Attracting Investments in Indian Airports

24th March 2018
Agenda

- 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**: 21% (Domestic), 9% (International), 16% (Total)
- **5 year CAGR**: 16% (Domestic), 8% (International), 13% (Total)

### MPPA

<table>
<thead>
<tr>
<th>Year (FY)</th>
<th>Domestic</th>
<th>International</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 8</td>
<td>71.60</td>
<td>27.20</td>
<td>44.40</td>
</tr>
<tr>
<td>FY 9</td>
<td>68.40</td>
<td>28.90</td>
<td>59.78</td>
</tr>
<tr>
<td>FY 10</td>
<td>77.40</td>
<td>32.10</td>
<td>109.50</td>
</tr>
<tr>
<td>FY 11</td>
<td>88.90</td>
<td>35.10</td>
<td>124.00</td>
</tr>
<tr>
<td>FY 12</td>
<td>98.90</td>
<td>38.10</td>
<td>137.00</td>
</tr>
<tr>
<td>FY 13</td>
<td>97.90</td>
<td>40.30</td>
<td>138.20</td>
</tr>
<tr>
<td>FY 14</td>
<td>103.70</td>
<td>43.10</td>
<td>146.80</td>
</tr>
<tr>
<td>FY 15</td>
<td>115.80</td>
<td>45.70</td>
<td>161.50</td>
</tr>
<tr>
<td>FY 16</td>
<td>135.00</td>
<td>49.80</td>
<td>184.80</td>
</tr>
<tr>
<td>FY 17</td>
<td>158.40</td>
<td>54.70</td>
<td>213.10</td>
</tr>
<tr>
<td>FY 18</td>
<td>182.99</td>
<td>59.78</td>
<td>242.77</td>
</tr>
</tbody>
</table>

**CAGR of 10%**
India – the fastest growing aviation market

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

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.
India – the fastest growing aviation market

Aircraft in Service and On Order

<table>
<thead>
<tr>
<th>In Service</th>
<th>567</th>
</tr>
</thead>
<tbody>
<tr>
<td>On Order</td>
<td>904</td>
</tr>
</tbody>
</table>

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**.
Projected Airport Investments

- 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
**Recent bids**

<table>
<thead>
<tr>
<th></th>
<th>Bids received</th>
<th>International companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mopa</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Navi Mumbai</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>Bhogapuram</td>
<td>2</td>
<td>-</td>
</tr>
</tbody>
</table>

- Limited or no international bidders in recent transactions
Key challenges

- Regulatory Uncertainty
- Bid Process Timelines
- Restrictive Tender documents
- Funding
Key challenges – 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.

<table>
<thead>
<tr>
<th>Airport</th>
<th>Proposed by airport</th>
<th>AERA recommendation</th>
<th>Inflation adjusted normative cost of Rs. 70,500</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kolkata</td>
<td>110,976</td>
<td>Not finalised</td>
<td></td>
</tr>
<tr>
<td>Lucknow</td>
<td>122,389</td>
<td>1,22,466</td>
<td></td>
</tr>
<tr>
<td>GHIAL</td>
<td>140,759</td>
<td>Not finalised</td>
<td></td>
</tr>
<tr>
<td>Guwahati</td>
<td>136,889</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chennai</td>
<td>125,238</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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.

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

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.

Airport Charges Index - 2016

Index based on SDR

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.
Key challenges – Bid Process

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 Concessioning Authority is required in the Board.
• The variable tariff benefit are not combinable and are valid for only one of the variable tariff plan options to be availed by the airline.

• The effective date of availing the variable tariff shall be the date of issue by AERA. Existing operations of the Airline and of CSIA, as on date of the applicability of the new rate card, will be considered as the base for taking into consideration of the terms and conditions of the variable tariff.

Any new routes, additional frequencies, upgraded aircraft type operations on or after the issue date of AERA order shall be eligible for the variable tariff.