



Date: 29<sup>th</sup> September 2023

To  
The Director (P&S),  
Airports Economic Regulatory Authority of India (AERA),  
AERA Administrative Complex,  
Safdarjung Airport,  
New Delhi – 110 002

**Subject:** Response to Consultation Paper No. 11/2023-24 dated 31.08.2023 in the matter of determination of aeronautical tariff for Manohar International Airport, MoPA, GOA (GOX), for the First Control Period (01.04.2023-31.03.2028)

Dear Sir / Madam,

This is in respect to above mentioned Consultation Paper, we hereby submit our comments for the kind consideration of the Authority.

1. **Exempted Passenger for calculation of UDF charges:** In para 4.2.3, the Authority has proposed to not consider the billable traffic for calculation of Aeronautical charges. In this regard we would like to highlight that this approach of the Authority is not in line with regulatory principles which should ensure timely and complete recovery of approved ARR. The regulator while determining the tariff need to ensure that the entire eligible ARR is recovered through passenger or airline charges. This approach of the Authority will result in reduced recovery of UDF and consequently under-recovery of the approved ARR.

Further, in the said para it is mentioned that "*The Authority notes that if this has been considered differently in any of the recent tariff orders, the same will be changed at the time of true up*". This statement is against the regulatory principles and tantamount to amendment of tariff orders already issued for the other Airports and therefore it should be avoided.

2. **Debt Service Reserve Account:** The Authority has not considered Debt Service Reserve Account (DSRA) as part of CAPEX. Also, while M/s KITCO has recommended paying a return on the amount at a rate equivalent to the difference between WACC and the interest earned on the deposit, the same has not been accepted by the Authority.

In Project Finance, a Debt Service Reserve Account (DSRA), is a reserve specifically set aside to make debt payments in the event of a disruption of cash flows to the extent that debt cannot be serviced. Such reserve is funded out of a mixture of debt and equity and is a part of overall sources of fund. The amounts accumulated in DSRA are not allowed to be used for any purpose other than for Debt Service payments of Rupee Lenders. The monies being funded by mix of Debt & Equity are part of project Means of Finance as upfront creation before the operational revenue starts thus forming part of Capital Expenditure

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cash outflow. Hence a return on the differential amount should be provided by the Authority.

3. **Cost of Equity and Cost of Debt:** The Authority has considered cost of equity of GOA, MoPA Airport as average of cost of equity of other five PPP airports viz., DIAL, MIAL, GHIAL, BIAL and CIAL. It is to be noted that this approach of the Authority is contrary to the tariff computation guidelines 5.1.3 which suggests that the Authority shall estimate cost of equity, for a Control Period, by using the Capital Asset Pricing Model (CAPM) for each Airport Operator. The relevant portion of the AERA Guidelines is reproduced hereunder:-

*"5.1.3 Cost of Equity*

*Cost of Equity - The Authority shall estimate the cost of equity, for a Control Period, by using the Capital Asset Pricing Model (CAPM) for each Airport Operator, subject to the consideration of such factors as the Authority may deem fit."*

The Authority under Tariff Order No.7/2017-18 for Cochin Airport's Second Control Period has acknowledged and opined that "one size fits all" approach for calculating Cost of Equity is not appropriate since each airport is unique.

Each Airport has specific risk due to catchment area and demography of passenger etc. Further GOA, MoPA Airport has an additional risk of competition with the existing AAI GOA Airport, which also needs to be factored and cost of equity should be higher, based on specific study for each Airport to be conducted by the Authority.

In respect to Cost of Debt, the Authority has considered cost of debt of GOA, MoPA Airport, as average of cost of debt of other five PPP airports viz., DIAL, MIAL, GHIAL, BIAL and CIAL. This approach of the Authority is contrary to the Tariff computation guidelines 5.1.4 which suggests that the Authority shall consider forecast cost of "existing debt" based on a review of its sources, procedures and the methods used for raising such funds. Further, the Authority shall also consider the nature of all financial instruments being used or proposed to be used to mobilize such funds. For ease of reference, the relevant portions of the AERA Guidelines are reproduced hereunder:

*"5.1.4. Cost of Debt*

*(a) The Authority shall consider the forecast cost of existing debt, subject to the Authority being assured of the reasonableness of such costs based on a review including of its source(s), procedure(s) and method(s) used for raising such debt(s).*

...

*5.1.6 The Authority shall consider, in respect of the cost of equity or cost of debt, as the case may be, the nature of all financial instruments being used or proposed to be used to mobilize such funds."*

We hereby request the Authority to kindly allow cost of debt based on actuals which is in line with its guidelines.

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4. **Deferment of ARR** – During the stakeholder meeting, the Authority has expressed its view for deferment of ARR. It is to be noted that during the stakeholder meeting for Lucknow Airport held on 07.03.2023 it was mentioned by the Authority that in past it has resorted to deferment of ARR to keep the tariff lower and help the recovery of traffic which was impacted by COVID-19. In view of the upward trajectory of traffic which has surpassed the pre-COVID level, we request the Authority not to resort to any deferment of ARR going forward including but not limited to GOA, MoPA Airport.
  
5. **Repair and Maintenance Expenses:** In some of the recent orders issued, the Authority has assessed efficient cost of Repair and Maintenance as certain % of Opening RAB or as proposed by Airport Operator whichever is lower. We understand that the Repairs and Maintenance proposed by GOA, MoPA Airport is less than the Authority's prescribed efficient cost limit. Further it is understood that GOA, MoPA Airport has proposed the cost based on the competitive bidding process undertaken, hence, the price discovery has already been established.

Since the expenses proposed are market discovered rates and also less than the limits applied by the Authority in recent tariff orders, it is inconsistent on the part of the Authority to reduce the expenses proposed by the Airport Operator. We hereby request the Authority to allow Repairs and Maintenance as proposed by the GOA, MoPA Airport.

6. **Space rentals from Airlines classified as Aeronautical:** The AERA Act, 2008 and the AERA Guidelines do not categories the airline space rental as aeronautical revenue and the Authority does not regulate the airline space rental for the Airport Operator.

As per ICAO Doc 9562 the space rentals from Airlines are considered as Non-Aeronautical Revenues. Following are the relevant extracts of the same:

*"Revenues from non-aeronautical sources: Any revenues received by an airport in consideration for the various commercial arrangements it makes in relation to the granting of concessions, the rental or leasing of premises and land, and freezone operations, even though such arrangements may in fact apply to activities that may themselves be considered to be of an aeronautical character (for example, concessions granted to oil companies to supply aviation fuel and lubricants and the rental of terminal building space or premises to aircraft operators). Also intended to be included are the gross revenues, less any sales tax or other taxes, earned by shops or services operated by the airport itself."*

*4.23 Rentals. Rentals payable by commercial enterprises and other entities for the use of airport-owned building space, land or equipment. Such rentals should include those payable by aircraft operators for airport-owned premises and facilities (e.g. check-in counters, sales counters and administrative offices) other than those already covered under "air traffic operations"*

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It is evident that space rentals from Airlines should be considered non- aeronautical in nature.

We will be pleased to submit further information / clarification to the Authority if required.

Thanking You

Yours Faithfully

For **Lucknow International Airport Limited**

A handwritten signature in blue ink, appearing to read "Ashu" with a checkmark-like flourish at the end.

**Authorised Signatory**

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