

Date: 30 December 2021

To,
The Chairperson,
Airport Economic Regulatory Authority,
AERA Building, Administrative Complex
Safdarjung Airport
New Delhi – 110003

Subject: Reply to Concerns raised by SpiceJet Ltd. on Consultation Paper No. 24/2021-22 dated 7th December 2021 for determination of tariff for Ground Handling Services for SVP International Airport, Ahmedabad, for 3rd control period for GSEC Bird Airport Services Private Limited (GBASPL)

File No. AERA/20010/MYTP/GSEC-BAS/GH/Ahmedabad/2021-26

Dear Sir,

We hereby submit point wise replies to the concern raised by M/s. SpiceJet Ltd. on Consultation Paper No. 24/2021-22 dated 7th December 2021, as referred above:

1. Tendering Process, Royalty and audit: - (point no. 1.1 of the CP)

Here we submit that there is an approved mechanism set up by AERA for determination of tariff and we are following that mechanism/guidelines.

We request authority to intimate SpiceJet Ltd. about the tariff determination guidelines for the ground handling industry and for others so that their concern is resolved.

We also submit that we are subject to audits as per the requirement of the Companies Act.

2. Deferment of Capital Expenditure:- (table 4 and point no. 4.2 & 4.4 of the CP)

Here we submit the followings:

- a) GBASPL is a new service provider and hence has to incur the capital expenditure in the very first year itself
- b) GBASPL is required to induct ground handling equipment that are acceptable to its customer airlines which they audit in detail before signing SGHA.
- c) GBASPL is committed to provide ground handling services, at least meeting the service levels expected by the airlines and the airport operator for better passenger service experience.

Hence need to incur capital expenditure.

3. Operating Expenditure: - (table no. 5 and point no. 5.3 of the CP)

We feel that the observations made by SpiceJet Ltd are very generic in nature, lacks any substance and indicates that observer is unsure and unaware of the facts/ground realities.

Please note that we are a ground handling company of proven track record. We are providing ground handling services at major airports in India since last 12 years and have sufficient control over our operational expenditure.

The increase in headcount is corresponding to the increase in the aircraft movement. Please note that ground handling services are not a something with can be automated without incurring substantial investment which will adversely impact the charges. Ground handling services are provided by a team of trained and qualified staff under sufficient supervisions, which is followed globally as well as during self-handling process by Indian domestic carriers.

Regarding salary of the staff, please note that we pay our staff according to the “minimum wages” published by the regulator twice a year. There is no scope of material savings in the per head salary cost without compromising on quality and safety aspects of the total service package.

4. New ground handling equipment being under warranty leading to zero R&M expenses:-
-(table no. 5 and point no. 5.6 of the CP)

The observation made by SpiceJet Ltd. contradicts their earlier observation that there should not be any capex for next 2-3 years.

Considering price sensitivity, especially in the pandemic hit environment, we have introduced a mix of old and new equipment, so that service delivery is smooth.

It is important to note that maintenance cost of old equipment is approximately 3-4% of its cost as compared to 9% interest paid to bank for purchasing new equipment.

Another important factor needs your attention is that equipment are sold with / without warranty and in case, equipment are purchased with warranty, the relevant costs are added which are more than in house maintenance cost. In addition, service support in warranty comes with time delays as compared to in house maintenance, thereby reducing capex on standby equipment.

5. Royalty:- (table no. 5 and point no. 5.7 of the CP)

We feel that the observations made by SpiceJet Ltd are very generic in nature, lacks any substance and indicates that observer is unsure and unaware of the facts/ground realities.

The royalty on the Ground Handling Services is considered as Aero Revenue for the Airport Operator and hence directly helps the Airlines in subsidizing the Aero Charges which airport operator charges to the airlines.

6. Tariff:- (table no. 6 & 7 and point no. 6.1 of the CP)

The observation made are of very generic and lacks substance to support this observation.

We here also submit that the increase is after taking effect of:

- a) Increase in the minimum wages rates;
- b) General inflation linked increase in the operational cost.

All this can be corroborated through inflation data published by the government.

The situation under which the observer made his observation, is not true and/or relevant for the third control period for which the CP is released by the authority.

7. Tariff:- (table no. 8 & 9 and point no. 6.6 of the CP)

Also we feel that the observation made indicates that observer is unaware of the ground realities. Kindly note that in cases of non-scheduled operations, we as a ground handling service have to provision certain additional set of equipment and manpower as we have to be ready to provide ground handling services. But at the same time, in cases of non-scheduled operations, we do not have any surety of recovering our cost due to the nature of non-scheduled operations.

8. Tariff:- (point no. 6.7 of the CP)

Please note following points with respect to the separate rate card for additional services:

- a) Additional services are required by the airlines in only some of their flights and not in all the flights.
- b) Since these additional services may be required in any of the flight, we have to keep our manpower and also our ground service equipment ready all the time on 24/7, 365 days basis.
- c) We earn revenue only in few of the flights based on the actual usage of these additional services.
- d) The service rate given in the tariff card for scheduled and non-scheduled flights do not include charges for the additional services.

9. Tariff:- (point no. 6.11 of the CP)

The observation made are of very generic and shows that observer lacks the understanding of the ground handling industry.

Please note that the rate mentioned in the ATP are based on related costs to do the tasks involved in handling passengers and for ramp handling. In a way, SpiceJet Ltd. has answered their observation themselves and which is, that all airlines are free to choose a service provider which is more suitable to their needs.

It is also important to mention here that the rates we have proposed for your approval are the maximum rates and airlines are welcome to discuss and negotiate commercials. This process is not new and is effectively working under guidance of AERA at all Indian airports.

We further submit for your kind consideration, some facts pertaining to our case i.e. in cases of Ground Handling Agencies:

- a) We have to keep our workforce and equipment running to ensure 24/7 availability of our services;
- b) Our major customers are international airlines which are currently operating at only 30% capacity of pre-covid level.

- c) Our Ground Handling Service charges, from handling domestic flights, recovers mainly variable cost only.
- d) Our fixed cost is mainly recovered from International operations. So, we worst affected because International operations are running at only 30% capacity.
- e) Domestic airlines have a choice of doing self-handling of their flights which they do where they have large operations and can achieve economy of scale. Only at airports, where the airlines do not have large operations that they appoint a Ground Handling Agency to handle their flight.
- f) While appointing a Ground Handling Agency, they have a choice of GHAs who compete with each other to get the business.

Let us know in case you need any information or clarification in this matter

For and on Behalf of

GSEC Bird Airport Services Private Limited

Authorised Signatory

(Sundeep Kr. Jain)