



Ref No :- LIAL/CO/AERA-MYTP/2023/1

Dated: - 07th February 2023

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

Subject : - Brief Note on Corporate Cost Allocation methodology

Dear Sir,

In respect to the Corporate cost allocation methodology adopted by Adani group of entities we would like to submit as follows: -

- i. Lucknow International Airport Limited (LIAL) is a group company of Adani Group. Adani Enterprises Limited (AEL) holds 51% shareholding in LIAL directly and 49% shareholding indirectly through Adani Airport Holdings Limited (AAHL).
- ii. AEL is a flagship company for Adani Group which has promoted various businesses like Power, Renewable, Ports, Logistics, Airports, Data Center, Defense etc.
- iii. AAHL is a company incorporated with an aim to promote Airport and Airport related activities. As on date AAHL has portfolio of 8 Airports i.e. Mangaluru, Lucknow, Ahmedabad, Guwahati, Jaipur, Thiruvananthapuram, Mumbai and Navi Mumbai.
- iv. AEL and AAHL have developed various capabilities, infrastructure and processes in several areas ("Corporate Support Services").
 - a. AEL has consolidated various strategic functions/activities like corporate finance, legal, central procurement, green initiative, ESG, Information technology, taxation, management assurance, internal audit, shared service for financial transactions. human resource management. AEL also includes various strategic and leadership functions like Chairman office, Group CFO office, Corporate Communication and Branding etc. AEL provides support on these functions to all group companies including but not limited to Power, Renewable, Ports, Logistics, Airports, Data Center, Défense etc.
 - b. AAHL houses a team of specialised subject matter experts in Aviation sector having domain knowledge and expertise in Airports Operation, Airside Management, Master Planning, Designing, Airport Development, Airport

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Regulatory, Human Resources, Transition Management, Hospitality, Customer management, Finance Management, Legal expertise, Cargo Development and management, Airline Marketing, Retail, Commercial, Space Leasing, Non-Aeronautical etc.

- v. These capabilities, infrastructure, and processes (retained under AEL and AAHL) are very important for sustainable operations of any business including Airports.
- vi. The cost is incurred by AEL and AAHL on overall basis to provide these services and support to various group companies (including Airports) by AEL and to various Airport companies in case of AAHL respectively. The major composition of these costs includes salaries and administrative costs.
- vii. These common costs are recovered (except certain services as mentioned in point (viii) below) by AEL and AAHL through appropriate allocation method/keys.
- viii. AEL / AAHL do not allocate the costs which are related to shareholders services (activities performed by AEL / AAHL for their own benefits like consolidation of accounts, secretarial etc.). Further AAHL does not allocate the costs relating to non-Aeronautical activities.
- ix. The cost is allocated on cost-to-cost basis "without any mark-up". As on date Adani Group has portfolio of 8 Airports. In case these services are to be maintained by each Airport on standalone basis then the summation of cost incurred by each Airport will be much higher than the consolidated cost incurred by AEL and AAHL to maintain these services.
- x. It is a common practice across all the industries operated by big business houses including private Airport entities and AAI, whereby cost allocation process is prevalent.
- xi. Similar corporate cost allocation practice is used by other airport companies. For e.g., GMR Infrastructure Limited (GIL) and GMR Airports Limited (GAL) provide services to DIAL and GHIAL and their costs are allocated based on suitable drivers. Similar practice is followed by AAI as well in allocating its Central Head Quarters (CHQ) / Regional Head Quarters (RHQ) costs to various airports under two categories (i) manpower cost and (ii) admin & general costs.

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AAHL has hired an independent consultant, PwC, to undertake a study on Corporate Cost Allocation who have opined that consolidation of support services have benefits like: -

- a) Leveraging on best practices
- b) Centralized monitoring and control
- c) Efficiencies and economies of scale

The independent consultant also opined that such corporate cost allocation practice is adopted by various large corporates including Aviation companies in India and overseas.

Further the independent consultant has advised that, non-allocation of shareholders cost, non-allocation of non-aeronautical services at AAHL, recovery at cost to cost without mark-up and allocation based on various drivers, are suggested approach for allocation methodology.

For Lucknow International Airport Limited

Ashu Madan
(Authorized Signatory)

Enclosed : - Annexure 1 –Corporate Cost allocation for LIAL for FY21-22 and Annexure 2 – Corporate Cost allocation for LIAL for FY22-23

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Annexure 1 – Estimated amount of Corporate Cost allocation for LIAL for FY21-22

Allocation from AAHL for FY21-22 (Rs. Crs)

Departments	Allocation Keys	Admin	Personnel Cost	Total
Human Resources and Admin	Ratio of Number of Employees of a SPV to Total Adani Group Employees	0.25	1.01	1.26
Finance	Ratio of Debt raised for a SPV to total Debt raised for Airport Group	0.31	1.26	1.57
Operations (Airline Marketing, Operation, Security, HSE, Regulatory)	Ratio of Per Pax Revenue of SPV to total Per Pax Revenue	0.10	0.38	0.48
Information Technology	Ratio of Number of IT users in a SPV to total IT users in all airports	0.08	0.32	0.39
Inhouse Legal Team	Ratio of Legal Budget of a SPV to Total Legal Budget of all airports	0.01	0.04	0.05
Cargo Development	Ratio of Per Pax Revenue of a SPV to total Per Pax Revenue of all airports	0.02	0.09	0.11
CEO Office	Ratio of Per Pax Revenue of SPV to total Per Pax Revenue	0.62	2.48	3.10
Total		1.39	5.57	6.97

Allocation from AEL for FY21-22 (Rs. Crs)

Departments	Allocation Keys	Admin	Personnel Cost	Total
Finance, Tax and Internal Audit	Ratio of Debt raised for a SPV to total Debt raised for Adani Group, Ratio of Turnover of a SPV to Total Group Turnover and Ratio of Full Time Equivalents (FTE) allocated to a SPV to total FTEs	0.10	0.19	0.29

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Departments	Allocation Keys	Admin	Personnel Cost	Total
HR and Admin	Ratio of Number of Employees of a SPV to Total Adani Group Employees	0.70	1.43	2.13
CMD Office and Support Staff	Ratio of a SPV PBT to Group PBT and Airport budgeted expenditure to Total budgeted expenditure	0.73	1.47	2.20
IT	Ratio of Number of IT users in a SPV to total Group users	0.35	0.72	1.07
Legal	Ratio of Legal Budget of a SPV to Total Legal Budget of all airports	0.02	0.04	0.06
Procurement	Ratio of Turnover of a SPV to Total Group Turnover	0.01	0.01	0.02
Land & Estate	Ratio of a SPV PBT to Group PBT	0.01	0.03	0.04
Total		1.92	3.89	5.81

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Annexure 2 – Estimated amount of Corporate Cost allocation for LIAL for FY22-23

Allocation from AAHL for FY22-23 (Rs. Crs)

Departments	Allocation Keys	Admin	Personnel Cost	Total
Human Resources and Admin	Ratio of Number of Employees of a SPV to Total Adani Group Employees	0.75	2.99	3.74
Finance	Ratio of Debt raised for a SPV to total Debt raised for Airport Group	0.38	1.51	1.88
Operations (Airline Marketing, Operation, Security, HSE, Regulatory)	Ratio of Per Pax Revenue of SPV to total Per Pax Revenue	0.61	2.44	3.05
Information Technology	Ratio of Number of IT users in a SPV to total IT users in all airports	0.16	0.63	0.79
Inhouse Legal Team	Ratio of Legal Budget of a SPV to Total Legal Budget of all airports	0.07	0.27	0.33
Cargo Development	Ratio of Per Pax Revenue of a SPV to total Per Pax Revenue of all airports	0.01	0.04	0.05
CEO Office	Ratio of Per Pax Revenue of SPV to total Per Pax Revenue	0.72	2.87	3.59
Total		2.69	10.75	13.44

Allocation from AEL for FY22-23 (Rs. Crs)

Departments	Allocation Keys	Admin	Personnel Cost	Total
Finance, Tax and Internal Audit	Ratio of Debt raised for a SPV to total Debt raised for Adani Group, Ratio of Turnover of a SPV to Total Group Turnover and Ratio of Full Time Equivalents (FTE) allocated to a SPV to total FTEs	0.56	1.15	1.71

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Departments	Allocation Keys	Admin	Personnel Cost	Total
HR and Admin	Ratio of Number of Employees of a SPV to Total Adani Group Employees	0.69	1.39	2.08
CMD Office and Support Staff	Ratio of a SPV PBT to Group PBT and Airport budgeted expenditure to Total budgeted expenditure	0.44	0.89	1.32
IT	Ratio of Number of IT users in a SPV to total Group users	0.43	0.87	1.29
Legal	Ratio of Legal Budget of a SPV to Total Legal Budget of all airports	0.01	0.01	0.02
Total		2.12	4.30	6.42

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