

## Public-Private Partnership: The preferred framework for infrastructure spend

*The development of Mumbai and Delhi airports is being undertaken on a PPP basis*

The bulk of the projected private sector spending on infrastructure is expected to be channelled through PPPs.. For PPP projects to develop airports in India, the AAI generally invites bids from interested parties. The contract is awarded to the qualifying bidder who offers the highest share of revenue to the authority, generally on a BOT basis or a variation thereof. The upgrading of Delhi and Mumbai airports is being undertaken on a PPP basis with the AAI holding a 26 per cent stake. Private investors hold 74 per cent in Delhi and Mumbai airports:

Delhi Airport: GMR Infrastructure (50.1 per cent), Fraport AG (10 per cent), Eraman Malaysia (10 per cent), IDFC (3.9 per cent).

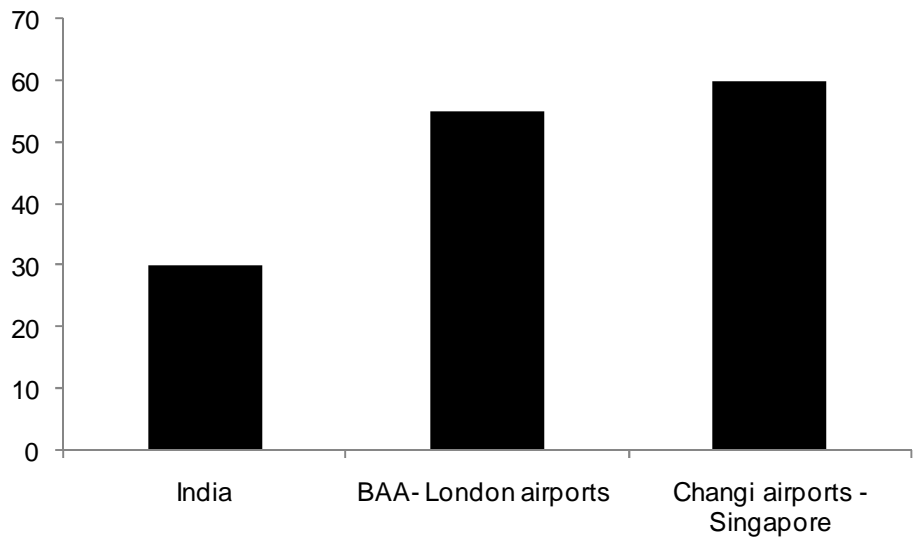
Mumbai Airport: GVK Infrastructure (37 per cent), Bid Vest (27 per cent), Airports Company of South Africa (10 per cent)

The airside development of 35 non-metro airports will be undertaken by the AAI, although in several higher-traffic locations private sector involvement will also be sought.

*Cityside development of 24 non-metro airports will be undertaken on a PPP basis: a real estate investment opportunity*

Cityside development of 24 of these non-metro airports will be undertaken through PPP contracts. This involves commercial facilities as well as the maintenance of terminal buildings. This is basically a real estate investment opportunity, and despite the absence of aeronautical revenue, there is still a lot of scope for earning non-aeronautical revenue from services such as duty-free shops, land and space rentals (for offices, retail stores and hotels), car parking and cargo complexes. Currently Indian airports' non-aeronautical revenue is just 30 per cent, whereas internationally non-aeronautical revenue constitutes the majority of airports' earnings.

**Exhibit 3.13 Share of non-aeronautical revenue as a percentage of total revenue (per cent)**



*There is reliance on government for land acquisition and facilitation of connectivity to airports*

However this creates potential coordination problems, since such projects depend on government action to facilitate land acquisition, as well as related upgrading of road and rail connectivity. Poor connectivity is a problem common to other airport projects, such as the new airports at Bangalore and Hyderabad. Still, there has been strong investor interest in the initial contracts for Amritsar and Udaipur airports, with about two dozen applicants for both. The government made two short lists of five bidders each in April 2008 after measuring bids against certain technical parameters.