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THE ASSOCIATED CHAMBERS OF COMMERCE AND INDUSTRY OF INDIA

D S RAWAT
Secretary General

Date: 29th January, 2018

Dear Madam

Subject: Stakeholder Comments on Consultation Paper No 30/2017-18

This has reference to your Consultation Paper No. 30/2017-18 dated 19th December 2017regarding determination of tariffs at the Rajiv Gandhi International Airport – Shamshabad for the 2nd control period (1.04.2016 to 31.03.2021).

We would like remind the policy makers and the regulators the following points concerning the industry in general and airport operator in particular which needs to make significant investment in coming years to address the growth;

Honouring Concession Agreement

Given that Concession Agreement for RGIA was signed-up prior to existence of AERA, due recognition to concession provision shall have to be given by AERA while determining the aeronautical charges for RGIA. The AERA Act also has enabling provisions in the form of section 13(1)(a)(vi) to deal with such cases wherein "concession offered by the central government in any agreement or memorandum of undertaking or otherwise" shall be taken into consideration for determination of aeronautical charges. Hence it is imperative for AERA to respect the provisions of the concession agreement, land lease agreement, state support agreement and align the regulatory treatment w.r.t. regulated charges, Cargo, Ground Handling and Fuel Farm (CGF) services, income from land development etc. It would be pertinent to recall that the investment decision by the Shareholders way back in early 2000, when the industry was at its nascent stage, was made taking into account the key provisions of regulated charges, opportunity of real estate development around airport land and minimum guaranteed return on equity. Any change in interpretation of the concession agreement post facto will send wrong signal to investor community and will impede the Indian aviation growth.

From the consultation paper we also understand that GHIAL has commenced the airport operation in March'2008 however Authority has considered the tariff determination period starting from Sept'2009 post getting the requisite power under the AERA Act.In this regard it is stated that such treatment would be different from the Concession Agreement and deprive GHIAL from its concession rights. Such treatment may send negative signals to the prospective investor in the Indian airport sector.

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Policy Consistency to Attract Investment

Consistent implementation of policy is as important as adherence to concession provisions prior to existence of AERA to infuse right amount of confidence in the minds of the investors. As infrastructure projects are having long gestation period with multitude of risks which is beyond the control of airport operators, the least we, as industry body, expect from AERA is regulatory certainty. Unless regulator brings in consistent policy implementation, the investors would always be on the edge. This is one of the key reasons why international airport operators waited in the fence in the recently concluded airport privatization bids. In case of Navi Mumbai only two bidders came forward (GMR & GVK), in case of MoPA Goa, financial bid submitted by only three bidders AAI, GMR, and Essel Infra and for Bhogapuram Airport only GMR and AAI were in fray.

On perusal of the consultation paper, we understand that AERA has taken divergent treatment w.r.t. dividend income received from joint venture entity and subsidiary. However, in the premise of the consultation paper, AERA has stated that it has considered HIAL as a stand-alone entity without any consolidation with its subsidiaries or taking into account the balance sheets and income statements of other subsidiaries. However, it has brought in Dividend income and interest income received from joint venture entity and subsidiary within regulatory purview. This is grossly inaccurate as dividend is declared out of the profit of the company which is arrived after considering the applicable regulatory contribution hence AERA should not further mop up such income under regulatory framework.

The civil aviation industry in India has emerged as one of the fastest growing industries in the world. Presently, India is the third largest domestic civil aviation market in the world and poised to become second largest in coming 5 years. Indian Airports need significant investment to cater to sustained growth in traffic in the wake of expanding middle class population with greater propensity to air travel and the Government thrust on making air travel affordable and accessible through RCS.

It is critical that the investments should be made not just to address the existing capacity constraints but also to add capacity with modern technology enabled amenities commensurate with the growing economic power of our country. Needless to say, this can only be possible with continued participation of the private sector players in airport modernization/privatization program of the governments.

Indian airports require massive investments which are lumpy in nature and domestic players alone on their strength would not be able to commit that much of capital on ground and dependence on overseas investors for capital to meet this humongous investment can only be achieved through policy pivot of consistency and objectivity.

Also, for any industry to attract investment, it is critical to have faster claim settlement process. However, in case of Airport industry in past we have seen that the claim settlement is prolonged for almost seven years which make it a riskier investment for an investor.

Return on Equity Commensurate with Risk

Both greenfield and brownfield airports require mammoth investment for creation/expansion/modernization of infrastructure. Aviation industry, being cyclical in nature and heavily dependent on global factors, e.g., oil price, geo-political development, natural calamities etc. on which the airport operator has no control, makes the investment more vulnerable. Hence the airport operator needs to be remunerated suitably to attract both equity investors and debt providers for capital investment, recovery of which tend to have very long gestation period. We also understand that MoCA appointed SBI Capital Markets for determination of ideal range of cost of equity for airport operator and SBI Capital Markets recommended cost of equity in the range of 18.5% - 20.5%. AERA should take due cognizance of the concession provisions and market realities as reflected in SBI Capital Markets report to arrive at the basis of cost of equity.

Creation of World Class Infrastructure

Airports are gateway to a city and the international airports demonstrate the economic vibrancy of the city in particular and the country in general. Hence the functionality including technology adoption at various touch-points, aesthetics of infrastructure, food, retail & leisure offerings etc. are key to have superlative passenger experience at the airport. In comparison to capital cost for development of airports in countries like Mexico, Brazil, Middle East, Russia, Singapore and Hong Kong, the infrastructure cost in India is significantly low. Hence further optimization of cost by AERA would have compromising effect on passenger experience. A delicate balance is required so that the airport operator can provide best in class amenities to its customers. Inappropriate capping of capital cost may lead to potential compromise on quality and safety standards as building of airport infrastructure is a specialized work. Further, if the contracts are awarded through competitive bidding, AERA should accept the cost as it is discovered through a transparent process.

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We request the AERA to take cognizance of the aforementioned submission and incorporate the same while coming out with final tariff order.

Thanking you with warm regards.

Yours sincerely,

(D. S. Rawat)

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