ASSOCIATION OF PRIVATE AIRPORTS OPERATORS

# Changing Landscape of Indian Aviation - Challenges &Opportunities for Airports

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# ASSOCIATION OF PRIVATE AIRPORT OPERATORS

- Association of Private Airport Operators (APAO) is an apex Industry Association of the 5 Major Private Airports in India. It is a non-profit organisation registered under the Societies Act, 1860 to represent the interests of member airport operators with the prime objective of promoting the growth and development of the privatised major airports to truly world class standards.

- **VISION OF APAO -** To enable its members to build world class Airport capabilities to help meet National Objective and play a facilitating role in shaping the Airport sector in this country to Global standard and facilities.

- **ADMINISTRATION OF THE ASSOCIATION -**

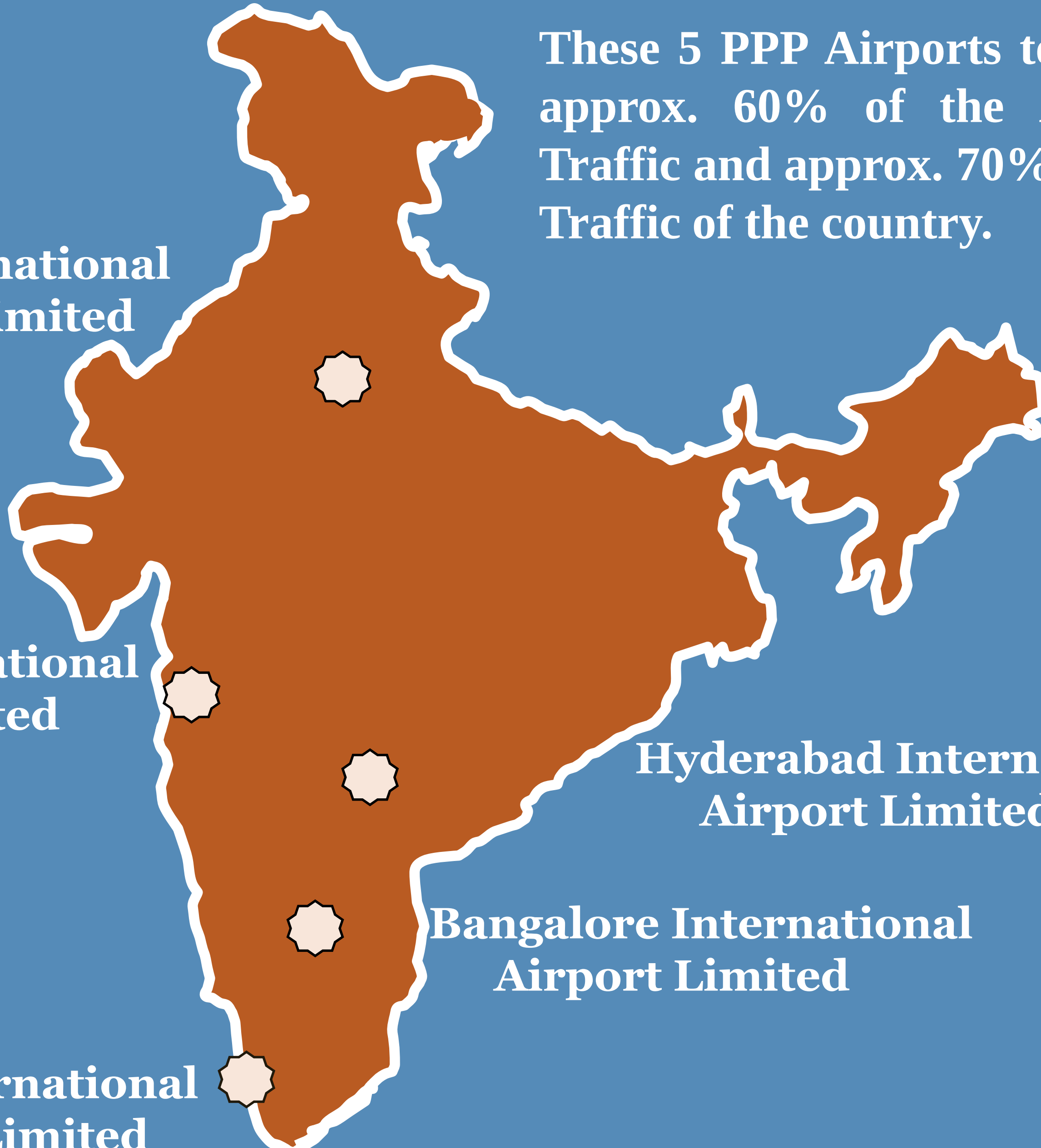
**President** – Mr. Srinivas Bommidala (Chairman Airports - GMR)
**Vice President** – Mr. Rajeev Kumar Jain (CEO, MIAL)
**Secretary General** – Mr. Satyan Nayar.

# OBJECTIVES OF APAO

- To help address problems of Airport Operators relating to operational, Regulatory, Financial, or Licensing through interaction with Ministry of Civil Aviation, AERA, Ministry of Finance, Ministry of Commerce, Planning Commission, Other Regulatory Bodies, RBI and other Industry Bodies etc.
- To engage in dialogue with all stakeholders and thereby assist the airport sector to improve and economize airport operations for providing world class facilities and services.
- To assist relevant Authorities by providing them information about the industry to help them formulate suitable policies for the industry's growth.
- Facilitate co-operation, mutual assistance, information exchange and educational opportunities for Members and Involve in all the policy and Regulatory issues.

# APAO MEMBER AIRPORTs

These 5 PPP Airports together handle approx. 60% of the Air Passenger Traffic and approx. 70% of the Freight Traffic of the country.





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# INDIA EXPERIENCE


- BOOT
- Brown Field
- PPP – AAI 26%

**Delhi**
**Mumbai**

- BOOT
- Greenfield
- PPP – 26%

(State Govt. & AAI Collectively)

**Hyderabad**
**Bangalore**

- BOO
- PPP - 26%

(State Govt.)

**Cochin**

# PPP MODELS FOR AIRPORT DEVELOPMENT – WHY IT IS REQUIRED?

- Inadequacy of Funds.
- Constraints of AAI – Government Regulated.
- Liberalized Economy - Bring in Foreign Investment.
- Timely completion of Projects as per plan.
- Better Financial & Management practices.
- Technology Incorporation – Adoption of latest technologies.
- Achieving capacity before demand.
- Focus on Passenger Comfort and improving quality of service.

**AIRPORTS AS ECONOMIC LIFE LINE - NEEDS GREAT ATTENTION**

# THE RESULTS

- Private Sector played an unprecedented role during 11th Plan. Key Contributor for the development of Indian Airports.
- Investment to the tune of Rs. 30,000/- Cr. against Rs 12,500 Cr. by AAI.
- Three new Greenfield Airports and Two Brownfield Airport developed to International Standards. Cochin first PPP Airport in the Country.
- 12th Plan has a projection of Rs 67,500/- Cr for Airport development out of which Rs 50,000/- Cr from private sector.
- Large scale private participation in Ground Handling, Cargo Handling, MRO, Setting up of Training centre and Contributed employment generation.
- Substantial revenue contribution to AAI.
- Brought cost effectiveness in operation and maintenance.
- At the end of the 11$^{th}$ Plan, total passenger handling capacity at Indian Airports was 198 million as against the demand of 162.30 million.
- Reduced fiscal pressure on the Government Budget.

# FINANCIALS OF FIVE PRIVATE AIRPORT OPERATORS

| Operators | Revenue (In Crores) | No. of Passengers (in Millions) | Volume of Cargo (In Mt) |
|---|---|---|---|
| **2011-12** | | | |
| **BIAL** | 635.5 | 12.70 | 2,24,949 |
| **CIAL** | 275.94 | 4.72 | 42,706 |
| **DIAL** | 1,530.95 | 35.88 | 5,68,355 |
| **GHIAL** | 599 | 8.60 | 81,474 |
| **MIAL** | 1314.35 | 30.75 | 6,57,470 |
| **Total** | **4,355.74** | **92.65** | **15,74,954** |
| **2010-11** | | | |
| **BIAL** | 613 | 11.59 | 2,22,778 |
| **CIAL** | 247 | 4.35 | 40,808 |
| **DIAL** | 1,243 | 29.94 | 6,00,045 |
| **GHIAL** | 539 | 7.63 | 80,777 |
| **MIAL** | 1,180 | 29.07 | 6,70,233 |
| **Total** | **3,802** | **82.58** | **16,14,641** |

**CONTRIBUTES SUBSTANTIAL REVENUE TO AAI**

# CONTRIBUTION OF PPP AIRPORTS

- PPP Airports handled ~ 60% of total passengers in the country.
- PPP Airports handled ~ 70% of total Cargo in the country.
- Revenue contribution to AAI – Rs 1,227 crore as against their profit Rs 1,364 crore. The profitability of AAI is mainly contributed by PPP Airports.
- Helps AAI to build new airports and upgrade existing airports.

| Financial Details (in Rs crore) | 2011-12 | 2010-11 |
|---|---|---|
| **Profit Before Tax** | **1,364** | **1,346** |
| Profit After Tax | 859 | 846 |
| Revenue share received from DIAL | 704 | 577 |
| Revenue share received from MIAL | 523 | 458 |
| **Total Revenue share received from DIAL & MIAL** | **1,227** | **1,035** |

# INDIA AVIATION – THE GROWTH STORY

| 2007 | | | 2012 | | | 2017 | | | 2027 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| *Rank* | *Country* | *Passengers (millions)* | *Rank* | *Country* | *Passengers (millions)* | *Rank* | *Country* | *Passengers (millions)* | *Rank* | *Country* | *Passengers (millions)* |
| 1 | United States | 1,450 | 1 | United States | 1,552 | 1 | United States | 1,790 | 1 | United States | 2,345 |
| 2 | China | 297 | 2 | China | 497 | 2 | China | 792 | 2 | China | 1,708 |
| 3 | United Kingdom | 243 | 3 | United Kingdom | 282 | 3 | United Kingdom | 324 | **3** | **India** | **581** |
| 4 | Spain | 210 | 4 | Spain | 251 | 4 | Spain | 294 | 4 | United Kingdom | 409 |
| 5 | Japan | 204 | 5 | Japan | 228 | **5** | **India** | **274** | 5 | Brazil | 407 |
| 6 | Germany | 186 | 6 | Germany | 218 | 6 | Japan | 259 | 6 | Spain | 370 |
| 7 | France | 140 | **7** | **India** | **176** | 7 | Germany | 252 | 7 | Japan | 330 |
| 8 | Italy | 129 | 8 | France | 168 | 8 | Brazil | 224 | 8 | Germany | 311 |
| 9 | Brazil | 120 | 9 | Brazil | 165 | 9 | France | 192 | 9 | France | 242 |
| 10 | Canada | 101 | 10 | Italy | 154 | 10 | Italy | 180 | 10 | Italy | 233 |
| 11 | Australia | 101 | 11 | Australia | 131 | 11 | Australia | 154 | 11 | Australia | 209 |
| **12** | **India** | **100** | 12 | Canada | 125 | 12 | Canada | 147 | 12 | Mexico | 206 |
| 13 | Mexico | 85 | 13 | Mexico | 109 | 13 | Mexico | 137 | 13 | Canada | 195 |
| 14 | Turkey | 67 | 14 | Turkey | 92 | 14 | Russian Federation | 112 | 14 | Russian Federation | 178 |
| 15 | Korea, Republic of | 65 | 15 | Russian Federation | 84 | 15 | Turkey | 112 | 15 | Turkey | 157 |
| 16 | Thailand | 57 | 16 | Korea, Republic of | 78 | 16 | UAE | 95 | 16 | UAE | 152 |
| 17 | Indonesia | 56 | 17 | Indonesia | 71 | 17 | Korea, Republic of | 92 | 17 | Indonesia | 148 |
| 18 | Russian Federation | 52 | 18 | UAE | 70 | 18 | Indonesia | 92 | 18 | Korea, Republic of | 126 |
| 19 | Netherlands | 51 | 19 | Thailand | 70 | 19 | Thailand | 86 | 19 | Thailand | 125 |
| 20 | Hong Kong | 47 | 20 | Hong Kong | 61 | 20 | Hong Kong | 76 | 20 | Hong Kong | 113 |

**PLANNING TO REACH 3rd POSITION IN THE WORLD**

# INDIA AVIATION – THE GROWTH STORY (Contd..)

According to IATA forecast

- By 2016, **India will the 4th largest domestic passenger market in the world.** The five largest markets for domestic passengers will be the United States (710.2 million), China (415 million), Brazil (118.9 million), **India (107.2 million)** and Japan (93.2 million).

- By 2016, **India will the 9th largest international freight market in the world.** The largest international freight markets will be the United States (7.7 million tonnes), Germany (4.2 million tonnes), China (3.5 million tonnes), Hong Kong (3.2 million tonnes), Japan (2.9 million tonnes), the United Arab Emirates (2.5 million tonnes), the Republic of Korea (1.9 million tonnes), the United Kingdom (1.8 million tonnes), **India (1.6 million tonnes)** and the Netherlands (1.6 million tonnes).

# INDIAN AVIATION – THE GROWTH STORY (Contd..)

- Airport density is low in India which is one airport for every 4.6 million people against US where its 60,000 people per airport, China 3.2 million people per airport. Even with slightest increase in air travel. India will require large number of airports.
- The Passenger handling capacity of Indian airports was 66 million in 2005, reached 225 million in 2013 and is expected to be 500 million in the next 10 years.
- The country needs at least 375 - 400 operational airports by 2025 – 27 to take the civil aviation sector to the next growth phase. The country currently has 82 operational airports.
- We will also require large number of aircrafts.
- Opportunities for all - Airport Developers, MROs, Commercial Lenders and Cargo Agents.

| Investment on | US $ 110 billion by 2020 |
|---|---|
| New Aircraft | US $ 80 billion |
| Airport Infrastructure | US $ 30 billion |

**HUGE OPPORTUNITES**

**ARE WE PREPARED TO TAKE THE CHALLENGE ??**

# INDIAN AVIATION – THE GROWTH STORY (Contd..)

- According to CAPA, total duty free retail spend at Indian airports is expected to reach Rs 17,500 crores in FY 2021 from Rs 1,200 crores in FY 2011.
- 70% of this is projected to be generated from 5 PPP Airports.
- Incheon International Airport (South Korea) generated $1.53 billion ( ~ Rs 8,300 crore) in revenue in 2011.
- Dubai Duty Free (DDF) posted annual sales of $ 1.6 billion ( ~ Rs 8,600 Crore) in 2012, a jump of 10% compared to 2011. Total staff employed at DDF is 5,200.
- All Chinese airports put together $1.9 billion ( ~ Rs 10,260 crore).

# INDIAN AVIATION – THE GROWTH STORY (Contd..)

- Number of flights taken per capita in India is 0.04 as against US and Australia >2 and China and Brazil 0.3.

| Fleet Strength | 2011-12 | 2025 |
|---|---|---|
| Scheduled airlines | 430 | 1,500 |
| General Aviation | 700 | 2,500 |
| Helicopter | 300 | 900 |
| **Total** | **1,430** | **4,900** |

- There is dire need for converting all PPP Indian Airports as Aviation hubs.
- Huge potential for large scale MRO business in India.

# CHALLENGES

- High tax regime.
- Till regime – Adoption of Single Till regime in the country.
- Ensuring viability of the airport.
- Reasonable return to be assured – very low cost of equity.
- High revenue share.
- Threat of CAG and RTI applicability.
- 'Reserved activities on Cost recovery basis' - all sovereign functions will increase cost to airlines, passengers and cargo.
- Non- availability of long term low-cost finance.
- Concession agreements to be fully honoured – 'No worse-off Situation' to be ensured.
- Return is not provided on Refundable Security Deposit (RSD) which are used for asset creation.
- Large number of institutional clearance for airports - Adopt single window clearance.
- To have a robust and forward looking civil aviation policy.
- Still managing with 8 decades old Civil Aviation Act, 1943 and Rules, 1937.

# WHY TILL IS A CONCERN FOR AIRPORTS

- At the time of privatization of airports, GoI had examined and reviewed various regulatory Till approaches and decided not to adopt Single Till.
- Worldwide majority private owned airports operate under Dual / Hybrid Till.
- Single Till approach does not enable investments.
- Single Till does not guarantee lower aeronautical charges or better service quality in the long run.
- Airport regulators worldwide are recognizing Dual Till or Hybrid Till as a better approach.
- Non Aero revenue are critical to enabling investment. Non Aeronautical revenue is a key driver / enabler of growth.
- It moderate user charges. It improves profitability. It enhances ability to make further investment, modernization and up gradation.
- Airport charges account for less than 4-5 % of an airlines total operating cost.
- Subsidize non aeronautical revenue and passenger charges has no relation.
- Single Till removes incentives to maximize commercial revenue.

# PRIVATIZED AIRPORTS AND THEIR TILLS

## (EXCEPT UK AIRPORT – BAA)

| Country | Airport | Till at Privatization | Till - Now Existing |
|---|---|---|---|
| **Belgium** | Brussels | Single Till > Dual Till gradually | Single Till > Dual Till gradually |
| **Denmark** | Copenhagen | No Till | Hybrid |
| **Hungary** | Budapest Ferihegy | No Till | No Till |
| **Italy** | Rome | No Till | Hybrid |
| | Naples | No Till | Hybrid |
| | Venice | No Till | Hybrid |
| **Greece** | Athens | | Dual Till |
| **Netherlands** | Amsterdam | | Dual Till |
| **Malta** | Malta International | Dual Till | Dual Till |
| **Slovak Republic** | Bratislava | N/A | Dual Till |

| Country | Airport | Till at Privatization | Till - Now Existing |
|---|---|---|---|
| **Australia** | Melbourne | No Till/ Dual Till | Unregulated/ Dual Till |
| | Perth | No Till/ Dual Till | Unregulated/ Dual Till |
| | Brisbane | No Till/ Dual Till | Unregulated/ Dual Till |
| | Adelaide | No Till/ Dual Till | Unregulated/ Dual Till |
| | Sydney | Unregulated/ Dual Till | Unregulated/ Dual Till |
| **New Zealand** | Auckland | Unregulated/ Dual Till | Unregulated/ Dual Till |
| | Wellington | Unregulated/ Dual Till | Unregulated/ Dual Till |
| **Mexico** | Cancun | Dual Till | Dual Till |
| | Guadalejara | Dual Till | Dual Till |
| | Monterrey | Dual Till | Dual Till |
| | Mexico City | No Till/ Dual Till | No Till/ Dual Till |

# REGULATORY PHILOSOPHY PROPOSED BY THE MINISTRY

MoCA proposed new regulatory approach for non-AAI, non-metro Greenfield Airports.

- Light-hand regulation for first 5 years (During this period each of these airports can fix their tariff and only inform the Ministry about the tariff so fixed).
- After completion of 5 years, the airport will still be under Light-hand regulation if the throughput is not more than 0.5 mppa.
- If the annual throughput is between 0.5 and 1.5 mppa, the regulation will be by Ministry under hybrid Till approach.
- If the annual throughput exceeds 1.5 mppa, AERA will regulate.

**REGULATORY PHILOSOPHY FOR MAJOR AIRPORTS ALSO MUST BE ALIGNED WITH THE POLICY OF THE GOVERNMENT.**

# WHY COST OF EQUITY IS A CONCERN FOR AIRPORTS

- Studies conducted by various agencies on Cost of equity recommended for higher Cost of Equity.

| S No. | | Consultant | Cost of Equity Estimates |
|---|---|---|---|
| 1. | APAO | KPMG | 20% - 23% |
| 2. | DIAL | Leigh-Fisher | 25.1% |
| 3. | MIAL | CRISIL | 24.2% |
| 4. | MoCA | SBI Capital Markets | 18.5% - 20.5% |
| 5. | AERA | NIPFP | 11.64% - 13.84% |

- AERA however provided a cost of equity of 16% and a WACC of 10.33% for DIAL and 11.45% for MIAL against an expectation of 16% WACC which is prevailing in many of the infrastructure sectors.
- Highly disincentive for private investment.
- Even though 100% FDI in airports sector is allowed, there is no visible interest shown by any investors. Infact some existing shareholders are either reducing their stake or pulling out from their existing investments due to unattractive investor regime.

# NEED FOR INVESTOR FRIENDLY REGULATIONS

- Airport development requires private capital and therefore, economic regulation should be attractively designed.
- The terms of privatization in case of existing airports must be adhered to bring confidence in the privatization process.
- The policy should enable the investors to invest in the airport infrastructure.
- Planning commission estimates around Rs 65,000 Crores of investment in the 12th Plan (2012-17).

| Investor | Investment Category | INR (Crores) |
|---|---|---|
| **AAI** | **Airport Projects** | **17,500** |
| **Private Investments** | By Airport Operator | 40,000 |
| | By Others (Concessionaires, third party etc.) | 10,000 |
| | **Subtotal** | **50,000** |
| | **Total** | **67,500** |

# KEY ENABLERS FOR AIRPORT INFRASTRUCTURE

1. **Holistic support from state governments for positioning India as a global hub:**

   - Multimodal connectivity
   - Service of utilities make available at reasonable cost.
   - Ensure availability of security.
   - Reduce VAT on ATF.

2. **Evolve innovative funding solutions:** Given the risks, lenders are cautious when issuing long term debt to airport operators. Following ideas can be evaluated:

   - Allowing airport companies to issue tax free infrastructure bonds.
   - Facilitating Airport Development Fee (ADF) for pre-funding of airports.

# KEY ENABLERS FOR AIRPORT INFRASTRUCTURE(Contd..)

3. **Ensuring independent decision-making and protection of sensitive business information by PPP airports:**

   - There is a serious concern among the PPP airports about applications CAG/RTI regulations.
   - Business-logic driven decision-making and confidentiality of sensitive information must be ensured as in other sectors, for sustaining the interest of private players.
   - There is high risk of misuse of commercially sensitive information by parties with vested interest.
   - High risk on the flexibility given to private operators.
   - Performance will be under threat due to stress on procedure orientation.
   - CAG now demanding punishing powers – How will investors come to invest in this sector if you scare them.

# KEY ENABLERS FOR AIRPORT INFRASTRUCTURE(Contd..)

4. **Tax incentives:** Certain fiscal incentives need to be considered in order to facilitate greater investments in the sector:
   - Infrastructure status and income tax exemption under Section 80IA should be extended to brown-field expansion of airport business.
   - Restore the benefit under schemes like 'Served from India Scheme' (SFIS). This will help to reduce the cost.
   - Income tax exemption should be provided to the Passenger Service Fee – Security Component (PSF-SC).
   - Service tax should not be levied on ADF as it is a capital receipt and not a revenue receipt.
   - Several taxes contribute to high cost of airport services - Reduce negative tax regime.
   - Passengers, airlines and cargo are burdened with high cost.

# CONCLUSIONS

1. Ensure Viability of Existing Airports
   - Concession agreement should be adhered including matters related to Till and real estate development.
   - Reasonable Return should be allowed to ensure viability of the airport.
2. Civil Aviation Policy should Address Government's Choice of Regulatory Till
   - For PPP Airports, a Dual Till should be mandated.
   - Encourage non-aero revenue development.
3. All Reserved Activities/sovereign functions of GoI should not be on cost recovery basis.
4. Consider reduction in the high revenue share to reduce the burden on the airport operators. There are such examples in other sectors. (IATA has also advocated to bring down the revenue share).
6. Focus of the government must be on affordable aviation service and not for revenue maximization.
   - Affordable service will generate higher volume growth and therefore higher revenue to GoI.

# THANK YOU