



**Airports Economic Regulatory Authority of India**

**IN THE MATTER OF  
DETERMINATION OF CARGO HANDLING CHARGES FOR  
M/s GUJARAT STATE EXPORT CORPORATION (GSEC) AT  
SARDAR VALLABHBHAI PATEL INTERNATIONAL AIRPORT (SVPIA), AHMEDABAD  
FOR THIRD CONTROL PERIOD  
(FY 2021-22 to FY 2025-26).**

**New Delhi: 16.11.2021**

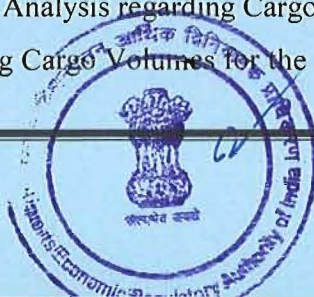
**AERA Building  
Administrative Complex  
Safdarjung Airport  
New Delhi**





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### List of Abbreviations

AAICLAS	Airports Authority of India Cargo Logistics and Allied Services
AAIAL	Adani Ahmedabad International Airport Limited
AERA	Airports Economic Regulatory Authority
ARR	Aggregate Revenue Requirement
ATP	Annual Tariff Proposal
ACS	Annual Compliance Statement
CAPEX	Capital Expenditure
CSC	Cargo Service Centre
CAGR	Compounded Annual Growth Rate
CGF	Cargo, Ground Handling & Fuel Throughput
CP	Consultation Paper
CPI	Consumer Price Index
CHQ	Central Headquarter
EBT	Earnings Before Tax
GTO	Gross Turn over
GSEC	Gujarat State Export Corporation
HQ	Headquarter
ISP	Independent Service Provider
MYTP	Multi-Year Tariff Proposal
MYTO	Multi-Year Tariff Order
MT	Metric Ton
NCAP	New Civil Aviation Policy
OPEX	Operating Expenditure
O&M	Operation and Maintenance
PAT	Profit After Tax
PBT	Profit Before Tax
RAB	Regulatory Asset Base
SCP	Second Control Period
TCP	Third Control Period
YoY	Year on Year





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## **CHAPTER-1: INTRODUCTION**

### **1.1. Profile of the Service Provider:**

- 1.1.1 M/s GSEC Limited is one of the Cargo Handling agencies providing International Cargo Handling Services at Sardar Vallabhbhai Patel International Airport (SVPIA), Ahmedabad.
- 1.1.2 M/s GSEC handles International Cargo (Export & Import), under a concession (O&M Contract) with AAICLAS, on Royalty (revenue share) basis, in the carved out area (city side) at SVPIA Ahmedabad. In addition to M/s GSEC, M/s CSC and M/s AAIAL, Ahmedabad, are the other service providers for International Cargo Operations at SVPIA.
- 1.1.3 M/s GSEC has submitted that they have a License Agreement with AAICLAS effective from 1st June 2009 for a period of 10 years (Agreement dt.03.06.2011) which now stands extended for a further period up to 31.12.2022. Under the Agreement, M/s GSEC has been allotted land admeasuring 5000 square meter by AAI at a license fee of Rs.2334.36 per square meter per annum (as on 01.06.2020) subject to an annual escalation @ 7.5% per annum, due 1st June every year.

### **1.2. Background of the tariff determination exercise:**

- 1.2.1 The Authority, vide its MYTO Order No. 09/2011-12 dated 23.09.2011 for the 1st Control Period, decided to adopt 'Light Touch Approach' in respect of the GSEC for Cargo Handling Services at SVPIA, Ahmedabad for determination of tariffs. The tariff for the 4th and 5th year of the same control period was revised vide Order no. 42/2012-13 dated 01.03.2013.
- 1.2.2 The details of other Tariff Orders of the Authority, issued in the interim, i.r.o. GSEC for cargo handling services at SVPIA, Ahmedabad for the 1st Control Period are listed below for reference:
  - a. Order No. 50/2015-16 dated 31.03.2016 up to 30.09.2016;
  - b. Order No. 11/2016-17 dated 29.09.2016 up to 31.03.2017;
  - c. Order no.19/2016-17 dated 31.03.2017 up to 30.09.2017;
  - d. Order no.12/2017-18 dated 29.09.2017 up to 31.03.2018;
- 1.2.3 As per MYTO for 2nd Control Period Order No. 44/2017-18 dated 28.03.2018 the Authority decided to adopt 'Light Touch Approach' for the period (FY2016-17 to FY2020-21) since the service was 'not material' and further allowed continuation of tariff existing as applicable on 31.03.2016 up to 31.03.2018.
- 1.2.4 The Authority, further, determined tariff for FY 2017-18 & FY 2018-19 i.e. up to 31.03.2019, as at the time of the Order, the License Agreement of M/s GSEC with AAI (AAICLAS) was valid only till 31.05.2019. Subsequently, AAICLAS extended their license agreement up to 30.09.2019 and presently it stands extended till 31.12.2022.
- 1.2.5 The Authority also extended the tariff rates approved vide Order no. 44/2017-18, on ad hoc basis, by issuing interim orders from time to time.
- 1.2.6 The details of other tariff Orders of the Authority, issued till date, i.r.o. M/s GSEC for cargo handling services at SVPIA, Ahmedabad for the 2nd Control Period are listed below for reference:
  - a. Order no.48/2018-19 dated 25.03.2019 up to 31.05.2019;
  - b. Order no.05/2019-20 dated 22.05.2019 up to 30.09.2019;
  - c. Order no.08/2019-20 dated 26.09.2019 up to 31.03.2020;
  - d. Order no.31/2020-21 dated 13.08.2020 up to 31.03.2021;
  - e. Order no.67/2020-21 dated 25.03.2021 up to 30.09.2021;
- 1.2.7 At present, interim Order no.18/2021-22 dated 15.09.2021 is operational, which will remain effective up to 31.03.2022 or till the determination of regular tariff, whichever is earlier.
- 1.2.8 Following Stakeholders have submitted their comments on Consultation Paper No. 14/2021-22 dated 24.08.2021:





1. M/s Spicejet
2. M/s GSEC

The Stakeholders' Comments are also available on AERA's official website.

### **1.3. Stakeholders' comments on Term of License for the 3rd Control Period:**

#### **Spicejet's comment on License Term (refer para 2.3 of CP):**

- 1.3.1 *"Authority should ensure that instead of the license agreements being for a period of 10 years, the same should not exceed three years, in a fair and transparent manner, with the agreement awarded to only those parties which provide the competitive costs with best-in-class services, from at least three to four parties, based on cost of efficient operations. Any attempt to award the contracts on highest revenue share basis should be discouraged. It is general perception that GSEC has no incentive to reduce its expenses as any such increase will be passed on to the airlines through tariff determination mechanism process and indirectly airlines will be forced to bear these additional costs. There needs to be a mechanism for incentivizing the parties for increasing efficiencies and cost savings and not for increasing the royalty for the airport operator"*

#### **GSEC's response on Spicejet's comment regarding License Term:**

- 1.3.2 *"We have noted this point though it is up to the tendering authorities to structure the tender and it is absolutely their prerogative. We would also like to draw your attention to the following facts which have been erroneously quoted in the comments. The present contract has been awarded for a period of 30 months from 1/7/2020 to 31/12/2022. The Authority has already fixed a cap of royalty share and present rate is well below the permissible limit.*

*Further, as mentioned in our submission, there is going to be a third custodian of international cargo in next few days. This new facility will have a capacity of 1000 MTs per month. Hence, GSEC submits that as new players start providing these services the benefits of enhanced quality of service and competitive rates directly accrue to the airlines and other stakeholders."*

### **1.4. Authority's Analysis regarding Term of the License for the 3rd Control Period:**

- 1.4.1 The Authority noted the comments of M/s Spicejet and the response of M/s GSEC thereon. The Authority notes that the present contract has been awarded for a period of 30 months which is valid w.e.f. 01/07/2020 up to 31/12/2022. However, the Authority is also of the view that any business which requires significant investment in capital expenditure should also have a longer gestation for recovery. If an investment is to be recovered in short term, then it would lead to unusually high tariff rates which would be detrimental to the interests of the end users.





## **CHAPTER-2: TARIFF SETTING PRINCIPLES**

### **2.1. Background:**

- 2.1.1 The Authority vide its Order No. 12/2010-11 dated 10.01.2011 and Direction No. 04/2010-11 issued on 10.01.2011 finalized its approach in the matter of Regulatory Philosophy and Approach in Economic Regulation of the Aeronautical Services provided for Cargo Facility, Ground Handling and Supply of Fuel to the Aircraft at the 'major' airports and issued the Airports Economic Regulatory Authority of India (Terms and Conditions for Determination of Tariff for Services provided for Cargo Facility, Ground Handling and supply of Fuel to the Aircraft) Guidelines, 2011 ("the Guidelines").

### **2.2. Tariff setting Principle under Light Touch Approach:**

#### **Stage-I: Materiality Index**

- 2.2.1 As per clause 4.4. of the above said Guidelines at major airports, the percentage share of cargo handling for SVPIA Ahmedabad is 3.21% (based on data for FY 2019-20). The calculation is as shown below:

$$\text{Materiality Index (MI}_c\text{)} = \frac{\text{Cargo Volume at Major Airport A}}{\text{Total Cargo Volume at all Major Airports}} \times 100$$

$$MI = 103741/3228862 \times 100 = 3.21\%$$

From the above, it is evident that percentage share of Cargo Handling at SVPIA Ahmedabad is higher than the Materiality Index (MI<sub>c</sub>) of 2.5% for the above subject service. Hence the regulated service is deemed "Material."

#### **Stage-II: Competition Assessment:**

- 2.2.2 AERA on the provisions of the NCAP-2016, vide its Order No. 15/2016-17 dated 12th Jan, 2017 decided to consider two (02) Cargo Handling Agencies for competition assessment at all 'major' airports.
- 2.2.3 The Authority notes that on 'competition' assessment, M/s AAIAL & M/s CSC, are the other Cargo Service Providers for International Cargo at SVPIA, Ahmedabad. Hence, in the instant case, there are three Cargo Handling Service Providers including M/s GSEC for International Cargo Operations, and, therefore, the service is deemed 'Competitive'.

Hence, considering the facts as stated above, the Authority noted that the Cargo Handling Services at SVPIA, Ahmedabad are "material but competitive". Therefore, the Authority decided to determine the Cargo Handling Services for M/s GSEC at SVPIA, Ahmedabad under 'Light Touch Approach' for the Third Control Period.

- 2.2.4 As per Clause 3.2 (ii) of the Guidelines, wherever the Regulated Service provided is 'material but competitive,' the Authority shall determine Tariff(s) for Service Provider (s) based on a 'Light Touch Approach' for the duration of the control period, according to the provisions of chapter V. However, the Authority reserves the right to review materiality assessments, competition assessments, and, the reasonableness of the User Agreements within the control period and issue such direction or make such orders as it may consider necessary.

### **2.3. Authority's decision regarding principle for tariff determination for 3<sup>rd</sup> Control Period:**

Based on the material before it and based on its analysis, the Authority has decided the following regarding principle for determination of tariff for M/s GSEC for the Third Control Period:

- 2.3.1 Since the Cargo Handling Service provided by M/s GSEC at Ahmedabad Airport is 'Material but Competitive' the tariff will be determined based on '**Light Touch Approach**' for the 3<sup>rd</sup> Control Period.





**CHAPTER-3: MULTI YEAR TARIFF PROPOSAL (MYTP) / ANNUAL TARIFF PROPOSAL (ATP) & ANNUAL COMPLIANCE STATEMENT (ACS)**

**3.1. MYTP/ATP & ACS Submissions by M/s GSEC for the 3<sup>rd</sup> Control Period**

- 3.1.1 M/s GSEC submitted their MYTP for the 3<sup>rd</sup> Control Period i.e. FY 2021-22 to FY 2025-26 vide letter dated 14.05.2021. The Authority noted that the MYTP/ATP is not submitted in the prescribed form and manner as per CGF Guidelines, especially considering that M/s GSEC have sought an increase in the tariff.
- 3.1.2 The Authority sought additional information which was submitted by M/s GSEC vide mail dated 31.05.2021, 14.06.2021, 16.06.2021, 21.06.2021, 01.07.2021, 10.07.2021, 19.07.2021, 26.07.2021, 27.07.2021. Further, M/s GSEC submitted revised financial model vide mail dated 02.08.2021 & 03.08.2021, wherein except tonnage projections for the 3<sup>rd</sup> control period all the other building blocks have been revised.
- 3.1.3 The Authority had accordingly considered relevant data from the MYTP submissions and the subsequent revised submissions of M/s GSEC, comments of Stakeholders' and counter comments thereon, for the purpose of this Order.
- 3.1.4 M/s GSEC had not submitted evidence of Stakeholder Consultation. Copy of only one User Agreement, viz. with Etihad Airways (valid up to 23rd Feb 2024), has been submitted by GSEC. It is however, noted that no complaints had been received from any User i.r.o. the Cargo Handling services rendered by M/s GSEC at SVPIA, Ahmedabad.
- 3.1.5 M/s GSEC had not submitted the Annual Compliance Statement (ACS) as required under the CGF Guidelines. The Authority had taken the actual financial data for FY 2016-17 to FY 2020-21 (2nd control period) from their financial model for 3rd Control Period. The Authority noted that M/s GSEC had earned average PAT of 24% during the 2nd Control Period, and, proposed to earn a similar PAT during the 3rd Control Period as well.
- 3.1.6 M/s GSEC had submitted their MYTP based on the Provisional Financials of FY 2020-21. Therefore, the Authority had made the analysis during consultation stage on the basis of MYTP submissions, revised financial model and other information submitted by M/s GSEC. However, M/s GSEC, has furnished the Consolidated Financial Statements for FY 2020-21 after issuance of Consultation Paper.
- 3.1.7 Earlier, M/s GSEC in their MYTP had proposed 13% increase in tariff for FY 2021-22 and 4% YoY increase thereafter for the rest of the period of 3<sup>rd</sup> Control Period. After revision in their financial model M/s GSEC had proposed the following tariff increase for the 3rd Control Period:
- a) 11.63% increase in tariff for year 2021-22 from 1.10.2021 to 31.03.2022  
b) 2% increase in tariff thereafter from 2022-23 till 2025-26.
- 3.1.8 GSEC had further submitted the following justification for proposed tariff increase:
- (i) The tariff for Cargo operations for GSEC Ahmedabad were last revised in FY 2011-12 vide AERA Order no. 42/2012-13 and the prices have continued while the costs have increased significantly;
- (ii) Since the last tariff increase was given in FY2011-12 for Ahmedabad, GSEC requests for minimum increase to compensate for inflation and to meet the capital investments.
- (iii) The company faces heavy competition from its peer competitors 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.





## **CHAPTER-4: REGULATORY ASSET BASE (RAB)/ ADDITION TO RAB AND DEPRECIATION**

### **4.1. GSEC submissions on RAB for the 3rd Control Period:**

4.1.1 Based on the revised financial data provided by M/s GSEC the computations of Opening /Closing/Average RAB for 2nd & 3rd Control Period is given in the table below:

**Table-1 Comparison of RAB / Avg. RAB as per GSEC Financials**

(Rs. in Lakhs)

Particulars	2nd Control Period					3rd Control Period				
	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Opening RAB	975.75	1123.65	1131.12	1086.42	1095.80	1113.72	1142.27	1194.26	1237.84	1305.05
+ Additions	313.64	181.63	100.47	155.02	175.00	164.00	190.00	170.00	194.00	115.00
(-) Disposals	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(-) Depreciation	-165.75	-174.15	-145.18	-145.65	-157.08	-135.44	-138.01	-126.42	-126.79	-134.45
Closing RAB	1123.65	1131.12	1086.42	1095.80	1113.72	1142.27	1194.26	1237.84	1305.05	1285.60
<b>Average RAB</b>	<b>1049.70</b>	<b>1127.39</b>	<b>1108.77</b>	<b>1091.11</b>	<b>1104.76</b>	<b>1128.00</b>	<b>1168.27</b>	<b>1216.05</b>	<b>1271.44</b>	<b>1295.32</b>
% Change in Avg. RAB		7.40	-1.65	-1.59	1.25	2.10	3.57	4.09	4.56	1.88

The Authority observed that for the 3<sup>rd</sup> Control Period the Opening RAB as on 01.04.2021 is Rs.1,113.72 lakhs and the closing RAB as on 31.03.2026 is Rs.1,285.60 lakhs. It was further observed that the Average RAB did not show any significant change during the 3<sup>rd</sup> Control Period.

### **4.2. GSEC submissions on Additions to RAB for the 3rd Control Period:**

4.2.1 M/s GSEC had projected the additions to fixed asset amounting to Rs.833.00 lakhs for the period FY2021-22 to FY2025-26 for Ahmedabad as shown in table below:

**Table -2 Proposed Additions to RAB as per GSEC submissions for 3rd Control Period**

(Rs. in Lakhs)

Assets	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
X-ray machine- dual view	-	140.00 (01 no.)	-	150.00 (01 no.)	-	290.00
Fork lift	30.00 (02 nos.)	-	15.00 (01 no.)	-	15.00 (01 no.)	60.00
Stacker	14.00 (01 no.)	-	-	14.00 (01 no.)	-	28.00
ETD machine	-	-	110.00 (01 no.)	-	-	110.00
DFMD	-	20.00 (02 no.)	-	20.00 (02 no.)	-	40.00
CCTV	-	-	25.00 (160 no.)	-	25.00 (160 no.)	50.00
Hand trolleys	-	30.00 (60 no.)	-	10.00 (20 no.)	-	40.00
Cold Room	120.00	-	20.00	-	75.00	215.00
<b>Total</b>	<b>164.00</b>	<b>190.00</b>	<b>170.00</b>	<b>194.00</b>	<b>115.0</b>	<b>833.00</b>





- 4.2.2 The following justifications had been provided by M/s GSEC:
- (i) Presently three X-ray machines are single view. These are no longer permitted hence a phased replacement is scheduled;
  - (ii) Present one ETD machine will complete its life hence the planned replacement;
  - (iii) Cold room needs be created for pharma cargo;
  - (iv) Old CCTV camera network (160 nos.) in the warehouse area requires up-gradation (including replacement of fiber and DVR).

4.2.3 GSEC had further submitted that in order to manage the projected growth in demand for cargo services, the minimum investment in plant & machinery as above is required to be done in order to cater to the growing traffic.

**4.3. Authority's Analysis regarding RAB & Additions to RAB for the 3rd Control Period at Consultation Stage:**

4.3.1 M/s GSEC had proposed Additions to RAB amounting to Rs.833.00 lakhs for the 3<sup>rd</sup> Control Period. Considering the pandemic situation which has prevailed since March 2020 (including the recent 2<sup>nd</sup> wave) and the resultant lockdown disrupting the activities, the Authority, sought confirmation regarding the progress/ status of the Capex projects proposed in the FY 2021-22. In this regard, M/s GSEC vide their additional submissions (mail dated 27.07.2021) has confirmed that out of total Capex of Rs.164 Lakhs proposed in FY2021-22, the work relating to creation of Cold Room is in progress for which procurement of 6 Refrigerators is complete, and, quotations have been received towards ball mat flooring (for cold room) and Scissor Lift for handling dollies. With regard to the remaining Capex, out of 02 (two) Forklifts proposed, one valued at Rs.11.00 Lakhs is expected to be received by August 2021, and, procurement of Stacker (01 no.) is also likely to be concluded by October 2021.

4.3.2 Regarding the Additions to RAB proposed in FY 2022-23, M/s GSEC had clarified vide their mail dated 27.07.2021 that post submission of MYTP to AERA, they have been informed that the Customs Department may install two X-ray machines of their own, inside the Warehouse area (02 nos.) in which case M/s GSEC will defer their purchase of x-ray machine (01 no. est. cost Rs.140 lakhs) proposed in the FY 2022-23 for a later date within the 3<sup>rd</sup> Control Period.

4.3.3 It was further ascertained from GSEC that the second X-ray machine proposed in FY 2024-25, at the estimated cost of Rs.150 Lakhs, was towards replacement of the old X-ray machine which would complete its useful life in FY 2024-25.

Based on the clarifications provided by M/s GSEC and, the justifications thereon, as detailed above, the Authority, had proposed to accept the Additions to RAB as proposed by M/s GSEC for the 3<sup>rd</sup> Control Period as given in table -2.

**4.4. GSEC submissions on Depreciation for the 3rd Control Period:**

4.4.1 Useful lives which have been used by M/s GSEC for computing depreciation on the Opening RAB and the Additions to RAB thereafter is as follows:

**Table-3 Useful lives of the assets**

Category of Assets	As per GSEC submissions	AERA Order no.35
	No. of Years	
Building	30	30
Plant and Machinery	10	15
Furniture and Fixtures	7	7
Office Equipment	5	5
Road	8	8
Computers	3	3
AC Machines and Plant	10	10





**4.5. Authority's Analysis regarding Depreciation for the 3rd Control Period at Consultation stage:**

- 4.5.1 The Authority noted that the "useful life" of Plant and Machinery as per AERA's Depreciation Order no. 35/2017-18 should have been 15 years instead of 10 years. Hence, GSEC was asked to submit revised depreciation calculations.
- 4.5.2 The Authority noted that in their MYTP submission M/s GSEC had claimed Rs. 809.21 Lakhs as depreciation. As per the revised calculations, GSEC claimed depreciation of Rs.661.12 Lakhs resulting in reduction of Rs.148.09 Lakhs (Rs.809.21 Lakhs - Rs.661.12 Lakhs) from the earlier depreciation figures. The revised depreciation proposed by GSEC at consultation stage is given in Table-4 below.

**Table-4 Depreciation considered by M/s GSEC for 3rd Control Period**

(Rs. in Lakhs)

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
Building	33.98	33.98	33.98	33.98	33.98	169.91
Plant & Machinery	55.87	68.54	79.87	92.80	100.47	397.55
Office Equipment	12.62	7.81	-	-	-	20.43
Vehicles	9.52	8.14	-	-	-	17.67
Computers	3.90	0.00	-	-	-	3.90
Furniture & Fixtures	17.74	17.74	12.50	-	-	47.98
A.C Machines & Plant	1.81	1.81	0.07	-	-	3.68
Depreciation	135.44	138.02	126.42	126.79	134.45	<b>661.12</b>

**4.6. Stakeholders' Comments on Capital Expenditure and Depreciation for the 3rd Control Period:**

- 4.6.1 **Spicejet's comment on CAPEX (refer para 5.6.1 of CP):** *"Stoppage of non-safety related capital expenditure: We are sure that GSEC can easily cater to its (pre Covid-19) peak level of operations without any new or additional investments post Covid-19.*

*In the current situation, in order to support the airlines to continue and sustain its operations, all the capital expenditure should be put on hold, like the 2 X-ray machines worth Rs.140 Lakhs and Rs. 150 lakhs, as the Customs Department may already be installing 02 X-ray machines on their own. Otherwise this would lead to double charges, one being levied by the Customs directly to the airlines, and, the other being indirectly charged for by GSEC through the present CP. In worst case scenario, this may be considered to be deferred to the fourth control period (if at all required).*

*Similarly, if any proposed Capex projects can be deferred from the Third Control Period to the Fourth Control Period, same should be considered by the Authority. Further, in case GSEC wants to make capital expenditure, then it should be at no additional expense to the airlines until the project is completed and put to use."*

**4.6.2 GSEC's response on Spicejet's comment regarding CAPEX:**

*"We are thankful for the confidence reposed in us of achieving pre-Covid level without any capital expenditure. One very critical variable is cited once again at the cost of repetition.*

*As mentioned in our submission, there is going to be a third custodian of international cargo in next few days. This new facility will have a capacity of 1000 MTs per month. With three custodians sharing the same volume (even assuming, say pre-Covid level) the volumes are most certainly likely to decline significantly. It becomes, therefore, unavoidable for a custodian to keep investing and replacing old equipment to retain competitive edge and service quality. As mentioned earlier, X-ray machines procured prior to 2018 are single view machines which will*





*need to be replaced with dual image machines. The mention about double charging by customs as well as custodian is completely erroneous and misleading.”*

**4.7. Authority’s Examination and Analysis regarding Regulatory Asset Base (RAB), Additions to RAB (CAPEX) and Depreciation for the 3rd Control Period**

4.7.1 The Authority noted the comments of Spicejet and response of M/s GSEC thereon. M/s GSEC have submitted that the X-ray machines procured prior to the year 2018 were single view machines as against the Statutory requirement of Dual View Image System as per BCAS Circular no. 11/2017, which requires that x-ray machines must have a dual view image system feature to meet the standard norms. Therefore, the Authority, considering the response of M/s GSEC towards the requirement of these equipment for enhancement of service quality, has considered the CAPEX as a mandatory operational requirement and considered the same in the proposed additions to RAB for TCP (Ref. Table-2).

4.7.2 The Authority further noted that there were no comments regarding “Depreciation.”

4.7.3 The Authority based on its examination and analysis maintains the same view as taken during the consultation stage and decides to consider RAB, CAPEX (additions to RAB) and Depreciation as proposed during Consultation Stage.

**4.8. Authority’s decision regarding Regulatory Asset Base (RAB), Additions to RAB (CAPEX) & Depreciation for the 3rd Control Period**

Based on the material before it and based on its analysis, the Authority has decided the following regarding RAB, addition to RAB and depreciation for M/s GSEC for the Third Control Period:

4.8.1 The Authority decides to consider the RAB / CAPEX (Additions to RAB) for M/s GSEC Ahmedabad for the 3<sup>rd</sup> Control Period as given in Table-1 & Table -2 respectively.

4.8.2 The Authority decides to consider Depreciation for M/s GSEC Ahmedabad for the 3<sup>rd</sup> Control Period as given in Table-4.





## **CHAPTER-5: CARGO PROJECTIONS**

### **5.1 M/s GSEC's submissions on Cargo Projections for the 3rd Control Period**

- 5.1.1 M/s GSEC has stated that the last year FY 2020-21 of the 2<sup>nd</sup> Control Period (FY 2016-17 to FY2020-21) was affected by COVID-19 pandemic, therefore, they have considered only the first 4 years (FY 2017-2020) to calculate CAGR at @6.30% for the purpose of 3<sup>rd</sup> Control Period projections, citing that it is better reflective of the expected future volumes.
- 5.1.2 As against the above 4 year CAGR @6.30%, M/s GSEC has assumed a lower/conservative growth @ 5 % YoY, taking FY 2020-21 as the base year for volumetric projections for the 3<sup>rd</sup> Control Period (FY 2021-22 to FY 2025-26).
- 5.1.3 The total actual tonnage (imports +exports) achieved by GSEC at Ahmedabad for 2<sup>nd</sup> control period is 201281 MT. Further as per the MYTP submitted for 3<sup>rd</sup> control period the total tonnage projection is 198309 MT.
- 5.1.4 The actual tonnage and projections for 3<sup>rd</sup> control period submitted by M/s GSEC for Ahmedabad are given in Tables 5 & 6 below:

**Table-5 Actual tonnage Handled by GSEC Ahmedabad during 2nd Control Period\***

Particulars	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	Total MTs
Export in MT	28,907	32,117	33,102	32,770	25,588	152,484
Import in MT	7,851	10,543	10,422	11,389	8,592	48,797
<b>Total Qty in MT</b>	<b>36,758</b>	<b>42,660</b>	<b>43,524</b>	<b>44,159</b>	<b>34,180</b>	<b>201,281</b>
<b>CAGR FY16-17 to FY19-20</b>						<b>6.3%</b>

*\*Actual tonnage handled at the Airport thro' Airlines & Bonded Trucks.*

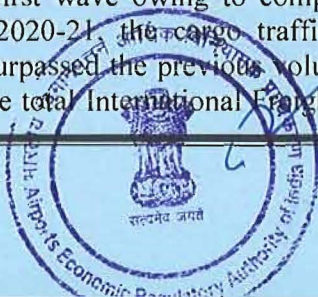
**Table-6 Tonnage Projection by GSEC Ahmedabad for 3rd Control Period\*\***

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total MTs
Export in MT	26,867	28,211	29,621	31,102	32,657	148,458
Import in MT	9,022	9,473	9,946	10,444	10,966	49,851
<b>Total Qty in MT</b>	<b>35,889</b>	<b>37,683</b>	<b>39,568</b>	<b>41,546</b>	<b>43,623</b>	<b>198,309</b>
<b>5 Year CAGR</b>						<b>5%</b>

*\*\*Projected tonnage to be handled at the Airport thro' Airlines & Bonded Trucks.*

### **5.2 Authority's Analysis regarding Cargo Projections for the 3rd Control Period at Consultation stage:**

- 5.2.1 The Authority examined the GSEC projections for cargo volumes for the 3<sup>rd</sup> Control Period. M/s GSEC have considered FY 2020-21 as the base year for projecting the volumes. The Authority observed that GSEC's volumetric projections appear very conservative, as the pre-pandemic level, achieved in FY 2019-20, is not expected to restore itself fully even at the end of the 3<sup>rd</sup> Control Period (FY 2025-26).
- 5.2.2 The Authority referred to the data on cargo volumes published by AAI (Traffic News summary <www.aai.aero>) to check the trend for the 1<sup>st</sup> Quarter of FY 2021-22 and observed that although the pandemic has severely affected passenger air traffic, however, the air cargo traffic was affected only during the first wave owing to complete lockdown and suspension of all flights. However, during FY 2020-21, the cargo traffic has not only been restored to the pre-Covid levels but has also surpassed the previous volumes since the beginning of FY 2021-22. The Authority noted that the total International Freight for Ahmedabad in FY 2019-20 was





46067 MT, and, for the 1<sup>st</sup> Quarter of FY 2021-22 the same was 11,977 MT. Based on the quarterly figures, the annual volumes are indicated to be around 48000 MT which is more than the FY 2019-20 volumes.

- 5.2.3 The Authority, therefore, proposed to consider FY 2019-20 as the Base Year to project the Cargo Volumes for the 3<sup>rd</sup> control period. The volume is projected to recover @ 82% of Base Year (FY 2019-20) in FY 2021-22 (1<sup>st</sup> year of TCP), and, from FY 2022-23 onwards, the tonnage is assumed to grow at CAGR @6.3%, that is the actual growth rate achieved by M/s GSEC in the 2<sup>nd</sup> Control Period. Accordingly, the following projections were proposed by the Authority for the 3<sup>rd</sup> Control Period:

**Table-7 Tonnage Projections proposed by Authority for GSEC Ahmedabad for the 3<sup>rd</sup> Control Period at Consultation Stage**

Particulars	Base Year FY 2019-20	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total in MTs
Export (in MTs)	32,770	26,871	28,564	30,364	32,277	34,310	1,52,387
Import (in MTs)	11,389	9,339	9,927	10,553	11,218	11,924	52,961
Total Qty (in MTs)	44,159	36,210	38,492	40,917	43,494	46,234	2,05,347
Annual Growth		82%	6.3%	6.3%	6.3%	6.3%	
CAGR							6.3%

### 5.3 Stakeholders' comment on Cargo volume for the 3rd Control Period

The Authority has received comments on cargo volume from GSEC as under:

#### GSEC's comment on Cargo Volumes:

- 5.3.1 M/s GSEC has submitted that its International Cargo business at the SVPIA is likely to drop by 9600MT per year after the entry of M/s Adani Group from FY 2022-23 and M/s GSEC has further submitted that growth in volumes with CAGR 6.3% is unrealistic as total business is not growing exponentially at SVPIA, the existing business is likely to be divided amongst more competitors.

### 5.4 Authority's Examination and Analysis regarding Cargo volumes for the 3rd Control Period

- 5.4.1 The Authority noted the comments and examined the assumptions of M/s GSEC regarding cargo volumes for the 3<sup>rd</sup> Control Period. Whereas the projections submitted by M/s GSEC in their MYTP show CAGR @ 6.3%, the cargo volumes have, however, been considered by them at a lower rate of 5% for projection purposes for the 3<sup>rd</sup> Control Period. The Authority in its own projections at CP stage had adopted the CAGR of 6.3% as the lower 5% considered by GSEC appeared to be too conservative. Further, the Authority upon examination of the actual International Cargo Volumes at SVPIA for past years, observes that a CAGR @ 18% has been achieved at SVPIA as shown in table below:

**Table-8 Actual Tonnage Handled at SVPIA Ahmedabad**

FY	2015-16	2016-17	2017-18	2018-19	2019-20	CAGR
Cargo* (in MT)	23457	31050	41266	45483	46067	18%

*\*Actual tonnage consists of total cargo volume handled at the Airport excluding cargo movement through bonded trucks.*

- 5.4.2 Additionally, the Authority had also noted during consultation stage that the annual volumes for FY 2021-22 are indicated to be around 48000 MT. Therefore, if this volume is subjected to a 5% YoY growth as sought by GSEC even then the annual tonnage works out to be in excess of





50000 MTs in FY 2022-23 leaving enough room for one more competitor, as the Authority has considered only 38492 MTs for FY 2022-23 in its projections at Consultation stage.

- 5.4.3 The Authority based on examination as above decides to adopt the same volumetric projections for the 3<sup>rd</sup> control period as proposed during the consultation stage.

**5.5 Authority's decision regarding Cargo Volumes for the 3rd Control Period**

Based on the material before it and based on its analysis, the Authority has decided the following regarding cargo volume Forecast for M/s GSEC for the Third Control Period:

- 5.5.1 The Authority decides to consider volumetric projections for M/s GSEC Ahmedabad for the 3<sup>rd</sup> Control Period as per Table-7.





## **CHAPTER-6: OPERATING & MAINTENANCE EXPENDITURE**

### **6.1 M/s GSEC's submissions on OPEX for the 3rd Control Period**

6.1.1 M/s GSEC submitted the following component-wise actual O&M costs in their MYTP for Ahmedabad (Actuals for 2<sup>nd</sup> control period):

**Table- 9 Actual Operating & Maintenance Costs as submitted by M/s GSEC for Ahmedabad**

(Rs. in Lakhs)						
Particulars	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	Total
Royalty Expenses	325.21	393.88	377.98	374.18	405	1876.25
Insurance (inc. Emp. Insurance)	162.9	171.74	167.21	166.88	167.21	835.94
Rent & License Fees	133.25	133.25	133.25	121.96	132	653.71
Labour Charges	106.09	217.04	117.35	129.71	71.19	641.38
Bank Guarantee Charges	-	55.38	41.94	5.24	0.15	102.71
Sales Promotion Expenses	39.41	188.63	126.33	43.64	15	413.01
Repairing Expenses	36.37	48.17	26.91	39.49	12	162.94
Security Charges	27.02	29.31	31.7	36.48	28.67	153.18
Electricity Expenses	24.25	28.73	32.17	30.72	23.77	139.64
Electricity Exp.-New Building	18.65	20.11	21.6	25.79	16.55	102.7
Others	13.96	12.43	12.33	33.94	23.77	96.43
Forklift Charges	10.68	12.85	14.1	18.11	8.74	64.48
Renovation Expenses	4.09	63.02	247.51	105.89	100	520.51
Packing Materials	1.04	11.18	89.25	60.51	44.8	206.78
<b>Total</b>	<b>965.6</b>	<b>1,385.72</b>	<b>1,439.63</b>	<b>1,192.54</b>	<b>1,048.85</b>	<b>6032.34</b>

6.1.2 M/s GSEC submitted that they have paid Royalty on GTO @13% to AAICLAS from 01.04.2016 to 30.06.2020 (letter no. ED/CARGO/1360/AMD/2020 dated 22nd July 2020), and, thereafter @20% from 01.07.2020 to 31.03.2021. Further, w.e.f. 1st April 2021, the same is payable @ 25% of the Gross Turnover (GTO) generated by GSEC as per the revised Agreement with AAICLAS.

6.1.3 Basis of projecting expenses for the future years for major expense heads in the 3<sup>rd</sup> Control Period as submitted by GSEC is provided below:

Particulars	% increase adopted for current control period	Basis
Royalty Expenses	25% of the revenue earned for the period is considered as royalty expenses	Based on AAICLAS letter no. ED/CARGO/1360/AMD/2020 dated 22nd July 2020 where it was agreed that 25% of the revenue shall be paid as royalty to AAICLAS.
Insurance (inc. Employer Employee Insurance)	Same charge of FY 2020-21 adopted	FY 2020-21 has been estimated based on the prevailing premia rates after including additional COVID related protection. It is assumed that the same premia rates shall apply for the next control period also.
Rent and License Fees	5% increase from FY 2020-21	Increase in the rentals by about 5% year on year based on escalation clauses in the agreement





Particulars	% increase adopted for current period control	Basis
Renovation expenses	8% increase from FY 2020-21	Increase in the renovation expenses which primarily consists of repair and maintenance related expenses has been increased by 8% since the average age of existing buildings and machinery is about 12 years now. This has been estimated to grow at 8% to cater to both increased repair expenses as well as inflation. Further, there is no major capital spend which has been estimated for the current control period.
Labour Charges	15% increase from FY 2020-21	Increased to cater to growing traffic and Inflation

- 6.1.4 Allocation of Common expenses of M/s GSEC Head Quarters: GSEC submitted that its Corporate HQ is located at Ahmedabad. Certain costs are incurred by GSEC headquarters for the company as a whole i.e. costs are incurred cumulatively for the Cargo Operations undertaken by M/s GSEC at Ahmedabad & Visakhapatnam stations, and, includes amounts incurred for the Trading business vertical of GSEC. It has been stated that out of all stations, the cargo operations at Ahmedabad accounted for about 90% of the total revenues till the FY 2019-20. Further, from FY2020-21, with the closure of Cargo Operations at Indore and Raipur, the proportion of revenues from Ahmedabad is at about 95% of the total revenues from Cargo Division. M/s GSEC has submitted that the allocation percentages have been accordingly considered for each line item in the range of 25% to 75% based on the nature of expense.

**Table-10 Allocation of Expenses of GSEC Headquarters as per MYTP**

(Rs. in Lakhs)

Particulars	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	Total
Allocated Expenses						
Salaries	147.15	172.71	278.11	240.62	264.59	1103.18
Legal & Professional Charges	25.71	20.56	37.55	59.58	42	185.4
Repairs & Maintenance	26.95	64	29.98	29.93	26.9	177.76
Others	173.2	150.31	162.39	178.84	126.51	791.25
<b>Total</b>	<b>373.01</b>	<b>407.58</b>	<b>508.03</b>	<b>508.97</b>	<b>460</b>	<b>2257.59</b>

- 6.1.5 Operating & Maintenance Expenses for the 3rd Control Period projected by M/s GSEC based on above assumptions is given in table-11 below:





**Table-11 O&M Costs Projected by GSEC for Ahmedabad for 3rd Control Period**

(Rs. in Lakhs)

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
Advertisement Exp	0.27	0.3	0.3	0.3	0.4	1.58
Bank Guarantee Charges	0.15	0.2	0.2	0.2	0.2	0.80
Books & Periodicals	0.16	0.2	0.2	0.2	0.2	0.95
Conveyance Exp.	0.35	0.4	0.4	0.4	0.5	2.03
Courier Exp.	0.02	0.0	0.0	0.0	0.0	0.13
Electricity	25.67	27.7	29.9	32.3	34.9	150.61
Electricity -New Building	17.87	19.3	20.8	22.5	24.3	104.86
Entertainment	0.09	0.1	0.1	0.1	0.1	0.51
Forklift Charges	9.44	10.2	11.0	11.9	12.8	55.38
Insurance Including Employer Employee Insurance	167.21	180.6	180.6	180.6	180.6	889.56
Internet Exp.	0.38	0.4	0.4	0.5	0.5	2.22
Labour Charges	81.87	88.4	101.7	116.9	134.5	523.37
Medical Exp.	0.16	0.2	0.2	0.2	0.2	0.95
Miscellaneous Exp	0.54	0.6	0.6	0.7	0.7	3.17
Office Exp.	1.84	2.0	2.1	2.3	2.5	10.77
Packing Materials	48.38	52.3	56.4	61.0	65.8	283.84
Petrol & Diesel Exp.	0.09	0.1	0.1	0.1	0.1	0.51
Postage	0.06	0.1	0.1	0.1	0.1	0.38
Printer Rent	0.51	0.5	0.6	0.6	0.7	2.98
Rates And Taxes	18.28	19.7	19.7	19.7	19.7	97.25
Renovation Exp.	108.00	116.6	126.0	136.0	146.9	633.59
Rent And License Fees	138.60	149.7	157.2	165.0	173.3	783.78
Repairing Exp.	12.96	14.0	15.1	16.3	17.6	76.03
Royalty Exp.	753.75	819.2	876.0	937.2	1002.6	4388.69
Sales Promotion Exp.	25.00	27.0	27.0	27.0	27.0	133.00
Security Charges	30.96	33.4	36.1	39.0	42.1	181.65
Staff Refreshment	0.11	0.1	0.1	0.1	0.1	0.63
Staff Training Exp	0.15	0.2	0.2	0.2	0.2	0.76
Stationery Exp.-	0.50	0.5	0.6	0.6	0.7	2.91
Telephone Exp.	0.54	0.6	0.6	0.7	0.7	3.17
Transportation Exp.	0.50	0.5	0.6	0.6	0.7	2.93
<b>Total (A)</b>	<b>1444.41</b>	<b>1565.1</b>	<b>1665.1</b>	<b>1773.5</b>	<b>1890.9</b>	<b>8338.99</b>
<b>CHQ Exp.(B)</b>	<b>495.79</b>	<b>535.45</b>	<b>576.74</b>	<b>621.73</b>	<b>670.26</b>	<b>2899.97</b>
<b>Total Opex (C) = (A)+(B)</b>	<b>1940.20</b>	<b>2100.54</b>	<b>2241.82</b>	<b>2395.27</b>	<b>2561.12</b>	<b>11238.96</b>

## 6.2 Authority's Analysis regarding O&M expenditure for the 3rd Control Period at Consultation stage:

The Authority examined the submissions of M/s GSEC regarding O&M expenditure for the 3<sup>rd</sup> Control Period and made the following observations:





- 6.2.1 The Authority noted that in FY 2017-18 of 2<sup>nd</sup> Control Period, M/s GSEC had incurred an amount of Rs.247.51 Lakhs under the head 'Renovation Expenses.' The Authority sought further information about the said expenditure, and, M/s GSEC have clarified that a Warehouse of 10000 sqm was built and the cost incurred thereon was treated as revenue expenditure. The Authority is of the view that the expenditure should have been capitalized in the books of GSEC, as a new asset was formed in the process, unless, the Warehouse is a temporary structure. This may have resulted in the understatement of profits during the FY 2017-18.
- 6.2.2 GSEC had proposed 8% YoY (base year FY 2020-21) increase on all items of OPEX, except labor charges where they have proposed 15%YoY increase, for the purpose of their projections for the 3<sup>rd</sup> Control Period.
- 6.2.3 The Authority proposed to accept the assumptions adopted by GSEC for all other items of OPEX except "Rent & license Fee" and "Labour Charges" as explained in the following paras.
- 6.2.4 Rent & license Fee : The Authority observed errors in calculations in the projections for "Rent & License Fees" expenses proposed by M/s GSEC. The Authority noted that as per the Concession Agreement of GSEC with AAICLAS, the rate of License fees revises from June 1<sup>st</sup> every year with an annual growth @ 7.5%. GSEC has confirmed that the Concession Agreement has been renewed on the same terms till 31.12.2022.
- 6.2.5 The rates of Space License Fees as per Agreement between AAICLAS & GSEC are given under:

Area(sqm)	5000 sqm
Period of licence	Rate (per sqm per annum) Escalation @ 7.5% YoY (Amt. in Rs.)
1.6.2015-31.5.2016	1630
1.6.2016-31.5.2017	1750
1.6.2017-31.5.2018	1880
1.6.2018-31.5.2019	2020
1.6.2019-31.5.2020	2172
1.6.2020-31.5.2021	2334
1.6.2021-31.5.2022	2509
1.6.2022-31.5.2023	2698
1.6.2023-31.5.2024	2900
1.6.2024-31.5.2025	3117
1.6.2025-31.5.2026	3351

- 6.2.6 Based on the above, the Authority had re-calculated the Rent & License Fees expenses and found that the projections are over estimated by Rs.45.54 Lakhs. The difference in the calculation is shown in Table-12 below:

**Table-12 Excess License Fee claimed by GSEC in Projections for the 3rd Control Period**  
(Rs. in Lakhs)

Particulars	Projections					
	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
As per GSEC	138.60	145.53	152.81	160.45	168.47	765.85
As per Authority (based on terms of Licence Agreement with AAICLAS)	124.01	133.31	143.31	154.06	165.62	720.32
Difference	-14.59	12.22	9.50	-6.39	-2.85	-45.54





- 6.2.7 The Authority, therefore, proposed to consider licence fee of Rs.720.32 Lakhs in the OPEX instead of Rs.765.85 projected by GSEC for the 3<sup>rd</sup> Control Period.
- 6.2.8 Labour Charges: GSEC proposed a 15% YoY increase in Labour Charges citing that it is to cater to the growing traffic. The Authority, however, observed that the volumetric projections by GSEC for the 3rd Control Period did not reach the pre-Covid levels of FY 2019-20 in the entire 3rd Control Period. Hence, the Authority proposed to cap the increase in labour charges @10% YoY (based on CAGR adopted plus CPI inflation) instead of 15% YoY proposed by M/s GSEC.
- 6.2.9 Allocation of CHQ expenses: The Authority sought clarifications from GSEC regarding the basis for allocation of CHQ expenses in the OPEX. M/s GSEC clarified that they have a separate Corporate office in Ahmedabad to administer their Cargo operations at the airport (Ahmedabad & Vishakhapatnam) and also their other Trading business. M/s GSEC further submitted that the proportion of revenues from Ahmedabad Airport Operations is about 95% of the total revenues of their Cargo business. However, they have not considered the allocation percentages in the ratio of the revenues, but, at a moderate level for each line item, in the range of 25% to 75%, based on the nature of expense.
- 6.2.10 The Authority, assessed that since M/s GSEC has an office at Ahmedabad airport for which expenses have been considered in the OPEX projections, the allocation of a separate Corporate Office (CHQ) expenditure, over and above, as proposed by GSEC, would place additional burden on the users. The Authority, therefore, advised M/s GSEC to avoid such duplicate expenditure in future.
- 6.2.11 Based on the above examination, the Authority proposed to consider total OPEX of Rs.10,694.73 lakhs for GSEC Ahmedabad for the 3rd Control Period as given in Table-13 below:

**Table-13 OPEX proposed by the Authority for GSEC Ahmedabad for the 3rd Control Period at Consultation Stage**

(Rs. in Lakhs)

Direct Exp:	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
Royalty Expenses(as per agreement)	696.98	741.18	787.64	837.32	890.10	3953.21
Rent & License Fees(as per Agreement)	124.01	133.31	143.31	154.06	165.62	720.32
Labour Charges	78.31	86.14	94.75	104.23	114.65	478.08
Insurance Including Employer Employee Insurance	167.21	180.59	180.59	180.59	180.59	889.56
Advertisement Exp	0.27	0.29	0.31	0.34	0.37	1.58
Bank Guarantee Charges	0.15	0.16	0.16	0.16	0.16	0.80
Books & Periodicals	0.16	0.17	0.19	0.20	0.22	0.95
Conveyance Exp	0.35	0.37	0.40	0.44	0.47	2.03
Courier Expense	0.02	0.02	0.03	0.03	0.03	0.13
Electricity	25.67	27.73	29.94	32.34	34.93	150.61
Electricity -New Building	17.87	19.30	20.85	22.52	24.32	104.86
Entertainment	0.09	0.09	0.10	0.11	0.12	0.51
Forklift Charges	9.44	10.19	11.01	11.89	12.84	55.38





<b>Direct Exp:</b>	<b>FY 2021-22</b>	<b>FY 2022-23</b>	<b>FY 2023-24</b>	<b>FY 2024-25</b>	<b>FY 2025-26</b>	<b>Total</b>
Internet Exp.	0.38	0.41	0.44	0.48	0.52	2.23
Medical Exp.	0.16	0.17	0.19	0.20	0.22	0.95
Miscellaneous Exp	0.54	0.58	0.63	0.68	0.73	3.17
Office Expenses	1.84	1.98	2.14	2.31	2.50	10.77
Packing Materials	48.38	52.25	56.44	60.95	65.83	283.85
Petrol & Diesel Expenses	0.09	0.09	0.10	0.11	0.12	0.51
Postage	0.06	0.07	0.08	0.08	0.09	0.38
Printer Rent	0.51	0.55	0.59	0.64	0.69	2.98
Rates And Taxes	18.28	19.74	19.74	19.74	19.74	97.24
Renovation Exp.	108.00	116.64	125.97	136.05	146.93	633.59
Repairing Exp.	12.96	14.00	15.12	16.33	17.63	76.03
Sales Promotion Exp.	25.00	27.00	27.00	27.00	27.00	133.00
Security Charges	30.96	33.44	36.12	39.01	42.13	181.65
Staff Refreshment	0.11	0.12	0.13	0.14	0.15	0.63
Staff Training Exp	0.15	0.16	0.15	0.15	0.15	0.76
Stationery Exp.-	0.50	0.54	0.58	0.63	0.68	2.91
Telephone Exp.	0.54	0.58	0.63	0.68	0.73	3.17
Transportation Exp.	0.50	0.54	0.58	0.63	0.68	2.93
CHQ Exp.	495.79	535.45	576.74	621.73	670.26	2899.97
<b>Total Exp.</b>	<b>1865.28</b>	<b>2003.88</b>	<b>2132.65</b>	<b>2271.75</b>	<b>2421.17</b>	<b>10694.73</b>

### 6.3 **Stakeholder's comments on O&M Expenditure for the 3rd Control Period:**

#### 6.3.1 **Spicejet's comment on Royalty (refer para 6.2 of CP):**

*"As you are aware, royalty is in the nature of market access fee, charged (by any name or description) by the Airport Operator under various headings without any underlying services. It may be pertinent to note that market access fee by any name or description is not practiced in most of the global economies, including European Union, Australia etc.*

*The rates of royalty/concession fee being paid by GSEC to AAICLAS at Ahmedabad Airport are mentioned below:*

<i>Particulars</i>	<i>1/4/16 To 30/6/20</i>	<i>1/7/20 To 31/03/20</i>	<i>w.e.f. 1/4/21</i>
<i>Royalty on GTO</i>	<i>13%</i>	<i>20%</i>	<i>25%</i>

*These charges are passed on the airlines by the airport operator or other services providers. Sometimes it is argued that that 'Royalty' on 'Aero Revenues' help in subsidizing the aero charges for the airlines, however royalty in 'Non-Aero Revenues' hits the airlines directly without any benefit.*

*In view of the above, we urge Authority to abolish such royalty which may be included in any of the cost items."*





### 6.3.2 **Spicejet's Comments on other Operational Expenditure :**

*"Organizations are always run in an efficient manner and there is constantly an effort for productivity improvement and increasing efficiencies. After the Covid-19 pandemic all the organizations have taken austerity measures whether under public or private sector. Needless to mention that the Central and various state Governments have cut salaries of their staff. Even the Central Government has restricted expenditure for all the Ministries at 20% of approved budget levels for first two quarter of FY 2022.*

*Companies in private sector have taken drastic measures to cut cost to ensure their survival ability. Even the costs which were considered to be untouchable have been reduced considerably. In the airline world, nobody could have ever dreamt that aircraft lease rentals and pilots' salary could be reduced in such a significant manner but it is a reality today. Airlines have renegotiated every contract what they have. Even salaries of the employees have been reduced by more than 35%. Lot of employees have been retrenched or sent on leave without pay.*

*There were no scheduled operations between March 25, 2020 and May 24, 2020. After that scheduled operations were commenced in a calibrated manner from May 25, 2020. Scheduled international operations have not yet been permitted. There have been very few international flights under Air Bubble and Vande Bharat Mission. On an overall basis, level of flights in FY 2021 was about 35% of FY 2020.*

*We are not sure whether GSEC has taken drastic cost cutting measures including renegotiations of all the cost items on its profit and loss account. It may be noted that cost incurred by GSEC is on account of all the airlines i.e. any cost incurred by GSEC is borne by the airlines only. The Authority may like to advise GSEC to renegotiate all the cost in a significant manner. We would be grateful to know the austerity measures taken up by GSEC.*

*Our specific comments on cost related items are as under:*

*(i) Labour Charges (refer para 6.6.3.5 of CP): The GSEC proposal mentions 15% YoY increase in Labor Charges, while the Authority has proposed to cap the charges @ 10% (based on CAGR adopted plus CPI inflation). Personnel Cost as proposed by the Authority for 3rd Control Period (Ref. Table 9 of CP)*

*(Amt. in. Lakhs)*

<b>Particulars</b>	<b>Labor Charges</b>
FY 21-22	78.31
FY 22-23	86.14
FY 23-24	94.75
FY 24-25	104.23
FY 25-26	114.65

*While the aviation sector, including airlines have incurred huge losses and are struggling to meet their operational costs, and are not able to pay even to the support staff, on the other hand GSEC seems to have paid full salaries to its staff including annual increments which is completely unheard of, in the same aviation sector.*

*It appears that GSEC wants to recover its full employee cost from the airlines, which are not even able to pay salaries to their support staff. GSEC needs to considerably reduce salary of its staff and annual increases needs to be put on hold at least for next three years. Salary expenses need to be in line with the level of operations.*





(ii) *Corporate Office (CHQ) Expenses* (refer para 6.6.3.7 of CP): The Authority has itself noted that GSEC should avoid duplicate expenditure, and therefore we request that this be disallowed, being around 27% of the entire Total Expenditure.

(iii) *Other expenses*: Companies/organizations always strive to operate in an efficient manner with constant efforts for productivity improvement and increasing efficiencies. After the Covid-19 pandemic, most companies/ organizations, whether under public or private sector, and further the Central/State Governments have implemented austerity measures. Even the airlines, which are facing imbalance in cash flows positions (as explained above), are constrained to implement austerity/ cost control measures, which includes re-negotiating of its contracts.

It may be noted that rather than escalations, across industries all the costs have been renegotiated downwards substantially. GSEC needs to significantly reduce all such costs in a very aggressive manner. GSEC may be advised to reduce its cost by at least 35% and no escalation should be permitted."

### 6.3.3 **GSEC's response on Spicejet's Comments regarding Royalty and other Operational Expenditure:**

"The Authority, vide Order No. 1/2018-19 dated 5th April 2018 capped the total royalty % to 30%. This was to abolish the practice of charging exorbitant rates, the cost of which is ultimately borne by the end user. It may be noted that the agreement between AAICLAS and GSEC Limited is well within the maximum % of 30%. Further, while for the first 4 years, the rate was only 13%, it is only in the recent past that the rates have been gradually increased to 25% commensurate with the level of business and quality of service. This is a fee paid to AAICLAS to compensate them for providing the right to carry out the cargo business. Hence, GSEC submits that the agreements and the royalty rates adhere to the royalty capping orders passed by the Authority and does not see a reason for abolishing the same."

"GSEC also undertook a concentrated cost reduction exercise. Salaries of all employees beyond Rs 20000 per month were cut by 30% for almost a year. We have re-negotiated existing contracts of repairs and maintenance; have temporarily taken some equipment out of operations to save on annual maintenance contract. It is also incorrect to say that entire cost of GSEC is borne by airlines. Airlines only pay screening charges to us which is Rs 1.5 per Kg. Whereas we deeply value this revenue stream, it is quite insignificant compared to other revenue streams from Importers, exporters, custom house agents, freight forwarders, bonded trucking operators etc.

*Labour charges*: Most of our workforce is just above minimum wages. The question of reduction and not giving them increment as mandated by regulatory authorities does not arise. Our salary structure for other middle and even senior level employees are far below other aviation sectors such as airlines. In any case, as a management we have decided to continue with marginal increases to offset inflation and pandemic related hardships. Again, there is no possibility of recovering entire cost from airlines for the reason explained in above.

*Corporate Office CHQ expenses*: CHQ expenses are absolutely in line. Most of our service staff such as central accounts, HR, IT and general management sit at city office. This is necessary because of paucity of space at the cargo complex as well as proximity to external agencies such as customs headquarters. As mentioned earlier in our submission, there is not significant activity besides Ahmedabad cargo operations happening at CHQ. To be on the conservative side, we have allotted only a part of such expenses to air cargo operations.

*Other expenses*: This point is explained in our earlier comments. The point that GSEC is not trying to bring cost down is highly presumptuous and erroneous. It is a constant endeavor and an ongoing process."





**6.4 Authority's Analysis and examination regarding O&M Expenditure for the 3rd Control Period**

- 6.4.1 The Authority examined the comments of Spicejet and the responses of M/s GSEC thereon regarding O&M expenditure, royalty capping, and other operating expenditures.
- 6.4.2 The Authority is of the view that O&M expenses as projected during consultation stage are justified in order to cope up with inflation and rising competition at the cargo terminal, hence, the Authority has considered the O&M expenditure as proposed during the consultation stage.

**6.5 Authority's decision regarding O&M Expenditure for the 3rd Control Period**

Based on the material before it and based on its analysis, the Authority has decided the following regarding O&M expenditure for M/s GSEC for the 3rd Control Period:

- 6.5.1 The Authority decides to consider O&M Expenditure for M/s GSEC Ahmedabad for the 3<sup>rd</sup> Control Period as given in Table-13.





## **CHAPTER-7: REVENUE FROM OPERATIONS**

### **7.1 M/s GSEC's submissions on Revenue for the 3rd Control Period**

- 7.1.1 Revenue from Operations for the 2nd control period as submitted by GSEC in their MYTP for Ahmedabad station is as follows:

**Table-14 Actual Revenue for 2nd control period submitted by GSEC for Ahmedabad**

(Rs. in Lakhs)	
Particulars	Total Revenues (FY 2016-17 to FY 2020 -21)
Export Income	3412.00
Import Income	7405.50
Cash Revenue	391.80
Monthly Billing Revenue	2134.54
Rentals & Other Income	742.99
<b>Total</b>	<b>14086.83</b>

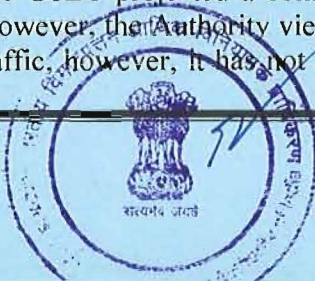
- 7.1.2 GSEC has submitted that "Export and Import Incomes" represent the handling and demurrage charges for various types and categories of cargo as mentioned in the tariff card. "Monthly Billing Revenues" consist of mainly screening charges charged to Airlines. Rental Revenues are received from parties to whom the portions of the cargo building are let out as office spaces
- 7.1.3 GSEC has submitted the following projected revenues for the 3<sup>rd</sup> Control Period based on their volumetric assumptions as given in table-15 below:

**Table-15 Projected Revenues at existing rates submitted by GSEC for Ahmedabad for the 3rd Control Period**

(Rs. in Lakhs)						
Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
Export Income	614.18	644.89	677.14	710.99	746.54	3393.74
Import Income	1,390.99	1,460.54	1,533.57	1,610.25	1,690.76	7686.11
Cash Revenue	97.00	102.00	107.00	112.00	118.00	536.00
Monthly Billing Revenue	467.52	491.84	515.69	542.02	568.82	2585.89
Rentals & Other Income	193.48	203.16	213.31	223.98	235.18	1069.11
<b>Total</b>	<b>2,763.17</b>	<b>2,902.43</b>	<b>3,046.70</b>	<b>3,199.24</b>	<b>3,359.30</b>	<b>15270.84</b>

### **7.2 Authority's Analysis regarding revenue at Consultation stage:**

- 7.2.1 The Authority noted M/s GSEC's submissions regarding Rental Revenues as amounts received from parties to whom the portions of the cargo building are let out as office spaces, and, proposes to consider the same as aeronautical cargo revenues for the purpose of tariff determination.
- 7.2.2 The Authority noted that as per their MYTP submissions of GSEC had estimated their total expenditure during 3rd Control Period to rise by 14% (from Rs. 10708.68 lakhs to Rs. 12205.62 lakhs) as compared to 3rd Control Period, whereas, the total revenues over the same period were projected to rise by 8% only (from Rs. 14086.81 lakhs to Rs. 15270.84 lakhs). Citing the prevailing pandemic situation, M/s GSEC projected a conservative growth in volumes @ 5% YoY for the 3rd Control Period, however, the Authority viewed that although the pandemic has severely affected passenger air traffic, however, it has not affected the air cargo traffic, which





appears to have almost restored itself to the pre-covid levels since the beginning of FY 2021 (source: AAI Traffic News data).

**Table- 16 Projected Revenues considered by the Authority for GSEC Ahmedabad for the 3rd Control Period at Consultation Stage**

(Rs. in Lakhs)

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
Import Income	1405.11	1494.21	1587.87	1688.03	1794.44	7969.68
Export Income	602.19	640.38	680.52	723.44	769.05	3415.58
Cash Revenue	101.48	107.92	114.68	121.91	129.60	575.59
Monthly Billing Revenue	507.40	539.58	573.40	609.57	647.99	2877.94
Rentals & Other Income	171.74	182.63	194.07	206.32	219.32	974.07
<b>Total</b>	<b>2,787.91</b>	<b>2,964.71</b>	<b>3,150.54</b>	<b>3,349.27</b>	<b>3,560.40</b>	<b>15,812.85</b>

### 7.3 **Stakeholders' Comments on Revenue from Operations for the 3rd Control Period:**

- 7.3.1 During the Stakeholders' Consultation process, the Authority has received no comments/views from stakeholders in response to the proposals of Authority in the Consultation Paper No. 14/2021-22 with respect to revenue from operations for the 3rd control period.

### 7.4 **Authority's decision regarding Revenue from Operations for the 3rd Control Period**

Based on the material before it and based on its analysis, the Authority has decided the following regarding revenue from operations for M/s GSEC for the 3rd Control Period:

- 7.4.1 The Authority decides to consider Revenue projections for M/s GSEC Ahmedabad for the 3<sup>rd</sup> Control Period as per Table-16.





## **CHAPTER-8: TAXATION**

### **8.1 Background**

- 8.1.1 The Authority noted that a new section 115BAA was introduced by the Government of India through the Taxation (Amendment) Ordinance 2019 on the 20th September 2019. Section 115BAA provides option to a domestic company to pay tax at lower rate of 22% (plus applicable surcharge and cess) (where the total turnover for Previous Year (PY) 2017-18 does not exceeds Rs. 400 Crores) as opposed to normal tax rate of 30%/ 25% (plus applicable surcharge and cess), w.e.f. assessment year 2020-21 subject to other precedent conditions.

### **8.2 Tax Projections by M/s GSEC for the 3rd Control Period**

The Authority noted that GSEC, Ahmedabad has applied income tax rate of 29.12% (Basic rate 25%, 12% Surcharge where total income > Rs. 10 Crores and 4% Health and Education Cess) for tax projections for the 3rd Control Period.

- 8.2.1 The Authority sought clarification from GSEC in this regard. Accordingly, M/s GSEC has submitted their revised tax calculations by considering the lower rate of 25.6256% (Basic rate 22%, 12% Surcharge where total income > Rs. 10 crore and 4% Health and Education Cess) on the projected profits for the 3<sup>rd</sup> control period as per table- 17 given below:

**Table-17 Projected Tax Expense submitted by GSEC for Ahmedabad for the 3rd Control Period**

(Rs. in Lakhs)

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
Tax Exp	240.72	266.04	291.08	314.33	336.89	1449.06

### **8.3 Authority's Analysis regarding Taxation for the 3rd Control Period at Consultation Stage:**

- 8.3.1 However, in their revised submissions, M/s GSEC has failed to apply tax rate @25.168% (Basic rate 22%, 10% Surcharge where total income < Rs. 10 Crores and 4% Health and Education Cess) in years where total income falls below Rs. 10 Crores. The Authority noted the same and accordingly proposed to correct the same and re-compute tax.
- 8.3.2 The Authority proposed the following tax expense based on its projections of aeronautical cargo revenue for computation of ARR purpose the 3<sup>rd</sup> Control Period as given in table -18 below:

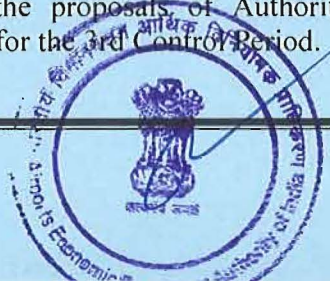
**Table-18 Projected Tax Expense on Projected Revenues proposed by the Authority at Consultation stage**

(Rs. in Lakhs)

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
Tax @25.168% (FY 2021-22 to FY 2024-25) and @25.6256% (FY 2025-26) as proj. Profit exceeds Rs.10 crores	198.12	207.09	224.37	239.28	257.52	1126.38

### **8.4 Stakeholders' Comments on Taxation for the 3rd Control Period:**

- 8.4.1 During the stakeholder consultation process, the Authority has received no comments/views from stakeholders in response to the proposals of Authority in the Consultation Paper No. 14/2021-22 with respect taxation for the 3<sup>rd</sup> Control Period.





**8.5 Authority's decision regarding Taxation for 3<sup>rd</sup> Control Period**

Based on the material before it and based on its analysis, the Authority has decided the following regarding taxation for M/s GSEC for the 3<sup>rd</sup> Control Period:

- 8.5.1 The Authority decides to consider tax expense for M/s GSEC Ahmedabad for the 3<sup>rd</sup> Control Period as per Table-18.





## **CHAPTER-9: AGGREGATE REVENUE REQUIREMENT & ATP**

### **9.1 M/s GSEC's submissions on ARR for the 3rd Control Period**

- 9.1.1 As per their MYTP, M/s GSEC submitted that they have been earning a PAT of about 24% on an average in the past 5 years which is comparable with the PAT earned by its peers viz. Menzies Aviation (PAT 29%) at Bangalore Airport and Menzies Air Cargo Pvt. Ltd. (PAT 28%) at Hyderabad Airport and is therefore reasonable that the same profitability 24% is continued for the 3rd control period.
- 9.1.2 The following tariff increase was proposed by M/s GSEC :
- c) 11.63% increase in tariff for year 2021-22 from 1.10.2021 to 31.03.2022;
- d) 2% increase in tariff thereafter from 2022-23 till 2025-26.
- 9.1.3 Based on the above, GSEC Ahmedabad submitted that in order to achieve a PAT of 24%, the revenue that ought to be earned for the 3rd Control Period by GSEC Ahmedabad would be as follows:

**Table -19 Revenue Requirement as submitted by GSEC Ahmedabad for 3<sup>rd</sup> Control Period**

(Amt. in Lakhs)

Particulars	Projection					Total
	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	
Revenues to be earned **	3,015.02	3,276.73	3,504.12	3,748.68	4,010.25	17554.80

*\*\* ARR required is arrived considering cost incurred/projected for each FY plus concession fees of 25% on revenue and tax reimbursement.*

- 9.1.4 The revised profitability workings submitted by M/s GSEC for the 3rd Control Period (based on rate increase of 11.63% in the 1st tariff year followed by 2% YoY) is given in the table below:

**Table-20 Profitability Statement submitted by GSEC with tariff increase for the 3<sup>rd</sup> Control Period**

(Rs. in Lakhs)

Particulars	FY 2021-22		FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
	April-Sept (2021) (at existing rates)	Oct-2021 to March-2022 (at new rates i.e. @ 11.63% increase)	Revenue projections by GSEC with rate increase (@ 2% YoY w.e.f. 01.04.2022)				
Export Income	307.09	342.82	734.32	786.45	842.29	902.09	3915.06
Import Income	695.50	776.41	1663.07	1781.15	1907.61	2043.05	8866.79
Cash Revenue	48.50	54.14	116.14	124.27	132.68	142.59	618.32
Monthly Billing Revenue	282.13	314.95	560.05	598.94	642.12	687.34	3085.53
Rental income and other non-cargo revenue	96.74	96.74	203.16	213.31	223.98	235.18	1069.11





Particulars	FY 2021-22		FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
	April-Sept (2021) (at existing rates)	Oct-2021 to March-2022 (at new rates i.e. @ 11.63% increase)	Revenue projections by GSEC with rate increase (@ 2% YoY w.e.f. 01.04.2022)				
<b>Total Revenue</b>	1429.96	1585.06	3276.73	3504.12	3748.68	4010.25	17554.80
Regulated Expenditure							
OPEX (direct expenses other than royalty)		345.33	745.91	789.05	836.38	888.30	3950.3
Royalty paid to AAICLAS	357.49	396.27	819.18	876.03	937.17	1002.56	4388.7
CHQ Exp.	345.33	247.89	535.45	576.74	621.73	670.26	2899.96
<b>Total Expenditure</b>	950.71	989.49	2100.54	2241.82	2395.27	2561.12	11238.95
Depreciation	67.72	67.72	138.01	126.42	126.79	134.45	661.11
Profit before tax (PBT)	411.52	527.85	1038.18	1135.88	1226.61	1314.68	5654.72
Less : Corporate Taxes	105.46	135.27	266.04	291.08	314.33	336.89	1449.07
<b>Profit after tax (PAT)</b>	<b>306.07</b>	<b>392.59</b>	<b>772.14</b>	<b>844.80</b>	<b>912.29</b>	<b>977.78</b>	<b>4205.67</b>
PAT / Revenue %age Projections for TCP		23%	24%	24%	24%	24%	

## 9.2 Authority's Analysis regarding ARR for the 3rd Control Period at Consultation Stage:

- 9.2.1 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. The Authority in its independent analysis observed that M/s GSEC has been earning decent Profits After Tax (PAT) in the 2<sup>nd</sup> Control Period, and, in order to maintain a similar PAT level during the 3<sup>rd</sup> 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.





**Table -21 Profitability computed by the Authority for M/s GSEC Ahmedabad for the 3rd Control Period at Consultation stage**

(Rs. in Lakhs)

Particulars	After Volume Increase					
	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
<b>Total Revenue(A)</b> (Ref. Table 16)	2787.91	2964.71	3150.54	3349.27	3560.40	<b>15812.85</b>
Direct Exp:						
Royalty Expenses(as per agreement)	696.98	741.18	787.64	837.32	890.10	3953.21
Rent & License Fees(as per Agreement)	124.01	133.31	143.31	154.06	165.62	720.32
Labour Charges	78.31	86.14	94.75	104.23	114.65	478.08
Insurance Including Employer Employee Insurance	167.21	180.59	180.59	180.59	180.59	889.56
Advertisement Exp	0.27	0.29	0.31	0.34	0.37	1.58
Bank Guarantee Charges	0.15	0.16	0.16	0.16	0.16	0.80
Books & Periodicals	0.16	0.17	0.19	0.20	0.22	0.95
Conveyance Exp	0.35	0.37	0.40	0.44	0.47	2.03
Courier Expense	0.02	0.02	0.03	0.03	0.03	0.13
Electricity	25.67	27.73	29.94	32.34	34.93	150.61
Electricity -New Building	17.87	19.30	20.85	22.52	24.32	104.86
Entertainment	0.09	0.09	0.10	0.11	0.12	0.51
Forklift Charges	9.44	10.19	11.01	11.89	12.84	55.38
Internet Exp	0.38	0.41	0.44	0.48	0.52	2.23
Medical Exp.	0.16	0.17	0.19	0.20	0.22	0.95
Miscellaneous Exp	0.54	0.58	0.63	0.68	0.73	3.17
Office Expenses	1.84	1.98	2.14	2.31	2.50	10.77
Packing Materials	48.38	52.25	56.44	60.95	65.83	283.85
Petrol & Diesel Expenses	0.09	0.09	0.10	0.11	0.12	0.51
Postage	0.06	0.07	0.08	0.08	0.09	0.38
Printer Rent	0.51	0.55	0.59	0.64	0.69	2.98
Rates And Taxes	18.28	19.74	19.74	19.74	19.74	97.24
Renovation Exp.	108.00	116.64	125.97	136.05	146.93	633.59
Repairing Exp.	12.96	14.00	15.12	16.33	17.63	76.03
Sales Promotion Exp.	25.00	27.00	27.00	27.00	27.00	133.00
Security Charges	30.96	33.44	36.12	39.01	42.13	181.65
Staff Refreshment	0.11	0.12	0.13	0.14	0.15	0.63
Staff Training Exp	0.15	0.16	0.15	0.15	0.16	0.77
Stationery Exp.-	0.50	0.54	0.58	0.63	0.68	2.91
Telephone Exp.	0.54	0.58	0.63	0.68	0.73	3.17
Transportation Exp.	0.50	0.54	0.58	0.63	0.68	2.93
CHQ Exp.	495.79	535.45	576.74	621.73	670.26	2899.97
<b>Total Exp.(B)</b>	<b>1865.28</b>	<b>2005.88</b>	<b>2132.65</b>	<b>2271.75</b>	<b>2421.19</b>	<b>10694.74</b>





	After Volume Increase					
Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
Earnings Before Depreciation & Tax	922.63	960.83	1017.90	1077.53	1139.22	5118.10
Depreciation	135.44	138.01	126.42	126.79	134.45	661.12
EBT	787.19	822.82	891.47	950.74	1004.77	4456.98
Tax @25.168% (for FY 2021-22 to FY 2024-25) and @25.6256% (for FY 2025-26)	198.12	207.09	224.37	239.28	257.52	1126.38
<b>Profit after Tax (PAT)</b>	<b>589.07</b>	<b>615.73</b>	<b>667.11</b>	<b>711.46</b>	<b>747.25</b>	<b>3330.61</b>
PAT in %age	21%	21%	21%	21%	21%	

9.2.2 The Authority, in its own computations, had considered the volumes on the basis of the 4 year CAGR @6.3% as calculated by M/s GSEC without any adjustment, and, observed that they are earning an Average Profit of 21% post tax (PAT) as can be seen from Table-21 above.

9.2.3 The Authority, accordingly, had proposed the following computation of ARR for the 3<sup>rd</sup> Control Period (table-22) based on re-calculated Projected Revenues, revised Royalty, License fee, further adopting all the YoY increase as proposed by M/s GSEC in respect of OPEX, except labour charges, wherein the Authority had considered 10% YoY growth instead of 15% YoY as proposed by M/s GSEC.

**Table-22 ARR proposed by the Authority for GSEC Ahmedabad for the 3rd Control Period at Consultation Stage** (Amt. in Lakhs)

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
O&M Expenses (Refer Table-13)	1,865.28	2,003.88	2,132.65	2,271.75	2,421.17	10,694.73
Depreciation (Refer Table-4)	135.44	138.01	126.42	126.79	134.45	661.12
<b>10% Return on revenue</b>	<b>278.79</b>	<b>296.47</b>	<b>315.05</b>	<b>334.93</b>	<b>356.04</b>	<b>1581.28</b>
<b>Tax (Refer Table-18)</b>	<b>198.12</b>	<b>207.09</b>	<b>224.37</b>	<b>239.28</b>	<b>257.48</b>	<b>1126.33</b>
<b>Aggregate revenue requirement (ARR)</b>	<b>2477.63</b>	<b>2645.45</b>	<b>2798.49</b>	<b>2972.74</b>	<b>3169.15</b>	<b>14063.5</b>
Discount Rate	10%	10%	10%	10%	10%	
PV Discount	1	0.91	0.83	0.75	0.68	
<b>PV of ARR</b>	<b>2477.63</b>	<b>2407.36</b>	<b>2322.75</b>	<b>2229.56</b>	<b>2155.02</b>	<b>11592.3</b>
Revenue from regulated services (A)	2616.18	2782.09	2956.47	3142.95	3341.08	14838.79
Revenue from other than regulated Services (B)	171.74	182.63	194.07	206.32	219.32	974.07
<b>Revenue Projected (A + B)</b> (Refer Table-16)	<b>2787.91</b>	<b>2964.71</b>	<b>3150.54</b>	<b>3349.27</b>	<b>3560.4</b>	<b>15812.9</b>
<b>PV of Revenue</b>	<b>2787.91</b>	<b>2697.89</b>	<b>2614.95</b>	<b>2511.95</b>	<b>2421.08</b>	<b>13033.8</b>
<b>Discounted Surplus / (Shortfall)</b> (PV of Revenue - PV of	<b>310.28</b>	<b>290.52</b>	<b>292.27</b>	<b>282.4</b>	<b>266.06</b>	<b>1441.46</b>





Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
ARR)						

- 9.2.4 The Authority had considered a 10% return on revenue instead of considering a return on RAB as M/s GSEC has a low asset base. The Authority further noted that after providing a 10% return on revenue to meet the ARR, the Projected Revenue (at NPV) at Rs.13033.78 lakhs was still higher than the eligible ARR (at NPV) of Rs.11592.33 lakhs for the 3<sup>rd</sup> Control Period (ref. table-22).
- 9.2.5 The Authority also noted that the validity of the Concession Agreement of M/s GSEC with AAICLAS is valid up to 31.12.2022. The Authority, further assessed that if their license is extended beyond the said period, the existing tariff would still be sufficient to cover their expenses, and, additionally earn a reasonable profit on revenues based on the projected cargo volumes. The Authority, therefore, did not propose any revision in tariff for M/s GSEC Ahmedabad for the tariff year FY 2021-22 and FY 2022-23 (till 31.12.2022), and proposed that GSEC should submit a fresh MYTP/ATP for Ahmedabad for tariff years FY 2023-24, FY 2024-25, & FY 2025-26 of the 3rd Control Period.

### 9.3 Stakeholders' comment on ARR for the 3rd Control Period:

#### Spicejet's comment on ARR and tariff rate:

- 9.3.1 "Aggregate Revenue Requirement/Return on Revenue (refer para 10.6.4 of CP): Presently, GSEC has been earning a PAT of about 25% on an average in the past 5 years, as per paragraph 10.1. As per paragraph 10.6.2 the Authority is proposing a 10% return on revenue instead of considering a Return on RAB. Such fixed/ assured return favors the service provider and creates an imbalance against the airlines, which are already suffering from huge losses and bear the adverse financial impact through higher tariffs.

*Not only the above, GSEC appears to be making a double profit, one by earning a PAT of about 25% and the second by getting an additional 10% return on revenue.*

*Further, due to such assured return on revenue, service provider like GSEC have no incentive to look for productivity improvement or ways of increasing efficiencies, take steps to reduce costs as they are fully covered for all costs plus their hefty returns. Such kind of scenario breeds inefficiencies and higher costs, which are ultimately borne by airlines. In the present scenario any assured return on investment to any services providers like GSEC, in excess of three (3) %, i.e. being at par with bank fixed deposits, will be onerous for the airlines.*

*In view of the above, Authority is requested to immediately review the proposed return on revenue to the service providers like GSEC and revise all the Tariff Orders (including past orders) by capping the returns to a maximum of three (3) %."*

*Tariff Order(refer para 10.7 of CP): It is disheartening to note that rather than significant reduction in the cost of the tariff, the Authority is proposing continuation of the tariff rates for GSEC for Ahmedabad up to 31.12.2022.*

*In view of the consideration of the points mentioned in this letter, especially in this highly uncertain environment, it is recommended that the Authority may kindly review its proposals and reduce the tariff such that Authority may ensure that extraordinary profits to the tune of 21 to 24% (Refer para 10.1 and 10.6.2 of the CP) do not accrue to the service provider and that the end user is not burdened with high tariffs."*





**9.3.2 GSEC's response on Spicejet's Comments regarding ARR and Tariff Rate:**

*"GSEC reiterates that with increasing costs, need for frequent replacement of machinery to upgrade the quality of services and dwindling traffic coupled with new entrants into the market have all led to falling profits for the organization. As mentioned in our comments to the consultation paper, the profits after simulating the traffic post entry of competitors is far below manageable levels.*

*GSEC further submits that the increase in tariff is required for the following reasons:*

- *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.*
- *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.*
- *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.*

*GSEC prays to the Authority to consider the submissions made while passing the Order."*

**9.4 Authority's Analysis and examination regarding ARR for the 3rd Control Period**

9.4.1 The Authority noted the comments of M/s Spicejet regarding the Authority's proposal of providing a 10% return on revenue. In this regard, the Authority believes that the investment for operational activities particularly for aeronautical assets is a long term asset investment wherein the investors focus on a stable return on equity rather than on the project life cycle. The Authority would also like to state that the civil aviation sector has its own dynamics and challenges just like the airlines. Therefore, the Authority finds that it is not practical or fair to cap the returns to a maximum of three percent (3%) as commented by M/s Spicejet.

9.4.2 The Authority also noted the response of M/s GSEC that with increasing costs, need for frequent replacement of machinery to upgrade the quality of services, and, dwindling traffic coupled with new entrants into the market, all these have led to falling profits for the organization below manageable levels.

9.4.3 In this regard, the Authority notes that the term of the Concession Agreement of M/s GSEC with AAICLAS is valid only up to 31.12.2022. The Authority, based on its analysis of the proposal and its projections, finds that the existing tariff, as prevailing at the end of the 2nd Control Period, is sufficient to earn a 21% PAT for M/s GSEC at SVPI Airport Ahmedabad for the entire duration of the 3<sup>rd</sup> Control Period. The Authority, therefore, is of the view that in the event that M/s AAICLAS renews the Concession Agreement in favor of M/s GSEC for a further term beyond 31.12.2022 till the end of the 3rd Control Period, then the prevailing tariff rates can continue till 31.03.2026.

However, in case a fresh Concession Agreement, fundamentally different from the existing one, is executed, affecting the Cargo Operations materially, then M/s GSEC may submit for due evaluation of the Authority, a fresh MYTP/ATP for Ahmedabad for tariff years FY 2023-24, FY 2024-25, & FY 2025-26 of the 3rd Control Period. Further, the Authority also decides, that in case the Concession Agreement is not renewed beyond 31.12.2022, the approved tariff shall cease to be effective from 01.01.2023.

The Authority, therefore, based on its analysis, examination, and, decisions on various building blocks as detailed in the foregoing chapters, decides to adopt the ARR and Profitability as was proposed during the Consultation Stage (Ref. Table 21 & Table 22).





**9.5 Authority's decision regarding Aggregate Revenue Requirement & ATP for the 3rd Control Period**

Based on the material before it and its analysis, the Authority has decided the following regarding ARR and ATP:

- 9.5.1 The Authority, decides to continue the existing tariff rates (Ref: Tariff Card as per Annexure-I), as prevailing at the end of the 2nd Control Period, for M/s GSEC for Cargo Handling Services at SVPI Airport Ahmedabad up to 31.12.2022 for the 3rd Control Period. In case the existing Concession Agreement of M/s GSEC is renewed further beyond 31.12.2022 till the end of the 3rd Control Period, then the approved tariff shall continue till 31.03.2026;
- 9.5.2 The Authority also decides that, in case, the Concession Agreement of M/s GSEC is not renewed beyond 31.12.2022, the approved tariff shall cease to be effective from 01.01.2023. Further, if a fresh Concession Agreement, fundamentally different from the existing one, affecting the Cargo Operations materially, is entered into then M/s GSEC may submit, for due evaluation of the Authority, a fresh MYTP/ATP for FY 2023-24, FY 2024-25, & FY 2025-26 of the 3rd Control Period in respect of it cargo handling operations at SVPIA, Ahmedabad.
- 9.5.3 The Authority decides to adopt the ARR and Profitability for 3<sup>rd</sup> Control Period (FY 2021-22 to FY2025-26) as per Table 21 & Table 22.





## **CHAPTER-10: SUMMARY OF AUTHORITY'S DECISIONS**

The summary of the Authority's decisions (given under each chapter) regarding the tariff determination of M/s GSEC, for the 3rd Control Period is as under:

<b>Chapter</b>	<b>Para</b>	<b>Summary of Authority's Decisions</b>	<b>Page No.</b>
<b>Chapter No 2</b>	2.3.1	Since the Cargo Handling Service provided by M/s GSEC at Ahmedabad Airport is 'Material but Competitive' the tariff will be determined based on 'Light Touch Approach' for the 3rd Control Period.	08
<b>Chapter No 4.</b>	4.8.1	The Authority decides to consider the RAB / CAPEX (Additions to RAB) for the 3 <sup>rd</sup> Control Period as given in Table-1 & Table -2 respectively.	13
	4.8.2	The Authority decides to consider Depreciation for M/s GSEC Ahmedabad for the 3 <sup>rd</sup> Control Period as given in Table-4.	13
<b>Chapter No 5.</b>	5.5.1	The Authority decides to consider volumetric projections for M/s GSEC Ahmedabad for the 3 <sup>rd</sup> Control Period as per Table-7.	16
<b>Chapter No 6.</b>	6.5.1	The Authority decides to consider O&M Expenditure for M/s GSEC Ahmedabad for the 3 <sup>rd</sup> Control Period as given in Table-13.	25
<b>Chapter No 7.</b>	7.4.1	The Authority decides to consider Revenue projections for M/s GSEC Ahmedabad for the 3 <sup>rd</sup> control period as per Table-16.	27
<b>Chapter No 8.</b>	8.5.1	The Authority decides to consider Tax Expense for M/s GSEC Ahmedabad for the 3 <sup>rd</sup> Control Period as per Table 18.	29
<b>Chapter No 9.</b>	9.5.1	The Authority, decides to continue the existing tariff rates (Ref: Tariff Card as per Annexure-I), as prevailing at the end of the 2nd Control Period, for M/s GSEC for Cargo Handling Services at SVPI Airport Ahmedabad up to 31.12.2022 for the 3rd Control Period. In case the existing Concession Agreement of M/s GSEC is renewed further beyond 31.12.2022 till the end of the 3rd Control Period, then the approved tariff shall continue till 31.03.2026;	36
	9.5.2	The Authority also decides that, in case, the Concession Agreement of M/s GSEC is not renewed beyond 31.12.2022, the approved tariff shall cease to be effective from 01.01.2023. Further, if a fresh Concession Agreement, fundamentally different from the existing one, affecting the Cargo Operations materially, is entered into then M/s GSEC may submit, for due evaluation of the Authority, a fresh MYTP/ATP for FY 2023-24, FY 2024-25, & FY 2025-26 of the 3rd Control Period in respect of its cargo handling operations at SVPIA, Ahmedabad.	36
	9.5.3	The Authority decides to adopt the ARR and Profitability for 3 <sup>rd</sup> Control Period (FY 2021-22 to FY 2025-26) as per Table 21 & Table 22.	36





## **CHAPTER-11: ORDER**

**11.1** Upon careful consideration of the material available on records, the Authority, in exercise of powers conferred by Section 13(1)(a) of the Airport Economic Regulatory Authority of India Act, 2008, hereby orders that:

- i. M/s GSEC, Ahmedabad is permitted to levy and collect the existing tariff rates as prevailing at the end of the 2nd Control Period, for their Cargo Handling Services at SVPI Airport Ahmedabad, up to 31.12.2022 of the 3rd Control Period. In case the existing Concession Agreement of M/s GSEC is renewed further beyond 31.12.2022 till the end of the 3rd Control Period (FY 2021-22 to FY 2025-26), then the approved tariff shall continue till 31.03.2026.
- ii. In case, the Concession Agreement of M/s GSEC is not renewed beyond 31.12.2022, the approved tariff at Annexure-I, shall cease to be effective from 01.01.2023. Further, if a fresh Concession Agreement, fundamentally different from the existing one, affecting the Cargo Operations materially, is entered into then M/s GSEC may submit, for due evaluation of the Authority, a fresh MYTP/ATP for FY 2023-24, FY 2024-25 & FY 2025-26 of the 3rd Control Period in respect of it Cargo Handling Operations at SVPIA, Ahmedabad.
- iii. The approved tariff placed at "Annexure-I." shall take effect from the date of this Order.
- iv. The tariff rates approved herein are ceiling rates, excluding taxes, if any, and, as applicable. Tariff determined shall be the maximum tariff to be charged. No other charge is to be levied over and above the approved tariff rates.
- v. The Airport Operator shall ensure compliance of the Order.

**By the Order of and in the name of the Authority**

  
(Col. Manu Sooden)  
Secretary

**To,**

Gujarat State Export Corporation Limited,  
2<sup>nd</sup> Floor, Gujarat Chamber's Building,  
Ashram Road, Ahmedabad-380009, Gujarat  
(Through: Shri Samir Mankad, Director)

### **Copy to:**

- (i) CEO, M/s Adani Ahmedabad International Airport Ltd. (AAIAL) Adani Corporate House, Shantigram, Near Vaishno Devi Circle, S G Highway, Khodiyar, Ahmedabad - 382421, Gujarat.
- (ii) Secretary, Ministry of Civil Aviation, RG Bhawan, Safdarjung Airport, New Delhi-110003.





**AERA APPROVED MAXIMUM TARIFF RATE**

**For M/s Gujarat State Export Corporation Ltd.(GSEC) providing Cargo Handling Services at  
Sardar Vallabhbhai Patel International Airport (SVPIA), Ahmedabad  
applicable w.e.f. 16.11.2021 to 31.12.2022\***

(\*In case the existing Concession Agreement of M/s GSEC is renewed further beyond 31.12.2022 till the end of the 3rd Control Period (FY 2021-22 to FY 2025-26) by the Airport Operator, then the approved tariff herein shall continue till 31.03.2026)

Sl.No.	Tariff	Rate(Rs.)	UoM	Remarks
<b>(i)</b>	<b>Export</b>			
1	General Cargo	0.70	Kg	Minimum Rs.110.00
2	Perishable & Cold storage Cargo	1.75	Kg	Minimum Rs.200.00
3	DGR cargo, Valuable cargo, Silver & live animals	2.00	Kg	Minimum Rs.250.00
4	Diamond	As per the \$ tariff list		
5	Gold, Gold plain jewellery & precious stone etc.,	50.00	Kg	Minimum Rs.1100.00
6	X-Ray charges	1.50	Kg	
	Working hours	1030 to 2000 hours		
7	Overtime charges	300.00	per SB or AWB	
8	Amendment charges	175.00	per shipping bill	
9	Miss – declaration	Upto 2% wt. difference - No charge 2 to 5% wt. difference - 2 times Above 5% wt. difference - 5 times		
<b>(ii)</b>	<b>Demurrage</b>			
1	General Cargo	110.00	Day	
2	Perishable & Cold storage Cargo	200.00	Day	
3	DGR cargo, Valuable cargo, Silver & live animals	250.00	Day	
	Diamond	Handling * Day		
	Gold, Gold plain jewelry & precious stones etc.,	Handling * Day		
<b>(iii)</b>	<b>Import</b>			
1	General Cargo	4.25	Kg	Minimum Rs.120.00
2	Perishable & Cold storage Cargo, DGR cargo, Valuable cargo, Silver & live animals	8.00	Kg	Minimum Rs.220.00
3	Diamond	As per the \$ tariff list		
4	Gold plain or studded with precious/semi-precious stone etc.,	50.00	Kg	Minimum Rs.1000.00
	Working hours	1030 to 2000 hours		
5	Overtime charges	300.00	per SB or AWB	
<b>(iv)</b>	<b>Demurrage (Import)</b>			
1	General Cargo	1.30	Kg per day	Up to 120 hrs including free period (Min. Rs.225)
		2.60	Kg per day	120 hrs to 720 hrs (Min. Rs.225)
		3.90	Kg per day	Beyond 720 hrs (Min. Rs.225)





Sl.No.	Tariff	Rate(Rs.)	UoM	Remarks
2	Perishable & Cold storage Cargo, Hazardous Cargo	3.25	Kg per day	Upto 120 hrs including free period (Min. Rs.350)
		4.50	Kg per day	120 hrs to 720 hrs (Min. Rs.350)
		6.25	Kg per day	Beyond 720 hrs (Min. Rs.350)
3	Valuable & Silver Cargo	4.50	Kg per day	Upto 120 hrs including free period (Min. Rs.500)
		8.50	Kg per day	120 hrs to 720 hrs (Min. Rs.500)
		12.00	Kg per day	Beyond 720 hrs (Min. Rs.500)
4	Gold, Diamond & Jewellery	50.00	Kg per day	After stipulated free period of 48 hrs on 3rd & 4th day on non-cumulative basis. From the 5th day onwards the charge will be levied on cumulative basis from the date & time of actual arrival of Cargo;
(v)	<b>Demurrage</b>			
1	General Cargo	1.30	Kg per day	Upto 120 hrs including free period (Min. Rs.225)
		2.60	Kg per day	120 hrs to 720 hrs (Min. Rs.225)
		3.90	Kg per day	Beyond 720 hrs (30 days) (Min. Rs.225)
2	Diamond	Handling * Day (Min. Rs. 350)		
3	Perishable & Cold storage Cargo, Hazardous Cargo	3.25	Kg per day	Upto 120 hrs including free period (Min. Rs.350)
		4.50	Kg per day	120 hrs to 720 hrs (Min. Rs.350)
		6.25	Kg per day	Beyond 720 hrs (30 days) (Min. Rs.350)
4	Valuable & Silver Cargo	4.50	Kg per day	Upto 120 hrs including free period (Min. Rs.500)
		8.50	Kg per day	120 hrs to 720 hrs (Min. Rs.500)
		12.00	Kg per day	Beyond 720 hrs (30 days) (Min. Rs.500)
5	Gold plain or studded with precious/semi-precious stone etc.,	50.00	Kg per day	Upto 120 hrs including free period (Min. Rs.1000)
		50.00	Kg per day	120 hrs to 720 hrs (Min. Rs.1000)
		50.00	Kg per day	Beyond 720 hrs (30 days) (Min. Rs.1000)
(vi)	<b>Miscellaneous Charges</b>			
1	Bonding & handover Charges	1.00	Per Kg From Bonded Truck	
2	Forklift Charges	75.00	Up to 250 Kgs	
		100.00	251 to 500 Kgs	
		150.00	501 to 1000 Kgs	
		200.00	1000 Kgs	





Sl. No.	Tariff	Rate (Rs.)	UoM	Remarks
3	Duplicate Document	200.00	Per Document	
(vii)	<b>Courier Charges (Export)</b>			
1	Handling Charges	4.00	Kg	
2	X-Ray Charges	4.00	Kg	
(viii)	<b>Courier Charges (Import)</b>			
1	Handling Charges	6.00	Kg	
2	X-Ray Charges	4.00	Kg	
(ix)	<b>Polished Diamonds &amp; Jewellery (Import)</b>			
	<b>Value Ranges (USD)</b>			
1	1 to 50,000	525.00		
2	50,001 to 1,00,000	770.00		
3	1,00,001 to 1,50,000	875.00		
4	1,50,001 to 2,00,000	910.00		
5	2,00,001 to 2,50,000	980.00		
6	2,50,001 to 3,00,000	1050.00		

Note:-	
1	All the charges mentioned above include the prevailing concession fee, royalty, airport levy charged by the Airport Operators;
2	All bill to be rounded off to the nearest Rupee 1/-;
3	All the charges mentioned above are excluding statutory taxes and other levied as and when applicable;
4	Tariff determined as above will be maximum tariff to be charged from the users of the cargo handling service. No other charges to be levied over and above the approved tariff;
5	<b>Export Cargo-</b> Ref. to MoCA Order no. AV-16011/3/2016-ER dated 02.12.2016 total free period available for export cargo would be 48 hrs. (i.e. Two working days) as decided by Govt. of India from time to time; <b>Import Cargo-</b> Free period shall be 48 hrs from segregation time or as decided by Govt. of India from time to time.

