

APAO/AERA / 2022-23

Date: 23rd March 2023

Director (P&S, Tariff)
Airports Economic Regulatory Authority of India (AERA),
AERA Administrative Complex,
Safdarjung Airport,
New Delhi – 110 003

Subject: APAO's response to Consultation Paper No. 16/2022-23 dated 20th February 2023 in the matter of determination of aeronautical tariff for Chaudhary Charan Singh International Airport (CCSIA), Lucknow (LKO) for the Third Control Period (01.04.2021-31.03.2026)

Dear Sir,

As the apex industry association of all major private airports operating in India, APAO is pleased to share its response on the proposals in the above-mentioned Consultation Paper for the kind consideration of the Authority.

We are pleased to note the efforts put in by AERA to take a comprehensive view considering the complexities involved in the Concession Agreement. However, there are certain key issues which are not adequately addressed that are critical to assess the economic viability of the Airport Operator.

Given the above background, we would like to highlight our inputs on certain key matters.

1. Cash flow requirement and Deferment of ARR

The Authority has proposed to carry forward some portion of the ARR to the next Control Period. We earnestly request the Authority to consider cash flow requirements of the Lucknow Airport while making a decision on the deferment of ARR. We request Authority to discuss and understand with the Airport Operator on the deferment issue and not take any decision unilaterally on the matter. Deferment of ARR may not be in the interest of airport users as well as they will have to pay for any shortfall in ARR with higher amounts (with carrying costs) in the next Control Period.

2. Application of notional cap of 6% of opening RAB to determine Repair and Maintenance

AERA has restricted the R&M expenses to lower of 6% of opening RAB or submission of airport operator. This approach is against the spirit of the AERA Act. As per section 13 of the AERA Act, Authority has to ensure economic and viable operations of the airports. Further, cost for improving the efficiency has also to be considered for determination of tariff of aeronautical services.

Relevant extract from AERA Act is as follows: -

13. Functions of Authority – (1) The Authority shall perform the following functions in respect of major airports, namely: -

(a) to determine the tariff for the aeronautical services taking into consideration-

(i) the capital expenditure incurred and timely investment in improvement of airport facilities;;

(ii) the service provided, its quality and other relevant factors;

(iii) the cost for improving efficiency;

(iv) economic and viable operations of major airports

By restricting these expenses, Authority is acting in contravention to the mandate of the AERA Act.

It is further submitted that AERA guidelines which provide for the detailed framework of how the Authority will determine the tariff also does not provide any capping of R&M expenses to 6%. Restricting the expenses will compromise the operations as the Airport operator will not be able to incur more than what has been allowed by Authority.

R&M needs of each airport operator depends on various factors which are unique and specific to them. By using the same standard template of projecting these expenses for different airports is not an appropriate approach.

3. Cost of debt

LIAL has taken debt from group company Adani Airport Holdings Limited (AAHL) which in turn has availed borrowing from global institutions. Debt was availed by holding company AAHL at rate of 12% which is market driven rate as per risk perceived by investors of airport business of Adani Group. It is an innovative and cost-efficient measure to take consolidated debt at holding company level instead of obtaining debt at single Airport level which will be costly and lack economies of scale.

AERA has proposed cost of borrowing to be considered at 9% p.a. being the average of other five PPP airports viz. DIAL, MIAL (Mumbai), GHIAL, BIAL and CIAL. This approach is erroneous and penalizing Lucknow Airport. The same will result in LIAL generating returns below its cost of capital and loss-making proposition, which is not the intent of AERA guidelines, NCAP, and against the vision of GOI to encourage private investments in the capital-intensive airport sector.

We earnestly request the Authority to consider 12% as cost of debt for the third control period and true up of the same in the subsequent control period.

4. Cost of Equity

In this regard it may be pertinent to mention that to attract private investors in the airport development it is essential to accord an optimal rate of return for equity investments. The Ministry of Civil Aviation had appointed SBI-CAPS to conduct a study in order to arrive at an optimal rate of return on equity to cover the risks of an investor. The results of the study indicated that the rate of return for the airport operator considering all risks should be in the range of 18.5% to 20.5%. However, the Authority has considered return on equity at 15.18% for LIAL based on average of cost of equity allowed by AERA for 5 PPP airports which is far less than the assessment done by the Ministry through SBI-CAPS. Therefore, it is suggested that the airport operators be accorded adequate return, in this regard Authority should allow the Return on Equity requested by the respective airport operators of 17.49% which is lesser than the assessment of SBI CAPS. Further, IIM B while evaluating beta for return on equity for PPP airports has majorly considered developed countries. In order to arrive at a true reflection of risk the Authority should have used beta of developing countries similar to India.

5. Soft Cost claimed towards technical services, PMC, Preliminaries and Pre-operatives, Contingencies, Statutory approvals, Labor cess, Site-preparation, Insurance etc.

AERA has allowed 8% of capex costs as cost claimed towards technical services, PMC, Preliminaries and Pre-operatives, Contingencies, Statutory approvals, Labour cess, Site-preparation, Insurance etc. as against 14% proposed by the airport operator.

Above reduction has been done on the basis of costs allowed by AERA in the past while determining tariff of other PPP airports. Each airport has different infrastructure needs based on their location, traffic handling capacity, passenger mix, local culture. Authority itself has allowed these costs in the range from 8% to 11% which clearly establishes the fact the cost will vary depending on the needs of each airport. Based on their unique positioning, LIAL has determined these costs as 14% of total capex costs. We request the Authority to approve the same while determining the tariff of LIAL.

6. Opportunity to finalize the rate card

As we have experienced in previous PPP Airports, private Airport Operators apply various methods, including but not limited to innovation in rate card, to boost the air travel demand. We expect similar to happen at Lucknow Airport which is about to set its first tariff card after the privatization. Hence, we request the Authority to



consider favorably Airport Operator's request to provide opportunity while deciding the final tariff card.

We earnestly request the Authority to give a serious consideration to the points raised by us in the above response, before issue of the final order determining the aeronautical tariff for Lucknow International Airport Limited for the Third Control Period.

In case any other information/ clarification is required in this connection, please inform the undersigned.

Thanking you.

Yours Sincerely,

For Association of Private Airport Operators (APAO)

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Secretary General

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