

Consultation Paper No. 16/2019-20



Airports Economic Regulatory Authority of India

TO CONSIDER THE ANNUAL TARIFF PROPOSAL FOR FY 2019-20 & FY 2020-21 FOR THE SECOND CONTROL PERIOD (FY 2016-17 to FY 2020-21) IN RESPECT OF M/s AIR INDIA SATS AIRPORT SERVICES PRIVATE LIMITED (AISATS) FOR PROVIDING GROUND HANDLING SERVICES AT RAJIV GANDHI INTERNATIONAL AIRPORT, HYDERABAD.

New Delhi: 23.01.2020

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

1. Brief Background:

- 1.1 M/s AISATS is one of the Ground Handling agencies appointed by Hyderabad International Airport Limited(HIAL), Hyderabad for carrying out Ground Handling (GH) at Rajiv Gandhi International Airport (RGIA), Hyderabad. The Authority, vide its MYTO Order No. 19/2017-18 dated 21.11.2017, decided to adopt 'Light Touch Approach' in respect of the AISATS for Ground Handling services at RGIA, Hyderabad for determination of tariffs for the Second Control Period and allowed AISATS to levy the tariff prevailing as on 31.03.2016 for tariff years FY2016-17, FY2017-18 & FY2018-19.
- 1.2 As per MYTO for 2nd Control Period AISATS was allowed to levy the following tariff :-
 - (a) For T1 FY 2016-17 - at levels determined for FY 2015-16 i.e. tariff prevailing as on 31.03.2016 (Order no.27/2013-14 dated 10.07.13);
 - (b) For T2 FY 2017-18 from 01.04.2017 to 20.11.2017 - tariff prevailing as on 31.03.2016;
 - (c) FY2017-18 w.e.f. 21.11.2017 to 31.03.2018 - at reduced rates - 10% reduction in tariff prevailing as on 31.03.2016;
- 1.3 The details of other tariff orders of the Authority, issued in the interim to avoid regulatory vacuum, i.r.o. AISATS GH Services at RGIA, Hyderabad for the Second Control Period are listed below for reference:
 - a. Order No. 50/2015-16 dated 29.09.2016 upto 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;
 - e. Order no.19/2017-18 dated 21.11.2017 up to 31.03.2019.

2. Principles for Determination of Aeronautical Tariff under "Light Touch Approach".

- 2.1 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 Services provided for Cargo Facility, Ground Handling and Supply of Fuel to the Aircraft at the major airports and issued the Airports Economic Regulatory Authority of India (Terms and Conditions for Determination of Tariff for Services provided for Cargo Facility, Ground Handling and supply of Fuel to the Aircraft) Guidelines, 2011 (" the Guidelines").
- 2.2 As per clause 4.4. of the above said Guidelines at major airports, the percentage share of Ground Handling for RGIA, Hyderabad is 5.56% which is higher than the Materiality Index (MIg) of 5% for the above subject service. Hence the regulated service is deemed "**material.**"
- 2.3 AERA on the provisions of the NCAP-2016, vide its Order No. 15/2016-17 dated 12th Jan, 2017 decided to consider three (3) Ground Handling agencies (GHA) including Air India's Subsidiary/JV for competition assessment at all major airports.

- 2.4 As per the information furnished by AISATS in Form F1(b) on competition Assessment, M/s Globe Ground (I) Ltd. and M/s Menzies Bobba Ground Handling Services Pvt. Ltd. are other Service Providers which is rendering similar service at RGIA, Hyderabad.

Hence in the instance case, there are three Ground Handling service providers including AISATS, and, therefore the service is deemed “**competitive.**”

- 2.5 As per Clause 3.2 (i) 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. ATP/ACS Submissions made by AISATS for T4 (FY 2019-20) and T5 (FY 2020-21) of 2nd Control Period.

- 3.1 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 showed be supported by the following:

- (i) Form B -Submission of ATP.
- (ii) Form 14 (b) Proposed Tariff Card.
- (iii) Details of Consultation with Stakeholders.
- (iv) Evidence of User Agreement clearly indicating the tariff proposal by the service provider and agreed to be the users.

- 3.2 AISATS has submitted the ATP for FY 2019-20 & FY 2020-21. AISATS has not submitted the copy of Concession Agreement or evidence of Stakeholder Consultation. Copies of User Agreements have been submitted by AISATS. Further, no complaints have been received from any User i.r.o. the GH services rendered by AISTAS at RGIA, Hyderabad.

- 3.3 M/s AISATS has submitted the Annual Compliance Statement (ACS) for FY 2016-17 vide their letter dated 12.12.2017 and for FY 2017-18 vide their letter dated 26.03.2019. AISATS furnished the ACS details for FY 2018-19 vide letter dated 22.10.19 and the Annual Tariff Proposal (ATP) for FY 2019-20 & FY 2020-21 vide letter dated 18.11.2019. Other related supporting documents were received via mail dated 27.11.2019. Further, AISATS has not submitted copy Concession Agreement with GHIAL, however, they have submitted a copy of Amendment to the Concession Agreement vide their letter dated 30.12.2019.

From the copy of the Amendment to Concession Agreement it is observed that a new concession fee has been introduced by the Airport Operator GHIAL at Hyderabad Airport.

The new concession fee at RGIA, Hyderabad is as follows:

Higher of

- (i) 24% of AERA ceiling Rates, or
- (ii) 24% of Airport Operator Ceiling Rates (new ceiling rates issued by the Airport Operator).

It is ascertained that AISATS was earlier paying a 13% Revenue Share to GHIAL on the ceiling GH rates determined by AERA.

- 3.4 However, AISATS has not proposed any increase in tariff in its ATP submissions for FY2019-20 & FY 2020-21 (**Annexure-I**) over the rates existing at the end of the First Control Period (i.e. as on 31.03.2016), except that in the footnote of the proposed tariff card AISATS has mentioned that the tariff **exclude** prevailing third party charges such as Concession Fees, Royalty, airport levy charged by the Airport Authority at the time of submission.

4. Authority's Examination of the Proposal.

- 4.1 The services rendered by AISATS for providing Ground Handling facility at RGIA, Hyderabad are 'aeronautical services' in terms of section 2(a) of the Airports Economic Regulatory Authority of India Act, 2008 (Act) and under section 13 (1)(a) of the Act, the Authority is required to determine tariff for aeronautical services.
- 4.2 Analysis of the Audited Annual Compliance Statement (ACS) (Actuals) furnished by AISATS for FY 2016-17, FY 2017-18 & FY2018-19 (**Annexure-II**) of the Second Control Period, which is in progress, reveals the following:
- (i) The Authority observes that AISATS has not provided code-wise (aircraft) data of the traffic volumes handled by AISATS at RGIA, Hyderabad. Therefore, the total traffic volumes (figures) provided as per ACS (actuals)/ATP (MYTP), can be only considered to be indicative numbers which bear no correlation to any financial parameters analyzed herein.
 - (ii) The Authority observes that the total traffic volume increased by 3.16% from 13432 flights in FY 2015-16 to 13856 flights in FY 2016-17. Whereas, the Total Revenue shows a YoY growth of 5.94% in FY 2016-17 in comparison to FY 2015-16 i.e. from Rs.58.88 Crores to Rs. 62.38 crores.
 - (iii) Similarly, the total traffic volume was 15470 flights in FY 2017-18 showing an increase of 11.65% YoY, and, in FY 2018-19 the volumes increased further by 34% YoY to 20803 flights. The above numbers are the actual volumes as against the AISATS assumption of 3% to 4% YoY average growth in traffic in its MYTP projection submitted to the Authority for the 2nd Control Period.
 - (iv) The Total Revenue declines by 7.56% YoY in FY2017-18 (from Rs.62.38 Cr to Rs.57.67 Cr). During FY2018-19 the Revenue increases by 19.27% YoY (from Rs.57.67 Cr Rs.68.78 Cr).
 - (v) Similarly, The Return on Average RAB, @ 14% as considered by the Authority, works out to 80.51% in FY 2016-17 and 2% in FY2017-18, and it is (-)1.19% in FY 2018-19. The Authority notes that AISATS has considered a return of 26.16% as per Form1(a) of MYTP submissions.

- (vi) Further, it is seen that the Operating Profit decreased from Rs.11.05 crores in FY 2015-16 to Rs. 6.31 Crores in FY 2016-17 showing a decrease of 42.9% YoY. Thereafter, the Operating Profit declines sharply to Rs.0.31 Crores in FY 2017-18. Further, ACS for FY2018-19 shows an operating loss of Rs.0.23 crores.
 - (vii) A comparative analysis of the actuals for the first three tariff years and the projections for the remaining two tariff years is placed at **Annexure-III**. The workings reveal that at the existing tariff levels the Total Revenue is projected to be Rs.62.43 Cr in FY 2019-20 and Rs.66.17 Cr in FY2020-21.
 - (viii) It is also observed that a Capex of Rs.3.00 crores each is proposed in FY 2019-20 as well as in FY2020-21. A substantial reduction in the total operating expenditure is projected in FY2019-21 as compared to the earlier years resulting in a significant improvement in the Return on Average RAB & Operating Profit as calculated for FY 2019-20 & FY2020-21.
 - (ix) Accordingly, as shown in Annexure-III, the Return on Average RAB, even @ 14% as considered by the Authority, works out to 57.65% in FY 2019-20 & 62.26% in FY2020-21, and, similarly the Operating Profit works out to a reasonable level of 17.50% in both the remaining tariff years.
- 4.4 No increase in tariff is proposed by AISATS in its ATP submission for FY 2019-20 & FY 2020-21. The Authority, notes that AISATS has not proposed any increase in Tariff in the entire Second Control Period (FY 2016-2021) over the rates existing at the end of the First Control Period (i.e. as on 31.03.2016) at RGIA, Hyderabad. The Authority also observes that no complaints have been received from any user i.r.o. the GH services rendered by AISTAS at RGIA, Hyderabad.
- 4.5 All Tariff Orders / Tariff Card issued by the AERA up to FY 2018-19 are issued with the footnote that all charges mentioned in the tariff card **include** prevailing Concession Fees, Royalty, Airport levy charged by the Airport Authority, indicating that AERA determined tariff is the maximum to be charged.

5. Proposal

The Authority, after careful consideration of the ATP for FY 2019-20 & FY 2020-21 of the Second Control period makes the following proposal for Stakeholder Consultation:

- 5.1 The service for Ground Handling being provided by M/s AISATS Ground Handling at Rajiv Gandhi International Airport, Hyderabad is **“material but competitive”** on the basis of which the Authority decided to adopt **‘light touch approach’** for the 2nd Control Period from 01.04.2016 to 31.03.2021.
- 5.2 In line with the above approach, and, in consideration of the Proposal (ATP) of AISATS, the Authority proposes to allow M/s AISATS to charge tariffs prevailing as on 31st March 2016 (AERA Order No. 19/2017-18 dated 21.11.2017) for the remaining two tariff years viz. T4 (FY 2019-2020) & T5 (FY2020-21) as per **Annexure-IV**.
- 5.3 The Authority also proposes to allow M/s AISATS to charge the Ground Handling Tariffs prevailing as on 31st March 2016 for Tariff Years FY 2016-17 to FY 2018-19 (towards regularisation of interim orders period up to 31.03.2019).

- 5.4 Tariff determined as above will be maximum tariff to be charged. No other charge is to be levied over and above the approved tariff.
- 5.5 The tariff charges for Non-Schedule Operations provided by M/s AISATS should not exceed the tariff charges approved by AERA for its Scheduled operations for similar class of aircraft.
6. 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 **13 Feb, 2020** at the following address:

**Director (P&S),
Airports Economic Regulatory Authority of India,
AERA Building, Administrative Complex,
Safdarjung Airport,
New Delhi- 110003
Email: krishan.ram@era.gov.in
Gita.sahu@era.gov.in
Tel: 011-24695042
Fax: 011-24695039**

(Chairperson)



2019/L/CHQ/MKT/004/AERA

18 November 2019

Ms. Geetha Sahu
AGM (Fin)
Airports Economic Regulatory Authority of India
New Delhi

Sub: ATP submission for Hyderabad by Air India SATS Airport Services Private Limited.

Dear Madam,

With reference to our submission of Annual Tariff Proposal for Hyderabad, please find the supporting document for your perusal:

1. AERA Order no. 19/ 2017-18 dated 21st November, 2017

Kindly note that we are not seeking any increase from the last AERA order no. 19/2017-18 dated 21st November, 2017 and hence we would like to continue with the same tariff for FY 19-20 & FY 20-21.

Thank you for your kind understanding.

Yours Sincerely,

A handwritten signature in black ink, appearing to read 'K Singh'.

Kalpesh Kumar Singh
Assistant Vice President - Commercial
Air India SATS Airport Services Private Limited
E-mail: kalpesh.singh@aisats.in
Contact: (D) +91-22-4203 7016

**BEFORE THE AIRPORTS ECONOMIC REGULATORY AUTHORITY OF INDIA
AT NEW DELHI**

**SUBMISSION OF PROPOSAL FOR DETERMINATION OF ANNUAL TARIFF FOR AND ON BEHALF
OF:**

M/S AIR INDIA SATS AIRPORT SERVICES PRIVATE LIMITED

I, Sanjay Gupta, aged 42 years resident of Republic of India acting in my official capacity as Chief Financial Officer in M/S Air India SATS Airport Services Private Limited having its registered office at Airlines House, 113 Guru Rakabganj Road, New Delhi 110001 do hereby state and affirm as under that:

1. That I am duly authorized to act for and on behalf of M/S Air India SATS Airport Services Private Limited in the matter of making this submission before the Airports Economic Regulatory Authority of India, New Delhi ('the Authority')
2. I am competent to make this submission before the Authority;
3. I am making this submission in my official capacity and the facts stated herein are based on official records;
4. The contents of this submission which include inter alia
 - (i) Proposed detailed break-up of Tariff(s) based in clause 1.2 where the Authority has specified a light touch approach for the duration of the Control Period, pursuant to Clause 3.2; and
 - (ii) Justifications are correct and true to my knowledge and belief and nothing material has been concealed there from.



Sanjay Gupta

Chief Financial Officer

Place: Mumbai

Date: 18 November 2019

MAXIMUM RATES TO BE PAID BY SCHEDULED AIRLINES FOR COMPREHENSIVE GROUND HANDLING

S/N	Aircraft Types (ICAO Code)	Maximum Ground Handling Rate in INR			
		Scheduled Passenger Aircraft		Scheduled Freighter Aircraft	
		Domestic	International	Domestic	International
1	CODE B	13,177	40,585	NA	NA
2	CODE C	17,657	1,05,810	59,297	1,44,287
3	CODE D	28,251	1,59,440	1,02,780	1,59,440
4	CODE E	59,297	2,02,924	1,23,863	2,17,419
5	CODE F	1,05,415	2,86,993	1,68,532	3,13,083

Notes:

- 1) To achieve the projected ARR only maximum ground handling rates have been suggested for Airlines as user agreements will be entered into with each Airline based on the IATA AHM 810 STANDARD GROUND HANDLING AGREEMENT 1998 or 2004 or 2008 or 2013(SGHA).
- 2) The rates with each Airline will be negotiated based on services required from SGHA service items (usage of equipment and manpower), flight frequency, service level agreement, credit period and liability and indemnity requirement.
- 3) These rates may be revised, where external economic / financial factors warrant a review. However, any change, will be in consultation with the relevant authorities (AERA) and related stakeholders.
- 4) All charges mentioned above exclude prevailing third party charges such as concession fee, royalty, airport levy charged by the Airport Authority at the time of submission.
- 5) All charges mentioned above exclude taxes which will be charged at the prevailing rates.
- 6) Exchange rate used for contracts signed in USD: 1 USD = 70 INR

ANNEXURE –II

AERA

Air India SATS Pvt. Ltd.

Ground Handling Service Provider at Rajiv Gandhi International Airport, Hyderabad

**Annual Compliance Statement (ACS)
for FY 2016-17, 2017-18 & 2018-19**

(Station: Hyderabad)

Particular	Actual (Audited) FY 2016-17	Actual (Audited) FY2017-18	Actual (Audited) FY2018-19
	(Amount in Rs.)		
Total Regulated from Regulated services (1)	61,55,52,425	56,81,73,465	68,14,15,975
Other Revenue from Services Other than Regulated Services (2)	82,52,440	84,85,811	63,92,426
Total Revenue (1+2)	62,38,04,865	57,66,59,276	68,78,08,401
Operating Expenditure (3)	54,17,97,956	55,28,18,299	66,77,79,593
Depreciation (4)	1,89,04,360	2,07,25,454	2,23,70,993
Total Expenditure(3+4) = (5)	56,07,02,316	57,35,43,753	69,01,50,586
Regulated Operating Profit (1)+(2) –(5) = (6)	6,31,02,549	31,15,523	(23,42,185)
Capital Expenditure (7)	7,71,02,672	11,65,41,759	94,25,250
Opening RAB (8)	4,92,82,201	10,74,80,513	20,32,96,818
Disposals/ Depreciation (9)	-	-	-
Closing RAB (8)+(7)-(9)= (10)	10,74,80,513	20,32,96,818	19,03,51,075
Average RAB (8)+(10)/2 = (11)	7,83,81,357	15,53,88,666	19,68,23,947
Return On Avg. RAB (6)/(11)	80.51%	2%	(-)1.19%
Total Volume (Air Traffic Movements) (in Nos.) (12)	13856	15470	20803
Actual Yield per unit/flight (in Rs.) (1/12)	44425	36727	32756

Tariff year period is financial year i.e. 1st April to 31st March

“Actual figures given in this Annual Compliance statement for tariff years 2016-17 2017-18 and 2017-18 have been taken from the audited statements furnished by AISATS.”

For calculating regulated Operating Profit, Finance cost and other income (interest income, Excess Provision written Back, Miscellaneous Income, Exchange Fluctuation etc.) is not considered.

Dated: /Jan/2020

Place: New Delhi

Annexure - III

AERA/20010/MYTP/AISATS/GH/HIAL/CP-II/2016-17
AISATS, Ground Handling Service, RGI Airport, Hyderabad
Analysis of ACS and ATP projections for 2nd Control Period FY 2016-2021

	FY 2016-17 (Actual)	FY2017-18 (Actual)	FY2018-19 (Actual)	FY 2019-20 (forecasted)	FY 2020-21 (forecasted)
Regulated revenue (1)	615,552,425	568,173,465	681,415,975	622,229,752	659,563,537
other than regulated (2)	8,252,440	8,485,811	6,392,426	2,076,208	2,180,018
Total Revenue (3)	623,804,865	576,659,276	687,808,401	624,305,960	661,743,555
operating Expenditure (4)	541,797,956	552,818,299	667,779,593	484,134,657	508,341,389
Depreciation (5)	18,904,360	20,725,454	22,370,993	30,612,034	37,662,034
Total Expenditure (6)	560,702,316	573,543,753	690,150,586	514,746,691	546,003,423
Total Operating Profit (7)	63,102,549	3,115,523	(2,342,185)	109,559,269	115,740,132
Capital Expenditure (8)	77,102,672	116,541,759	9,425,250	30,000,000	30,000,000
Opening Rab (9)	49,282,201	107,480,513	203,296,818	190,351,075	189,739,041
Disposals (10)	-	-	-	-	-
Closing Rab (11)	107,480,513	203,296,818	190,351,075	189,739,041	182,077,007
Average Rab (12)	78,381,357	155,388,666	196,823,947	190,045,058	185,908,024
Return On AVG Rab @14% (13)	39,190,679	21,754,413	27,555,353	26,606,308	26,027,123
Corporate Tax (14)	0	0	0	0	0
ARR Required (15) (6+13+14)	599,892,995	595,298,166	717,705,939	541,352,999	572,030,546
Return on average RAB (Avg.RAB/Oprtg. Profit) (16)	80.51%	2.00%	-1.19%	57.65%	62.26%
Shortfall/ Surplus (17) (3-15)	23,911,871	(18,638,890)	(29,897,538)	82,952,961	89,713,009
Operating profit/turnover ratio (18)	10.12%	0.54%	-0.34%	17.55%	17.49%

Annexure - IV

Maximum rates proposed by AERA for AISATS for FY 2019-20 & FY 2020-21 of Second Control Period (01.04.2016-31.03.2021) for Scheduled Airlines for comprehensive Ground Handling at Rajiv Gandhi International Airport, Hyderabad.

Maximum Ground Handling Rate in INR

S. No.	Aircraft types	<u>Existing Rates</u> for Tariff Years 2016-17, 2017-18 & 2018-19				<u>Proposed Rates</u> for Tariffs Years FY 2019-20 & FY 2020-21			
		Schedule Aircraft				Schedule Aircraft			
		Passenger		Freighter		Passenger		Freighter	
	(ICAO Code)	Domestic Flight	International Flight	Domestic Flight	International Flight	Domestic Flight	International Flight	Domestic Flight	International Flight
1	Code B	13,177	40,585	NA	NA	13,177	40,585	NA	NA
2	Code C	17,657	1,05,810	59,297	1,44,287	17,657	1,05,810	59,297	1,44,287
3	Code D	28,251	1,59,440	1,02,780	1,59,440	28,251	1,59,440	1,02,780	1,59,440
4	Code E	59,297	2,02,924	1,23,863	2,17,419	59,297	2,02,924	1,23,863	2,17,419
5	Code F	1,05,415	2,86,993	1,68,532	3,13,083	1,05,415	2,86,993	1,68,532	3,13,083

Note:

- 1) All charges mentioned above **include** prevailing third party charges such as concession fee, royalty, airport levy charged by the Airport Operator;
- 2) All **charges metioned above are maximum** and **excluding** the applicable **statutory taxes**.