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Aviation Limited

April 18, 2016

Ms. Radhika R
OSD – II
AERA Building,
Administrative Complex,
Safdarjund Airport,
New Delhi – 110 003

Ref: Consultation Paper No. 10/2015-16

Subject: Reply to Consultation paper on Determination of Aeronautical Tariffs in respect of Chhatrapati Shivaji International Airport, Mumbai for the Second Control Period

Madam,

We acknowledge the receipt of above consultation paper from AERA. We have also attended the stakeholders' consultation meeting conducted by AERA on the said subject.

Please find below our submission on the said consultation paper and our feedback to the presentation made by representatives of Mumbai International Airport Limited (MIAL) at the stakeholders' consultation meeting;

i. At the outset, we support proposal no.18 of AERA, where the authority is proposing a reduction of 7.20% in the present aeronautical charges charged by MIAL.

ii. At the stakeholders' consultation meeting, MIAL have made a submission that they are making losses for the past 14 years and, if increase in charges are not considered, then private operators in future would not be inclined to invest in any new airport. We wish to differ from the said submission made by MIAL based on the following:

   a. MIAL has a concession to operate Chhatrapati Shivaji International Aiport (CSIA) for a period of 30 years, and has right to extend the agreement for another period of 30 years (in total 60 years). MIAL is considering revenue earned through Cargo Services, Into Plane (ITP) services etc., which are typically in the nature of aeronautical services as revenue from non-aero services. Only revenue earned through Landing charges, Parking charges, Fuel Throughput Charges, Aerobridge Charges, UDF and Unauthorised Overstay are considered as Aeronautical revenue.

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b. MIAL has a revenue stream of non-aero revenue (including revenues which are typically aero in nature) and only surrenders 30% of said revenue for determination of aeronautical revenue. In the long run, all private airports have a good potential to increase their revenue substantially.

c. As claimed by MIAL, return for an investor should not be measured only through the dividend declared by the entity where he has invested. Capital appreciation should also be considered while considering return on investment. Due to the growth potential of private airports, investors' capital has substantially appreciated. The same is evident from the fact that all initial stakeholders of private airports who offloaded their shares have exited their investments for a good premium.

d. MIAL's claim of paying a revenue share of 38.7% of their revenue to AAI is a business decision based on certain assumptions to outbid the competitors who bid for CSIA. Passing of the said revenue share payable to AAI as charges to users of the airport is not acceptable. MIAL needs to increase their efficiency and control their costs in order to achieve their break even, rather than passing on the cost and consequence of their business decisions to users of the airport.

iii. The basis of computation of the proposed % increase by AERA in the Landing and Parking Charges for every year in the 2nd control period is not provided in consultation paper. Only the total revenue on this account has been provided. We request AERA to please share with us the actual % of increase considered by AERA to arrive at the 'x' factor.

iv. Under proposal no.5, a new Project worth Rs.380cr has been dropped from the current projects (Page no.74). We request for a study to be done by an independent agency on the feasibility of dropping further new projects which may not enhance their performance, and which are proposed in the 2nd control period.

v. Based on report provided by NIPFP, the authority has proposed a return on equity (post tax cost of equity) as 16% for the purpose of calculation of WACC. Though the same is on the higher side, we accept it and request for no further increase.

vi. In the stakeholder consultation meeting, MIAL has proposed to calculate corporate tax on account of aeronautical revenue without considering the annual fee or revenue share to AAI as a cost for the purpose of determination of ARR in the 2nd control period. We request AERA not to consider the said proposal, as the said amount is paid by MIAL to AAI from the total revenue and the same should be disallowed in line with the proposal no.13 of the consultation paper.

vii. The Operational Capital Expenditure for the 2nd control period earlier projected at Rs.1156cr has now been increased to Rs.1440cr. We hereby object to the substantial increase in operational capex by Rs.284 cr from the earlier projections. As all operational capex gets added to RAB, MIAL will not have any incentive to reduce the same. Hence, we request AERA to cap the operational capex.

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viii. Interest rate for the 2nd control period has been increased by additional 50bps on the existing rate i.e from the current level of 11.06% to a ceiling of 11.56%. This seems to be on the higher side. In India, we are currently facing a reduction in interest rates. Hence, we request AERA to re-consider their decision of revising the interest rate and consider instead a decrease in interest rate from the current 11.06% approved in the 1st control period. Reduction in the interest rate from the current level would spur MIAL to seek cost effective loans. We recommend that promoters of MIAL should come forward and extend corporate guarantee to reduce the interest rates rather than taking a high cost debt and passing on the interest to the users of airport. Further, we oppose truing up the interest cost in the next control period, as the same will not induce MIAL look for cost effective borrowing.

ix. MIAL has considered CSR cost as operating expenses and 100% of the same is apportioned to Aeronautical O & M. This is completely against the logic of CSR expense as envisaged in the Companies Act, 2013. Though there is no immediate requirement for MIAL to incur CSR expenses, we disagree with the MIAL methodology of claiming the same as part of aeronautical charges. As per the Companies Act, 2013, CSR needs to be spent by the Company out of their profits, and MIAL should not recharge the same to the users of the Airport. Hence, we request AERA to instruct MIAL not to re-charge the CSR expense to users of the Airport.

x. Operating and Maintenance (O & M) expenses are simply allowed as pass through in the consultation paper. As MIAL would claim all the O&M expenses incurred by them, there would be no inducement for MIAL to reduce the O&M expense and conduct the airport operation in an efficient manner. We request AERA to compare the O & M expenses proposed to be incurred by MIAL with an international airport of similar stature for efficiency, and sanction the same only after the said study. We also recommend that there should be a cap fixed on O & M expenses, and the same should not be trued up in next control period.

xi. To realize the Honorable Prime Minister's vision for 'Make In India', there is an immediate requirement to facilitate the seamless movement of goods and to develop the cargo industry. There are no new projects proposed by MIAL for development of cargo facilities, though there are a number of new proposals for the convenience of passengers. We, hereby, request MIAL to give similar importance to the development of cargo, as they have for passengers, in order to support the 'Make in India' plan.

Thanking you,

For **Blue Dart Aviation Limited,**

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P.Parameshwaran
Chief Financial Officer