

KITCO:

**An Asian Answer
To the Cost Effective
Airport Quest**

Indian Consultancy Firm Now Offers Its Services to Set Up Optimum Priced Airports In Developing Countries



As per the 2012 February statistics, India experienced the strongest domestic air traffic growth in the world after Brazil. The 12.3 percent growth India has achieved was despite many odds like the ever escalating oil prices and huge airport charges. Brazil had the fastest growth compared to the previous year as the demand was up by 17.9 percent. Nonetheless, India's carriers filled 75.4 percent of seats.

The remarkable feat India achieved when even developed countries were witnessing a

common downward trend in air travel could be attributed to many facts.

The large population of middle class with a robust spending power is one. The advancement the country has achieved in the field of Engineering & Technology and the availability of highly skilled manpower is another. The air safety record of the nation which is at par with developed nations is yet another factor. But the combination of all the favourable factors wouldn't really have made the aviation revolution possible, but for a triggering event that took place more than a decade ago.



Inside Cochin International Airport Terminal

Where it All Began

It was in the late nineties that the country began to witness a sudden leaping up in aviation infrastructure scenario. And it was in Kerala, a tiny state tucked away in the southern tip of the nation that the revolution began. The inauguration of Cochin International Airport, about 25 km away from Cochin, the largest city of Kerala, in 1999 was the event that set the things in motion. The airport was the first greenfield airport in the country to built under Public-Private-Participation (PPP) scheme.

The very concept of ownership and running of airports in India was being dismantled and reconstructed with the setting up of the airport. The airport project was an alternative to the civil enclave in the naval airport, which was not capable of handling larger aircraft due to runway limitations.

When it became clear that the government would not be able to release enough fund to

cover the setting up cost of the airport which was expected to run to thousands of millions of Rupees, a never-before-seen mass movement began to form shape.

With the head of district administration to lead from the front, the airport users and other benefactors, mainly non-resident Indians, the general public, government of Kerala (GOK) and the airport service providers came together to build the airport in international standards. The concept of involving users in the airport project was conceived even while a definite policy on private participation in airport infrastructure was not in place in the country. Now that the novel idea was accepted and funds began to pour in, the search for an agency that was capable of implementing such a unique task had begun.

And all the searches zeroed-in on a public limited consultancy firm not known much outside the state till then. And what an ideal choice it turned out to be!

The KITCO Magic

When KITCO or Kerala Industrial & Technical Consultancy Organisation, was entrusted with total consultancy responsibility of the project, there were still persisting doubts and apprehensions regarding the project, mainly financial and administrative.

The year was 1993 and News reports of the colossal estimates of proposed airport projects within India as well as other Asian countries were never much encouraging. The new

international airport Malaysia was planning to build at Kuala Lumpur said to cost the country around 3000 million USD. The proposed Hong Kong International Airport's total estimated cost was rumoured to be more than ten thousand millions of USD. In India, the cost of a new International Airport of minimum standards was considered to be something nearing thousand million USD. The fund being raised from the public, Kerala Govt, Banks & other financial institutions was sure to reach no where near these huge estimates of cost.

What Makes Cochin Airport Unique

- 1** The first ever greenfield airport built in India with private & public participation.
- 2** The first real low cost airport in the country. The total cost of buying 1600 acres of land and setting up the 2,50,000 sq.feet airport was just 73 million USD.
- 3** 4th largest airport in India in terms of international passenger traffic.
- 4** The first airport in India that effectively implemented projects to generate non-aviation revenue.

The hurdles that sure to come across the path of implementation of an infrastructure project in Kerala, a state notorious for labour unrest and flash strikes by militant workers unions, was another source of worry.

The pattern of administration that was to be formulated for the first International airport in the country outside the ambit of the Government was another problem that was to be sorted out sooner, lest the whole project could end up in chaos.

Keeping the five groups - The revenue de-

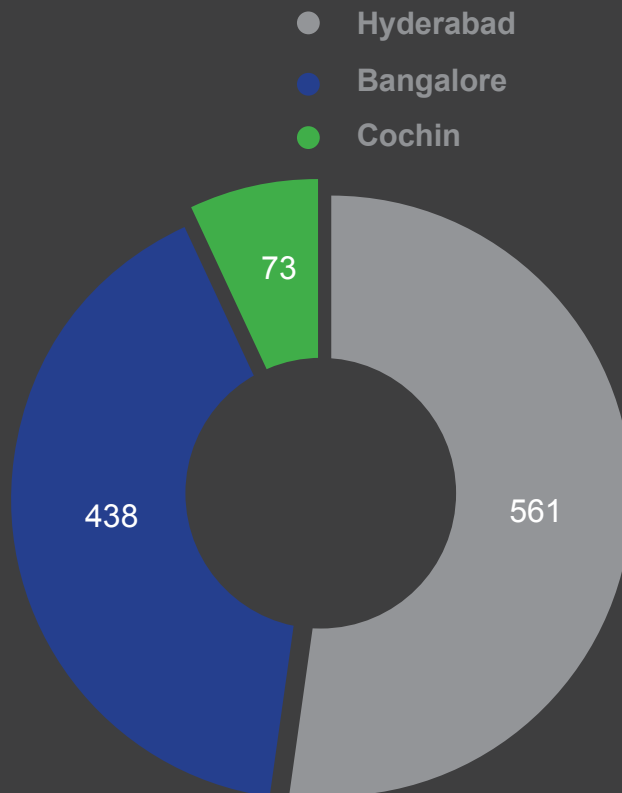
partment that looked after land acquisition, Airports Authority of India, the Government agency that was to provide Air Traffic Control service, The Cochin International Airport Company, the real owners of the project, the numerous contractors who were engaged for civil, electrical, HVAC and other works- involved with the project in perfect harmony & good humour was yet another challenging task. In spite of all these, the young consultants and engineers of KITCO did implement the project- With such amazing results.

The Two Digit Wonder

When the project was completed in May 1999, the total cost which included the cost of 1600 acres of land, turned out to be an astonishingly small figure- Just 73 million US Dollars. In stark contrast, the total cost of Kuala Lumpur International Airport that was inaugurated a few months back in 1998 was 3500 million USD.

The Hong Kong International Airport's cost which inaugurated six months before KL Airport was estimated later to be 20,000 million USD. It may be noted this huge gap in

costs were in spite of the lesser difference in total area of the terminals of Cochin Airport and these foreign airports. When the terminals of Kuala Lumpur Airport and Hong Kong Airport had occupied 5.5 million sq. feet and 5.9 million sq. feet respectively, the floor area of Cochin Airport was 0.25 million sq. feet. Even when the area of KL Airport was only 22 times bigger, it can be seen that the cost had shot up 47 times. Airports built in India in PPP model and private sector years after the Cochin Airport came in to being too could not come anywhere near the record set by Cochin Airport with KITCO as the implementation agency.

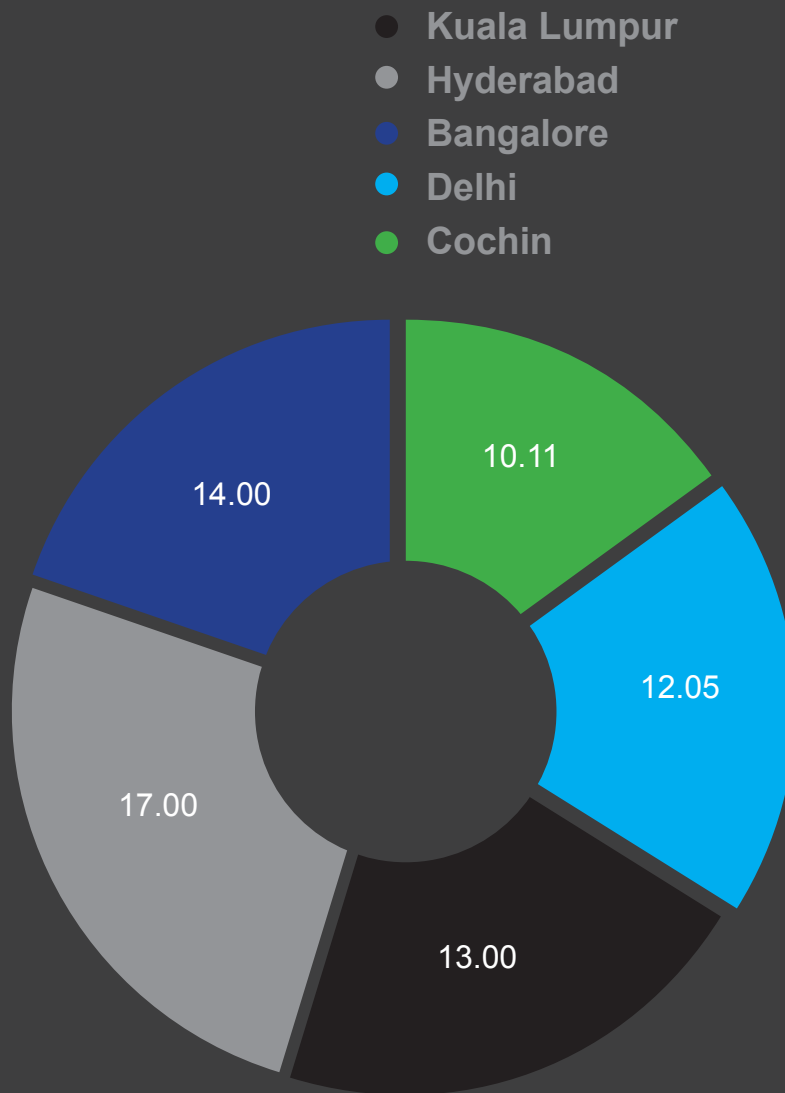


Airport Project Cost in Million US\$

Flying with the Giants

Even when the project cost of Cochin Airport is much lower than airports built in India & abroad, when it comes to the yearly growth in passenger volume, it entirely is a

different story. It is truly amazing to watch the airport implemented by KITCO rubbing its shoulders with the domestic & international giants that were built with hundreds and thousands of millions of dollars more.



Annual Passenger Growth Rate

The Time Factor

It took only 33 months for the KITCO team to hand over the Cochin International Airport complete with a Terminal Building sprawling across the 2,50,000 sq. feet, 3.4 km runway and all other associated facilities to the Airport company after the first stone was cut for the project. Not even a single labor day was lost in the entire 33 months.

There were no industrial action- as they call

strikes in the country- till the first flight took off from the 11,330 ft runway.

There was no stoppage of construction because of shortage of materials, non-availability of staff, incomplete design or disruption of power. The co-ordination of the numerous activities of the project which could have turned right in to a nightmare for any Project Management Guru was went on without any hitch, thanks to the dedication and hard work of the Project Co-ordinators from KITCO.

The fame that crosses the borders

The 73 million USD saga that happened in this corner of the world still remain an enigma, even for heads of nations. Cochin was just another transit airport for Mahindra Rajapakshe when he visited the neighbouring country in 2008- till he decided to just enquire about a few details of the airport with stunningly beautiful & traditional looking terminal building. He was simple dumbstruck

when they told him the project cost.

Back in the Island nation, what he did first was to ask his office to invite the Airport officials to Sri Lanka to etch out a proposal to replicate the same wonder for his country. But for the unexpected and much violent final scenes of the decades long civil wars of the nation a few months after, Sri Lanka would now have got an amazingly low cost airport built totally inline with Cochin International Airport.

The Voyage Together

The initial momentum provided by KITCO for the project and the path set by the consultancy for its future expansion again proved so right for the project in the years that followed. Commissioned on May 25, 1999, it now stands at the fourth spot in the country in terms of international traffic. The airport achieved the break-even within four years into the operations and has been registering a Compounded Average Growth Rate (CAGR) of around 20 per cent over the period. In the fiscal ending March 2011, its annual turnover stood at Rs. 235 crore with the net profit touching Rs.100 crore. An association thus proved truly worthwhile still continues. All the expansion projects of the Airport too were

implemented by KITCO.

As the number of international passengers using the Cochin Airport increased steadily, more and more foreign airlines started their operations from Cochin. Eventually, the existing international terminal building which was designed to handle a million passengers per annum was found to be not adequate to cater to the increasing demand. Accordingly the existing international terminal building is being expanded to handle 10 million passengers per annum with facilities that are Airbus A380 compliant. After the completion of renovation/ expansion of the terminal building, it would be sprawling across a floor area of 46,500 sqm. The salient features of the terminal buildings after three phases of expansion are:

- 4.78 lakhs Sq Feet International Terminal with a Passenger Handling Capacity of 1200 incoming and 1200 outgoing passengers per hour.
- International Terminal houses FOREX counters, Meet & Greet Hall, Pre paid Taxi Counters, Guest Rooms, Restaurant, Medical Assistance, Banks, Food Courts, Snack Bar counters, Prayer Rooms, Launches etc.
- Domestic Terminal with 100000 Sq Ft area and passenger Handling capacity of 400 incoming and 400 outgoing passengers per hour.
- Domestic Terminal has facilities like Airline Offices, Meet and Greet Hall, Prayer hall, restaurant, Shopping Arcade and a spacious air-conditioned departure lounge etc.

A 3,700 sqm perishable-cargo complex is also being constructed exclusively for exporting vegetables, fruits, flowers, marine products, spices, etc. The electrical system modernization includes setting up of a 110 kV substation, power distribution through a ring main system,

11 kV Generators for back-up power, etc. And apart from developing infrastructure through the expansion on a modular basis, the airport company now aims to climb to new altitudes of success by augmenting the non aviation revenue, again with the active involvement of KITCO.

KITCO: India's Pioneer Firm In Non-Aviation Revenue Consultancy



Duty free Shop inside Cochin Airport Terminal

Non-Aviation Revenue: The New Magic Formula of Success

Traditionally airports were regarded as a part of transport infrastructure by providing airlines with the necessary resources to conduct their business. In other words they were just a facilitator of airline operations. Consequently, aviation related revenues used to be the lone source of revenue. But all over the world, aviation revenues have come under significant pressure in the face of market liberalization. Increased competition between airlines resulted in lower airfares and increasing passenger numbers. Airlines had to cut cost and attempted to operate on limited margins while regulated aviation charges had a propensity to remain stagnant. In addition to this, privatization efforts and a decline in state

control have also amplified pressure on airports to identify other revenue sources ensuring continued revenue growth and maintaining or increasing profitability. In light of changing airport economics, non-aviation has therefore become an important component of revenue generation for modern airports, inducing a new value proposition.

Airports regardless of size have attempted to increase their share from non aviation, as profit margins from this sector are typically higher. So airports the world over are in the process of transforming themselves in to a multi service point creating a complex non-aviation business environment. In India, it was again Cochin Airport that ventured first in to the hitherto unexplored territory.

KITCO- The Consultancy that helped the Airport to Fly Ahead of Time

Cochin International Airport was the first airport in this part of the world to recognize and fully realize the implications and possibilities of non-aviation revenue. Soon after it was inaugurated in 1999, the director board of the Airport Company began exploring options that could gener-

ate more income by effectively utilizing the airport infrastructure. Here also, it was to KITCO, the consultants that the Airport Company had turned. Just as it was for implementing the Airport, KITCO again provided total engineering & project management consultancy services for all of the following non-aviation revenue projects.

Non-Aviation Revenue Projects already implemented by KITCO for the airport

- A Golf course of International Standards that was strategically laid across the airport land below the flight path where no structure beyond the safe height could have been constructed.
 - Duty free shops within the terminal buildings
 - A museum that showcase the history of Indian aviation complete with small aircraft
 - An academy where Aircraft Maintenance Engineering, Cargo Handling, Airport Terminal Management etc are being taught.
 - Airport Trade and Expo Center
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An ambitious project of setting up an 'Aerotropolis' within the airport land consisting of the following is in the pre-implementation stage. (For most of these works, KITCO again is to be the consultant).

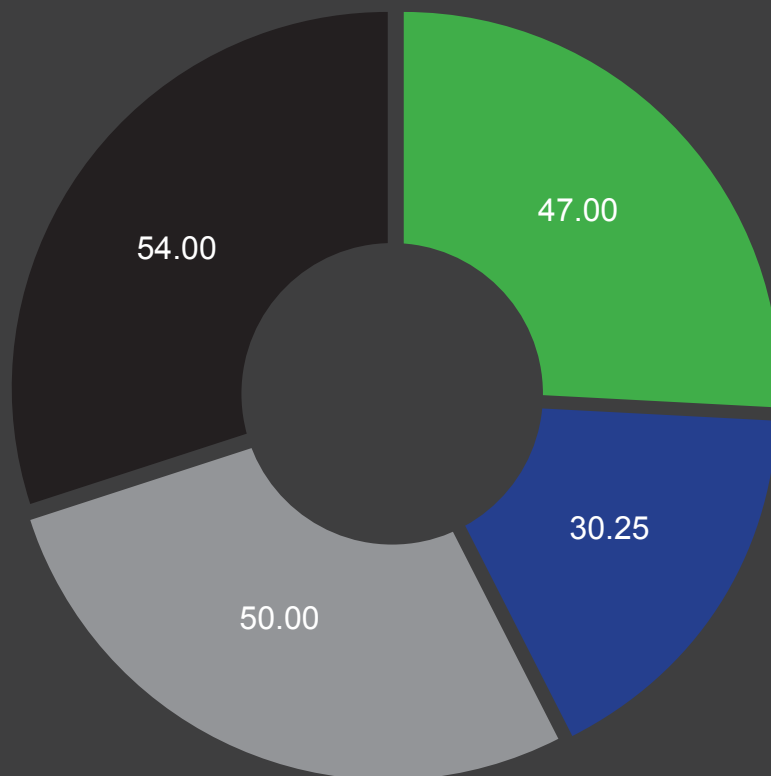
- Industrial park on 250 acres that will host companies manufacturing aircraft parts, avionic equipment, and ground handling equipment, fire safety tools and related infrastructure development.
 - 3-star Hotels & Budget Hotels
 - Convention centre
 - Logistics centre
 - Shopping malls
 - An open air traditional retail network
 - Multi-specialty hospital
 - Movie Theatre complex
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The Airport has earmarked 480 acres of land on the city side of the airport for commercial use.

Also, 795 million USD land utilisation plan has been finalised for maximising non-aeronautical revenue.

Figures That Tell it All

- Kuala Lumpur
- Hyderabad
- Bangalore
- Cochin



Percentage of Non-Aviation Revenue (2009-2010)



The Golf Club at Cochin Airport

In the financial year 2009-10, the revenue generated at Cochin Airport from non aviation sources was 22.6 million USD, which was 47% of the total revenue. At Bangalore the percentage figure for the same period was only 30.25. It was when the project cost of Bangalore airport was 365 million USD higher than that of Cochin. The Hyderabad airport which could register 50% non aviation revenue was built

with 561 million USD. And both the airports are considerably larger than Cochin Airport and both the cities (Bangalore and Hyderabad) are much bigger. It is also interesting to note that at Kuala Lumpur International Airport of Malaysia which was built one year before Cochin spending 3500 million USD (that was 49 times the total cost of Cochin Airport), the percentage of non-aviation revenue was just 54, that is, only seven percentages higher than that of Cochin.

For Further Details & Business Enquires,
Please Get back to:

Mr. Cyriac Davies
Managing Director
KITCO Ltd
M.G Road, Cochin-682 016
Kerala , India
Phone : 91-484-4129000 / 2357437,
2357699 / 2357478 (Per)
Fax : 91-484-2357687
E-mail : cyriacdavies@kitco.in