#### AERA/20010 MYTP/CELEBI/GH/CIAL/CP-III/2021-22

## <u>Airports Economic Regulatory Authority of India</u> <u>Order No. 24/ 2021-22</u>

AERA Building, Administrative Complex, Safdarjung Airport, New Delhi - 110003

Date of Issue: 14th October, 2021

Service : Ground Handling Services

Service provider : M/s Celebi Airport Services India Pvt. Ltd.,

Airport : Cochin International Airport, Cochin.

In the matter of Determination of Tariff for the Third Control Period (FY 2021-22 to FY 2025-26) in respect of M/s Celebi Airport Services India Private Limited for providing Ground Handling Services at Cochin International Airport, Cochin.

#### 1. Introduction.

- 1.1 M/s Celebi Airport Services India Pvt. Ltd. (M/s Celebi) is one of the Ground Handling Agencies appointed by Cochin International Airport Ltd. (CIAL) for carrying out Ground Handling Service (GH) at Cochin International Airport, Cochin (CIAL). M/s Celebi started their operations from January, 2018 at Cochin International Airport, Cochin.
- 1.2 M/s Celebi has a Concession Agreement with Airport Operator i.e. Cochin International Airport Limited (CIAL) for providing Ground Handling Services at Cochin International Airport, Cochin for a period of 5 years and presently is valid upto 12th August, 2022 which may be extended for a further period of (02) two years subject to completion of performance/service levels. In case concessional agreement is extended by CIAL beyond 12<sup>th</sup> August, 2022, the approved tariff rates shall continue for the further years of the Third Control Period.
- 1.3 The Authority vide Order No. 37/2018-19 dated 4th January, 2019 determined the tariffs under 'Light Touch Approach for the period of FY- 2017-18 to FY- 2020-21 of the 2nd Control Period for Ground Handling Service being provided by M/s Celebi Airport Services India Pvt. Ltd. at Cochin International Airport, Cochin (CIAL).
- 1.4 Further, the Authority vide its Order No.67/2020-21 dated 25th March 2021 extended the same tariff as applicable as on 31st March 2021 up to 30th September 2021 or till the determination of tariff for Third Control Period, whichever is earlier. Subsequently, the Authority vide order No. 18/2021-22 dated 15.09.2021 extended the same tariff as applicable as on 30th September, 2021 up to 31st March 2022 or till the determination of tariff for Third Control Period, whichever is earlier.
- 1.5 As per the provisions of the CGF Guidelines 2011, M/s Celebi vide letter dated 06.04.2021 submitted the Multi Year Tariff Proposal ('MYTP') seeking revision of tariffs for providing Ground Handling Services at Cochin International Airport, Cochin (CIAL) for the Third Control Period (FY 2021-22 to FY 2025 66, M/s Celebi also submitted the Annual Compliance Statement (ACS) FY 2011-19, FX 2019-20 and FY 2020-21of the Second

Control Period. The Authority has relied upon these documents as submitted by Celebi, Cochin for determination of tariff for the Third Control Period.

- 1.6 The Authority carefully considered the Multi Year Tariff Proposal (MYTP) seeking revision of tariffs for providing Ground Handling Services at Cochin International Airport, Cochin for the Third Control Period (FY 2021-22 to FY 2025-26) and issued its Consultation Paper No.15/2021-22 dated 24.08.2021 inviting suggestions/comments from the stakeholders on the proposal of the Authority with the following timelines:
  - Date of Issue of the Consultation Paper: 24th August 2021.
  - Date for submission of written comments by Stakeholders: 14th September, 2021.
  - Date for submission of counter comments: 21th September, 2021.

The Consultation Paper issued by the Authority on 24.08.2021 was published on the AERA website. The last date of submission of comments and counter comments was 14.09.2021 and 21.09.2021 respectively. Thus, the consultation process was concluded with the receipt of counter comments from Celebi on Stakeholder's views on 21.09.2021.

- 1.7 The Authority received comments from only one Stakeholder i.e. Spicejet Ltd. in respect of Consultation Paper No. 15/2021-22. The comments received from Spicejet Ltd. was uploaded on the AERA website vide Public Notice no. 26/2021-22 dated 15.09.2021.
- 1.8 The Authority examined the submission of M/s Celebi and the comment of Spicejet and after considering all the relevant aspects, has finalized this Tariff Order.



#### 2. PRINCIPLES FOR DETERMINATION OF AERONAUTICAL TARIFF UNDER "LIGHT TOUCH APPROACH".

- 2.1 The Authority vide its Order No. 12/2010-11 dated 10.01.2011 and Direction No. 04/2010-11 issued on 10.01.2011 finalized its approach in the matter of Regulatory Philosophy and Approach in Economic Regulation of the Services provided for Cargo Facility, Ground Handling and Supply of Fuel to the Aircraft at the major airports and issued the Airports Economic Regulatory Authority of India (Terms and Conditions for Determination of Tariff for Services provided for Cargo Facility, Ground Handling and supply of Fuel to the Aircraft) Guidelines, 2011 ("the Guidelines").
- 2.2 In accordance to above mentioned AERA Guidelines and Directions the following procedure is followed:

### **Stage I: MATERIALITY:**

Materiality Index (MIg) =  $\frac{Int. Aircraft Movement at Cochin Airport}{Total Intl. Aircraft Movement at major airports}$ 

= 27261/438049 The materiality index at Bangalore Airport

=6.22%

The percentage share of Ground Handling for Cochin International Airport, Cochin (CIAL) for the FY 2019-20 is 6.22% which is more than 5% Materiality Index (MIg) for the above subject service. Hence the regulated service is deemed as 'Material' for the Third Control Period.

### **Stage II: COMPETITION:**

AERA with regard to the provisions of the National Civil Aviation Policy (NCAP- 2016), vide Order No. 15/2016-17 dated 12th January 2017 decided to consider three (3) Ground Handling Agencies (GHA) including Air India's subsidiary/JV for competition assessment at all major airports. As per the information furnished by M/s Celebi in Form F1(b) on competition Assessment, M/s Bird Worldwide Flight Services (India) Pvt. Ltd (BWFSIPL) and M/s Air India Air Services Limited (AIASL) are other service providers rendering similar services at Cochin International Airport, Cochin. Hence, in the instant case, there are three Ground Handling Service providers including Celebi, and therefore the service is deemed 'Competitive'.

#### Stage III: REASONABLENESS OF EXISTING USER AGREEMENT(S):

- 2.4 M/s Celebi submitted the Concession agreement with Cochin International Airport Limited (CIAL) and user agreement with Jazeera Airlines, Air Asia, Berhad and Saudi Arabian Airlines Corporation.
- M/s Celebi also submitted the 'Minutes' of Meeting of the stakeholder consultation for Ground Handling Services at Cochin International Airport, Cochin held by Celebi Airport Services India Private Limited through video conferencing on 27th October, 2020.
- 2.6 M/s Spicejet's comments on review of tendering process:
- 2.6.1 M/s Spicejet submitted that the Adthority should ensure that instead of the license agreements being for a period of spice 5 years, the same should not exceed 3 years, in a fair

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and transparent manner from at least three to four parties, with the agreement awarded to only those parties which provide the competitive costs with best-in-class services, based on cost of efficient operations. Any attempt to award the contracts on highest revenue share basis should be discouraged. M/s Spicejet further submitted that there needs to be a mechanism for incentivizing the parties for increasing efficiencies and cost savings and not for increasing the royalty for the airport operator.

# 2.7 M/s Celebi's counter comment/response on Spicejet Comments regarding review of tendering process:

2.7.1 M/s Celebi does not agree with the Spicejet comment regarding period of license agreements should not exceeds three years. Celebi submitted that any new business requires capital expenditure and few years to come to break-even level, if the agreement will be kept maximum for three years how the service provider will recover its investment. Short tenure of licence agreement also resist the service provider to invest and bring the best in class equipment's & technology which in turn going to affect the service of airlines only. However, M/s Celebi agree with the comments of Spicejet that there should be some incentive mechanism to attract investment and to improve efficiency to have low operational cost.

### 2.8 Authority's Examination regarding review of tendering process:

- 2.8.1 The Authority noted the comment of Spicejet related to the period of license agreements should and tender should be award in a fair and transparent manner at least three to four parties.
- 2.8.2 Regarding period of the licence agreement, the Authority noted that M/s Celebi has a Concession Agreement with Airport Operator i.e. Cochin International Airport Limited (CIAL) for a period of 5 years and presently is valid upto 12th August, 2022. The Authority is of the view that any capital intensive business requires investment with a long term perspective. Further, if a significant capital expenditure is to be recovered in a short term, then it would lead to unusually high tariff rates which will be detrimental to the interests of the end users.
- 2.8.3 Regarding Spicejet view on three to four service providers, the Authority had issued Order no. 15/2016-17 dated 12<sup>th</sup> January, 2017 regarding aligning certain aspects of AERA's Regulatory Approach (Criteria for Competition Assessment for Ground Handling Service) with the provisions of the National Civil Aviation Policy (NCAP- 2016). In the aforesaid Order, the Authority decided to consider three (3) Ground Handling Agencies (GHA) including Air India's subsidiary/JV for competition assessment at all major airports.
- 2.8.4 The Authority's noted that there are three Ground Handling Service providers including Celebi at Cochin International Airport, Cochin.

#### 2.9 Authority's Decisions regarding tariff determination principal:

2.9.1 Based on the material before it and its analysis, the Authority decides to adopt 'Light Touch Approach' for determination of tariffs for the Third Control Period (FY 2021-22 to FY 2025-26).

#### 3. TRAFFIC (FLIGHTS HANDLING)

# M/s Celebi, Cochin submission on Traffic (Flights to be Handled) for the Third Control Period as part of MYTP.

3.1 As per MYTP submitted by M/s Celebi, Cochin, the projected Traffic (Flights to be handled) for the Third Control Period (FY 2021-22 to FY 2025-26) is given as below:

Table 1: Projected Traffic (Flights to be Handled) (in Nos.) by M/s Celebi for the Third Control Period.

Year	Domestic	International	Total	YoY % Change						
1 cai	(Landing)	(Landing)	Total	Domestic	International	Total				
2021-22	<b>2021-22</b> 4,044		5777	-		163				
2022-23	2,331	2,815	5146	-42.36	62.44	-10.92				
2023-24	2,838	3,856	6694	21.74	37.00	30.09				
2024-25	3,446	4,127	7573	21.43	7.03	13.13				
2025-26	4,054	4,420	8475	17.65	7.10	11.90				
CAGR	0.06%	26.37%	10.05%							

3.2 The actual traffic (Flight to be handled) of M/s Celebi, Cochin for (FY 2018-19 to FY 2020-21) of the Second Control Period is given as below:

Table 2: Actual Traffic (Flights to be Handled) (in Nos.) by M/s Celebi for the Second Control Period.

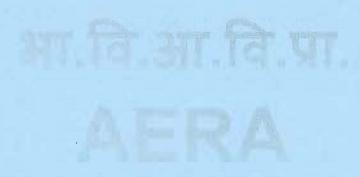
Year	Domestic	International	Total	YoY % Change					
	(Landing)	(Landing)	77-18-18	Domestic	International	Total - 5.72 -64.42			
2018-19	10,527	3,194	13,721		-				
2019-20	10,346	4,158	14,504	-1.74	30.18	5.72			
2020-21	4,378	782	5,160	-57.68	-81.84	-64.42			

# 3.3 <u>Authority's Examination regarding Traffic (Flights to be handled) for the Third</u> Control Period:

3.3.1 The Authority analysis the historical traffic for FY 2018-19 to FY 2020-21 of the Second Control Period and observed that traffic in FY 2020-21shows a drastic 64.42% decline (refer table No 2 above). The Authority has sought clarification to M/s Celebi for significant decline in the traffic of FY 2020-21. Interpolate, M/s Celebi vide mail dated 30.09.2021 submitted that due to current Coylet Pandemic Situation and discontinue Ground Handling

Services by Indigo with M/s Celebi, the traffic has been reduced significantly in FY 2020-21.

- 3.3.2 The Authority further analysis the projection of traffic for the Third Control Period and observed that M/s Celebi has projected traffic (Flight to be handled) will grow @ 10.05% CAGR during the Third Control Period. However, the growth in the domestic flight will be 0.06% due to discontinue their Ground Handling Services by Indigo Airlines and start self-handling. Indigo contribution was around 85% in domestic flight with Celebi, Cochin.
- 3.3.3 Considering the above, the Authority has therefore, decided to consider the traffic (Flights to be handled) for the Third Control Period as projected by Celebi, Cochin.
- 3.4 <u>Stakeholder's Comments regarding Traffic (Flights to be handled) for the Third Control Period:</u>
- 3.4.1 During the stakeholder consultation process, the Authority has received no comments/views from any stakeholders in response to the proposals of Authority in the Consultation Paper No. 15/2021-22 with respect to Traffic (Flights to be handled) for the Third Control Period.
- 3.5 <u>Authority's Decisions regarding Traffic (Flights to be handled) for the Third Control</u> Period.
- 3.5.1 Based on the material before it and its analysis, the Authority decides to consider Traffic (Flights to be handled) for M/s Celebi, Cochin for the Third Control Period as per Table 1.





#### 4. CAPITAL EXPENDITURE

# M/s Celebi, Bangalore's submission on Capital Expenditure (CAPEX) for the Third Control Period as part of MYTP.

4.1 As per MYTP submission, M/s Celebi, Cochin projected total capital expenditure (CAPEX) of Rs. 1335.63 Lakhs for the procurement of various assets for the Third Control Period (FY 2021-22 to FY 2025-26). The asset wise capital expenditure projected by M/s Celebi, Cochin for the Third Control Period is given as below:

Table 3: Projected Capital Expenditure by M/s Celebi for the Third Control Period.

Amount (Rs. in Lakhs) 2025-26 **Particulars** 2021-22 2022-23 2023-24 2024-25 Total **Ground Handling** 0.00 0.00 328.55 227.96 385.06 941.57 Equipment 151.75 **Furniture & Fixtures** 18.83 0.00 0.00 51.96 80.97 Vehicles 0.00 0.00 59.05 59.05 60.04 178.14 Office Equipment's 5.50 36.50 0.81 1.04 2.07 45.92 0.63 5.03 3.15 9.44 0.00 18.24 Computers 71.53 391.56 TOTAL 24.95 349,44 528.14 1335.63

# 4.2 Spicejet's Comments on Deferment of Capital Expenditure for the Third Control Period:

- 4.2.1 M/s Spicejet submitted that the non-safety related capital expenditure should not be considered. M/s Celebi can easily cater to its (pre Covid-19) peak level of operations without any new or additional investments.
- 4.2.2 M/s Spicejet further submitted that in the current situation, in order to support the airlines to continue and sustain its operations, all the capital expenditure should be put on hold. If any proposed CAPEX projects can be deferred from the Third Control Period to the Fourth Control Period, same should be considered by the Authority. Further, in case Celebi wants to make capital expenditure, then it should be at no additional expense to the airlines until the project is completed and put to use.

# 4.3 M/s Celebi's counter comment/response on Spicejet Comments regarding Deferment of Capital Expenditure for the Third Control Period:

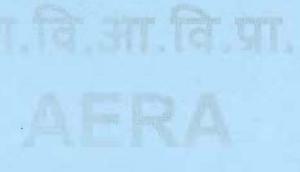
4.3.1 M/s Celebi does not agree with the Spicejet comment regarding Deferment of Capital expenditure. Celebi submitted that all the proposed capital expenditure is based on the estimated volume of operations over the coming years which also includes some replacement, considering their age and working conditions. Celebi further submitted that on one hand the customer airlines except the best class equipment with negligible downtime and disruption to their services and on the other hand they object to their plans for the investment.

### 4.4 Authority's Examination regarding Capital Expenditure for the Third Control Period:

- 4.4.1 The Authority noted the comments of Spicejet on the deferment of Capital Expenditures. The Authority observed that Celebi has projected total capital expenditure of Rs. 1335.63 Lakhs for the Third Control Period in which Rs 941.57 Lakhs proposed to be incurred for procurement/replacement of Ground Handling Equipment's, Rs 178.14 for purchase of Vehicles (Apron Bus) and Rs 151.75 for Furniture & Fixtures (Refer Table 3 above). As per Celebi submission, the proposed capital expenditure would be required to meet the projected growth in business at Cochin International Airport during the Third Control Period.
- 4.4.2 The Authority sought clarification/justification from Celebi on the need of the proposed capital assets. In response, M/s Celebi has submitted that all the proposed capital expenditure is based on the estimated volume of operations over the coming years, which also include replacement of existing capital assets of Rs. 313.83 lakhs during the third Control Period. Three (03) nos. of Apron Bus for Rs. 177.14 lakhs, Ground Handling equipment of Rs. 97.80 lakhs shall be replaced during the Third Control Period. The life of vehicle is approx. 5-7 years, after that, the vehicles start giving more downtime and higher repairs which may impact the passenger comfort & satisfaction. Similarly, most of the Ground Handling equipment's life is 8 to 12 years which shall be replaced from FY 2023-24 onwards gradually. M/s Celebi also submitted that the entire capital assets expected to be capitalized as per the capitalization schedule.
- 4.4.3 The Authority examined that out of the Total CAPEX of Rs.1335.63 lakhs, the CAPEX of only Rs 96.48 expected to be capitalized in the first two tariff years i.e. FY 2021-22 & FY 2022-23. Considering the fact that the validity of Concession Agreement is ending on 12<sup>th</sup> August, 2022, the Authority has therefore, decided to consider Capital Expenditure for the Third Control Period as projected by Celebi, Cochin as per Table 3.

#### 4.5 Authority's Decisions regarding Capital Expenditure for the Third Control Period

4.5.1 Based on the material before it and its analysis, the Authority decides to consider Capital Expenditure for M/s Celebi, Cochin for the Third Control Period as per Table 3.





## 5. Fair Rate of Return (FRoR)

# Celebi, Cochin submission on Fair Rate of Return (FRoR) for the Third Control Period as part of MYTP.

5.1 Celebi, Cochin proposed Fair Rate of Return (FRoR) @14.06% in MYTP for the Third Control Period. As per Celebi submission, they had taken debt of Rs 1120.00 lakhs in FY 2019-20 and 1130.00 lakhs in FY 2020-21.

### 5.2 Spicejet's Comment on Fair Rate of Return (FRoR).

- 5.2.1 M/s Spicejet submitted that Celebi has proposed a Fair Rate of Return (FRoR) 14.06% for the Third Control Period. Such fixed/assured return favours the service provider and creates imbalance against the airlines, which are already suffering from huge losses and bear the adverse financial impact through higher tariffs. Celebi further submitted that due to such fixed/assured returns, service provider like Celebi have no incentive to look for productivity improvement or ways of increasing efficiencies, which are ultimately borne by airlines. In the present scenario any assured return on investment to any services providers like Celebi, in excess of three (3) %, i.e. being at par with bank fixed deposits, will be onerous for the airlines.
- 5.2.2 In view of the above, Spicejet requested to the Authority to review FRoR and revise all the Tariff Orders (including past orders) by capping the returns to a maximum of three (3)%.

## 5.3 M/s Celebi's response on Spicejet Comments regarding FRoR for the Third Control Period:

5.3.1 M/s Celebi does not agree with the Spicejet comment regarding FRoR. Celebi submitted that any business is being done with the combination of debt & equity. Cost of debt proposed as per the prevailing bank rate and cost of equity is always higher than the cost of debt with a risk premium. In 3% over and above the bank deposit rate, doesn't even cover the cost of debt.

### 5.4 Authority's Examination regarding FRoR for the Third Control Period

- 5.4.1 The Authority noted the comments of Spicejet on Fair Rate of Return (FRoR).
- 5.4.2 The Authority observed that Celebi had taken debt of Rs 2250.00 lakhs @ 8.60 % for financing the CAPEX of the Second Control Period and further proposed CAPEX of Rs 1335.63 lakhs during Third Control Period lakhs which will be finance through internal accruals.
- 5.4.3 The Authority is of the view that, Celebi has utilized the combination of debt and equity for purchase/replacement of capital asset. The Authority has therefore decided to consider the FRoR for the Third Control Period as proposed by Celebi.

#### 5.5 Authority's Decisions regarding FRoR for the Third Control Period

5.5.1 Based on the material before it and its analysis, the Authority decides to consider FRoR as proposed by M/s Celebi, Cochin for the Third Control Period.



### 6. OPERATING EXPENDITURE

# M/s Celebi, Cochin's submission on Operating Expenditure for the Third Control Period as part of MYTP.

- 6.1 As provided in Clause 9.4 of the CGF Guidelines mentioned in Direction No. 04/2010-11, the Operation and Maintenance expenditure incurred by the Service provider(s) include expenditure incurred on security, operating costs, other mandated operating costs and statutory operating costs.
- 6.2 As per the submission of M/s Celebi, Cochin, the Operation and Maintenance (O&M) expenditure has been segregated into the following categories:
  - a) Payroll Costs;
  - b) Admin and general expenditure;
  - c) Utility & Outsourcing Costs
  - d) Concession fees
  - e) Repair and maintenance Costs;
- 6.3 As per the ACS (Annual Compliance Statement) for FY 2019-20 & FY 2020-21 and projection for the Third Control Period (FY 2021-22 to FY 2025-26) submitted by Celebi, Cochin the Operating Expenditure (OPEX) is given as below:

Table 4: Actual (FY 2019-20) & FY 2020-21 and Projected Revenue and Operating Expenditure by M/s Celebi for the Third Control Period (FY 2021-22 to FY 2025-26).

Amount (Rs. in Lakhs) Rs. in Lakhs YOY % Increase CAG **Particulars** \*19-20 \* 20-21 22-23 23-24 24-25 R\*\* 22-23 23-24 21-22 25-26 20-21 21-22 24-25 25-26 1984.88 Revenue 5842.37 3123.12 4602.62 6383.48 7399.73 8477.18 -65.9 56.8 47.4 38.7 15.9 14.6 6.4 Operating 5724.46 2446.66 3496.60 4877.44 6392.81 7398.72 8490.97 -57.4 43.5 39.5 31.1 15.7 14.8 6.7 Expenditure 1035.12 1347.02 1732.83 2142.84 3171.35 29.0 23.7 25.4 Payroll 1824.46 2686.38 9.6 -42.8 28.6 18.1 Costs % 174.22 450.66 195.23 202.28 265.31 270.68 - 4.6 3.6 31.2 2.0 24.9 Administrati 338.13 -59.7 7.6 % ve & General Costs 267.72 135.89 128.11 165.59 214.57 231.51 263.11 12.5 29.3 29.6 7.9 13.7 Utilities & -0.2 -57.5

4137.56

72.59

4639.11

79.27

%

6.7

%

7.9

%

-66.4

-6.2

68.7

13.0

53.4

6.2

36.2

17.5

11.7

9.5

12.1

9.2

(\* 2019-20 & 2020-21 actual figures) (\*\* CAGR for 2019-20 to 2025-26)

3131.53

50.09

1049.20

52.21

1773.17

53.07

2720.35

56.38

Outsourcing

Costs

Concession Fees

Repair &

Maintenanc

e Costs

## 6.4 Spicejet Comments on Operating Expenditure for the Third Control Period:

3703.81

66.27

6.4.1 Regarding their comments on Operating Expenses, M/s Spicejet submitted that after the Covid-19 pandemic all the organizations have taken austerity measures whether under public or private sector. The Central and various state Governments have cut salaries of their staff, even the Central Government has restricted expendence for all the Ministries at 20% of

- approved budget levels for first two quarter of FY 2022. Companies in private sector have taken drastic measures to cut cost to ensure their survival ability. Airlines have renegotiated every contract what they have. Salaries of the employees including Pilots have been reduced by more than 35%. Lot of employees have been retrenched or sent on leave without pay.
- 6.4.2 The Year on Year increase in the Payroll Costs and employees strength proposed by the Celebi for Third Control Period as below:

Particulars	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Payroll Cost YoY % Increase	-42.80%	29.00%	28.60%	23.70%	25.40%	18.10%
Employees Strength	399	518	605	715	795	834

- 6.4.3 M/s Spicejet further submitted that the aviation sector, including airlines have incurred huge losses and are struggling to meet their operational costs, and are not able to pay even to the support staffs, on the other hand Celebi seems to have paid full salaries to its staff including annual increments which is completely unheard of, in the same aviation sector. In addition, it appears that Celebi proposes to increase its current staff strength by three times by 2026, which does not appear to in line with its ATM projections. Celebi needs to considerably reduce salary of its staff and annual increases needs to be put on hold at least for next three years. Salary expenses need to be in line with the level of operations.
- 6.4.4 M/s Spicejet also submitted that rather than escalations, all the costs have been renegotiated downwards substantially and Celebi needs to significantly reduce costs in a very aggressive manner.
- 6.4.5 Regarding their comments on the Royalty Charges/ Concession Fee. Spicejet submitted that the royalty is in the nature of market access fee, charged (by any name or description) by the Airport operator under various headings without any underlying services. It may be pertinent to note that market access fee by any name or description is not practiced in most of the global economies, including European Union, Australia etc. The rates of royalty/concession fee being paid by Celebi at Cochin Airport are 46%. These charges are passed on the airlines by Celebi. M/s Spicejet urge the Authority to abolish such royalty, which may be included in any of the cost items.
- 6.5 M/s Celebi response on Spicejet Comments regarding Operating Expenditures for the Third Control Period:
- 6.5.1 In response to the Spicejet comments on the Operating Expenditure, Celebi submitted that Covid-19 pandemic has affected not only to airlines but to entire aviation sector including Celebi. Celebi have taken drastic cost cutting measures such as salary cut across all levels of employees, surrender of some spaces to save on the lease rentals, re-negotiation with vendors on the fixed cost etc.
- 6.5.2 Celebi further submitted that majority of their employees come under the preview of Minimum Wages Act. Therefore, they will have abided by the related laws and regulations. Employee strength and cost is in line with the volume of operations and revenue. Celebi also

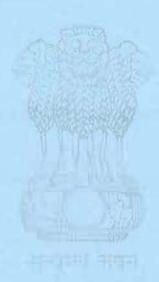
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- reduced other operating costs but as the operations will grow the cost will increase and the same is in line with the increase in volume of operations.
- 6.5.3 In response to the Spicejet comments on the abolishment of Royalty Charges/ Concession Fee. Celebi submitted that the concession fees rate is determined by the Airport Operator on which Celebi do not have any control. However, Celebi support the idea to rationalize the royalty charge/concession fees and appropriate steps should be taken at Airport Operator/ Authority level.

## 6.6 Authority's Examination regarding Operating expenses for the Third Control Period:

- 6.6.1 The Authority noted the comments of Spicejet on the Operating expenses and their views regarding abolishment of royalty fee.
- 6.6.2 The Authority noted that in FY 2019-20, pay roll cost submitted by Celebi was Rs 1824.46 lakhs & employees strength 170 and in FY 2020-21, pay roll cost was Rs 1043.98 lakhs for 399 employees. In this regard, the Authority has sought clarification to the Celebi. In response, Celebi vide mail dated 30.09.2021 submitted that erroneously in form 11 (a) they had mentioned employee strength 170 instead of 682 in FY 2019-20 and after considering the correct figure, the growth in employee strength is in line with the volume of operations. Celebi also submitted that the flight per employee ratio is improving over the years from 12.93 in FY 2020-21 to 10.16 in FY 2025-26 and staff cost as % to revenue is also falling from 53% in FY 2020-21 to 37% in FY 2025-26.
- 6.6.3 The Authority observed that the payroll cost was 1824.46 lakhs in FY 2019-20 which are significantly reduced Rs 1035.12 lakhs in FY 2020-21 due to the Covid-19 pandemic and self-handling services started by the Indigo Airlines.
- 6.6.4 The Authority further observed that M/s Celebi proposed Year on Year increase in employee's strength from 518 in FY 2021-2022 to 834 in FY 2025-26 during the Third Control Period. However, projected increase in the employee strength commensurate to the increase in the traffic (Flight to be handled) projections for the Third Control Period (FY 2021-22 to FY 2025-26). It is also observed that the YoY % increase in revenue is higher than the YoY % increase in operating expenses. It is also observed that pay roll cost 7 year i.e. FY 2019-20 to FY 2025-26 is 9.6% and Operating expenditures CAGR is 6.7%.
- 6.6.5 Regarding Spicejet comment on royalty/concession fee, the Authority noted that as per the Concessional Agreement, M/s Celebi shall pay to CIAL a revenue sharing/concession fees of forty six percent (46%) on the determinable rate specified in the annexure-1 of Concession agreement or the actual Ground Handling (GH) tariff levied by the Ground Handling (GHA) whichever is higher.
- 6.6.6 In this regard, the Authority issued an Order no. 01/2018-19 dated 05.04.2018 on the Royalty/Revenue sharing/Concession fee in which, the Authority capped the amount of Royalty/Revenue Share payable to Airport Operator" as a "pass through" expenditure for the Independent service Providers providing Cargo Facility, Ground handling, Supply of Fuel to Aircrafts at Major Airports". However, this Order will be applicable to all cases where the Authority decides not to resort to all takes up intrusive tariff determination on cost plus basis.

- 6.6.7 In view of the above observations, the Authority has decided to consider operating expenditure for the Third Control Period as projected by Celebi, Cochin as per Table 4.
- 6.7 <u>Authority's Decisions regarding Operating Expenditure for the Third Control Period</u>
- 6.7.1 Based on the material before it and its analysis, the Authority decides to consider Operating Expenditure for M/s Celebi, Cochin for the Third Control Period as per Table 4.





#### 7. ANNUAL TARIFF PROPOSAL

7.1 M/s Celebi submitted the Multi Year Tariff Proposal for the Third Control Period (FY 2021-22 to FY 2025-26) and proposed percentage tariff increase as per Table 5 below:

Table: 5 YoY Percentage (%) increase proposed by M/s Celebi Cochin's for the Third Control Period.

- I I I I I I I I I I I I I I I I I I I	F	Y 2021-2	2		FY 2022-2	3	F	Y 2023-2	4	F	Y 2024-2	.5	F	Y 2025-2	6	CAGR		
Particulars	Pax	Ramp	Full	Pax	Ramp	Full	Pax	Ramp	Full	Pax	Ramp	Full	Pax	Ramp	Full	Pax	Ramp	Full
Domestic Pa	ssenger	Flight																
CODE B1	5.00	5.00	5.00	0.00	0.00	0.00	5.02	5.00	5.00	0.00	0.00	0.00	5.03	5.01	5.01	2.5%	2.5%	2.5%
CODE B	5.00	5.00	5.00	0.00	0.00	0.00	5.00	5.00	5.00	0.00	0.00	0.00	4.99	5.00	5.00	2.5%	2.5%	2.5%
CODE C1 (EMB135)	5.00	5.00	5.00	0.00	0.00	0.00	5.01	5.00	5.00	0.00	0.00	0.00	5.00	5.00	5.00	2.5%	2.5%	2.5%
CODE C1 (EMB170)	5.00	5.00	5.00	0.00	0.00	0.00	5.01	5.00	5.00	0.00	0.00	0.00	5.00	5.00	5.00	2.5%	2.5%	2.5%
CODE C	5.00	5.00	5.00	0.00	0.00	0.00	5.00	5.00	5.00	0.00	0.00	0.00	4.99	5.00	5.00	2.5%	2.5%	2.5%
CODE D			Thirty															
CODE E	5.00	5.00	5.00	0.00	0.00	0.00	5.00	5.00	5.00	0.00	0.00	0.00	5.00	5.00	5.00	2.5%	2.5%	2.5%
CODE F							, t		200	100						TITE		
Internationa	l Passen	ger Fligh	t	196				A PARTY	PYN	47								
CODE B1	1 - 1	*	-	100	*	17-4	12	1.5		11-					-	-		-
CODE B	5.00	5.00	5.00	0.00	0.00	0.00	5.00	5.00	5.00	0.00	0.00	0.00	5.00	5.00	5.00	2.5%	2.5%	2.5%
CODE C1	5.00	5.00	5.00	0.00	0.00	0.00	5.00	5.00	5.00	0.00	0.00	0.00	5.00	5.00	5.00	2.5%	2.5%	2.5%
CODE C	5.00	5.00	5.00	0.00	0.00	0.00	5.00	5.00	5.00	0.00	0.00	0.00	5.00	5.00	5.00	2.5%	2.5%	2.5%
CODE D	5.00	5.00	5.00	0.00	0.00	0.00	5.00	5.00	5.00	0.00	0.00	0.00	5.00	5.00	5.00	2.5%	2.5%	2.5%
CODE E	5.00	5.00	5.00	0.00	0.00	0.00	5.00	5.00	5.00	0.00	0.00	0.00	5.00	5.00	5.00	2.5%	2.5%	2.5%
CODE F		4						3			100		116.5					
Domestic Fro	eight Flig	ht						11.71										
CODE C1		5.00			0.00			5.00			0.00			5.00			2.5%	
CODE C		50.00			0.00			5.00			0.00	de de la companya de		5.00	b), E		2.5%	
CODE D		95.00			0.00			5.00			0.00			5.00			2.5%	
CODE E		95.00			0.00			5.00			0.00			5.00	1-18		2.5%	
CODE F					27-1			E 1114		- Allegai		m-A	anget .					
Internation	al Freigh	t Flight							7, 1		telle.	14	16 1		-31			
CODE C1								- 4	933		- 1						11-1	
CODE C		5.00			0.00		0-1	5.00			0.00		1-83	5.00			2.5%	1
CODE D		5.00			0.00	11/	100	5.00	- 35	1	0.00			5.00			2.5%	
CODE E	-11	5.00			0.00			5.00	1	5	0.00			5.00			2.5%	19-1
CODE F					HIGH	一里	( Br			Sh. I								

#### 7.2 Spicejet Comments on tariff rates for the Third Control Period:

7.2.1 M/s Spicejet submitted their comments on the Year on Year increase in tariff rates for Code C, Code D and Code E which is 50% and 95% on domestic freight flight for FY 2021-22 and also suggested that instead of one time increase in FY 2021-22, the same can be spread across the entire Control Period.

# 7.3 M/s Celebi response to Spicejet Comments regarding tariff rates for the Third Control Period:

- 7.3.1 In response to the Spicejet comments on the tariff rates, Celebi submitted that there were no domestic freighter flights operating during Second Control Period. Post covid-19, domestic freighter flights operation have been started. The increase in 50% to 95% tariff is appearing high due to low base of the previous approved tariffs.
- 7.3.2 M/s Celebi also submitted that the tariff approved by the Authority are the maximum price, airlines can always negotiate with the service provider for the rate lower than the approved tariffs based on the volume, service required etc.

# 7.4 Authority's Examination regarding Annual Tariff Proposal for the Third Control Period:

- 7.4.1 The Authority noted the comments of Spicejet on the tariff rates and staggered the increase in tariff rates of FY 2021-22 across the entire Control Period.
- 7.4.2 The Authority examined tariff rates proposed by Celebi and found that the tariff increase proposed by the Celebi for FY 2021-22 is 5% over FY 2020-21 for Domestic and international Passenger Flights as well International Freight Flight whereas in Code C and Code D & Code E of Domestic Freight Flight, the proposed increase in tariff is 50% and 95% respectively.
- 7.4.3 Further, M/s Celebi proposed 5% increase in tariff for FY 2023-24 over 2022-23 and 5% increase for FY 2025-26 over 2024-25 for the Third Control Period. However, the CAGR of proposed tariff for FY 2021-22 to FY 2025-26 for all categories of Passenger and Freight Flights is 2.5%.
- 7.4.4 The Authority has sought clarification to Celebi for proposed 50% to 95% tariff increase in Code C and Code D & Code E of Domestic Freight Flight. In response Celebi submitted that till date, they are not operating any flight under this category. In anticipation that any airlines may approach to start handling their domestic freighter flights during the Third Control, they have proposed the tariffs which are very much competitive.
- 7.4.5 The Authority, based on the Annual Compliance Statements (ACS) submitted by Celebi noted that M/s Celebi, Cochin has incurred Operating Losses of Rs.139.31 Lakhs in FY 2017-18, Rs. 297.57 lakhs in FY 2018-19, Rs.282.98 Lakhs in 2019-20 and Rs. 840.75 Lakhs in 2020-21 respectively. As per projected Profit and Loss Account (Form F3 -Profit and Loss Account) submitted by M/s Celebi, Cochin, the Authority further noted that M/s Celebi shall have losses in all the financial years of Third Control Period.
- 7.4.6 The Authority further noted that the validity of concession agreement is 12<sup>th</sup> August, 2022, which is less than one year. Therefore, the proposed increase for FY 2021-22 cannot be staggered across the third Control Period as comment submitted by the Spicejet.
- 7.4.7 In view of the above, the Authority has decided to allow M/s Celebi Airport Services India Pvt. Ltd to levy revised tariff rates w.e.f. 1st November, 2021 till the validity of the Concession Agreement i.e. 12 August, 2022 for the Third Control Period (FY 2021-22 to FY 2025-26) as per Annexed-I.
- 7.4.8 The Authority also decided that the carrif rate shall continue for further years of the Third

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Control Period as per annexure-I, subject to renew of the Concession Agreement with CIAL beyond 12<sup>th</sup> August, 2022. However, based on the Annual Compliance Statement (ACS), the Authority may review the tariff rates for the Third Control Period.

## 7.5 <u>Authority's Decisions regarding Annual Tariff Proposal for the Third Control</u> Period

7.5.1 Based on the material before it and its analysis, the Authority decides to consider the tariff rates of Ground Handling Services provided by Celebi, Cochin for the Third Control Period as per **Annexure-I.** 





#### 8. ORDER

Upon careful consideration of the material available on record, as well as submission made by M/s Celebi, the Authority, in exercise of powers conferred upon it by Section 13(1)(a) of the AERA Act, 2008 hereby orders that:

- (i) The service for Ground Handling being provided by M/s Celebi Airport Services India Pvt. Ltd. at Cochin International Airport, Cochin is "Material but Competitive". Therefore the Authority decides to adopt 'Light Touch Approach 'for determination of tariffs for the Third Control Period (FY 2021-22 to FY 2025-26).
- (ii) The Authority decided to allow M/s Celebi Airport Services India Pvt. Ltd to levy revised tariff w.e.f. 1<sup>st</sup> November, 2021 till the validity of the Concession Agreement i.e. 12<sup>th</sup> August, 2022 for the Third Control Period (FY 2021-22 to FY 2025-26) as per "Annexure-I".
- (iii) The Authority also decided that the tariff rates shall continue for further years of the Third Control Period as per Annexure-I, subject to renew of the Concession Agreement with CIAL beyond 12<sup>th</sup> August, 2022. In case, CIAL does not renew the Concession Agreement with M/s Celebi beyond 12<sup>th</sup> August 2022, the proposed tariff shall cease to be effective from the date of termination of the Concession Agreement.
- (iv) Tariff determined shall be the maximum tariff to be charged. No other charge is to be levied over and above the approved Tariff Rates.
- (v) M/s Celebi shall not exceed the Tariff Rates for its Non-Schedule Operations as approved by the Authority for its Schedule operations for similar class of aircraft(s).
- (vi) The Airport operator shall ensure the compliance of the Order.

By the Order of and in the Name of the Authority

(Col Manu Sooden) Secretary

To

M/s Celebi Airport Services India Pvt. Ltd.
Room no. CE 01, Import Building 2, International Cargo Terminal,
IGI Airport, New Delhi - 110 037
(Through: Shri Murali Ramachandran, Chief Executive Officer)

## Copy to:

- 1. Secretary, Ministry of Civil Aviation, Rajiv Gandhi Bhawan, Safdarjung Airport New Delhi-110003.
- 2. Shri Suhas S,
  IAS Managing Director,
  Cochin International Airport Limited,
  Kochi Airport P.O., Nedumbassery, Ernakulam Regala-683111.

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## **TARIFF RATE CARD**

#### M/S CELEBI AIRPORT SERVICES INDIA PVT. LTD. - GROUND HANDLING SERVICES AT CIAL, COCHIN.

## MAXIMUM RATE TO BE PAID BY SCHEDULED/NON SCHEDULED AIRLINES FOR GROUND HANDLING SERVICES FOR THE THIRD CONTROL PERIOD (FY 2021-22 TO FY 2025-26).

Amount (in Rs.

		- 33							Amount (in Rs.						
O and law laws		FY 2021-2	2	F	Y 2022-2	3		FY 2023-24	4	1	Y 2024-2	5	F	5	
Particulars	Pax	Ramp	Full	Pax	Ramp	Full	Pax	Ramp	Full	Pax	Ramp	Full	Pax	Ramp	Full
Domestic Pass	enger Flig	ht													
CODE B1	1155	4620	5775	1155	4620	5775	1213	4851	6064	1213	4851	6064	1274	5094	636
CODE B	3360	13755	17115	3360	13755	17115	3528	14443	17971	3528	14443	17971	3704	15165	1886
CODE C1 (EMB135)	4515	18165	22680	4515	18165	22680	4741	19073	23814	4741	19073	23814	4978	20027	2500
CODE C1 (EMB170)	4515	18165	22680	4515	18165	22680	4741	19073	23814	4741	19073	23814	4978	20027	2500
CODE C	7875	31920	39795	7875	31920	39795	8269	33516	41785	8269	33516	41785	8682	35192	4387
CODE D	12810	51240	64050	12810	51240	64050	13451	53802	67253	13451	53802	67253	14124	56492	7061
CODE E	23835	95445	119280	23835	95445	119280	25027	100217	125244	25027	100217	125244	26278	105228	13150
CODE F						1									
International F	Passenger	Flight		1				ivals.							
CODE B1	NA	NA	NA	NA	NA	4	NA	NA	NA	NA	NA	9	NA	NA	N.
CODE B	21420	85995	107415	21420	85995	107415	22491	90295	112786	22491	90295	112786	23616	94810	11842
CODE C1	21420	85995	107415	21420	85995	107415	22491	90295	112786	22491	90295	112786	23616	94810	11842
CODE C	35700	143220	178920	35700	143220	178920	37485	150381	187866	37485	150381	187866	39359	157900	19725
CODE D	58590	234780	293370	58590	234780	293370	61520	246519	308039	61520	246519	308039	64596	258845	32344
CODE E	68670	274785	343455	68670	274785	343455	72104	288524	360628	72104	288524	360628	75709	302950	37865
CODE F	H			MALE A		i en									
Domestic Freig	ht Flight											MARCH 1			
CODE C1	NA	51135	NA	NA	51135	NA	NA	53692	NA	NA	53692	NA	NA	56377	N/
CODE C	NA	121800	NA	NA	121800	NA	NA	127890	NA	NA	127890	NA	NA	134285	N
CODE D	NA	189735	NA	NA	189735	NA	NA	199222	NA	NA	199222	NA	NA	209183	N
CODE E	NA	232050	NA	NA	232050	NA	NA	243653	NA	NA	243653	NA	NA	255836	N/
CODE F	VIII					NO.			Share .	THE PARTY OF			61		
International F	reight Flig	ht				P.		EL I	WE TO						
CODE C1	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	N
CODE C	NA	128835	NA	NA	128835	NA	NA	135277	NA	NA	135277	NA	NA	142041	N
CODE D	NA	229005	NA	. NA	229005	NA	NA	240455	NA	NA	240455	NA	NA	252478	N.
CODE E	NA	271845	NA	NA	271845	NA	NA	285437	NA	NA	285437	NA	NA	299709	N
CODE F					. 2	21 1	Name of Street		A CONTRACTOR					N. E.	1

Note: Above Tariff Rates are excluding all applicable taxes.

