remain broadly stagnant.	The Authority proposes to use the inflation rate as the growth driver for all the years FY27-31.

In light of the AERA Act, prevailing regulatory framework, past AERA precedents, and the Concession Agreement provisions, classifying MRO facility revenues (Line Maintenance Revenue) as aeronautical would be inconsistent with the applicable legal and regulatory framework. The Authority is therefore requested to treat revenues arising from MRO facilities as Non-Aeronautical Revenues.

3. Projection for Fourth Control Period (April 01, 2026 to March 31, 2031)

GHIAL has provided a detailed response with regard to the non-implementation of the Hon'ble TDSAT Judgements in Para 1 above. Thus, certain sections are not being repeated for the sake of simplicity.

3.1. Revision in traffic

The CP-4 (FY2027–FY2031) traffic forecast submitted as part of the MYTP filing dated 25 June 2025 projected cumulative passenger traffic of 221 million passengers, based on the traffic assessment undertaken by CAPA in 2025 *(revised to 218 Mn in Feb 2026)*. However, since the submission of the MYTP, evolving geopolitical developments and adverse macroeconomic conditions have begun to moderate air travel demand and traffic growth across the Indian aviation sector. The impact of these developments is already evident in FY2026 traffic performance, where actual passenger traffic of 30.4 million passengers was significantly lower than the projected traffic of 33.1 million passengers.

The shortfall in FY2026 traffic reflects the emergence of several external factors contributing to the lower-than-expected passenger traffic performance during FY2026 are outlined below.

Major FY26 passenger traffic challenges:

a) Middle East geopolitical disruptions.

b) Change in FDTL regulations leading to crew shortage.

c) Industry-wide aircraft availability and maintenance issues.

d) Cross-border geopolitical uncertainty affecting demand and flight path.

e) Rupee currency depreciation against US dollar.

The factors outlined above continue to exert pressure on passenger traffic growth in FY2027, as evidenced by traffic performance during Q1 FY2027 -7.09 Mn *(Actual)* ~12% lower than *8.07 Mn in Q1 of FY2026,* and the emerging trends observed in Q2 FY2027. In light of these evolving market dynamics, GHIAL commissioned a revised traffic assessment by CAPA to evaluate the impact of prevailing geopolitical, economic, and industry-specific developments on future traffic growth.

Based on its updated analysis, CAPA has revised its CP-4 (FY2027–FY2031) passenger traffic forecast from **221 million passengers** to approximately **188 million passengers**. Given the material changes in the operating environment since the submission of MYTP, GHIAL respectfully requests the Authority to consider CAPA's revised traffic forecast for the purpose of tariff determination.

It is pertinent to note that, while the revised forecast reflects a moderation in passenger traffic growth during CP-4, GHIAL's planned capacity augmentation programme remains unchanged. The proposed infrastructure expansion timelines continue to be driven by long-term network development requirements, service quality obligations, operational resilience considerations, and the need to accommodate future traffic growth beyond the current control period. Accordingly, the capital expansion programme envisaged under the MYTP remains necessary and relevant notwithstanding the revised traffic outlook.

In view of the above, GHIAL respectfully requests the Authority to adopt the revised CAPA traffic projections for CP-4 and permit GHIAL to submit an updated Annual Tariff Proposal based on the revised traffic assumptions, thereby ensuring that the tariff determination is founded on the most current and realistic assessment of passenger demand.

Particulars (MPPA)	FY27	FY28	FY29	FY30	FY31	Total
Domestic	24.70	26.60	29.10	33.70	38.80	152.90
International	5.70	6.20	6.90	7.90	9.00	35.70
Total	**30.40**	**32.80**	**36.00**	**41.60**	**47.80**	**188.60**

Revised traffic report has been attached as Annexure-I.

3.2. Capital Expenditure, Depreciation and Regulatory Asset Base (RAB)

Capex for Northern Runway and Associated Airside Works

1. **AERA Proposal towards Earth Works:**

*7.3.61. M/s RITES Limited has considered earthwork quantity of **1.10 crore cum** for cost assessment. M/s RITES Limited has assessed the rate based on CPWD DSR 2023, escalated using WPI-based inflation. The rate considered by M/s RITES Limited is **Rs. 677.14 per cum**.*

RITES Report:

Since no rates are available in 3rd Control Period, cost has been estimated based on CPWD DSR 2023. In this, quantities are calculated using both master plan and google earth and CPWD DSR 2023 are inflated to construction year using WPI based inflation rate. The unit rate calculated is Rs 677.14 per cum (Refer Annexure-9) Rate from Detailed Estimate = ₹677.14 per cum

*Total cost for line item-Earthworks = **11000000 cum x ₹677.14 = ₹744.85 Crores***

GHIAL Response:

As per the independent report, RITES has considered future rates for core earthwork items such as jungle clearance, excavation in soil, excavation in ordinary rock, excavation in hard rock, filling using excavated earth, and filling using borrow earth. However, following considerations needs to be factored while computing the unit rates for the overall average cost:

a) **Current Site Condition**

Earthwork and site preparation costs are materially influenced by the physical characteristics of the site, availability of suitable fill material, haulage distance, rock profile, excavation methodology, access constraints, and statutory obligations. In the present case, GHIAL airport boundary itself has an average distance implication of around 8 km and that suitable borrow earth is not available near the airport / city area. The earth will be required to be brought from a distance of at least around 25 km from site. Accordingly, a purely normative or base-rate approach would not adequately reflect the actual cost of execution. The estimate should therefore recognize the actual market and site conditions applicable to the CP-4 development works.

b) Increase in diesel cost has a direct impact on earthwork rates

There has been an increase in HSD price in May 2026 by ₹10 per litre and this impact has not been factored by RITES for jungle clearance, excavation in soil, excavation in ordinary rock, excavation in hard rock, filling using excavated earth, and filling using borrow earth. Earthwork activities are equipment- and transport-intensive. Therefore, GHIAL request Authority/ RITES to consider revision in fuel price in their calculation.

c) **Borrow earth cost must include market cost, royalty, and realistic transportation lead**

For borrow earth, RITES has considered a rate of ₹843/cum (*In Annexure-9 Unit Rate Calculation for Earthworks*), resulting in a cost of ₹178.15 crore. GHIAL would like to request, inclusion of additional quarry-owner charges of ₹90/cum, royalty of ₹26/cum, and additional lead cost of ₹660/cum. It is important to note that no borrow area is available within a 5 km one-way lead and that the nearest source is approximately 20–25 km from the North side development area. This will reflect the full delivered cost of borrow earth rather than only the base excavation and filling cost. This is important because the cost of borrow earth is not merely the material cost; it also includes sourcing, statutory payments, long-distance haulage, and associated enabling infrastructure required for transportation.

In view of the above, GHIAL respectfully submits that the cost proposed by RITES does not fully reflect the actual execution requirements of earthwork and site preparation for Norther precinct development. The RITES cost estimate of ₹749.18 crore excludes or under-estimates material cost components such as additional lead for excavated earth, controlled / chemical blasting for hard rock areas, quarry-owner charges for borrowed earth, royalty on borrowed earth, and additional lead / transport cost for borrow earth. Therefore, GHIAL would like to request cost of 827 Rs per cum as proposed in MYTP to be considered.

2. AERA Proposal External Utilities:

7.3.63. For external utilities, M/s RITES Limited has considered the EPC contract details of Bhogapuram Airport as the benchmark and escalated the rate using WPI-based inflation. The total cost assessed for external utilities was split equally between terminal area and airside area, in line with the approach adopted for allocation of such common utility works.

RITES Report:

Total cost for External Utilities is as follows:

GHIAL provided the EPC contract details of Bhogapuram Airport which is going to completed in FY2026. So, per sqm rate of contract is taken as basis and rate is escalated as per WPI based inflation rate (Refer Annexure-10).

Basic Rate per sqm = ₹55,840 per sqm

Add WPI based inflation 3.00% for FY2027 to FY2030= ₹7,008.41 per sqm

Rate considered for evaluation =₹62,848 per sqm

Total cost for External Utilities= ₹408.51 Crores

This cost is split equally between Terminal area and Airside area including the softs costs based on the similar approach adopted by GHIAL in their submissions.

Total cost for external utilities for Airside Area = ₹408.51/2= ₹204.26 Crores

Hard cost for external utilities for Airside Area = ₹204.26/1.14= ₹179.17 Crores

GHIAL Submission:

The Authority has considered **Annexure-10 (CAPEX Evaluation for External Utilities based on GHIAL Submission)** of the RITES Report, wherein the total estimated cost for External Utilities works has been computed at **₹408.51 crore** based on benchmarked EPC rates derived from the Bhogapuram Airport project.

ANNEXURE--10

Note on Cost of utilities
Project : Development of Northen Present at RGIAL, Shamshabad

This note is prepared to derive the cost estimate for Utility works for development of Northen Present at RGIAL.

Ref : Most recent EPC contract signed with M/s L&T Limited for development of IT&C works at Bhogapu Airport is considered

The Overall EPC Contract value is Rs. 3668 Crores and work was scheduled to be competed by April 2026.

	As per L&T EPC Contract		
3.7.1	Site wide Plumbing, Sewage And Fire Protection		64,98,75,675
3.8.1	Site Wide - Electrical		61,21,61,765
3.5.1	Fuel Hydrant System		48,43,31,267
3.6.1	Site wide Storm Water Management		1,25,79,56,286
	Sub Total		**3,00,43,24,993**
1.1	Contractors Over hed as per Cost centre 1	10.26%	30,82,43,744
	TOTAL		**3,31,25,68,737**
	GST		**59,62,62,373**
	Grand Total		**3,90,88,31,110**

Total development area of Bhopgapuramm (B[1])	Sqm	70,000
Rate per Sqm (Completion year April 2026)	**Per Sqm**	55,840
Escalation	3%	
Present Price×(1+r)^n		
Add Escalation of 3 % YoY for 4 years for completion year Dec 2029		**62,849**
Cost for North Presant Cost		
Proposed CP 4 Development area H[1]	Sqm	65,000
Proportionate Base cost for RGIAL- Northen present development		**4,08,51,79,290**
Say 408.51 Cores		

As per **Annexure-10**, the estimated cost of **₹408.51 crore** has been derived based on EPC contract rates, contractor overheads, and GST, and no separate soft cost component has been identified. Accordingly, as per the **RITES Report**, the total evaluated cost of **₹408.51 crore**, representing the hard cost, has been apportioned equally between the terminal-side and airside infrastructure, resulting in an allocation of **₹204.26 crore** towards the airside portion.

Thereafter, RITES has reduced the apportioned airside cost of **₹204.26 crore** by dividing it by **1.14** to arrive at a hard cost of **₹179.17 crore**, on the assumption that the allocated cost includes **14% soft costs**. However, Annexure-10 does not separately identify any soft cost component in the evaluated cost of **₹408.51 crore**. Accordingly, GHIAL requests the Authority to consider the airside External Utilities cost at least **₹204.26 crore**.

3. Soft Costs

AERA Proposal's for Soft Cost:

7.3.73. For soft cost components, M/s RITES Limited has considered the rates broadly in line with the approach adopted for finalisation of capex for the Third Control Period. The soft cost components comprise preliminaries and other costs, permits and insurance, design and PMC, and contingencies.

7.3.74. The Authority, upon review of GHIAL's submission, explanations and relevant supporting documents, has the following views with respect to the soft cost proposed by GHIAL for the Fourth Control Period:

*• The Authority notes that GHIAL has proposed soft cost at **14%** of the project cost. The Authority observes that in the case of other PPP airports such as BIAL, DIAL, etc., similar costs such as Preliminaries, Design, Project Management Consultancy, Insurance, Permits and other related soft costs have generally been considered in the range of **8% to 11%** of the project cost. Accordingly, the Authority is of the view that the soft cost of **14%** claimed by GHIAL is on the higher side and requires moderation.*

*• The Authority also notes that certain capex items proposed by GHIAL relate to airside and operational works, including pavement works, stand conversion and other infrastructure augmentation. For such works, PMC and related soft cost requirements are generally lower and are normally observed to be in the range of **1% to 3%**, depending upon the nature and complexity of the work.*

• The Authority further observes that GHIAL has proposed soft cost on an overall basis across capex items, including works such as procurement of equipment, IT systems, security systems, vehicles, plant and machinery, and other bought-out / SITC items. The Authority is of the view that applying a uniform soft cost percentage on all such items may result in overstatement of the eligible cost, particularly where the scope already includes installation, commissioning and vendor-related support.

7.3.75. Accordingly, considering the nature of the capex proposed by GHIAL, the mix of civil works, bought-out items and SITC contracts, the benchmark observed in other PPP airports, and the need to avoid loading of excessive soft costs on all capex items, the Authority proposes to restrict the allowable soft cost to 10% of the aeronautical capex of the projects allowed by the Authority for the Fourth Control Period, as against 14% claimed by GHIAL. The amount towards soft cost shall accordingly be computed on the aeronautical portion of the capex approved by the Authority and considered for inclusion in the Regulatory Asset Base, subject to actual capitalization, reconciliation with audited financial statements / Fixed Asset Register and prudence check.

GHIAL Submission:

During the Third Control Period, soft costs were incurred towards Design Development, PMC, Permits, Insurance, Contingencies and other project execution activities integral to airport expansion. The soft cost proposed by GHIAL for the Fourth Control Period is based on the specific requirements of the Northern Precinct development and reflects the scale and complexity of the proposed capital program.

Further, soft cost levels considered in comparable airport projects have been significantly higher than the 10% proposed by the Authority. Similarly, CPWD Norms, 2022 indicate soft cost components broadly ranging from 15%-20% of project cost, while international airport benchmarks suggest a range of 10%-30%.

The Hon'ble TDSAT, in its judgment dated **29th May 2026** in the matter pertaining to **Mumbai International Airport Limited (MIAL)**, held that the restriction of Soft Cost by applying an artificial cap is not sustainable and specifically directed that the Airport Operator is entitled to the allowance of Soft Cost as claimed, subject to true-up based on actual incurrence

The Hon'ble TDSAT further observed that the Soft Cost claimed by the Airport Operator was supported by established benchmarks and industry practices. The Tribunal specifically noted that, as per **CPWD Norms, 2022**, the cumulative impact of Planning Consultancy, PMC, Technical Services, Contingencies and statutory employee-related costs indicates that Soft Costs would reasonably range between **15% to 20%** of project cost. The Tribunal also referred to the **Airport Cooperative Research Program (ACRP)** study sponsored by the U.S. Federal Aviation Administration, which indicates that Soft Costs for airport projects typically range between **10% to 30%** of total project cost. Further, the Tribunal took note of AERA's own treatment in the case of **Mopa Airport, Goa**, where Soft Cost components were allowed in the range of **13% to 16%**.

The relevant extract of the judgment is reproduced below for ready reference:

For MIAL dated 29th May 2026

"In these circumstances, we hereby allow the Soft Cost claimed by the Appellant as the same is supported by the binding judgment of this Tribunal and is also consistent with CPWD Norms and is also falling within the internationally recognised benchmarks for the airport projects and is also in line with AERA's own treatment of comparable airport projects such as Goa airport. 239. In view of the aforesaid facts and reasons, the restrictions of Soft Cost to 8% as imposed by AERA is hereby quashed and set aside. We hereby hold that Appellant is entitled to allowance of Soft Cost as claimed by the Appellant, subject to true-up on the actual incurrence basis. 240. We hereby quash and set aside the decision of AERA in so far as it relates to Soft Cost, and we hereby direct AERA to allow Soft Cost incurred by the appellant. Putting artificial cap upon Soft Cost is not contemplated under the applicable laws and therefore, AERA shall allow actual Soft Cost incurred by the appellant"

Accordingly, GHIAL requests the Authority not to restrict Soft Cost to 10% and to allow the Soft Cost as submitted in the MYTP, subject to prudence review on actual incurrence.

Capex for Northern Precinct Development- Landside Works

1. **AERA Proposal Terminal Building:**

   7.3.82. Accordingly, based on the assessment of PHP, terminal area norms, comparable airport benchmarks and the findings of RITES, the Authority proposes to consider the NPTB area of 2,25,000 sqm for 20 MPPA capacity as proposed by GHIAL for the purpose of cost assessment.

   7.3.83. For the proposed Northern Passenger Terminal Building, M/s RITES Limited has considered the approved rate of terminal building works determined during the Second Control Period and escalated the same using WPI-based inflation up to the expected year of capitalisation. The Authority notes that the proposed Northern Passenger Terminal Building is planned with an area of 2,25,000 sqm and is intended to provide additional passenger handling capacity in the Northern Precinct.

   RITES Report:

   The cost of Northern Passenger Terminal Building has been reviewed/scrutinized in the same way as GHIAL has calculated and is summarized below.

   RITES has calculated the inflation based on the Wholesale Price index (WPI) released by Department for Promotion of Industry and Internal Trade (DPIIT) under the Ministry of Commerce and Industry in

India on monthly. In this calculation, RITES has considered different rates based on WPI based inflation are as follows 3.58% up to FY25, 0.90% for FY2026, 4.70% for FY 2027 and 3.60% for FY2028 to 2029.

RITES has evaluated the 4th Control period proposal based on rate finalised for 3rd Control Period and Detailed rate approach. In Rate based on 3rd Control period finalised rate, utilizes rates as per AERA Tariff order for 3rd Control Period and duly adjusted for inflation using the Wholesale Price Index (WPI). In Detailed Approach, involves a detailed estimate for each line item to derive a per-squaremeter (sqm) rate / per-meter (m) rate / per-cubic-meter (m3) rate, which is then applied to the quantities proposed against line item in the Multi-Year Tariff Proposal (MYTP).

➢ ***Total cost for Terminal Building is as follows:***

Basic rate for Terminal Building in 2nd CP Determined by RITES till Fy 2021 =

₹1,29,813.96 per sqm. ***The detailed unit rate finalized based on 3rd Control Period of Terminal Building has been worked out and the same is placed at Annexure- 16.***

Add WPI based inflation@7.14 % up to FY2022= ₹9,268.72 per sqm*

Add WPI based inflation@9.40 % up to FY2023= ₹ 13,073.77 per sqm

Add WPI based inflation @ -0.72 % up to FY2024= -₹1095.53 per sqm

Add WPI based inflation@2.31 % up to FY2025= ₹3,489.51 per sqm

Add WPI based inflation@0.90 % up to FY2026= ₹1,390.95 per sqm

Add WPI based inflation@4.70 % up to FY2027= ₹7,329.25 per sqm

Add WPI based inflation@3.60 % up to FY2028= ₹5877.74 per sqm

Add WPI based inflation@3.60 % up to FY2029= ₹6089.34 per sqm

*Add WPI based inflation@3.60 % up to FY2030**= ₹6308.56 per sqm*

Total cost per sqm= ₹1,81,546.27 per sqm

Total cost for line item-Terminal Building= ***2,25,000 sqm x ₹1,81,546.27 per sqm = ₹4084.79 Crores***

** The authority has observed that the financial year 2021-2022 was exceptional year due to COVID-19 pandemic, wherein the inflation rate was 12.97%. Considering the extraordinary situation, the authority has felt that the inflation rate for financial year 2021-2022 needs to be rationalized. Hence, instead of considering the inflation rate of 12.97% for financial year 2021-2022 (as per press release dated April 18, 2022, by Dept. for Promotion of Industry and Internal Trade, Government of India), the authority has considered the average rate of inflation of FY 2020-21 (1.29%) and of FY 2021-22 (12.97%) which works out to 7.14%. The authority has considered this average rate of inflation for FY 2021-22 in order to smoothen out the volatility in commodity prices caused by COVID-19 pandemic and supply side disruptions.*

*** The design traffic shall (as per GHIAL revised submissions) exceed the enhanced capacity of the existing terminal building in the southern precinct in FY 2029, thereby justifying the commissioning of terminal building in the northern precinct. However, as informed by Authority, the likely completion date for terminal building in the northern precinct shall be 30th September 2030, capitalization year of the terminal building in the northern precinct is considered as FY 2030.*

GHIAL Submission:

GHIAL respectfully submits that, since AERA in the Consultation Paper for CP-4 during the true-up exercise has proposed to consider actual cost towards terminal building for expansion to 34 MPPA, the same cost was proposed to be considered for arriving at cost towards new terminal building proposed as part of Norther Precinct. Excerpts from the consultation paper has been quoted below:

5.4.56. Based on the above examination, the Authority is of the view that the cost escalations towards the L&T contract are attributable to factors that were largely beyond the control of GHIAL, including the impact of COVID-19, force majeure events, regulatory compliance requirements and design optimisation necessitated during execution of the brownfield expansion project. The Authority has also compared the actual cost incurred by GHIAL with the normative cost benchmarks and notes that the actual cost falls within the parameters of the normative cost. Accordingly, the Authority is of the view that the final L&T contract cost of Rs. 3,500.70 Crores as submitted by GHIAL is reasonable and efficient, and proposes to consider the same for the purpose of true-up of the Third Control Period.

Therefore, we request AERA to consider base rate of 1,56,148 Rs/ Sq.mt (as on March 2024) along with yearly escalation for terminal building since it represents actual cost incurred by GHIAL for the expiation.

2. External Utilities

AERA Proposal:

7.3.63. For external utilities, M/s RITES Limited has considered the EPC contract details of Bhogapuram Airport as the benchmark and escalated the rate using WPI-based inflation. The total cost assessed for external utilities was split equally between terminal area and airside area, in line with the approach adopted for allocation of such common utility works.

RITES Report:

Total cost for External Utilities is as follows:

GHIAL provided the EPC contract details of Bhogapuram Airport which is going to completed in FY2026. So, per sqm rate of contract is taken as basis and rate is escalated as per WPI based inflation rate (Refer Annexure-10).

Basic Rate per sqm = ₹55,840 per sqm

Add WPI based inflation 3.00% for FY2027 to FY2030= ₹7,008.41 per sqm

Rate considered for evaluation =₹62,848 per sqm

Total cost for External Utilities= ₹408.51 Crores

This cost is split equally between Terminal area and Airside area including the softs costs based on the similar approach adopted by GHIAL in their submissions.

Total cost for external utilities for Airside Area = ₹408.51/2= ₹204.26 Crores

Hard cost for external utilities for Airside Area = ₹204.26/1.14= ₹179.17 Crores

GHIAL Submission:

The Authority has considered **Annexure-10 (CAPEX Evaluation for External Utilities based on GHIAL Submission)** of the RITES Report, wherein the total estimated cost for External Utilities works has been computed at **₹408.51 crore** based on benchmarked EPC rates derived from the Bhogapuram Airport project.

ANNEXURE--10

Note on Cost of utilities

Project : Development of Northen Present at RGIAL, Shamshabad

This note is prepared to derive the cost estimate for Utility works for development of Northen Present at RGIAL.

Ref : Most recent EPC contract signed with M/s L&T Limited for development of IT&C works at Bhogapu Airport is considered

The Overall EPC Contract value is Rs. 3668 Crores and work was scheduled to be competed by April 2026.

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3.8.1	Site Wide - Electrical		61,21,61,765
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	Sub Total		**3,00,43,24,993**
1.1	Contractors Over hed as per Cost centre 1	10.26%	30,82,43,744
	TOTAL		**3,31,25,68,737**
	GST		**59,62,62,373**
	Grand Total		**3,90,88,31,110**

Total development area of Bhopgapuramm (B[1])	Sqm	70,000
Rate per Sqm (Completion year April 2026)	**Per Sqm**	55,840
Escalation	3%	
Present Price×(1+r)^{n}		
Add Escalation of 3 % YoY for 4 years for completion year Dec 2029		**62,849**
Cost for North Presant Cost		
Proposed CP 4 Development area H[1]	Sqm	65,000
Proportionate Base cost for RGIAL- Northen present development		**4,08,51,79,290**
Say 408.51 Cores		

As per **Annexure-10**, the estimated cost of **₹408.51 crore** has been derived based on EPC contract rates, contractor overheads, and GST, and no separate soft cost component has been identified. Accordingly, as per the **RITES Report**, the total evaluated cost of **₹408.51 crore**, representing the hard cost, has been apportioned equally between the terminal-side and airside infrastructure, resulting in an allocation of **₹204.26 crore** towards the airside portion.

Thereafter, RITES has reduced the apportioned airside cost of **₹204.26 crore** by dividing it by **1.14** to arrive at a hard cost of **₹179.17 crore**, on the assumption that the allocated cost includes **14% soft costs**. However, Annexure-10 does not separately identify any soft cost component in the evaluated cost of **₹408.51 crore**. Accordingly, GHIAL requests the Authority to consider the airside External Utilities cost at least **₹204.26 crore**.

Capex for Airport Connectivity and Transport System

1. AERA Proposal for Classification of Common Assets

Table 221: Reclassification of capital expenditure pertaining to Northern Precinct Development- Landside Works

Activity	Classification submitted by GHIAL	Classification proposed to be considered by the Authority
Terminal Building	Common	Common
CNS ATM Building	Aero	Aero
Landside Ancillary Buildings	Aero	Common
Landside Roads	Aero	Common
Dual Elevated Ramp	Aero	Aero
Landscaping	Aero	Common
Car Parking Area	Non-Aero	Non-Aero
IT Systems & Telecommunication	Common	Common
Operational Equipment	Aero	Aero
External Utilities	Aero	Common

7.3.150. The rationale for the reclassification of asset allocation proposed by the Authority is set out below:

• Landside Ancillary Buildings, Landscaping and Landside Roads: The Authority notes that landside connectivity infrastructure is used by aeronautical passengers, users of non-aeronautical commercial facilities, airport employees and the general public. Accordingly, the Authority proposes to classify such assets as common assets.

• External Utilities: External infrastructure such as DG sets, UPS, substations, power distribution boards, LT switchboards and HT cables serve both aeronautical and common airport assets. Accordingly, these assets are required to be bifurcated based on their usage for appropriate allocation.

Table 222: Reclassification of capital expenditure pertaining to Airport Connectivity and Transport Systems

Activity	Classification submitted by GHIAL	Classification proposed to be considered by the Authority
Flyover (E-W on MAR 4L+4L) – Length: 700 m	Aero	Common
Underpass on E-W (2L+2L) – Length: 800 m	Aero	Common
Underpass on MAR (4L+4L) Eastern ECT – Length: 1000 m	Aero	Common
Underpass on MAR (4L+4L) Western ECT – Length: 900 m	Aero	Common
Underpass along East-West Road (4L+4L) – Length: 2400 m	Aero	Common
Underpass Extension along East-West Road (3L+3L) – Length: 750 m	Aero	Common
North-South Road (3L+3L) – Length: 3500 m	Aero	Common
18m Road (2+2) – Length: 3100 m	Aero	Common

7.3.151. The Authority notes that the assets are expected to be used jointly by passengers, visitors, airport staff and staff of airport concessionaires. Accordingly, the Authority proposes to classify the same as common assets, to be allocated between aeronautical and non-aeronautical components in the Terminal Area Ratio.

GHIAL response to Classification to Common Asset

GHIAL respectfully submits that the proposed reclassification of Airport Connectivity and Transport System assets from Aeronautical to Common may be reconsidered. In the Authority's earlier Tariff Orders for the previous control periods, road infrastructure was classified as an Aeronautical Asset, recognizing its critical role in facilitating passenger access and supporting airport operations. The assets proposed for reclassification, including flyovers, underpasses and access roads, are primarily developed to provide seamless connectivity to the terminal and other operational areas of the airport and are therefore directly linked to passenger movement and therefore are classified as aeronautical assets.

While these assets may also be utilized by visitors, airport employees and concessionaires, such incidental usage does not alter their primary function of enabling passenger movement and supporting airport operations. Further, there has been no material change in the nature or purpose of these assets compared to the earlier capital expansion programme. Accordingly, in line with the accepted regulatory approach and considering the primary purpose of these assets, GHIAL requests the Authority to continue classifying Airport Connectivity and Transport System assets as Aeronautical Assets, consistent with the approach adopted by the Authority in its Third Control Period tariff order for GHIAL. The relevant extract from Paragraph 6.2.12 of the Third Control Period Tariff Order for GHIAL is reproduced below.

Table 116: Re-classification of assets under expansion capital expenditure proposed to be considered by the Authority

Sr. No.	Asset	Classification
1	Expansion of Terminal Building including piers	Common
2	Airport Systems	Aero
3	Expansion of Apron & Taxiways and GSE Tunnel	Aero
4	Expansion of Kerb and Approach Ramp	Aero
5	Road Infrastructure	Aero
6	ICT Cost	Common
7	Miscellaneous Direct Capex & Election Items	Common
8	Enabling Works	Common

3.3. Inflation

Proposal by the Authority:

9.2.2 The Authority proposes to consider mean of the forecasted Inflation based on WPI: All commodities as per the Results of the Survey of Professional Forecasters on Macroeconomic Indicators – Round 99, which projects the inflation at 4.7% for FY 2027 and 3.6% for FY 2028.

9.2.3 Further, the Authority assumes that the inflation rate would remain stable and constant from FY2027-2028 till FY2030-31. Accordingly, the following table presents the inflation rates proposed to be considered by the Authority for the Fourth Control Period.

GHIAL's Response:

GHIAL, in its MYTP, had considered an inflation rate of 4.2% from FY2027 onwards based on the RBI Survey of Professional Forecasters (SPF) - 94th Round, using the CPI Combined: Headline forecast. In contrast, the

Authority has proposed inflation based on the WPI: All Commodities forecast from the RBI SPF - 99th Round, resulting in inflation assumptions of 4.7% for FY2027 and 3.6% from FY2028 onwards.

GHIAL notes that the RBI has subsequently released the 100th Round of the Survey of Professional Forecasters. Accordingly, GHIAL requests the Authority to consider the latest available CPI Combined: Headline inflation forecast under the 100th Round of the RBI SPF while finalising the inflation assumption for the Fourth Control Period.

3.4. Operating Expenditure

Authority's proposal for Manpower Expenditure:

10.2.12 The Authority observes that Rajiv Gandhi International Airport, Hyderabad ("RGIA"), having been operational since 2008, is a mature airport with established operational systems, processes, and manpower deployment frameworks. The Authority is of the considered view that, in the case of an airport at this stage of operational maturity, the Airport Operator ought to have, in the ordinary course, implemented adequate measures to ensure operational efficiency, particularly in respect of manpower deployment, allocation, and productivity.

10.2.13 The Authority further observes that GHIAL has, in the Multi-Year Tariff Proposal, projected substantial investments in technology and digitalisation initiatives during the Fourth Control Period, inter alia, on account of automation, digital workflows, and process re-engineering. The Authority is of the considered view that the progressive implementation of the said technology investments ought to yield commensurate efficiency gains in manpower deployment, and consequently, GHIAL ought to be in a position to moderate the growth trajectory of its manpower costs over the Fourth Control Period. Allowing an escalation in Salaries and Wages materially above the prevailing rate of inflation, in the face of the said technology- driven efficiency potential, would result in airport users bearing a cost that is neither reflective of the optimisation expected from a mature airport nor consistent with the principle of economic efficiency.

10.2.14 Having regard to (i) the operational maturity of RGIA; (ii) the substantial technology investments envisaged during the Fourth Control Period; and (iii) the historical trend of Salaries and Wages, the Authority proposes to:

(a) escalate the Salaries and Wages at a growth rate of 6% per annum, the said rate being marginally above the prevailing rate of inflation, so as to allow for a reasonable real-term escalation while preserving the efficiency imperative; and

(b) consider a manpower growth factor of 18.01% in FY 2029-30 and a further 18.01% in FY 2030-31, on account of the augmentation in operational requirements consequent upon the commissioning of the expanded terminal capacity.

10.2.15 Based on the foregoing, the Authority accordingly proposes the Manpower Count and Manpower expense as per the table below:

Table 250: Manpower Count and Manpower expense proposed by the Authority for the Fourth Control Period

(Rs. In crores)

Manpower Count & Expense	FY27	FY28	FY29	FY30	FY31	Total
Total Aero Manpower (A)	783	783	783	924	1,090	
Increase %	*0%*	*0%*	*0%*	*18.01%*	*18.01%*	
Expense per Employee (in Crores) (B)	0.20	0.21	0.22	0.23	0.25	
Increase %	*6%*	*6%*	*6%*	*6%*	*6%*	
Aeronautical Manpower Expenses (C=B*A)	**154.79**	**164.08**	**173.93**	**217.57**	**272.15**	**982.52**

GHIAL's Response: GHIAL in its MYTP submission has considered the following basis for the purpose of the projections:

GHIAL has projected the increase in manpower requirements to cater to the operational needs arising from the Northern Precinct Terminal expansion. The projected increase in manpower is linked to the enhancement in airport capacity and the consequent increase in operational activities across terminal operations, airside functions, landside services, security, customer facilitation and support functions. Accordingly, GHIAL has considered an inflation rate of 4.2% p.a. along with a real growth in manpower cost of 8% p.a. Further, GHIAL has considered a manpower growth factor of 19.61% in FY 2029-30 and 19.61% in FY 2030-31 on account of additional manpower requirements associated with the Northern Precinct expansion.

The Authority has considered only a 6% growth rate in manpower costs and has also reduced the manpower growth factor to 18.01% in FY 2029-30 and FY 2030-31. While the Authority has stated that GHIAL is a mature airport and that technology and digitalisation initiatives are expected to improve manpower efficiency, it is submitted that such initiatives are primarily intended to enhance operational efficiency, service quality, safety and passenger experience and do not eliminate the need for additional manpower required to operate and manage the expanded airport infrastructure.

GHIAL has considered the increase in airport capacity and the corresponding operational requirements as the primary driver for manpower growth and has already adopted a prudent approach by linking manpower additions to the Northern Precinct expansion. However, the Authority has moderated the proposed manpower growth factor and adopted a lower escalation rate, resulting in a significant reduction in the manpower expenditure requirement submitted by GHIAL.

Further, it is important to note that there were exceptional circumstances resulting in a decrease in employee expenses in FY26, which is temporary in nature. Accordingly, the FY26 employee cost may not be representative of the steady-state manpower requirement of the Airport. GHIAL has certain vacant positions across operational and support functions which are required to be filled even before considering the requirements arising from the Northern Precinct expansion and accordingly arrived at year on year manpower requirement. Further, employee retention requires compensation growth beyond inflation alone to address market-driven salary movements and attrition. Accordingly, escalation based solely on inflation may not adequately reflect the manpower requirements of the Airport during the Fourth Control Period.

We request the Authority to consider the manpower costs in accordance with the submissions of GHIAL from FY 2027 to FY 2031, by allowing manpower additions proposed for the Northern Precinct expansion and filling of vacant positions, to ensure efficient, safe and seamless airport operations during the Fourth Control Period.

Authority's proposal for Security Charges:

10.2.33 The Authority has analysed the historical growth rates pertaining to the security expense and observes that the same have been highly inconsistent over the relevant period. The Authority further notes that there is a decline in security expenses in FY26 as compared to FY25, and that no discernible trend could be established on the basis of the past growth rates.

10.2.34 The Authority further notes that security expense head is primarily driven by the increase in security-related requirements, particularly towards engagement of outsourced security personnel and the expense is largely manpower-driven in nature.

10.2.35 The Authority notes that these security personnel are planned for deployment in terminal building as well as landside access, kerbside, common circulation areas, administrative offices, etc.

10.2.36 In view of the foregoing, and consistent with the approach adopted by the Authority in past tariff determinations, the Authority proposes to escalate the Security expenses over the Fourth Control Period at the rate of 6% on rationalized FY26 base figure, marginally higher than the inflation. Further, the Authority proposes to apply an adjusted terminal area expansion factor of 18.01% in FY30 and 18.01% in FY31, so as to align with the commissioning of the Northern Precinct Terminal.

GHIAL's Response:

The Authority has proposed a 6% escalation for Security expenses primarily on the basis of historical trends. However, it is submitted that Security expenses are significantly influenced by statutory revisions in minimum wages applicable to outsourced security personnel. In this regard, the Government of Telangana, vide **G.O. Ms. No. 6 dated 30 April 2026**, has revised the minimum wages for unskilled labour from **₹12,778 per month to ₹15,000 per month**, representing an increase of approximately **17%**. Since security expenses predominantly comprise outsourced manpower costs, the aforesaid wage revision is expected to have a direct and significant impact on the security expenditure incurred by GHIAL.

The proposed escalation of 6% may therefore not adequately reflect the actual increase in security costs likely to be incurred during the Fourth Control Period.

Accordingly, GHIAL requests the Authority to consider the impact of the revised minimum wages while finalizing the Security expenses for the Fourth Control Period. Further, a detailed note on the impact of the wage revision on GHIAL's security expenses is enclosed for the Authority's reference.

Authority's proposal for Repairs & Maintenance:

10.2.39 The Authority has analysed the historical growth rates pertaining to the R&M expense and observes that the same have been highly inconsistent over the relevant period. The Authority further notes that there is a decline in R&M expenses in FY26 in comparison to the previous year, and that no discernible trend could be established on the basis of the past growth rates.

10.2.40 Having regard to the foregoing examination, and consistent with the approach adopted by the Authority in past tariff determinations (including the Tariff Order(s) for the Third Control Period), the Authority proposes to project the Aeronautical Repairs and Maintenance Expenses for the Fourth Control Period on the following basis:

a. Base Component: The Repairs and Maintenance Expenses for the FY26 base year, escalated at the inflation rates set out at Table 240 of this Consultation Paper

b. Incremental Component on New Asset Additions: An additional allowance equivalent to 0.5% of the value of the asset additions capitalized during each year of the Fourth Control Period, to address the incremental Repairs and Maintenance expenditure attributable to the said additions.

GHIAL's Response:

GHIAL in its MYTP submission has projected R&M expenses by considering inflation of 4.6% p.a., R&M on new asset additions at 1.5% of capitalized assets and terminal area expansion factors of 19.61% in FY 2029-30 and FY 2030-31. The proposed increase in R&M expenditure was primarily driven by the substantial asset additions and expansion of airport infrastructure under the Northern Precinct development.

The Authority has considered only 0.5% of asset additions towards incremental R&M expenditure and has not considered the terminal area expansion factors proposed by GHIAL, resulting in a significant reduction in the R&M expenditure submitted by GHIAL.

Authority has allowed R&M expenditure 1.65% of closing aeronautical gross block to the Noida International Airport Limited for the first control period. . The relevant extract from Paragraph 8.2.109 of the First Control Period Tariff Order for Noida International Airport limited is reproduced below:

8.2.108 In view of the foregoing, the Authority proposed to consider the UaaS annuity cost in addition to the R&M expenses computed through the 1.65% benchmarking approach. Based on the application of the Gross Block ratio, the aeronautical share of the UaaS annuity during the Control Period worked out to be about Rs. 38 crore per annum.

8.2.109 Based on the above, the Aeronautical R&M Cost proposed by the Authority for the First Control Period is as given below:

Table 153: Aeronautical R&M Cost proposed by the Authority for the First Control Period at Consultation Stage

(Rs. in crores)

Particulars	Ref.	FY 27	FY 28	FY 29	FY 30	FY 31	Total
Closing Aeronautical Gross Block (refer Table 129)	A	6,210.99	6,210.99	6,220.99	6,230.99	6,240.99	
% of Closing Aeronautical Gross Block	B	1.65%	1.65%	1.65%	1.65%	1.65%	
Aeronautical R&M Cost	**C= A×B**	**102.62**	**102.62**	**102.79**	**102.95**	**103.12**	**514.11**
UaaS Annuity	D	38.06	38.06	38.07	38.07	38.08	**190.35**
Total Aeronautical R&M Cost	**E=C+D**	**140.69**	**140.69**	**140.86**	**141.03**	**141.20**	**704.46**
Gross Block Ratio (refer Table 129)	F	90.37%	90.37%	90.38%	90.39%	90.41%	
Total R&M Cost	**G=E÷F**	**155.69**	**155.69**	**155.85**	**156.02**	**156.18**	**779.42**

AERA has allowed 6% of opening RAB in Ahmedabad airport third control period order. The relevant extract from Paragraph 10.5.6 of the third Control Period Tariff Order for Ahmedabad International Airport limited is reproduced below:

10.5.6. The Authority reviewed the comments of AO and APAO on Repairs & Maintenance (R&M) and states that, consistent with the approach followed in the Second Control Period, the Authority had proposed restricting the R&M expenses to 6% of the Opening RAB (in line with the outcomes of the Independent

Tariff Order No. 40/2022-23 for SVPIA for the Third Control Period Page 298 of 448

O&M Expenses for Third Control Period

Study conducted on Efficient O&M expenses for SVPIA). Based on the same, the expenses were adjusted downward and the revised amount was considered for true up in the Consultation paper No. 10 /2022-23 (Refer para 10.2.81). Further, the Authority would like to point out that it has proposed this practice consistently in the past for other similar airports, in order to rationalize the inefficiency noted in the incurrence of the Repairs & Maintenance expenses. The Authority has also considered other pertinent factors such as, a) the AO has proposed several capital expenditure projects for AIAL for the Third Control Period. As the Airport has a mix of new and old assets, the overall R&M costs may only be to the extent, which the Authority has considered in its analysis of the R&M costs and b) rationalization of costs of the Airport to improve efficiency in the operations. Based on the above, the Authority is of the view that its proposal already stated in the Consultation Paper is reasonable and justified and hence, sees no reason to change the same.

Even after considering the Authority's benchmark of 6% of Opening Net Block and 1.65% of Closing Gross Block, GHIAL's projected R&M expenses remain significantly lower than the benchmarks accepted by AERA in other airports.

Year		**FY26**	**FY27**	**FY28**	**FY29**	**FY30**	**FY31**	**Total**
Closing Gross block (A)	**A**	9,493	10,214	10,547	10,678	21,594	21,752	
Closing Net block (Table 235)	**B**	6,285	6,564	6,424	6,069	16,177	15,209	
R&M expenses (1.65% of closing Gross block)	1.65% of A		169	174	176	356	359	**1,234**
R&M expenses (6% of opening Net block)	6% of opening B		377	394	385	364	971	**2,491**
As per Submission by GHIAL			143	154	163	203	253	**916**
As proposed by Authority in CP			122	128	134	193	201	**778**

Further, the Authority noted (Para 5.6.78) that GHIAL's R&M cost per passenger and per terminal area was lower than comparable airports and that the actual expenditure reflected the maintenance requirements arising from the phase-wise commissioning of terminal expansion assets. Given the significantly larger scale of asset additions proposed during the Fourth Control Period, restricting the incremental R&M allowance to only 0.5% of asset additions is not adequately reflect the actual maintenance requirements of the expanded asset base.

Accordingly, GHIAL requests the Authority to consider the R&M expenditure as submitted in the MYTP, including R&M on new asset additions at 1.5% of capitalized assets, considering the significant asset additions proposed during the Fourth Control Period and the associated maintenance requirements of the expanded airport infrastructure.

Authority's proposal for Manpower Hire Charges:

10.2.57 The Authority, on the basis of its analysis of the historical Manpower Hire Charges incurred by GHIAL during the Third Control Period, observes that the year-on-year growth rates of the said expense were highly variable, with the said expenses recording negative growth in FY23.

10.2.58 The Authority is of the view that, given the highly variable and bidirectional nature of the year-on-year movements in Manpower Hire Charges, the application of a real growth rate of 8% per annum to the said expense is not supported by the historical experience.

10.2.59 The Authority notes that this expense pertains to manpower deputation and outsourced manpower services deployed for operational and project-related requirements. The key components include manpower deputation for general Capex activities, E&M support services for landscaping works in landside and airside areas, manpower deployment for landside building operations, and manpower supply for baggage handling and other operational support functions.

10.2.60 In view of the foregoing, and consistent with the approach adopted by the Authority in past tariff determinations, the Authority proposes to escalate the Manpower Hire charges over the Fourth Control Period at the rate of 6% on rationalized FY26 base figure, marginally higher than the inflation. Further, the Authority proposes to apply an adjusted terminal area expansion factor of 18.01% in FY30 and 18.01% in FY31, so as to align with the commissioning of the Northern Precinct Terminal.

GHIAL's Response: GHIAL for projecting cost towards manpower hire charges, had considered an inflation rate of **4.2% p.a.** in addition to a **real growth rate of 8% p.a.**, resulting in an effective annual escalation of approximately **12.53%**. However, the Authority has considered only a **6% escalation rate**, which does not adequately account for the combined impact of inflationary pressures and real growth requirements associated with the expansion of airport operations and infrastructure. It is pertinent to note that, during the True-up of the Third Control Period, the Authority approved Aeronautical Manpower Hire expenses of **₹313.73 crore** against **₹185.10 crore** approved in the Tariff Order, after recognising that the increase was driven by contractual wage escalations, expansion in airport operations, increased terminal capacity and passenger throughput, Digi Yatra implementation and Capex-related manpower requirements (Paras 5.6.116 to 5.6.119). Since similar operational and expansion-related drivers continue during the Fourth Control Period, the proposed escalation may not adequately reflect the efficient costs likely to be incurred. Accordingly, GHIAL requests the Authority to humbly consider the growth assumptions considered in GHIAL CP-4 MYTP.

The manpower hire charges are incurred towards various operational and maintenance activities, including baggage handling, management of baggage tubs and trolleys, deployment of Passenger Service Associates (PSAs), drivers for hired pool vehicles, jungle clearance, bird-scaring operations, airside vegetation clearance, pigeon-proofing activities, Support for Digi Yatra Services and protocol manpower for handling VIP baggage and related assistance services. Since these activities are manpower intensive, a recent Government of Telangana wage increase, vide **G.O. Ms. No. 6 dated 30 April 2026 (Attached as Annexure-II)**, for certain categories of outsourced manpower from **₹12,778 per month to ₹15,000 per month**, representing an increase of approximately **17%**. Since Manpower Hire Charges primarily comprise outsourced manpower deployed for operational and support activities at the Airport, the impact of such wage revisions is expected to directly affect the manpower hire costs incurred by GHIAL. **Accordingly, GHIAL requests the Authority to take into account the impact of applicable wage revisions while finalising the Manpower Hire Charges for the Fourth Control Period.**

Authority's proposal for Housekeeping Expenses:

10.2.63 The Authority, on the basis of its analysis of the historical Housekeeping Expenses incurred by GHIAL during the Third Control Period, observes that the year-on-year growth rates of the said expense were highly variable on account of full annualized impact of the housekeeping contract for the expanded terminal is reflecting in FY26 and a one-time deep cleaning activity undertaken (amounting Rs 9 Crores) during FY26 across the old terminal areas to align hygiene and service standards with the newly expanded facilities.

10.2.64 The Authority observes that the said one-time deep cleaning expenditure is, by its very nature, non-recurring and non-representative of the steady-state housekeeping cost profile reasonably expected to obtain over the Fourth Control Period. Accordingly, the inclusion of the said one-time cost in the FY 2025-26 base figure would result in an artificially elevated base, which, when subjected to compounding escalation over the Fourth Control Period, would yield an unwarranted build-up of Housekeeping Expenses.

10.2.65 The Authority accordingly proposes to revise the FY 2025-26 base figure by excluding the one-time deep cleaning expenditure for projection of Housekeeping cost for the Fourth Control Period.

10.2.66 Having regard to the foregoing examination, and consistent with the approach adopted by the Authority in past tariff determinations (including the Tariff Order(s) for the Third Control Period), the Authority proposes escalation at inflation rate on rationalized FY26 base figure, along with the moderated terminal area increase factor of 18.01% in FY30 and 18.01% in FY31 for projection of Housekeeping Expense for the Fourth Control Period.

GHIAL's Response: GHIAL had considered an inflation rate of 4.2% p.a. in addition to a real growth rate of 8% p.a., resulting in an effective annual escalation of approximately 12.53%. However, the Authority has considered only inflation-based escalation and moderated terminal area expansion factors, which may not adequately capture the increase in housekeeping requirements arising from the expansion of airport infrastructure, higher passenger traffic and enhanced service standards during the Fourth Control Period. Housekeeping expenses are directly linked to the operational area under maintenance and the level of service expected at the Airport. Accordingly, GHIAL requests the Authority to humbly consider the growth assumptions considered in GHIAL CP-4 MYTP.

Further, attached is the recent GO Ms No 6 issued by Government of Telangana 30th April 2026 where minimum wage of unskilled labors has been increased from 12,778 Rs/month to 15,000/Rs /month, which is an increase of ~17%. The same needs to be factored for FY 2027 as it is a major cost element for GHIAL. Further, in future years, we request AERA to take minimum of ~10% over and above inflation to factor such revisions over the CP-4 period.

Accordingly, GHIAL requests the Authority to take into account the impact of applicable wage revisions while finalising the housekeeping expenses for the Fourth Control Period.

Authority's proposal for Professional & Consultancy Charges:

10.2.77 The Authority, on the basis of its analysis of the historical Professional & Consultancy Charges incurred by GHIAL during the Third Control Period, observes that the year-on-year growth rates of the said expense were highly variable, with the said expenses recording negative growth in FY24 and FY26.

10.2.78 The Authority is of the view that, given the highly variable and bidirectional nature of the year-on-year movements in Professional & Consultancy Charges, the application of a real growth rate of 8% per annum to the said expense is not supported by the historical experience.

10.2.79 The Authority is further of the considered view that the Professional & Consultancy Charges do not bear a direct or proportionate correlation with the increase in the terminal area at the Airport. The said position is borne out by the historical experience during the Third Control Period itself, wherein the said expense head, in fact, registered a decrease in FY 2023-24, being the year of capitalisation of the 34 MPPA terminal expansion, notwithstanding the substantial augmentation in the terminal area in the said year.

10.2.80 The Authority has examined the details of Legal costs incurred by GHIAL during the Third Control Period. The Authority is of the view that such legal consultancy expenses are not critical or necessary for the Aeronautical Operations of the Airport and are, by their nature, expenses incurred towards legal cases / proceedings with other stakeholders. Such expenses do not add value to the services offered to airport users and, therefore, ought not to form part of the Aeronautical cost base for tariff determination.

10.2.81 The Authority has also noted that even in the concession agreements executed by the Government of India for recent airports, legal expenses are excluded from the Operating Expenses considered as pass-through for the purpose of tariff determination. Accordingly, the Authority proposes to exclude the legal expenses incurred by GHIAL from the base year expenditure considered for projecting Professional and Consultancy / Consultancy and Legal costs for the Fourth Control Period.

10.2.82 The Authority hence proposes to exclude legal expenses of Rs. 1.71 Crores incurred by GHIAL in FY 2025 26 from the rationalized base year and escalate the balance Professional & Consultancy costs year-on-year by inflation.

GHIAL's Response:

The legal expenses incurred by GHIAL are necessary for safeguarding its interests and ensuring the efficient operation and maintenance of GHIAL. These expenses are attributable to the following:

- GHIAL, being the Airport Operator, is the *de facto* party to various litigations, regulatory proceedings and legal matters arising from airport operations. The legal expenses incurred during the Third Control Period pertained, inter alia, to AERA-related regulatory matters, Goods and Services Tax (GST), Service Tax, Income Tax matters, and other routine litigation and advisory engagements.
- GHIAL incurs legal expenses to protect its interests in matters relating to aeronautical charges, contractual obligations and regulatory proceedings. Such expenses are essential for protecting the economic viability and sustainability of airport operations in an evolving regulatory environment.
- The Authority has stated that recent concession agreements exclude legal expenses from Operating Expenses considered as pass-through. However, no such exclusion is contemplated under the GHIAL Concession Agreement. The Concession Agreement requires GHIAL to operate and manage the Airport in compliance with applicable laws, maintain all approvals and licences, comply with regulatory requirements and discharge various obligations arising under the Agreement.

The Hon'ble TDSAT, in its judgment dated 29 May 2026 in the matter pertaining to Mumbai International Airport Limited (MIAL), held that legal expenses form part of O&M expenditure and are admissible as pass-through costs for airport operations. The Hon'ble Tribunal further observed that legal expenses incurred for protecting contractual, statutory and commercial interests, ensuring regulatory compliance, defending litigation, enforcing recovery of dues and preventing disruption to airport operations have a direct nexus with the smooth and efficient functioning of the airport. The relevant extract of the judgment is reproduced below for ready reference:

"408. In view of the aforesaid facts and reasons, we hereby hold that legal expenses claimed by the Appellant is hereby allowed as a part of O&M expenditure for the Fourth Control Period on an upfront basis, with a liberty to true-up the same, on the basis of actual incurrence at the time of tariff determination for Fifth Control Period."

"411. In view of the aforesaid facts and reasons, we hereby quash and set aside the decision of AERA in the impugned order so far as the legal expenses are concerned. AERA has no power, jurisdiction and authority to examine wherein legal expenses must be allowed as O&M expenses only after considering case-to-case basis."

GHIAL respectfully submits that legal expenses incurred by the Airport Operator arise in the ordinary course of operating, maintaining and developing the Airport and are essential for protecting its contractual, statutory and regulatory interests. Further, neither the GHIAL Concession Agreement nor the applicable regulatory framework contemplates exclusion of legal expenses from admissible operating expenditure. Accordingly, GHIAL requests the Authority to reconsider the proposed disallowance and allow legal expenses as part of admissible O&M expenditure for the Fourth Control Period.

Authority's proposal for CSR:

10.2.129 The Authority took cognizance of the statutory provisions of the Companies Act, 2013 towards allowance of CSR expenses and the extract of the same has been provided below:

i. Section 135 (1) of Companies Act, 2013 states that 'Every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during immediately preceding financial year shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which at least one shall be an independent director.' Further section 135(5) states that 'The Board of every company referred in section 135(1), shall ensure that the company spends, in every financial year, at least two percent of the average net profits of the company made during the three immediately preceding financial years, in pursuance of its Corporate Social Responsibility'.

10.2.130 In this regard, the Authority is of the view that the CSR is a mandatory Social Responsibility of the Company (as per Section 135(1) of Companies Act). As the CSR expenditure is to be incurred by Companies out of their net profits, it is to be regarded as an element of appropriation of Net Profits and not as a part of their Operating Expenditure. Therefore, CSR expenses could not be construed as a passthrough expenditure of the companies, otherwise, it would defeat the very purpose of the social responsibility entrusted on the companies.

10.2.131 Further, Section 37(1) of Income Tax Act also disallows CSR expenses, as these are not considered expenses incurred wholly and exclusively for the purpose of business of the entity. 10.2.132 The Authority proposes not to consider CSR expenses as part of Aeronautical O&M expenses for the Fourth Control Period.

<u>GHIAL's Response:</u>

GHIAL respectfully requests the Authority to refer the submissions made under the response to CSR expenses in third control period. The same may be read as part of the present response and considered accordingly.

<u>Authority's proposal for Other Admin expenses:</u>

10.2.123 The Authority notes that the expenses classified by GHIAL under the head "Other Administrative Expenses" comprise the following components:

- *Membership fees paid to professional bodies such as CAPA (Centre for Aviation), CFO Next, APAO (Association of Private Airport Operators), CEO Next, and similar industry/professional forums;*
- *Subscription charges for books, periodicals, and professional publications; and*
- *Meeting and seminar expenses incurred for internal team meetings and related engagements.*

10.2.124 The Authority, on the basis of its analysis of the historical Other Admin Expenses incurred by GHIAL during the Third Control Period, observes that the year-on-year growth rates of the said expense were highly variable, with the said expenses recording negative growth in certain years.

10.2.125 The Authority is of the view that, given the highly variable and bidirectional nature of the year-on-year movements in Other Admin Expenses, the application of a real growth rate of 8% per annum to the said expense is not supported by the historical experience.

10.2.126 The Authority, in the absence of a detailed sub-component-wise break-up of the expenses booked under this head and the consequent inability to undertake a granular prudence and efficiency assessment, proposes to project the expense for the Fourth Control Period by adopting 50% of the rationalized FY26 base as the starting point, with annual escalation at the prevailing inflation rate.

<u>GHIAL's Response:</u>

GHIAL respectfully submits that the expenses under this head comprise membership fees, industry subscriptions and participation in professional forums, which are incurred in the ordinary course of business and support effective airport management. The year-on-year variation in such expenses is primarily driven by renewal cycles and business requirements and, by itself, does not justify a 50% reduction in the FY26 base. In the absence of any finding regarding imprudence, GHIAL requests the Authority to consider the FY26 base as submitted and apply inflationary escalation for the Fourth Control Period.

<u>Authority's proposal for Strategic, Management and Technical Service Fee:</u>

10.2.175 The Authority took note of GHIAL's submission regarding a new expense head, Strategic, Management and Technical Service Fee, proposed for the Fourth Control Period.

10.2.176 The Authority sought clarification from GHIAL on the details and justifications for projection of such expenses for the Fourth Control Period. GHIAL's responses are as follows:

"GHIAL Board in its meeting dated 23.07.2025, has approved the payment of Strategic, Management and Technical Service Fee from FY26 to all its shareholders including GMR Airports Limited (GAL), Airport Authority of India and Government of Telangana. The Clauses 3.4 and 3.5 of the Shareholders Agreement defines the Role of the Sponsors which lists down the various activities that the Sponsors are to provide. The Clause 5.10 of the Shareholders Agreement provides that all decisions of the Board shall be a simple majority of the Directors present and voting. The Clause 11.3 of the Shareholders Agreement mentions that GHIAL shall provide to each of its investors with a right to consult and advise management of GHIAL on various issues.

Hence the board of GHIAL has now decided to start paying, going forward, a consideration for the services being provided by shareholders to the Company towards its strategic leadership, governance and business sustainability @3% of stand-alone gross revenue from FY 2026 on a quarterly basis."

10.2.177 The Authority notes that, as per the present shareholding pattern of GHIAL, 26% of the shareholding is held by Government entities, comprising 13% held by AAI on behalf of the Government of India, and 13% held by the Government of Telangana, while the remaining 74% is held by GMR Airports Limited (GAL). GHIAL has referred to certain provisions of the Shareholders' Agreement and submitted that the Board of GHIAL has decided to make payments to its shareholders towards services stated to be provided by them in relation to strategic leadership, governance and business sustainability. GHIAL has proposed that such consideration would be paid at the rate of 3% of standalone gross revenue, with effect from FY 2025-26, on a quarterly basis.

10.2.178 The Authority has analysed GHIAL's submission and observes as under:

i. Clauses 3.4 and 3.5 of the Shareholders' Agreement set out the roles of the Sponsors and the State Promoters in providing support to GHIAL. The activities listed for the State Promoters primarily relate to the initial support required for commencement of airport operations. The activities listed for the Sponsors also relate to commencement of airport operations and include reference to services to be provided in the ordinary course of business for operation, management and development of the airport and for provision of airport services.

ii. The aforesaid clauses are general enabling provisions defining the broad roles and obligations of shareholders in relation to the airport project under the Concession Agreement framework. The Authority does not find any specific provision in the Shareholders' Agreement which provides for payment of separate consideration to shareholders towards advice, consultation, strategic leadership, governance or business sustainability services.

iii. The Authority is of the view that Hyderabad Airport was awarded to GAL through a transparent competitive bidding process with a clear mandate of development, construction, operation and maintenance of the airport for the concession period. Further, at the time of evaluation of the bids, GAL was shortlisted considering their ability to develop and manage the airport operations. Considering the Strategic, Management and Technical Service Fee to run the airport operations would defeat the above purpose and will lead to an additional fee being rendered to the shareholders in addition to the return on their invested equity.

10.2.179 The Authority further observes that GHIAL is a separate legal entity having its own senior management, personnel and functional structure for operating, managing and developing the airport. In addition, GHIAL already avails expert services from personnel of group companies and engages consultants/domain experts in various fields in the ordinary course of its business. Therefore, the Authority is of the view that a blanket quarterly payment to shareholders would lead to a risk of overlap between the proposed fees and costs already embedded in GHIAL's existing expenditure base, including employee costs, *administrative expenses, consultancy charges and other management-related expenses and may result in duplication of costs and consequential double recovery from airport users.*

10.2.180 Accordingly, the Authority proposes not to consider the payment towards Strategic, Management, and Technical Service Fees to shareholders.

GHIAL's Response:

GHIAL respectfully requests the Authority to refer the submissions made under the response to Strategic and Management and technical fees in third control period. The same may be read as part of the present response and considered accordingly.

3.5. Non-Aeronautical Revenue for 4th Control Period

Authority's Proposal for Other Income:

11.2.12 The Authority further notes that no income has been projected under the head "Other Income (interest and dividend income)" and has examined the same.

11.2.16 The Authority notes that GHIAL has accounted for dividend income of Rs. 14.57 Crores in its books of accounts for FY 2025-26. Consistet with the approach adopted by the Authority during tariff determination for the Third Control Period, the Authority proposes to consider the actual dividend income for FY 2025-26 as the base for projecting dividend income for the Fourth Control Period. The Authority further proposes that the dividend income considered for the Fourth Control Period.

GHIAL's Response:

The GHIAL, in the previous three control period orders (1st, 2nd & 3rd) has never projected the other income for the future control periods, since it is contingent and completely depends on the cashflow availability of the GHIAL

Kindly refer the response provided under the section "Other Income" in third control period.

Thus, the projection of the other income considering the actual dividend income for FY 2025-26 as the base doesn't validate and does not reflect the underlying business realities. **Accordingly, GHIAL requests the Authority not to project dividend income for the Fourth Control Period.**

Authority's Proposal for Revenue from CGF and ICT:

11.2.17 The Authority notes that GHIAL has treated revenue from Cargo, Ground Handling, Fuel Farm and ICT services as Non-Aeronautical Revenue. The Authority has examined the matter and is of the view that revenues from Cargo, Ground Handling and Fuel-related services are in the nature of Aeronautical Revenue as per Section 2(a) of the AERA Act, 2008. Further, ICT services, including CUTE, CUSS, BRS and related IT services, are integral to airport operations and facilitate the provision of aeronautical services. Therefore, in line with provisions of AERA Act and the consistent regulatory treatment adopted by the Authority from the First Control Period onwards, the Authority has considered revenues from Cargo, Ground Handling, Fuel Farm and ICT services as Aeronautical Revenue and has excluded the same from the computation of Non-Aeronautical Revenue.

<u>GHIAL's Response:</u>

The Hon'ble TDSAT, in its judgment dated **14 February 2024** in the matter pertaining to **GMR Hyderabad International Airport Limited (GHIAL)**, held that income from CGF in case of GHIAL are non-regulated activities and the revenue received by the Airport Operator, Appellant from the service providers of CGF are non-aeronautical charges. The relevant extract of the judgment is reproduced below for ready reference:

For GHIAL dated 14 February 2024

"315. This aspect of the matter has not been properly appreciated by AERA while passing the impugned order for the Third Control Period and hence, so far as Issue No. II, we hereby quash and set aside the decision of AERA, and we hold that the decision of AERA to treat Cargo, Ground Handling and Fuel Services as aeronautical services and the revenue generated therefrom as aeronautical revenue is incorrect, improper & unjustified. We hereby hold that the activities of CGF in case of HIAL are non-regulated activities and the revenue received by the Airport Operator – Appellant from the service providers of CGF are non-aeronautical charges."

GHIAL submit that income from CGF and ICT, as per aforesaid judgment of the Hon'ble TDSAT, constitutes non-aeronautical revenue. Accordingly, GHIAL requests the Authority to consider revenue from CGF and ICT as a non-aeronautical revenue.

<u>Authority's Proposal for Real Estate Income:</u>

11.2.18 As mentioned in Para 1.6.1, 1.6.2, 1.6.3, 1.7.1, 1.7.2, 1.7.3, 1.7.4 and 1.7.5 of this Consultation Paper, with regard to the issues raised by the Authority in the Civil Appeal against the judgements of the Hon'ble TDSAT, the Authority is of the view that presently it needs to continue the tariff determination exercise in line with the decisions taken in the Tariff Order for the Third Control Period as the matter is sub-judice before the Hon'ble Supreme Court. And accordingly proposes treat revenue from real estate development as non-aeronautical in nature.

<u>GHIAL's Response:</u>

The Hon'ble TDSAT, in its judgment dated **14 February 2024** in the matter pertaining to **GMR Hyderabad International Airport Limited (GHIAL)**, held that income from Real Estate Development (RED) constitutes **Non-Airport Activity** revenue. The Hon'ble TDSAT further held that such revenue can neither be treated as Aeronautical nor as Non-Aeronautical revenue and that AERA does not have the power or jurisdiction to regulate such revenue. The relevant extract of the judgment is reproduced below for ready reference:

For GHIAL dated 14 February 2024

"342. In view of the aforesaid facts and reasons, provisions of land lease agreement to be read with provisions of AERA Act, 2008, the decision of AERA to consider income of appellant from Real Estate Development under its regulatory purview is incorrect, improper and not justified. We, hereby, hold that income from Real Estate Development (RED) is from Non-Airport Activities and it cannot be treated as Aeronautical, nor it can be treated as Non-Aeronautical but they are simply 'Non-Airport Activity' revenue. AERA has no power or jurisdiction over such revenue."

GHIAL submits that income from Real Estate Development, as per the Concession Agreement and the aforesaid judgment of the Hon'ble TDSAT, constitutes **Non-Airport Activity** revenue. Accordingly, GHIAL requests the Authority to consider revenue from Real Estate Development outside its regulatory purview.

Projections for CPIV period

Without prejudice to the above contention, GHIAL respectfully submits that the Authority's projected income from CPD appears to have been derived using FY 2026 actual income of ₹31.39 Crores as the base and applying a year-on-year growth rate of 5% for the subsequent tariff years.

In this regard, GHIAL would like to clarify that the FY 2026 income includes a one-time income arising from a finance lease transaction amounting to approx. Rs. 18 Crores, which is exceptional in nature and not expected to recur during the remaining years of the Control Period. **Accordingly, the FY 2026 actual income does not represent the underlying recurring income stream from CPD activities and should not be used as the basis for projecting future revenues. Using this one-time income as the base results in an overstatement of CPD income projections for FY 2027 to FY 2031.**

Authority's Proposal for Minimum Threshold for true up of NAR:

11.3.2 To True up NAR for the current control period, at the time of determination of tariff for the next control period, subject to the minimum threshold as proposed by the Authority in Table 315.

GHIAL's Response:

GHIAL respectfully submits that the proposed minimum threshold for true-up of Non-Aeronautical Revenue is being introduced for the first time. Non-aeronautical revenues are inherently subject to several factors, including passenger spending behavior, traffic mix, dwell time, macroeconomic conditions, consumer sentiment, retail market dynamics, passenger demographics and changes in airline networks, many of which are beyond the direct control of the airport operator.

Further, Section 13(1)(a)(v) of the AERA Act requires consideration of revenue actually received from non-aeronautical services. Neither the AERA Act nor the AERA Tariff Guidelines provide for a minimum threshold of non-aeronautical revenue for the purpose of true-up. Moreover, a true-up mechanism that permits adjustment only when actual revenue exceeds the prescribed threshold, while denying a corresponding adjustment when actual revenue falls short, is inconsistent with the fundamental objective of a true-up exercise, which is intended to correct both over-estimation and under-estimation based on actual outcomes. Such an approach effectively transfers the risk of under-achievement of non-aeronautical revenue entirely to the airport operator, notwithstanding that such revenues are influenced by several external factors beyond its control.

Further, The Hon'ble TDSAT, in its judgement dated **11th September 2025** in the matter pertaining to the **First Control Period of GMR Goa International Airport Limited and 29th May 2025** in the matter pertaining to the **Fourth Control Period of Mumbai International Airport Ltd.**, held that the true-up exercise for the subsequent Control Period should be undertaken based on the **actual non-aeronautical revenue**, irrespective of whether such revenue exceeds the minimum threshold fixed by AERA for non-aeronautical revenue. The decision of Hon'ble TDSAT is produced below for reference:

For GGIA dated 11th September 2025

"……looking to the provisions of the AERA Act, 2008 to be read with AERA Tariff Guidelines, 2011 to be read with Concession Agreement (Annexure A-3), we hereby quash and set aside decision of AERA for determination of Rs.509.47 Crores for minimum threshold for non-aeronautical revenue for First Control Period.

We also quash and set aside the decision of AERA to undertake true-up based on actual in Second Control Period only if the revenue exceeds the minimum threshold.

We hereby direct AERA the true-up exercise for the next Control Period shall be based upon actual non-aeronautical revenue irrespective of the fact that whether it exceeds or not, the minimum threshold of Rs.509.47 Crores, as fixed by AERA towards non-aeronautical revenue."

For MIAL dated 29th May 2026

"…..We therefore quash and set aside the methodology adopted by AERA in the impugned order as the same is contrary to law. 285. Accordingly, while AERA may adopt the Appellant's projected figure of Rs.11,382.29 Crores as the provisional non-aeronautical revenue for the Fourth Control Period, the true-up in the Fifth Control Period shall be carried out on the basis of actual gross non aeronautical revenue generated from Revenue Share Assets, which are verified from audited accounts, irrespective of whether such actual revenue is higher or lower than the provisional estimate. To that extent, the impugned condition imposed by AERA is contrary to law and is set aside."

Accordingly, GHIAL respectfully requests the Authority to undertake true-up of non-aeronautical revenue based solely on audited actual revenue earned during the Control Period, without application of any minimum threshold, in line with the aforesaid TDSAT judgements.

3.6. Aggregate revenue requirement for the fourth control period

Authority's proposal for User Pay Principle:

14.3 Incremental ARR Approach on User Pay Principle for identified High-Capex Projects

14.3.1 It can be seen from the above table that in the financial year 2029-30, the capital addition of Northern Passenger Terminal Building of 20 MPPA and related infrastructure with aero capex of Rs. 5,328.45 Crore and Northern Precinct airside works comprising of new Runway, Taxiways, Aprons and other airside related works with capex of Rs. 4,585.49 Crore is taking place together accounting for almost 79% of the overall capital additions for the fourth control period which is significantly impacting the return on RAB & Depreciation. These capital assets are getting capitalised and shall be put to use in 2029-30, whereas their impact is getting applied on the passenger travelling in the 1st year of the Control Period. This is not in consonance with the fundamental principle of Airport Charges that user pays for the facilities and services that are available for use. Further, in this context it is pertinent to mention that: -

(i) Principles embodied in the International Civil Aviation Organization (ICAO) Policies on Charges for Airports and Air Navigation Services recognize that users should ultimately bear their full and fair share of the costs associated with the provision of airport infrastructure and services. Implicit in this principle is the expectation that charges should bear a reasonable relationship to the facilities and services made available to users. Where users are required to pay enhanced charges significantly in advance of the creation and operationalization of such facilities, concerns may arise regarding inter-generational equity, cost causation, and the alignment between charges and service delivery.

(ii) The regulatory procedure that allows recovery of return on RAB, depreciation, and associated costs based solely on projected capitalization may not sufficiently incentivize timely execution and commissioning of capital projects. Where tariff recovery is substantially assured irrespective of actual project completion timelines, there may be limited regulatory impetus for ensuring adherence to committed implementation schedules. The Authority has actually observed that, in several past instances, major capital expenditure projects projected for

commissioning within a Control Period are subsequently delayed, rescheduled, phased differently, or, in certain instances, not executed at all. Such deviations between projected and actual capitalisation can lead to a mismatch between tariff recovery and asset availability. As a result, airport users may bear charges based on investments that have not yet materialised, while the Airport Operator may receive revenue recovery in advance of the corresponding asset being put into use. Such an outcome may not be consistent with the broader objectives of efficiency, accountability, and performance-based regulation.

…………………………………………………….

14.4.30 The Authority notes that it is necessary to have the individual year wise tariff card laying down the different aeronautical charges and the workings for the aeronautical revenues, in order to have a constructive stakeholder discussion and hence GHIAL is directed to submit the detailed annual Tariff proposals in line with the Aggregate Revenue Requirement and Yield arrived at by the Authority in Table 324 within 7 days of issuance of this Consultation Paper.

GHIAL's Response:

The following are GHIAL's submissions regarding the proposed methodology for consideration of Incremental ARR and recovery of capital expenditure during the Control Period:

a) ICAO Principle

We respectfully submit that the Authority's reliance on the "user pays" principle reflects a narrow interpretation of ICAO policies, which does not fully capture the intent of the framework. ICAO defines airport charges as instruments for recovery of infrastructure and service costs, while also emphasising the need to balance the interests of service providers and users.

In the current regulatory mechanism, multi-year tariff framework helps in smoothing the rates across the years without having a major increase or decrease in the rates. This is done on an NPV basis while applying to WACC on the required reimbursements for new investments. This multi-year tariff framework, in a way, provides pre-funding of these investments and reduces burden on passengers by affecting impact over multiple years rather than over a shorter period when the assets are put to use. ICAO as per 1.8 Pre-Funding of Projects under point (d), provides similar safeguards in the form of pre-funding of the projects to provide consistency and reasonableness in the tariff structure.

1.8 Pre-Funding of Projects………d) application for a limited period of time with users benefiting from lower charges and from smoother transition in changes to charges than would otherwise have been the case once new facilities or infrastructure are in place; and

"ICAO Doc 9082 establishes that airport charges are intended to enable users to bear their fair share of infrastructure costs (Para 2.1.1), including capital costs and depreciation (Para 2.1.2).

However, the framework does not prescribe that cost recovery must occur only after commissioning of assets. On the contrary, ICAO recognises that pre-funding of large-scale investments may be permitted in specific circumstances, subject to appropriate safeguards, including transparency, consultation and ring-fencing of funds (Para 1.8). Further, ICAO emphasizes the need to maintain a fair balance between the interests of service providers and users. Therefore, interpreting the "user pays" principle as restricting cost recovery solely to post-utilization reflects a narrow and incomplete reading of ICAO guidance".

b) Projects have multiple capitalisation milestones

It is important to note that, in many of the major capex projects, the assets do not constitute single milestone that can be linked to commissioning on a single date. These projects comprise multiple asset packages and sub-components, including terminal infrastructure, utilities, baggage systems, passenger processing systems, airside infrastructure, aprons, taxiways and associated facilities, each of which may have different completion, capitalization and put-to-use dates.

Accordingly, the actual capitalization profile of such projects is likely to be staggered over a period of time rather than occurring through a single commissioning event. In such circumstances, linking tariff recovery strictly to commissioning milestones may create practical complexities in determining the commencement of recovery and may not accurately reflect the integrated nature of airport infrastructure development.

The existing Multi-Year Tariff Framework appropriately recognizes the integrated and long-gestation nature of airport infrastructure projects by determining tariff requirements for the Control Period as a whole, thereby providing a simpler, more predictable and administratively efficient mechanism for recovery of prudently incurred investments.

c) Deviation from Established AERA Multi-Year Tariff Framework

We respectfully submit that the proposed approach departs from the core Multi-Year Tariff Framework under AERA Guidelines, which envisages determination of ARR for the entire control period. Incremental ARR introduces mid-control period adjustments, which are not aligned with the fundamental design of the MYTP regime.

AERA 2.18. "Multi Year Tariff Framework means the framework enunciated in these Guidelines for economic regulation, and determination in advance, of tariffs over a period of time and includes the underlying principles covering inter alia determination of the Aggregate Revenue Requirement as described in Chapter II";

The AERA Guidelines explicitly provide that tariffs and ARR are determined in advance for the entire control period under the Multi-Year Tariff Framework (refer Clause 2.18), which ensures stability, predictability, and regulatory certainty.

d) Reference from AERA tariff determination mechanism:

Concept of Yield Per Passenger (YPP)

Yield per Passenger (Y) represents: The average aeronautical revenue per passenger required over the Control Period to recover the Aggregate Revenue Requirement (ARR), on a present value basis.

Core Formula (Clause 6.2.1)

$$Y = \frac{\sum_{t=1}^{5} PV(AR\,R_t)}{\sum_{t=1}^{5} V\,E_t}$$

Where:

ARR_t = Aggregate Revenue Requirement in year t

$PV(ARR_t)$ = Present value of ARR_t discounted using FRoR

VE_t = Estimated passenger volume in year t

FRoR = Fair Rate of Return (discount rate)

From YPP to Year-wise Tariffs

YPP for Year 1

$$Y = \frac{\sum_{t=1}^{5} PV(ARR_t)}{\sum_{t=1}^{5} VE_t}$$

Illustration

Yield per passenger (Y)		Tariff Year 1	Tariff Year 2	Tariff Year 3	Tariff Year 4	Tariff Year 5
Aggregate Revenue Requirement	ARR	6,660	6,488	6,450	6,376	4,845
Estimated Volume	VE	1,000	1,150	1,323	1,521	1,749
Present Value (ARR)	PV (ARR)	6,660	5,593	4,793	4,085	2,676
ΣPV(ARR)	23,807					
ΣVE	6,743					
Y = Σ PV(ARR) / Σ VE	3.53					

Y1 and X		Tariff Year 1	Tariff Year 2	Tariff Year 3	Tariff Year 4	Tariff Year 5
Forecasted Change in WPI	WPI_t	10%	10%	10%	10%	10%
X	X_t	2%	2%	2%	2%	2%
Yield per passenger for Tariff Year t	$Y_{t,\ EWPI}$	4.13	4.46	4.82	5.21	5.62
Revenue = VE x Y	VE x Y	4,134	5,134	6,379	7,920	9,836
Present Value (VE x Y)	PV (VE x Y)	4,134	4,426	4,741	5,074	5,432
ΣPV(VE x Y)	23,807					
ΣVE	6,743					
Y = Σ PV(VE x Y) / Σ VE	3.53					

- *Y1 and X are calculated considering various factors such that*

  Σ PV(ARR) / Σ VE = Σ PV(VE x Y) / Σ VE

- *In this illustration, for simplicity, X has been taken as same for all 5 years*
- *Yield per passenger for the second Tariff Year onwards (i.e. Y2 to Y5) is calculated according to Clause 6.4.*

$$Y_t = Y_{t-1} \times (1 + WPI_t - X_t)$$

Where:

WPI = Inflation escalation

X = Efficiency factor

Even under clause 5.2 Regulatory Asset Base (RAB), AERA can exclude or include any proposal submitted in MYTP, however deferment for the purpose of rate card computation is not allowed as per the guidelines.

"5.2.1. Scope of the RAB

(c) Any exclusion/ inclusion shall only be considered if it is proposed to be executed in the Control Period for which the Multi Year Tariff Proposal is submitted.

(d) The Authority may also, in its discretion, consider any other relevant factors for exclusion or inclusion of assets."

e) Tariff Certainty and Predictability on Airline Planning and Network Stability

The current framework ensures a pre-determined tariff trajectory with adjustments through defined true-up mechanisms. The proposed approach introduces multiple tariff revisions and dependence on regulatory approvals during the control period, resulting in uncertainty for airlines and users.

Such tariff volatility:
- Disrupts airline pricing and route planning, which are typically medium-term decisions
- Impacts airline economics and profitability
- May discourage airlines from building stable networks at expanding airports

Even AERA has recognised the importance of a balanced and stable approach. Smoothening tariffs over a 5-year period avoids avoidable volatility and supports orderly traffic and network development.

f) Financial sustainability and cost of capital implications

Capital investments require funding during the construction phase, whereas Incremental ARR defers revenue recovery until commissioning. This creates a cash flow mismatch and may also have implications on the credit rating of the airport operator and its ability to comply with financing covenants, potentially leading to a higher cost of capital. Ultimately, these increased financing costs are passed on to users, defeating the objective of protecting user interests. Front-loading risk but back-loading recovery increases financing cost for the system and is inefficient from a user perspective.

g) Departure from Regulatory Consistency and investor confidence

The proposal represents a significant shift from the established AERA tariff framework and introduces regulatory uncertainty. Departure from this approach introduces uncertainty in revenue realization and mismatch between investment timing vs recovery timing.

As per Section 13 (a) (i) of the AERA Act, it is important for AERA to consider capital expenditure and timely investment in improvement of airport facilities. Since the proposed capex rational has been accepted by AERA basis its technical evaluation, delay in providing the respective effect in the building blocks will be against the Act. On the contrary, tariff guidelines under section 5.2.6 (d), provide incentive mechanism for airport operators for timely or ahead of schedule investments.

Such departure from above guiding principles and regulations while determining tariffs can send adverse signals to investors, especially in a sector with large upfront capex commitments. Particularly significant as the airport sector is entering a phase of large-scale expansion and privatization. Regulatory stability is essential to sustain investor participation in long-gestation infrastructure assets.

h) Impact of User Pay Principle on Per-Passenger Cost Recovery

The Authority's application of the user pay principle results in a departure from the earlier YPP framework, wherein the aggregate revenue requirement was assessed on WACC linked present value basis and equitably spread across the forecast passenger base over the control period. Under the user pay approach, such recovery is undertaken in absolute terms only upon capitalization, without present value equalisation.

In cases where capex is commissioned in later years, the associated WACC-linked return and depreciation are recovered over a limited timeframe and from a relatively smaller passenger base. Accordingly, per-passenger recovery under the user pay approach is significantly higher due to concentration over a shorter period and reduced passenger base, as compared to the earlier YPP framework. Such concentration of cost recovery in the years immediately following commissioning may lead to significant tariff shocks and volatility in aeronautical charges, instead of ensuring a smooth and predictable tariff trajectory over the Control Period

In Current YPP Framework

- Total Net ARR as per Table 320 of the Fourth Control Period Consultation Paper: **₹13,221.10 crore**
- Total pax traffic approved by the Authority as per Table 154 of the Control Period Consultation Paper: **21.83 crore passengers**
- **YPP per passenger = ₹13,221.10 crore ÷ 21.83 crore passengers = ₹605 per passenger**

	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Traffic as per AERA (In Mn)		35.0	39.3	44.6	47.9	51.5
YPP Without UPP	535	605	605	605	605	605
YOY Growth		***13%***	***0%***	***0%***	***0%***	***0%***

Under the User Pay Principle (UPP)

1. **Base ARR Recovery (FY27 to FY29)**
   - Total Net ARR as per Table 324 of the Fourth Control Period Consultation Paper: **₹10,588.18 crore**
   - Total passenger traffic approved by the Authority as per Table 154: **21.83 crore passengers**
   - **Base YPP per passenger = ₹10,588.18 crore ÷ 21.83 crore passengers = ₹485 per passenger**

2. Impact of Capitalization of Major Expansion Assets

Assume that the **Northern Passenger Terminal Building** and the **Northern Precinct Airside Works** are commissioned in **September 2029**, and the revised tariff becomes effective from **January 2030**.

- Net ARR attributable to Northern Precinct Development - Landside Works (Table 322): **₹1,415.12 crore**
- Net ARR attributable to Northern Runway & Associated Airside Works (Table 323): **₹1,217.80 crore**
- **Total incremental ARR attributable to commissioned capex: ₹2,633 crore**

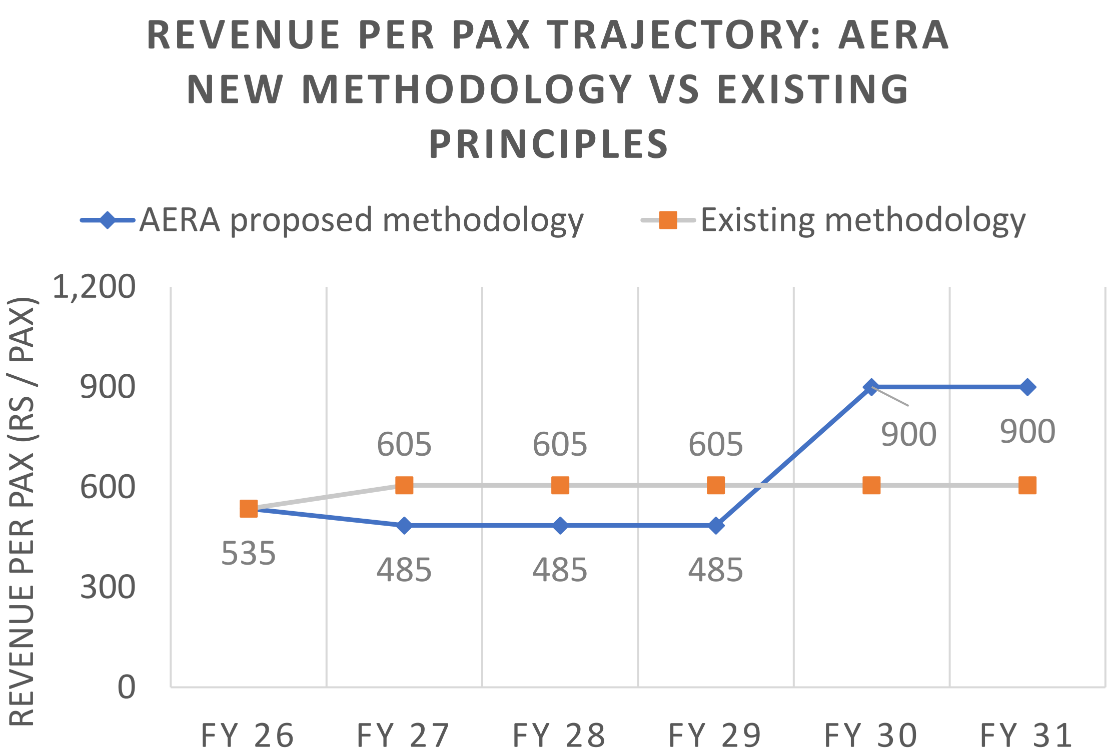
Passenger Base Available for Recovery

- FY30 passenger traffic (Jan-30 to Mar-30 only): **4.79 crore ÷ 4 = 1.20 crore passengers**
- FY31 passenger traffic: **5.15 crore passengers**
- **Total passenger base available for recovery of incremental ARR: 1.20 + 5.15 = 6.35 crore passengers**

Accordingly:

- **Additional YPP = ₹2,633 crore ÷ 6.35 crore passengers = ₹415 per passenger**

	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Traffic as per AERA (In Mn)		35.0	39.3	44.6	47.9	51.5
YPP base line (Rs / pax)	535	485	485	485	485	485
Additional YPP due to approved Capex (Rs / Pax)	-	-	-	-	415	415
Total effective YPP (Rs / Pax)	**535**	**485**	**485**	**485**	**900**	**900**
YOY Growth (%)		**(11%)**	**0%**	**0%**	**86%**	**0%**



Key Observation

- Under the proposed User Pay Principle, effective recovery per passenger increases from **₹485 to ₹900 upon capitalization of the expansion assets**, representing an increase of approximately **86% in a single year.**
- In contrast, under the existing YPP framework, recovery per passenger increases only from **₹535 to ₹605, i.e., approximately 13%, and remains stable thereafter.**
- This demonstrates that while the User Pay Principle initially results in lower charges, it concentrates recovery of major capex over a substantially smaller passenger base following commissioning, leading to a sharp step-up in charges and a potential tariff shock for airport users.
- The existing YPP framework, on the other hand, spreads recovery more evenly across the Control Period and provides a significantly smoother and more predictable tariff trajectory.

Therefore, while the proposed approach may initially appear beneficial due to lower charges in the early years, it ultimately results in an abrupt increase in recovery rates post-capitalization, shifting the burden disproportionately onto future users and creating significant tariff volatility.

Consistency with established regulatory practice and global approach. AERA has consistently followed a 5-year tariff cycle since inception
Internationally:

- Regulators typically avoid intra-period tariff volatility
- Prefer smoothing mechanisms over project-specific step-ups

In fact, on this basis, there should not be any deferment of YPP to future CPs – akin to subsiding current users at the expense of users in next CP. Basically, it is akin to all major expansions being treated as greenfield projects which will increase the project risk.

i) Redundancy with Existing True-Up Mechanism

The AERA framework already provides mechanisms such as error correction and true-up to address over-recovery, under-recovery and forecast deviations. Incremental ARR duplicates these safeguards without providing additional benefit.

j) Benefits cannot be clearly attributable to specific users or periods

Airports operate as integrated network assets rather than a collection of standalone facilities, with continuous reconfiguration of terminals, airside infrastructure, and passenger flows to optimise capacity utilisation.
In large metro airports such as Hyderabad, expansion projects typically result in reallocation of airline operations, redistribution of traffic across terminals, and system-wide efficiency gains rather than isolated benefits attributable to specific users or time periods.
Further, a significant proportion of traffic at airports (especially metro ones like Hyderabad) comprises repeat travellers, who utilise the airport ecosystem over time rather than in a single instance.
In this context, determination of tariffs over a control period, with costs appropriately smoothened, is consistent with the principle of equity and reflects the integrated and evolving nature of airport infrastructure.

k) Lack of International Precedent and Regulatory Benchmarking

We respectfully submit that the proposed Incremental ARR approach does not appear to have any established precedent in international airport regulatory practices. Leading global jurisdictions, including Heathrow (UK) and airports in Mexico, operate under multi-year tariff framework, which generally allow cost recovery aligned with investment timelines (phased recovery), rather than deferring recovery strictly until asset commissioning.

Globally existing airports levy new airport development charges. For example, GMR Group is developing a new green field airport at Crete in Greece in which the Greece Government permitted levy and collection of new airport development fees and presently the existing airport is collecting the new airport development fees and making available to the new developer i.e. GMR Consortium.

In this regard, we request the Authority to kindly provide evidence of implementation of a similar approach in other jurisdictions, if any, along with the regulatory rationale adopted and stakeholder responses, particularly concerns raised by airport operators or users. In absence of such precedent, adoption of this approach may lead to regulatory uncertainty and deviation from globally accepted tariff-setting practices.

l) Credit Rating Downgrade

Further, deferring the recovery of revenues until the commissioning of assets creates a structural misalignment between the timing of expenditure incurrence and the realization of corresponding revenues. This results in a cash flow mismatch that may necessitate additional funding during the construction period, leading to higher financing and carrying costs. Such an approach could adversely impact the airport operator's credit profile, compliance with lender covenants, and investor confidence, thereby increasing the overall cost of capital. Importantly, these incremental financing costs would ultimately be passed through to airport users over time and may therefore be inconsistent with the underlying objective of protecting users from undue tariff impacts.

Consequently, where a material portion of projected revenues remains contingent in nature, credit rating agencies may calculate key financial metrics—including Net Debt/EBITDA, Debt/EBITDA, Debt Service Coverage Ratio (DSCR), and Interest Coverage Ratio—based on lower levels of recognized revenue and EBITDA than those reflected in the company's business plan. This may result in weaker credit metrics and a less favourable assessment of the issuer's financial position.

Any deterioration in these credit metrics could place downward pressure on the issuer's credit rating and/or rating outlook. A weaker credit profile may, in turn, restrict access to capital markets and increase borrowing costs through higher interest rates, wider credit spreads, enhanced security requirements, and more restrictive financing covenants.

Accordingly, we respectfully submit that the existing AERA framework already provides adequate safeguards through technical review of capex, truing-up mechanisms, and control-period based tariff determination. Adoption of an Incremental ARR approach may lead to tariff volatility, higher financing costs, regulatory uncertainty, and unintended consequences for both airport operators and users. Therefore, the Authority may continue with the established control-period based ARR determination approach.

Interim/Alternative Option:

Without prejudice to the above submissions, if the Authority proceeds with the proposed Incremental ARR approach, GHIAL respectfully submits the following requests:

Tariff Card to be approved for 5 years: GHIAL respectfully submits that the complete tariff card for the Fourth Control Period, including the impact of identified high-capex projects, should be determined and approved upfront as part of the Tariff Order itself. Upon achievement of the specified commissioning milestones and submission of the requisite certification by GHIAL, only the pre-approved tariff rates should become effective from the notified date, without requiring a fresh determination of individual aeronautical charges such as Landing Charges, Parking Charges, UDF and other tariff elements. This would provide greater tariff certainty, predictability and transparency to all stakeholders, particularly airlines, enabling them to clearly assess the likely movement in airport charges over the Control Period and plan their operations, pricing and network decisions accordingly. Further, such an approach would avoid repeated tariff revisions and reduce regulatory and administrative complexity during the Control Period.

Tariff Implementation upon Achievement of 80% Physical Progress: GHIAL respectfully submits that, the incremental tariff for the identified high-capex projects should be permitted to be implemented upon certification of physical progress of at least 80% by an Independent Engineer, rather than deferring the entire recovery until capitalisation and put-to-use. At the stage of 80% certified physical progress, the Airport Operator has substantially incurred the underlying capital cost and the associated financing burden; permitting incremental tariff from that milestone would enable the Operator to meet a part of its capital expenditure requirement from such incremental tariffs.

Staggered Capex Recovery: GHIAL requests the Authority to consider permitting recovery of 50% of the ARR associated with identified high-capex projects prior to capitalization, with the balance being recovered upon capitalization. This would moderate tariff increases in the commissioning years, reduce tariff shock for users and partially offset the financing burden borne by the Airport Operator during the construction phase.

3.7. Request to allow submission of revised ATP basis final ARR

As part of the tariff determination process, in case there is a variation between the ARR on which tariff proposal was submitted dated 25th June 2026 and the final approved ARR by the Authority, we request the Authority to allow us to resubmit the ATP as the change in ARR may require us to rework on the recovery strategy.