



KNOWLEDGE PARTNER

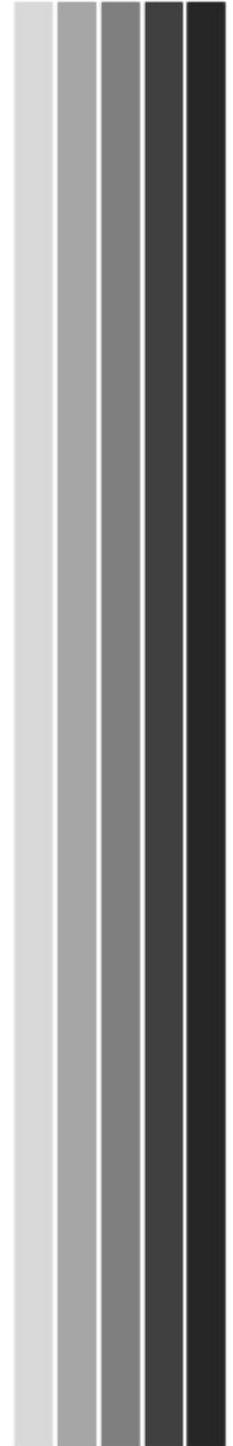
AUCTUS
ADVISORS

PHD Aviation Summit: “ Indian Civil Aviation – Benefit Beyond Borders”

February 18th, 2016

Presented To:

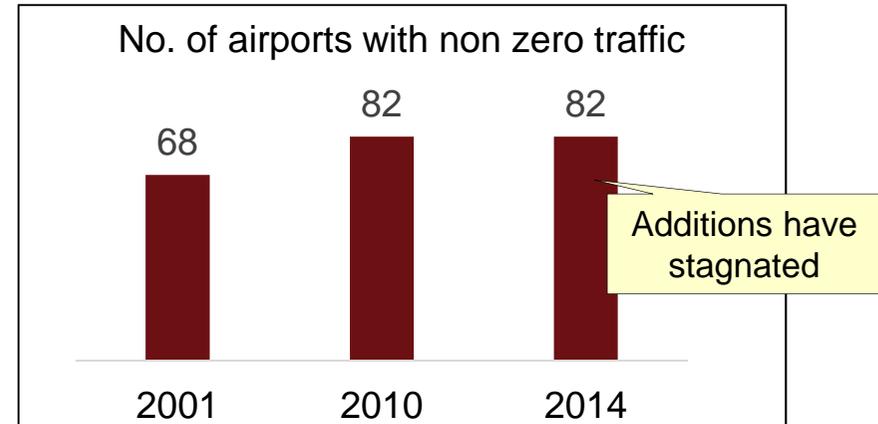
**Shri Ashok Gajapathi Raju Pusapati
Hon'ble Minister of Civil Aviation**



Indian aviation market has largely been centred around select political and commercial hubs.

Top 10 cities	Domestic Passenger Air Traffic		
	2014-15 (Lakhs)	2009-10 (Lakhs)	2000-01 (Lakhs)
Delhi	310	178	48
Mumbai	260	174	65
Bangalore	110	80	23
Chennai	100	67	20
Kolkata	85	68	20
Hyderabad	80	48	17
Cochin	45	16	8
Ahmedabad	35	27	7
Goa	32	22	8
Pune	32	22	4
Total top 10 cities traffic	1089	702	220
Total Domestic Traffic	1393	891	329
Top 10 cities traffic as % of Total Domestic Traffic	78%	79%	67%

Top 10 cities share in traffic went up



- Sector has grown on back of top 10 cities
- Even certain 1 Mn+ population towns such as Kota, Ludhiana, Agra are not connected yet
- Regional & Remote connectivity is yet to take off in a substantial manner

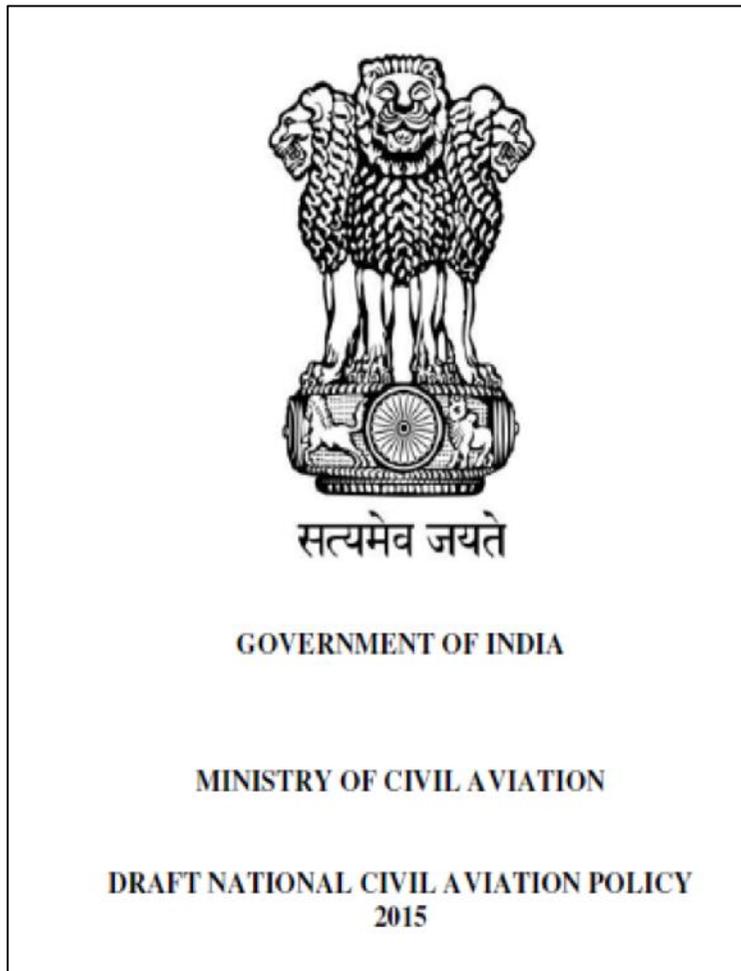
However, we are now seeing activity in R&R connectivity space as well.

Category	Airline
Legacy Pan India Carriers	    
New Pan- India Airlines	 
Regional Airlines	  
Subsidized regional airlines under state subsidy	 
Domestic Cargo	

Mehair won the contract for intra state operations in Gujarat in 2015

We now have a draft national level aviation policy to boost R&R connectivity.

Policy Framework in Place



Policy addresses the issue holistically

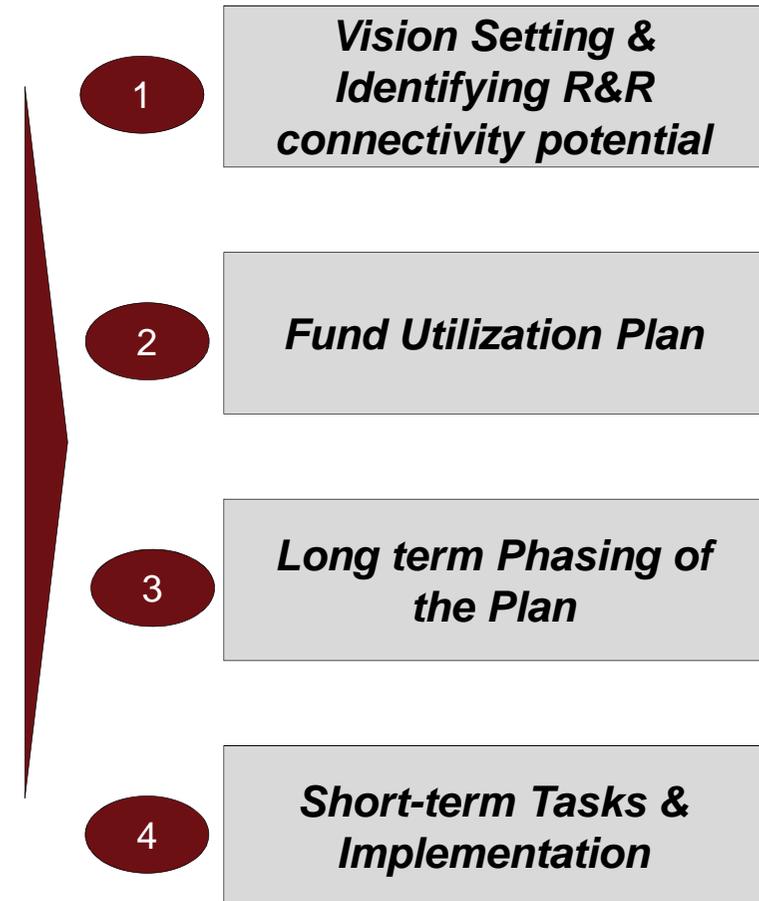
Visioning	<ul style="list-style-type: none"> • Sets overall vision for Indian Aviation • Targets for 2022 and 2027
Direct Subsidy & Funding	<ul style="list-style-type: none"> • Capping ticket price • Recognizes source of funding for VGF
Infrastructure Creation	<ul style="list-style-type: none"> • Sets direction for developing no-frills <50 Cr. airports
Incentives	<ul style="list-style-type: none"> • Spells out incentives that states must provide • Tax breaks and in-kind support

Focused Effort and planning required to implement the policy.

Next – Level Questions to address

Visioning	<ul style="list-style-type: none"> • What is the vision specifically for R&R connectivity?
Direct Subsidy & Funding	<ul style="list-style-type: none"> • What will be the funds available? • How quickly can I deploy these funds? • On which routes and how much subsidy is effective? For e.g only for un-served routes?
Infrastructure Creation	<ul style="list-style-type: none"> • Which airstrips can be quickly developed? • What about operations and maintenance of this infra? • What will be the skill requirement?
Incentives	<ul style="list-style-type: none"> • Are these incentives adequate or more is required? • How actively will states be involved? • Driving higher clarity: e.g post GST, how will sales tax incentive work

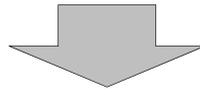
Bringing Granularity and making it Implementation Ready



1 Need to have a separate vision for R&R connectivity and workable definition.

Vision:

“To create an eco-system to enable 30 Cr. domestic ticketing by 2022 and 50 Cr. by 2027. Similarly, international ticketing to increase to 20 Cr. by 2027.”



- Separate vision for R&R to bring adequate focus
- Vision setting with targets for R&R in terms of:
 - Domestic tickets sold
 - % share in overall traffic
 - Number of new routes opened

- **Studies for estimating traffic potential**
- **Investment requirement**

Identifying the Potential Markets/Routes

Type of Route	Characteristics
Under-served	<ul style="list-style-type: none"> • Already has a functional airport • Frequency of flights may be low or seasonal flights • Route likely has potential and some airline has discovered it
Un-served	<p>New routes which are yet not discovered but can be identified based on:</p> <ul style="list-style-type: none"> • Population centres: threshold population, catchment population etc. • Tourist destinations: significance , annual footfall etc. • Economic activity: income levels, workforce, exports etc.
Remote	<p>Not fitting above criteria but are important due to:</p> <ul style="list-style-type: none"> • Disaster relief need • Sensitive areas with need for administrative reach • Difficult/unconventional terrain

Task force / working committee of airlines, airport operators, logistics companies, tour operators, leading consultants be constituted to identify potential routes.

2

VGF funds mopped-up needs to be effectively and quickly deployed.

- With passenger revenue of more than INR 50,000 Cr. in FY15, mop-up for the fund shall be in the upwards of INR 1,000 Cr.



- This is a large amount of funds to be deployed
- It is critical to have right routes identified to use this subsidy and subsidy is not wasteful
- Right competitive bidding process to be run
- While currently funds are only meant for direct subsidy to SCA, we can utilize the funds also for a) infrastructure creation b) skill development c) subsidies to airport d) Subsidy/interest free loan for aircraft acquisition

3 Develop roadmap and plan for infrastructure creation and skill development to support it.

Indicative Phasing of Developments



<i>Next 18 Months</i>	<i>18-48 Months</i>	<i>Beyond</i>
<p><u>Under-served</u></p> <ul style="list-style-type: none"> • No direct funding required, tax sops to be sufficient • Or, taking over routes currently subsidized by states • Viable in <5 years 	<p><u>Under-served</u></p> <ul style="list-style-type: none"> • May require direct subsidy support in addition to tax sops • Viable in > 5 years 	<p>To churn out viable routes in Phase A and B and bring in new routes</p>
<p><u>Un-served</u></p> <ul style="list-style-type: none"> • With existing ready airports or airstrips which can be upgraded 	<p><u>Un-served</u></p> <ul style="list-style-type: none"> • Greenfield developments 	

- Plan for:**
- Investments in airstrip upgradation or greenfield development
 - Operations & Maintenance plan for these airports
 - Surface connectivity of airports
 - Skill Development Planning

Critical for mission of safe and secure travel

4

We recommend creation of separate department with following tasks.

On-ground Implementation

- Policy envisages competitive bidding route for providing VGF
- Hence, a transparent and efficient process shall be run
 - Learnings from states such as Gujarat and countries such as UK
 - Possibility of running a smart city kind of process to shortlist the cities
 - Bid design: subsidy parameters (per ticket, per hour etc.) , type of bid etc.

Stakeholder Co-ordination

- Given the large role of states, bring states on board
- Identify the hurdles and negotiate solution
- Independent Consultants to a) Educate Industry participants b) Facilitate Negotiations c) Bring best practices d) Program management

Monitoring & Evaluation

- With subsidy being given to commercial airlines, we shall need effective monitoring and evaluation
- Effective Mechanism to evaluate efficacy of subsidies, need to realign them basis need for subsidy etc.

Of these tasks, high priority and most critical would be getting states to actively participate and get them to implement measures required from them.

4 Review of the incentives provided.

Thoughts on Current Incentives

Policy	Issues	Recommendations
Capping Air tickets at INR 2500	<ul style="list-style-type: none"> This cap of INR 2500 on airfare is lower than the 1st AC Train fare on longer routes 	<ul style="list-style-type: none"> Link cap in fare to distance
Fare Cap on all Tickets	<ul style="list-style-type: none"> Cap on all tickets might lead to large distortion in demand Also, diminished ability to gauge true demand 	<ul style="list-style-type: none"> The cap should be applicable to a fixed proportion of seats and airlines to price rest of the seats
State level Incentives	<ul style="list-style-type: none"> Once the GST regime comes in , what happens to concession on excise and VAT 	<ul style="list-style-type: none"> Clarification to be issued

Additional points For Consideration

- Discontinuing Route Dispersal Guideline
- Channelizing revenues earned by AAI from Delhi and Mumbai into this program
- Concessions and capital support to smaller planes up to 120 seater
- Direct subsidy scheme also for cargo and not just passenger traffic

Thank You