फा. सं. ऐरा/20010/एमवाईटीपी/ एमएबीपीएल/सी/बैंगलुरू/सीपी-III/2023-27/
F. No. AERA/20010/ MYTP/MABPL/C/Bengaluru/CP-III/2023-27

आदेश संख्या 23/2023-24/
Order No. 23/2023-24

सत्यमेव जयते

भारतीय विमानपत्तन आर्थिक विनियामक प्राधिकरण
Airports Economic Regulatory Authority of India

मेनजीस एविएशन (बैंगलुरू) प्राइवेट लिमिटेड (एमएबीपीएल) के संबंध में कैंपेगोड़ा अंतरराष्ट्रीय हवाईअड्डा (केआईए), बैंगलुरू में कार्गो हैंडलिंग सेवाओं के लिए प्रथम नियंत्रण अवधि (वित्त वर्ष 2023-24 से वित्त वर्ष 2027-28) के लिए टैरिफ निर्धारित करने के मामले में

**IN THE MATTER OF
DETERMINATION OF TARIFF FOR CARGO HANDLING SERVICES FOR MENZIES AVIATION (BENGALURU) PRIVATE LIMITED (MABPL) AT KEMPEGOWDA INTERNATIONAL AIRPORT (KIA), BENGALURU FOR THE FIRST CONTROL PERIOD
(FY 2023-24 TO FY 2027-28)**

जारी करने की तारीख : 16 नवंबर, 2023
Date of Issue: 16th November, 2023

ऐरा भवन / AERA Building
प्रशासनिक कॉम्पलेक्स / Administrative Complex
सफदरजंग हवाईअड्डा / Safdarjung Airport
नई दिल्ली / New Delhi – 110003

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<u>**List of Abbreviations**</u>

AERA/ Authority	Airports Economic Regulatory Authority of India
ACS	Annual Compliance Statement
ANS	Air Navigation Services
AFS	Air Freight Station
ASRS	Automated Storage and Retrieval System
ARR	Aggregate Revenue Requirement
ATP	Annual Tariff Proposal
AWB	Air Waybill
BCAS	Bureau of Civil Aviation Security
BIAL	Bangalore International Airport Limited
BUP	Built-Up-Pallet
CAPEX	Capital Expenditure
CAGR	Compounded Annual Growth Rate
CGF	Cargo Facility, Ground Handling & Supply of Fuel to the Aircraft
CTO	Cargo Terminal Operator
EPC	Engineering, Procurement & Construction
ERP	Enterprise Resource Planning
FRoR	Fair Rate of Return
ICAO	International Civil Aviation Organization
ICT	Information and Communications Technology
ISP	Independent Service Provider
JVC	Joint Venture Company
KIA	Kempegowda International Airport
MABBPL	Menzies Aviation Bobba (Bengaluru) Private Limited
MABPL	Menzies Aviation (Bengaluru) Private Limited
MAL	Menzies Aviation Limited
MHS	Material Handling System
MYTP	Multi-Year Tariff Proposal
MT	Metric Ton
OFC	Optical Fiber Cable
OPEX	Operating Expenditure
O&M	Operation and Maintenance
PAT	Profit After Tax
PBT	Profit Before Tax

PMC	Project Management Consultancy
RAB	Regulatory Asset Base
SD	Security Deposit
SPRHA	Service Provider Right Holder Agreement
STP	Sewage Treatment Plant
TCR	Temperature Control Regulations
ULD	Unit Load Device
VRV	Variable Refrigerant Volume
WPI	Wholesale Price Index
Y-o-Y	Year on Year

CHAPTER 1: INTRODUCTION

1.1 Background

1.1.1 Menzies Aviation Limited is one of the successful bidders selected by Bangalore International Airport Limited (BIAL) for providing Domestic and International Cargo Handling Services at Kempegowda International Airport (KIA), Bengaluru. As per the Joint Venture Agreement between the successful bidder (i.e. Menzies Aviation Limited) and the Airport Operator (BIAL), the successful bidder and the BIAL entered into the Joint Venture for providing the Cargo Handling Services at the KIA, Bengaluru. Accordingly, Menzies Aviation (Bengaluru) Private Limited hereinafter referred to as "MABPL", a Joint Venture Company (JVC) formed by Menzies Aviation Limited (MAL) & BIAL, incorporated on 5th September, 2022 under the Indian Companies Act, 2013.

1.1.2 Subsequently, Service Provider Right Holder Agreement (SPRHA), a tripartite agreement was executed between BIAL, Menzies Aviation Limited and MABPL on 26th December, 2022. As per SPRHA, the concession term is Fifteen (15) years from the date of handover of existing Cargo Terminal-1(i.e. 24.05.2023), which may be further extended for a period up to Seven (7) years, at the discretion of the BIAL.

1.1.3 The shareholding structure of MABPL is given as below:

Table 1: Summary of Shareholding Structure of MABPL.

Name of Shareholder	Equity Holding (%)
Menzies Aviation (UK) Limited	74%
Bangalore International Airport Limited (BIAL)	26%
TOTAL	**100%**

1.1.4 The Authority noted that MABPL had obtained the security clearance from the Bureau of Civil Aviation (BCAS) vide letter dated 20th April, 2023. As per the BCAS letter dated 20th April, 2023 *"The security clearance shall be valid for a period of five years from the date of issue of security clearance or the period of validity of contract with the airport operator, whichever is earlier."*

1.2 MYTP Submission:

1.2.1 MABPL, vide its letter dated 09.03.2023, submitted Multi Year Tariff Proposal ('MYTP') for First Control Period (FY 2023-24 to FY 2027-28), for determination of the Tariffs in respect of Domestic & International Cargo Handling Services provided at Kempegowda International Airport, Bengaluru. As per the MYTP submission, MABPL proposed the following percentage increase in tariffs for Domestic & International Cargo Handling services, as compared to the Tariff rates applicable to erstwhile cargo terminal operator i.e. Menzies Aviation Bobba (Bengaluru) Private Limited (MABBPL) at Bengaluru airport:

Table 2: Tariff increase proposed by MABPL for the First Control Period.

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Domestic Cargo	35%	32%	25%	20%	15%
International Cargo	15%	15%	12%	5%	5%

Further, the ISP vide email dated 02.05.2023 submitted separate tariff rates for the cargo handling services in respect of cargo pertaining to Air Freight Station (AFS).

1.2.2 The Authority, on the request of MABPL and considering that ISP commenced its commercial operations w.e.f. 24.05.2023, approved the Ad-hoc Tariff for the service provider in respect its domestic and international cargo handling services, vide Order no. 05/2023-24 dated 19.05.2023.

1.3 Consultation Paper

1.3.1 The Authority, after examined the MYTP submission of MABPL in detail and taking into account the additional information/ clarifications furnished by the ISP from time to time, during the period from April, 2023 to June, 2023, issued the Consultation Paper (CP) No. 06/2023-24 dated 28.07.2023 for stakeholders' consultation.

1.3.2 The Authority invited suggestions/comments from the Stakeholders on the various proposals of the Authority in the Consultation Paper (CP) No. 06/2023-24 dated 28.07.2023 with the following timelines:

- Date for submission of written comments by Stakeholders: 18th August, 2023.
- Date for submission of counter comments: 28th August, 2023.

1.3.3 The Authority received comments from the stakeholders namely M/s Bangalore International Airport Limited (BIAL), Federation of Indian Airlines (FIA), Menzies Aviation Limited (UK) and MABPL on the various proposals of the Authority contained in the Consultation Paper No. 06/2023-24 dated 28.07.2023 and the same were uploaded on the AERA's website vide Public Notice no. 08/2023-24 dated 21.08.2023.

Thereafter, the Authority, in response to Public Notice no. 08/2023-24 dated 21.08.2023, received counter comments from MABPL on 28.08.2023.

1.3.4 The Authority, after considering the comments/ suggestions on the CP No. 06/2023-24 submitted by the stakeholders, including comments of service provider, has finalized this Tariff Order.

1.4 Stakeholders' Comments on the Review on Tendering Process.

1.4.1 In its comment on reviewing of tendering process, FIA has submitted the following:

"Guiding principles issued by the International Civil Aviation Organization (ICAO) on charges for Airports and Air Navigation Services (ICAO DoC 9082)", which lays down the main purpose of economic oversight which is to achieve a balance between the interest of airports and the airport users. These guidelines categorically specify "that caution be exercised when attempting to compensate for shortfalls in revenue considering its effects of increased charges on aircraft operators and users." Therefore, the policy document recommends that States encourage increased cooperation between airports and aircraft operators to ensure that the economic difficulties facing them all are shared in a reasonable manner.

It is general perception that service providers have 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, marked growth, cargo movements and cost savings and not for increasing the royalty for the airport operator.*

In view of the above, AERA is humbly requested to ensure that airport operator does not take the decision to award concession agreements solely on the revenue share being offered, but on competitive bidding for market growth and transparency. Basing decisions solely on highest revenue share being offered breeds inefficiencies and tends to disproportionately increase the cost, as envisioned in the abovementioned guiding principles."

1.5 Counter Comments of the Service Provider:

1.5.1 In response to FIA's comment on reviewing of tendering process, ISP has submitted that *"Primarily, MABPL would like to highlight that the structuring of tendering process is not under the purview of regulation under the Authority, and hence falls outside the scope of this discussion. However, MABPL would still like to highlight that Menzies is the second largest service provider globally by the number of airports served. Menzies CHQ provides an unmatched, cost-effective expertise by leveraging its learnings from more than 60+ countries Operations. Such an international presence, expertise and in-depth understanding of the business is what allows Menzies to operate with world class efficiency."*

1.6 Authority's Analysis of the FIA's comments on the review of the tendering process:

1.6.1 The Authority notes the comments of FIA relating to ICAO's guiding principles (ICAO doc 9082) in respect of the Airports & Air Navigation Services (ANS) Charges and award of Concessions by airport operators solely on the revenue sharing basis.

In this regard, the Authority observes that ICAO guiding principles for Charges for Airport Services, encourages States to incorporate four key principles of non-discrimination, cost relatedness, transparency and consultation with users. It is stated that the Authority's regulatory approach for economic oversight of airports, relating to Tariff determination of Aeronautical Services at Major Airports, is compliant with ICAO's abovesaid guiding principles and the same is also in accordance with the mandate given to the Authority as per the AERA Act, 2008. It is further informed that the Authority, while finalizing tariffs for the service providers, is guided by the ICAO's principles which, inter-alia, stipulates the need to balance the interests of the service providers and need to protect the interests of passengers and other users.

As regard to FIA's suggestion that Concessions by the Airport Operators should not awarded solely on the basis of Revenue Share, the Authority noted that Concession Fee/ Revenue Share paid by the ISP to Airport Operator is in accordance with the concession agreement executed between the Service Provider and the Airport Operator. Moreover, the Authority is of the view that bidding/tendering process to award such contracts, based on which ISP pays Revenue Share to Airport Operator, is a non-regulatory issue and such matters may be dealt between the stakeholders at an appropriate forum.

CHAPTER 2: PRINCIPLES FOR DETERMINATION OF THE TARIFF FOR THE "AERONAUTICAL SERVICES".

2.1 The Authority, vide Order No. 12/2010-11 dated 10.01.2011 finalized its approach in the matter of Regulatory Philosophy and Approach in Economic Regulation of the Services provided for Cargo Facility, Ground Handling and Supply of Fuel to the Aircraft at the major airports. Accordingly, the Authority 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 CGF Guidelines"), vide its Direction No. 04/2010-11 dated 10.01.2011.

2.2 In accordance with the above mentioned CGF Guidelines (clause 4.3.), the following procedure is adopted for determination of the Materiality Index of Regulated Service:

Stage I: Materiality Assessment (MI_c):

$$\boldsymbol{Materiality\ Index\ (MI_c)\!:)} = \frac{Cargo\ Volume\ at\ Bengaluru\ Airport}{Total\ Cargo\ Volume\ at\ all\ Major\ Airports} \times 100$$

The Materiality Index for Bengaluru Airport = 374062/3228862 x 100

= ***11.58%***

The percentage share of Cargo Volume at Kempegowda International Airport, Bengaluru for the FY 2019-20 (Pre-Covid Year) is 11.58%, which is higher than Materiality Index (MI_C) of 2.5% for the subject regulated service. Hence, the regulated service is deemed as **"Material"** for the ISP in respect of its First Control Period.

Stage II: Competition Assessment:

As per clause 5.1 of the above said Guidelines, if Regulated Service is provided at a Major Airport by two or more Service Providers, it shall be deemed "Competitive" at that airport.

The Authority noted that WFS (Bengaluru) Private Limited is the other cargo terminal operator, providing International Cargo Handling Services at KIA, Bengaluru. In respect of Domestic Cargo Handling, in addition to MABPL, M/s Blue Dart is other service provider rendering domestic cargo handling services, including services related to Express/Courier Cargo, General Cargo and e-commerce products at KIA, Bengaluru.

Considering the number of service providers rendering domestic & international cargo handling services at KIA, Bengaluru, it is inferred that there is a market competition to the Cargo Handling Services provided by M/s MABPL at Bengaluru airport; hence, the regulated service (Cargo Handling) is deemed as **"Competitive"** for the First Control Period at Bengaluru airport.

2.3 As per the 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, as per the provisions of Chapter V of the Guidelines. Hence, in the instant proposal, the Authority had adopted the "Light Touch Approach" for the determination of the Tariffs of the regulated service in respect of the ISP for its First Control Period.

2.4 The Tariffs for the ISP, in the instant proposal, has been determined under the Light Touch Approach; however, it is pertinent to mention that even in light touch approach, the Authority examines all the regulatory building blocks & underlying assumptions/ basis thereof, including projections relating to revenues, expenses, volumes etc., and considers other relevant aspects of the proposal, to ensure that no undue gains accrues to the Service Provider and the end users are not unduly burdened with higher Tariff(s). Accordingly, wherever required, additional details/ clarification etc. on the various aspects of the proposal, including regulatory building blocks, were sought from the ISP, in accordance with the provisions of CGF Guidelines / under the Section 13 (e) of the AREA Act, 2008.

2.5 The Authority noted that the ISP conducted the separate consultation meetings with the pertinent stakeholders in the month of February 2023 and submitted the Minutes of Meetings (MoM) to the Authority. As per the minutes, the representatives of Domestic Air Cargo Agent Association of India (DACAAI), The Air Cargo Agents Association of India (ACAAI), Bangalore Custom House Agents Association Limited (BCHAAL), Indigo Cargo and Airport Operator (BIAL) participated and following major issues raised by the stakeholders were discussed during the consultation meetings:

- Operational issues connected with cargo handling, such as, classification of services covered under the Terminal, Storage and Processing Charges (TSP Charges), monitoring the time taken for cargo handling activities to reduce the dwell time of cargo at the cargo terminal, opening of the fresh PD accounts, etc.
- Details of new Greenfield Cargo Terminal, including its architecture & design, area of terminal, facilities to be provided at new terminal viz. number of X-Ray points, Cargo Handling area, etc., timelines for its completion.
- Expansion Plan of the existing International Cargo Terminal, services offered by MABPL in international cargo terminal etc.
- Some stakeholders raised queries related to the proposed tariff for international cargo, impact of competition from other modes of transport and requested the service provider to consider only 8% tariff increase in the first tariff year. Stakeholders also raised queries regarding classification of cargo as perishable and special cargo, difficulty in categorizing courier/express cargo among other domestic cargo items, segregation of demurrage charges for the valuable and dangerous goods and suggested Tariff Rate Card with minimal headers for easiness in implementation.

2.6 From the Minutes of Meeting, the Authority noted that the queries raised by the stakeholders were responded to by the ISP. The Authority observed that DACAAI raised further queries on the proposed Tariff Rates, reducing the dwell time of Cargo etc. In this regard, the Authority noted that the ISP considering the suggestions of DACAAI had proposed to stagger the tariff increase over the control period, as against one time tariff increase for the Control Period and also agreed to merge the tariff for the Express/Courier Cargo with General Cargo for the 'Freight Forwarders / Agents / Shippers'.

2.7 <u>Stakeholders' Comments on the principles for the determination of Tariff for the Aeronautical Services</u>

2.7.1 During the stakeholder consultation process, the Authority received no comments / views from stakeholders regarding the principles for the determination of Tariff for the ISP in respect of its regulated Service(s).

2.8 Authority's Decision regarding the principles for Determination of Tariff for the Aeronautical Service(s) during the First Control Period.

2.8.1 Based on the material before it and its analysis, the Authority decides that the Cargo Handling Service provided by MABPL at KIA, Bengaluru for the First Control Period is 'Material but Competitive'. Accordingly, the Authority decides to determine the Tariff for the ISP in respect of its First Control Period based on 'Light Touch Approach'.

CHAPTER 3: CARGO VOLUME PROJECTIONS

3.1 MABPL's submission on Cargo Volumes Forecast for the First Control Period as part of MYTP.

3.1.1 MABPL, as part of its MYTP submitted the actual Domestic & International Cargo Volumes handled by KIA, Bengaluru during the period FY 2014-15 to FY 2019-20 as under:

Table 3: Domestic & International Cargo Volumes handled by KIA, Bengaluru from FY 2014-15 to FY 2019-20.

(Volume in MT)

Financial Year	Domestic	International	Total	Y-O-Y % increase		
				Dom.	Intl.	Total
2014-15	112687	166788	**279475**	--	--	--
2015-16	114646	177304	**291950**	2%	6%	4%
2016-17	119878	199466	**319344**	5%	12%	9%
2017-18	128504	219899	**348403**	7%	10%	9%
2018-19	144223	242626	**386849**	12%	10%	11%
2019-20	150009	224053	**374062**	4%	-8%	-3%

3.1.2 The total Cargo Volumes handled by KIA, Bengaluru for the period from 2014-15 to 2019-20 increased at a CAGR of 6%.

3.1.3 The Cargo Volumes projected by MABPL (Cargo to be handled by ISP) for the First Control Period is as below:

Table 4: Cargo Volume projected by MABPL (Cargo to be handled by ISP) for the First Control Period.

(Volume in MT)

Financial Years	Domestic	International	Total	Y-O-Y % increase		
				Dom.	Intl.	Total
2022-23	120129*	112772**	232901	--	--	--
2023-24#	108847	102171	211018	--	--	--
2023-24 (annualized)	127337	119538	246875	6.00%	6.00%	6.00%
2024-25	134977	126710	261687	6.00%	6.00%	6.00%
2025-26	143076	134313	277389	6.00%	6.00%	6.00%
2026-27	151660	142372	294032	6.00%	6.00%	6.00%
2027-28	160760	150914	311674	6.00%	6.00%	6.00%

**Actual domestic cargo handled by the previous Operators (MABBPL & AISATS).*

***Actual international cargo handled by the previous Operator (MABBPL) (excluding cold chain & express/courier cargo).*

#Cargo volume projection from 24th May 2023 (COD) up to 31st March 2024.

3.1.4 MABPL considered the following assumptions in respect of the Cargo Volume projections for the First Control Period:

a. **Performance of air cargo industry:** ISP submitted that prior to the Covid-19 pandemic, the air cargo volumes handled at Indian airports were growing at a CAGR of 5.7% during FY 2014-15 to FY 2019-20. As per MABPL, since the catchment area of KIA has demand for numerous types of international and domestic cargo, ISP expects the growth observed at national level to be similarly reflected in the cargo traffic volumes at KIA, Bengaluru.

b. **Historical Cargo volume at KIA:** The international and domestic cargo volumes increased at a CAGR of 6% at KIA during FY 2014-15 to 2019-20. Since the growth pattern is similar to that observed at national level, it is expected that cargo traffic of MABPL will continue to grow at the same rate of 6% in the first control period, for international and domestic cargo. ISP considered FY 2022-23 as a base year, for projecting cargo volumes (cargo to be handled by the ISP), for the first control period.

c. **Market share of MABPL:**

- **Domestic cargo traffic:** The market share of M/s Blue Dart is around 22% of the total domestic cargo traffic at KIA, Bengaluru. Accordingly, the market share of MABPL is considered as 78% of the total domestic cargo traffic, for the first control period.
- **International cargo traffic:** ISP submitted that the market share of international cargo handling, pertaining to EICI, DHL, FedEx & cargo handled at cold chain facility, is collectively around 11% of total international cargo traffic. Similar market share is assumed for these entities for the first control period. Two main cargo terminal operators at KIA, Bengaluru namely MABPL and WFSBPL are new entrants at the KIA, Bengaluru and both have commenced their commercial operations at Bengaluru airport on the same date i.e., 24.05.2023. As no historical data relating to market share held by two main cargo terminal operators is available, it is assumed that both service providers i.e. MABPL and WFSBPL will have equal share (50% each) of the international cargo handling (other than international cargo handled by EICI, DHL, FedEx & cargo handled at cold chain facility) during the First Control Period.

d. **Competition from other upcoming airports:** MABPL submitted that the competition landscape for Bangalore, which was earlier the sole gateway for cargo originating in the catchment area comprising of Karnataka, parts of Tamil Nadu and Kerala, is changing. In addition to Chennai International airport and Coimbatore international airport, the catchment area at present is also overlapping with airports such as Mangalore International Airport and Kannur International Airport. The remunerative and resilient performance of cargo industry during the pandemic years and prior, have led all of them to significantly invest in modern cargo handling infrastructure at the respective airports. Therefore, it is expected that a portion of cargo volume of MABPL may erode to the above airports in the upcoming years. However, the impact of competition from upcoming airports on MABPL traffic is not considered in the proposed forecast due to challenges in its assessment.

e. **Competition from other modes of transport:** Recent initiatives such as Gati Shakti by Government of India is expected to make other modes of transport such as rail and roadways highly efficient, economical, and seamless. The ministry of road transport and highways have planned significant capital expenditure for upgrading the roads to global level benchmarks. This would enable quicker movement of cargo via land between key cities. For example, the upcoming Bangalore-Chennai express highway is expected to cut the travel time to 2.5 hours, Bangalore-Mumbai express highway is expected to cut the travel time to 8 hours, Bangalore-Pune express highway is expected to cut the travel time to 6 hours. Such travel times are highly competitive with the time taken to transport the cargo via air. As a result, rail and roadway may become a cheaper alternative to air cargo for the catchment thereby hindering the growth of domestic air cargo of MABPL at the airport. The impact of competition from rail and road transport on MABPL traffic is not considered in the proposed forecast due to challenges in its assessment. Therefore, growth rate considered by MABPL for forecasting the cargo traffic is aggressive with possible downward revision.

f. **Impact of expected global recession:** World Bank, in its Global Economic Prospects report dated January 2023, has forecasted slowdown in global growth due to elevated inflation, higher interest rates, reduced investment and disruptions caused by Russia's invasion of Ukraine. Further, this sharp, long-lasting slowdown is expected to hit developing countries hard. Thus, the international cargo traffic projections of MABPL will be significantly affected by these global headwinds with some impact on the domestic cargo traffic as well. Thus, with global recession in the backdrop, MABPL has still taken an aggressive growth forecast assuming same traffic growth rate across the first control period. However, in case of significant impact of global recession, the actual traffic may be lower than projected.

3.2 <u>Authority's Examination on Cargo Volumes projections in respect of MABPL for the First Control Period at CP stage:</u>

3.2.1 The Authority noted from the ISP's submission that the international cargo volumes grew at CAGR of 6.1%, domestic cargo volumes increased at a CAGR of 5.9% and the total cargo traffic increased at a CAGR of 6% for the period from 2014-15 to 2019-20 at Bengaluru airport.

3.2.2 The Authority, reviewed the actual cargo volumes handled at KIA, Bengaluru, for the period from FY 2016-17 up to FY 2022-23, as per the statistics available at AAI's website. The Authority observed that the total cargo volumes at KIA, Bengaluru during the above referred period increased from 319344 MT to 410311 MT at a CAGR of 4%. The actual Domestic & International Cargo Volumes handled by at KIA, Bengaluru for the period from FY 2016-17 to FY 2022-23 is as under:

Table 5: Actual Cargo Volume handled by KIA, Bengaluru from FY 2016-17 to FY 2022-23.

(Volume in MT)

Financial Year	Domestic	International	Total	Y-o-Y (%) Increase/Decrease		
				Domestic	International	Total (%) increase/decrease
2016-17	119878	199466	**319344**	---	---	---
2017-18	128504	219899	**348403**	7%	10%	9%
2018-19	144223	242626	**386849**	12%	10%	11%
2019-20	150009	224053	**374062**	4%	-8%	-3%
2020-21	119104	207568	**326672**	-21%	-7%	-13%
2021-22	139584	271966	**411550**	17%	31%	26%
2022-23	154012	256299	**410311**	10%	-6%	0%

3.2.3 The Authority noted that ISP had projected 6% Y-o-Y increase in Domestic and International Cargo Volumes (Cargo volumes to be handled by the ISP) for the First Control Period, based on the historical trends of Cargo Volumes at KIA, Bengaluru, for the period from FY 2014-15 to FY 2019-20, wherein the total cargo volumes increased at a CAGR of 6%.

3.2.4 The Authority noted that the ISP in its Domestic Cargo Volumes projection, had considered actual cargo volumes handled by the previous Cargo Operator (MABBPL) for FY 2022-23. During the FY 2022-23, there were three cargo operators namely MABBPL, AISATS and Blue Dart providing domestic cargo handling services at KIA, Bengaluru and their market share were 65%, 13% and 22% respectively. Subsequently, the Airport Operator (BIAL) awarded two new concessions (effective from 24.05.2023) for provision of cargo handling services at KIA, Bengaluru in favour of MABPL and WFSBPL, in place of erstwhile cargo operators i.e., MABBPL & AISATS respectively. As per the new concessions, only MABPL is allowed to provide the domestic cargo handling services (apart from Blue Dart). Therefore, MABPL from FY 2023-24 onward assumed its market share in respect of domestic cargo handling around 78% (65% +13%) during the First Control Period.

Similarly, ISP submitted that historically the market share of Cold Chain Facility and Express/Courier Cargo was around 12% of the total International Cargo Traffic at KIA, Bengaluru. As per new concession agreements, MABPL will not handle International Perishable Cargo; hence, the ISP had assumed the market share of MABPL and WFSBPL in respect of international cargo traffic will be around 50% each (excluding the cargo pertaining to cold chain and express/courier cargo). Accordingly, MABPL proposed a market share of around 50% for international cargo traffic during the First Control Period.

3.2.5 The Authority also noted from the submission of the ISP that Bengaluru Airport's Cargo business has a catchment area, which covers the state of Karnataka and parts of Tamil Nadu and Kerala. However, Mangalore and Kannur airports, which had seen surge in cargo volumes handled during pandemic years, are upgrading their cargo handling infrastructure to attract more business. These airports along with airports like Chennai & Coimbatore airports are emerging as a competitor to the Bengaluru airport for the regional Cargo business. Further, with the considerable improvements in the existing network of national highways & development of new expressways, Bengaluru airport's cargo business is expected to face competition from the road transport, particularly in domestic cargo segment.

In view of the foregoing, including the local competition and taking into account the global economic & geo-political factors as highlighted by the ISP, (refer para 3.1.4), the Authority considered the Cargo Volumes projected by the ISP for the First Control Period as reasonable.

3.2.6 Accordingly, the Authority proposed to consider cargo volumes projection for MABPL in respect of First Control Period as per Table 4.

3.3 Stakeholders' Comments on Cargo Volumes Projection for the First Control Period.

3.3.1 **Comments of FIA**: In its comment on Cargo Volumes Projection, FIA submitted that *"While it appears that the domestic volumes and operations have normalized and recovered from the impact of COVID-19, it may be noted that recent trends may not show/project correct trends of the present cargo volumes, post recovery of operations, and thus it should not be linearly extrapolated for projecting future volumes or forecasting. Thus, is submitted that at this point in time, the cargo operations are particularly low for most airlines, and it may not be a realistic indicator, to assess the impact on the* *cargo volumes and therefore it is requested that AERA may rationalize and true up the actual volumes during the Second Control Period, when a clearer picture emerges, especially since MABPL is a new entrant.*

In addition, we request AERA to conduct an independent expert study for Cargo Volumetric projections, in accordance with the Airport Economic Regulatory Authority of India Act, 2008 (AERA Act, 2008)."

3.3.2 **Comments of MABPL:** In its comment on Cargo Volumes Projection for the First Control Period, MABPL submitted as under:

i. *"MABPL thanks the Authority for considering and approving our proposal with respect to Cargo Volume Projections.*

ii. *At the time of submission of the cargo forecast for international traffic, MABPL had based its cargo volume forecast on the following:*

   a) *Assumption of 50% market share for MABPL in international cargo traffic, excluding cold chain and express/ courier cargo.*

   b) *Historical trends in traffic handled by the incumbent cargo operators (AISATS and MABB).*

iii. *After submission of the MYTP in March 2023, both cargo operators started their operations from 24th May 2023 onwards. MABPL had approached the international airlines to enter into the SGHA cargo services contracts. As per the competitive market for cargo services at KIA, all the international airlines have chosen between the two cargo operators.*

iv. *MABPL would highlight to the Authority that the term of SGHA contract for cargo handling services is a minimum of 3 years while in some cases, the term can be up to 5 years (MABPL has submitted to the Authority the SGHAs it has signed with the international airlines as part of its responses to Authority's queries). Therefore, the airlines have a fixed contract for 3-5 years for their cargo operations at BIAL. Thus, the market share of MABPL as of date in the international cargo traffic, excluding cold chain and express/ courier cargo, will not change substantially during the control period.*

   Hence, MABPL humbly requests the Authority that the cargo traffic forecast should be based on the actual market share of MABPL as of today. This approach will ensure an accurate estimation of the traffic forecast for MABPL.

v. *Further, the MYTP forecast was based on the historical trends in traffic of the incumbent cargo operators (AISATS and MABB), which is no longer relevant since the actual traffic for the initial months with the respective market share is available to determine the future traffic forecast.*

vi. *The actual traffic of MABPL for the first two months of the operations is given in the Table below:*

Particulars	*June 2023*	*July 2023*
International cargo traffic handled by MABPL (MT) (A)	*9,602*	*8,359*
Percentage change (Drop) from June 2023	-	*-13%*
*Annualised traffic based on this monthly international cargo traffic (MT) (A*12)*	*1,15,224*	*1,00,308*

vii. *As can be seen from the Table above, the traffic has reduced by ~13% in the month of July when compared to the month of June. The decrease in international traffic is due to a large international carrier shifting its cargo handling operator from MABPL to its competitor from 1st July 2023 onwards. The share of the cargo carried by this international carrier in total international traffic of MABPL was ~19% (~21,600 MT annually).*

viii. *For MABPL, the loss of this key customer has resulted in a significant impact in terms of its traffic handled. Further, MABPL has limited opportunity to grow its international airline customer base during the control period as all the international airlines have entered long-term SGHA's with either of the two cargo operators, as stated earlier.*

ix. *Therefore, based on the actuals, MABPL proposes the following traffic forecast for the first control period:*

Particulars	***FY24****	***FY24 (annual)***	***FY25***	***FY26***	***FY27***	***FY28***
International cargo traffic handled by MABPL (MT)	*84,833*	*100,308*	*106,326*	*112,706*	*119,468*	*126,637*
Growth rate (%)			*6%*	*6%*	*6%*	*6%*

** For the period from 24 May 2023 (COD) till 31 March 2024.*

x. *MABPL would highlight that its traffic forecast proposed for the first control period is still higher than the traffic forecast approved for its competitor, which had also assumed a 50% market share as stated in para 3.5.2, implying that the traffic assumptions of MABPL are more pragmatic for the same cargo market.*

xi. *This revision in the international cargo traffic forecast is critical for MABPL as the existing traffic forecast will result in the Authority's assumption of high revenue and lower tariff increase, translating into a significant reduction in profitability for MABPL.*

xii. *Accordingly, MABPL requests the Authority to revise the cargo traffic forecast of MABPL for the first control period as per the Table above."*

3.4 Counter Comments of MABPL:

3.4.1 In response to FIA's comment on Cargo Volume Projections, ISP has submitted that "*MABPL has determined the growth rate in traffic for both domestic and international cargo volumes projections at BIAL based on the pre-COVID cargo traffic growth rate. Thus, it has not considered the COVID impacted period in its traffic projections.*

For the international traffic, MABPL is operating in a competitive environment. While MABPL is a new entrant, actual cargo operations since 24 May 2023 have helped them form a clear picture regarding its international market share for the control period. MABPL submits that all major international airlines have already entered into SGHA agreements with term period ranging between 3 to 5 years. Since majority of the international airlines are allied with either of the two cargo operators for at least three/five years, MABPL's market share in the month of July, 2023 is unlikely to change over the control period. Thus, market share in the month of July, 2023 represents the accurate allocation of international cargo traffic excluding cold chain and express cargo between the two cargo operators. Based on the above, MABPL has revised its international traffic projections as part of its response to the stakeholder comments as given below.

Particulars	*FY24**	*FY24 (annual)*	*FY25*	*FY26*	*FY27*	*FY28*
International cargo traffic handled by MABPL (MT)	*84,833*	*100,308*	*106,326*	*112,706*	*119,468*	*126,637*
Growth rate (%)			*6%*	*6%*	*6%*	*6%*

MABPL would highlight that a large international carrier has shifted its cargo handling operator from MABPL to its competitor from 1st July 2023 onwards. The share of the cargo carried by this international carrier in total international traffic of MABPL was ~19% (~21,600 MT annually). To account for this change, it is of utmost importance for MABPL that the Authority considers the revised traffic forecast. MABPL would further highlight that its traffic forecast proposed for the first control period is still higher than the traffic forecast approved for its competitor which had also assumed a 50% market share as stated in para 3.5.2 of their order implying that the traffic assumptions of MABPL are more optimistic for the same cargo market.

On the comments to true-up the traffic forecast, MABPL would highlight that the Authority has applied Light Touch framework and thus, it does not have the benefit of the true-up in the following control periods. Therefore, any losses incurred will be borne solely by MABPL which will lead to financially unsustainable operations.

MABPL would therefore request the Authority to allow the traffic projections submitted by MABPL in its response to consultation paper."

3.5 <u>Authority's Analysis of the Stakeholders comments:</u>

3.5.1 The Authority notes the comments of FIA pertaining to cargo volume projection, wherein the stakeholder, inter-alia, requested the Authority to consider the trueing up of the projected cargo volumes of the ISP for the First Control Period, at the time of tariff determination for the Second Control Period, as the ISP is a new entrant at the Bengaluru airport & there isn't much clarity in cargo volumes trend post Covid pandemic.

In this regard, the Authority informs that as the tariff determination exercise for the ISP is being undertaken following the 'Light Touch Approach', accordingly, the provision of trueing-up (of regulatory building blocks) is not applicable in this case.

However, while proposing Cargo Volumes for the ISP in respect of First Control Period (at CP stage), the Authority had duly considered relevant factors, including justifications/assumptions submitted by the service provider and the actual cargo volumes handled by the erstwhile cargo operator (MABBPL & AISATS)) for FY 2021-22 & FY 2022-23. In addition, the Authority had reviewed the past trend of cargo volumes at the KIA, Bengaluru, while considering the cargo volumes for the ISP for its First Control Period. Considering that the Authority had carried out necessary due diligence in respect of the projected cargo volumes for the ISP (at CP stage), therefore, in the instant case, the trueing up of cargo volumes in respect of the ISP (First control Period) as suggested by the stakeholder, is not required.

3.5.2 As regard to the comments of MABPL on the Cargo Volumes proposed by the Authority at CP stage, it is noteworthy to mention that the Authority in its Consultation Paper had considered the same methodology & considered all the assumptions/ justifications, including 6% Y-o-Y volume growth during the First Control Period, as were proposed by the ISP himself. It is pertinent to note that

MABPL itself in its MYTP submission assumed 78% market share in respect of domestic cargo handling and 50% market share of international cargo handling (other than international cargo handled by EICI, DHL, FedEx & cargo handled at cold chain facility) during the First Control Period.

However, the Authority takes the cognizance of ISP's submission in response to the Consultation Paper, wherein the service provider stated that one big international carrier has shifted its cargo handling operations from MABPL to its competitor with effect from 1st July, 2023. As per the ISP, the share of the cargo carried by this international carrier in the total international cargo traffic of MABPL was around 19% (21,600 MT annually) approximately.

3.5.3 The Authority also observes from the comments of MABPL that actual international cargo volume handled by ISP in July 2023 decreased by 13% over June 2023. In this regard, the Authority enquired about the actual domestic & international cargo volumes handled by MABPL for the period from June 2023 to September 2023. MABPL, vide mail dated 13.09.2023 & 25.10.2023 submitted the actual domestic & international cargo volume for the period June 2023 to September 2023 and stated as under:

"Actual domestic tonnages handled slightly higher than our projected volume submission. This is due to seasonal impact of coriander movement, which was only for the months of Jun and Jul, which will not be there for the rest of the year. As North India witnessed heavy rain in these two months Coriander demand was more and hence there was temporarily increase of domestic tonnage".

The actual Domestic & International cargo volumes handled by MABPL for the period June 2023 to September 2023, as submitted by ISP, is given below:

Table 6: Actual Cargo Volume handled by MABPL at Bengaluru Airport from June to September 2023.

(In MT)

Months	Domestic	International	Total
June	11207	9602	**20809**
July	12965	8359	**21324**
August	11967	8235	**20202**
September	11612	8482	**20094**

In view of the above and taking into account the comments of the stakeholders & clarifications furnished by MABPL, the Authority decides to consider projected cargo volumes for FY 2023-24, based on the actual cargo volumes (Domestic & International) handled by the ISP from June, 2023 to September, 2023 and further decides to consider September 2023 as base for extrapolating cargo volumes for the remaining months of the FY 2023-24.

The Authority also decides to consider 6% growth in projected cargo volumes on Y-o-Y basis from FY 2024-25 onward, in respect of the First Control Period, as proposed by the ISP.

Based on the above, the Authority has computed the revised cargo volumes projection for MABPL in respect of its First Control Period, as per the Table given below:

Table 7: Cargo Volume Projection considered by the Authority in respect of MABPL for the First Control Period.

(In MT)

Financial Years	Domestic	International	Total	Y-O-Y % increase		
				Dom.	Intl.	Total
2023-24*	120447	87774	208221	--	--	--
2023-24 (annualized)	140908	102684	243592	--	--	--
2024-25	149362	108845	258207	6%	6%	6%
2025-26	158324	115376	273700	6%	6%	6%
2026-27	167823	122298	290121	6%	6%	6%
2027-28	177893	129636	307529	6%	6%	6%

** Projected Cargo Volumes from COD (24.05.2023) to 31.03.2024*

3.6 Authority's decision regarding Cargo Volume Projection in respect of MABPL for the First Control Period.

3.6.1 Based on the material before it and its analysis, the Authority decides to consider the Cargo Volumes for the First Control Period for MABPL as per the Table 7.

CHAPTER 4: CAPITAL EXPENDITURE (CAPEX), REGULATORY ASSET BASE (RAB) AND DEPRECIATION.

4.1 MABPL submission on Capital Expenditure for the First Control Period.

4.1.1 Initially, MABPL in its MYTP submission projected a total Capital Expenditure (CAPEX) of ₹ 225.70 crores for the First Control Period on development of Cargo Infrastructure and procurement of Cargo Handling Equipment etc. The proposed CAPEX includes ₹ 89.00 crores for construction of Greenfield Domestic Cargo Terminal. Subsequently, ISP vide mail dated 19.04.2023 submitted the revised CAPEX of ₹ 234.70 crores, after considering the revision in the cost of greenfield domestic cargo terminal cost from ₹ 89.00 crores to ₹ 98.00 crores.

Breakup of the Capital Expenditure proposed by MABPL for First Control Period is given below:

Table 8: Capital Expenditure proposed by MABPL for the First Control Period.

(₹ in crores)

S no.	Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
A	**Capex for the Greenfield Domestic Cargo Terminal**						
A.1	Construction of Greenfield Domestic Cargo Terminal Building	98.00	--	--	--	--	**98.00**
A.2	X-ray Machines	3.52	--	--	--	--	**3.52**
A.3	Material Handling System	13.95	--	--	--	--	**13.95**
B	**Existing International Cargo Terminal**						
B.1	Civil Works for capacity enhancement	0.50	--	--	--	--	**0.50**
B.2	Material handling system	82.70	--	--	--	--	**82.70**
B.3	X-ray machines	4.04	--	--	--	--	**4.04**
C	**Other Capex**						
C.1	Transfer assets	11.75	--	--	--	--	**11.75**
C.2	IT Assets	18.71	--	--	--	--	**18.71**
C.3	General expenses.	1.50	--	--	--	--	**1.50**
	Total	**234.70**	--	--	--	--	**234.70**

4.1.2 Out of the total CAPEX of ₹ 234.70 crores proposed by the ISP for the First Control Period, major portion of capital expenditure (₹ 213.89 crores) earmarked for the construction of new Domestic Cargo Terminal Building, procurement of Material Handling System, and IT Assets.

4.1.3 MABPL submitted the following justifications/ requirements for the major capital works proposed during the First Control Period:

4.2 Capital Expenditure for the Greenfield Domestic Cargo Terminal:

A.1 Construction of new Domestic Cargo Terminal Building:

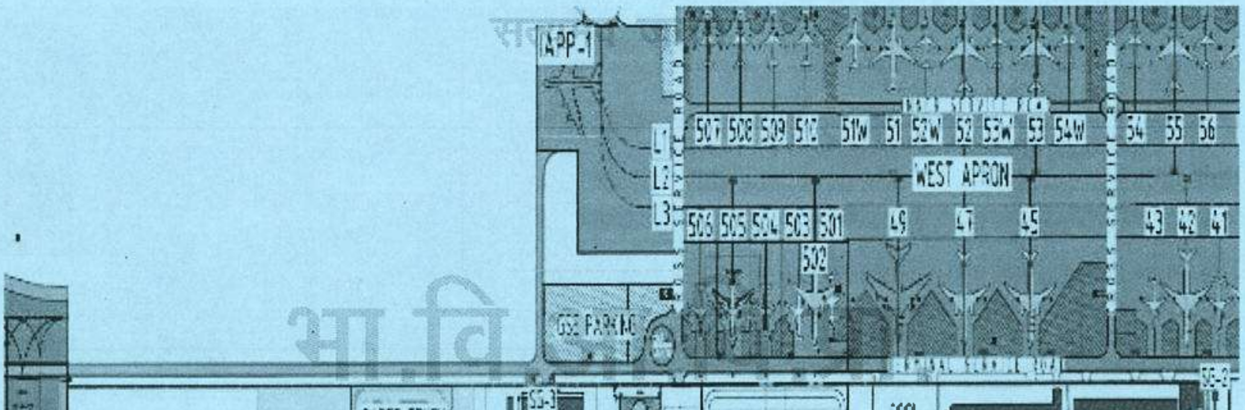
As per clause 2.1.2 of the Cargo SPRHA, MABPL is required to construct a new dedicated domestic cargo terminal with a capacity of 2,50,000 MT, which will be further expanded to 4,00,000 MT in the future. The total area of the new Domestic Cargo Terminal is 2,44,710 square feet (22734.30 square meter) approx., with ground floor area around 1,66,332 square feet (15452.74 square meter), mezzanine floor area around 36,350 square feet (3377.02 square meter) and Airside Movement area of 42,028 square feet (3904.52 square meter). The proposed cargo terminal building will have a height of 13.9 meters, which is more than the height of normal warehouses.

ISP submitted that during the Stakeholders' consultation meeting, some of the Stakeholders had given suggestions/feedback to reduce the congestion and improving the service quality through increase in the number of truck docks, larger truck dock area, area for consolidation, increase in airside gates, cubicle office spaces, etc.

Accordingly, considering the feedback/suggestions from stakeholders, following features have been proposed in respect of the new Domestic Cargo Terminal:

1. Segregation between inbound and outbound area.
2. Shipment area, provision for oversized cargo movement.
3. Designed as per the NBC guidelines, NFPA, ASHRAE standards.
4. Provision for dock levelers.
5. 25 meters airside operational area and Truck dock acceptance area of 50 feet.
6. Provision of more than 35 Truck docks and covered parking for four-wheelers.
7. Airside dedicated transshipment area (first time in India).

MABPL submitted that the cost for construction of new Domestic Cargo Terminal i.e. ₹ 98.30 crores is based on the quote of L1 bidder/EPC contractor (cost sheet placed at **Annexure-I**). After commissioning of Greenfield Domestic Cargo Terminal, the entire domestic cargo operations, which are currently being carried out from the existing integrated cargo terminals, shall be shifted to the new



domestic cargo terminal. Thereafter, the existing cargo terminal will be used for handling international cargo operations exclusively.

As per the ISP, the greenfield domestic cargo terminal is expected to result in efficient domestic cargo operations, through dedicated space for freight forwarders and significantly improving the operations of transit cargo.

A.2 Domestic-X-ray Machines:

The ISP informed that in compliance with the security requirements of BCAS, all screening at airport needs to be done via Dual view X-Ray machines. Therefore, new X-ray machines of the said specifications along with other related items for security purposes need to be procured for the greenfield domestic cargo terminal. The major items required for screening of cargo terminal include 100X100 dual view X-ray machines, 60-40 DV Xray machine, explosive trace detectors (ETD), hand-held metal detectors (HHMD), Door frame metal detectors (DFMD), etc. The breakup of the proposed Capex on X-ray Machines is given as under:

Table 9: X-ray machines proposed by MABPL for Domestic Cargo Terminal Building.

(₹ in crores)

S no	Domestic - X-ray machines	Qty	Rate	Cost
1	X-ray baggage inspection system - 100100T	5	0.35	1.76
2	Components of X-ray baggage inspection system	5	0.02	0.12
3	Dual view X-ray baggage inspection system - 6040DV	1	0.28	0.28
4	Components of Dual view X-ray baggage inspection system	1	0.02	0.02
5	IONSCAN 600 (explosives)	4	0.19	0.76
6	Components for IONSCAN 600 (explosives)	4	0.01	0.04
Total				**2.99**
GST			18%	0.54
Total Cost				**3.52**

A.3 Material handling system:

MABPL projected a CAPEX of ₹ 13.95 crores (including custom duty, GST, Contingency expenses etc.) for procuring new material handling system, ground equipment such as forklifts, storage bins, etc. for the new domestic cargo terminal. The Material Handling System also includes, equipment such as roller deck, lowerable workstation, ram protection, pallet racks, driven roller conveyor, dock leveler, PLC controls and scale. Most of the equipment are being imported from the European countries, as such the price also includes the custom duties etc.

The breakup of the Material Handling System for new Domestic Cargo Terminal is given below:

Table 10: Material Handling System for new Domestic Cargo Terminal Building proposed by MABPL.

(₹ in crores)

Item No.	Domestic - Material handling system	Qty.	Amount
A.	**Outbound**		
1	Castor Deck, 508mm (sqm)	160	
2	10ft Driven Roller Deck (NEL)	1	
3	10ft Lowerable Workstation with Non-Driven Roller (WEL)	3	
4	Ram Protection with Non-motorized roller (508mm)	1	
5	Pallet Racks (G+3)	252	

6	X-Ray, incl. infeed/ outfeed conveyors (by others, not included in total price)	6	
7	Driven Roller Conveyor	38m	
8	Dock leveller	14	
9	Scale (2 ton)	6	
B.	**Inbound**		
1	Castor Deck, 508mm (sqm)	160	
2	10ft Driven Roller Deck (NEL)	1	
3	10ft Lowerable Workstation with Non-Driven Roller (WEL)	3	
4	Ram Protection with Non-motorized roller (508mm)	1	
5	X-Ray, incl. *pallet conveyors (by others, not included in total price)*	1	
6	Pallet Racks (G+3)	252	
7	Dock leveller	10	
8	Scale (2 ton)	3	
C.	PLC& Controls	1	
D.	Shipping & Delivery - DAP Bangalore (incoterm 2020)	1	
E.	**Installation & Commissioning**	1	
	Total lump sum material price in Euro - DAP Bangalore (incoterms 2020), excluding customs duty, VAT, and any other taxes		979634
	Euro to INR		90.1
	Amount in ₹		**8.83**
	Customs duty		30%
	Price including customs duty		**11.47**
	Contingency		3%
	Price including customs duty, contingency		**11.82**
	GST		18%
	Price including customs duty, contingency and taxes		**13.95**

B. <u>Capital Expenditure related to International Cargo Operations:</u>

B. 1 <u>Civil Works for capacity enhancement:</u>

MABPL submitted that the existing cargo terminal handles the both international and domestic cargo. However, as per the terms and conditions of the SPRHA, domestic cargo handling is to be carried out from a dedicated greenfield cargo terminal and the 'perishables cargo' shall be handled at the dedicated cold chain facility at the airport (run by other cargo terminal operator namely WFSBPL).

Therefore, the space in the existing international cargo terminal, which is currently being used for handling domestic and perishable cargo shall be utilized for handling international cargo only. This will lead to increase in the handling capacity of international cargo from 210,000 MT to 250,000 MT. However, number of modifications are required to be carried out in the existing cargo terminal so that the space being utilized for domestic and perishable cargo can be used for handling international cargo. Proposed modifications in the international cargo terminal include demolition of walls, removal of cold storage facilities, construction of ramps, etc. The total capex for key activities associated with refurbishment of existing cargo terminal is expected to be ₹ 0.50 crores in FY2023-24.

B.2. <u>Material Handling System:</u>

The existing material handling system were purchased by the previous cargo handler at the time of inception of operations (some of the assets are more than 14 years old) and the same is outdated and exhausted its useful life of operation. Majority of the capital expenditure for new material handling system is on account of replacement of the existing equipment. Further, the capacity of the cargo terminal will be increased from 210,000 MT to 250,000 MT as part of the refurbishment exercise which demands additional plant and equipment to handle the extra cargo. Thus, the purchase of new material handling system as a replacement of the existing equipment, and for the expansion of terminal's cargo handling capacity, is imperative.

As per the ISP, shifting of domestic cargo operations to greenfield domestic cargo terminal will result in additional space which will be allocated to the freight forwarders, establish workstations/ cubicles, and improve transit cargo operations to improve efficiency. It will also help MABPL to achieve the service quality parameters for international cargo as part of the signed SPRHA with BIAL. The capital expenditure for the new material handling system includes the removal/dismantling of existing system in the international cargo terminal, installation of 20ft ETV with complete electrical and mechanical equipment, storage decks, workstations, control systems, etc. The detailed break up of capital expenditure is as follows:

Table 11: Material Handling System and other Equipment proposed by MABPL for International Cargo Terminal during the First Control Period.

(₹ in crores)

Description	Cost
Material Handling System (Annexure-II)	72.50
Equipment for Lift & Run System Conveyors, Fire Extinguishers, Hand pallet Truck, AC Units for X-ray machine cabin, Standard weights, Storage racks, safety items, replacement of existing carriers.	0.96
Forklift-3T	2.84
Forklift-10T	1.16
Reach struck	1.71
Replacement of HVAC System	3.54
Total cost	**82.70**

B.3 X-Ray machines for International Cargo Terminal

MABPL estimated a sum of ₹ 4.04 crores on purchase of X-ray machines for the international cargo terminal. As per the ISP, the X-ray machines at existing cargo terminal have reached near the end of their useful lives and hence same are required to be replaced with new equipment. The major equipment required for screening of cargo at international cargo terminal include 100X100 dual view X-ray machines, 60-40 DV Xray machine, explosive trace detectors (ETD), hand-held metal detectors (HHMD), Door frame metal detectors (DFMD), etc. The details of X-Ray machine and the associate items is given below:

Table 12: X-ray machines proposed by MABPL for International Cargo Terminal.

(₹ in crores)

S no.	International - X-ray machines	Qty	Rate	Amount
1	100 x100 Dual View X-ray machines	5	0.38	1.88
2	X-ray machine for access control (60 40 DV)	1	0.31	0.31
3	Explosive Trace Detectors	4	0.20	0.80
4	HHMD's	20	0.00	0.05

5	DFMD's	4	0.03	0.13
6	Under vehicle search camera	2	0.03	0.06
7	Hydraulic bollards (Stopper)	2	0.10	0.20
	Total			**3.43**
	GST		18%	0.62
	Total amount			**4.04**

C. Other Capital Expenditures:

C.1 Transferred Assets purchased from the Airport Operator (A.O).

As per clause 9.4.5 of the SPRHA executed with BIAL, MABPL is required to purchase the existing building assets from the airport operator at fair market value. The pertinent agreement clause is reproduced below:

"The SPRH-1 shall, at its own cost, accept the Movable Assets in relation to the Existing Cargo Terminal-1 owned by BIAL as on 24 May 2023, at the fair market value. The SPRH-1 agrees and acknowledges that any applicable goods and service tax on the Movable Assets shall be borne by the SPRH-1. The SPRH-1 further agrees and acknowledges that it shall furnish the payment towards such Movable Assets within 6 (six) months from the date of invoice issued by BIAL."

The assets transferred by the A.O to the ISP include the existing building assets and equipment such as X-ray inspection systems and Material Handling System. The breakup of the transferred assets is as shown below:

Table 13: Capital Asset transferred from the Airport Operator to MABPL.

(₹ in crores)

Description	Cost
Building and related assets	7.00
X-ray inspection system	2.00
Material handling system	2.75
Total	**11.75**

C.2 Capital Expenditure related to the IT assets:

As per the ISP, the capital expenditure associated with IT assets include the expenditure incurred for replacing the existing assets at international cargo terminal and procuring new assets for domestic cargo terminal. The computers and other peripherals in the existing cargo terminal have completed the useful life's and hence are required to be replaced to ensure seamless operations. As the greenfield domestic cargo terminal is situated at a distance of around 2 km from the existing international cargo terminal, new assets are specifically procured for the new terminal. The breakup of capital expenditure associated with IT assets is as follows:

Table 14: Proposed Capital Expenditure related to IT assets for Domestic and International Cargo Terminal.

(₹ in crores)

Description	Cost
Information and Communications Technology (ICT) Charges, Mobile Devices, Optical Fiber Communication (OFC) connectivity, Network configuration, Internet leased lines	1.96

End Computing (Desktop, Laptop, Printers)	1.25
Network Infra- Active and Passive	9.55
Security Systems	3.65
Conference Hall (Board Room) Training & Development	0.42
Data Center & IT Infra Rooms Power & Cooling	0.78
HR - Systems (Application and T & A hardware)	0.39
Customs, CISF (BCAS Computer Based Training)	0.38
One Time Setup Cost (Installation Cost)	0.26
Auto Scan and Read 606 Labs at Security clearance	0.13
Application Software	0.13
Total	**18.90**

C.3 General Expenses:

MABPL was formed in August 2022 for taking over the cargo operations from the previous cargo operator at KIA, Bengaluru. As part of its preparation to start the operations by 24 May, 2023 and ISP has incurred general expenses relating to the hiring of the management, procurement of EPC contracts, office etc. in order to have smooth transition of operations and MABPL has proposed to capitalized these general expenses amounting to ₹ 1.50 crores.

4.3 Authority's Examination on CAPEX (Additions to RAB) proposed by the ISP for the First Control Period at CP stage.

4.3.1 The Authority observed that ISP had considered the entire CAPEX proposed for the Control Period in the first year itself.

4.3.2 The Authority noted that MABPL proposed CAPEX broadly under the following three categories:

1. Construction of Greenfield Domestic Cargo Terminal
2. Expansion of Existing International Cargo Terminal
3. Other CAPEX.

The CAPEX proposed by the ISP for the First Control Period is discussed in the ensuing paras.

4.3.3 **Construction of Greenfield Domestic Cargo Terminal** - The Authority noted that ISP proposed a CAPEX of around ₹ 98.00 crores for construction of approx. 22780 square meter greenfield domestic cargo terminal which will cost around 43020 per square meter. The Authority took note of the clause 2.1.2. of the SPRHA of the ISP with the Airport Operator, in respect of domestic cargo terminal, which is reproduced below:

Clause 2.1.2. of SPRHA in respect of Domestic Cargo Terminal:

"Design, build, finance, develop, operate, manage, maintain and transfer the Domestic Cargo Terminal with an initial capacity of not less than 250,000 MT (two hundred and fifty thousand metric tonnes) per annum to cater to domestic cargo. The capacity shall be expanded to not less than 400,000 MT (four hundred thousand metric tonnes) per annum subsequently in accordance with Clause 9.5 (Alteration, Expansion and Upgradation of Cargo Terminals-1)."

Further, the "clause 9.5.3" of the SPRHA, relating to expansion of Domestic Cargo Terminal stipulates that:

"In the event the aggregate cargo volume at the Domestic Cargo Terminal exceeds, 80% (eighty percent) of the initial planned capacity or 200,000 MT (two hundred thousand metric tonnes), whichever is higher, at any time for the preceding period of 12 (twelve) months on a rolling basis, the SPRH-1 shall expand the Domestic Cargo Terminal to a total capacity of not less than 400,000 MT (four hundred thousand metric tonnes) within the time period as set out in the Business Plan. For the avoidance of doubt, the total capacity of the Domestic Cargo Terminal after such expansion shall be not less than 400,000 MT (four hundred thousand metric tonnes)."

4.3.4 The Authority noted that at the time of MYTP submission, ISP had initially proposed the estimated costs of ₹ 89.00 crores for the Greenfield Cargo Terminal. Subsequently, the ISP vide mail dated 19.04.2023 informed the Authority about the award of the contract for the construction of new greenfield domestic cargo terminal to M/s Surya Priya Construction (L-1) bidder, at a quoted price around ₹ 98.00 crores (including Design, PMC, Contingency cost etc.). The ISP also informed that above capital work was awarded after following competitive bidding process.

4.3.5 MABPL, regarding the new domestic cargo terminal further submitted that the height of the proposed Greenfield Domestic Cargo Terminal will be 13.9 meter and floor of the building is planned so as to hold the weight of the racking system or any other mechanized system.

The Authority, sought detailed breakup of ₹ 98.00 crores quoted by the Surya Priya Construction. In response thereto, MABPL vide email dated 25.05.2023 submitted cost sheet for construction of the Greenfield Cargo Terminal as under:

Table 15: Cost break-up of Greenfield Cargo Terminal submitted by MABPL

(₹ in crores)

S. no.	Description of work	Cost
1.	Civil Works	13.76
2.	Structural Works	33.76
3.	UG Sump	0.92
4.	HVAC Works	3.32
5.	Electrical Works	5.81
6.	Water Supply and Sanitary Works	1.52
7.	Sewage Treatment Plant (STP)	0.39
8.	STP Civil Works	0.92
9.	RO and WTP Works estimate	0.21
10.	Fire Protection	3.81
11.	Fire detection and public address system	0.89
12.	Composite Beam Works	12.09
Total Cost of Project		77.41
Building & Other Construction Workers' Welfare Cess (BOCW) @ 1%		0.77
Taxes @ 18%		14.07
Total Cost of Project		92.25
Design and Project Management Consultancy (PMC) cost (2.22 %)		2.18
Statutory approvals cost		1.20
Contingency @3%		2.76
Total		**98.26**

4.3.6 The Authority from the above Table 15 noted that the CAPEX of ₹ 98.26 crores in respect of Greenfield Domestic Cargo Terminal, includes Design & PMC consultancy cost and contingency expenses of ₹ 2.18 crores and 2.76 crores respectively. The estimated expenses towards PMC around 2% and contingency provision @ 3% of total project cost, seems reasonable and in line with consultancy / PMC percentage costs considered in the similar construction projects.

4.3.7 The Authority noted that MABPL also engaged the consultant namely "Turner & Townsend Private Limited" at the estimated cost of ₹ 0.97 crores (excluding taxes) as per the agreement between Turner & Townsend Private Limited and MABPL, to carry out the Pre-Construction, Construction Stage & Post Construction related works in respect of the new greenfield Cargo Terminal. The scope of services as per the agreement is given below:

Pre-Construction

- Preparation of project execution plan
- Coordinate with design team for their respective deliverable
- Preparation of master schedule
- Support in project budget tracking
- Sites visit with Design consultants
- Preparation of procurement strategy
- Preparation and update Risk register
- Coordinating for the design signoff from the First Party
- Chairing the design development meetings and recording the actions in MOM
- Support the First Party on Long lead, D&B/GC vendor procurement, MHS procurement and required consultants for the delivery of the project. Design guidelines will be provided by the concept designers (appointed by Menzies)/Menzies.
- Chairing weekly meeting
- Weekly & monthly reporting

Construction stage

- Chairing weekly progress meetings
- Tracking the progress at site
- Coordinate with the designers for regular quality inspections and monitor the governance on QA/QC and HSE implementations.
- Regular induction and toolbox talk
- Weekly reporting which includes executive summary, progress update, risk register, key pending actions updates, look ahead reporting as per the agreed format
- Monthly reporting
- Bill certification of the vendors
- Tracking the budget and reporting to Menzies.

Post construction

- Coordination with vendors & Consultants for Testing & Commissioning
- Coordinate for Snag list preparation and snag rectification.
- Coordinate for techno commercial closure.
- Conduct lesson learnt workshop.

4.3.8 From the above, it is noted that ISP, in fulfilment of its contractual obligations, is constructing new domestic cargo terminal with an initial cargo handling capacity of 2,50,000 MT per annum, with a provision of further expansion of capacity to 4,00,000 MT per annum to meet the future demand. As per the ISP's submission, the construction of new domestic cargo terminal is expected to be complete during FY 2023-24 & same has been proposed to be capitalized during the first tariff year of the Control Period, accordingly.

The Authority expects that the commissioning of new domestic cargo terminal building will help in providing efficient & better cargo handling services to domestic cargo users, including freight forwarders and it will also facilitate transshipment of cargo. Accordingly, the Authority proposed to consider the CAPEX proposed by the ISP on the construction of Greenfield domestic cargo terminal at an estimated cost of ₹ 98.00 crores.

4.3.9 <u>**X-Ray Machines for the new Domestic Cargo Terminal**</u> - The ISP, regarding Capex on the procurement of X-Ray machines submitted that X-Ray machines are being installed for compliance of security requirements of the BCAS. ISP further submitted that all screening at airport needs to be done via Dual view X-Ray machines. The Authority, considering that the requirement of X-Ray machines is a mandatary security requirement, hence proposes to consider Capex amounting to ₹ 3.52 crores on the procurement of X-Ray Machines, as proposed by the ISP.

4.3.10 <u>**Material Handling Systems (MHS) for the new Domestic Cargo Terminal**</u> - The Authority noted that ISP proposed a CAPEX of ₹ 13.95 crores on the procurement of new MHS in respect of the Greenfield Domestic Cargo Terminal. Considering that the new domestic terminal is situated at a distance of 2 Kms approx. from the existing Cargo Terminal Building (International Cargo Building), hence it is imperative for the service provider to have dedicated MHS for its proposed new domestic cargo terminal. Accordingly, the Authority proposed to consider CAPEX on MHS for new domestic cargo terminal at an estimated cost of ₹ 13.95 crores, as proposed by the ISP (Table 10 above).

4.3.11 <u>**Capital Works related to Expansion of the International Cargo Terminal**</u> – The Authority took note of the scope of work of the clause 2.1.1, of Service Provider Right Holder Agreement (reproduced below):

<u>*Clause 2.1.1. of SPRHA in respect of International Cargo Terminal-1:*</u>

(i) Design, build, finance, develop, undertake refurbishment activities of the Existing Cargo Terminal-1 as prescribed by BIAL which will lead to creation of an additional capacity of not less than 40,000 MT (forty thousand metric tonnes) per annum. For the avoidance of doubt, the International Cargo Terminal 1 shall have a total capacity of not less than 250,000 MT (two hundred and fifty thousand metric tonnes) per annum; and

(ii) Operate, maintain, manage and transfer the Existing Cargo Terminal-1 and the refurbish facility as set out in Clause 2.1.1(i) above.

Further, as per the clause 9.2.4. of the SPRHA, *"The SPRH-1 shall complete the refurbishment activities of the International Cargo Terminal 1 no later than 3 (three) years from the Date of Handover."*

The Authority noted from the above agreement clause that ISP is mandated to refurbish the existing Cargo Terminal Building-1, including capacity enhancement by 40,000 MT, so as to achieve at least international cargo handling capacity of 2,50,000 MT per annum.

The Authority observed that in fulfilment of its contractual obligations, ISP proposed a Capex of ₹ 0.50 crores for the refurbishment of the existing Cargo Terminal.

In response to AERA query, MABPL submitted that before domestic operations are shifted to the greenfield domestic cargo terminal, they plan to undertake refurbishment at existing cargo terminal, so that adequate space is created for the additional X-ray machines and Material Handling Systems.

Considering that proposed Capex on refurbishment of existing cargo building is a contractual requirement and it will lead to additional capacity for handling of international cargo, the Authority proposed to consider a Capex of ₹ 0.50 crores on the refurbishment of existing Cargo Terminal building in FY 2023-24, as proposed by the ISP.

4.3.12 **X-Ray Machines for International Cargo Terminal** – The Authority noted that ISP proposed a Capex of ₹ 4.04 crores on the procurement of X-Ray and allied security equipment in respect of the existing cargo terminal building (from where international cargo operations are being carried out). Considering that the Capex on X-Ray & allied items is being incurred by the ISP as per the BCAS security requirements, the Authority proposed to consider a Capex of ₹ 4.04 crores on X-Ray machines, as proposed by the ISP.

4.3.13 **Material Handling Systems (MHS) for International Cargo Terminal** - The Authority noted that ISP proposed CAPEX of ₹ 82.70 crores towards Material Handling Systems (Annexure II) in respect of the existing (International) Cargo Terminal. The Authority sought clarification regarding the huge CAPEX proposed for the Material Handling systems in respect of existing international cargo terminal. The ISP, vide mail dated 19.05.2023 submitted that most of the Assets transferred from the Airport Operator have completed their life span of 15 years and not in proper condition for further use. These assets (MHS) had been proposed for the expansion of the cargo handling facility (International Cargo Terminal), as mandated by the SPRHA.

4.3.14 The Authority sought further details & breakup of the proposed CAPEX of ₹ 10.65 crores for ETV and ₹ 40.65 crores towards supply of ancillary equipment (part of MHS for international cargo terminal). The ISP, vide mail dated 23.06.2023 submitted that the Elevating Transfer Vehicle (ETV) is an independent rail-mounted unit with an elevating roller deck platform to raise lower Air Cargo Pallets and ULD containers between interfacing equipment and storage system at all system levels. Elevating Transfer Vehicle moves the ULDs both horizontally and vertically at the same time, this result into faster transfer in and out of store, as well as ULD handling. Further, existing Lift & Run System (Two TV, Two Hoist) at Menzies Air Cargo Terminal, Bengaluru is 15 years old and having several obsolete components including the control system. For upgrading the ETV, Service Provider will require three nos. of TVs, and three nos. of hoists.

ISP had also given the breakup of ₹ 40.65 crores CAPEX proposed under ancillary equipment as Table below:

Table 16: Cost break-up of ancillary equipment submitted by MABPL.

(₹ in crores)

S no.	Details of items	Qty	Rate	Amount
1	Storage Deck (Existing 72, Expansion 128)	200 (Nos.)	0.14	28.90
2	Powered Roller Deck (For expansion area)	24 (Nos.)	0.16	3.96

3	Lowerable Workstation (For expansion)	8 (Nos.)	0.46	3.71
4	Control Panel (Existing & expansion) -as required	5 (Nos.)	0.42	2.12
5	Cables & others- as required	1 (lot)	0.35	0.35
6	Material flow Control System	1 (Nos.)	1.50	1.50
7	Packing & Forwarding, Transportation, Loading & Unloading.	1 (Jobs)	0.10	0.10
	Total			**40.65**

4.3.15 As regard to procurement process followed by the ISP in respect of the Material Handling Systems, ISP vide mail dated 19.04.2023 submitted that MABPL follows a robust procurement process with proper checks. approvals and governance in place as per its purchase policy. MABPL undertakes competitive bidding process for procurement of equipment. The ISP submitted that cargo operations are a specialized activity requiring specialized equipment and same are supplied only by limited vendors. MABPL, as part of its procurement process reaches out to multiple vendors for their quotations with their technical proposals. These quotations are reviewed by the procurement team from technical perspective. alignment with the timeline of MABPL and latest technologies to shortlist technically qualified bidders. Thereafter, MABPL awards the contract to the L-1 bidder, among the shortlisted bidders, after the approval of the Board.

4.3.16 MABPL, had also provided few sample documents relating to quotations/purchase orders in respect of the Material Handling System and submitted that they are in process of procuring Assets as per the requirements. From the ISP submission, the Authority observed that the proposed Capex on Material Handling System includes a cost towards all-inclusive comprehensive maintenance charges (AICMC) amounting to ₹ 5.15 crores (including 18% GST), for a period of 5 years. Accordingly, the Authority excluded the maintenance cost of MHS amounting to ₹ 5.15 crores from the proposed CAPEX for MHS and the same had been considered under the Repair & Maintenance expenditure of the service provider.

The Authority noted that the Material Handling Systems are essential requirement for safe and efficient cargo handling. The MABPL proposed major CAPEX on the MHS pertaining to the international cargo terminal, where the ISP is currently using the old equipment/system transferred from AO to the ISP. Further, as per the ISP, the old equipment/system have almost outlived their useful lives and same is required to be replaced for continued smooth operations. In view of the above, the Authority considered the Capex proposed on the MHS in respect of International Cargo Terminal amounting to ₹ 77.55 crores as reasonable.

4.3.17 **Other Capex proposed by the ISP:**

(a) **IT Assets** - The Authority noted that the CAPEX amounting to ₹ 18.90 proposed for the IT related assets are mainly for replacement of the existing assets at the international cargo terminal and procuring new assets for the Greenfield Domestic Cargo Terminal.

The Authority noted from ISP's submission that most of the old IT Assets at the existing Cargo Terminal building have completed their useful life and same are required to be replaced, for the seamless operations. The Authority further noted that new greenfield domestic cargo terminal is located at a distance of around 2 Kms, hence all the IT Assets are required for new terminal on dedicated basis.

The Authority sought further details of proposed CAPEX of ₹ 9.55 crores on the Network Infra - Active and Passive, which is a part of proposed CAPEX on the new IT Assets. The Authority based on the response of the ISP, observed that Network Infra is the core IT infrastructure which facilitates storage and data transfer for all their IT applications. It is a platform which supports warehouse management system to connect various regulatory channels like Customs ICE GATE, Airport Operator and Customer Airlines through multiple interfaces. This enables access to the end users to run day to day operations efficiently and connect all the stakeholders and billing of other statutory requirements. This active networking infrastructure includes dedicated, servers, Routers, Switches, security layer hardware's and also consist of passive cabling and connectivity including OFC (Optic Fiber Cable). This also includes Server and storage infrastructure hosted at the premises to store the data in a secure mode as per the relevant regulatory guidelines. The details breakup of the network infra items are given below:

Table 17: Cost break-up of Network Infra- Active and Passive submitted by MABPL.

(₹ in crores)

Sl No	Description	Unit Cost	Qty	Total Cost
1	MX250 Router & Security platform	0.24	2	0.49
2	MS425 (10G)-32-Port Switches	0.18	4	0.73
3	MS355 (MGig)/ MS210 - 24-Port Switches	0.12	30	3.80
4	MR46E - WiFi Access Points	0.03	24	0.83
5	Misc Hardware's (SFP Modules, Mounting and connecters etc)	0.32	1	0.32
6	Cisco BE6K Call Manager Cluster (Incl. Other hardware's)	0.25	2	0.50
7	Voice Gateway	0.32	1	0.32
8	IP Phones	.0013	100	0.14
9	IP Phones	.0025	25	0.06
10	Internal Cabling Revamp for Brown Field Terminal	0.25	1	0.25
11	Cabling for Green Field Terminal	1.10	1	1.10
12	5 Physical Servers on VM with 1000 TB of VARITAS Backup	1.35	1	1.35
	Total			**9.89**

In view of the above, the Authority proposed to consider the CAPEX proposed by the ISP on IT Assets in respect of the new domestic cargo terminal and the existing international cargo terminal at an estimated cost of ₹ 18.90 crores as per Table 14.

(b) **General Expenses and Capex on Transfer Assets** - The Authority noted that ISP considered general expenses amounting to ₹ 1.50 crores relating to the commencement of its cargo operations as a part of its proposed CAPEX. Further, the proposed CAPEX includes ₹ 11.75 crores for "Transfer Assets" (i.e. Assets transferred by AO to ISP).

In respect of transferred assets, MABPL submitted that as per clause 9.4.5 of the SPRHA, ISP is required to purchase the existing assets from the airport operator at fair market value. The referred clause is reproduced below:

"The SPRH-1 shall, at its own cost, accept the Movable Assets in relation to the Existing Cargo Terminal-1 owned by BIAL as on 24 May 2023, at the fair market value."

In this regard, MABPL submitted that the valuation of transfer assets is yet to be done, meanwhile, they have considered 10% of the value of Gross Block of existing assets in the books of previous operator (MABBPL) as transfer value.

Considering that ISP is contractually bound to accept the old assets which are transferred by the AO, the Authority proposed to consider the valuation of old assets as proposed by the ISP. However, the aspect of valuation of transfer assets will be revisited by the Authority at the time of finalization of Tariff Order for the ISP.

4.3.18 The Authority, in respect of the general expenses (₹ 1.5 crores) considered by the ISP under the CAPEX, noted that most of the expenses incurred under the general expenditure such as hiring of the management, business development costs, office expenses, etc. are in nature of Revenue Expenditure, hence the same need to be considered as a part ISP's general expenditure. Accordingly, the Authority excluded the general expenditure from the CAPEX and considered the same under the O&M expenditure.

4.3.19 The Authority noted that ISP in its proposed CAPEX had also considered the GST applicable to various Equipment/Capital items. The Authority advised the ISP to ensure that wherever the GST Input Tax Credits (ITC) are available against the Capital Works/ Equipment, the GST component of such assets may be reduced while capitalization of these assets.

4.3.20 On the basis of examination of various components of the CAPEX proposed by the ISP and considering the clarifications / justifications towards proposed CAPEX submitted by MABPL, the Authority proposed to consider CAPEX for MABPL for the First Control Period as Table given above.

Table 18: Capital Expenditure proposed by the Authority for MABPL in respect of the First Control Period at CP stage.

(₹ in crores)

S no.	Particulars	2023-24	2024-25	2025-26	2026-27	2027-28	Total
A	**Capex for greenfield domestic terminal**						
A.1	Construction of greenfield domestic cargo terminal building	98.00	--	--	--	--	**98.00**
A.2	X-ray Machines	3.52	--	--	--	--	**3.52**
A.3	Material Handling System	13.95	--	--	--	--	**13.95**
B	**Existing International cargo terminal**						
B.1	Civil works for capacity enhancement	0.50	--	--	--	--	**0.50**
B.2	Material handling system	77.55	--	--	--	--	**77.55**
B.3	X-ray machines	4.04	--	--	--	--	**4.04**
C	**Other capex**						
C.1	Transfer assets	11.75	--	--	--	--	**11.75**
C.2	IT Assets	18.71	--	--	--	--	**18.71**
	Total	**228.05**	--	--	--	--	**228.05**

**Excluded AICMC of MHS ₹ 5.15 crores & ₹ 1.50 crores of general expenses.*

4.4 MABPL's submission on Depreciation for the First Control Period:

4.4.1 MABPL calculated the depreciation for the First Control Period as given in Table below:

Table 19: Depreciation proposed by MABPL for the First Control Period.

(₹ in crores)

Particulars	2023-24	2024-25	2025-26	2026-27	2027-28	Total
Building & Civil Works	3.73	7.13	7.13	7.13	7.13	**32.25**
Plant and Equipment's – X-Ray machines and Material Handling System	3.75	7.27	7.27	7.27	7.27	**32.83**
IT assets	1.87	3.74	3.74	3.74	3.74	**16.83**
Total	**9.35**	**18.14**	**18.14**	**18.14**	**18.14**	**81.91**

4.5 Authority's Examination on the Depreciation proposed by the ISP:

4.5.1 The Authority compared the depreciation rates and useful life of Assets adopted by MABPL, Bengaluru for the First Control Period with the depreciation rates & useful lives of Assets prescribed in the AERA Order No. 35/2017-18, as given in Table below:

Table 20: Comparison of Depreciation rates adopted by MABPL, Bengaluru vis-a-vis AERA Order 35/2017-18.

Particulars	As per ISP Submission	As per AERA Order
	Useful Life	
Building and Civil works	15	30/60
Plant and Equipment, including X-Ray machines and Material Handling System	15	15
IT assets	5	6/3

4.5.2 The Authority noted from the MYTP submission of MABPL that ISP had claimed ₹ 81.91 crores as depreciation, considering useful life of all components of RAB as per Order no. 35/ 2017-18, except in case of Buildings, Civil works & IT assets.

In case of the Building & Civil works, ISP had considered useful life as 15 years, based on the concession term (ending on 2038). For IT Assets, ISP had considered the useful life as 5 years.

4.5.3 The Authority further noted that the ISP had considered depreciation @ 50% of full years' depreciation during the year of capitalization (assuming capitalization of Assets in the middle of the financial year).

4.5.4 In respect of the IT Assets, the Authority proposed to compute the depreciation considering its useful life, as per the AERA Order referred above.

4.5.5 The depreciation proposed by the Authority for MABPL in respect of its First Control Period is given in Table below:

Table 21: Depreciation proposed by Authority in respect of MABPL for the First Control Period at CP stage.

(₹ in crores)

Particulars	2023-24	2024-25	2025-26	2026-27	2027-28	Total
Building & Civil works	3.73	7.01	7.01	7.01	7.01	**31.77**
X-Ray Machines	0.38	0.64	0.64	0.64	0.64	**2.94**
IT Assets	1.68	3.35	3.35	3.35	3.35	**15.08**
Material Handling Systems	3.23	6.28	6.28	6.28	6.28	**28.35**
Total	**9.02**	**17.28**	**17.28**	**17.28**	**17.28**	**78.14**

Note: Total Depreciation for the Control Period has reduced vis-à-vis depreciation proposed by the ISP due to exclusion of SD (₹ 50 crores), General Expenses (₹ 1.5 crores) & AICMC of MHS ₹ 5.15 crores from the Opening RAB / Additions during the Year.

4.6 MABPL submission on Regulatory Asset Base (RAB) for the First Control Period:

4.6.1 MABPL, submitted the Opening, Closing and Average RAB for the First Control Period as given in the Table below:

Table 22: RAB for the First Control Period submitted by MABPL.

(₹ in crores)

Particulars	2023-24	2024-25	2025-26	2026-27	2027-28	Total
Opening RAB	61.75*	275.33	257.19	239.05	220.91	
+ Capital Additions	222.93	0.00	0.00	0.00	0.00	222.93
(-) Disposals	0.00	0.00	0.00	0.00	0.00	0.00
(-) Depreciation	9.35	18.14	18.14	18.14	18.14	81.91
Closing RAB	**275.33**	**257.19**	**239.05**	**220.91**	**202.77**	
Average RAB	**168.54**	**266.26**	**248.12**	**229.98**	**211.84**	

**Opening RAB include ₹ 50 crores SD and ₹ 11.75 crores as value of Assets transferred by AO to ISP.*

4.7 Authority's examination of the RAB for MABPL in respect of the First Control Period at CP stage.

4.7.1 The Authority, while examining the RAB, observed that the ISP had considered the Security Deposit amounting to ₹ 50 crores as part of opening RAB and its associated impact on the computation of depreciation. In this regard, the Authority excluded the security deposit component amounting to ₹ 50 crores from opening RAB as per the nature of the expense and has been dealt in detail in para no. 5.4.5. Further, the Authority had also excluded the expense component amounting to ₹ 1.50 crores relating to general expenses & AICMC cost of MHS ₹ 5.15 crores from CAPEX (additions to RAB during the year), and proposed the Opening RAB, Average RAB & Closing RAB for the ISP as per Table given below:

Table 23: RAB proposed by the Authority for MABPL for the First Control Period at CP stage.

(₹ in crores)

Particulars	2023-24	2024-25	2025-26	2026-27	2027-28	Total
Opening RAB	11.75*	219.00	201.72	184.45	167.17	
+Capital Additions	216.27#	0.00	0.00	0.00	0.00	216.27
(-) Disposals	0.00	0.00	0.00	0.00	0.00	0.00
(-) Depreciation	9.02	17.28	17.28	17.28	17.28	78.14
Closing RAB	**219.00**	**201.72**	**184.45**	**167.17**	**149.89**	
Average RAB	**115.38**	**210.36**	**193.08**	**175.81**	**158.53**	

**SD of ₹ 50 crores excluded from Opening RAB*

#AICMC of MHS ₹ 5.15 crores & ₹ 1.50 crores (general expenses) & ₹ 11.75 transfer asset (considered as part of opening RAB) excluded from Capital additions (additions to RAB): ₹ 216.27 crores (₹ 234.70- ₹ 11.75 - ₹ 5.15- ₹ 1.50).

4.8 Stakeholders' Comments on Capital Expenditure (CAPEX), Regulatory Asset Base (RAB)

4.8.1 **FIA Comments:** In its comment on the proposed Capital Expenditure (CAPEX), FIA submitted that "*In view of the above-mentioned challenges faced by the entire aviation ecosystem, we request AERA that all non-essential CAPEX proposed by MABPL should be put on hold/deferred to the Second Control Period, unless deemed critical from a safety or security compliance perspective.*

Without prejudice to the above, in case MABPL 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.

Further, it is submitted that the proposed hike from the prevailing tariffs due to Capex planned in First Control Period may be a bit premature as it would be possible to assess/ gauge only in the last year of First Control Period (i.e., 2027-28), whether significant work has progressed in development of infrastructure, service levels, procurement of latest equipment and repairs / refurbishment, as proposed in the CP. Thus, AERA is requested that the proposed hike from the prevailing tariffs be based on ground realities at that time of true up for the Second Control Period.

AERA is further requested to evaluate whether the expansion in the current tonnage scenario would be required or not, as the current capacity may have not been optimized by the Cargo handling agencies."

4.8.2 **MABPL Comments:** In its comment on the Capital Expenditure (CAPEX) & Regulatory Asset Base (RAB) proposed for the Control Period, MABPL submitted that

Valuation of Transfer Assets.

"BIAL has appointed a certified valuer, which will submit its report within 4 weeks. MABPL will submit the report once the valuation activity is complete. In the meantime, MABPL would request the Authority to consider a tentative valuation (based on an initial assessment) of INR 11 cr."

4.9 Counter Comments of MABPL:

4.9.1 In response to FIA's comment on the proposed Capital Expenditure (CAPEX), ISP submitted that *"MABPL would reiterate that the capital expenditure proposed is determined as per the 'Service Provider Right Holder' agreement with BIAL which mandates the construction of the Greenfield domestic terminal and the expansion of the international cargo terminal. Further, MABPL has justified the capital expenditure along with its efficiency to the Authority in its MYTP and various responses to the queries from the Authority. To reiterate, the existing infrastructure at the cargo terminal has worn down over time, with some equipment as old as 16 years, as a result, certain OEM equipment cannot be maintained as they are no longer available in the market and therefore, the refurbishment of the existing cargo terminal is justified. Further, Kempegowda International Airport, Bengaluru is the third busiest airport in India, which is in the world's most populous and one of the fastest growing countries. It, therefore, needs to keep up with the latest technological equipment to ensure best-in-class customer experience and safety.*

MABPL would also highlight that under the light touch approach, MABPL is not eligible for true-up in the second control period. Thus, MABPL has taken the risk of incurring the capital expenditure as per the SPRH agreement which needs to be adequately compensated during the first control period itself.

Therefore, MABPL submits to the Authority to consider the proposed capital expenditure as part of the first control period tariff determination."

4.10 Authority's Analysis on the Stakeholders' comments regarding proposed CAPEX & RAB for the First Control Period:

4.10.1 The Authority took note of the comments of FIA on deferment of non-essential CAPEX and response thereon of the ISP. The Authority notes that MABPL, out of the total CAPEX of ₹ 234.70 crores proposed for the First Control Period, has earmarked major portion of capital expenditure (₹ 213.89 crores), for the construction of new Domestic Cargo Terminal Building, procurement of Material Handling System & IT Assets. The Authority at consultation stage, examined in detail the ISP's submission on the CAPEX proposed for the First Control Period, including justifications/ reasons submitted by the service provider towards its proposed CAPEX.

It is pertinent to note that as per clause 2.1.2 of the Cargo SPRHA, MABPL is contractually bound to construct a new dedicated domestic cargo terminal with a capacity of 2,50,000 MT in FY 2023-24, which will be further expanded to 4,00,000 MT in the future within the time period as set out in the business plan. MABPL is also mandated to refurbish the existing Cargo Terminal Building-1, including capacity enhancement by 40,000 MT, so as to achieve at least international cargo handling capacity of 2,50,000 MT per annum.

Further, the Authority notes that as per the ISP, most of the material handling equipment have outlived their normal useful lives and same are also required to be replaced to maintain the seamless cargo operations. The Authority, is of the view that it would be unreasonable to expect quality services from the ISP, if service provider is not allowed to incur reasonable CAPEX.

4.10.2 In respect of the Capex proposed for the FY 2023-24, the Authority sought the status of Capex incurred. In this regard, MABPL submitted that the construction of new domestic cargo terminal is going on and new domestic cargo terminal building is expected to be complete & capitalized within the FY 2023-24. ISP further informed that the work relating to the refurbishment of existing cargo terminal and procurement of the Material Handling system & other assets will also be completed in FY 2023-24 itself.

4.10.3 As regard to MABPL comments on the Valuation of Transfer Assets, the Authority notes from the ISP submission that BIAL had appointed an independent valuator for deriving the market value of all the old assets which have been transferred by Airport Operator to MABPL on 24th May, 2023 (COD). In this regard, ISP vide mail dated 21.09.2023 submitted that, as per the valuer, the value of transferred assets is ₹ 12.76 Crores. However, the ISP informed that the 'Valuation Report' needs to be approved by their senior management & Board.

The ISP further submitted that as per the RFP, the payment in respect of the Transfer Assets shall be remitted to the airport operator within 6 months; accordingly, ISP requested to consider ₹ 11.75 Crores as value of Transferred Assets, as originally proposed by the ISP in the MYTP.

The Authority, notes from the ISP email dated 21.09.2023 that the independent valuer has computed the value of the 'Transfer Assets' at ₹ 12.76 crores, which is ₹ 1.01 Crore (₹ 12.76 crore – ₹ 11.75 crore) more than the value of Transfer Assets initially considered by the ISP in its MYTP submission. However, it is noted that no invoice (from the Airport Operator) in respect of Transfer Assets has been furnished by the ISP. Further, as per MABPL, their competent authority/ Board is yet to approve the payment towards the 'Transfer Assets' to the Airport Operator; therefore, the Authority decides to consider the value of 'Transfer Assets' at ₹ 11.75 crores, as initially proposed by the ISP in its MYTP submission (as against ₹ 12.76 crores as per valuation report).

4.10.4 In view of the above, the Authority considers that the Capex proposed by the ISP for the First Control Period seems reasonable so as to handle its Domestic & International Cargo Handling operations effectively. Moreover, the major portion of the proposed Capex is being incurred by the ISP towards fulfillment of its contractual obligations (as per Concession Agreement) or as a replacement of old assets which have completed their normal useful lives.

Accordingly, the Authority maintains the same view on the Capex proposed by the ISP for the First Control Period, as was taken at CP stage.

4.10.5 The Authority, in respect of the CAPEX proposed for the First Control Period, observes that the ISP would be eligible to claim GST Input Tax Credits on the some of the assets, such as movable assets etc., the Authority advises the ISP to ensure that wherever the GST Input Tax Credits (ITC) are available against the Capital Works/ Equipment, the GST ITC for such assets may be availed and the cost of GST component to be excluded from the capitalized value of such assets.

4.11 Authority's decisions regarding Additions to RAB, Depreciation, Regulatory Asset Base (RAB).

Based on the material before it and based on its analysis, the Authority decides the following for the First Control Period:

4.11.1 To consider the Additions to RAB, Depreciation and Average RAB as per the Table 23.

CHAPTER 5: OPERATING & MAINTENANCE EXPENDITURE

5.1.1 As provided in Clause 9.4 of the Guidelines mentioned in Direction No. 04/ 2010-11, the Operation and Maintenance (O&M) Expenditure shall include all expenditures incurred by the Service Provider(s) including expenditure incurred on security operating costs, other mandated operating costs and statutory operating costs.

5.1.2 Operation and Maintenance Expenditure submitted by MABPL is segregated into the following categories:

- Payroll Cost, Headquarters Cost & Other Staff related Expenditure
- Administrative & General Expenses
- Repairs and Maintenance expenditure
- Utility expenditure
- Revenue sharing

5.1.3 Operating & Maintenance Expenditure submitted by the ISP in its MYTP for the First Control Period is given below:

Table 24: Operation & Maintenance Expenditure projected by MABPL for the First Control Period.

(₹ in crores)

Particulars	FY 2023-24*	FY 2023-24 (annualized)	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Payroll and Other Staff Expenditure (excluding Headquarters Cost)	52.77	57.60	66.70	77.47	89.50	104.19	390.63
Headquarters Cost	10.00	10.00	10.50	11.00	11.60	12.20	55.30
Payroll Cost inclusive of Headquarters' cost allocation (a)	62.77	67.60	77.20	88.47	101.10	116.39	445.93
Administrative & General Expenses (b)	46.07	53.89	53.78	57.86	62.20	66.89	286.80
Repairs and Maintenance expenditure (c)	3.50	4.09	4.70	5.41	6.22	7.15	26.98
Utilities costs (d)	3.50	4.09	4.54	5.04	5.60	6.21	24.89
Revenue Share payable to Airport Operator (e)	39.45	46.18	56.87	68.61	79.61	91.21	335.75
Total O&M expenses (a+b+c+d+e)	**155.29**	**175.85**	**197.10**	**225.39**	**254.72**	**287.85**	**1120.35**

**From 24th May, 2023 (COD) to 31st March, 2024.*

5.2 MABPL submitted the following justifications for the projection of O&M Expenses for the First Control Period:

5.2.1 **Payroll and Other Staff expenditure:** MABPL submitted that they envisage the need of high recruitment of manpower in the First Control Period, due to the unique set up of their Cargo Terminals at the Bengaluru Airport, wherein the international and domestic cargo terminal operations would be divided between two terminals located 2 km apart. Therefore, MABPL would require dedicated staff at each terminal for efficient functioning. Moreover, the cargo terminal operations are highly specialized in nature and require skilled and trained manpower. Hence, in order to reduce the employee attrition in the initial years of operation, it is imperative for MABPL to lay emphasis on annual increments which are in line with the industry standards.

5.2.2 Initially, MABPL submitted projected Payroll Costs, excluding of its Headquarters' cost allocation to the ISP. Subsequently, the ISP vide e-mail dated 19.04.2023 submitted the revised payroll cost including its Headquarters' cost. ISP stated that Menzies group has worldwide cargo operations at more than 70 airports and Menzies Aviation has global headquarter providing services to its subsidiaries in relation to the technical services, treasury services, legal services, corporate governance, procurement related services, etc. The Menzies Aviation headquarter incurs expenses for providing these services; however, it does not have any revenues against these technical services. Hence, the headquarter allocates its costs to its subsidiaries as a technical service fee.

5.2.3 As per the ISP, in addition to the above, the following factors also considered in the calculation of the projected payroll expenditure for the Control Period:

- **Employee count**: Since the Cargo volume is expected to grow, the hiring of employees is expected to increase at the rate of 6% Y-o-Y in the First Control Period as shown below:

Table 25: **Number of employees projected by MABPL during the First Control Period.**

Particulars	FY 2024-25	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Employees	1487	1569	1659	1746	1851
Y-o-Y Growth rate (%)	--	6%	6%	5%	6%

- **Annual increments in the salaries:** The average annual salary increase is expected to be 10%, taking into account the annual inflation and minimum appraisal as per industry benchmarks.

5.2.4 **Administrative & Other General Expenses:** As per the ISP submission, Insurance, Travel & Professional expenditures, IT expenditure, Cargo Marketing Budget, Lease Rental, Bank Guarantee and Custom Usage Charges etc. are some of the components projected under Administrative and General Expenditure.

Details of Administrative and General Expenditure projected for the First Control Period by the ISP is given below:

Table 26: **Administrative and General Expenses proposed by MABPL for the First Control Period.**

(₹ in crores)

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Cargo Marketing Budget	1.60	2.30	2.80	3.20	3.60	**13.50**

Insurance	2.90	3.80	4.20	4.60	5.20	**20.70**
IT expenditure	2.40	3.10	3.50	3.90	4.30	**17.20**
Communication	0.30	0.40	0.50	0.60	0.60	**2.40**
Office expense	1.00	1.40	1.50	1.70	1.80	**7.40**
Travel and conveyance	4.20	5.40	6.00	6.70	7.40	**29.70**
Audit fee	0.30	0.30	0.40	0.40	0.50	**1.90**
Legal and professional fee	0.30	0.40	0.40	0.40	0.50	**2.00**
Finance cost (nil from FY25 onwards)	1.00	0.00	0.00	0.00	0.00	**1.00**
Bank Guarantee and Customs Charges	0.60	0.80	0.90	1.00	1.10	**4.40**
Outsourced services	1.10	1.40	1.60	1.80	2.00	**7.90**
Lease rental	30.20	34.30	36.00	37.80	39.70	**178.00**
Miscellaneous expenses.	0.10	0.10	0.10	0.10	0.20	**0.60**
Total Administrative & General expenses	**46.00**	**53.70**	**57.90**	**62.20**	**67.00**	**286.80**

5.2.5 **Repair and Maintenance expenditure**: MABPL submitted that their Repair & Maintenance expenses mainly include the expenditure towards maintaining the Cargo Terminal facilities and equipment, such as X-ray Machines, Forklifts, Material Handling System, etc. The R&M expenses for the International Cargo Terminal are higher since the equipment and the facilities have been operational for the past period around 15 years, as such continuous maintenance activities are required to keep it functional in an efficient manner. Further, new additions in capital expenditure proposed in both Domestic and International Cargo operations, resulting in increase in the repair and maintenance expenditure. Taking into consideration the impact of general inflation on labour charges, spares, and logistics costs, MABPL proposed 15% Y-o-Y increase in the repair and maintenance expenditure.

5.2.6 **Utilities Costs:** As per the ISP submission, the utilities expenditure includes the charges for consumption of Water, Electricity and Fuel. The unit rates assumed for calculation of utilities expenditure are based on the industrial rates as decided by the Airport Operator. As per the projected cargo volumes, it is expected that the consumption of utilities will increase throughout the control period. Further, the refurbishment work and construction of new domestic cargo facility is expected to consume substantial electric power and water in the First Control Period. MABPL proposed 11% Y-o-Y increase in utilities expenditure as shown below:

Table 27: Utilities Costs proposed by MABPL for First Control Period.

(₹ in crores)

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Power charges	3.20	4.20	4.60	5.10	5.70	**22.80**
Water charges	0.20	0.24	0.34	0.40	0.41	**1.59**
Fuel charges	0.10	0.10	0.10	0.10	0.10	**0.50**
Total Utilities expenditure	**3.50**	**4.54**	**5.04**	**5.60**	**6.21**	**24.89**

5.2.7 **Revenue Share payable to Airport Operator:** As per the SPRHA, MABPL is required to pay a revenue share of 25% of its gross revenues to the Airport Operator (AO). The revenue share payable to AO had been computed by the ISP on the basis the projected revenue for the First Control Period. Revenue Share payable to the Airport Operator during the first control period as shown below:

Table 28: Revenue share payable by MABPL to the Airport Operator for the First Control Period.

(₹ in crores)

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Projected Gross Revenue	157.80	227.50	274.40	318.50	364.90	1343.10
Revenue Share (in %)			25%			
Revenue Share	**39.45**	**56.87**	**68.61**	**79.61**	**91.21**	**335.7**

5.3 **Authority's Examination of the O&M Expenses for the First Control Period at CP stage:**

The Authority reviewed various components of OPEX, including growth rates considered by the ISP, for projecting the OPEX for the First Control Period. The Authority noted that MABPL commenced its commercial operations from 24.05.2023 and projected O&M Expenses for the first tariff year from COD i.e. 24.05.2023 to 31.03.2024, accordingly.

The Authority's analysis on the various components of the OPEX, projected by the ISP for the first Control Period as under:

5.3.1 **Payroll and other Staff expenditure** – The Authority observed that MABPL projected significantly higher payroll costs as compared to payroll costs of the previous cargo terminal operator (MABBPL). Similarly, number of manpower (1487 nos.) projected by the ISP appears to be higher side as compared to manpower deployed by the previous operator (1000 nos. approx.).

The Authority noted that MABPL while projecting Payroll cost, had considered a normal annual growth rate of 10% p.a. in payroll expenses, which is as per normal industry practice. As per the ISP, in a growing air cargo industry the skilled & trained manpower is in shortage. Accordingly, annual escalations in salaries are required to match as per the industry's standards. The Authority is also cognizant of the fact that there are two new cargo terminal operators i.e. MABPL & WFSBPL, who had been awarded concessions for cargo handling at KIA, Bengaluru around same time by the airport operator, and both commenced their commercial operations at the same time i.e. on 24.05.2023. Therefore, in a competitive environment, it is incumbent upon the ISP to offer salaries & other employees' benefits comparable to salaries & perks paid by its competitor (WFSBPL).

As regard to number of employees proposed by the ISP (FY 2023-24), the Authority noted that new dedicated greenfield domestic cargo terminal is being built by the ISP and same is situated a considerable distance (about 2 Kms) from the existing cargo terminal building (from where domestic & international cargo operations are being currently handled). Therefore, the ISP is required to provide dedicated manpower for all of its operational departments for new domestic cargo terminal. As the new domestic cargo terminal is located a considerable distance from existing cargo terminal, ISP doesn't have the advantage offered by the integrated cargo terminals, such as cost savings on account of synergies in operations & economy of scales. Further, considering the cargo volumes projected by the ISP for the First Control Period are more than the volumes handled by the erstwhile cargo terminal, a greater number of employees are required as compared to previous operator. However, the additional employees required to cater to projected increase in cargo volumes will not increase in same percentage terms as the Y-o-Y estimated percentage increase in cargo volumes; as there are various categories of employees, such as, HR, Finance and other employees as part of General Management, whose numbers don't increase in same percentage terms as the projected increase in cargo volumes.

However, as the ISP is operating in a competitive environment, and in order to attract new customers, ISP is expected to exercise cost controls in all of its operating expenditure, including payroll costs, to maintain its operations viable. In this regard, the Authority noted that though as per the ISP, its payroll cost structure is based on the erstwhile operators' payroll structure; however, onetime increase in the salaries of all employees up to 25% proposed during first tariff year and higher Y-o-Y % increase in payroll (16%) considered by the ISP for the first Control Period will increase the payroll expenses significantly.

In view of the above, Authority proposed to rationalize the payroll expenses proposed by MABPL, considering the pay roll expenses of the previous operator for FY 2019-20 (pre Covid Year). The payroll costs worked out by the Authority for the first tariff year i.e., FY 2023-24 for the ISP is as under:

(₹ in crores)

Particulars	**Amount**
Actual Payroll Costs of the previous operator (MABBPL) for FY 2019-20.	33.01
No increased in FY 2020-21 (Covid affected year)	33.01
10% increase considered for FY 2021-22	36.31
10% increase considered for FY 2022-23	39.94
35% increase for FY 2023-24 (annualized)	53.92
Pay roll for FY 2023-24 from 24th May, 2023 to 31st March, 2024)	46.09

The Authority while working out payroll expenses for the first tariff year as per the above Table, considered normal annual escalations in payroll expenses @ 10% p.a. for FY 2021-22 & FY 2022-23. In respect of the FY 2023-24 (first tariff year), the Authority considered 35% overall increase in the payroll costs over previous year, which had been worked out considering 10% increase for annual increments in salaries, 10% towards one time increase in the average salaries (as against 25% proposed by the ISP) for all employees and 15% increase in the payroll expenses due to projected increase in number of manpower on account of commissioning of new domestic cargo terminal building & increase in the projected cargo volumes.

Accordingly, payroll costs for the ISP worked out at ₹ 53.92 crores (annualized) for FY 2023-24 (excluding HO cost allocation), as against ₹ 57.60 crores (excluding ₹ 10 crores HQ's Cost) proposed by the ISP.

As regard to the normal Y-o-Y increase in payroll costs is concerned, the Authority considered 10% annual escalations as proposed by the ISP. However, the Authority had considered 4% Y-o-Y increase on account of projected increase in the Cargo volumes as against the 6% increase on Y-o-Y basis proposed by the ISP. In this regard, the Authority is of the view that payroll costs will not increase in the same proportion as the projected Y-o-Y % increase in Cargo volumes, particularly considering that there are many categories of employees, like top management, employees providing support services viz. HR, Finance, Security Jobs etc., whose numbers don't increase with the projected increase in the cargo volumes. Accordingly, the Authority had considered overall 14% Y-o-Y increase in the payroll costs for the First Control Period from FY 2024-25 onward.

Based on the above analysis, the payroll costs (excluding HQ cost allocation) proposed to be considered by the Authority for the ISP in respect of the First Control Period, is given below:

Table 29: Payroll Costs proposed by the Authority for the First Control Period at CP stage.

(₹ in crores)

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Payroll Cost	46.09	61.47	70.08	79.89	91.07	**348.60**

The Authority solicits specific comments of Stakeholders on the payroll costs projected by the ISP for the First Control Period.

Headquarters Cost Allocation: The Authority noted the submission of MABPL vide email dated 25.05.2023 that ISP being part of the Menzies Aviation group has received the services from headquarters for initial set-up of the business, supervisory over the procurement activities, treasury, legal, technical services, IT services, corporate governance in addition to the travel and accommodation expenses from senior leadership of Head Quarter for various important activities for MABPL.

The Authority noted that MABPL had projected a corporate cost allocation at ₹ 10.00 crores in FY 2023-24, thereafter an increase of 5% Y-o-Y basis. In this regard, the Authority observed that ISP had not submitted calculations for the allocation of corporate cost for MABPL and basis for the proposed Y-o-Y escalation therein. Further, it is observed that ISP had made corporate cost allocation a part of its projected payroll expenses, where normal annual escalation is 10%, as against 5% in HQ's cost proposed by the ISP.

Considering the above, the Authority segregated MABPL's corporate costs allocation from its projected Payroll costs and proposed to rationalize it at ₹ 3 crores in FY 2023-24. However, the Authority proposed to consider the annual escalation in the Head Office Cost allocation @ 5%, as proposed by the ISP.

5.3.2 **Administrative & General Expenses:** The Authority noted that MABPL had proposed 7% increase in Administrative and General cost (except lease rental and cargo marketing cost) considering, increase in Cargo volume, inflation and expansion of the operations, including increase expected in components, such as insurance, travel & conveyance expenses etc.

The Authority, considering the annual increase in expenses due to factors like annual general inflation, increase in level of operations etc., proposed to consider annual escalation in admin. & general expenses 7% on Y-o-Y basis, as proposed by the ISP. The major components of Administrative & General Costs are discussed below:

Travel and Conveyance expenses: The Authority noted that MABPL had proposed ₹ 29.70 crores towards travel and conveyance costs, under the General and Administrative Expenses for the Control Period. In this regard, ISP clarified that ₹ 20.19 crores and ₹ 7.45 crores earmarked for the transportation of MABPL staff & Customs staff respectively, from their residences to work place (cargo terminal) & vice-versa, as the Bengaluru airport is situated almost at a distance of 40 km from the main city. The ISP further submitted that for this purpose of providing pickup and drop facility to Customs & their own Staff, they have hired the services from an outside agency so as to ensure timely reporting of staff at duty place and to avoid any delays in Cargo Handling Services.

Considering that the Bengaluru airport is situated at a considerable distance from the city and the pickup and drop facility provided to the staff of MABPL & Customs is an operational necessity to ensure seamless cargo handling, the Authority proposed to consider travel and conveyance expenses as proposed by the ISP, under the Administrative and General Expenses.

Lease/ Rental Cost: The Authority noted that as per the SPRHA, lease rental is be calculated at the rate of ₹ 468 per sq. mtr. per month for FY 2023-24 and same will be increased by 5% p.a. from FY 2024-25 onward. The Authority further noted that ISP had considered 28440 square meter area of Domestic Cargo Terminal and 29700 square meter area of the International Cargo Terminal, for the purpose of lease rental. The ISP had calculated lease rental for the Domestic Cargo Terminal from 1st April, 2023 & for International Cargo Terminal from 24th May, 2023, which is as per the lease rental agreement. Considering that the lease rental is the part of SPRHA, the Authority proposed to consider lease rental for the First Control Period as proposed by the ISP.

Marketing and Branding Cost: The Authority noted that as per clause 16.2 of SPRHA, Service Provider shall maintain the cargo marketing budget equivalent to 1% (one percent) of its gross revenue as set out in its business forecast. The proceeds of such cargo marketing budget shall be used annually in consultation with BIAL for marketing of Cargo Terminal-1 and its Cargo Handling Services. The Authority observed that MABPL linked the marketing and branding costs to the projected revenue of the ISP, accordingly, the Authority, proposed to consider Marketing and Branding Costs based on the Projected Revenues of the ISP for the First Control Period.

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

"SPRH-1 i.e. MABPL shall reimburse to BIAL the costs incurred by BIAL for providing bond, bank guarantee and any other costs required by customs authorities in relation to its custodianship.

The SPRH-1 shall also be responsible for costs such as penalties, fines, other costs related to custodianship, or any other cost required by Customs"

In the view of the above, the Authority proposed to consider 1% bank charges on bank guarantee on ₹ 60 crores, which is approximately 60 lakhs, and also considered ₹ 15 lakhs payable to Customs department annually, as submitted by ISP for the First Control Period.

IT expenses: The Authority sought clarification about the nature of IT costs considered under the OPEX. In response thereon, MABPL submitted that they had adopted an Airport Community System (ACS) software for which ISP needs to pay 5 Rupees & 24 Rupees for each Airway Bill (AWB) for Domestic and International respectively software vendor, as per tripartite agreement signed between the BIAL, Kale systems and MABPL. As per the ISP, majority of its IT Expenses are in line with the agreement. In addition, IT expenditure includes Enterprise Resource Planning (ERP) cost and software maintenance costs.

In view of the clarification furnished by the ISP, the Authority proposed to consider IT expenses for the Control Period, as proposed by the ISP.

Concession Fee: The Authority noted that as per clause 13.1.1 of Service Provider Right Holder Agreement, MABPL is obliged to pay a Revenue Share of 25% of its Gross Revenue to BIAL in the relevant financial year. The Authority noted that Concession Fee payable to the Airport Operator is linked to the projected Revenues of the Cargo Service Provider. Accordingly, the Authority proposed to consider Concession Fee, based on projected Revenues for the First Control Period, as calculated by the Authority under the Chapter 8 of this Consultation Paper.

5.3.3 **Repair and Maintenance expenditure:** The Authority noted that MABPL had proposed 15% Y-o-Y increase in the Repair and Maintenance expenditure, during the First Control Period. In response to AERA query on the 15% Y-o-Y increase in R&M Expenses proposed by MABPL. the ISP submitted that new additions in capital expenditure are proposed in both Domestic and International cargo operations which will result in increase in the repairs and maintenance expenditure. In addition to above, MABPL will be constructing a Greenfield domestic cargo terminal with an area of 22,734 sq. mtr. which as per the ISP will also lead to increase in R&M expenses.

The Authority observed that in respect of the international operations. ISP had proposed the replacement of most of its old equipment in FY 2023-24 (first tariff year). Considering the replacement of old Equipment/ other Assets, the repair & maintenance costs should reduce drastically. As regard to domestic cargo handling operations, ISP is constructing new domestic Cargo Terminal and with provision of new dedicated equipment & other systems for new terminal. Considering that the new cargo building & allied infrastructure will be initially under the defect liability period and material handling system/ equipment will be under warranty period etc., it should result in significantly lower repairs and maintenance expenses of new domestic cargo terminal. In view of the above, the Authority expected R& M expenditure should be much lower, at least in the initial years of the Control Period.

Further, the Authority included the all-inclusive comprehensive maintenance charges (AICMC) for 5 years costing around ₹ 5.15 crores in respect of the International Material Handling System under the Repair and Maintenance costs from FY 2025-26 onwards (after 2 years of defect liability period), which the ISP considered as CAPEX for FY 2023-24. The Authority spread ₹ 5.15 crores AICMC in the five tariff years, starting from FY 2025-26, at annual charge of ₹ 1.03 crores. This resulted steep increase in R&M Costs in FY 2025-26 by @ 30%.

In view of the above, in order to rationalize R &M Costs of the ISP, the Authority proposed normal annual escalation in R&M Expenses @ 7% p.a. as against 15% Y-o-Y increase proposed by the ISP for the First Control Period.

5.3.4 **Utility Costs:** The Authority noted that MABPL had proposed 11% Y-o-Y increase in utility expenses considering the increase in area of cargo terminal, due to construction of the new cargo terminal building and refurbishment works in the existing terminal, which is expected to consume substantial electricity and water.

The Authority observed that the utilities expenditure considered by the ISP include the charges for consumption of Water, Electricity and Fuel. Further, ISP considered the unit rates of the utilities based on their industrial rates, as decided by the Airport Operator. The Authority views that utility expenses are significantly corelated with the handling of Cargo Volumes. As the projected cargo volumes increase on Y-o-Y basis, it is expected that the consumption of utilities will also increase. In view of the above, the Authority proposed to consider Y-o-Y increase of 11% in utilities expenses as proposed by the ISP.

5.3.5 **Return on Security Deposit (SD):** The Authority noted that as per SPRHA, ISP is required to pay ₹ 50 crores of interest free refundable Security Deposit to the Airport Operator for the concession period. In its MYTP submission, ISP had proposed Security deposit as a part of its RAB. As regard to Return on Interest Free Security Deposit, the Authority proposed to consider 5% Return per annum, as per the AERA's consistent approach in this regard. The Authority, accordingly, proposed to exclude SD from the RAB of the ISP for Aggregate Revenue Requirement (ARR) Calculations.

5.3.6 The Authority noted that ISP in its MYTP submission had considered its general expenses under the CAPEX. On examination of general expenses, it observed that most of the expenses such as hiring of the Management, Business Development Costs, Office expenses, etc. are in nature of Revenue Expenditure. Therefore, the Authority had considered general expenses under the O&M expenditure in FY 2023-24.

5.3.7 Based on the review and analysis of Operating Costs projected by the ISP, the Authority proposed to consider OPEX for the First Control Period as per Table given below:

Table 30: OPEX proposed by the Authority in respect of MABPL for the First Control Period at CP stage.

(₹ in crores)

Particulars	FY 2023-24*	FY 2023-24 (Annualized)	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Payroll Expenditure	46.09	53.92	61.47	70.08	79.89	91.07	**348.60**
Headquarters Cost	2.56	3.00	3.15	3.29	3.47	3.65	**16.14**
Administrative & General expenditure	46.07	53.89	53.78	57.86	62.20	66.89	**286.80**
Repairs and Maintenance expenditure	3.50	4.09	4.38	5.72	6.03	6.39	**26.02**
Utilities costs	3.50	4.09	4.54	5.04	5.60	6.21	**24.89**
General expenses	1.50	0.00	0.00	0.00	0.00	0.00	**1.50**
Revenue Share/Concession fee	36.42	42.57	53.53	63.86	74.01	86.01	**313.83**
Total O&M cost	**139.64**	**161.56**	**180.85**	**205.85**	**231.21**	**260.22**	**1017.77**

** From 24th May, 2023 to 31st March 2024.*

5.4 **Stakeholders' Comments on Operating & Maintenance Expenditure.**

5.4.1 **FIA's Comments:** FIA regarding proposed Operation & Maintenance Expenditure submitted that:

"It may be noted that across various industries, instead of cost escalations, all the costs have been renegotiated downwards substantially. It may also be noted that cost incurred by MABPL impacts the airlines, as such cost is passed through or borne mostly by the airlines. In order to ensure that there is no adverse impact/increase in the tariff, we request AERA to kindly put on hold any increase in O&M Expenses by MABPL not related to safety or security.

In view of the above, FIA submits that:

(i) ***Payroll Costs:*** *The Y-o-Y increase after 2023-24 may not be more than approx. 6%, in line with recent proposals of AERA in other consultation papers for other airports, rather than the proposed Y-o-Y high increase of 14% from 2024-25 onwards.*

(ii) ***Administrative & General Expenses, Repair & Maintenance Expenditure, Utility Expenses:*** *The Y-o-Y increase after 2023-24 may not be more than approx. 5%, in line with recent proposals of AERA in other consultation papers.*

(iii) ***Repair & Maintenance Expenditure, Utility Expenses:*** *The Y-o-Y proposed increase is 11% and 7% in Utility and Repair and Maintenance expenditure, respectively. The Y-o-Y increase after 2023-24 may not be more than approx. 5%, in line with recent proposals of AERA in other consultation papers.*

In view of the above, MABPL may be directed to reduce the Aggregate Revenue Requirement, so that it can be beneficial and cost effective to all stakeholders including the main users i.e., the airlines."

FIA, in respect of Abolishment of Royalty Charges/ Concession Fee submitted that:

"Any attempt to award the contracts by the airport operator on the highest revenue share basis should be discouraged as it breeds inefficiencies and tends to disproportionately increase the cost. It is general perception that service providers have no incentive to reduce their expenses, as most of any such increase would mostly be passed on to the airlines/stakeholders through the tariff determination mechanism process, and indirectly the airlines would 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.

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. These charges are mostly passed on to the airlines by the airport operator or other services providers.

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. Sometimes it is argued by the airport operators that 'Royalty' on 'Aero Revenues' helps in subsidizing the aero charges for the airlines, however royalty in 'Non-Aero Revenues' hits the airlines directly without any benefit.

We humbly submit the following:

i. The rates of royalty (Revenue Share/Concession Fee) at BIAL as mentioned in the Consultation Paper by MABPL for Cargo Services is 25% of Gross Revenue to the Airport Operator.

ii. In this regard, kindly refer to the submission of FIA to AERA dated 30th July 2021 in response to AERA consultation paper No. 11/2021-22 dated 02 July 2021 for determination of aeronautical tariffs *in respect of Rajiv Gandhi International Airport, Shamshabad, Hyderabad for the Third control Period.*

In this submission, FIA had submitted that the royalty charges are passed on to the airlines by the service providers, without any underlying services, and further, that 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. FIA had requested in the afore-mentioned consultation paper to abolish such royalty which may be included in any of the cost items - aeronautical and non – aeronautical.

iii. *In repose to the above-mentioned submission by FIA, AERA had mentioned in the tariff order No. 12/2021-22 dated 31st August 2021 that AERA had noted FIA's comments on royalty and cargo tariff and would take the suggestions into account while determining the said tariff for the Independent Service Provider.*

iv. *Accordingly, in response to the consultation paper No. 21/ 2021-22 dated 14/10/ 2021 for determination of tariff for the Third control period (FY 2021-22 to FY 2025-26) in respect of M/s Globe ground India Pvt. Ltd. (GGIPL) for providing ground handling services at RGIAL, SpiceJet in its response dated 28 October 2021 to the said consultation paper had submitted that 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. SpiceJet had further reiterated and urged AERA to abolish such royalty (24% in the case of GGIPL) which may be included in any of the cost items.*

v. *However, AERA had in its tariff order no. 31/2021-22 dated 23rd December 2021 noted that it considers the process of "Award of Contract" as non-regulatory in nature and is of the view that all such issues, including royalty share to Airport Operators, may be taken up by the Stakeholders with the Service Providers/Airport Operators in appropriate forums.*

vi. *Similar observations have been made by AERA in other consultation paper for determination of aeronautical tariff (example Ahmedabad tariff Order No. 40/2022-23 dated 18th January 2023, in reference to consultation paper number No 10/2022-23 dated 20th October, 2022), wherein AERA has noted that it has a separate tariff determination process for service providers providing Cargo, Ground Handling and Fuel Supply to aircraft where the royalty charges are addressed alongside a rigorous Stakeholders' consultation process.*

vii. *However, when the issue of royalty is taken up at the time of tariff determination process for service providers providing Cargo, Ground Handling etc., AERA has noted (refer tariff order 32/2022-23 dated 29th December 2023 in regard to determination of tariff for cargo handling services for M/s CDCTM at IGIAL) that the Concession Fee paid by the ISP to the Airport Operator is as per the Concession Agreement executed between the Service Provider and the Airport Operator, and further that AERA was of the view that bidding process to award such contracts, based on which ISP pays Revenue Share to Airport Operator, is a non-regulatory issue and such matters may be dealt between the stakeholders at the appropriate forum.*

viii. *Thus, it is observed that while AERA mentions that it has noted comments on royalty and would take the suggestions into account while determining the tariffs for independent service providers like CGF etc., at the time of issuing that tariff order, AERA decided that:*

a. Royalty is a non-regulatory issue, and such matters may be dealt between the stakeholders at the appropriate forum.

b. This is a matter between the Independent Service Providers and the Airport Operator as per their agreement and that this is non-regulatory matter in nature.

Sir, it is humbly requested that royalty charges may please be abolished, whether be it for aeronautical and non – aeronautical services, as royalty when allowed by AREA as a fundamental concept on aero charges becomes an allowable charge, the concept of which is then extended by non-aero service providers like in-flight caterers, etc. and applied on airlines and drives up the cost of the airlines. These charges are mostly passed on to the airlines by the service provider without any underlying benefits, which is against the preamble of the National Civil Aviation Policy 2016 for increasing efficiency of airlines and reducing cost. Thus, we once again humbly submit and urge AERA to abolish such royalty which may be included in any of the cost items."

5.4.2 **BIAL's Comments:** BIAL in its comments relating to the payroll costs of MABPL submitted that:

"Upon examining the cost of personnel for MABPL in the CP, BIAL believes the initial cost was already cost efficient as compared to the market standards based on the cost per MT metric. In the SPRH, BIAL has included several provisions with respect to the quality of cargo operators service offerings. Hence it is imperative for the cargo operator to invest in skilled and talented labour forced to maintain and improve the level of safety, security, and service quality. It is therefore essential that MABPL be allowed its initial cost of INR 57.6 cr.

Further, BIAL would request the Authority to consider the costs for FY24 from 1 May 2023, rather than 24 May 2023. The quantum of operations – both domestic and international is large enough and a transition period of a meagre 23 days is essential for training and familiarization of the new employees and the company."

MABPL's comments on the Operation & Maintenance Expenditure projected for the First Control Period

5.4.3 **Payroll Costs:** In its Comments on Base Personnel Cost excluding Corporate HQ cost for FY24 and annual escalation in personnel cost, MABPL has submitted the followings:

i. "The payroll expenses need to provide fair compensation to various personnel that handle the day-to-day operations at the cargo terminal.

ii. The annualized base cost of INR, 57.60 cr. for FY24 estimated by MABPL, was done so while keeping in mind the hyper-inflationary environment between FY21-FY23, market standards, the zero-compensation growth in FY20 and the competitive talent market.

iii. MABPL firmly believes in delivering quality service and hires the workforce with the right skill set to maintain its operations. The one-time increase of 10% provided by the Authority needs to be revised to compensate the employees for zero appraisal in the Covid year and to retain and maintain the region/industry salary standards to ensure the optimum functioning of the cargo terminal.

iv. MABPL submits that due to the unique set-up of their Cargo Terminals at the Bengaluru Airport, wherein the international and domestic cargo terminal operations would be divided between two terminals located 2 km apart, MABPL would require dedicated staff at each terminal for efficient *functioning as cross-utilization of manpower and equipment is not practically feasible. Therefore, MABPL would request the Authority to allow the annualized base cost of INR 57.60 cr. for FY24.*

v. *Further, MABPL would highlight to the Authority that MABPL's average salary per employee is lower than the market average. The Table below shows a comparison between expenses per employee at MABPL and GHAC, Hyderabad:*

GHAC	***Ref. (Order no. 04/ 2023-24)***	***2024***	***2025***	***2026***
Payroll cost (INR cr.)	*Table 16*	*36.63*	*41.99*	*48.05*
Employees	*Table 14*	*710*	*750*	*790*
Average salaries (INR lakhs)		*5.16*	*5.60*	*6.08*

MABPL	***Ref.***	***2024 (annualized)***	***2025***	***2026***
Payroll cost (INR cr.) (Excluding CHQ Cost)	*Table 14 of MYTP document*	*57.6*	*66.7*	*77.4*
Total payroll cost (INR cr.)		*57.6*	*66.7*	*77.4*
Employees	*Table 13 of MYTP document*	*1487*	*1569*	*1659*
Average salaries (INR lakhs) (Excl CHQ cost)		*3.87*	*4.25*	*4.66*
% difference from GHAC		*-25%*	*-24%*	*-23%*

vi. *MABPL would also like to point out that the personnel cost has been considered by the Authority for the period from 24 May 2023 (which represents the actual date of handover of operations from MABB to MABPL) to 31 March 2024. However, MABPL would highlight to the Authority that for a smooth handover and transition, it would require adequate advance planning and preparation. Accordingly, MABPL had proposed that around 110 employees will be on its roll from 1st April 2023 onwards instead of 24 May 2023. Accordingly, MABPL would request the Authority to consider the payroll costs from 1st April 2023 onwards.*

vii. *MABPL would also like to draw Authority's attention to clause 5.7.5 of Order No. 13/2023-24 released on 09/08/2023 in the matter of 'Determination of Tariff for WFS Private Limited providing Cargo Handling Services at Kempegowda International Airport, Bengaluru for the First Control Period'. The Authority has analyzed and noted that despite considering an annualized payroll expenses of INR 67.6 cr for FY24 inclusive of the INR 10 cr. for the intercompany expenses, MABPL's employee expenses per MT of cargo handled is almost 19% lower than that of its competitor. This shows the level of efficiency with which MABPL has built its workforce and also the cost-cutting measures that are a result of having a centralized support system (discussed in the next point).*

viii. *Based on the rationale provided above, MABPL requests the Authority to allow the annualized base cost of INR 57.6 cr. for FY24 and, consider the payroll cost from 1 May 2023 onwards."*

5.4.4 **Headquarters Costs Allocation:** MABPL, in respect of its head office cost allocations proposed by AERA, submitted as under:

i. *"MABPL strongly recommends the Authority revisit its treatment of the CHQ costs.*

ii. *Menzies group operates cargo stations in more than 60+ Countries and serves more than 250+ airports globally. To ensure efficiency, quality, and consistent global policy at each of these 250+*

airports globally in a highly cost-effective manner. Menzies Group has formed a centralised support system. That's because deploying a local support team at each airport that performs the same functions would obviously result in a higher overall cost when all airport stations across the globe are combined. However, the central spine of all the operations needs to compensate through a reasonable fee from the subsidiaries for providing these services. The CHQ costs are allocated on an equitable basis across all airport stations.

iii. *For MABPL to work efficiently, the CHQ provides services with respect to its employees with subject matter expertise, Enterprise Resource Planning (ERP) software, a global reporting system - OneStream, cargo handling manuals and other standard operating procedures. In addition to these, the CHQ provides cargo training modules relating to AvSec, dangerous goods, valuable cargo etc., for the on-site staff whose certification is required as per aviation regulatory agencies.*

iv. *The CHQ provides these services as a package to MABPL, and thus, it is very difficult to provide the break-up of the cost for each of the services. However, MABPL has undertaken an exercise to determine the cost it will incur if it procures these services individually to determine the cost savings on an overall basis to compare it with the CHQ costs.*

S.No.	***Cost Heads***	***Resulting Cost Savings per year***
1	*ERP*	*INR 4.0 cr. One-time implementation cost and recurring/license fee of 50 Lakhs per annum if procured locally, resulting in cost savings of INR 1.3 cr. Per year with amortized ERP cost*
2	*IT related expenses/Time and Attendance software*	*INR 1.5 cr., if procured locally*
3	*Staff with subject matter expertise, key accounts managers,*	*INR 4 cr. consultancy/ new employees cost for the subject matter expertise provided by CHQ*
4	*Global reporting system Onestream*	*INR 0.5 cr. if procured individually*
5	*Training Modules/Trainers/SOPs*	*INR 1.5 cr., if procured locally*
6	*Cargo Manuals, CHQ Training Modules,*	*INR 1.5 cr., if procured locally*
	Total	***INR 10.30 cr. per annum (After amortizing one time cost of ERP)***

v. *As seen from the Table above, the cost savings for MABPL with respect to these services, if procured locally/ individually, is more than the cost charged by CHQ, justifying the cost-effective nature of the CHQ services.*

vi. *MABPL submits to the Authority that the proposed CHQ costs charged by the parent company will be on an arms-length basis in compliance with the transfer pricing regulations in relation to such transactions. Therefore, the CHQ costs proposed by MABPL are reasonable.*

vii. *Further, MABPL has submitted a letter from the headquarters (confidential and not to be shared in the public domain) justifying the CHQ cost and providing the benchmarks across its subsidiaries in India. MABPL would highlight that the CHQ cost proposed is in line with its subsidiaries.*

viii. *On the comparison of the payroll cost with its competitor, the Authority has itself established that even after considering a cost of INR 10 cr., the total payroll expenses, including CHQ costs, are significantly lower than that of its competitor per ton basis showing efficiency in MABPL's payroll costs (refer 'Point iv of MABPL's Proposal on Payroll Expenses').*

ix. *MABPL would also request the Authority to allow an annual increment of 10% instead of the 5% for the CHQ cost considering the annual escalation, payroll revision and cost of inflation.*

x. *Based on the above, MABPL requests the Authority to allow the annualized CHQ costs at INR 10 cr. in FY24 with annual increment of 10% over the control period."*

5.4.5 **Repairs & Maintenance Expenditure:** In its comments relating to the projected Repairs & Maintenance expenditure, MABPL submitted the followings:

i. *"We are in an inflationary phase globally. Hence, the cost of parts of the equipment sourced from India as well as imported from other countries, are expected to increase on account of the inflation in addition to the labour and service costs.*

ii. *Due to the rapidly changing technology landscape and cybersecurity concerns, MABPL anticipates changes to the security requirement from BCAS from time to time and has assumed the same in the proposed escalation in the R&M costs.*

iii. *MABPL believes in thorough preventive maintenance, which is cost-effective in the long term from savings in the capital expenditure or high R&M cost in one year. This cost has been considered while proposing the escalation in R&M costs.*

iv. *MABPL would also highlight that in addition to the above factors, the equipment will be catering to a year-on-year increase in the cargo traffic, which will result in additional R&M cost.*

v. *Furthermore, if viewed from the perspective of total RAB (after excluding the security deposit), the total R&M cost is much lower than the 6% benchmark the Authority has approved for other airports. This is, in part, attributed to the newness of the equipment, as rightly pointed out by the Authority, but also is accredited to the standard operating procedures and manuals created by the MABPL CHQ, which, through the rigorous experience of multiple airports, has been able to devise workflows in a way to maximize the utility of each equipment and component of the Cargo Terminal's infrastructure.*

vi. *Reducing the R&M costs to a 7% Y-o-Y escalation effectively reduces it to a real increase of less than 2% Y-o-Y as the Authority has cited an inflation of 5.1% in its recent orders. As the control period progresses, the real increase of ~1.9% in R&M costs will be unreasonable, especially considering the base figure of INR 3.50 cr. in FY24 to be so low (on account of new infrastructure).*

vii. *MABPL would also like to draw the Authority's attention to the fact that while a large chunk of infrastructure is new, certain assets are being inherited from the previous cargo operator. At this point, the valuation of assets is underway, and the same will be submitted in due course of time. It is essential that this factor must not be ignored that old / existing asset will demand a higher R&M cost, and normalizing it with the supposed R&M cost on new assets is unfair.*

viii. *MABPL would further like to point out clause 5.7.8 of Order No. 13/2023-24 released on 09/08/2023* *in the matter of 'Determination of Tariff for WFS Private Limited providing Cargo Handling Services at Kempegowda International Airport, Bengaluru for the First Control Period'. While being on a similar scale and level as MABPL in terms of the newness of assets, the Authority has approved a higher (11%) R&M cost escalation in the second half of the control period.*

ix. *Accordingly, MABPL requests Authority to consider 15% y-o-y escalation in the R&M cost."*

5.4.6 **Total Operating & Maintenance Expenditure:** As regard to total operating expenditure proposed by the Authority for MABPL, the service provider in this regard submitted the followings:

i. *"MABPL would like to draw Authority's attention to clause 8.5.5 of Order No. 13/2023-24 released on 09/08/2023 in the matter of 'Determination of Tariff for WFS Private Limited providing Cargo Handling Services at Kempegowda International Airport, Bengaluru for the First Control Period. The Authority has stated that the two operators – MABPL and WFSBPL have been awarded similar concessions by the same airport operator (on similar conditions) and hence, MABPL would like to cite the comparison between the two as stated by the Authority since the two are comparable.*

ii. *MABPL's OPEX per MT, when considered as is (as per the MYTP submission) is substantially lower (~56%) as compared to its counterpart WFSBPL. The comparison between the proposed expenses by MABPL and those approved for WSFBPL show that the proposed structure by MABPL is competent, efficient and best in the market. Since the Authority verifies WFSBPL's costs, MABPL will therefore like to reiterate its request of allowing the proposed expenses by MABPL:*

a. *Base Personnel Cost for FY24 at INR 57.6 cr.*
b. *CHQ cost at INR 10 cr.*
c. *Payroll costs being approved from 1 May 2023.*
d. *CHQ costs annual growth rate at 10%.*
e. *Escalation in R&M costs of 15% y-o-y."*

5.4.7 **Comments of Menzies Aviation Limited (MAL), London:** The Parent company of MABPL in its comments relating to allocation of Corporate Headquarters' Costs to MABPL & Personnel Cost submitted as under:

"In order to manage such a vast network of services across airports, we have curated a team of highly skilled, exceptional people to bring in a streamlined workflow that outlines a systematic approach to offering services. The services rendered by us involve technical expertise and supporting in implementing global best practice which makes us a world leader, as it forms the central nervous system of our operations across the globe.

A centralized team offers these support services, which are not limited to

1. *A systematic approach to creating processes, standard operating procedures and workflows.*
2. *Leveraging global expertise in policy framework and thought leadership.*
3. *Utilizing key learnings across airports.*
4. *Cost saving through less on-site support staff.*
5. *Lower manhour expense due to more efficient processes.*

6. *Bringing new technologies from around the globe.*
7. *Training modules on aviation security for its staff.*
8. *Efficient procurement process through global knowledge depository.*

In addition to the above, there are subject matter experts and key account managers in our role to support our business globally. Their related costs will form part of the CHQ cost.

Accordingly, CHQ incurs significant costs in providing these services. These costs need to be compensated for the services provided by us. Therefore, as a standard practice, the costs incurred at the CHQ are allocated at an equitable basis across the airports where we render our services.

CHQ will provide MABPL services with respect to its employees with subject matter expertise, Enterprise Resource Planning (ERP) software, a global reporting system - Onestream, cargo handling manuals and other standard operating procedures. In addition to these, the CHQ provides the cargo training modules relating to AvSec, handling of dangerous goods, valuable goods etc., Regulatory and CHQ trainings for the on-site staff.

In addition to the above, CHQ provides services in totality as a package to MABPL and thus, it is practically difficult to provide the break-up of the cost for each of the services. However, the transaction between the CHQ and MABPL will be on an arms-length basis complying with the applicable transfer pricing regulations. Therefore, the CHQ costs proposed are properly justified and reasonable for the kind consideration of the Authority.

It is further submitted to the Authority that, in our erst while joint ventures in India for cargo and Ground Handling services had the similar CHQ cost allocation practice. It is pertinent to bring to your kind notice that similar costs were incurred by the earlier Menzies Cargo Joint venture at Bangalore. Therefore, the proposed annualized base cost for FY24 of INR 10.0 cr. is reasonable.

Hence, we would request the Authority to allow the CHQ cost as proposed in MABPL's submission."

Menzies Aviation Limited, further commented regarding the Payroll Costs of MABPL as under:

"Menzies would highlight to the Authority that, based on Authority's analysis itself, MABPL's personnel costs are significantly lower than our competitor when considered on a per MT basis. Further, rationalizing the costs is not possible on account of the highly skilled work force that MABPL relies upon to perform the required services and maintain adequate service quality. Therefore, Menzies request the Authority to allow INR 57.6 cr. as the annualized base personnel cost for FY24 for MABPL.

Menzies would reiterate the importance of the tariff order from the perspective of MABPL's sustainability and reasonable rate of return to the shareholders who have committed significant investment. The decisions of the Authority are important from the perspective of the attractiveness of India's cargo business to the global cargo players such as Menzies. Therefore, we request the Authority to consider the above aspects while finalizing the final tariff order. The fair and consistent treatment of the Authority to the cargo operators will allow Menzies to build a viable and sustainable business that not only meets the market expectations, but also set a new bar of service quality and business integrity."

5.5 Counter Comments of MABPL:

5.5.1 In response to FIA's comment on Abolishment of Royalty Charges/ Concession Fee', ISP has submitted that:

"MABPL would like to highlight that the revenue share is as per the SPRH agreement entered by MABPL with BIAL for providing the cargo services at Bangalore Airport. This is also in line with the Order issued by the Authority - In the matter of Capping the percentage of Royalty/Revenue Share payable to Airport Operator as a "Pass Through" Expenditure for the Independent Service Providers providing Cargo facility, Ground Handling and Supply of Fuel to the Aircraft at Major Airports.

MABPL does not wish to comment on this as 'Abolishment of Royalty Charges/ Concession Fee' is a non-regulatory matter and falls outside the scope of this discussion."

5.5.2 Further, in response to FIA's comment on Operating & Maintenance Expenditure (O&M Expenses), ISP has submitted that:

"MABPL disagrees with the claim of 6% Y-o-Y increase in total personnel cost because it neither takes into account the annual hikes nor the increase in manpower. MABPL would reiterate its proposal for 16% Y-o-Y increase in manpower expenses based on standard 10% Y-o-Y increase in salaries and 6% Y-o-Y increase in manpower in line with the cargo traffic forecast. Not compensating employees in line with industry standards leads to employee dissatisfaction and retention issues within the workforce. The proposed growth rates are also in line with the growth rates approved for other cargo operators.

As for administrative, repairs and maintenance and utility expenses, normalizing other operators O&M growth rates with MABPL's cargo operations without contextualizing is not apt.

MABPL would also like to draw attention to the fact that R&M is benchmarked at 6% of RAB at other airports, whereas MABPL's is substantially lower. Also, R&M cost in FY24 is significantly low on account of new infrastructure.

Similarly, for utility expenses, MABPL has based its estimates in line with the industrial rates, expansion in the cargo handling infrastructure and the growth in cargo volumes – which is the consistent practice across ISPs.

Components of administrative and general expenses have also been forecasted based on a host of factors such as expansion of the operations, inflation, traffic etc. Taking into account all the factors, the annual increase of ~11% is appropriate.

MABPL would like to reiterate the clause 8.5.5 of Order No. 13/2023-24 released on 09/08/2023, where a comparison was done between the two operators at Bangalore Airport. It clearly depicts the efficiency of O&M at MABPL on per MT basis."

5.5.3 In response to BIAL comment on cost of Personnel, ISP has submitted that:

"In line with the vision of introducing market efficiencies and global quality standards, MABPL had worked rigorously to find the talent that could bring to life BIAL's vision. As mentioned rightly by our respected Airport Operator, while this talent is among the best and the brightest, they need to compensated as per market standards. Further clamping down would hinder MABPL's capability to

fairly compensate and therefore retain its workforce, which can seriously hurt the cargo operations at BIAL."

5.6 Authority's Analysis of the Stakeholders' Comments on the Operating Expenditure:

5.6.1 As regard to the comments of FIA regarding abolishment of Royalty Charges, payable by the ISP to the Airport Operator, the Authority notes that the Concession Fee paid by the ISP to the Airport Operator is as per the Concession Agreement executed between the Service Provider and the Airport Operator. The Authority, in its various Tariff Orders in respect of the ISPs, has spelt out its consistent view that bidding/tender process to award such contracts, based on which ISP pays Revenue Share/ Royalty to the Airport Operator, is a non-regulatory issue and such matters may be dealt in between the stakeholders at an appropriate forum.

It is pertinent to mention that as per the AERA's regulatory approach, the royalty/ revenue share paid by the ISPs to the Airport Operators is treated as aeronautical revenues; hence, such revenues directly help in subsidizing the Aeronautical Tariff levied by Airport Operators to the Airlines. Accordingly, the airlines are getting compensated for royalty/revenue share payable by the ISPs to the Airport Operators by way of lower 'Aeronautical Charges' payable by the airlines to the airport operators.

So far as the comments of FIA relating to royalty charges payable by the service providers to airport operators on the non-aeronautical services, such as in-flight catering; the Authority is of the view that as these services are non-aeronautical and outside the purview of the tariff determination. Hence, such matters may be dealt appropriately among the concerned stakeholders.

5.6.2 As regard to comments of FIA regarding the Y-o-Y increase in payroll expenses may not be more than 6%, the Authority is aware that Cargo Handling is a specialized job and it requires skilled & trained manpower as per the BCAS guidelines for safe & secure cargo handling operations. Considering the periodic increase in minimum wages & annual increments in salaries, contributions to statutory components such as PF etc., the Authority considers that 10% normal increase in payroll expenses on Y-o-Y basis is reasonable.

Further, taking into account the projected increase in the cargo volumes, the ISP will require additional manpower to cater to projected increase in Cargo Volumes (6% p.a.) However, as per the Authority, additional manpower will not be required in the same proportion as the projected increase in Cargo Volumes, since there are many categories of employees, such as top-level management, employees working in the supporting departments like HR, Finance, Security etc., whose numbers will not increase in same percentage terms as the projected increase in cargo volumes. Therefore, the Authority at CP stage has proposed to consider increase in payroll costs, due to deployment of additional manpower, at 4% on Y-o-Y basis (as against 5% to 6% Y-o-Y basis considered by the ISP). In view of the above, the overall annual increase in payroll costs (10% + 4% = 14%) in respect of the ISP, proposed by the Authority for the First Control Period at CP stage is reasonable. Accordingly, the Authority decides to maintain the same view in respect of yearly % increase in payroll costs as was taken at CP stage (i.e. 14% increase p.a.).

5.6.3 In respect of the FIA's comments regarding the Y-o-Y increase in Administrative and General expenses may not be more than 5%. The Authority notes that the ISP in its MYTP submission has considered Y-o-Y increase of 7% while projecting Administrative & General Costs for the Control Period, from FY 2024-25 onward. Considering the Y-o-Y growth in cargo business estimated by the

ISP @ 6% and taking into account the impact of general inflation, the Authority considers Y-o-Y increase in Administrative & General expenses @ 7% p.a. proposed by the service provider as reasonable. Accordingly, the Authority decides to consider same Y-o-Y % increase in the projected Admin. & General Expenses, as was proposed at CP stage (i.e, 7% p.a.).

5.6.4 The Authority notes the comments of FIA regarding Repair & Maintenance Expenses and the response thereon by the ISP. The Authority observes that MABPL has proposed major CAPEX on the construction of Greenfield Domestic Cargo Terminal and the procurement of new cargo handling equipment/systems. The Authority observes that the major renovation & restoration of the existing Cargo Infrastructure, a significant CAPEX is being undertaken by MABPL and the service provider is also procuring new equipment as a replacement of old equipment which have completed their normal useful life.

Accordingly, the ISP is likely to operate with mostly new equipment and with renovated/upgraded Cargo Infrastructure, particularly during the initial years of the Control Period. As per the Authority, considering that the new equipment & material handling systems etc. are generally carry warranty clause for few years; similarly, the greenfield Domestic Cargo Terminal will also be under free defect liability period for few years, accordingly it will not require much repair and maintenance during the initial years of operations. Hence, the R&M costs are expected to be comparatively lower during the initial tariff years of the Control Period and as the equipment ages & due to higher wear & tear etc., the R&M expenses are expected to increase during the later years of the Control Period.

Considering the above, the Authority decides to consider Y-o-Y increase in R&M Expenses @ 7% in FY 2024-25 & FY 2025-26 and @ 11% p.a. for the FY 2026-27 & FY 2027-28, as against uniform increase in R&M Expenses @ 7% p.a. proposed by the Authority at CP stage.

5.6.5 The Authority notes the comments of MABPL regarding base payroll cost and one-time 10% increase in salaries for the FY 2023-24 proposed by the AERA at the CP stage. As regard to the base payroll expenses (FY 2023-24) proposed by the AERA at CP stage; the Authority, had examined the payroll costs proposed by the ISP for the Control Period in detail (refer Para 5.3.1 of CP) and broadly agreed to the ISP's submission on the payroll costs.

However, the Authority differed with the ISP submission on payroll costs on the two points i.e., (i) Percentage (%) of increase in payroll costs on Y-o-Y basis due to induction of additional manpower (on account of projected increase in cargo volumes) and (ii) Proposed one-time increase in salaries for all employees up to 25% in the FY 2023-24 (first tariff year) proposed by the ISP.

With respect to the point no. (i), the Authority has explained its viewpoint above (Para 5.6.2), in context of FIA's comments (refer Para 5.4.1). In respect of point no. (ii), the Authority at CP stage observed (refer Para 5.3.1) that the MABPL has considered one-time increase in salary for all categories of employes, which was over and above the base payroll costs worked out by the ISP for various category of employees. Though, MABPL informed that it had considered the payroll cost for the first tariff year based on the payroll cost/pay structure of the previous cargo terminal operator; however, ISP in its proposed payroll costs for FY 2023-24 (first tariff year) had factored-in one-time increase in salaries for all employees up to 25%.

5.6.6 Considering that the ISP is operating in a competitive environment, in fact as per the ISP's own submission it has lost one key customer recently which has impacted its cargo volumes significantly; in such a situation to remain competitive and to offer services to its customers at reasonable &

competitive rates, the ISP requires to rationalize its operating expenditure, including payroll costs, so as to remain competitive, particularly during the initial years of the Control Period.

In view of the above and taking into account the views of stakeholder representing airlines, the Authority decides to maintain the same view regarding the one-time increase in salaries for all employees as was taken at the CP stage (i.e. 10% one-time increase in salaries during first tariff year as against 25% proposed by the ISP). Further, it is informed that the Authority has considered one-time increase in salaries @ 10% in FY 2023-24 (first tariff year) for the other service provider at Bengaluru airport i.e., WFSBPL (Order no. 13/2023-24 dated 09.08.2023). Thus, the Authority has maintained parity on this issue for both the cargo terminal operators, at the Bengaluru airport.

5.6.7 The Authority also notes the comments of MABPL and BIAL that the Personnel Costs may be considered by AERA in first tariff year (FY 2023-24) beginning from 1st April, 2023 instead of 24th May, 2023 (COD). The Authority finds merit in the ISP submission that it required some employees in advance for a smooth takeover and transition of the cargo operations from the erstwhile operator. Therefore, the Authority has recomputed the pay roll costs in respect of the ISP for the FY 2023-24, by considering additional payroll expenses in respect of the 110 nos. of employees, w.e.f. from 1st April, 2023 to 23.05.2023, as submitted by the ISP in its comment.

5.6.8 MABPL, as part of its comments on the CP, has compared its payroll costs with that of GMR Hyderabad Air Cargo (GHAC), Hyderabad. As per the Authority, it is not appropriate to compare cost structure of the service providers operating at different airports, as each service provider operates at a given airport with its unique business model, including different operating strategy on the financial and operating parameters including CAPEX, OPEX, Traffic Volumes, Market Share etc. Further, service providers operate as per the terms & conditions of their agreements with the airport operators, which again may differ from airport to airport.

5.6.9 As regard to the comments of the ISP relating to Y-o-Y % increase in Repair & Maintenance Expenses for the Control Period. FIA has also commented on this issue and the Authority, has covered the aspect of Y-o-Y increase in R&M Expenses for the ISP in respect of the First Control Period for MABPL at Para no. 5.6.4.

5.6.10 The Authority notes the comments of MABPL and Menzies Aviation Limited (MAL), London regarding Headquarters Costs allocation to the ISP for its First Control Period. The Authority, at CP stage observed that ISP had not submitted any calculation for the apportionment of its Head Office Costs. In its comments, MABPL has given the generic basis of allocation of its Head Office Costs based on certain assumptions. The ISP informed that it is very difficult to provide the break-up of the costs for each service provided by the Headquarters. The Authority observes from the ISP/MAL submissions that Menzies Group operates cargo stations in more than 60+ Countries and serves more than 250+ airports globally. Accordingly, the Authority expects that Menzies Aviation Limited, Headquarters allocates its common costs to operating units, based on some established parameters, such as, revenue generated by the respective units etc. In the absence of any calculation/detailed justifications for the apportionment of the Headquarters costs to subordinate companies, the Authority finds it difficult to assess the reasonability of the costs allocated to MABPL for its Bengaluru Operations. However, the Authority, from the submissions of Menzies Aviation Limited (MAL), London/ MABPL observes that Menzies Group Headquarters provides various kinds of services & operation support to its Cargo stations located across the Globe. As per the Authority, the role of the

Menzies Group Headquarters initially is important, to help the subordinate company to establish and implement projects viz., from design stage to commissioning stage etc.

Considering the above, and taking note of the ISP's comments, the Authority decides to consider the Menzies Aviation Limited (parent company of MABPL) Headquarters costs allocation to ISP at ₹ 5.00 crore in the FY 2023-24 (first tariff year) as against ₹ 3.00 crore proposed at the CP stage. However, for the remaining tariff years of the First Control Period, the same Headquarters cost allocation and 5% Y-o-Y % increase has been considered, as was proposed by the Authority at the CP stage.

5.6.11 In view of the foregoing, the Authority has recomputed the Payroll Costs, including Headquarters Cost allocations to the ISP, for its First Control Period, as under:

Table 31: <u>Revised Payroll Cost and Headquarters Costs considered by the Authority for the ISP in respect of the First Control Period.</u>

(₹ in crores)

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Payroll Cost	46.87	62.36	71.09	81.04	92.39	**353.75**
Headquarters Cost Allocation	4.27	3.15	3.31	3.47	3.65	**17.85**

5.6.12 Based on the above analysis and taking into account the comments & views of the stakeholders, the Authority decides to consider the O&M Expenses in respect of the ISP for the First Control Period as per Table given below:

Table 32: <u>OPEX considered by the Authority in respect of MABPL for the First Control Period.</u>

Particulars	(₹ in Crores)					
	2023-24	2024-25	2025-26	2026-27	2027-28	Total
Payroll Cost	46.87	62.36	71.09	81.04	92.39	**353.75**
Headquarters Cost	4.27	3.15	3.31	3.47	3.65	**17.85**
Admin & General Cost	46.07	53.78	57.86	62.20	66.89	**286.80**
R & M Cost	3.50	4.38	5.71	6.34	7.04	**26.97**
Utility Cost	3.50	4.54	5.04	5.60	6.21	**24.89**
General Expenses	1.50	0.00	0.00	0.00	0.00	**1.50**
Total OPEX excluding Revenue Share	105.71	128.21	143.01	158.65	176.18	**711.76**
Revenue share payable to the Airport Operator*	34.52	53.30	63.19	75.26	90.26	**316.53**
Total OPEX	**140.23**	**181.51**	**206.20**	**233.91**	**266.44**	**1028.29**

**Based on the revised Revenue computed by the Authority for the first control period (after tariff increase).*

5.6.13 As regard to Operating Expenses projected by the ISP for the First Control Period (₹ 1120.35 crores), the Authority, after detailed review & analysis, has rationalized some components of OPEX such as Payroll Costs, Headquarters costs, R&M Expenses etc. Further, the Authority excluded the return on SD from OPEX and provided return on SD @ 5% p.a. in the ARR computation, which is consistent with AERA's approach towards return on SDs.

The Comparison of OPEX proposed by the ISP vis-à-vis OPEX considered by the Authority is tabulated below:

Table 33: Comparison of major OPEX components as proposed by the ISP and as considered by the Authority for the First Control Period.

(₹ in crores)

Particulars	As per the ISP	As per AERA (CP Stage)	As per AERA (Order Stage)	Difference
	(a)	(b)	(c)	**(a-c)**
Payroll Costs	390.63	348.60	353.75	36.88
Headquarters costs	55.30	16.14	17.85	37.45
R&M Costs	26.98	26.02	26.97	0.01
General Expenses	0.00	1.50	1.50	(-)1.50
Revenue share	335.75	313.83	316.53	19.22
Total	**808.66**	**706.09**	**716.60**	**92.06**

5.6.14 The major reasons for the difference in OPEX proposed by the ISP vis-à-vis OPEX decided by the Authority after rationalization of few components of OPEX, are summarized below:

a) Payroll Expenses - The Authority, in respect of payroll expenses, has decided to consider 10% onetime increase in salary of all employees for FY 2023-24, as against 25% increase in salaries considered by the ISP.

b) Headquarters costs - The Authority, in respect of Corporate Cost, has decided to consider 17.85 Crores against 55.30 Crores submitted by the ISP in its MYTP and decided to consider 5% Y-o-Y increase against 10% Y-o-Y increase considered by the ISP.

c) R&M Costs - As most of the cargo equipment & other assets proposed to be procured during first tariff year are new; accordingly, the Authority decided lower Y-o-Y increase in R&M Expenses @ 7% for FY 2024-25 & FY 2025-26 and 11% from FY 2026-27 onwards (as against 15% increase on Y-o-Y basis considered by the ISP).

d) General Expenses - ISP had considered ₹ 1.50 Crores general expenses under the CAPEX. However, the Authority has considered General Expenses under the OPEX in FY 2023-24.

e) Revenue share/Concession Fee - As per the Concession Agreement, the Concession Fee are linked with the Revenue projected by the ISP. Accordingly, the Authority has considered it based on the revised revenue computed by AERA for the ISP.

The cumulative impact of rationalization of some components of the OPEX amounts to ₹ 92.07 crores (₹ 1120.35 crores – ₹ 1028.28 crores) for the First Control Period.

5.7 Authority's Decision relating to OPEX projected for the First Control Period.

5.7.1 Based on the material before it and its analysis, the Authority decides to consider the OPEX projection for MABPL in respect of the First Control Period as per the Table 32.

CHAPTER-6: AIR FREIGHT STATION (AFS)

6.1 Introduction

6.1.1 Ministry of Civil Aviation (MoCA), in order to strengthen Air Cargo Logistics Infrastructure in the Country, vide OM no. AV.13011/03/2013-ER dated 28th October, 2014 issued Policy guidelines on 'Air Freight Station' (AFS) to create an off-airport common user facility equipped with fixed installations of minimum requirements and offering services for handling International Air Cargo in the form of Air Freight Stations with a mandate to enable the Cargo Industry as follows:

i. Off-Airport common user facility equipped with fixed installations of minimum requirements andoffering services for handling and temporary storage of import/ export goods, loaded and empty Unit Load devices (ULDs) and cargo in bulk/loose for outright export

ii. Create an enabling environment for promoting International Air Cargo operations by reaching outto hinterland regions of the country besides de-congesting the congested Air Cargo terminals in some gateway International Airports that face high dwell time.

iii. Authorizing some of the ICDs to cater to the International Air Cargo operations, the existing facilities in these ICDs, could be fully utilized.

The Policy document also emphasizes the following primary functions to be performed at Air Freight Station:

a. Receipt of Export cargo for processing and to make the cargo "Ready for Carriage" condition, including Unit Load Device (ULD), building of export cargo and scanning of Cargo. While ULDswill be the ideal mode of handling cargo for and from AFS, export/import consignments both in palletized /ULD and bulk, loose form shall also be facilitated

b. Transit operations by Road to and from serving Airport

c. All Customs related requirements for import and exports including inspection of cargo wherever required

d. Unitization of Cargo

e. Temporary storage of Cargo and Unit Load Device (ULDs)

f. Re-building of ULDs of export cargo

g. De-Stuffing of Import Cargo

h. Storage, Examination, Packing and Delivery of Import Cargo

i. Auction/Disposal of 30 days old uncleared Import Cargo

j. Maintenance and Repair of ULDs.

6.1.2 The policy guidelines governing Air Freight Station would be common and binding on all stakeholders concerned in the supply chain of International Air Cargo operations such as Airlines, Air Cargo Terminal operators, Airport Operators, Freight Forwarders / Customs Brokers, Exporters / Importers and all regulatory organizations.

6.1.3 The Authority is conscious of MoCA's policy initiative on AFS, which has a larger national intent to strengthen and develop air cargo logistics in the country and same is expected to reduce the bottlenecks in air-cargo logistics and help in ease of doing business, particularly for exporters. AERA supports the progressive step taken by the Govt. and feels that AFS Cargo needs to be incentivized by way of lower charges vis-à-vis rates applicable to normal cargo (Cargo directly received by the Cargo Terminal Operator).

6.1.4 The Authority observed that MABPL in its initial MYTP proposal did not propose separate tariff for Cargo originating from /destined to AFS. Accordingly, the Authority asked the ISP to provide separate Tariff rates for BUPs pertaining to the approved AFS. MABPL, vide email dated 02.05.2023 submitted composite Tariff Rates for Built up Pallets (BUPs) pertaining to AFS Cargo, both for Exports & Imports, as indicated below:

Table 34: TSP Charges for Exports in respect of AFS Cargo proposed by MABPL.

(Charges Per Unit in ₹)

Sl. No.	BUP Charges – General Cargo	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
1	BUP Charge (up to LD3)	1,410	1,620	1,810	1,900	2,000
2	BUP Charge (above LD3 - lower deck pallet)	2,820	3,240	3,630	3,810	4,000
3	BUP Charge (above LD3 - main deck pallet)	6,050	6,960	7,800	8,190	8,600
	BUP Charges - Other than General Cargo					
4	BUP Charge (up to LD3)	2,120	2,440	2,730	2,870	3,010
5	BUP Charge (above LD3 - lower deck pallet)	4,220	4,850	5,430	5,700	5,990
6	BUP Charge (above LD3 - main deck pallet)	9,050	10,410	11,660	12,240	12,850

6.1.5 In addition to the TSP charges for AFS' Exports Cargo, ISP also proposed separate TSP charges pertaining to AFS' Import Cargo, as given in Table below:

Table 35: TSP Charges for Imports in respect of AFS Cargo proposed by MABPL.

(Charges Per Unit in ₹)

Sl. No.	BUP Charge – General Cargo	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
1	BUP Charge (up to LD3)	6,900	7,940	8,890	9,330	9,800
2	BUP Charge (above LD3 - lower deck pallet)	13,800	15,870	17,770	18,660	19,590
3	BUP Charge (above LD3 - main deck pallet)	29,580	34,020	38,100	40,010	42,010
	BUP Charge – Other than General Cargo					
4	BUP Charge (up to LD3)	13,810	15,880	17,790	18,680	19,610
5	BUP Charge (above LD3 - lower deck pallet)	27,600	31,740	35,550	37,330	39,200
6	BUP Charge (above LD3 - main deck pallet)	59,160	68,030	76,190	80,000	84,000

6.1.6 The Authority noted that proposed TSP charges for BUPs (General Cargo & Other than General Cargo pertaining to AFS) as compared to rates of TSP Charges, on per kg basis, for normal cargo (cargo received directly by the CTO at its cargo terminal), are lower by 30%.

6.1.7 The Authority, taking cognizance of intent of MoCA's AFS Policy dated 28.10.2014 to encourage the concept of AFS Cargo in the country as step towards improvement of air cargo logistics in the country, proposed to consider 30% lower TSP charges for BUPs/ ULDs pertaining to approved AFS in respect of General Cargo and Other than General Cargo BUPs, both for exports and imports, as proposed by the ISP.

6.1.8 The Tariff rates proposed by the Authority pertaining to BUPs/ ULDs in respect of approved AFS for Stakeholders' consultation are contained in Annexure – IV of CP.

6.1.9 The Authority invited specific views/ comments of the Stakeholders on the proposal of the Authority regarding lower TSP charges pertaining to AFS Cargo, particularly considering that AFS is a relatively new concept in Indian Civil Aviation. The Authority shall consider the views/ suggestions received from the Stakeholders during the consultation process before issuing the Tariff Order.

6.2 <u>Stakeholders' Comments on the determination of Tariff for the Services related to AFS</u>

6.2.1 In its comment on Air Freight Station (AFS), FIA submitted that "*Since the Air Freight Station (AFS) would an off-Airport common user facility and would be offering services for handling and temporary storage of import / export goods loaded on ULDs, it would reduce the congestion of cargo in airports and the cost is also saved. Implementing the same would be hugely beneficial for all customers who are in the business of "Import & Export". It will also help online connectivity, along with document filing where agents do not have to come to the airports. All activities, such as Customs documentation and examination, Cargo Acceptance Check, Security Checks, and warehousing will be carried out at the AFS.*

It would also streamline the cargo operations, as a provision for having a bonded trucking service for the export cargo from the offline airport to the airline operating station would make it economically viable and competitive pricing. More importantly, it will help to save on demurrage charges, as it will help customers take the delivery of cargo within one or two days. There would be no congestion at the custodian warehouse.

In view of the above, decentralization would help in breaking the warehousing monopoly, and would benefit the cargo business by letting market forces determine lower TSP charges than those proposed in Annexure IV of the CP and should be encouraged. In addition, it is recommended that the AFS should also have provisions for Airline's self-handling setup, which can also support the airlines for remote advance cargo acceptance and cost-effective operations."

6.3 <u>Counter Comments of the Service Provider:</u>

In response to FIA's comment on Air Freight Station (AFS), ISP has submitted that "*MABPL proposes to accept the BUP Tariffs proposed by the Authority. MABPL also supports the efforts made by the Authority and industry to encourage BUP usage.*

The arguments made by FIA regarding warehousing monopoly and airline self-handling are outside the scope of tariff determination process under the existing framework."

6.4 <u>Authority's Analysis regarding Tariff relating to Cargo Handling Services pertaining to Air Freight Station</u>

6.4.1 The Authority notes the comments of FIA, including counter comments of service provider, relating to service charges for the AFS Cargo. In this regard, the Authority is of the view that even after processing of cargo in the AFS premises, there are number of important activities that are required to be performed at the cargo terminal, including receiving the AFS Cargo on city side, storing and transporting the built-up pallets/ ULDs to the airlines on air side etc.

The major activities required to be performed at cargo terminal with respect of AFS Cargo are indicated below:

a. Acceptance of Built-up-Pallet/ ULDs at city-side of Cargo Terminal.
b. Unloading of Pallets/ ULDs from trucks at truck dock area.
c. Transferring & moving Cargo to Storage Racks/ Security Hold Area (SHA).
d. Transporting of Cargo from Built-up Station/ SHA to Cargo Release Bays.
e. Shifting ULDs/ BUPs from Release Bays to Ground Handler's Dollies, digital messages to customer's airlines etc.

In view of the activities to be performed by the cargo terminal operator at its terminal pertaining to AFS Cargo indicated above, the Authority considers that 30% lower TSP Charges proposed by the ISP in respect of AFS Cargo, vis-à-vis normal cargo directly received from the shippers at cargo terminal, is reasonable. Accordingly, the Authority decides to maintain the same view on the application of lower TSP charges to AFS Cargo, as was taken at consultation stage.

6.4.2 The Authority, notes that the concept of AFS in Air Cargo Logistics is still at nascent stage in India, accordingly, based on the performance of AFS and the feedback of the stakeholders, the Authority may review the tariff determination methodology for the AFS Cargo, at an appropriate time in future.

6.5 Authority's decision regarding Tariff rates for Built up Pallets (BUPs) for the First Control Period.

6.5.1 Based on the material before it and its analysis, the Authority decides to consider 30% lower TSP Charges in respect of the cargo pertaining to the AFS.

CHAPTER 7: AGGREGATE REVENUE REQUIREMENT (ARR)

7.1 As per the MYTP submission, MABPL proposed cost of equity @ 21% and cost of debt @ 9.5%. Accordingly, ISP proposed 16% Fair Rate of Return (FRoR) for the First Control Period as per Table given below:

Table 36: FRoR proposed by MABPL for the First Control Period.

(₹ in crores)

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Equity (A)	60.60	117.70	117.70	117.70	117.70
Debt (B)	72.70	125.90	102.10	76.10	47.50
Total (Debt + Equity) (C) = (A+B)	133.30	243.60	219.80	193.80	165.20
Gearing (G) = (B/C)	54.54%	51.68%	46.45%	39.27%	28.75%
Cost of Equity (K_e)	21.00%	21.00%	21.00%	21.00%	21.00%
Cost of Debt (K_d)	9.50%	9.50%	9.50%	9.50%	9.50%
Weighted Average Gearing (WG) = $\Sigma^5_{t=1} (C_t*G_t)/\Sigma^5_{t=1}C_t$	44.14%				
FRoR **((WG*K_d) + (1-WG) *K_e)**	16.00%				

7.2 **Aggregate Revenue Requirement (ARR) projected by MABPL for the First Control Period:**

7.2.1 Considering the 16% FRoR, MABPL projected Aggregate Revenue Requirement (ARR) for the First Control Period is as under:

Table 37: Aggregate Revenue Requirement submitted by MABPL for the First Control Period.

(₹ in crores)

Particulars	FY 2023-24*	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
RAB	168.54	266.26	248.12	229.98	211.84	1124.44
FRoR	16%	16%	16%	16%	16%	
Return on RAB (a)	26.97	42.60	39.70	36.80	33.89	179.96
Depreciation (b)	9.35	18.14	18.14	18.14	18.14	81.91
Operating Expenses (c)	155.29	197.10	225.39	254.72	287.85	1120.35
Taxation (d)	0.00	0.0	5.10	9.30	13.30	27.70

Less: Revenues from Non-Regulated Services (e)	3.92	4.81	5.05	5.31	5.57	24.66
ARR (a+ b + c + d - e)	**187.68**	**253.02**	**283.24**	**313.70**	**347.65**	**1385.29**

**From 24th May,2023 to 31st March,2024.*

7.3 Authority's Examination on ARR for the First Control Period at CP stage:

7.3.1 The Authority noted that MABPL had computed ARR, considering "Interest Free Security Deposit" as a part of its RAB, which was not consistent with the approach of AERA in this regard. The Authority proposed to consider return @ 5 % per annum on the Interest Free Security Deposit, separately in the ARR calculations, as per its consistent approach regarding return on interest free SDs for all ISPs.

7.3.2 The Authority noted that MABPL had considered Cost of Equity @ 21% and Cost of Debt at 9.5 % for computation of Fair Rate of Return (FRoR) and proposed FRoR for its first Control Period at 16%. In response to AERA query, ISP submitted that currently no information in respect of loan to be availed for the First Control Period is available and they are in the process of finalizing the banker for their funding requirements; hence, the details related to interest charges, repayment of debt, outstanding balances etc. are considered tentatively. Actual details related to Debt etc. will be submitted after finalizing the loan from the bankers.

7.3.3 The Authority noted that ISP had considered a cost of equity at 21%, however, the ISP hadn't submitted proper justifications thereof. The Authority, following its consistent approach regarding Cost of Equity for ISPs, proposed to consider Cost of Equity @ 14% for the First Control Period. As regard to cost of debt, the Authority proposed to consider cost of debt at 9.5% p.a., as proposed by the ISP. However, the Authority at CP stage, decided to revisit the issue of cost of debt, at the time of finalizing Tariff Order for the ISP, considering the actual cost of debt, loan amount etc. and other relevant information.

In view of the foregoing, the Authority proposed to consider FRoR @ 12.01% for the computation of ARR in respect of MABPL for the First Control Period as per Table given below:

Table 38: FRoR proposed by the Authority for MABPL for the First Control Period at CP stage.

(₹ in crores)

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Equity (A)	60.60	117.70	117.70	117.70	117.70
Debt (B)	72.70	125.90	102.10	76.10	47.50
Total (Debt + Equity) (C) = (A+B)	133.30	243.60	219.80	193.80	165.20
Gearing (G) = (B/C)	54.54%	51.68%	46.45%	39.27%	28.75%
Cost of Equity (Ke)	14.00%	14.00%	14.00%	14.00%	14.00%
Cost of Debt (Kd)	9.50%	9.50%	9.50%	9.50%	9.50%
Weighted Average Gearing (WG) = {Σ5 T=1 (CT*GT)/Σ5 T=1CT}	44.14%				

FRoR ((WG*Kd)+(1-WG)*Ke)	12.01%

7.3.4 The Authority, after review and analysis of various regulatory building blocks, as discussed in previous chapters computed Aggregated Revenue Requirement for MABPL in respect of the First Control Period as per Table given below:

Table 39: ARR proposed by the Authority for MABPL for the First Control Period at CP stage.

(₹ in crores)

Particulars	FY 2023-24*	FY 2023-24#	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Average RAB *(Refer Table 21of CP)*	48.08	67.31	210.36	193.08	175.81	158.53	
Return on RAB @ 12.01% (A)	5.77	8.08	25.26	23.19	21.11	19.04	102.46
O&M Expenses (B) *(Refer Table 28 of CP)*	43.01	60.21	127.32	141.99	157.20	174.21	703.94
Revenue Sharing (C) *(Refer Table 28 of CP)*	14.09	22.33	53.53	63.86	74.01	86.01	313.82
Return on SD of ₹ 50 crores @ 5% (D)	0.89	1.25	2.50	2.50	2.50	2.50	12.14
Depreciation (E) *(Refer Table 19 of CP)*	3.76	5.26	17.28	17.28	17.28	17.28	78.14
Tax @ 25.17% (F)	0.00	0.00	0.00	6.11	10.01	14.71	30.83
Revenue from non-regulated services (G) *(Refer Table 37 of CP)*	1.63	2.29	4.81	5.05	5.31	5.57	24.66
Aggregate Revenue Requirement (A+B+C+D+E+F-G) = (H)	65.89	94.85	221.08	249.88	276.80	308.18	1216.67
PV Factor at @ 12.01% (I)	1.00	1.00	0.89	0.80	0.71	0.64	
PV of ARR (J) = (H*I)	**65.89**	**94.85**	**197.38**	**199.17**	**196.97**	**195.78**	**950.03**
Total Revenue as per Tariff applicable to previous operator	54.71	76.59	161.10	169.20	177.80	186.90	826.30
Tariff Increase (%) proposed by the Authority for Domestic Cargo Services	-	**21%**	**21%**	**21%**	**14%**	**14%**	
Tariff Increase (%) proposed by the Authority for International Cargo Services	-	**15%**	**15%**	**13%**	**10%**	**10%**	
Domestic Cargo Revenue after the proposed Tariff increase	15.00	25.41	65.30	83.79	101.18	122.48	413.17
International Cargo Revenue after the proposed Tariff increase	36.63	57.09	133.97	155.61	177.39	202.57	763.26
Documentation Revenue after the proposed Tariff increase	3.08	4.53	10.03	11.00	12.16	13.40	54.20
Total Revenue after Tariff increase	54.71	87.03	209.31	250.40	290.73	338.45	1230.63
PV of Total Revenue	**54.71**	**87.03**	**186.86**	**199.59**	**206.88**	**215.02**	**950.09**

** From 24th May,2023 to 30th September,2023.*
 # From 01st October,2023 to 31st March,2024.

7.3.5 The Authority had computed PV of ARR at ₹ 950.03 crores for MABPL for the First Control Period as indicated in the Table 39 above.

7.3.6 As per the ARR calculations indicated above, the one-time Tariff increase for the ISP to meet its ARR for the First Control Period was worked out at 54.34%, over the Tariff rates applicable to erstwhile cargo operator i.e MABBPL.

7.3.7 The Authority, considering that the aviation sector is still recovering from the aftermath of Covid-19 pandemic, particularly the international traffic, and in order to avoid adverse impact of one-time steep increase in tariff, proposed to stagger the Tariff increase across the First Control Period.

7.3.8 Accordingly, the Authority proposed following increase in the Tariff rates for the Cargo Handling Services provided by MABPL at KIA, Bengaluru, over the tariff applicable to the previous cargo operator, for the First Control Period as under:

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Domestic Cargo Handling Services	21%	21%	21%	14%	14%
International Cargo Handling Services	15%	15%	13%	10%	10%

The Tariff Rate Card proposed by the Authority for MABPL in respect of its First Control Period for the stakeholders' consultation was placed at Annexure-IV of the CP.

7.4 **Stakeholders' Comments regarding Return on Security Deposit, Fair Rate of Return (FRoR) and Aggregate Revenue Requirement (ARR) proposed for the ISP in respect of the First Control Period.**

7.4.1 **Comments of FIA:** The stakeholder submitted that "*Only reasonable Fair Rate of Return (FRoR) to the service provider may be provided, which is in line with other airports, such as in case of WFSPL Bangalore Authority has considered FRoR of 10.31 % (Order 13/2023-24). However, AERA has considered FRoR for MABPL at 12.01%, for the First Control Period, which seems relatively high.*

It is further brought to AERA's attentions that, while such fixed/ assured return favors the service provider, but it creates an imbalance against the airlines, which are already suffering from huge losses and are bearing the adverse financial impact through higher tariffs. Due to such fixed/assured returns, service providers have no incentive to look for productivity improvement or ways of increasing efficiencies, adhere to timelines and take steps to reduce costs as they are fully covered for all costs incurred plus their hefty returns by way of higher FRoR. Such a scenario breeds inefficiencies and higher costs, which are ultimately borne mostly by airlines and users.

In view of the above, the assured return on investment through the proposed FRoR to MABPL appears onerous for the airlines. Hence, AERA is requested to kindly review the proposed FRoR to MABPL and minimize the effect on the airlines."

7.4.2 In its comment on ARR, FIA submitted that "*AERA is requested to carefully peruse the reasons for the restructuring of the Tariff Rate Card, so that there are no hidden cost impact or imbalance on the users. AERA's proposal for the increase in charges is exponentially high (up to 21% Y-o-Y for transshipments), which is opposed strongly.*

The General Cargo acceptance rates are proposed to be in excess of 15% increase on a year-on-year basis. In our view, this would not result in scaling up of the cargo business/volumes in a competitive *environment, especially since there is capacity available at neighboring airports. To enhance business, the service provider must target volumes instead of rate increase, which should be competitive in comparison to road and sea shipping.*

The freight charges in the market are softening due to various modes of competition, especially with road connectivity between major cities and ease in logistic movement from state to state. In case of an increase in airfreight, the volumes will tend to decrease as there will be a market shift by the freight community. Currently airlines have been struggling to support the cargo business post COVID-19, as there have been drop in volumes of pre-Covid levels in terms of per flight basis and this needs to be strengthened for the next few years to enhance the infra requirement as projected and discussed in this response."

7.4.3 **Comments of BIAL:** BIAL in its comments on interest-free refundable security deposit stated that *"MABPL is required to deposit interest-free refundable security deposit amounting to INR 50 cr. with BIAL during the concession period. The Authority has proposed 5% as the return on this Security Deposit. This is totally contrary to the Hon'ble TDSAT's decision dated 23rd April 2018 in AERA Appeal No 6 of 2012. The Hon'ble TDSAT has clearly stated in paragraph 106 of its order that "... At the least, the cost would be the rate of return made available by the approved funds having required ratings of CRISIL.". The Authority needs to consider the above-mentioned principles for the Security Deposit provided to BIAL by MABPL."*

7.4.4 **Comments of MABPL**:

In its comment on the Treatment of Security Deposit, MABPL submitted the following:

i. *"MABPL would highlight to the Authority that the funds infused in the project for security deposit have been raised at a much higher rate than 5%.*

ii. *In an ideal scenario where funds for any purpose have been raised at the Fair Rate of Return (FRoR) determined by the Authority, the return on those funds should match the same.*

iii. *In the event of funds that are raised at FRoR, which generate an annual return of 5%, it would be a net loss-making proposition for MABPL.*

iv. *Therefore, we request the Authority to provide a return on the security deposit in line with the FRoR so as to fairly compensate the shareholders of MABPL."*

7.4.5 In its comment on the Treatment of FRoR, MABPL submitted the following:

"MABPL has noted that the Authority has treated MABPL's cost of equity while maintaining consistency across cargo operators. However, MABPL's case cannot be treated similarly to other cargo operators.

The Authority itself has deemed cargo operations at BIAL to be 'Competitive'. The Authority has also acknowledged the need for caution and cost-cutting measures in order to sustain. These factors combined inculcate a higher degree of risk for MABPL, thereby warranting a higher project beta and subsequently, higher cost of equity, as investors would seek a higher return to compensate for the additional risk.

i. *Therefore, normalizing MABPL's cost of equity with other cargo operators is not ideal. Instead, compensating investors with a higher rate of return – to the tune of 21% would be apt. This has been arrived at using the standard CAPM method as illustrated below:*

$$CoE = R_f + \beta \times ERP$$

Where Rf denotes the risk-free rate. ERP denotes the country-specific equity risk premium (net of risk-free return), beta denotes the project risk and any other associated risks (such as liquidity risk, risk of default etc.).

ii. *These numbers have been estimated/calculated as follows:*

a. ***Risk-free Rate in India:*** *In line with the standard approach in the Indian capital markets, the yield of a 30-year bond has been used to estimate the risk-free rate. The current yield of the 30-year sovereign bond is approximately 7.33%, and the same has been considered by MABPL to estimate the risk-free rate in India.*

b. ***Global Equity Risk Premium:*** *In order to understand the risk premium of India, we first need to estimate the global risk premium of the market that is considered the least risky/most developed. For this purpose, we have considered the stock markets of United States of America, as it has the highest rating (lowest risk), largest market capitalisation and significant history with ease of data availability. In the last 95 years (1928-2022), US equity markets have returned 11.51% against 4.87% for treasury bonds. Therefore, the global equity risk premium is estimated at 6.64%*.*

c. ***Country Risk Premium:*** *The global equity risk premia needs to be adjusted for the Indian markets, as an emerging market has inherently higher risk than a developed market. To estimate this, we have adopted the standard approach of using Sovereign Credit Spread or Credit Default Swap (CDS) as a proxy. This comes out at 3.79%, bringing the total equity risk premium to 10.43%.*

d. ***Project Beta:*** *Estimating the project beta accurately requires stock price data. However, since MABPL is not a listed company, the second approach would be to look at the market average of similar operators from around the world. After rigorous analysis, MABPL has arrived at the conclusion that the cargo operations business carries a higher risk than the broader market average. Therefore, consider the project beta of such cargo operators to be in the range of 1.25 to 1.40 as compared to the broader markets. Accordingly, an average equity beta of 1.31 is considered for computation purposes.*

iii. *The Table below illustrates the calculation of cost of equity as per the estimates above:*

Particulars	***Value***
Risk-Free Rate in India (A):	*7.33%*
Global Equity Risk Premium (B):	*6.64%*
Country Risk Premium (C):	*3.79%*
India's Equity Risk Premium (D = B+C):	*10.43%*
Project Beta estimate (E):	*1.31*
*Cost of equity for the project (A+(E*D)):*	*21%*

With the cost of equity at 21%, and the cost of debt and gearing ratio proposed by the Authority, we arrive at the Fair Rate of Return of 16%".

7.4.6 **Menzies Aviation Limited (MAL)'s Comments:** The holding company of the ISP i.e., MAL, London, UK, in its comments regarding the Cost of Equity proposed by the Authority at CP stage submitted as under:

"From a global investor's perspective, Menzies would stress upon allowing reasonable cost of equity on its investment to maintain sustainable operations for MABPL. The Authority's proposal of allowing 14% cost of equity on the cargo investment is inadequate for the Indian market. Such low cost of equity will affect the influx of investment in cargo business in India from global large investors. Menzies has taken inherent risks when investing in any of its subsidiaries, especially after COVID-19. A reasonable rate of return compensates investors for these risks encouraging them to invest in these projects. This balance between risk and reward is fundamental to maintaining robust and sustainable investment ecosystem. Allowing a reasonable cost of equity for global investors is not only in best interest of the investors but is also essential for promoting economic growth, job creation, innovation, and sustainability. Therefore, Menzies requests the Authority to allow cost of equity of 21% as per the detailed submission of MABPL."

7.5 **Counter Comments of MABPL:**

7.5.1 In response to FIA's comment on FRoR, the ISP has submitted as under:

"Normalizing MABPL's, a cargo operator, FRoR/Cost of equity with other ISPs/ airport operators is not an ideal approach, as the risk adjustment for the two would be very different. MABPL has provided, in its MYTP and response to the consultation paper, the detailed computation of the cost of equity as per the CAPM model. The cost of equity after adjusting for the risks, came in at 21%, which resulted in an FRoR of ~16%. MABPL, thus, requests Authority to consider the FRoR as per its submission. Further, MABPL would highlight that the FRoR approved for DCSC (14%), MCSCAPL (14%), and MAFFPL (13.28%) is much higher than MABPL."

7.5.2 *On the comments on the efficient O&M costs, MABPL would like to reiterate the clause 8.5.5 of Order No. 13/2023-24 released on 09/08/2023, where a comparison was done between the two operators at Bangalore Airport. It clearly depicts the efficiency of O&M at MABPL on per MT basis. Thus, MABPL has provided efficient O&M costs for the tariff determination exercise."*

7.5.3 On the comments of FIA relating to the ARR, the service provider in its counter submission stated as under:

"Revenue requirement is a function of the costs incurred. It is essential to note over the last decade inflation has grown significantly, especially in the COVID-years. While in most of the years, the rise in cost was offset by the increment in traffic, last three years that has not been the case. Studies show a significant increase in the cost of living in Bangalore over the last 10 years, which has led to an increase in salary expenditure. However, tariffs have not been revised for almost a decade.

MABPL would also like to respectfully disagree with the quote on 'Significant Profits'. Losses in the first year, followed by a ~6% margin for the entire control period already puts the sustainability and attractiveness for investors under scrutiny.

Particulars	*FY24**	*FY25*	*FY26*	*FY27*	*FY28*	*FCP*
ARR (INR cr)	*65.89*	*221.08*	*249.88*	*276.80*	*308.18*	*1216.67*

Revenue after tariff increase (INR cr)	*54.71*	*209.31*	*250.40*	*290.73*	*338.45*	*1230.63*
PAT (INR cr)	*-17.90*	*3.09*	*19.84*	*29.29*	*45.36*	*79.68*
Margin (%) as per AERA	*NA*	*1.44%*	*7.76%*	*9.89%*	*13.18%*	*6.34%*

**Note: 10 months numbers*

Investors of airport cargo operators that have a reputation of bringing in world-class technological advancements, efficiency and digital transformations expect a higher risk-adjusted return. Under the proposed ARR, tariff hikes and profitability analysis, those returns are already constrained.

We would therefore, disagree with the claims on curtailing ARR, tariff hikes or FRoR on the grounds of 'Significant Profitability' as the profitability of the first control period is neither significant nor in line with other cargo operators in India or other major capital intensive projects of similar sizes. We also would like to stress that the profitability of broader airline operations and cargo operations are two different metrices and should not be seen synonymously.

Further, regarding the comment on competing modes of transport, MABPL notes that the differentiating factor between air cargo and other modes of transportation is not just cost. While the competition does exist, air cargo offers a magnitude of benefits over other transportation means (sea or road) such as speed and safety, which is a unique value add for customers wanting to transport their goods via air."

7.5.4 In response to BIAL's comment on Treatment of security deposit, ISP has submitted that "*MABPL concurs with BIAL in this regard and has separately submitted its views in detail as part of the response to stakeholder comments.*

MABPL would request the Authority to treat the security deposit in line with the guidelines by the Hon'ble TDSAT."

7.6 **Authority's Analysis of the Stakeholders comments:**

7.6.1 The Authority notes the comment of BIAL & MABPL regarding the treatment of Return on the Security Deposit and response thereon by MABPL. M/s BIAL has drawn inference of Hon'ble TDSAT Order dated 23rd April 2018, in the AERA Appeal No. 10 of 2012 (in the case between DIAL [Airport Operator] Vs. AERA). As per the Authority, the stakeholder has quoted TDSAT order out of context. The aforesaid decision of the hon'ble TDSAT was given in the background of Refundable Security Deposits received by the Airport Operator for financing the airport operator's Capex Plan, which were initially considered as equivalent to Debt at zero cost by the Authority. Whereas, in the case of the ISPs, the Authority as per its consistent approach on the return on 'Interest free SDs' is allowing a return @ 5% p.a. to cover up for erosion in value of the SDs over the period due to inflation.

The Authority is aware that SDs are submitted by the service providers to the airport operators, as part of their contractual obligations under the concession agreements. However, the Authority is also conscious of the fact that the SDs submitted by the ISPs with the Airport Operators are not utilized by the service providers for provision of any aeronautical service(s) for the end users. Therefore, it would be unfair to the users (who bears the cost of services), if Authority allows normal FRoR on the SDs, as no service is provided to the end users against the SDs.

7.6.2 Further, the TDSAT Order dated 27.09.2019 in the AERA Appeal no. 1 of 2018 (Delhi Aviation Fuel Facility Pvt. Ltd. [ISP] Vs. AERA), wherein the ISP has contended that meager return of 5% p.a. on SDs is unreasonable [Para 21(ii)]. In this regard, TDSAT vide Para 24 of the Order states that "*Although at the first blush, it appears tempting to treat the security deposit on the same footings as equity but on a deeper analysis it is found that while equity money has to be used necessarily for the operation of the required service or activity, in the present case the security deposit has no such purpose and therefore only on account of an unusual and peculiar arrangement between DIAL (Airport Operator) and the appellant (ISP), it would be unfair to other stakeholders who pay for such Aeronautical Service relating to Fuel Farms to compensate the appellant for a deposit which is not related to the operations of the Fuel Farm and cannot be considered as a part of RAB. In such scenario, the nominal return on account of inflation cannot be held to be arbitrary or inadequate.*"

Therefore, the Authority taking a balanced view in the matter, consistent with the past practices on the same issue in respect of the ISPs, decides to consider 5% return p.a. on the interest free SD deposited by ISP with the airport operator. The above stand of the Authority is also in accordance with the hon'ble TDSAT's Order dated 27.09.2019 referred above.

7.6.3 The Authority notes the comments of MABPL, FIA & MAL on the FRoR & Cost of Equity proposed for the ISP at CP Stage. Whereas, the ISP in its submission states that MABPL at Bengaluru faces unique business risks and their case can't be equated with other ISPs. As per the ISP, considering the global risks & Indian risks etc., they may be allowed higher Cost of Equity (@ 21%). FIA being a key stakeholder representing the airline customers strongly opposed to the higher Cost of Equity for the ISP, which is resulting-in FRoR @ 12.01% for MABPL, as considered by AERA. As per the FIA, higher FRoR impacts airlines adversely. Accordingly, FIA requested the Authority to review the FRoR proposed for the ISP and consider only reasonable FRoR for the service provider, similar to the FRoR allowed by the AERA for WFSBPL (@ 10.31%) at KIA, Bengaluru.

The Stakeholder further viewed that with such kind of assured returns to service provider, ISP have no incentive to improve efficiencies and reduce costs and it creates an imbalance against the airlines, which are already suffering huge losses.

The Authority notes that even the FRoR of 12.01% proposed by the AERA at CP stage is viewed by some of the stakeholders as on higher side and have requested the Authority to rationalize the same.

In this regard, the Authority considers that the country specific & global risks faced by the ISP are no different than that of other service providers in the Indian Aviation Sector. The Indian Civil Aviation Sector is one of the fastest growing Civil Aviation markets in the world and its stable policy & regulatory framework for the investors is a big incentive. It is worthwhile to note that the ISP is operating in regulated sector, and number of players providing similar services is comparatively restrictive. Moreover, the ISP, from very beginning has had ready-built customer base, which ensured steady revenue stream from day one of its operation. Thus, the regulated & largely restricted business environment, helps in mitigating business risks, if any, to the larger extent.

7.6.4 As per the Authority, airport operations are more complex and their business operations are subject to more regulatory controls & oversights. Airport operations are influenced by fast changing technological advancements in the field of airport operations & management. Further, Airport Operator required significantly large investments with long gestation periods, consequently their investment risks, as compared to ISPs, are significantly higher.

AERA as a Regulator is dutybound to consider the views/suggestions of all the stakeholders and try to strike a balance in the conflicting interests of the various stakeholders (service provider and the users).

In the instant case, the Cost of Equity proposed by the Authority for MABPL at CP stage (i.e., 14%) is as per the AERA's consistent approach for the ISPs. As per the Authority, the Cost of Equity expected by the ISP for its Bengaluru business (i.e., 21%) is way too high and unjustifiable in the regulated sector.

As regard to the ISP's reference to the FRoR @ 14% considered earlier by AERA for other service providers referred by MABPL in its comments; It is informed that the Authority considered Cost of Equity @ 14% for ISPs, depending upon the capital structure of the service providers, FRoR tends to be on higher side, wherever the ISPs have predominance of equity in their capital structure. Further, even in case of the airport operators also, where business risks are far greater than those of the Cargo operators, the Authority considers cost of equity in the range of 14% to 15-30% only, along with the notional gearing ratio of 48:52 (Debt: Equity). Hence, considering the above, the Authority decides to consider cost of equity for the ISP@ 14%, as was proposed at CP stage.

7.6.5 As regard to the Cost of Debt for the ISP proposed by AERA at CP stage i.e. 9.5%, the Authority, at CP stage noted that the ISP had considered cost of debt @ 9.5% p.a., as they did not finalize their debt requirement for the First Control Period with any bank. In this regard, the Authority sought the present status from the ISP relating to the debt tied up with the bank(s) & cost of debt etc. The ISP, vide email dated 13.09.2023 informed that they have received term sheets from HSBC, Axis Bank and ICICI Banks and the same is being reviewed for finalizing the Banker. ISP further informed that this requires to be approved by their Board and the process is expected to be completed in the month of October, 2023.

The Authority observes from the ISP submission that as per the term sheet, the cost of debt offered by the banks to the ISP is in the range of 9.00% to 9.96%, depending upon the Security, Parental Company Support etc.

From the above, the Authority notes that the ISP has so far not finalized its banker for its debt requirement for its cargo operations at Bengaluru airport. Further, the banks' terms & conditions pertaining to debt to be availed by the ISP is yet to be approved by MABPL Board. Considering the above, the Authority decides to consider cost of debt @ 9.50% p.a. for the ISP.

Accordingly, the Authority decides to consider FRoR for the ISP @ 12.01% (considering cost of debt @ 9.50%, cost of equity @ 14% & proposed gearing).

7.6.6 In view of the detailed review & analysis of various regulatory building blocks, including proposed Capex, Cargo Volumes, OPEX, etc., & re-computation of some of the building blocks, as discussed in the previous chapters and taking into account the stakeholders' views/comments, the Authority has computed the ARR for MABPL for the First Control Period as given in the ARR Table below.

Table 40: ARR considered by the Authority in respect of MABPL for the First Control Period.

(₹ in Crores)

Particulars	2023-24	2023-24*	2024-25	2025-26	2026-27	2027-28	Total
Average RAB *(Refer Table 23)*	115.38		210.36	193.08	175.81	158.53	

Particulars	2023-24	2023-24*	2024-25	2025-26	2026-27	2027-28	Total
Return on RAB @ 12.01% (A)	7.82	6.04	25.26	23.19	21.11	19.04	102.46
O&M Expenses (B) *(Refer Table 32)*	59.64	46.07	128.21	143.01	158.65	176.18	711.76
Revenue Share/Concession Fees (C) *(Refer Table 32)*	18.27	16.25	53.30	63.19	75.26	90.26	316.53
Return on SD of ₹ 50 crores @ 5% (D)	1.21	0.93	2.50	2.50	2.50	2.50	12.14
Depreciation (E) *(Refer Table 21)*	5.09	3.93	17.28	17.28	17.28	17.28	78.14
Tax @ 25.17% (F) *(Refer Table 48)*	0.00	0.00	0.00	0.00	8.90	17.98	26.88
Revenue from Non-Regulated Services (G)	2.21	1.71	4.81	5.05	5.31	5.57	24.66
Aggregate Revenue Requirement (A+B+C+D+E+F-G) = (H)	**89.82**	**71.51**	**221.74**	**244.12**	**278.39**	**317.67**	**1223.25**
PV Factor at @ 12.01% (I)	1.00	1.00	0.89	0.79	0.71	0.63	
PV of ARR (J) = (H*I)	**89.82**	**71.51**	**197.35**	**192.85**	**197.66**	**200.13**	**949.32**
Revenue at Prevailing Tariff							
Domestic Cargo – TSP	6.54	5.05	14.35	15.21	16.11	17.08	74.34
Domestic Cargo - Airline Fees	15.90	12.28	35.00	37.11	39.35	41.73	181.37
International Cargo – TSP *(incl. demurrage charges)*	28.37	21.93	61.24	63.39	65.41	67.9	308.24
International Cargo - Airline Fees	15.90	12.27	34.65	36.76	39.16	41.46	180.20
Documentation Charges	4.17	3.22	9.07	9.53	10.00	10.50	46.49
Total Revenue at Prevailing Tariff	70.88	54.75	154.31	162.00	170.03	178.67	790.64
% Tariff Increase decided by the Authority							
Domestic Cargo-TSP Charges	-	30%	30%	26%	26%	26%	
Domestic Cargo-Airlines Charges	-	15%	15%	12%	12%	12%	
International Cargo-TSP *(incl. demurrage charges)*	-	28%	28%	17%	17%	17%	
International Cargo-Airlines Charges	-	12%	12%	10%	10%	10%	
Documentation Charges	-	5%	5%	5%	5%	5%	
Revenue after Tariff increase							
Domestic Cargo - TSP Charges	6.54	6.57	24.25	32.39	43.22	57.74	170.71
Domestic Cargo - Airlines Charges	15.90	14.12	46.29	54.97	65.28	77.54	274.09
International Cargo - TSP *(incl. demurrage charges)*	28.37	25.46	84.38	98.59	115.63	137.57	490.00

Particulars	2023-24	2023-24*	2024-25	2025-26	2026-27	2027-28	Total
International Cargo - Airlines Charges	15.90	13.74	43.46	50.72	59.44	69.22	252.49
Documentation Charges	4.17	3.38	10.00	11.03	12.16	13.40	54.14
Total Revenue (after Tariff Increase)	70.88	63.27	208.38	247.70	295.73	355.47	1241.43
PV of Total Revenue	**70.88**	**63.27**	**185.46**	**195.68**	**209.97**	**223.95**	**949.21**

**Figures considering revised Tariff*

From the above Table, it can be seen that the total projected revenues considering the prevailing tariff [applicable to previous operator (MABBPL)] are not sufficient to meet the projected ARR of the ISP for the First Control Period. Hence, the Authority decides to consider increase in the Tariff Rates as indicated in the Table above for the ISP, so as to match the projected ARR of MABPL for the First Control Period.

7.6.7 The Authority has worked out ARR for MABPL, after considering the stakeholder's comments and other information/ clarifications submitted by the ISP, at ₹ 1223.25 crores, which is lower by ₹ 162.04 crores, as compared to ARR proposed by the ISP (₹ 1385.29 crores). The variance in ARR as proposed by the ISP & as decided by the Authority is tabulated below:

Table 41: Comparison of ARR computed by the Authority vis-à-vis ARR proposed by the ISP for the First Control Period.

(₹ in crores)

Particulars	ARR as per the ISP	ARR as per AERA (CP stage)	ARR as per AERA (Order Stage)	Difference
	(a)	(b)	(c)	**(a-c)**
Return on RAB (A)	179.96	102.46	102.46	77.50
Depreciation (B)	81.91	78.14	78.14	3.77
Revenue Sharing	335.75	313.82	316.53	19.22
OPEX (including return on S.D) (C)	784.60	716.08	723.90	60.70
Taxation (D)	27.70	30.83	26.88	0.82
Revenue from Non-Regulated Services (E)	24.66	24.66	24.66	0.00
ARR for the First Control Period A+B+C+D-E	**1385.29**	**1216.67**	**1223.25**	**162.04**

7.6.8 The major difference in the ARR as per MABPL and as decided by the Authority is mainly on account of the optimization/ rationalization done in few of the building blocks, as elucidated below:

a) The Authority has considered Cost of Equity @ 14% for the ISP as per its consistent approach (as against 21% proposed by MABPL).

b) Return @5% p.a. on SD has been considered by the Authority as per its consistent approach for the ISPs, which is also in line with the TDSAT Order dated 27.09.2019 in the AERA Appeal no. 1 of 2018.

c) After detailed review & analysis of Operating Expenses, some component of OPEX, such as Payroll Costs, R&M Expenses, Headquarters costs etc., have been optimized/ rationalized.

7.6.9 However, subsequent to consultation stage, considering the stakeholders' comments and additional information submitted by the ISP, the Authority has optimized / readjusted the Target Revenue (ARR) upwards from CP stage, due to followings:

a) Considered Cargo Volumes at 1337778 MT (as against cargo volume 1355800 MT proposed at CP stage).

b) Operating Costs with respect to Payroll Expenses, Headquarters costs, R&M Expenses have been further increased.

c) Concession Fee have been re-computed based on the Revised Revenue (after tariff increase), as the same is linked to the Revenue as per the concession agreement.

In view of the above readjustment in ARR, from CP stage to Order stage, the ARR for the ISP has increased i.e. from ₹ 1216.67 crores to ₹ 1223.25 crores.

7.7 Authority's decision regarding Aggregate Revenue Requirement (ARR) for the First Control Period.

Based on the material before it and its analysis, the Authority decides to consider:

7.7.1 FRoR in respect of MABPL for the First Control Period as per the Table 38.

7.7.2 ARR in respect of MABPL for the First Control Period as per the Table 40.

7.7.3 Tariff for Cargo Handling Services in respect of MABPL for the First Control Period as per the **Annexure-I.**

CHAPTER 8: REVENUE FROM OPERATIONS, PROFITABILITY & TAXATION.

8.1 MABPL's submissions on its projected Profitability for the First Control Period.

8.1.1 MABPL, as part of its MYTP, submitted forecast of revenues for the First Control Period, based on the proposed cargo volumes at current Tariff Rates, as applicable to the previous Cargo operator (MABBPL) at KIA, Bengaluru as under:

Table 42: Revenue Projected by MABPL for the First Control Period before proposed Tariff increase.

(₹ in crores)

Particulars	FY* 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Cargo Volume	211018	261687	277389	294032	311674	1355800
Domestic	36.00	44.63	47.31	50.14	53.15	231.23
International	66.51	82.44	87.44	92.67	98.22	427.28
Documentation	7.40	9.10	9.50	10.00	10.50	46.50
Demurrage	21.40	25.00	25.00	25.00	25.00	121.40
Total	**131.31**	**161.17**	**169.25**	**177.81**	**186.87**	**826.41**

** From COD i.e. 24.05.2023 to 31.03.2024.*

8.1.2 MABPL, while projecting Revenues hadn't considered any increase in demurrage revenues during control period, on the expectation of improvement in operating efficiency after commissioning of the Domestic Greenfield Cargo Terminal and procurement of new Material Handling System/ Equipment.

8.1.3 In support of its proposed Tariff increase, MABPL submitted the followings justifications:

- Tariff rates were last revised by AERA for previous cargo operator vide Order no 14/2013-14 in FY 2013-14.
- Significant CAPEX of ₹ 234.70 crores proposed in first tariff year of the Control Period.
- Year on Year OPEX Costs projected to increase on account of general inflation and capacity expansion plan.

8.1.4 Further, MABPL submitted that even after the proposed tariff increase, there will be a deficit of 3% in Revenues from the regulated services to match ARR. ISP proposed the following % age tariff increase in the existing rates of cargo handling services (as applicable to previous Cargo Operator):

Table 43: Percentage increase in Tariff rates proposed by MABPL for the First Control Period.

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Domestic Cargo Handling Services	35%	32%	25%	20%	15%
International Cargo Handling Services	15%	15%	12%	5%	5%

8.1.5 Based on its proposed Tariff increase as indicated above, MABPL proposed Tariff Rate Card for the First Control Period as per Annexure-III of the CP. The ISP further submitted the projected Revenue and Profitability Statement for the First Control Period, after considering the proposed Tariff increase, as per the Table below:

Table 44: Profitability Statement submitted by MABPL after considering the proposed tariff increase:

(₹ in crores)

Particulars	FY 2023-24*	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Revenue from Regulated Services	153.89	222.66	269.38	313.15	359.28	1318.36
Revenue from Non-Regulated Services	3.92	4.81	5.05	5.31	5.57	24.66
Total Revenue	157.81	227.47	274.43	318.45	364.86	1343.02
OPEX (excluding Revenue Share payable to AO)	115.84	140.23	156.78	175.11	196.64	784.60
Revenue Share/ Concession Fee payable to AO	39.45	56.87	68.61	79.61	91.21	335.75
Depreciation	9.35	18.14	18.14	18.14	18.14	81.91
Interest	14.88	12.93	10.79	8.45	5.88	52.93
Total Expenditure (including Interest Cost)	179.52	228.17	254.32	281.31	311.87	1255.19
Profit Before Tax (PBT)	-21.71	-0.69	20.11	37.14	52.98	87.83
Tax	0.00	0.00	5.06	9.35	13.33	27.74
PAT	-21.71	-0.69	15.05	27.79	39.64	60.08

** From 24th May,2023 to 31st March,2024.*

8.2 Authority's Examination on the projected Revenue from Operations, Profitability and Taxation at CP stage:

8.2.1 The Authority noted that Section 115BAA, introduced by the Government of India through the Taxation (Amendment) Ordinance, 2019 on 20.09.2019, provides option to a Domestic company to pay corporate tax at lower rate of 22% (plus applicable surcharge and cess, where the total turnover for Previous Year 2017-18 does not exceeds ₹ 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.

The Authority observed that MABPL had considered corporate tax @ 25.17% and the Authority proposed to consider the same Tax Rate for the First Control Period, as proposed by the ISP.

8.2.2 The Authority noted that MABPL had proposed lower % Tariff increase for International Cargo Services, as compared to the % Tariff increase proposed for the Domestic Cargo Services. In this regard, MABPL submitted the following justification:

(i) MABPL is of the view that the end users of services should be charged commensurate with the expenses involved in providing the cargo services such that there is no cross subsidization between various categories of customers. Accordingly, for recovery of the capital expenditure being incurred for new greenfield domestic cargo terminal and its operational expenditure, different tariff revision is required for domestic cargo handling services and international cargo handling services.

(ii) MABPL is a new company and the proposed tariffs are benchmarked with existing domestic tariffs of cargo operators at KIA, Bengaluru, only for reference purposes, which are at a lower base and thus, the increase required is different from the international cargo handling services.

(iii) MABPL also undertaken separate stakeholders' consultations and entered into the user agreements with both domestic and international users through mutual discussions for the proposed tariff revision.

8.2.3 The Authority is of the view that in order to encourage the movements of domestic air cargo and to reduce the logistics costs of domestic air cargo, tariff for domestic cargo handling services is required to be kept at reasonable level. However, considering that ISP proposed a CAPEX of ₹ 115.47 crores on construction of the Greenfield Domestic Cargo Terminal, including procurement of Material Handling System and other equipment etc.; in order to ensure that the proposed tariff for domestic cargo handling services is reasonable, the Authority proposed to rationalize tariff in respect of domestic & international cargo handling services for the ISP, as per Table 45 below.

8.2.4 The Authority noted that MABPL had also proposed tariff rates for few additional services, which are not part of the MABBPL's (previous Cargo Terminal Operator) Tariff Rate Card. The Authority, earlier approved Ad-hoc tariff for these additional services (which are not part of the erstwhile operator's rate card) vide order no 05/2023-24 dated 19.05.2023. The Authority, in respect of above referred additional services, proposed to consider the rates as per the order no 05/2023-24 dated 19.05.2023 as a "Base Rates", for considering percentage tariff increase proposed by the AERA for the ISP, as per Table 45 below.

8.2.5 The Authority further noted that projected Revenue for MABPL in respect of the First Control Period (as per the Tariff rates applicable to previous operator) was not sufficient to meet ARR requirement of the ISP. Therefore, the Authority proposed the following % increase in the tariffs for MABPL in respect of the First Control Period as given in Table below:

Table 45: Tariff increase proposed by the Authority for the First Control Period at CP stage.

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Domestic	21%	21%	21%	14%	14%
International	15%	15%	13%	10%	10%

8.2.6 Further, the Authority had computed the projected Profitability for MABPL (after the proposed Tariff increase) for the First Control Period, as per Table below:

Table 46: Profitability Statement as per the Authority in respect of MABPL (after proposed Tariff increase) for the First Control Period at CP stage.

(₹ in crores)

Particulars	FY 2023-24 (10 months)	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total#
Revenue						
Domestic Cargo	40.41	65.30	83.79	101.18	122.48	413.17
International Cargo	72.32	108.97	130.61	152.39	177.57	641.86
Documentation	7.61	10.03	11.00	12.16	13.40	54.20
Demurrage Charges	21.40	25.00	25.00	25.00	25.00	121.40

Non-Regulated Revenues	3.92	4.81	5.05	5.31	5.57	24.66
Total Revenues	**145.66**	**214.12**	**255.46**	**296.03**	**344.02**	**1255.29**
O&M Expenses	103.22	127.32	141.99	157.20	174.21	703.94
Revenue Sharing	36.42	53.53	63.86	74.01	86.01	313.82
Depreciation	9.02	17.28	17.28	17.28	17.28	78.14
Total Expenditure	**148.66**	**198.13**	**223.14**	**248.49**	**277.50**	**1095.92**
Profit before Interest and Tax	-3.00	15.99	32.32	47.54	66.52	159.37
Interest	14.90	12.90	10.80	8.40	5.90	52.90
Profit after Interest before Tax	-17.90	3.09	21.52	39.14	60.62	106.47
Tax	0.00	0.00	1.68	9.85	15.26	26.79
Net Profit	**-17.90**	**3.09**	**19.84**	**29.29**	**45.36**	**79.68**

8.2.7 From the above Table, the Authority noted that the ISP is maintaining good profitability during the Control period, except for the first tariff year of the Control period, primarily due to the higher operating expenses.

8.2.8 The Authority expects MABPL being a Major Global Entity in the business of cargo handling to:-

- Efficiently complete the projects in a time bound manner as mentioned under Table 18 above.
- Optimize and bring efficiency in the overall operating expenses during the Control Period.
- Bring global best practices in operations relating to the cargo handling services.

8.3 **Stakeholders' Comments regarding projected Revenues from Operations and Profitability**

Comments of FIA:

In its comments relating to proposed Tariff Rate Card, FIA submitted the following:

8.3.1 *"We humbly request AERA to kindly consider our submission as mentioned above and review the proposed tariffs in light of the same. as the proposed rates of tariff are very high, especially in the backdrop of COVID-19. It is in the interest of all the stakeholders not to implement such high tariffs in order to encourage middle class people to travel by air, which will help in sharp post COVID-19 recovery of the aviation sector. Customers of Cargo services (shippers, consigners, airlines, etc.,) have limited capacity to pay for the increase in rates for cargo handling. When the cost of transportation goes up (caused in part due to high tariff), the cargo volume goes down, leading to further losses and financial crisis for airlines.*

8.3.2 FIA, in respect of the Domestic Outbound/Inbound Cargo Handling Services, referred to the tariff rate card proposed by AERA for FY23-24 in Annexure-IV of the CP and submitted as under:

"outbound/inbound domestic cargo operations have reflected an increase of 21% over and above the existing interim approved rates provided by AERA on outbound cargo handling services vide AERA order no. 05/2023-24 dated 19th May 2023. in comparison with the proposed AERA rates in this CP. Further, on special cargo (Inbound charges) the proposed increase is 132% over the existing rates, which are exponentially high. It is further observed that, from FY24-26 there is, approximately 21% upward hike and around 14% upward hike from FY26-27 in the proposed tariff by AERA.

In view of the above, it is request that such exponential hike in tariff will degenerate the growth of the Domestic air cargo industry which is currently competing with the surface and other modes of cargo transportation, which are relatively cheaper, it has already led to seriously erosion on tonnages and revenue due to competitive price. It may be noted that, Bangalore market has always been AGRO and perishable products driven, which are highly price and time sensitive.

This increase will impact the overall cost to the end customer and hence would shift from air mode to surface and other modes of transportation/cargo handling such as speed trucking, trains, buses etc., As the short sectors which are today covered in less than an hour time (i.e., forty-five minutes), have already created a major decrease on the cargo volumes due to it being on cheaper price.

In the given circumstances, FIA request that, it is imperative that AERA does not take any steps, including by way of approving the proposed high tariffs, during the First Control Period, which would precipitate further adverse financial impact on the airlines and the entire aviation ecosystem and sector, which will not be in the best interest of all stakeholders which are recovering from the post Covid-19 effect.

In this regard, it is further requested that AERA should not implement any Y-O-Y increase in tariffs during the First Control Period and defer any increase in the same to the subsequent control period(s), given the scenario described above. In the event this request is not acceptable, then to offset the high fuel prices and low percentage of freight revenues we submit that the tariff increase may not be in excess of 5% on Y-O-Y basis.

Further, as it would be only possible to assess and gauge the performance and implementation of Capex in the last year of First Control Period (i.e., 2027-28) whether significant work has progressed in development of infrastructure, procurement of latest equipment and repairs / refurbishment, as proposed in the CP, AERA is requested that the proposed hike from the prevailing tariffs be deferred to the Second Control Period based on ground realities at that time.

In its comments on profitability analysis, FIA submitted that "in the current situation, airlines in India are staring at significant losses and recovery from strong financial headwinds and with limited financial support from the Government, airlines are constrained to implement severe cost control measures to sustain their operations. However, it is observed that, as per the proposed P&L Summary (refer Table 39 of the CP), the service provider is expected to report significant profits, which should not be at the expense of higher tariffs and burden to airlines/ users. We request AERA to reconsider this anomaly which would be caused by the proposed hikes in the tariff."

Comments of BIAL:

8.3.3 In its comment regarding estimated loss and Risk of exit of Global players, BIAL submitted that *"Private Airports Operators take a lot of initiatives to introduce Global market leaders, thereby introducing best practices and improving operational efficiencies resulting in higher overall cost efficiencies in the entire life cycle / value chain. These efficiencies bring sustained savings and better quality of operations in line with the global standards. These activities undertaken by the Airport Operators are in line with the objectives of GoI's National Air Cargo policy (NACP).*

"A proposition of a loss making scenario for the first financial year and overall PAT rate of around 6.3% for the first control period, as proposed by AERA would lead to unviable operations resulting in

panic of the Global leaders entering the Indian Cargo market, which will risk the fulfilment of NACP through the entry of global leaders. This also will have a serious impact on FDI flows into India."

8.3.4 In its comment on the Uniform Price increase for Airlines and Shippers/Agents, BIAL submitted that *"AERA has proposed to apply a uniform tariff increase between the tariff for Agents/Freight Forwarders (FF) and Airlines. While MABPL had initially proposed the same, after considering Order No. 13/2023-24 released on 09/08/2023 in the matter of 'Determination of Tariff for WFS Private Limited providing Cargo Handling Services at Kempegowda International Airport, Bengaluru for the First Control Period, it will be difficult for MABPL to charge the proposed airline tariffs, which are significantly higher than its competitor, as the airline contracts are negotiated with the cargo operators. Thus, it would result in artificially increasing the revenue projections but one which MABPL would not be able to achieve at all, in reality. BIAL is of the view that in a competitive environment such a uniform price increase plan will destabilize MABPL's financial plan and may hurt the competitive spirit it intended to create at BIAL. BIAL, would therefore, request the Authority to allow MABPL the flexibility in the tariff structure consistent with the Authority's treatment for its competitor."*

Comments of MABPL:

8.3.5 In its comment on the projected Revenues from Operations & Profitability, MABPL submitted the following:

"Domestic Tariff card proposed by the Authority

i. *Before filing the tariffs to the Authority, MABPL had undertaken several stakeholder consultation meetings to understand the market acceptability and address the industry's concerns.*

ii. *Based on the stakeholder consultation and requirement of sustainable operations, MABPL submitted the proposed tariffs for the first control period.*

iii. *MABPL would also highlight that several airlines have agreed to the proposed domestic rate card and entered into agreements with MABPL subject to the Authority's approval (signed SGHA's submitted to the Authority as part of the MYTP review process).*

iv. *The domestic tariffs were proposed to compensate for the investment undertaken by MABPL in developing the new greenfield cargo terminal.*

v. *Accordingly, MABPL submits to the Authority that the domestic tariffs in the initial years be increased to at least 35% in FY24 and 32% in FY25 to address the above concerns."*

8.3.6 In in respect of the Tariff Rate Card for International Cargo Handling Services, M/s MABPL submitted the following:

"International Tariff card proposed by the Authority

i. *After thorough evaluation of the Authority's proposed Tariff Rate hike for international cargo handling services, MABPL would like to cite clause 8.5.4 of Order No. 13/2023-24 released on 09/08/2023 in the matter of 'Determination of Tariff for WFS Private Limited providing Cargo Handling Services at Kempegowda International Airport, Bengaluru for the First Control Period'.*

ii. *MABPL has noted that the Authority has approved different tariff increases for TSPs and Airline fees for the competitor, which is a change of position of the Authority from the consultation paper and other cargo ISPs.*

iii. *It is imperative to highlight that MABPL and WFSBPL are competitors for International Cargo Operations at KIA.*

iv. *Airlines negotiate contracts with the cargo operators for the provision of cargo services. There is intense competition between the cargo operators to attract the airlines, and one of the major negotiation points is with respect to the rates offered by the cargo operators. Thus, there is a difference between the Authority's approved rates for airlines and rates charged to the airlines by the cargo operators.*

v. *Since the Authority has approved a significantly lower rate increase for airline fees for its competitor, MABPL is of the view that the airlines will negotiate with MABPL to offer similar or lower rate as offered by its competitors. In order to attract cargo traffic and survive in the intense competition, MABPL expects that it will be forced to offer similar or lower rates as offered by its competitors to its customer airlines. In case MABPL continues with its uniform tariff increase approach for TSPs and airline fees, then such arrangement will result in significant losses wherein MABPL will not realise the revenue projected by the Authority from airline customers in actuals.*

vi. *Being mindful of the above challenges and to survive in the competitive market, MABPL is compelled to request the Authority to offer consistent treatment with respect to the tariff determination approach adopted by the Authority for its competitors.*

vii. *In that regard, MABPL would request the Authority to allow a lower increase in the airline fees and a higher increase in the TSP charges w.r.t. the tariff increase proposed in the consultation paper such that the international revenues remain the same as shown in the Table below:*

Tariff increase w.r.t. international cargo fees	*FY24*	*FY25*	*FY26*	*FY27*	*FY28*
Proposed by the Authority in consultation paper					
Airline fees and TSPs	*15%*	*15%*	*13%*	*10%*	*10%*
Proposed by MABPL					
Airline fees	*15%*	*8%*	*8%*	*8%*	*8%*
TSPs	*Due to a reduction in the quantum of tariff increase in airline fees, the revenues from airlines will be lower than that assumed in the consultation paper resulting in a shortfall in international revenues. This shortfall in airline revenues is requested to be recovered from an adjustment in the tariff increase for TSPs* which will be higher than that proposed by the Authority during the consultation paper.*				

** as per the assumptions on ARR finalized by AERA as part of the order*

viii. *The same has been done for its competitor, which would reflect consistency on the part of the Authority and the two cargo operators operating at the same airport under similar concession agreements."*

ix. *"Tariff rates proposed by the Authority:*

After a thorough evaluation of the Authority's proposed Tariff Rates, MABPL would like the Authority to reconsider the following:

Int / Dom	Import/ Export/ In/Out/ Notes	Airlines/ FF/A/S#	Service	Ref. Page No.	Proposed by the Authority	Proposed by MABPL	Remarks
Int	*Import*	*FF/A/S*	*Demurrage Charges (General, Special, Valuable/ dangerous)*	*72*	*Free period to 120 hours*	*Free period to 96 hours*	*Storage for 48 hours Free period prescribed as per Ministry of Civil Aviation and subsequent 48 hours*
Int	*Import*	*FF/A/S*	*Demurrage Charges (General, Special, Valuable/ dangerous)*	*72*	*120 hours to 720 hours*	*96 hours to 696 hours*	*Period prescribed as per Ministry of Civil Aviation*
Int	*Import*	*FF/A/S*	*Demurrage Charges (General, Special, Valuable/ dangerous)*	*72*	*Beyond 720 hours*	*Beyond 696 hours*	*Period prescribed as per Ministry of Civil Aviation*
Int	*Notes*	*FF/A/S*	*Point 3*	*73*	*'Cross Weight'*	*'Gross Weight'*	*Spelling Error*
Int	*Export*	*Airlines*	*PER/ PIL/ TCR*	*74*	*3.78**	*4.35**	*As the existing charge is INR 3.78 per kg, with 15% increase the rate proposed by MABPL was INR 4.35 per kg. Also, SGHA with customer is also signed with the proposed rates (submitted to the Authority). Therefore, MABPL requests the Authority to provide the proposed rate of INR 4.35 per kg in FY24 and adjust the future year tariffs as per the applicable tariff increase.*
Int	*Import*	*Airlines*	*PER/ PIL/ TCR*	*75*	*3.78**	*4.35**	*As the existing charge is INR 3.78 per kg, with 15% increase the rate proposed by MABPL was INR 4.35 per kg. Also, SGHA with a customer is also signed with the proposed rates (submitted to the Authority). Therefore, MABPL requests the Authority to provide the proposed rate of INR 4.35 per kg in FY24 and adjust the future year tariffs as per the applicable tariff increase.*

Int'l / Dom	Import/ Export/ In/Out/ Notes	Airlines/ FF/A/S#	Service	Ref. Page No.	Proposed by the Authority	Proposed by MABPL	Remarks
Dom	Outbound Inbound	FF/A/S	Terminal, Storage and Processing	76	Special Special - AVI	Special/ AVI Special/AVI	Change in both outbound and inbound.
Dom	Notes	FF/A/S	Point 1	77	Export/ Import	Outbound/ Inbound	Export/Import not applicable on domestic routes
Dom	Notes	FF/A/S	Point 1	77	'Cross Weight'	'Gross Weight'	Spelling Error
Dom	Notes	FF/A/S	Point 1 Point 4	77	Export Cargo/ Import Cargo	Replace with Outbound Cargo/ Inbound cargo	Export/Import not applicable on domestic routes
Dom	Notes	FF/A/S	Point 4	77	-	Replace with points in remarks.	Storage charges: a. Outbound Cargo-Free period shall be 24 hours from the time shipment deposited by the forwarder/agent/shipper on 'Per Kg Per day'. b. Inbound Cargo-Free period shall be 24 hours from the actual time of flight arrival at 'Per Kg Per Day" basis.
Dom	Transshipment	Airlines	Domestic to Domestic (General/ Special)	79	General: Per kg - 2.54* Min – 204* Special: Per kg - 2.54* Min – 204*	General: Per kg - 3.34* Min – 229* Special: Per kg - 3.34* Min – 441*	Existing charge for INR 2.76 per kg and minimum fee of INR 189/ 364 (General/ Special) (for transshipment) with 21% increase will be INR 3.34 per kg and INR 229/ 441 (General/ Special).

Note: Charges for base year (FY24). To increase throughout the control period in line with the hikes decided by the Authority."

x. "Below note to be included in the tariff Table and notes:

All Export charges for Freight forwards/shippers/agents shall be on per shipping bill/AWB basis.

All Import charges for Freight forwards/consignees/agents shall be on per bill of Entry/AWB basis."

Comments of Menzies Aviation Limited (MAL):

8.3.7 In the matter relating to "Uniform rate increases for airlines and freight forwarders", MAL submitted that:

"It has been observed that the Authority has amended its proposal in the final Order no. 13/2023-24 dated 9th August 2023, regarding the uniform tariff increase for its competitor and allowed different percentage tariff increase for freight forwarders and airlines. Menzies would highlight that the cargo tariff rates levied to airlines in a competitive market are determined based on RFP/Tender process with each of the airlines subject to cap set by the Authority. Thus, the airline tariff rates are discounted

to attract or retain an airline customer. Thus, in a competitive market, we will not be able to change the airline tariffs rates proposed by the Authority in the consultation paper given that there is significant difference between competitor and our rates. In these circumstances MABPL will not realize the revenues projected by the Authority from the airline rates resulting in lower ROI. Therefore, to accurately estimate the revenues and maintain sustainable operations, MABPL urges and requests the Authority to allow different percentage increase for freight forwarders and airlines (as detailed in the revised proposal submitted by MABPL)."

8.4 **Counter Comments of MABPL:**

8.4.1 In response to FIA's comment on the Tariff Rate Card proposed by the Authority as Annexure-IV of the CP, ISP has submitted the following:

"MABPL disagrees with the comments regarding the tariff revision of the stakeholder and reiterates the reasons for tariff revision to have sustainable business operations:

1. *Tariff rates were last revised by AERA for MABB (benchmarked rates) through Order no. 14/ 2013-14 in FY14, almost 10 years back.*
2. *MABPL shall incur the capital expenditure for greenfield domestic cargo terminal and expansion of international cargo terminal as per the terms of the SPRH agreement.*
3. *The operational expenditure for the first control period is also increasing on account of inflation and capital expansion projects.*
4. *Even after the proposed tariff increase by the Authority, the profit margin is ~6%, which is a cause of concern for our investors.*
5. *One of the major feedback items obtained from the stakeholders regarding a simplified tariff card has also been considered while preparation of the same.*

MABPL, after reviewing the order for its competitor, has been compelled to request the Authority to allow different tariff revision in TSP and airline rates for the reasons given in our detailed response to the consultation paper.

On the point of the proposed increase in the special inbound cargo charges, MABPL would like to point out that no such separate 'Special' category existed for the inbound charges for the incumbent. Therefore, the charges for the 'Special' category were proposed by MABPL as part of this control period by benchmarking it with the tariffs of other incumbent cargo operator. The charges have been determined by applying the approved tariff hike (21% in FY24) by the Authority on the existing rates for special cargo of the other incumbent cargo operator. Hence, the claim of such increase in charges is not appropriate.

Further, regarding the comment on the competing modes of transport, MABPL notes that the differentiating factor between air cargo and other modes of transportation is not just cost. While the competition does exist, air cargo offers a magnitude of benefits over other transportation means (sea or road) such as speed and safety, which is a unique value add for customers wanting to transport their goods via air.

The combination of above factors, coupled with the profitability expected for the first control period, FIA's views on tariff hikes presents a conservative approach will create feasibility issues in the long term for MABPL. The tariff revision is well justified for a sustainable cargo operations."

8.4.2 In response to BIAL's comment on Revenues from Operations & Profitability, ISP has submitted the following:

"Uniform Price Increase for Airlines and Shippers/Agents":

MABPL concurs with BIAL in this regard and has separately submitted its views in detail as part of the response to stakeholder comments.

The lack of negotiating flexibility on part of MABPL renders current revenue projections by the Authority unlikely. Therefore, in line with the competitive spirit, with which BIAL had envisaged a dual-operator system, the two cargo operators should have uniformity in terms of flexibility of pricing, and tariff hikes.

MABPL, would therefore, request the Authority to allow for a tariff revision that is consistent across the two cargo operators."

8.4.3 Further, in response to BIAL's comment regarding "Estimated Loss, Risk of Exit of Global Players, the ISP submitted as under:

"Firstly, MABPL would like to thank BIAL for recognizing the global positioning of MABPL and believing that it will introduce best practices and improve operational efficiencies, in line with the vision and policies of the respected Government of India.

MABPL concurs with BIAL's views on the estimated losses, risk of exit of global players and personnel cost. MABPL would like to reiterate that given the current tariff structures, the revenues projections are unlikely to be achieved. The amount of risk carried, the magnitude of the infrastructure deployed and the quality of services targeted – all make a ~6% profit margins over a period of five years a cause of concern.

8.5 **Authority's Analysis of the Stakeholders comments:**

8.5.1 The Authority notes the comments of FIA requesting the Authority to reconsider the high tariff increase proposed for the ISP. The stakeholder urged the Authority to defer the proposed hike in the tariff rates to the next Control Period.

(a) In this regard, it is informed that the Authority, while proposing tariff increase for the ISP (at CP stage), had analyzed various regulatory building blocks, including the projected CAPEX, OPEX, Traffic Volume etc. Further, the Authority, wherever required, had sought the required clarifications/ additional information pertaining to the various regulatory building blocks etc. Based on the extensive review/ analysis of the MYTP etc., the Authority had also rationalized few components of Operating Costs, return on SD etc. Thus, the Authority at CP stage has done the required due diligence & proposed tariff increase for MABPL, considering all the relevant factors, including CAPEX (₹ 228.05 crores for the Control Period), OPEX, Cargo Volumes etc., projected by the ISP.

(b) Further, subsequent to completion of consultation process, the Authority has considered the comments/ views of the stakeholders, including the counter comments of the ISP, relating to the proposed tariff increase & profitability etc., before finalizing tariff in respect of the ISP.

(c) It is also pertinent to mention that the tariff rates for the erstwhile cargo terminal operator (MABBPL), based on which prevailing tariff for MABPL was approved by the AERA, was last revised about 10 years back.

Considering the above, the Authority has decided the % increase in the Tariff Rates for the ISP, so as to meet its projected Revenue Requirement for the First Control Period, based on the revised ARR computed by the Authority (refer Table no. 40).

8.5.2 In respect of the FIA's comments regarding 132% tariff increase proposed by the AERA, over the existing tariff rate for the Special Inbound Cargo, it is informed that the tariff for the 'Special Inbound Cargo' was not the part of the previous Cargo Operator Tariff Rate Card and this is a new sub-category of service proposed by the ISP (at CP stage) to fill up the gap in its Tariff Rate Card. In view of the above, the 132% tariff increase in respect of the 'Special Inbound Cargo' inferred by the stakeholder is incorrect. The Authority, at CP stage, while considering the base charges for the 'Special Inbound Cargo', had reviewed the charges prevalent at other airports for the similar services and proposed tariff rates for Special Inbound Cargo, accordingly.

8.5.3 As regard to FIA's comments that the increase in the tariff rates for the ISP may not be considered in excess of 5% on Y-o-Y basis, it is informed that the Authority has considered Y-o-Y increase in tariff rates for MABPL, considering the projected increase in operating expenses, additional manpower as per the projected increase in cargo volumes, annual increase in salaries & wages, impact of general inflation on various components of operating expenditure of the ISP. Accordingly, the suggestion of the stakeholder to cap the Y-o-Y increase in tariff rates to 5% in respect of the ISP, is considered as practically not feasible.

8.5.4 With respect to BIAL & MABPL's comments regarding projected loss, risk of exit of global player, the Authority, in this regard observes that ISP is expected to earn overall profit of 6.31% approx. during the First Control Period (refer profitability statement - Table 48). It is worth mentioning that the civil aviation is capital-intensive sector and the investments in the airport sector, including cargo business, are made with a long-term perspective. It is quite common for such businesses (with long gestation periods), during their initial stages, to have limited / nil returns. It takes time for any business to grow and start generating profits.

Further, the profitability of entity depends upon many factors, including its business model, CAPEX Plan, OPEX, Market Competition, operating efficiency etc. Hence, the profitability of the business entity is not just a function of tariff rates alone, the other key parameters indicated above play equally important role in the profitability generated by the entities. It is imperative on part of the commercial entities, particularly during their initial stages of the business cycle, to operate efficiently and to exercise cost controls so as to improve profitability.

In the instant case, the ISP has proposed to incur the 100% of the CAPEX projected for the First Control Period in the first tariff year (FY 2023-24) itself, which is resulting in significant depreciation from the very first year of the Control Period; consequently, depreciation along with higher operating costs are impacting the profitability of the service provider in the initial tariff years of the Control Period.

8.5.5 It is also important to note that the service provider is operating in a regulated sector, where it is incumbent on the regulator to consider the views of all the stakeholders before deciding tariffs of the regulated services. In the instant case, FIA, representing airlines, has strongly opposed the tariff increase proposed by the AERA for the ISP (at the consultation stage). FIA in its comments has requested the Authority to reconsider the proposed tariff hike for the service provider, which as per them, is too high and will impact adversely affect the airlines.

The Authority, considering the views of all the stakeholders including service provider and taking into account other relevant aspects of the case, has tried to balance the interests of stakeholders and has decided to increase the tariff in respect of the ISP as per Table 47.

8.5.6 MABPL, Menzies Aviation Limited & Airport Operator (BIAL), in their comments regarding the 'uniform percentage (%) tariff increase' for the Freight Forwarders and the Airlines (proposed by AERA at the CP stage), have requested to the Authority to allow the ISP to have differential percentage (%) increase in Tariff Rates in respect of the services relating to 'Freight Forwarders' and the 'Airlines'.

As per the above stakeholders, pursuant to Order no. 13/2023-24 dated 09th August, 2023 (in respect of WFSBPL, KIA, Bengaluru), wherein differential Tariff increase (in percentage terms), for the services relating to the 'Freight Forwarders' and the 'Airlines' has been approved by AERA; it would be difficult for MABPL with the higher tariff rates for the airlines (as proposed at CP stage) to compete with the other service provider (WFSBPL).

In this regard, it is mentioned that the Authority, at CP stage, had proposed the uniform percentage (%) increase in Tariff Rates, both for the services pertaining to the 'Freight Forwarders' and the 'Airlines', as was proposed initially by the ISP.

However, considering the submission of the ISP & the comments of Airport Operator & MAL, and in order to maintain the parity in tariff structure between the two cargo terminal operators (MABPL & WFSBPL) operating at the same airport; the Authority has reconsidered the matter and has decided higher percentage (%) tariff increase for the cargo handling services pertaining to the 'Shippers/ Agents' to an extent, while largely maintaining the tariff structure of erstwhile cargo service provider (MABBPL).

The percentage (%) tariff increase decided by the Authority, in respect of the 'Airlines' and 'Shippers/ Agents' related Services is given below:

Table 47: Percentage increase in Tariff Rates considered by the Authority for MABPL in respect of the First Control Period

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
TSPs (Domestic)	30%	30%	26%	26%	26%
Airline Fees (Domestic)	15%	15%	12%	12%	12%
TSPs (International)	28%	28%	17%	17%	17%
Airline Fees (International)	12%	12%	10%	10%	10%

8.5.7 The Authority also notes the submission of the ISP requesting for the amendments in the 'Particular of Service(s)/Remarks/Rates' columns in respect of some of the services in the Tariff Rate Card proposed by the Authority (refer para 8.3.6, point no. ix above). Considering the submission of the ISP, the

Authority decides to incorporate necessary amendments in the 'Particulars/Remarks'/Footnotes in respect of the services referred by the ISP vide para no 8.3.6 (subpoints ix & x).

8.5.8 In respect of ISPs' comment pertaining to International Export & Import Cargo – Airline charges in respect of "PER/ PIL/ TCR" category of Cargo, the Authority at CP stage, had considered base tariff rate of ₹ 3.78/Kg, as per the ad-hoc tariff approved earlier for the ISP.

However, inadvertently no increase in respect of "PER/ PIL/ TCR" Cargo for FY 2023-24 was considered by AERA at CP stage. Now, based on the comments of the ISP, the Authority decides to incorporate same % tariff increase in the above referred category of International Export & Import Cargo as is decided by the Authority for Airlines fees (International Cargo) as per Table 47.

8.5.9 As regard to the comments of ISP in respect of the Domestic-to-Domestic Transshipment Charges proposed at CP stage, the Authority notes that there was no existing category of Transshipment charges in respect of Domestic Cargo in the tariff rate card of previous operator. Hence, the ISP's reference to the existing charges for Domestic-to-Domestic Transshipment Charges [i.e. ₹ 2.76/Kg & minimum fee of ₹ 189/364 (General/Special Cargo)] is incorrect.

Therefore, the Authority decides to maintain the same view on the Domestic-to-Domestic Transshipment Charges as was proposed at the CP stage.

8.5.10 In view of the above analysis and taking into account the stakeholders' comments, the Projected Profitability (after tariff increase) in respect of the ISP for its First Control Period as per the Authority is given in Table below:

Table 48: <u>Profitability statement as per the Authority in respect of MABPL (after Tariff increase) for the First Control Period.</u>

(₹ in crores)

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
TSP Revenue	45.56	83.63	105.98	133.86	170.31	539.33
Demurrage Revenue	21.38	25.00	25.00	25.00	25.00	121.38
Airline's fee	59.66	89.75	105.69	124.72	146.76	526.58
Documentation	7.55	10.00	11.03	12.16	13.40	54.14
Other Revenue	3.92	4.81	5.05	5.31	5.57	24.66
Total Revenue	**138.07**	**213.19**	**252.75**	**301.04**	**361.04**	**1266.09**
OPEX (*Refer Table 32*)	105.71	128.21	143.01	158.65	176.18	711.76
Revenue sharing/ Concession fees (*Refer Table 32*)	34.52	53.30	63.19	75.26	90.26	316.53
Total OPEX	140.23	181.51	206.20	233.91	266.44	1028.29
Profit before Depreciation, Interest & Tax	-2.16	31.68	46.55	67.13	94.60	237.80
Depreciation (*Refer Table 21*)	9.02	17.28	17.28	17.28	17.28	78.14
Interest Charges	14.90	12.90	10.80	8.40	5.90	52.90
Profit Before Tax (PBT)	**-26.08**	**1.50**	**18.47**	**41.45**	**71.42**	**106.76**

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Taxation[#]	-	-	-	8.90	17.98	26.88
PAT	**-26.08**	**1.50**	**18.47**	**32.55**	**53.44**	**79.88**
Profit Margin	-18.89%	0.70%	7.31%	10.81%	14.80%	6.31%

[#] *Nil provision for taxation due to adjustment of projected losses during first three tariff years*

It may be noted that though the Interest Charges (on long term debt) is not a regulatory building block (for OPEX projection), the Authority in the above table has considered Interest Charges (as per ISP submission) only for the purpose of computing corporate tax liability of the service provider. Accordingly, in accordance with the CGF Guidelines, the interest charges, on the long-term debt (having tenure of more than 12 months), have not been considered in OPEX by the Authority while arriving at the final ARR for the ISP (refer Table 40)

8.5.11 The Authority notes that MABPL has been awarded the concession for domestic & international cargo handling at Bengaluru Airport for a period of 15 years and as per the Authority's profitability projection for the ISP, the Service Provider is expected to generate profits from the second tariff year onward, during the First Control Period.

8.6 Authority's decision regarding Revenue for the First Control Period.

8.6.1 Based on the material before it and its analysis, the Authority decides to consider projected Revenue (after Tariff increase) and Profitability Statement for the ISP pertaining to the First Control Period as per the Table 48.

CHAPTER 9: SUMMARY OF AUTHORITY'S DECISIONS

The below mentioned summary provides the Authority's decisions relating to relevant chapters regarding the tariff determination for MABPL, providing Cargo Handling Services at Kempegowda International Airport, Bengaluru:

Chapter	Para	Authority's Decision(s)	Page No.
Chapter No.2	**2.8.1**	The Authority decides that the Cargo Handling Service provided by MABPL at KIA, Bengaluru for the First Control Period is **'Material but Competitive'**. Accordingly, the Authority decides to determine the Tariff for the ISP in respect of its First Control Period based on **'Light Touch Approach'.**	**12**
Chapter No.3	**3.6.1**	The Authority decides to consider the Cargo Volumes for the First Control Period for MABPL as per the Table 7.	**21**
Chapter No. 4	**4.11.1**	The Authority decides to consider the Additions to RAB, Depreciation and Average RAB as per the Table 23.	**40**
Chapter No. 5	**5.7.1**	The Authority decides to consider the OPEX projection for MABPL in respect of the First Control Period as per the Table 32.	**63**
Chapter No. 6	**6.5.1**	The Authority decides to consider 30% lower TSP Charges in respect of the cargo pertaining to the AFS.	**67**
Chapter No. 7	**7.7.1**	The Authority decides to consider the FRoR in respect of MABPL for the First Control Period as per the Table 38.	**80**
	7.7.2	The Authority decides to consider the ARR in respect of MABPL for the First Control Period as per the Table 40.	
	7.7.3	The Authority decides to consider the Tariff for Cargo Handling Services in respect of MABPL for the First Control Period as per the **Annexure-I.**	
Chapter No. 8	**8.6.1**	The Authority decides to consider projected Revenue (after Tariff increase) and Profitability Statement for the ISP pertaining to the First Control Period as per the Table 48.	**95**

CHAPTER 10: ORDER

Upon careful consideration of the material before it, 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) The services relating to Domestic and International Cargo Handling provided by MABPL at Kempegowda International Airport, Bengaluru for the First Control Period, is deemed as 'Material but Competitive'. Accordingly, the Authority has determined Tariff for the First Control Period in respect of MABPL, at Kempegowda International Airport, Bengaluru under the 'Light Touch Approach'.

(ii) MABPL is allowed to levy the revised Tariff for the Domestic and International Cargo Handling Services for its First Control Period (FY2023-24 to FY 2027-28) with effect from **20.11.2023** as per the **Annexure-I.**

(iii) Tariff determined hereinunder is the maximum Tariff to be levied to Users. No other charge(s) is to be levied over and above the approved Tariff rates.

(iv) The Tariff rates approved hereinunder are excluding of all applicable taxes, if any.

(v) M/s MABPL at the end of each tariff year shall submit Annual Compliance Statement (ACS), including annual audited accounts, as per AERA CGF Guidelines, 2011 (clause 11.4).

(vi) The Airport Operator shall ensure the compliance of this Order.

By the Order of and in the Name of the Authority

(Suyash Narain)
Secretary

To

Mr. Venkata Reddy Kunam,
Head of Projects-India
M/s Menzies Aviation (Bengaluru) Private Limited (MABPL),
Administration Block, Kempegowda International Airport,
Bengaluru, Karnataka-560300.

Copy to for information:

1. Secretary, Ministry of Civil Aviation, Rajiv Gandhi Bhawan, Safdarjung Airport New Delhi-110003.
2. Sh. Hari K. Marar, CEO, BIAL, Alpha-2, Kempegowda International Airport, Bengaluru, India – 560300.

APPROVED TARIFF RATE CARD FOR MABPL FOR THE FIRST CONTROL PERIOD (FY 2023-24 TO FY 2027-28) IN RESPECT OF THE CARGO HANDLING SERVICES PROVIDED AT KEMPEGOWDA INTERNATIONAL AIRPORT, BENGALURU.

Revised Tariff rates are effective from 20.11.2023

(I) Tariff Rates for International Cargo Handling Services payable by Freight Forwarders/Agents/Shippers.

(A) EXPORT CARGO HANDLING SERVICES.

(Rates in INR)

Sno.	Service	Unit	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
1	**Terminal, Storage and Processing**						
a.	General	(Per Kg)	1.41	1.80	2.11	2.47	2.89
		Minimum/ consignment	168.00	215.00	252.00	295.00	345.00
b.	Special	(Per Kg)	2.11	2.70	3.16	3.70	4.33
		Minimum/ consignment	337.00	431.00	504.00	590.00	690.00
c.	Valuable/Dangerous	(Per Kg)	3.67	4.70	5.50	6.44	7.53
		Minimum/ consignment	337.00	431.00	504.00	590.00	690.00
d.	**BUP Charges- AFS Cargo**						
	General Cargo						
	BUP Charge (upto LD3) Capacity-1588 Kgs	Per Unit	1567	2006	2347	2746	3213
	BUP Charge (above LD3 - lower deck pallet) Capacity-3175 Kgs	Per Unit	3134	4012	4694	5492	6426
	BUP Charge (above LD3 - main deck pallet) Capacity-6800 Kgs	Per Unit	6712	8591	10051	11760	13759
	Other than General Cargo						
	BUP Charge (upto LD3) Capacity-1588 Kgs	Per Unit	2345	3002	3512	4109	4808
	BUP Charge (above LD3 - lower deck pallet) Capacity-3175 Kgs	Per Unit	4689	6002	7022	8216	9613
	BUP Charge (above LD3 - main deck pallet) Capacity-6800 Kgs	Per Unit	10044	12856	15042	17599	20591
2	**Demurrage Charges**						
a.	General	(Per Kg)	1.13	1.45	1.70	1.99	2.33
		Minimum/ consignment	175.00	224.00	262.00	307.00	359.00
b.	Special	(Per Kg)	2.11	2.70	3.16	3.70	4.33
		Minimum/ consignment	337.00	431.00	504.00	590.00	690.00
c.	Valuable	(Per Kg)	3.67	4.70	5.50	6.44	7.53
		Minimum/ consignment	337.00	431.00	504.00	590.00	690.00

3	Packing/Repacking/Strapping Charges	(Per Piece)	7.68	9.83	11.50	13.46	15.75
4	Return Cargo Charges	(Per AWB)	672.00	860.00	1006.00	1177.00	1377.00
5	AWB Amendment Charges	(Per AWB)	134.00	172.00	201.00	235.00	275.00
7	Weight/Volume Misdeclaration	2-5% Variation	2 Times the TSP				
		More than 5% Variation	5 Times the TSP				

(B) IMPORT CARGO HANDLING SERVICES.

(Rates in INR)

Sno.	Service	Unit	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
1	**Terminal, storage and processing**						
a.	General	(Per Kg)	6.91	8.84	10.34	12.10	14.16
		Minimum/ consignment	168.00	215.00	252.00	295.00	345.00
b.	Special	(Per Kg)	13.82	17.69	20.70	24.22	28.34
		Minimum/ consignment	337.00	431.00	504.00	590.00	690.00
c.	Valuable/Dangerous	(Per Kg)	13.82	17.69	20.70	24.22	28.34
		Minimum/ consignment	337.00	431.00	504.00	590.00	690.00
	BUP Charges- AFS Cargo						
	General Cargo						
	BUP Charge (upto LD3) Capacity-1588 Kgs	Per Unit	7686	9838	11510	13467	15756
	BUP Charge (above LD3 - lower deck pallet) Capacity-3175 Kgs	Per Unit	15357	19657	22999	26909	31484
	BUP Charge (above LD3 - main deck pallet) Capacity-6800 Kgs	Per Unit	32892	42102	49259	57633	67431
	Other than General Cargo						
	BUP Charge (upto LD3) Capacity-1588 Kgs	Per Unit	15362	19663	23006	26917	31493
	BUP Charge (above LD3 - lower deck pallet) Capacity-3175 Kgs	Per Unit	30715	39315	45999	53819	62968
	BUP Charge (above LD3 - main deck pallet) Capacity-6800 Kgs	Per Unit	65783	84202	98516	115264	134859
2	**Demurrage Charges**						
a.	General	Flight Actual Time of Arrival (ATA) plus 48 hrs.	No charge	No charge	No charge	No charge	No charge
		Cargo cleared between 48 hrs. and 96 hrs.	2.11	2.70	3.16	3.70	4.33
		Cargo cleared between 96 hrs. and 720 hrs.	3.96	5.07	5.93	6.94	8.12
		Cargo cleared after 720 hrs.	5.93	7.59	8.88	10.39	12.16

		Minimum Rate/ consignment	430.00	550.00	644.00	753.00	881.00
b.	Special	Flight Actual Time of Arrival (ATA) plus 48 hrs.	No charge	No charge	No charge	No charge	No charge
		Cargo cleared between 48 hrs. and 96 hrs.	3.96	5.07	5.93	6.94	8.12
		Cargo cleared between 96 hrs. and 696 hrs.	7.90	10.11	11.83	13.84	16.19
		Cargo cleared after 696 hrs.	11.85	15.17	17.75	20.77	24.30
		Minimum Rate/ consignment	840.00	1075.00	1258.00	1472.00	1722.00
c.	Valuable/ Dangerous	Flight Actual Time of Arrival (ATA) plus 48 hrs.	No charge	No charge	No charge	No charge	No charge
		Cargo cleared between 48 hrs. and 96 hrs.	7.90	10.11	11.83	13.84	16.19
		Cargo cleared between 96 hrs. and 696 hrs.	15.87	20.31	23.76	27.80	32.53
		Cargo cleared after 696 hrs.	23.78	30.44	35.61	41.66	48.74
		Minimum Rate/ consignment	1714.00	2194.00	2567.00	3003.00	3514.00
3	AWB Amendment Charges	Rate (INR/Per AWB)	134.00	172.00	201.00	235.00	275.00
4	Packing/Repacking/Strapping Charges	Per Piece	7.68	9.83	11.50	13.46	15.75

Notes:

1. *Demurrage Charges:*
   Export Cargo - Total free period available for export cargo would be 12 hrs. or as decided by Govt. of India from time to time.
   Import Cargo - Free period shall be 48 hrs. from segregation time or as decided by the Govt. of India from time to time.
   If the clearance is done on 3rd and 4th day from Flight segregation Time then the charges are as per 2 (A), (B) & (C) per kg per day. If the clearance is done after the 4th day of the Flight Segregation Time, the demurrage will be calculated cumulatively as under:
   - a) *Day of Flight Segregation Time 4th day Slab 1*
   - b) *5th Day - 29 days - (both days inclusive) Slab 1 & Slab 2*
   - c) *Beyond 29 days Slab 3*
2. *Consignments of Human Remains, Coffins including unaccompanied Baggage of deceased and Human Eyes will be exempted from the purview of the TSP and Demurrage charges.*
3. *The charges will be levied on "Gross 'Weight" or "Chargeable Weight" whichever is higher. Wherever there is a misdeclaration of the Gross or chargeable weight on the AWB, the actual Gross weight or Actual Chargeable weight will be used for the charges whichever is higher.*
4. *Storage Charges*
   - a. *Export Cargo-Free period shall be 12 hours, for completion of customs clearance process by Shippers on 'Per Kg Per day'; or as per the Govt. of India Orders issued in this regard, from time to time.*

b. *Import Cargo-Free period shall be 48 hours, or as per the Govt. of India Orders issued in this regard, from time to time, from the time of segregation of flight. For the next 48 hours demurrage will be charged at 'Per Kg Per Day" on non-cumulative basis provided the consignment is cleared within 96 hours. If the clearance is affected after 96 hours (from the date of segregation) demurrage will accrue for the entire period from the Actual time of Segregation.*

5. *50% of General Cargo charges will be applicable to newspaper (Daily) TV Reels. Applicable to per kilo charge only.*
6. *All bills will be rounded to the next INR 1.*
7. *VAL Cargo consists of Gold Bullion, Currency Notes, Shares, Share Coupons, Traveler's Cheque, Diamonds (including Diamonds for industrial use), Diamond Jewelry, Watches made of silver, Gold, Platinum, and items valued at USD. 1000/KG and above.*
8. *Special Cargo consist of Live animals and Day-old chicks.*
9. *For consolidation of TSP Cargo- TSP charges will be levied to all types of cargo, in addition to Transshipment charges mentioned above. Demurrage Charges for the free period may be considered to be governed as per the instruction of Govt. of India issued from time to time.*
10. *The tariff rates indicated above are maximum rates to be charged to users.*
11. *All statutory taxes levied by government will be charged extra.*
12. *Complete shipment should be physically available prior to payment of TSP charges.*
13. *All Export charges for Freight forwards/shippers/agents shall be on per shipping bill/AWB basis.*
14. *All Import charges for Freight forwards/consignees/agents shall be on per bill of Entry/AWB basis.*

(II) Tariff Rates for International Cargo Handling Services payable by Airlines.

(A) EXPORT CARGO HANDLING SERVICES.

(Rates in INR)

Sno.	Service	Unit	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
1	**Palletization/unitization/Bulk Cargo Handling**						
a.	General	(Per Kg)	1.92	2.15	2.37	2.61	2.87
		Minimum/ consignment	452.00	506.00	557.00	613.00	674.00
b.	Special	(Per Kg)	1.92	2.15	2.37	2.61	2.87
		Minimum/ consignment	452.00	506.00	557.00	613.00	674.00
c.	Bulk	(Per Kg)	1.92	2.15	2.37	2.61	2.87
		Minimum/ consignment	452.00	506.00	557.00	613.00	674.00
d.	Valuable/Dangerous	(Per Kg)	1.92	2.15	2.37	2.61	2.87
		Minimum/ consignment	452.00	506.00	557.00	613.00	674.00
e.	PER/PIL/TCR	Rate (INR/Kg)	4.23	4.74	5.21	5.73	6.30
		Minimum Rate/ consignment	500.00	560.00	616.00	678.00	746.00
2	**Demurrage**						
a.	General	(Per Kg)	2.56	2.87	3.16	3.48	3.83
		Minimum Rate/ consignment	336.00	376.00	414.00	455.00	501.00
b.	Special	(Per Kg)	5.14	5.76	6.34	6.97	7.67
		Minimum Rate/ consignment	379.00	424.00	466.00	513.00	564.00
c.	Valuable/Dangerous	(Per Kg)	5.14	5.76	6.34	6.97	7.67
		Minimum Rate/ consignment	379.00	424.00	466.00	513.00	564.00
3	X-ray charges (Screening and Certification Charges)	(Per Kg)	3.25	3.64	4.00	4.40	4.84
		Minimum Rate/ consignment	157.00	176.00	194.00	213.00	234.00
4	Export- General	Minimum Rate/ consignment	336.00	376.00	414.00	455.00	501.00

(B) IMPORT CARGO HANDLING SERVICES.

(Rates in INR)

Sno.	Service	Unit	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
1	**Palletization/unitization/Bulk Cargo Handling**						
a.	General	(Per Kg)	1.84	2.06	2.27	2.50	2.75

		Minimum/ consignment	452.00	506.00	557.00	613.00	674.00
b.	Valuable/Dangerous	(Per Kg)	1.84	2.06	2.27	2.50	2.75
		Minimum/ consignment	452.00	506.00	557.00	613.00	674.00
c.	PER/PIL/TCR	Rate (INR/Kg)	4.23	4.74	5.21	5.73	6.30
		Minimum Rate/ consignment	500.00	560.00	616.00	678.00	746.00
2	**Demurrage**						
a.	General	(Per Kg)	2.56	2.87	3.16	3.48	3.83
		Minimum/ consignment	336.00	376.00	414.00	455.00	501.00
b.	Valuable/Dangerous	(Per Kg)	6.98	7.82	8.60	9.46	10.41
		Minimum/ consignment	452.00	506.00	557.00	613.00	674.00
3	Import- General	Minimum Rate/ consignment	336.00	376.00	414.00	455.00	501.00

Notes:

1. *For demurrage charges on Export/ Import cargo the free period shall be governed as per the instructions of Govt of India issued from time to time.*
2. *The tariff rates indicated above are maximum rates to be charged to users.*
3. *All statutory taxes as per government norms will be charged extra.*

(III) Tariff Rates for Domestic Cargo Handling Services payable by Freight Forwarders/Agents/Shippers.

(A) DOMESTIC OUTBOUND CARGO HANDLING SERVICES.

(Rates in INR)

Sno.	Service	Unit	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
1	**Terminal, storage and processing**						
a.	General/ Courier/Express Handling Charges	(Per Kg)	0.94	1.22	1.54	1.94	2.44
		Minimum/ consignment	137.00	178.00	224.00	282.00	355.00
b.	Special/ AVI	(Per Kg)	2.94	3.82	4.81	6.06	7.64
		Minimum/ consignment	273.00	355.00	447.00	563.00	709.00
c.	Valuable/Dangerous/Perishable	(Per Kg)	2.94	3.82	4.81	6.06	7.64
		Minimum/ consignment	273.00	355.00	447.00	563.00	709.00
2	**Demurrage**						
a.	General	(Per Kg)	0.94	1.22	1.54	1.94	2.44
		Minimum/ consignment	170.00	221.00	278.00	350.00	441.00
b.	Special	(Per Kg)	2.94	3.82	4.81	6.06	7.64
		Minimum/ consignment	273.00	355.00	447.00	563.00	709.00
c.	Valuable/Dangerous/Perishable	(Per Kg)	2.94	3.82	4.81	6.06	7.64
		Minimum/ consignment	273.00	355.00	447.00	563.00	709.00
3	Packing/Repacking/Strapping Charges	(Per carton)	7.80	10.14	12.78	16.10	20.29
4	Return Cargo Charges	(Per AWB)	137.00	178.00	224.00	282.00	355.00
5	AWB Amendment Charges	(Per AWB)	137.00	178.00	224.00	282.00	355.00

(B) DOMESTIC INBOUND CARGO HANDLING SERVICES.

(Rates in INR)

Sno.	Service	Unit	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
1	**Terminal, storage and processing**						
a.	General/ Courier/Express Handling Charges	(Per Kg)	1.57	2.04	2.57	3.24	4.08
		Minimum/ consignment	170.00	221.00	278.00	350.00	441.00
c.	Special/ AVI	(Per Kg)	3.02	3.93	4.95	6.24	7.86
		Minimum/ consignment	273.00	355.00	447.00	563.00	709.00
c.	Valuable/Dangerous/Perishable	(Per Kg)	3.02	3.93	4.95	6.24	7.86
		Minimum/ consignment	273.00	355.00	447.00	563.00	709.00
2	**Demurrage**						
a.	General	(Per Kg)	1.79	2.33	2.94	3.70	4.66

		Minimum/ consignment	273.00	355.00	447.00	563.00	709.00
b.	Special	(Per Kg)	3.16	4.11	5.18	6.53	8.23
		Minimum/ consignment	342.00	445.00	561.00	707.00	891.00
c.	Valuable/Dangerous/Perishable	(Per Kg)	3.16	4.11	5.18	6.53	8.23
		Minimum/ consignment	342.00	445.00	561.00	707.00	891.00
3	Packing/Repacking/Strapping Charges	(Per carton)	7.80	10.14	12.78	16.10	20.29
4	AWB Amendment Charges	(Per AWB)	137.00	178.00	224.00	282.00	355.00

Notes:

1. *Consignments of Human Remains, Coffins including unaccompanied Baggage of deceased and Human Eyes will be exempted from the purview of the TSP and Demurrage charges.*
2. *The charges will be levied on "Gross 'Weight" or "Chargeable Weight" whichever is higher. Wherever there is a misdeclaration of the Gross or chargeable weight on the AWB, the actual Gross weight or Actual Chargeable weight will be used for the charges whichever is higher.*
3. *Storage Charges:*
    a. *Outbound Cargo-Free period shall be 24 hours from the time shipment deposited by the forwarder/agent/shipper on 'Per Kg Per day'.*
    b. *Inbound Cargo- Free period shall be 24 hours from the actual time of flight arrival at 'Per Kg Per Day' basis.*
4. *For demurrage charges on Outbound/Inbound cargo the free period shall be as per the Govt. of India Orders issued in this regard, from time to time.*
5. *50% of General Cargo charges will be applicable to newspaper (Daily) TV Reels. Applicable to per kilo charge only.*
6. *All bills will be rounded to the next INR 1.*
7. *VAL Cargo consists of Gold Bullion, Currency Notes, Shares, Share Coupons, Traveler's Cheque, Diamonds (including Diamonds for industrial use), Diamond Jewelry, Watches made of silver, Gold, Platinum, and items valued at USD. 1000/KG and above.*
8. *Special Cargo consist of Live animals and Day-old chicks.*
9. *For consolidation of TSP Cargo- TSP charges will be levied to all types of cargo, in addition to Transshipment charges mentioned above. Demurrage Charges for the free period may be considered to be governed as per the instruction of Govt. of India issued from time to time.*
10. *The tariff rates indicated above are maximum rates to be charged to users.*
11. *All statutory taxes levied by government will be charged extra.*
12. *Complete shipment should be physically available prior to payment of TSP charges.*

(IV) Tariff Rates for Domestic Cargo Handling Services payable by Airlines.

(A) DOMESTIC OUTBOUND CARGO HANDLING SERVICES.

(Rates in INR)

Sno.	Service	Unit	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
1	Palletization/unitization/Bulk Cargo Handling.						
a.	General	(Per Kg)	1.39	1.60	1.79	2.00	2.24
		Minimum/ consignment	361.00	415.00	465.00	521.00	584.00
2	X-ray charges (Screening and Certification Charges)	(Per Kg)	2.46	2.83	3.17	3.55	3.98
		Minimum/ consignment	175.00	201.00	225.00	252.00	282.00
3	Courier/Express Handling Charges	(Per Kg)	1.39	1.60	1.79	2.00	2.24
		Minimum/ consignment	361.00	415.00	465.00	521.00	584.00

(B) DOMESTIC INBOUND CARGO HANDLING SERVICES.

(Rates in INR)

Sno.	Service	Unit	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
1	De-Palletization/De-unitization/Bulk Cargo Handling.						
a.	General	(Per Kg)	1.39	1.60	1.79	2.00	2.24
		Minimum/ consignment	151.00	174.00	195.00	218.00	244.00
b.	Special	(Per Kg)	2.67	3.07	3.44	3.85	4.31
		Minimum/ consignment	242.00	278.00	311.00	348.00	390.00
2	Courier/Express Handling Charges	(Per Kg)	1.39	1.60	1.79	2.00	2.24
		Minimum/ consignment	361.00	415.00	465.00	521.00	584.00

Notes:

1. *For demurrage charges on Outbound/Inbound cargo the free period shall be governed as per the instructions of Govt of India issued from time to time.*
2. *The tariff rates indicated above are maximum rates to be charged to users.*
3. *All statutory taxes as per government norms will be charged extra.*

(V) Tariff Rates for Transshipment Cargo Handling Services.

(A) TRANSSHIPMENT CARGO HANDLING SERVICES PAYABLE BY AIRLINES.

(Rates in INR)

Sno.	Service	Unit	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
1	**Domestic to Domestic**						
a.	General	(Per Kg)	2.42	2.78	3.11	3.48	3.90
		Minimum/ consignment	193.00	222.00	249.00	279.00	312.00
b.	Special	(Per Kg)	2.42	2.78	3.11	3.48	3.90
		Minimum/ consignment	193.00	222.00	249.00	279.00	312.00
c.	Documentation Fee	(Per AWB)	162.75	170.89	179.43	188.40	197.82
2	**International to International**						
a.	General	(Per Kg)	3.09	3.46	3.81	4.19	4.61
		Minimum/ consignment	212.00	237.00	261.00	287.00	316.00
b.	Valuable/ Dangerous	(Per Kg)	3.09	3.46	3.81	4.19	4.61
		Minimum/ consignment	408.00	457.00	503.00	553.00	608.00
c.	Documentation Fee	(Per AWB)	162.75	170.89	179.43	188.40	197.82
3	**International to Domestic and Domestic to International**						
a.	General	(Per Kg)	3.09	3.46	3.81	4.19	4.61
		Minimum/ consignment	212.00	237.00	261.00	287.00	316.00
b.	Special	(Per Kg)	3.09	3.46	3.81	4.19	4.61
		Minimum/ consignment	408.00	457.00	503.00	553.00	608.00
c.	Documentation Fee	(Per AWB)	162.75	170.89	179.43	188.40	197.82

(B) Tariff Rates for Transshipment Cargo Handling Services payable by Freight Forwarders/Agents/Shippers/Consignees-Land side - Export and Imports.

(Rates in INR)

Sno.	Service	Unit	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
1	**International to Domestic & Domestic to International**						
a.	General	(Per Kg)	2.53	3.24	3.79	4.43	5.18
		Minimum/ consignment	168.00	215.00	252.00	295.00	345.00
b.	Valuable/ Dangerous	(Per Kg)	2.53	3.24	3.79	4.43	5.18
		Minimum/ consignment	316.00	404.00	473.00	553.00	647.00
c.	Documentation Fee	(Per AWB)	110.25	115.76	121.55	127.63	134.01

Notes:

1. *The tariff rates indicated above are maximum rates to be charged to users.*
2. *All statutory taxes as per government norms will be charged extra.*
3. *Year on Year 5% increase is considered for Documentation Fees.*
4. *All Export charges for Freight forwards/shippers/agents shall be on per shipping bill/AWB basis.*
5. *All Import charges for Freight forwards/consignees/agents shall be on per bill of Entry/AWB basis.*

(VI) Tariff Rates for Miscellaneous Cargo Handling Services payable by Airlines.

(Rates in INR)

Sno.	Service	Unit	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
1	**International cargo handling.**						
a.	Plastic Sheets	Per Sheet (20 x 40)	600.00	672.00	739.00	813.00	894.00
b.	Shrink Wraps	Per Roll (50 cm width) (4.5 Kg one roll)	2000.00	2240.00	2464.00	2710.00	2981.00
c.	Wooden Crates	Per Unit (80x80x120 cm Height x Length x Breadth of Each Wooden Crate)	1600.00	1792.00	1971.00	2168.00	2385.00
d.	Security Escort Services	Per ULD	1656.00	1855.00	2041.00	2245.00	2470.00
e.	Dangerous Goods Certification	Per Check list	896.00	1004.00	1104.00	1214.00	1335.00
f.	EGM/IGM Service Charges	Per Flight	1120.00	1254.00	1379.00	1517.00	1669.00
g.	Label Scanning Charges	Per Piece	2.24	2.51	2.76	3.04	3.34
h.	Handling Charges for Active and Passive Temperature Control Unit/Environtainer (per container)	Per Unit/Per ULD	1836.00	2056.00	2262.00	2488.00	2737.00
2	**Domestic Cargo handling.**						
a.	Plastic Sheets	Per Sheet (20 x 40)	600.00	690.00	773.00	866.00	970.00
b.	Shrink Wraps	Per Roll (50 cm width) (4.5 Kg one roll)	2000.00	2300.00	2576.00	2885.00	3231.00
c.	Wooden Crates	Per skid (80x80x120 cm Height x Length x Breadth of Each Wooden Crate)	1600.00	1840.00	2061.00	2308.00	2585.00
d.	Security Escort Services	Per ULD	1656.00	1904.00	2132.00	2388.00	2675.00
e.	Dangerous Goods Certification	Per Check list	920.00	1058.00	1185.00	1327.00	1486.00
f.	AWB Thermal Label Printing	Per Piece	1.15	1.32	1.48	1.66	1.86

Notes:

1. *The tariff rates indicated above are maximum rates to be charged to users.*
2. *All statutory taxes as per government norms will be charged extra.*