

STUDY
ON
ALLOCATION OF ASSETS BETWEEN
AERONAUTICAL AND NON-
AERONAUTICAL ASSETS

for

KANNUR INTERNATIONAL AIRPORT (KIA)

(April 1, 2018 – March 31, 2023)

November 2023

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GLOSSARY

Abbreviation	Full Form
AAI	Airports Authority of India
AC	Air Conditioning
AERA	Airports Economic Regulatory Authority of India
AGL	Airfield Ground Lighting
AHU	Air Handling Unit
Airport Operator	Kannur International Airport Limited
AOCC	Airport Command and Control
ANS	Air Navigation System
ARR	Aggregate Revenue Requirement
ATC	Air Traffic Control
ATM	Air Traffic Movement
ATS	Air Traffic Service
AUCC	Airport User Consultative Committee
AVDGS	Advanced Visual Docking Guidance Systems
BIAL	Bangalore International Airport Limited
CAPEX	Capital Expenditure
CCTV	Closed Circuit Television
CISF	Central Industrial Security Force
CNS	Communication, Navigation and Surveillance
CUPPS	Common User Passenger Processing System
CUSS	Common User Self Service
CUTE	Common Use Terminal Equipment
CWIP	Capital Work in Progress
DFMD	Door Frame Metal Detector
DG	Diesel Generator
DVOR	Doppler Very high frequency Omni directional Range
EC	Empowered Committee
EHCR	Employee Head Count Ratio
EPC	Engineering Procurement Construction
FA	Financing Allowance
FAR	Fixed Asset Register
FIDS	Flight Information Display System
FY	Financial Year
GFA	Gross Fixed Asset
GoI	Government of India
HHMD	Handheld Metal Detector
HSD	High Speed Diesel
HVAC	Heating, Ventilation and Air Conditioning
IDC	Interest During Construction
IMG	Inter-Ministerial Group
INR	Indian Rupee
IP	Internet Protocol

Abbreviation	Full Form
IT	Information Technology
KIAL	Kannur International Airport Limited
KINFRA	Kerala Industrial Infrastructure Development Corporation
LED	Light Emitting Diodes
MPPA	Million Passengers per Annum
MYTP	Multi-Year Tariff Proposal
NCAP	National Civil Aviation Policy
O&M	Operation and Maintenance
OPEX	Operational Expenditure
PBB	Passenger Boarding Bridge
PPP	Public-private partnership
RAB	Regulatory Asset Base
RESA	Runway End Safety Area
RFP	Request for Proposal
Sq.m.	Square Metres
TIES	Trade and Infrastructure Scheme
UPS	Uninterrupted Power Supply
VDGS	Visual Docking Guidance System
VIP	Very Important Person

1 BACKGROUND

1.1 Introduction

Kannur International Airport (KIA) is the fourth International Airport and second Greenfield Airport in Kerala set up under the Public Private Partnership (PPP) model. It is located 28 Kms east of Kannur and close to the municipality of Mattannur in Kannur district of Kerala. The airport commenced its commercial operations in December 9, 2018 and primarily caters to the catchment area of Kannur, Wayanad, Kasaragod and northern Calicut district.

KIA is one of the Major Airports, as per the definition of Major Airport under section 2 (i) of Airports Economic Regulatory Authority of India Act, 2008, read with AERA (Amendment) Act 2019 and 2021. KIA commenced its commercial operations only in December 2018 and reported an actual passenger throughput volume of 1.59 MPPA for FY 2019-20 which was lesser than the threshold limit of 3.5 MPPA defined under the AERA Act 2008 read with AERA (Amendment) Act 2019. However, based on KIA's certified built-up/ designed capacity of 9.34 MPPA as well as the built-up terminal area of 96,143 Sq. m., AERA declared KIA as a 'Major Airport' vide Amendment to Public Notice 17/2019-20 dated March 16, 2020 under the AERA Act 2008 read with AERA (Amendment) Act 2019.

Pursuant to The Airports Economic Regulatory Authority of India Act, 2008 (AERA Act, 2008) read with AERA (Amendment) Act 2019 and 2021 and AERA Guidelines for the purpose of determination of Aeronautical tariffs for major airports, KIA had submitted on October 27, 2022 its initial Multi Year Tariff Proposal (MYTP) and the revised MYTP on March 27, 2023 for the Second Control Period from FY 2023-24 to FY 2027-28. Further, AO had submitted the Audited Financials including FAR for the period FY 2018-19 to FY 2021-22 and the Unaudited financials for FY 2022-23.

AERA has adopted Hybrid till approach for determination of tariffs for major airports. As per the Hybrid till approach, 30% of the Non-aeronautical revenues would cross-subsidise the Aeronautical revenues, i.e., the Aggregate Revenue Requirement (ARR). Tariffs for Aeronautical services under the Hybrid till are based on the various building blocks, i.e., Aeronautical Regulatory Asset Base (RAB), Aeronautical depreciation, Aeronautical operation and maintenance expenses, and Aeronautical tax.

1.2 Objective of the Study:

RAB is one of the fundamental elements in the process of tariff determination. The return to be provided on the RAB constitutes a considerable portion of the Aggregate Revenue Requirement for an airport operator. To encourage the participation of the private sector in airport development and operations, investors must be fairly compensated for the capital outlays involved. At the same time, to safeguard the interests of the airport users, it must be ensured that the capital additions are efficient, their needs justified, and the return on investment provided solely on the assets related to the core operations (i.e., Aeronautical services) of the airport. Assets not directly related to provision of Aeronautical services, if considered as Aeronautical assets, would result in increased charges for the passengers, stakeholders and other users. Therefore, the diligent allocation of assets into Aeronautical and Non-aeronautical assets becomes an important part of the tariff determination process.

RAB evolves on a continuous basis, primarily due to the addition of capital assets required to meet the growing demand and ensure optimal level of service, replacement of obsolete assets at end of their useful life, sales or transfers of assets and depreciation. The allocation of an asset towards RAB depends upon the type of asset (building & civil works, plant & machinery, equipment, etc.), usage (provision of various services such as Aeronautical, Non-aeronautical, or Common), ownership (by airport operator, concessionaire or other entities) and useful life of the asset. Based on these factors, the rationale for allocation of each asset into the appropriate classification needs to be determined diligently.

Towards this objective, AERA has decided to conduct an independent study on allocation of assets and segregation between Aeronautical and Non-aeronautical components in respect of assets appearing in the Fixed Asset Register (FAR) of KIA as on March 31, 2023, based on the True up submission which includes audited financial statements for the year ended March 31, 2022 and the Unaudited figures for the year ended March 31, 2023.

1.3 Documents examined as per the Study

As part of the Study, the following documents have been examined:

- a. AERA Act, 2008 including AERA (Amendment) Act, 2019 and 2021 (“AERA Act”) and AERA Guidelines issued from time to time.
- b. AERA Order No. 14 / 2016-2017 dated January 23, 2017 [In the matter of aligning certain aspects of AERA’s Regulatory Approach (Adoption of Regulatory Till) with the provisions of the National Civil Aviation Policy 2016 (NCAP 2016)] approved by the Government of India.
- c. AERA Order No. 35 / 2017-18 dated January 12, 2018, and Amendment No. 01 to Order No. 35/2017-18 dated April 9, 2018 (In the matter of determination of useful life of Airport assets).
- d. AERA Tariff Order No. 26/2018-19 for the First Control Period dated November 9, 2018 for KIA and previous tariff orders for other similar airports.
- e. True up submission of KIA forming part of revised MYTP dated March 27, 2023.
- f. Annual Reports, audited financial statements, FAR, clarifications and other details received from AO.

2 TERMS OF REFERENCE AND WORK PERFORMED

2.1 Terms of Reference

2.2.1 AERA has outlined the scope of work for the Study to include segregation of assets between Aeronautical and Non-aeronautical activities, as stipulated in the:

- Tariff Order No. 26/2018-19 dated November 9, 2018 for the First Control Period for KIA
- RFP No. 01 / 2022-23 dated August 30, 2022 for engagement of consultants to assist AERA in determination of tariffs for Aeronautical services at various Major Airports (refer paragraph 2.1.1 (v), “Asset / OPEX segregation between Aeronautical and Non-aeronautical”, and clause 3.1 (v) of Schedule 1 (Terms of Reference) of the RFP document).

2.2 Work Performed

2.2.1 The Study has relied on the general principles previously adopted by AERA for allocation of assets between Aeronautical and Non-aeronautical activities for other airports, while being cognisant of the differences, as may be applicable and references to treatment of assets in previous tariff orders.

2.2.2 Key steps followed for the Study include:

- Review of AERA Order No. 26/2018-19 for the First Control Period dated November 9, 2018 for KIA and previous Tariff Orders and Consultation Papers for other select airports to identify precedents and the methodology followed by the Authority in the matter of allocation of assets.
- Review of True up workings submitted by AO for the period from April 1, 2018 to March 31, 2023 and related documents such as FAR, Financial Model, Capital Expenditure forecasts, terminal building area allocation, etc.
- Review of asset-wise segregation done by AO into Aeronautical, Non-aeronautical and Common assets as per the description in the FAR. Discussions were carried out with the Airport Operator’s Management for clarifications and to collect additional information, wherever necessary.
- Comparison of assets’ carrying value in FAR with financial statements of KIA.
- Formulation of general principles for asset allocation to ensure consistency in classification and reclassification of assets, if required.
- Analysis of terminal area allocation.
- Review of Aeronautical Gross Block from FY 2018-19 to FY 2022-23 and determination of Gross Fixed Assets ratio.

2.2.3 The adjustments based on reclassification of assets as per the Study report, have been considered for the purpose of determination of the adjusted RAB as on March 31, 2023 based on audited figures for the period from April 1, 2018 to March 31, 2022 and the unaudited figures for FY 2022-23.

3 ASSET ALLOCATION METHODOLOGY FOR KANNUR INTERNATIONAL AIRPORT LIMITED

3.1 Segregation of assets

3.1.1 AO has submitted the segregation of total assets in line with the AERA Act.

3.1.2 The Study intends to review AO's segregation of total assets into the following:

- **Aeronautical assets:** All assets that are exclusively used for the provision of Aeronautical services/ activities have been classified as 'Aeronautical assets'. Such assets would include runway(s), taxiways, drainage, culverts, aprons, etc.
- **Non-aeronautical assets:** All assets that are exclusively used for the provision of Non-aeronautical services/ activities have been classified as 'Non-aeronautical assets'. Such assets would include land side development, commercial projects, etc.
- **Common assets:** All assets that cannot be directly allocated to either Aeronautical assets or Non-aeronautical assets have been classified as 'Common assets'. Such assets as the name suggests, get utilised for both Aeronautical and Non-aeronautical activities. They would include terminal building, select terminal equipment, etc.

3.2 Definition of Aeronautical Services

3.2.1. As per section 2 (a) of the AERA Act, 2008, "aeronautical service" means any service provided for:

- i. *navigation, surveillance and supportive communication thereto for air traffic management.*
- ii. *the landing, housing or parking of an aircraft or any other ground facility offered in connection with aircraft operations at an airport.*
- iii. *ground safety services at an airport.*
- iv. *ground handling services relating to aircraft, passengers and cargo at an airport.*
- v. *the cargo facility at an airport.*
- vi. *supplying fuel to the aircraft at an airport; and*
- vii. *a stakeholder at an airport, for which the charges, in the opinion of the Central Government for the reasons to be recorded in writing, may be determined by the Authority;"*

3.3 Basis for allocation of assets as per AO's submission

3.3.1 The classification of the asset categories as Aeronautical, Non-aeronautical and Common along with the basis of allocation of Common assets to Aeronautical and Non-aeronautical activities, as submitted by AO, has been presented in Table 1 below:

Table 1: Basis for allocation of assets as per AO's submission

Asset Category	Asset Sub-Category / Description	Asset Classification
Freehold Land	Land development cost relating to Own Land, Graded Area turfing	Aeronautical
	Land development cost relating to Trees of Green Belt Plantation, Landscaping	Aeronautical
Leasehold Land	Leasehold Land	Aeronautical
Drains & Culverts	All Types of Drains & Culverts	Aeronautical
Fire Equipment	Power supply equipment, Air conditioner and other equipment	Aeronautical
Boundary	Boundary walls	Aeronautical
Bridges	Construction of Flyover inclusive of all works	Aeronautical

Asset Category	Asset Sub-Category / Description	Asset Classification
Roads	Parking Roads	Non-Aeronautical
	Approach Roads	Aeronautical
	Boundary wall Security fencing	Aeronautical
	Operational Area Roads and Main Access Roads	Aeronautical
Electrical Installation EPC	Advertisement boards	Non- Aeronautical
	LED lighting, DG set, communication device & power related Equipment	Aeronautical
	Assets related to sub-station, including earthing and wiring, generators, rain water harvesting and water supply	Aeronautical
	CCTV and Security System	Aeronautical
	AGL Equipment	Common
Electrical Equipment	Baggage Handling Systems	Aeronautical
	Water Sensors & Analyzer	Aeronautical
	Video Management Software & IP Phones	Aeronautical
	PBB and AVDGS	Aeronautical
	X-Ray Machine, RT set, DFMD, HHMD Security Equipment	Aeronautical
Building	Flight Information System, AOCC Equipment	Aeronautical
	Terminal Building (including VIP Terminal, Bus Terminal, Haj Terminal)	Common
	CNS Building- DVOR related equipment	Aeronautical
	Widening and strengthening of perimeter road	Aeronautical
	Fire station and related assets	Aeronautical
	Plumbing work equipment for Airport	Aeronautical
	Service block 100 Sqm/400 Sqm& General Motor Transport Workshop.	Common
Furniture & Fixtures	Other Furniture & Fixtures at Common Areas at the terminal and administrative offices	Aeronautical
Computer & Accessories	IT assets namely Printer, Hard drive & Laptops	Aeronautical
Office Equipment	Video conferencing system, water purifier & Air conditioner, finger print & face recognition system	Aeronautical
Plant & Equipment	Metal Detectors and Bomb Detection & safety and security related assets	Aeronautical
	Integration of ATS tower with AOCC, Power supply, and other equipment for operational area and activities	Aeronautical
	Power supply, Air conditioner and other equipment for office use	Aeronautical
	Lighting and Electrical Works on the Airside	Aeronautical
	FIDS, CUTE, CUSS	Aeronautical
	Assets related to sub-station, including earthing and wiring, generators, rain water harvesting, sewage treatment and water supply	Aeronautical
	Air Conditioning at terminal building and other areas	Common
	Elevators and escalators	Aeronautical
	Firefighting and protection equipment	Aeronautical
	Other equipment	Aeronautical/ Common
	Reimbursement of cost of CNS-ATM equipment to AAI	Aeronautical
	Leased baggage screening equipment	Aeronautical
	Runways, Taxiways and Apron	Construction, widening and strengthening of Runways, Taxiways, Isolation Bay and Aprons
Vehicles	Toyota Corolla	Aeronautical

Asset Category	Asset Sub-Category / Description	Asset Classification
Cargo	Assets Related to Bonded Cargo Activities within the Airport	Aeronautical
	Operational Area	Aeronautical
Car Parking	Car Parking related assets	Non-aeronautical
Other assets	KIAL Logo & Computer Software	Aeronautical
	Microsoft Office, Tally & Windows	Common

3.3.2 The AO had initially submitted the Terminal Building Ratio as 94.5:5.5 (Aeronautical: Non-aeronautical activities) and later revised the same, vide e-mail dated July 21, 2023 as 95:5. The same has been detailed as follows:

Table 2: Allocation ratios submitted by AO

Particulars	Allocation Ratio
Terminal Building ratio (Aeronautical: Non-aeronautical)	95:5
Employee Head Count ratio (Aeronautical: Non-aeronautical)	98.39:1.61 (FY 2018-19) / 96.61:3.39 (FY 2019-20) / 95:5 (FY 2020-21) / 94.78:5.22 (FY 21-22) / 93.33:6.67 (FY 2022-23)

3.4 Basis for allocation of assets as per the Study

3.4.1 As part of the Study, the description, location and usage of various assets and asset categories, as well as basis for their segregation into Aeronautical, Non-aeronautical and Common assets has been reviewed.

3.4.2 Aeronautical assets (e.g., Freehold land, Runways, Taxiways, Apron, Bridges, Drains & Culverts, among others) have been directly added to RAB and assets identified as Non-aeronautical (e.g., advertisement boards, bio-gas plant) have been excluded from RAB. The assets that have been classified as Common, have been further segregated between Aeronautical and Non-aeronautical assets based on a suitable ratio. This ratio has been determined based on the underlying proportion of their expected utilisation for Aeronautical and Non-aeronautical services and activities at the Airport.

3.4.3 It is noted that assets related to ATC Tower and ANS activities included in RAB form part of ANS assets, which are deployed for Aeronautical services. AERA does not determine the regulatory tariff for ANS-related activities (as explained in para 3.4.6), and hence, ANS related assets have been excluded from the Adjusted RAB derived as part of the Study.

3.4.4 Further, it is noted that AO had initially acquired 1,192.18 acres of land at a value of ₹ 316 Crores for development of phase 1 of the airport from the Government of Kerala through Kerala Industrial Infrastructure Development Corporation (KINFRA), the nodal agency for land acquisition appointed by the Government and carried out development of the airport on approx. 500 acres of such land. Based on the same, the AO had claimed the proportionate cost of land utilized for such development amounting to ₹ 131.67 Crores as part of RAB, in their MYTP submitted for the First Control Period.

However, it is observed that the Authority vide para nos. 6.5 and 6.12 of the tariff order for the First Control Period had excluded the land development cost claimed by AO from RAB and noted that the same would be trued up in the Second Control Period based on Authority's Final Order pursuant to Consultation paper No. 04/2018-19 dated May 18, 2018 and Supplementary Consultation Paper No. 17/2018-19 titled "In the matter of determination of FRoR to be provided on cost of land incurred by various airport operators in India".

It is observed that the Authority had subsequently issued the Order No. 42/2018-19 dated March 5, 2019 and based on its decision vide para no. 4.1.6 of the aforementioned Order No. 42, the land development cost incurred by the Airport Operator towards development of certain Aeronautical assets on such land, has been capitalised and included in the true up of RAB of First Control Period.

The relevant extract of Clause 4.1.6 of Order No. 42/2018-19 is reproduced below:

The cost of land levelling and land development will be included in the cost of asset if it can be specifically identified with the aeronautical asset and taken to the RAB. In other cases, a return will be given as per this order only on land utilized for Aeronautical purpose as and when used.

Upon further clarification, AO has provided a statement showing break-up of land development cost amounting to ₹ 333.28 Crores, in the nature of cutting, filling, blasting etc, incurred for development of various aeronautical assets with the details of proportionate area and corresponding cost of each individual asset (refer Annexure I of this report). However, it is observed that AO has not added such cost to the respective asset in the RAB and instead included the land development cost as a separate asset in the RAB and further claimed depreciation on the same.

3.4.5 Based on the examination of explanation provided by AO towards Land Development (refer para 3.4.4), along with the relevant provisions of Order No. 42/2018-19 dated March 5, 2019 of AERA, it is noted as part of the Study that the cost has been incurred towards Land Development by AO, prior to the date of issuance of the above-mentioned Order No. 42/ 2018-19 (i.e. before March 5, 2019). Therefore, it is proposed not to consider the above-mentioned Land Development costs amounting to ₹ 333.28 Crores, as part of RAB or as part of Land cost (for which Return is provided as per Order No. 42/ 2018-19) for true up of the First Control Period of KIA.

3.4.6 It is observed that AO has claimed CAPEX of ₹ 20.14 Crores in FY 2022-23 towards reimbursement of the cost of procurement and installation of ANS equipment incurred by AAI at the airport. It is pertinent to note here that KIA being a greenfield airport, has entered into an agreement with AAI for providing CNS-ATM services at the Kannur airport. Further, it is noted that AO has explained the reason for claiming such amount in the MYTP and the same is shown below:

“KIAL has considered a sum of INR 20.14 Crore as per the details of the bill raised by the ANS service provider dated 20th January 2023. The amount pertains to the cost of procurement and installation of ANS equipment. However, these are under negotiations and KIAL has considered the amount for calculations as interim. As we get confirmation from CNS-ATM service provider for non-applicability of these charges, the same can be re-evaluated during the true-up for third control period.”

It is noted that the tariff for ANS is presently regulated by the Ministry of Civil Aviation. All the assets, expenses and revenues pertaining to ANS are considered separately by the Ministry while determining tariff for ANS services. Further, the tariff for ANS services is determined at the Central level by the Ministry of Civil Aviation to ensure uniformity across the Airports in the Country. Hence, AERA determines tariff for Aeronautical services of the Airport Operator, by excluding the assets, expenses and revenues from ANS.

Based on all the above factors, it is proposed not to consider the above-mentioned CAPEX of ₹ 20.14 Crores as part of RAB.

3.4.7 Based on the review of submissions made by AO, the Study concurs with the asset allocation methodology adopted in the submissions, except as specifically identified in the table below. Further, the assets have been analysed on a case-to-case basis and in case of any discrepancies identified in allocation, appropriate reclassification has been made for such assets.

Table 3: Reclassifications to the asset categories proposed by the Study

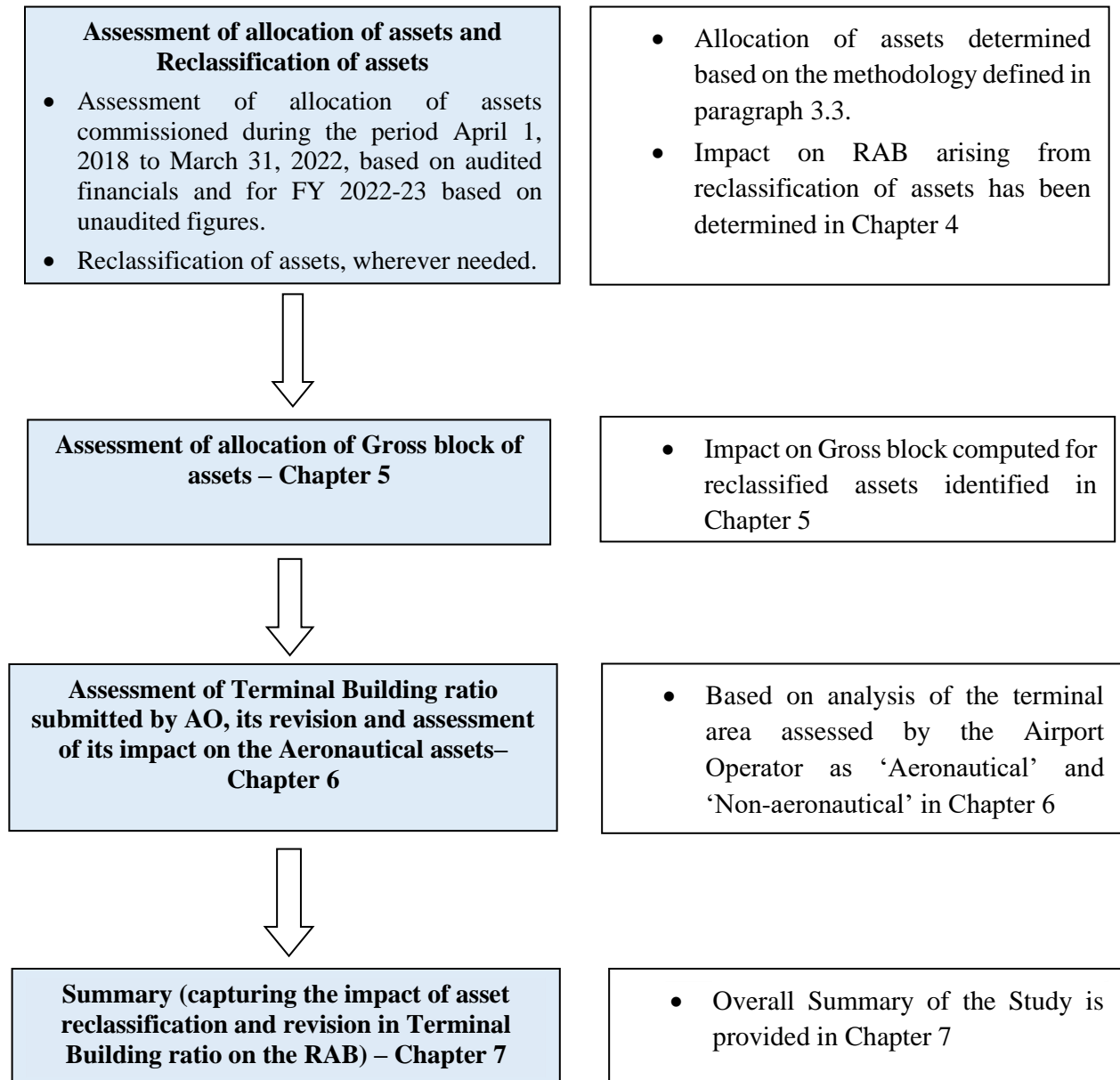
Asset Category	Asset Sub-category/ Description	Classification by AO	Classification as per the Study
Drains & Culverts	Landside Drains & Culvert	Aeronautical	Common - Terminal Building Ratio (92:8)
Boundary Wall	Property Boundary Wall	Aeronautical	60% Aeronautical (refer to para 4.4.1.2)
Roads	East Entry Road	Aeronautical	Common - Terminal Building ratio (92:8)
	Car Approach Road	Aeronautical	Common - Terminal Building ratio (92:8)
	Pump House Road	Aeronautical	Common - Terminal Building ratio (92:8)
	Service Roads (West Entry Road)	Aeronautical	Common - Terminal Building Ratio (92:8)
	Secondary Approach Road	Aeronautical	Common- Terminal Building ratio (92:8)
Electrical Installation EPC	Electrical and Lighting work for pipe earthing, Public Address System, Fire Detection & Alarm System	Aeronautical	Common - Terminal Building ratio (92:8)
Electrical Equipment	Lighting work and related Equipment	Aeronautical	Common - Terminal Building ratio (92:8)
	CCTV & security Equipment	Aeronautical	Common -Terminal Building ratio (92:8)
	DG set, Generator & other electrical Equipment	Aeronautical	Common - Terminal Building ratio (92:8)
Buildings	Construction of Ancillary building & Related Assets	Aeronautical	Common -Terminal Building ratio (92:8)
Furniture & Fixtures	All the sofa, table and chair.	Aeronautical	Common - Employee Head Count Ratio (refer para 4.3.1)
Computer & Accessories	Laptops, Printer & hard disk	Aeronautical	Common - Employee Head Count Ratio (refer para 4.3.1)
Office Equipment	IT assets and other office equipment at the airport.	Aeronautical	Common - Employee Head Count Ratio (refer para 4.3.1)
Plant & Equipment	Fuel Handling Equipment and Water Treatment Plant	Aeronautical	Common - Terminal Building Ratio (92:8)
	National Flag	Aeronautical	Common - Terminal Building Ratio (92:8)
Vehicles	Toyota Corolla	Aeronautical	Common - Terminal Building Ratio (92:8)
Old Assets	Vehicle, Computer & Accessories, Furniture & Fixtures & Office equipment and other assets up to	Aeronautical	Common - Terminal Building Ratio (92:8)

Asset Category	Asset Sub-category/ Description	Classification by AO	Classification as per the Study
	March 31, 2018 (Prior the commencement First Control Period)		
Other Assets	KIAL Logo and AutoCAD Software	Aeronautical	Common - Employee Head Count Ratio (refer para 4.3.1)
	Microsoft Office, Tally & Windows	Common (Terminal Building Ratio)	Common - Employee Head Count Ratio (refer para 4.3.1)

3.5 Methodology used to verify segregation of assets as per the Study

- 3.5.1 Assessment and verification of the assets commissioned by AO was performed based on information provided, including audited trial balance and financial statements, FAR, observations during the site visit conducted by the Independent Consultant on 28th February, 2023 and further discussions held with the Airport Operator.
- 3.5.2 Asset classification was reviewed based on AO's submission, information provided by the Airport Operator regarding the location and usage of the assets, allocation considered by AERA in the treatment of similar assets in the case of other airports, and description of the assets given in the FAR for the period April 1, 2018 to March 31, 2022 and unaudited figures for FY 2022-23.

3.5.3 Based on the above steps, RAB for each financial year was re-computed. The methodology described above has also been illustrated below in sequential steps:-



4 ASSET ALLOCATION ADJUSTMENTS AND RECLASSIFICATION OF ASSETS AS PER THE STUDY

4.1 AO's Submission of RAB as on March 31, 2023

4.1.1 The Airport Operator (KIAL) vide their revised MYTP dated March 27, 2023 has submitted Aeronautical Capital Additions of ₹ 2,117.90 Crores (including unaudited figures amounting to ₹ 52.34 for FY 2022-23) for the First Control period as against ₹1,791.96 Crores approved by the Authority in the tariff order for the First Control Period.

4.1.2 AO had initially provided details of asset additions based on the audited Fixed Assets Registers (FARs) for the first 4 tariff years, i.e., FY 2018-19 to FY 2021-22 and Projections for FY 2022-23 wherein we observed certain inconsistencies and duplications. AERA had organized a virtual joint-meeting on April 3, 2023 with the representatives of AO and the Authority's Independent Consultants, wherein AO had agreed to provide the revised FARs after addressing the inconsistencies in the FAR and in the required format. However, AO had sought the sample format of FAR from the Authority's Independent Consultant which was prepared and shared with AO, by the Independent Consultant. Subsequently, AO had provided the revised FARs in the desired format on May 11, 2023, which has been considered for further analysis. Further, minor variances were noted between assets presented in the revised FARs submitted by AO and that shown in the revised MYTP submitted by AO. The RAB as per FAR submitted by the AO amounted to ₹1,777.86 Crores. Upon further clarification, AO had confirmed vide email dated May 19, 2023, to consider the figures appearing in the revised FARs (as per new format) submitted by AO on May 11, 2023 for further analysis, as part of this Study. Accordingly, the assets shown in the revised FARs have been considered as part of this Study for determining the adjusted RAB as on March 31, 2023.

As mentioned in the above explanation, Authority has considered the figures as per revised FAR for calculation of RAB

The sequential timeline of the above events has been presented in the table below:

Table 4: Submission of documents by AO

Dates	Description
October 27, 2022	Initial MYTP Submission by AO
March 27, 2023	Revised MYTP was submitted by AO
April 3, 2023	Virtual meeting convened by AERA along with its Consultants with the Representatives of AO for addressing the issues in FAR
May 11, 2023	Revised FAR submitted by AO
May 19, 2023	Confirmation provided by AO for considering figures in FAR for the purpose of this Study report

4.1.3 Further, it is observed that AO has submitted opening RAB of ₹ 0.52 Crores as on April 1, 2018 (mostly relating to Furniture & fittings, Office equipment, Computers & accessories, Vehicles, etc), Aeronautical capital additions of ₹ 2,010.40 Crores during the FY 2018-19 with the date of capitalization being December 9, 2018 (i.e., the date of commencement of commercial operations of the airport) for majority of the assets. Based on the same, the closing RAB of ₹ 1,990.86 Crores was submitted as on March 31, 2019. However, it is noted that for certain assets such as Furniture & fixtures, Office equipment and Computers & accessories etc., AO has capitalized the same during

the FY 2018-19 based on the actual date of capitalisation/ 'put to use', which is proposed to be considered as part of the Study.

4.1.4 Apart from FY 2018-19, AO has submitted the Aeronautical capital additions for other Tariff years, such as ₹ 37.40 Crores in FY 2019-20, ₹ 14.69 Crores in FY 2020-21, ₹ 3.06 Crores in FY 2021-22 and unaudited figure of ₹ 52.34 Crores for FY 2022-23.

4.1.5 It is also observed that the capitalized value of assets includes both the components i.e., Interest During Construction (IDC) cost amounting to ₹ 159.16 Crores (Gross Block) and Financing Allowance (FA) to ₹ 362.30 Crores.

4.1.6 The details of RAB submitted by AO for the First Control Period is shown in the table below:

Table 5: Period-wise presentation of RAB as per submissions by AO

(₹ in Crores)

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
Opening RAB (A)	0.52	1,990.84#	1,936.29	1,859.07	1,769.69	
Additions to RAB during the year (B)	2,010.40*	37.40	14.69	3.06	52.34	2,117.89
Deletions from RAB during the year (C)	-	-	-	-	-	-
Depreciation as per AO (D)	20.05	91.94	91.91	92.44	92.16	388.51
Closing RAB (E = A+B-C-D)	1,990.86	1,936.29	1,859.07	1,769.69	1,729.87	

* includes financing allowance of ₹ 363.56 Crores, which was included only for the FY 2018-19.

calculation errors in MYTP submission of KIA

4.1.7 The comparison of the year-wise additions to RAB made by AO with the Aeronautical Capital Expenditure approved by the Authority in the Tariff Order of the First Control Period is summarised in the table below:

Table 6: Comparison of year-wise additions to RAB by AO with Aeronautical Capital Expenditure approved by the Authority in the Tariff Order of the First Control Period

(₹ in Crores)

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
Amount approved as per Tariff Order (A)	1,791.96	-	-	-	-	1,791.96
Actual additions to RAB (B)	2,010.40	37.40	14.69	3.06	52.34	2,117.89
Variance (B-A)	218.44	37.40	14.69	3.06	52.34	325.93

4.1.8 The comparison of CAPEX approved by the Authority in the tariff order of the First Control Period with the CAPEX claimed by AO as part of true up is shown in the table below:

Table 7: Comparison of Aeronautical CAPEX approved by the Authority in the Tariff Order as against CAPEX claimed in the True up of the First Control Period

(₹ in Crores)

Particulars	CAPEX approved by the Authority (A)	CAPEX claimed by AO (B)	Variance (C = A - B)
Buildings & Civil works, Runways, bridges, roads and culverts	1,312.94	968.60	344.04
Plant & Machinery	479.02	346.87	132.15

Particulars	CAPEX approved by the Authority (A)	CAPEX claimed by AO (B)	Variance (C = A – B)
Other assets such as Furniture & fixtures, vehicles, Office Equipment, Computer & accessories.	-	1.71	(1.71)
Freehold Land	-	333.28	(333.28)
Leasehold land	-	51.52	(51.52)
Plant & Machinery (ANS equipment)	-	20.14	(20.14)
Buildings & Civil works, Runways, bridges, roads and culverts (Integrated Cargo complex and office building)	-	32.20	(32.20)
Financing Allowance	-	363.56	(363.56)
TOTAL	1,791.96	2,117.90	(325.93)

It is observed that out of the total approved CAPEX of ₹ 1,791.96 Crores, the Authority had approved the following:

- (i) An amount of ₹ 1,312.94 Crores was approved towards Buildings & Civil works, Runways, roads and culverts, against which the Airport Operator has claimed actual CAPEX of ₹ 968.60 Crores (which includes Terminal Building Area of 96,143 Sqm), Roads, Bridges, Drains and Culverts for ₹ 672.85 Crores, Pavements for ₹ 286.19 Crores and Furniture & fixtures for ₹ 9.56 Crores) and;
- (ii) An amount of ₹ 479.02 Crores was approved towards Plant & Machinery against which the Airport Operator has submitted actual CAPEX of ₹ 346.87 Crores (which includes Electrical equipment worth ₹ 291.43 Crores, Fire departments equipment for ₹ 32.28 crores and other Plant & Machinery items for ₹ 23.16 Crores).
- (iii) Apart from the above, it is observed that AO has claimed unapproved CAPEX amounting to ₹ 802.27 in the RAB, as mentioned below:
 - An amount of ₹ 1.27 Crores towards miscellaneous assets such as Furniture & fixtures, Vehicles, Office equipment, Computers & accessories and Intangibles (in the nature of Computer Software, Logo, etc.)
 - An amount of ₹ 333.28 Crores towards Freehold land development cost
 - An amount of ₹ 51.52 Crores towards Leasehold land development cost
 - Reimbursement of cost of procurement and installation of ANS equipment worth ₹ 20.14 Crores to AAI.
 - Construction of Integrated Cargo complex and office building worth ₹ 32.30 Crores and
 - Financing allowance of ₹ 363.56 Crores for the FY 2018-19

4.1.9 Based on the examination of the unapproved CAPEX submitted by AO, the following views have been summarized:

- (i) **Miscellaneous assets:** The need, location and usage of miscellaneous assets such as Furniture & fixtures, Vehicles, Office equipment, Computers & accessories (in the nature of Computer Software, Logo, etc.) were reviewed and found reasonable. Based on the above factors, the Study proposes to consider these as part of RAB, while determining true up of the First Control Period.
- (ii) **Freehold Land Development Cost:** As explained in para 3.4.4 and para 3.4.5, it is proposed to exclude the land development cost from RAB.
- (iii) **Leasehold Land Development Cost:** It is observed that AO has included the development cost of ₹ 51.52 Crores incurred on Leasehold land and claimed amortization over the useful

life of 60 years. Upon further clarification, AO has shared a map showing the land acquisition layout of the airport (refer Annexure II of this report) and explained that apart from the 1,192 acres of land acquired from the Government of Kerala through KINFRA, they had also leased approx. 71 acres of land from the Kerala State Government. It is noted that, AO has carried out development on such land (near the runway), for which costs of ₹ 51.52 Crores (verified with the audited financials), has been included under RAB. Further, it is explained by AO that the lease is for a period of 60 years, though the underlying agreement is yet to be finalized and signed between the parties. Considering that the Authority vide Amendment No. 01 to Order No. 35/2017-18 dated April 9, 2018 has prescribed that development cost of Leasehold land to be amortized over the lease period, it is proposed to consider the leasehold land development cost of ₹ 51.52 Crores as part of capital additions for the First Control Period of KIA.

- (iv) **ANS equipment:** As explained in para 3.4.6, it is proposed to exclude the one-time reimbursement of cost towards procurement and installation of ANS equipment to AAI.
- (v) **Integrated Cargo Terminal:** It is noted that the capital expenditure of ₹ 32.20 Crores claimed by AO in FY 2022-23 represents the estimated cost of construction of the Integrated Cargo Terminal net of Government grant received from Trade and Infrastructure Scheme (TIES) for the construction of Cargo complex (i.e., Estimated cost of ₹ 52.30 Crores less Grant of ₹ 20 Crores). The new Cargo terminal is expected to add 5,000 Sq.m. and an additional 12,000 Tonnes of volume.

Further, AO has explained the CAPEX of Cargo terminal in the MYTP as shown below:

“The total project cost for the cargo terminal is estimated to be INR 52.34 Crore. An amount of INR 22.30 Crore is under Capital Work in Progress (CWIP) for the same as on FY22. KIAL had received a grant of INR 20.14 Crore as part of Trade and Infrastructure Scheme (TIES) for the construction of cargo complex. Out of the total grant of INR 20 Crore, KIAL has received INR 10 Crore as on date. The remaining INR 10 Crore is assumed to be transferred to KIAL in FY23. The entire grant has been adjusted in the total capital expenditure incurred for cargo complex and the same has not been considered for the calculation of RAB. After adjusting for the grant, the remaining CWIP is expected to be capitalized in FY 23, i.e., INR 32.20 Crore.”

The Minutes of the 10th meeting of Empowered Committee (EC) on ‘Trade Infrastructure for Exports Scheme’ (TIES) for FY 2019-20 held under the Chairmanship of Commerce Secretary on November 1, 2019 at New Delhi was examined and it was observed that the EC had approved the estimated cost of construction of Cargo complex at Kannur Airport and also the grant of ₹ 20 Crores towards the same.

Further, it was noted the project was 80% complete as on March 31, 2023 (as confirmed by AO vide email dated May 11, 2023). Considering the same, it is observed that the new Cargo terminal is most likely to be commissioned only in the next year i.e., FY 2023-24 which is the 1st tariff year of the 2nd Control Period. Hence, it is proposed not to consider any CAPEX towards construction of new Cargo terminal during FY 2022-23 (i.e., last tariff year of 1st Control Period).

Furthermore, it is observed that AO has already capitalised Cargo related assets such as buildings, roads, electrical and fire equipment, plant & machinery, etc, amounting to approx. ₹ 10 Crores in the FY 2020-21 towards construction of an Interim cargo facility measuring approx. 1,506 Sq.m. AO had commenced Cargo operations out of the interim facility in October 2021 and the same is currently operational. With respect to continuation of the usage of the interim cargo building and equipment, AO has explained vide email dated May 12, 2023 that the equipment and machinery will continue to be used in the new greenfield cargo facility whereas the building may be put to alternative use (such as warehouse) and the decision would be taken at a later date.

Financing Allowance

- (vi) Financing allowance (FA) of ₹ 363.56 Crores – It is noted that KIA being greenfield airport has calculated FA on the value of Work-in Progress Assets (WIPA) as per the prescribed formula (refer para 5.2.7 of Direction No.5 / 2011-12 dated February 28, 2011) for the period under construction and claimed the same in the 1st tariff year i.e., FY 2018-19. It is noted that Direction 5 allowed Airport Operators to be eligible for FA (which is basically a return on the value invested in the construction phase of an asset including Equity invested) before the asset is put to use.

IDC

- (vii) Considering KIA is a greenfield airport which commenced its commercial operations on December 9, 2018, wherein majority of the assets were not put to use and also taking cognizance of the fact that, AO did not have any airport operations to support the investment in CAPEX during the period of construction, it is considered that AO's claim for FA is justified and reasonable. It is pertinent to note here that AO has claimed FA of ₹ 363.56 Crores and this amount is apart from IDC (refer para 4.1.5) already capitalized along with the cost of assets.

In this background, AERA's previous Tariff Orders issued for BIAL (refer para 9.2.22 and Table 26 of Order No. 18 / 2018-19 issued on August 31, 2018 for the Second Control Period and para 3.3.52 of Order No.11/2021-22 dated August 28, 2021 issued for the Third Control Period) wherein it is observed that AERA had allowed Financing Allowance calculated as per the prescribed Airport Guidelines 2011 (i.e., Direction No.5 / 2011-12). Further, it has been noted that BIAL had claimed only FA as an addition to RAB and not IDC i.e., borrowing cost. The FA had been added to the basic infra cost & charges (without including borrowing cost) and the resultant value of the asset had been considered for capitalization and further allocation / segregation. The Authority had accepted BIAL's explanation and allowed FA (and *not IDC*) as an addition to RAB (refer para 3.3.78 of Order No.11/2021-22 dated August 28, 2021 issued by AERA).

Based on the above factors, it is proposed to consider the FA of ₹ 289.31 Crores (after excluding FA claimed on Land Development Cost of ₹ 72.99 crores) claimed by AO as part of RAB. However, it is proposed not to consider ₹ 159.16 Crores of IDC (i.e., borrowing cost) added to the cost of the asset, as Financing Allowance has been proposed to be considered for the assets capitalised by the Airport Operator (as explained in the above-mentioned paragraphs). Therefore, IDC has been excluded while computing the capitalised value of the assets of the Airport Operator for the First Control Period.

Further the Authority proposes to consider the recalculated capitalized value of assets for further allocation / segregation.

- 4.1.10 It is also noted that the Airport Operator has not carried out any work relating to runway extension as per the decision of the Authority (refer para 6.6 and Decision no. 1.b of the Tariff Order of the First Control Period).
- 4.1.11 Based on the above factors, it is proposed to consider the actual Aeronautical additions of KIA after excluding Freehold land development cost, ANS equipment and New Cargo terminal. Further, it is observed that there are minor variances between the Aeronautical CAPEX additions as per the revised MYTP submission and the revised FARs submitted by AO. The details of the same are shown below:

Table 8: Aeronautical CAPEX as per MYTP vis-a-vis FARs

(₹ in Crores)

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	Total
Aero Capex additions - as per MYTP (A)	2,010.40	37.40	14.69	3.06	2,065.55
Aero Capex additions - as per FARs (revised by AO) (B)	2,005.06	40.06	14.53	3.09	2,062.74
Variance (C = A – B)	5.34	(2.66)	0.15	(0.02)	2.81

Upon further clarification, AO has confirmed through email dated May 19, 2023 that the figures mentioned in the revised FARs are correct and can be considered for further analysis, as part of the Study. Based on the same, it is proposed to consider the Aeronautical additions as per the revised FARs submitted by AO for further analysis on classification and for deriving the adjusted RAB as on March 31, 2023.

4.1.12 The AO has claimed Financing Allowance amounting to ₹ 363.65 Crores in its revised MYTP submission. However, it was noted as part of the Study, that the actual amount claimed as Financing Allowance in the FAR was ₹ 362.30 Crores and the same has been considered for our further analysis.

4.1.13 It is observed that the Airport Operator had classified the assets forming part of opening RAB of ₹ 0.52 Crores as Aeronautical assets except for a few items of Furniture & fixtures and Office equipment. In this respect, it is noted that the construction of the airport had been initiated in FY 2015-16 (i.e., assumed as April 1, 2015 for the purposes of this Study) and the commercial operations had commenced only in December 2018. Based on the same, the Airport Operator's classification of most of the assets capitalized up to March 31, 2018 as 'Aeronautical assets' (i.e., prior to commencement of the First Control Period) is not found to be appropriate / justified. Therefore, the Study proposes to consider all the assets capitalized up to March 31, 2018 as Common assets and reallocate the same using appropriate ratios. The re-classifications made to the assets, as part of the Study, have been explained in the following paragraphs:

4.2 Adjustments made to RAB for the period April 1, 2018 to March 31, 2022 as part of the Study

As explained in para 3.4.3, the assets pertaining to ANS, have been excluded from the Adjusted RAB computed as per the Study.

4.3 Ratios used for segregating Common assets of KIA between Aeronautical and Non-aeronautical assets

The following ratios have been computed and considered in the Study report for appropriate segregation of Common assets between Aeronautical and Non-aeronautical assets for the period from FY 2018-19 to FY 2022-23.

Terminal Building ratio

- i It is observed that the AO has submitted the Terminal Building ratio as 94.5%:5.5% (Aeronautical: Non-aeronautical) as part of its MYTP, which was then later revised to 95%:5% vide email dated July 21, 2023. In this regard, the Authority has drawn inference of its decision no. 1c in the Tariff Order No. 26/2018-19 dated November 9, 2018 for the First Control Period, which states that *"The Authority has tentatively accepted the allocation of assets in to aeronautical and non- aeronautical assets in the ratio of 95:5. A detailed study will be conducted to determine the actual usage before true up in the Second Control Period"*.
- ii The Study through analysis has determined the Terminal Building ratio of 92:8 (Aeronautical: Non-aeronautical), which is also in line with the recommendations of IMG norms (as detailed in

para 6.2.2 in this Study report) and the ratio considered by AERA in the past for other similar airports.

- iii Due to the revision in the Terminal Building Ratio from 94.5%: 5.5% (as considered by AO) to 92%: 8% the RAB as March 31, 2022 has been reduced by ₹ 14.55 Crores.

Employee Head Count ratio

4.3.1 The Employee Head Count Ratio (Aeronautical : Non-aeronautical) for the purposes of allocation of assets submitted by AO during the period from FY 2018-19 to FY 2022-23 is proposed to be considered as 98.3:1.7 for the FY 2018-19, 96.4:3.6 for the FY 2019-20, 94.7:5.3 for the FY 2020-21, 94.4:5.6 for the FY 2021-22 and 93:7 for the FY 2022-23. The same has been explained in detail in *the Study on Efficient Operation and Maintenance Expenses for Kannur International Airport*.

4.4 Reclassifications of RAB of KIA for the period from FY 2018-19 to FY 2021-22 proposed as per the Study

The re-classification of the assets proposed by the Study, have been explained in detail, as follows:

4.4.1.1 Landside Drains & Culverts

Allocation as per AO: Aeronautical

Observation: The Drains & Culverts built on Land side have been classified as Aeronautical assets by AO. As these assets are not located on the airside, these assets are reclassified as Common assets and have been allocated using the Terminal Building ratio (92:8).

Allocation proposed as per the Study report: Common

Impact on RAB: Reclassifying these assets from Aeronautical to Common reduces the RAB to the extent of ₹ 0.86 Crores.

4.4.1.2 Boundary Wall

Details of the Asset: Property Boundary Wall

Allocation as per AO: Aeronautical

Observation: It was noted that out of the total length of 24,459 m of Property wall, approximately 10,500 m (40%) is on the City side. Therefore, the Study has considered only 60% of the Property Boundary wall as Aeronautical and the remaining 40% is considered as Non-aeronautical.

Revised asset allocation: 60% Aeronautical

Impact on RAB: Reclassifying these assets from Aeronautical to Common reduces RAB to the extent of ₹ 4.60 Crores

4.4.1.3 Roads

(A) Details of the Asset: Car Approach Road and other roadwork.

Allocation as per AO: Aeronautical

Observation: AO has considered the Approach roads as Aeronautical. However, Approach roads namely East Entry Road, Car Approach Road, Pump House road and Secondary Approach Road are all serving mainly the Terminal Building and therefore, the same has been considered as “Common” and allocated in the ratio of Terminal Building (92:8).

Revised asset allocation: Common

Impact on RAB: Reclassifying these assets from Aeronautical to Common reduces RAB to the extent of ₹0.64 Crores

(B) Details of the Asset: Service Road (West Entry Road)

Allocation as per AO: Aeronautical

Observation: Service Road (West Entry Road) are part of the road network connecting to the Cargo Terminal, General Aviation, land earmarked for future expansion, Defence area etc. As these roads do not cater to any specific Aeronautical/ Non-aeronautical activities, the same has been classified as “Common” and allocated in the ratio of Terminal Building (92:8).

Revised asset allocation: Common

Impact on RAB: Reclassifying these assets from Aeronautical to Common reduces RAB to the extent of ₹ 0.10 Crores.

4.4.1.4 Electrical Installation EPC

(A) Details of the Asset: Earthing & wiring assets

Allocation as per AO: Aeronautical

Observation: Power supply infrastructure at the airport, provides power to air side, roads, terminal building and forecourts. The electrical equipment includes DG sets, Lighting Pole, power distribution board, low tension switchboards, high tension cables and Fire Protection System, etc. AO has considered these assets as Aeronautical, irrespective of whether these assets service at the airside or the terminal building. Since, certain assets available at the Terminal building, forecourts, etc, are used for both Aeronautical and Non-Aeronautical activities, the same have been identified and reclassified as Common assets and reallocated using the Terminal Building ratio (92:8).

Allocation proposed as per the Study report: Common

Impact on RAB: Reclassifying these assets from Aeronautical to Common reduces RAB to the extent of ₹ 0.59 Crores.

(B) Details of Asset: CCTV cameras and security system

Allocation proposed by AO: Aeronautical

Observation: The assets pertaining to the installation of CCTV cameras across the airport, are used for both Aeronautical and Non- Aeronautical activities and hence, considered as Common assets as per the Study and segregated in the ratio of the Terminal Building (92:8).

Allocation proposed as per the Study report: Common

Impact on RAB: Reclassifying these assets from Aeronautical to Common reduces RAB to the extent of ₹ 0.14 Crores.

4.4.1.5 Electrical Equipment

Details of Asset: Earthing, Lighting work & Video management software assets

Allocation proposed by AO: Aeronautical

Observation: The assets pertaining to Electrical fittings & cablings, including video management software & IP Phones have been considered as Aeronautical by AO. However, these assets cater to the needs of both Aeronautical and Non-aeronautical activities and therefore, have been reclassified as Common assets and re-allocated in the ratio of the Terminal Building (92:8)

Allocation proposed as per the Study: Common

Impact on RAB: Reclassifying these assets from Aeronautical to Common, reduces RAB to the extent of ₹ 1.18 Crores.

4.4.1.6 Buildings

Details of Asset: Construction of Ancillary Buildings in Operational Area and Related work

Allocation proposed by AO: Aeronautical

Observation: The assets pertaining to static tank, underground water tank, sewerage line and garbage dump have been considered as Aeronautical assets by AO. However, these assets are used for both Aeronautical and Non-aeronautical activities and therefore, the same are reclassified as Common assets and re-allocated in the ratio of the Terminal Building (92:8)

Allocation proposed as per the Study report: Common

Impact on RAB: Reclassifying these assets from Aeronautical to Common reduces RAB to the extent of ₹ 0.73 Crores.

4.4.1.7 Furniture & fixtures

(A) **Details of asset:** Other Furniture

Allocation proposed by AO: Common (Terminal Building Ratio)

Observation: These Assets are used by both Aeronautical and Non-aeronautical employees and therefore have been re-allocated in the ratio of Employee Head Count (as against allocation in the ratio of Terminal Building) of the Airport Operator for the respective FYs in the First Control Period.

Allocation proposed as per the Study report: Common (Employee Head Count Ratio)

Impact on RAB: Reclassifying these assets using Employee Head Count Ratio reduces RAB to the extent of ₹ 0.01 Crores.

(B) **Details of asset:** Office Furniture

Allocation proposed by AO: Aeronautical

Observation: The furniture & fixtures are used by both Aeronautical and Non-aeronautical employees and therefore have been re-allocated in the ratio of Employee Head Count of the Airport Operator for the respective FYs in the First Control Period.

Allocation proposed as per the Study report: Common

Impact on RAB: Reclassifying these assets from Aeronautical to Common decrease RAB to the extent of ₹ 0.04 Crores.

4.4.1.8 Computer & Accessories

Details of asset: IT related Assets

Allocation proposed by AO: Aeronautical

Observation: The Assets namely HP Laptops, Scanners, Printers are classified as Aeronautical. As these IT assets are used for both Aeronautical and Non-aeronautical activities, the same have been reclassified as Common assets. Further, as these assets are used by the employees of the Airport Operator, the same have been reallocated in the ratio of Employee Head Count of the Airport Operator for the respective FYs in the First Control Period.

Allocation proposed as per the Study report: Common

Impact on RAB: Reclassifying these assets from Aeronautical to Common decrease RAB to the extent of ₹ 0.01 Crores.

4.4.1.9 Office Equipment

Details of asset: Air Conditioning, LED & other equipment

Allocation proposed by AO: Aeronautical

Observation: The assets such as Air Conditioners, Voice Recorders, LED, etc have been classified as Aeronautical by AO. As these assets are utilized for both Aeronautical and Non-aeronautical activities, the same are reclassified as Common assets and allocated in the ratio of Employee Head Count (as these are used by employees) of the Airport Operator for the respective FYs.

Allocation proposed as per the Study report: Common

Impact on RAB: Reclassifying these assets from Aeronautical to Common has NIL impact on RAB.

4.4.1.10 Plant & Equipment

(A) **Details of Asset:** Fuel Handling Equipment, Water Treatment Plant, Rodent Repellent

Allocation proposed by AO: Aeronautical

Observation: HSD Fuel Handling Equipment used in city side and Water & sewage treatment Plant and Rodent Repellent have been classified as Aeronautical assets by AO. As these assets are used for servicing both Aeronautical and Non-aeronautical activities within the Terminal Building, these are reclassified as Common assets and have been allocated in the ratio of the Terminal Building (92:8).

Allocation proposed as per the Study report: Common

Impact: Reclassifying these assets from Aeronautical to Common decreases RAB to the extent of ₹ 0.12 Crores.

(B) **Details of Asset:** Air Conditioning & Other Office Equipment

Allocation proposed by AO: Aeronautical

Observation: The Assets related to Air Conditioning, Water coolers, UPS & modem, etc. has been classified as Aeronautical assets by AO. As these assets are used for facilitating the needs of employees, the same are reclassified as Common and have been allocated in the ratio of the Employee Head Count for the respective FY in the First Control Period.

Allocation proposed as per the Study report: Common

Impact: Reclassifying these assets from Aeronautical to Common reduces RAB to the extent of NIL.

(C) **Details of Asset:** Biogas Plant

Allocation proposed by AO: Aeronautical

Observation: The Biogas Plant is classified as Aeronautical by AO. The same has been considered as Non-Aeronautical as it does not cater to Aeronautical activities of the Airport.

Allocation proposed as per the Study report: Non-Aeronautical

Impact on RAB: Reclassifying these assets from Aeronautical to Non-Aeronautical has reduces the RAB to the extent of ₹ 0.27 Crores.

4.4.1.11 Old Assets

Details of asset: Vehicle, Computer & Accessories, Furniture & Fixtures & Office Equipment and other assets up to March 31, 2018 (Prior to the commencement of First Control Period)

Allocation proposed by AO: Aeronautical

Observation: As explained in para 4.1.14 the aforementioned assets relating to prior period (i.e., up to March 31, 2018) have been considered as Common and allocated in the Terminal Building Ratio (92:8).

Allocation proposed as per the Study report: Common

Impact on RAB: Reclassifying these assets from Aeronautical to Common has NIL impact on RAB.

4.4.1.12 Other Assets:

A) Details of Asset: Microsoft office, Tally & windows

Allocation proposed by AO: Common (Terminal Building Ratio)

Observation: The assets pertaining to Microsoft office, Tally & window software are classified as Common assets by AO and have been allocated in the ratio of Terminal Building determined by the Airport Operator (94.5:5.5). However, these assets are used by the employees of the Airport Operator and therefore have been re-allocated in the ratio of Employee Head Count of the Airport Operator for the respective FY in the First Control Period.

Allocation proposed as per the Study report: Common (Employee Head Count Ratio)

Impact on RAB: Reclassifying these assets from Aeronautical to Common has NIL impact on the RAB.

4.5 The summary of the proposed reclassification of assets as per the Study as on March 31, 2023:

Table 9: Reclassifications of assets as per the Study as on March 31, 2023

(₹ in Crores)

Asset Category	Asset Sub-Category /Description	Classification by AO	Classification as per the Study	Impact on Opening RAB and Asset Additions for the period April 1, 2018 to March 31, 2023
Leasehold Land	Leasehold Land	Aeronautical	Aeronautical	-
Drains & Culverts	Airside Drains & Culverts	Aeronautical	Aeronautical	-
	Landside Drains & Culvert	Aeronautical	Common (Terminal Building ratio)	(0.86)
Fire Equipment	Fire Hydrant and Extinguisher in all the buildings	Aeronautical	Aeronautical	-
Boundary	Boundary wall* of Utility Building & Operational Area	Aeronautical	Aeronautical	-
	Property Boundary Wall	Aeronautical	60% Aeronautical	(4.60)
Roads	Parking Roads	Non-Aeronautical	Non-Aeronautical	-
	Service Roads (West Entry Road)	Aeronautical	Common (Terminal Building ratio)	(0.10)
	Approach Roads	Aeronautical	Common (Terminal Building ratio)	(0.64)
	Boundary wall Security fencing, Operational Area & Main Access Roads	Aeronautical	Aeronautical	-

Asset Category	Asset Sub-Category /Description	Classification by AO	Classification as per the Study	Impact on Opening RAB and Asset Additions for the period April 1, 2018 to March 31, 2023
Electrical Installation EPC	Advertisement boards	Non- Aeronautical	Non- Aeronautical	-
	Assets related to earthing, wiring, and power supply	Aeronautical	Common (Terminal Building Ratio)	(0.59)
	CCTV and Security System	Aeronautical	Common (Terminal Building Ratio)	(0.14)
Electrical Equipment	Baggage Handling Systems	Aeronautical	Aeronautical	-
	Video Management Software & IP Phones	Aeronautical	Common (Terminal Building Ratio)	(1.17)
	Other Electrical Equipment**	Aeronautical	Common (Terminal Building Ratio)	(0.01)
Building	Construction of Ancillary Building & related Assets	Aeronautical	Common (Terminal Building Ratio)	(0.73)
	Fire station and related assets	Aeronautical	Aeronautical	-
Furniture & Fixtures	Other Furniture**	Common (Terminal Building Ratio)	Common (Employee Head Count Ratio)	(0.01)
	Furniture & Fixtures for office use	Aeronautical	Common (Employee Head Count Ratio)	(0.04)
Computer & Accessories	IT assets namely Printer, Hard drive & Laptops	Aeronautical	Common (Employee Head Count Ratio)	(0.01)
Office Equipment	Video conferencing system, water purifier & Air conditioner, finger print & face recognition system**	Aeronautical	Common (Employee Head Count Ratio)	(0.00)
Plant & Equipment	Metal Detectors and Bomb Detection & safety and security related assets	Aeronautical	Aeronautical	-
	Integration of ATS tower with AOCC, Power supply, and other equipment for operational area and activities	Aeronautical	Aeronautical	-
	Power supply, Air conditioner and other equipment for office use**	Aeronautical	Common (Employee Head Count Ratio)	(0.00)
	FIDS, CUTE, CUSS	Aeronautical	Aeronautical	-
	Assets related to sub-station, including earthing and wiring, generators, rain water harvesting, sewage treatment and water supply	Aeronautical	Common (Terminal Building ratio)	(0.12)
	Elevators and escalators	Aeronautical	Aeronautical	-
	Firefighting and protection equipment	Aeronautical	Aeronautical	-

Asset Category	Asset Sub-Category /Description	Classification by AO	Classification as per the Study	Impact on Opening RAB and Asset Additions for the period April 1, 2018 to March 31, 2023
	Other equipment**	Aeronautical	Common (Terminal Building Ratio)	(0.00)
	Biogas Plant	Aeronautical	Non-Aeronautical	(0.27)
Runways, Taxiways and Apron	Construction, widening and strengthening of Runways, Taxiways, Isolation Bay and Aprons	Aeronautical	Aeronautical	-
Old Assets	Vehicle, Computer & Accessories, Furniture & Fixtures & Office equipment and other assets up to March 31, 2018 (Prior the commencement First Control Period)**	Aeronautical	Common (Terminal Building Ratio)	(0.00)
Cargo	Assets Related to Bonded Cargo Activities within the Airport	Aeronautical	Aeronautical	-
	Operational Area	Aeronautical	Aeronautical	-
Car Parking	Car Parking related assets	Non-aeronautical	Non-aeronautical	-
Other Assets	Microsoft Office, Tally & Windows**	Common (Terminal Building Ratio)	Common Employee Head Count Ratio)	(0.00)
TOTAL				(9.29)

* It has been observed the classification for Initial Boundary Wall as Aeronautical as per AO's Submission for the first 2 years i.e., FY 2018-19 and FY 2019-20 and as 'Common' for the next two years i.e., FY 2020-21 and FY 2021-22. It has been considered the same as 'Aeronautical' for all the four FYs in the above table.

** The amount of impact on the reclassification of certain assets is insignificant and hence shown as (0.00) in the above table.

4.5.1 The impact of the above reclassification of assets from Aeronautical to Common / Non - Aeronautical, has been derived as ₹ 9.29 Crores.

4.6 Impact of Depreciation as per the Study

- (i) For the purposes of True up submission, AO had calculated depreciation for the period from April 1, 2018 up to March 31, 2023 using the depreciation rates adopted in their books of account as per the Companies Act, 2013.
- (ii) It is observed that the depreciation rates determined by AO are generally in line with the depreciation rates prescribed by AERA vide Order No. 35/ 2017-18 dated January 12, 2018 and Amendment No. 01 to Order No.35 / 2017-18 dated April 9, 2018.
- (iii) Accordingly, the year-wise depreciation on Aeronautical assets as submitted by AO and as determined in the Study (post reclassification and other adjustments) is summarised in the table below:

Table 10: Summary of depreciation on Aeronautical assets submitted by AO and as determined by the Study*(₹ in Crores)*

Particulars	KIA (up to March 31, 2023)					TOTAL
	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	
Depreciation as submitted by AO as per FAR* (A)	24.46	104.50	51.62	52.22	52.10	284.90
Depreciation impact on reclassification of assets (B)	(2.80)	(33.31)	19.82	19.80	19.78	23.28
Depreciation as per Study after reclassification and other adjustments (A + B)	21.66	71.19	71.44	72.02	71.88	308.18

* Depreciation shown in Table 10 (₹ 284.90 cr.) is different from that shown under Table 5 (388.51 Cr.), as depreciation as per Table 5 is based on MYTP submission of the AO and Table 10 is based on FAR submitted by the AO. As stated in para 4.1.11, the figures in the FAR submitted by the AO have been considered for further analysis.

Note: Depreciation determined as part of the Study is higher, due to some calculation errors noted in the FAR submitted by the AO, which is as follows:

- Depreciation for FY 2019-20 had been calculated by including the number of days for FY 2018-19 as well.
- Depreciation had not been calculated on the value of balance assets (which is retained by the Airport), in cases where only a part of the assets has been sold out.
- Depreciation had not been calculated for many assets from FY 2020-21, although there had been no sale of the assets.

4.7 RAB of KIA after adjustments, reclassifications and revision in the allocation ratios

- (i) The following table summarises the impact of proposed reclassification adjustments on Aeronautical assets as on March 31, 2023:

Table 11: Adjusted RAB as of March 31, 2023 for KIA as per the Study*(₹ in Crores)*

Particulars	Reference	Reference to paragraph in Report	Amount
RAB as on March 31, 2023 as submitted by AO as per FAR	A	4.1.2	1,777.86
IDC Excluded from RAB	B	4.1.5	(159.16)
Land Development cost relating to Freehold Land excluded from RAB.	C	3.4.5	(333.28)
Financing allowance related to Freehold land excluded from RAB	D	4.1.9(vii)	(72.99)
RAB before Reclassification Adjustments	E= sum(A:D)		1,212.42
Reclassification Adjustments:-			
Reclassification of other assets:			
Drains & Culverts	F	4.4.1.1	(0.86)
Boundary Wall	G	4.4.1.2	(4.60)
Roads	H	4.4.1.3	(0.74)
Electrical Installations EPC	I	4.4.1.4	(0.73)
Electrical Equipment	J	4.4.1.5	(1.18)
Buildings	K	4.4.1.6	(0.73)
Furniture & Fixtures	L	4.4.1.7	(0.05)
Computers & Accessories	M	4.4.1.8	(0.01)
Office Equipment	N	4.4.1.9	(0.00)

Particulars	Reference	Reference to paragraph in Report	Amount
Plant & Equipment	O	4.4.1.10	(0.39)
Old Assets	P	4.4.1.11	(0.00)
Other Assets	Q	4.4.1.12	(0.00)
Total reclassification of Other assets Sum (F: Q)	R		(9.29)
Depreciation computation errors observed in FAR (refer note below Table 10)	S		(32.47)
Impact of Terminal Building ratio (Net Block)	T	6.3.2	(14.55)
Sale Value wrongly calculated	U		(0.03)^
Adjusted RAB as on March 31, 2023 (U = E + R + S + T+U)			1,156.08

^ Sale value of Assets has been calculated after taking depreciation into consideration and hence, recalculated as per Study after examining the discrepancies.

(ii) The year-wise impact of proposed reclassification adjustments on Aeronautical assets is detailed in the table below:

Table 12: Year-wise impact of reclassification of assets as per the Study

(in Crores)

Particulars	Up to March 31, 2018	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
Opening RAB (A)	1.34	0.37	1,388.69	1,354.04	1,297.02	1,227.95	
Additions (refer Table 8)(B)		2,005.08	40.06	14.53	3.09	-	2,062.76
Sale of Asset (C)		(0.01)	(0.35)	(0.04)	-	-	(0.39)
Less Depreciation as per AO* (refer Table 10) (D)	(0.94)	(24.46)	(104.50)	(51.62)	(52.22)	(52.10)	(285.84)
Sub-total (E=A+B+C+D)	0.39	1,980.98	1,323.90	1,316.92	1,247.90	1,175.86	
Less: Development Cost on Free Hold Land, excluded from RAB (F)		(330.95)	(2.24)	(0.08)			(333.28)
Less: IDC (H)		(159.16)					(159.16)
Less: FA related to Land Development cost (G)		(72.99)					(72.99)
Less: Sale value error (I)		0.06	(0.06)	0.03			0.03
Sub-total (J= F+G+H+I)		(563.05)	(2.30)	(0.05)	-	-	(565.40)
Reclassification impact							
Reclassification impact (other than depreciation) (K)	(0.01)	(14.17)	(0.87)	(0.01)	(0.10)	-	(15.17)
Terminal Building Ratio Revision (L)		(17.86)	(0.00)	-	(0.04)	-	(17.91)
Less: Depreciation impact on reclassification (refer Table 10) (M)	(0.01)	2.80	33.31	(19.82)	(19.80)	(19.78)	(23.29)
Total reclassification impact (N = K+L+M)	(0.02)	(29.24)	32.44	(19.83)	(19.94)	(19.78)	(56.37)
Depreciation as per Study (D+M) (refer Table 10)		21.66	71.19	71.44	72.02	71.88	308.18
Closing RAB (E+ J + N)	0.37	1,388.69	1,354.04	1,297.02	1,227.95	1,156.08	

*Note- The Depreciation as per AO is different in Table 10 because of inclusion of depreciation of an additional year i.e., FY 2017-18.

4.8 Summary

- (i) Assets have been segregated as Aeronautical, Non-aeronautical and Common assets based on definition of Aeronautical services as per AERA Act, description of assets provided in the FAR and past tariff orders of AERA.
- (ii) Common assets have been further classified into Aeronautical and Non-aeronautical assets based on appropriate ratio, viz. Terminal Building ratio and Employee Head Count ratio depending on the usage and location of each asset.
- (iii) Based on the reclassification of the assets and the revision in the Terminal Building ratio and, as detailed in this Chapter, the total readjustments in the RAB as per the Study as on March 31, 2023 is ₹ 621.77 Crores (₹ 565.40 Crores. plus ₹ 56.37 Crores, as shown in Table 12)
- (iv) Post adjustments and reclassification of the assets, the RAB of KIA as on March 31, 2023 has been determined as ₹ 1,156.08 Crores (refer Table 12).

5 GROSS BLOCK

5.1 Introduction

The details of the components of assets, i.e., Gross block, depreciation, and Net block value of Aeronautical and Non-aeronautical assets as per AO's submission, impact of adjustments proposed in the Study report, as well as computation of Gross Fixed Assets ratio have been discussed in the following paragraphs.

5.2 Gross block as per AO's submission

It is observed that as per AO's True up submission, the Total Gross block as on 31 March, 2023 of ₹ 2,078.81 Crores includes Aeronautical Gross block of ₹ 1,730.40 Crores, Cost of acquisition of land amounting to ₹ 333.28 Crores and Non-aeronautical Gross block of ₹ 15.12 Crores. The revised Gross Fixed ratio based on such Non-aeronautical Gross block value has been derived for each year. The year-wise summary of the submission made by AO is presented in the table below:

Table 13: Summary of assets as submitted by AO up to March 31, 2023

Particulars	(₹ in Crores)				
	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
Aeronautical Gross block (closing) (A)	1,675.45	1,712.91	1,727.32	1,730.40	1,730.40
Cost of Acquisition of Land (B)	330.95	333.20	333.28	333.28	333.28
Non-aeronautical Gross block (C)	53.66	15.02	15.02	15.12	15.12
Total Gross block (D = A + B + C)	2,060.06	2,061.12	2,075.62	2,078.81	2,078.81
<i>Non-Aeronautical Gross block ratio (D = C / D %)</i>	2.60%	0.73%	0.72%	0.73%	0.73%
Aeronautical Accumulated Depreciation (E)	25.39	129.90	181.52	233.74	285.84
Non-aeronautical Accumulated Depreciation (F)	0.88	3.75	1.02	4.69	6.12
Aeronautical Net block (RAB) (G = A + B - E)	1,981.00	1,916.20	1,879.08	1,829.95	1,777.86
Non-aeronautical Net block (H = C - F)	52.78	48.44	11.76	10.44	9.01
Total Net block (I = G + H)	2,033.79	1,964.64	1,890.84	1,840.38	1,786.85
<i>Non-aeronautical Net block as a % of Total Net block</i>	2.60%	2.47%	0.62%	0.57%	0.50%

Note: Gross Block submitted by AO includes Financing allowance of ₹ 362.30 Crores (refer para 4.1.12).

5.3 Gross block as per the Study

5.3.1 Based on the revision of asset allocation methodology adopted for assets of Kannur International Airport (as discussed in Chapter 4), a revision in the Aeronautical Gross block has been proposed.

5.3.2 The year-wise revised value of assets from FY 2018-19 to FY 2022-23 has been summarised in the tables below:

Table 14: Revised Gross and Net block of Assets as on March 31, 2023 as per the Study report

Particulars	(₹ in Crores)				
	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
Aeronautical Gross block (closing) = (A) (Refer Table 13)	1,675.45	1,712.91	1,727.32	1,730.40	1,730.40
Less: FA related to Land Development Cost (B)	(72.99)	(72.99)	(72.99)	(72.99)	(72.99)

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
Less: Borrowing Cost (C)	(159.16)	(159.16)	(159.16)	(159.16)	(159.16)
Less: Aeronautical to Common / Non - aeronautical and Common (Terminal Building) to Common (Employee Head Count Ratio) (D)	(32.04)	(32.91)	(32.92)	(33.07)	(33.07)
Sales error rectification (E)	(0.89)	(0.92)	(0.92)	(0.92)	(0.92)
Rounding off Errors (F)	0.31	0.31	(0.04)	(0.03)	(0.03)
Revised Aeronautical Gross block as per study (G= A+B+C+D+E+F)	1,410.68	1,447.23	1,461.29	1,464.23	1,464.23
Revised Non-aeronautical Gross block (H)	80.30	79.67	79.68	79.93	79.93
Revised Total Gross block (I= G+H)	1,490.98	1,526.90	1,540.97	1,544.17	1,544.17
Revised Non-Aeronautical ratio (J = H / I)	5.39%	5.22%	5.17%	5.18%	5.18%
Increase in Non-Aeronautical ratio	-2.78%	-4.49%	-4.45%	-4.45%	-4.45%
Aeronautical Accumulated Depreciation (K)	21.99	93.19	164.27	236.28	308.16
Non-aeronautical Accumulated Depreciation (L)	1.50	4.65	10.84	15.53	20.23
Aeronautical Net block (RAB) (M= G-K)	1,388.69	1,354.04	1,297.02	1,227.95	1,156.08
Non-aeronautical Net block (N = H – L)	78.79	73.49	68.84	64.40	59.70
Total Net block (O= M+N)	1,467.48	1,427.53	1,365.86	1,292.35	1,215.77
Non-aeronautical Net block as a % of Total Net block (P=N/O)	5.37%	5.15%	5.04%	4.98%	4.91%

5.3.3 Post reclassification of assets and other adjustments to Common assets, the revised Aeronautical and Non-aeronautical Gross block as on March 31, 2023 are ₹ 1,464.23 Crores and ₹ 79.93 Crores, respectively. Accordingly, the Gross Fixed Assets ratio as on March 31, 2023 is 94.82: 5.18.

5.3.4 The Gross Fixed Assets ratios determined as per the Study are proposed to be used for segregating certain categories of Common Operation and Maintenance expenses incurred by the Kannur International Airport for the period from FY 2018-19 to FY 2022-23. The same has been explained in the Study on Efficient Operation and Maintenance Expenses for Kannur International Airport.

5.4 Summary

5.4.1 As per the submission of AO, the total Aeronautical Gross block as on March 31, 2023 was ₹ 1,730.40 Crores and the Non-aeronautical Gross block was ₹ 15.12 Crores, with the Gross Fixed Assets ratio of 99.27: 0.73 (refer Table 13).

5.4.2 Based on the reclassification of the assets (as detailed in Chapter 4) as per the Study, the Gross block as on March 31, 2023 has been segregated between Aeronautical and Non-aeronautical Gross block as under (refer Table 14):

- i. Proposed adjusted Aeronautical Gross block as on March 31,2023 is ₹ 1,464.23 Crores
- ii. Proposed adjusted Non-aeronautical Gross block as on March 31,2023 is ₹ 79.93 Crores

5.4.3 As per the Study, the revised Gross Fixed Assets ratio after making the adjustments proposed in this Chapter is 94.82:5.18 as on March 31, 2023 (refer Table 14).

5.4.4 The above Gross Fixed Assets ratio is proposed to be used for segregating certain categories of Common Operation and Maintenance expenses incurred by the Kannur International Airport for the period from FY 2018-19 to FY 2022-23. The same has been explained in the *Study on Efficient Operation and Maintenance Expenses for Kannur International Airport*.

6 SEGREGATION OF TERMINAL BUILDING AREA INTO AERONAUTICAL AND NON- AERONAUTICAL

6.1 Terminal Building ratio submitted by AO

6.1.1 It was observed that AO in its submission of True up for the period up to March 31, 2023, has considered the Terminal Building ratio of 94.5:5.5 (Aeronautical: Non-Aeronautical area) for apportionment of common assets within the Terminal Building. This ratio has been derived on the following basis:

Table 15: Terminal Building Ratio submitted by AO as on March 31, 2023

Particulars	Area (Sq. m.)
Passenger Areas & Aero Functions Area (A) in Sq. m	71,363.49
Common/ Aero Areas (B) in Sq. m	19,482.09
Non-Aero – Outlets (C) in Sq. m	5,294.07
Total Area (D) in Sq. m	96,139.65
% of area allotted to Aeronautical i.e. $(E = (A+B) / D)$	94.50%
% of area allotted to Non-Aeronautical i.e. $(F = C / D)$	5.50%

6.1.2 Kannur International Airport Limited has measured the total Terminal Building area of 96,139.65 Sq. m. as follows:

Table 16: Terminal Building Area measured by AO

Particulars	Area (Sq. m.)
Basement	14,471.48
Level 0	18,502.90
Level 1	13,763.08
Level 2	29,229.81
Level 3	11,326.21
Level 4	8,177.12
Level 5	669.05
Total Terminal Area	96,139.65

6.1.3 The utilisation of the Basement area of 14,471.48 Sq. m. as earmarked by KIA is provided in the table below. The actual utilisation was verified by the Independent Consultant during the site visit and was noted to be in line with AO's submission.

Table 17: Utilisation of Basement Area

S. No.	Location	Area (Sq. m.)
1	Support facilities (O&M offices, Authority Offices, customs, immigration, CISF offices, AOCC (inside terminal area) & Lost & Found etc.)	1,436.50
2	Passage	3,036.00
3	VHT (Escalators, Staircase, Lifts & Shafts – Non-Passengers zone)	35.08
4	Toilets (Non-Passengers)	77.62
5	Utilities (AHU, Plant Rooms, Electrical, Services, IT Rooms, etc.)	7,974.08
6	In Flight Kitchen	473.20
7	Hotels	1,439.00
	Total	14,471.48

6.2 Terminal Building ratio proposed as per the Study

6.2.1 It is noted that AERA had approved Terminal Building ratio of 95:5 (Aeronautical: Non-aeronautical) for KIA for the First Control Period. Therefore, it is proposed to consider this ratio (95:5) for apportionment of common assets within the Terminal Building to Aeronautical and Non-aeronautical activities (as also mentioned in Chapter 4).

6.2.2 As per the Study, it is proposed to consider Terminal Building ratio of 92:8 for the April 1, 2018 to March 31, 2023 for KIA as it is recommended by Inter-Ministerial Group (IMG), on norms and standards for determining the capacity of airport terminals released in September 2008 and revised in January 2009, wherein the Non-aeronautical area within the terminal building for airports having passenger traffic of less than 10 MPPA has been recommended, to be in the range of 8% to 12% of the total terminal building area and for airports having passenger traffic of above 10 MPPA to be up to 20% of total terminal building area.

6.3 Adjustments due to revised Terminal Building ratio proposed as per the Study

6.3.1 The Terminal Building ratio as on March 31, 2023 has been considered 92:8 as per Study as against 94.5:5.5 adopted by AO in the True up submission for allocation of certain Common assets.

Table 18: Impact of Revision of Terminal Building ratio

(₹ in Crores)

Particulars	Amount
Terminal Building ratio adopted by AO for allocation of Common assets	94.5:5.5
Gross Block Value of Common assets of KIA allocated on Terminal Building ratio (A)	677.08
Revised Terminal Building ratio as per the Study	92:08
Gross Block Value of Common assets allocated on revised Terminal Building ratio (B)	659.17
Impact of Revision in Terminal Building ratio on Gross Block Value of Common assets (B-A)	17.91

Note: This adjustment has been made only in respect of assets classified as Common and allocated using the Terminal Building ratio.

6.3.2 The revision in the Terminal Building ratio results in difference in the RAB by ₹ 17.91 Crores (Gross Block) as on March 31, 2023. The Net Block of the revision in the Terminal Building ratio amounts to ₹ 14.55 Crores.

6.4 Summary

6.4.1 The Terminal Building ratio considered for the purpose of the Study is 92:8 (Aeronautical: Non-aeronautical).

6.4.2 The Non-aeronautical area in the terminal building is considered as 8% as against 5.5% proposed by AO based on the IMG norms. The Terminal Building ratio considered for the purpose of the Study is 92:8 (Aeronautical: Non-aeronautical).

6.4.3 The revision in the Terminal Building ratio results in an decrease in the Gross Block of RAB as on March 31, 2023 by ₹ 17.91 Crores.

6.4.4 For the Second Control Period, the Study recommends the Terminal Building Ratio of 92:8 (Aeronautical: Non- Aeronautical) for KIA in line with the IMG Norms.

7 OVERALL SUMMARY OF THE STUDY

- 7.1** The objective of the Study is to determine a basis for appropriate segregation of assets between Aeronautical, Non-aeronautical and Common assets as per the provisions of the AERA Act. The Common assets have been further segregated between Aeronautical and Non-aeronautical assets based on Terminal Building ratio and Employee Head Count ratio, as appropriate.
- 7.2** RAB submitted by AO in its FAR as on March 31, 2023 was ₹ 1,777.86 Crores.
- 7.3** The Terminal Building ratio of 92:8 has been considered as part of the Study for apportionment of common assets within the Terminal Building.
- 7.4** The revised RAB (Net block of assets) as on March 31, 2023, after the above adjustments and reclassifications are summarised in the table below:

Table 19: Summary of adjustments to RAB as on March 31, 2023

<i>(₹ in Crores)</i>	
Particulars	Amount
RAB as on March 31, 2023 claimed by AO (refer Table 13)	1,777.86
Adjustments and Reclassification proposed by the Study report	
Less:	
IDC (refer 4.1.5)	(159.16)
Cost of Land Development relating to Freehold Land (proposed not to be considered, as part of the Study) (refer para 3.4.5)	(333.28)
Financing Allowance related to Land Development Cost	(72.99)
Impact of Reclassification of other assets (refer Table 11)	(9.29)
Impact of Revision in the Terminal Building ratio (refer Table 11)	(14.55)
Depreciation calculation error in FAR (Table 10)	(32.47)
Sale Value considered Wrongly	(0.03)
Adjusted RAB as on March 31, 2023 for Kannur International Airport	1,156.08

- 7.5** The revised Gross Block of assets and RAB as on March 31, 2023, after the above adjustments and reclassifications are summarised in the table below:

Table 20: Summary of adjustments to Aeronautical Gross Block of assets and RAB as on March 31, 2023

<i>(₹ in Crores)</i>									
Particulars	Aeronautical			Non-aeronautical			Total		
	GB	AD	NB	GB	AD	NB	GB	AD	NB
Asset value as on March 31, 2023 as per AO's submission	2063.68	(285.84)	1777.86	15.12	(6.12)	9.01	2,078.81	(291.95)	1,786.86
Fixed Assets ratio as per AO's submission	99.27%		99.50%	0.73%		0.50%	100%	-	100%
Value of assets as per AO	2063.68	(285.84)	1777.86	15.12	(6.12)	9.01	2,078.81	(291.95)	1,786.86
Adjustments and Reclassification as per Study									
Less: IDC	(159.16)		(129.08)	(5.47)		(4.29)	(164.63)		(133.37)
Less: Cost of Land Development relating to Freehold Land, not considered by the Study (refer para 3.4.5)	(333.28)		(333.28)	-		-	(333.28)		(333.28)
Exclusion of Allowance Related to Land Development Cost	(72.99)		(72.99)	-		-	(72.99)		(72.99)

Particulars	Aeronautical			Non-aeronautical			Total		
	GB	AD	NB	GB	AD	NB	GB	AD	NB
Reclassification of assets (refer Table 11)	(15.16)		(9.29)	15.22		9.32	0.07		0.03
Revision of Terminal Building Ratio (Table 18)	(17.91)		(14.55)	17.91		14.55	0.00		(0.00)
Rectification of error in the sheet formulas									
Less: Rectifications of sale amount	(0.92)		(0.03)	37.15		31.11	36.23		31.08
Less: Depreciation impact of IDC			(30.08)				-		(30.08)
Less: Depreciation calculation errors			(32.47)				-		(32.47)
Rounding Off Error	(0.03)						(0.03)		-
Revised adjusted value of assets as on March 31, 2023 for KIA	1,464.23	(308.16)	1,156.08	79.93	(20.25)	59.70	1,544.16	(328.40)	1,215.77
Gross Fixed Assets ratio as per Study as on March 31, 2023	94.82%		95.09%	5.18%		4.91%	100.00%		100.00%

GB – Gross Block; AD – Accumulated Depreciation; NB – Net Block

7.6 The Gross block of Aeronautical and Non-aeronautical assets as on March 31, 2023, as per FAR submitted by AO was ₹ 2,063.68 Crores and ₹ 15.12 Crores, respectively.

7.7 The revised Aeronautical and Non-aeronautical Gross block of KIA as on March 31, 2023, after the proposed adjustments and re-classifications as per the Study, are ₹ 1,464.23 Crores and ₹ 79.93 Crores respectively.

7.8 Accordingly, the revised Gross Fixed Assets ratio of KIA determined as part of the Study, as on March 31, 2023 is 94.82%

Break up for Land Development Cost			
Nature of Work - Cutting ,Filling ,Blasting etc including all leads			
Sl No:	Location	Quantity (Approx.) in m ³	Amount in Rupees
1	Runway	6808564	1167668726
2	Apron	2245825	385158987.5
3	Taxitrack	776194	133117344.7
4	Basic Strip	2900380	497415170
5	RESA	1068312	183215508
6	Over Run	425906	73042879
7	Isolation Bay	127943	21942224.5
8	Operational Wall & Operational Roads	595400	102111100
9	Emergency Approaches at both ends	1219167	209087140.5
10	RSS Fill	566035	453212903.8
		16733726.43	3225971984

KANNUR INTERNATIONAL AIRPORT LTD. LAND ACQUISITION PLAN

