WFS (BENGALURU) PRIVATE LIMITED, BENGALURU

Response to Airports Economic Regulatory Authority of India (AERA)'s Consultation Paper No. 01/2023-24 dated April 24, 2023, Determination of tariff for WFS (Bengaluru) Private Limited (WFSBPL) in respect of cargo handling services at Kempegowda International Airport, Bengaluru for the First Control Period (FY 2023-24 to FY 2027-28)

Contents

1 Introduction

Airports Economic Regulatory Authority of India ("AERA") has released Consultation Paper No. 01/2023-24 in the matter of determination of tariff for WFS (Bengaluru) Private Limited in respect of cargo handling services at Kempegowda International Airport, Bengaluru for the First Control Period (FY 2023-24 to FY 2027-28), ("Consultation Paper" or "CP") on 24th April 2023.

WFS Bengaluru Private Limited ("WFSBPL") would like to thank the Authority for preparing and issuing the CP on WFSBPL's tariff proposal for the First Control Period as per the Authority's Light Touch Approach.

WFSBPL and its parent company, WFS Global SAS ("WFS"), have devoted significant time and resources to this process and our first major venture into India. As the largest independent cargo handling services company in the world, WFS believes that the application of its global cargo handling experience, know-how and operational prowess can help deliver significant improvements and efficiencies across India's maturing air cargo market. WFS views India as a long-term investment opportunity extending beyond its first venture in Bengaluru.

Within this document, WFSBPL submits its responses to the proposals made by the Authority within the CP. Following a detailed review of the Authority's proposals, WFSBPL believes that the proposed tariffs do not ultimately allow WFSBPL to generate a reasonable and sustainable level of profitability, and similarly that the Authority's target profitability is materially less than what other peer group cargo handlers in India are allowed to generate. The aggregate negative profit for the First Control Period outlined by the Authority ultimately makes the investment unviable, and if unchanged will prompt a revisit of a number of investment decisions which could in turn curtail the longer term growth potential of the operation in addition to discouraging future WFS investments across India.

WFSBPL requests that the Authority consider the arguments and rationale outlined in detail within this document, and subsequently reflect an additional (incremental to what is outlined in the CP) increase in overall target level of profitability plus accompanying increase in the freight forwarder Terminal, Storage and Processing ("TSP") ceiling tariffs in the final Tariff Order, in sync with the request outlined in the WFSBPL MYTP submission which WFSBPL maintains.

2 Principles For Determination of Tariff – Light Touch Approach

2.1 AERA's Proposal

"It is pertinent to mention that though, the instant case, the Tariff for the ISP is being determined under Light Touch Approach; however, even in light touch approach, the Authority examines all the regulatory building blocks & underlying assumptions/ basis thereof, including projections relating to revenue, expenses, volumes etc. and other relevant aspects of the case, to ensure that extraordinary gains do not accrue to the Service Provider and that the end Users are not unduly burdened with high Tariff." (Para 2.5)

"Based on the material before it and based on its analysis, the Authority considers that the Cargo Handling Service provided by WFSBPL at KIA, Bengaluru is 'Material but Competitive'. Therefore, the Authority proposes to determine the Tariff for the First Control Period based on 'Light Touch Approach'" (Para 2.8)

2.2 WFSBPL's Submissions

a) WFSBPL submits that it has fully complied with the submissions required to be made as per 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 ("CGF Guidelines").

b) WFSBPL has also provided all additional details/ documents and clarifications called for by the Authority.

c) AERA has also concluded, based on its analysis, that the operations of WFSBPL as per the Service Provider Right Holder Agreement executed with Bangalore International Airport Limited ("BIAL") on 16th December 2022 ("SPRHA") are "Material and Competitive" and has confirmed applicability of the Light Touch approach.

d) Under this approach, WFSBPL is required to submit Form B, Tariff Card, Details of consultations with stakeholders as required by the CGF Guidelines. Being a new concessionaire, WFSBPL is in the process of entering into User agreements with Airlines which can be submitted to AERA as soon as they are executed.

e) Even after being satisfied of the availability of a competitive environment for operations of WFSBPL, which is the framework envisaged for the Light Touch approach of tariff determination in AERA's Guidelines, it appears that AERA has gone beyond its own framework in its evaluation process and has undertaken a detailed evaluation and computation of required revenues, which is more appropriate under the Price Cap approach. It is pertinent to note that under a competitive environment, AERA's Guidelines also envisage the position wherein the market forces will drive an optimized and reasonable tariff structure for the benefit of the users.

f) WFSBPL had carried out an analysis of the revenues required to ensure reasonable profitability, determined with reference to comparable peer benchmark profitability levels, and had accordingly computed the increase in rates required which have been outlined in the MYTP. Unlike other independent service providers ("ISPs") in India, ***WFSBPL had submitted rates that would result in losses in the initial years which it would absorb considering the need to balance the interest of all stakeholders***. The Consultation Paper and approach taken by the Authority do not appear to consider reasonable profitability targets, which we understood to be a core principle of Light Touch.

g) AERA's evaluation of the MYTP, while being stated as Light Touch, is in our view more akin to an intrusive Price Cap determination, which would not provide a level playing field for WFSBPL with other operators (Refer 1 for example of such operators) with respect to whom a Light Touch approach together with an overall profitability evaluation was conducted. Additionally, in a Light Touch approach AERA does not provide for any "True Ups", thereby creating a further disadvantageous situation for WFSBPL. In effect, the Authority has introduced an intrusive Price cap approach under Light touch wherein the True up benefit is also not given.

Table 1: Example of Operators with Profitability determined via Light Touch Approach by the Authority

ISP	Airport Location	Tariff Period	CP/Order No	Order Date
AAICLAS	Mangalore	FCP (FY20 - FY24)	45/2020-21	17.09.2020
	Chennai	FCP (FY20 - FY24)	16/2020-21	29.06.2020
	Pune	FCP (FY20 - FY24)	35/2020-21	01.09.2020
GSEC	Ahmedabad	TCP (FY22 - FY26)	27/2021-22	16.11.2021

h) Most importantly, AERA's computation under its approach has resulted in a negative profit for WFSBPL in aggregate for the entire First Control Period. This makes the entire investment unviable for WFSBPL and vitiates the assumptions and plans made at the time of investing in Indian cargo operations by WFSBPL.

i) Also, in AERA's assessment, apart from negative profit, cash losses are estimated throughout the Control Period, when the estimate considered by AERA is adjusted for the unrealisable revenue from airlines (as elaborated in Para 10.2(**Error! Reference source not found.** (Refer Table 2) which again contributes to making the entire investment unviable for WFSBPL and again vitiates the assumptions and plans made at the time of investing in Indian cargo operations by WFSBPL.

Table 2: Profitability situation / Cash Losses estimated by AERA

Profit and Cash losses as per AERA (Rs. In Crs.)	FY24	FY25	FY 26	FY 27	FY 28	Total
Profit as per AERA	(27.65)	(14.70)	(3.89)	8.83	24.87	**(12.54)**
Add: Depreciation	5.28	10.89	10.99	11.12	11.31	49.59
Cash Profit as per AERA	**(22.37)**	**(3.81)**	**7.10**	**19.95**	**36.18**	**37.05**

Profit and Cash losses as per AERA (Rs. In Crs.)	FY24	FY25	FY 26	FY 27	FY 28	Total
Less: Revenue not realisable (*Table 12*)	(5.42)	(10.22)	(14.59)	(19.55)	(25.78)	(75.56)
Total Cash Profit/ (Loss)	**(27.79)**	**(14.03)**	**(7.49)**	**0.40**	**10.40**	**(38.51)**

j) Therefore, WFSBPL submits that AERA, by taking the view that it is acceptable for a commercial venture to achieve negative profits over the course of a Control Period, acts against its own objectives to create a level playing field and encourage investment in airport facilities. By not permitting WFSBPL to achieve a reasonable and sustainable net profit margin, AERA has set a precedent that it will limit future investment in India's cargo operations. Please also refer Section 10.2 of this document.

k) AERA has noted that this analysis is done in order to ensure that there are no extra-ordinary gains to operator and that there is no burden to users. WFSBPL reiterates that it has in its submission projected an eventual profitability of 19% on revenues for the final year of the First Control Period, in line with industry standards, with losses projected for the first 2 years. Hence, there is no question of undue gains or burden.

WFSBPL reiterates the validity of the MYTP submission made and accompanying well-justified rate increases sought. WFSBPL requests that in determining the final Tariff Order, AERA considers a reasonable profitability benchmark and underpinning additional (versus what has been outlined in the CP) increase in TSP ceiling rates to ensure the long-term viability of its Bengaluru cargo operation.

3 Cargo Volume Projections

3.1 AERA's Proposal

"For estimating annualized international cargo volumes for FY 22-23 (baseline volume), the Authority considered decrease of 28% in international cargo volumes in FY 22-23 (based on actual international cargo volume handled by the incumbent (AISATS) for the period April 22 to February 23 & extrapolating cargo volumes for Mar 23), as compared to actual international cargo volumes handled by AISATS in FY 21-22 i.e 126547 MT." (Para 3.2.6, Table 6)

3.2 WFSBPL's Submissions

a) WFSBPL had submitted a detailed bottom-up projection of the base tariffs for FY 2023-24 considering the overall traffic conditions at Bengaluru and the conditions of sharply declining volumes handled by the incumbent operator of CT2, to arrive at an annualized volume assumption of 79,005 MT. In the presented scenario, WFSBPL considered a steep increase in projected volumes (28,160 MT) to account for customer wins and a general rebound in cargo at the airport. Such assumptions assumed a growth in market share for WFSBPL to ~50% from less than 40%, which is unlikely to be achievable in such a short period of time. Incremental to this aggressive baseline assumption, annual growth was projected at the highest CAGR experienced at Bengaluru Pre Covid-19 impact.

b) Since its MYTP submission which considered volume trend up to November 2022, the cargo volumes handled by the incumbent operator AISATS have remained materially down year-over-year, as detailed in the table below.

Table 3: CT 2 - Existing international cargo volumes handled

Month	FY2021-22	FY2022-23	YoY % Change
April	9,688	9,366	-3%
May	10,116	9,170	-9%
June	9,257	8,366	-10%
July	10,881	8,704	-20%
August	11,870	7,987	-33%
September	11,963	7,902	-34%
October	12,683	6,903	-46%
November	10,916	6,584	-40%
December	10,391	7,194	-31%
January	9,193	6,639	-28%
February	8,592	6,475	-25%
March	10,995	8,031	-27%
Grand Total	**1,26,546**	**93,319**	**-26%**

c) Also, a comparison of Cargo volumes in April 2022 and April 2023 is as below:

Table 4: CT 2 – Comparison of Cargo volumes handled in April 2022 and April 2023

Month	International Cargo MT
April 22	9366
April 23	7436
Difference	(1930)
Y-o-Y growth	**(20.6%)**

d) The Authority has considered a baseline of 91,725 MT versus 79,005 MT considered by WFSBPL by considering actual volume of AISATS in FY 2023 till February 2023 and adding an estimate for March 2023. The cargo volumes witnessed in April 2022 – May 2022 are extraordinarily high (one-time impacts), and these volume spikes are unlikely to repeat in the next years.

e) The Authority has subsequently assumed an annualised traffic volume of 132,308 MT for WFSBPL for FY2023-24, which represents a growth of 42% compared to the volume of cargo handled by AISATS at the same facility during the period of FY2022-23 which amounted to 93,319 MT (see table above).

f) It is pertinent to note that during the FY2022-23 period in question, the overall cargo volumes at AISATS facility declined 26% YoY, and the overall market at KIAB (considering CT1 and CT2) declined 8% YoY.

g) It is important to note that the volume for the months April 2023 onwards will be on the basis of the volumes handled by AISATS in March 2023. The reducing volumes handled by AISATS clearly indicates its loss of market share/ impact of shifting customers, and hence should be considered based on the monthly run rate. With current share being only 36% of total volumes, WFSBPL has considered a steep increase to around 50% of the total, which is a very aggressive and optimistic estimate.

h) AERA has therefore considered an increased baseline which runs contrary to the actual trends on the ground, and in addition to that, added the rebound target calculated on the assumption of a lower base. This is double counting of the potential upside on cargo volumes and results in an unrealistic tonnage projection right from FY 2023-24.

i) With the prevailing market conditions casting doubts on the achievability of the already estimated baseline number of 119,587 MT, any increase in the same would only artificially increase the volume and revenue, thereby artificially reducing the necessary rate increase.

j) WFSBPL does not expect to be able to achieve the volumes estimated by the Authority, which is expected to result in significant under-recovery of revenues and result in a much higher loss than the overall loss estimated by the Authority.

WFSBPL requests the Authority to consider the volume estimates as submitted by WFSBPL in its submissions in order to avoid over-inflating the revenue estimates by volume rebound and growth which will not be achievable. With no true-up protection in under Light Approach, this will severely impact profitability and investment decisions.

4 Depreciation

4.1 AERA's Proposal

"In view of the above and considering that during the first Tariff year, most of the capital works are likely to be capitalized around middle of FY 2023-24, therefore, the Authority proposes to compute depreciation for the year of capitalization, considering 50% of the asset value"(Para 4.4.4)

4.2 WFSBPL's Submissions

a) WFSBPL notes that Para 9.2.5 (d) of AERA guidelines provides for additions to be considered to be in the middle of the year and depreciation is considered accordingly.

b) We submit that this however is trued up based on actual depreciation based on the date of capitalization at the time of update of actual details in the next control period.

c) In the current submission, based on the date of commencement of operation in May 2023 during which these assets will be used for operations, WFSBPL requests the Authority to consider deprecation for a 10-month period for 2023-24.

WFSBPL requests AERA to consider depreciation for 10 months for FY 2023-24.

5 Operating Expenses

5.1 Payroll Cost

5.1.1 AERA's Proposal

"It is observed that though WFSBPL while projecting OPEX, including payroll & R&M Expenses etc., has based its cost estimates on the prevailing cost structure of the incumbent operator; however, ISP has not submitted any documents relating to cost structure of present incumbent operator. As per the information relating to present cargo operator available with the Authority, AISATS has considered just 3% YoY increase on its total payroll costs for their Bengaluru cargo operations, as against annual inflation of 14.2% considered by the ISP for payroll expenses. Moreover, the YoY increase of 14.2% considered by the ISP is in addition to volume driven increase in payroll expenses.(Para 5.4.1)

The justifications submitted by WFSBPL for upliftment of 25% in payroll costs for each category of employees, over and above the category-wise average salary calculations, are not convincing and obscure; as baseline salary for each category of employees have already been worked out by the ISP considering all the relevant factors, moreover, baseline salary is further subject to annual increments & increase in minimum wages etc. (Para 5.4.1)

In addition, as per the ISP, the majority of cargo employees falls under the unskilled labour category whose wages are governed under the minimum wages, notified by Government Authorities from time to time, and annual increase in minimum wages is generally lower than the YoY increase considered by the ISP for these employees. (Para 5.4.1)

Besides above, it is also observed that the ISP has linked historical WPI-Manufacturing with increase in minimum wages and has worked out projected inflation in payroll expenses @ 14.2%, based on ratio of historical increase in minimum wages with historical increase in WPI manufacturing (FY 12 to FY 22). It is not appropriate to compare and link increase in price of commodities (WPI manufacturing) with increase in price of services (minimum wages).(Para 5.4.1)

In view of the above, the Authority proposes to rationalize the payroll expenses projected by the WFSBPL, by excluding upliftment of 25% in salaries for all employees, considered by the ISP for the first Tariff Year. Accordingly, payroll expenses for the ISP have been worked out at ₹ 32.13 crores (annualized) by the Authority, as against Rs. 40.12 crores proposed by the ISP for the FY 2023-24. (Para 5.4.1)

However, as regard to Y-o-Y increase in payroll costs considered by the WFSBPL, the Authority considering the projected increase in cargo volumes, increase in minimum wages and annual salary increments and also taking into account the projected Y-o-Y increase in the revenues which is in line with the projected Y-o-Y increase in payroll costs, proposes to consider Y-o-Y increase in payroll expenses as proposed by the ISP." (Para 5.4.1)

5.1.2 WFSBPL's Submissions

a) WFSBPL thanks the Authority for considering the year-over-year increase in payroll expenses. However, the Authority has not considered the component of 25% of salary cost made up of Employee Benefits including Provident Fund and other similar contributions, stating that these are not convincing and obscure.

b) WFSBPL reiterates that in line with the detailed submissions made earlier, the estimates are fully based on the incumbent cost insights and estimates which have been confirmed by AISATS, relating to Provident Fund and other contributions.

c) WFSBPL has also considered optimisation in costs based on aggressive productivity and efficiency improvements targeted over the Control Period. Such efficiency improvements expected during the First Control Period are significantly more ambitious (in terms of YoY % improvement) than those achieved at other stations in the WFS portfolio worldwide and are only achievable with well-incentivised and well-trained employees (hence the need to secure a large element of the existing incumbent workforce).

d) The personnel cost submitted by WFSBPL is comparable to the industry standards and is in the range as compared with other Cargo operators which has been approved by AERA as outlined below:

Table 5: Personnel Cost comparison (Submitted by WFSBPL and as per Hyderabad Cargo Order)

Airport	Operator	Financial Year	No of Employees	Payroll Cost (INR Crs.)	Payroll Cost per Employee (INR Lakhs)
Bangalore	WFSBPL	FY 24	878	40.12	4.57
Hyderabad	GHAC	FY 24	760	36.63	4.82

WFSBPL requests AERA to consider the personnel costs as submitted within the MYTP which are underpinned by current incumbent-confirmed estimates.

5.2 Consumable, Utility, Repair and Maintenance Cost

5.2.1 AERA's Proposal

"The Authority observes that as per the ISP, the current state of the Cargo Terminal (CT2) and CCF is extremely poor and in disrepair. Accordingly, ISP has undertaken major refurbishment of CT2 & CCF and procurement of MHS at an estimated cost of Rs 109.47 crores & Rs. 28.93 crores (incl. expansion) respectively. Considering that WFSBPL is spending huge amount on refurbishment & restoration works & procurement of new Cargo Handling Equipment for Cargo Terminal & CCF, it should result in lower R&M expenses for the ISP, at least in initial years of the Control Period. In the above background, repair and maintenance expenses of ₹ 49.57 crores proposed by the WSFBPL for the First Control Period appears to be on higher side. (Para 5.4.7)

The Authority sought clarifications from ISP in this regard. In response thereto, ISP has submitted that they have estimated the repair and maintenance cost for the control period by starting with the approximate costs that are incurred by the incumbent. WFSBPL further submitted that approximately ₹ 21 crores only have been proposed to be spent as capital expenditure on new equipment. This mainly consists of forklifts and x-ray machines. Apart from these changes, the existing equipment would continue, and therefore WFSBPL expects that the costs incurred by the incumbent would continue. Further, it should be noted that the CT2 terminal is about 15+ years old. (Para 5.4.7)

As already indicated above, after the major refurbishment & restoration work in respect of CT2 & CCF and procurement of new cargo equipment, the Authority feels that the repair and maintenance costs proposed by the ISP is on higher side and on top of it, ISP has considered YoY escalation in R&M expenses at 11%, whereas, ISP itself has estimated WPI of 4.4% p.a. Therefore, the Authority proposes to rationalize the R&M costs by considering lower YoY increase in R&M expenses @7% YoY from FY 2024-25 onward for the First Control Period." (Para 5.4.7)

5.2.2 WFSBPL's Submissions

a) WFSBPL has considered escalation rates for the costs based on the rate of increase anticipated by it and in line with vendor insights and the trends observed in other WFS operations.

WFSBPL requests AERA to consider the escalation rates as proposed within the MYTP, which WFSBPL believes represent accurate estimates informed by vendor insights and WFS experience from other WFS stations.

5.3 IT costs

5.3.1 AERA's Proposal

"Since, the ISP has already considered broad-based IT OPEX in first year itself (FY 2023-24), the Authority feels that going forward with 12% YoY escalation in IT OPEX is on the higher side, particularly taking into account WPI inflation estimated by the ISP is around 4.4%. Further, 75% IT cost variability with volume assumed by ISP also appears to be on higher side, as IT hardware and software are capable of handling higher cargo turnover (in financial terms), though the physical handling of higher cargo volumes may require more material handling equipment. In view of the foregoing, the Authority proposes to rationalize the IT costs by considering lower YoY increase in IT costs @ 7% from FY 2024-25 to FY 2027-28."(Para 5.4.8)

5.3.2 WFSBPL's Submissions

a) WFSBPL has considered escalation rates for the costs based on the rate of increase anticipated by it and in line with the trends observed in other operations. AERA has not considered that the software utilized by Cargo Operators (e.g., Warehouse

Management System "WMS") requires a charge per volume handled. This therefore increases costs on a one-for-one basis with volume.

WFSBPL requests AERA to consider the escalation rates as proposed within the MYTP, which WFSBPL believes represent accurate estimates informed by vendor insights and WFS experience from other WFS stations.

6 Return on Security Deposit (SD)

6.1 AERA's Proposal

"As regard to return on interest free SD, the Authority proposes to consider 5% return on interest free SD, as per the AERA's consistent approach regarding rate of return on interest free SD and also proposes to exclude return on SD from OPEX table as the same has been given separately along with return on RAB under ARR calculation."(Para 5.4.9)

6.2 WFSBPL's Submissions

a) WFSBPL submits that requirement of a Security Deposit is an integral part of the SPRHA executed with BIAL.

b) The Security Deposit is a part of the long-term funding required for the project for which funds are to be arranged by WFSBPL.

c) WFSBPL had, considering the total long-term fund requirement for Capital Expenditure and Security Deposit, arranged for funding through ECB from its Parent Company in addition to the Equity funding. Rate of interest for the said loan was based on RBI approved rates and on an arms' length basis as per the Corporate Governance Framework.

d) As a loan has been taken for funding the Security Deposit and as the same is paid in cash to BIAL (and not as Guarantee etc.), the cost incurred by WFSBPL should be considered accordingly by the Authority in its tariff determination process.

e) WFSBPL is a new entrant in Cargo business and faces many risks similar to any new startup business and hence should not be compared with other operators. Also, the Security Deposit has not been funded by any internal accruals but only based on borrowing and Equity. Providing lower returns on Security Deposit raised by a startup business like WFSBPL will result in losses for the startup which has no access to large scale internal accruals.

f) The mismatch between the cost of equity/ loan and the return earned on a substantial long-term investment in the form of a Security Deposit creates an implied loss on funds that have been invested in the Security Deposit. The Security Deposit should be a cost-neutral facility in order to achieve its intended purpose of providing security for the airport in case of any accidents or required pay-outs. The implied loss on funds attributed to the Security Deposit is also one key reason for lack of profitability (Negative profit) as estimated by AERA itself for the WFSBPL operation.

g) WFSBPL also notes that in the earlier Orders of other ISPs (Order No. 32/ 2017-18 dated 18th December 2017) where Authority has noted that "*If a WACC return on such large deposit is provided to ISP, then the corresponding return earned by the Airport operator has to be clawed from their respective ARR. As the Authority has so far not considered any notional revenue in the books of the Airport operator for the ARR computation, in case a*

WACC return is allowed to ISP, then a retrospective calculation of the same may have to be made while truing up the revenue for the airport operator in the coming control period". In this context WFSBPL submits that any deposit raised by an Airport Operator, if remains as cash, results in an Interest Income which is considered as part of Tariff determination process as part of Non-Aeronautical Revenues by AERA. Hence, these revenues are already in the ambit of Airport Operator tariff determination.

h) AERA has also noted in the said ISP Order that "*On the contrary, in case no return for a large deposit of a long tenure is allowed to ISP, it would result in the reduction of the real value of such deposits at the end of the contract period"*. WFSBPL respectfully submits that not providing an adequate return on a deposit, will also reduce the real value of the deposits.

i) While AERA and TDSAT have noted that the Security Deposit has no direct relevance to the operations of the facility, WFSBPL submits that these are part of the terms of commercial agreements that were mandated by the Airport Operator and the concessionaire such as WFSBPL has no option but to comply with the same. Any income earned out of the concession including interest etc. on Security Deposit, at the hands of Airport Operator, is being considered as part of the tariff determination at the airports.

j) A stylised example demonstrating the effect of a very low and inappropriate return being given on Security Deposit and its impact on the overall profitability is given below. ***(Please note that the numbers herein used are examples and for illustration only).***

Table 6: Sample computation of return % under current process of AERA for hypothetical company

Assumptions	**Figures**
CoE	14%
CoD	10%
Total Project cost - Rs. Cr.	
Capex	150
Security Deposit	50
Total	**200**
Funded by - Rs. Cr.	
Equity	50.00
Debt	150.00
Total	**200**
Depreciation per annum Rs. Cr.	**10**
Interest cost per annum Rs. Cr.	15
Assume Loan repayment equals Depreciation	

Assume all actual costs are a passthrough, (Operating Expenditure, Depreciation and even Tax (Tax not considered in this example). Therefore, return on RAB plus return Security Deposit minus Interest cost is the profit for the hypothetical/example company as presented below:

Particulars	Y1	Y2	Y3	Y4	Y5
Equity Movement					
Opening Equity	50.00	53.78	57.44	60.98	64.39
Add Profit for the year	3.78	3.66	3.54	3.41	3.29
Closing Equity	53.78	57.44	60.98	64.39	67.68
Average Equity	51.89	55.61	59.21	62.69	66.04
Debt movement					
Opening Debt	150.00	140.00	130.00	120.00	110.00
Less: Repayment	-10.00	-10.00	-10.00	-10.00	-10.00
Closing Debt	140.00	130.00	120.00	110.00	100.00
Average Debt	145.00	135.00	125.00	115.00	105.00
Gearing Equity	26.35%	29.17%	32.14%	35.28%	38.61%
Gearing Debt	73.65%	70.83%	67.86%	64.72%	61.39%
Total funds	196.89	190.61	184.21	177.69	171.04
Weighted Gearing	67.90%				
WACC	11.28%				
WACC (Annual)	11.05%	11.17%	11.29%	11.41%	11.54%
Average RAB computation					
Opening RAB	150.00	140.00	130.00	120.00	110.00
Depreciation	10.00	10.00	10.00	10.00	10.00
Closing RAB	140.00	130.00	120.00	110.00	100.00
Average RAB	145.00	135.00	125.00	115.00	105.00
Simplified P&L					
Return on RAB	16.36	15.23	14.10	12.98	11.85
Return on SD @ 5%	2.50	2.50	2.50	2.50	2.50
Interest cost	-15.00	-14.00	-13.00	-12.00	-11.00
Net profit	**3.86**	**3.73**	**3.60**	**3.48**	**3.35**
Return on Equity invested	**7.44%**	**6.71%**	**6.09%**	**5.55%**	**5.07%**

k) From the above, it is clearly evident that, under AERA's own methodology, it is not possible to earn even a reasonable return if the return on Security Deposit is not given based on the cost incurred to raise the deposit.

l) Further, Hon'ble TDSAT has, in the order issued relating to DIAL's Aeronautical Tariff for the first control period stated in Paragraph 106 that "*…At the least, the cost would be the rate of return made available by the approved funds having required ratings of CRISIL*"

WFSBPL requests AERA to provide for a return equal to WACC, or at a minimum Cost of Debt, on the Security Deposit funded.

7 Preliminary Expenses

7.1 AERA's Proposal

"The Authority further notes from the information submitted by the WFSBPL that the interest of ₹ 3.10 crores for the period Nov 2022 to May 2023 on the loan availed from parent company has been included in Preliminary expenses. The Authority notes from the documents furnished by the ISP that the tenure of the loans indicated above are being availed by the ISP is more than 12 months and the aforesaid loans are primarily meant to finance CAPEX proposed for the Control Period. Accordingly, the same is not qualifying for a working capital loan. Therefore, the Authority proposes to exclude interest amount of ₹ 3.10 crores from OPEX proposed for the First Control Period. In view of the above, the Authority proposes to consider the preliminary expenses up to COD amounting to ₹ 12.25 (₹15.35 - ₹ 3.10) crores in the first year i.e. FY 2023-24."(Para 5.4.10)

7.2 WFSBPL's Submissions

a) WFSBPL had estimated the cost of interest to be incurred before commencement of the Project. As these relate to costs to be incurred until May 2023, a period less than 1 year from the time of receipt of the loan, the same is not capitalised as part of the Capital Expenditure cost, as per the applicable accounting provisions.

b) Not considering a legitimate cost as part of the cost to be considered for reimbursement through regulatory means deprives a legitimate reimbursement (resulting in loss), which WFSBPL does not believe is in line with the regulatory framework of ensuring reasonable return.

c) WFSBPL submits that the actual interest and pre-operative cost incurred till March 2023 amounts to Rs. 5.9 crore.

d) WFSBPL hence requests the same to be considered as part of the Preliminary expenses. It is pertinent to note that if the cost is part of Capex, as per AERA, the same is not also added to the asset base by AERA to provide a return on the same.

WFSBPL requests to the Authority that legitimate costs incurred for the entity be considered as part of the cost and a reimbursement provided on the same basis through the tariff determination process.

8 Interest Cost

8.1 AERA's Proposal

<u>Cost of Debt</u>

"The authority notes that yearly interest liability on term loans from FY 2023-24 to FY 2027-28 has been considered by WFSBPL as part of its operating costs and charged off to projected Profit & Loss Account in the respective years of the First Control Period. The Authority proposes to consider interest expenses in Profit & Loss statement only and same will not be made part of ARR calculations."(Para 5.4.11)

The Authority notes that WFSBPL has computed ARR considering Interest on Working Capital, which is not consistent with AERA's CGF Guidelines, 2011. (Para 7.2.1)

…The Authority feels that GSEC yield may fluctuate in a short term, however, on a long-term perspective GSEC yield is expected to follow historical trend. Therefore, the Authority is of the view that yield on GSEC in future may not move only in upward direction, as assumed by the ISP. In view of the above, the Authority, for the purpose of computation of FRoR, proposes to consider the Cost of Debt @ 9.56%, based on the cost of debt considered by the ISP for the first tariff year i.e. FY 2023-24. (Para 7.2.2)

<u>Cost of Guarantee</u>

Custodianship Cost: The Authority notes that as per clause 18 of Joint Venture Agreement, Service Provider Right Holder shall be solely responsible for performing all the obligation under and complying with all applicable laws relating to Indian Customs, whether applicable to BIAL as custodian or otherwise. The extract of the relevant Clause is as under:

"SPRH-2 i.e. WFSBPL shall reimburse to BIAL the costs incurred by BIAL for providing bond, bank guarantee and any other costs required by customs authorities in relation to its custodianship.

The SPRH-2 shall also be responsible for costs such as penalties, fines, other costs related to custodianship, or any other cost required by Customs"

In the view of the above, the Authority proposes to consider the custodianship cost (commission @ 0.7%) payable to bank on the bond to be executed for estimated outstanding custom outstanding of Rs. 60 crores, as submitted by ISP for the First Control Period. (Para 5.4.6)

The Authority sought basis of proposed bank commission @ 5% p.a. in respect of performance guarantee, which appears to be higher. The ISP vide email dated 07.03.2023 stated that it was a clerical error and bank commission on performance guarantee may be taken as 1.9% p.a. instead of 5% p.a. (Para 5.4.9)

<u>Interest on Working Capital</u>

The Authority notes that WFSBPL has computed ARR considering Interest on Working Capital, which is not consistent with AERA's CGF Guidelines, 2011. (Para 7.2.1)

8.2 WFSBPL's Submissions

Interest cost as part of P&L and not ARR

a) WFSBPL notes that the Authority has proposed that the interest cost on term loans will be part of P&L and not considered as part of the ARR calculations.

b) WFSBPL submits that the MYTP submissions made by it are based on an overall reasonable profitability level supported by the projected income statement, and that the interest costs are part of the overall costs and should be considered accordingly by the Authority.

Cost of Debt considered at a standard rate without any increase in further years.

c) WFSBPL has submitted the basis of the Interest costs estimated for the first year and the future years.

d) While the rate increase is pegged to the G-Sec movement, the future trends are not exactly reflective of the past behaviour as detailed by AERA. It is pertinent to note that even in AERA's analysis, March 2022 yield rates are higher than the rates of February 2021.

e) Considering the emerging global scenarios and the rate hikes announced everywhere, the interest costs are only likely to increase, as can be seen from recent developments.

f) AERA also has taken cognizance of the fluctuations in the G-Sec noting that "The Authority feels that GSEC yield may fluctuate in a short term, however, on a long-term perspective GSEC yield is expected to follow historical trend". Even with any short-term fluctuations, WFSBPL is obligated to pay such costs to the lender of the loan and cannot refer to a long-term equilibrium and avoid Interest payments. Considering current global scenarios and rate hikes in other countries, it is considered likely that interest costs will continue to rise. Recent developments support this include the US Federal Reserve's decision to increase interest rates in December 2022. (References: Reuters, "Fed Raises Interest Rates for First Time in Over a Year", December 15, 2022. (https://www.reuters.com/markets/central-banks-ramp-up-rates-again-pace-slows-2022-12-15/)

g) The below table of SBI MCLR for a period of last one year gives a clear indication of increasing interest rates.

Table 7: SBI MCLR rate trend

Marginal Cost Lending Rates

Effective Date	Interest Rate (%)						
	ON	1M	3M	6M	1Y	2Y	3Y
15.04.2023	7.95	8.1	8.1	8.4	8.5	8.6	8.7
15.03.2023	7.95	8.1	8.1	8.4	8.5	8.6	8.7
15.02.2023	7.95	8.1	8.1	8.4	8.5	8.6	8.7

15.01.2023	7.85	8	8	8.3	8.4	8.5	8.6
15.12.2022	7.85	8	8	8.3	8.3	8.5	8.6
15.11.2022	7.6	7.75	7.75	8.05	8.05	8.25	8.35
15.10.2022	7.6	7.6	7.6	7.9	7.95	8.15	8.25
15.09.2022	7.35	7.35	7.35	7.65	7.7	7.9	8
15.08.2022	7.35	7.35	7.35	7.65	7.7	7.9	8
15.07.2022	7.15	7.15	7.15	7.45	7.5	7.7	7.8
15.06.2022	7.05	7.05	7.05	7.35	7.4	7.6	7.7
15.05.2022	6.85	6.85	6.85	7.15	7.2	7.4	7.5
15.04.2022	6.75	6.75	6.75	7.05	7.1	7.3	7.4

Source: https://sbi.co.in/web/interest-rates/interest-rates/mclr-historical-data

h) Considering the above, it is important that the small increase in rate of interest estimated by WFSBPL is provided so that there is no interest cost lost by WFSBPL which remains uncompensated in the regulatory mechanism of AERA.

Interest on Bank Guarantee related cost not considered

i) In the Consultation Paper, AERA has outlined the requirement of a Performance Guarantee as per the SPRHA executed with BIAL. WFSBPL has requested that the Performance Guarantee be considered at 1.9%, instead of the 5% initially submitted.

j) However, AERA has not considered the cost as part of Operating Expenditure, possibly, we would respectfully suggest, by oversight.

k) As these are legitimate costs contractually required to be incurred by WFSBPL, we request the Authority to include the same as part of Operating Expenditure. The estimate for the 5 year period for the same are Rs. 2.24 crs. respectively.

Interest on Working capital not allowed

l) WFSBPL has estimated the need for working capital based on the requirements for funding routine operational needs and to meet the cash losses expected to be incurred in the business. These cash losses (Refer Table 2) as estimated by AERA amounting to Rs. 27.05 Crs, further adjusted for the revenue that will not be collected (Refer Table 12) in the region of Rs. 51.84 Cr.

m) It is evident from the table that despite the increased volume and other factors proposed by the Authority in the Consultation Paper, cash losses are still expected to be incurred.

n) It is essential to factor in the cost of working capital to ensure that the business is adequately funded and can meet its operational requirements without any interruption.

o) AERA has noted that this is not consistent with CGF Guidelines. WFSBPL reproduces Para 9.4.3 of the CGF Guidelines which states as follows:

"The Authority shall consider interest on short term loans, generally raised towards working capital with a maturity of less than one year, as operation and maintenance expenditure to address the working capital requirement."

p) WFSBPL submits that one part of the loan proposed to be taken is for funding the Working Capital requirement, which is also explicitly provided for consideration as Operation and Maintenance Expenditure as per the CGF Guidelines.

q) As these are legitimate and mandatory costs required to be incurred for the purpose of operations of WFSBPL considering the working capital requirement and the loss position not resulting in any Internal accruals being built up, these are required to be provided for as reimbursement as part of Operating Expenses of WFSBPL.

Based on the above rationale, WFSBPL humbly requests the Authority to:

a) Provide for increase in interest cost as estimated by WFSBPL
b) Consider cost of guarantee as a part of Operating Expenditure
c) Consider cost of work capital as a part of Operating Expenditure

9 Fair Rate of Return (FRoR/ WACC)

9.1 AERA's Proposal

"The Authority proposes to consider Cost of Equity @ 14% for the First Control Period, which is in line with the AERA's consistent approach for considering Cost of Equity for ISPs (Para 7.2.2)

… Considering the above, the Authority proposes to consider FRoR @ 10.31% for computation of ARR in respect of WFSBPL for the First Control Period as per Table given below (Para 7.2.2)

The Authority observes that the ISPs bring different mix of debt and equity, which leads to considerable variation in the Fair Rate of Return. The Authority will analyze this issue in future and may rationalize and shift to notional gearing ratio, for the computation of FRoR. (Para 7.2.3)

9.2 WFSBPL's Submissions

a) As detailed earlier, WFSBPL submits that the tariff determination process should adopt a Light Touch approach evaluating overall profitability and reasonableness only. Whilst WFSBPL does not agree with the Authority's application of FRoR and Return on RAB (which WFSBPL understands are only applicable to Price Cap and therefore not applicable under Light Touch), WFSBPL submits the following observations:

<u>Cost of Equity</u>

b) AERA has stated that the Cost of Equity will be only 14% in line with the Authority's approach for ISPs and has not detailed any basis or backing for such an estimate.

c) Clause 9.1.3 and AI.5.2.3 read with 2.11 of the CGF Guidelines also require an evaluation using a Capital Asset Pricing model, details of which have not been provided by the Authority.

d) WFSBPL has noted that AERA has proposed a Cost of Equity of 14% without evaluating the factors that may impact the project's risk and return expectations. The Cost of Equity generally applied by WFSBPL is 23. 55% which is reflective of the risks and consequent return expectations.

e) AERA has evaluated the cost of equity for Airport Operators in the range of 15% to 15.5% together with a notional gearing being used for evaluating FRoR as can be assessed from the table below. The Airport Operators generally enjoy a monopoly situation whereas there are additional risks of competition and other factors that ISPs face and hence the risk profile of the ISPs is different and far higher.

Table 8: FRoR of other Airport Operators considered by AERA

Airport	Control Period	Order No	Date	Gearing	CoE	FRoR
Delhi	TCP (FY20 - FY24)	57/2020-21	12/30/2020	48.00%	15.41%	12.75%
Bangalore	TCP (FY22 - FY26)	11/2021-22	8/28/2021	48.00%	15.05%	11.59%
Mumbai	TCP (FY20 - FY24)	64/2020-21	2/27/2021	48.00%	15.13%	12.81%
Hyderabad	TCP (FY22 - FY26)	12/2021-22	12/2021-22	48.00%	15.17%	12.20%

Gearing and consequent FRoR

f) WFSBPL notes that the FRoR considered by AERA in case of other ISPs are in a much higher range as detailed below:

Table 9: FRoR of other ISP operators considered by AERA

Airport	Operator Category	Operator	Gearing	Cost of Debt	Cost of Equity	FRoR	Approach
Delhi	Cargo	DCSC	0.00%	0.00%	14.00%	14.00%	Light Touch
Hyderabad	Cargo	GHAC	38.25%	9.00%	14.00%	12.09%	Light Touch
Bangalore	Fuel	IOSPL	9.00%	8.50%	14.00%	13.50%	Price Cap
Bangalore	ITP	BSSPL	21.00%	10.00%	14.00%	13.12%	Price Cap
Mumbai	Fuel	MAFFFL	0% to 30%	0.25% to 2.18%	14.00%	13.28%	Price Cap
Mumbai	Cargo	MCSCAPL	0.00%	0.00%	14.00%	14.00%	Light Touch

g) This is presumably because of the lower gearing of debt. WFSBPL has consciously worked on ensuring an optimum mix of debt and equity to balance business needs and contractual arrangements in place with the Airport Operator as a JV partner. It appears that WFSBPL is being penalized for ensuring optimum financing whereas AERA has considered the Gearing at actuals, taking advantage of the higher debt financing and at the same time considering CoE at 14% without basis.

h) Further, AERA has computed the Gearing considering the Debt and Equity mix of entire WFSBPL operations. It is pertinent to note that a significant part of the total funding is towards Security Deposit which the Authority has evaluated separately. Hence, the Authority should consider the gearing after setting aside the cost related to Security Deposit for computing the Weighted average gearing as presented below:

Table 10: Weighted Average Gearing after setting aside cost related to Security Deposit

Particulars	FY 24	FY 25	FY 26	FY 27	FY 28
Equity in INR Cr.	36.08	36.08	36.08	36.08	36.08
Debt in INR Cr.	139	139.05	134.01	126.25	118.49
Total in INR Cr.	**175.13**	**175.13**	**170.09**	**162.33**	**154.57**
Gearing	**79.40%**	**79.40%**	**78.79%**	**77.77%**	**76.66%**
Weighted Average Gearing					**78.47%**

i) Also, AERA has noted that it may shift to a notional gearing ratio in future. WFSBPL submits that it has planned efficiently the Debt and Equity mix of the operations in order to ensure costs of operations are managed optimally. Not allowing a notional gearing but applying the actual gearing and on top of the same, considering a Rate of Equity at 14% has led to a very curtailed FRoR being considered by AERA for WFSBPL, which is not reflective of the business needs and has led to a loss on an overall basis, making the operations unviable. The FRoR is also not in line with the other operators in the Aviation sector in India.

j) Based on the Cost of Equity at 23.55% and the gearing after setting aside costs relating to Security deposit, allowing for increase in cost of debt over the years, the reworked FRoR is as follows:

Table 11: FRoR as proposed in the CP and reworked by WFSBPL

Particulars	FY 24	FY 25	FY 26	FY 27	FY 28
As per AERA in CP					
Equity in INR Cr.	36.08	36.08	36.08	36.08	36.08
Debt in INR Cr.	188.42	188.42	179.59	168.03	156.47
Total in INR Cr.	**224.50**	**224.50**	**215.67**	**204.11**	**192.55**
Gearing	**83.93%**	**83.93%**	**83.27%**	**82.32%**	**81.26%**
Weighted Average Gearing					**83.00%**
CoE					14.00%
CoD					9.56%
FRoR					**10.31%**
As requested by WFSBPL					
Equity in INR Cr.	36.08	36.08	36.08	36.08	36.08
Debt in INR Cr.	139.05	139.05	134.01	126.25	118.49
Total in INR Cr.	**175.13**	**175.13**	**170.09**	**162.33**	**154.57**
Gearing	**79.40%**	**79.40%**	**78.79%**	**77.77%**	**76.66%**
CoE	23.55%	23.55%	23.55%	23.55%	23.55%
CoD	9.56%	10.06%	10.56%	11.06%	11.06%
FRoR	**12.44%**	**12.84%**	**13.32%**	**13.84%**	**13.98%**

WFSBPL requests the Authority to

a) **Consider Cost of Equity at 23.55% in line with the risk assessment of WFSBPL**
b) **Consider Gearing ranging from 76.66% to 79.40% after setting aside the costs related to Security Deposit**
c) **Considering increase in cost of debt over the years as requested by WFSBPL**
d) **Consider FRoR as per above computations of WFSBPL.**

10 Aggregate Revenue Requirement (ARR) and Revenue

10.1 AERA's Proposal

The Authority, considering that the aviation sector is gradually recovering from the aftermath of Covid-19 pandemic and in order to avoid onetime steep increase in Tariff, proposes to stagger the Tariff increase for the First Control Period as per table stated above instead of allowing one-time increase.(Para 7.2.7)

Accordingly, the Authority, based on its computation of ARR for WFSBPL for the First Control Period, proposes following % increase in Tariff for regulated Cargo Handling Services, over the prevailing tariff as applicable to incumbent operator: - 20% increase for FY 2023-24 (w.e.f. 24.05.2023) - 11% increase for FY 2024-25 - 10% increase for FY 2025-26 - 9% increase for FY 2026-27 & FY 2027-28.(Para 7.2.8)

The Authority notes that WFSBPL has proposed lower % Tariff increase for Airlines, as compared to the % Tariff increase proposed for Shippers/Agents. The Authority feels that CAPEX & OPEX incurred by cargo operator for the improvement of infrastructure and improving efficiency of cargo handling operations is enjoyed by all the users, including airlines. It would not be appropriate to burden the Shippers/Agents with higher % Tariff increase (in respect of TSP etc.) vis-à-vis % Tariff increase proposed for the services availed by the Airlines. (Para 8.2.2)

In view of the foregoing and to maintain balance in the interests of all the Users, the Authority proposes to consider uniform % tariff increase for all users of cargo handling services, which is also in line with AERA's consistent approach regarding uniform rates of Tariff increase for all the services provided by the ISP. (Para 8.2.2)

From the above table, the Authority notes that in the initial years of the control period, ISP is projected to have negative profitability, primarily on account of preliminary expenses & depreciation resulting from significant CAPEX in first year of control period. However, it is observed that ISP is expected to significantly improve profitability from FY 2026-27 onward & generate surplus."(Para 8.2.6)

10.2 WFSBPL's Submissions

a) WFSBPL reiterates its submission that the tariff determination should be done on a Light Touch approach based on evaluation of overall reasonableness and profitability.

<u>Uniform rate increases</u>

b) The Authority's guidelines permit the operators to structure the Tariff Card aligned with the business and market needs. In line with this, WFSBPL had submitted its Tariff Card proposing to have different levels of % price adjustments for rates charged to airlines and freight forwarders.

c) An air cargo handling services market such as Bengaluru with more than one Cargo Terminal operator present provides substantial price negotiation power to airlines. In a competitive market, forcing an airline to pay ceiling rates is difficult given the competitor can simply undercut pricing to secure the business.

d) For example, the airline carrier ceiling rates in place for the incumbent operator have been in place since FY 2013-14, but many customers still pay substantially less than these rates given the competition in place. This highlights the challenges that Cargo Terminal Operators face in achieving the permitted ceiling tariff levels from airlines and associated challenges in offsetting continued cost inflation. The revenue projections presented in the Consultation Paper assume an increase in revenues for both airlines and freight forwarders, but they are neither realistic nor achievable as can be seen in the table below. Consequently, WFSBPL will be unfairly penalized due to market realities that are beyond its control.

e) Additionally, a carrier's cost of operations at a given airport/terminal will be seen in comparison to the entire global network of airport options available to the carrier when starting operations. Therefore, being able to attract a carrier to a given market brings benefits to the entire local ecosystem including forwarders, exporters/importers and local economy at large. By offering attractive rates to carriers, WFSBPL would be able to attract more carriers to its facilities, thereby increasing choice, capacity and connections available to the users.

f) The situation is even tougher for a new entrant in the market such as WFSBPL, competing against an established and much larger competitor (in local volume terms), and as such price discounting becomes a primary tool to attract and retain carrier customers. If WFSBPL wishes to maintain the existing facility customer business, WFSBPL simply cannot compel the customers to pay the ceiling rates.

g) From a practical perspective, as the new concession is due to start on 24 May 2023, prices are currently being finalised with airlines within the boundaries of the existing ceiling rates, for contracts with a duration ranging from three to five years. Any uplift in airline ceiling rates subsequently granted by the Authority will not make any material difference to the pricing for existing customers given this has to be agreed contractually within the coming weeks and given this pricing will be fixed for the next three to five years (depending on duration of customer contract).

h) Given the above, it is impossible that the tariff hikes prescribed for carrier customers can be fully realised by WFSBPL. In the longer term, due to the length of standard contracts in this industry (3-5 years on average), the gap between assessed revenues from airlines and the realized revenues would become too large and could endanger the overall viability of operations for the ISP unless a significantly more material (versus current CP proposal) TSP tariff increase is granted.

Table 12: Revenue Gap (Computed Airline Revenue as proposed in CP vis-à-vis estimated Airline Revenue as per WFSBPL)

Particulars (Rs. In Cr.)	Ref.	FY 24	FY 25	FY 26	FY 27	FY 28	Total
Airline revenue as per WFSBPL submission (Table 26 of CP)	A	24.51	33.62	38.43	43.93	50.22	190.71
Adjustment for Volume (To compare with AERA Volumes)	B = A*C	27.12	37.07	42.37	48.44	55.37	210.37
Airline Revenue as per Authority (Table 29 of CP)	D	32.54	47.29	56.96	67.99	81.15	285.93
Revenue Gap	E = D-B	**-5.42**	**-10.22**	**-14.59**	**-19.55**	**-25.78**	**-75.56**
Computation of Volume adjustment							
WFSBPL Volume (Table 4 of CP)	F	99656	130948	143388	157010	171926	702928
AERA Volume (Table 7 of CP)	G	110255	144386	158102	173122	189569	775434
Adjustment factor	C = G/F	1.11	1.10	1.10	1.10	1.10	1.10

i) Further, it is pertinent to note that even in case of Airport Operators, there is freedom to balance charges among Aeronautical Charges (Landing, Parking & Housing, UDF) and Airport Operators often build in attractive tariff structures to encourage airlines.

j) Moreover, imposing restrictions on pricing freedom enjoyed by the Cargo Terminal Operator/ISP operating under the Light Touch Approach appears to run contrary to the principles laid down by AERA and indicates to the international investors a worrying shift towards price control rather than regulation in the Indian aviation services market.

k) It appears that the Authority has extended the evaluation beyond market realities and is providing the strategic direction on operation and business decisions on behalf of WFSBPL which is ultimately not implementable (tariff structure proposed by Authority for Airlines) on the ground and which if unchanged will likely result in losses much greater than those projected by the Authority within the CP.

l) For the aforementioned reasons, WFSBPL disagrees with the feasibility of the Authority's assumption that increasing airline ceiling rates will automatically translate into higher revenue generation for WFSBPL, and requests that the authority reconsiders the magnitude of overall combined tariff increases as well as the weighting of rate increases between airlines and freight forwarders. Specifically, WFSBPL submits that the TSP tariffs (payable by freight forwarders) outlined within the MYTP submission are reasonable and necessary to ensure a sustainable business operating at a reasonable profit margin in line with industry standards and peer benchmarks. WFSBPL reiterates that TSP tariffs at Bengaluru have not materially changed in over 10 years which is materially out of sync with pricing trends observed across other international cargo markets.

Negative profit from operations

m) As highlighted in its submissions to the Authority, WFSBPL intends to achieve profitability in line with the industry standards in India (which are in the range of 20%

- 30%). WFSBPL had in its MYTP submission estimated losses in the first years and a PAT margin ranging from 8% - 19% for the balance of the control period.

n) The tariff proposed by the Authority results in negative profitability of (-)1.2% for WFSBPL for the Control Period overall, even with the unrealistic assumptions made on revenue contributions as referred to in the earlier paragraphs of Section 10.2 above.

o) The continuous stream of losses will seriously impede the ability of WFSBPL to operate the business viably and such a financial situation could limit the ability of WFSBPL to raise funds from the market or from the parent company to overcome the anticipated cash shortfall.

p) The Indian Government has set forth the National Civil Aviation Policy 2016 (NCAP) to promote the growth of the aviation sector in India, in recognition of its potential to have a multiplier effect on the economy. The policy aims to provide a conducive environment for the harmonious development of various aviation sub-sectors, including airlines, airports, cargo, and others. Furthermore, the policy emphasizes the importance of ensuring that the user charges recommended by AERA and ISPs are competitive compared to those of other aviation hubs.

q) As per AERA's proposal, the investment made in India will result in significant losses that may adversely affect the viability of the venture. This outcome could also discourage WFS Global SAS, the parent company, and other investors from making further investments in the Indian market in the same line of business which goes against the key goals set under NCAP.

r) Also, as explained above, the model of providing 5% return on Security Deposit seems to have been decided without taking into account that WFSBPL is making the payments prior to the start of operations, using funds raised through an ECB/loan, contributing to overall negative profitability under this evaluation framework.

s) WFSBPL notes that ensuring viability and sustainability of operations is one of the cornerstone objectives of AERA wherein it is required to balance the interest of various stakeholders. WFSBPL requests that the Authority to re-estimate the P&L, permitting WFSBPL to achieve industry-standard PAT by Year 5 of the Control Period in line with the original MYTP submission.

For the final Tariff Order, WFSBPL humbly requests that AERA revisits and updates for a reasonable profitability target and in parallel a greater increase in tariffs (notably TSP tariffs paid by the forwarders) in sync with the proposal outlined in the WFSBPL MYTP submission. WFSBPL believes the profitability and tariffs outlined in the MYTP are reasonable and more importantly critical to ensuring a viable business that can encourage continued investment to help realise the demand and growth potential at Bengaluru.

Specifically, without prejudice to the positions and arguments articulated elsewhere in the documents, WFSBPL would like to reiterate its request for determination of tariffs under a Light Touch Approach, and for year-over-year TSP tariffs to at a minimum be increased as outlined below to help ensure financial viability of the company and a reasonable level of profitability:

Year	FY 24	FY 25	FY 26	FY 27	FY 28
TSP Increase (%)	45%	25%	25%	20%	20%