FICCI

Regional Connectivity Scheme (RCS) for Civil Aviation

Roadmap for sustainable operations



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MESSAGE

Indian Civil Aviation is one of the fastest growing aviation markets. India aims to become the third largest aviation market by 2020 and the largest by 2030. The Civil Aviation Industry has ushered in a new era of expansion, driven by factors such as low-Cost Carriers, Modern Airports, Foreign Direct Investment in domestic airlines, advanced information technology interventions and growing emphasis on regional connectivity.

Civil Aviation sector in India has transformed radically from an over regulated and under managed sector to a more open, liberal and investment friendly sector. Government has undertaken various regulatory and policy initiatives to simplify the systems and processes and to make them more transparent. The grown in aviation will act as a force multiplier in terms of investments, tourism and employment generation.

Government of Andhra Pradesh, with a robust civil aviation infrastructure in India, has taken landmark initiatives like setting up of MRO facilities, aviation training facilities, aircraft and component manufacturing, hospitality infrastructure and tourism services at select airports and set up the Andhra Pradesh Regional Airport Development Fund to provide financial support for regional airport development.

I am happy to know that Ministry of Civil Aviation, Government of India, Government of Andhra Pradesh and Federation of Indian Chambers of Commerce and Industry (FICCI) are jointly organizing the "Aviation Summit" on 12th January, 2017 with the theme "UDAN : Giving wings to the flying ambitions of Common man", covering the interactive sessions by the industry experts in Vijayawada, Andhra Pradesh. I also congratulate FICCI for publishing the Report on "Regional Connectivity Scheme regarding high potential RCS airports / routes," which is being released on the occasion.

I wish Aviation Summit" to be a huge success.

(P. ASHOK GAJAPATHI RAJU)



MESSAGE

I am happy to share with you the FICCI-KPMG 'Report on Regional Connectivity Scheme (RCS) for Civil Aviation Roadmap for sustainable operations' to be released at the Aviation Summit jointly organized by Ministry of Civil Aviation, GoI, Government of Andhra Pradesh and FICCI.

Air connectivity has a catalytic impact on regional development, investments, tourism and job creation which can influence State economies significantly. Government launched an ambitious Regional Connectivity Scheme-UDAN (acronym for 'ude desh ka aam nagrik') for providing connectivity to un-served and under-served airports of the country. This first-of-its-kind scheme globally will create affordable yet economically viable and profitable flights on regional routes so that flying becomes affordable to the common man even in small towns.

In virtue of this, FICCI-KPMG has prepared a 'Report on Regional Connectivity Scheme (RCS) for Civil Aviation Roadmap for sustainable operations'. The objective of this report is to study the RCS guidelines, identify potential RCS airports and destinations thereof; develop financial models for four aircraft types and propose improvements in the policy, regulatory and procedural aspects of the scheme.

This FICCI-KPMG report has identified 44 high potential RCS airports from among 414 airfields available in India. This is based on various techno-commercial parameters with valuable support from MoCA and AAI. The report has presented over 370 possible destinations from the high-potential RCS airports, the projected financial statements for four aircraft types and suggestions for further improvement of the scheme.

I hope you will find this report useful and as always, your suggestions and feedback are welcome.

Dr. A. Didar Singh
Secretary General
FICCI

Disclaimer

1. This document has been prepared for Federation of Indian Chambers of Commerce and Industry ("FICCI") as per the Letter of Engagement between FICCI and KPMG advisory Services Private Limited ("KPMG") and General Terms of Business dated 10 November 2016.
2. This document contains KPMG's analysis of secondary sources of published information and incorporates the inputs gathered through meetings with industry sources, which for reasons of confidentiality, cannot be quoted in this document. While information obtained from the public domain has not been verified for authenticity, we have obtained information, as far as possible, from sources generally considered to be reliable.
3. KPMG's analysis is based on the prevailing market conditions and regulatory environment and any change may impact the outcome of our report. Wherever our report makes reference to 'KPMG Analysis', it indicates that we have undertaken certain analytical activities on the underlying data to arrive at the information presented; we do not accept responsibility for the underlying data. Wherever information was not available in the public domain, suitable assumptions were made to extrapolate values for the same.
4. We emphasize that the realization of the prospective financial information set out within our report (based on secondary sources, as well as our internal analysis), is dependent on the continuing validity of the assumptions on which it is based. The assumptions will need to be reviewed and revised to reflect such changes in business trends, cost structures or the direction of the business as further clarity emerges. We accept no responsibility for the realization of the prospective financial information.
5. Our inferences therefore will not and cannot be directed to provide any assurance about the achievability of the projections. Since the projections relate to the future, actual results are likely to be different from those shown in the prospective financial information because events and circumstances frequently do not occur as expected, and differences may be material. Any advice, opinion and/ or recommendation indicated in this document shall not amount to any form of guarantee that FICCI and/or KPMG have determined and/ or predicted future events or circumstances.





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I

Background



Background



India's Regional Connectivity Scheme ('RCS', 'the scheme') was introduced as part of the National Civil Aviation Policy ('NCAP 2016') in June 2016 and was formally launched in October 2016. The scheme provides a unique opportunity to take flying to the masses by way of fiscal incentives, infrastructure support, procedural simplifications and monetary subsidies.

The highlights of RCS are as follows:

a) Target airports include over 400 unserved and under-served airfields/ aerodromes.

b) The scheme is market-driven. The union and state governments shall play the role of a benevolent facilitator. The decisions regarding airports, route network, fleet, frequencies and the airfare on non-subsidised seats are left to individual operators.

c) The airfare and Viability Gap Funding (VGF) per seat for different stage lengths have been fixed and are presented on the RCS site (Web-link: http://www.mstcecommerce.com/eprochome/Layouts/rcs-notifications.html).

d) The VGF shall be for 50% of the passenger seats in an RCS flight, subject to a limit of 40 and 13 seats in fixed-wing and rotary-wing aircraft respectively. In case of 9-seater fixed-wing and 5-seater rotary wing aircraft, all seats shall be covered under RCS.

e) RCS operators shall get a three year exclusivity on the routes allocated to them after a transparent competitive bid.

f) Union and state government shall provide the RCS subsidy in the 80:20 ratio except for the North East where the ratio shall be 90:10.

g) Airports Authority of India (AAI) shall be the operating agency for the scheme.

The objective of the FICCI-KPMG report is to study the RCS guidelines, identify potential RCS airports and destinations thereof; develop financial models for four aircraft types and propose improvements in the policy, regulatory and procedural aspects of the scheme.



II

Identification of potential RCS Airports



Identification of potential RCS Airports



Approach

The potential RCS airports have been identified on the basis of the following parameters:

a) At least 150 km distance from the nearest operational airport (with a few exceptions)

b) Demographic profile, industrial profile, likely passenger demand and market potential

c) Tourism potential of the airport and its hinterland

d) Quality of existing runway and terminal

e) Need for additional land acquisition and capital investments

f) Connectivity with and competition from other modes of transport like highways and railways

The rationale for eliminating airports within 150 km of existing operational airports is as follows:

a) Not many operational airports in India currently have less than 150 km distance within them.

b) For 150 km travel, the time, cost and convenience of road travel is far better than air travel, except for areas that have topographical challenges like hills, ravines, river, forests, national parks etc.

c) Airlines are not too keen to incur the fixed cost of a new airport too close to an existing one.

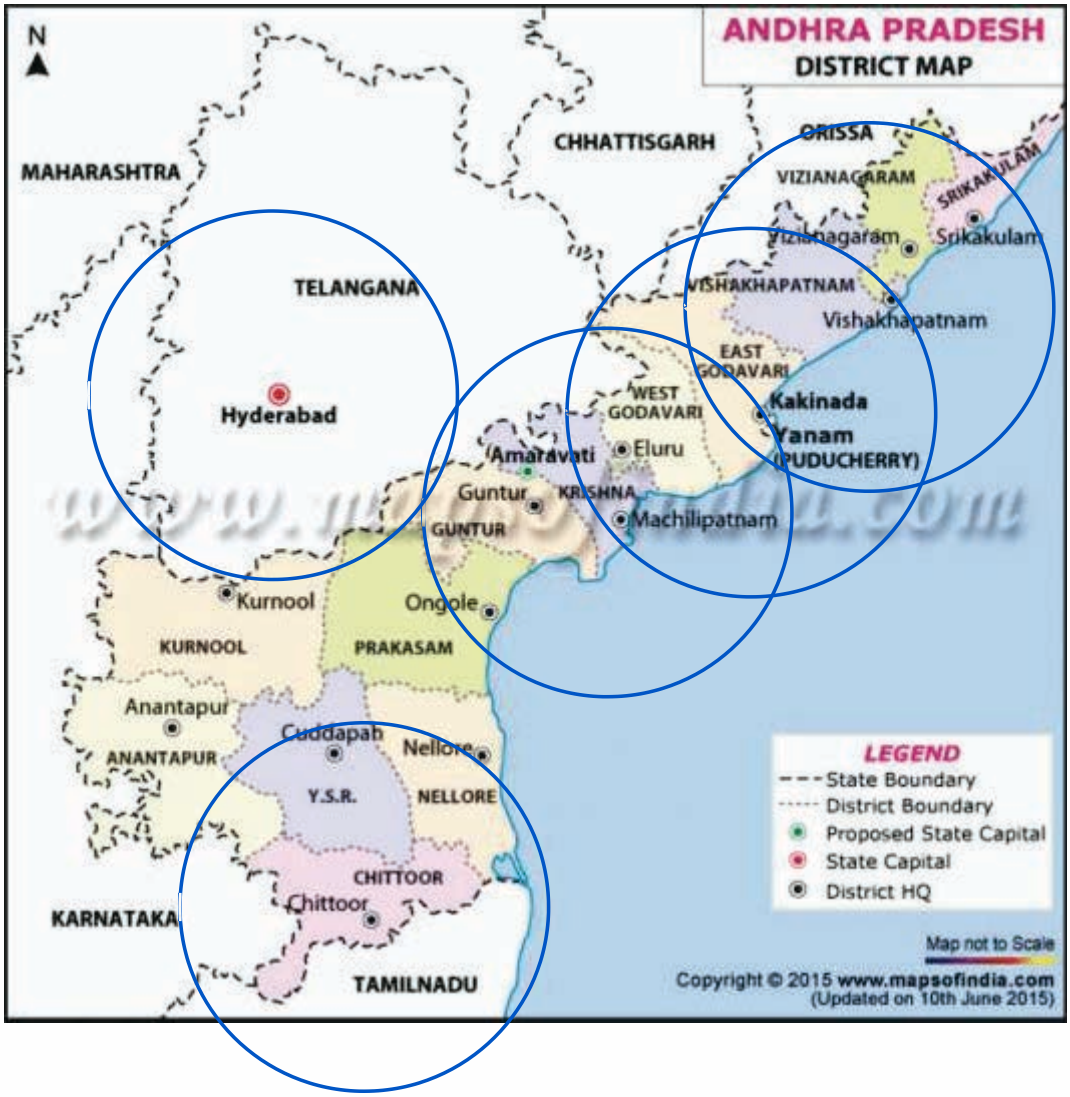
d) Airlines may prefer to fly from RCS airport to the nearest hub for onward flights and not to another RCS airport

e) There is no RCS subsidy, currently, for stage length less than 150 km.

An abridged version of the analysis of underserved or unserved airfields in India is presented in the following pages. The detailed analysis for all states will be available on the FICCI website for a free download.

The source of the airfield data is Airports Authority of India (AAI), the maps are from www.mapsofindia.com; and the distances and commercial data are based on several internet sites and KPMG analysis.

Andhra Pradesh



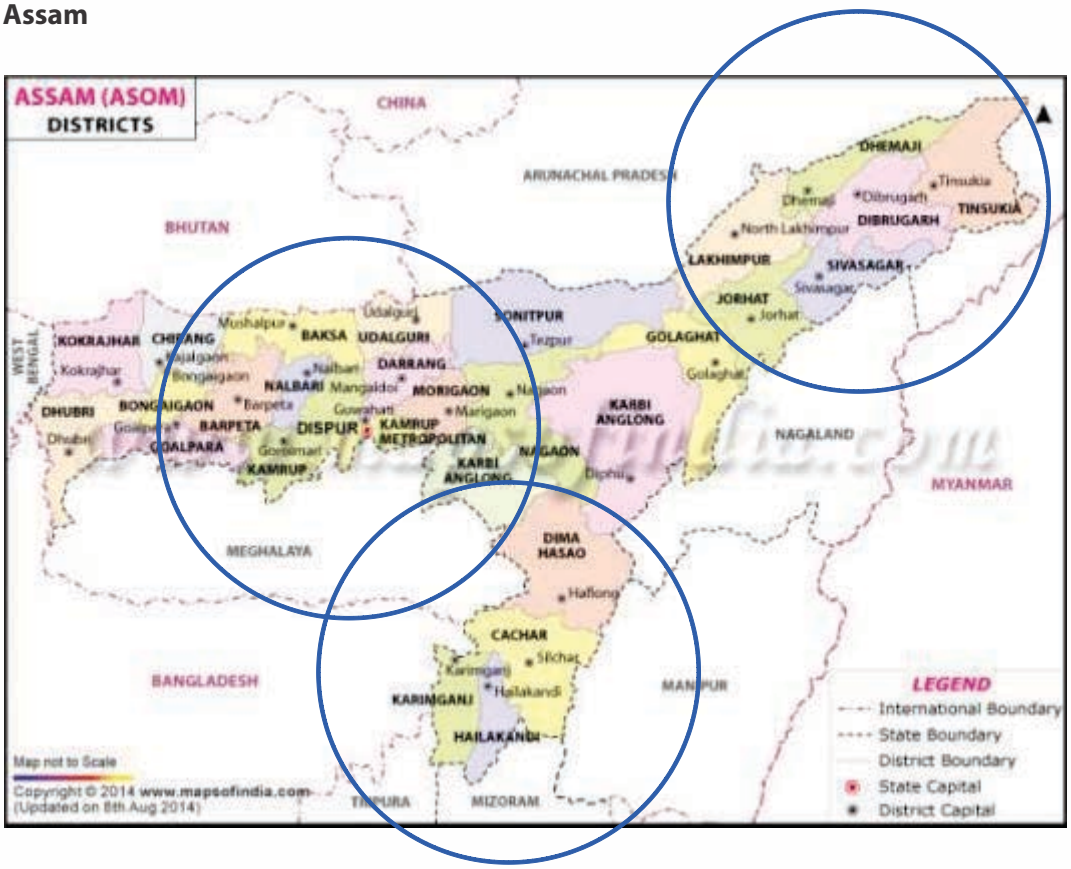
Operational airports: Rajahmundry, Tirupati, Vijaywada, Vizag

Option for RCS: Kadapa

Analysis of option

S No	Parameters	Kadapa
1	GDP FY12-13 (INR cr)	21,440
2	Population (2011)	2,884,524
3	Nearest operational airport and road distance (km)	Tirupati (141 km)
4	Tourism potential	Caves, Forts, Wildlife Sanctuary, religious places **Medium**
5	Industry potential	Cotton Yarn Mills, printing and publishing, cement industry **High**
6	Terminal Capacity	40 (Arrival - 20, Departure - 20)
7	Road Connectivity	NH 40 **Low**
8	Rail connectivity	Kadapa Railway station - 47 trains with variable frequencies **High**
9	Is the airfield prima facie worth reviving?	Operational airport
10	Additional land to be acquired (acres)	Not Applicable
11	Runway capacity	ATR-72
12	Approximate capex	(N/A)
13	Time required to make airfield operational?	(N/A)
14	Duration of disruptions due to weather	1-3 Months
15	Provision for night landing	N/A
16	**Overall Attractiveness**	**Medium**

Assam



Operational airports: Dibrugarh, Guwahati, Silchar,

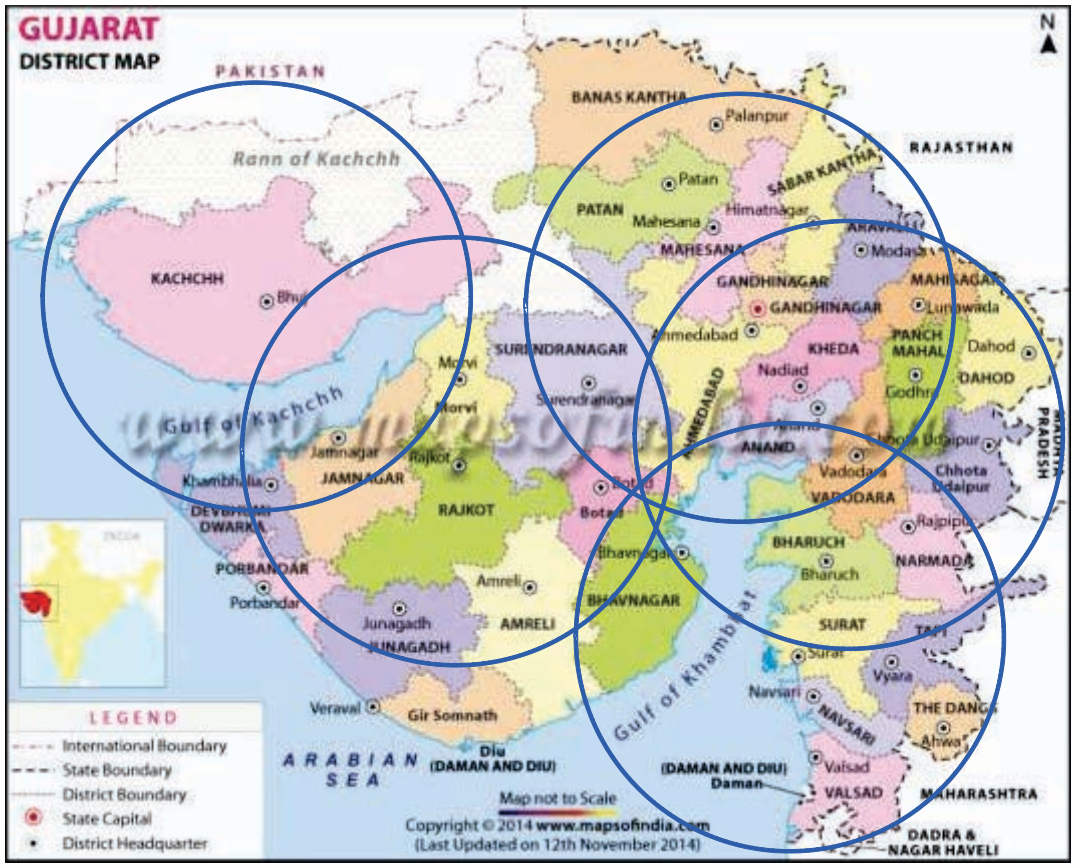
Options for RCS: Jorhat, Lilabari, Tezpur, Dhubhri

Analysis of options

S No	Parameters	Rupsi (Dhubri)	Rowriah (Jorhat)	Sonitpur (Tezpur)	Lakhimpur (Lilabari)
1	GDP FY09-10 (INR cr)	2,729	4,737	4,309	2,535
2	Population (2011)	1,949,258	1,092,256	1,924,110	1,042,137
3	Nearest operational airport and road distance (km)	Bagdogra (218 km)	Dimapur (126 km)	Guwahati (183 km)	Dibrugarh (147 km)
4	Tourism potential	Religious places and Wildlife Sanctuary **Medium**	National Park **Medium**	Picturesque Locations **Medium**	Cultural attraction **Low**
5	Industry potential	Agriculture and Forest products **High**	Petro-based industries **High**	Mineral based industries, readymade garments **Medium**	Agriculture **Low**

S No	Parameters	Rupsi (Dhubri)	Rowriah (Jorhat)	Sonitpur (Tezpur)	Lakhimpur (Lilabari)
6	Terminal Capacity	N/A	N/A	N/A	N/A
7	Road Connectivity	NH 31 **Low**	NH 37 **Low**	NH 52 **Low**	NH 52 **Low**
8	Rail connectivity	Dhubri railway station **Low**	Mariani Junction railway station **Medium**	Dekargaon railway station **Low**	Lilabari Railway station **Low**
9	Is the airfield prima facie worth reviving?	Yes	Yes, Airport is already operational.	Yes, Airport is already operational	Yes, Airport is already operational
10	Additional land to be acquired (acres)	-	-	-	-
11	Runway capacity	Runway 1829m x 45m, Suitable for ATR Aircraft.	Presently airlines operating schedule flights with B-737- 800	Presently airlines operating schedule flights with ATR-42.	Presently airlines operating schedule flights with ATR-42.
12	Approximate capex	Rs 50-100 cr	Airport is already operational	Airport is already operational	Airport is already operational
13	Time required to make airfield operational	More than 12 months.	Airport is already operational	Airport is already operational	Airport is already operational
14	Duration of disruptions due to weather	1-3 months	1-3 months	1-3 months	1-3 months
15	Provision for night landing	No	No	No	No
16	**Overall Attractiveness**	**Low**	**High**	**Medium**	**Medium**

Gujarat and Diu (UT)



Operational airports: Ahmedabad, Bhuj, Rajkot, Surat, Vadodara

Options for RCS: Dwarka, Porbandar, Bhavnagar, Diu (UT)

Analysis of options

S No	Parameter	Dwarka	Porbandar	Bhavnagar	Diu (UT)
1	GDP FY10-11 (INR cr)	N/A	N/A	N/A	N/A
2	Population (2011)	752,484	585,449	2,880,365	52,074
3	Nearest operational airport and road distance (km)	Rajkot (224 km)	Rajkot (182 km)	Ahmedabad (170 km)	Rajkot (237 km)
4	Tourism potential	Religious Places **High**	Historical places, bird and wildlife sanctuary **High**	Beach, historical places and Religious places **Medium**	National Parks and religious places **Medium**

S No	Parameter	Dwarka	Porbandar	Bhavnagar	Diu (UT)
5	Industry potential	Mineral Based Industries **High**	Mineral based industries **High**	Frozen fish activities, ice and cold storage **Low**	Chemical Industries **High**
6	Terminal Capacity	N/A	100	100	110
7	Road Connectivity	N/A **Low**	NH 8B **Low**	NH 848 B **Low**	NH 51 **Low**
8	Rail connectivity	Dwarka railway station **Medium**	Porbandar railway station 13 trains **Medium**	Delwada Railway station - meter gauge only 2 trains daily **Low**	Bhavnagar Terminus railway station - 18 trains daily **Medium**
9	Is the airfield prima facie worth reviving?	No. Close proximity to Jamnagar and Porbandar	Yes, Full fledged Operational Airport. Regular Navy and Coast Guard Operations	Yes Full fledged Operational Airport. Regular flights by Jet Airways	Yes Operational Airport of Diu Admn. Regular Flights by Air India
10	Additional land to be acquired (acres)		Nil for immediate requirements	To be assessed	Work in progress by Diu Admin for addl. land
11	Runway capacity	No data	ATR-72	B737	ATR-72
12	Approximate capex	Needs to assessed	Operational Airport	Operational Airport.	50- 100 Cr
13	Time required to make airfield operational	Needs to be assessed	Operational Airport	Operational Airport	Operational Airport
14	Duration of disruptions due to weather	Only fair weather Strip	1-3 MONTHS	1-3 MONTHS	1-3 MONTHS
15	Provision for night landing	No	Yes	Yes	No
16	**Overall attractiveness**	**Low**	**High**	**Medium**	**High**

Jharkhand



List of operational airports: Ranchi

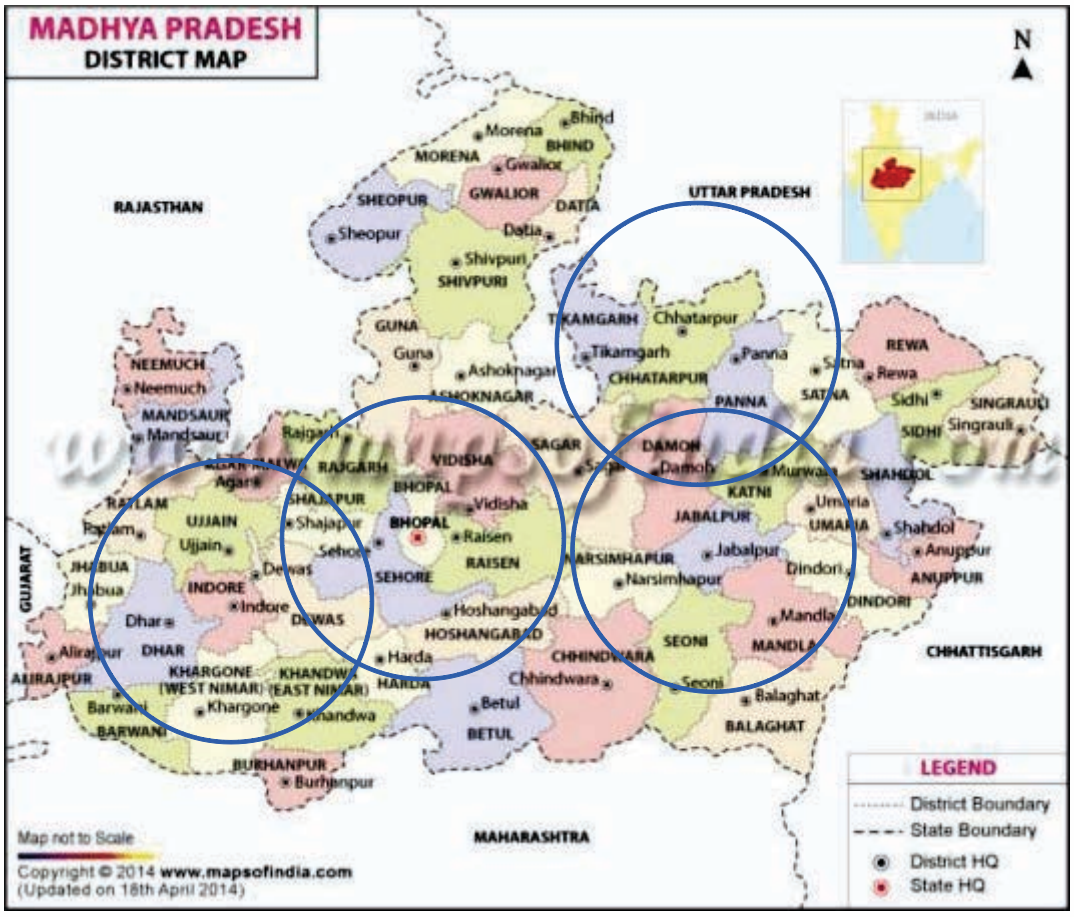
Options for RCS: East Singhbhum (Jamshedpur), Dumka, Dhanbad, Deoghar and Daltonganj

Analysis of options

S No	Parameter	East Singhbhum (Jamshed-pur)	Dumka	Dhanbad	Deoghar	Palamu (Dalton-ganj)
1	GDP FY05-06 (INR cr)	4,423	1,370	5,900	1,848	1,645
2	Population (2011)	2,293,919	1,321,442	2,684,487	1,492,073	1,939,869
3	Nearest operational airport and road distance (km)	Ranchi (129 km)	Kolkata (275 km)	Ranchi (148 km)	Ranchi (250 km)	Ranchi (191km)
4	Tourism potential	Dam, Wildlife **Medium**	River, religious places **Medium**	Hills, lakes **Low**	Religious places **Medium**	National parks, water fall **High**

S No	Parameter	East Singhbhum (Jamshed-pur)	Dumka	Dhanbad	Deoghar	Palamu (Dalton-ganj)
5	Industry potential	Steel, Oil, Uranium **High**	Metal, wood industry **Low**	Steel, Coal, IIT Dhanbad **High**	Engineerin, metals, food industries **Low**	Chemical Industries **Medium**
6	Terminal Capacity	N/A	N/A	N/A	N/A	N/A
7	Road Connectivity	NH 33, NH 2 NH 6, NH 32 **High**	No national Highways **Low**	NH 2, 32, 18, 19, GQ **High**	No National Highways **Low**	NH 98, NH 75 **Medium**
8	Rail connectivity	Tata nagar junction, 21K per day **High**	Dumka station **Medium**	Dhanbad station, 100k per day **High**	Jaisidih - frequent local trains **Medium**	Daltonganj station, 21k per day **High**
9	Is the airfield prima facie worth reviving?	Yes	Yes			Yes
10	Addl land to be acquired (acres)	Extension not possible	2 acres	-	-	2 acres
11	Runway capacity	ATR-42	ATR-42	ATR-42	DO-228	ATR-42
12	Approximate capex	50 cr or less	50 cr or less			50-100 cr
13	Time required to make airfield operational	Already operational, requires minor works	Already operational, requires minor works			6-12 months
14	Duration of disruptions due to weather	Nil	Nil	Nil	Nil	Nil
15	Provision for night landing	No	No	No	No	No
16	**Overall Attractiveness**	**High**	**Low**	**Low**	**Low**	**Low**

Madhya Pradesh



Operational airports: Bhopal, Indore, Jabalpur, Khajuraho

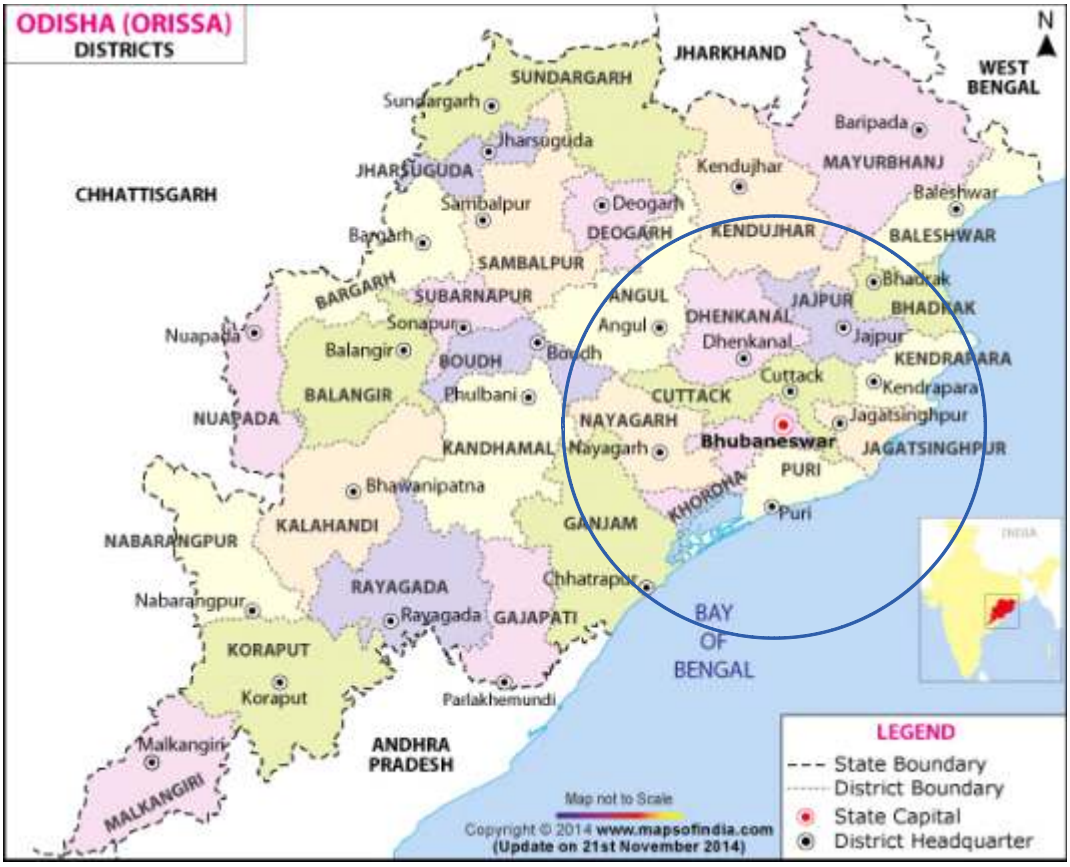
Options for RCS: Gwalior, Sagar, Rewa, Chhindwara

Analysis of options

S No	Parameter	Gwalior	Sagar	Rewa	Chhindwara
1	GDP FY06-07 (INR cr)	3,804	2,695	2,251	3,266
2	Population (2011)	2,032,036	2,378,458	2,365,106	2,090,922
3	Nearest airport & road distance (km)	Agra Airport (120 Km)	Bhopal (169 km)	Allahabad (131 km)	Nagpur (125 km)
4	Tourism potential	Historical & religious **High**	Religious places and lake **Medium**	Historical, religious, tiger safari **High**	Historical religious, tiger reserve **High**

S No	Parameter	Gwalior	Sagar	Rewa	Chhindwara
5	Industry potential	Railway springs, textile and sugar industries **High**	Refinery **High**	Cement, Commun-ications equipment **High**	Textile industry, consumer goods **Medium**
6	Terminal Capacity	200 passengers per hour	N/A	N/A	N/A
7	Road Connectivity	NH 3, NH 92, NH 75 **High**	NH 26, NH 26A, NH 34 **High**	NH 7, NH 27, NH 75 **High**	NH 69, MP SH 47, MP SH 26 **Medium**
8	Rail connectivity	Gwalior junction 10 trains originate and 150 trains halt **High**	Saugor railway station **Medium**	Rewa railway station **Medium**	Chhindwara junction **Medium**
9	Is the airfield prima facie worth reviving?	Operational Airport			
10	Additional land to be acquired (acres)	No additional land is required			300 acres
11	Runway capacity	A-320 B-737	DO-228	DO-228	DO-228
12	Approximate capex	N/A			Above 100 cr
13	Time required to make airfield operational	N/A			More than 12 months
14	Duration of disruptions due to weather	N/A	1-3 months	1-3 months	1-3 months
15	Provision for night landing	No	No	No	No
16	**Overall Attractiveness**	**High**	**Low**	**Low**	**Low**

Odisha



Operational airports: Bhubaneswar

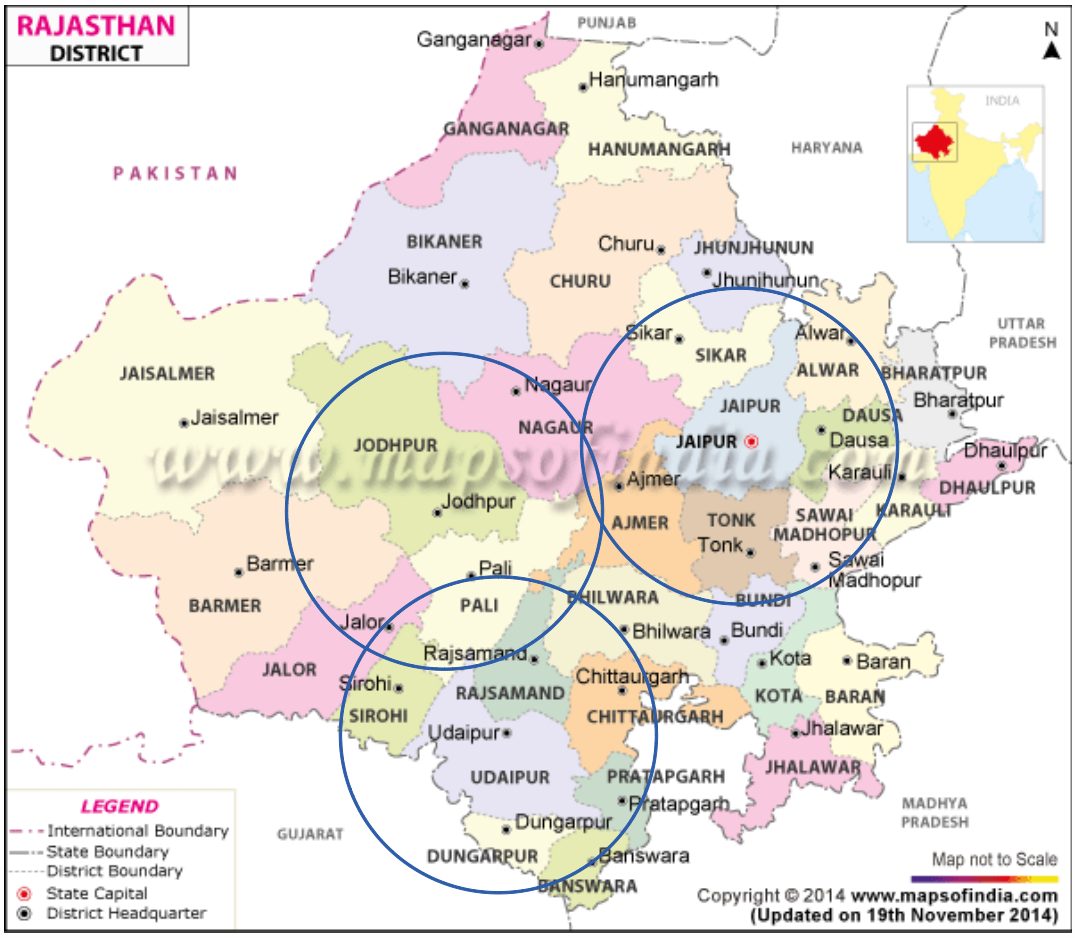
Options for RCS: Mayurbhanj (Baripada or Rairangpur), Jharsuguda, Balangir (Janakpur or Tushra) and Koraput (Jeypore)

Analysis of options

S No	Parameter	Jharsuguda	Mayurbhanj (Rairangpur)	Balangir	Koraput (Jaypore)
1	GDP FY10-11 (INR cr)	5,116	8,423	6,722	6,314
2	Population (2011)	579,505	2,519,738	1,648,997	1,379,647
3	Nearest operational airport and road distance (km)	Raipur (313 km)	Kolkata (268 km)	Raipur (224 km)	Vishakha-patnam (216 km)
4	Tourism potential	Religious places, Waterfalls **Medium**	Scenic locations, tiger reserve **High**	Culture, religious places **Medium**	Caves, waterfall, **High**

S No	Parameter	Jharsuguda	Mayurbhanj (Rairangpur)	Balangir	Koraput (Jaypore)
5	Industry potential	Cement industry, steel industry, etc. **High**	Iron Industry **High**	Mining Industry, Steel Industry **Low**	Aluminium industry, steel industry etc., HAL, NALCO **High**
6	Terminal Capacity	300 passengers	N/A	N/A	N/A
7	Road Connectivity	NH 200, SH 10 **Medium**	NH 6, NH 5 **Medium**	NH 201 **Low**	NH 201, NH 43, Biju expressway **Medium**
8	Rail connectivity	Jharsuguda railway station **Medium**	Baripada railway station **Low**	Balangir railway station **Medium**	Koraput railway station **Medium**
9	Is the airfield prima facie worth reviving?	Yes. Work in Progress	Yes	Yes	Yes
10	Additional land to be acquired (acres)	Part acquisition completed.	Min 500 Acres	Min 500 Acres	Min 500 Acres
11	Runway capacity	Code 'C' A-320 / B-737	Code 'B' ATR-72	Code 'B' ATR-72	Code 'B' ATR-72
12	Approximate capex	Rs. 210 Crores	Rs. 50-100 Crores initial investment	Rs. 50-100 Crores initial investment	Rs. 50-100 Crores initial investment
13	Time required to make airfield operational	May, 2018	Min 06-12 Months	Min 06-12 Months	Min 06-12 Months
14	Duration of disruptions due to weather	Nil	Nil	Nil	Nil
15	Provision for night landing	Yes (proposed)	No	No	No
16	Overall Attractiveness	Medium	Low	Low	Low

Rajasthan



Operational airports: Jaipur, Jodhpur, Udaipur

Options for unserved airports: Barmer (Gadra Road), Bikaner, Ganganagar (Suratgarh), Kota, Jaisalmer

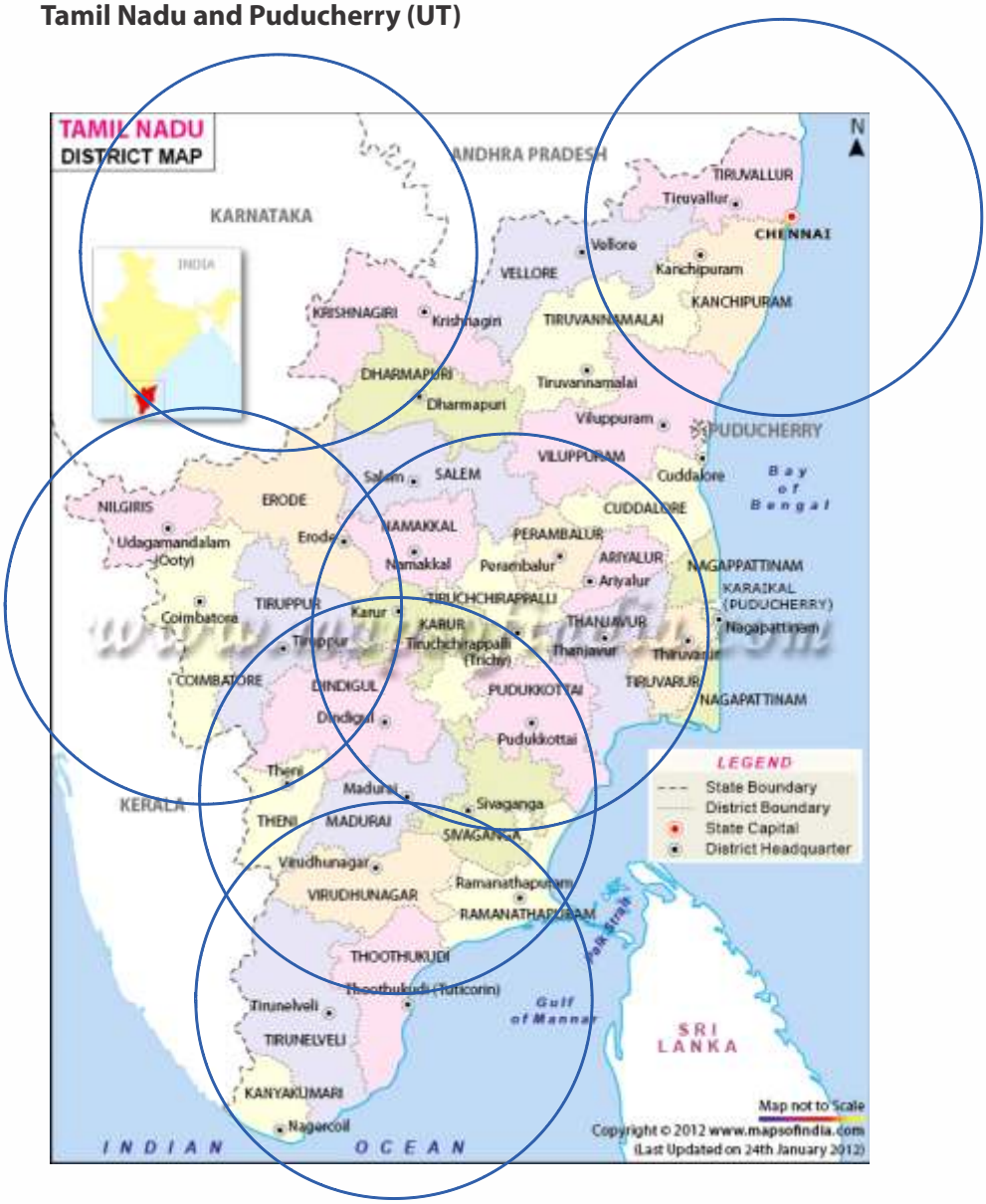
Analysis of options

S No	Parameter	Barmer (Gadra Road)	Bikaner	Ganga-nagar (Surat-garh)	Kota	Jaisalmer
1	GDP FY09-10 (INR cr)	6,993	8,215	10,118	9,105	2,726
2	Population (2011)	2,603,751	2,363,937	1,969,168	1,951,014	669,919
3	Nearest operational airport and road distance (km)	Jodhpur (199 km)	Jodhpur (249 km)	Amritsar (342 km)	Jaipur (252 km)	Jodhpur (284 km)
4	Tourism potential	Historical Places,	Religious places,	Indo-Pak border,	Religious places,	Museums, religious

S No	Parameter	Barmer (Gadra Road)	Bikaner	Ganga-nagar (Surat-garh)	Kota	Jaisalmer
		religious places **High**	craft factories, camping **High**	religious places **Medium**	Historic locations, Museum, wildlife sanctuary **High**	places, Forts, Camping **High**
5	Industry potential	Thermal power **High**	Food based **Medium**	Thermal stations, Power transmission **High**	Food based industries, thermal power, Hydro-power plants, education **High**	Agro based industries, stone based industries, wood industry **High**
6	Terminal Capacity	N/A	Arrival - 50 Departure - 50	N/A 50	Arrival - 50 Departure -	Arrival-125 Departure-125
7	Road Connectivity	NH 15, NH 112, SH 40 RJ **Medium**	NH 15, NH 11, NH 89 **High**	NH 15 **Low**	NH 27, NH 12, NH 76 **High**	NH 15, NH 11, NH 68 **High**
8	Rail connectivity	Barmer Railway Station **Low**	Bikaner Junction, 21 pairs of trains per day **High**	Sri Ganganagar railway station **Low**	Kota Junction, among top 100 ticketing stations **High**	Jaisalmer railway station, Palace on wheels **Medium**
9	Is the airfield prima facie worth reviving?		Civil Enclave is available		Yes	Civil Enclave is available
10	Additional land to be acquired (acres)		Present land available (37.78 acres)		Present land available (441.24 acres)	Present land available (77.60 acres)
11	Runway capacity		ATR-72		DO-228	A-320
12	Approximate capex	Above Rs.100 cr.	Not applicable	Above Rs.100 cr.	Less than Rs. 50 cr.	Not applicable
13	Time required to make airfield operational	More than 12 months	Not applicable	More than 12 months	Not applicable	Not applicable
14	Duration of disruptions due to weather	Less than 30 Days	Less than 30 Days	Less than 30 Days	Less than 30 Days	Less than 30 Days

S No	Parameter	Barmer (Gadra Road)	Bikaner	Ganga-nagar (Surat-garh)	Kota	Jaisalmer
15	Provision for night landing	No	No	No	No	No
16	**Overall Attractiveness**	**Low**	**High**	**Low**	**Medium**	**High**

Tamil Nadu and Puducherry (UT)

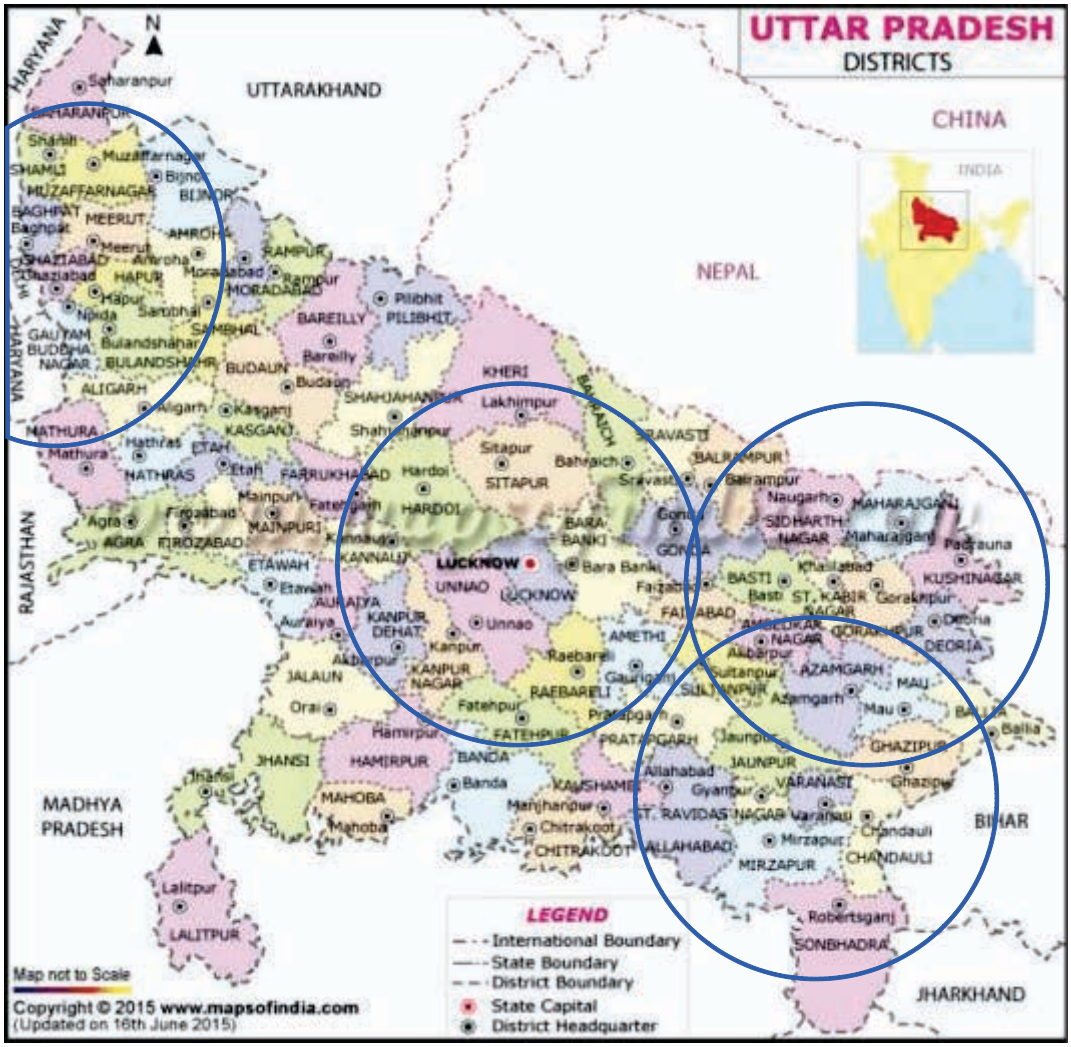


Operational airports: Chennai, Coimbatore, Madurai, Tiruchirapalli, Thoothukudi

Options for unserved airports: Vellore and Puducherry (UT)

S No	Parameters	Vellore	Puducherry
1	GDP FY06-07 (INR cr)	10,343 (FY 06-07)	13,092 (FY 10-11)
2	Population (2011)	3,936,331	950,289
3	Nearest operational airport and road distance (km)	Chennai (137 km)	Chennai (155 km)
4	Tourism potential	Vellore fort, government museum, science park, religious places **High**	Botanical Garden, religious places, museum, beaches **High**
5	Industry potential	Chemical, pharmaceuticals, medical tourism **High**	Tourism, textile, glass containers, chemicals. **High**
6	Terminal Capacity	NA	NA
7	Road Connectivity	NH 40, NH 234, NH 48 **High**	NH 45A, NH 66 **Medium**
8	Rail connectivity	Katpadi Junction Railway station (5 railway stations) **High**	Puducherry Railway station (3 platforms) **Medium**
9	Is the airfield prima facie worth reviving?	Yes	Yes
10	Additional land to be acquired (acres)	Presently 46 acres available with AAI. Further land requirement in proposal stage.	361 acres for upgradation to accommodate A320
11	Runway capacity	-	22,000 kg (ATR 72-500)
12	Approximate capex	-	Airfield is operational (fit for ATR 72 ops)
13	Time required to make airfield operational	6-12 months	Already operational
14	Duration of disruptions due to weather	Normally fair weather exists throughout the year	No significant weather disruptions.
15	Provision for night landing	No	No
16	**Overall Attractiveness**	**Medium**	**High**

Uttar Pradesh



Existing airport with commercial operations: Lucknow, Varanasi, Gorakhpur

Options for RCS: Agra, Allahabad, Kanpur and Bareilly

Analysis of options

S No	Parameter	Agra	Allahabad	Kanpur	Bareilly
1	GDP FY11-12 (INR cr)	19,706	20,138	25,534	19,633
2	Population (2011)	4,418,797	5,954,391	4,581,268	4,448,359
3	Nearest operational airport and road distance (km)	Delhi (210 km)	Varanasi (125 km)	Lucknow (95 km)	Delhi (260 km)
4	Tourism potential	Historical sites, religious	Religious sites and	Religious places,	Religious places,

S No	Parameter	Agra	Allahabad	Kanpur	Bareilly
		places **High**	parks **High**	Parks, **Medium**	Museums, **Medium**
5	Industry potential	Bio tech industry **High**	Communi-cations, Rail transport Industry **High**	Chemical, manu-facturing **High**	Sugar, alcohol, chemicals **High**
6	Terminal Capacity	N/A	N/A	N/A	N/A
7	Road Connectivity	NH - 2, 3, 11,93 **High**	NH 2, 27 **Medium**	NH 2, 25, 86, 91 **High**	NH 24, 74, SH 33 **High**
8	Rail connectivity	Agra Cantt, Top 100 ticketing stations **High**	Allahabad Junction Top 100 ticketing stations **High**	Kanpur Central, 3 lac passengers per day **High**	Bareilly Junction railway station **High**
9	Is the airfield prima facie worth reviving?	Civil Air terminal in operation	Civil Air terminal in operation	Civil Air terminal in operation	Yes
10	Additional land to be acquired (acres)	Not applicable	Not applicable	Not applicable	35.6 acres already acquired
11	Runway capacity	A320/ B737	A320/ B737	A319	A320/ B737
12	Approximate capex	Not applicable	Not applicable	Not applicable	Less than Rs. 50 cr.
13	Time required to make airfield operational	Not applicable	Not applicable	Not applicable	More than 12 months
14	Duration of disruptions due to weather	Less than 30 days	Less than 30 days	Less than 30 days	Less than 30 days
15	Provision for night landing	Yes	No	No	Yes
16	**Overall Attractiveness**	**High**	**High**	**High**	**Medium**

List of high potential RCS airports

Based on the geographic, operational and commercial parameters, we have identified 44 high potential RCS airports from among 414 underserved and unserved airports. An effort has been made to ensure a reasonable geographic dispersion of the airports across different regions of India.

We have also identified around 370 potential destinations for the shortlisted airports. These include metros, state capitals and important commercial, industrial and tourism centres within 800 km aerial distance of each shortlisted airport. The aerial distances mentioned herein are approximate.

Kindly note that this list is purely illustration and not exhaustive. There may be other RCS airports and destinations that could turn out to be more successful than the ones listed herein. Potential RCS operators should undertake a thorough due-diligence exercise before deciding their preferred airports and routes. FICCI and KPMG shall not be responsible for any business decision by any person or entity whatsoever.

We encourage you to share your queries and valued feedback with Mr Manoj Mehta (manoj.mehta@ficci.com, 9891098772) and Mr Anik Roy (anikroy@kpmg.com, 8969296330).

The list of high potential RCS Airports and the destinations thereof is as below:

S No	State	Airport	Potential destinations and approx. aerial distance (km)
1	Andaman Islands	Car Nicobar	Port Blair (277 km)
2	Andhra	Kadapa	Vijayawada (312 km), Vizag (595 Pradeshkm), Bengaluru (186 km), Chennai (227 km), Hyderabad (305 km), Puducherry (309 km), Mangaluru (465 km), Goa (526 km)
3	Arunachal Pradesh	Pasighat	Guwahati (436 km), Dibrugarh (78 km), Jorhat (193 km); Dimapur (294 km), Imphal (400 km), Itanagar (by helicopter, 202 km)
4	Arunachal Pradesh	Tezu	Guwahati (495 km), Dibrugarh (121 km), Jorhat (236 km), Dimapur (328 km), Imphal (418 km), Itanagar (by helicopter, 266 km)
5	Assam	Jorhat	Guwahati (267 km), Kolkata (735 km, through Bangladesh airspace), Pasighat (183 km), Tezu (230 km), Imphal (219 km)
6	Assam	Tezpur	Guwahati (136 km), Kolkata (629 km), Dibrugarh (230 km), Jorhat (140 km); Silchar (201 km) Dimapur (122 km), Imphal (234 km)

S No	State	Airport	Potential destinations and approx. aerial distance (km)
7	Assam	Lilabari	Guwahati (282 km), Kolkata (768 km), Dibrugarh (94 km), Jorhat (64 km); Silchar (179 km) Dimapur (160 km), Imphal (283 km)
8	Bihar	Madhubani	Patna (127 km), Kolkata (475 km), Gaya (204), Varanasi (212 km), Ranchi (294 km). Guwahati (565 km)
9	Bihar	Bhagalpur	Patna (197 km), Kolkata (323 km), Gaya (206 km), Ranchi (269 km), Guwahati (488 km), Varanasi (405 km), Lucknow (628 km), Bhubaneswar (563 km)
10	Chhattisgarh	Jagdalpur	Raipur (237 km), Nagpur (384 km), Hyderabad (432 km), Vijaywada (318 km), Vizag (196 km), Kolkata (776 km), Bhubaneswar (417 km)
11	Chhattisgarh	Korba	Raipur (170 km), Jabalpur (296 km), Ranchi (285 km), Varanasi (327 km), Patna (445 km), Nagpur (406 km), Bhubaneswar (401 km), Kolkata (589 km)
12	Daman & Diu	Diu	Ahmedabad (316 km), Vadodara (298 km), Surat (194 km), Rajkot (178 km), Bhuj (314 km)
13	Gujarat	Porbandar	Ahmedabad (344 km), Vadodara (369 km), Surat (337 km), Bhuj (179 km)
14	Gujarat	Bhavnagar	Ahmedabad (154 km), Surat (91 km), Vadodara (124 km), Rajkot (158 km), Bhuj (310 km)
15	Haryana	Hisar	Delhi (154 km), Chandigarh (193 km), Jaipur (261 km), Agra (323 km), Dehradun (251 km), Shimla (257 km), Amritsar (287 km)
16	Himachal Pradesh	Kullu	Delhi (368 km), Chandigarh (138 km), Amritsar (223 km), Shimla (89 km), Kangra (90 km), Dehradun (212 km), Jaipur (577 km), Lucknow (674 km), Jammu (236 km), Srinagar (323 km), Leh (254 km)
17	Himachal Pradesh	Shimla	Delhi (279 km), Chandigarh (53 km), Amritsar (226 km), Kullu (89 km), Kangra (143 km), Dehradun (145 km), Jaipur (489 km), Lucknow (607 km), Jammu (276 km), Srinagar (388 km), Leh (346 km)
18	Punjab	Bhatinda	Delhi (296 km), Chandigarh (187 km), Amritsar (158 km), Jammu (277 km), Jaipur (363 km), Srinagar (443 km), Agra (449 km)
19	Jammu and Kashmir	Chushul	Leh (126 km), Jammu (374 km), Srinagar (370 km), Delhi (577 km), Chandigarh (~340 km), Amritsar (~370 km), Shimla (~290 km), Dehradun (~380 km)

S No	State	Airport	Potential destinations and approx. aerial distance (km)
20	Jharkhand	Jamshedpur	Kolkata (234 km), Patna (328 km), Gaya (247 km), Bhubaneswar (288 km), Varanasi (435 km), Raipur (491 km), Vizag (644 km), Guwahati (659 km)
21	Karnataka	Bidar	Bengaluru (524 km), Pune (392 km), Nagpur (401 km), Vijaywada (369), Aurangabad (320 km), Goa (470 km), Tirupati (512 km), Vizag (603 km), Mangaluru (626 km), Chennai (610 km)
22	Karnataka	Vidyanagar	Bengaluru (~255 km), Hyderabad (299 km), Belgaum (~235 km), Vijaywada (~292 km), Goa (301 km), Mangaluru (~330 km), Tirupati (~345 km), Chennai (456 km), Pune (~480 km), Vizag (~745 km)
23	Lakshadweep islands	Agatti	Kochi (467 km), Mangaluru (378 km), Kozhikode (414 km), Coimbatore (531 km), Goa (537 km), Thiruvananthapuram (582 km), Bengaluru (656 km), Madurai (656 km)
24	Madhya Pradesh	Gwalior	Delhi (276 km), Bhopal (346 km), Khajuraho (236 km), Jabalpur (345 km), Jaipur (247 km), Lucknow (269 km), Indore (467 km), Varanasi (473 km), Dehradun (433 km), Chandigarh (507 km)
25	Maharashtra	Amravati	Pune (470 km), Aurangabad (277 km), Bhopal (265 km), Indore (284 km), Jabalpur (340 km), Hyderabad (404 km), Raipur (406 km), Vadodara (490 km), Surat (513 km), Ahmedabad (582 km),
26	Maharashtra	Nanded	Aurangabad (215 km), Nagpur (278 km), Hyderabad (246 km), Pune (364 km), Goa (562 km), Raipur (506 km), Indore (430 km), Surat (518 km), Vadodara (532 km), Ahmedabad (650 km), Bhopal (452 km), Jabalpur (525 km), Vizag (645 km), Vijaywada (459 km), Bengaluru (684 km), Chennai (743 km).
27	Maharashtra	Solapur	Pune (238 km), Aurangabad (255 km), Hyderabad (268 km), Goa (336 km), Nagpur (505 km), Indore (567 km), Surat (512 km), Ahmedabad (697 km), Vijaywada (517 km), Bengaluru (528 km), Chennai (687 km), Vizag (772 km)
28	Meghalaya	Shillong	Guwahati (by helicopter - 60 km), Silchar (133 km), Dimapur (181 km), Agartala (214 km), Aizawl (217 km), Imphal (220 km), Jorhat (247 km), Dibrugarh (361 km), Bagdogra (380 km), Kolkata (493 km)
29	Meghalaya	Tura	Guwahati (134 km), Shillong (167 km), Bagdogra (~220 km), Kolkata (386 km)

S No	State	Airport	Potential destinations and approx. aerial distance (km)
30	Odisha	Jharsuguda	Bhubaneswar (162 km), Ranchi (205 km), Raipur (251 km), Varanasi (405 km), Patna (432 km), Kolkata (461 km), Vizag (466 km), Nagpur (516 km)
31	Puducherry	Puducherry	Bengaluru (267 km), Vijaywada (433 km), Vizag (458 km), Coimbatore (320 km), Madurai (303 km), Mangaluru (501 km), Kochi (424 km), Kozhikode (430 km), Thiruvananthapuram (500 km), Hyderabad (605 km)
32	Rajasthan	Bikaner	Jaipur (292 km), Delhi (386 km), Jaisalmer (267 km), Jodhpur (203 km), Udaipur (390 km), Amritsar (433 km), Chandigarh (452 km), Ahmedabad (558 km)
33	Rajasthan	Jaisalmer	Jaipur (492 km), Bikaner (267 km), Jodhpur (229 km), Udaipur (395 km), Bhuj (417 Km), Ahmedabad (459 km), Delhi (641 km), Chandigarh (716 km)
34	Rajasthan	Kota	Jaipur (185 km), Delhi (399 km), Ahmedabad (399 km), Indore (271 km), Bhopal (257 km), Lucknow (534 Km), Nagpur (558 km)
35	Tamil Nadu	Vellore	Bengaluru (151 km), Coimbatore (316 km), Madurai (353 km), Vijaywada (433 km), Kochi (454 km), Mangaluru (501 km), Hyderabad (507 km),
36	Telangana	Warangal	Hyderabad (147 km), Vijayawada (200 km), Vizag (395 km), Tirupati (478 km), Nagpur (358 km), Raipur (421 km), Aurangabad (492 km), Chennai (552 km), Bengaluru (595 km), Pune (607 km), Goa (662 km)
37	Uttarakhand	Pantnagar	Dehradun (179 km), Delhi (237 km), Lucknow (281 km), Chandigarh (~320 km), Shimla (~350 km), Jaipur (~460 km), Allahabad (~460 km), Varanasi (~540 km), Patna (~660 km)
38	Uttar Pradesh	Agra	Delhi (178 km), Lucknow (293 km), Jaipur (216 km), Dehradun (338 km), Chandigarh (407 km), Shimla (445 km), Udaipur (495 km), Varanasi (524 km), Indore (539 km), Ahmedabad (702 km), Patna (731 km)
39	Uttar Pradesh	Allahabad	Delhi (575 km), Lucknow (170 km), Gorakhpur (224 km), Jabalpur (260 km), Gwalior (363 km), Patna (337 km), Gaya (333 km), Agra (422 km), Raipur (474 km), Ranchi (433 km), Bhopal (506 km), Nagpur (556 km), Indore (674 km), Jaipur (611 km), Dehradun (633 km), Kolkata (749 km), Chandigarh (758 km), Shimla (776 km)

S No	State	Airport	Potential destinations and approx. aerial distance (km)
40	Uttar Pradesh	Kanpur	Delhi (405 km), Patna (476 km), Allahabad (170 km), Varanasi (267 km), Agra (257 km), Gorakhpur (304 km), Gwalior (218 km), Jabalpur (306 km), Gaya (492 km), Raipur (596 km), Ranchi (603 km), Bhopal (465 km), Indore (620 km), Jaipur (460 km), Chandigarh (592 km), Dehradun (474 km), Nagpur (607 km), Shimla (614 km)
41	Uttar Pradesh	Bareilly	Delhi (217 km), Lucknow (226 km), Jaipur (238 km), Dehradun (252 km), Chandigarh (364 km), Shimla (374 km), Allahabad (403 km), Gorakhpur (431 km), Varanasi (484 km), Patna (651 km)
42	West Bengal	Andal	Ranchi (191 km), Gaya (~260 km), Patna (309 km), Bagdogra (358 km), Bhubaneswar (395 km), Varanasi (~470 km), Guwahati (519 km), Allahabad (~520 km), Raipur (~630 km), Imphal (~700 km), Lucknow (~725 km), Vizag (770 km)
43	West Bengal	Cooch Behar	Bagdogra (135 km), Guwahati (196 km), Shillong (247 km), Durgapur (385 km), Kolkata (445 km), Imphal (466 km), Patna (468 km), Dibrugarh (542 km), Ranchi (563 km), Varanasi (690 km)
44	West Bengal	Malda	Bagdogra (187 km), Kolkata (262 km), Patna (324 km), Ranchi (351 km), Guwahati (357 km), Shillong (383 km), Varanasi (544 km), Imphal (570 km)


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III

Financial viability assessment of RCS operations



Financial viability assessment of RCS operations



Common assumptions

The key assumptions for the base case scenario across aircraft types are as follows:

S No	Parameter	Value
1	Stage length	300 km
2	RCS trips per day	6
3	Fleet size	3
4	Seat factor	Year 1 60% Year 2 70% Year 3 80% Year 4 80% Year 5 80%
5	Airfare for RCS seats	INR 1830 (for 3 years)
6	VGF per RCS seat (for Category-1 fixed wing aircraft)	INR 3730 (for 3 years)
7	VGF per RCS seat (for Category-2 and Category-3 fixed wing aircraft)	INR 3360 (for 3 years)

S No	Parameter	Value
8	Airfare for non RCS seat (INR)	Year 1 Year 2 Year 3 Year 4 Year 5 2,800 3,300 3,800 4,300 4,300
9	Ownership	Leased
10	Age of the leased aircraft	6 years
11	RCS routes per day for VGF	6
12	Aircraft depreciation rate	5%
13	Cockpit Crew salary (INR pm)	2,00,000
14	Number of Cockpit crew per aircraft	4
15	Cabin Crew Salary (INR pm)	20,000
16	GHA cost per flight	INR 12,000
17	Annual Operational Days	340
18	Inflation Rate	6%
19	Maintenance Cost (fixed Cost per month)	INR 680,000 per month
20	Lease cost/ month	1% of the aircraft value
21	Non-Operating Miscellaneous Expenses	1% of the Operating Cost
22	Insurance cost	0.5% of the aircraft value annually
23	Debt (%): Equity (%)	30%:70%
24	ATF price (INR / litre)	44.8
25	Management salaries (INR per month)	CEO - 5 lacs, 4 HoDs - 3 lacs each, Middle management - 60,000 each
26	Effective Corporate Tax Rate	30%
27	Days of Sales Outstanding	26
28	Days of Payables Outstanding	26
29	Days of Inventory Outstanding	09
30	INR per USD	68
31	Landing and parking charges	0
32	TNLC	0
33	RNFC	42.50% of the applicable charges
34	VAT on ATF	1%
35	Excise Duty on ATF	2%
36	Cost of Debt	12%
37	Cost of Equity	18%
38	Debt Tenure (in Years)	10

Specific Assumptions

The specific assumptions for each aircraft type are as follows:

S No	Aircraft capacity (seats)	9	19	48	78
1	Flights	6 VGF flights for the first 3 years; 3 VGF flights and 3 non-VGF flights from the Year 4	6 VGF flights for the first 3 years; 3 VGF flights and 3 non-VGF flights from the Year 4	6 VGF flights for the first 3 years; 6 non-VGF flights from the Year 4	6 VGF flights for the first 3 years; 6 non-VGF flights from the Year 4
2	Charter hrs p.a. per aircraft	Y1 Y2 Y3 Y4 Y5 05 16 34 171 182	Y1 Y2 Y3 Y4 Y5 26 48 68 77 86	N/A	N/A
3	Number of middle management personnel	25	30	50	50
4	Airframe Maintenance Cost (INR / hour)	6,460	9,520	11,220	11,220
5	Engine Maintenance Cost (INR / hour / engine)	7,208	7,408	15,504	15,504
6	LLP MR (INR/landing)	-	-	4,760	4,760
7	Landing Gear (INR/landing)	-	-	2,720	2,720
8	APU (INR/ hour)	-	-	3,060	3,060
9	Fuel Consumption (l/ km.)	0.63	0.87	1.50	1.90
10	Cabin Crew (per aircraft)	0	2	4	4
11	Aircraft Value (INR cr)	9	40	64	73

LLP - Life Limited Parts APU - Auxiliary Power Unit

Based on the assumptions, the projected cash flows for a 9-seater aircraft operator is as follows:

S No	Parameter (INR cr)	Year 1	Year 2	Year 3	Year 4	Year 5
1	Total Revenue	26.89	30.22	34.20	36.80	38.42
2	Non-RCS Revenue	0.30	0.97	2.06	10.29	10.89
3	Operating Expense	24.59	26.18	27.93	31.01	32.87
4	Lease Rentals	3.60	3.82	4.04	4.29	4.54
5	Insurance Cost	0.05	0.05	0.06	0.06	0.06
6	Interest Expense	0.26	0.23	0.21	0.18	0.15
7	Tax	0.00	0.00	0.00	0.14	0.14
8	Working Capital	0.77	0.93	1.14	1.18	1.21
9	Free Cash Flow to Equity	(0.69)	(0.69)	1.27	0.55	0.08
10	Long Term Debt	2.14	1.93	1.71	1.50	1.29
11	**NPV @ 16%**			**0.05**		
12	**IRR**			**18.74%**		

Projected cash flows for a 19-seater aircraft operator are as follows:

S No	Parameter (in INR Crores)	Year 1	Year 2	Year 3	Year 4	Year 5
1	Total Revenue	39.38	47.74	57.32	56.18	58.65
2	Non-RCS Revenue	1.93	3.60	5.14	5.78	6.42
3	Operating Expense	29.42	31.53	33.71	35.81	38.02
4	Lease Rentals	14.40	15.26	16.18	17.15	18.18
5	Insurance Cost	0.20	0.21	0.22	0.24	0.25
6	Interest Expense	0.26	0.23	0.21	0.18	0.15
7	Tax	0.00	0.00	0.50	0.73	0.50
8	Working Capital	1.43	1.93	2.51	2.33	2.41
9	Free Cash Flow to Equity	(4.70)	(0.52)	5.37	1.67	0.87
10	Long Term Debt	2.14	1.93	1.71	1.50	1.29
11	**NPV @ 16%**			**0.34**		
12	**IRR on Equity**			**19.86%**		

Projected cash flows for a 48-seater aircraft operator are as follows:

S No	Parameter (in INR cr)	Year 1	Year 2	Year 3	Year 4	Year 5
1	Total Revenue	84.80	101.00	120.54	101.05	101.05
2	Operating Expense	46.92	49.73	52.71	55.88	59.23
3	Lease Rentals	23.04	24.42	25.89	27.44	29.09
4	Insurance Cost	0.32	0.34	0.36	0.38	0.40
5	Interest Expense	0.52	0.46	0.41	0.36	0.31
6	Tax	4.06	7.66	12.19	4.93	3.43
7	Working Capital	3.86	4.88	6.13	4.60	4.44
8	Free Cash Flow to Equity	9.49	16.43	26.76	12.61	7.73
9	Long Term Debt	4.30	3.87	3.44	3.01	2.58
10	**NPV @ 16%**			**48.18**		
11	**IRR on Equity**	**Highly positive cash flows**				

Projected cash flow statement for a 78-seater aircraft is as follows:

S No	Parameter (INR Cr)	Year 1	Year 2	Year 3	Year 4	Year 5
1	Total Revenue	137.58	163.62	195.00	164.21	164.21
2	Operating Expense	51.60	54.69	57.98	61.45	65.14
3	Lease Rentals	26.28	27.86	29.53	31.30	33.18
4	Insurance Cost	0.37	0.39	0.41	0.43	0.46
5	Interest Expense	0.52	0.46	0.41	0.36	0.31
6	Tax	17.49	23.90	31.83	21.01	19.34
7	Working Capital	7.40	9.11	11.19	8.84	8.66
8	Free Cash Flow to Equity	37.29	53.63	71.75	50.96	44.87
9	Long Term Debt	3.34	3.54	3.75	3.98	4.22
10	**NPV @ 16%**	**167.48**				
11	**IRR on Equity**	**Highly positive cash flows**				

Financial summary for all four aircraft types is as follows:

S No	Aircraft capacity (Seats)	Aircraft Value (INR cr)	Monthly lease (INR '000)	NPV (INR cr)	IRR on equity
1	9	10	1,000	0.05	18.74%
2	19	40	4,000	0.34	19.86%
3	48	64	6,400	48.2	N/A
4	78	73	7,300	167.5	N/A

Key observations from the financial viability assessment are as follows:

a) RCS is highly profitable for a 48 and 78 seater aircraft operator. The key challenge would be to identify routes that provide the presumed seat factors.

b) Despite higher VGF per seat provided to Category 1 aircraft (20 seats or below), the 9 and 19 seater aircraft face significant challenge in achieving financial viability. They will need to operate at least 6 RCS flights per day and supplement their revenue with charter operations. For a 9 seater operator, the charter revenues need to increase substantially in the 4th year when the VGF and exclusivity period is withdrawn.

c) 9 and 19 seater aircraft will have to operate at least 3 flights under VGF after year 3 to earn higher revenue as compared to the non-VGF option. This means they may have to move away from 3 out of the 6 RCS routes that they operated on for the first three years, to 3 new RCS routes. This would involve fresh bidding, additional investments and added risks.

d) The profitability for 9 and 19 seater aircraft is sensitive to cost of fuel, aircraft lease, crew salaries and maintenance. Any abrupt increase may render operations unviable.





IV

Suggestions for policy and regulatory improvements

Suggestions for policy and regulatory improvements



Immediate term

The proposed changes in policy and regulatory matters that need to be considered on an immediate basis include the following:

a) Enhance VGF period to five years

Most leased aircraft will have a lease period of 7-10 years. New routes covering Tier 1 cities take around 12-18 months to become profitable. RCS airfields may take even longer to become financially sustainable. 9 and 19 seater aircraft appear to be financially viable only if they undertake charter operations and shift half the routes to new RCS routes after the three year VGF period comes to an end. MoCA should consider enhancing the VGF period to five years or more, at least for Category 1 aircraft, if not for all. The exclusivity period can be restricted to three years, as it exists, in order to avoid monopolies.

b) Limit RCS seats, not flights

MoCA should consider limiting RCS seats per week instead of RCS flights per week. The size of aircraft and the number of flights are best left to the

operators. On certain routes, it may be more feasible to run 4 flights per day by a 19-seater than one flight by an 80-seater, even though the seats offered are roughly the same. The maximum seats eligible for VGF on any RCS route can be fixed as 280 per week (40 per day * 7 days per week = 280). This will help MoCA limit its VGF liability on each approved RCS route.

c) Crew outsourcing

RCS operators should be allowed to use pilots, cabin and maintenance crew of other airlines. This would enable the same crew to gain greater experience across similar aircraft category. It would also enhance the profitability of the operator by way of lower personnel cost. Each of these personnel are licensed anyway, so the risks are low.

d) RCS bids 30 days after the Union Budget 2017

The policy and regulatory reforms will have significant impact on the viability analysis for RCS operators. The Union Budget planned for 1 Feb 2016 is expected to have important announcements on the GST, Corporate tax and other important issues. MoCA should consider delaying the RCS bids by at least 30 days after the Union Budget.

e) Dedicated RCS cell

MoCA, DGCA, AAI, MoD, MHA, MoEF and other relevant government entities should have a dedicated cell to expedite issue of licenses, approvals, permissions and necessary handholding to RCS airport and airline operators. Any delay in such approvals can have an adverse financial impact on the RCS operator, who incurs a large fixed cost in terms of aircraft, pilots, crew and other overheads. For instance it takes around 6-12 months to obtain an Air Operator Permit (AOP). This is far in excess of global standards. The certification process should be reduced to 3 months. There are delays in getting approvals for foreign pilots and engineers.

f) Cover all aviation fuels

Benefits to Aviation Turbine Fuel (ATF) should be extended to all aviation fuels including Avgas, LNG, Bio-fuels, or any type of fuel that may be used any aircraft used in RCS, subject to due checks and balances to avoid misuse. ?

g) VGF on 9-seater aircraft

9-seater aircraft are required to cap the airfare on all 9 seats under RCS. Such operators should be allowed to seek VGF for less than 9 seats if they so desire. The amount of VGF saved can be deployed productively elsewhere.

h) Reserved slots at metro airports

At constrained airports like Mumbai, Chennai, Goa etc at least 2% of daily aircraft movements should be reserved for RCS flights else it may be difficult to connect them to the RCS airports in their hinterland.

i) Spread RCS obligation over six months

MoCA should allow RCS operators to spread their flights based on seasonal fluctuations. In the lean season, even three flights a week may run with very low occupancy whereas during peak season, one may need four flights a day. There's no need to force an RCS operator to run empty flights in order to comply with a weekly stipulation. Any shortfall or excess should be allowed to be carried forward to the next quarter. A reconciliation should be done every six months to ensure that the RCS operator has operated the minimum number of seats it was obligated to.

j) Hangar space

All RCS operators will require a CAR-145 approval for which hangar space is a mandatory requirement. AAI should put in a time-bound procedure for allotment of land to RCS operators for the same. DGCA should consider CAR-145 approvals for Temporary and Collapsible Transportable Hangars, to reduce the cost of compliance without compromising on safety requirements.

k) Timely VGF payment

VGF amount should be released to RCS operators on the appointed date every month. Any delay in the same should have the approval of a MoCA official not below the rank of a Joint Secretary. In case of any delay by state government in paying their share of 20% of the VGF amount to AAI, the same shall not affect the release of the full VGF amount to the RCS operator.

l) Foreign registered aircraft

MoCA should allow foreign registered aircraft for RCS operations. This will expedite imports and lower the cost of leasing for such aircraft. Clear instructions should be given to Customs authorities so that the operator does not undergo any harassment for using a foreign registered aircraft.

m) No airport charges

It may be clarified, at the risk of repetition, that the various tax concessions and exemptions from airport charges (including ADF, UDF, PSF etc) would be applicable at a non-RCS airport if it forms part of a RCS route.

Short term (6-12 months)

The proposed changes in policy and regulatory matters in the short term are as follows:

a) Single engine aircraft

RCS should be extended to single engine aircraft. Such aircraft operate all over the world, carrying high net worth individuals and celebrities.

b) GAGAN at RCS locations

GAGAN should be rolled out at the potential RCS airports on priority to ensure they have low visibility operations. Else RCS flights may get disrupted during bad weather causing losses to RCS operators.

c) Below 150 km stage length

VGF may be provided for RCS flights below 150 km stage length, since there may be a business case for some RCS locations, especially in airfields that have topographical challenges.

d) VGF for amphibian aircraft

RCS covers seaplanes. RCS should also cover amphibian aircraft that can land on both land and water.

e) Refund of Additional Performance Guarantee

Additional Performance Guarantee should be refunded to the RCS operator within one year of submission if the authorities fail to make the airport operational.

f) Compensation for procedural or weather delays

For delays beyond the control of the operator - e.g. pre-operation approvals from government entities or weather-related disruptions during operations (confirmed by ANS records), MoCA should consider a transparent mechanism for providing monetary compensation or extension of the VGF period or both.

g) Higher VGF for less attractive routes

For RCS routes that do not attract any operator till 31 Dec 2018, the VGF amount could be enhanced by 20% every year till a bidder shows interest. The increase can be capped at 60%, i.e., in year 3 and thereafter, VGF for such a route shall be 1.6 times (1+3x20%=1.6) the VGF for that stage length. The exclusivity period can be enhanced to 5 years for such routes.

Medium term (1-3 years)

The proposed changes in policy and regulatory matters in the medium term are as follows:

a) Abrupt withdrawal of RCS

If RCS is withdrawn abruptly by the government for reasons within or beyond its control, it must pay at least six months equivalent of VGF as foreclosure charges to the RCS operator to cover his costs of demobilization - including staff-layoffs and other unforeseen losses.

b) RCS online portal and distribution network

In small towns, a significant number of bookings may happen through travel agents and their mark-up would cause the airfares to inflate. MoCA should facilitate setting up of an online portal for RCS operators. MoCA may also facilitate use of post offices and rural bank branches for ticket distribution against a small service fee.

c) Safety and security overkill

MoCA should undertake a detailed study on safety and security procedures followed at regional and remote airports in USA and EU. Passengers in small town in India use road and rail travel where security standards are not too stringent. MoCA must ensure a fair balance between what is optimal and what is excessive on the sensitive subject of safety and security.

d) VGF for cargo

VGF support should be provided to cargo also - on both passenger flights and cargo freighters. VGF on cargo will help reduce the airfare for non-RCS seats and enhance the viability of RCS operations. Freighters may help establish air connectivity even at locations where passenger demand is low despite the VGF support.

e) Subsidy for flight training

The cost of flight crew training is at an all-time high due to the massive capacity induction and attrition in airlines. MoCA with the help of IGRUA and empanelled flying academies should initiate a flight crew training programme for small aircraft. The program can be subsidised by the RCS fund up to say INR 20 crore per annum.

Conclusion



Thanks to a growing economy, fall in ATF prices and a heavily under-penetrated market, Indian aviation is growing at a very high rate of over 20% per annum. A significant part of this growth is coming from people in the interiors of India who today have to travel by road or rail to reach the nearest hub airport.

India has a bold ambition of becoming the third largest aviation market by 2020 and the largest by 2030. This will require aviation to be taken to the interiors of India, by way of affordable and innovative solutions.

RCS is a scheme being tried at the pan-India level for the first time. The best aspects of RCS are that it:

a) has the support of the union and state governments,

b) leaves it to operators to decide their fleet and route network,

c) offers significant fiscal and monetary benefits to stimulate demand,

d) provides a three-year VGF support and exclusivity benefit to operators,

e) takes the infrastructure risk away from the operators, and

f) is funded by aviation industry itself and not the central exchequer.

RCS is designed as a stimulus and not a permanent subsidy program. For successful operations, operators will need to:

a) have a long-term vision considering that RCS provides only a three year VGF support,

b) choose their fleet and network carefully,

c) supplement RCS operations with non-RCS operations, and

d) establish close working relationships with leading pan-India airlines

This FICCI-KPMG report has identified 44 high potential RCS airports from among 414 airfields available in India. This is based on various techno-commercial parameters with valuable support from MoCA and AAI. The report has presented over 370 possible destinations from the high-potential RCS airports, the projected financial statements for four aircraft types and suggestions for further improvement of the scheme. The proposed airports and routes are indicative in nature and potential operators shall have to undertake a thorough due-diligence before taking any business decision.

With a proactive and close collaboration between government entities, regulatory authorities and operators, there's a high probability that this path-breaking initiative may widen the aviation grid of India; bring in additional traffic, revenue and profits; create direct and indirect employment; and facilitate economic development in the interiors of India.

It is now for us to make this work. We'll get there.

About FICCI

Established in 1927, FICCI is one of the largest and oldest apex business organizations in India. FICCI's history is closely interwoven with India's struggle for independence, industrialization and emergence as one of the most rapidly growing global economies. FICCI has contributed to this historical process by encouraging debate, articulating the private sector's views and influencing policy.

A not-for-profit organization, FICCI is the voice of India's business and industry. FICCI draws its membership from the corporate sector, both private and public, including MNCs; FICCI enjoys direct and indirect membership of over 2,50,000 companies from various regional chambers of commerce and through its 70 industry association.

FICCI provides a platform for sector specific consensus building and networking and is the first port of call for Indian industry and the international business community. Aviation is a key focus area for FICCI.

About KPMG

KPMG in India, is the Indian member firm of KPMG International, a USD 25 billion entity with 189,000 employees globally, serving clients in 152 countries. KPMG entered India in 1993 and has offices in eleven major cities. It has over 11,000 employees serving around 2,700 clients in business advisory, audit and tax consulting.

KPMG's aviation practice works with the entire spectrum of clients ranging from airlines, airports, government, regulators, air cargo, aircraft manufacturers, MRO and aviation institutes. It has a mix of business consultants and ex-airline industry professionals assisting clients in areas like strategy, operations, financing, people, technology, policy and regulations.

KPMG provided key inputs to MoCA for the National Civil Aviation Policy (NCAP 2016) and the 12th Five Year Plan for aviation. KPMG is transaction adviser to different state governments for airports like Mopa, Navi Mumbai, Vizag and Singrauli. It is assisting AERA in tariff fixation at ten AAI airports; AAI in marketing strategy for GAGAN and MoCA in implementing the Rajiv Gandhi National Aviation University (RGNAU).

KPMG was honoured for 'Valuable contribution to Indian aviation' in October 2012 by the then aviation minister.



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