

4 July, 2018

To,
Ms.Puja Jindal
Secretary
Airport Economic Regulatory Authority of India (AERA)
AERA Building, Administrative Block
Safdarjung Airport
New Delhi 110003

Subject: Subject: Observations and comments from B.PAC to AERA on the Consultation Paper No. 05/ 2018-19 in respect of Determination of tariffs for Aeronautical Services Kempegowda International Airport Limited, Bengaluru

Reference:

- 1. Consultation Paper No. 05/ 2018-19 - Determination of tariffs for Aeronautical Services in respect of Kempegowda International Airport, Bengaluru, for the Second Control Period (01.04.2016 to 31.03.2021) dt 17th May 2018*
- 2. Addendum: Consultation Paper No. 05/ 2018-19 dated 17.05.2018 Issued on 07th June 2018*
- 3. AERA Order No. 08/2014-15 Determination of Aeronautical Tariffs in respect of Kempegowda International Airport (Earlier Bengaluru International Airport), Bengaluru, for the first Control Period (01.04.2011 to 31.03.2016) issued on 10th June 2014*
- 4. AERA order No. 12/2017-18 F. No./20019/CGF-G/2010-11/Vol VIII - Extension of Charges till 31st March 2018*
- 5. B.PAC petition to Authority titled User Development Fee collection at KIA Bengaluru dated 17 April, 2018*
- 6. B.PAC's submission during AERA's Stakeholders Consultation Meet held on 18 June, 2018 at Bengaluru*

Greetings from Bangalore Political Action Committee (B.PAC)!

On behalf of citizens of Bengaluru, and on behalf of the passengers using KIAL, we would like to submit the following observations and comments on the consultation paper referred above for AERA's kind consideration while determining the User Development Fee (UDF) against the claims submitted by KIAL.

We would like to draw your attention to the fact that B.PAC had previously submitted comments/observations on the consultation paper No.22/2013-14 which the Authority had examined and considered before passing the final AERA Order No. 08/2014-15 in the matter of Determination of Aeronautical Tariffs in respect of Kempegowda International Airport (earlier Bengaluru International Airport), Bengaluru, for the first Control Period (01.04.2011 to 31.03.2016) and submitted a petition to Chairman, AERA title: User Development Fee (UDF) collection at Kemp Gowda International Airport (KIA), Bengaluru dt 17 April 2018.

It is also to be noted that, in the AERA's final order under Decision No. 8, for Traffic Forecast states, The Authority decided **“To true up the traffic volume based on actual growth during the current Control Period (2011-2016) while determining aeronautical tariffs for the next control period.”**

We would like to reiterate that **KIAL has been operating with unchanged tariffs even after the completion of the first control period (2011-2016)**. AERA has been passing interim orders allowing KIAL to continue to levy the tariffs existing as on 31st March, 2016 for the past 25 months into the Second Control period (FY 2016-17 to FY 2020-21) **which were based on air traffic projections made in 2010. This has led to a huge accumulation of additional revenue through UDF** which is highlighted in Table 1.

Table 1: UDF Collection by KIAL from 2013-2018

UDF Collection (INR)	2013-14	2014-15	2015-16	2016-17	2017-18 (Est)
Domestic Tariff	342	306	306	306	306
International Tariff	1,368	1,226	1,226	1,226	1,226
UDF Projected	3,56,02,20,000	3,56,48,10,000	3,98,44,00,000	4,42,26,84,000	4,90,91,79,240
UDF Actuals	3,54,82,50,000	3,83,54,64,622	4,72,43,25,492	5,69,80,43,125	6,43,30,90,688
Difference	-1,19,70,000	27,06,54,622	73,99,25,492	1,27,53,59,125	1,52,39,11,448

Source: Collated by B.PAC

Further, we would like to bring it to AERA's notice that, during the FY 2016-17, the EBIDTA margin was at 71 per cent and PAT margin at 42 per cent as shown in Table 2. This clearly indicates that KIAL has made substantial profit and the PAT margin has increased from 10 per cent to 36 per cent during the first control period and moved up to 42 per cent in 2016-17, in the

first year of the second control period. This kind of profitability is unheard of in any industry within the country or globally **and clearly establishes that excessive UDF charges have fully contributed to KIAL's higher profit margin.** Moreover, in spite of our request to AERA, to direct KIAL to provide either the provisional or audited accounts for the FY 2017-18, neither have been made available to the public. Going by the increasing traffic numbers, FY 2017-18 numbers are likely to be even higher and it would completely counterintuitive on the part of AERA to allow KIAL to make super profits while hapless consumers continue to bear the brunt of UDF charges. AERA would be failing in its duty of regulating tariff fixation and ensuring that consumers are not overcharged.

Further, in the interest of full transparency, we request AERA to direct KIAL to put on public domain all contracts with related parties since inception and also conduct an independent verification of the arms length nature of these transactions. In case any contracts are found to be not at arms' length, action needs to be initiated by AERA to recover the excess amount so charged. In any case there should be full and public disclosure of all related party transactions and arms length nature of the same on an ongoing basis every quarter.

Table 2: Profitability of KIAL
(Rs. in Cr)

<i>(INR Cr)</i>	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
Revenue from Operations	646.44	915.51	1,137.97	1,314.35
Total Expenses	261.1	313.91	334.39	382.81
EBIDTA	385.34	601.6	803.58	931.54
EBITDA Margin	60%	66%	71%	71%
PAT	67.38	75.31	419.06	565.38
PAT Margin	10%	8%	36%	42%
Share capital	384.6	384.6	384.6	384.6
Reserves and surplus	391.99	402.54	820.76	1338.72
(Less) PAT	67.11	75.31	419.06	565.35
Total Shareholder funds	709.48	711.83	786.3	1157.97
ROE	9%	11%	53%	49%

Source: Collated by B.PAC

The Table 3 below provides details of the UDF charged in the first control period, further extended by AERA for two years and part of the third year of the second control period at these unreasonably high rates. We are further surprised to see that instead of completely eliminating UDF, KIAL has further proposed UDF charges of INR 79 for domestic passengers and INR 319 for international passengers for remaining part of the third year. This sharply increases during the last two years of the second control period and defies all financial logic.

Table 3: Existing and Proposed Tariff of User Development Fees for KIAL

User Development Fee(UDF)	Earlier Tariff	Existing Tariff	Existing Tariff	BIAL Proposed Rates		
Type of passenger	Rate per pax	Rate per pax	Rate per pax	Rate per pax		
	1st APRIL 2014 UP TO 31st MARCH 2015	1st APRIL 2015 UP TO 31st MARCH 2016	AERA passed interm order to continue with pre vailing rates	1st JULY 2018 UP TO 31st MARCH 2019	1ST APRIL 2019 UP TO 31ST MARCH 2020	1ST APRIL 2020 UP TO 31ST MARCH 2021
International embarking passenger	1119	1226	1226	316.76	373.68	416.22
Domestic embarking passenger	280	306	306	79.19	93.42	104.06

Source: Addendum: Consultation Paper No. 05/2018-19 dated 17.05.2018

We request AERA to disallow the collection of UDF through the second control period for the following reasons:

1. Because of delay in hearing by AERA, **excess UDF has been charged in the first two years of the second control period which has lead to significant profit margin for KIAL. Hence the question of UDF collection in the second control period does not arise.**
2. **The actual air traffic has far exceeded projections and the airport is making substantive profit.**
3. **The traffic projections for the second control period per AERA's own order should have been based on a survey conducted just before the beginning of the second control period in order to reflect the most current market situation and not based on a 2010 study.**
4. **KIAL has been given free land by the GOK for the development of the aero and non aero, airport/non airport activities. Sadly the non aero / non airport activities have not even**

commenced leading to a significant lock up of precious land value in a prime location and loss of revenue to the exchequer.

We draw your attention to the following areas in this petition:

Proposal no 2: Regarding Pre Control Period

- a. In its submission to AERA, KIAL has requested the Authority to consider the pre-control period shortfall in its entirety and allow KIAL to recover the shortfall incurred during the Pre-Control Period. As per the decision passed by AERA in the Order for the first control period tariff determination, the Authority noted that, *from the date the powers of the Authority under Chapter 3 of the Act were notified (this date being 1st September 2009) BIAL has not posted any losses in its Profit and Loss statements for the period 2009-10 and 2010-11. Hence the question of considering any Pre-control period shortfall for the purpose of determination of Aeronautical Tariffs for the current control period does not arise.*

Table 4: Balance Sheet of KIAL for 2009-10 and 2010-11
(All numbers in INR million)

Particulars	Actuals	
	2009-10	2010-11
SOURCES OF FUNDS		
A) Shareholders' Funds		
Capital	3,846	3,846
Total Shareholders' Funds	3,846	3,846
B) Reserves & Surplus		
Profit & Loss Account Brought Forward	(1,511)	(733)
Profit & Loss Account for the Period	777	1,321
Total Profit & Loss Account	(733)	588
C) Loan Funds		
Secured Loans (incl. ECB Restatement)	13,816	12,857
Unsecured Loan - SS	3,335	3,335
D) Working capital borrowings		
TOTAL SOURCES OF FUNDS	20,264	20,626
APPLICATION OF FUNDS		
A) Fixed Assets		
Gross Block	19,744	19,874
less: Accumulated Depreciation	(2,485)	(3,832)
Net Block	17,259	16,042
Capital Work in Progress	135	880
Current Assets, Loans and Advances		
Inventories	121	138
Sundry Debtors	461	985
Other Current Assets, Loans and Advances and others	1,226	1,343
Total Current Assets, Loans and Advances	1,808	2,466
DSRA Reserves	-	-
Cash and Bank Balances	3,798	4,315
Less : Current Liabilities and Provisions		
Current Liabilities and Provisions	2,735	3,077
Net Current Assets	2,870	3,704
TOTAL APPLICATION OF FUNDS	20,264	20,626

Source: KIAL's MYTP submission to AERA (FY 2011-12 to FY 2015-16)

- b. We would further like to highlight that KIAL has been collecting UDF even prior to the year when AERA was formed (reference: Table 5)
- c. We therefore request AERA to disallow the request by KIAL to recover the pre-control period losses as highlighted in Table 4.

Table 5: UDF collection by KIAL in pre-control period, 1st control period and 2nd control period

KIAL operation before AERA action by MoCA	Pre control period		1st Control period					2nd control period		
	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18 (Est)
UDF collection (INR)										
Domestic Tariff	260	260	342	342	342	342	306	306	306	306
International Tariff	1070	1070	1368	1368	1368	1226	1226	1226	1226	1226

Source: Collated by B.PAC

Proposal no 4: Regarding Tariff Projections

- a. We request AERA to direct **KIAL to make it mandatory for KIAL to undertake a passenger survey by a credible third party for each control period with annual figures for five years and publish the same before the beginning of each control period.**
- b. As you are aware, the KIAL's projections made are based on a survey conducted in 2010, however, **actual passenger traffic have been in vast variation with the projected embarking passengers.** While we welcome the expansion plans, the projections based on 2010 survey does not reflect the reality. The regulator should push the operators to make more realistic projections and **AERA should penalize KIAL if there is a significant difference observed in the projected as against the actual passenger traffic since consumers are the ones getting penalized for such forecast inaccuracy.** This will bring more seriousness in making the projections and tariff determination.
- c. KIAL in its submission to AERA has stated that by FY 2021, the airport can handle approximately 40 mmpa. KIAL should have foreseen this growth in number and should have designed the operations to cater to the requirements of the passengers. In addition, AERA should release prior to the beginning of each control period Consultation Papers with the projected passenger numbers and catalyze early development infrastructure for

handling the passengers. This is a crying need at Bengaluru airport now and our investments have always been way behind traffic growth leading to heavy congestion and inconvenience to passengers.

- d. Our request to AERA is that, **the formula to calculate UDF should be made transparent. The passenger traffic for the first control period should be trued up, and KIAL should release the actual passenger numbers for the two financial years of the second control period. These numbers should be used to extrapolate the projections for the remaining period of the second control period.** The UDF calculations thus arrived should be made public.
- e. We further request you to immediately **initiate the study for traffic projections for the balance three years of the second control period and make suitable adjustments in the tariff for the remaining two years in the control period, once the results are available.**
- f. Table 6 compares the projected and actual passenger traffic data at KIAL since 2013-14 to 2016-17. The projected numbers of embarking passengers have been lower than the actual across all the financial years.

Table 6: Projected vs. Actual Embarking Passengers in KIAL

Nos.	2013-14	2014-15	2015-16	2016-17	2017-18 (Est)
Projected Total	12,930,000	14,370,000	16,000,000	17,760,000	19,713,600
Actual Total	12,860,000	15,401,926	18,971,290	22,881,410	25,833,112
YoY% growth	0%	20%	23%	21%	13%
% Projected vs Actual difference	-1%	7%	19%	29%	31%

Source: Collated by B.PAC | FY 2017-18 data conservative estimates in absence of official survey

Proposal no 5: Regarding Capital Expenditure

- a. Bengaluru is the fastest growing city in the world and the state of Karnataka attracts the second highest FDI in the country (US \$6.4 billion). Further, Bengaluru Urban has the highest per capita income in the state of INR 3.2 lakh per annum (The Economic Times, 2018). The city which earlier was known as the ‘Silicon Valley’ has now become the ‘Startup capital’. Our research suggests that Bengaluru airport has seen the CAGR of

17.1 per cent for the years 2013-2018, higher than Delhi, Mumbai, Kolkata and Chennai airports. Bengaluru is a world class city with a significant number of global multinational and Indian corporations having their Head Offices/ R&D Centers/ Offshore Development centers based here. This is ample testimony to the demand for aero and non aero service and it is evident that KIAL has the capacity to attract investments to expand the services to the passengers to world class levels.

Table 7: Passengers handled by major airports in India

Passengers handled by airports, March fiscal year-ends (mn)	Passengers handled		2013-18 CAGR	2018 capacity utilization
	2013	2018	(%)	(%)
Delhi	34	65	13.6	101
Mumbai	30	48	9.8	121
Bangalore	12	26	17.1	132
Kolkata	10	20	14	98
Chennai	13	20	9.5	112

Source: DGCA, Airports Authority of India, Industry, Companies, Kotak Institutional

Source: Collated by B.PAC

- b. Devanahalli region where KIAL is situated, has already attracted real estate investment in residential, educational and commercial space. Over 14 major residential complexes have already been constructed and KIADB aerospace SEZ located at proximity to the airport of area 980 acre has also been developed. We draw your attention to the 4008 acres of land which has been allotted to KIAL from GOK under the SSA. **A significant portion of this 4008 acre land parcel is lying unutilized, while the areas surrounding the airport have attracted both government and private investments and have become operational. We are surprised that KIAL has not taken any steps to monetize the land despite having the potential to do so. This has led to severe loss of revenue to the exchequer and is placing huge burden on the passengers via higher UDF and PSF for meeting the development needs of KIAL.**
- c. In Table 8 below, we have highlighted the areas adjoining airport. While the land parcel under Bangalore Airport Area Planning Authority (BIAAPA) and KIADB have been developed, the unutilized land parcel of the 4008 acres of land under KIAL has the scope to attract investments and could be developed as a mixed use land, which would enhance the available services and increase revenue to KIAL.

Table 8: Land allotted by Government to various authorities

	Area in Acre
BIAAPA region	195707
GoK land to KIAL under SSA	4,008
KIADB AEROSPACE SEZ Devanahalli	980

Source: BBMP Restructuring report, GoK SSA to KIA, kiadb.in

- d. Non utilization of land given free by the government is leading to huge revenue loss and increased UDF charges. We urge the **AERA to direct KIAL to immediately draw up a Master Plan indicating phase wise development of aero and non aero activities, along with the timeline and the cost for the entire land parcel of 4008 acres clearly demarcating aero and non aero portions currently developed and yet to be developed. The same should be made available on their website and the information should be disseminated widely via English and vernacular dailies inviting citizen comments. KIAL should further hold a public consultation with citizens.**
- e. The KIAL in its submission to AERA has estimated cost of the **Eastern Tunnel work connectivity at INR 1121 cr.** This estimated cost appears to be excessive. **We request AERA to direct KIAL to furnish a detailed breakup of the estimated cost of the tunnel with reasons for such a design at such high cost.** We would also request AERA to appoint an independent consultant, such as RITES, to validate the design and the cost estimated by KIAL before approving the same.
- f. Further, the metro connectivity to the airport which has been estimated at an additional cost of approximately 1000 cr will only end up increasing UDF and PSF fees. The UDF collected from the current users of the airport cannot be utilized for future metro connectivity. Our request to AERA is that, **the positive cash flow generated from higher UDF collections needs to set aside as a separate fund by KIAL and utilized for additional scope, such as, cost of metro connectivity and Eastern Tunnel works etc.** Further, we request that once the metro line is operational, **all passengers travelling to and from the airport metro line should be charged a premium service charge by way of higher ticket fees as is prevalent in other parts of world.** KIAL should enter

into a revenue share model with BMRCL¹ and fees from revenue share should be used to recover the incremental cost of metro line that KIAL is incurring.

- g. We therefore would like to highlight that **any additional cost over and above the project cost and scope of KIAL should not be considered while calculating the tariffs such as UDF and PSF. AERA should look into the costs of the projects which are in the scope of GoK and such costs should be recovered separately** from the government without burdening the users of the airport.
- h. We would also like to bring to AERA's attention that **Karnataka Cabinet took decision on June 22, 2018 to put off the loan repayment of interest-free loan of INR 333.50 cr which was given by GoK to the BIAL as part of SSA.** The repayment of this loan was supposed to start this year, and the same has been put off by another 10 years. **We request AERA to take cognizance of this while truing up for the current fiscal year and for subsequent periods totaling to 10 years while fixing the tariff for second and third control periods.**

Proposal no 10: Regarding Non Aeronautical Revenue

- a. In the Consultation Paper, KIAL has furnished details of only the Non Aeronautical revenue for which AERA has provided recommendations.
- b. We request AERA to **guide KIAL to submit the Aeronautical revenue in a similar manner which has components of UDF and PSF among others.**
- c. AERA should strictly **audit, monitor and report KIAL's utilization of funds received through UDF and other Aeronautical charges for the first and the ongoing control period. The objective of collecting UDF is to provide passenger amenities, services and facilities and used for the development, management, maintenance, operation and expansion of the facilities at the Airport.** Therefore, AERA should direct KIAL to publish the annual utilization report of the UDF.
- d. KIAL has requested AERA to consider Cargo, Ground Handling and Fuel Throughput (CGF) services under Non-Aeronautical revenue, citing the MoCA directive in the case

¹ Bangalore Metro Rail Corporation Limited

of DIAL and GHIAL. We would like to **bring it to your notice that in the Concession Agreement (CA) between MoCA and KIAL and also as per Section 2(A) of AERA Act, CGF are to be considered as Aeronautical revenue.**

- e. KIAL in its submission to AERA has requested for a 30 per cent Shared Revenue Till (SRT) in truing of pre and 1st Control Period. This implies that 30 per cent of the income from Non-Aeronautical services can be used to subsidize the tariffs under Aeronautical services. Therefore, **considering Cargo, Ground Handling and Fuel Throughput (CGF) charges under Non Aeronautical Services would increase the burden on UDF charges in the second control period. We request AERA to continue considering CGF charges under Aeronautical revenue.**
- f. KIAL has submitted to AERA that, its 100 per cent subsidiary, BAML, has estimated to undergo losses all through the second control period. The request of KIAL to take cognizance of the above fact that BAML has been in losses since its inception while issuing the tariff order should not be considered. This is a non aero activity and if KIAL cannot find a way to make the hotel profitable, AERA should direct KIAL to **find other suitable investors who have specialized skills and can manage this profitably.** Further, we would also like to highlight that the hotel occupancy can be increased when the surrounding areas of the airport are developed. Hence the **KIAL needs to develop the unutilized land, which would also bring in investments for the state while increasing the occupancy of the hotel and benefitting the hotel establishment.**

Proposal no 15: Regarding Quality of Service

- a. We request AERA to **appoint an independent Consumer Ombudsman to improve the quality of service and provide a platform for consumer grievances redressal**
- b. This will enhance the **transparency in the operations and quality of service** provided by KIAL.
- c. In the best interest of citizens' of Bengaluru who use the airport services, we request **AERA to guide KIAL to nominate an eminent well respected citizen of Bengaluru as an independent member to the Board of KIAL.** Inducting such an eminent person on

to the Board will help in ensuring service delivery at the most optimal cost which is in the best interest of the air commuters and the development of the city.

Below, we summarize our payer to AERA:

- a. We request **AERA to disallow the request by KIAL to recover the pre-control period losses.**
- b. We request **AERA to direct KIAL to make it mandatory for KIAL to undertake a passenger survey by a third party for each control period with annual figures for five years and publish the same before the beginning of each control period.**
- c. We request **AERA to direct KIAL to put on public domain all contracts with related parties since inception and also conduct an independent verification of the arms length nature of these transactions.**
- d. We urge **AERA to bring in transparency in the calculation of UDF and the formula to calculate UDF should be made available in public.**
- e. We request **AERA to direct KIAL to immediately draw up a Master Plan indicating phase wise development of aero and non aero activities, along with the timeline and the cost for the entire land parcel of 4008 acres clearly demarcating aero and non aero portions currently developed and yet to be developed.**
- f. We request **AERA to direct KIAL to furnish a breakup of the estimated cost of the proposed eastern tunnel which should be validated for design and cost by an independent organization like RITES**
- g. Our request to AERA is to direct KIAL is that, **the positive cash flow generated from higher UDF collections to be kept aside as a separate fund and utilized for additional scope, such as, cost of Metro connectivity and Eastern tunnel connectivity and other such other of scope works**
- h. We request **AERA to guide KIAL to submit the Aeronautical revenue in a similar manner which has components of UDF and PSF among others.**
- i. We request **AERA to continue considering CGF charges under Aeronautical revenue.**

- j. All developments **within the 4008 acres to be classified as aero or non-aero activities only and used for determining tariff charges**
- k. We request **AERA to appoint an independent Consumer Ombudsman to improve the quality of service and provide a platform for consumer grievances redressal**

We look forward for a judicious decision from your good office, resulting in passenger protection while determining KIA's tariffs.

Thanking you,

Yours faithfully

-Sd-

Revathy Ashok
Hon Managing Trustee & Chief Executive Officer

CC:

Shri S. Machendranathan, Chairperson, Airport Economic Regulatory Authority of India (AERA)

Shri. Shankar Narayanaswamy, Member, AERA

Shri. Subrata Samanta, Member, AERA

DGM (Fin.), Regulation & Tariff Fixation

Under Secretary (P&A)

Sr. Manager (Finance)