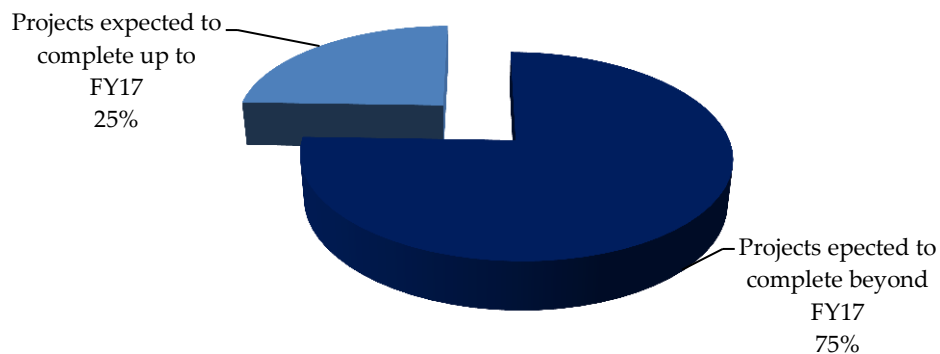


The Indian Airports Sector – “Massive investment planned but actual realisation remains an arduous task”

In order to cope up with strong growth in passenger traffic and resulting need for better airport infrastructure, the Planning Commission has envisaged an investment of about Rs.87,700 crore during the Twelfth Five Year Plan. Various agencies such as AAI, state governments as well as private players have been actively involved in creation of airport infrastructure in the country in the recent past. Currently, about 64 airport projects worth investment of about Rs.1,515 bn are under implementation/announced stage. Out of these, about 33 projects accounting for about 25 per cent of the total outstanding investment are under advance stage of construction and are expected to get completed up to FY17. Balances projects involving 75 per cent of outstanding investment are at early stage of construction and are expected to commission beyond FY17.

Investment scenario in airport projects



Source: CARE Research

The airport projects have witnessed inordinate delays in the past primarily on account of land acquisition issues, procedural delays, viability issues and non-availability of funds for expansion. The airport infrastructure segment in India does not have a long term national level policy. Unlike other infrastructure projects, the airport project requires substantial land at one location. Setting up an airport needs approval from about 16-17 agencies at central and state levels. Hence, airport projects are prone to time overruns on account of procedural delays. Moreover, construction of airports takes at least about 3 years for completion from the date of commencement of construction work depending on the capacity and design of the airport.

Going ahead, delays w.r.t. land acquisition is expected to remain a major challenge for airport projects. Moreover, muted central assistance and non viability of some projects are likely impact

development of airport infrastructure. Also, high leverage of airport infrastructure companies may act as a deterrent for private participation in the near term.

On the back drop of the above and evaluation of recent developments in the major airport projects, CARE Research estimates only about 35 per cent of the total outstanding investment in airport projects to materialise up to FY17.

Air passenger traffic to grow at a robust rate during the period of FY14-17...

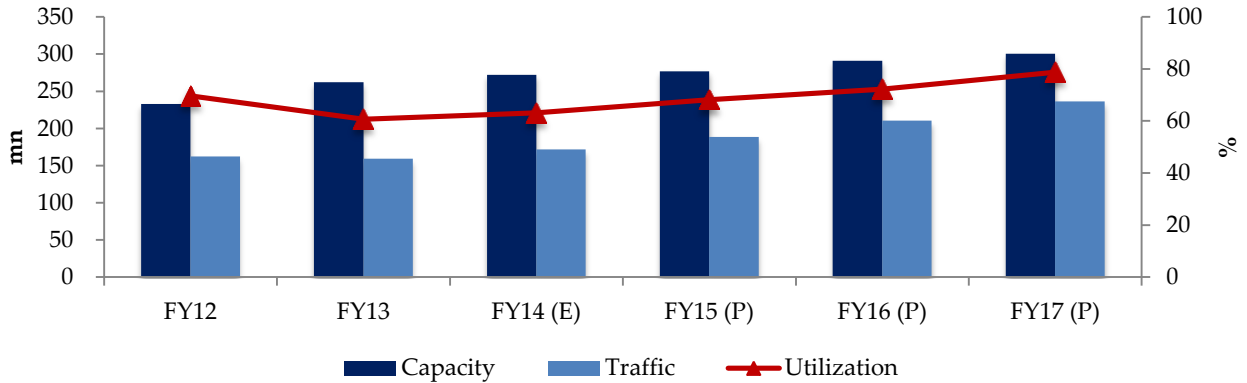
In the Eleventh Five Year Plan, the air passenger traffic grew at a CAGR of 10 per cent. The strong growth in passenger traffic was attributable to factors like increasing affordability with rise in disposable income, lower air fares with the entry of Low Cost Carriers, rapidly expanding air transport network and massive investment made in the airport infrastructure. The fastest growth in air passenger traffic was witnessed during the period FY04-08, where it registered a CAGR of 25 per cent. However, in FY13, owing to increased air fares coupled with slowdown in overall economic scenario, the air passenger traffic dipped by 2 per cent on a YoY basis.

In view of favorable policy initiatives taken by the government for the aviation sector in the recent past such as allowing FDI of 49 per cent in aviation, proposal to do away with 5/20 rule, proposal under consideration for extension of 'Tourist Visa on Arrival' (TVoA) to 16 new countries, allowing entry of new airlines (Air Asia India, Tata-SIA and Jet Ethiad), the air passenger traffic is expected to witness some momentum. Moreover, other factors like rising trend of transit passengers, increasing share of middle income group and strong demographics are expected to have a positive impact on the overall air passenger traffic growth. CARE Research expects the air passenger traffic to witness a double digit growth during the period FY14-17.

Growth in air passenger handling capacity to lag overall air passenger traffic growth up to FY17...

With privatization and modernization focused by the government and the entry of private airport operators, the air passenger handling capacity in the country witnessed a strong growth during the Eleventh Five Year Plan. About 5 international airport projects were successfully completed through the Public Private Partnership (PPP) mode during the Eleventh Five Year Plan. The air passenger handling capacity at all airports grew by a CAGR of 20 per cent from 72 mn in FY06 to about 263 mn in FY13.

Projected air passenger handling capacity, traffic and utilization level



Source: CARE Research

However, CARE Research expects the air passenger handling capacity to grow at very moderate rate till FY17. The growth in air passenger handling capacity is expected to lag the overall air passenger traffic growth till FY17.



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