



GSEC Limited

Response to Airports Economic Regulatory Authority (AERA)'s Consultation Paper No. 14/2021-22 dated 24th August, 2021 to consider the Multi Year Tariff Proposal (MYTP) for the 3rd Control Period (FY 2021-22 to FY 2025-26) in respect of M/s GSEC Limited for Providing International Cargo Handling Services at Sardar Vallabhbhai Patel International Airport (SCPIA), Ahmedabad

Date of Submission: 14th September 2021

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Disclaimer

This document has been prepared by M/s GSEC Limited ('GSEC') in response to Airports Economic Regulatory Authority of India's ('AERA' or 'the Authority') Consultation Paper No. 14/ 2021-22 to consider the Multi Year Tariff Proposal (MYTP) for the 3rd Control Period (FY 2021-22 to FY 2025-26) in respect of M/s GSEC Limited for Providing International Cargo Handling Services at Sardar Vallabhbhai Patel International Airport (SCPIA), Ahmedabad ('the Consultation Paper' or 'CP') dated 24th August 2021.

The purpose of this document is to solely provide a response to the tentative decisions proposed by the Authority in the CP and should not be referred to and relied upon by any person against GSEC.

The response set out below to the CP shall not be construed by any entity as an acceptance by GSEC of the various assumptions undertaken by the Authority in the CP.

1. Introduction

Airports Economic Regulatory Authority of India ('AERA' or 'the Authority') has released Consultation Paper No. 14 / 2021-22 to consider the Multi Year Tariff Proposal (MYTP) for the 3rd Control Period (FY 2021-22 to FY 2025-26) in respect of M/s GSEC Limited for Providing International Cargo Handling Services at Sardar Vallabhbhai Patel International Airport (SCPIA), Ahmedabad ('the Consultation Paper' or 'CP') dated 24th August 2021.

We hereby present our observations, suggestions, and requests in respect of determination of Aeronautical Tariffs for GSEC for the Third Control Period.

2. Traffic

2.1. Authority's contentions and proposal

2.1.1. The Authority, proposes to consider FY 2019-20 as the Base Year to project the cargo volumes for the 3rd control period. The volume is projected to recover @ 82% of Base Year (FY 2019-20) in FY 21-22 (1st year of TCP), and, from T2 onwards the tonnage is assumed to grow at CAGR @6.3%, that is the actual growth rate achieved by GSEC in the 2nd control period.

2.1.2. Based on the above, the Authority has proposed the following traffic:

Particulars	2019-20 (Base)	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Export	32,770	26,871	28,564	30,364	32,277	34,310	1,52,386
Import	11,389	9,339	9,927	10,553	11,218	11,924	52,961
Total (MT)	44,159	36,210	38,492	40,917	43,494	46,234	2,05,347
% Change		82%	6.30%	6.30%	6.30%	6.30%	

2.2. GSEC's submission

2.2.1. GSEC submits that tonnage movement in the year 2020-21 was only 77% of the pre-pandemic levels. While there are news reports that Indian air cargo business is picking up in 2021-22, GSEC has not witnessed any sharp increase in the current year.

2.2.2. There are further recent news reports that there would be a third competitor in the international cargo business in SVPIA. Adani group is set to enter this space soon with state-of-the-art facilities. As a result, since the total business is not growing exponentially in SVPIA, the existing business would be divided amongst more competitors.

2.2.3. The competitor is expected to be building a capacity initially to operate at 1000 MT per month. GSEC submits that with the overall business not increasing exponentially, the existing international cargo business of GSEC to the tune of almost 800 MT per month will get shifted to the competitor. Hence, GSEC submits that the possibility of the business growing at the rate of 5% in SVPIA itself is a tall task.

2.2.4. GSEC submits that the traffic in the third control period may only grow only at a rate of lesser than 5% per annum due to the subdued tonnage movement, given the pandemic situation coupled with the recent news reports that the Adani group will commence international cargo operations in SVPIA. GSEC reiterates that unless the tonnage movement base grows exponentially in SVPIA, projecting a 6.3% annual growth in tonnage is unrealistic.

2.2.5. GSEC thus requests the Authority to continue with the traffic projections submitted by GSEC. GSEC further submits that revised estimates would be presented to the Authority during the control period when the new competitor commences business in SVPIA as this would result in substantial change in business scenarios and strategies. Indicative tonnage based on GSEC projections as well as AERA's projections after considering shifting of tonnage from GSEC to competitor is provided below:

2.2.6. Indicative Tonnage of GSEC after reducing 800MT per month from FY 23 onwards (from projections initially made by GSEC):

In 000 MT	20-21	Apr-21 to Sep-21	Oct-21 to Mar-22	22-23	23-24	24-25	25-26
Export	25.59	13.43	13.43	28.21	29.62	31.10	32.66
Import	8.59	4.51	4.51	9.47	9.95	10.44	10.97
Traffic allowed	34.18	17.94	17.94	37.68	39.57	41.55	43.62

by AERA							
Less: Traffic that would be taken by competition				(9.60)	(9.60)	(9.60)	(9.60)
Total	34.18	17.94	17.94	28.08	29.97	31.95	34.02

2.2.7. Indicative Tonnage of GSEC after reducing 800MT per month from FY 23 onwards (from projections initially made by AERA):

In 000 MT	20-21	Apr-21 to Sep-21	Oct-21 to Mar-22	22-23	23-24	24-25	25-26
Export	25.59	13.44	13.44	28.56	30.36	32.28	34.31
Import	8.59	4.67	4.67	9.93	10.55	11.22	11.92
Traffic allowed by AERA	34.18	18.11	18.11	38.49	40.91	43.50	46.23
Less: Traffic that would be taken by competition				(9.60)	(9.60)	(9.60)	(9.60)
Total	34.18	18.10	18.10	28.89	31.32	33.90	36.63

3. Profit after Tax

3.1. Authority's contentions and proposal

3.1.1. Authority examined GSEC submissions seeking PAT of 24% for the 3rd control period stating that the same is comparable with their peers in the cargo industry. The Authority, however, is of the view that there can be no benchmarks for profitability. It may depend on several factors including volumes handled, cargo potential of a particular airport, and other general financial parameters, efficiency level, etc. of the individual businesses. In the instant case cited by M/s GSEC, both the peer companies/ service providers (viz. Menzies) operate at different airports, their asset base is different, and, there may be several other factors leading to higher profitability in their respective operations.

3.1.2. The Authority in its independent analysis observes that M/s GSEC has been earning decent Profits After Tax (PAT) in the 2nd Control Period, and, in order to maintain a similar PAT level during the 3rd Control Period also, has sought the tariff increase. The Authority, therefore, finds no merit in the above argument of M/s GSEC for considering an increase in tariff.

3.2. GSEC's submission

3.2.1. GSEC submits that while it was making a PAT of 24% in the second control period, considering the traffic projections as submitted by GSEC and replacing the operating costs as proposed by the Authority, following is the PAT that will be achieved in the third control period:

Particulars	2021-22	2022-23	2023-24	2024-25	2025-26
	Projection	Projection	Projection	Projection	Projection
Export Income	614.18	644.89	677.14	710.99	746.54
Import Income	1,390.99	1,460.54	1,533.57	1,610.25	1,690.76
Cash Revenue	97.00	102.00	107.00	112.00	118.00

Rs. in lakhs

Monthly Billing Revenue	564.26	491.84	515.69	542.02	568.82
Rental income and other non cargo revenue	193.48	203.16	213.31	223.98	235.18
Total Revenue	2,859.91	2,902.43	3,046.70	3,199.24	3,359.30
Expenditure					
Direct Expenses (other than royalty)	672.51	727.26	768.26	812.70	860.81
Royalty paid to AAICLAS	714.98	725.61	761.68	799.81	839.83
Common expenses allocated to Ahmedabad cargo operations	495.79	535.45	576.74	621.73	670.26
Total Opex Cost	1,883.27	1,988.31	2,106.68	2,234.24	2,370.89
Depreciation	135.44	138.01	126.42	126.79	134.45
PBT	841.20	776.11	813.60	838.22	853.96
Tax	215.56	198.88	208.49	214.80	218.83
PAT	625.64	577.23	605.11	623.42	635.13
PAT to Revenue %	22%	20%	20%	19%	19%
Average PAT to Revenue %					20%

3.2.2. The Authority may note the decline in the profitability in the third control period from 22% to 19%. Further, costs which have not been considered in the above are the additional spends which GSEC has to carry out once the new competitor enters this market. There would be significant spends required to enhance the facilities offered, increase capacity and match the quality of service provided by the bigger players in SVPIA. Hence, the profit is expected to be much lower than the projected amounts.

3.2.3. At the cost of repetition, GSEC re-iterates that the increase in tariff is required for the following reasons:

3.2.3.1. Cargo operations rate card was last revised in the year 2011-12 vide AERA Order 42/2012-13 and the prices have continued while the cost has increased significantly.

3.2.3.2. Since the last tariff increase was given in 2011-12 for Ahmedabad, GSEC requests for minimum increase to compensate for inflation and to meet the capital investments.

3.2.3.3. The company faces heavy competition from its peers operating at neighboring Airports in terms of quality of service and it is utmost important for the company to invest in maintenance of assets, human resources and upgrade its infrastructure.

3.2.4. GSEC had further benchmarked the profitability of other cargo operators who may be in different positions of the business lifecycle. However, it may be noted that GSEC proposes to only match its own profitability as earned in the past. The additional revenues expected would be reinvested to sustain its quality of service and strive to improve to match the quality standards of its competitors.

3.2.5. The revised increase in the tariff proposed by GSEC considering the revised costs as allowed by the Authority is as follows:

- 10.04% increase in year 1 (from 1st October 2021)
- 2% increase from year 2

3.2.6. Revised profit computation based on the above tariff increase is provided below:

Particulars (Rs in crores)	2021-22	2022-23	2023-24	2024-25	2025-26
	Projection	Projection	Projection	Projection	Projection
Export Income	645.02	723.85	775.25	830.29	889.24
Import Income	1,460.84	1,639.37	1,755.77	1,880.43	2,013.94
Cash Revenue	101.87	114.49	122.50	130.79	140.55
Monthly Billing Revenue	592.59	552.07	590.40	632.97	677.55

Rental income and other non cargo revenue	193.48	203.16	213.31	223.98	235.18
Total Revenue	2,993.81	3,232.93	3,457.23	3,698.45	3,956.46
Expenditure					
Direct Expenses (other than royalty)	672.51	727.26	768.26	812.70	860.81
Royalty paid to AAICLAS	748.45	808.23	864.31	924.61	989.11
Common expenses allocated to Ahmedabad cargo operations	495.79	535.45	576.74	621.73	670.26
Total Opex Cost	1,916.75	2,070.94	2,209.31	2,359.04	2,520.18
Depreciation	135.44	138.01	126.42	126.79	134.45
PBT	941.62	1,023.98	1,121.50	1,212.62	1,301.83
Tax	241.30	262.40	287.39	310.74	333.60
PAT	700.33	761.58	834.11	901.88	968.23
PAT to Revenue %	23%	24%	24%	24%	24%
Average PAT to Revenue %					24%

- 3.2.7. GSEC further submits that if the traffic was reduced by shifting about 800 MT to the competitor, the PAT would fall to as low as 12% and the tariff increase that would be needed is around 35% in year 1 with 2% increase thereafter. However, GSEC submits that it is requesting the Authority to consider an increase which is one third of such total increase required.
- 3.2.8. GSEC prays to the Authority to consider the submissions made while passing the Order.