GAL GMR AIRPORTS LIMITED
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Date: 11th June'2018

To,

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

Subject: In the matter of Determination of Fair Rate of Return (FRoR) to be provided on Cost of Land incurred by various Airport Operators of India

Reference: Consultation Paper no. 4/2018-19

Dear Madam,

This is with reference to the subject consultation paper referred above. We appreciate Authority's consideration of need of return on the capital investment made by the airport operator/state government towards land.

We agree with the Authority's proposition that making available the land is the primary obligation of the State Government due to larger socio-economic benefits an airport brings in the region. As a general rule, State Governments' are the prime beneficiary of an airport and thus it may be desirable that the cost of acquisition is borne by the relevant Government given the positive socio-economic impact an airport brings to the region. Hence directionally the State Governments' should not seek a return on the cost of land acquisition. However in the circumstances where the Government is not undertaking the land acquisition or where a private entrepreneur has land which he wants to use for developing an airport and thus as a consequence, the airport entity is required to bear the cost of land acquisition, being an economic enterprise, it should be allowed to recover the investment based on defined return on investment.

Based upon the how the land is procured for airport project, following two scenarios are possible:

Scenario 1: The Land is acquired and owned directly by the Airport Operator.

a) **The Airport Operator is operating under a limited period concession:** Ideally in such case, land acquisition should be done by the grantor since entire project land is supposed to be handed back to the grantor at the end of concession. However, in case, a small parcel of land is directly acquired by Airport Operator for expansion of aeronautical assets, the land cost should be included in RAB and Airport operator should also be allowed to charge amortization based on remaining concession life.
b) **Airport operator has freehold ownership of the Airport :** In this case airport operator should be allowed to recover actual land cost through amortization of

land cost as operating expense. Given the freehold ownership, amortization of actual land cost may be over a period of 25-40 years depending on the upfront cost as a percentage of the overall cost of the airport.

Scenario 2: Land is owned by a party other than airport operator:

a) **Land is provided to the Airport operator against payment of upfront premium:** In such case upfront premium should be included in RAB, which should be provided amortization and return as overall WACC.
b) **Land provided to the Airport SPV as annual lease:** Lease amount should be included as operating expense for calculation of allowed regulatory revenues

Scenarios can be summarized as follows:

Land ownership	Mode	Proposed Mechanism
SPV	Limited period concession	Amortization of land over residual useful life + Include land cost in RAB and allow FRoR at WACC
	Unlimited ownership	Amortization of land value over 60yrs included as notional value in operational expenditure
Shareholders / others	Land provided to the SPV against payment of upfront premium	Upfront premium to be part of RAB
	Land provided to the SPV as annual lease	Lease amount to be included in operating expenses

In the above scenarios, ADF can also be considered as an additional/alternate mechanism to recoup the cost of land.

We request Authority to consider our views about allowing return on land acquired for airport use.

For GMR Airports Ltd.

Sidharath Kapur
President- Finance and Business Development