



Airports Economic Regulatory Authority of India

TO CONSIDER THE MULTI YEAR TARIFF PROPOSAL (MYTP) FOR THE 3RD CONTROL PERIOD (FY 2021-22 to FY 2025-26) IN RESPECT OF M/s GSEC FOR PROVIDING INTERNATIONAL CARGO HANDLING SERVICES AT SARDAR VALLABHBHAI PATEL INTERNATIONAL AIRPORT (SVPIA), AHMEDABAD.

New Delhi: 24.08.2021

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

STAKEHOLDERS' COMMENTS

The Authority is aware of the fact that the Aviation Sector is undergoing unprecedented turbulence and uncertainty on account of the COVID 19 PANDEMIC and the associated lockdown situation in the major cities around the world has resulted in restrictions in air travel, both domestic and international. The Authority has released this Consultation Paper, after examining the impact of COVID 19 PANDEMIC on the various assumptions stipulated in the Multi Year Tariff Proposal ('MYTP') submitted by the ISP. Accordingly, the Authority's opinion on the various aspects forming part of the tariff determination process has been explained in detail in this Consultation Paper.

Thus, in accordance with the provisions of Section 13(4) of the AERA Act, the written comments on Consultation Paper No. 14/2021-22 dated 24th Aug, 2021 are invited from the Stakeholders, preferably in electronic form, at the following address:

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Last Date for submission of Stakeholders' comments: 14.09.2021

Last Date for submission of Counter Comments: 21.09.2021

Comments and Counter Comments will be posted on AERA's website www.era.gov.in

For any clarification/information, Director (P&S, Tariff) may be contacted at Telephone No. +91-11-24695048

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1. List of Abbreviations

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

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2. Brief Background:

- 2.1** M/s GSEC Limited is one of the Cargo Handling agencies providing International Cargo Handling Services at Sardar Vallabhbhai Patel International Airport (SVPIA), Ahmedabad.
- 2.2** M/s GSEC handles International Cargo (Export & Import), under a concession (O&M Contract) from AAICLAS, on Royalty (revenue share) basis, in the carved out area (city side) at SVPIA Ahmedabad. In addition, M/s CSC and M/s AAIAL, Airport Operator Ahmedabad, are the other service providers for International Cargo operations at SVPIA.
- 2.3** M/s GSEC has submitted that they have a License Agreement with AAI effective from 1st June 2009 for a period of 10 years (Agreement dt.03.06.2011) which now stands extended for a further period up to 31.12.2022. Under the Agreement M/s GSEC has been allotted land admeasuring 5000 square metre by AAI at a license fee of Rs.2334.36 per square metre per annum (as on 01.06.2020) subject to an annual escalation @ 7.5% per annum, due 1st June every year.
- 2.4** The Authority, vide its MYTO Order No. 09/2011-12 dated 23.09.2011 for the **1st Control Period**, decided to adopt 'Light Touch Approach' in respect of the GSEC for Cargo Handling Services at SVPIA, Ahmedabad for determination of tariffs. The tariff for the 4th and 5th year of the same control period was revised vide Order no. 42/2012-13 dated 01.03.2013.

The details of other Tariff Orders of the Authority, issued in the interim to avoid regulatory vacuum, i.r.o. GSEC for cargo handling services at SVPIA, Ahmedabad for the **1st Control Period** are listed below for reference:

- a. Order No. 50/2015-16 dated 31.03.2016 up to 30.09.2016;
 - b. Order No. 11/2016-17 dated 29.09.2016 up to 31.03.2017;
 - c. Order no.19/2016-17 dated 31.03.2017 up to 30.09.2017;
 - d. Order no.12/2017-18 dated 29.09.2017 up to 31.03.2018;
- 2.5** As per MYTO for **2nd Control Period** Order No. 44/2017-18 dated 28.03.2018 the Authority decided to adopt 'Light Touch Approach' for the period (FY2016-17 to FY2020-21) since the service was 'not material' and further allowed continuation of tariff existing as on 31.03.2016 up to 31.03.2018 and further determined tariff for FY 2017-18 & FY 2018-19 i.e. up to 31.03.2019, as at the time of the Order, the License Agreement of M/s GSEC with AAI (AAICLAS) was valid only till 31.05.2019. Subsequently, AAI extended their license agreement up to 30.09.2019 and presently it stands extended till 31.12.2022.

2.6 The Authority also extended the tariff rates approved vide Order no. 44/2017-18, on ad hoc basis, by issuing interim orders from time to time to avoid regulatory vacuum (details of these orders are given below). At present, interim Order no.67/2020-21 dated 25.03.2021 is operational, which will remain effective up to 30.09.2021.

The details of other tariff Orders of the Authority, issued till date, in the interim to avoid regulatory vacuum, i.r.o. M/s GSEC for cargo handling services at SVPIA, Ahmedabad for the **2nd Control Period** are listed below for reference:

- (i) Order no.48/2018-19 dated 25.03.2019 up to 31.05.2019;
- (ii) Order no.05/2019-20 dated 22.05.2019 up to 30.09.2019;
- (iii) Order no.08/2019-20 dated 26.09.2019 up to 31.03.2020;
- (iv) Order no.31/2020-21 dated 13.08.2020 up to 31.03.2021;
- (v) Order no.67/2020-21 dated 25.03.2021 up to 30.09.2021;

3. Principles for Determination of Aeronautical Tariff under “Light Touch Approach”

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

3.2 As per clause 4.4. of the above said Guidelines at major airports, the percentage share of cargo handling for SVPIA Ahmedabad is 3.21% (based on data for FY 2019-20) which is higher than the Materiality Index (MIg) of 2.5% for the above subject service. Hence the regulated service is deemed “**material.**” The calculation is as shown below:

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

$$MI = 103741/3228862 \times 100 = \mathbf{3.21\%}$$

3.3 AERA on the provisions of the NCAP-2016, vide its Order No. 15/2016-17 dated 12th Jan, 2017 decided to consider two (2) Cargo Handling agencies for competition assessment at all ‘major’ airports.

3.4 The Authority notes that on ‘competition’ assessment, M/s AAIAL (Airport Operator) & M/s CSC (International Cargo-Exports) are the other Cargo Service Providers for International Cargo. Hence, in the instance case, there are three Cargo Handling Service Providers at present including M/s GSEC for International Cargo Operations, and, therefore, the service is deemed ‘**Competitive**’.

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

3.6 As per clause 11.2 of the CGF Guidelines, the ATP is required to be submitted in the manner and form provided AI 8.1. Appendix-I to the guidelines and should be supported by the following:

3.6.1 Form B and Form 14 (b) (Proposed Tariff Card);

3.6.2 Details of Consultation with Stakeholders;

3.6.3 Evidence of User Agreement clearly indicating the tariff proposal by the service provider and agreed to be the users.

3.7 **Authority’s Proposal regarding principle for determination of tariff for the 3rd Control Period**

Since the cargo handling service provided by M/s GSEC at Ahmedabad Airport is ‘**Material**’ and ‘**Competitive**’ the Authority proposes to determine the tariff based on ‘**Light Touch Approach**’ for the **3rd Control Period.**

4. MYTP/ATP & ACS Submissions by M/s GSEC for the 3rd Control Period

- 4.1** M/s GSEC submitted their MYTP for the 3rd Control Period i.e. FY 2021-22 to FY 2025-26 vide letter dated 14.05.2021. The Authority noted that the MYTP/ATP is not submitted in the prescribed form and manner as per CGF Guidelines, especially considering that M/s GSEC have sought an increase in the tariff.
- 4.2** The Authority sought additional information which was submitted by M/s GSEC vide mail dated 31.05.2021, 14.06.2021, 16.06.2021, 21.06.2021, 01.07.2021, 10.07.2021, 19.07.2021, 26.07.2021, 27.07.2021. Further, M/s GSEC submitted revised financial model vide mail dated 02.08.2021 & 03.08.2021, wherein except tonnage projections for the 3rd control period all the other building blocks have been revised.
- 4.3** The Authority has accordingly considered relevant data from the MYTP submissions and the subsequent Revised submissions of M/s GSEC, for the purpose of this Consultation Paper.
- 4.4** M/s GSEC have not submitted evidence of Stakeholder Consultation. Copy of only one User Agreement, viz. with Etihad Airways (valid up to 23rd Feb 2024), has been submitted by GSEC. It is however, noted that no complaints have been received from any User i.r.o. the Cargo Handling services rendered by M/s GSEC at SVPIA, Ahmedabad.
- 4.5** M/s GSEC has not submitted the Annual Compliance Statement (ACS) as required under the CGF Guidelines. The Authority has taken the historical financial data for FY 2016-17 to FY 2020-21 (2nd control period) from their financial model for 3rd Control Period. The Authority notes that M/s GSEC have earned average PAT of 24% during the 2nd Control Period, and, has proposed to earn a similar PAT during the 3rd Control Period as well.

M/s GSEC have mentioned that their MYTP is based on the Provisional Financials of FY 2020-21. However, M/s GSEC have not furnished the Provisional Financial Statements for FY 2020-21, whether Consolidated or Standalone for Ahmedabad station. The Authority, therefore, has made the analysis on the basis of MYTP submissions and the subsequent revised financial model and other information submitted by M/s GSEC. M/s GSEC has, however, undertaken that they shall submit the Audited Financials for FY 2020-21 by the end of August, 2021 to the Authority.

- 4.6** M/s GSEC has proposed the following tariff increase for the 3rd Control Period in their revised financial model:
- a) 11.63% increase in tariff for year 2021-22 from 1.10.2021 to 31.03.2022
 - b) 2% increase in tariff thereafter from 2022-23 till 2025-26.

Note: Earlier, GSEC in their MYTP had proposed 13% increase in tariff for FY 2021-22 and 4% YoY increase thereafter for the rest of the 3rd Control Period.

5. Financial data submitted by M/s GSEC as part of MYTP and subsequent Revised submissions and Analysis thereof by the Authority:

The projections for the 3rd Control Period (FY 2021-22 to FY 2025-26) on key parameters of expected Cargo Volumes, Revenue, Expenditure (Opex & Capex), Operating Profit, etc. (building blocks), and, the observations of the Authority on the same are given below:

5.1 Regulatory Asset Base (RAB) & Depreciation

5.1.1 M/s GSEC have not submitted the Annual Compliance Statement (ACS) for the 2nd Control Period along with their MYTP for 3rd Control Period. After protracted follow up by the Authority, M/s GSEC submitted the Consolidated Audited Financial Statements for the FY2018-19 & FY2019-20. The Authority, therefore, sought standalone Financials for Ahmedabad Operations for analyzing the historical performance.

5.1.2 The Authority noted that M/s GSEC have submitted their MYTP which is based on the provisional financials of FY 2020-21. However, M/s GSEC have not furnished the Provisional Financial Statements for FY 2020-21, whether Consolidated or standalone for Ahmedabad station. M/s GSEC has, however, under taken that they shall submit the Audited Financials for FY 2020-21 by the end of August, 2021 to the Authority.

5.1.3 The Authority, therefore, has made the analysis on the basis of MYTP submissions and the subsequent revised financial model and other information submitted by M/s GSEC.

5.1.4 GSEC submissions on RAB:

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

Table-1 Comparison of RAB / Avg. RAB as per GSEC Financials (Rs. in Lakhs)

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

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

5.1.5 GSEC submissions on Additions to RAB:

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

Table -2 Proposed additions to RAB as per GSEC submissions for 3rd Control Period
(Rs. in Lakhs)

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

- (b) The following justifications have been provided by M/s GSEC:

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

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

5.1.6 Authority's Analysis on RAB & Additions to RAB:

M/s GSEC has proposed Additions to RAB amounting to Rs.833.00 lakhs for the 3rd Control Period. Considering the pandemic situation which has prevailed since March 2020 (including the recent 2nd wave) and the resultant lockdown disrupting

the activities, the Authority, sought confirmation regarding the progress/ status of the Capex projects proposed in the FY 2021-22. In this regard, M/s GSEC vide their additional submissions (mail dated 27.07.2021) has confirmed that out of total Capex of Rs.164 Lakhs proposed in FY2021-22, the work relating to creation of Cold Room is in progress for which procurement of 6 Refrigerators is complete, and, quotations have been received towards ball mat flooring and Scissor Lift for handling dollies. With regard to the remaining Capex, out of 02 (two) Forklifts proposed, one valued at Rs.11.00 Lakhs is expected to be received by August 2021, and, procurement of Stacker (01 no.) is also likely to be concluded by October 2021.

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

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

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

5.2 GSEC submissions on Depreciation :

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

Table-3 Useful lives of the assets

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

5.2.1 Authority's Analysis on Depreciation:

The Authority notes that the “useful life” of Plant and Machinery as per Order no. 35/2017-18 should have been 15 years instead of 10 years. Hence, GSEC was asked to submit revised depreciation calculations.

The Authority notes that in their MYTP submission GSEC had claimed Rs. 809.21 Lakhs as depreciation. As per the revised calculations, GSEC has now claimed depreciation of Rs.661.12 Lakhs resulting in reduction of Rs. 148.09 Lakhs (Rs.809.21 Lakhs - Rs.661.12 Lakhs) from the earlier depreciation figures. The revised depreciation proposed by GSEC is given in table -4 below.

Table-4 Depreciation (Revised) proposed by GSEC for 3rd Control Period

(Rs. in Lakhs)

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
Building	33.98	33.98	33.98	33.98	33.98	169.91
Plant & Machinery	55.87	68.54	79.87	92.80	100.47	397.55
Office Equipment	12.62	7.81	-	-	-	20.43
Vehicles	9.52	8.14	-	-	-	17.67
Computers	3.90	0.00	-	-	-	3.90
Furniture & Fixtures	17.74	17.74	12.50	-	-	47.98
A.C Machines & Plant – ACC	1.81	1.81	0.07	-	-	3.68
Depreciation	135.44	138.01	126.42	126.79	134.45	661.12

5.3 Authority's Proposal regarding Regulatory Asset Base (RAB), Additions to RAB (CAPEX) & Depreciation

- 5.3.1 The Authority proposes to consider the RAB / Additions to RAB (CAPEX) as proposed by M/s GSEC Ahmedabad for the 3rd Control Period as given in table-1 & table-2 respectively.
- 5.3.2 The Authority proposes to consider the Revised Depreciation submitted by M/s GSEC Ahmedabad for the 3rd Control Period as given in table-4.

6. Operating & Maintenance Expenditure

6.1 M/s GSEC has submitted the following component-wise historical O&M costs in their MYTP for Ahmedabad (actuals for 2nd control period):

Table- 5 Historical Operating & Maintenance Costs as submitted by M/s GSEC for Ahmedabad (Rs. in Lakhs)

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

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

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

Particulars	% increase adopted for current control period	Basis
Royalty Expenses	25% of the revenue earned for the period is considered as royalty expenses	Based on AAICLAS letter no. ED/CARGO/1360/AMD/2020 dated 22nd July 2020 where it was agreed that 25% of the revenue shall be paid as royalty to AAICLAS.
Insurance (inc. Employer Employee Insurance)	Same charge of FY 2020-21 adopted	FY 2020-21 has been estimated based on the prevailing premia rates after including additional COVID related protection. It is assumed that the same premia rates shall apply for the next control period also.
Rent and License Fees	5% increase from FY 2020-21	Increase in the rentals by about 5% year on year based on escalation clauses in the agreement
Renovation expenses	8% increase from	Increase in the renovation expenses which

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

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

Table-6 * Allocation of Expenses of GSEC Headquarters as per MYTP
(Rs. in Lakhs)

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

*Basis of Allocation of HQ expenditure as submitted by GSEC

75%	Salaries
75%	Director's Salary
50%	M.D. Remuneration
60%	Telephone, Telex, Fax, Postage

75%	Conveyance
75%	Rent & License Fees
75%	Rates & Taxes
25%	Insurance
50%	Advertisement, Publicity Exp.
75%	Stationery & Printing Exp.
60%	Legal & Professional Charges
75%	Electricity & Other Expenses
75%	Repairing & Maintenance Exp.
40%	Travelling Expenses
75%	Remuneration To Auditors
75%	Vehicle Expenses
75%	Security Expenses
75%	Remuneration To Directors
25%	Interest Expenses
75%	Donation

6.5 Operating & Maintenance Expenses for the 3rd Control Period projected by M/s GSEC based on above assumptions is given in table-7 below:

Table-7 Revised O&M Costs Projected by GSEC for Ahmedabad for 3rd control period
(Rs. in Lakhs)

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
Advertisement Exp	0.27	0.3	0.3	0.3	0.4	1.58
Bank Guarantee Charges	0.15	0.2	0.2	0.2	0.2	0.80
Books & Periodicals	0.16	0.2	0.2	0.2	0.2	0.95
Conveyance Exp.	0.35	0.4	0.4	0.4	0.5	2.03
Courier Exp.	0.02	0.0	0.0	0.0	0.0	0.13
Electricity	25.67	27.7	29.9	32.3	34.9	150.61
Electricity -New Building	17.87	19.3	20.8	22.5	24.3	104.86
Entertainment	0.09	0.1	0.1	0.1	0.1	0.51
Forklift Charges	9.44	10.2	11.0	11.9	12.8	55.38
Insurance Including Employer Employee Insurance	167.21	180.6	180.6	180.6	180.6	889.56
Internet Exp.	0.38	0.4	0.4	0.5	0.5	2.22
Labour Charges	81.87	88.4	101.7	116.9	134.5	523.37
Medical Exp.	0.16	0.2	0.2	0.2	0.2	0.95

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
Miscellaneous Exp	0.54	0.6	0.6	0.7	0.7	3.17
Office Exp.	1.84	2.0	2.1	2.3	2.5	10.77
Packing Materials	48.38	52.3	56.4	61.0	65.8	283.84
Petrol & Diesel Exp.	0.09	0.1	0.1	0.1	0.1	0.51
Postage	0.06	0.1	0.1	0.1	0.1	0.38
Printer Rent	0.51	0.5	0.6	0.6	0.7	2.98
Rates And Taxes	18.28	19.7	19.7	19.7	19.7	97.25
Renovation Exp.	108.00	116.6	126.0	136.0	146.9	633.59
Rent And License Fees	138.60	149.7	157.2	165.0	173.3	783.78
Repairing Exp.	12.96	14.0	15.1	16.3	17.6	76.03
Royalty Exp.	753.75	819.2	876.0	937.2	1002.6	4388.69
Sales Promotion Exp.	25.00	27.0	27.0	27.0	27.0	133.00
Security Charges	30.96	33.4	36.1	39.0	42.1	181.65
Staff Refreshment	0.11	0.1	0.1	0.1	0.1	0.63
Staff Training Exp	0.15	0.2	0.2	0.2	0.2	0.76
Stationery Exp.-	0.50	0.5	0.6	0.6	0.7	2.91
Telephone Exp.	0.54	0.6	0.6	0.7	0.7	3.17
Transportation Exp.	0.50	0.5	0.6	0.6	0.7	2.93
Total (A)	1444.41	1565.1	1665.1	1773.5	1890.9	8338.99
CHQ Exp.(B)	495.79	535.45	576.74	621.73	670.26	2899.97
TOTAL OPEX (C= A+B)	1940.20	2100.54	2241.82	2395.27	2561.12	11238.96

6.6 Authority's Analysis:

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

- 6.6.1 The Authority notes that in FY 2017-18 of 2nd Control Period, M/s GSEC had incurred an amount of Rs.247.51 Lakhs under the head 'Renovation Expenses.' The Authority sought further information about the said expenditure, and, M/s GSEC have clarified that a Warehouse of 10000 sqm was built and the cost incurred thereon was treated as revenue expenditure. The Authority is of the view that the expenditure should have been capitalized in the books of GSEC, as a new asset was formed in the process, unless, the Warehouse is a temporary structure. This may have resulted in the understatement of profits during the FY 2017-18.
- 6.6.2 GSEC has proposed 8% YoY (base year FY 2020-21) increase on all items of OPEX, except labor charges where they have proposed 15%YoY increase, for the purpose of their projections for the 3rd Control Period.
- 6.6.3 The Authority proposes to accept the assumptions adopted by GSEC for all other items of OPEX except "Rent & license Fee" and "Labour Charges" as explained in the following paras.

6.6.3.1 **Rent & license Fee** : The Authority observed errors in calculations in the projections for “Rent & License Fees” expenses proposed by M/s GSEC. The Authority noted that as per the Concession Agreement of GSEC with AAICLAS, the rate of License fees revises June 1st every year with an annual growth @ 7.5%. GSEC has confirmed that the Concession Agreement has been renewed on the same terms till 31.12.2022.

6.6.3.2 The rates of Space License Fees as per Agreement between AAICLAS & GSEC are given under:

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

6.6.3.3 Based on the above, the Authority, re-calculated the Rent & License Fees expenses and found that the projections are **over estimated by Rs.45.54 Lakhs**. The difference in the calculation is shown in Table-8 below:

Table-8 Excess License Fee claimed by GSEC in OPEX Projections for the 3rd Control Period
(Rs. in Lakhs)

Particulars	Projections					Total
	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	
As per GSEC	138.60	145.53	152.81	160.45	168.47	765.85
As per Authority (based on terms of Licence Agreement with AAICLAS)	124.01	133.31	143.31	154.06	165.62	720.32
Difference	-14.59	-12.22	-9.49	-6.39	-2.85	-45.54

6.6.3.4 The Authority, therefore, proposes to consider licence fee of Rs. 720.32 Lakhs in the OPEX instead of Rs. 765.85 projected by GSEC for the 3rd Control Period.

- 6.6.3.5 **Labour Charges:** GSEC has proposed a 15% YoY increase in Labour Charges citing that it is to cater to the growing traffic. The Authority, however, observes that the volumetric projections by GSEC for the 3rd Control Period do not reach the pre-Covid levels of FY 2019-20 in the entire 3rd Control Period. Hence, the Authority proposes to cap the increase in labour charges @10% YoY (based on CAGR adopted plus CPI inflation) instead of 15% YoY proposed by M/s GSEC.
- 6.6.3.6 **Allocation of CHQ expenses:** The Authority sought clarifications from GSEC regarding the basis for allocation of CHQ expenses in the OPEX. M/s GSEC has clarified that they have a separate Corporate office in Ahmedabad to administer their Cargo operations at the airport (Ahmedabad & Vishakhapatnam) and also their other Trading business. M/s GSEC have further submitted that the proportion of revenues from Ahmedabad Airport Operations is at about 95% of the total revenues of their Cargo business. However, the allocation percentages have not been considered in the ratio of the revenues, but, at a moderate level for each line item, in the range of 25% to 75%, based on the nature of expense.
- 6.6.3.7 The Authority, is of the view that since M/s GSEC has an office at Ahmedabad airport for which expenses have been considered in the OPEX projections, the allocation of a separate Corporate Office (CHQ) expenditure, over and above, as proposed by GSEC, would place additional burden on the users. The Authority, therefore, advises M/s GSEC to avoid these duplicate expenditure in future.
- 6.6.3.8 Based on the above examination, the Authority proposes to consider total OPEX of **Rs.10,694.73 lakhs** for GSEC Ahmedabad for the 3rd Control Period as given in table – 9 below:

Table-9 Revised OPEX proposed by the Authority for GSEC Ahmedabad for the 3rd Control Period

(Rs. in Lakhs)

Direct Exp:	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
Royalty Expenses(as per agreement)	696.98	741.18	787.64	837.32	890.10	3953.21
Rent & License Fees(as per Agreement)	124.01	133.31	143.31	154.06	165.62	720.32
Labour Charges	78.31	86.14	94.75	104.23	114.65	478.08
Insurance Including Employer Employee Insurance	167.21	180.59	180.59	180.59	180.59	889.56
Advertisement Exp	0.27	0.29	0.31	0.34	0.37	1.58

Direct Exp:	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
Bank Guarantee Charges	0.15	0.16	0.16	0.16	0.16	0.80
Books & Periodicals	0.16	0.17	0.19	0.20	0.22	0.95
Conveyance Exp	0.35	0.37	0.40	0.44	0.47	2.03
Courier Expense	0.02	0.02	0.03	0.03	0.03	0.13
Electricity	25.67	27.73	29.94	32.34	34.93	150.61
Electricity -New Building	17.87	19.30	20.85	22.52	24.32	104.86
Entertainment	0.09	0.09	0.10	0.11	0.12	0.51
Forklift Charges	9.44	10.19	11.01	11.89	12.84	55.38
Internet Exp.	0.38	0.41	0.44	0.48	0.52	2.23
Medical Exp.	0.16	0.17	0.19	0.20	0.22	0.95
Miscellaneous Exp	0.54	0.58	0.63	0.68	0.73	3.17
Office Expenses	1.84	1.98	2.14	2.31	2.50	10.77
Packing Materials	48.38	52.25	56.44	60.95	65.83	283.85
Petrol & Diesel Expenses	0.09	0.09	0.10	0.11	0.12	0.51
Postage	0.06	0.07	0.08	0.08	0.09	0.38
Printer Rent	0.51	0.55	0.59	0.64	0.69	2.98
Rates And Taxes	18.28	19.74	19.74	19.74	19.74	97.24
Renovation Exp.	108.00	116.64	125.97	136.05	146.93	633.59
Repairing Exp.	12.96	14.00	15.12	16.33	17.63	76.03
Sales Promotion Exp.	25.00	27.00	27.00	27.00	27.00	133.00
Security Charges	30.96	33.44	36.12	39.01	42.13	181.65
Staff Refreshment	0.11	0.12	0.13	0.14	0.15	0.63
Staff Training Exp	0.15	0.16	0.15	0.15	0.15	0.76
Stationery Exp.-	0.50	0.54	0.58	0.63	0.68	2.91
Telephone Exp.	0.54	0.58	0.63	0.68	0.73	3.17
Transportation Exp.	0.50	0.54	0.58	0.63	0.68	2.93
CHQ Exp.	495.79	535.45	576.74	621.73	670.26	2899.97
Total Exp.	1865.28	2003.88	2132.65	2271.75	2421.17	10694.73

6.7 Authority's Proposal regarding O&M Expenditure

The Authority proposes to consider the O&M Expenditure of Rs.10,694.73 lakhs for GSEC Ahmedabad for the 3rd Control Period as given in table-9.

7. Traffic – Cargo volumes

- 7.1 M/s GSEC has stated that the last year FY 2020-21 (T5) of the 2nd control period (FY 2016-17 to FY2020-21) was affected by COVID-19 pandemic, therefore, they have considered only the first 4 years (FY 2017-2020) to calculate CAGR at @6.30% for the purpose of 3rd Control Period projections, citing that it is better reflective of the expected future volumes.
- 7.2 As against the above 4 year CAGR @6.30%, M/s GSEC has assumed a lower/conservative growth @ 5 % YoY, taking FY 2020-21 as the base year for volumetric projections for the 3rd Control Period (FY 2021-22 to FY 2025-26).
- 7.3 The total actual tonnage (imports +exports) achieved by GSEC at Ahmedabad for 2nd control period is **201281 MT**. Further as per the MYTP submitted for 3rd control period the total tonnage projection is **198309 MT**.
- 7.4 The Historical (actual) tonnage and projections for 3rd control period submitted by M/s GSEC for Ahmedabad are given in tables 10&11 below:

Table-10 Historical tonnage Handled by GSEC Ahmedabad during 2nd Control Period

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

Table-11 Tonnage Projection by GSEC Ahmedabad for 3rd Control Period

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

7.5 Authority's Analysis:

- 7.5.1 The Authority examined the GSEC projections for cargo volumes for the 3rd control period. M/s GSEC have considered FY 2020-21 as the base year for projecting the volumes. The Authority observes that GSEC volumetric projections appear very conservative, as the pre-pandemic level achieved in FY 2019-20 is not expected to restore itself fully even at the end of the 3rd control period (FY 2025-26).
- 7.5.2 The Authority referred to the data on cargo volumes published by AAI (Traffic News summary <www.aai.aero>) to check the trend for the 1st quarter of FY 2021-22 and observes that although the pandemic has severely affected passenger air traffic, however, the air cargo traffic was affected only during the

first wave owing to complete lockdown and suspension of all flights. However, during FY 2020-21, the cargo traffic has not only been restored to the pre-covid levels but has also surpassed the previous volumes since the beginning of FY 2021-22. The Authority noted that the total international freight for Ahmedabad in FY 2019-20 was 46067 MT and for 1st quarter of FY 2021-22 the same was 11,977 MT. Based on the quarterly figures, the annual volumes are indicated to be around 48000 MT which is more than the FY 2019-20 volumes.

- 7.5.3 The Authority, therefore, proposes to consider FY 2019-20 as the Base Year to project the cargo volumes for the 3rd control period. The volume is projected to recover @ 82% of Base Year (FY 2019-20) in FY 21-22 (1st year of TCP), and, from T2 onwards the tonnage is assumed to grow at CAGR @6.3%, that is the actual growth rate achieved by GSEC in the 2nd control period. Accordingly, the following projections are proposed by the Authority for the 3rd control period:

Table-12 Tonnage Projections proposed by Authority for GSEC Ahmedabad for the 3rd Control Period

Particulars	Base Year FY 2019-20	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total in MTs
Export in MT	32,770	26,871	28,564	30,364	32,277	34,310	1,52,387
Import in MT	11,389	9,339	9,927	10,553	11,218	11,924	52,961
Total Qty in MT	44,159	36,210	38,492	40,917	43,494	46,234	2,05,347
Annual Growth		-18.0%	6.3%	6.3%	6.3%	6.3%	
CAGR							6.3%

7.6 Authority's Proposal regarding Traffic – Cargo volumes

The Authority proposes to consider volumetric projections of **205,347 MTs** for M/s GSEC Ahmedabad for the 3rd Control Period as per Table-12.

8. Revenue from Operations

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

Table-13 Historical Revenue for 2nd control period submitted by GSEC for Ahmedabad
(Rs. in Lakhs)

Particulars	Total Revenues (FY 2016-17 to FY 2020 -21)
Export Income	3412.00
Import Income	7405.50
Cash Revenue	391.80
Monthly Billing Revenue	2134.54
Rentals & Other Income	742.99
Total	14086.81

8.2 GSEC has submitted that “Export and Import Incomes” represent the handling and demurrage charges for various types and categories of cargo as mentioned in the tariff card. “Monthly Billing Revenues” consist of mainly screening charges charged to Airlines. Rental Revenues are received from parties to whom the portions of the cargo building are let out as office spaces.

8.3 GSEC has submitted the following projected revenues for the 3rd Control Period based on their volumetric assumptions as given in table-14 below:

Table-14 Projected Revenues submitted by GSEC for Ahmedabad for the 3rd Control Period
(without considering rate increase)

(Rs. in Lakhs)

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
Export Income	614.18	644.89	677.14	710.99	746.54	3393.74
Import Income	1,390.99	1,460.54	1,533.57	1,610.25	1,690.76	7686.11
Cash Revenue	97	102	107	112	118	536
Monthly Billing Revenue	467.52	491.84	515.69	542.02	568.82	2585.89
Rentals & Other Income	193.48	203.16	213.31	223.98	235.18	1069.11
Total	2,763.17	2,902.43	3,046.70	3,199.24	3,359.30	15270.84

8.4 Authority’s Analysis:

8.4.1 The Authority notes GSEC submissions regarding Rental Revenues as amounts received from parties to whom the portions of the cargo building are let out as office spaces, and, proposes to consider the same as aeronautical cargo revenues for the purpose of tariff determination.

8.4.2 The Authority notes that as per their MYTP submissions the total expenditure of GSEC from 2nd control period to 3rd control period is projected to rise by 14% (from Rs. 10708.68 lakhs to Rs. 12205.62 lakhs), whereas, the total revenues over the same period are projected to rise by 8% only (from Rs. 14086.81 lakhs to Rs. 15270.84 lakhs). Citing the prevailing pandemic situation, M/s GSEC has projected a conservative growth in volumes @ 5% YoY for the 3rd control period, however, the Authority is of the view that although the pandemic has severely affected passenger air traffic, however, it has not affected the air cargo traffic, which have almost restored themselves to the pre-covid levels since the beginning of FY 2021 (source: AAI Traffic News data; IATA Report).

Table- 15 Projected Revenues proposed by the Authority for GSEC Ahmedabad for the 3rd Control Period (without considering rate increase)

(Rs. in Lakhs)

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

8.5 Authority's Proposal regarding Revenue from Operations

The Authority proposes to consider Revenue projections for GSEC Ahmedabad for the 3rd control period as per table-15.

9 Taxation

- 9.1** The Authority noted that GSEC, Ahmedabad has applied income tax rate of 29.12% (Basic rate 25%, 12% Surcharge where total income > Rs. 10 crore and 4% Health and Education Cess) for tax projections for the 3rd Control Period.
- 9.2** The Authority noted that a new section 115BAA was introduced by the Government of India through the Taxation (Amendment) Ordinance 2019 on the 20th September 2019. Section 115BAA provides option to a domestic company to pay tax at lower rate of 22% (plus applicable surcharge and cess) (where the total turnover for Previous Year (PY) 2017-18 does not exceeds Rs. 400 Crore) 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.
- 9.3** The Authority sought clarification from GSEC in this regard. Accordingly, M/s GSEC has submitted their revised tax calculations by considering the lower rate of 25.6256%(Basic rate 22%,12% Surcharge where total income > Rs. 10 crore and 4% Health and Education Cess) on the projected profits for the 3rd control period as per table- 16 given below:

Table-16 Revised Projected Tax Expense submitted by GSEC for Ahmedabad for 3rd Control Period
(Rs. in Lakhs)

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

- 9.4** However, in their revised submissions, M/s GSEC has failed to apply tax rate @25.168% (Basic rate 22%, 10% Surcharge where total income < Rs. 10 and 4% Health and Education Cess) in years where total income falls below Rs. 10 Crores. The Authority noted the same and accordingly proposes to correct the same and re-compute tax.
- 9.5** The Authority proposes the following tax expense based on its projections of aeronautical cargo revenue for computation of ARR purpose the 3rd Control Period as given in table -17 below:

Table-17 Projected Tax Expense considered by the Authority on Revised Projected Revenues
(with revised volumes but without considering rate increase)

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

9.6 Authority's Proposal regarding taxation for 3rd Control Period

The Authority proposes to consider tax expense for GSEC Ahmedabad for the 3rd Control Period as per table 17.

10 Aggregate Revenue Requirement & ATP:

10.1 As per their MYTP, M/s GSEC has submitted that they have been earning a PAT of about 24% on an average in the past 5 years which is comparable with the PAT earned by its peers viz. Menzies Aviation (PAT 29%) at Bangalore Airport and Menzies Air Cargo Pvt. Ltd. (PAT 28%) at Hyderabad Airport and is therefore reasonable that the same profitability 24% is continued for the 3rd control period.

10.2 The following revised tariff increase is proposed by M/s GSEC :

- c) 11.63% increase in tariff for year 2021-22 from 1.10.2021 to 31.03.2022
- d) 2% increase in tariff thereafter from 2022-23 till 2025-26.

Note: Earlier, GSEC in their MYTP had proposed 13% increase in tariff for FY 2021-22 and 4% YoY increase thereafter for the rest of the 3rd Control Period.

10.3 GSEC has further submitted the following justification for proposed tariff increase:

- (i) The tariff for Cargo operations for GSEC Ahmedabad were last revised in FY 2011-12 vide AERA Order no. 42/2012-13 and the prices have continued while the costs have increased significantly;
- (ii) Since the last tariff increase was given in FY2011-12 for Ahmedabad, GSEC requests for minimum increase to compensate for inflation and to meet the capital investments.
- (iii) The company faces heavy competition from its peers operating at neighboring Airports in terms of quality of service and it is utmost important for the company to invest in maintenance of assets, human resources and upgrade its infrastructure.

10.4 Based on the above, GSEC Ahmedabad has submitted that in order to achieve a PAT of 24%, the revenue that ought to be earned for the 3rd control period by GSEC Ahmedabad is as follows:

Table -18 Revenue Requirement as per GSEC Ahmedabad for 3rd control period
(Amt. in Lakhs)

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

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

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

Table-19 Revised Profitability Statement submitted by GSEC with tariff increase for the
3rd Control Period (Rs. in Lakhs)

Particulars	FY 2021-22		FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
	1.4.2021-30.09.2021 (at existing rates)	1.10.2021-31.03.2022 (at revised rates i.e. @ 11.63% increase)	Revenue projections by GSEC with rate increase (@ 2% YoY w.e.f. 01.04.2022)				
Export Income	307.09	342.82	734.32	786.45	842.29	902.09	3915.06
Import Income	695.50	776.41	1663.07	1781.15	1907.61	2043.05	8866.79
Cash Revenue	48.50	54.14	116.14	124.27	132.68	142.59	618.32
Monthly Billing Revenue	282.13	314.95	560.05	598.94	642.12	687.34	3085.53
Rental income and other non-cargo revenue	96.74	96.74	203.16	213.31	223.98	235.18	1069.11
Total Revenue	1429.96	1585.06	3276.73	3504.12	3748.68	4010.25	17554.8
Regulated Expenditure							
OPEX (direct expenses other than royalty)	345.33	345.33	745.91	789.05	836.38	888.30	3950.3
Royalty paid to AAICLAS	357.49	396.27	819.18	876.03	937.17	1002.56	4388.7
Common expenses allocated	247.89	247.89	535.45	576.74	621.73	670.26	2899.96
Total Expenditure	950.71	989.49	2100.54	2241.82	2395.27	2561.12	11238.95
Depreciation	67.72	67.72	138.01	126.42	126.79	134.45	661.11
Profit before tax (PBT)	411.52	527.85	1038.18	1135.88	1226.61	1314.68	5654.72
Less : Corporate Taxes	105.46	135.27	266.04	291.08	314.33	336.89	1449.07
Profit after tax (PAT)	306.07	392.59	772.14	844.80	912.29	977.78	4205.67
PAT / Revenue %age Projections for TCP		23%	24%	24%	24%	24%	

10.6 Authority's Observation:

10.6.1 Authority examined GSEC submissions seeking PAT of 24% for the 3rd control period stating that the same is comparable with their peers in the cargo industry. The Authority, however, is of the view that there can be no benchmarks for profitability. It may depend on several factors including volumes handled, cargo potential of a particular airport, and other general financial parameters, efficiency level, etc. of the individual businesses. In the instant case cited by M/s GSEC, both the peer companies/ service providers (viz. Menzies) operate at different airports, their asset base is different, and, there may be several other factors leading to higher profitability in their respective operations. The Authority in its independent analysis observes that M/s GSEC has been earning decent Profits After Tax (PAT) in the 2nd Control Period, and, in order to maintain a similar PAT level during the 3rd Control Period also, has sought the tariff increase. The Authority, therefore, finds no merit in the above argument of M/s GSEC for considering an increase in tariff.

Table -20 Profitability Statement by Authority for GSEC Ahmedabad for 3rd Control Period
(Rs. in Lakhs)

Particulars	After Volume Increase					Total
	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	
Total Revenue(A) (Ref. Table 15)	2787.91	2964.71	3150.54	3349.27	3560.40	15812.85
Direct Exp:						
Royalty Expenses(as per agreement)	696.98	741.18	787.64	837.32	890.10	3953.21
Rent & License Fees(as per Agreement)	124.01	133.31	143.31	154.06	165.62	720.32
Labour Charges	78.31	86.14	94.75	104.23	114.65	478.08
Insurance Including Employer Employee Insurance	167.21	180.59	180.59	180.59	180.59	889.56
Advertisement Exp	0.27	0.29	0.31	0.34	0.37	1.58
Bank Guarantee Charges	0.15	0.16	0.16	0.16	0.16	0.80
Books & Periodicals	0.16	0.17	0.19	0.20	0.22	0.95
Conveyance Exp	0.35	0.37	0.40	0.44	0.47	2.03
Courier Expense	0.02	0.02	0.03	0.03	0.03	0.13
Electricity	25.67	27.73	29.94	32.34	34.93	150.61
Electricity -New Building	17.87	19.30	20.85	22.52	24.32	104.86
Entertainment	0.09	0.09	0.10	0.11	0.12	0.51
Forklift Charges	9.44	10.19	11.01	11.89	12.84	55.38
Internet Exp	0.38	0.41	0.44	0.48	0.52	2.23
Medical Exp.	0.16	0.17	0.19	0.20	0.22	0.95
Miscellaneous Exp	0.54	0.58	0.63	0.68	0.73	3.17
Office Expenses	1.84	1.98	2.14	2.31	2.50	10.77
Packing Materials	48.38	52.25	56.44	60.95	65.83	283.85
Petrol & Diesel Expenses	0.09	0.09	0.10	0.11	0.12	0.51
Postage	0.06	0.07	0.08	0.08	0.09	0.38
Printer Rent	0.51	0.55	0.59	0.64	0.69	2.98
Rates And Taxes	18.28	19.74	19.74	19.74	19.74	97.24
Renovation Exp.	108.00	116.64	125.97	136.05	146.93	633.59
Repairing Exp.	12.96	14.00	15.12	16.33	17.63	76.03
Sales Promotion Exp.	25.00	27.00	27.00	27.00	27.00	133.00
Security Charges	30.96	33.44	36.12	39.01	42.13	181.65
Staff Refreshment	0.11	0.12	0.13	0.14	0.15	0.63
Staff Training Exp	0.15	0.16	0.15	0.15	0.16	0.77
Stationery Exp.-	0.50	0.54	0.58	0.63	0.68	2.91
Telephone Exp.	0.54	0.58	0.63	0.68	0.73	3.17
Transportation Exp.	0.50	0.54	0.58	0.63	0.68	2.93
CHQ Exp.	495.79	535.45	576.74	621.73	670.26	2899.97
Total Exp.(B)	1865.28	2003.88	2132.65	2271.75	2421.19	10694.74
Earnings Before Depreciation & Tax	922.63	960.83	1017.90	1077.53	1139.22	5118.10

Depreciation	135.44	138.01	126.42	126.79	134.45	661.12
EBT	787.19	822.82	891.47	950.74	1004.77	4456.98
Tax @25.168% (for FY 2021-22 to FY 2024-25) and @25.6256% (for FY 2025-26)	198.12	207.09	224.37	239.28	257.52	1126.38
Profit after Tax (PAT)	589.07	615.73	667.11	711.46	747.25	3330.61
PAT in %age	0.21	0.21	0.21	0.21	0.21	

10.6.2 The Authority, observed that even without considering a tariff increase, and, adopting the same conservative growth rate @5% YoY in volumes as proposed by M/s GSEC in their MYTP, they are still earning an Average Profit of 18% post tax (PAT). The Authority, in its own computations, has considered the volumes on the basis of the 4 year CAGR @6.3% as calculated by M/s GSEC without any adjustment, and, observes that they are earning an Average Profit of 21% post tax (PAT) as can be seen from table-20.

10.6.3 The Authority, accordingly, proposes the following computation of ARR for the 3rd Control Period (table-21) based on re-calculated Projected Revenues, revised Royalty, License fee (as per table -8), further adopting all the YoY increase as proposed by M/s GSEC in respect of OPEX, except labour charges, where the Authority has considered 10% YoY growth instead of 15% YoY as proposed by M/s GSEC.

Table-21 ARR proposed by the Authority for GSEC Ahmedabad for the 3rd Control Period
(Rs. in Lakhs)

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
O&M Expenses (other than Lease rent, Concession Fee)	672.51	727.26	768.27	812.70	860.82	3,841.55
Chq Expenditure allocated	495.79	535.45	576.74	621.73	670.26	2899.97
Depreciation	135.44	138.01	126.42	126.79	134.45	661.12
Royalty On Revenue	696.98	741.18	787.64	837.32	890.10	3953.21
Opex Total (table 9)	2000.72	2141.90	2259.07	2398.53	2555.63	11355.85
10% Return on revenue	278.79	296.47	315.05	334.93	356.04	1581.28
Corp Tax Rate	0.25	0.25	0.25	0.25	0.26	
Tax (table 17)	198.12	207.09	224.37	239.28	257.48	1126.33
Net ARR	2477.63	2645.45	2798.49	2972.74	3169.15	14063.47
Discount Rate	10%	10%	10%	10%	10%	
PV Discount	0.91	0.83	0.75	0.68	0.62	
PV ARR	2254.65	2195.73	2098.87	2021.46	1964.87	10535.58
Revenue Projected (A + B) (table 15)	2787.91	2964.71	3150.54	3349.27	3560.40	15812.85
Revenue from Regulated Services (A)	2616.18	2782.09	2956.47	3142.95	3341.08	14838.79

Revenue from other than regulated Services (B)	171.74	182.63	194.07	206.32	219.32	974.07
PV Revenue	2537.00	2460.71	2362.91	2277.51	2207.45	11845.58
Discount Excess / (Deficit) (PV Rev - PV ARR)	282.35	264.98	264.04	256.04	242.58	1310.00

10.6.4 Authority observed that M/s GSEC has a low asset base. The Authority, therefore, has considered a 10% return on revenue instead of considering a Return on RAB. The Authority further notes that after providing a 10% return on revenue for the purpose of ARR, **Projected Revenue (PV) of M/s GSEC at Rs.11,845.58 lakhs** is still higher than the **eligible ARR (PV) of Rs.10,535.58 lakhs** for the 3rd Control Period (ref. table-21).

10.6.5 The Authority notes that the Concession Agreement of M/s GSEC with AAICLAS is valid only till 31.12.2022. However, even if their license is extended beyond the said period, it is assessed that the existing tariff rates will be sufficient to cover their expenses and to earn a reasonable profit on revenues based on the projected cargo volumes. Therefore, no revision in tariff rates is proposed by the Authority for M/s GSEC Ahmedabad for tariff year FY 2021-22 and FY 2022-23 (till 31.12.2022).

10.6.6 Further, in case their license is extended beyond 31.12.2022, M/s GSEC may submit fresh ATP for Ahmedabad for the remaining tariff years of 3rd Control Period.

10.7 Authority's Proposal regarding Aggregate Revenue Requirement & ATP

The Authority, proposes to not consider any increase/revision in tariff rates for M/s GSEC for Ahmedabad up to 31.12.2022 during the 3rd Control Period. It is further proposed that in case their license is extended beyond 31.12.2022, M/s GSEC may submit fresh ATP for Ahmedabad for the remaining tariff years FY 2023-24, FY 2024-25, & FY 2025-26 of 3rd Control Period.

11 Summary of Proposals

The Authority, after careful consideration of the MYTP of the 3rd Control period makes the following proposal for Stakeholder Consultation:

11.1 Authority's Proposal regarding principle for determination of tariff for the 3rd Control Period

Since the cargo handling service provided by M/s GSEC at Ahmedabad Airport is 'Material' and 'Competitive' the Authority proposes to determine the tariff based on 'Light Touch Approach' for the 3rd Control Period.

11.2 Authority's Proposal regarding Regulatory Asset Base (RAB), Additions to RAB (CAPEX) & Depreciation

The Authority proposes to consider the RAB / Additions to RAB (CAPEX) as proposed by M/s GSEC Ahmedabad for the 3rd Control Period as given in table-1 & table-2 respectively.

The Authority proposes to consider the Revised Depreciation submitted by M/s GSEC Ahmedabad for the 3rd Control Period as given in table-4.

11.3 Authority's Proposal regarding O&M Expenditure

The Authority proposes to consider the O&M Expenditure of Rs.10,694.73 lakhs for GSEC Ahmedabad for the 3rd Control Period as given in table-9.

11.4 Authority's Proposal regarding Traffic – Cargo volumes

The Authority proposes to consider volumetric projections of 205,347 MT for GSEC Ahmedabad for the 3rd Control Period as per table-12.

11.5 Authority's Proposal regarding Revenue from Operations

The Authority proposes to consider Revenue projections for GSEC Ahmedabad for the 3rd control period as per table-15.

11.6 Authority's Proposal regarding taxation for 3rd Control Period

The Authority proposes to consider tax expense for M/s GSEC Ahmedabad for the 3rd Control Period as per table-17.

11.7 Authority's Proposal regarding Aggregate Revenue Requirement & ATP

The Authority, proposes to not consider any increase/revision in tariff rates for M/s GSEC for Ahmedabad up to 31.12.2022 during the 3rd Control Period. It is further proposed that in case their license is extended beyond 31.12.2022, M/s GSEC may submit fresh ATP for Ahmedabad for the remaining tariff years FY 2023-24, FY 2024-25, & FY 2025-26 of 3rd Control Period.

12 STAKEHOLDERS' CONSULTATION TIMELINE

In accordance with the provisions of Section 13(4) of the AERA Act, the proposal contained in para 5 above is hereby put forth for Stakeholder Consultation. To assist the stakeholders in making their submissions in a meaningful and constructive manner, necessary documents are enclosed as annexures to the Consultation Paper. For removal of doubts, it is clarified that the contents of this Consultation Paper may not be construed as any Order or Direction of this Authority. The Authority shall pass an Order, in the matter, only after considering the submissions of the stakeholders in response here to and by making such decision fully documented and explained in terms of the provisions of the Act.

The Authority welcomes written evidence-based feedback, comments and suggestions from stakeholders on the proposal made in para 5 above, latest by **14.09.2021** at the following address:

**Secretary,
Airports Economic Regulatory Authority of India,
AERA Building, Administrative Complex,
Safdarjung Airport,
New Delhi- 110003
Email: director-ps@era.gov.in
gita.sahu@era.gov.in
vikas.raig0@govcontractor.in
Tel: 011-24695048
Fax: 011-24695039**

(Chairperson)



126/संख्या
27/05/2021

266/सचिव(एरि)
27/5/2021

Date:14/5/2021

सचिव
प्रमुख
27/5

To

The Chairman
Airport Economic Regulatory Authority,
Administrative Complex, AERA Building,
Safdarjung Airport Area, Safdarjung Airport,
New Delhi, Delhi 110003

निदेशक (नि० एवं सां०) ML
27.5
AGM(GS)

Dear Sir,

Sub: Proposal for Cargo Tariff for GSEC Limited (Cargo Operations in Ahmedabad Airport)

We take pleasure in submitting proposal for cargo tariff of GSEC Limited, Ahmedabad for the period 1st April 2021 to 31st March 2026

We request the Authority to review the submissions and approve the tariff considering the reasons elaborated in the enclosed note.

We remain at your disposal, to clarify any queries on the same.

Thank you,

For GSEC Limited


Samir Mankad



GSEC Limited

2nd Floor, Gujarat Chamber's Building, Ashram Road, Ahmedabad - 380009
Tel.-+91-79-2655 4100, Fax : +91-79-2658 4040, E-mail : info@gsecl.co.in, Visit us : www.gsecl.co.in
CIN No. U52100GJ1965PLC001347



GSEC Limited

**Submission to Airports Economic Regulatory Authority
(AERA) for Determination of Tariff for Cargo services
at Ahmedabad Airport for the period 1st April 2021 to
31st March 2026**

Date of Submission: 14th May 2021



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1. Overview of GSEC Limited

- 1.1.1. GSEC Limited (hereinafter referred to as “GSEC” or “the company”) was founded in 1965.
- 1.1.2. GSEC commenced operation at Air Cargo Complex, Ahmedabad in 1977.
- 1.1.3. Over the years, GSEC has emerged as a leading and preferred Air Cargo Service provider.
- 1.1.4. GSEC Limited has its headquarters at Ahmedabad with branches at Indore, Raipur and Vishakhapatnam.
- 1.1.5. GSEC Limited is primarily involved in **handling Cargo operations** both for International cargo (Ahmedabad & Vishakhapatnam) and Domestic cargo (Raipur & Indore). In the last year, the company surrendered the domestic operations in Indore and Raipur back to AAICLAS.
- 1.1.6. Since the time of acquisition of the company under the disinvestment proposal from the Government of Gujarat in 2004, lot has gone into redefining its operations.
- 1.1.7. GSEC Limited was the first private company to take over the Air Cargo Complex as a custodian. The infrastructure, speed of processing, delivery, security, computerized systems, state-of-the-art facilities, service orientation and value addition to the clients' businesses today has made it an impeccable choice of all stakeholders in the international air cargo fraternity of Gujarat.
- 1.1.8. GSEC Limited has become a well-diversified Company and is exploring many different projects and businesses through its subsidiaries.
- 1.1.9. Along with the subsidiaries, GSEC Limited is heading towards becoming the leading logistics services provider and a successful well diversified Company in the coming years.



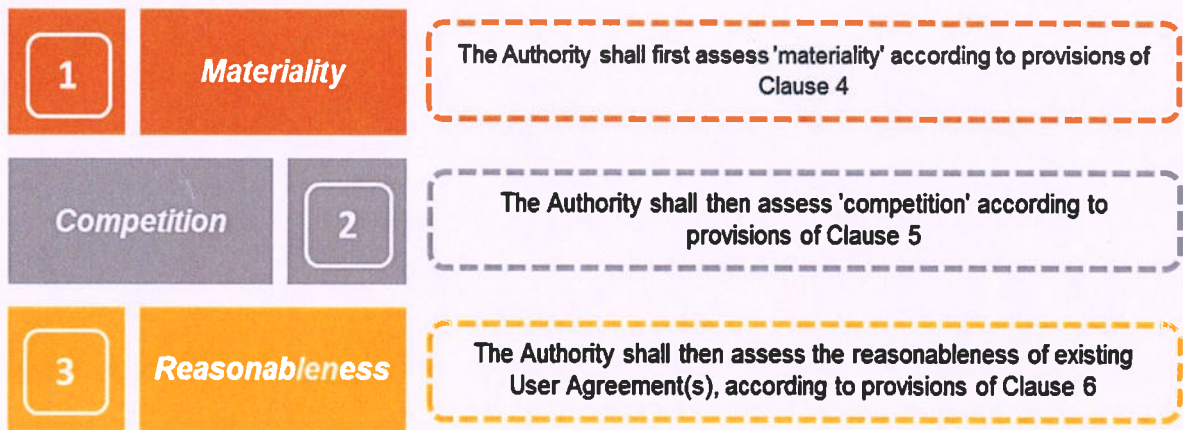
2. Tariff for First and Second Control Period

- 2.1.1. The Authority decided to adopt Light Touch Approach for determining the tariff with respect to First Control Period vide Order No. 09/2011-12, following which, the tariff for 4th and 5th year of the same control period was revised vide Order no. 42/2012-13.
- 2.1.2. The Authority had also allowed GSEC Limited to continue levying the same tariff for the period of 6 months from the expiry of First Control Period or till determination of tariff for Second Control Period, whichever was earlier vide Order no. 50/2015-16.
- 2.1.3. Subsequently, GSEC Limited submitted the MYTP for the SCP and the ATP for individual years of the Control Period.
- 2.1.4. The Authority had considered GSEC's submissions and issued Consultation Paper no. 40/2017-18 dated 3rd January 2018.
- 2.1.5. The Authority had issued Order No. 44/ 2017-18 dated 28th March 2018 in respect of the Cargo services being provided at Sardar Vallabhbhai Patel International Airport, Ahmedabad wherein the authority had authorized GSEC Limited to continue to levy existing tariffs for the second year of Second Control Period and tariff for the third year (2018-19) of the second control period was determined.
- 2.1.6. Subsequently, during the FY 2020-21, The Authority had allowed GSEC Limited to continue the existing tariff rates for the remainder of Second Control Period and had also required submission of Multi Year Tariff Proposal (MYTP) for the Third Control Period (2021-2026) at the earliest.



3. Analysis of Cargo Guidelines issued by the Authority

- 3.1.1. Adherence to the guidelines issued by the Authority in this regard - 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 (hereinafter referred to as “guidelines”) – dated 10th January 2011 has to be ensured in the course of assessment of the approach to be followed for determination of tariff for cargo operations.
- 3.1.2. The “guidelines” has prescribed the following three stage procedure for determining the approach for determination of tariff.



- 3.1.3. Based on the results of the Authority's review at stage 1, stage 2 and stage 3, the approach for determination of Cargo operations would be as follows:

Table 1 Determination of Approach for Cargo operations

Stage	Conditions	Case 1	Case 2	Case 3	Case 4
1	Is the volume of cargo handled considered "material"?	X	✓	✓	✓
2	Is the cargo service considered competitive?	()	✓	X	X
3	Are the terms in the existing user agreement for cargo services considered reasonable?	()	()	✓	X
Final Result		Light Touch Approach	Light Touch Approach	Light Touch Approach	Price Cap Approach
Applicable Guidelines	Chapter of the	Chapter V	Chapter V	Chapter V	Chapter III & IV



Legends	✓	✗	∅
Meaning	Yes	No	Not Applicable

3.2.Stage 1 – Materiality Assessment

3.2.1. Extract of the Guidelines:

3.2.2. The materiality index for service provided for cargo facility at a major airport “A” is defined as:

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

- Where ‘*Cargo Volume*’ represents the total cargo volume in MT per annum handled at major airport A.
- Where ‘*Total Cargo Volume*’ at Major Airports’ represents the sum total cargo volume in MT per annum, handled at all major airports.

3.2.3. Where the MI_c , as calculated above is 2.5% or more at a major airport, the service provided for cargo facility at major airport A shall be deemed ‘material’.

3.2.4. If MI_c is below 2.5%, then service provided for cargo facility at major airport A shall be deemed ‘not material’.

3.2.5. Testing the applicability of guidelines to GSEC, Ahmedabad:

3.2.5.1. The period considered for evaluating applicability of the guidelines to GSEC, Ahmedabad is Apr-19 to Mar-20.

3.2.5.2. Source of the data relating to Cargo: <https://www.aai.aero/en/business-opportunities/aai-traffic-news>

3.2.5.3. To determine the materiality index of GSEC, Ahmedabad, % of cargo handled by Ahmedabad cargo in comparison to volume of cargo handled in all the notified major airports is calculated.

3.2.6. Calculation of materiality index is as follows:



Table 2 Computation of Materiality Index

Sl No.	Major Airport	Total Freight FY 2019-20 (MT)	Materiality %	Materiality
1	Ahmedabad	103,741	3.21%	Material
2	Amritsar	2,180	0.07%	Not Material
3	Bangalore	374,062	11.59%	Material
4	Bhubaneswar	10,011	0.31%	Not Material
5	Calicut	28,386	0.88%	Not Material
6	Chandigarh	8,939	0.28%	Not Material
7	Chennai	355,194	11.01%	Material
8	Cochin	72,142	2.24%	Not Material
9	Delhi	955,858	29.62%	Material
10	Goa	5,420	0.17%	Not Material
11	Guwahati	19,547	0.61%	Not Material
12	Hyderabad	143,884	4.46%	Material
13	Jaipur	17,499	0.54%	Not Material
14	Kannur		0.00%	Not Material
15	Kolkata	153,468	4.76%	Material
16	Lucknow	14,882	0.46%	Not Material
17	Mangalore	4,605	0.14%	Not Material
18	Mumbai	863,275	26.75%	Material
19	Patna	12,249	0.38%	Not Material
20	Pune	37,986	1.18%	Not Material
21	Raipur	6,306	0.20%	Not Material
22	Thiruvananthapuram	25,511	0.79%	Not Material
23	Tiruchirappalli	8,114	0.25%	Not Material
24	Varanasi	3,580	0.11%	Not Material
Total		3,226,839	100%	

3.2.7. Conclusion

3.2.7.1. Materiality Index for Ahmedabad Airport is above the threshold % of 2.5%. Hence, the cargo operations in Ahmedabad Airport is considered “Material”.

3.3.Stage 2: Competition Assessment

3.3.1. Ahmedabad Airport is tested for competition assessment (Stage 2).

3.3.2. Apart from GSEC, Ahmedabad, Gujarat Agro Industries is also a cargo service provider in Ahmedabad Airport for International operations.

3.3.3. Proportion of volume of cargo handled by GSEC and Gujarat Agro Industries cargo operators for FY 2019-20 is provided below:



Tonnage in MT

Table 3 Proportion of volume of cargo handled by GSEC and Gujarat Agro for FY 2019-20

Month	GSEC Export MT	Gujarat Agro Export MT
Apr-19	2,837.49	747.00
May-19	2,990.25	1,122.00
Jun-19	2,679.96	1,178.10
Jul-19	2,787.00	907.25
Aug-19	2,823.00	696.31
Sep-19	2,786.51	832.14
Oct-19	2,955.46	824.23
Nov-19	2,688.05	878.00
Dec-19	2,628.89	923.30
Jan-20	2,630.70	1,006.90
Feb-20	2,905.68	1,004.00
Mar-20	2,056.47	995.09
Total in MT	32,769.45	11,114.34
% to total	75%	25%

3.3.4. Extract of the Guidelines

“Where a Regulated Service is being provided at a major airport by two or more Service Provider(s), it shall be deemed competitive at that airport. If a Regulated Service is provided by less than two Service Provider(s), it shall be deemed not competitive”.

3.3.5. Conclusion

3.3.5.1. Since there is one more service provider providing cargo services in Ahmedabad Airport, the cargo function in Ahmedabad airport is considered competitive based on definition given in the Guidelines.

3.4. Stage 3: Assessment of Reasonableness of User Agreements

3.4.1. Since the services are considered ‘material and competitive’ as per discussions above, according to table in para 3, stage 3 testing is not considered relevant.

3.5. Summary of results of assessment of adherence to “Guidelines”

3.5.1. The results of the assessment of adherence to guidelines is summarized below:

Table 4 Results of the assessment

Airport	Stage 1	Stage 2	Stage 3	Case	Final Approach
Ahmedabad	✓	✓	()	Case 2	Light Touch

Key:

Legends	✓	✗	()
Meaning	Yes	No	Not Applicable



3.5.2. Services are material and competitive, hence light touch approach as per Chapter V is being considered.

4. Light Touch Methodology

4.1.1. Light touch approach involves submission of projections and expected profitability for the control period. This proposal is to be submitted in the forms prescribed by AERA.

4.1.2. Para 11.2 of the “Guidelines” stipulate as under:

“Service Provider(s), providing Regulated Service(s) deemed either (i) 'not material'; or (ii) 'material but competitive'; or (iii) 'material and not competitive' but where the Authority is assured of the reasonableness of the existing User Agreement(s), shall submit their Annual Tariff Proposals for approval of the Authority, in the manner and form provided in AI.8.1 of Appendix 1. The said proposals shall be supported by the following:

Details of consultation with stakeholders along with:

- *Documented evidence that consultations with stakeholders have been undertaken;*
- *Summary of concerns raised by the stakeholders;*
- *Details of remedial action, if any, undertaken by the Service Provider, with reasons, in respect of the concerns so raised;*
- *Reasons for not addressing the balance concerns.*

4.1.3. GSEC is in the process of carrying out the user consultation and shall submit the necessary documents on completion of the process.

4.1.4. Under the light touch approach, a profit after tax (PAT) based approach is formulated to determine the revenue requirement for Ahmedabad Airport.

4.1.5. Under this method, costs are first projected for the control period. Next, revenues are computed after applying a profit after tax margin on the costs. The revenue so computed is compared with the revenues expected to be earned during the control period based on the expected growth in the traffic. This comparison could result in “excess revenues” or “shortfall in revenues” during the control period.

4.1.6. The cumulative excess or shortfall during the control period is computed. The tariff is increased/decreased such that the present value of cumulative excess or shortfall is neutralized such that the average reasonable PAT of 24% (PAT range from 2016-17 to 2020-21 was 20% to 27%) that was made by the airport in the previous control period is maintained.



5. Overview of Building Blocks

5.1.1. For the purpose of determining the tariff based on profit after tax approach, the company has projected the figures for the following building blocks. Based on these projections for each individual regulatory block, the excess/shortfall in revenues is computed.

- Revenue from Operations
- Operating and Maintenance Expenses
- Depreciation
- Taxation
- Reasonable profit after tax %

5.1.2. Basis of projections for each of the above building blocks is given in the ensuing paragraphs.

5.2. Control Period

5.2.1. As per the AERA Act, a period of 5 years constitutes one control period.

5.2.2. Accordingly, in case of GSEC, the company submits that the current control period is between 1st April 2021 and 31st March 2026.

5.3. Traffic

5.3.1. Historical tonnage for 5 years handled by the GSEC, Ahmedabad is as follows:

Table 5 Historical tonnage Handled by GSEC Ahmedabad

Particulars	2016-17 (Actual)	2017-18 (Actual)	2018-19 (Actual)	2019-20 (Actual)	2020-21 (Actual)
Export in MT	28,907	32,117	33,102	32,770	25,588
Import in MT	7,851	10,543	10,422	11,389	8,592
Total Qty in MT	36,758	42,660	43,524	44,159	34,180

5.3.2. The 5-year CAGR of traffic handled by GSEC, Ahmedabad from FY 2016-17 to FY 2019-20 is around 6.30%. GSEC submits that the 4-year CAGR of the volume of traffic handled in Ahmedabad reflects the future volume of business in this airport. However, due to the current on-going pandemic situation, this percentage has been maintained at 5% for the years FY 2021-22 to FY 2025-26. The reduction in the traffic due to the ongoing pandemic can be observed from the decrease in total traffic from 44,159 MT in FY 2019-20 to 34,180 MT in FY 2020-21.

5.3.3. Based on the above metric, the tonnage projected for the balance years in the current control period for Ahmedabad is as follows:



Table 6 Tonnage projection for GSEC Ahmedabad

Airports	2021-22	2022-23	2023-24	2024-25	2025-26
Export in MT	26,867	28,211	29,621	31,102	32,657
Import in MT	9,022	9,473	9,946	10,444	10,966
Total Qty in MT	35,889	37,683	39,568	41,546	43,623

5.4. Operating and Maintenance Expenses

5.4.1. Component wise historical operating and maintenance costs of GSEC Ahmedabad for the past 5 years is as follows:

Table 7 Component wise historical operating and maintenance costs

Particulars	UoM	2016-17	2017-18	2018-19	2019-20	2020-21
Royalty Expenses	Rs. Lacs	325.21	393.88	377.98	374.18	405.00
Insurance (including Employee Insurance)	Rs. Lacs	162.90	171.74	167.21	166.88	167.21
Rent & License Fees	Rs. Lacs	133.25	133.25	133.25	121.96	132.00
Labour Charges	Rs. Lacs	106.09	217.04	117.35	129.71	71.19
Bank Guarantee Charges	Rs. Lacs		55.38	41.94	5.24	0.15
Sales Promotion Expenses	Rs. Lacs	39.41	188.63	126.33	43.64	15.00
Repairing Expenses	Rs. Lacs	36.37	48.17	26.91	39.49	12.00
Security Charges	Rs. Lacs	27.02	29.31	31.70	36.48	28.67
Electricity Expenses	Rs. Lacs	24.25	28.73	32.17	30.72	23.77
Electricity Exp – New Building	Rs. Lacs	18.65	20.11	21.60	25.79	16.55
Others	Rs. Lacs	13.96	12.43	12.33	33.94	23.77
Forklift Charges	Rs. Lacs	10.68	12.85	14.10	18.11	8.74
Renovation Expenses	Rs. Lacs	4.09	63.02	247.51	105.89	100.00
Packing Materials	Rs. Lacs	1.04	11.18	89.25	60.51	44.80
Total	Rs. Lacs	965.60	1,385.72	1,439.63	1,192.54	1,048.85

5.4.2. Royalty is paid by GSEC to AAICLAS vide letter no. ED/CARGO/1360/AMD/2020 dated 22nd July 2020. This was computed at 13% for the years FY 2016-17 until June-20. This amount was then computed at 20% from 1st July 2020 to 31st March 2021. From 1st April 2021, this amount is computed at 25% of the total revenues generated by GSEC as per the revised agreement with AAICLAS.

5.4.3. Insurance costs represent the insurance for the cargo building and employee insurance. Premia is based on the risks against which the assets are insured.

5.4.4. Rent and license fees represents the space rentals paid by GSEC for the space occupied by cargo building. Labour charges represent the salaries and wages for the employees directly engaged in the cargo business in Ahmedabad airport.



- 5.4.5. Bank guarantee charges represent bank guarantees given to the Customs department. From FY 2019-20, GSEC has received the AEO (Authorized Economic Operator) status. Operators awarded with AEO status need not provide any bank guarantees to Customs. Rs. 29 crores earlier given as guarantee to Customs was not required anymore. Hence, the guarantee amount was received back from Customs and the guarantee charges have also reduced from FY 2019-20.
- 5.4.6. Basis of projecting expenses for the future years for top 5 expense heads in the control period is provided below:

Particulars	UoM	% increase adopted for current control period	Basis
Royalty Expenses	Rs. Lacs	25% of the revenue earned for the period is considered as royalty expenses	Based on AAICLAS letter no. ED/CARGO/1360/AMD/2020 dated 22nd July 2020 where it was agreed that 25% of the revenue shall be paid as royalty to AAICLAS.
Insurance (inc. Employer Employee Insurance)	Rs. Lacs	Same charge of FY 2020-21 adopted	FY 2020-21 has been estimated based on the prevailing premia rates after including additional COVID related protection. It is assumed that the same premia rates shall apply for the next control period also.
Rent and License Fees	Rs. Lacs	5% increase from FY 2020-21	Increase in the rentals by about 5% year on year based on escalation clauses in the agreement
Renovation expenses	Rs. Lacs	8% increase from FY 2020-21	Increase in the renovation expenses which primarily consists of repair and maintenance related expenses has been increased by 8% since the average age of existing buildings and machinery is about 12 years now. This has been estimated to grow at 8% to cater to both increased repair expenses as well as inflation. Further, there is no major capital spend which has been estimated for the current control period.
Labour Charges	Rs. Lacs	8% increase from FY 2020-21	Increased to cater to growing traffic and inflation

5.4.7. Other expenses have been estimated to increase by about 8% year on year in the next control period. This increase has been done to give effect to both the growing traffic as well as inflation over the years.

5.4.8. **Allocation of Common expenses of GSEC Head Quarters:** GSEC has its central headquarters located in Ahmedabad. Certain costs are incurred by GSEC headquarters for the company as a whole i.e costs are incurred cumulatively for the cargo operations undertaken by GSEC at Ahmedabad, Visakhapatnam, Raipur and Indore as well as amounts incurred for the trading



business vertical of GSEC. These expenses are allocated to each airport on the basis of efforts involved in each of these airports/line of business. Though trading business vertical contributes a large share to the topline, in terms of documents and manpower requirement, trading business accounts only for 10% of the workload. Thus, majority of the work from the head office is towards cargo operations. It may be noted that cargo operation is the most significant business vertical in the company. Out of the cargo operations, Ahmedabad accounted for about 90% of the total revenues till FY 2019-20. From FY 2020-21, with the closure of Indore and Raipur operations, the proportion of revenues from Ahmedabad is at about 95% of the total revenues from cargo division. Considering the foregoing, the allocation percentages have been considered for each line item. The % allocated ranges from 25% to 75% based on the nature of expense.

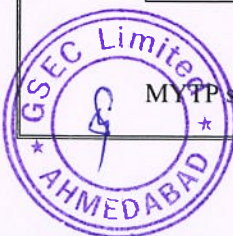
Table 8 Allocation of Expenses of GSEC Headquarters

Particulars	UoM	2016-17	2017-18	2018-19	2019-20	2020-21
Allocated Expenses						
Salaries	Rs. Lacs	147.15	172.71	278.11	240.62	264.59
Legal & Professional Charges	Rs. Lacs	25.71	20.56	37.55	59.58	42.00
Repairs & Maintenance	Rs. Lacs	26.95	64	29.98	29.93	26.9
Others	Rs. Lacs	173.2	150.31	162.39	178.84	126.51
Total	Rs. Lacs	373.01	407.58	508.03	508.97	460.00

- 5.4.9. All the above expenses have been estimated to increase by about 7 to 8% to factor in both increase in volume of business as well as inflation.
- 5.4.10. Operating and Maintenance Expenses for the current control period based on above assumptions is given below:

Table 9 Projected Expenses for the years FY 2021-22 to FY 2025-26

Particulars	UoM	2021-22	2022-23	2023-24	2024-25	2025-26
Direct Expenses						
Royalty Expenses	Rs. Lacs	775.47	845.10	920.46	1,002.96	1,092.92
Insurance (inc. Employer Employee Insurance)	Rs. Lacs	167.21	167.21	167.21	167.21	167.21
Rent & License Fees	Rs. Lacs	138.60	145.53	152.81	160.45	168.47
Renovation Expenses	Rs. Lacs	108.00	116.64	125.97	136.05	146.93
Labour Charges	Rs. Lacs	81.87	94.15	108.27	124.51	143.19
Packing Materials	Rs. Lacs	48.38	52.25	56.43	60.95	65.82
Security Charges	Rs. Lacs	30.96	33.44	36.12	39.01	42.13
Electricity Expenses	Rs. Lacs	25.67	27.73	29.94	32.34	34.93
Sales Promotion Expenses	Rs. Lacs	25.00	25.00	25.00	25.00	25.00
Others	Rs. Lacs	24.54	25.03	25.55	26.12	26.74
Electricity Exp – New Building	Rs. Lacs	17.87	19.30	20.85	22.52	24.32
Repairing Expenses	Rs. Lacs	12.96	14.00	15.12	16.33	17.63
Forklift Charges	Rs. Lacs	9.44	10.19	11.01	11.89	12.84



Particulars	UoM	2021-22	2022-23	2023-24	2024-25	2025 -26
Bank Guarantee Charges	Rs. Lacs	0.15	0.15	0.15	0.15	0.15
Sub-Total	Rs. Lacs	1,466.12	1,575.73	1,694.88	1,825.48	1,968.27
Allocated Expenses						
Salaries	Rs. Lacs	285.76	308.62	333.31	359.98	388.78
Legal & Professional Charges	Rs. Lacs	45.36	48.99	52.91	57.14	61.71
Repairs & Maintenance	Rs. Lacs	29.05	31.38	33.89	36.60	39.52
Others	Rs. Lacs	135.62	145.41	155.94	167.26	179.43
Sub-Total	Rs. Lacs	495.79	534.39	576.04	620.98	669.45
Total	Rs. Lacs	2,244.57	2,418.48	2,607.15	2,813.22	3,037.74

5.5. Depreciation

- 5.5.1. The company had an opening RAB of Rs. 1,040.56 lakhs as on 1st April 2021. This is based on the actual additions and depreciation for the period FY 2016-17 to FY 2019-20 based on the trial balance and fixed assets register of the Ahmedabad cargo division and estimated additions and depreciation for FY 2020-21.
- 5.5.2. The company has projected the following additions to fixed asset for the period 2021-22 to 2025-26 for GSEC Ahmedabad:

Table 10 Projections in Additions to Fixed Assets

Assets (Rs. in lacs)	2021-22	2022-23	2023-24	2024-25	2025-26	Total
X-ray machine- dual view	-	140.00	-	150.00	-	290.00
Fork lift	30.00	-	15.00	-	15.00	60.00
Stacker	14.00	-	-	14.00	-	28.00
ETD machine	-	-	110.00	-	-	110.00
DFMD	-	20.00	-	20.00	-	40.00
CCTV	-	-	25.00	-	25.00	50.00
Hand trolleys	-	30.00	-	10.00	-	40.00
Cold room	120.00	-	20.00	-	75.00	215.00
Total	164.00	190.00	170.00	194.00	115.00	833.00

Notes:

1. Presently three X-ray machines are single view. These are no longer permitted hence a phased replacement is scheduled.
2. Present one ETD machine will complete its life hence the planned replacement
3. Cold room needs be created for pharma cargo.

5.5.3. GSEC submits that in order to manage the projected growth in the demand for cargo services, the minimum investment in plant and machinery as above is required to be done in order to cater to the growing traffic.

5.5.4. Useful lives which have been used by the company for computing depreciation on the opening RAB and the additions thereafter is as follows:



Table 11 Useful lives of the assets

Category of Assets	No. of Years
Building	30
Plant and Machinery	10
Furniture and Fixtures	7
Office Equipment	5
Road	8
Computers	3
AC Machines and Plant	10

5.5.5. The above useful lives considered in the projections are in line with the ones adopted by the company in its financial statements as well as rates prescribed in Order 35/2017-18 of the Authority.

5.5.6. Based on the opening RAB , additions and application of useful lives, depreciation projection for the control period for the GSEC Ahmedabad is as under:

Table 12 Depreciation projection for the control period

Particulars	UoM	2021-22	2022-23	2023-24	2024-25	2025-26
Building	Rs. Lacs	33.98	33.98	33.98	33.98	33.98
Plant and Machinery	Rs. Lacs	83.81	102.81	119.81	139.21	150.71
Office Equipment	Rs. Lacs	-	-	-	-	-
Vehicles	Rs. Lacs	9.99	-	-	-	-
Computers	Rs. Lacs	-	-	-	-	-
Furniture & Fixtures	Rs. Lacs	29.92	-	-	-	-
Electrical Installations	Rs. Lacs	2.43	0.62	-	-	-
Total	Rs. Lacs	160.13	137.41	153.79	173.19	184.69

5.6.Revenue from Operations

5.6.1. Revenue from operations for the past 5 years at GSEC Ahmedabad is as follows:

Table 13 Revenue from operations for the past 5 years

Particulars	UoM	2016-17	2017-18	2018-19	2019-20	2020-21
Export Income	Rs. Lacs	604.27	705.07	726.46	791.26	584.94
Import Income	Rs. Lacs	1,419.33	1,758.03	1,519.87	1,383.52	1,324.75
Cash Revenue	Rs. Lacs	56.29	92.36	49.67	96.74	96.74
Monthly Billing Revenue	Rs. Lacs	388.78	449.88	489.59	490.53	315.76
Rentals & Other Income	Rs. Lacs	104.66	131.13	151.99	170.94	184.27
Total		2,573.32	3,136.48	2,937.58	2,932.98	2,506.45

5.6.2. Export and import incomes represent the handling and demurrage charges for various types and categories of cargo as mentioned in the applicable tariff card. Monthly billing revenues consist of

mainly consists of screening charges charged to airlines. Rental revenues are received from parties to whom the portions of the cargo building is let out as office spaces.

- 5.6.3. Forecasted revenues for GSEC Ahmedabad cargo operations for the third control period based on the traffic projections and the existing revenues without considering any increase in rates, is as follows:

Table 14 Forecast revenues for GSEC Ahmedabad cargo operations for the third control period without increase in rates

Particulars	UoM	2021-22	2022-23	2023-24	2024-25	2025-26
Export Income	Rs. Lacs	614.18	644.89	677.14	710.99	746.54
Import Income	Rs. Lacs	1,390.99	1,460.54	1,533.57	1,610.25	1,690.76
Cash Revenue	Rs. Lacs	97.00	102.00	107.00	112.00	118.00
Monthly Billing Revenue	Rs. Lacs					
		467.52	491.84	515.69	542.02	568.82
Rentals & Other Income	Rs. Lacs					
		193.48	203.16	213.31	223.98	235.18
Total		2,763.17	2,902.43	3,046.70	3,199.24	3,359.30

5.7. Taxation

- 5.7.1. Tax has been considered at the rate of 29.12% on the projected profits of GSEC Ahmedabad for the current control period. Projected Tax Expenditure (at revised revenues as detailed in Table 19 is as follows:

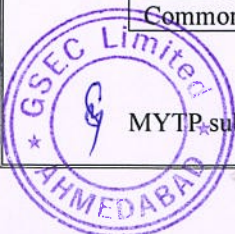
Table 15 Projected Tax Expenditure

Particulars	UoM	2021-22	2022-23	2023-24	2024-25	2025-26
Tax Exp	Rs. Lacs	285.32	329.89	366.07	405.41	451.15

5.8. Determining Reasonable Profit after Tax % for GSEC Ahmedabad

Table 16 PAT for the previous years from FY 2016-17 to FY 2020-21

Actual Profit & Loss	UoM.	2016-17	2017-18	2018-19	2019-20	2020-21
Export Income	In Lakhs	604.27	705.07	726.46	791.26	584.94
Import Income	In Lakhs	1,419.33	1,758.03	1,519.87	1,383.52	1,324.75
Cash Revenue	In Lakhs	56.29	92.36	49.67	96.74	96.74
Monthly Billing Revenue	In Lakhs	388.78	449.88	489.59	490.53	315.76
Rental income and other non-cargo revenue	In Lakhs	104.66	131.13	151.99	170.94	184.27
Total Revenue	In Lakhs	2,573.32	3,136.48	2,937.58	2,932.98	2,506.45
Regulated Expenditure	In Lakhs					
Direct Expenses (other than royalty)	In Lakhs	640.39	991.82	1,061.61	818.40	643.85
Royalty paid to AAICLAS	In Lakhs	325.21	393.88	377.98	374.18	405.00
Contingent rent	In Lakhs	-	-	-	-	-
Common expenses allocated to Cargo	In Lakhs	373.01	407.57	508.04	508.97	460.00



Total Expenditure	In Lakhs	1,338.61	1,793.27	1,947.63	1,701.55	1,508.85
Depreciation	In Lakhs	165.75	174.15	145.18	145.65	230.24
Profit before tax (PBT)	In Lakhs	-1,068.96	1,169.06	844.77	1,085.79	767.36
Less : Corporate Taxes	In Lakhs	369.95	404.59	243.63	316.18	223.45
Profit after tax (PAT)	In Lakhs	699.02	764.47	601.14	769.61	543.90
PAT / Revenue	%	27%	24%	20%	26%	22%
Average PAT	%					24%

5.8.1. GSEC Ahmedabad has been making a PAT of about 24% on an average in the past 5 years. This PAT, in comparison with its peers in the industry is as follows:

Table 17 Average PAT of Cargo Operators in Bangalore and Hyderabad

Particulars		Bangalore FY 2017-18	Hyderabad FY 2015-16
Regulated Revenue	Rs in lacs	11,601.57	8,381.00
Other Miscellaneous Income	Rs in lacs	1,471.39	338.00
Total Revenue	Rs in lacs	13,072.96	8,719.00
Employee benefit expense	Rs in lacs	-	1,042.00
Operating Expenses	Rs in lacs	7,479.97	4,362.00
Administrative and Other Expenses	Rs in lacs	-	16.00
Concession Fee	Rs in lacs	-	-
Chq Expenditure allocated	Rs in lacs	-	-
Depreciation	Rs in lacs	782.76	200.00
Total Expenditure	Rs in lacs	8,262.73	5,620.00
Profit Before Tax	Rs in lacs	4,810.23	3,099.00
Corporate Tax	Rs in lacs	1,030.49	669.00
Profit After Tax	Rs in lacs	3,779.74	2,430.00
Profit After Tax %	%	29%	28%

Source –

1. Menzies aviation bobba Bangalore Pvt ltd:

<http://aera.gov.in/upload/cp/5c4ab73156f7ccp281819251819.pdf>

2. Menzies Air Cargo Pvt. Ltd. Hyderabad:

<http://aera.gov.in/upload/cp/5996de9d93e57HMACPLCPFfinal201718.pdf>

5.8.2. Considering the profitability of the peers, PAT of 24% on Revenues as earned by GSEC Ahmedabad in the previous control period is considered reasonable for GSEC Ahmedabad.

6. Profit & Loss Account and Proposal for Tariff Increase

6.1.1. Based on the projections as mentioned above, and to achieve a PAT of 24%, the revenue that ought to be earned for the next control period by GSEC Ahmedabad is as follows:



Table 18 Revenues to be earned if PAT of 24% is required

Particulars	2021-22	2022-23	2023-24	2024-25	2025-26
	Projection	Projection	Projection	Projection	Projection
Revenues to be earned **	3,101.87	3,380.41	3,681.83	4,011.85	4,371.67

** ARR required is arrived considering cost incurred/projected for each FY plus concession fees of 25% on revenue and tax reimbursement. Please refer to Table 19 below which demonstrates that concession fee on revenue works out to 25% every year and average PAT of current control period is 24%.

6.1.2. Considering the revenues and costs as detailed above, the PAT of GSEC Ahmedabad is tabulated below:

Table 19 Profitability statement considering costs and estimated revenues

Particulars (Rs. in lacs)	2021-22	2022-23	2023-24	2024-25	2025-26
	Projection	Projection	Projection	Projection	Projection
Export Income	695.13	759.09	828.92	905.18	988.46
Import Income	1,574.33	1,719.17	1,877.33	2,050.04	2,238.65
Cash Revenue	109.78	120.06	130.98	142.59	156.24
Monthly Billing Revenue	529.14	578.94	631.28	690.06	753.15
Rental income and other non-cargo revenue	193.48	203.16	213.31	223.98	235.18
Total Revenue	3,101.87	3,380.41	3,681.83	4,011.85	4,371.67
Expenditure					
Direct Expenses (other than royalty)	690.66	730.63	774.42	822.52	875.35
Royalty paid to AAICLAS	775.47	845.10	920.46	1,002.96	1,092.92
Common expenses allocated to Ahmedabad cargo operations	495.79	534.39	576.04	620.98	669.45
Total Opex Cost	1,961.91	2,110.12	2,270.92	2,446.46	2,637.72
Depreciation	160.13	137.41	153.79	173.19	184.69
PBT	979.82	1,132.88	1,257.12	1,392.21	1,549.26
Tax	285.32	329.89	366.07	405.41	451.15
PAT	694.50	802.99	891.05	986.80	1,098.12
PAT to Revenue %	22%	24%	24%	25%	25%
Average PAT to Revenue %					24%

6.1.3. In view of the above, following tariff increase is proposed for cargo operations in GSEC Ahmedabad.

6.1.3.1. 13% increase in tariff for year 2021-22

6.1.3.2. 4% increase in tariff thereafter from 2022-23 till 2025-26.

6.2. Justification for proposed tariff increase

6.2.1. Cargo operations rate card was last revised in the year 2011-12 vide AERA Order 42/2012-13 and the prices have continued while the cost has increased significantly.



- 6.2.2. Since the last tariff increase was given in 2011-12 for Ahmedabad, GSEC requests for minimum increase to compensate for inflation and to meet the capital investments.
- 6.2.3. The company faces heavy competition from its peers operating at neighboring Airports in terms of quality of service and it is utmost important for the company to invest in maintenance of assets, human resources and upgrade its infrastructure.
- 6.2.4. A nominal increase of 13% for FY 2021-22 and a 4% increase for the next year 4 years is proposed considering CPI index, to manage its cash flows and fund Capex so as to maintain the quality of service to meet the customers' expectations and be at par with international standards.



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AAI CARGO LOGISTICS & ALLIED SERVICES COMPANY LTD.
(An AAI Subsidiary)

CIN:U74990DL2016GOI304348

ED/CARGO/1360/AMD/2020

DATE: 22-07-2020

The Chairman & MD
M/s. GSEC Ltd.
2nd Floor. Gujrat Chamber's Building.
Ashram Road.
Ahmedabad- 380009

Subject: Operation and Management of International Air Cargo Terminal Constructed by M/s. GSEC in the allotted land of AAI and Extension of the contract beyond 31-05-2019

Sir,

1. This has reference to the existing agreement executed between AAI and M/s. GSEC Ltd for Operation and Management of the International Air Cargo Complex constructed by M/s. GSEC in the AAI allotted land for a period of 10 years from 01.06.2009 to 31.05.2019, which was later novated in favour of AAICLAS in terms of the agreement dated 01-02-2018 between AAICLAS and GSEC Ltd.
2. The said arrangement was further extended for 4 months i.e. till 30.09.2019 on the same terms and conditions vide letter even no. dated 02/05/2019.
3. Based on the negotiation through Video Conferencing(VC) held by the constituted committee of AAI/AAICLAS with your agency on 26-06-2020 and 27-06-2020 and subsequent confirmation received through your letter no GSEC/ACC/2020-21/2706 dated-27.06.2020, and by email dated 28/06/2020, it is informed that the AAICLAS board has consented for regularization of extension of the contract from 01/10/2019 to 30/06/2020 on the same terms and conditions as a result of negotiations held and further consented for prospective extension for a period of 30 months with effect from 01/07/2020 to 31/12/2022 on the revised terms and conditions as mentioned below along with the applicable land rentals with taxes
 - a) 01-07-2020 to 31-03-2021 Royalty share @20% (excluding GST) on GTO.
 - b) 01.04.2021 to 31-12-2022 Royalty share @25% (excluding GST) on GTO.

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4. Further, the competent authority has also approved to conduct a joint re-measurement of the area occupied by M/s. GSEC by involving your representative(s) by the Airport Director, AAI, Ahmedabad Airport by considering the background in which M/s. GSEC has been allowed in 2011 to erect the fencing to show it as a gated Air cargo complex by segregating International Air Cargo Terminal from the operational area of Ahmedabad Airport, as referred to in your letter No. GSECL/ACC/2020-21/2041 Dated 28/06/2020 and discussed during the negotiation on VC on 26/06/2020 and 27/06/2020. Based on the outcome of this joint re-measurement, the in-voicing of the applicable rates will be decided both by AAI and AAICLAS for the respective period.

5. Therefore you are requested to kindly join for the re-measurement exercise of the total area occupied by M/s. GSEC, to be conducted by Airport Director, AAI, Ahmedabad Airport, for which a copy of this letter is endorsed to him.

6. You are also requested to enter into an agreement, afresh with AAICLAS for regularization of the contract for the period from 01/06/2019 to 30/06/2020 on the same terms and conditions and for the prospective extension period of 30 months from 01/07/2020 to 31/12/2022 on the revised terms and conditions as mentioned above along with the applicable land rentals and taxes.

7. A revised format of agreement and the revised terms and conditions in the AAICLAS credit policy, as approved by AAICLAS board shall also be shared with you for necessary action, at the earliest please.

8. You are also advised to file proposal to AERA on new cargo tariff for the International Air Cargo activities being carried out by you for the period from 01-04-2020 onwards, within seven days of receipt of this letter.

9. Kindly acknowledge the letter and convey your acceptance.

Thanking you,

Yours faithfully,


KEKU BOMI GAZDER
CHIEF EXECUTIVE OFFICER

Copy for kind information to:

- 1) Chairman-AERA- with respect to earlier communication on the above subject.
- 2) Member (Planning) –AAI/Director - AAICLAS.
- 3) Airport Director, AAI, Ahmedabad Airport.


27/7/20