CARGO SERVICE CENTER

Delhi

Date: 14th December 2022

To,
Director (P&S, Tariff)
Airports Economic Regulatory Authority of India (AERA),
AERA Administrative Complex,
Safdarjung Airport, New Delhi – 110003, India

**SUBJECT: Submission of Stakeholder Comments to Consultation Paper No 13/2022-23 in the matter of determination of tariff for cargo handling services for Delhi Cargo Service Center Pvt. Ltd. (DCSC) at Indira Gandhi International Airport (IGIA), Delhi for the Third Control Period (FY 2021-22 to FY 2025-26) on behalf of Delhi Cargo Service Center Pvt. Ltd. (DCSC)**

Dear Sir,

We write in response to the subject Consultation Paper No. 13/2022-23 vide which the Authority has invited stakeholder comments for determining tariff for Cargo Handling Services provided by DCSC at IGI Airport.

Our response to the Consultation Paper is as follows:

1. **Stakeholder's Consultation:**
   The Authority in Para 2.1.6 of the Consultation Paper has stated that "*...DCSC has not submitted any evidence of Stakeholders' Consultation for the Third Control Period. Therefore, the Authority advises the ISP to conduct stakeholder's consultation meeting at the earliest for compliance of AERA's CGF Guidelines, 2011.*" It is stated that DCSC had conducted Stakeholders' Consultation Meeting in terms of the CGF Guidelines on 10th January 2011 and submitted the evidence of the same to the Authority through email on 03.12.2022. The Authority may note that DCSC has complied with the CGF Guidelines and conducted Stakeholders' Consultation for the Third Control Period.

2. **Cargo Tonnage Projected for the Third Control Period:**

   a. **Cargo Handling of Vistara and AirAsia to be taken over by Air India:** DCSC had projected that Cargo Operations of Air Asia and Vistara Airlines will be taken over Air India, who has its own Domestic Cargo Handling facility at IGI Airport w.e.f 01.01.2023 which would result in loss to DCSC, who currently handles Cargo Operations of Air Asia and Vistara Airlines. The Authority in Para 3.2.2 of the Consultation Paper has noted that there isn't any official communication from Tata Group in this regard and only considered the impact w.e.f. 01.04.2023 instead of 01.01.2023 onwards as submitted by DCSC.

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The Authority ought to consider that the Tata Group has now officially announced that AirAsia India will be merged with Air India Express and that the process has already begun. Further, on 29.11.2022, the Tata Group has also announced that the Air India and Vistara are also to be merged to drive synergies in the sector and derive benefits of the economies of scale. In any case, even in the absence of a formal merger of Air Asia and Vistara with Air India, it is palpable that shift of cargo load from DCSC to AISATS (handler of Air India) is eminent for AirAsia and Vistara's commercial and economic interest Moreover, the Tata Group is neither required to issue any official communication to AERA or DCSC for shifting its cargo operations from DCSC to AISATS at IGI Airport nor would require formalization of the merger between its different entities. Also, loss on cargo volume on account of these developments is the shift is imminent based on the DCSC's discussions with its Vistara and AirAsia counterparts. It is based on such discussions DCSC had proposed to consider the reduction of Cargo Volumes handled by DCSC in the Third Control Period from 01.01.2023 onwards.

b. **Operationalization of Jewar Airport:** DCSC had projected a drop in Cargo Tonnage by 40% due to operationalization of Jewar Airport FY 2024-25 onwards. The anticipated drop was in line with the Techno Economic Feasibility Report for Jewar Airport ('**TEFR**') by M/s Pricewaterhouse Coopers Private Limited which has estimated that cargo at Jewar Airport will account for 40% of the Cargo and may be in a position to cater nearly 55% of the Cargo.

However, the Authority in Para 3.2.3 of the Consultation Paper has proposed to consider projected reduction in volumes between 10% to 20% for FY 2024-25 and FY2025-26 respectively, based solely on the estimations by the other ISP at IGI Airport.

The Authority ought not to ignore DCSC's projections that are unique to it and based on scientific evidence i.e., the TEFR which is based on detailed studies and research by expert bodies. Accordingly, the Authority should not rely upon the projections of another ISP, which are unsupported by any rational reasoning. The ISPs at IGI Airport cater to different client base and estimations of the other ISP, based on its unique business model cannot be applied to DCSC.

DCSC reiterates the projected cargo tonnage submitted by it its MYTP and requests the Authority to consider (i) the adverse impact of Cargo Volumes due to Cargo Handling of Vistara and AirAsia to be taken over by Air India from 01.01.2023 onwards and (ii) the drop in Cargo Tonnage by 40% due to operationalization of Jewar Airport

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from FY2024-25 onwards for DCSC in the Third Control Period as reflected in Table 3 of the Consultation Paper.

3. **Treatment of Security Deposit as part of RAB**

DCSC in its MYTP had considered the Security Deposit paid to the Airport Operator, i.e., DIAL as per the Concession Agreement between DIAL and DCSC as part of its RAB. The Authority in Para 4.5 has proposed that Security Deposit can't be construed as part of RAB because it does not represent any underlying Asset which can be used for business operations in line with stand taken by the Honorable TDSAT in the matter of DAFFPL vs AERA.

AERA ought to consider that as per the Concession Agreement, the Security Deposit is a condition precedent to securing the rights to the concession of performing cargo operations at IGIA. Clearly, being a condition precedent, the Security Deposit is directly related to the cargo operations and is liable to be treated as a part of RAB as Security Deposit is an enabling asset. The fact that this is a refundable deposit make this deposit to have a terminal value as is characteristic of any asset.

The necessity to calculate RAB is to arrive at a figure of investment into the project so that FRoR can be applied to the said figure and a return on investment determined. It may be stated here that Security Deposit forms an integral part of the project cost for which DCSC has arranges funds from the same sources as it arranges funds for funding other assets. In other words, the payment of Security Deposit is a bonafide Application of Funds. It is pertinent to mention here that while calculating FRoR the Authority takes into consideration the cost of various Sources of Capital into consideration so that a reasonable return on investment can be arrived at. The Security Deposit is also funded from the same Sources of Capital. Therefore, to apply a lower FRoR to Security Deposit will be unfair to DCSC.

The Authority ought to consider that the Asset Base consists of both Tangible and Intangible Assets. The Security Deposit by DCSC represents an investment made by DCSC toward the Cargo Operations to procure an enabling asset which is essential for operating at the IGI Airport. The Security Deposit is a prerequisite condition for conducting operations under the Concession Agreement and without this enabling asset, DCSC cannot operate at the IGI Airport. This Security Deposit is part of the RAB and acts as a source for DCSC for the acquisition of other tangible assets at the IGI Airport.

Hence, based on the above-mentioned factors, the Authority is requested to treat Security Deposits by DCSC as part of RAB and allow the same Fair Rate of Return ('**FROR**') which is applicable to other assets.

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4. **Tariff Proposal for Air Freight Station ('AFS')**

   a. **Philosophy for AFS Cargo Tariff:** The Authority had directed DCSC to submit rate card for handling AFS Cargo on the pretext that the Ministry of Civil Aviation ('**MoCA**') promulgated the Policy Guidelines on Air Freight Station ('**AFS Policy**') to (i) *"create an enabling environment for promoting International Air Cargo operations by reaching out to hinterland regions of the country"; and (ii) "de-congesting the congested Air Cargo terminals in some gateway International Airports that face high dwell time."* Clearly, for the policy to be implemented and to meet its objective, the existing cargo terminals should have achieved their saturations levels. In the present case, however, the existing cargo terminals have not breached their capacities and rather can even increase their existing capacity by expanding the infrastructure. In fact, as agreed by AERA, the volume of cargo to be handled by DCSC will fall considerably in the future on account of the reasons stated above. Clearly, the Authority's stance in Para 6.1.1 of the Consultation Paper that the Air Cargo Terminal at IGI Airport is congested necessitating the requirement of AFS Operators is factually incorrect and being misused by AFS Operators for their convenience to create confusion amongst Air Cargo Terminal Users about the capacity of the Air Cargo Terminal of DCSC. As such, the tariff rate card proposed for AFS Cargo is presently premature and consequently, not required.

   b. **Operating Expenses for AFS Cargo:** The Authority's proposal of AFS Cargo also does not capture the wide gamut of activities performed by DCSC for handling the AFS Cargo which has resulted in the Authority arriving at the incorrect conclusion in Para 6.3.8 of the Consultation Paper that *"...the CTOs are expected to save on processing time and lower manpower deployment resulting in cost savings in AFS Cargo Handling."*

   DCSC at the time of Terminal Visit by the Authority's officials on 14.06.2022 had presented an overview of the Cargo Flow Process in the case of AFS Cargo and demonstrated that for handling AFS Cargo, DCSC has to undertake certain additional activities, which would involve additional deployment of equipment and manpower. A copy of the presentation is enclosed as **Annexure 1**.

   Briefly stated, the Cargo Operation activities at Cargo Terminal are divided into two sections:

   - City side activity
   - Air side activity

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| Sl No | Activity/ Process in Export Cargo Handling at CTO | Cityside Activity | Airside Activity | Remarks |
|---|---|---|---|---|
| 1 | Acceptance of Cargo | ✓ | × | Charges Levied on Agent/Shipper |
| 2 | Screening of Cargo | ✓ | × | Charges Levied on Airlines |
| 3 | Warehousing of Cargo | × | ✓ | Charges Levied on Airlines |
| 4 | Palletization of Cargo | × | ✓ | Charges Levied on Airlines |
| 5 | Release of Cargo to Airlines' ground handling agencies | × | ✓ | Charges included above charges |

The Comparative Chart for activities performed by DCSC for acceptance of General Cargo and AFS Cargo is as follows:

| Sl. No | Elements | GEN Cargo | AFS |
|---|---|---|---|
| 1 | Unloading from trucks | ✓ | ✓ |
| 2 | Ready for Carriage checks | ✓ | ✓ |
| 3 | Weight and Volume checks | ✓ | ✓ |
| 4 | Document verification and CTO system updation | ✓ | ✓ |
| 5 | Digital messages to stakeholders / authorities | ✓ | ✓ |
| 6 | Barcode labelling and scanning | ✓ | ✓ |
| 7 | Transporting cargo to Security Hold Area (SHA) | ✓ | ✓ |
| 8 | Physical security and vigilance of cargo | ✓ | ✓ |
| 9 | Dimensions / Contour and bulge checks | × | ✓ |

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As can be seen from the above Tables, DCSC has to perform more activities for processing AFS Cargo that it has to perform for the General Cargo. Further, since AFS Cargo will be received in palletized/ Unit Load devices (ULDs) form, DCSC will have to deploy extra manpower and specialized equipment, including weighing scales, seizure lift, fixed lazy dollies, movable lazy dolly, caster deck etc. for processing AFS Cargo

The activities of Screening, Warehousing and Palletization of Cargo are airside activities performed for Airlines for which DCSC does not levy any charges to Agent/Shipper. Thus, any cost savings from performing fewer activities related to Screening, Warehousing and Palletization of Cargo are accrued to the Airlines and not by the ISP handling AFS Cargo.

Hence, DCSC, as a Cargo Terminal Operator cannot be made to bear the brunt of lower costs and subsidize the AFS Cargo. Any discount which may be passed on the consumers ought to be provided by the AFS Operator and the Airlines utilizing such AFS Operator.

DCSC had proposed Expenses of Rs. 13.50 Crores for AFS Cargo in Table No. 18 of the MYTP application. The breakup of the expenses is as follows:

| | |
|---|---|
| Payroll Cost | : 6.78 Cr |
| Land Licence Fee | : 0.60 Cr |
| Repair & Maintenance | : 2.06 Cr |
| Concession Charges | : 4.05 Cr |
| Total | : 13.50 Cr |

The Concession Fees and Land Licence Fee payable by DCSC is already included in the Aggregate Revenue Requirement by the authority and apportioned to the total operating cost of the Cargo Handling operations. However, the Payroll Cost and Repair & Maintenance Cost of Rs. 8.84 Crores stated above are an additional cost incurred by DCSC for solely for AFS Cargo. The aforementioned expenses should be considered on a standalone basis for AFS Cargo and ought not be included in the total operating cost of the Cargo Handling operations as has been proposed by the Authority in Para 6.3.18.

c. **Tariff Proposed by the Authority:** DCSC had submitted a standalone MYTP for the AFS Cargo, outlining the Regulatory Asset Base, Depreciation, Expenses, Fair Rate of Return and Aggregate Revenue and on the basis of such factors DCSC had submitted a rate card for AFS Cargo.

The Authority in Para 6.5 of the Consultation Paper has proposed 30% lower TSP Charges for AFS Cargo as compared to normal approved TSP Charges compared for the Third Control Period without considering the MYTP submission in this regard by DCSC and based on incorrect understanding of the operations undertaken by DCSC for processing AFS Cargo. Further, the Authority's proposal of a blanket 30% reduction in TSP Charges for AFS Cargo is not supported by any reasoning.

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The Authority ought not to ignore the tariff filings by DCSC for AFS Cargo which is based on the tariff determination formula provided in the Guidelines.

The Authority in Para 6.4.2 of the Consultation Paper has noted that AFS Cargo must be incentivized in view of the policy initiative of MoCA by way of lower charges vis-a-vis rates applicable to general cargo.

The Authority has failed to consider that any incentives for development of AFS Cargo Facilities must come from MoCA. ISPs cannot be burdened with the costs associated with implementing MoCA's policy of promoting AFS Cargo. The Authority mandate of determining tariff and not for implementation of MoCA's policies ought to consider the MYTP submitted by DCSC for fixing tariff for AFS Cargo.

DCSC requests the Authority to approve the rate card for AFS Cargo submitted by DCSC as part of its MYTP.

5. **Fair Rate of Return for the Third Control Period**

DCSC had proposed FRoR @ 19% for the purpose of calculation of Return on RAB in the Third Control Period. However, the Authority in Para 7.2.2 of the Consultation has proposed to consider FRoR at 14%. However, the Authority has failed to consider the debt and equity gearing proposed by DCSC for the Third Control Period.

AERA vide its Consultation Paper No. 14/2018-19 dated 16.08.2018 which was issued in respect of Annual Tariff Proposal for FY 18, FY 19 & FY 21 of DCSC, determined FROR as **13.07%.**

As working of FRoR of 13.07% was not available with DCSC at that time, however, based on AERA CGF Guidelines, the cost of equity was back calculated as **16.39 %** FY 18, FY 19 & FY 21 as mentioned in the below table:

**Table: FROR Calculation** **(Figures in Crs)**

| Particulars | FY16-17 | FY17-18 | FY18-19 | FY19-20 | FY20-21 | Total |
|---|---|---|---|---|---|---|
| **Equity (A)** | 63.73 | 72.87 | 74.34 | 128.64 | 207.31 | 546.90 |
| **Debt (B)** | 133.91 | 137.83 | 128.73 | 115.33 | 99.50 | 615.30 |
| **Total C = (A+B)** | 197.64 | 210.70 | 203.07 | 243.97 | 306.81 | 1,162.20 |
| **Gearing (G) =(B/C)** | 67.75% | 65.41% | 63.39% | 47.27% | 32.43% | |
| **Cost of Equity (Ke)** | 16.39% | 16.39% | 16.39% | 16.39% | 16.39% | |
| **Cost of Debt (Kd)** | 10.27% | 10.38% | 10.38% | 10.38% | 10.37% | |

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| | |
|---|---|
| **Weighted Average Gearing =({∑5 T=1 (C*G)/ ∑5 T=1C}** | 55.3% |
| **FROR = {WG*Kd) + (1-WG)*Ke}** | **13.07%** |

*Note : Above mentioned data is based on the actual figures.*

The Authority while considering FROR of 14% for the Third Control Period has failed to consider that DCSC does not plan to incur any debt in the Third Control Period and shall be financing the Capital Expenditure purely through Equity i.e., 19%. Considering that the cost of debt is nil, the rate of return on equity should be considered as the FRoR even as per the formula provided in the Guidelines.

In fact, the FRoR of 14% proposed by the Authority is lower that the Return of Equity allowed by the Authority to DCSC in the Second Control Period. The Authority at the very least should allow FRoR of 16.39% in the Third Control Period in line with the Cost of Equity allowed for the Second Control Period as is demonstrated in the table below.

| Particulars | FY21-22 | FY22-23 | FY23-24 | FY24-25 | FY25-26 | Total |
|---|---|---|---|---|---|---|
| Equity (A) | 268.43 | 310.24 | 464.57 | 545.43 | 629.07 | 2,217.74 |
| Debt (B) | 0 | 0 | 0 | 0 | 0 | 0 |
| Total C = (A+B) | 268.43 | 310.24 | 464.57 | 545.43 | 629.07 | 2,217.74 |
| Gearing (G) =(B/C) | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | |
| Cost of Equity (Ke) | 16.39% | 16.39% | 16.39% | 16.39% | 16.39% | |
| Cost of Debt (Kd) | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | |
| | | | | | | |
| **Weighted Average Gearing =({∑5 T=1 (C*G)/ ∑5 T=1C}** | **0.00%** | | | | | |
| **FROR = {WG*Kd) + (1-WG)*Ke}** | **16.39%** | | | | | |

Thanking you,

For Delhi Cargo Service Center Private Limited

FOR DELHI CARGO SERVICE CENTER PVT. LTD.

(Authorized Signatory)

Authorised Signatory