

Attracting Investments in Indian Airports

24th March 2018



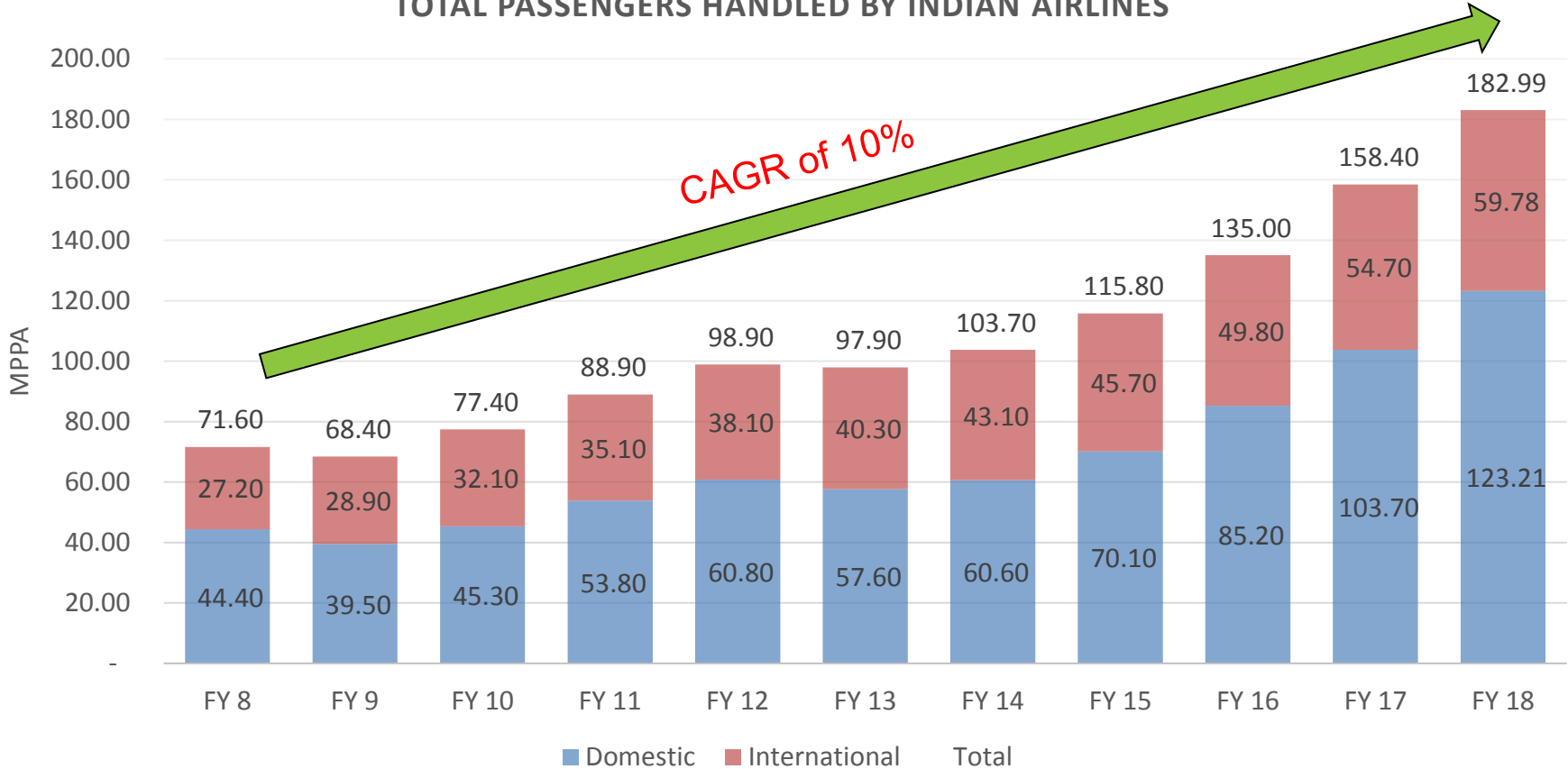
- Growth in Pax – Current and Future
- Congestion at Existing airports
- Investment required
- Recent bids
- Key challenges faced
- Recommendations



India – the fastest growing aviation market



TOTAL PASSENGERS HANDLED BY INDIAN AIRLINES

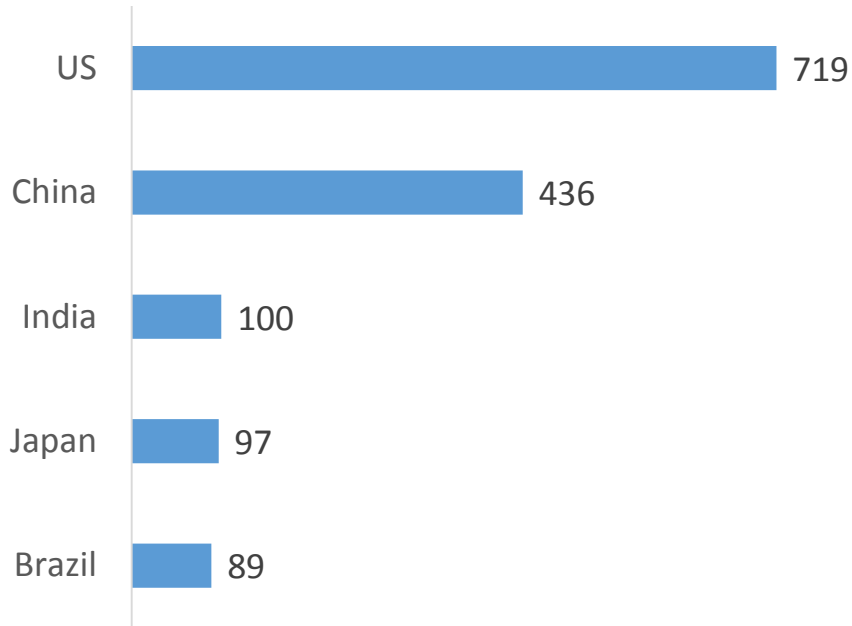


	3 year CAGR	5 year CAGR
Domestic	21%	16%
International	9%	8%
Total	16%	13%

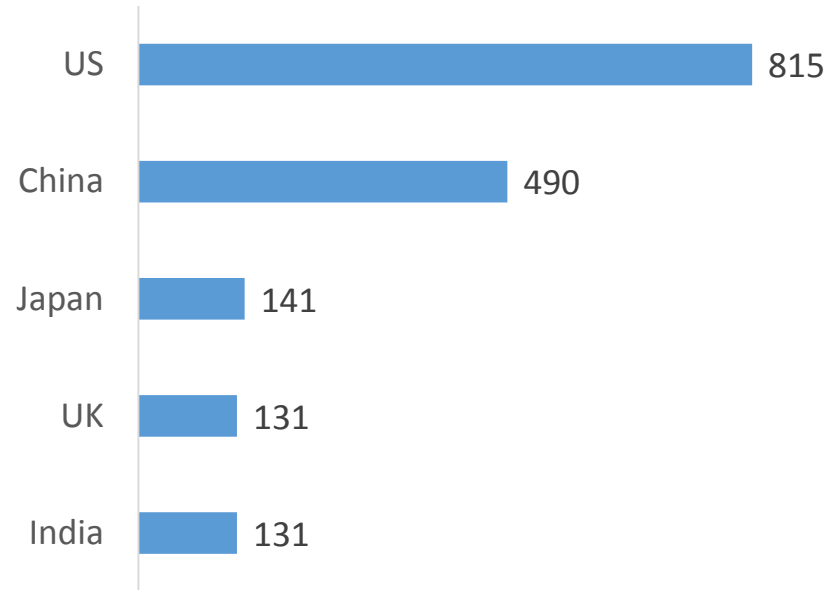


India is the 3rd largest and fastest growing domestic aviation market in the world

Domestic departing pax, 2016 (mn)



Total departing pax, 2016 (mn)



During last 3 years annual growth in domestic passengers was more than 20%.

IATA projects India to overtake the Japan/ UK to become the third largest air passenger market by 2025 and will have 478 mn fliers by 2036.

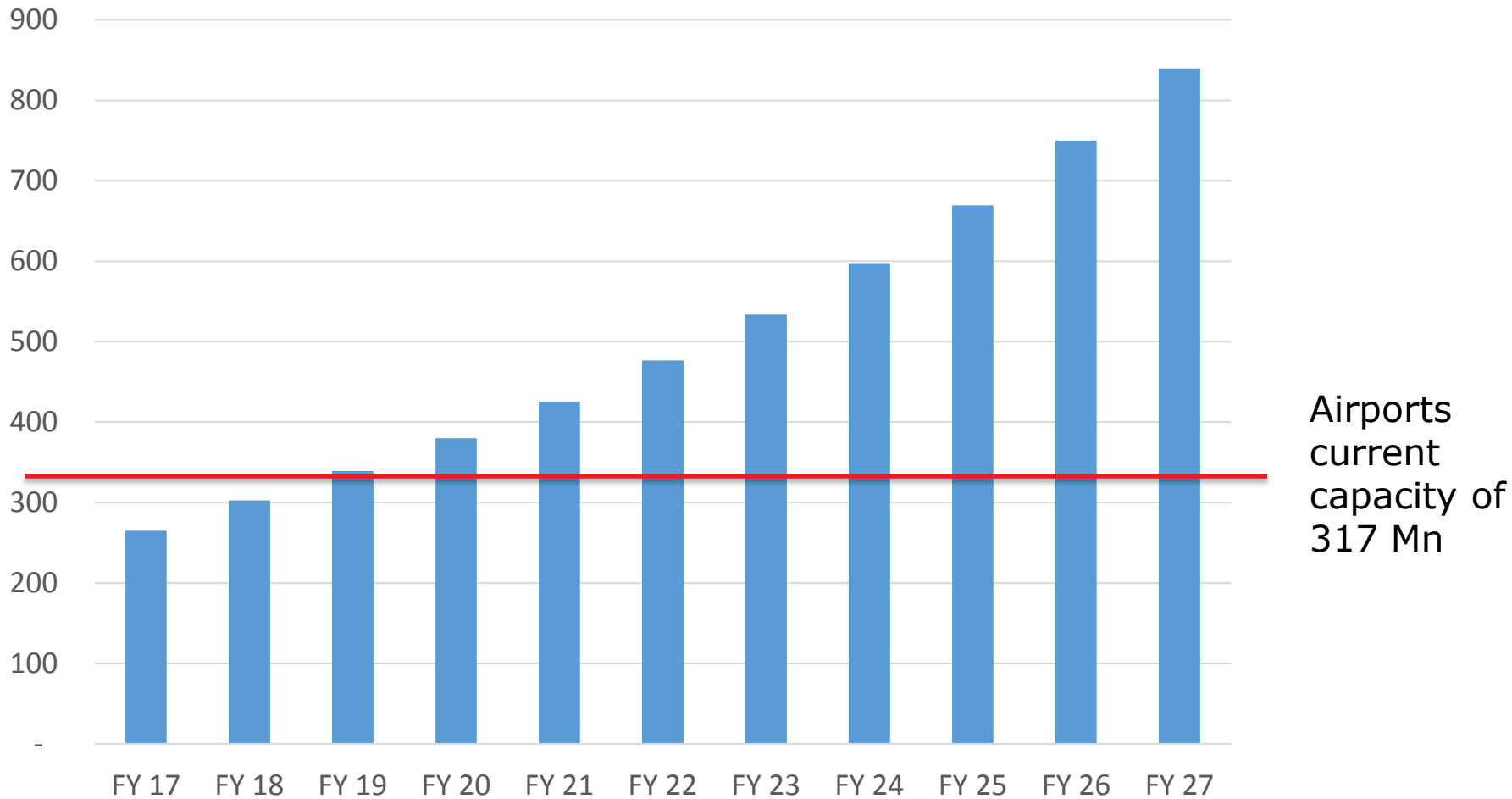


Aircraft in Service and On Order

In Service	567
On Order	904

Source: CAPA Fleets Database, CAPA Research

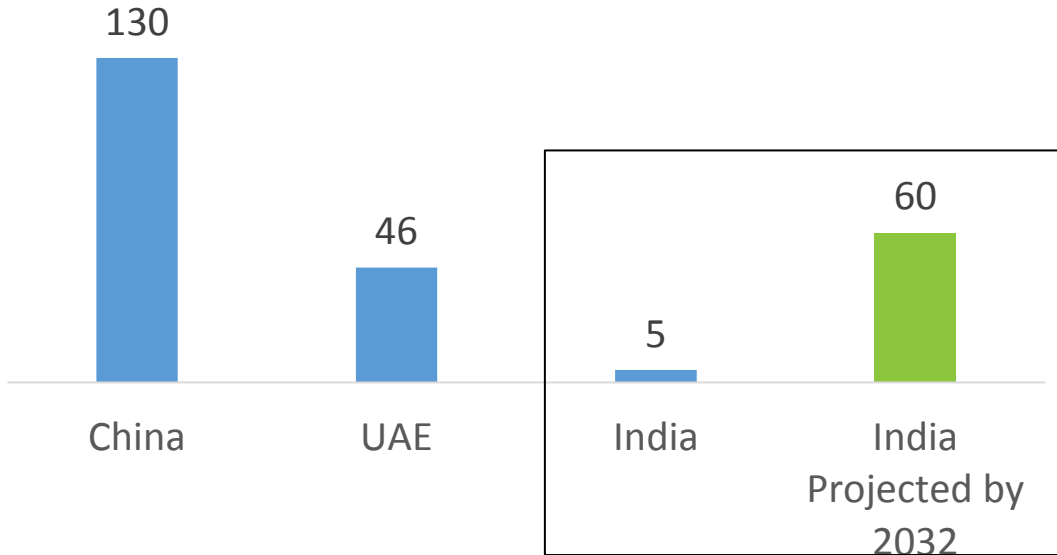
Aircraft induction on this scale will require massive infrastructure development



- The government, in the Budget 2018, announced a scheme to expand airport capacity more than five times to handle a billion trips a year under a new scheme called **Nextgen Airports for Bharat (NABH) Nirman**



Airport Investment Pipeline (\$ bn)

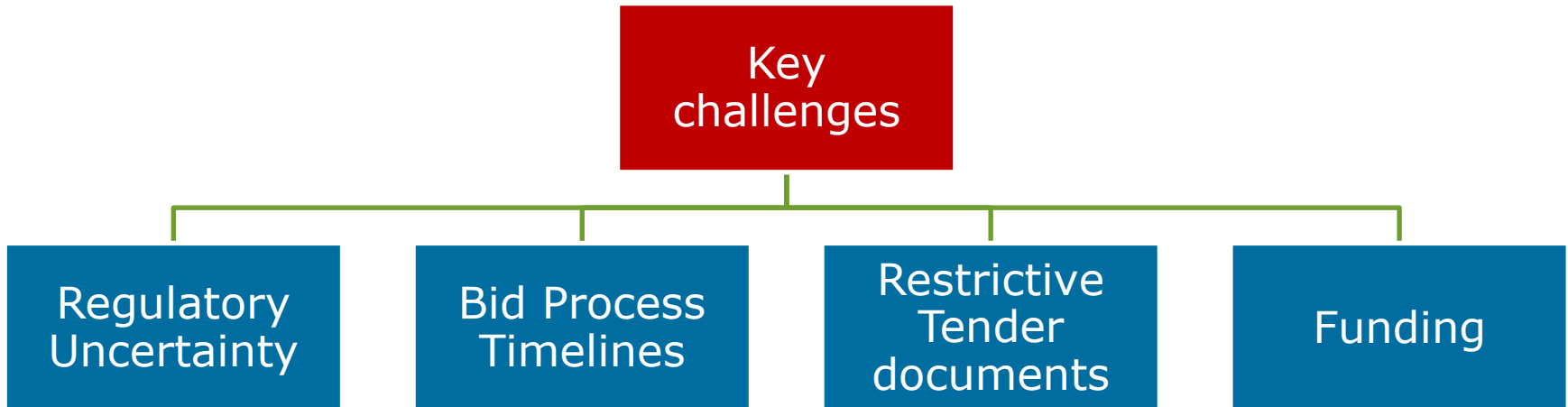


- This huge deficit cannot be met solely by government agencies
- Majority expected to come from private sector
- PPP identified as the preferred mode of Investment

- Domestic investments alone are insufficient
- Global capital infusion is imperative for asset development and financing

	Bids received	International companies
Mopa	3	1
Navi Mumbai	2	-
Bhogapuram	2	-

- Limited or no international bidders in recent transactions





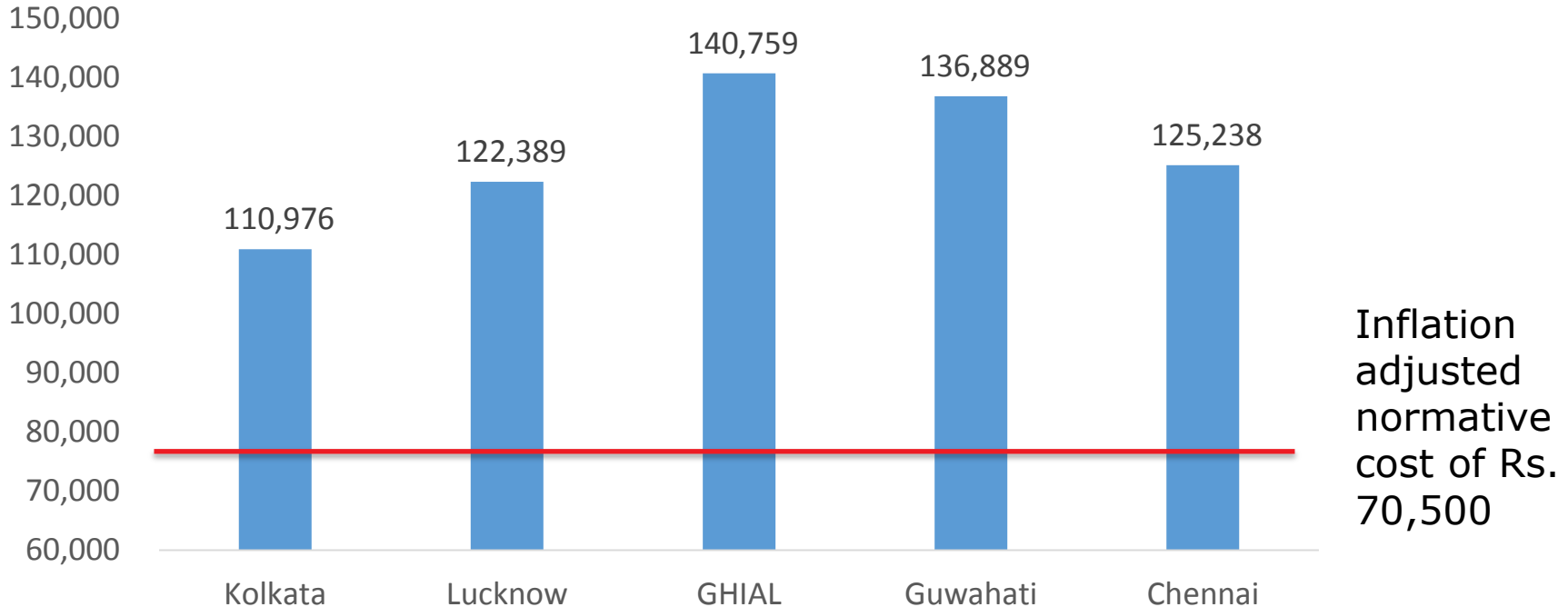
Regulatory Uncertainty

- **Deviation from Concession Agreement**
- **Lack of clarity over key aero and non-aero revenue**
- **Prolonged litigation**
- **Low cost of capital**
- **Normative Cost**
- **Appellate Authority so far almost dysfunctional**



Key challenges – Regulatory Uncertainty – Normative cost

Terminal cost Rs. per sq.m.

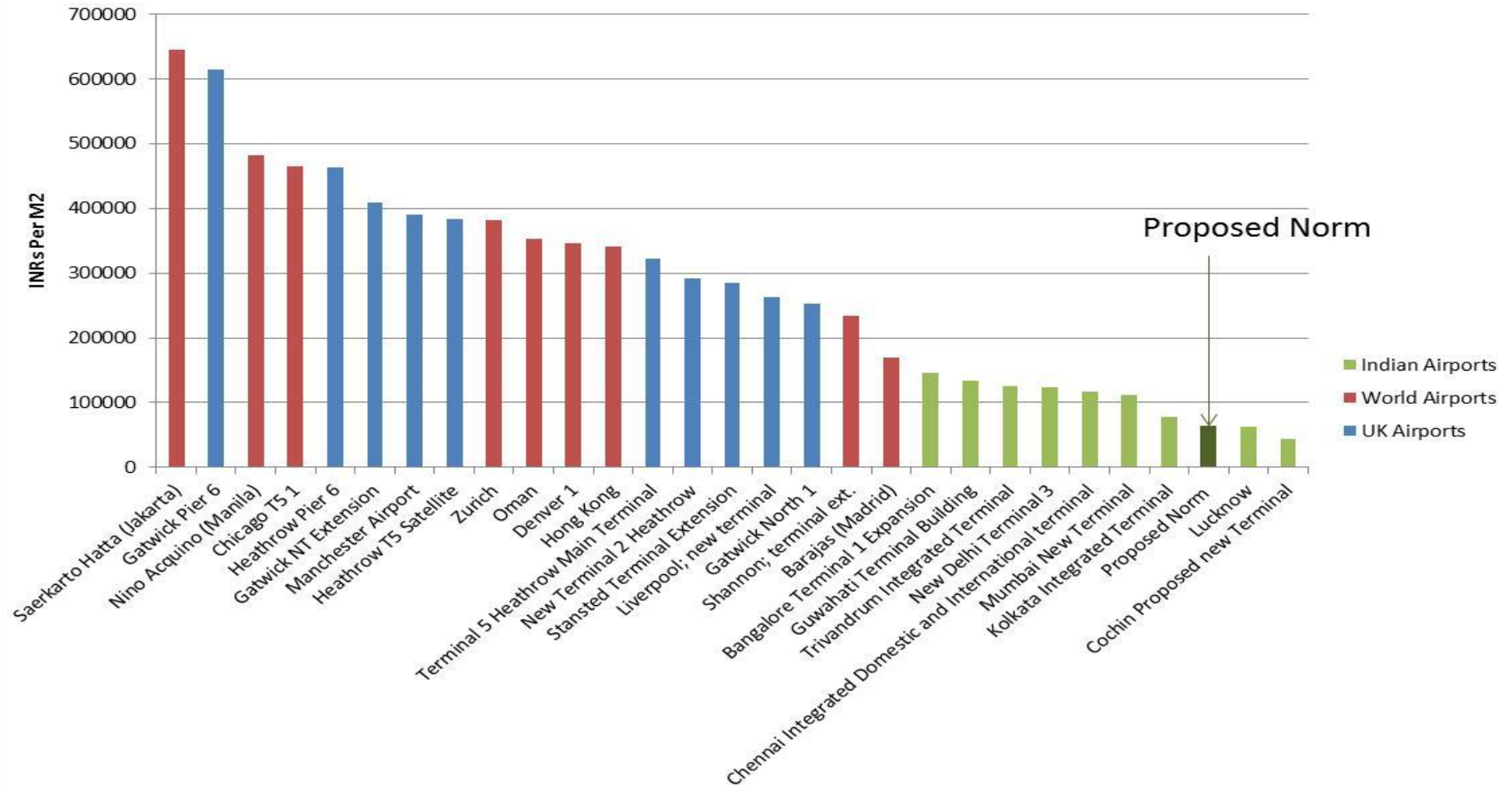


	Lucknow	GHIAL	Guwahati	Chennai
Proposed by airport	1,22,389	1,40,759	1,36,889	125,238
AERA recommendation	Not finalised	1,22,466	Not finalised	79,846

It can be seen from above that cost per sq. mtr. of the terminal at all the airports (including AAI) exceeds the proposed Inflation adjusted normative cost of Rs. 70,500

Key challenges – Regulatory Uncertainty – Normative cost

AERA Proposed Norm Compared to Indian and World Terminal Building Costs



Source: ICF International – (Year 2014)



Are Indian Airports expensive (Capex)?



CSIA has the lowest cost per million passengers among comparable airports in the world.

(US \$)

Airports	Year of completion	Terminal Capacity (MPPA)	Floor Area (in '000 sq.m)	Total Cost (million)	Cost / Sqm	Cost / MPPA (million)
T2 CSIA	2014	40	432	831	1,925	21
T3 IGIA	2010	34	554	1,052	1,899	31
Bangkok	2006	45	563	3,150	5,596	70
Kuala Lumpur	1998	25	479	2,053	4,282	82
Beijing	2008	43	900	4,105	4,561	95
T4 Madrid Barajas	2006	42	757	3,527	4,659	84
T5 London, Heathrow	2008	28	353	4,258	12,061	152

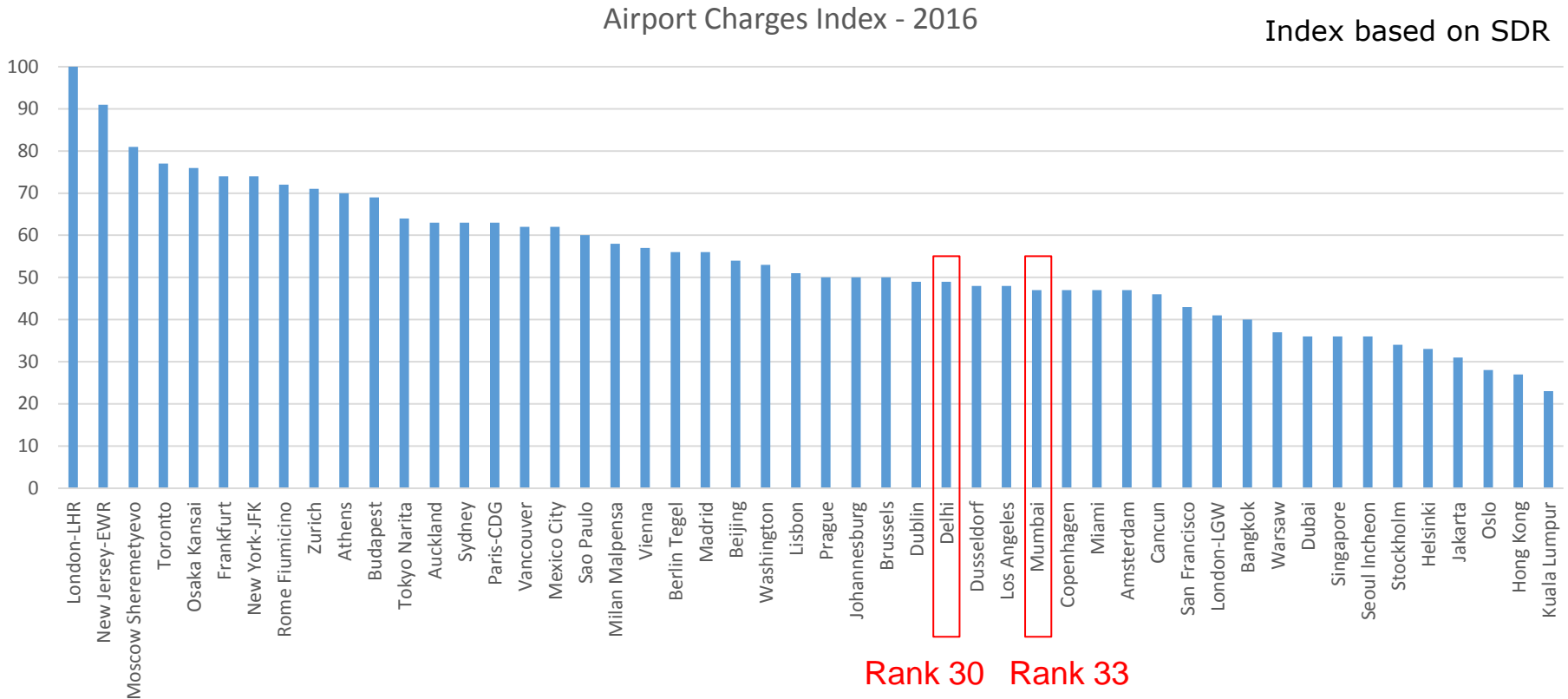
Conversion rate – Rs 65 per USD



Are Indian airports expensive (charges)?



Airport charges at Indian Airports are significantly less when compared with airports throughout the world



Source: LeighFisher : Review of Airport Charges - 2016

Inspite of lower airport charges, PPP airports are consistently rated amongst the world's best airports



Availability of long term funding

- Lumpy investment – Long term funding requirements
- Over next one decade debt required 1.7 to 1.8 lakh crs. against 0.19 lakh crs. total debt to airport sector by March 2017.
- Circular dated 15th July 2014 is withdrawn by RBI which gave flexibility to banks under 5/25 scheme for infrastructure projects
- Given the weak health of the banking sector and lack of alternative modes of funding for long term projects, there have been funding constraints for such project.



Bid Process

Bid process stretches to several years

- Majority of the projects have very tight and unrealistic schedules during the bid process initially, which get extended time and again during the process.
- Repeated delays discourages serious investors.

Uncertainty in bid provisions

- Lack of clarity over site status and key approvals
- Regular project updates are essential
 - Land acquisition status
 - Statutory approvals
 - Project related status – R&R, pre-development works etc.

Restrictive tender documents

- Several clauses under tender documents issued are onerous and lead to concessioning authority micro-managing the airport.

Eliminating Regulatory Uncertainty

- Cases before the tribunal should be resolved within a period of three months.
- An aviation expert should be appointed to the tribunal to assist in speedy resolution
- A shift from regulatory determination of tariffs to pre-defined tariffs for new airport concessions
- Options for determination of tariff
 - Fixed revenue share with determination of tariff through bid, OR
 - Revenue share based bidding with Pre-determined tariff

Eliminating Regulatory Uncertainty

➤ **Pre-determined tariff (PDT)**

- Eases investor concerns.
- PDT with inflationary and service quality levels/ efficiency adjustments require minimal intervention and can be approved quickly for application.
- PDT provide continuity in business and consistency in revenues as against potential tariff shocks under a regulatory framework approach.
- PDT with defined modification clauses address challenges related to difference in opinion between regulator and airports reducing risk of litigation.
- Traffic risk is usually borne by Concessionaires or is determinant for tariff adjustment
- Uncertainty about treatment of revenue of aero and non aero is eliminated

Funding

Long term finance through Bonds

- Private airports should be permitted to issue tax free bonds / debentures (Sec. 10(15)(iv)(h) of Income Tax Act, 1961)
- Insurance companies should be permitted to invest in bonds of private limited companies as most of the airports JVC are private limited only

Funding of projects through Development Fee

- Airports being lumpy investments requires funds with a longer duration.
- Though DF is available to AAI Airports for funding of capital projects, the same should also be made available to the private airport operators.
- Amount of DF is reduced from the Regulatory Base and hence there is no adverse impact on passengers.

Bid process

- Discipline in completing the bid process within six months from date of RFQ
- Bid process should be initiated when transaction structuring, land acquisition and project clearances have been majorly completed.
- Enough flexibility should be given to airport operator for airport development and operations and onerous conditions should not be part of bidding documents. No representation from Concessioneing Authority is required in the Board.



Thank you

