GMR

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Letter No. GHIAL/ 2020-21/SPG/ 1460
Dated : 23rd July 2020

WITHOUT PREJUDICE

The Chairman,
Airport Economic Regulatory Authority of India,
AERA Building, Administrative Complex
Safdarjung Airport, New Delhi-110003

Sub: Multi Year Tariff Proposal for RGI Airport, Shamshabad, Hyderabad.

Dear Sir,

We hereby submit Multi Year Tariff Proposal (MYTP) under shared till for our RGI Airport, Shamshabad, Hyderabad.

The present proposal is for the approval of yield per pax calculated as Rs.1300.

Further, the present MYTP for the third control period of FY 2022 – FY 2026, includes the true up for the pre first control period, first control period and second control period.

On receipt of the approval of MYTP from the Authority, we shall submit a detailed pricing proposal (rate card).

Thanking you

Yours sincerely,
For GMR Hyderabad International Airport Limited

Narayana Kada
Authorized Signatory

Application for Determination of Aeronautical Tariffs for the Third Control Period

(1st April 2021 to 31st March 2026)

GMR Hyderabad International Airport Limited

Hyderabad, India

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GLOSSARY OF TERMS	
ACS	Access Control System
ARR	Aggregate Revenue Requirement
ADFG	Advance Development Fund Grant
ATM	Aircraft Traffic Movement
AAI	Airport Authority of India
AMC	Annual Maintenance Cost
AUCC	Airport Users Consultative Committee
AERA	Airports Economic Regulatory Authority
AERAAT	Airports Economic Regulatory Authority Appellate Tribunal
AGL	Airfield Ground Lighting
ALS	Airside Landside
AS	Accounting Standard
ATP	Annual Tariff Plan
BMS	Building Management System
CISF	Central Industrial Security Force
CAGR	Compound Annual Growth Rate
CAPM	Capital Asset Pricing Model
CGF	Cargo, Ground Handling and Fuel
CNS	Communication, Navigation , Surveillance
CP	Control Period
DIAL	Delhi International Airport Limited
DGCA	Director General Civil Aviation
ECB	External Commercial Borrowing
FY	Financial Year
FRoR	Fair Rate of Return
GAL	GMR Airports Limited
GHIAL	GMR Hyderabad International Airport Limited
IFL	Interest Free Loan
LIBOR	London Interbank Offer Rate
MAHB	Malaysia Airports Holding Berhad
MPPA	Million Passengers Per Annum
MoCA	Ministry of Civil Aviation
MCA	Ministry of Corporate Affairs
MHA	Ministry of Home Affairs
Mn	Million
MTPA	Million Tonnage Per Annum
MW	Megawatt
MYTP	Multi Year Tariff Proposal
NAR	Non Aeronautical Revenue
O&D	Origin and Destination
O&M	Operation and Maintenance
PAT	Profit After Tax

PAX	Passenger
PCPE	Pre Control Period Entitlements
PSF (SC)	Passenger Security Fee (Security Component)
PTB	Passenger Terminal Building
PHP	Peak Hour Passengers
PIF	Project Information File
RGIA	Rajiv Gandhi International Airport
RAB	Regulated Asset Base
RBI	Reserve Bank of India
SHA	Security Hold Area
SOP	Standard Operating Procedure
SSA	State Support Agreement
TDSAT	Telecom Disputes Settlement and Appellate Tribunal
TSTRANSCO	Transmission Corporation of Telangana Limited
UDF	User Development Fee
USD	United States Dollars
WP	Writ Petition
WPI	Wholesale Price Index
YoY	Year on Year
YPP	Yield Per Passenger

I. WITHOUT PREJUDICE

The Authority issued Consultation Paper in December 2017 for determination of second Control Period tariff. However, the pending issues with regard to Pre-Control Period Entitlement (PCPE), treatment of Cargo, Ground Handling and Fuel Farm revenue, exchange loss suffered by the Company, treatment of revenue arising out of real estate operations and other new issues emanating from the consultation paper affected the aeronautical yield for the second control period very significantly. It may be recalled that when the said consultation paper was issued, the open issues arising out of first control period order were already under adjudication. The Company, being aggrieved by the second control period consultation paper, filed a writ petition before the Hon'ble High Court at Hyderabad seeking stay on the issuance of tariff order for the second control period by the Authority. Based on the merit of the case, the Hon'ble High Court Hyderabad stayed further proceeding in the second control period consultation paper.

However, in view of the remand of the issues pertaining to the first control period by the Hon'ble High Court, to the Hon'ble TDSAT and as the third control period was fast approaching and in order to pave the way for early determination of the pending issues, the Company without prejudice to its rights and contentions made in the writ petitions and reserving all such rights and contentions to be raised before the concerned authorities at the appropriate juncture, the Company withdrew the Writ petition 3780/2018 and Writ Appeal, before the Hon'ble High Court at Hyderabad.

Pursuant to the remand of the issues relating to first control period, by the Hon'ble High Court at Hyderabad, the Hon'ble TDSAT disposed the Appeal on 04.03.2020 and remanded all the issues to the Authority for fresh reconsideration. Pursuant to the said Order passed by Hon'ble TDSAT, the Authority had issued an interim measure order no. 34/2019-20 dated 27th March 2020, wherein the revised charges for aeronautical services effective from April 1, 2020 was issued while the open issues are yet to be reconsidered afresh by the Authority by affording reasonable opportunity of being heard as directed by Hon'ble TDSAT.

Our current submission for Multi Year Tariff Proposal for third control period before the Authority is made with a request to have a fresh consideration of all the pending and open issues. GHIAL would like to submit that the Concession Agreement (CA) signed by the Government of India with the Company is binding and as per the provisions of the AERA Act, the integrity and sanctity of contractual provisions are to be respected and upheld. Regulatory powers therefore have to be exercised in a manner which are consistent with contractual and vested rights of the Company under the concession agreement, land lease agreement and state support agreement.

Accordingly, the key open issues are considered based on the provisions of concession agreement entered into with the Ministry of Civil Aviation (for PCPE and CGF treatment), land lease agreement and state support agreement entered into with the State Government of Telangana (erstwhile united State of Andhra Pradesh) (for treatment of real estate income) and the principles of tariff determination issued by the Authority (for treatment of forex loss and other open issues) in this regard.

GHIAL would also request the Authority to give us an opportunity to explain in person and in details the perspective on all the open issues before issuance of consultation paper for third control period in compliance with the Order of Hon'ble TDSAT which is reproduced as under

"Unresolved issues raised on behalf of the appellant, whatever be their worth, deserve to be considered by AERA expeditiously after giving an opportunity of further hearing or of making representation in the matter, to the appellant".

In view of the above order of Hon'ble TDSAT in Appeal 02 of 2014 and in continuation of our submissions made for the first control period (2011-16) as well as second control period (2016-21) vis-à-vis the unresolved issues raised in the above said Appeal as well as in the writ petitions i.e. WP 6487 of 2014; WP 22474 of 2014; WP 27390 of 2015 and WP 3780 of 2018, the Company through this MYTP, reiterates its position on all the unresolved issues with evidence-based submissions for fresh consideration by the Regulator with a request to afford a detailed hearing for substantiating the Company's stand on each of these unresolved issues, before proceeding with the consultation process for the third control period.

II. BACKGROUND OF THE REGULATED ENTITY

GHIAL has been incorporated to design, finance, build, operate and maintain a world-class green-field airport at Shamshabad, Hyderabad. GHIAL is a joint venture company with following shareholding pattern:

Shareholding Pattern of GHIAL as on 30th June 2020

Holding Company	**% stake**
GMR Airports Limited (GAL)	63
Government of Telangana (GoT)	13
Malaysia Airports Holding Berhad (Mauritius) - MAHB (M)	11
Airports Authority of India(AAI)	13
Total	**100**

RGIA commenced operations from 23rd March 2008. The terminal has a modular design with capacity of 12 MPPA. The airport has an ultimate capacity in excess of 80 MPPA as envisaged in the airport master plan.

The key agreements governing the functioning of GHIAL inter alia include:

- **Concession Agreement**, executed between Government of India, MoCA and GHIAL, on 20th December 2004.
- **Land Lease Agreement** executed between the State Government (Lessor) and GHIAL (Lessee) on 30th September 2003.
- **State Support Agreement (SSA)** executed between the State Government and GHIAL on 30th September 2003.
- **CNS / ATM Agreement** executed between AAI and GHIAL on 11th August 2005. It defines the scope of services for Pre-Commissioning Phase, Commissioning Phase and Operation Phase.
- **Shareholder's Agreement** executed between State Government, AAI, GIL, MAHB and GHIAL on 30th September 2003.
- **Sponsors' Agreement** executed between GIL and MAHB on 30th September 2003. The Sponsors' Agreement defines the roles of GMR group and MAHB in the JV.

These agreements are henceforth referred to as **Project Agreements**

III. PRINCIPLES OF TARIFF COMPUTATION

This tariff filing is based on the principles laid down in the Concession Agreement and other Project Agreements as well as the principles entailed in the guidelines issued by the Authority in this regard.

GHIAL would like to submit that the Concession Agreement (CA) signed by the Government of India with GHIAL is binding and the integrity and sanctity of contractual provisions have to be respected and upheld. Regulatory powers therefore have to be exercised in a manner which are consistent with contractual and vested rights of the Company under the concession agreement, land lease agreement and state support agreement.

The MYTP for third control period of the Company is submitted based on the consistent position of all the open issues and also our forward looking estimates on the traffic and capex program. The Covid pandemic affected the travel globally and India is no exceptions. The lockdown imposed by the central and respective State Government and general fear in the minds of the consumers about the pandemic in the absence of any curative medication affected the travel. Both airports and airlines are immensely affected with the Covid blow. As of now, despite the gloom, GHIAL is hopeful of a faster domestic traffic recovery with the presumption that air travel being the safest and the fastest mode of transport, the passengers will flock once the Covid pandemic subsides. However, GHIAL reserves the right to revisit the traffic projections during the consultation phase as it is expected that the situation would become stable in next 4-6 months.

The Company has embarked on capacity expansion in the wake of pre-covid traffic growth as the throughput of the airport was higher than the design capacity. Although the Company took several interim measures to increase the terminal capacity and also the airside capacity, hover the incremental addition was felt inadequate necessitating the Company to embark on expansion to cater to from present 12 million annual passenger to 34 million annual passenger. The Company has achieved almost 40% overall progress as the execution got impacted during the lockdown period.

Our present submissions for determination of regulated charges for third control period (from 1st April 2021 to 31st March 2026) is as per the provisions of the Concession Agreement for RGI Airport, Hyderabad and the true up for the period FY2009 to FY2021. The broad basis of filing of key issues and the principles considered thereon are as under:

Particulars	Basis of Filing	Principles of Filing
PCPE	Considered as True-up	Based on our submission before the Hon'ble High Court and TDSAT and also the TDSAT order in case of DIAL
CGF Treatment	Considered as Non-aeronautical	Based on concession provisions and AG opinion
Forex Loss	Claimed as pass through based on actual loss incurred	In the absence of guidelines on treatment of forex loss, the Authority is requested to consider the actual loss suffered by the Company

Particulars	Basis of Filing	Principles of Filing
Revenue from Real Estate operations	Considered as non-airport	Based on Concession Agreement which clearly states the activities that would be considered as non-airport Also Land Lease Agreement and State Support Agreement stating the land is given for the socio economic development of the region
Regulatory Till-Hybrid/Shared till	Considered 30% Shared Till with cross subsidisation of 30% of Non-Aeronautical PBT	Based on ICAO guidelines
Cost of Equity	Relied on expert study on cost of equity for the covered control periods	As per the study carried out by Jacobs for previous control periods and CRISIL for third control period based on CAPM Methodology

The other relevant submissions are entailed in the later section of this document.

GHIAL requests the Authority to have a fresh considerations of our submissions as was considered in the TDSAT order, while determining the tariff Order for RGI Airport, Hyderabad. GHIAL is submitting its perspective on some of the key open issues.

I. **<u>Revenue recognition from Cargo, Ground Handling and Fuel Throughput (CGF)</u>**

GHIAL would like to submit that the provisions of the CA states that the Independent Regulatory Authority (IRA) shall determine only the **Regulated Charges** as mentioned in the Schedule 6 thereto. Schedule 6 of the Concession Agreement maintains a clear distinction between **Regulated Charges** [Schedule 6 read with Article 10.2] and other charges [Article 10.3]. The reading of the Concession Agreement, more particularly Articles 10.2 read with Schedule 6 and 10.3 concludes that the cargo, ground handling and fuel supply (collectively referred to as "**CGF**") are covered under "other charges" and hence not liable to be regulated as opposed to "**Regulated Charges**".

Additionally, the AERA Act under Sec 13(1)(a)(vi) mandated the Authority to take into consideration the concessions granted by the Central Government under the agreement. Since the Concession Agreement with GHIAL was executed on 20.12.2004, i.e. prior to promulgation of AERA Act in 2008, the concessions so granted are protected and the legislature mandated the Authority to take into consideration the same while determining the tariff.

In this regard, the Company would like to submit as under;

a. **AERA Act 2008:** It may be noted that Section 13(1) (a) of the AERA Act, 2008 provides for determination of tariff for aeronautical services. **<u>It is provided under Sec 13 (1)(a)(vi) that, the concession offered by the Central Government in any agreement or MOU or otherwise must be considered.</u>**

A contextual reading of Section 13(1)(a)(vi) indicates that the concession granted by the Central Government has to be mandatorily read into the AERA Act and all concessions granted therein have to be taken into consideration by the Authority while determining tariff.

b. **Concession Agreement:** In order to being in the perspective of Concession Agreement before the Authority, GHIAL would like to draw the attention to Clause 10 of the Concession Agreement deals with the Charges to be levied at the Airport and 10.2.1 relates to the regulated charges to be levied which states as below:

   "*..10.2.1 The Airport Charges specified in Schedule 6 ("**Regulated Charges**")…….*"

   Further reliance is also placed on the definition of Regulatory Charges which in terms of the concession is as follows:

   *"**Regulated Charges**" shall be defined in article 10.2.1*

More specifically, GHIAL would like to draw attention of the Authority to Schedule 6 ("**Regulated Charges**") of the Concession Agreement which succinctly defines the regulated charges under three broad headings:

(i) Landing, Housing and Parking charges (domestic and international)
(ii) Passenger Service Fee (domestic and international)
(iii) User Development Fee (UDF) (domestic and international):

GHIAL would also like to draw your attention to the clause 10.3 of the Concession Agreement wherein GHIAL/Service provider are given the concession in the form of freedom to determine charges for the services other than the facilities and services in respect of which **Regulated Charges** are levied. Following is the extract of relevant provision:

*"HIAL and/or Service Provider Right Holders shall be free without any restriction to determine the charges to be imposed in respect of the facilities and services provided at the Airport or on the Site, other than the facilities and services in respect of which **Regulated Charges** are levied."*

In terms of Clause 10.2.1, the Authority has the power to determine only the **Regulated Charges** as listed in Schedule 6 of the Concession Agreement. In Schedule 6 of the Concession Agreement there is no mention of CGF. It is pertinent to mention here that schedule referred to by the Authority from the concession agreement i.e. Part 1 of Schedule 3 is in relation to Airport Activities which does not relate to **Regulated Charges** under Schedule 6 or clause 10.2. Hence the Airport Activities mentioned in Schedule 3 are distinct from the **Regulated Charges** mentioned in Schedule 6. Therefore, the Authority has the power to determine only '**Regulated Charges'** as mentioned in Schedule 6 in terms of section 13(1)(a)(vi) of the Act and not 'Airport Activities' mentioned in Schedule 3.

The interpretation of the Company on the concession provision of CGF treatment converges with the opinion of AG of India.

c. **Opinion of the Attorney General**: The Company has obtained the attached opinion of AG of India under RTI wherein to the following query of MoCA

"Whether the CA permits to use the revenue from Non-Aeronautical Activities or Services including the revenues from Cargo, Ground Handling or fueling services and/or non-airport services, to cross subsidies the charges for aeronautical services"

The Attorney General had opined that

*"the CA has two relevant clauses, viz., Article 10.2 deals with "**Airport Charges**". 10.2.1 deals with those specified in Schedule 6 which are also termed as "**Regulated Charges"**. Cargo and ground handling services are not to be found in Schedule-6. They are, therefore, not Regulated Charges. Clause 10.3 deals with "Other Charges". HIAL has a right to determine charges for these facilities which are not covered in "**Regulated Charges**". Hence HIAL can charge whatever it desired without any regulation in that behalf. However, under the CA, they will be deemed to be non-regulated services. But it will be necessary to include them under Non-Aeronautical Services. The position under the AERA Act is, however, to the contrary.*

As can be observed from the **AG opinion**, CGF is conclusively the non-aeronautical services and hence the revenue shall be non-aeronautical. The opinion of the Attorney General of India is attached herewith as **Annexure 1** for ready reference of the Authority.

d. **Expert Opinion**:

In this regard, it is pertinent to mention that the opinion rendered by Hon'ble Justice R.C. Lahoti, Former Chief Justice of India clearly states that:

*"1) While construing section 13(1)(a)(vi) of the AERA Act and acting thereunder, Article 10.2 and 10.3 of the Concession Agreement and other provisions thereof have to be kept in view. The AERA would be justified, and that would be a fair and just exercise of power, if the AERA may regulate the **Regulated Charges** as defined in the Concession Agreement and may not regulate any Other Charges in respect of the facilities and services provided at the Airport"*

A copy of the Opinion rendered by Justice Lahoti is annexed herewith as Annexure 2.

II. <u>Treatment of income from real estate development</u>

As per Clause 10.3 of the Concession Agreement, GHIAL has the power to determine charges to be levied in respect of the facilities and services provided at the Airport or on the Site, other than the facilities and services in respect of which **Regulated Charges** are levied.

Further, as per Schedule 3 of the Concession Agreement a distinction has been made between Airport Activities which fall under Part 1 and Non-Airport Activities which fall under Part-2. Activities, which fall under Part 1 of Schedule 3, fall in the category of Airport Activities, which includes both aeronautical and non-aeronautical services.

However, in Part 2 of Schedule 3, Non-Airport Activities are enlisted which are other than Airport Activities as provided in Part 1 which can only be carried out on 'landside'. Such activities/services neither fall within the category of aeronautical services nor in the category of non-aeronautical services.

As such, the revenues from real estate development, e.g., revenue from land monetization, rentals from space leasing of administrative office building, retail fuelling station etc. which fall under Part 2 of Schedule 3 of the Concession Agreement and hence outside the regulatory till.

Land Monetization: As per the land lease agreement, the land was acquired not only for the construction of the airport but also to carry out commercial/non-airport activities. Hence, all such commercial development/non-airport activities are considered outside the purview of the Authority.

GHIAL refers the opinion given by AG of India (obtained under RTI) to the following specific query of MoCA

"Whether the land earmarked for non-airport activities should be kept outside the purview of AERA?"

To which AG of India opined the following:

"Logically, non-airport activities should be outside the purview of AERA since AERA is related only to regulation of airports and what is outside the precincts should not be in the jurisdiction of AERA. The preamble of the Act and its provisions show that only airports are within the sweep of the Act."

It is pertinent to note that the right to development of real estate was an independent right granted to the bidder as a concession and has been a part of competitive bidding process. The state government as per the communication dated 03.03.2011 while furnishing its views on the draft guidelines on economic regulation of services provided by Airport Operators has stated that intention of setting up the airport is for the socio-economic development of the region and any adjustment proposed by AERA would not serve the purpose for which the land was leased out to GHIAL.

Relevant extract of the letter is as under:

Setting up the airport in the Greenfield location of Shamshabad was with the intention of socio-economic development of the region and also overall development of tourism and industrial development of the State. Considering these objectives, the land of 5500 acres was leased to the GHIAL for development of airport as well as non-airport activities to suitably incentivize the airport operator without any reference to target equity IRR. Hence any adjustment proposed by AERA would not serve the purpose for which the land was leased out to GHIAL. This was also explained in detail vide last para on page-2 of this Government letter dt.1.3.2011.

Further, the letter of the then GOAP dated 01.03.2011 also stated the following;

As regards tariff of non airport activities, Article 10(3) of the Concession Agreement gives the right to HIAL or other service providers to set tariff for non airport facilities and services. The Concession Agreement does not envisage cross subsidy of non-aeronautical revenues against the aeronautical revenues. This may be taken into consideration by the authority.

Letter of State Government attached as Annexure 3 for your ready reference

Further, in this regard it is pertinent to mention that Justice R.C Lahoti in his Opinion has held as under:

"2. In view of a categorical differentiation carried out under the Concession Agreement wherein Non-Airport Activities are completely unconnected to the Airport business, the revenues generated though the Non-Airport Activities under the Concession Agreement cannot be considered by AERA to offset cost for the purpose of determining the tariff for ***Regulated Charges****.*

4. The value of the land earmarked for Non-Airport Activities (market or notional) cannot be included in or deducted from the RAB and accordingly the revenue generated therefrom cannot be taken into account for cross subsidising the aeronautical tariff for the Airport."

In view of the concession provisions and the aforesaid communication from the State Government, GHIAL requests the Authority to treat the land monetised for various Non-airport activities as outside regulatory till in line with our submission.

Administrative office & warehouse - The Administrative office and warehouse located landside at RGIA has been built as an innovative solution for providing office and warehousing space as a trade facilitation measure. The activities performed in CSB can be broadly classified and explained as:

1. Warehousing: The warehouse serves the purpose of transit warehousing for various companies without having any restrictions on reserving space only for the purpose of Air Cargo. Since the Airport is at a convenient location in terms of connectivity, the warehousing space is utilized by many companies for the purpose of storing transit cargo through ICDs as well as for Domestic distribution through road networks.

2. Office Space: The Administrative office at landside is leased out to interested parties at a competitive commercials rates. Hence, GHIAL requests the Authority to treat Administrative office, which is leased out to freight consolidators/ forwarders or agent for their administrative work as well as for non-bonded warehousing purposes and not exclusive or restricted to cargo related operations alone, outside regulatory till.

3. Fuelling Station: There is a vehicle fuelling station on the landside which is treated as non-airport activity and revenue is considered outside regulatory till.

The aforesaid revenue streams are classified as non-airport activities under **Schedule 3** - Part 2 of Concession Agreement and are provided on the landside, the revenue generated from such activity is considered outside regulatory till as part of our submission to the Authority.

III. <u>Treatment of dividend received by GHIAL on investment made :</u>

Dividend and other income received by the Company from its subsidiaries and joint ventures are considered as outside regulatory till as the income is arising out of the investment activity of the Company. The Authority in its earlier order no 38/2013-14 considered the dividend income outside the regulatory determination, however, such treatment is reversed in the Order no. 34/2019-20 wherein the Authority treated the dividend income based on the underlying nature of business of the entity.

The Authority in its earlier Order no. 38/2013-14 stated the following while determining the treatment of dividend income in the hands of the Company;

"*For the purposes of calculation of ARR, the Authority has taken into consideration only the RAB in the books of accounts of HIAL and has accordingly not reckoned the assets of Hyderabad Menzies Air Cargo Private Ltd. in RAB for the purposes of tariff determination. The dividend received by HIAL from HMACPL is likewise not included in the ARR calculations for HIAL*".

In this regard reference is also invited to Order No 40/2015-16 dated December 8, 2015 with respect to Delhi International Airport (DIAL) wherein the Authority stated the following;

"6.105.2. …………… since the assets pertaining to the JVs were not being reckoned for the purpose of determination of RAB, the Authority is of the view that the dividend income accruing to DIAL from such JVs should also not be considered towards cross-subsidization"

In view of the above, GHIAL request the Authority to reverse the treatment of dividend income in the hands of GHIAL by treating such income as outside regulatory till.

IV. Pre Control Period Entitlement (Period prior to Sep 2009) [PCPE]

As per the provisions of the Concession Agreement GHIAL is entitled to levy and collect the airport charges from the date of commencement of its operations i.e. from 23.03.2008. On constitution of the Authority on 01.09.2009, the entire process pertaining to the determination of airport charges has been transferred by MoCA to the Authority for determining the airport charges/tariff, in terms of the Concession Agreement and as per the provisions of AERA Act.

Though the Authority has come into being from 01.09.2009, it has assumed the duties, powers and responsibilities of erstwhile MoCA for determination of tariff. Hence, in our view, it is only transfer of power for determination of tariff from MoCA to AERA and hence the date of constitution of Authority has no relevance and the Authority has jurisdiction to consider tariff for the period from 23.03.2008 till 31.08.2009. As a matter of principle, PCPE shall be trued up while determining the tariff for aeronautical services in third control period.

The Authority in its Order No. 6/2010-11 dated 26.10.2010 while revising the ad-hoc UDF being charged by the GHIAL (on the basis of the communication of the Ministry of Civil Aviation) had categorically concluded as under:

"*Broadly, it is the Authority's understanding that the aforesaid differences are arising mainly as HIAL is taking 2010-11 estimates as firm figures. It is reiterated that the figures of 2010-11 are only estimates and therefore, Authority proposes to continue with its approach of taking actuals of 2009-10 to estimate the figures in respect of 2010-11 and 2011-12 and 2012-13. After reconciliation the UDF rate has been worked out as Rs-430/-per domestic passenger and Rs.1700/-per international passenger, exclusive of service tax, on an ad-hoc basis w.e.f, 01.11.2010 (details at Annexure III). Authority is conscious that on a detailed assessment, including bottoms up analysis of all revenues and expenditures, the UDF rates presently determined may need to be altered. This exercise will be undertaken at the final determination stage." (emphasis supplied)*

Thus, it is evident on a bare perusal of the order dated 26.10.2010, that the Authority had itself recognized that it is (a) passing an ad-hoc order; (b) was "conscious" that on a "detailed assessment" of all revenues and expenditures, the UDF rates may need to be altered, which exercise will be undertaken at the stage of final tariff determination.

It is further relevant to note that no final tariff determination exercise had ever been done in case of the GHIAL and the Central Government on constitution of the Authority (and upon notification of its powers) "transferred" the request of the GHIAL to seek a hike of UDF (from the ad-hoc UDF put in place by the Ministry of Civil Aviation) thereby leaving open the issues for consideration by the Authority for the eligibility of tariff from the date of commercial operation i.e. 23.03.2008.

It is pertinent to note that the Authority at the time of passing the order dated 26.10.2010 had clearly recorded that:

"The Authority has not yet taken a final position in respect of economic regulation of airports. Therefore, the tariff determination in respect of the Hyderabad International Airport would take time. In the interim, the revenue enhancement through UDF could be considered, on an ad-hoc basis. In case this is not considered, the target revenue could be higher at the time of tariff determination" (emphasis supplied)

Thus, merely because the Authority had not taken a final position in respect of the economic regulation of airports the final tariff determination in respect of the Airport operated by the GHIAL was deferred and an ad-hoc UDF was approved. Therefore, the Authority was duty bound to take into account the financial position of the GHIAL in its entirety including the losses/shortfall (deficit) suffered by it from the commencement of the commercial operation of the Airport.

GHIAL is entitled to collect UDF from airport opening date as per the provisions of the Concession Agreement and accordingly requested MoCA to determine the final tariff before AERA came into existence. However, the final entitlement of tariff for that period was neither finally determined by MoCA nor by AERA after it became functional. The ad hoc Order No. 06/2010-11 dated 26.10.10 of the Authority was continuation of charges as approved by MoCA in 18.08.2008 and there was no real determination of eligibility/entitlement.

The real determination of tariff could have done covering the pre control period accordingly the Authority considered the pre-control period during consultation paper for the first control period, however, it was not considered by the Authority in final order without citing any cogent reasons.

Hence, GHIAL is of the opinion that the Authority has its full power to determine tariff for the said period from 23.03.2008 till 01.09.2009.

In this regard, GHIAL would like to draw attention of the Authority to the TDSAT judgement dated 23rd April 2018 in case of DIAL CP1 order wherein it stated that the Authority has requisite jurisdiction to determine tariff for period prior to its existence as long as it is carried out on fair and transparent basis.

The relevant extract of the above referred TDSAT judgement is as below:

"once AERA was legally constituted from September 2009, the unfinished exercise could have been finished only by AERA. Clearly, the Central Government had the authority to consult independent expert body for the period between 01.04.2009 and 01.09.2009 when AERA came into existence. The exercise by AERA for that period has been within the knowledge of Central Government which has issued communications relating to tariff formulation." It further stated that "........Section 13 of the Act gives sufficient latitude in selecting an appropriate beginning of the first regulatory term of 5 years subject to rules of transparency and fairness"

The copy of the TDSAT judgement is annexed herewith as ***Annexure 4***

In view of the above, GHIAL requests the Authority to consider pre-control period eligibility as part of true up as submitted in this application.

V. **Application of Shared Till with cross subsidisation of 30% of Non-Aeronautical PBT**

Authority in its Order No. 14/2016-17 on adoption of Hybrid Till has relied on ICAO guidelines on Shared Till Philosophy and stated that a portion of surplus generated from non-aero revenues should be shared with the airlines and other users and not retain the entire surplus.

ICAO guidelines states that "reaching a common understanding on the contribution of non-aeronautical revenues to defray the cost base for charges is an acknowledgement of the partnership between airports and users". This clearly means that the contribution of the non-aero revenues in the airport should be shared between the airport operator and the users. The airport operator and the airlines should come to an understanding on who gets how much of the surplus generated from non-aero revenues. The intention here seems to be that the airport operators who collect these revenues should share a portion of the surplus with the airlines and other users and not retain the entire surplus. The ICAO guidelines therefore indicate a preference for a 'Hybrid till' rather than a 'Single Till'/ 'Dual Till' (emphasis supplied).

Also, as per Order no 13/2010-11 “In the matter of Regulatory Philosophy and Approach in Economic Regulation of Airport Operators”:

Relevant extract from Para 5.18 to 5.24 (emphasis supplied)

> “5.18 - It is important to recognize the context in which ICAO uses the terms "cost relatedness" and the related concept of "cross subsidy". ICAO speaks of cost relatedness in the context of charges for aeronautical or regulated services. This implies that according to ICAO guidelines, one regulated service should not be cross subsidized from other regulated service. It is important to bear in mind that ICAO does not use the term "cross subsidy" in the context of surpluses from non-aeronautical revenues to be used to moderate charges for aeronautical services. In fact as subsequently discussed, ICAO encourages contribution from non-aeronautical revenues towards aeronautical charges.
>
> 5.19 - Regarding cost relatedness, ICAO clearly states that non-aeronautical revenues are generated by passengers and hence they should benefit from the non-aeronautical surpluses.
>
> 5.20 - For sake of clarity, the relevant portion of Para 30 of ICAO Doc 9082/8, (2009) is reproduced below"
>
> 30 The Council also states that in determining the cost basis for airport charges the following principles should be applied:
>
> (i) The cost to be shared is the full cost of providing the airport and its essential ancillary services, including appropriate amounts for cost of capital and depreciation of assets, as well as the costs of maintenance, operation, management and administration, but allowing for all aeronautical revenues plus contributions from non-aeronautical revenues accruing from the operation of the airport to its operators (Emphasis added).

5.21 Authority thus notes that ICAO's guidelines speak of "contributions from non-aeronautical revenues accruing from the operation of the airport to its operators". Common reading of these words would indicate that whatever contributions from non-aeronautical revenues accrue to the Airport Operators should be taken into account for determination of aeronautical charges."

It is also important to refer to the White Paper on Regulatory Objectives and Philosophy in Economic Regulation of Airports and Air Navigation Services issued by the Authority in December 2009, wherein the Authority has listed out certain major issues impacting formulation of a regulatory philosophy. In this regard, the Authority while laying down the philosophy for Single till has stated that single till uses profits from non-aeronautical activities at an airport to offset the aeronautical cost base for determining airport charges. Therefore, even as per the Authority's own Regulatory philosophy only non-aeronautical revenue, after deducting all costs associated with it, should be used for the purposes of cross subsidization.

In Hybrid till all the costs associated with generating the non-aeronautical revenue (as maybe defined in a given agreement) are subtracted from the non-aeronautical revenue and the net result is used to compute the amount of cross-subsidization towards aeronautical charges. Hence, a part of the non-aeronautical revenue (after netting of the costs associated with generating the non-aeronautical revenue) is so to say "shared" with the aeronautical revenue (also likewise netted) and aeronautical charges determined accordingly.

In view of the above, GHIAL requests the Authority to determine tariff based on the philosophy of shared/hybrid till wherein all the costs associated with generating the non-aeronautical revenue are subtracted from the non-aeronautical revenue and the net result is used to compute 30% cross-subsidization towards aeronautical charges.

VI. Cost of Equity

GHIAL requests the Authority to consider the cost of equity study carried out by Jacobs for the first and second control period and CRISIL for the third control period in line with Authority's recommended approach of CAPM.

Accordingly, the Company has considered Jacobs study for or the first and second control period and CRISIL study for third control period.

Jacobs considered cost of equity at 24% which is considered for previous control periods and CRISIL considered cost of equity to range between 20.34% to 23.80% depending upon Debt Equity Ratio of 1.5x and 2.33x respectively which is considered for third control period.

A copy of the report of CRISIL and Jacobs is enclosed as **Annexure 5 and 6** respectively.

Summary:

Based on the above broad principles relating to treatment of CGF, landside development , pre-control period entitlements (deliberated in subsequent section), cost of equity based on CAPM methodology and philosophy of shared/Hybrid till and as explained above, the ARR for 3rd control period and true up for the 1st and the 2nd control period is firmed up.

- **Aggregate Revenue Requirement**

  This application is for the ARR for the third control period (1st April 2021 to 31st March 2026) and true-up for the period FY2009-FY2021 which has been calculated as per the Authority's formula given as follows:

ARR = (FRoR x RAB) + D + O + T - NAR

  where,

  - **RAB:** Regulatory Asset Base pertaining to aeronautical assets only. The assets other than aeronautical assets are excluded from the scope of RAB under Shared Till
  - **FRoR:** Fair Rate of Return (Weighted Average Cost of Capital) for the Control Period
  - **O:** Operating and Maintenance costs pertaining to Aeronautical Services, which include all aeronautical expenditures including expenditure incurred on statutory operating costs and other mandated operating costs
  - **D:** Depreciation corresponding to the Regulatory Asset Base
  - **T:** Taxation for Aeronautical services, which includes payments in respect of corporate tax on income from assets / amenities / facilities / services/cross subsidization taken into consideration for determination of ARR
  - **NAR:** Cross-subsidization to the extent of 30%

- **Regulatory Period**

  The third control period considered for this filing, is a period of five years from FY2022 to FY2026. Necessary true-ups from the prior periods (i.e. from April 2008 to March 2021) have been considered as part of submissions.

- **Regulatory Asset Base**

  In compliance with the MOCA's direction u/s 42(2) of the AERA Act to the Authority to adopt 30% Shared Till, GHIAL has included only the aeronautical assets in the RAB for the purpose of determination of ARR. The appropriate adjustment has been made for the ADFG funding received from the State Government.

  In line with the concessions granted by the Central Government under the Concession Agreement and as explained above, the assets pertaining to Cargo, Ground Handling and Fuel Farm (CGF) are treated as non-aeronautical and therefore are not part of the RAB in this proposal.

  In line with Authority's decision as per interim measure Order No 34/2019-20, adjustment for Forex Losses as per AS11 in RAB has not been considered. However, the same has been included in the operating Expenses as pass through expense.

  Assets funded out of ADFG has been allocated as common assets as the grant was for the Airport Project and hence there should be proportionate reduction of ADFG from the RAB.

Further the non-airport assets in terms of the Concession Agreement have been considered outside regulatory purview.

- **Dividend And Interest Income**
  Since the assets pertaining to the Subsidiaries are not being reckoned for the purpose of determination of RAB, dividend and interest income accruing to the airport are kept outside the regulatory considerations.

- **Allowance of Forex Losses**

  Authority vide second control period interim measure Order [Order No 34/2019-20 dated 27th March 2020] had decided to disallow the capitalization of adjusting for forex losses as per AS 11 and excluded it from the calculation of RAB. Based on this, the Authority allowed for the recovery of forex losses as an operating expense to the extent that the effective cost of borrowing in foreign currency (net of forex gains / losses) is not higher than the cost of RTL in the respective financial years. However, this treatment led to only partial recovery of forex losses incurred by the company.

  ECB was availed by GHIAL with an intent to reduce the cost of borrowing, thereby reduce the cost of developing the infrastructure, the benefits of which is passed on to the passengers by way of lower charges in the initial years. However, GHIAL suffered Forex losses due to sudden rupee depreciation which, the Authority should consider in entirety as part of tariff framework since the benefit of earlier years are absorbed.

  Further, the Company is able to bring down the cost of borrowing significantly by issuing US Dollar Bond of 350 million in Oct 2017, a part of the proceeds of which were used to repay the ECB facility availed by the Company from Abu Dhabi Commercial Bank. However, the Company has incurred loss on the principal on repayment which is claimed as part of submissions. However, there is no exchange loss suffered by the Company post refinancing of ECB loan as our existing US Dollar Bonds are fully hedged.

  In the absence of any clear upfront regulatory guidelines on treatment of exchange movement on account of foreign currency loan, the exchange loss suffered by the Company should be allowed in toto without any restriction by following the principle that when the benefit of lower cost is passed on, the loss on the same should also be allowed as pass through.

  Hence, as part of submission, GHIAL requests the Authority to allow true-up of operating expenses on account of forex losses incurred by the Company.

- **Consideration of CSR cost as pass through expense**
  CSR as stipulated by the central government is the mandatory expenses. Such expenses have to be considered by the Authority while computing the revenue requirement of the regulated entity, else it may lead to reduction in equity return for the Company. Hence, aeronautical portion of CSR expenses as derived from aeronautical P&L is forming part of the eligible expenses. The Authority is requested

to ensure that the return to the shareholders after making statutory deduction (in the form of tax or similar deduction like CSR) is protected under all circumstances.

In line with the above submissions, CSR expenses has been considered as part of Operating Expenses for the purpose of tariff determination.

- **Assets funded out of PSF (SC) Fund:**

  GHIAL constructed a residential township for CISF personnel deployed at the airport based on advice from the MHA and the SOP issued by MoCA dated 6th March 2002. On completion of the project, the cost of township and land amounting to Rs. 93.37 crores was capitalized in the books of the PSF (SC) Fund under intimation to MoCA. Additionally, the Company has spent capital expenditure aggregating to Rs.0.94 crores over the period.

  MoCA issued order no. AV 13024/03/2011-AS (Pt. 1) dated 18th February 2014 which required airport operators to reverse from inception, all the expenditure incurred towards procurement and maintenance of security systems/equipment and on creation of fixed assets out of the PSF (SC) escrow account.

  GHIAL challenged the said order before the Hon'ble High court at Hyderabad. The Hon'ble High Court, vide its order dated 3rd March 2014 followed by further clarifications dated 28th April 2014 and 24th December 2014, stayed the MoCA order with an undertaking that, in the event the decision of the writ petition goes against the Company, it would reverse the expenditure from PSF (SC).

  So far the Company has incurred Rs.94.30 crores towards capital expenditure including the cost of land, construction cost of CISF Quarters and related finance cost, out of PSF (SC) escrow account as per SOPs, guidelines and clarification issued by the BCAS, MoCA from time to time with regard to the utilization of PSF (SC) fund

  Now the Company as part of submission considered the capex incurred towards residential quarters [currently being accounted under the PSF (SC) Fund] as part of RAB and Expenses of GHIAL. Upon acceptance of the Authority of the retrospective treatment of the CISF Quarters in the books of GHIAL, the Company will withdraw the petition and refund the disputed amount to ASF (erstwhile PSF SC) account.

  The Company availed financing for the construction of the said property and total interest outgo over the period has been Rs 47.70 Cr, the present value of which the Company submits to recover as on April 1, 2021 as pass through expenses.

PSF assets being aeronautical, GHIAL requests the Authority to consider the capital expenditure of Rs.94.30 crores as part of RAB along with the present value interest outgo effective from April 1, 2021.

The certificate of Statutory Auditor with regards to PSF assets and interest outgo is also attached as **Annexure 7**.

- **True Up for previous control periods**

As per MYTP submission in second control period and in-line with the Authority's interim measure Tariff Order – Order No. 34/2019-20, GHIAL requests to true-up the components of the Regulatory Building Blocks against the actual performance of previous control periods.

True ups for previous control periods are based on actual performance for the FY17 to FY20 and revised projections for FY21 as per the likely traffic, planned capital expenditure & operating expenditure and change in building blocks of first and second control period on account of treatment of CGF as Non aeronautical, entitlement of pre control period (period prior to Sep'09), allowance of forex losses and other changes as proposed and discussed in detail in the true up section of this submission.

It is requested that the True up calculation be effected at the end of second control period and adjustments (if any) be carried out in the beginning of third control period.

- **WPI – Inflation**

WPI inflation is considered as per the survey of professional forecasters.

The spread of COVID-19 outbreak has severely impacted the world economy. In order to effectively fight against the pandemic, Government of India also announced prolonged lockdown, which has slowed down the economic activity and led to supply disruptions, fall in consumption demand, and stress on the banking and financial sectors. Assessing the exact impact of COVID for India is not possible as of now as uncertainty persists on how long the pandemic would continue.

The Reserve Bank has been conducting the Survey of Professional Forecasters (SPF) since September 2007. As per the latest round of the survey (63rd round), results of which were released on April 03, 2020, forecasters have assigned the maximum probability to WPI inflation in the range of 3 per cent for Q1:2020-21; 3.2 per cent for Q2:2020-21; 3.5 per cent for Q3:2020-21 and 4.6 percent for Q4: 2020-21

The table below shows the results of Round 63 of the Survey, on 04 August 2015

	WPI All Commodities				WPI Non-food Manufactured Products			
	Mean	Median	Max	Min	Mean	Median	Max	Min
Q4:2019-20	2.3	2.4	2.8	1.6	-0.5	-0.8	1.2	-1.5
Q1:2020-21	1.6	1.8	3.0	-1.3	-0.1	-0.2	1.6	-1.8
Q2:2020-21	2.4	2.5	3.2	0.0	1.0	1.0	2.0	-0.7
Q3:2020-21	2.3	2.5	3.5	-0.2	1.7	1.8	2.5	0.4
Q4:2020-21	2.3	2.2	4.6	0.8	1.8	1.8	3.0	0.7

The forecast suggest the WPI for all commodities for FY20-21 would be 2.2% however this is for the temporary phase. The complete effect on the world economy due to COVID is yet to be felt. The prices of commodities like crude and gold are already on the rise and as per the INR-USD forecast by Fitch rating the value of rupee can further decline to INR 80 per USD by 2021 (Refer link below)[1] . It can dent the commodity price further and can increase the inflation in the coming years. Therefore taking the average for WPI as forecasted by RBI might not be correct. If the similar financial crisis scenario is referred in the past then previously in FY 08-09 during the height of financial crisis, the inflation rates in India decreased to 3.9% initially in FY2010 and however for next three to four years it was in the range of 7.4%- 9.6% annually. It was only in 2014 that the inflation rate in India decreased to 6%. Accordingly it can be observed that the rise in inflation is a general phenomenon observed post a crisis situation primarily on account of supply dislocation (primarily food and agricultural produce and commodities) and excess liquidity in the system injected to tide over the crisis. GHIAL believes, the earlier experience of financial crisis in US and its domino effect on Indian economy would again be observed post COVID as it has badly impacted global supply chain potentially building up inflationary pressure in the economy. GHIAL estimates that the average WPI inflation may go beyond 4.6% during the third control period but **GHIAL has considered 4.6% (Max for Q4: 2020-21 as mentioned in the table above) as part of our submission.**

The annual forecast of WPI for 2020-21 as per the Survey of Professional Forecasters on Macroeconomic Indicators– Results of the 63rd Round is attached **(Annexure 8)**

- **Accounting Standards**
  The application is based on books of accounts prepared under IGAAP

1. Link: https://economictimes.indiatimes.com/markets/forex/rupee-to-average-at-77-against-dollar-in-2020-80-in-2021-fitch-solutions/articleshow/74790039.cms#:~:text=New%20Delhi%3A%20Fitch%20Solutions%20on,and%20likely%20steep%20monetary%20easing.

IV. ALLOCATION METHODOLOGY

The revenues and assets are classified as aeronautical and non-aeronautical to arrive at Aggregate Revenue Requirement for the control period.

The concept note used as the basis and methodology for classification of Assets and Operating Expenses into Aeronautical and Non-Aeronautical under Shared Till is enclosed herewith in **Annexure 9.**

The ratio of Aeronautical Assets to Total Assets from inception i.e. from 1st April 2008 till 31st March 2020, as certified (enclosed as **Annexure 10**) by the Statutory Auditors is given below:

Particulars (in Rs. crores)	**FY09**	**FY10**	**FY11**	**FY12**	**FY13**	**FY14**	**FY15**	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**
Total Fixed Assets	2373	2520	2537	2534	2568	2578	2574	2712	2759	2823	3417	3807
Aeronautical Assets	1961	2067	2086	2083	2099	2111	2104	2241	2277	2333	2892	3287
% of Total Assets	*83%*	*82%*	*82%*	*82%*	*82%*	*82%*	*82%*	*83%*	*83%*	*83%*	*85%*	*86%*

Note: The above assets does not include AS11 Assets

Similarly, the allocation of operating expenses has been carried out using the allocation methodology in the Concept Note provided in Annexure-9. Aeronautical Operating Expenses as a percentage of Total Operating Expenditure from inception i.e. 1st April 2008 till 31st March 2020, as certified (enclosed as **Annexure 11**) by the statutory auditors is given below:

Particulars (in Rs. crores)	**FY09**	**FY10**	**FY11**	**FY12**	**FY13**	**FY14**	**FY15**	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**
Total Opex	209	182	199	218	220	229	225	223	265	324	391	481
Aeronautical Opex	162	142	161	178	177	187	182	183	216	261	304	378
% of Total Opex	*77%*	*78%*	*80%*	*82%*	*81%*	*82%*	*81%*	*82%*	*82%*	*81%*	*78%*	*79%*

V. REGULATORY ASSET BASE

The following principle has been used to compute the Regulatory Asset Base (RAB) used for tariff determination. RAB representing the aeronautical assets is calculated as below:

RAB at the start of a year/period ***(Opening RAB)***
+
Projected/Actual Capital Investment (based on capitalization date)
-
Projected/Actual Disposals
-
Projected/Actual Depreciation
=
RAB at the end of a year/period ***(Closing RAB)***

$$\text{RAB for Tariff Determination} = \frac{(\text{Opening RAB} + \text{Closing RAB})}{2}$$

Based on the above methodology, RAB for the previous control periods are calculated. The key considerations are as under:

- RAB is calculated under the Shared Till mechanism.
- Aero RAB has been firmed up by taking actual aero asset additions and deletions, based on the auditor's certificates for the past 12 for the period FY09 to FY20.
- Additions to assets as per AS-11 provisions on account of forex losses due to rupee depreciation have not been considered as part of RAB and forex losses incurred have been taken as part of operating costs.
- The Aeronautical Assets planned to be capitalized during the FY21 till FY26 are added to the RAB for third control period. This includes asset additions included the capital costs associated with the CISF Township (please refer section Addition to Regulatory Asset Base).
- No returns or depreciation has been claimed on the assets funded by the ADFG. An adjustment has been made to deduct the amount from the RAB as well as from depreciation for tariff computation.
- Depreciation is based on depreciation rates as per the AERA Order no. 35/2017-18 followed by amendment no.1 in respect of airport assets and as per Schedule II of the Companies Act 2013 in case of other assets. Only depreciation on the Aeronautical Asset Base has been considered in the RAB calculations.

Conclusion

The movement of Aeronautical RAB is as below:

Particulars – RS. Crs	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Opening RAB	1,840	1,774	1,788	1,713	1,616	1,537	1,452	1,324	1,323	1,221	1,140	1,578
Additions	24	106	22	12	16	15	14	138	37	60	560	491
Deletions	-	-	3	16	0	4	21	2	0	4	1	96
Gross Block	**1,961**	**2,067**	**2,086**	**2,083**	**2,099**	**2,111**	**2,104**	**2,241**	**2,277**	**2,333**	**2,892**	**3,287**
Less: ADFG adj.	90	90	90	90	90	90	90	90	90	90	90	90
Less: Acc. Depr.	97	190	283	377	473	569	690	829	966	1,103	1,224	1,322
Closing RAB	**1,774**	**1,788**	**1,713**	**1,616**	**1,537**	**1,452**	**1,324**	**1,323**	**1,221**	**1,140**	**1,578**	**1,876**

Aeronautical RAB for last financial year of second control period is calculated as follows which will be subject to true up based on actual audited results:

Particulars Rs. Crs	**2021**
Opening RAB	1,875.90
Additions	522.17
Deletions	-
Gross Block	**3,809.61**
Less: ADFG adj.	89.68
Less: Acc. Depr.	1,468.19
Closing RAB	**2,251.74**
Average RAB	**2,063.82**

Assets Additions and Deletions for FY21 has been discussed in the subsequent section.

VI. TRUE UP FOR FIRST CONTROL PERIOD & PRE-CONTROL PERIOD

The aeronautical tariff presently charged at RGI Airport in 2nd control period was notified through AERA interim measure Order No 34/2019-20 dated 27th March 2020. AERA had given the provision for true up of all the building blocks in the said order.

The Authority in its interim measure Order [Order No 34/2019-20 dated 27th March 2020] had considered audited financials till FY2016 and residual fiscal years were based on projections.

The first control period True up has been calculated considering the impact of changes as illustrated in the earlier sections and the treatments on which there are differences (the rationale for which has been elucidated in detail in the earlier section);

Below is the details of true up considered for the building blocks:

A. True up for 1st Control Period (April 1 2011 – Mar 31 2016)

1. True up for Return on Regulatory Asset Base

a. RAB has been recalculated considering:

- the allocation methodology considered by the Company for aero/non-aero allocation considering CGF assets as Non aero, administrative building as non-airport, NOB and SO as common assets and employee township as Aero

Particulars	Authority's Treatment as per Control Period 2 Tariff Order	Treatment as per 3rd control period filing
Allocation		
1. CGF, ICT, GPU	Aeronautical	Non Aeronautical (in line with concession agreement)
2. New Office Building (NOB)	60% Non-Aero, 40% Common	100% Common (incidental income netted off from common expenses)
3. Site Office Building	Common (78% Aero, 22% Non Aero)	100% Common (incidental income netted off from common expenses)
4. Township	75% Aero (based on critical/non critical staff occupancy)	100% Aero (incidental income netted off from Aero expenses)
5. Landscaping	Common	Aero
6. CSB	Aeronautical	Non- Airport (outside Regulatory)

- Excluding the assets funded out of ADFG as common assets

b. WACC has been recalculated considering COE @24% based on Jacobs Study

The Authority decided to consider post-tax Cost of Equity as 16% for the purpose of calculation of FRoR. GHIAL has considered the post-tax Cost of Equity as 24% in line with the study carried out by Jacobs. Hence, WACC has been revised, considering COE at 24%. Gearing and Cost of Debt are same as what has been determined as per Order No. 34/2019-20. Revised WACC for first control period shall be 11.46% as against 10.10% by the authority with COE of 24% by the Authority.

Based on the above revised True Up for return on RAB has been calculated as below for the 1st control period starting from April 1 2011:

TRUE UP FOR RAB & FRoR Rs. Crs	2012	2013	2014	2015	2016
True-Up as per CP2 Order	**-20.07**	**-19.53**	**-20.01**	**-27.20**	**-32.94**
As per CP2 Order	**184.26**	**175.13**	**166.56**	**155.18**	**147.26**
Regulatory Asset Base	1824.33	1733.92	1649.10	1536.48	1458.04
Aero Assets	1824.33	1733.92	1649.10	1536.48	1458.04
Fair Rate of Return	*10.10%*	*10.10%*	*10.10%*	*10.10%*	*10.10%*
Revised Aero RAB as per CP3 filing basis	**190.80**	**180.69**	**171.30**	**159.13**	**151.70**
Regulatory Asset Base	1664.56	1576.32	1494.46	1388.28	1323.46
Aero Assets	1664.56	1576.32	1494.46	1388.28	1323.46
Fair Rate of Return	*11.46%*	*11.46%*	*11.46%*	*11.46%*	*11.46%*
Revised True-Up	**(13.52)**	**(13.97)**	**(15.26)**	**(23.25)**	**(28.50)**

2. True up for Depreciation

On account of the changes in RAB, the revised Aero Depreciation for true-up has been considered as below:

TRUE UP FOR Depreciation Rs. Crs	2012	2013	2014	2015	2016
True-up as per CP2 Order	**-4.74**	**-7.12**	**-7.22**	**42.08**	**60.65**
Dep as per CP2 Order	105.88	106.12	106.73	139.19	153.38
Revised Aero Dep	**95.37**	**95.58**	**95.73**	**136.09**	**139.10**
Aero Dep	95.37	95.58	95.73	136.09	139.10
Revised True up for Dep	**(15.25)**	**(17.66)**	**(18.22)**	**38.98**	**46.37**

3. True Up for Operating Expenses and Concession Fee

True up for operating expenses has been considered for the following:

a. True up for change in Aero Expenses Allocation considering the allocation as per the concept document for operating expenses allocation (attached as Annexure 9)

b. True up for allowance of forex losses

Authority vide 2nd control period interim measure Order [Order No 34/2019-20 dated 27th March 2020] had allowed for the recovery of forex losses as an operating expense to the extent that the effective cost of borrowing in foreign currency (net of forex gains / losses) is not higher than the cost of RTLs in respective years. However, this treatment led to only partial recovery of forex losses incurred by the company.

Based on the rationale and justification provided in the earlier section, true of operating expenses on account of allowance of complete forex losses incurred by the company has been considered in the workings for Authority's reconsideration:

	2009	2010	2011	2012	2013	2014	2015	2016	Total
	Pre Control Period			Control Period 1					
FX loss	6.72	6.43	8.10	16.81	16.91	35.75	37.39	42.06	
FX gain	0.93	0.00	0.03	0.05	0.27	0.31	0.23	0.20	
Net	**5.79**	**6.43**	**8.07**	**16.76**	**16.64**	**35.44**	**37.16**	**41.86**	**168.14**
Losses allowed (as per CP2 Order)	5.79	6.43	8.07	16.76	16.64	8.38	8.80	5.48	76.35
Aero	4.84	5.33	6.70	13.92	13.74	6.93	7.27	4.57	62.39
Non-Aero	0.95	1.10	1.37	2.84	2.90	1.45	1.53	0.91	13.06

Balance Forex losses considered for 1st Control Period True Up:

	2009	2010	2011	2012	2013	2014	2015	2016	Total
Recovery of balance forex losses	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**27.06**	**28.36**	**36.38**	**91.79**
Aero	0.00	0.00	0.00	0.00	0.00	22.37	23.42	30.36	**76.15**
Non Aero	0.00	0.00	0.00	0.00	0.00	4.68	4.94	6.02	**15.64**

Refer Annexure 12 for Auditor certificate for details and breakup for the above forex losses.

c. **True Up for CSR expenses incurred by the company**
As explained in the **Section Principles of Tariff Determination,** True up for CSR expenses not recognized in the 2nd control period interim order has been taken as CSR expenses being statutory in nature, non-consideration shall lead to lower equity return.

d. **True up for incidental income from NoB, SO and township netted off from common expenses**
As explained earlier, income earned from letting out space is netted off from common expenses

e. **True up for concession fee**
True up on account of change in Aeronautical concession fee based on actuals till FY20 for 2nd control period and also on account of difference in revenue groupings considered in this filing vis a vis what has been considered in the 2nd control period interim measure order by the Authority has been considered.

Based on the above, true up for operating expenses has been calculated as below:

TRUE UP FOR OPEX Rs. Crs	2012	2013	2014	2015	2016
True-Up as per CP2 Order	**-13.83**	**-18.32**	**-22.88**	**-33.04**	**-39.88**
Aero Expenses as per CP2 Order	**229.93**	**232.61**	**244.42**	**237.70**	**252.08**
Revised Aero Expenses as per CP3 Filing assumptions (incl CSR Expenses)	**218.47**	**221.47**	**254.66**	**247.65**	**267.68**
CGF Opex	11.46	11.14	12.15	13.25	14.46
Forex Losses (not recognized in CP2 Order)	0.00	0.00	22.37	23.42	30.36
Revised True up for Opex	**-25.29**	**-29.46**	**-12.66**	**-22.87**	**-23.98**

4. True up for taxes

GHIAL requests the Authority to allow for true up for aeronautical tax considering the tax applicable on the aeronautical PBT incorporating 30% non-aeronautical PBT as part of aeronautical revenue for tariff determination in place of allocation of actual tax outgo based on ratio of Aeronautical and Non Aeronautical Taxes as per the respective profit and loss statement as considered by the Authority in the second control period interim measure Order [Order No 34/2019-20 dated 27th March 2020]

Further, Aeronautical tax eligibility shall undergo a change on account of change in allocation of CGF and other revenue streams.

Aero tax has been revised based on the tax eligibility as per revised Aero P&L incorporating 30% non-aeronautical PBT as part of aeronautical P&L.

TRUE UP FOR TAXES Rs. Crs	2012	2013	2014	2015	2016
True-Up as per CP2 Order	**-8.96**	**-18.22**	**-21.47**	**0.00**	**0.00**
Tax on Aero P&L	0.00	12.77	12.49	0.00	0.00
Revised Aero tax as per CP3 Filing assumptions					
Tax on Aero P&L	**0.00**	**7.43**	**3.99**	**0.00**	**0.00**
Revised True-Up	**-8.96**	**-23.56**	**-29.97**	**0.00**	**0.00**

5. True up for Non-Aeronautical Revenues:

The Authority trued-up the 30% cross subsidy from non-aeronautical revenue for GHIAL in the second control period at the time of determination of tariff for second control period.

GHIAL has made the following adjustments to NAR cross-subsidy for revised true-up calculation in line with the allocation methodology and revenue groupings as discussed in the sections above:

Particulars	Authority's Treatment as per Control Period 2 Tariff Order	Treatment as per 3rd control period filing
Allocation (Revenue)		
Treatment of Revenues from Commercial Property Development	Non Aeronautical	Non Airport (Outside Regulatory Purview)
Treatment of Revenues from CGF, ICT, GPU	Aeronautical	Non Aeronautical (in line with concession agreement)
Revenues from NOB and SO	Non Aeronautical	Common (netted off from common expenses)
Revenues from Township	75% Aero, 25% Non-Aero	100% Aero (netted off from aero expenses)
Rental Income from Fuel Stations	Aero Revenues (Akin to Fuel Farm)	Airside fuel station – Non Aero Land side fuel station – Non Airport
Dividend and Interest Income from Subsidiaries	From Cargo Subsidiary- Aero From Duty Free Subsidiary – Non Aero	Outside Regulatory purview
Other income from SFIS Scrips	96% Aero; 4% Non-Aero	Outside Regulatory purview
Cross Subsidisation	30% of NAR	30% of NAR PBT

TRUE UP FOR NON AERONAUTICAL REVENUES Rs. Crs	2012	2013	2014	2015	2016
True-Up as per CP2 Tariff Order	**118.33**	**140.27**	**113.41**	**125.93**	**139.92**
As per Actuals	38.32	45.96	50.96	58.55	66.85
Eligible Non-Aeronautical Revenue	127.73	153.22	169.88	195.18	222.82
Revised Non Aero Revenues as per CP3 Filing assumptions	**110.95**	**135.35**	**163.95**	**177.83**	**216.72**
Add: CGF revenues	91.69	91.66	98.15	99.47	100.99
Add: Fuel Station rentals	0.14	0.14	0.15	0.15	0.16
less: Income from CPD	2.68	5.17	5.28	5.35	1.21
less: Dividend and Interest Income from Duty Free Subs	0.70	1.83	0.96	0.08	2.64
less: NOB, Township and SO rentals	0.82	1.41	1.89	2.08	3.08
less: SFIS Scrips revenues	0.03	0.07	0.00	0.00	0.00
Less: Non Aero Operating Expenses+Dep+Interest	104.39	101.18	96.10	109.47	100.32
Non Aero PBT for 30% cross subsidization	33.28	40.61	49.19	53.35	65.02
Revised True up for Non-Aero Revenues	**123.37**	**145.62**	**115.18**	**131.13**	**141.75**

6. True up of Aeronautical Revenues

Similar to true up for Non-Aero Revenues, Aeronautical revenues are revised considering changes in allocation and revenue grouping as discussed in the sections above:

TRUE UP FOR AERONAUTICAL REVENUES Rs. Crs	2012	2013	2014	2015	2016
True-Up	**-7.40**	**-14.40**	**5.17**	**-45.19**	**-202.29**
Aero Revenues as per CP2 Order	**474.46**	**558.99**	**559.38**	**227.11**	**400.83**
Aeronautical Revenue	379.50	458.89	454.35	119.31	289.91
Cargo, Ground Handling & Fuel Farm	94.96	100.10	105.03	107.80	110.92
Revised Aero Revenues as per CP3 Filing assumptions	**377.77**	**455.27**	**453.94**	**118.87**	**288.83**
Less: CGF revenues	91.69	91.66	98.15	99.47	100.99
Less: CSB revenues	2.23	2.46	2.71	3.11	3.49
Less: Fuel Station rentals	0.42	0.41	0.42	0.45	0.47
less: Dividend and Interest Income from Cargo Sub	1.04	5.99	4.16	5.21	6.43
Less: Township rentals	0.00	0.00	0.00	0.00	0.63
Less: SFIS Revenues	1.30	3.19	0.00	0.00	0.00
Less: reversal of loss of inventory	0.00	0.00	0.00	0.00	0.00
Revised True up	**89.29**	**89.32**	**110.61**	**63.05**	**-90.29**

Summary:

Based on the changes in the building block as mentioned above, revised CP1 true up shall be Rs 1172.69 Cr as given below as against True up of Rs 171.45 Cr (Rs.298.64 Crs in PV terms) calculated by the Authority as per Table 11 of interim measure Order No 34/2019-20.

True Up for CP1 Rs. Crs	2012	2013	2014	2015	2016	Total
Absolute Values						
RAB & FRoR	-13.52	-13.97	-15.26	-23.25	-28.50	-94.50
Depreciation	-15.25	-17.66	-18.22	38.98	46.37	34.22
Eligible Opex	-25.29	-29.46	-12.66	-22.87	-23.98	-114.25
Taxation	-8.96	-23.56	-29.97	0.00	0.00	-62.48
Non-Aeronautical Revenue	123.37	145.62	115.18	131.13	141.75	657.06
Aeronautical Revenue	89.29	89.32	110.61	63.05	-90.29	261.97
Total of Absolute Value	**149.63**	**150.29**	**149.69**	**187.04**	**45.36**	**1172.69**
Fair Rate of Return	*11.46%*	*11.46%*	*11.46%*	*11.46%*	*11.46%*	
Discounting Period	-9.5	-8.5	-7.5	-6.5	-5.5	
Discounting Factor	2.80	2.52	2.26	2.03	1.81	
PV of True-Up	**418.71**	**378.33**	**338.06**	**378.96**	**82.31**	**1596.36**
Total True-Up, as on April 1 2021			**1596.36**			

B. True up for Pre Control Period (April 1 2008 – Mar 31 2011)

The Authority, in second control period interim measure Order No 34/2019-20 dated 27th March 2020, maintained its position of not considering pre-control period entitlement of the Company since it is of the view that it cannot determine tariffs for a period prior to its existence in order to arrive at the pre control period entitlement. Hence, pre-Control Period was considered only from 01.09.2009 and the entitlements pertaining to the period prior to 01.09.2009 were not considered by the Authority while calculating true-ups for first control period.

GHIAL requests the Authority to consider the rationale and justification provided in the previous section of Principles of Tariff Determination and allow the pre-control period eligibility as part of true up as submitted.

Authority in the second control period interim measure Order No 34/2019-20, had computed an amount of ~Rs. 94.69 crores as the pre-control period deficit for the period from 1st September 2009 to 31st March 2011 for GHIAL's tariff determination. This amount when adjusted for time value of money and brought forward to 1st January 2018 was computed by AERA as ~Rs. 198.65 crores as per Table 12 of interim measure Order No 34/2019-20.

Based on the changes in the building block as mentioned above, revised PCPE shall be Rs 490.67 Cr for the period 1st April, 2008 to 31st March, 2011 as given below:

TRUE UP OF PRE-CONTROL PERIOD ENTITLEMENTS Rs. Crs.	2009	2010	2011	Aggregate Pre CP
As per Order No. 38 under Single Till	**0.00**	**39.60**	**-3.09**	**36.51**
As per CP2 Order No. 34/2019-20				
Return on Capital Employed	0.00	197.66	192.38	390.04
Total Expenses (Incl. Concession Fee)	0.00	169.35	196.81	366.16
Depreciation	0.00	102.67	105.00	207.67
Tax	0.00	0.00	0.00	0.00
NAR Cross-Subsidization	0.00	-28.67	-32.28	-60.95
Average Revenue Requirement	**0.00**	**441.00**	**461.90**	**902.90**
Less: Actual Aero Revenue	0.00	-329.89	-412.02	-741.91
Revenue Deficit	**0.00**	**111.11**	**49.88**	**160.99**
True up (considering 7 months in FY2010 and 12 months in FY2011)	**0.00**	**41.72**	**52.97**	**94.69**
PV of True Up (As per CP2 Order No. 34/2019-20)	**0.00**	**92.23**	**106.43**	**198.66**
Revised True Up (Including Pre AERA Period Entitlements and revised allocation and revenue groupings)				
Return on Capital Employed	197.60	194.74	191.40	583.74
Total Expenses (Incl. Concession Fee)	175.61	157.08	180.31	513.00
Depreciation	90.14	92.60	94.63	277.37
Tax	-	-	-	-

NAR Cross-Subsidization	(23.14)	(22.09)	(25.18)	(70.41)
Average Revenue Requirement	**440.21**	**422.34**	**441.16**	**1,303.70**
Less: Actual Aero Revenue	(207.22)	(244.52)	(324.77)	(776.52)
Revenue Deficit	**232.98**	**177.81**	**116.39**	**527.18**
Revised True Up	**232.98**	**138.21**	**119.48**	**490.67**
True up - PV as on April 1 2021	**853.24**	**456.29**	**355.55**	**1,665.08**

Summary:

Total True up for 1st Control Period (in PV terms as on April 1 2021) is as below

Particulars	Amount (in Rs cr)
True up for Pre Control Period (A)	1665.08
True up for 1st Control Period (B)	1596.36
Total CP1 True Up (A+ B)	**3261.44**

VII. TRUE UP FOR 2nd CONTROL PERIOD

The Authority at the time of tariff determination for the second control period had indicated that all the building blocks shall be trued up based on actuals. Based on this, GHIAL has calculated the revised ARR for the second control period based on audited financials till FY2020 and revised projections for FY2021.

Effect of change in traffic, allocation principle, revenue grouping and forex losses as explained in the relevant sections, inter alia, are considered while calculating the revised building block for second control period.

The summary of the major adjustments carried out vis-à-vis the treatment of the Authority as part of the true up for the second control period towards assessment of ARR as per the interim measure tariff order for the second control period is as below:

A. True up for Regulatory Asset Base

RAB has been recalculated considering:

- The actual asset additions and deletions from FY2017 till FY2020 and revised projections for FY2021 as explained in the next section Regulatory Asset Base
- the allocation methodology considering CGF assets as Non aero, administrative office building as non-airport, NOB and SO as common assets and employee township as Aero as explained in the previous section Allocation Methodology
- Assets funded out of ADFG as common

Authority considered the below asset additions while firming up the RAB for 2nd Control Period:

Asset Additions Rs. Crs	2017	2018	2019	2020	2021	Aggregate
Expansion Capex	0	0.00	302.12	1222.81	218.56	1743.49
Runway Re-carpeting	0.00	53.03	25.28	25.28	0	103.59
General Capex (incl fuel farm & Solar project)	197.89	61.05	34.13	25.52	22.49	341.10
Total Capex	**197.89**	**114.08**	**361.53**	**1273.61**	**241.05**	**2188.18**
Aeronautical Portion	183.88	108.4	350.72	1082.93	205.3	1931.23

i. <u>True up for capex incurred towards expansion project</u>

GHIAL in the second control period filing proposed to increase the Airport capacity to 20 MPPA and filed capex of Rs 1989 cr towards the said expansion.

The Authority approved the project cost of Rs 1613.77 cr (excluding financing allowance) towards the expansion of the Airport to 20 MAP filed by the company based on capex study by RITES. However, RGIA witnessed significant traffic growth during FY16-19 rendering the earlier expansion plan to be revisited in order to meet this growing demand. Accordingly, GHIAL revised the capacity expansion plan and initiated capacity expansion to 34 MPPA to cater to the growth in its 3rd control period (FY22-FY26).

Out of the above expansion project, two sub projects pertaining to expansion of the Kerb & Approach ramp and construction of parking stands and aprons, amounting to Rs 745.42 cr had been capitalized in the books of GHIAL till the end of FY2020. Additions to RAB on account of this capitalization has been considered.

ii. <u>True up for capex incurred towards runway re-carpeting</u>

GHIAL earlier as part of second control period Tariff filing has appraised the need of runway re-carpeting of 23 meters out of the full width of 75 meters of main runway along its entire length of 4.26 km and re-carpeting of the 50% of secondary runway, connecting taxiways & apron service roads covering 5.12 lakh sq.m. which was planned to be undertaken in FY18-FY21. Authority as part of second control period tariff order had considered capex of Rs 103 cr towards this project.

However, in order to ensure minimum operational impact during the implementation of the project, the resurfacing initiative was deferred till the main expansion project is commenced. This was done primarily to help maximize the movements on the airside.

During the said period, although necessary preventive maintenance activities were carried out, the age and the increased wear and tear on account of unprecedented traffic growth resulted in a visible distress in runway and several taxiways calling for immediate rehabilitation works.

Hence there is a need for runway system upkeep and upgrade measures to avoid sudden disruptions and ensuring safety. Refer section Additions to Regulatory Asset Base for more detailed breakup of the project cost and its constituents.

As per the current plan GHIAL intends to re-carpet the runway width of 60 meters of main runway along its entire length of 4.26 km including the whole of secondary runway, existing rapid exit taxiways, connecting taxiways encompassing the total area of 7.05 lakh sq.m. with thickness ranging between 75 mm – 475 mm as against earlier plan of 40 mm.

Additionally, GHIAL has also planned to upgrade the existing Airfield Ground Lighting (AGL) System and upgrade the main runway (09R 27L) and associated taxiways/taxi lane to CAT-II AGL system and upgrade the secondary runway to CAT-I in order to meet operational efficiency and smooth operations. These enhancements are planned to be completed in next 10 months.

S. No	Project Details	FY21 Total Est. (Rs. Cr.)
1	Airfield Pavement Enhancement	300.00
2	Airfield Ground Lighting Upgrade	75.00
	Total	**375.00**

The Company has awarded the contract and works are in full swing to compete the same while air traffic movement is contained due to COVID pandemic. The above project is being undertaken in FY2021 and has been considered in second control period for True-up.

True up for General Capex incurred during FY17 to FY20 and proposed general capex for FY2021

True up for general capex has been considered based on actual capex incurred till FY20 and projected general capex for FY21 (Refer section Additions to Regulatory Asset Base for details of projects considered as part of projections for FY21)

GHIAL existing terminal capacity is 12 mppa while the traffic handled was 18.3 mn , 21.4 mn and 21.7 mn in the years FY18, FY19 and FY20 respectively. In order to address the growing air traffic s and sustaining the service quality and passenger experience, GHIAL undertook various interim initiatives during the said period to cater to annual passenger growth while embarking on the expansion as long term solution. The interim measures included strategies/projects to sweat the assets to the maximum while sustaining the world class service quality and passenger experience such as construction of an Interim International Departure Terminal (IIDT) and Interim Domestic Arrival Terminal (IDAT) which helped in creating additional terminal capacity.

General capex for second control period included capex towards all these projects along with the capex towards the maintenance and upgrade of existing facilities.

Based on the current requirements, capex for FY2021 has been revised to Rs 123.23 cr as against our earlier plan of Rs 22.49 cr.

Details of the key projects planned to be undertaken in FY2021 has been provided in **Annexure 19**

Regulatory Asset Base for 2nd Control Period:

Based on the above, Regulatory Asset Base for 2nd control period is as below:

Regulatory Asset Base (As per Actuals)	2017	2018	2019	2020	2021
Opening RAB	1322.59	1221.39	1140.39	1578.15	1875.90
Addition of Assets	36.57	60.09	559.84	491.04	522.17
Asset Deletions	0.43	3.95	0.84	95.66	0.00
Depreciation	137.34	137.15	121.24	97.63	146.33
Closing RAB	**1221.39**	**1140.39**	**1578.15**	**1875.90**	**2251.74**
Average RAB	**1271.99**	**1180.89**	**1359.27**	**1727.02**	**2063.82**

B. True up for WACC

The Authority calculated FRoR of 10.80% for second control period as per interim measure Order No. 34/ 2019-20.

WACC has been revised considering the Cost of Debt based on actual interest expense incurred during the period FY17 to FY20 and estimated ROI for FY21. Refer section Cost of Debt for details of debt in the books of GHIAL and cost thereof.

Impact of COE @ 24% on WACC has been considered for True up as per Jacobs study:

The revised FRoR calculation for CP2 as per actual gearing and Cost of Debt is as per the table below:

Particulars Rs. Crs.		**FY2017**	**FY2018**	**FY2019**	**FY2020**	**FY2021**
	Average Debt	1524.15	1582.80	1755.69	2016.59	2315.53
	Interest Free Loan	315.05	315.05	315.05	315.05	315.05
	Shareholders' Contribution	378.00	378.00	378.00	378.00	378.00
	Reserves & Surplus	179.24	559.17	1101.59	1629.99	1219.38
	Debt+Equity	2396.44	2835.02	3550.33	4339.63	4227.96
	Cost of Debt	10.12%	9.28%	8.95%	9.55%	9.60%
	Cost of IFL	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*
	Cost of Equity	*24.00%*	*24.00%*	*24.00%*	*24.00%*	*24.00%*
	Individual Year Gearing	76.75%	66.94%	58.33%	53.73%	62.22%
FRoR Calculation						
	Weighted Average Gearing	62.08%				
	Weighted Average Cost of Debt	8.11%				
	Cost of Equity	24.00%				
	FRoR (WACC)	14.13%				

C. True up for Depreciation

True up for depreciation has been calculated considering the actual depreciation till FY20 and projected depreciation as per the depreciation rates considered by us and as explained in the section Depreciation for the revised regulated assets base as discussed in the previous section above.

Depreciation Rs. Crs	2017	2018	2019	2020	2021	Total
Aero Depreciation (as per CP2 interim measure Order No 34/2019-20)	159.48	168.84	149.64	177.14	220.34	875.44
Depreciation as per Actuals till FY20 and Projections for FY2021	137.77	138.18	122.08	130.19	146.33	674.55

D. Operating Expenses

Authority in the 2nd Control Period interim measure Order [Order No 34/2019-20 dated 27th March 2020] has proposed to true up all the operating expenses (except true-up of interest on working capital loan which is subject to a pre-defined cap) based on actual expenses in the 2nd control period.

Hence, true up for Operating Expenses has been calculated considering the actual operating cost till FY20 and projected operating cost for FY2021 which has been detailed in section Operating Expenses below.

GHIAL has not availed any working capital loan till FY20. However, on account of cash flow challenges being faced due to Covid pandemic and as a consequent to that there is a potential receivables build up, GHIAL shall be availing working capitals limits from FY21 and beyond. Details and basis of projection for working capital limits have been discussed at stretch in the section Operating Expenses above. True up on account of working capital interest on the proposed working capital loan for FY21 has been considered.

True up of operating expenses factors the following which has also been discussed in detail in the previous sections:

- Community development expenses as per actuals till FY20 and projections for FY21
- Incidental Income from NOB, SO and Township has been netted off from Operating Expenses
- Allowance of forex losses not recognised by the Authority in CP2 interim measure Tariff Order as below (Refer **Annexure 12** for details)

	2017	2018	2019	2020	2021	Total
FX loss	42.70	186.62	-	-	-	229.32
FX gain	0.36	0.56	-	-	-	0.92
Net Loss to Be allowed (as per CP2 Order)	**42.34**	**186.06**	-	-	-	**228.40**
Aero	35.28	155.23	-	-	-	**190.51**
Non-Aero	7.06	30.83	-	-	-	**37.89**

- True Up for allowance of refinancing cost (Break cost of IRS, Upfront Fee on refinanced loan charged to P&L and Bond Issue Cost in FY2018)

As per section 6.63 of 2nd control period Interim Order 34/2019-20 (given below), the Authority had recognized the above cost and had decided to allow these expenses as one-time expense at the time of computing true-up while determining tariffs for the third control period.

"The Authority acknowledges the receipt of auditor certificates for the upfront fee, break cost of ECB and bond issue expenses attached as Annexure XI to HIAL's response to the Consultation Paper. Based on the Authority's examination the one-time expense of Rs 126.61 crore spread over the 10 year period of issue would still remain lower than HIAL effective cost of Rupee Term Loan which is ~10.70% p.a. Accordingly the Authority has decided to allow the expenses of Bond Issue of Rs 126.61 crore in the year of incurrence as a onetime expenses at the time of computing true up while determining tariff for 3rd control period"

GHIAL incurred the below one time cost towards refinancing of ECB and RTL in October 2018;

Particulars Rs. Crs	*FY 2016-17*	*April 1,2017 to October 31,2017*	*Total*
Upfront Fee on RTL charged to statement of Profit and Loss	8.33	10.69	19.02
Unwinding Cost of Interest Rate Swap	-	55.32	55.32
Break Cost of External Commercial Borrowing	-	2.18	2.18
Bond issuance Cost		49.00	49.00
Total	**8.33**	**117.19**	**125.52**

GHIAL requests the Authority to consider the submission and give allowance of such expenditure which was essential accompaniment of the refinancing transaction through Bond. The certificate of Statutory Auditor is also attached as **Annexure 13** in this regard.

Operating Expenses Rs. Crs.	2017	2018	2019	2020	2021	Total
Aero Opex (as per CP2 interim measure Order No 34/2019-20)	**229.49**	**238.29**	**266.88**	**319.62**	**373.77**	**1428.05**
Revised Opex for CP2 as per actuals till FY20 and inclusion of other allowance	**244.53**	**509.01**	**300.06**	**374.55**	**390.14**	**1,818.30**
Aero Operating Expenses as per books (incl CSR and netting off of incidental income)	209.26	248.94	300.06	374.55	390.14	1,522.95
Aero portion of one time Bond issue and Refinancing Expenses	-	104.84			-	104.84
Aero portion of Forex losses not recognised on CP2 interim measure Order	35.28	155.23	-	-	-	190.51

E. Aeronautical Concession Fee

Aero Concession Fee based on actual revenues and revised projections for FY2021 revenues is as below:

True Up for Concession Gee Rs. Crs	2017	2018	2019	2020	2021	Total
Aero Concession Fee (as per CP2 interim measure Order No 34/2019-20)	33.94	32.41	21.14	23.70	26.68	137.87
Revised concession fee as per CP2 Aero P&L Filing assumptions	**27.50**	**32.23**	**36.35**	**36.91**	**8.04**	**141.03**

F. Aeronautical Tax

Aero tax has been revised based on the actual revenues and tax eligibility as per revised Aero P&L post including 30% non-aeronautical PBT.

True Up for Taxes Rs. Crs	2017	2018	2019	2020	2021	Total
Tax on Aero P&L (as per CP2 interim measure Order No 34/2019-20)	52.20	46.33	5.63	1.73	0.00	105.89
Revised Aero tax as per CP2 Aero P&L Filing assumptions	**50.41**	**16.73**	**94.86**	**61.22**	**0.00**	**223.22**

G. True up of Non-Aeronautical Revenues

The Authority allowed true-up of the non-aeronautical revenue based on actuals at the time of tariff determination for Control Period 3 Tariff.

2nd Control Period True up for non-aeronautical revenues has been calculated based on actuals revenues earned by the company during FY2017 to FY2020 and revised projection for FY2021 in line with projected traffic and impact of COVID on the business. Projections for FY2021 has been discussed in detail in section Non-Aeronautical Income.

Additionally, the following adjustments to non-aeronautical revenue for true-up calculation

- Change in revenue groupings in line with the allocation methodology and concept document as discussed in the sections above
- 30% Cross subsidisation of Non Aero PBT in line with the Shared Till principle discussed in the previous section in detail.

Non-aeronautical Revenue (Rs. Crs)	2017	2018	2019	2020	2021	Total
Non Aero Revenue as per CP2 interim measure Tariff Order	**254.94**	**287.10**	**323.39**	**366.94**	**416.30**	**1648.67**
Non Aero Revenues as per Actuals Till FY2020 & projections for FY2021	379.55	424.24	510.53	579.13	278.16	**2171.61**
Non Aero PBT as per Actuals Till FY2020 & projections for FY2021	263.78	227.97	344.66	397.07	121.41	**1354.88**

Refer **Annexure 14** for auditor's report on historical revenues for the period FY2017 to FY2020.

True Up for Non-aeronautical Revenue (Rs. Crs)	2017	2018	2019	2020	2021	Total
30% cross subsidization of NAR as per CP2 interim measure Tariff Order	76.48	86.13	97.02	110.08	124.89	494.60
30% cross subsidization of Non Aero PBT as per Actuals Till FY2020 & projections for FY2021	**79.13**	**68.39**	**103.40**	**119.12**	**36.42**	**406.47**

True up of Aeronautical Revenues

Aeronautical revenues are considered as per actuals till FY2020. Aeronautical revenue for FY2021 has been projected on the following consideration:

- YPP of Rs 209/pax as determined by the Authority as per 2nd Control Period interim measure Order [Order No 34/2019-20 dated 27th March 2020] on ~9.68 mn projected billable traffic for FY21 (Refer traffic section for more details on basis for traffic projections for FY21 and beyond)

- Collection charges @0.65% of aeronautical revenue is considered for FY21 in line with actual collection charges paid in FY20.

- Further, revenues grouped under Aeronautical revenue for true-up calculation are in line with the allocation methodology and revenue groupings as discussed in the sections above:

Projected Aero Revenue as per CP2 interim measure Tariff Order

Amt in Rs. Cr	2017	2018	2019	2020	2021	Total
Passenger Service Fee (Facilitation Component)						
Landing Charges						
Parking Charges	724.97	680.44	377.80	438.51	509.04	
User Development Fee						
Common Infrastructure Charges						
Less: Collection charges						
Subtotal A- Aero revenues	**724.97**	**680.44**	**377.80**	**438.51**	**509.04**	
Fuel Farm	78.65	76.36	73.51	70.77	68.13	
Cute, Cuss, BRS	0.00	6.06	27.45	30.68	34.30	
Cargo	19.25	20.25	21.60	23.09	24.75	
GH	11.09	11.88	12.62	13.41	14.25	
GPU	1.30	1.40	1.48	1.58	1.68	
Subtotal B- CGF revenues	**110.29**	**115.94**	**136.67**	**139.53**	**143.11**	
Other Aero Revenues						
CSB Rentals	3.66	3.85	4.04	4.24	4.45	
Income from vehicle fueling services	0.49	0.52	0.54	0.57	0.60	
HMACPL- Interest & Dividend Income	6.42	6.42	6.42	6.42	6.42	
ATC Tower Rentals	2.12	2.33	2.33	2.33	2.57	
Incidental Income - Township rentals	0.66	0.69	0.73	0.77	0.80	
Subtotal C- Other Aero revenue streams	**13.36**	**13.81**	**14.07**	**14.33**	**14.84**	
Projected Aero Revenue as per CP2 interim measure Tariff Order	**848.62**	**810.20**	**528.53**	**592.38**	**667.00**	**3446.73**

Aero Revenues as per Actuals Till FY2020 & projections for FY2021

FY (Rs Cr)	2017	2018	2019	2020	2021	Total
Passenger Service Fee (Facilitation Component)	55.19	63.63	72.76	72.28		
Landing Charges	103.59	118.77	134.25	136.57	202.39	
Parking Charges	2.15	2.21	2.69	3.34		
User Development Fee	500.19	565.68	637.52	637.23		
Common Infrastructure Charges	47.15	55.26	63.40	61.90		
ATC Tower Rentals	2.58	2.86	2.85	0.00	0.00	
Less: Collection charges	-3.52	-4.29	-6.54	-5.94	-1.33	
Aero Revenues as per Actuals Till FY2020 & projections for FY2021	**707.33**	**804.12**	**906.93**	**905.38**	**201.07**	**3524.83**

Refer **Annexure 14** for auditor's report on historical revenues for the period FY2017 to FY2020.

Summary – True Up for 2nd Control Period

Based on the above, total true up for 2nd Control Period is as below:

Particulars Rs. Crs.	2017	2018	2019	2020	2021	TOTAL
Regulatory Building Blocks						
Return on Capital Employed	179.79	166.91	192.13	244.11	291.70	1074.64
Operating Expense	244.53	509.01	300.06	374.55	390.11	1818.27
Concession Fee	27.50	32.23	36.35	36.91	8.04	141.03
Depreciation	137.77	138.18	122.08	130.19	146.33	674.55
Taxes	50.41	16.73	94.86	61.22	0.00	223.22
Gross Target Revenue	**640.01**	**863.06**	**745.48**	**846.97**	**836.18**	**3931.71**
Cross Subsidization	79.13	68.39	103.40	119.12	36.42	406.47
ARR	**560.87**	**794.67**	**642.09**	**727.85**	**799.76**	**3525.24**
Less: Actual Aero Revenue	707.33	804.12	906.93	905.38	201.07	3524.83
True Up for CP2	**(146.46)**	**(9.45)**	**(264.84)**	**(177.53)**	**598.69**	**0.41**
PV of CP2 True-Up	**(265.66)**	**(15.02)**	**(368.78)**	**(216.43)**	**639.72**	**(226.17)**

Total True Up including true up for pre control period, 1st Control Period and 2nd Control Period

Total True Up (PV as on April 1 2021)	TOTAL
PV of CP2 True-Up (A)	(226.17)
PV of CP1 True up (B)	3,261.44
Total True Up (A+B)	**3,035.28**

VIII. ADDITIONS TO REGULATORY ASSET BASE

A. ADDITIONS TO REGULATORY ASSET BASE

1. CAPEX TOWARDS 34 MAP CAPACITY EXPANSION

Authority in the 2nd control period Interim Measure Order [Order No 34/2019-20 dated 27th March 2020] approved capital expenditure towards expansion of Airport to 20 MPPA capacity.

However, RGIA witnessed significant traffic growth during FY17-FY19 rendering the earlier expansion plan to be revisited in order to meet this growing demand. Accordingly, GHIAL revised the capacity expansion plan and initiated capacity expansion to 34 MPPA to cater to the growth in its third control period (FY22-FY26).

GHIAL conducted an AUCC on 7th September 2018 appraising the Authority and stakeholders of the overall expansion plan and the requirements. Project Information File detailing the key components of the Expansion Plan along with the Minutes of AUCC Meeting conducted on September 2018 is attached as **Annexure 15 and Annexure 16** respectively.

Earlier GHIAL wrote to the Authority seeking in principle approval of our capital outlay plan for expeditious financial closure of the project and the Authority in response apprised us that there is no concept of in principle approval and the Authority would take a final view on the capital outlay plan as part of tariff determination exercise.

The key contracts for airside and terminal works were awarded through competitive bidding process. Bids were invited from players having the relevant experience of airport and airside construction. Request for Qualification (RFQ) for the Proposed Expansion Works at RGIA, Shamshabad Hyderabad, Telangana ("Airport") was published in Newspaper on 26th Sep 2017. Four bidders responded to the RFQ and post technical evaluation, the financial bids of the participants were evaluated and negotiated. Based on the revise financials bids L&T and Megawide was selected as L1 bidders. In order to make the contract tax efficient (availment of input tax credit), the Company bifurcated the contracts as pure supply contracts and construction contracts.

While the awarding the key contracts, in order to address the pressing needs, the Company initiated few debottlenecking measures, e.g., expansion of ramp to have higher vehicular movement as it experienced significant congestion during peak hours, parking slots to cater to peak morning hour requirements, interim international departure terminal to make more security lanes available for domestic passengers and interim arrival terminal to improve the baggage retrieval turnaround time etc. The overall construction works is progressing well. The Company has achieved ~40% physical progress. Construction works slowed down in recent time due to lockdown to effectively control the Covid pandemic. The Company is now targeting to complete the expansion works by April 1, 2024.

Below is the snapshot of Key Projects that are being undertaken as part of 34 MAP expansion:

Summary of Passenger Terminal building & Airside Capacity Augmentation Plan

#	Process Zones	Summary of Expansion to meet 2024 demand
1	**PTB Kerb-side**	• Redevelopment of existing departure & arrival ramp for provisioning of additional alighting position using the existing right of way of approach ramps. • Subsequent parallel 4 lane ramp expansion with dual curbside of 220m length will be required for approach ramps.
2	**Check-in**	• Addition of 5 more Check-in Islands taking the overall availability of baggage check-in counters to 154 (to include 88 self - bag drop counters) from current 60 • E-boarding: 68 E-gates- 20 at entry lanes,
3	**Security Channels**	• Security zone expansion will be required with minimum of 29 New ATRS X-Ray security channels in lieu of Conventional X-Ray Lanes
4	**Emigration**	• Addition of 26 counters
5	**Immigration**	• Addition of 30 counters
6	**Baggage Carousel**	• Require minimum of 5 additional baggage claim of 90m and 1 of 60 m belts to be provisioned for domestic and 4 more claim units of 90m for International This will necessitate expansion of terminal by 1 module on eastern side and two modules on the western side to accommodate the required facilities.
7	**Boarding Gates**	• Additions of 33 new contact stands are proposed with 16 in domestic and 17 in international zone. This will take overall contact gates numbers to 45 including 7 MARS stands.
8	**Stand Requirement**	• To cater to increased traffic and requirements of night parking total stand requirement as per the traffic will be 101 Apron stands, which translates to the addition of minimum 59 new Aircraft stands.
9	**Apron and Taxiway**	• Expansion of Apron Area to accommodate requirement of additional stands • Construction of full extended second parallel taxiway (Txy-B)
10	**Main Access Road Improvements**	• 8 Lane MAR from NH-7 to departure Junction with a provision of elevated ramp for provision of seamless access to the terminal
11	**Allied Infrastructure**	• Technological advancements- Upgrade all the screening lane system to ATRS screening lane SBDs, Smart lighting, paper less boarding, self-bag drop, ICT Equipment/Systems

The breakup of the cost components is provided below:

Projects	**Allocation**	**Total (Amt in Rs Crs)**
Expansion of the Terminal Building including Piers	Common	2517.23
Airport Systems	Aero	1070.00
Expansion of Apron & Taxiways	Aero	946.40
Expansion of the Kerb & Approach ramp	Aero	156.40
Road Infrastructure	Aero	167.00
ICT Cost	Aero	69.43
Miscellaneous Direct Capex & Election Items	Common	57.00
Enabling works	Aero	46.73
Total Hard Cost		**5030.18**
Preliminaries		47.20
Insurance & Permits		72.90
Design Development & PMC		202.94
Contingencies		243.01
Total Capital Expenditure		**5596.23**
IDC		691.54
Total Project Cost		**6287.77**

These costs may undergo revision during the course of implementation as it is not feasible to envisage all allied works in brownfield expansion. Hence GHIAL requests to the Authority to true-up the actual capital expenditure of the Company during the third control period.

<u>Capex Phasing & Capitalization</u>

The capacity of the terminal will be released in phases and on completion of proposed expansion works the Passenger Terminal Building would have a capacity to handle around 34 MPPA. The Company has already capitalized works pertaining to Apron Development and Expansion of the Kerb & Approach ramp in FY19 and FY 20 respectively and the expanded facilities are now fully functional.

The Company targeting to complete the expansion works by April 1, 2024.

The planned phasing for expansion capex is given below:

(Amount in Rs. crores)	**FY2018**	**FY2019**	**FY2020**	**FY2021**	**FY2022**	**FY2023**	**FY2024**	**Total**
Capital Expenditure	164.05	802.41	1192.64	861.90	1106.41	1469.44	690.93	**6287.77**
Capitalization	0.00	328.87	416.55	62.56	1172.85	2736.95	1569.99	**6287.77**

2. CAPEX TOWARDS METRO CONNECTIVITY TO AIRPORT

Government of Telangana (GoT) has conveyed its approval for extension of Metro rail link to RGIA from various parts of Hyderabad city under phase II of Hyderabad Metro project. Towards this, the State Government has already formed a Special Purpose Vehicle by the name of Hyderabad Airport Metro Limited (HAML) which would be responsible for development, construction, operations and management of the Airport Metro link which is expected to span about 31km in total. The plan envisages the development of an alignment of 8 km along with setting up of 3 metro stations within the premises of RGIA.

GoT has sought financial contribution from GHIAL and considering the importance of providing metro rail connectivity to the airport for passenger comfort and affordability, the Board of GHIAL has recommended that GHIAL provides support up to 10% of the project cost which would broadly be equivalent to the cost of metro connectivity within the airport campus.

The envisaged project cost of metro line would be around Rs 5000 crores of which GHIAL's contribution would be in the range of Rs 500 Crores i.e. 10% of the project cost which is equivalent to the estimated cost of metro connectivity within the airport precinct.

This capital contribution for the metro project would act as an enabling asset as this will enable the Company to obtain future economic benefits by providing multi-modal connectivity to the airport travelers which is essential for economical rapid transit options at the airport. Metro connectivity will bring significant benefits to the passengers and airport users including increased passenger convenience and socio-economic development along the connectivity corridors (of which, 8km falls within the airport land).

The Company has requested the Ministry to consider the aforesaid capital contribution as 100% aeronautical and such contribution should be considered as a part of RAB for determination of aeronautical charges. The Ministry had responded to the request by conveying that that the proposed investment can be considered as a part of RAB of airport once the assets are capitalized and put to use in accordance with the extant rules and regulation of the AERA, and if the assets are owned by GHIAL. Attached company's request letter to Ministry and Ministry's response to company's request is attached as **Annexure 17**

The following contribution towards the metro project has been considered as additions to the aeronautical RAB for third control period.

Projects	**Allocation**	**Total (Amt in Rs Crs)**
Contribution Towards Metro Connectivity	Aero	500.00
Total Capital Expenditure		**500.00**
IDC		19.52
Total Cost		**519.52**

Capital Expenditure for the above contribution towards metro connectivity has been presented for user consultation in the AUCC meeting held on 7th September 2018. A detailed write-up on the project as presented to AUCC is provided as **Annexure-16**

Metro Contribution Phasing & Capitalization

(Amount in Rs. crores)	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	Total
Capital Expenditure		5.36	0.00	0.20	254.40	259.55	**519.52**
Capitalization	0.00	0.00	0.00	0.00	0.00	519.52	**519.52**

The expansion capex and metro contribution is envisaged to be funded in the Debt Equity Ratio of 70:30.

3. CAPEX TOWARDS AIRFIELD PAVEMENT ENHANCEMENT AND AIRFIELD GROUND LIGHTING UPGRADE

Airside infrastructure including airfield pavements have been now operational for 12 years beginning March 2008. During the said period, although necessary preventive maintenance activities were carried out, the age and the increased wear and tear on account of unprecedented traffic growth resulted in a visible distress in runway and several taxiways calling for immediate rehabilitation works. Hence there is a need for runway system upkeep and upgrade measures to avoid sudden disruptions and ensuring safety. GHIAL needs to enhance the entire airside pavements and airfield ground lighting to ensure smooth operations and meet traffic growth by increasing runway capacity.

GHIAL earlier as part of 2nd Control Period Tariff filing has appraised the need of runway re-carpeting of 23 meters out of the full width of 75 meters of main runway along its entire length of 4.26 km and re-carpeting of the 50% of secondary runway, connecting taxiways & apron service roads covering 5.12 lakh sq.m. which was planned to be undertaken in FY18-FY21. The Authority as part of 2nd Control Period interim measure Order [Order No 34/2019-20 dated 27th March 2020] had considered capex of Rs 103 cr towards this project.

However, in order to ensure minimum operational impact during the implementation of the project, the resurfacing initiative was deferred till the main expansion project is commenced. This was done primarily to help maximize the movements on the airside.

As per the report of RITES, appointed by GHIAL to conduct airfield pavement structural analysis, there is a need for carrying out structural enhancement of flexible pavements of main runway, secondary runway, associated taxiways for sustaining the operations of forecast traffic and aircrafts. Attached report from RITES on airfield pavement structural analysis as **Annexure 18.**

Now, with the reassessment of the airfield by RITES, need for an extensive enhancement works with a wider scope has emerged. As per the current plan GHIAL intends to re-carpet the runway width of 60 meters of main runway along its entire length of 4.26 km including the whole of secondary runway, existing rapid exit taxiways, connecting taxiways encompassing the total area of 7.05 lakh sq.m. with thickness ranging between 75 mm – 475 mm as against earlier plan of 40 mm.

Additionally, GHIAL has also planned to upgrade the existing Airfield Ground Lighting (AGL) System and upgrade the main runway (09R 27L) and associated taxiways/taxi lane to CAT-II AGL system and upgrade the secondary runway to CAT-I in order to meet operational efficiency and smooth operations. These enhancements are planned to be completed in next 10 months.

S. No	**Project Details**	**FY21 Total Est. (Rs. Cr.)**
1	Airfield Pavement Enhancement	300.00
2	Airfield Ground Lighting Upgrade	75.00
	Total	**375.00**

The Company has awarded the contract and works are in full swing to compete the same while air traffic movement is contained due to COVID pandemic.

Due to Covid situation, the Company is unable to carry out the stakeholders' consultation, however, the same would be undertaken once the situation improves and social distancing norms are relaxed.

4. GENERAL CAPEX/ALLIED CAPITAL WORKS

The existing infrastructure is now getting older. Some of equipment procured are 8-10 years old and need replacement. By the end of control period these equipment will be 15 years old and there is a requirement for upgrade or replacement of various equipment and assets. Few capital expenditures are required to be incurred to make our operations compliant with applicable laws and said capex which are mandatory in nature are clubbed under statutory capex to remain compliant with various directives from BCAS/DGCA and other regulatory bodies.

General Capex (in Rs. crores)	**FY2021**	**FY2022**	**FY2023**	**FY2024**	**FY2025**	**FY2026**
Statutory Requirements	24	164	181	55	240	36
Other General/Maintenance Capex	127	387	256	80	50	79
Total	**151**	**551**	**437**	**135**	**290**	**115**

Each capex item is aligned with the asset allocation methodology and accordingly the same has been grouped as Aero, Non Aero and Common for allocation purpose**.** GHIAL requests the Authority to True-up the General Capex based on actual capitalization during next control period.

A detailed breakup of the proposed general capex items and allocation is provided in **Annexure-19**.

General Maintenance capex is assumed to be funded through Internal Accruals.

D. CAPEX INCURRED TOWARDS CISF QUARTERS

GHIAL constructed a residential township for CISF personnel deployed at the airport based on advice from the MHA and the SOP issued by MoCA dated 6th March 2002. On completion of the project, the cost of township and land amounting was capitalized in the books of the PSF (SC) Fund under intimation to MoCA.

MoCA issued order no. AV 13024/03/2011-AS (Pt. 1) dated 18th February 2014 which required airport operators to reverse from inception, all the expenditure incurred towards procurement and maintenance of security systems/equipment and on creation of fixed assets out of the PSF (SC) escrow account. GHIAL challenged the said order before the Hon'ble High court at Hyderabad. The Hon'ble High Court, vide its order dated 3rd March 2014 followed by further clarifications dated 28th April 2014 and 24th December 2014, stayed the MoCA order with an undertaking that, in the event the decision of the writ petition goes against the Company, it would reverse the expenditure from PSF (SC).

So far the Company has incurred Rs.94.30 crores towards capital expenditure including the cost of land, construction cost of CISF Quarters and related finance cost of Rs.47.70 crores, out of PSF (SC) escrow account as per SOPs, guidelines and clarification issued by the BCAS, MoCA from time to time with regard to the utilization of PSF (SC) fund

Now the Company as part of submission considered the capex incurred towards residential quarters [currently being accounted under the PSF (SC) Fund] as part of RAB as on April 1, 2021 and the future value of interest outgo of Rs 47.70 crores as pass through expenses of GHIAL in FY22. Upon acceptance of the Authority of the aforesaid treatment of the CISF Quarters in the books of GHIAL, the Company will withdraw the petition and refund the disputed amount of to ASF (erstwhile PSF SC) account.

Pending final instructions from the MoCA, GHIAL has included the costs amounting to Rs 94.30 crores into RAB and future value of interest outgo of Rs 47.70 crores as pass through expenses for consideration in CP3 tariff determination. Upon giving effect to the above capital cost and opex by the Authority, the Company shall pay MoCA immediately and withdraw the legal proceedings.

Auditor Certificate on the above submitted capex and interest expenses is provided in **Annexure-7**.

SUMMARY OF CAPITAL EXPENDITURE FOR FY21 AND CONTROL PERIOD 3

Based on the above planned/projected capitalization outlay plan for the FY2021 & third control period is given below:

Project (Amount in Rs. crores)	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026
Expansion Project to 34 MPPA	62.56	1172.85	2736.95	1569.99	0.00	0.00
Metro Contribution	0.00	0.00	0.00	519.52	0.00	0.00
Airfield pavements rehabilitation & Airfield ground lighting upgrade	375.00	0.00	0.00	0.00	0.00	0.00
General Maintenance Capital Expenditure	151.26	550.82	436.93	135.01	289.55	115.43
Capex toward PSF Assets (CISF quarters)	0.00	94.30	0.00	0.00	0.00	0.00
Total	**588.82**	**1817.97**	**3173.88**	**2224.52**	**289.55**	**115.43**

This capitalization has been categorized into Aeronautical and Non-Aeronautical as follows:

Capitalization (in Rs. crores)	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026
Aeronautical	522.05	1613.39	2925.53	2047.03	276.69	115.28

Non-Aeronautical	66.78	204.59	248.35	177.49	12.86	0.15
Total	**588.82**	**1817.97**	**3173.88**	**2224.52**	**289.55**	**115.43**

B. ASSET DELETIONS

1. Transfer of Cargo Terminal Building to Cargo Concessionaire, GMR Air Cargo and Aerospace Engineering Limited

The cargo terminal building was set up initially by GHIAL to handle annual volume throughput of 150,000 MT and the infrastructure cost is being recovered by GHIAL over the period of concession. During financial year 2019-20, the total volume handled by the Cargo Company (now ""GMR Hyderabad Air Cargo Division" of "GACAEL") is 134,488 MT.

The cargo terminal operator has plans to augment the capacity in order to be future ready as the existing capacity is expected to be fully utilized by end of FY22 given the volume handled in FY20. The cargo terminal building is 12 years old and in order to meet the growth requirements of terminal operator, GHIAL shall be "hiving-off existing Cargo Terminal Building (CTB) at RGIA to the Cargo subsidiary (GACAEL) at a book value". This will dispense with the requirement of further investments in augmentation of capacity and will help the Company to generate liquidity.

Hence GHIAL hived off the CTB at a cash consideration equivalent to book value of the assets (Rs.26.79 crores as on June 30, 2020) and consideration shall be received upfront from GACAEL.

C. PROJECTED REGULATORY ASSET BASE FOR CONTROL PERIOD 3

The projected Aeronautical RAB over the period from FY 2021 and third control period is as follows:

	CP3				
Particulars (in Rs. crores)	**FY2022**	**FY2023**	**FY2024**	**FY2025**	**FY2026**
Opening RAB	2251.61	3644.05	6199.02	7715.25	7391.20
Additions to RAB	1613.39	2925.53	2047.03	276.69	115.28
Deletions to RAB	0.00	0.00	0.00	0.00	0.00
Less: Depreciation (incl ADFG adjustment)	220.95	370.56	530.79	600.74	612.79
Closing RAB	**3644.05**	**6199.02**	**7715.25**	**7391.20**	**6893.70**
RAB for Tariff Determination#	2947.83	4921.53	6957.14	7553.23	7142.45

Average of Opening and Closing RAB for the Financial Year

IX. COST OF EQUITY

Cost of Equity for Control Period 1 and Control Period 2

In the second control period interim measure Order, the Authority adopted the Cost of Equity as 16% basis the first control period which inter-alia has relied upon the NIPFP Report.

In this regard, GHIAL would like to resubmit that the reliance on NIPFP Report is misplaced as NIPFP has no previous credentials for determination of Return of Equity and further, NIPFP has not been appointed as an expert as required under the provisions of the Act. Also, the parameters adopted by NIPFP in its report are flawed and not specific to Indian airport sector.

Hence, GHIAL requests the Authority to consider the Cost of Equity @ 24% as per our earlier submission for the purpose of true up of WACC for control period 1 and control period 2.

Cost of Equity for Control Period 3

Given the importance of an accurate estimate of the cost of equity in the current market conditions, GHIAL had mandated an independent study by **CRISIL Limited** for this purpose. The study is based on the Capital Asset Pricing Model and considers the risk-free rate in India, the appropriate risk premiums and comparable airport betas. This study is specific to GHIAL. The report is enclosed herewith as **Annexure-5**.

Cost of Equity is calculated as per CAPM methodology explained below:

Cost of Equity= Risk Free Rate+Equity Beta *(Market Return – Risk Free Rate)

where,

Risk free rate is considered as 10 year average yield of the G-sec from June 2010 to May 2020 which is 7.68%.

Market return is considered as Capital return from Stock Exchange + Dividend Yield. BSE Sensex which is the oldest equity index in India is used as proxy as it has long term trend and has long history with higher liquidity. CRISIL recommended using the geometric mean technique for calculating market return which is considered as 16.14%. The dividend yield has been calculated based on the average annual dividend yield provided by the BSE Sensex which is considered as 1.46%. Hence the market return works out to

Market return = Capital return from Stock Exchange + Dividend Yield

= 14.68%+1.46%

= 16.14%

Equity Beta β is a measure of systematic risk of the stock which is equivalent to

$\beta_e = \beta_a (1+(1-T)*(D/E))$

CRISIL calculated the assets beta of airports of developing countries as 0.76 and used the same as proxy for GHIAL as the asset beta of private companies in other infrastructure sectors such as ports, roads, power, etc. in India ranges from 0.5 to 1.5. CRISIL considered marginal tax rate of 34.94% and debt equity ratio of 1.5 and 2.33 based on the normative approach and standard adopted by regulators across various infrastructure sectors in India. Based on the above, the equity beta works out to 1.90

Basis the above framework and considering D/E ratio of 1.50 and 2.33, CRISIL recommended cost of equity ranges between 20.34% to 23.80%.

Conclusion

GHIAL has considered Cost of Equity @ 24% for the purpose of True Up of WACC pertaining to Control Period 2 and Control Period 1

In line with the recommendation of the CRISIL study, GHIAL has considered the average of the range of cost of equity recommended by CRISIL for the calculation of FRoR for Control Period 3 which is 22.07%

X. COST OF DEBT

In this section, the various components of cost of debt over the five-year regulatory period are presented.

GHIAL EXISTING DEBT

1. USD 350 Mn Senior Secured Notes due October 2027

Construction of the airport was funded by term loans from various financial institutions amounting to Rs. 2120 crores. This included Rupee Term Loans of Rs. 1602 crores and Foreign Currency Loan of USD 125 million.

GHIAL later in October 2017, raised USD 350 million from bond issue, towards refinancing of whole of Rupee Term Loan and External Commercial Borrowings at a coupon of 4.25% payable semi-annually with a tenor of 10 year bullet repayment falling due in Oct 2027.

Out of USD 350 million issue proceeds, USD 272 million is used for refinancing of existing Rupee Loan and ECB and remaining USD 78 million was utilized towards part funding of 34 MPPA expansion.

In order to cover the risk of coupon and principal, the company availed cross currency swap. All-in coupon including the hedge cost is 8.90%.

Below is the utilization of 350 Mn USD Bonds:

USD 350 mn Bond	
Date of Drawdown	27-Oct-17
Notes proceeds used towards Refinancing	USD 272 mn
Notes proceeds used towards Expansion	USD 78 mn
Exchange Rate @ Drawdown	65.00
Hedge rate	63.71
ROI (Incl Hedge Cost)	8.90%
Repayment Date	October 2027

2. USD 300 Mn Senior Secured Notes due April 2024

To part fund the total expansion project cost, GHIAL raised USD 300 Mn through offshore bonds in April 2019 at a coupon of 5.375% payable semi-annually with a tenor of 5 year bullet repayment falling due in April 2024. Total loan raised in INR terms was Rs. 2067 Cr at an exchange rate of Rs 68.9/USD on the date of drawdown.

In order to cover the risk of coupon and principal, the company availed appropriate hedge instruments in the form of call spread and coupon only swap. All in coupon including the hedge cost is 10.27%.

USD 300mn Bond	
Date of drawdown	10-Apr-19
Notes proceeds used towards Expansion	USD 300 mn
Exchange Rate @ Drawdown	68.9

Hedge rate	68.9
ROI (Incl Hedge Cost)	10.27%
Repayment Date	April 24

Bullet repayment of the bonds has been considered on the scheduled dates.

Debt Outstanding as of 31st March 2020 as per financials:

Debt outstanding	Amount (In USD Mn)	Amount (in Rs cr)@ Exchange rate as on 31st Mar 2020	Amount (in Rs Cr) @ hedge rate
USD 350 Mn Senior Secured Notes due Oct 2027	350.00	2648.27	2274
USD 300 Mn Senior Secured Notes due April 2024	300.00	2269.95	2067

*Loans reinstated at Rs 75.665, the exchange rate as on 31st March 2020

For the purpose of WACC calculation the hedge rate of the loan is considered.

3. New Debt facility to fund the balance Expansion Capex, Metro Contribution and General Capex

GHIAL has projected debt requirement of Rs. 2453.90 crores to finance the balance project cost as below:

Particulars	Total (In Rs Cr)	Debt %	Debt (In Rs Cr)
Expansion Project	6287.77	70%	4,401.44
Metro Contribution	519.52	70%	363.66
Runway re-carpeting & AGL	375	70%	262.50
General Capex	1679.01	0%	-
Total	**8,861.30**		**5,027.60**
Less: Part Funding by USD 350 Mn Notes Due 2027			506.70
Less: Part Funding by USD 350 Mn Notes Due 2027			2,067.00
Balance Debt to be funded through New RTL			**2,453.90**

The above RTL is assumed to be financed at ROI of 10.75% p.a for a tenure of 17 years with ballooned up repayment structure for the RTL as given below:

RTL – Repayment Schedule (FY)	2021	2022	2023	2024	2025	2026
%Repayment	0%	0%	0%	1%	2%	3%

Repayment shall start post 6 months post COD (April 1, 2023)

4. Interest Free Loan

The existing Interest Free Loan of Rs. 315.05 crores has been considered as part of the total debt with 0% cost. The IFL from the State Government has to be repaid in 5 equal instalments from the 16th anniversary of the Commercial Operations Date i.e. 23rd March 2024. Repayment of the interest free loan commencing from March 2024 has been factored in the debt forecast.

Conclusion

Based on the above, the average cost of debt works out as under:

Particulars – Rs. Crs	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026
Average Cost of Debt	*9.60%*	*9.66%*	*9.78%*	*9.88%*	*9.75%*	*9.74%*

XI. WEIGHTED AVERAGE COST OF CAPITAL

The weighted average gearing for the third control period considered notional Debt:Equity ratio of 48% : 52% as proposed by the Authority in DIAL's 3rd control period Consultation Paper no 15/ 2020-21 dated 9th June 2020 based on the independent study conducted by the Authority for computing cost of equity for DIAL.

Equity for the purpose of calculation of gearing includes shareholders contribution of Rs 378 crores and accumulated retained earnings, if positive, in line with Authority's decision in CP2 Order No. 34/2019-20.

FRoR calculation for CP3 is as per the table below:

Particulars Rs. Crs.	FY2022	FY2023	FY2024	FY2025	FY2026
Cost of Debt	9.66%	9.78%	9.88%	9.75%	9.74%
Cost of IFL	0.0%	0.0%	0.0%	0.0%	0.0%
Cost of Equity	22.07%	22.07%	22.07%	22.07%	22.07%
Individual Year Gearing	48.00%	48.00%	48.00%	48.00%	48.00%
FRoR Calculation					
Weighted Average Gearing			48.00%		
Weighted Average Cost of Debt			9.24%		
Cost of Equity			22.07%		
FRoR (WACC)			15.91%		

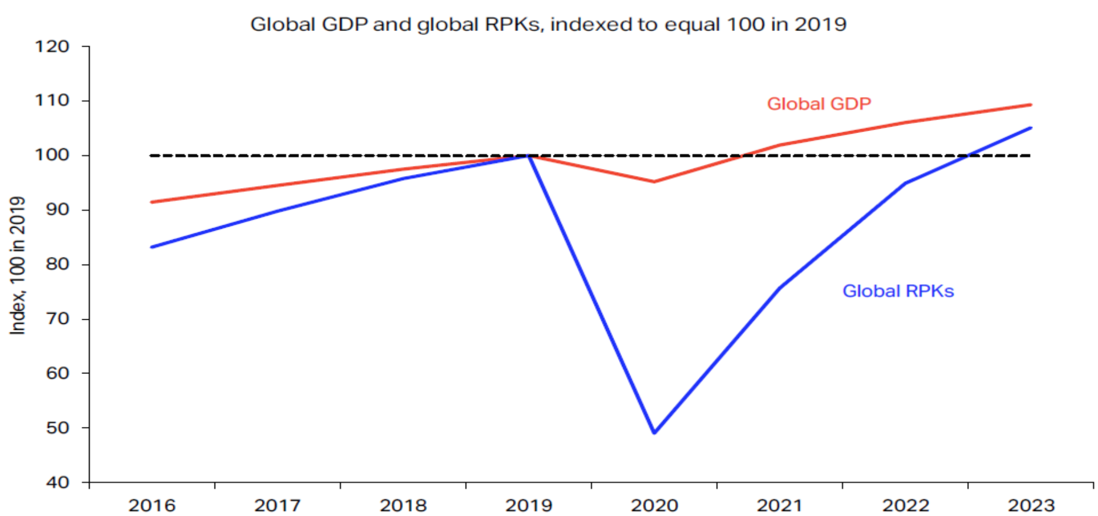
XII. TRAFFIC FORECAST

Traffic Projections for FY 2021 to FY 2026

Covid 19 pandemic has taken a toll on air travel. RGI Airport witnessed cancellation of international flights from mid-February 2020 onwards and both domestic and international flight operation came to a halt from March 23, 2020. The prolonged lockdown in India to combat the pandemic necessitated full closure of air transportation. Hence April and May 2020, RGIA didn't witness any commercial flight movement apart from the evacuation/rescue flights. However, with resumption of domestic air transport from May 25, 2020 onwards, GHIAL expects that normalcy in air traffic would return with overall improvement in Covid situation in India. GHIAL believes that the recovery of domestic passenger would be graded and by last quarter of current fiscal GHIAL will witness of modest recovery. With regard to international traffic, GHIAL is of the view that the pace of recovery would be tardy and to get to our FY20 international traffic throughput, it would be taking at least 2 fiscal years.

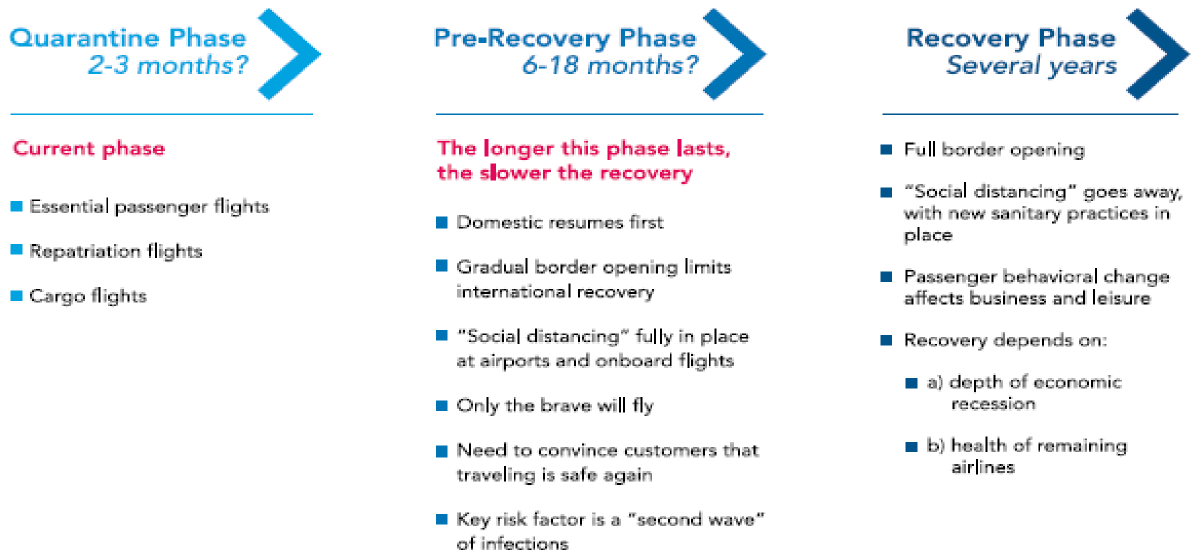
As the air traffic is a function of economic vibrancy as business travel constitute significant proportion of total traffic followed by personal, family and leisure travel. Given the background, the amplified impact of Covid'19 pandemic on larger economy due to lockdown and social distancing norms shall lead to slow and gradual economic recovery and air transport industry may have to wait to get the volumes of FY20 back over the next couple of years.

According to IATA, it is estimated that the global GDP growth to fall by around 5% this year, before rebounding, and returning to its 2019 level in 2021. To put this decline into context, it is around 4x larger than that of the global financial crisis, where world GDP fell by 1.3% in 2009. In contrast, the expected decline in air passenger volumes is much more severe, with a decline of around 50% in CY2020. The recovery is such that a return to the level of 2019 does not occur until 2023, taking around two years longer than global GDP as per IATA.



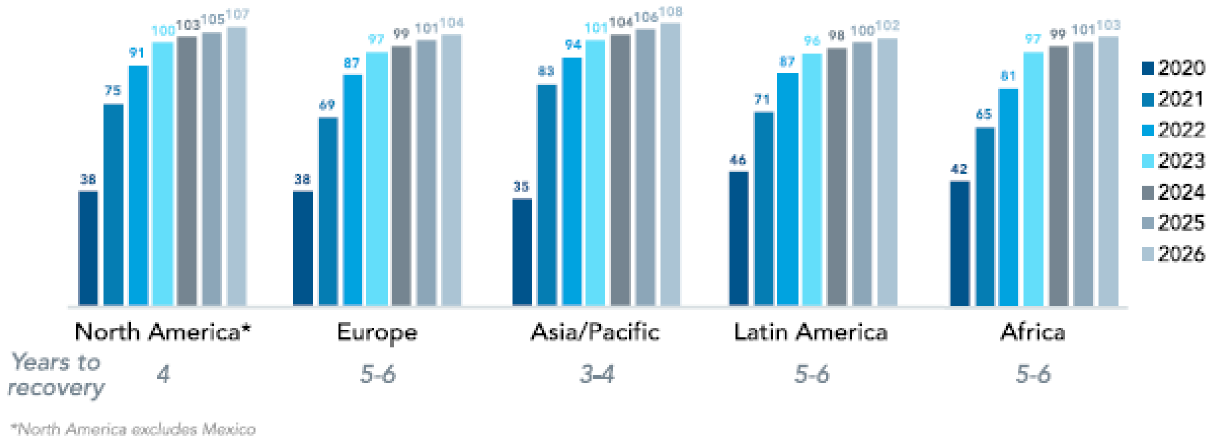
Source: IATA/Tourism Economics, Air Passenger Forecasts, April 2020

The above leaves us with a thought as to when will a recovery start? It is pertinent to gauge at which point the air traffic will enter a "pre-recovery phase" that will last until there is either a treatment or sure fire cure for Covid. This phase will start at depending on our country's ability to flatten the curve of infections. The shorter this phase lasts, the faster we expect air traffic to recover.



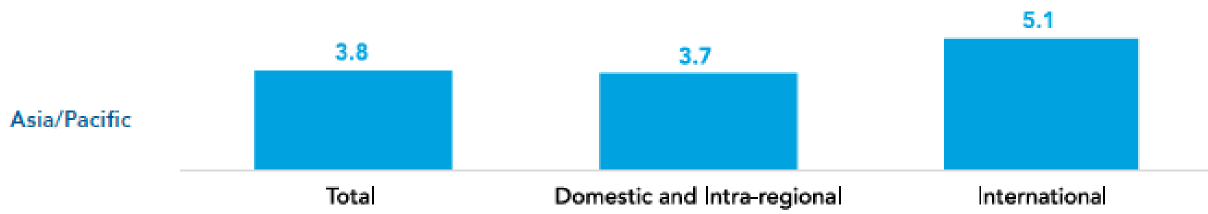
Source: ICF

ICF is of the view that domestic and intra-regional traffic would take 4 years and international 5.4 years respectively to recover pre-covid 2019 traffic. Although each country would have to deal with economic recession and post-covid behavioral changes, however, ICF projected a relatively faster recovery ranging between 3.8 years in Asia Pacific region.



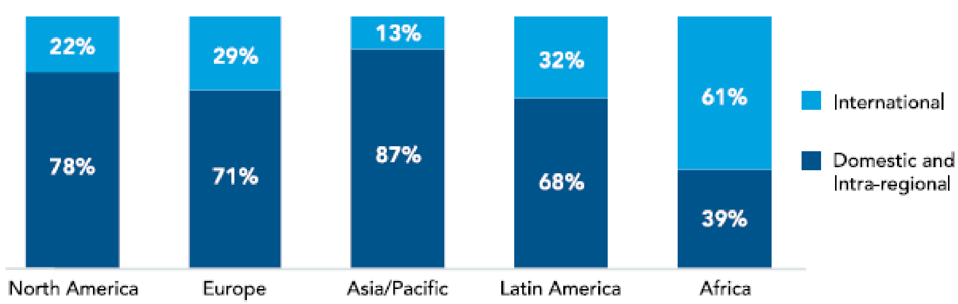
Source: ICF

It can be seen from the table above, Asia Pacific region shall take 3.8 years to recover to pre-covid 2019 traffic.



Source: ICF

The reason for faster traffic recovery in Asia Pacific region is the large domestic market of China and India where the GDP growth would be well above global average, latent growth potential in India (0.10x trip per capita with GDP of less than USD 2500 in 2019) and state backing of national carriers.



Source: ICF

GHIAL believes that the consumer confidence in air travel remains the key and may take some time to restore – even after governments begin the process of opening borders and relaxing travel restrictions.

As illustrated above, although IATA and ICF has estimated relatively long haul to recover on account of Covid 19 pandemic, GHIAL is optimistic that the domestic traffic situation will improve by Q3FY21 as the Government have taken required measures to counter the pandemic. International traffic will take some more time to recover as travelers would have significant concerns to embark on cross border travel for next 1 year.

GHIAL is mindful of the near term challenges on demand and supply side; however, situation being evolving GHIAL is optimistic and accordingly our projection of traffic, ATM and Cargo volume for RGI Airport for the third control period are based on our assessment at this point of time which GHIAL reserves a right to revisit at the time of consultation process if the situation changes considerably then its expectations.

Projection for FY21 to FY26

Passenger Traffic:

Financial Year (Mn.)	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
International Traffic	3.9	1.4	3.4	4.5	5.0	5.5	5.8
Domestic Traffic	17.7	8.4	17.1	19.5	22.0	24.0	25.6
Total	**21.6**	**9.8**	**20.4**	**23.9**	**27.0**	**29.5**	**31.4**
Billable Pax*	**21.3**	**9.7**	**20.2**	**23.7**	**26.7**	**29.1**	**31.1**
Int growth %	-1.7%	-63.9%	141.2%	34.0%	11.5%	10.0%	5.8%
Dom growth %	1.7%	-52.6%	103.4%	13.8%	13.0%	9.0%	6.7%
Total growth %	1.0%	-55%	109%	17%	13%	9%	7%

*Transfer pax and infants in FY2020 was around ~1.16% of the total traffic of FY2020 and the same has been assumed for projecting billable passengers for FY21 and Control period 3.

ATM:

Financial Year	2020	2021	2022	2023	2024	2025	2026
International (nos)	25752	11074	20678	27463	30462	33432	35079
Domestic (nos)	157999	84601	164374	184846	207323	224415	238219
Total	183751	95675	185052	212309	237785	257847	273299
Int growth %	-0.50%	-57.00%	86.73%	32.81%	10.92%	9.75%	4.93%
Domestic growth %	2.46%	-46.45%	94.29%	12.45%	12.16%	8.24%	6.15%
Total growth %	2.03%	-47.93%	93.42%	14.73%	12.00%	8.44%	5.99%

Cargo Tonnage:

Financial Year (MT)	2020	2021	2022	2023	2024	2025	2026
Total Cargo volume (‘000 mt)	146	86	136	145	162	177	190
% Growth	-1.25%	-41.00%	58.15%	6.00%	11.72%	9.73%	7.11%

GHIAL would like to reiterate that the growth projection is optimistic than the projections of IATA and ICF. Hence GHIAL reserves our right to revisit the traffic assumptions in the course of evaluation of the application by the Authority and even in between third control period in case GHIAL sees a major change in traffic numbers viz-a-viz the projections made by us.

XIII. OPERATING EXPENSES

FORECAST FOR OPERATING EXPENSES

Total expenditure has broadly been classified into the following categories:

1. Manpower/Payroll Expenses
2. General and Administration Expenses
3. Operating Expenses
4. Concession Fee

Basis of Forecast

- GHIAL has forecasted the expenses for FY2021 & third control period with FY2020 as the base year. The relevant growth drivers are applied to the base numbers. This is elaborated further in the subsequent sections.

- Real increase along with WPI increase has been factored for projecting expenses from FY2021 onwards.

  WPI increase @ 4.6% has been considered based on the Survey of Professional Forecasters on Macroeconomic Indicators– Results of the 63rd Round

  Real increase @ 7% has been factored for most of the expense heads considering the past trend, current economic scenario and upcoming expansion

- No real increase in operating expenses have been factored for FY2021 for projecting expenses in light of Covid'19 and its impact of ongoing operations and business performance.

- Increase in Expenses on account of Expansion of Airport: As RGIA is expanding Terminal capacity from existing 12 MPPA to 34 MPPA, the overall Terminal area shall increase by 248,809 sq.m which is 2.13 times of existing terminal area. Accordingly there will be corresponding increase in operating cost to service incremental area such as utilities, repair and maintenance, housekeeping, etc. Also due to increase in Terminal capacity there will be increase in related costs such as administrative cost, manpower cost etc.

  There will be one time impact on terminal related expenses upon capitalization as given in the table below which has been considered for respective cost heads and has been elaborated further in the subsequent sections:

Particulars - Sqm	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2022
Terminal Area	117000	117000	241405	365809	365809	365809	365809

  - Operating costs have been allocated as Aeronautical or Non-Aeronautical as per the allocation methodology given in **Annexure-9**

- Reduction in operating cost on account of transfer of IT assets to IT concessionaire for ICT Operations have been considered

  Airport IT eco-system consists of services catering to airlines, passengers and concessionaires. This includes IT services provided to passengers including Airport Administrative Network, AODB & AOCC systems, FIDS for passenger areas, MATV , CCTV, Access Control system etc along with CUTE Systems for Check in, CUSS- Self Check-in Kiosks and BRS- Baggage Reconciliation Systems. This also covers Information & Communications Technology (ICT) Services including Mobile Phone Antenna System, Trunk Mobile Radio System, Network Connectivity through Data Port, WLAN & WIFI networks and Data Centre Services being provided at the Airport.

  At present, GHIAL IT has been managing all airport IT services in-house and managing it through multiple partnerships**.** However, as the traffic is increasing and airport operations become more complex, GHIAL intends to outsource all the IT needs present and future to a specialized service provider who will act as a one-stop solution provider for all IT Services required for running the airport efficiently except the innovation related IT which the concessionaire shall take up upon specific request of GHAIL.

  As part of this outsourcing model, all future capex & O&M expenses towards ICT services shall be carried out by the concessionaire. Reduction in O&M cost on account of IT Outsourcing has been considered in the Operating expenses and is discussed below in the Expense Projection Section.

1. Manpower Cost

Total manpower expenditure covered under this section includes salaries, wages and bonus, contribution to PF, gratuity expense, staff welfare and training cost.

Basis of Forecast for FY 2021

Manpower cost for FY2021 has been increased @ WPI increase 4.6% over FY2020 audited manpower cost. In light of Covid pandemic and its impact on company's revenues, no real increase in manpower cost has been considered for FY21.

Particulars – Rs. Crs.	**Tariff year 4 (CP2)- Audited**	**Tariff year 5 CP2 (Proposed)**
	FY2020	**FY2021**
Manpower Cost	**119.15**	**124.63**
Aeronautical	92.48	97.28

Basis of forecast for Control Period 3

Since the airport is expanding its infrastructure, it needs skilled workforce to ensure seamless operations. As it takes a longer time to scout and identify the right talent and skillset, GHIAL shall initiate the onboarding process in FY 2022 for the expanded infrastructure which will be operational in two phases.

Onboarding of manpower in FY22 shall help us in providing the requisite trainings to make them role-ready so that GHIAL doesn't face any operational challenge and sustain the service quality once the terminal is fully operational.

Due to expansion the terminal capacity will increase by 183% i.e. 34 MPPA from current design capacity of 12 MPPA. The proposed terminal expansion projects for increase in capacity from 12 MPPA to 34 MPPA are planned to be operationalized in FY23 and FY24. Expansion of the Airport shall require an increase in manpower more particularly the operational manpower to manage the enhanced operations and area.

As per our estimates operational manpower nos shall double from the existing levels by the end of the control period to meet the requirements at the expanded terminal and airside operations. Manpower increase shall also be required in all the support functions along with retail and non-aero departments to meet the business requirements.

Owing to the increase in capacity and facilities, one-time increases of 16.5% and 29.0% has been considered for manpower numbers in FY22 and FY23 respectively. Detailed breakup of existing and projected manpower nos have been provided in the Form 11(a) filed along with this application as per the regulatory guidelines.

Further, a nominal growth of 7% is considered as the incremental manpower would be required to cater to year on year growth beyond FY23.

Based on the above, the projected increase in manpower at for FY 2022 to FY 2026 is as below:

	CP3				
	FY2022	FY2023	FY2024	FY2025	FY2026
Increase in Manpower nos %	16.5%	29.00%	7.00%	7.00%	7.00%

Keeping in mind the competitive environment that GHIAL is subject to and to address the management of attrition being currently experienced, GHIAL estimates a 7% p.a. real increase in salary rates for Control Period 3.

The table below provides an overview of the same:

Amount in Rs. crores	**FY2022**	**FY2023**	**FY2024**	**FY2025**	**FY2026**
Manpower Cost	**162.04**	**233.28**	**278.56**	**332.63**	**397.20**
Aeronautical	126.94	186.67	223.39	265.48	315.46

The aeronautical portion of Manpower cost, under the Shared Till mechanism has been derived as per the allocation methodology explained in the attached concept document.

2. Administrative Expenses

The administrative cost category contains several costs like rates and taxes, rent, security cost, consultancy and legal expenses, management fee, advertisement and business development, travel and communication costs, land lease etc. The majority of these costs are attributable to the airport as a whole.

Administrative cost also includes land lease rent to be paid to the State Government as per the land lease agreement, starting from the 8th year of commercial operations of the airport i.e. from 23rd March 2018 onwards. Since a part of the land is being used for non-airport purposes, only the land earmarked for airport operations, the Land lease attributable to such land parcel is considered in the calculations. Bank and Finance Charges are also grouped under administrative expenses.

Administrative Expenses

Forecast for FY 2021

WPI increase of 4.5% has been considered on actual expenses of FY2020 for projecting administrative expenses of FY2021. No real increase has been considered in FY21 for projecting administrative expenses on account of Covid 19

Forecast for Control Period 3

A real increase of 7% is considered for projecting administrative expenses (excluding bank/other finance charges) for Control period 3 over inflationary increase.

Since the commissioning of assets upon release of capacity would entail incremental cost, an additional increase of 15% in administrative cost (other than security cost) is considered for FY 2023 and FY 2024.

One time increase in Security cost has been considered with 50% elasticity with increase in terminal area.

Bank & Finance Charges

Bank Charges include Interest on Working Capital Loan, amortized portion of upfront processing fee and issuance cost towards debt raised in the past, other Processing Fees being paid towards the Fund-Based and Non-Fund Based Bank Limits utilized by the company and include other finance charges paid to security trustee and notes trustee.

Bank charges and other related charges with respect to the financing of expansion capex are considered to be capitalized as part of the project cost.

Working capital Interest:

Working capital requirement has been worked out based on following:

Particulars	Unit	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026
Months Receivables Outstanding	No. of months	6.00	3.00	2.00	2.00	2.00	2.00
Months Inventory	Rs Cr	6.36	6.36	6.36	6.36	6.36	6.36
Months Payables Outstanding	Months	1.00	1.00	1.00	1.00	1.00	1.00

Owing to the financial challenges thrown open by Covid pandemic, GHIAL has considered receivables period to increase to 6 months of total billing in FY21. This has been reduced to 3 months in FY22 and then to 2 months going forward once the situation normalizes.

Inventory has been kept at the same levels as FY20 which was Rs 6.36 cr for forecast of working capital.

Payable at 1 months of total operating expenses in line with company's standard payment policy has been assumed.

Working capital loan projected on this basis is as follows:

Amounts in Rs. Crs	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026
Projected WC Loan	154.00	561.00	436.00	513.00	583.00	645.00

Working capital loan interest is assumed at 10.00% p.a. based on the projected working capital loan.

Working capital loans are generally given for a period of 1 year and gets renewed every year. Hence, processing charge of 0.25% of has been considered on the above working capital loan every year on renewal of the facility.

<u>Forecast for FY 2021 and Control Period 3</u>

Bank charges/other finance charges of FY20 included Rs 1.13 crores towards processing fee and other charges paid to banks as explained above. The same has been considered to be incurred in FY 21 and beyond as these are contractual fees which has to be paid till the debt tenure.

Bank charges and other related charges with respect to the financing of expansion capex, post COD which is April 2023 shall be charged to P&L (till the loan tenure) and the same has been considered as part of Bank charges from FY23 onwards.

Working capital interest and processing fee on Working capital loan (as explained above) has been considered as bank charges.

The forecasted bank charges /other finance charges for the period from FY 2021 to FY 2026 are as follows:

Particulars Rs. Crs.	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026
Bank & Other Finance Charges	1.57	2.58	2.27	2.46	2.64	2.79
Working Capital Interest	15.40	35.75	49.85	47.45	54.80	61.40
Amortization of Processing Fee and One time cost related to Expansion Debt	0.00	0.00	0.00	6.22	0.15	0.00
Total Bank Charges	**16.97**	**38.33**	**52.12**	**56.13**	**57.58**	**64.19**
Aeronautical	14.91	33.79	46.66	50.52	51.90	57.92

Bank charges are allocated into Aeronautical and Non-Aeronautical as per the asset allocation for the respective year.

Conclusion

The forecasted administrative expenses for the period from FY 2021 to FY 2026 are as follows:

Administrative cost	***FY2021***	***FY2022***	***FY2023***	***FY2024***	***FY2025***	***FY2026***
General Administrative Exp (Travel, communication, advertisement, legal charges, rent, printing, audit fee miscellaneous exp etc)	122.21	136.39	175.04	224.65	250.71	279.79
Lease Rent to GoT	3.89	4.08	4.28	4.50	4.72	4.96
Rates and Taxes	6.93	7.74	9.93	12.75	14.23	15.88
Community Development	12.99	6.51	11.94	18.61	30.88	32.16
Security Fee	24.32	32.81	51.58	64.53	72.02	80.37
Bank Charges	16.97	38.33	52.12	56.13	57.58	64.19
Total Administrative Cost	**187.31**	**225.86**	**304.90**	**381.17**	**430.14**	**477.35**
Aeronautical	147.67	180.50	249.52	312.20	350.42	387.11

The aeronautical portion of Administrative cost under the Shared Till Mechanism is derived from the allocation methodology explained above to arrive at the ratio of aeronautical and non-aeronautical administrative cost for FY 2020.

3. Operating Costs

Operating costs includes utility costs, repairs and maintenance, stores and spares, manpower contracts , housekeeping, insurance, fuel farm operating cost and other operating cost comprising of bus hire charges, health and safety and other O&M costs.

A) Utility Costs:

Utility costs comprise of power and water costs. Utility costs are calculated at gross level, less recovery from the airlines and concessionaires.

Forecast for FY21 & Control Period 3

- Assumed inflationary increase in the electricity unit rates for FY21 & Control Period 3.
- Factored an increase in electricity unit and water consumption in proportion of increase in terminal area.
  Terminal area shall increase from 117,000 sqm to 241,405 sqm in FY 2022 and further to 365,809 sqm in FY 2023. Increase in utility costs has been factored for 3 months in FY2022 and FY2023 assuming the terminal shall be put to use during the last quarter of the respective financial years and hence the increase in cost corresponding to the representing year in which capitalization has been considered.

The Utilities Costs considered in the MYTP submitted for FY21 and Control Period 3 is given below:

Utility Cost (Rs Cr)	***FY2021***	***FY2022***	***FY2023***	***FY2024***	***FY2025***	***FY2026***
Total Utility Cost	**19.56**	**25.90**	**46.91**	**57.72**	**60.38**	**63.16**

B) Repairs and Maintenance:

GHIAL aims at maintaining best-in-class service quality levels through the best upkeep and maintenance of the buildings, equipment and other infrastructure to ensure hassle-free and smooth operations.

Repairs and Maintenance (R&M) includes civil, electrical and mechanical works for the maintenance of the airport including the terminal, runways, taxiways, parking bays, aprons, aerobridges, power substations, IT and other plants and machinery.

Repair and maintenance of the airport primarily covers:

Terminal Building Maintenance - It includes all civil, electrical and mechanical works such as O&M of Passenger Boarding Bridges, maintenance of elevators and escalators at PTB, mechanical, electrical and plumbing (MEP) system, metal doors, blinds, baggage handling system etc.

Upkeep and maintenance of landscaping in and around the airport premises. This covers activities such as grass cutting maintenance at the airside, pest control services, maintenance of landscape along main access road, O&M of irrigation system, compost plant, removal of weeds from pathways, maintenance of existing landscape area etc.

Airside Maintenance - All airside assets including the operating runways, taxiways, aprons, parking bays, drains, general airfield upkeep, power sub-stations, water & waste management and all other allied airside infrastructure for all civil, electrical and mechanicals works)

Maintenance of hold baggage screening systems, O&M of baggage handling system, special vehicles, repairs & maintenance for mechanical and electrical systems at ALS etc.

AMCs for network equipment, servers, AV equipment at PTB, software license renewal fees (such as UFIS, SAP, BMC etc), software AMC costs, EPABX maintenance etc along with cost of general maintenance required for IT equipment

This also includes activities undertaken towards the general upkeep and maintenance of the office buildings and other infrastructures. Apart from Plant and Machinery, other infrastructure/ facilities are covered under this head, for repair. This includes:

Pavements: All civil-related works are included under this head. All airside and landside roads and their repairs are grouped under this head. Painting of Apron grating drains, barricading works at specific locations, rectification of pavement settled areas. All furniture repair across the airport like seating (terminal) and other buildings.

Assumptions for Forecast

Repairs and Maintenance

It has been 12 years since the airport was operationalized. Due to the resultant aging of assets and equipment, additional expenditure will be required to be incurred for various assets. As in case of old machinery and buildings, with passage of time the amount of expenditure for maintenance and upkeep keeps increasing. Further, a real increase over and above inflationary increases is required for the manpower component of these costs.

Historically, we have observed that Repairs and maintenance expenses was around ~ 1.5% of Gross Asset Value as given below:

Amounts in Rs. crores	**FY2017**	**FY2018**	**FY2019**	**FY2020**
Gross Assets	**2759**	**2823**	**3417**	**3807**
R&M Expenses	**36.94**	**42.74**	**46.88**	**56.27**
R&M as % of Gross Block	**1.3%**	**1.5%**	**1.4%**	**1.5%**

On the similar lines we have projected Repairs and Maintenance cost for the FY2021 and for Control Period 2 at 1.5% of gross assets.

As explained above, due to the proposed outsourcing of IT services, we have considered a reduction of Rs 7.5 Cr in IT R&M cost from FY22 onwards.

Based on above, R&M cost projections for the period from FY 2021 to FY 2026 are as follows:

R&M Expenses (Rs Cr)	***FY2021***	***FY2022***	***FY2023***	***FY2024***	***FY2025***	***FY2026***
Total R&M Cost	65.53	85.30	132.91	166.28	170.62	172.35

c) Stores and Spares:

Necessary inventory and stock of critical spares and parts is maintained to meet emergency situation as well as to ensure efficient maintenance works.

The spares consist of provisions made for critical spares and consumables, e.g., spares for PTB chillers. RO chemicals, airport seating, ACS, FCS, BMS, electrical, lighting etc.

Assumptions for Forecast

Generally inventory maintained for spares is linked to the planned repair and maintenance works during the year. Accordingly, GHIAL has forecasted stores and Spares in proportion to the repairs and maintenance expenses.

Based on the above, the forecast for Stores and Spares Cost is as follows:

Stores and Spares Expenses (Rs Cr)	***FY2021***	***FY2022***	***FY2023***	***FY2024***	***FY2025***	***FY2026***
Stores and Spares	8.34	10.85	16.91	21.16	21.71	21.93

D. Insurance

The key insurance policies for the airport are as follows:

- Large Risk Policy (Property Damage & Business Interruption(BI))
- AOL/3rd Party Liability Policy
- Terrorism Policy

Forecast Assumptions for Insurance Policy

The respective forecasted premium percentage for the above polices is given below:

Amt in INR Cr

Policy	**Details**	***FY2021***	***FY2022***	***FY2023***	***FY2024***	***FY2025***	***FY2026***
Large Risk Policy (Property Damage & Business Interruption(BI))	30 bps on every Rs 1000 asset insured and every Rs 100 Gross Revenues	2.79	11.35	14.42	17.25	19.22	20.97
AOL/3rd Party Liability Policy	Premium on sum insured of $500mn [USD $0.157 Mn per annum]	1.19	1.22	1.24	1.27	1.29	1.32
Terrorism Policy	Annual Premium - $0.059 mn	0.45	0.46	0.47	0.48	0.49	0.50
	TOTAL	**4.43**	**13.03**	**16.13**	**19.00**	**21.00**	**22.78**

Percentage of insurance premium is calculated over gross block of insured assets over the period upto FY2026.

E. Contractual Manpower Expenses

Manpower cost includes cost of manpower deployed for:

- IT functions
- Technical Services, which includes engineering and maintenance activities
- Project Management
- Landscaping works
- Manpower deployed at Airside for outsourced activities like Taxiway turnaround, vehicle hire, Bird control, Wildlife management, and other operational services.
- Manpower deployed at the terminal for the facilities such as passenger ferrying Services, tray circulating boys, Ramp handling, manpower at visitors' gallery, manpower for baggage handling, fork lift operators, drivers, paid portals and tubs and trolley services etc.

70% of the outsourcing cost is towards the manpower cost for IT, Landscaping, Technical services and project management for which company has entered into a fixed contract.

The balance cost is towards the manpower deployed at airside and terminal. These activities are mainly manpower intensive and have been contracted for one year and come up for renegotiation every year.

Forecast Assumptions

Manpower outsourcing projections for the FY2021 is based on the actual expenses for FY20 with a WPI growth. GHIAL has not considered any real increase in manpower outsourcing in FY2021 on account of decrease in traffic and low scale operations due to Covid.

The increase in the manpower cost is linked to the operationalization of the expanded terminal which required outsourced manpower for operations, technical services and landscaping works.

The projected increase outsourcing manpower number is as below:

Increase in outsourced manpower nos	***FY2021***	***FY2022***	***FY2023***	***FY2024***	***FY2025***	***FY2026***
Total	0.00%	8.25%	16.50%	8.25%	0.00%	0.00%

Real increase of 7% is considered for the forecast of the outsourced manpower cost over WPI for FY22 to FY26.

In line with our plan to outsource the IT service to third party concessionaire on revenue share model, all future capex & O&M expenses towards all IT services to be done by the concessionaire and accordingly a reduction of Rs 7.5 Cr in manpower outsourcing cost from FY22 onwards has been considered.

Accordingly, the contractual manpower and other outsourced manpower expenses projected for FY2021 and the Control Period 3 is as under;

(Rs Cr)	***FY2021***	***FY2022***	***FY2023***	***FY2024***	***FY2025***	***FY2026***
Total	**45.74**	**46.20**	**60.06**	**72.56**	**80.98**	**90.37**

F. Housekeeping Cost

Housekeeping expenditure includes cost towards

- Contracted Costs – Agreement and term contracts Costs
- Recurring annual costs – AMC and Repair and maintenance cost
- Other Costs –material costs

Housekeeping activities include the following activities/contracts:

Mainly covers all housekeeping contracts for upkeep of terminal standards (ASQ) and other services like wheelchair, medical facilities and other passenger facilitations, desk and gate operations at the terminal.

Contracts for Airside Operations - It includes outsourcing cost for activities like follow-me vehicles to guide aircraft and other operational services in the airside. These services are all manpower intensive and have been contracted for one year and come up for renegotiation every year.

External & Internal Façade/High Rise cleaning service at Terminal & ATC Tower.

Housekeeping services at departure and arrival concourse, baggage reclaim hall, car park, departure and arrival forecourt and other operational Area, ATC Tower & Technical building, Substations & other and navigational buildings.

As the facility is getting old it requires higher maintenance and housekeeping services. An additional upkeep is a must to maintain the Service Quality Levels and maximum comfort to the passengers.

With the increase in coronavirus spread, this operating cost will need to be increased. This may be in form of more number of times an area is cleaned and more frequent sanitization requirements at all touch points.

Housekeeping cost projections for the FY2021 is based on the actual expenses incurred during FY20 which has been increased with WPI.

A real YoY increase of 7% is considered over and above WPI for forecasting housekeeping expenses for the Control Period 3.

Also, in line with the planned expansion of the Terminal in the FY 2022 and FY 2022, a one-time increase in proportion to the terminal area increase has been assumed.

Conclusion:

Following is the Housekeeping expenditure projected for FY21 & Control Period 3.

Housekeeping(Rs Cr)	***FY2021***	***FY2022***	***FY2023***	***FY2024***	***FY2025***	***FY2026***
Total	**18.29**	**27.57**	**53.29**	**69.96**	**78.07**	**87.13**

Other Operating Costs

Other operating costs include costs such as fuel farm expenses, bus hire charges, health and safety, carpark O&M etc. These expenses are expected to increase on account of increase in manpower cost and R&M activities for these services and a year on year real increase of 7% with WPI is considered.

Also, a one-time increase of 15% is considered for these expenses (except for fuel farm expenses) on operationalization of expansion projects i.e. in FY 2023 and FY 2024.

Forecasted other O&M expenditure including fuel farm for the period from FY 2021 to FY 2026 is as follows:

Particulars Rs. Crs.	*FY2021*	*FY2022*	*FY2023*	*FY2024*	*FY2025*	*FY2026*
Other Operating costs	26.92	30.05	34.99	40.92	45.66	50.96
Total	**26.92**	**30.05**	**34.99**	**40.92**	**45.66**	**50.96**

CONCLUSION:

Based on the above total operating cost for FY21 and Control period 3 is as below:

Operating cost Rs. Crs	*FY2021*	*FY2022*	*FY2023*	*FY2024*	*FY2025*	*FY2026*
Utilities	19.56	25.90	46.91	57.72	60.38	63.16
Repairs and Maintenance	65.53	85.30	132.91	166.28	170.62	172.35
Stores and Spares	8.34	10.85	16.91	21.16	21.71	21.93
Insurance	4.43	13.03	16.13	19.00	21.00	22.78
Manpower Outsourcing	45.74	46.20	60.06	72.56	80.98	90.37
Housekeeping	18.29	27.57	53.29	69.96	78.07	87.13
Other Operating Cost	26.92	30.05	34.99	40.92	45.66	50.96
Total Operating Cost	**188.82**	**238.90**	**361.21**	**447.59**	**478.43**	**508.69**
Aeronautical	149.23	190.27	297.22	369.83	392.27	413.58

The aeronautical cost pertaining to the above has been derived in line with FY2020 and as per the allocation methodology explained earlier.

Summary of Operating Expenses

The following is the summary of Operating Cost Forecast:

Particulars Rs. Crs	*FY2021*	*FY2022*	*FY2023*	*FY2024*	*FY2025*	*FY2026*
Total Manpower Cost	124.63	162.04	233.28	278.56	332.63	397.20
Total Administrative Cost	187.31	225.86	304.90	381.17	430.13	477.34
Total Operating Cost	188.82	238.90	361.21	447.59	478.42	508.68
TOTAL EXPENSES (A)	**500.76**	**626.80**	**899.38**	**1107.32**	**1241.19**	**1383.23**
Incidental Revenues (Netted off from Expenses) (B)						
Revenue from NOB & SO	(6.99)	(9.79)	(10.28)	(10.79)	(11.33)	(11.90)
CISF Building Interest Cost (C)*		130.03				
Grand Total (A+B+C)	**493.77**	**747.04**	**889.11**	**1096.53**	**1229.86**	**1371.34**
Total Aeronautical Expenses	**390.11**	**622.00**	**728.01**	**900.63**	**1003.66**	**1111.87**

GHIAL requests the Authority to allow true up for all the expenses as per actuals in the 4th Control Period.

*includes interest cost incurred towards CISF township as explained in earlier section.

Concession Fees

GHIAL signed the Concession Agreement with MoCA (Government of India) on 20th December 2004. As per the terms of the Concession Agreement, GHIAL has to pay a Concession Fee equal to 4% of the gross annual revenue to the Government of India. The concession fee with respect to the first 10 financial years is deferred till the 11th year from COD and is payable in 20 equal half-yearly instalments starting from FY2019.

Accordingly, the projection of concession fee relating to Aero Revenues in the MYTP for FY2021 & Control Period 3 is as below:

Particulars Rs. Crs.	***FY2021***	***FY2022***	***FY2023***	***FY2024***	***FY2025***	***FY2026***
Concession Fee						
Total Concession Fee	**19.70**	**126.60**	**154.80**	**183.73**	**208.80**	**231.65**
Concession Fee- Aero	8.04	104.43	127.91	150.87	172.35	192.08

XIV. DEPRECIATION

Historical depreciation has been taken as per audited accounts, and the projections for depreciation have been taken in line with the provisions of the Companies Act 2013.

Depreciation on the property, plant and equipment is calculated on a straight-line basis using the rates arrived at, based on useful lives estimated by the management, which coincides with the lives prescribed by AERA in case of airport assets and as prescribed under Schedule II the Companies Act, 2013 in case of other assets.

The Authority has issued order no. 35/2017-18 on January 12, 2018 followed by amendment no. 1 to the order no. 35 /2017-18 on April 9, 2018 in the matter of Determination of Useful Life of Airport Assets, which was effective from April 1, 2018 ("AERA Order").

Accordingly, the Company has revised the estimated useful lives of its airport assets to be in-line with the AERA Order effective April 1, 2018.

Net block of the airport assets whose useful life was Nil as at April 1, 2018 as per the AERA Order aggregating to Rs. 21.11 Crores, was adjusted to opening retained earnings as at April 1, 2018.

Basis for projections of Depreciation of Existing and Future Assets
Based on the Authority Order no: 35 /2017-18 on April 9, 2018, the depreciation rate is forecasted as under;.

Particulars	(Useful Life Taken) (years)
Improvements to leasehold land	30
Buildings on lease hold land*	10-30
Building interim terminal#	7
Other Buildings	30-60
Runways and taxiways	30
Roads- Other than RCC**	10
Electrical installations	10-15
Plant and machinery	15
Office Equipment	5
Computer equipment and IT systems	3-6
Furniture and fixtures (Trolleys)	3
Furniture and fixtures (other than Trolleys)	7
Vehicles	*8-10*

During the previous year, the Company has made operational two Interim terminals namely Interim International Departure Terminal (IIDT) and Interim Domestic Arrival Terminal (IDAT) to accommodate the growing traffic, until the expanded terminal becomes operational. Further, the area where these interim terminals are put up, will eventually be used for next phase of expansion, therefore, these interim terminals will need to be demolished after seven years.

Based on the same, the management has considered the life of seven years period for these terminal buildings and related assets i.e., electrical installations and certain plant and machineries viz. Fire systems, HVAC systems. Accordingly, IIDT, IDAT building, electrical installations, Fire systems, HVAC systems are depreciated over a period of seven years.

Forecast for Future Depreciation

As described above, the following effective rates are used to project depreciation in FY2020 & Control Period 3 for all the assets included in the RAB:

Asset Classification	Useful Life (Years)	Existing Assets	New Assets
Buildings	30	3.80%	3.33%
Electrical Installations	10	2.69%	10.00%
Furniture and Fixtures	10	6.91%	14.29%
Buildings on freehold land	30	2.14%	3.33%
Improvements to Leasehold Land	30	3.74%	3.34%
IT Systems	6	6.21%	33.33%
Office Equipment	5	5.30%	20.00%
Other Roads	10	2.09%	10.00%
Plant & Machinery	15	6.84%	6.67%
Runways	30	2.54%	3.33%
Software	6	3.95%	16.67%
Vehicles	8	5.20%	12.50%
Average Depreciation rate		**4.08%**	**6.75%**

- For the existing assets, the effective depreciation rates are derived from the audited financials for March 2020. The carrying amount (or WDV) of each asset class is depreciated over the average remaining useful life of the asset class.
- For filing under Shared Till, depreciation is considered on the Aero Assets based on the asset allocation methodology in the attached concept document.
- Depreciation on assets funded by ADFG is not claimed by us for tariff computation. Accordingly, the value of depreciation used in the regulatory building blocks is reduced by the appropriate amount
- Depreciation forecast includes depreciation on PSF assets included in RAB

Based on these assumptions, the projections for Depreciation from FY 2021 to FY 2026 are as follows:

Particulars (Rs. Crs)	2021	2022	2023	2024	2025	2026
Depreciation on Aero Assets	146.33	220.95	370.56	530.79	600.74	612.79

XV. NON-AERONAUTICAL INCOME

Charges for facilities or services that do not fall under the definition of **Regulated Charges** in the Concession Agreement are determined by GHIAL on reasonable commercial basis.

Basis for Non-Aeronautical Revenue projections

GHIAL has identified the principal drivers of our non-aeronautical revenue streams and segregated individual items under the identified drivers. The base for FY 2021 is performance upto March 2020 duly extrapolated for FY 21 taking in consideration the impact of COVID 19 and its impact on the buying behavior of the passengers at the airport.

Non-Aeronautical Revenues are forecasted based on the growth drivers identified below:

- ATM growth rate
- Total passenger traffic growth rate
- International passenger traffic growth rate
- Cargo volume growth rate
- Contractual (Rentals, Minimum Guarantees, Common Area Maintenance etc) and
- WPI Increase
- Impact of Covid on passenger spending and SPP thereof

Non aeronautical revenue for FY21 are badly impacted by the unprecedented drops in aviation and heightened concerns of the people on account of Covid 19. GHIAL believes that the ongoing pandemic and associated health concerns will have far-reaching e impact on non-aero revenues. The apprehension will extend not only to FY21 but also for the rest of the control period in terms of decrease in passenger spending's especially towards F&B, retail and duty-free business. Even most experts in the air transport industry agree that the prospective recovery may take 4-5 years to reach to the pre-Covid crisis levels.

The economic impact of Covid impacting the purchasing power and the changes in passenger behavior would have slow paced revival in the passenger interest towards use of F&B, Retail, lounge facilities, duty free etc. Hence, GHIAL has assumed passenger penetration to reach FY20 levels by FY24 only. Hence, GHIAL has applied decrease in revenue @ 25% in FY2021 & FY2022 and 20% in FY2023 over FY2020 revenues for the purpose of projecting passenger linked revenue streams during the 3rd control period.

Refer **Annexure 14** for details of Historical Revenues from FY2009 till FY2020

<u>**Classification of Revenue Streams based on Growth Drivers**</u>

ATM growth linked revenue streams

- Fuel Farm Revenues
- Revenue Share from Ground Handling
- Ground Power Unit

Passenger traffic growth linked revenue streams

- Revenue Share from In-flight kitchen
- Retail & F&B revenues
- Plaza Lounge
- Car parking and Radio taxi revenue

International passenger traffic growth linked revenue streams

- Duty Free Revenue Share
- Forex services Revenue Share
- Public Admission fees

Cargo throughput growth linked revenue streams

- Revenue Share from Cargo

Others:

- Rental income
- Revenue from Advertisement and
- Other miscellaneous income

Projections:

I. ATM Growth Linked Revenue Streams

i. Fuel Farm

In line with the Concession Agreement, Fuel Farm revenues are treated and non-aeronautical. Currently GHIAL charges fuel infrastructure charge Rs 1500/KL. Authority earlier vide interim measure Order No. 34/2019 discontinued the fuel throughput charges of Rs 670/KL in compliance with the letter issued by Ministry of Civil Aviation addressed to Chairperson of the Authority dated 8.01.2020.

As per the concession agreement, GHIAL is free to determine charges for the services other than the facilities and services in respect of which Regulated Charges. In line with this, GHIAL would like to introduce either fuel access charge of Rs. 670/KL or equivalent charge per pax w.e.f. April 1 2021 in addition to fuel infrastructure charges.

As revenue streams are charged as per KL of fuel off-take and the driver for fuel farm revenues is ATM growth rate.

ii. Ground Handling

Below mentioned Ground Handling Agents (GHAs) are currently operating at our airport-

- M/s Celebi Airport Services India Private Limited
- M/s Globe Ground India Private Limited
- Air India SATS Airport Services Private Limited
- Other 3rd party ground handlers employed by domestic airlines

As per the contract the ground handlers pay a revenue share and minimum guarantee to GHIAL. As ground handling revenues are linked to ATMs, hence ground handling revenue share has been projected in line with ATM growth rate for the year FY2021 to FY2026.

<u>iii) Ground Power Unit</u>

GPU revenue for the year FY 2020 is considered at actuals. From FY 2021 onwards, ground power unit revenue share is escalated by ATM growth rate.

<u>iv) ICT Revenues (CUTE, CUSS, BRS & IT)</u>

ICT revenues for FY21 are being projected @ 1.25$ per departing passenger. From FY22 onwards, company shall be outsourcing IT services to third part concessionaire and shall be charging revenue share for this concession. GHIAL shall charge revenue share @ 3% on ICT revenue of 1.25$ per departing pax which shall be collected by the concessionaire from the airlines for provision of IT services. The company has completed the process of selection of concessionaire and the proposed arrangement shall be operational from the beginning of the third control period.

II. Passenger Growth Linked Revenue Streams

<u>In-flight kitchen</u>

RGIA in-flight catering service is presently provided by two concessionaires:

LSG Sky Chef, and Sky Gourmet:

Due to Covid19 pandemic, the In-flight kitchen business has been badly affected. Passengers and carriers are avoiding any In-flight food services and there is uncertainty with respect to return in the demand for the service. For this reason GHIAL has assumed a negative growth of 25% in addition to the passenger growth rate for the year FY2021. In the FY2022 the demand has been assumed to reverse and the In-Flight Kitchen revenue is subject to a 33% growth rate in addition to the passenger growth rate. FY 23 onwards, In-Flight kitchen revenue is linked to Passenger growth rate.

Competitive environment in IFK business has resulted in reduction in per meal prices.

Major international carriers operating from RGIA e.g. Emirates and Etihad are doing back-catering and therefore the caterers do not get any business from them.

<u>Retail and F&B Revenues</u>

GHIAL has entered several concession agreements in order to facilitate the establishment, development, operations, maintenance and management of retail outlets & outlets serving food & beverages for the comfort and benefit of passengers.

Concession Fee comes from fixed percentage share of revenues of retail and F&B concessionaires at the Airport. Retail performance is linked to passenger numbers and is projected based on passenger traffic growth over FY2020 actual numbers.

Further, a decrease in revenues over FY20 levels by 25% in FY2021 & FY2022 and 20% in FY2023 over and above the projections basis traffic. This is on account of consumers concerns in buying outside food on health reasons and the weak economic outlook affecting the purchasing power.

<u>Plaza Lounge / Airport Lodge</u>

The plaza lounge is a 'transit hotel' facility that allows travelers with late flights or long stopovers to access the amenities of a hotel at the Airport itself. GHIAL has concessioned out the lounge facilities and collects a revenue share from the operator.

Revenues upto FY 2020 is taken as actuals. For the FY 2021, the revenues are linked to the international passenger traffic growth rate and Inflation.

However, the revival in the passenger interest towards using the lounge facilities shall be slow which shall impact the passenger penetration. Hence, a decrease in revenues by 25% in FY2021 & FY2022 and 20% in FY2023 over FY20 levels.

<u>Car Park and Radio Taxi</u>

The car park at RGI Airport is operated by Tenaga Parking (India) Pvt Ltd on the basis of a Management Services Agreement. The revenue from collection of parking charges accrues to GHIAL, while GHIAL pays an Operator Fee/Management Fee to Tenaga Parking.

Revenues for Radio taxi and Car Park have for FY2020 has been linked to passenger traffic growth rate and inflation for projections of FY2021 and Control Period 3.

III. International Pax Growth Linked Revenue Streams

<u>Duty Free</u>

Duty Free operations are concessioned out to GMR Hospitality and Retail Limited (GHRL) for setting up, developing, operating, maintaining and managing the duty free outlet at RGIA.

The duty free shops at RGI Airport are spread across international departure and arrivals. GHRL provides a wide range of products for passengers such as perfumes, cosmetics, confectionery, liquor, tobacco, souvenirs and fashion.

The contract with GHRL specifies a percentage share of the revenue to be shared with GHIAL, along with a minimum guaranteed amount. If the revenue share falls below the minimum guarantee amount then HDFRL has to pay at least the minimum amount to GHIAL.

Duty free revenues for GHIAL upto FY 2020 is taken at actuals which is the basis of the projections.

Concession Fee – From FY 2021, concession fee is escalated by international passenger traffic growth rate. The concession fee income is impacted by the slow recovery of international passenger. Further on account of Covid outbreak, decrease in SPP @ 25% in FY2021 & FY2022 and 20% in FY2023 over FY2020 SPP for the purpose of projecting duty free sales has been considered

Forex Services

As RGI Airport provided forex-related services for inbound and outbound passengers. Forex services at RGI Airport is concessioned out to Weizmann Forex Ltd.

Forex revenues upto FY 2020 is taken at actuals and has been escalated by international passenger traffic growth rate along with inflationary increase for projections thereafter.

On account of increased awareness, digitization and increased propensity to use plastic money, the forex services at airport is expected to decline. Hence, GHIAL has projected additional decrease of 10% yoy decrease in forex revenues from FY2021

Public admission fee

Public admission fees are charged to meeters and greeters who require greater access in the terminal while picking up or dropping passengers. Revenue from public admission fees upto FY 2020 is taken at actuals and is the basis of the projections. Revenues from FY 2021 are projected on the basis of international passenger growth rate. This is because a major portion of this revenue stream comes from the meeters and greeters of international passengers.

For FY 21 a decrease of 25% is considered over and above the projections basis the international traffic to account for social distancing protocols.

IV. Cargo Volume Growth Linked Revenue Stream

Cargo Revenues

GHIAL has given a concession to GMR Air Cargo and Aerospace Engineering Limited (GACAEL) formerly Hyderabad Menzies Air Cargo Pvt Ltd (HMACPL) to operate a Cargo Terminal at RGIA. GHIAL earns a revenue share and space rentals from GACAEL as discussed below.

Cargo revenue upto FY 2020 is taken at actuals and is the basis of the projections. Revenue streams to GHIAL from Cargo are projected as follows:

Revenue Share – GHIAL receives 18% revenue share on the gross revenues from the existing operator GMR Air Cargo and Aerospace Engineering Limited.

GHIAL shall be onboarding the second cargo operator from the April 1 2022 and is expected to receive 26% revenue share on the gross revenues from a new operator.

The Cargo volume is assumed to be shared equally among the two operators and Cargo operators' revenues are projected basis the projected cargo volume:

Cargo Revenues have been considered on soft touch basis. Our submission shall undergo a change should there be any changes in Cargo rates in future and accordingly GHIAL reserves our right to change the tariff filing.

Cargo tonnage growth rates as given below have been applied to project revenues from domestic and international volume-linked revenue.

Year	2021	2022	2023	2024	2025	2026
Tonnage (in'000 MTs)	86	136	145	162	177	190
% Growth	**-41.00%**	**58.15%**	**6.00%**	**11.72%**	**9.73%**	**7.11%**

During FY21, GHIAL sold the cargo terminal to GACAEL on July 1, 2020 and hence the lease rental is not considered for the third control period.

V. Others

Rental Revenues

Rental income includes rent from plaza lounge, airline offices, airline ticketing counter, maintenance building, government agencies, promotional counters, PTC, blue dart building, airline lounges, telecom, canteens, new office building and old site office, fuel station, Duty Free Concessionaire, Land rentals paid by Inflight kitchen concessionaires, common area maintenance (CAM) etc. Rental revenues are contractual in nature and are projected based on existing arrangements. Most of the existing rental contracts have annual escalation factor of 4-5%.

Rental Income with annual escalations

The rental income upto FY 2020 is taken at actuals and 5% YOY growth is applied to project the rental revenues.

GHIAL has been approached by various concessionaires for deferment/waiver of rent in light of airport shutdown due to COVID and its impact of the business performance of the concessionaire. Hence, a decrease of 25%, equivalent to 3 months rental income has been factored in the rental income of FY2021.

GHIAL expects an increase in rental income of Rs 2.0 Cr in FY2023 by when the expanded terminal shall be fully operational. The same has been factored in the rent forecast with annual escalation of 5% thereon.

Fixed Rental from Cargo Concessionaire

The Existing Cargo Concessionaire, GMR Air Cargo and Aerospace Engineering Limited (GACAEL) pays an annual rent Rs.5.78 crores per annum as Rent for Cargo Terminal building constructed by GHIAL.

GACAEL has plans to augment the capacity in order to be future ready as the existing capacity is expected to be fully utilized by end of FY21 given the volume handled in FY20. The cargo terminal building is 12 years old and in order to meet the growth requirements of terminal operator, GHIAL has sold of the existing Cargo Terminal Building (CTB) at RGI Airport to GACAEL on July 1, 2020. Hence, no rent has been projected from July'20 onwards for the existing cargo terminal.

GHIAL shall be constructing a new cargo terminal building for the 2nd Operator which shall be onboard in FY2022 for which GHIAL is proposing to levy a rent of Rs 7.56 crore per annum.

Advertisement and Promotions

GHIAL has concessioned out rights to the advertising space at RGI Airport to Laqshya Hyderabad Airport Media Pvt Ltd (LHAMPL). LHAMPL provides advertising space within the terminal and outside the terminal in the Airport area.

Within the Airport, the advertisements usually provided in the form of ambient lit banners, front lit static sites, backlit totems, digital media, wall and pillar wraps, promotional stalls, strollers, giant banners and light boxes. Advertising outside the terminal building are in the form of banners and front/back-lit hoardings on the approach roads to the terminal.

Brick and mortar Advertisement business is facing competition from digital advertisement and corporate spending is more inclined towards digital advertisement space. Further, with economic slowdown, as a cost control measure, business houses are allocating less budget towards advertisement and promotion. For this reason GHIAL envisages a significant drop in the advertisement revenue for FY21. GHIAL has assumed a 60% negative growth in revenues for FY2021 followed by a 30% annual increase in FY2022 and FY2023 which is expected to taper to 20% in FY2024 and 10% thereon for the rest of the period.

Promotions – Revenues from other promotions upto FY 2020 is taken at actuals and is the basis of the projections. Promotions revenue is linked with traffic growth and inflation.

Other Revenue Streams (Miscellaneous Income)

Miscellaneous Income includes revenues from Airport Entry Passes (AEP), IT, permits, airline security, filming and paid porters. As these are ancillary revenues and are not contractual in nature, the revenues under this head shall remain constant at FY20 levels during the control period.

However, on account of Covid'19 in the year 2021, GHIAL has assumed negative growth of 25% over FY20 revenues.

VI. Other Adjustments to Non-Aero Revenue

Excluded Revenue Streams

Other Income comprising of Interest Income and Dividend Income have been excluded from the tariff calculations.

Revenue from non-Airport Land and non-Airport activities are also excluded for the purpose of tariff determination.

Incidental Revenues from NoB and SO

GHIAL earns incidental revenues in the form of rentals from its office facilities leased to other entities. This space is rented out by GHIAL pending its utilization for common airport activities due to airport expansion. This income is excluded from non-aeronautical revenues and has been netted off against total operating expenses, in line with the concept note attached to this document.

The Incidental income upto FY 2020 is taken at actuals and 5% YOY growth is applied to project the revenues.

GHIAL has been approached by various concessionaires for deferment/waiver of rent in light of airport shutdown due to COVID and its impact of the business performance of the concessionaire. Hence, a decrease of 25%, equivalent to 3 months rental income has been factored in the incidental income of FY2021.

Amounts in Rs. cr	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026
Incidental income deducted from Common Operating Expenses	**-6.99**	**-9.79**	**-10.28**	**-10.79**	**-11.33**	**-11.90**

SUMMARY

Non Aero Revenue based on the above assumptions has been summarized in the table below:

Non Aero Revenues - Rs. cr	2021	2022	2023	2024	2025	2026
Cargo	12.31	28.62	29.88	32.50	34.92	36.87
GH	18.12	35.06	40.22	45.05	48.85	51.77
GPU	0.90	1.73	1.99	2.23	2.41	2.56
Fuel	53.27	149.04	171.00	191.52	207.68	220.12
ICT	28.73	0.93	1.12	1.29	1.29	1.37
Flight Kitchen	4.91	10.03	12.79	18.30	20.78	23.06
Retail	17.11	37.37	48.82	71.98	82.23	91.64
F&B	14.55	31.78	41.52	61.21	69.93	77.93
Plaza	5.66	14.29	21.37	31.15	35.83	39.65
Forex	6.47	14.69	18.53	19.46	20.14	20.06
Duty Free	12.07	36.14	56.91	86.20	98.62	108.14
Rentals	39.08	54.72	59.45	62.43	65.55	68.82
Advertisement	15.50	21.09	28.67	35.99	41.40	47.64
Car park & Radio Taxi	38.34	83.72	102.55	120.96	138.18	154.00
Public Admission Fee	2.09	4.56	5.95	8.78	10.03	11.17
Miscellaneous Income	9.04	12.05	12.05	12.05	12.05	12.05
TOTAL	**278.16**	**535.81**	**652.82**	**801.08**	**889.88**	**966.86**

XVI. TAXATION

Corporate tax pertaining to aeronautical services is separately calculated and added as a building block to compute the final target revenue.

The computation of income tax on aeronautical income is made according to the prevailing Income Tax laws and rules. Further, the assumptions are as under:

The Aeronautical segment has been treated as a standalone entity with its own tax computations.

In line with the consideration, all items excluded from the calculations of the regulatory building blocks have been excluded from the regulatory tax computation. The cross subsidy amount allocated from non-aero PBT to the extent of 30% is considered for the purpose of preparation of aeronautical P&L statement.

For the purpose of tariff determination of GHIAL, the higher of:

- Tax Payable based on the Aeronautical Book Profit computed under section 115JB of the Income Tax Act, 1961 based on the profit declared in the statement of Profit and Loss presented to the Shareholders, and
- Tax Payable based on the Aeronautical Taxable Income computed as per the normal provisions of the Income Tax Act, 1961 after taking into deducting the depreciation as per the Income Tax Act, brought forward losses and other adjustments / deductions allowed under the said Act.

Tax projected for the period from FY 2021 to FY 2026 is as follows:

Particulars (Rs. Crs)	2021	2022	2023	2024	2025	2026
Tax on Aeronautical Segment	0.00	272.97	397.48	612.94	747.13	893.32

XVII. CONCLUSION

The ARR has been computed in line with the rights granted by the Central Government in the Concession Agreement and the AERA guidelines for Tariff Determination.

The ARR calculated in the MYTP under Shared Till is furnished below:

Regulatory Building Blocks Rs. Crs	2022	2023	2024	2025	2026	Total
Return on RAB	469.07	783.14	1,107.05	1,201.90	1,136.54	4,697.69
Operating Expense	622.00	728.01	900.63	1,003.66	1,111.87	4,366.17
Concession Fee	104.43	127.91	150.87	172.35	192.08	747.64
Depreciation	220.95	370.56	530.79	600.74	612.79	2,335.83
Taxes	272.97	397.48	612.94	747.13	893.32	2,923.85
Gross Target Revenue (A)	**1,689.42**	**2,407.10**	**3,302.28**	**3,725.78**	**3,946.59**	**15,071.18**
Cross-Subsidization (B)	86.29	95.31	108.46	174.44	189.50	654.01
Aero Revenue Eligibility (C=A-B)	**1,603.13**	**2,311.78**	**3,193.83**	**3,551.34**	**3,757.09**	**14,417.17**

Yield per pax is calculated as below, by matching the present value of the calculated ARR with our revenue projections for third control period

Revenue Deficit for Tariff Determination Rs. Crs.	2022	2023	2024	2025	2026	Total
Aero Revenue Eligibility (C)	**1,603.13**	**2,311.78**	**3,193.83**	**3,551.34**	**3,757.09**	**14,417.17**
PV of CP2 True-Up (D)	3,035.28					3,035.28
PV of Overall Aero Revenue Eligibility (E)	4,524.61	1,852.85	2,210.16	2,117.63	1,932.76	12,638.01
Actual/Projected Revenue	**2,610.76**	**3,197.81**	**3,771.72**	**4,308.70**	**4,801.99**	**18,690.97**
PV of Actual/Projected Revenue (F)	2,425.44	2,562.98	2,610.07	2,569.23	2,470.29	12,638.01
Yield per Passenger (excluding transfer and infants passenger)	**1,300.04**	**1,359.84**	**1,422.39**	**1,487.82**	**1,556.26**	

For third control period, GHIAL requests the Authority to allow a yield of Rs. 1300.04 per passenger in tariff year 1 w.e.f April 1 2021 to be increase by WPI @ 4.6% p.a during the subsequent 4 years of the control period , to be recovered through the aeronautical charges.

GHIAL requests the Authority to consider the following while computing tariff for the third control period:

1. Capex for capacity expansion from 12mppa to 34mppa
2. Pre-Control Period Entitlements

3. Forex losses as filed
4. Cost of Equity be considered as 22.07%
5. Cargo, Ground Handling and Fuel Farm be considered as Non-Aeronautical
6. Other issues as illustrated in the previous sections
7. YPP as filed

XVIII. APPENDIX

Annexure 1	The opinion of the Attorney General
Annexure 2	A copy of the Opinion rendered by Justice Lahoti
Annexure 3	letter of the then GOAP dated 01.03.2011 and 03.03.2011
Annexure 4	TDSAT Order for DIAL
Annexure 5	CRISIL Study on GHIAL's Cost of Equity
Annexure 6	Jacobs Study on GHIAL's Cost of Equity
Annexure 7	Auditor Certificate for PSF Assets and Expenses
Annexure 8	The Survey of Professional Forecasters on Macroeconomic Indicators– Results of the 63rd Round
Annexure 9	Allocation methodology concept note
Annexure 10	Auditor certificate on asset allocation from FY09-FY20
Annexure 11	Auditor Certificate- Operating Expenses Allocation from FY 09- FY20
Annexure 12	Auditor Certificate for Forex losses
Annexure 13	Auditor Certificate on Bond Issue Cost
Annexure 14	Auditor certificate and report for historical revenues
Annexure 15	AUCC PIF
Annexure 16	AUCC MOM
Annexure 17	GHIAL request letter to MOCA and MoCA response wrt Metro Project
Annexure 18	RITES report on Airfield Pavement Structural Analysis
Annexure 19	List of General Capex planned during FY2021 to FY2026
	Audited financials for FY17 to FY20