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MIAL/CEO/138

11th October 2011

The Secretary,
Airports Economic Regulatory Authority of India,
AERA Building, Administrative Complex,
Safdarjung Airport,
New Delhi – 110 003

Sub: Multi Year Tariff Proposal (MYTP) for CSIA, Mumbai

Madam,

Please find enclosed the Multi Year Tariff Proposal (MYTP) for Chhatrapati Shivaji International Airport (CSIA), Mumbai for the first control period, i.e. FY 2009-10 to FY 2013-14 for consideration and approval of Hon'ble Authority.

Since some of the information contained in this proposal are commercially sensitive information, which are not in public domain. Hon'ble Authority is requested to kindly permit MIAL to redact such information during consultation process. MIAL will intimate list of such information shortly.

In view of fund requirement for timely implementation of project, it is highly desirable that our pending application of DF of Rs. 2,366 crores is finalized expeditiously. We request Hon'ble Authority to kindly consider this request.

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

Thanking you,

Yours Sincerely,
For Mumbai International Airport Private Limited

(R. K. Jain)
Chief Executive Officer

Encl.: as above

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Mumbai International Airport Private Limited

Multi Year Tariff Proposal

FY 2009-10 to FY 2013-14

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1. Background

Mumbai International Airport Private Limited (hereinafter referred to as "MIAL") is a Joint Venture Company (hereinafter referred to as "JVC") incorporated under the Companies Act, 1956 and is engaged in operating, maintaining, developing, designing, constructing, upgrading, modernizing, financing and managing the Chhatrapati Shivaji International Airport, Mumbai (hereinafter referred to as "CSIA"). In 2004-2005, the Airports Authority of India (hereinafter referred to as 'AAI') invited tenders from private participants competent to and desirous of operating, maintaining, developing, designing, constructing, upgrading, modernizing, financing and managing CSIA and MIAL has taken over these functions from AAI w.e.f. 03.05.2006. Pursuant to MIAL's selection, the following agreements (collectively referred to as "Project Agreements") were executed:

1. Operation, Management and Development Agreement dated 04.04.2006 (hereinafter referred to as "OMDA") between MIAL and the AAI (**Annexure 1**);

2. The State Support Agreement (hereinafter referred to as "SSA") dated 26.04.2006 between the President of India, acting through the Ministry of Civil Aviation (hereinafter referred to as 'MoCA'), and MIAL (**Annexure 2**);

3. Shareholders Agreement;

4. CNS-ATM Agreement;

5. Airport Operator Agreement;

6. State Government Support Agreement;

7. The Lease Deed;

8. Substitution Agreement and

9. Escrow Agreement.

Hon'ble Airports Economic Regulatory Authority (hereinafter referred to as "Hon'ble Authority") was established by the Central Government vide its notification no. GSR 317 (E) dated 12.05.09 with its head office at Delhi under the Airports Economic Regulatory Authority of India Act, 2008 (hereinafter referred to as "AERA Act") to regulate tariffs for Aeronautical Services, inter-alia, taking into consideration the concession offered by the Central Government in any agreement or memorandum of understanding or otherwise.

MIAL has approached Hon'ble Appellate Tribunal over certain issues. The present MYTP is being filed without prejudice to the contentions and submissions of MIAL in respective appeals to Hon'ble Appellate Tribunal.

Clause 3.1 read with Schedule 6 of the SSA provides that from 4th year onwards (i.e. from FY 2009-10 onwards) the Aeronautical tariff for MIAL shall be fixed by Hon'ble Authority and in absence whereof by the Central Government. Clause 2 of Schedule 6 of SSA provided for a minimum increase of 10% of Base Airport Charges as given in Schedule 8 while determining the Aeronautical charges. Pending formulation and finalization of approach and philosophy for determination of tariff by Hon'ble Authority, MIAL requested for this minimum 10% increase, which was rejected by Hon'ble Authority vide its Order No. 03 of 2010-11 dated 20.05.2010. The said Order

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was appealed against by MIAL before Hon'ble Airports Economic Regulatory Authority Appellate Tribunal (hereinafter referred to as "Hon'ble Tribunal") and Hon'ble Tribunal vide Order dated 11th May 2011 has remitted the matter back to Hon'ble Authority for its consideration. Alongwith MIAL's said proposal for 10% increase in Aeronautical Charges, a proposal for introduction of Aerobridge Charges was also submitted which is pending for consideration of the Hon'ble Authority.

Hon'ble Authority initiated the process for finalizing its approach and procedure to be adopted for regulation of Chhatrapati Shivaji International Airport, Mumbai (CSIA) through its letter dated 04.01.2011 (**Annexure 3**) and directed MIAL to make stylized tariff filing on the basis of the principles as well as the mechanics available in the SSA. MIAL filed its understanding of the principles as well as the mechanics available in the SSA vide its letter No. MIAL/PR/248 dated 09.02.2011 (**Annexure 4**). In response, Hon'ble Authority vide letter No. AERA/20010/DM/2010-11/1664 dated 22nd February 2011 directed MIAL for making the stylized tariff filing with actual numbers (as far as possible), which was duly responded by MIAL vide its letter No. MIAL/PR/258 dated 08.03.2011 (copies enclosed as **Annexure 5**). In a communication on MIAL's application for approval of DF, Hon'ble Authority vide letter No. AERA/20011/MIAL-DF/2009-10/Vol-II/648 dated 25.07.2011 directed as follows:

"Internal accruals are one of the means of finance for the project. Any revision in Aeronautical tariff would directly impact the internal accruals of MIAL and consequently the funding gap to be bridged through DF. Therefore, MIAL is advised to expedite the tariff filing."

MIAL separately filed a proposal to increase parking charges for General Aviation Aircraft to which, Hon'ble Authority vide letter No. AERA/20010/MIAL-GA/2009-10/840 dated 07.07.2011 advised MIAL to file Multi Year Tariff Proposal (hereinafter referred to as "MYTP") for CSIA, Mumbai and, if so desired, submit the proposal on General Aviation Aircraft as part of the MYTP. MIAL is, accordingly, filing this MYTP for consideration and approval of Hon'ble Authority for the first control period beginning FY 2009-10 and ending FY 2013-14 in line with the provisions of the SSA.

2. Concession offered by Central Government to be considered for Tariff Determination

Order No. 13/2010-11 dated 12.01.2011 issued by Hon'ble Authority has recognized that covenants of the concession agreements may require appropriate modifications to be made in the general framework that has been laid down in this Order. Also in the Clause 1.4 of the guidelines released by Hon'ble Authority titled, "AERA (Terms and Conditions for Determination of Tariff for Airport Operators) Guidelines, 2011" on 28.02.2011 (hereinafter referred as the "General Guideline") has recognized the need of a separate order for CSIA for tariff determination.

Although the above Order and General Guidelines are not applicable for CSIA, Hon'ble Authority has specifically observed in Order No. 13/2010-11 dated 12.01.2011 that OMDA is not a concession offered by Central Government under section 13(1)(a)(vi) of the AERA Act. In this regard, MIAL submits that all the Project Agreements entered into by MIAL including SSA and OMDA are part of concession offered by Central Government. MIAL vide its letter dated 04.02.2011 had requested the MoCA to clarify the same to Hon'ble Authority and a follow up letter dated 22.07.2011 was also sent (copies enclosed as **Annexure 6**). Provisions of SSA and OMDA are interconnected

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and inter dependant in their interpretation and application. This aspect has been dealt with in detail in our previous letter dated 09.02.2011, referred to above and attached as **Annexure 4.** MIAL would further elaborate on this aspect at the time of consultation/hearing before Hon'ble Authority, if necessary.

3. Provisions of the State Support Agreement (SSA) and OMDA

The principles of tariff fixation are listed in Schedule 1 of the SSA. We are not reproducing the detailed clauses as the same, with our interpretation, has been submitted in our previous letter dated 9.02.2011, referred to above and attached as **Annexure 4**. The same may kindly be treated as the part of this filing.

Schedule 1 of SSA states that the Aeronautical charges would be calculated in the 'shared till inflation – X price cap model'. According to this model Target Revenue is calculated as per the formula below:

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

Each of the above terms has been defined in Schedule 1 and the same are not being reproduced for the sake of brevity. However, our understanding of each of these is given in our above mentioned letter dated 09.02.2011 (**Annexure 4**) and is also discussed in detail in the following sections.

4. Aeronautical and Non-Aeronautical Services

Aeronautical Services and Non-Aeronautical Services are defined under OMDA and the same definitions have been used for the purpose of classification of services. Further, OMDA provides detailed list of various services and facilities that would form part of the Aeronautical Services and Non-Aeronautical Services in Schedule 5 and Schedule 6 respectively.

5. Shared Till

As given in the Schedule 1 of the SSA, 30% of the revenues from Revenue Share Assets (RSA) would go towards reducing the aeronautical charges while computing Target Revenue. Further the costs in relation to such revenue shall not be included while calculating Aeronautical Charges. Thus, this Multi-Year Tariff Proposal has been prepared based on the Shared Till as per SSA. Revenue Share Assets (RSA) have been defined in SSA as under:

"Revenue Share Assets" shall mean (a) Non-Aeronautical Assets; and (b) assets required for provision of Aeronautical related Services arising at the Airport and not considered in revenue from Non-Aeronautical Assets (e.g. Public admission fee etc.)."

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6. Determination of Target Revenue

6.1. Regulatory Base (RB)

The Regulatory Base for the first year of the control period has to be determined based on the RB for the year preceding the control period and the formula for computation of same has been defined as

"RB_0 for the first regulatory period would be the sum total of

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(i) the Book Value of the Aeronautical Assets in the books of the JVC and

(ii) the hypothetical regulatory base computed using the then prevailing tariff and the revenues, operation and maintenance cost, corporate tax pertaining to Aeronautical Services at the Airport, during the financial year preceding the date of such computation."

In order to determine the Regulatory Base for the first year of the control period, the RB for the preceding year has to be computed wherein hypothetical RB has to be added in addition to the book value of Aeronautical Assets in the books of MIAL.

The RB for any year i of the control period is to be computed using the following formula:

$$RB_i = RB_{i-1} - D_i + I_i$$

where,

D_i = Depreciation for the year i

I_i = Investments capitalised in year i

The following section provides computation of the hypothetical RB and the RB for the control period.

6.1.1. Capital Expenditure

The Capital Expenditure includes the following

- Project Capital Expenditure
- Operational Capital Expenditure
- Retirement Compensation (Paid / payable to AAI pursuant to OMDA)

i) Project Capital Expenditure

This is as per the planned Capital Expenditure for the total project cost of Rs.12,380 Cr. from FY 2006-07 to FY 2014-15 and capitalization thereof as per capitalization schedule as detailed in the subsequent sections. This includes Rs. 154 Crore of Upfront Fee paid to AAI.

ii) Operational Capital Expenditure

The Operational Capital Expenditure of Rs. 118 Cr. up to FY 2010-11 is included in Project Capital Expenditure stated above. The Operational Capital Expenditure for the year FY 2011-12 is projected as Rs 106 Cr. Operational Capital Expenditure for FY 2012-13 to FY 2013-14 is assumed as 1.5% of the opening Gross Fixed Assets (GFA) increased further by the specific planned expenditure, if any, for any particular year.

iii) Retirement Compensation

MIAL provided Rs. 261 Crores in FY 2009-10 towards Retirement Compensation payable to AAI pending finalization of wage revision of employees. Additional amount payable to AAI towards Retirement Compensation post wage revision of its employees is Rs. 56 Crores which is provided in FY 2011-12. This liability is likely to increase further post receipt of actuarial valuation reports from AAI towards Retirement settlement benefit and Retirement medical benefit claims.

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The year-wise Capital Expenditure Incurrence and Capitalization, both without deducting Development Fee (DF), for the control period is as follows:

Table 1: Capital Expenditure Incurrence

In Rs. Cr.	**FY 07- FY 11**	**FY 12**	**FY 13**	**FY 14**	**FY 15**	**Total**
	Actual	Projected				
Project Capital Expenditure	4974	2389	2348	2105	564	12380
Operational Capital Expenditure		106	116	85	173	480
Retirement Compensation	261	56				317
Total	5235	2551	2464	2190	737	13177

Table 2: Capitalisation

In Rs. Cr.	**FY 07- FY 11**	**FY 12**	**FY 13**	**FY 14**	**FY 15**
Capitalisation	2488	670	1529	6862	1628

The initial project cost approved by MIAL's Board was Rs.9802 Cr. Additionally, there were mandated projects of Rs. 651 Cr. viz. ATC Tower, Equipment and Technical Block (Rs. 310 Cr. increase over Rs. 80 Crore considered earlier in the project cost), Mithi river widening (Rs. 150 Cr.), Contribution to MMRDA for dedicated elevated access road for airport (Rs. 166 Cr.) and memorial of Shivaji Maharaj (Rs. 25 Cr.). Accordingly, the project cost was estimated as Rs. 10,453 Cr.

The details of these costs were submitted to Hon'ble Authority in MIAL's application for DF vide its letter No. MIAL/PR/15 dated 02.05.2011.

However, due to various reasons which are either beyond the control of MIAL or which have necessitated change in scope, the project cost has been revised to Rs. 12,380 Cr. The increased project cost along with the reasons for the increase was placed before a Committee of Directors appointed by the Board of Directors of MIAL to examine the same and make suitable recommendations to the Board. The Committee, having examined the same, recommended the increased cost to the Board for approval. The Board in its 30th meeting held on 1st October 2011 approved the increased cost of Rs 12,380 Cr., A detailed note on the reasons for increase in project cost is attached as **Annexure 7.**

6.1.2. Allocation of Fixed Assets

As per definition of the RB given in the Schedule 1 of the SSA, the RB includes only the Aeronautical Assets (including those for reserved activities), which necessitates segregation of assets into Aeronautical and Non-Aeronautical Assets.

KPMG has conducted a study for segregation of assets for the year FY 2009-10 and FY 2010-11 using asset-by-asset allocation approach. The report of the study has been attached as **Annexure 8** and the same basis has been adopted by MIAL for segregation of asset in the current Multi Year Tariff Proposal.

In the asset-by-asset segregation approach, the asset base is allocated between Aeronautical and Non-Aeronautical Services based on the usage of the asset by the respective services. In case the assets are jointly required by both services (common assets) they are allocated in proportion to the extent to which those services generate or cause the requirement for the asset. MIAL for the purpose of this filing, has adopted the asset by asset approach where in assets are identified as Aeronautical and Non-Aeronautical based on the provisions of OMDA and in case of common assets they have been allocated based on the approach described below. While the AERA Act defines the Aeronautical Services to include Cargo Handling, the same is explicitly included in Non Aeronautical Services under schedule 6 of OMDA. Therefore, for the purposes of calculating Aeronautical Charges as per SSA, the same has been considered as a Non Aeronautical Service. The assets in the books of MIAL have been created through capital expenditure incurred from the FY2006-07. Most of the assets are clearly identifiable as Aeronautical or Non-Aeronautical. For example, assets on the airside like the runways; parking bays etc. are Aeronautical Assets and the cargo terminal, etc. are Non-Aeronautical Assets. Similarly, on the land side assets like car parking, etc. are clearly identifiable as Non-Aeronautical Assets. The segregation of assets for FY 2009-10 and FY 2010-11 is given below.

Table 3: Segregation of Assets

In Rs. Cr.	**FY 10**	**FY 11**
Aeronautical Assets	1062	1624
Non-Aeronautical Assets	130	141
Common Assets	281	308
Total*	**1473**	**2073**

**Excluding Upfront Fee and Retirement Compensation*

MIAL has five existing Terminals 1A, 1B, 1C, 2B and 2C and one New Common User Terminal is being constructed. In all these terminals, each of the assets has been identified as Aeronautical, Non-Aeronautical or Common Asset. Further, the Common Assets have been segregated into Aeronautical and Non-Aeronautical in proportion to the volume occupied by respective assets for rendering corresponding services. Proportion of volume has been considered as basis of segregation of common assets as the common costs like civil structure, electrical machines & fittings etc. are directly

related to the volume required to be constructed. Accordingly common assets in the existing terminal buildings for FY 2009-10 and FY 2010-11 have been allocated based upon the percentage volume occupied by Aeronautical and Non-Aeronautical Services respectively as follows:

Table 4: Common Fixed Assets (Terminal) Segregation into Aeronautical and Non-Aeronautical

Fixed Asset	Total Value (In Rs. Cr.)	Value of Common Assets (In Rs. Cr.)	Allocation of Common Assets			
			Volume under Aero (%)	Volume under Non- Aero	Aero Assets	Non-Aero Assets
FY 2009-10						
Terminal – 1	9.22	2.40	92%	8%	2.21	0.19
Terminal - 1 & 2	3.78	2.82	89%	11%	2.52	0.30
Terminal - 1A	44.14	30.76	92%	8%	28.26	2.51
Terminal - 1B	76.69	25.67	85%	15%	21.84	3.82
Terminal - 1C	138.73	138.73	98%	2%	135.80	2.93
Terminal – 2	14.69	5.73	85%	15%	4.87	0.85
Terminal - 2B	9.98	7.37	88%	12%	6.47	0.90
Terminal - 2B2C	39.02	32.58	85%	15%	27.72	4.86
Terminal - 2C	126.12	35.19	83%	17%	29.32	5.87
Total	**462.37**	**281.24**			**259.02**	**22.22**
FY 2010-11						
Project Office	31.71	25.28	92%	8%	23.15	2.14
Terminal – 1	9.71	2.87	92%	8%	2.64	0.22
Terminal - 1 & 2	3.45	2.1	89%	11%	1.87	0.23
Terminal - 1A	44.02	30.94	92%	8%	28.42	2.52
Terminal - 1B	77.36	26.11	85%	15%	22.22	3.89
Terminal - 1C	140.04	139.89	98%	2%	136.94	2.95
Terminal – 2	14.21	5.66	85%	15%	4.81	0.84
Terminal - 2B	9.98	7.37	88%	12%	6.47	0.9
Terminal - 2B2C	39.06	32.98	85%	15%	28.06	4.92
Terminal - 2C	129.09	35.18	83%	17%	29.32	5.87
Total	**498.63**	**308.37**			**283.90**	**24.47**

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The Aeronautical and Non-Aeronautical Assets after allocation of the common assets based on the volume ratio is as follows:

Table 5: Aeronautical and Non-Aeronautical Assets after Allocation of Common Assets

In Rs. Cr.	FY 10	FY 11
Aeronautical Assets	1321	1909
Non-Aeronautical Assets	152	164
Total	**1473**	**2073**

Based on the above approach, Aeronautical and Non-Aeronautical Assets have been segregated for this control period. The overall ratio between Aeronautical Assets and Total Assets (i.e. Aeronautical and Non-Aeronautical Assets) has been computed for each year of the control period, which is summarized below:

Table 6: Overall Aeronautical Asset as a % of Total Assets

In %	FY 10	FY 11	FY 12	FY 13	FY 14
Aeronautical Assets as %age of Total Assets	91.25%	92.95%	92.05%	93.98%	95.53%

6.1.3. Book Value of Aeronautical Assets for FY 10 to FY 14

The book value of fixed assets for FY 2009-10 and FY 2010-11 as per MIAL books has been considered to derive value of Aeronautical Assets as explained above.

Since the control period is from FY 2009-10 to FY 2013- 14, the RB for the year FY 2009-10 and FY 2010-11 has been computed based on the actual data and has been projected for the period FY 2011-12 to FY 2013-14 based on the projected Capital Expenditure, capitalizations and depreciation for each of these years.

Further, the Retirement Compensation paid/payable to AAI has also been considered as a part of the RB. Retirement Compensation is being amortized over the balance concession period.

6.1.4. Hypothetical Regulatory Base

As per the Schedule-1 of the SSA, hypothetical regulatory base has to be computed using the then prevailing tariff and revenue, operation and maintenance expenditure and corporate tax pertaining to Aeronautical Services during the financial year preceding the date of such computation.

The control period for this filing is starting from FY 2009-10, thus the hypothetical regulatory base has to be computed as closing value for the year FY 2008-09 based on the specified parameters by solving the equation of Target Revenue for Hypothetical Regulatory Base for the year 2008-09. This has been computed as shown in the table below:

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Table 7: Computation of Hypothetical Regulatory Base

In Rs. Cr.	**FY 09**
Aeronautical Revenue (A)	375
Non-Aeronautical Revenue(B)	563
Operation and Maintenance Expenditure pertaining to Aeronautical Services(C)	311
Tax pertaining to Aeronautical Services (D)	1.6
Weighted Average Cost of Capital - WACC (E)	14.56%
Hypothetical Regulatory Base((A+30%*B-(C+D))/E)	1587

The operation and maintenance expenditure pertaining to Aeronautical services for FY 2008-09 has been determined based on the ratio of various components of operation and maintenance expenditure in FY 2009-10 as per the KPMG study detailed below under Operation and Maintenance Cost .

The Tax for Aeronautical Services has been computed on MAT basis as per the provision of the Income Tax Act, 1961. WACC has been determined based on the actual gearing of 68.17%, pre tax weighted average cost of debt of 10.06% and post tax cost of equity of 24.20%.

6.1.5. Regulatory Base for the Control Period

The Regulatory Base (RB) to be used for computation of the Target Revenue pertains to only Aeronautical Asset. Further, the SSA has defined that the RB for a year during the control period to be determined as follows:

$$RB_i = RB_{i-1} - D_i + I_i$$

RB for any year i (RB_i) will be the sum of the closing value of the RB for the preceding year (RB_{i-1}) and investments undertaken in the current year i (excluding capital works in progress and Upfront Fee) adjusted for the depreciation charged for the current year. Thus the RB for the year i is the closing value of RB for that year. However, MIAL has computed RB for each year as average of opening and closing RB. Further, MIAL has excluded DF funded assets from the RB and has not claimed any depreciation on assets funded through DF assuming that replacement of such assets would be funded through DF.

The closing RB as computed above for FY 2008-09 forms the opening RB for the first year of the control period i.e. FY 2009-10. The Assets capitalized during the year has been added to the opening RB and adjusted for depreciation charged during the year to arrive at closing value of RB for 2009-10. RB for other years of control period has been computed on similar basis. The CWIP not capitalized during the year has not been included. The details of RB for the control period are as follows:

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Table 8: Computation of RB for the control period

In Rs. Cr.	**FY 10**	**FY 11**	**FY 12**	**FY 13**	**FY 14**
	Actual		Projections		
Opening RB	861	1454	1889	2365	3678
Less: Accumulated Depreciation	68	102	127	176	305
Add: Capitalization during the year	661	537	603	1489	3982
Closing RB	1454	1889	2365	3678	7355
Average RB	1157	1671	2127	3021	5516
Hypothetical RB	1587	1587	1587	1587	1587
RB used for computing Target Revenue Requirement	2744	3258	3714	4608	7103

Note: RB excludes Upfront Fee, Non-Aeronautical Asset and DF funded assets

6.2. Means of Finance

The Means of Finance for the Project cost of Rs. 12,380 Crores are considered as follows:

Table 9: Means of Finance

In Rs. Cr.	
Equity	
a. Paid Up Capital	1,200
b. Internal Accruals (Reserves)	1999
c. Real Estate deposits (refundable)	1,000
DF*	3,950
Debt	4,231
Total	**12,380**

*Note: 1) The DF amount is the funding gap after using all other sources of Finance given above.

2) Includes Rs. 637 collected so far. Amount collected is net of collection charges. DF is excluding service tax, if any.

The Operational Capital Expenditure and Retirement Compensation is considered to be funded through Internal Accruals.

6.3. Weighted Average Cost of Capital (WACC)

A fair rate of return would be allowed on the Regulatory Base defined under SSA. This would be a combination of Cost of Equity (Paid up Capital + Reserves +Real Estate Deposits) and Cost of Debt.

$$WACC = g*R_d + (1-g)*R_e$$

Where: g = Weighted Average Gearing for the control period

R_d = Weighted Average Pre-Tax Cost of Debt for the control period

T= Corporate Tax Rate

R_e = Post-Tax Cost of Equity.

6.3.1. Cost of Debt

The weighted average Cost of Debt (Rd) for the control period is 10.65%, computed from the outstanding debt and yearly average cost of debt as given below:

Table 10: Cost of Debt

Particulars	FY 10	FY 11	FY 12	FY 13	FY 14
Outstanding debt - In Rs Cr	2,021	2,947	4,101	4,231	4,231
Cost of Debt - %	9.99%	10.09%	10.23%	10.83%	11.56%

6.3.2. Cost of Equity

The Cost of Equity for CSIA has been taken on the basis of Report prepared by KPMG (attached as **Annexure 9**) wherein Cost of Equity has been computed based on CAPM formula as given below:

Re = Rf + ß * (Rm – Rf)

Where: Rf = the current return on risk-free rate

Rm = the expected average return of the market

(Rm – Rf) = the average risk premium above the risk-free rate that a "market" portfolio of assets is earning

ß = the beta factor, being the measure of the systematic risk of a particular asset relative to the risk of a portfolio of all risky assets

MIAL submits that it is relying on the analysis done by KPMG for Cost of Equity. KPMG has arrived at Cost of Equity of 24.17% for CSIA, which has been considered as 24.2% for WACC calculation. For details, enclosed report of KPMG may kindly be referred. The cost of Equity for CSIA has been worked out as follows:

Table 11: Cost of Equity (Re)

Parameter	Value
Risk free rate - 10 year benchmark government bond yield	8.428%
Beta for Infrastructure companies	1.596
Market risk premium	9.863%
Cost of Equity (Re)	24.2%

6.3.3. Weighted Average Cost of Capital (WACC) Computation

The weighted average Cost of Capital has been computed based on the following formula:

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$WACC = \%D*R_d+\%E*R_e$

Table 12: WACC Computation

In Rs. Cr. & %	FY 10	FY 11	FY 12	FY 13	FY 14
	Actual		Projections		
Total Capital Employed(Net of DF)	3,040	4,363	6,774	8,204	8,640
Outstanding Debt	2,021	2,947	4,101	4,231	4,231
Equity	1,019	1,416	2,673	3,973	4,409
Paid up Capital	600	800	1,000	1,200	1,200
Internal Accruals (Reserves)	419	616	973	1,773	2,209
Real Estate Deposit (refundable)	-	-	700	1,000	1,000
% Debt	66.48%	67.54%	60.53%	51.57%	48.97%
% Equity	33.52%	32.46%	39.47%	48.43%	51.03%
WACC	14.75%	14.67%	15.74%	17.31%	18.01%
Weighted Average Gearing	56.51%				
Weighted Average Equity %	43.49%				
Cost of Debt	9.99%	10.09%	10.23%	10.83%	11.56%
Weighted Average Cost of Debt	10.65%				
Cost of Equity	24.20%				
Weighted Average Cost of Capital	16.54%				

6.4. Operation & Maintenance Cost

The Operation and Maintenance (O&M) cost mainly consists of the employee cost, electricity cost, water and fuel cost, repairs & maintenance costs and other operating costs. The projection of the O&M cost for the control period is based on the cost in the base year i.e. FY 2010-11. However, since CSIA is providing both Aeronautical and Non-Aeronautical Services, the segregation of O&M cost is done based on the study carried out by KPMG for FY 2009-10 and FY 2010-11 (Report of KPMG enclosed as **Annexure 8**).

KPMG's study is based on the cost incurrence. This implies that the costs will be segregated based on whether they are attributable to Aeronautical or Non-Aeronautical Services. However there are a few costs which cannot be directly attributable to Aeronautical or Non-Aeronautical Services and hence considered as common cost, for which the segregation is done based on the methodology as described in the subsequent paragraphs under each sub-head.

Segregation of cost is done in 3 stages:

- Identification of directly attributable cost to Aeronautical services, Non-Aeronautical Services and common cost;

- Segregation of directly attributable cost based on its incurrence; and
- Allocation of common cost based on the methodology discussed in the subsequent paragraphs under each sub-head;

The proportion of Aeronautical cost under various heads of Operation and Maintenance cost to total O&M cost for the period FY 2009-10 to FY 2013-14 is as follows.

Table 13: % of O&M cost as Aeronautical

Cost Item/FY	**FY 10**	**FY 11**	**FY 12**	**FY 13**	**FY 14**
	Actual		Projections		
Employee Cost	86%	82%	82%	82%	82%
Operation Support cost to AAI	100%	0%	0%	0%	0%
Electricity, Water and Fuel Costs (net of recoveries)	100%	99%	99%	99%	99%
Repair & Maintenance Cost	94%	94%	94%	94%	94%
Rents, Rates & Taxes (net of recoveries)	100%	100%	100%	100%	100%
Advertising Cost	99%	99%	99%	99%	99%
Administrative Costs	90%	85%	85%	85%	85%
Airport Operator's Fees	100%	100%	100%	100%	100%
Insurance Cost	91%	91%	91%	91%	91%
Consumables	100%	100%	100%	100%	100%
Other Operating Cost	70%	66%	66%	76%	89%
Working Capital Loan Interest	NA	NA	85%	85%	85%
Financing Charges	90%	85%	85%	85%	85%
Overall % of O&M cost as Aeronautical	87%	80%	87%	88%	91%

The operation and maintenance costs for the years FY 2009-10 and FY 2010-11 have been taken on actual basis and have been projected for future years based on cost drivers such as inflation, increase in asset base, increase in manpower etc. FY 2010-11 is taken as the base year for the purpose of projecting these costs. The inflationary increases have been linked to past 5 year CAGR of Consumer Price Index for Industrial Workers (CPI-IW) as specified in Schedule 1 of SSA, which is 8.94%.

The assumptions and rationale for each cost head projection are described in detail below:

6.4.1. Employees' Cost

The key drivers for employee cost are the number of employees employed for the Aeronautical and Non-Aeronautical Services. The junior and middle level management employees can be clearly identified for providing the Aeronautical and Non-Aeronautical Services. However, the senior management employee cost cannot be directly attributed to either Aeronautical or Non-Aeronautical Services, therefore it has

been allocated based on the proportion of identified Aeronautical and Non-Acronautical costs.

The cost incurred towards employees in a year is determined by the headcount and the applicable compensation. The headcount has been projected in line with the expansion of the airport and increased needs arising out of increasing activities. In addition, the compensation for existing employees is expected to increase by 15% on an average every year. This is based on average annual increment of 6% along with inflationary increase of 8.94% p.a. based on CPI. The annual increase, thus, works out to 15.48%, which has been taken as 15% p.a. To account for increase in existing employee compensation, the Employees Cost incurred in the base year is increased by 15% each year for employees in that year to arrive at the Employees Cost of existing employees for that year.

Average employee cost for FY 2011-12 is considered as the average hiring cost for new employees in FY 2011-12, FY 2012-13 and FY 2013-14, which is then multiplied by number of new employees in each year to arrive at employee cost of new employees. Total employee cost for these three years is then calculated by adding the cost of existing and new employees.

Table 14: Employee Cost for Aeronautical Services

	FY 10	**FY 11**	**FY 12**	**FY 13**	**FY 14**
	Actual		Projections		
Head Count (Nos.)	772	836	960	1,173	1,261
Employee Cost (In Rs. Cr.)	80	84	97	138	167

6.4.2. Electricity Costs

The electricity cost per unit is projected to grow in line with CPI. The consumption is computed based upon additional load factor in future. The recoveries from concessionaires (towards Non-Aeronautical costs) have been deducted from total electricity cost to arrive at net electricity cost for Aeronautical Services.

Also, the impact of previous year's regulatory asset recovery ordered by the Hon'ble Maharashtra Electricity Regulatory Commission ("MERC") is considered in three years beginning December 2011. In addition, MERC has ordered levy of cross-subsidy surcharge (CSS) of Rs. 0.26/unit on electricity consumed via Reliance Infrastructure's (Distribution) network on changeover consumers like MIAL. Since exact implications of these orders are not known at this stage, MIAL requests the Hon'ble Authority to consider true-up of these costs and electricity rates when they are determined by MERC. Relevant extracts of the orders is enclosed as **Annexure 10**. The summary of electricity cost considered is presented below:

Table 15: Electricity Cost

In Rs. Cr.	FY 10	FY 11	FY 12	FY 13	FY 14
	Actual		Projections		
Electricity Cost	54	19	46	78	153

6.4.3. Water & Fuel Cost

Water & Fuel costs per unit are also projected to grow in line with CPI. The projections for consumption for FY 2011-12 to FY 2013-14 are based on actual consumption in FY 11 which is considered constant till New Common User Terminal becomes operational where after increase is based on assessed level of usage. Hence the total cost in a year is estimated by multiplying the projected cost per unit with the projected consumption in that year. The recoveries from concessionaires (towards Non-Aeronautical costs) have been deducted from total water cost to arrive at net water cost for Aeronautical services.

Table 16: Water & Fuel Costs

In Rs. Cr.	FY 10	FY 11	FY 12	FY 13	FY 14
	Actual		Projections		
Water & Fuel Costs	6	3	6	7	9

6.4.4. Repair and Maintenance (R&M) Costs

The Repair and Maintenance Cost is estimated to be 1.25% of the GFA (including DF funded assets) in line with practices in other infrastructure sectors. Average R&M costs as percentage of GFA for FY 2009-10 and FY 2010-11 is 1.33%. However in the future years we have assumed a lower percentage at 1.25% as the GFA would increase rapidly. In addition, major repair costs of the taxiway amounting to Rs 26 Cr. is included in FY 2012-13.

Table 17: R&M Costs

In Rs. Cr.	FY 10	FY 11	FY 12	FY 13	FY 14
	Actual		Projections		
R&M Cost	29	27	40	85	144

6.4.5. Rents, Rates and Taxes

Property Tax

Property tax in the city of Mumbai is to be computed based on the new capital value system. However, as the draft rules for computation of property tax have not yet been finalized by Government of Maharashtra, Property Tax has been considered based upon old system and rates. The Property tax as per new capital value system has been proposed to be levied from 1st April 2010 onwards. The estimated tax liability with the proposed draft rules is likely to increase substantially which will lead to higher aeronautical tariffs at CSIA. However, in view of lack of clarity, no effect of increased property tax (consequent to change over to new capital value system) has been considered in present application. Being a statutory cost, MIAL requests Hon'ble

Authority for truing up of property tax in subsequent years as and when the same is finalized. A copy of the draft rules is enclosed as **Annexure 11**.

Non Agriculture Tax

The Non Agriculture Tax (NA Tax) for FY 12 has been considered based upon demand notice of Rs.61.38 Crore received. For subsequent years, this tax has been considered as Rs.10.23 Crore per annum. As Non Agriculture Tax Rate increase for the period 1st August 2006 to 31st July 2011 is under consideration by Government of Maharashtra (which may increase the liability of NA Tax) and it is again due for revision from 1st August 2011, the impact of the same has not been factored due to non availability of final rates. Being a statutory cost, MIAL requests Hon'ble Authority for truing up of Non agriculture tax in subsequent years as and when the same is finalized.

Rents have been considered at actuals for FY 2009-10 and FY 2010-11 and assumed to grow in line with CPI.

Table 18: Rents, Rates and Taxes

In Rs. Cr.	FY 10	FY 11	FY 12	FY 13	FY 14
	Actual		Projections		
Rents, Rates and Taxes	7	12	74	23	24

6.4.6. Advertising Costs

The advertising costs have been considered to increase in line with the CPI. In addition, cost for the launch of the New Common User Terminal is included in FY 13 and FY 14 as Rs.3 Cr. and Rs. 7 Cr. respectively.

Table 19: Advertising Costs

In Rs. Cr.	FY 10	FY 11	FY 12	FY 13	FY 14
	Actual		Projections		
Advertising Cost	5	6	7	10	15

6.4.7. Administrative Costs

The administrative costs such as travelling and conveyance, legal and professional charge, communication etc. have been considered to increase in line with the CPI. In addition, the following specific costs have been taken into consideration.

- Consultancy cost for Airport Operations Readiness (AOR) amounting to Rs.15 Cr. in FY 12, Rs.35 Cr. in FY 13 and Rs. 20 Cr. in FY 14

Table 20: Administrative Costs

In Rs. Cr.	FY 10	FY 11	FY 12	FY 13	FY 14
	Actual		Projections		
Administrative Costs	32	34	55	79	96

6.4.8. Airport Operator Fee

The fee payable to the airport operator is projected to increase annually at the rate equal to US CPI Inflation (which is assumed at 2.5% p.a.) as per Airport Operator Agreement dated 28.04.2006 between MIAL and ACSA Global Limited (Relevant extract enclosed as **Annexure 12**). This expenditure is projected to continue in FY 14 on the same basis.

Table 21: Airport Operator Fee

In Rs. Cr.	FY 10	FY 11	FY 12	FY 13	FY 14
	Actual		Projections		
Airport Operator Fee	5	5	6	6	6

6.4.9. Insurance Costs

The insurance costs are projected as per the projected value of insurance for various policies. MIAL has two major insurance policies. One is Industrial All Risk Policy covering all fixed assets of MIAL, value of which is expected to increase in line with increase in fixed assets. Another policy is Airport Operator's Liability Policy for third party claims, premium of which is expected to increase in line with CPI.

Table 22: Insurance Costs

In Rs. Cr.	FY 10	FY 11	FY 12	FY 13	FY 14
	Actual		Projections		
Insurance Costs	3	3	3	4	7

6.4.10. Interest on Working Capital and Financial Charges

The interest on working capital has been considered for FY 2011-12 on an amount of Rs. 50 Crore and Rs. 100 Crore for subsequent two years, considering the level of use of Working Capital facilities. Financial charges have been taken on actual basis for FY 2009-10 and 2010-11 and at projected levels based on increased requirements for subsequent years.

6.4.11. Other Operating Costs

Other operating costs have been projected as follows taking into consideration the actual of FY 2010-11 as base:

- **Cleaning Contract** – The cleaning contracts are labour oriented. For the purpose of projection, it has been assumed that the headcount would increase by 10% in FY 2011-12. For the increase in the wages, 4 years CAGR of National Floor Level of minimum wages has been considered. Further, the cost is doubled in FY 2013-14 due to new Common User Terminal.
- **Trolley Contract** – Increased based on passenger growth and 4 years CAGR of National Floor Level of minimum wages.
- **Security Contract** - 15% increase in head count considered in FY 12 over FY 11 due to additional requirements. Head count doubled in FY 14 due to launch of New

Common User Terminal from 1st September 2013. Wages projected to increased based on 4 years CAGR of National Floor Level of minimum wages.

- **Inter-Terminal coaches Contract** - Increased based on 4 additional buses to be included from FY 12 and thereafter increase based on CPI.

- **Other Contracts** - Increased based on 4 years CAGR of National Floor Level of minimum wages

Table 23: Other Operating Costs

In Rs. Cr.	**FY 10**	**FY 11**	**FY 12**	**FY 13**	**FY 14**
	Actual		Projections		
Cleaning Contract	12	13	15	17	56
Trolley Contract	5	5	6	7	8
Security Contract	7	8	10	11	18
Inter-terminal coaches Contract	4	4	6	6	7
Other Contracts	16	20	23	16	11
Other Operating costs	44	50	60	57	100

6.5. Depreciation

As per SSA, rates applicable under Schedule XIV of the Companies Act are to be applied on the value of the assets. Hypothetical Regulatory Base is considered to be Non-depreciable. Accordingly depreciation for Aeronautical Assets is projected to be as under:

Table 24: Depreciation

In Rs. Cr.	**FY 10**	**FY 11**	**FY 12**	**FY 13**	**FY 14**
	Actual		Projection		
Depreciation	68	102	127	176	305

6.6. Tax on Income

The corporate tax for MIAL is the composite tax for all the services provided by MIAL. As per the methodology given in the Schedule 1 of SSA, the tax for Aeronautical services has been computed by grossing up the post tax return after adjusting the difference in depreciation as per Companies Act and Income Tax Act based on the formula given below:

PAT = RB*WACC-Interest Cost

Taxable Income= (PAT + Depreciation as per Companies Act-Depreciation as per Income Tax Act)/(1-Tax rate)

Tax = Taxable Income*Tax Rate

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Accordingly, the tax for Aeronautical Services for each year of the control period has been calculated as follows:

Table 25: Tax on Income

In Rs. Cr.	FY 10	FY 11	FY 12	FY 13	FY 14
Income Tax	179	202	224	283	325

6.7. Revenue from Revenue Share Assets (Si)

The revenues from Revenue Share Assets (RSA) include the revenue from lease rentals, license fees, space rents, various concessions and cargo handling services. Revenues from Fuel Concessions, Ground Handling Concessions and Cargo Handling have been considered as Revenues from Revenue Share Assets. Based on underlying revenue drivers / agreements / contracts, as applicable, the Revenue from Revenue Share Assets has been projected for the control period.

The approach adopted in each case is described in the subsequent sections.

6.7.1. Lease Rentals, License Fee and Space Rent

Lease Rentals, License Fee and Space Rent from land and space is expected to increase at a rate of 7.5% p.a. or as per existing agreement / MoUs.

6.7.2. Lounge Concessions

The usage of lounges depends directly in proportion to the passenger traffic. The revenue per passenger in case of both the international passengers and domestic passengers is expected to grow in line with inflation.

6.7.3. Smoking Lounges Concessions

Revenue of Rs 5 lakhs /month/lounge is considered.

6.7.4. Demurrage

Demurrage projected to reduce gradually expecting importers to clear consignments expeditiously.

6.7.5. Retail Concessions

The revenue from retail stores in the airport is influenced by the locations under retail shops. The retail area is divided between domestic and international terminals. The revenue per square meter is then calculated in the case of both domestic and international terminals separately for FY 11. This is expected to grow in line with inflation. Revenue per square meter so arrived at is multiplied with the projected retail area for each year of the control period, to arrive at the revenue projections for retail concessions.

6.7.6. Food and Beverage (F&B) Concessions

F&B caters primarily to the embarking passengers. Therefore, for the purpose of this projection, the revenue per embarking passenger is expected to grow in line with

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inflation. The revenue per embarking passenger is then multiplied with the total number of projected embarking passengers for that year to arrive at the revenue projections.

6.7.7. Catering Concessions

This is dependent on the embarking passengers. No increase is expected in the revenue per embarking passenger under this head due to intense competition and fall in catering rates. Therefore, the total revenue from catering concessions is expected to increase in line with the growth in embarking passengers.

6.7.8. Forex Concessions

The revenue from foreign exchange concession is directly related to international passenger traffic and projected to grow accordingly.

6.7.9. Automated Teller Machines (ATMs) Concessions

The revenue per ATM is expected to grow in line with contracts. This along with the expected number of ATMs is used to arrive at the projection for revenue from ATMs.

6.7.10. IT and Communication Revenues

This is projected based upon existing contracts. The revenue from communication is reduced in FY 12 based on renegotiated contract. After this, the revenue is expected to remain constant.

6.7.11. CUTE Concession

This revenue is projected based on the contracts and estimated passengers.

6.7.12. Car Rental and Hotel Reservation Concessions

Only the disembarking passengers avail the car rental and hotel reservation facilities. The revenue per disembarking passenger is expected to grow in line with inflation. For the New Common User Terminal, the revenue from the 25 counters is expected to be Rs 3 lakhs per counter per month initially.

6.7.13. Duty Free Concession

Duty free revenue is projected as per existing agreement. Additionally, the increase in revenue from new contracts to be entered into for New Common User Terminal is also considered once it is operational.

6.7.14. Advertising Concession

The revenue per site is projected to increase 10% YoY. Additionally, the revenue from promotional spaces is based on the current revenue generation.

6.7.15. Car Parking Concession

Monthly Minimum Guarantee (MMG) of Rs. 1.15 Crs is expected to continue till FY 2012-13.

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6.7.16. Ground Handling Concessions

Revenues from the Ground Handling Concessions have been considered as per existing agreements with the concessionaires subject to Minimum Annual Guarantee (MAG) or based on revenue share derived from revenue per ATM in FY 11 as the case may be, which is expected to grow annually at the rate of inflation i.e. 8.94% p.a.

6.7.17. Fuel Concession

The revenue from Fuel Concession has been projected based upon growth in ATM alongwith FY 11 rate/KL assumed to increase with WPI as per agreement with the Oil Companies (i.e. 7% for FY 12 and 5% p.a. thereafter). An application dated 28/09/2011 has already been filed before Honorable authority in terms of the order dated 17/08/2011 issued by Honorable AERA Appellate Tribunal for 7% increase in the rate of fuel concession fee loosely worded as Fuel Throughput Charge (FTC) w.e.f. 01/04/2011. Honorable Authority is requested to approve the revision in FTC for FY 12 as per the submissions made in the above letter at the earliest possible without linking the same to approval of MYTP.

6.7.18. Cargo Revenue

Cargo revenue has been projected based on yield per ton for each category of charges in FY 2011. Increase in cargo tariff has been considered in December 2011, April 2012 and April 2013 based on 5 year CAGR of WPI of 6.54%.

The revenues from the following have been appropriately accounted for w.e.f. the probable date of their concession on BOOT basis:

- T1 B and T2 Multi Level Car Parking Concession-from September 2013
- IT, Communication and CUTE-from September 2013
- Cargo International Operations-from October 2012

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Table 26: Rent and Demurrage Revenue

Particulars (In Rs. Cr.)	**FY 10**	**FY 11**	**FY 12**	**FY 13**	**FY 14**
	Actual		Projections		
Lease Rentals, License Fee & Space Rent	50	83	66	74	82
Lounges	20	20	24	29	32
Demurrage	80	138	142	77	23
Total	150	241	232	180	137

Table 27: Concession Revenues

Particulars (In Rs. Cr.)	**FY 10**	**FY 11**	**FY 12**	**FY 13**	**FY 14**
	Actual		Projections		
Retail	11	25	29	34	62
F&B	22	26	30	34	39
Catering	11	16	17	18	19
Foreign exchange and ATMs	23	27	28	29	31
IT, Communication and CUTE	21	38	35	36	24
Car Rentals & Hotel Reservation	5	7	8	9	16
Duty Free	61	46	37	41	69
Advertising	36	46	51	56	66
Car Parking	13	12	13	14	8
Ground Handling	27	39	49	44	45
Fuel concession	73	80	90	97	105
Others	8	7	9	10	11
Total	311	369	396	422	495

The Summary of the Actual and Projected Revenues from Revenue Share Assets for the control period is as follows:

Table 28: Total Revenues from Revenue Share Assets (RSA)

Particulars (In Rs. Cr.)	**FY 10**	**FY 11**	**FY 12**	**FY 13**	**FY 14**
	Actual		Projections		
Rent and Demurrage Revenue	150	241	232	180	137
Concession Revenues	311	369	396	422	495
Cargo Revenue	121	154	165	115	55
Total Revenue from RSA	582	764	793	717	687
30% of Revenue form RSA	175	229	238	215	206

7. Summary of the Target Revenue

Based on the above computation the Target Revenue for the control period has been computed and the same has been summarized below:

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Table 29: Summary of Target Revenue

In Rs. Cr.	FY 10	FY 11	FY 12	FY 13	FY 14
Target Revenue Computation					
	Actual		Projections		
Regulatory Base*	2744	3258	3714	4608	7103
WACC	16.54%	16.54%	16.54%	16.54%	16.54%
Return on Regulatory Base	454	539	614	762	1174
Operation & Maintenance cost	256	213	357	451	676
Depreciation	68	102	127	176	305
Corporate Tax	179	202	224	283	325
Subtotal	957	1056	1322	1672	2480
Less: 30% of Revenue from Revenue Share Assets	175	229	238	215	206
Target Revenue	**782**	**827**	**1084**	**1457**	**2274**

(*) *Net of Upfront Fees, DF funded assets and Non-Aeronautical Assets.*

8. Passenger Traffic and Air Traffic Movements (ATMs) Projection

Chhatrapati Shivaji International Airport (CSIA) is amongst the busiest airports in India which saw a passenger traffic of 29.07 million in FY 10-11. Currently, 37 international carriers and 7 domestic carriers connect to 44 international destinations and 43 domestic destinations from CSIA.

A detailed report on the traffic forecast has been prepared for CSIA by its Statistical Department which is enclosed as **Annexure 13** to provide an estimate of future demand for air traffic at CSIA from FY 2011-12 to FY 2013-14.

Forecast of traffic, both passengers and cargo, is solely based on possibility of increase in ATMs and increase in load factor. Because of capacity constraints, MIAL so far is refusing slots to domestic airlines in each slot allocation meeting. Higher number of ATMs cannot be achieved, unless slots can be given to airlines, especially domestic airlines, though there is a possibility of higher load factor.

Immediate constraint in capacity is increasing number of ATMs during peak hours. It may be noted that peak hour currently itself is for a period of 18 hours. Balance hours are such that there is no demand from domestic airlines. Even for international operations, this lean period is not preferable, and there is no demand, not only for passengers but also for freighters.

Only way to achieve traffic of 40 million is by increasing ATMs, increase in aircraft size and substantial increase in load factor. However, load factor above 90% has not been considered as practically, load factor above 90% throughout the year is not achievable. Secondly, with 100% load factor, there will be corresponding drop in cargo volumes.

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Though MIAL has engaged M/s. NATS, UK to increase airside capacity, it is a long drawn process and requires change in practices by ATC, DGCA and airlines. Some infrastructural requirements are also there which are being taken care of by MIAL. However, as stated above, there is no certainty about when results will start flowing in. At present, ATC has imposed a limit of 36 hourly ATMs, (which effectively works out to 34.81 ATMS per hour during peak hours, after considering historical rate of cancellation of 3.3%). Even if there is improvement by implementing NATS report, any relaxation in limit of 36 hourly ATMS will be granted by MoCA / ATC only once the same is stabilized. In view of this, during the current control period, it is appropriate not to consider any increase in hourly ATMs.

Based on the report enclosed as **Annexure 13**, traffic forecast for FY 12, FY 13 and FY 14 is as follows:

Table 30: ATM Forecasts

In 000 ATM & % Growth	FY 11	FY 12	FY 13	FY 14
	Actual	Projections		
Pax ATM Domestic	171	180	186	191
Growth		5.50%	3.31%	2.40%
Pax ATM International	64	67	69	71
Growth		4.57%	3.46%	2.96%
Freighter Domestic	3	3	3	3
Freighter International	5	5	5	5
Total	**243**	**255**	**263**	**270**
Growth		**5.07%**	**3.24%**	**2.47%**

Table 31: Passenger Forecasts

In Mn Passengers & % Growth	FY 11	FY 12	FY 13	FY 14
	Actual	Projections		
Domestic	20.00	21.78	23.24	24.57
Growth	15.10%	8.93%	6.68%	5.73%
International	9.07	9.49	9.81	10.10
Growth	10.22%	4.53%	3.42%	2.92%
Total	**29.07**	**31.27**	**33.05**	**34.67**
Growth	**13.53%**	**7.56%**	**5.69%**	**4.90%**

9. Cargo Forecast

Cargo infrastructure at CSIA is highly constrained. All out efforts are being made to improve overall efficiency to improve service levels. Since there will not be any marked increase in full freighters since slots are not available during desired time and with increase in load factor of passengers, there will be adverse impact on tonnage of belly cargo. Accordingly, growth in cargo volume is considered at 2% as a result of improvement in efficiency and any slot allocation for full freighters during lean period.

Cargo tonnage to be handled by MIAL / concessionaire during FY 12, FY 13 and FY 14 is as follows:

Table32: Cargo Forecasts

(000 MT)	FY 10	FY 11	FY 12	FY 13	FY 14
	Actuals		Projections		
Total Cargo	250	340	347	354	361

10. Determination of Escalation Factor

The escalation factor (CPI-X) for tariff increase is to be calculated by solving the equation given in the SSA. CPI is to be based on average for annual inflation rate as measured by change in the All India CPI (Industrial Workers) over the regulatory period. Thus, while determining X factor and maximum average Aeronautical charge at the beginning of first regulatory period, the value of CPI would be an assumed value, which would need to be corrected annually for actual value for each year while keeping the value of X same as determined earlier. As two and a half years of regulatory period have already elapsed, MIAL has assumed a one time tariff increase to be effective from 01/12/2011 for the remaining control period. The required increase at Proposed Tariff hike is presented in the Table below:

Table33: Target Revenue and Proposed Tariff Hikes

In Rs. Cr.	FY 10	FY 11	FY 12	FY 13	FY 14
Target Revenue	782	827	1084	1457	2274
Proposed Tariff hike (w.e.f. 01.12.2011)			448%		
Revenue at Proposed Tariff (FY 10 and FY 11 Actuals)	403	406	1067	2438	2518

11. Average Aeronautical Charges (Price Cap) projection

The summary of average landing, housing and parking charges for the control period is summarized below:

Table34:Average Aeronautical Charges Projections

	Tariff Year1	Tariff Year2	Tariff Year3	Tariff Year4	Tariff Year5
Landing (in INR per arriving ATM)					
Domestic	14,336	14,243	78,078	78,078	78,078
International	50,751	51,358	281,538	281,538	281,538
Parking (in INR per departing ATM)					
Domestic	997	908	4,980	4,980	4,980
International	2,448	906	4,968	4,968	4,968
Passenger Service Fee (in INR per embarking Passenger)					
Facilitation Component	77	76	415	415	415

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12. Development Fee (DF)

Application of MIAL for Development Fee (DF) of Rs. 2,366 crores to fund the gap in means of finance is under consideration of the Hon'ble Authority. As far as funding gap in means of finance is concerned, there is no change in status to increase equity amount, further debt or any increase in deposit against real estate development. Because of finalization of project cost, after relocation of Chhatrapati Shivaji Maharaj statue, considering increase in IDC, pre-operative expenses, escalations, contingency and change in scope / variation in estimates, project cost is Rs. 12,380 crores as against Rs. 10,453 crores envisaged while making DF application. Details about increase in project cost are as per **Annexure 7**.

In spite of increase in internal accruals from Rs. 1,021 crores to Rs. 1.999 crores based on MYTP, net funding gap has increased by Rs. 947 crores (considering DF collection upto 26th April 2011 which is Rs. 2 crores more than that assumed in our earlier application). As already stated, there is no change in status as far as bringing further funds is concerned by way of debt, equity and deposits, this gap needs to be funded through additional DF of Rs. 947 crores. Hence, requirement of DF has gone up from Rs. 2,366 crores to Rs. 3,313 crores.

After relocation of Chhatrapati Shivaji Maharaj statue, project work is going ahead on full swing, resulting in accelerated funds requirement. With balance debt to be drawn shortly, there will be no funds available beyond 31st December 2011 to implement the project. It necessitates levy and collection of DF at CSIA as soon as possible, but at least by 1st December 2011.

As MYTP has to pass through a normal process of scrutiny, consultation and finalization, it is desirable that DF as requested in application under consideration of Hon'ble Authority is finalised at the earliest.

Increased requirement of DF with increase in project cost after considering increased internal accruals can be looked into by the Hon'ble Authority and suitable orders may kindly be passed at that juncture. This will go a long way in implementation of this essential infrastructure development for the city of Mumbai. Any delay will result in heavy congestion and may bring down the service levels at airport which is not desirable. In near future, there is no alternate to CSIA is available. Hence, CSIA needs to be developed as soon as possible.

Amount of DF of Rs. 3,313 crores is proposed to be collected at the rate of Rs. 200 per departing domestic passenger and Rs. 2,107 per departing international passenger (excluding service tax, if any). However, this amount will vary depending upon period for which DF for pending application is allowed to be levied and collected, which is Rs. 200 per departing domestic and Rs. 1,300 per departing international passenger respectively, so as to levy and collect total amount of Rs. 3,313 crores by 31st August 2014.

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13. Prayers

In view of the foregoing submissions MIAL prays before Honorable Authority:

a) Pending finalization of MYTP, to approve levy and collection of DF as per pending application of MIAL at the rate of Rs. 200 per departing domestic passenger and Rs. 1,300 per departing international passenger, plus service tax, if applicable.

b) To consider and approve the proposed Target Revenue for the control period FY 10 to FY 14 by approving the proposed one time hike in Tariff.

c) To approve DF for Rs. 3,313 crores less DF levied and collected against Prayer (a).

For Mumbai International Airport Pvt. Ltd.

MUMBAI INTERNATIONAL AIRPORT PVT. LTD. Mumbai 400099.

(R. K. Jain)
Chief Executive Officer