

Ref: KIAL/CFO/38/2022-23

Date: 27 March 2023

The Chairperson,  
Airports Economic Regulatory Authority of India (AERA),  
AERA Building,  
New Administrative Complex,  
Safdarjung Airport,  
New Delhi- 110 003

Sub: Re-submission of Multi Year Tariff Proposal (MYTP) for the second control period (FY 2024-2028)

Ref: 1) KIAL/CFO/18/2022-23 dated 27 October 2022  
2) KIAL/CFO/33/2022-23 dated 22 February 2023  
3) AERA Order No.41/2022-23 dated 22 March 2023

Dear Sir,

This is in reference to Airports Economic Regulatory Authority of India (Terms and Conditions for Determination of Tariff for Airport Operators) Guidelines, 2011. As per the directions by the Authority, Kannur International Airport Limited (KIAL) had submitted the MYTP for the 2<sup>nd</sup> control period (FY 2024-2028) *vide* letter cited in (1) above.

In response to above submission, the authority had appointed a third-party consultant to review and provide comments on the MYTP submitted by the Company. The MYTP is under scrutiny by AERA Consultant since the submission.

After considering the feedback received from the third party consultant's analysis on the initial MYTP submission in October 2022 and further to the Company's internal review we perceive that certain pertinent elements which are critical to the operations of the airport must be incorporated/amended on our MYTP proposal. These changes/additions are critical and need to be considered to have a complete understanding of the financial situation of the Company while tariff for the next control period is determined. Hence, it is requested to consider the following changes/improvements as part of KIAL's revised MYTP submission:

1. Update of FY 22 actual figures as per the audited financial statements.
2. Reclassification of certain assets such as ATC into Aeronautical asset.
3. Update of employee head count projections in the second control period as per KIAL policy.
4. Addition of financing allowance to the tune of INR 372.54 Crore on capital expenditure incurred during the construction period.

(1)



(cont'd...2)

**Kannur International Airport Limited**  
CIN:U63033KL2009PLC025103

5. Changes in CNS-ATM cost as per Greenfield airport CNS-ATM agreement.
6. Addition of claim of expenditure bill amounting to INR 20.14 Crore in FY 23, raised in the name of KIAL by the CNS-ATM service provider for procurement and installation of CNS-ATM equipment.  
[These are under negotiations and KIAL has considered the amount for calculations as interim. As we get confirmation from CNS-ATM service provider for non-applicability of these charges, the same can be re-evaluated during the true-up for third control period].
7. Additional capital expenditure to the tune of INR 65.10 Crore during the second control period.
8. Change of area allotted to aeronautical operations from 590.5 Acre to 631.4 Acre.
9. Addition of CISF induction fee paid in FY 2019.
10. Addition of land lease expenditure.
11. Addition of marketing cost in the second control period.

Since the above changes would result in changes in ARR, the MYTP for the second control period is resubmitted with changes incorporated in the business plan as required.

While we completely understand the extent of additional efforts that will be required by the Authority and the third-party consultant to review the updated MYTP for the changes incorporated, it is imperative that we need to consider all the updated and recently available information to plan the financial future of the critical asset under consideration.

We humbly request the Authority to consider the resubmitted proposal which includes:

1. MYTP document
2. Business plan
3. MYTP forms

Further, it may please be noted that the Company has a huge debt servicing obligations which commenced from 1 January 2023. While the ARR is fairly large for the large asset base, levying a high tariff to recover the ARR will result in losing the competitive edge of the Airport in view of the limited airline operations and absence of 'Point of Call' in Kannur Airport. Hence, the airport envisages a tariff increase of 25% over the existing tariff with a 5% increase YoY even though Kannur Airport is entitled for a much higher tariff based on the ARR and for the deficit carried forward from previous control period. Considering the huge debt servicing obligations for FY 2023-24 we had requested for an interim tariff as per our letter cited in (2) above until determination of tariff to cover the financing costs. However, the Authority had allowed to extend the existing tariff for six months until 30 September 2023 or determination of regular tariff, whichever is earlier.

(2)

(cont'd....3)

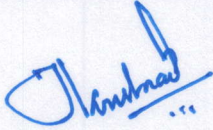
**KANNUR INTERNATIONAL AIRPORT LIMITED**  
CIN: U63033KL2009SGC025103

We request the Authority to accelerate the evaluation process of the proposal submitted in October 2022, issue the Consultation Paper in April 2023, conduct stakeholder consultations and issue the Tariff Order for the second control period in June 2023 on high priority. If the tariff order is not received by 30 June 2023, the Airport ability to generate cash flows required for servicing the debt will be jeopardized considering the critical cash flow situation of Kannur Airport and ongoing final stages of negotiation with lenders for debt refinancing/restructuring. It would be necessary to levy the new tariffs by 1 July 2023 (start of Quarter 2) of FY 23-24 to generate cash flows to service the debt and without turning the asset into a Non Performing Asset as per RBI Guidelines. Hence, we request the Authority to consider the above request favourably.

We also request the Authority to ensure complete confidentiality of the submitted information as part of the MYTP proposal.

Thanking you in anticipation,

Yours truly,  
For KANNUR INTERNATIONAL AIRPORT LIMITED



JAYAKRISHNAN S  
*Chief Financial Officer*

Encl: MYTP Document, Business plan and MYTP Forms

(3)

KANNUR INTERNATIONAL AIRPORT LIMITED  
CIN: U63033KL2009SGC025103



# Kannur International Airport Limited

Multi Year Tariff Proposal (MYTP)  
for second control period (FY 2024- 2028)

March 2023

# Table of Contents

List of Tables .....	4
Introduction.....	6
Background .....	7
True Up of First Control period (FY 2019- FY 2023) .....	10
A. Traffic.....	10
Passenger Traffic.....	10
Air traffic movements .....	10
B. Opening Regulatory Asset Base (RAB).....	11
C. Capital Additions in the first control period.....	11
D. Depreciation .....	14
E. Regulatory Asset Base for first control period.....	16
F. Return on Land.....	17
G. Fair rate of return .....	18
Equity .....	18
Debt.....	19
Calculation of Fair Rate of Return (FRoR).....	19
H. Operations and Maintenance Expenditure .....	19
I. Non-aeronautical revenues .....	23
J. Tax on Income.....	24
K. Aeronautical revenue.....	24
L. Aggregate revenue requirement (ARR) .....	25
Projections for Second Control Period (FY2024- FY2028) .....	27
A. Traffic.....	27
Passenger traffic.....	27
Air traffic movements (ATMs).....	28
Air cargo .....	28
B. Capital Expenditure .....	29
C. Depreciation .....	32
D. Regulatory Asset Base (RAB) for the second control period .....	33
E. Fair Rate of Return (FRoR).....	34
Debt.....	34
Equity .....	34

Weighted average gearing.....	35
Calculation of Fair Rate of Return (FRoR).....	35
F. Return on Land.....	36
G. Operations and maintenance cost.....	36
Employee cost.....	38
Airport operating expense.....	39
H. Non-aeronautical revenue.....	40
I. Tax on income.....	42
J. Aggregate revenue requirement.....	42

## List of Tables

Table 1: List of shareholders as per Audited 2021 Annual Report.....	7
Table 2: Technical specifications of Kannur Airport .....	7
Table 3: Impact of COVID-19 on passenger traffic and revenue.....	8
Table 4: AERA approved passenger traffic Vs. Actual Passenger traffic for first control period.....	10
Table 5: AERA approved ATMs Vs. Actual ATMs for first control period.....	11
Table 6: AERA approved capital additions for first control period.....	11
Table 7: Actual capital additions for the first control period as per KIAL.....	11
Table 8: AERA approved CAPEX Vs. Actual CAPEX as per KIAL .....	13
Table 9: Percentage of aero allocation.....	13
Table 10: Basis for segregation of assets.....	14
Table 11: Useful Life adopted by KIAL for calculation of depreciation.....	14
Table 12: Total Depreciation as per KIAL .....	15
Table 13: Aeronautical depreciation as per KIAL.....	15
Table 14: AERA approved aeronautical depreciation vs actual aeronautical depreciation as per KIAL .....	16
Table 15: Regulated asset Base for first control period as per KIAL .....	16
Table 16: AERA approved RAB vs. Actual RAB.....	17
Table 17: Computation of return on land for second control period .....	18
Table 18: Actual Equity vs. AERA approved Equity for first control period .....	18
Table 19: Actual Debt and cost of debt and AERA approved Debt for first control period.....	19
Table 20: Calculation of Free Rate of Return (FRoR).....	19
Table 21: Basis of segregation of O&M costs .....	20
Table 22: Proportion of Aero Expenses.....	20
Table 23: Aeronautical expenses for True up .....	21
Table 24: Comparison on Aero Expense for true up Vs. AERA approved Aero expense .....	22
Table 25: Non aeronautical revenues considered by KIAL for true up .....	23
Table 26: Comparison of Non-aeronautical revenue approved AERA and considered by KIAL for true up .....	23
Table 27: Aeronautical revenue for KIAL in the first control period.....	24
Table 28: ARR and short fall computation for the first control period.....	25
Table 29: Passenger traffic projection for KIAL during the second control period .....	27
Table 30: ATM projection for KIAL during the second control period .....	28
Table 31: Historical cargo traffic at KIAL .....	28
Table 32: Cargo traffic projection for KIAL .....	29
Table 34: Summary of capital expenditure for the second control period.....	31
Table 35: Useful life used for the calculation of depreciation.....	33
Table 36: Aeronautical depreciation of assets for the second control period .....	33
Table 37: Computation of RAB for the second control period.....	34
Table 38: Average Debt for calculation of FRoR in second control period .....	34
Table 39: Computation of average equity for the second control period.....	35
Table 40: Computation of weighted gearing ratio .....	35
Table 41: Fair rate of return for the second control period.....	35
Table 42: Computation of return on land for second control period .....	36
Table 43: Basis of segregation for the second control period.....	37
Table 44: Proportion of aero expenses for second control period .....	38
Table 45: Number of Aeronautical and Non-Aeronautical employees at KIAL for the second control period .....	38
Table 46: Employee cost for the second control period .....	39
Table 47: Airport operating expenses .....	39
Table 48: Other aeronautical expenses .....	40
Table 49: Total Aeronautical expenses for second control period.....	40

Table 50: Forecasting methodology for non-aero revenues .....	41
Table 51: Non-Aeronautical revenue forecast for the second control period .....	42
Table 52: Computation of Aeronautical tax for second control period .....	42
Table 53: WPI inflation assumed for the second control period .....	42
Table 54: Computation of ARR for the second control period.....	43



# Introduction

Kannur International Airport Limited (also referred as “KIAL”) is one of the major airport operators notified by Airports Economic Regulatory Authority of India (“AERA” or “Authority”) under the provisions of the AERA Act 2008. Pursuant to AERA Act 2008, AERA issued guidelines for the purpose of determination of aeronautical tariffs for major airports through its orders<sup>1</sup> (“Guidelines”) which are applicable to:

- Airport Operators
- Service providers for cargo, ground handling, and supply of fuel

KIAL had submitted Multi Year Tariff Proposal (MYTP) for the first control period from FY 2018 to FY 2023. AERA issued the order for first control period on 9 November 2018.

KIAL had submitted the Multi Year Tariff Proposal (MYTP) for the second control period from FY 2024 to FY 2028 *vide* letter KIAL/CFO/19/2022-23. In response, the authority had appointed a third-party consultant to scrutinize KIAL’s MYTP proposal submission. At the time of submission, the audit of financial statements for FY 2022 were not completed. Therefore, KIAL had used provisional/projected figures from FY22-FY23 for the true up of first control period. However, the same was completed in December 2022 and during the review of MYTP the authority and the AERA appointed third-party consultant have requested to update the actual numbers for FY22 as per the audited financial statements and resubmit the MYTP tariff filling report. In addition to above, KIAL has also made below additions/changes as per the recent developments, discussions with AERA consultants and actual figures.

In light of above, KIAL is now re-submitting the MYTP for the second control period from FY 2024 to FY 2028 with the following changes:

1. Update of FY 22 actual figures as per the audited financial statements.
2. Reclassification of certain assets such as ATC\* into Aero, details of which has been provided in the detailed fixed asset register.
3. Update of the employee head count projections in the second control period as per KIAL policy
4. Addition of financing allowance to the tune of INR 372.54 Crore on capital expenditure incurred during the construction period
5. Changes in CNS-ATM cost as per greenfield airport CNS-ATM agreement
6. Addition of claim of expenditure bill\*\* amounting to INR 20.14 Crore in FY 23, raised in the name of KIAL by the CNS-ATM service provider for procurement and installation of CNS-ATM equipment
7. Additional capital expenditure to the tune of INR 65.1 Crore (Details given in the capital expenditure for second control period section) during the second control period.
8. Change of area allotted to aeronautical operations from 590.5 Acre to 631.4 Acre.
9. Addition of CISF induction fee in FY 2019.
10. Addition of land lease expenditure.
11. Addition of Marketing cost in the second control period which was approved by AERA for KIAL in its first control period but was unused due to impact of pandemic.

\*Note: Further details of bifurcation of capex associated with ATC can be provided upon request

\*\* These are under negotiations and KIAL has considered the amount for calculations as interim. As we get confirmation from CNS-ATM service provider for non-applicability of these charges, the same can be re-evaluated during the true-up for third control period.

<sup>1</sup> Airports Economic Regulatory Authority of India “Terms and Conditions for Determination of Tariff for Airport Operators” – Guidelines, Feb 2011; Airports Economic Regulatory Authority of India (Terms and Conditions for Determination of Tariff for Services Provided for Cargo Facility, Ground Handling and Supply of Fuel to the Aircraft) Guidelines, January 2011

## Background

Kannur International Airport Limited (KIAL) was incorporated as a Public Limited Company on 3 December 2009 with the objective of building, owning, and operating the Kannur International Airport. It is the second Greenfield Airport in Kerala set up under the Public Private Partnership (PPP) model. The Kannur Airport is located close to Mattannur in Kannur district of Kerala. The airport commenced its operations in December 2018. The airport caters primarily to the catchment of Kannur, Wayanad, Kasaragod and northern Calicut district.

The shareholding pattern of equity investors in the airport is shown in the table below:

*Table 1: List of shareholders as per Audited 2021 Annual Report*

Equity investor	% Share
Government of Kerala (GoK)	39.23%
Qualified institutional investors, individuals, co-operative banks/ societies/ commercial banks and other legal entities	37.1%
Bharat Petroleum Corporation Limited (BPCL)	16.2%
Airports Authority of India	7.47%

KIAL initially acquired 1,192.18 acres of land at a value of ~INR 316 crores for development of phase 1 of the airport from the GoK through Kerala Industrial Infrastructure Development Corporation (KINFRA), the nodal agency for land acquisition appointed by the Government. This investment has been treated as equity from the GoK.

Kannur International Airport is designed for capacity to handle more than 9.34 million passengers per annum hence is a major airport. KIAL has one of the best advanced infrastructures both technically and aesthetically. Following is the summary of technical details of the airport:

*Table 2: Technical specifications of Kannur Airport*

Technical specifications
<b>Total area of Integrated Terminal Building:</b> 96,143 Sqm.
<b>Capacity:</b> 9.34 million passenger per annum
<b>Peak hour passenger capacity:</b> 2000
<b>Check in counters:</b> Domestic-30 and International- 30
<b>Immigration counters:</b> Arrival- 16 & Departure-16
<b>ARFF:</b> Two category 9 fire stations
<b>Navigation:</b> ILS Category 1, DVOR, Automatic Dependent Surveillance Broadcast
<b>Aircraft Handling:</b> Airport Code 4E with orientation 07/25
<b>Runway Physical length:</b> 3050 Meters extendable upto 4000 meters
<b>Number of parking bays:</b> 14 out of which 6 are Multiple Aircraft Ramp System. Can accommodate 20 Code C aircraft at a time
<b>Number of boarding bridges:</b> 6

After the commencement of operations in December 2019, KIAL was able to have only one year of uninterrupted operations i.e., FY 2020 which was the first year of operations for KIAL. In this year, KIAL handled 1.59 million passengers out of which, 0.81 million are international and 0.77

million are domestic passengers. It handled a total of 15,131 aircraft movements out of which 5,389 aircraft movements were international and the remaining were domestic. The cargo operations at the airport commenced in October 2021 with the airport handling 99.1 MT in October 2021 and 342.5 in June 2022.

By the end of FY 2020, the airport was impacted by COVID-19 Global pandemic which led to severe travel restrictions and decline in traffic and revenues for KIAL. KIAL similar to other airports across the Globe is recovering from impact of COVID-19.

### **Impact of COVID-19 on KIAL**

COVID-19 has caused severe disruption and an unprecedented crisis in the aviation industry as most countries have travel advisories or outright bans in place to restrict the spread of the virus. The virus impacted the entire nation through multiple severe infection waves which were unprecedented. Air travel in the country was entirely disrupted impacting carriers and airports equally.

Due to this major disruption Kannur Airport was only operational for a year before the airline operations were grounded. This severely impacted the passenger and airline traffic at Kannur and subsequently the revenue and cashflow. The impact of COVID-19 on Kannur airport was more severe when compared to other established airports since it had just begun its operations only in FY2020. Many of the routes with strong demand potential witnessed a sharp drop in passenger traffic before the route stabilized and became mature. The impact on passenger traffic is summarized below:

*Table 3: Impact of COVID-19 on passenger traffic and revenue*

<b>Items</b>	<b>FY2020</b>	<b>FY2021</b>	<b>% Change (FY2021 Vs. FY2020)</b>
<b>Passenger traffic (In Numbers)</b>			
Domestic Passengers	7,77,660	1,84,990	-76%
International Passengers	8,05,940	2,96,094	-63%
<b>Revenue Heads (in Lakhs)</b>			
Aeronautical operations	11,589.80	4,477.06	-61%
Non-Aeronautical operations and other income	185.57	550.93	197%

However, despite these uncertainties Kannur airport has demonstrated its potential through its passenger traffic numbers in the first year of operations and post pandemic recovery trends. The airport carried 1.59 million passengers in its first full year of operations indicating strong demand potential. In addition to this, the airport was connected to majority of domestic and international destinations that were connected by other established competing airports in the vicinity. Moreover, the airport has registered strong recovery trends by registering 97% recovery in international passenger traffic in the month of December'22 thereby indicating strong demand potential. Notwithstanding the recovery in traffic, the steep dip in traffic, revenues and cash flows has severely impacted the profitability of the airport and returns to shareholders.

KIAL would humbly request AERA to consider the above-mentioned points and the severe and

unparalleled impact of COVID-19 on Kannur airport while issuing the tariff order for second control period.

**Section 1:**  
**True-up of first control period (FY2019-FY2023)**

## True Up of First Control period (FY 2019- FY 2023)

### A. Traffic

#### *Passenger Traffic*

The total passenger traffic at Kannur Airport in FY 2020 was 1.59 million. The passenger traffic numbers in the first control period are summarized in the table below:

Table 4: AERA approved passenger traffic Vs. Actual Passenger traffic for first control period

In Million FY	Domestic		International		Total	
	AERA Approved	Actual Numbers	AERA Approved	Actual Numbers	AERA Approved	Actual Numbers
2019 <sup>+</sup>	0.14	0.13	1.47	0.09	1.61	0.22
2020	0.16	0.78	1.65	0.81	1.81	1.59
2021	0.18	0.18	1.85	0.29	2.03	0.47
2022	0.2	0.28	2.06	0.52	2.26	0.8
2023*	0.22	0.6	2.29	0.75	2.51	1.35

\*Forecasted

+operations started only in December 2018

KIAL started its operations in December 2018. Hence there were only four full months of operations in FY 2019. In the first full year of operation i.e., FY 2020, the airport had good domestic as well as international traffic. The airport registered higher domestic traffic than it was projected in FY 2020. This indicates a stronger domestic demand potential than what was expected from the catchment. On the other hand, the international traffic was lesser than what was projected in FY2020. However, the overall traffic was seen to be close to the projected figures of FY 2020.

In addition to the above, Kannur airport does not have Point of Call (PoC) status which would enable it to handle international airline operators. Given the dominant international passenger traffic demand in KIAL's catchment, not having the PoC status has been a major factor that prevented the airport to achieve its full potential.

Following the first year of complete operation, the airport was severely impacted by COVID-19 with passengers traffic dropping by 70% in FY 2021 over FY2020.

#### *Air traffic movements*

The following table shows the comparison between AERA approved numbers and actual ATMs for the first control period:

Table 5: AERA approved ATMs Vs. Actual ATMs for first control period

(In Numbers)	Domestic		International		Total	
	AERA Approved	Actual Numbers	AERA Approved	Actual Numbers	AERA Approved	Actual Numbers
2019 <sup>+</sup>	2,015	1,467	13,372	578	15,387	2,045
2020	2,246	9,742	14,746	5,389	16,992	15,131
2021	2,481	3,985	16,139	2,321	18,620	6,306
2022	2,737	5,674	17,637	4,136	20,374	9,810
2023*	3,014	6,533	19,251	5,933	22,265	12,466

\*Forecasted

+operations started only in December 2018

In the first year of operation, in addition to the operations of smaller aircrafts on RCS routes, the airport witnessed significant domestic and international aircraft movements. Due to COVID-19 impact, the ATMs dropped by 58% in FY 2021 over the previous financial year.

## B. Opening Regulatory Asset Base (RAB)

The actual opening RAB of FY 2018-19 is considered as INR 1 Cr. for the calculation of true-up.

## C. Capital Additions in the first control period

KIAL had incurred major capital expenditure in the first control period which included land development, passenger terminal building construction, construction of ancillary buildings, runways, aprons, etc.

Following is the summary of capital additions to RAB approved by AERA in the first control period order.

Table 6: AERA approved capital additions for first control period

Asset Head (In cr.)	FY19	FY20	FY21	FY22	FY23
Land	-	-	-	-	-
Buildings and civil work	957.45	-	-	-	-
Plant & Machinery	479.02	-	-	-	-
Runway, road & culverts	355.49	-	-	-	-
<b>Total</b>	<b>1791.96</b>	-	-	-	-

Following are the actual capital additions to RAB considered by KIAL for true up.

Table 7: Actual capital additions for the first control period as per KIAL

Asset Head# (in Cr.)	FY19	FY20	FY21	FY22	FY23*
Free Hold Land (Land development cost)	331.0	2.2	0.1	-	-
Lease Hold Land	51.2	0.4	-	-	-
Pavements	265.6	20.6	-	-	-

Asset Head# (in Cr.)	FY19	FY20	FY21	FY22	FY23*
Buildings, Roads, Bridges, drains & Culverts	655.3	7.6	8.1	1.9	32.2
Fire Department Equipment	31.9	(0.0)	0.4	-	-
Plant & Equipment	22.4	0.0	0.7	0.0	20.14
Furniture & fittings	8.8	0.4	0.2	0.2	-
Vehicles	-	-	-	0.3	-
Computers & Accessories	0.3	0.0	0.0	0.2	-
Office Equipment	0.4	-	0.0	-	-
Electrical Equipment	279.7	6.0	5.1	0.4	-
Intangible asset	0.2	0.1	0.1	0.2	-
Financing Allowance	363.6				
<b>Total</b>	<b>2010.4</b>	<b>37.4</b>	<b>14.69</b>	<b>3.2</b>	<b>52.3</b>

#Difference is due to rounding off

\*Forecasted

Capital additions of INR 331 Crore under free hold land signifies the land development cost incurred by KIAL for development of aeronautical asset in the free hold land. Therefore, as per clause 4.1.6 in AERA Order No. 42/2018-19, the same has been considered for the calculation of RAB.

Construction of the integrated cargo complex and office building are underway at Kannur airport. The total project cost for the cargo terminal is estimated to be INR 52.6 Crore. An amount of INR 22.3 Crore is under Capital Work in Progress (CWIP) for the same as on FY22. KIAL had received a grant of INR 20 Crore as part of Trade and Infrastructure Scheme (TIES) for the construction of cargo complex. Out of the total grant of INR 20 Crore, KIAL has received INR 10 Crore as on date. The remaining INR 10 Crore is assumed to be transferred to KIAL in FY23. The entire grant has been adjusted in the total capital expenditure incurred for cargo complex and the same has not been considered for the calculation of RAB. After adjusting for the grant, the remaining CWIP is expected to be capitalized in FY 23, i.e., INR 32.2 Crore.

*KIAL has considered a sum of INR 20.14 Crore as per the details of the bill raised by the ANS service provider dated 20<sup>th</sup> January 2023. The amount pertains to the cost of procurement and installation of ANS equipment. However, these are under negotiations and KIAL has considered the amount for calculations as interim. As we get confirmation from CNS-ATM service provider for non-applicability of these charges, the same can be re-evaluated during the true-up for third control period.*

KIAL has also calculated the financing allowance in accordance with clause 5.2.7 in the terms and conditions for determination of tariff for airport operators guidelines, 2011. As per clause 5.2.7 the financing allowance is calculated as follows:

$$\text{Financing allowance} = R_d * (WIP_{t-1} + \frac{\text{Capex} - \text{SC} - \text{CA}}{2})$$

where,

$R_d$  is cost of debt

SC- Capital receipts

CA- Commissioned assets

$WIP_{t-1}$ - Work in progress assets at the end of tariff year t-1



As per the above guidelines KIAL estimates the financing allowance to be INR 363.6 Crore to be added to the RAB in the year FY2019.

**The total capex approved by AERA and actually undertaken in the first control period is summarized in the below table:**

*Table 8: AERA approved CAPEX Vs. Actual CAPEX as per KIAL*

Particulars# (In INR cr.)	FY19	FY20	FY21	FY22	FY23*	Total Capex in first control period
Approved by AERA (A)	1791.96					<b>1791.96</b>
Capex considered for true up by KIAL as per actuals (B)	2,010.40	37.4	14.7	3.1	52.3	<b>2,117.90</b>
<b>Difference (A-B)</b>	<b>-218.44</b>	<b>-37.40</b>	<b>-14.70</b>	<b>-3.10</b>	<b>-52.30</b>	<b>-325.94</b>

#Difference is due to rounding off

\*Forecasted

For the first control period, AERA had approved a bifurcation of 95:5 for allocation of assets into aeronautical and non-aeronautical assets. For true up KIAL has bifurcated the assets bottom up using the audited fixed asset registers till FY 2022. Following is the bifurcation used for true up:

*Table 9: Percentage of aero allocation*

Asset Head	Aero allocation ratio for the first control period
Free Hold Land (Land Development cost)	100%
Lease Hold Land (Land Development cost)	100%
Pavements	100%
Buildings, Roads, Bridges, drains & Culverts	96%
Fire Department Equipment	100%
Plant & Equipment	99%
Furniture & fittings	96%
Vehicles	100%
Computers & Accessories	100%
Office Equipment	100%
Electrical Equipment	96%
Intangible asset	100%

The approach followed by KIAL for segregation of assets capitalized in the first control period is as follows:

Table 10: Basis for segregation of assets

Asset Head	Basis for segregation
Free Hold Land	Cost of land is not considered for the calculation of RAB and is taken as a separate line item for the calculation of ARR as per AERA Order 42/2018-19 dated 5 <sup>th</sup> March 2019. As per the same order mentioned above the land development cost incurred is considered for calculation of the RAB
Lease Hold Land	Land development cost for lease hold land has been considered as an aeronautical asset
Pavements	Pavements have been considered as aeronautical asset
Buildings, Roads, Bridges, drains & Culverts	Existing runway, roads and culverts have been considered as aeronautical assets except for roads comprising connected roads and car park area.
Fire Department Equipment	These assets have been divided into aeronautical, non-aeronautical and common assets based on usage of each asset.
Plant & Equipment	
Furniture & fittings	
Vehicles	
Computers & Accessories	
Office Equipment	
Electrical Equipment	
Intangible asset	

## D. Depreciation

For the assets capitalized from FY 2019 till FY 2022, the depreciation for the year in which the assets will be capitalized, is calculated based on the actual date of capitalization. The useful life adopted by KIAL to calculate the depreciation is based on the AERA guidelines as per the order no. 35/2017-18 as shown below:

Table 11: Useful Life adopted by KIAL for calculation of depreciation

Description of the asset	Useful life (in Years)
Terminal Building	30
Building In Operational Area	30
Utility Building	30
Roads, Roads in operational area, Boundary wall and Security fencing	10
Baggage Handling System/ Escalators/ Elevators/ HVAC Equipment	15
X-Ray Machine, RT set, DFMD, HHMD Security Equipment	15
Office Equipment	5
Furniture & Fixtures - Other than trolleys	7
Furniture & Fixtures - Trolleys	3
Computers - End User Devices	3
Electrical Installation and Equipment including Runway lighting system	10
Flight Information System, AOCC Equipment	6
Light Motor Vehicles	8

Crash Fire Tenders, Other Fire Equipment including pumps and sprinklers	15
Intangible assets - Computer Software	3
Runway, Taxiway, Apron	30

The total depreciation for the first control period is given below:

Table 12: Total Depreciation as per KIAL

Asset Head# (in INR Cr.)	FY19	FY20	FY21	FY22	FY23*
Free Hold Land	0.0	0.0	0.0	0.0	0.0
Lease Hold Land	0.3	0.9	0.9	0.9	0.9
Pavements	2.6	9.3	9.1	9.1	9.1
Buildings, Roads, Bridges, drains & Culverts	8.4	27.9	27.8	28.0	27.9
Fire Department Equipment	0.6	2.0	2.0	2.1	2.0
Plant & Equipment	0.6	1.8	1.8	1.8	1.8
Furniture & fittings	0.5	1.4	1.4	1.4	1.5
Vehicles	0.0	0.0	0.0	0.0	0.1
Computers & Accessories	0.1	0.1	0.1	0.1	0.2
Office Equipment	0.1	0.1	0.1	0.1	0.1
Electrical Equipment	7.7	25.2	25.4	25.7	25.1
Intangible asset	0.0	0.1	0.1	0.1	0.1
Financing Allowance	-	14.9	14.9	14.9	14.9
<b>Total</b>	<b>20.9</b>	<b>83.7</b>	<b>83.6</b>	<b>84.1</b>	<b>83.5</b>

#Difference is due to rounding off

\*Forecasted

The aeronautical depreciation considered for the calculation of true-up of first control period is summarized below:

Table 13: Aeronautical depreciation as per KIAL

Asset Head# (in INR Cr.)	FY19	FY20	FY21	FY22	FY23*
Free Hold Land (Land development cost)	0.0	11.0	11.1	11.1	11.1
Lease Hold Land (Land development cost)	0.3	0.9	0.9	0.9	0.9
Pavements	2.6	9.3	9.1	9.1	9.1
Buildings, Roads, Bridges, drains & Culverts	8.0	26.6	26.5	26.7	26.7
Fire Department Equipment	0.6	2.0	2.0	2.1	2.0
Plant & Equipment	0.5	1.8	1.8	1.8	1.8
Furniture & fittings	0.4	1.4	1.4	1.4	1.4
Vehicles	0.0	0.0	0.0	0.0	0.1
Computers & Accessories	0.1	0.1	0.1	0.1	0.2
Office Equipment	0.1	0.1	0.1	0.1	0.1
Electrical Equipment	7.4	24.2	24.4	24.6	24.3
Intangible asset	0.0	0.1	0.1	0.1	0.1
Financing allowance	-	14.5	14.5	14.5	14.5

<b>Total</b>	<b>20.1</b>	<b>91.9</b>	<b>91.9</b>	<b>92.4</b>	<b>92.2</b>
--------------	-------------	-------------	-------------	-------------	-------------

#Difference is due to rounding off

\*Forecasted

Comparison between the aero depreciation approved by AERA and actual aero depreciation of KIAL for the first control period is given in the table below:

Table 14: AERA approved aeronautical depreciation vs actual aeronautical depreciation as per KIAL

<b>Asset Head (in INR Cr.)</b>	<b>Approved by AERA</b>	<b>Actual depreciation</b>
Free Hold Land		44.3
Lease Hold Land		3.9
Pavements		39.2
Buildings, Roads, Bridges, drains & Culverts	125.11	114.5
Fire Department Equipment		8.7
Plant & Equipment	143.64	7.7
Furniture & fittings		6
Vehicles		0.1
Computers & Accessories		0.6
Office Equipment		0.5
Electrical Equipment		104.9
Intangible asset		0.4
Financing allowance		58
<b>Total Depreciation</b>	<b>268.8</b>	<b>388.8</b>

#Difference due to rounding off

## E. Regulatory Asset Base for first control period

The assets capitalized during the first control period have been added to the opening RAB and adjusted for depreciation during the year to arrive at the closing RAB. The average of closing and opening RAB has been considered for computation of true-up.

As per AERA Order No. 42/ 2018-19, the cost of levelling and land development has been included as part of RAB during computation of true up. The actual RAB for the first control period is summarized in the table below:

Table 15: Regulated asset Base for first control period as per KIAL

<b>Particulars# (in INR cr.)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23*</b>
Opening RAB	1	1,991	1,936	1,859	1,770
Add: Capitalization during the year	2,010	37	15	3	52
Less: Depreciation during year	20	92	92	92	92
<b>Closing RAB</b>	<b>1,991</b>	<b>1,936</b>	<b>1,859</b>	<b>1,770</b>	<b>1,730</b>
<b>Average RAB</b>	<b>1,991</b>	<b>1,963.6</b>	<b>1,897.7</b>	<b>1,814.4</b>	<b>1,749.8</b>

#Difference is due to rounding off

\*Forecasted

The average RAB approved by AERA for first control period and the RAB considered by KIAL for true up has been compared in the below table:

Table 16: AERA approved RAB vs. Actual RAB

Particulars# (in INR cr.)	FY19	FY20	FY21	FY22	FY23*
<b>Average RAB by KIAL</b>	<b>1,991</b>	<b>1,963.6</b>	<b>1,897.7</b>	<b>1,814.4</b>	<b>1,749.8</b>
Average RAB approved by AERA	881.1	1732.3	1672.6	1612.8	1553.1
<b>Difference</b>	<b>1,110</b>	<b>231</b>	<b>225</b>	<b>202</b>	<b>197</b>

#Difference is due to rounding off

\*Forecasted

\*\*Average RAB is assumed to be equal to closing RAB in FY19.

## F. Return on Land

As per the first control period order for KIAL, decision on return on land to KIAL was proposed post completion of the study undertaken by AERA in this matter.

AERA in its Order No. 42/2018–19 released on 5<sup>th</sup> March 2019 has laid down the mechanism for calculation of return on land to be provided on cost of land. As per the order, the following decisions are applicable to KIAL for the second control period:

- I. The return will be given only on the cost of land used for aeronautical activities.
- II. The land held as equity by the government may be dealt with the same manner as proposed for purchase of land by the airport operating company
- III. In case land is purchased by the airport operating company either from private parties or from the government, the compensation shall be in the form of equated annual installments computed at actual cost of debt or SBI Base rate plus 2% whichever is lower over a period of thirty years. The equated annual installment is calculated as per the following formula:

$$\text{Equated Annual Installment} = [\text{Cost} \times \text{Rate} \times (1+\text{Rate}) ^ 30] / [(1+\text{Rate}) ^ 30 - 1]$$

where,

Cost: Actual Cost of Land

Rate: Actual cost of debt or SBI Base Rate plus 2% whichever is lower

KIAL proposes to consider this return on land from FY2019 during the calculation of true up. At present, 631.4 acres of land out of the total land of 1192.18 acres have been utilized for the aeronautical purposes. The land acquisition cost for the total land cost of 1192.18 acres is INR 316 Crore. The land cost corresponding to the airport project is therefore considered to be INR 156 Crore and the same has been used to calculate the return on land as shown below.

Table 17: Computation of return on land for second control period

Particulars# (in INR cr.)	FY19**	FY20	FY21	FY22	FY23*
Land Cost	167	167	167	167	167
Aero Ratio (%)	94.5%	94.5%	94.5%	94.5%	94.5%
Aero Land	158.1	158.1	158.1	158.1	158.1
Yearly cost of debt (%)	9.30%	9.30%	9.31%	9.36%	9.39%
Return on land cost	4.8	15.8	15.8	15.9	15.9
<b>Total Return on Land for the control period</b>	<b>68.3</b>				

#Difference is due to rounding off

\*Forecasted

\*\*Operations started in December 2018

## G. Fair rate of return

Fair Rate of Return (FRoR) has been calculated as per the tariff guidelines. The computation of FroR has been done as below:

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

where: g = Weighted Average Gearing for the control period

R<sub>d</sub> = Weighted Average Pre-Tax Cost of Debt for the control period

T = Corporate Tax Rate

R<sub>e</sub> = Post-Tax Cost of Equity.

### Equity

The computation of equity for the first control period is shown in the table below:

Table 18: Actual Equity vs. AERA approved Equity for first control period

Equity# (in INR cr.)	FY19	FY20	FY21	FY22	FY23*
Share Capital (A)	1161	1338	1338	1338	1338
Equity used for operational expenditure			61.6	61.6	61.6
Addition					22.4
Equity considered for calculation of FRoR	1,161	1,338	1,277	1,277	1,299
<b>Average Equity</b>	<b>1,161</b>	<b>1,249</b>	<b>1,307</b>	<b>1,277</b>	<b>1,288</b>
<b>AERA approved numbers</b>	<b>979.57</b>	<b>998.92</b>	<b>998.92</b>	<b>998.92</b>	<b>998.92</b>
<b>Difference</b>	<b>181</b>	<b>250</b>	<b>308</b>	<b>278</b>	<b>289.1</b>

#Difference is due to rounding off

\*Forecasted

KIAL has utilized a portion of equity to the tune of INR 61.6 Crore for meeting the revenue expenses in FY 21. The same has been removed during the calculation of the FRoR to avoid double counting and will be considered in the expenditure section.

KIAL expects an equity infusion of INR 22.4 Crore in FY 23 with the aim of improving the cash

position and enable the serviceability of debt.

### **Debt**

KIAL had raised debt from the banks in the form of term loan to fund its capital expenditure. However due to impact on cash flow due to COVID-19, KIAL had to raise additional debt in the form of Funded Interest Term Loan (FITL) to meet the finance costs.

The weighted average cost of debt (Rd) for the second control period is computed from the outstanding debt and yearly actual cost of debt as given below:

*Table 19: Actual Debt and cost of debt and AERA approved Debt for first control period*

<b>Debt# (in INR cr.)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23*</b>
Cost of debt (%)	9.3%	9.3%	9.3%	9.4%	9.4%
Total closing debt	884	896	952	1,036	1,222
<b>Average debt</b>	<b>884</b>	<b>890</b>	<b>924</b>	<b>994</b>	<b>1,129</b>
<b>AERA approved</b>	<b>990</b>	<b>1200</b>	<b>1172.73</b>	<b>1090.91</b>	<b>981.82</b>
<b>Difference</b>	<b>-106</b>	<b>-310</b>	<b>-248.73</b>	<b>-96.91</b>	<b>147.18</b>

#Difference is due to rounding off

\*Forecasted

### **Calculation of Fair Rate of Return (FRoR)**

Basis the above factors, the FRoR for the first Control period is computed below:

*Table 20: Calculation of Free Rate of Return (FRoR)*

<b>Particulars</b>	<b>Details (%)</b>
Weighted Average Gearing including security deposit (D/D+E)	43.3%
Share of Equity	56.7%
Weighted average cost of debt and security deposit	9.3%
Cost of Equity as approved in the first control period	16%
<b>FRoR calculated by KIAL</b>	<b>13.10%</b>
FRoR approved by AERA	13.06%

## **H. Operations and Maintenance Expenditure**

The Operation and Maintenance (O&M) cost mainly consists of the employee costs, repairs & maintenance cost, utilities costs, other operational expenditure costs, administration and other expenses.

The basis of allocation of O&M expense is given below:

Table 21: Basis of segregation of O&M costs

O&M expense head	Basis for segregation of O&M cost
Employee cost	Employees have been bifurcated into aeronautical, non-aeronautical and common employees. Common employees include employees in MD's office, Finance and HR department.  Total employee cost has been segregated into aeronautical and non-aeronautical in the proportion of number of employees providing aeronautical and non-aeronautical services.
Administration and General costs	Admin expenses have been segregated into aeronautical and non-aeronautical in the proportion of number of employees providing aeronautical and non-aeronautical services.
Power, water and fuel charges	The power and water charges have been considered as per actuals.
Repair and maintenance costs	Repair and maintenance costs except for CUTE operational expenses have been bifurcated based on the ratio of aeronautical and non-aeronautical terminal floor area allocation.
Security	Expenses have been segregated in the proportion of number of employees providing aeronautical and non-aeronautical services.
Vehicle expenses	Expenses have been segregated in the proportion of number of employees providing aeronautical and non-aeronautical services.
Housekeeping	Expenses have been bifurcated based on the ratio of aeronautical and non-aeronautical terminal floor area allocation.
Other operational expenses	These expenses pertain to miscellaneous expenses. Expenses have been segregated in the proportion of number of employees providing aeronautical and non-aeronautical services.
Custom cost recovery charges, Aviation MET charges, CNS-ATM charges, etc.	Considered to be aeronautical expenses.
CISF Induction fee	KIAL has borne the cost of induction of CISF to the airport. Considered to be aeronautical expenses
Cargo handling O&M Expense	Considered to be aeronautical expenses.

The proportion of aeronautical operational expenditure for the true-up of first control period is shown below

Table 22: Proportion of Aero Expenses

Particulars (in %)	FY19	FY20	FY21	FY22	FY23*
<b>Employee cost</b>	98.4%	96.6%	95.0%	94.8%	93.33%
<b>Airport operating expenses</b>					
Repair and Maintenance expenses	94.5%	94.5%	94.5%	94.5%	94.5%
Security	98.4%	96.6%	95.0%	94.8%	93.33%
Power and Fuel	94.5%	94.5%	94.5%	94.5%	94.5%



Particulars (in %)	FY19	FY20	FY21	FY22	FY23*
Operations & Maintenance Expenses	94.5%	94.5%	94.5%	94.5%	94.5%
Other utility expenses	94.5%	94.5%	94.5%	94.5%	94.5%
House Keeping	94.5%	94.5%	94.5%	94.5%	94.5%
Other operational expenses	98.4%	96.6%	95.0%	94.8%	93.33%
Customs Cost Recovery Charges	100%	100%	100%	100%	100%
Aviation Meteorological Support Services	100%	100%	100%	100%	100%
Communication, Navigation and Surveillance and Air Traffic Management Services	100%	100%	100%	100%	100%
CISF Induction Fee	100%	-	-	-	-
Trolley Retrieval Services	100%	100%	100%	100%	100%
Insurance	94.5%	94.5%	94.5%	94.5%	94.5%
Other expenses					
Cargo related expenditure	100%	100%	100%	100%	100%
Administrative expenses	98.4%	96.6%	95.0%	94.8%	93.33%

Other minor general expenses have been also bifurcated on the basis of employee ratio, terminal area.

\*Forecasted

Summary of aeronautical operational expenditure for true up calculation is as follows:

Table 23: Aeronautical expenses for True up

Particulars# (in INR Crore)	FY19	FY20	FY21	FY22	FY23*
<b>Employee cost</b>	7.3	11.1	11.0	11.4	10.6
<b>Airport operating expenses</b>					
Repair and Maintenance expenses	1.2	2.4	2.4	1.8	1.5
Security	-	0.4	0.4	0.5	0.5
Power and Fuel	3.3	11.9	8.7	9.2	12.3
Operations & Maintenance Expenses	1.3	4.6	5.9	8.0	9.8
Other utility expenses	0.3	0.5	0.3	0.4	0.6
House Keeping	3.1	9.0	8.4	9.1	10.5
Other operational expenses	0.2	0.1	0.2	0.3	0.1
Customs Cost Recovery Charges	2.5	8.6	8.8	10.8	10.8
Aviation Meteorological Support Services	0.2	1.0	1.1	1.2	1.2
Communication, Navigation and Surveillance and Air Traffic Management Services	1.3	6.8	6.2	1.8	3.3
CISF Induction fee	9.8				
Trolley Retrieval Services	-	0.5	0.5	0.3	0.4
Insurance	0.2	0.7	1.0	1.3	1.3
<b>ORAT &amp; airport Inauguration expenses</b>	13.2				
<b>Other expenses</b>					
Cargo related expenses				0.2	0.4
Administrative expenses	0.4	0.2	0.1	0.1	0.1
Others	7.3	4.0	3.6	3.8	5.2
<b>Total Operational expenditure</b>	<b>51.6</b>	<b>61.8</b>	<b>58.6</b>	<b>60.0</b>	<b>68.5</b>

#Difference is due to rounding off

\*Forecasted

The actual operational expenditure considered by KIAL for computation of true up and the AERA approved O&M expense as per the first control period is as shown below:

Table 24: Comparison on Aero Expense for true up Vs. AERA approved Aero expense

O&M Expense# (INR Crore)	FY19	FY20	FY21	FY22	FY23*
Actual O&M considered by KIAL	51.6	61.8	58.6	60.0	68.5
<b>AERA approved</b>	<b>11.64</b>	<b>49.61</b>	<b>52.07</b>	<b>54.69</b>	<b>57.48</b>
<b>Difference</b>	<b>39.96</b>	<b>12.19</b>	<b>6.53</b>	<b>5.31</b>	<b>11.02</b>

#Difference is due to rounding off

\*Forecasted

## I. Non-aeronautical revenues

Non-aeronautical revenue majorly comprises of following components:

1. Lease rental/Monthly license fee
2. Revenue share from concessionaire
3. Monthly guarantee fee
4. Common area maintenance charges

KIAL has excluded rentals from cargo, fuel and ground handling agencies from the nonaeronautical revenue calculation.

Non-aeronautical revenues considered by KIAL for the true up computation are as follows:

Table 25: Non aeronautical revenues considered by KIAL for true up

Particulars# (in INR Crore)	FY19	FY20	FY21	FY22	FY23*
Monthly license fee	0.35	1.12	1.18	1.85	2.45
Space Rental Charges	0.46	2.68	1.71	2.97	3.35
Pre-Booked Taxi Collection - Agency	0.00	0.00	0.60	0.30	0.51
Utility Charges	0.10	1.12	0.57	0.79	0.87
Sale of Visitors Entry Pass	0.50	0.62	0.03	0.06	0.06
Monthly Guarantee Fee	2.13	8.44	0.95	0.04	0.75
Revenue Share from Concessionaire	0.81	2.81	0.83	11.54	6.06
CAM Charges	0.20	2.27	0.51	0.39	0.47
Car Parking Revenue Share	0.41	1.48	0.23	0.50	0.85
Car Parking Toll Collection	0.00	0.00	0.00	0.47	0.80
Fuel Throughput royalty	0.65	3.76	-	-	-
Other income including interest income	4.10	2.60	6.80	6.00	6.34
<b>Total Non-aeronautical revenue</b>	<b>9.71</b>	<b>26.89</b>	<b>13.40</b>	<b>24.91</b>	<b>22.50</b>

#Difference is due to rounding off

\*Forecasted

The actual non-aeronautical revenue considered by KIAL for computation of true up and the AERA approved non-aeronautical revenue as per the first control period is as shown below:

Table 26: Comparison of Non-aeronautical revenue approved AERA and considered by KIAL for true up

Non-Aeronautical revenue # (INR Crore)	FY19	FY20	FY21	FY22	FY23*
Actual Non aero revenue considered by KIAL	9.71	26.89	13.40	24.91	22.50
AERA approved	8.16	19.57	23.41	27.85	33.11
<b>Difference</b>	<b>1.55</b>	<b>7.32</b>	<b>-10.01</b>	<b>-2.94</b>	<b>-10.61</b>

## J. Tax on Income

The airport has recorded losses during the first control period. Therefore, tax on income has been considered as INR 0 during FY2019- FY2023 for the purpose of computation of true up.

## K. Aeronautical revenue

Following components have been considered as aeronautical revenues to the airport:

1. Landing revenues
2. Parking revenues
3. UDF revenues
4. Passenger service fees
5. Inline X-ray baggage revenues
6. CUTE/ CUSS/ BRS revenues
7. Aerobridge revenues
8. Ground handling revenues
9. Cargo concession revenues
10. Rentals from cargo, ground handling and fuel.

Table 27: Aeronautical revenue for KIAL in the first control period

Aeronautical revenue# (INR Crore)	FY19	FY20	FY21	FY22	FY23*
Landing revenues	1.63	10.93	5.11	8.27	13.89
Parking revenues	0.38	1.79	4.23	4.22	1.48
UDF revenues	3.54	51.24	14.67	29.46	49.85
Passenger service fees	-	-	-	-	-
Inline X-ray baggage revenues	0.95	8.26	2.82	4.83	6.81
TNLC Collection	0.52	3.89	1.58	2.26	2.87
CUTE/ CUSS/ BRS revenues	0.25	1.86	0.55	1.04	1.60
Aerobridge revenues	0.41	2.52	1.04	1.68	2.08
Ground handling revenues	1.08	6.11	2.52	2.12	3.60
Cargo concession revenues	-	0.03	0.09	0.90	2.69
License Fee for Unpaved Land-BKFFPL	0.64	4.24	4.24	4.24	1.50
<b>Total Aeronautical revenue - Aero charges</b>	<b>9.4</b>	<b>90.9</b>	<b>36.9</b>	<b>59.0</b>	<b>86.4</b>

#Difference is due to rounding off

\*Forecasted

## L. Aggregate revenue requirement (ARR)

Basis the above building blocks, the ARR computed for the first control period is as follows:

Table 28: ARR and short fall computation for the first control period

ARR computation# (in INR cr.)	FY19**	FY20	FY21	FY22	FY23*
Average RAB	1990.9	1963.6	1897.7	1814.4	1749.8
FRoR	13.1%	13.1%	13.1%	13.1%	13.1%
Return on RAB	80.0	257.1	248.5	237.6	229.1
Return on Land	4.8	15.8	15.8	15.9	15.9
Depreciation	20.1	91.9	91.9	92.4	92.2
Operational expenditure	51.6	61.8	58.6	60.0	68.5
Tax	-	-	-	-	-
Non aeronautical revenues	9.7	26.9	13.4	24.9	22.5
Less: 30% of non-aero revenues	2.9	8.1	4.0	7.5	6.7
<b>ARR</b>	<b>153.6</b>	<b>418.6</b>	<b>410.8</b>	<b>398.5</b>	<b>399.0</b>
<b>Aero Revenues adjusted for discounts</b>	<b>9.4</b>	<b>90.9</b>	<b>36.9</b>	<b>59.0</b>	<b>86.4</b>
<b>Over-recovery/ (Shortfall)</b>	<b>(144.2)</b>	<b>(327.7)</b>	<b>(373.9)</b>	<b>(339.5)</b>	<b>(312.6)</b>
<b>PV of Over-recovery/ (Shortfall) (as on March 31, 2023)</b>	<b>(245.1)</b>	<b>(536.2)</b>	<b>(540.9)</b>	<b>(434.2)</b>	<b>(353.5)</b>
<b>Total shortfall of First control period (as on 31 March 2023)</b>	<b>(2109.9)</b>				

#Difference is due to rounding off

\*Forecasted

\*\*Operations started in December 2018. Numbers have been prorated accordingly

Shortfall of INR 2109.9 Crore as on 31 March 2023 is carried forward to the second control period.

## **Section 2: Projections for second control period (FY24-28)**

## Projections for Second Control Period (FY2024- FY2028)

### A. Traffic

#### *Passenger traffic*

Passenger traffic (both international and domestic) has plummeted during FY2021 and FY2022 due to worldwide spread of this pandemic and its impact on the aviation value chain. Domestic operations were suspended on 25<sup>th</sup> March 2020. International flight operations were suspended in India from 23<sup>rd</sup> March 2020. Subsequent operations were restricted due to capacity restrictions and bubble agreements on international sectors.

However, as per the trends in recent months, the traffic numbers are seen to be recovering at an overall level. The international passenger traffic at KIAL for the month of December'22 have nearly reached (~97% recovery) the pre pandemic levels traffic levels in December'19. The domestic traffic has, however, not recovered due to capacity not being fully deployed by carriers at the airport.

In recent months, KIAL management has pursued aggressive route development initiatives which is expected to improve connectivity to existing and new destinations and upgrading of aircraft on certain routes. KIAL has been in discussions with the airlines to deploy capacity at Kannur. As part of KIAL's route development initiatives following actions have already been taken up by the airlines:

1. Upgraded aircraft (A320) by Indigo in CNN-BLR route
2. Start of operations in CNN-BOM route by Indigo
3. Start of operations in CNN-AUH route by Indigo
4. Start of operations in CNN-AUH route by Air India
5. Start operations in CNN-DXB route by Air India Express
6. Scheduled operations in CNN-JED route by Air India Express

There is significant untapped potential in KIAL's catchment. KIAL's route development initiatives are expected to facilitate airlines to tap into this potential and result in faster traffic growth in the coming years.

It is expected that the overall passenger traffic numbers at KIAL shall recover to 84% of traffic registered in FY 2020 by the end of FY 2023. The projected passenger traffic at KIAL for the period FY 2024 – FY 2028 is shown below:

*Table 29: Passenger traffic projection for KIAL during the second control period*

Passenger Traffic (in mppa)	FY24	FY25	FY26	FY27	FY28
Domestic	0.86	1.06	1.24	1.38	1.51
International	1.02	1.14	1.22	1.30	1.38

Passenger Traffic (in mppa)	FY24	FY25	FY26	FY27	FY28
<b>Total</b>	<b>1.88</b>	<b>2.19</b>	<b>2.46</b>	<b>2.67</b>	<b>2.89</b>

### *Air traffic movements (ATMs)*

The projected ATMs at KIAL for the period FY2024-FY2028 is as shown below:

*Table 30: ATM projection for KIAL during the second control period*

ATM (in Nos.)	FY24	FY25	FY26	FY27	FY28
Domestic	9,697	11,529	13,526	14,654	16,041
International	8,559	9,415	9,398	9,247	9,852
<b>Total</b>	<b>18,256</b>	<b>20,944</b>	<b>22,924</b>	<b>23,901</b>	<b>25,893</b>

### *Air cargo*

Air cargo operations at KIAL started in October 2021. International import operations did not start until May'22. In FY2023, Kannur International Airport has handled cumulative cargo throughput of ~2870 tonnes till December 2022. Table 2 shows the month- wise cargo throughput of the airport. It is observed that, out of the total cargo, ~99% constitutes international exports

*Table 31: Historical cargo traffic at KIAL*

Cargo traffic (in MT)	Apr '22	May '22	Jun '22	Jul '22	Aug '22	Sep '22	Oct '22	Nov '22	Dec '22
<b>International cargo</b>	299	3340	339	373	418	366	302	198	236
<b>Domestic cargo</b>	5.0	4.0	4.0	3.0	6.0	8.0	8.0	9.0	7.0
<b>Total cargo</b>	<b>304</b>	<b>3344</b>	<b>343</b>	<b>376</b>	<b>424</b>	<b>374</b>	<b>310</b>	<b>207</b>	<b>243</b>

The catchment area of Kannur airport encompasses following cargo clusters:

- Export quality perishables production near Theni, Cumbum in Tamil Nadu
- Export quality perishables production near Coorg and Wayanad
- Textile manufacturing hub of Tamil Nadu

The projected cargo traffic for the next control period is as shown below:



Table 32: Cargo traffic projection for KIAL

Cargo traffic (in MT)	FY24	FY25	FY26	FY27	FY28
Domestic	128	137	147	157	168
International	5,369	5,985	6,643	7,345	8,252
<b>Total</b>	<b>5,497</b>	<b>6,122</b>	<b>6,790</b>	<b>7,502</b>	<b>8,420</b>

## B. Capital Expenditure

In light of the impact due to the COVID-19 pandemic, KIAL has taken necessary steps, in consultation with relevant stakeholders, to minimize the capital expenditure in the next control period. KIAL does not expect any significant capital expenditure in the second control period other than the inevitable mandatory expenditures related to ensure the safety and security standards of the airport. Details of key expenditure is as follows:

### *Runway approach lights*

CAT-I runway approach lighting system shall be installed by KIAL in FY25. The necessity for upgradation on runway approach lighting system is mainly aimed at providing seamless landing at Kannur airport even in adverse weather conditions. In addition, such landing systems are also demanded by wide body aircraft, which is expected to operate in KIAL from FY25 as per the traffic projection, for seamless and safe landing.

### *Software and systems:*

With higher traffic growth expected in the future year, KIAL must integrate technological advancements into its day-to-day operations. As part of initiatives to digitalize processes and provide superior passenger experience, KIAL has planned to undertake the following projects in the second control period:

1. ERP Software Development & Implementation: Currently there is no software which centrally carry out activities such as accounting, billing, and invoicing, payroll etc. Such activities are done manually. With increased traffic expected, ERP system is necessary to simplify the recording, storing, managing, and interpreting of business data at Kannur Airport. This will enable consistent and quality data across the organization.
2. AODB Software Development & Implementation: KIAL is in the process of implementing the RESA airport operating data base system. It is an automated and integrated software solution critical for airport management. This shall enable KIAL to digitize aero billing and manage airport operations. Currently the aero billing activities are done manually. However, with increased ATMs in the second control period, manual billing won't be feasible. Therefore, an ADB software is required to ensure efficient operations.
3. Website & Mobile App re-designing- The existing website of Kannur airport is outdated and no updates have been carried out yet. KIAL is planning to redesign the website using newer technology and software.
4. E-boarding software: As per the order issued by BCAS, AVEC order no.05/2020, KIAL is required to install E-boarding software at the airport to ensure seamless operation and safety.

5. CBT software for ASTI: KIAL has built an airport security training institute for training personnel in airport security. However, the training program has not been initiated due to non availability of computer based training software. Therefore, KIAL is planning to procure the software for the same in the second control period.
6. DigiYatra initiative: Ministry of Civil Aviation (MoCA) has initiated DIGI-YATRA to provide a paperless and hassle-free journey to all passengers. The program also aims to enhance the security of travel through Biometric-based passenger authentication. In August 2018, MoCA published the Digi-Yatra policy document covering guidelines for implementation of Digi-Yatra system by the airport operators. Director General of Civil Aviation (DGCA) has also published the Civil Aviation Requirement (CAR) document mandating the airports to implement the Digi-Yatra (E-Boarding) system. As part of this initiative KIAL plans to implement DigiYatra system at the airport in the second control period.
7. Customer experience: KIAL plans to invest in improving the passenger experience at the airport such as Enhanced WiFi, Information KIOSK, Passenger App, ChatBot, etc.
8. Centralized AOCC- At present KIAL has a manual AOCC wherein frequent follow ups are required between different departments for decision making in airport management. KIAL plans to invest in building a centralized AOCC, wherein the decision making related to airport management shall be seamless and quick. This will significantly increase the efficiency of airport operations.
9. Video analytics software for security- KIAL is planning to invest in procuring video analytics software for conducting analysis on CCTV footages from the airport. The software shall be mainly used at security operations control center (SOCC) to track and identify suspicious items and activities at the airport. The software shall also be used to track the passenger footfall at various areas of the airport to improve the operations and facilities in the future.
10. Body Scanners- As per the addendum issued by BCAS, AvSec circular no. 05.2019, airports are required to install body scanners at PESC by December 2022. However, due to COVID the same was delayed. Such body scanners shall be used to identify items during security check. KIAL is planning to procure the body scanners in the second control period to be compliant with the BCAS order.
11. Gate operating system- KIAL plans to invest in gate operating system software to efficiently utilize the data from visual docking guidance system (VDGS). With this software, the data and operational statistics of VDGS may be used at larger scale to improve operational efficiency.
12. BHS upgradation- Currently at KIAL the tracking of baggage is done manually. With increased traffic, such tracking is not feasible. Hence, KIAL has planned the upgradation of baggage handling system which shall enable automatic tracking of baggage. This will significantly increase the efficiency of airport operations and provide enhanced passenger experience.
13. Building management system (BMS) upgradation along with Energy management system (EMS): KIAL has planned to invest in building management system which includes energy management system as a part of the same. Such software can enable KIAL to efficiently manage, track, and take appropriate corrective actions with respect to activities in the building. The added EMS shall also enable KIAL to efficiently manage the power requirement of buildings, remotely, thereby reducing the power and fuel charges.
14. Software for cargo terminal: KIAL is building a greenfield cargo terminal which is expected to be completed by FY24. Currently the cargo terminal operations are carried out from a temporary facility wherein operations such as cargo tracking, storage tracking, billing and invoicing are

done manually. With increased traffic such manual operation is not feasible and KIAL plans to procure a software for cargo terminal for automating such operations.

15. Biometric AEP system- As part of BCAS guidelines on Design, Implementation, and maintenance of access control system, KIAL is required to install biometric AEP system. KIAL is planning to undertake this installation in the second control period.
16. Installation of additional CCTV in grey areas identified by CISF and security department- CISF team at KIAL has identified multiple grey areas wherein the CCTV coverage is inadequate. This hampers the security and safety at the airport. KIAL plans to procure additional CCTV cameras to address this issue in the second control period.
17. Ancillary hardware components

#### ***Electrical equipment and installations***

KIAL is planning to undertake capital expenditure for the following items:

1. Secondary power feeder line: Currently the power requirements for the airport is provided by a single feeder line from the Kerala State Electrical Board. A second feeder line is important to ensure redundancy in case of failure of primary feeder line thereby ensuring business continuity at the airport. Hence, KIAL is planning installation of a second power feeder line to draw power from the 33 kV feeder from KSEB.
2. Green energy initiatives: KIAL envisages to reduce the expenditure associated with power and fuel by reducing the dependency on traditional power sources. As part of this KIAL is planning to undertake various green energy initiatives towards the mid of second control period such as initiatives related to solar power, etc.
3. Enhancement of power source- KIAL is expecting monetization of land assets in the second control period thereby which various new establishments may come at the airport. Therefore, to satisfy the power requirement of such new establishments, KIAL is planning to enhance the power source from 10 MW to 15 MW towards the mid of the second control period.
4. Additional UPS for AGL- Currently the aeronautical ground lighting has only one UPS. In order to ensure safe operations and ensure redundancy in case of failure in primary UPS, KIAL is planning to install an additional UPS for powering aeronautical ground lighting system in FY26.
5. Commissioning of Cargo terminal- KIAL is constructing a green field cargo terminal which is expected to be commissioned in the second control period. Further, as part of this KIAL plans to procure dedicated X-ray machines for the new cargo terminal.
6. Lift connectivity

#### ***Plant and equipment***

1. BDDS equipment- As per BCAS order, AVSEC order no. 13/2017, airport operators are supposed to provide BDDS equipment to ASG/APSU for the purposed of securing aircraft operations. At present, KIAL has a bomb detection and disposal unit. However, required equipment are not available to attend a bomb threat at the airport. In the event of a bomb threat, KIAL has to take assistance of nearby station of Kerala Police. This is highly infeasible and reduces the security and safety of the airport. Therefore, KIAL has planned to procure BDDS equipment in the second control period.

*Table 33: Summary of capital expenditure for the second control period*

Description of the asset (INR Crore)	FY24	FY25	FY26	FY27	FY28
Software Development &	31,920,010	2,500,000			

Description of the asset (INR Crore)	FY24	FY25	FY26	FY27	FY28
Implementation -ERP					
Software Development & Implementation -AODB	25,775,227			2,000,000	
Ancillary Hardware	900,000	1,000,000	1,000,000	1,000,000	1,000,000
Website & Mobile App re-designing	2,975,212				
E-Boarding Software)	1,500,000				
CBT Software for ASTI	3,694,445	1,805,555			
DigiYatra		15,000,000			
Passenger Facilities (enhanced WiFi, Information KIOSK, Passenger App, ChatBot etc)	500,000	1,500,000			
Centralised AOCC (with Video Wall etc)				4,000,000	
Video Analytics Software		2,500,000			
Body Scanners					60,000,000
Gate Operating System					15,000,000
BHS Upgradation			2,500,000		
BMS Upgradation along with EMS		4,500,000			
Cargo Software					2,500,000
BDDS Equipment				25,000,000	
Biometric AEP System	5,000,000	10,000,000			
Additional CCTV at grey area identified by CISF and Security Dept		15,000,000			
Cat – 1 runway approach lighting system		200,000,000			
2nd feeder line (33 KV Feeder from KSEB)				50,000,000	
Green Energy Initiative			25,000,000	25,000,000	25,000,000
Conveyor belt modification - L3					
Enhancement of Power source (10 to 15 MW)			50,000,000		
Lift connectivity				6,500,000	
Extra UPS for AGL- 2 years after			9,000,000		
Cargo terminal commissioning					16,000,000
<b>Total</b>	<b>72,264,894</b>	<b>253,805,555</b>	<b>89,000,000</b>	<b>115,000,000</b>	<b>121,000,000</b>
<b>Total capital expenditure in the second control period</b>	<b>651,070,449</b>				

### C. Depreciation

KIAL has considered the useful life of the assets as per the AERA Order No. 35/2017-18 dated 12<sup>th</sup> January 2018.

The useful life of assets used for the calculation of depreciation is as follows:

Table 34: Useful life used for the calculation of depreciation

Description of the asset	Useful life
Terminal Building	30
Building In Operational Area	30
Utility Building	30
Roads, Roads in operational area, Boundary wall and Security fencing	10
Baggage Handling System/ Escalators/ Elevators/ HVAC Equipment	15
X-Ray Machine, RT set, DFMD, HHMD Security Equipment	15
Office Equipment	5
Furniture & Fixtures - Other than trolleys	7
Furniture & Fixtures - Trolleys	3
Computers - End User Devices	3
Electrical Installation and Equipment including Runway lighting system	10
Flight Information System, AOCC Equipment	6
Light Motor Vehicles	8
Crash Fire Tenders, Other Fire Equipment including pumps and sprinklers	15
Intangible assets - Computer Software	3
Runway, Taxiway, Apron	30

Accordingly, the aeronautical depreciation of assets is projected as follows:

Table 35: Aeronautical depreciation of assets for the second control period

Asset Head* (in INR Cr)	FY24	FY25	FY26	FY27	FY28
Free Hold Land (Land development cost)	11.1	11.1	11.1	11.1	11.1
Lease Hold Land (Land development cost)	0.9	0.9	0.9	0.9	0.9
Pavements	9.1	9.1	9.1	9.1	9.1
Buildings, Roads, Bridges, drains & Culverts	27.9	27.9	27.9	27.9	27.9
Fire Department Equipment	2.0	2.0	2.0	2.0	2.0
Plant & Equipment	1.8	1.8	1.8	1.8	2.0
Furniture & fittings	1.4	1.4	1.0	-	-
Vehicles	0.1	0.1	0.0	0.0	0.0
Computers & Accessories	0.1	0.0	0.0	0.0	0.0
Office Equipment	0.0	0.0	0.0	0.0	0.0
Electrical Equipment	24.3	24.3	25.9	26.6	27.3
Intangible asset	0.1	1.5	2.6	2.7	2.8
Financing allowance	14.5	14.5	14.5	14.5	14.5
<b>Total</b>	<b>94.8</b>	<b>96.1</b>	<b>98.4</b>	<b>98.2</b>	<b>99.2</b>

\*Difference is due to rounding off

#### **D. Regulatory Asset Base (RAB) for the second control period**

Estimated closing net block for FY 2023 forms the opening RAB for the first year of the second

control period i.e., FY 2024. Since there are no assets capitalized during the year the asset value has been adjusted for depreciation charged during the year to arrive at closing value of RAB. Average of opening and closing RAB has been considered for computation of tariffs. The details of RAB for the control period are as follows:

Table 36: Computation of RAB for the second control period

Particulars* (in INR cr.)	FY24	FY25	FY26	FY27	FY28
Opening RAB	1,730	1,642	1,572	1,482	1,395
Add: Capitalization during the year	7	25	9	12	12
Less: Depreciation during year	95	96	98	98	99
Closing RAB	1,642	1,572	1,482	1,395	1,308
<b>Average RAB</b>	<b>1,686.1</b>	<b>1,606.9</b>	<b>1,526.8</b>	<b>1,438.7</b>	<b>1,351.8</b>

\*Difference is due to rounding off

### E. Fair Rate of Return (FRoR)

Fair Rate of Return (FRoR) has been calculated as per AERA's tariff guidelines. The computation of FRoR has been done as below

$$\text{FRoR} = g * R_d + (1-g) * R_e$$

Where: g = Weighted Average Gearing for the control period

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

$R_e$  = Post-Tax Cost of Equity.

### Debt

KIAL is obligated to start the repayment of loans, borrowed in the first control period for funding its capital expenditure and interest servicing, from January 2023.

Cost of debt is the actual weighted average cost of debt incurred by KIAL on the existing term loan and Funded Interest Term Loan (FITL).

The weighted average cost of debt ( $R_d$ ) for the second control period is computed from the outstanding debt and yearly average cost of debt as given below:

Table 37: Average Debt for calculation of FRoR in second control period

Debt* (in INR cr.)	FY24	FY25	FY26	FY27	FY28
Total closing debt	1,193	1,133	1,048	940	819
Average Debt	1,207	1,163	1,091	994	880
Cost of Debt (%)	9.4%	9.4%	9.4%	9.4%	9.4%

\*Difference is due to rounding off

### Equity

KIAL has considered a cost of equity of 16% in line with the decision of AERA for KIAL in the first control period tariff order. Since the KIAL received only one year of full operation due to the unprecedented impact of pandemic, we request AERA to consider the same cost of equity for the second control period also. Further, KIAL expects an additional equity infusion to the tune of INR 90.6 Crore in the year FY 2024 which shows the stakeholder's keen interest in taking every possible initiative to recover from the pandemic impact on the airport.

Computation of equity for KIAL for the second control period is given below:

Table 38: Computation of average equity for the second control period

Equity* (in INR cr.)	FY24	FY25	FY26	FY27	FY28
Share Capital (A)	1,390	1,390	1,390	1,390	1,390
Reserves and Surplus (B)	-	-	-	-	-
Share Premium (C)	-	-	-	-	-
Grant (D)	-	-	-	-	-
Investment in Subsidiaries (E)	-	-	-	-	-
<b>Equity without grant and investment in subsidiaries (A+B+C-D-E)</b>	<b>1,390</b>	<b>1,390</b>	<b>1,390</b>	<b>1,390</b>	<b>1,390</b>
<b>Average equity without grant and investment in subsidiaries</b>	<b>1,344</b>	<b>1,390</b>	<b>1,390</b>	<b>1,390</b>	<b>1,390</b>

\*Difference is due to rounding off

#### **Weighted average gearing**

Weighted average gearing as calculated in the table below.

Table 39: Computation of weighted gearing ratio

Particulars* (in INR cr.)	FY24	FY25	FY26	FY27	FY28
Equity	1,344	1,390	1,390	1,390	1,390
Debt	1,207	1,163	1,091	994	880
Security Deposit	6	6	6	6	6
<b>Weighted average gearing (debt/ total funding)</b>	<b>43.5%</b>				

\*Difference is due to rounding off

#### **Calculation of Fair Rate of Return (FRoR)**

Fair Rate of Return for the second control period is estimated as shown in the following table:

Table 40: Fair rate of return for the second control period

<b>Weighted Average Gearing including SD (D/(D+E))</b>	<b>43.5%</b>
<b>Weighted average cost of Debt</b>	<b>9.4%</b>
<b>Cost of security deposit</b>	<b>9.4%</b>
<b>Share of Equity</b>	<b>56.5%</b>
<b>Cost of Equity</b>	<b>16%</b>
<b>FRoR for the second control period</b>	<b>13.10%</b>

## F. Return on Land

As per the first control period order for KIAL, decision on return on land to KIAL was proposed post completion of the study undertaken by AERA in this matter.

AERA in its Order No. 42/2018–19 released on 5<sup>th</sup> March 2019 has laid down the mechanism for calculation of return on land to be provided on cost of land. As per the order, the following decisions are applicable to KIAL for the second control period:

- I. The return will be given only on the cost of land used for aeronautical activities.
- II. The land held as equity by the government may be dealt with the same manner as proposed for purchase of land by the airport operating company
- III. In case land is purchased by the airport operating company either from private parties or from the government, the compensation shall be in the form of equated annual installments computed at actual cost of debt or SBI Base rate plus 2% whichever is lower over a period of thirty years. The equated annual installment is calculated as per the following formula:

$$\text{Equated Annual Installment} = [\text{Cost} \times \text{Rate} (1+\text{Rate}) ^ 30] / [(1+\text{Rate}) ^ 30 - 1]$$

where,

Cost: Actual Cost of Land

Rate: Actual cost of debt or SBI Base Rate plus 2% whichever is lower

KIAL has bifurcated the total land cost into aeronautical and non-aeronautical on the basis of aeronautical to non-aeronautical area ratio. Accordingly, aero land cost as a share in total land cost is 94.5%. As per the above formula, the return on land is computed below:

Table 41: Computation of return on land for second control period

Particulars* (in INR cr.)	FY24	FY25	FY26	FY27	FY28
Land Cost	167	167	167	167	167
Aero Ratio (%)	94.5%	94.5%	94.5%	94.5%	94.5%
Aero Land	158.1	158.1	158.1	158.1	158.1
Yearly cost of debt (%)	9.39%	9.39%	9.38%	9.38%	9.37%
Return on land cost	15.92	15.92	15.91	15.91	15.89
<b>Total Return on Land for the control period</b>	<b>79.6</b>				

\*Difference is due to rounding off

## G. Operations and maintenance cost

The Operation and Maintenance (O&M) cost mainly consists of the employee costs, airport operating costs which further includes, repairs and maintenance utilities costs, other operational expenditure costs, administration and general costs.

While projecting future operations and maintenance expenses, KIAL has considered factors such as inflation, increase in manpower and passenger traffic as growth factors.



The basis of segregation of O&M expenditure into aeronautical and non-aeronautical is given in the table below:

*Table 42: Basis of segregation for the second control period*

<b>O&amp;M expense head</b>	<b>Basis for segregation of O&amp;M cost</b>
Employee cost	<p>Employees have been bifurcated into aeronautical, non-aeronautical and common employees. Common employees include employees in MD's office, Finance and HR department.</p> <p>Total employee cost has been segregated into aeronautical and non-aeronautical in the proportion of number of employees providing aeronautical and non-aeronautical services.</p>
Administration and General costs	Admin expenses have been segregated into aeronautical and non-aeronautical in the proportion of number of employees providing aeronautical and non-aeronautical services.
Power, water and fuel charges	The power and water charges have been considered as per actuals.
Repair and maintenance costs	Repair and maintenance costs except for CUTE operational expenses have been bifurcated based on the ratio of aeronautical and non-aeronautical terminal floor area allocation.
Security	Expenses have been segregated in the proportion of number of employees providing aeronautical and non-aeronautical services.
Vehicle expenses	Expenses have been segregated in the proportion of number of employees providing aeronautical and non-aeronautical services.
Housekeeping	Expenses have been bifurcated based on the ratio of aeronautical and non-aeronautical terminal floor area allocation.
Other operational expenses	These expenses pertain to miscellaneous expenses. Expenses have been segregated in the proportion of number of employees providing aeronautical and non-aeronautical services.
Custom cost recovery charges, Aviation MET charges, CNS-ATM charges, etc.	Considered to be aeronautical expenses.
Cargo handling O&M Expense	Considered to be aeronautical expenses.

The proportion of aeronautical O&M expenses for the period FY 2024 to FY 2028 is shown below:

Table 43: Proportion of aero expenses for second control period

Particulars (in %)	FY24	FY25	FY26	FY27	FY28
<b>Employee cost</b>	93.3%	93.3%	93.3%	93.3%	93.3%
<b>Airport operating expenses</b>					
Repair and Maintenance expenses	94.5%	94.5%	94.5%	94.5%	94.5%
Security	93.3%	93.3%	93.3%	93.3%	93.3%
Power and Fuel	94.5%	94.5%	94.5%	94.5%	94.5%
Operations & Maintenance Expenses	94.5%	94.5%	94.5%	94.5%	94.5%
Other utility expenses	94.5%	94.5%	94.5%	94.5%	94.5%
House Keeping	94.5%	94.5%	94.5%	94.5%	94.5%
Other operational expenses	93.3%	93.3%	93.3%	93.3%	93.3%
Customs Cost Recovery Charges	100%	100%	100%	100%	100%
Aviation Meteorological Support Services	100%	100%	100%	100%	100%
Communication, Navigation and Surveillance and Air Traffic Management Services	100%	100%	100%	100%	100%
Trolley Retrieval Services	100%	100%	100%	100%	100%
Insurance	94.5%	94.5%	94.5%	94.5%	94.5%
Other expenses					
Cargo related expenditure	100%	100%	100%	100%	100%
Administrative expenses	93.3%	93.3%	93.3%	93.3%	93.3%

### Employee cost

Employee cost is forecasted for KIAL based on the increase in salary per employee and the number of employees. Historically, the average annual increase of salary for employees at KIAL has been 5%. Given the impact of COVID, to minimize the total operational expense, the total number employees are assumed to be constant for the second control period as shown below:

Table 44: Number of Aeronautical and Non-Aeronautical employees at KIAL for the second control period

Employees*	FY24	FY25	FY26	FY27	FY28
Aero employees	98	98	98	98	98
Non-aero employees	7	7	7	7	7
Common employees	47	47	47	47	47
<b>Total employees</b>	<b>152</b>	<b>152</b>	<b>152</b>	<b>152</b>	<b>152</b>
Total Aero employees	141.9	141.9	141.9	141.9	141.9
<b>Total employees of KIAL</b>	<b>152</b>	<b>152</b>	<b>152</b>	<b>152</b>	<b>152</b>
<b>Aero employee ratio</b>	93.3%	93.3%	93.3%	93.3%	93.3%

\*Difference is due to rounding off

The employee cost projected for the second control period is shown below:

Table 45: Employee cost for the second control period

Particulars* (INR cr.)	FY24	FY25	FY26	FY27	FY28
<b>Employee Cost-Aero</b>	11.2	11.7	12.3	12.9	13.6
<b>Employees Cost-Total</b>	12.0	12.6	13.2	13.8	14.5

\*Difference is due to rounding off

### **Airport operating expense**

The airport operating expenses mainly consist of operations and maintenance expense, power and fuel charges, housekeeping, customs recovery cost, CNS ATM charges, etc. The expenses are assumed to increase at an annual escalation rate of 10% to account for inflation. The customs recovery cost is expected to be waived off in FY 25 once the airport achieves the threshold passenger traffic level agreed as per the terms and conditions in the agreement between KIAL and Indian Customs.

KIAL also plans to undertake resurfacing of runway to address the wear and tear issues in the year FY 27 and FY 28. KIAL estimates a sum of INR 25 Crore for the same in each FY 27 and FY 28.

The operations and maintenance expenses for the next control period is summarized below:

Table 46: Airport operating expenses

Particulars (in INR Crore)	FY24	FY25	FY26	FY27	FY28
<b>Airport operating expenses</b>					
Repair and Maintenance expenses	1.6	1.7	1.9	2.1	2.3
Security	0.6	0.6	0.7	0.7	0.8
Power and Fuel	13.2	14.4	15.9	17.5	19.2
Operations & Maintenance Expenses	11.3	11.0	12.1	38.3	39.6
Other utility expenses	0.7	0.7	0.8	0.9	1.0
Vehicle Running & Maintenance expenses	-	-	-	-	-
House Keeping	11.5	12.7	14.0	15.4	16.9
Other operational expenses	0.1	0.1	0.1	0.1	0.1
Customs Cost Recovery Charges	-	-	-	-	-
Aviation Meteorological Support Services	1.2	1.2	1.2	1.2	1.2
Communication, Navigation and Surveillance and Air Traffic Management Services	1.6	1.1	0.5	0.7	0.4
Land Lease expense					0.01
Trolley Retrieval Services	0.4	0.5	0.5	0.6	0.6
Insurance	1.4	1.6	1.7	1.9	2.1
<b>Total Airport operating expenditure</b>	<b>43.6</b>	<b>45.6</b>	<b>49.3</b>	<b>79.2</b>	<b>84.2</b>

\*Difference is due to rounding off

Other expenses are as shown below:

Table 47: Other aeronautical expenses

Particulars (in INR Crore)	FY24	FY25	FY26	FY27	FY28
<b>Other expenses</b>					
Cargo related expenses	0.4	0.5	0.5	0.6	0.6
Administrative expenses and other expenses	6.6	8.3	9.5	11.1	12.8

The aero operating expenditure is summarized below:

Table 48: Total Aeronautical expenses for second control period

Particulars (in INR Crore)	FY24	FY25	FY26	FY27	FY28
Employee expense	11.2	11.7	12.3	12.9	13.6
Airport operating expense	43.6	45.6	49.3	79.2	84.2
Other expenses	7.1	8.8	10.0	11.7	13.4
<b>Total Aeronautical expenditure</b>	<b>61.8</b>	<b>66.1</b>	<b>71.7</b>	<b>103.9</b>	<b>111.2</b>

\*Difference is due to rounding off

## H. Non-aeronautical revenue

KIAL is working proactively to increase the non-aeronautical revenue at the airport by inviting concessionaires for starting operations at the airport in the areas of Food and beverages, Retail, Hotel, etc. The non-aeronautical revenue majorly consists of the following components:

1. Lease rental/monthly license fee
2. Revenue share from concessionaire
3. Common Area Maintenance (CAM) Charges
4. Space Rentals
5. Other income such as car park, toll, airport entry fee, etc.
6. Interest income

For the purpose of projection of non-aeronautical revenue, the rental income obtained from cargo business, ground handling agencies and fuel farms have been considered as aeronautical revenue which is in line with the treatment by AERA in other similar airports.

Currently, the non-aeronautical revenue to KIAL accrues from the following major business types:

1. Retail outlets
2. Food and beverages
3. Duty Free
4. Lounge
5. Hotel
6. Forex and ATM
7. Prepaid taxi service
8. Telecommunication

## 9. Other minor agencies

Following table summarizes the methodology adopted to forecast non-aeronautical revenues:

*Table 49: Forecasting methodology for non-aero revenues*

<b>Non-aeronautical revenues</b>	<b>Forecast basis</b>
Monthly lease rental	<p>Lease rentals are charges paid to KIAL for the area leased for the specific business operation. The lease rental has been calculated on the basis of existing contractual terms with the respective non-aeronautical business entity.</p> <p>Lease rentals are assumed to have an escalation of 10% annually.</p>
Revenue share from concessionaire	<p>This signifies the share of total revenue accrued to the entity that is payable to KIAL. The revenue share from concessionaires is assumed to increase in the same growth rate as that of passenger traffic. It is also assumed that the average purchase value will increase by 5% to account for the retail inflation.</p>
Minimum monthly guarantee	<p>MMG contracts majorly consist of retail contracts.</p> <p>The concessionaire is supposed to pay a fixed monthly guarantee to KIAL till the traffic crosses the threshold as prescribed in the respective contract. The projections for MMG are done on the basis of respective contract terms.</p>
Common area maintenance (CAM)	<p>CAM charge is collected by KIAL from concessionaires for maintenance of area allotted to the concessionaire. This is projected as per the terms in the contract. It is assumed to have an annual escalation of 10%.</p>
Interest income	<p>Interest income has been forecasted based on deposit rates and the last year's closing cash and cash equivalent balance.</p>

The non-aeronautical revenue for the next control period is summarized below

Table 50: Non-Aeronautical revenue forecast for the second control period

Particulars (in INR Crore)	FY24	FY25	FY26	FY27	FY28
Monthly license fee	3.1	3.07	3.22	3.45	3.69
Space Rental Charges	4.61	5.34	5.88	6.46	7.11
Pre-Booked Taxi Collection - Agency	0.71	0.82	0.92	1.01	1.09
Utility Charges	0.95	1.05	1.15	1.27	1.39
Sale of Visitors Entry Pass	0.06	0.06	0.06	0.06	0.06
Monthly Guarantee Fee	0.83	0.86	0.94	1.04	1.14
Revenue Share from Concessionaire	9.06	17.49	20.6	23.57	26.74
CAM Charges	0.84	0.91	0.99	1.07	1.16
Car Parking Revenue Share	1.18	1.38	1.54	1.68	1.81
Car Parking Toll Collection	1.12	1.3	1.46	1.59	1.71
Other income including interest income	5.19	10.09	10.22	12.43	13.86
<b>Total Non-aeronautical revenue</b>	<b>27.7</b>	<b>42.4</b>	<b>47.0</b>	<b>53.7</b>	<b>59.8</b>

\*Difference is due to rounding off

## I. Tax on income

KIAL has bifurcated the total taxes to be paid over aeronautical and non-aeronautical profit.

Calculation aeronautical tax is given in the table below:

Table 51: Computation of Aeronautical tax for second control period

Aero Tax (in INR cr.)	FY24	FY25	FY26	FY27	FY28
Aero Revenues	206.4	245.6	275.0	304.6	328.0
Aero Operational Expenditure	61.8	66.1	71.7	103.9	111.2
Aero Depreciation	94.8	96.1	98.4	98.2	99.2
Interest	107.1	103.2	96.7	88.1	77.9
PBT	-57.2	-19.8	8.2	14.4	39.7
Tax Rate Applicable	34%	34%	34%	34%	34%
<b>Aero Tax</b>	<b>0.0</b>	<b>0.0</b>	<b>1.4</b>	<b>2.5</b>	<b>6.9</b>

\*Difference is due to rounding off

## J. Aggregate revenue requirement

KIAL has estimated the WPI inflation based on RBI's Survey of Professional Forecasters on Macroeconomic Indicators dated 08 June 2022. Below table provides the estimated WPI inflation considered for the second control period:

Table 52: WPI inflation assumed for the second control period

Particulars	FY24	FY25	FY26	FY27	FY28
WPI inflation	10%	10%	10%	10%	10%

Based on the above-mentioned regulatory building blocks, the ARR for the second control period has been computed and is summarized below:

Table 53: Computation of ARR for the second control period

Particulars*(in INR crore)	FY24	FY25	FY26	FY27	FY28
Average RAB	1686.1	1606.9	1526.8	1438.7	1351.8
FRoR	13.1%	13.1%	13.1%	13.1%	13.1%
Return on Regulatory Base	220.9	210.5	200.0	188.5	177.1
Return on Land	15.9	15.9	15.9	15.9	15.9
Depreciation	94.8	96.1	98.4	98.2	99.2
Operation & Maintenance cost	61.8	66.1	71.7	103.9	111.2
Tax	-	-	1.4	2.5	6.9
Non-Aeronautical Revenue	27.7	42.4	47.0	53.7	59.8
Less: 30% of Revenue from Non-Aeronautical Revenue	8.3	12.7	14.1	16.1	17.9
True up of previous control period	2109.9	-	-	-	-
<b>Aggregate Revenue Requirement (ARR)</b>	<b>2,495.0</b>	<b>376.0</b>	<b>373.4</b>	<b>392.9</b>	<b>392.4</b>

\*Difference is due to rounding off

