

Consultation Paper No. 39/2017-18



Airports Economic Regulatory Authority of India

TO CONSIDER THE MULTI YEAR TARIFF PROPOSAL AND ANNUAL TARIFF PROPOSAL (FY.2016-17 & 2017-18) FOR THE SECOND CONTROL PERIOD (FY.2016-17 to FY2020-21) IN RESPECT OF M/s INDO THAI AIRPORT MANAGEMENT SERVICES PVT.LTD.(ITAMS) FOR PROVIDING GROUND HANDLING SERVICES AT CHAUDHARY CHARAN SINGH INTERNATIONAL AIRPORT, AMAUSI,LUCKNOW

03rd January, 2018.

**AERA Building
Administrative Complex
Safdarjung Airport
New Delhi.**

Brief Background:

1. M/s Indo Thai Airport Management services Pvt. Ltd.(ITAMS) is carrying out Ground Handling (GH) services at Chaudhary Charan Singh International Airport, Amausi, Lucknow. The Authority, vide its MYTO Order No. 34/2011-12 dated 25.01.2012, decided to adopt '**Light Touch Approach**' in respect of the ITAMS for Ground Handling services at Chaudhary Charan Singh International Airport, Amausi, Lucknow for determination of tariffs for the first control period.
2. M/s ITAMS submitted their MYTP on 27th April,2016 and subsequently on 14.05.2016 with hardcopy of Multi Year Tariff Proposal (MYTP) and Annual Tariff Proposal (ATP) for second control period. Further, M/s ITAMS vide letter dated 12.10.2017 submitted the required Annual Compliance Statements (ACS) for the first control period (FY 11-12 to FY 15-16) with their Annual statement of Accounts.

1	Name of the ISP	INDO THAI AIRPORT MANAGEMENT SRVICES PVT.LTD. (M/s ITAMS)
2	Service	Ground Handling Services
3	Airport	Chaudhary Charan Singh International Airport, Amausi, Lucknow.
4	(i) Proposal under consideration (ii) Whether Justification for proposed increase in tariffs provided by ITAMS	(i) The following proposal is submitted for consideration: (a) MYTP for the 2 nd control period w.e.f. 01.04.2016 to 31.03.2021 for determination of tariffs under 'Light Touch Approach'. (b) ATP for F/Y 2017-18 enclosed as Annexure-"A" (ii) M/s ITAMS has not submitted the justification for increase in tariff.
5	(i) Year of Last Revision of rates with % (+/-). (ii) Copy of the existing rate card	(i) Last revision in F/Y 2012-13,vide tariff order no.20/2012-13 and tariff was fixed for the period from 01.04.2012 to 31.03.2016 and determined at the same rate as prevalent as on 31.03.2012. Annexure-"B" (ii) Enclosed as Annexure-"B"
6	Regulatory Approach in first control period.	Authority observed that the ground handling service rendered by ITAMS at Chaudhary Charan Singh International Airport, Amausi, Lucknow. was deemed to be "not material" accordingly, adopted 'Light Touch Approach' for determination of tariffs during the first control period. Multi Year Tariff Order No.34/2011-12,dt.25.01.2012, enclosed as Annexure "C"

7	<p>Comparative Tariff Card</p> <p>(i) Existing rate Vs. proposed rate</p> <p>(ii) Tariff comparison M/s ITAMS vs Competitors</p>	<p>(i) On a comparison of the existing tariff in the 1st control period with the tariff proposed for the 2nd control period, it is observed that M/s ITAMS has proposed a decrease in the tariffs for the aircraft types Single engine aircraft and Dornier in the range of 1%-5% whereas increase is proposed for aircraft types A319, A320, B737, ATR72 and B-757 in the range of 4%-25%. Details are enclosed as Annexure-“D”</p> <p>(ii) M/s AIATSL is providing similar services at the Lucknow Airport. On a comparison of the existing tariff card available of M/s AIATSL with M/s ITAMS it shows that the approved tariff rates of M/s ITAMS is lower than that of M/s AIATSL in the range of 52.84%-56.96%. Details are enclosed as Annexure-“E”</p>																																																																																										
8	<p>(i) Comparative Annual Compliance Statement (ACS) for the first control period.</p> <p>(ii) Audited financial statements</p>	<p>(i) Key Parameters:- (Rs. Lakhs)</p> <table border="1" data-bbox="592 913 1465 1240"> <thead> <tr> <th>Performance report for the Years</th> <th>'11-12</th> <th>'12-13</th> <th>'13-14</th> <th>'14-15</th> <th>'15-16</th> </tr> </thead> <tbody> <tr> <td>Total Revenue</td> <td>326.82</td> <td>414.67</td> <td>629.55</td> <td>637.92</td> <td>1,339.52</td> </tr> <tr> <td>Total Expenditure</td> <td>288.14</td> <td>371.17</td> <td>563.21</td> <td>633.46</td> <td>986.44</td> </tr> <tr> <td>Operating profit</td> <td>38.68</td> <td>43.50</td> <td>66.34</td> <td>4.46</td> <td>353.08</td> </tr> <tr> <td>Return on Average RAB</td> <td>36%</td> <td>21%</td> <td>27%</td> <td>2%</td> <td>241%</td> </tr> <tr> <td>Total volume(ATM)</td> <td>1,339</td> <td>1,940</td> <td>4,799</td> <td>4,333</td> <td>5,625</td> </tr> </tbody> </table> <p>(ii) Audited financial Statements for the year (Rs. Lakhs)</p> <table border="1" data-bbox="603 1339 1453 1805"> <thead> <tr> <th>Particulars</th> <th>'11-12</th> <th>'12-13</th> <th>'13-14</th> <th>'14-15</th> <th>'15-16</th> </tr> </thead> <tbody> <tr> <td>Total revenue</td> <td>1000.92</td> <td>1690.45</td> <td>2434.76</td> <td>3083.26</td> <td>4180.51</td> </tr> <tr> <td>Total expenses</td> <td>564.48</td> <td>1244.55</td> <td>1831.37</td> <td>2389.14</td> <td>3116.54</td> </tr> <tr> <td>Earnings before int., depr. & Amortiz.</td> <td>436.44</td> <td>445.90</td> <td>603.39</td> <td>694.12</td> <td>1063.97</td> </tr> <tr> <td>Dep. & Amortiz.</td> <td>89.31</td> <td>166.30</td> <td>196.43</td> <td>270.26</td> <td>281.94</td> </tr> <tr> <td>Finance Cost</td> <td>163.27</td> <td>170.26</td> <td>212.99</td> <td>202.52</td> <td>261.61</td> </tr> <tr> <td>Profit before tax (PBT)</td> <td>183.86</td> <td>109.34</td> <td>193.97</td> <td>221.34</td> <td>520.42</td> </tr> <tr> <td>Tax Expenses</td> <td>35.09</td> <td>32.42</td> <td>47.88</td> <td>71.94</td> <td>70.55</td> </tr> <tr> <td>Profit after Tax (PAT)</td> <td>148.77</td> <td>76.92</td> <td>146.09</td> <td>149.40</td> <td>449.87</td> </tr> </tbody> </table> <p>(i) Comparative ACS for the five years from F/Y 2011-12 to 2015-16 is enclosed as Annexure-“F”</p> <p>(ii) ITAMS has submitted consolidated audited financial statements, enclosed as Annexure-G</p>	Performance report for the Years	'11-12	'12-13	'13-14	'14-15	'15-16	Total Revenue	326.82	414.67	629.55	637.92	1,339.52	Total Expenditure	288.14	371.17	563.21	633.46	986.44	Operating profit	38.68	43.50	66.34	4.46	353.08	Return on Average RAB	36%	21%	27%	2%	241%	Total volume(ATM)	1,339	1,940	4,799	4,333	5,625	Particulars	'11-12	'12-13	'13-14	'14-15	'15-16	Total revenue	1000.92	1690.45	2434.76	3083.26	4180.51	Total expenses	564.48	1244.55	1831.37	2389.14	3116.54	Earnings before int., depr. & Amortiz.	436.44	445.90	603.39	694.12	1063.97	Dep. & Amortiz.	89.31	166.30	196.43	270.26	281.94	Finance Cost	163.27	170.26	212.99	202.52	261.61	Profit before tax (PBT)	183.86	109.34	193.97	221.34	520.42	Tax Expenses	35.09	32.42	47.88	71.94	70.55	Profit after Tax (PAT)	148.77	76.92	146.09	149.40	449.87
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9	Whether copy of User Agreements/Concession Agreement provided by the ITAMS.	User Agreements without depicting the tariff rate are provided. Concession Agreement has been provided by ITAMS.									
10	Evidence of Stakeholder Consultation done by ITAMS with reference to their proposed MYTP-ATP submitted to AERA.	<table border="1"> <tr> <td data-bbox="582 418 1086 450">1. List of stakeholders</td> <td data-bbox="1093 418 1474 920" rowspan="5">1. Minutes of the stake holders meeting held on 22nd September, 2017 has been submitted. 2. As per the minutes, “In view of the services rendered and flawless performance of the company, IAMSPL the proposed ATP was accepted by all the stake unanimously”</td> </tr> <tr> <td data-bbox="582 450 1086 481">2. Meeting Notice</td> </tr> <tr> <td data-bbox="582 481 1086 593">3. Minutes of the meeting with the attendance sheet of the participants.</td> </tr> <tr> <td data-bbox="582 593 1086 669">4. Comments of the Stakeholders</td> </tr> <tr> <td data-bbox="582 669 1086 911">5. Redressal of stakeholder’s concerns, if any.</td> </tr> </table>	1. List of stakeholders	1. Minutes of the stake holders meeting held on 22 nd September, 2017 has been submitted. 2. As per the minutes, “In view of the services rendered and flawless performance of the company, IAMSPL the proposed ATP was accepted by all the stake unanimously”	2. Meeting Notice	3. Minutes of the meeting with the attendance sheet of the participants.	4. Comments of the Stakeholders	5. Redressal of stakeholder’s concerns, if any.			
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11	Concession fee payable to the Airport Operator.	Details of the concession fee payable are enclosed as Annexure-“H”									
12	Examination of the proposal as per the “Light Touch” approach parameters provided in the CGF guidelines,2011.and further amendments vide its AERA order no.15/2016-17 dt.10 th Feb.2017	<table border="1"> <thead> <tr> <th data-bbox="582 1070 1048 1102">Parameter</th> <th data-bbox="1054 1070 1474 1102">Status</th> </tr> </thead> <tbody> <tr> <td data-bbox="582 1102 1048 1435">1. Materiality Index (MI)</td> <td data-bbox="1054 1102 1474 1435">The MI for Ground Handling services at Lucknow Airport is 0.91% which is less than the threshold limit of 5%. Hence, the Ground Handling service is “Not material”.</td> </tr> <tr> <td data-bbox="582 1435 1048 1832">2. Competition</td> <td data-bbox="1054 1435 1474 1832">Only M/s AIATSL is providing similar services at Chaudhary Charan Singh International Airport, Amausi, Lucknow. Airport, as communicated through email dt. 05.12.17 by AAI, Lucknow, apart from M/s ITAMS. Hence the service is “Not competitive”.</td> </tr> <tr> <td data-bbox="582 1832 1048 1975">3. Reasonableness of user agreements.</td> <td data-bbox="1054 1832 1474 1975">ITAMS has submitted user agreements without depicting the tariff rate.</td> </tr> </tbody> </table>	Parameter	Status	1. Materiality Index (MI)	The MI for Ground Handling services at Lucknow Airport is 0.91% which is less than the threshold limit of 5%. Hence, the Ground Handling service is “Not material” .	2. Competition	Only M/s AIATSL is providing similar services at Chaudhary Charan Singh International Airport, Amausi, Lucknow. Airport, as communicated through email dt. 05.12.17 by AAI, Lucknow, apart from M/s ITAMS. Hence the service is “Not competitive” .	3. Reasonableness of user agreements.	ITAMS has submitted user agreements without depicting the tariff rate.	
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13	Remarks :	<p>i) The ground handling service provided by M/s ITAMS at Chaudhary Charan Singh International Airport, Amausi, Lucknow. is ‘not material’</p> <p>ii) <u>Analysis of ACS data:</u> On a review of the ACS data submitted by M/s ITAMS, following was observed:</p> <p>a) Revenue has registered an impressive growth of around 310% in the 1st control period from Rs.3.27 crs in 2011-12 to Rs.13.40 crs in 2015-16.</p> <p>b) Operating profit has also registered an impressive growth of around 813% in the 1st control period from Rs. 38.68 lakhs in 2011-12 to Rs.3.53 crs in 2015-16.</p> <p>c) Return on average RAB has also grown by 205 percentage points in the 1st control period from 36% in 2011-12 to 241% in 2015-16.</p> <p>(iii) <u>Analysis of projected data:</u></p> <p>a) As per the projected Air traffic movement (ATM) data submitted in Form F12(e), ATM is projected to grow by 21.32% in the 2nd control period from 5458 in 2015-16 to 6622 in 2020-21</p> <p>b) As per form F3, Revenue is expected to grow by 3.69 % in the 2nd control period from Rs. 13.55 crs in 2015-16 to Rs.14.05 crs in 2020-21.</p> <p>c) Profit after taxation is, however, projected to decline by 12% in the 2nd control period from Rs. 1.67 crs in 2015-16 to Rs.1.47 crs in 2020-21, on account of a 7% increase in operating expenditure.</p> <p>(iv) As per form 10(a) ‘Capital projects completed before review of Roll forward of regulatory asset base’, no capital expenditure was projected for the 2nd control period.</p>
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3. As per clause 3 of the CGF Guidelines, 2011 (the guidelines), the Authority shall while considering the proposal under the ‘Light Touch Approach’, follow a three stage procedure for determining its approach to the regulation of Regulated Service(s) as under:

Stage 1: The Authority shall first assess ‘Materiality ‘according to provisions of Clause 4;

Stage 2: The Authority shall then assess 'Competition' according to provision of Clause 5; and

Stage 3: The Authority shall then assess the reasonableness of existing User Agreement(s), according to provision of Clause 6.

4. As per clause 4.4 of the CGF Guidelines 2011 in respect of Ground handling services, the materiality shall be assessed as a percentage of the International Aircraft Movements at Chaudhary Charan Singh International Airport, Amausi, Lucknow. to Total Intl. Aircraft Movements at all major airports.

$$\text{Materiality Index (MIg)} = \frac{\text{International Aircraft Movement at ccsIntl.Airport JP}}{\text{Total Intl.Aircraft Movement at major airports}} \times 100$$

5. AERA on provisions of the National Civil Aviation Policy (NCAP- 2016), vide Order No. 15/2016-17 dated 10th Feb,2017, The Authority will adopt the criteria for competition assessment for ground Handling Agencies as "three (3) Ground Handling Agencies (GHA) including Air India's subsidiary/JV at all major Airports".

As per Clause 6 of CGF Guidelines, 2011 the Authority shall consider the existing User Agreement(s) as reasonable provided that:

- i. *The Service Provider submits the existing User Agreement(s) between the Service Provider and all the User(s) of the Regulated Service(s), clearly indicating the tariff(s) that are agreed to between the Service Provider and the User(s) of the Regulated Service(s) and*
 - ii. *The User(s) of the Regulated Service(s) have not raised any reasonable objections or concerns in regard to the existing User Agreement(s) which have not been appropriately addressed.*
6. As per Clause 3.2 (i) of the CGF guidelines 2011, wherever the regulated service provided is 'not material', the Authority shall determine Tariff(s) for service Provider (s) based on a 'light touch approach' for the duration of the control period, according to the provisions of chapter V.
 7. As per Clause 11.2, the ATP is required to be submitted in the manner and form provided in clause AI. 8.1 (Appendix I) of the CGF Guidelines and should be supported by the following documents:
 - i. Form B and Form 14(b).
 - ii. Details of consultation with stakeholders.
 - iii. Evidence of User Agreement(s),if any, between the service provider(s) and the users(s) of the regulated service(s) clearly indicating the Tariff(s) that are proposed by the Service Provider and agreed to by User(s).

8. Authority's Examination on the proposal

- 8.1 The ground handling service rendered by M/s ITAMS at Chaudhary Charan Singh International Airport, Amausi, Lucknow is an "aeronautical service" in terms of section 2(a) of the Airports Economics Regulatory Authority of India Act, 2008 (Act) whereas under section 13 (1)(a) of the Act, the Authority is required to determine tariff for aeronautical services.

- 8.2 The materiality index at Chaudhary Charan Singh International Airport, is $3,004/330467= 0.91\%$ which is less than 5% Materiality Index (MIc) for ground handling service. Hence the regulated service is “not material” for the second control period.
- 8.3 As per confirmation received from Airport Director, at Chaudhary Charan Singh International Airport, Amausi, Lucknow. M/s AIATSL is providing similar kind of service. As there are only two service providers at Chaudhary Charan Singh International Airport, Amausi, Lucknow, therefore, in the instance case the service is deemed ‘Not competitive’.
- 8.4 ITAMS has submitted the Form B and some of the user agreements. However, the user agreements submitted do not contain the tariff rates. ITAMS has also submitted the copy of their Concession Agreement.
- 8.5 M/s ITAMS has submitted the Annual Compliance Statement (ACS) for the tariff years 2011-12 to 2015-16 of first control period and Annual Tariff Proposal (ATP) for FY. 2016-17 and 2017-18.
- 8.6 Minutes of the stake holders meeting held on 22nd September, 2017 has been submitted by M/s ITAMS wherein following has been stated
- “In view of the services rendered and flawless performance of the company, IAMSPL the proposed ATP was accepted by all the stake unanimously”
- 8.7 Based on the ACS submissions by ITAMS a comparative scenario of revenue, cost and return on average RAB for the first control period is prepared and annexed as “**Annexure-F**”.
- 8.7.1 Revenue has registered an impressive growth of around 310% in the 1st control period from Rs.3.27 crs in 2011-12 to Rs.13.40 crs in 2015-16.
- 8.7.2 Operating profit has also registered an impressive growth of around 813% in the 1st control period from Rs. 38.68 lakhs in 2011-12 to Rs.3.53 crs in 2015-16.
- 8.7.3 Return on average RAB has also grown by 205 percentage points in the 1st control period from 36% in 2011-12 to 241% in 2015-16.

9. Proposal

The Authority, after careful consideration of the MYTP, ATP for FY 2016-17 and 2017-18 and all the other information furnished as stated above makes the following proposal for stakeholder consultation:

- 9.1 The service for Ground handling being provided by M/s Indo Thai Airport Management Services Pvt. Ltd. at Chaudhary Charan Singh International Airport, Amausi, Lucknow, is deemed “**Not Material**”. Therefore the Authority proposes to adopt ‘**Light Touch Approach**’ for determination of tariffs for the 2nd control period w.e.f. 01.04.2016 to 31.03.2021 as per clause 3.2(i) of the CGF Guidelines, 2011.
- 9.2 As the financial year (T1) 2016-17 has already been completed, allow the continuation of the tariff as on 31.03.2016 for FY 2016-17.

- 9.3 As there are only about 4 months left for the FY (T2) 2017-18, allow the continuation of the tariff as on 31.03.2016 for the FY 2017-18 also.
- 9.4 Considering the good performance parameters of M/s ITAMS as evident from the ACS/projected/financial data submitted to the Authority for the determination of tariff, allow the continuation of the tariff as on 31.03.2016 for the financial year (T3) 2018-19 also and no increase is proposed.
10. Tariff proposed above will be maximum tariff to be charged from the users of the ground handling service. No other charges to be levied over and above the approved tariff.
11. M/s ITAMS should not exceed the tariff charges for its Non-Schedule Operations as approved by AERA for its schedule operations for similar class of aircraft.
12. In accordance with the provisions of Section 13(4) of the AERA Act, the proposal contained in para 5 above is hereby put forth for stakeholder consultation. To assist the stakeholders in making their submissions in a meaningful and constructive manner, necessary documents are enclosed as annexures to the consultation paper. For removal of doubts, it is clarified that the contents of this Consultation Paper may not be construed as any Order or Direction of this Authority. The Authority shall pass an Order, in the matter, only after considering the submissions of the stakeholders in response hereto and by making such decision fully documented and explained in terms of the provisions of the Act.
13. The Authority welcomes written evidence-based feedback, comments and suggestions from stakeholders on the proposal made above, latest by **24.01.2018** at the following address:

**Secretary,
Airports Economic Regulatory Authority of India,
AERA Building,
Administrative Complex,
Safdarjung Airport,
New Delhi- 110003
Email: puja.jindal@nic.in
Tel: 011-24695042
Fax: 011-24695039**

**(S. Machendranathan)
Chairperson**