

AIRPORTS

Aviation infrastructure still grounded

Supporting infrastructure has to catch up with the growth envisaged for Indian aviation.

With a market size of around \$16 billion, India is the ninth largest civil aviation market in the world today. During the Eleventh Plan period (2007-12), passenger traffic grew at a CAGR of 11 per cent. Passenger handling capacity increased three-fold from 72 million in 2005-06 to over 198 million in 2010-11 and cargo handling capacity expanded from 0.5 mt in 2005-06 to 3.3 mt in 2010-11.

Multiple factors have contributed to this, including a strong economy, higher household incomes, entry of low-cost carriers, rising business and tourist travel and increasing cargo movement, amongst others. To keep pace with this impressive performance, aviation infrastructure is in an expansion mode with several measures taken like construction of greenfield airports, modernisation of brownfield ones and the introduction of advanced operational systems.

GROWTH GRAPH

Yet, these fall short of current and future demands, as can be observed from the following facts. Airport density is low in India with just one airport for every 4.6 million people compared with the US that has one airport for 60,000 people. China has a ratio of one airport for every 3.2 million people. Passenger-handling capacity of Indian airports is expected to be 500 million in the next

10 years and India needs around 400 operational airports by 2025 to meet its growing demand. Currently, there are only 82 operational airports and of the 125 airports managed by AAI, only seven are profitable.

“The civil aviation sector has witnessed unprecedented traffic growth in the past few years due to rapid economic growth, growing tourism, entry of low-cost private carriers, liberalization of international bi-lateral agreements, and our civil aviation policy. India has the potential to be an aviation leader by 2025, within the top three positions in terms of passenger transport”, says Satyan Nayar, Secretary General, Association of Private Airport Operators (APAO).

He adds, “This implies that huge private investments will be required as AAI alone will not be able to raise the required funds of about \$30 billion. India is likely to have aircraft fleet strength of approximately 4,000 by 2030, requiring further investments of about \$90 billion. Therefore, it is essential airport infrastructure is developed to meet future growth”.

It is not just India but all of Asia that is gearing up to meet rising demand, says Sonal Mishra, Associate Director, Capital Projects and Infrastructure, PwC India. He explains, “Asia has emerged as the leading aviation market capturing 30 per cent of the world’s revenue passenger km. This growth is expected to



“Viability of the project and a reasonable rate of return are not ensured by the policy makers.”

Satyan Nayar, Secretary General, Association of Private Airport Operators, shares his views on private participation in aviation infrastructure with Janaki Krishnamoorthi.

How successful has been the PPP model in the development/modernisation of India's airports?

The modernisation of Delhi and Mumbai Brownfield airports and setting up of three new PPP Greenfield airports at Cochin, Hyderabad and Bangalore have shown that PPP is a successful model for development of airport infrastructure in the country. These airports have not only created world class infrastructure but have also been adjudged as the best airports in the world by ACI in their respective categories consistently including for the year 2015. Apart from transforming the airport from a public utility to a commercial enterprise with a higher degree of efficiency, these airports have also significantly contributed to the reduction of airlines' operational costs, by reducing their turnaround time. The PPP arrangement has also put huge funds at AAI's disposal by way of revenue sharing. Many studies have proved that there is substantial contribution by the PPP airports to the country's GDP in addition to providing huge employment



to be implemented. The threat of CAG and RTI applicability to PPP Projects creates an uneasy environment as it is likely to put greater emphasis on procedural orientation as against performance orientation.

There are unexplainable delays in bidding, land acquisition and environmental clearances which in turn delay projects, indefinitely in certain cases. In the absence of long term debt funding option, developers are burdened by the long gestation period. The prevailing high tax regime is not favourable either.

Today, the sector does not have a structured National Civil Aviation Policy, a National PPP Policy, Hub policy or a modern set of acts and rules to govern the sector.

Which are the potential areas that are likely to open up opportunities for various private players?

The important sectors with huge opportunities are airport development, which is a basic infrastructure requirement for connectivity; MRO - as Indian carriers are expected to add two to three times their fleet size in the near future; air cargo - as air freight traffic is expected to increase five times by 2032; ground handling which is expected to grow significantly; real estate development which apart from airport related, will also include other connected activities; multi nodal access to airports and technological upgrades in all areas.

What are the road blocks to private sector participation?

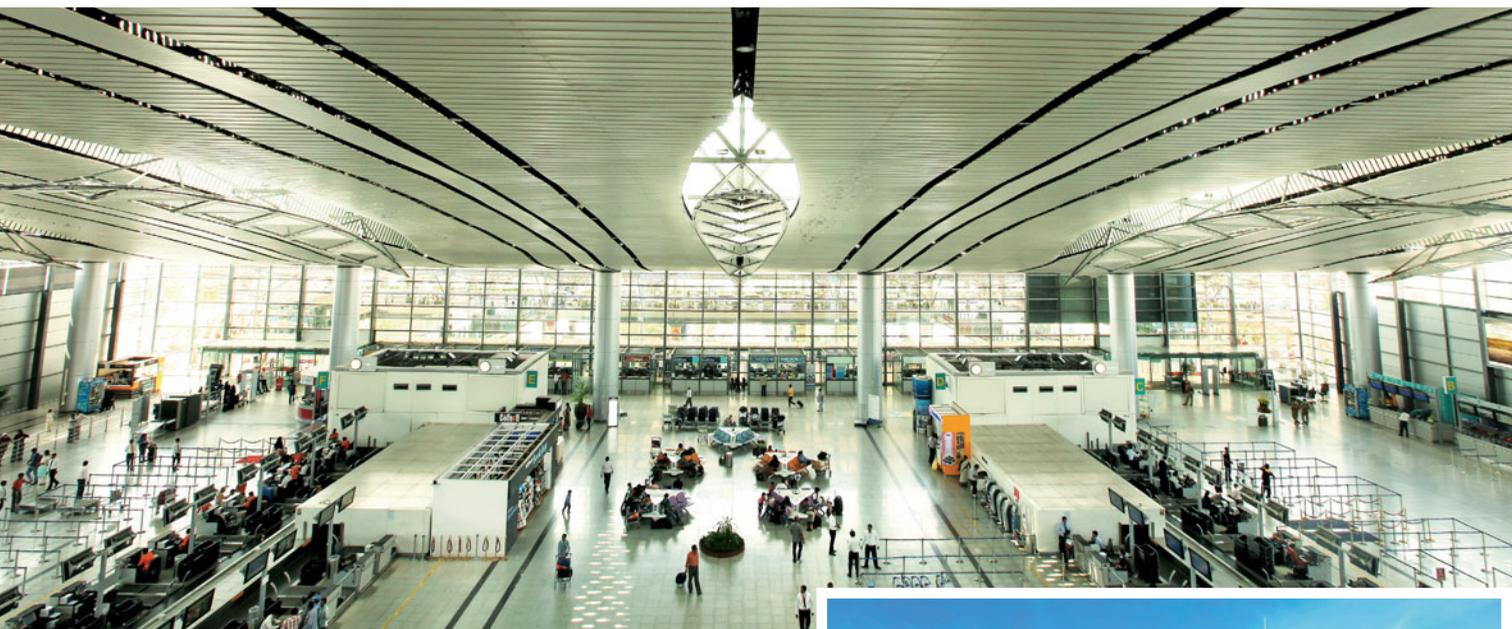
Consistent and forward looking investor friendly regulatory regime is critical, which is absent today. Viability of the project and reasonable rate of return to the investors are not ensured by the policy makers. Though the government had intended to go for a 30 percent hybrid Till regime it is yet

regions) resulting in a surge in demand for airport infrastructure in the region. Consequently, there are plans for several mega airport projects in Asia including Al Maktoum International Airport, Beijing Daxing International Airport, Hong Kong International Airport's three runway system, and Changi's east extension. When completed, all of them are expected to have an individual capacity of more than 100 million passengers per annum. A need is also felt for small to medium size airports across the region to expand the air connectivity network”.

POLICY PARAMETERS

No doubt the Indian government has taken several





Huge investments will be required to build more airports such as the Rajiv Gandhi International Airport in New Delhi.

measures. Some of them include 100 per cent FDI for both greenfield (under automatic route) and brownfield (with approval from Foreign Investment Promotion Board) airports, 100 per cent tax exemption for airport projects for 10 years and development of airports through PPP, etc.

“India is on the trajectory of high growth in airport infrastructure, given the current government’s focus on aviation requirements and with the tier-2 and tier-3 cities coming to the forefront of the growth vortex. Private participation can add great value in meeting rising demand”, says SGK Kishore, CEO, GMR Hyderabad International Airport Ltd (GHIAL).

The current (2016-17) Budget has some encouraging provisions for the sector. Some of these include developing under-served airports/airstrips, providing tax exemptions and incentives, reviving some of AAI’s non-operational airports and special incentives for developing India as a maintenance, repair and overhauling (MRO) hub.

It remains to be seen how much of it will translate

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- RK Srivastava, *Chairman, Airports Authority of India (AAI)*



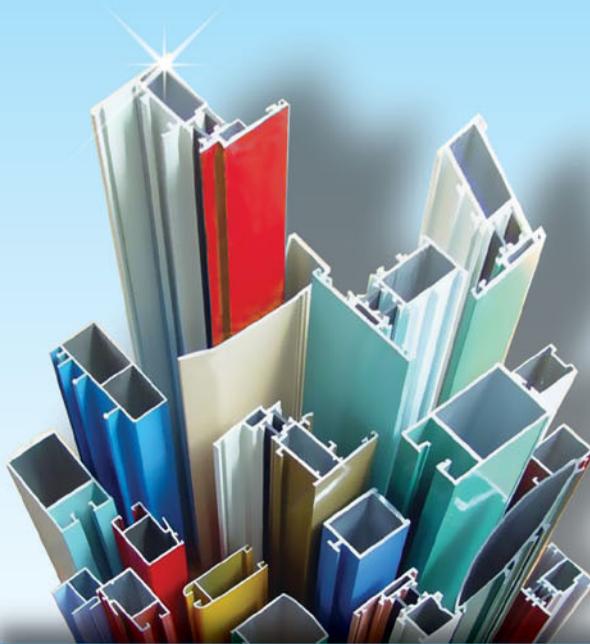
into implementation and how soon, say industry insiders. “There have been capacity expansion plans of existing large and major airports. However, implementation has not kept pace”, points out Mishra. “In addition, even with the current expansion plans, majority of Indian airports will be saturated in the next 5-10 years. According to different estimates, more than ₹400,000 crore of investment is required to augment airport infrastructure. The actual implementation as compared to these estimates is almost negligible”, he adds.

In fact, AAI had planned to invest ₹12,500 crore over the 12th Plan period on airport infrastructure. However, the actual amount spent until 2015 is only ₹4,357.87 crore. RK Srivastava, Chairman, Airports Authority of India (AAI), attributes the low spending largely to the sluggish economy. “The beginning of the twelfth five year plan period was sluggish due to a slowdown in the economy. Consequently, aircraft and passenger movements both declined. This impacted the infrastructure development plans along with other factors like land availability and statutory clearances.

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“There is huge potential for the development of airport infrastructure, majority of which will need private capital.”

- SGK Kishore, CEO, GMR Hyderabad International Airport Ltd (GHIAL)



The capex for the years 2012-13, 2013-14 and 2014-15 was ₹1,800 crore, ₹1,158 crore and ₹1,399.87 crore respectively. The revised estimates for 2015-16 is ₹1,900 crore and the Budget estimates for 2016-17 is ₹2,056 crore”, notes Srivastava.

According to him, the capex has been utilised for creating facilities like modern terminal buildings, runway extensions, parking bays, parallel taxiways, ATC tower cum technical blocks and for acquiring additional aircraft. “A significant part has been spent on modernising and upgrading ANS infrastructure. AAI has also undertaken upgrades/development of five airports-Kishangarh, Belgaum, Hubli, Jharsuguda and Tezu - in 2014-15”, adds Srivastava.

The government has been promoting the development of low-frill airports in tier II and tier III towns, requiring substantial investments. However, India’s capex lags other countries. Mishra says, “India’s current capex pipeline is around \$5 billion which is significantly less than the requirement. It is also far below the capital investment plans of countries like China (\$130 billion) and UAE (\$46 billion)”.

PRIVATE PARTICIPATION

The private sector has played a major role in the development of international airports in Delhi, Mumbai, Hyderabad, Bangalore and Cochin. Investment by the private sector is projected to grow at a CAGR of about 30 per cent during FY2012-17.

Privatisation is a major trend in worldwide, says Kishore. He explains, “The emerging global market trends reflect enhanced levels of private participation in the public sector. The modern instruments in financing are enablers in foreign funding across the globe. The

“We need easy access to funds at lower interest rates for procuring aircraft.”

- Bhupesh Joshi, CEO, Club One Air



Draft National Civil Aviation Policy (DNCAP) 2015 - Industry view

RK Srivastava, Chairman, Airports Authority of India

It provides a fillip for promotion of regional air connectivity. AAI will examine the feasibility of developing AAI’s balance non-operational airports factoring the changed environment and the need for regional and remote area connectivity. For the non feasible, non-operational airports, other potential uses are being explored.

SGK Kishore, Chief Executive Officer, GMR Hyderabad International Airport Ltd.

The policy seems to be progressive and meets India’s requirement while taking care of the global aviation trends and future capability building. We hope the policy will be implemented in its true spirit at the earliest.

Sonal Mishra, Associate Director, Capital Projects and Infrastructure, PwC India

The policy has attempted to address the following issues, which are in line with the industry’s demand: development of Greenfield or Brownfield airports through PPP and by AAI; development of Tier- II and Tier- III airstrips/airports and development/upgradation of no-frills airport at cost of ₹50 crore each; proposed “Open Skies” policy on a reciprocal basis with SAARC countries and countries with territory located entirely beyond a 5000 km radius will allow European carriers to expand their network and frequencies in India; the policy changes and duty relaxation proposals is likely to make MRO for Indian planes cheaper by 25-30 per cent; proposed Regional Connectivity Scheme, an all-inclusive airfare not exceeding ₹2,500 per passenger, indexed to inflation for a one-hour flight on RCS routes - to be effective from April 1, 2016 would provide boost to domestic traffic.

success factors for any PPP model remain political commitment, enabling policy frameworks, long-term capital market, innovative funding programmes and consistent regulatory framework, among others”.

Mishra concurs. He adds, “Airport privatisation is an emerging trend. The South American region has played a pivotal role, accounting for around \$17 billion in airport privatisation (out of the total deal value of \$21 billion worldwide). Besides, countries in European Union, Japan, Brazil and Ireland have all announced privatisation drives in 2016. Airports have also moved away from being mere infrastructure providers to full-fledged businesses. Strong political support, including buy-in from the government and public are critical to ensuring the success of PPP. Risks

for PPP transactions need to be adequately assessed to ensure a bankable transaction”.

The inter-ministerial task force constituted by the government under the chairmanship of BK Chaturvedi, to prepare a financing proposal for the Twelfth Plan period, has also recommended private participation in the development and operation of airports, improvement of navigational/surveillance facilities and air cargo logistics. The task force had specifically suggested AAI's 32 non-operational airports with no passenger/ freight potential be developed into aero sports centres, flying clubs and training centres.

Based on these recommendations, AAI had commissioned a feasibility study for development of the same. Srivastava reveals, “Out of this, AAI has already developed Mysore and Kadapa for commercial operations of ATR-72 type of aircraft. Rupsi is being developed by IAF as joint-use airport and AAI will construct a civil enclave. Similarly, land requirement has been projected to the respective state governments for development of Akola, Sholapur (greenfield) and Warangal airports. Salem and Jhausuguda have been identified as having industrial potential and development of Jhausuguda is under consideration. For development of north-east region, the development of Tezu airport has also been taken up. Flying club activities are carried out at Vellore, Nadirgul and Behala airstrips”.

Satyan Nayar, Secretary General, Association of Private Airport Operators

Steps towards regional connectivity are welcome. However, a moratorium of 10 years on airport charges will not be a self-sustaining proposition. The economic benefit of providing VGF to public at large may not materialize unless there is clarity on the parameters to be examined before providing VGF for a particular route.

APAO strongly recommends abolition of the 5 year/ 20 aircraft rule pertaining to the commencement of International Operations by Indian Airline companies, which is discriminatory against Indian carriers

Provisions regarding bilateral traffic rights are a welcome step towards opening Indian skies. Categorization of route can be based on traffic volume. However, it is to be revisited whether with the introduction of regional connectivity scheme (RCS), the route dispersal guidelines (RDG) are really required.

Introduction of hybrid Till shall lead to incentives to generate higher non-aeronautical revenue which would help in bringing down aeronautical charges in the long run and help airports to become viable and provide funds required for future expansion, and modernization. The hybrid Till mechanism, as followed across the world (using only the profit from non-aeronautical revenue streams for cross subsidization) should be adopted for all airports.

Liberalization of land use at existing AAI airports and future PPP/ AAI projects will realize the full potential of available land. However, specifically excluding existing PPP projects for the purpose of land use utilization is not in the interest of AAI/ such PPP projects.

AAI's dual role as airport operator as well as Air Navigation Services (ANS) provider at times creates conflicts of interest and hence, ANS should be established as a separate entity, which will also bring the necessary focus for upgrades of ANS facilities in India.

There must be an apex body to implement various policy decisions where multiple government agencies are involved.



The new, integrated terminal building at AAI's Tirupati Airport is popularly known as the Garuda Terminal.



The new, integrated terminal at AAI's Kolkata Airport is spread over 2,510,000 sq. ft. and is able to handle 25 million passengers annually.

OVERT OPPORTUNITIES

No doubt, the growing industry has opened up significant opportunities for several investors, including developers, MROs, equipment manufacturers, security/passenger amenity services to technological solution providers and a range of other stakeholders.

“There is a huge growth potential for the development of airport infrastructure, majority of which will require private capital. Hence, it is imperative the enabling business environment is fostered by the government so that the potential of the industry can be realised for the larger socio-economic benefit of the country”, says Kishore. The industry is also banking on the implementation of the draft National Civil Aviation Policy 2015 which has several positive provisions.

CHALLENGING COURSE

Challenges are galore in this sector – from complex policies, aggressive price cuts, a multi-tiered tax system, inordinate project delays, procedural delays, viability issues, lack of a long-term national level policy, etc.

“The sector is faced with multiple challenges. Airports being highly capital intensive projects require long gestation period to break-even. However, impediments like funding constraints, unfavourable tax regime, uncertain traffic growth, lack of stable policy and regulatory frame work, delays in land acquisition, environmental clearance and most importantly, health of airlines have put the viability of airport projects under threat”, says Nayar. He adds,

“Further, the government had planned to commence work this financial year on three greenfield airports (Navi Mumbai, Goa and Kannur) under the PPP model. However, only Kannur project is progressing well. The government’s proposed privatisation of four to five AAI airports have also not taken off. In view of all this and the frequent changes in government’s stand on airport privatisation, there is a growing concern among investors. The policy and regulatory regime should be investor friendly to facilitate private participation”.

The air charter market in India, which is still at a nascent stage, has its own challenges too, says **Bhupesh Joshi, CEO, Club One Air**. “We are facing multiple problems. Global economic slow down, internal policies, rupee devaluation are some factors hindering the growth of our segment. We need easy access to funds at lower interest rates for procuring aircraft for commercial use, tax relaxations on importing repair parts, lesser airport charges, reduction of taxes on ATP”, says Joshi.

No doubt India’s aviation industry has huge growth potential. However, its growth and progress to becoming the largest aviation market by 2030 will definitely require huge investment in aviation infrastructure development, which can only come from the private sector. This, in turn, calls for investor-friendly regulatory framework and policies. **IT**

- Janaki Krishnamoorthi