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27/05/2021

266/સાચીવ(કી)  
27/5/2021

Date:14/5/2021

સચીવ

મુશ્કેલી  
27/5

To

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

નિદેશક (નિ. એવ. સાં.)

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 1<sup>st</sup> April 2021 to 31<sup>st</sup> 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**

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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 1<sup>st</sup> April 2021 to  
31<sup>st</sup> March 2026**

**Date of Submission: 14<sup>th</sup> 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.



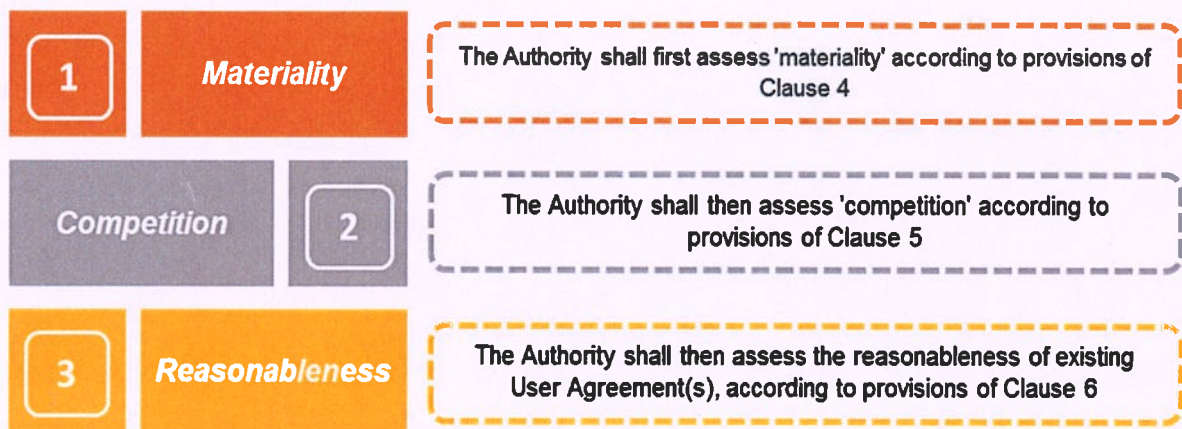
## 2. Tariff for First and Second Control Period

- 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 4<sup>th</sup> and 5<sup>th</sup> 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 3<sup>rd</sup> January 2018.
- 2.1.5. The Authority had issued Order No. 44/ 2017-18 dated 28<sup>th</sup> 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 10<sup>th</sup> 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
<b>Final Result</b>		<b>Light Touch Approach</b>	<b>Light Touch Approach</b>	<b>Light Touch Approach</b>	<b>Price Cap Approach</b>
<b>Applicable Chapter of the Guidelines</b>		<b>Chapter V</b>	<b>Chapter V</b>	<b>Chapter V</b>	<b>Chapter III &amp; IV</b>



<b>Legends</b>	✓	✗	()
<b>Meaning</b>	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
<b>Total</b>		<b>3,226,839</b>	<b>100%</b>	

### 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
<b>Total in MT</b>	<b>32,769.45</b>	<b>11,114.34</b>
<b>% to total</b>	<b>75%</b>	<b>25%</b>

## 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 1<sup>st</sup> April 2021 and 31<sup>st</sup> 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
<b>Total Qty in MT</b>	<b>36,758</b>	<b>42,660</b>	<b>43,524</b>	<b>44,159</b>	<b>34,180</b>

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:

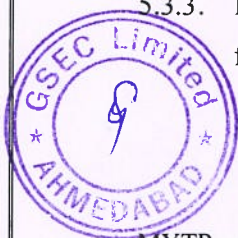




Table 6 Tonnage projection for GSEC Ahmedabad

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
<b>Total Qty in MT</b>	<b>35,889</b>	<b>37,683</b>	<b>39,568</b>	<b>41,546</b>	<b>43,623</b>

#### 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
<b>Total</b>	<b>Rs. Lacs</b>	<b>965.60</b>	<b>1,385.72</b>	<b>1,439.63</b>	<b>1,192.54</b>	<b>1,048.85</b>

5.4.2. Royalty is paid by GSEC to AAICLAS vide letter no. ED/CARGO/1360/AMD/2020 dated 22<sup>nd</sup> July 2020. This was computed at 13% for the years FY 2016-17 until June-20. This amount was then computed at 20% from 1<sup>st</sup> July 2020 to 31<sup>st</sup> March 2021. From 1<sup>st</sup> 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*

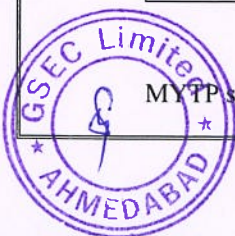
Particulars	UoM	2016-17	2017-18	2018-19	2019-20	2020-21
<b>Allocated Expenses</b>						
Salaries	Rs. Lacs	147.15	172.71	278.11	240.62	264.59
Legal & Professional Charges	Rs. Lacs	25.71	20.56	37.55	59.58	42.00
Repairs & Maintenance	Rs. Lacs	26.95	64	29.98	29.93	26.9
Others	Rs. Lacs	173.2	150.31	162.39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

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
<b>Direct Expenses</b>						
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
<b>Sub-Total</b>	<b>Rs. Lacs</b>	<b>1,466.12</b>	<b>1,575.73</b>	<b>1,694.88</b>	<b>1,825.48</b>	<b>1,968.27</b>
<b>Allocated Expenses</b>						
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
<b>Sub-Total</b>	<b>Rs. Lacs</b>	<b>495.79</b>	<b>534.39</b>	<b>576.04</b>	<b>620.98</b>	<b>669.45</b>
<b>Total</b>	<b>Rs. Lacs</b>	<b>2,244.57</b>	<b>2,418.48</b>	<b>2,607.15</b>	<b>2,813.22</b>	<b>3,037.74</b>

## 5.5. Depreciation

- 5.5.1. The company had an opening RAB of Rs. 1,040.56 lakhs as on 1<sup>st</sup> 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
<b>Total</b>	<b>164.00</b>	<b>190.00</b>	<b>170.00</b>	<b>194.00</b>	<b>115.00</b>	<b>833.00</b>

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	-	-	-
<b>Total</b>	<b>Rs. Lacs</b>	<b>160.13</b>	<b>137.41</b>	<b>153.79</b>	<b>173.19</b>	<b>184.69</b>

## 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
<b>Total</b>		<b>2,573.32</b>	<b>3,136.48</b>	<b>2,937.58</b>	<b>2,932.98</b>	<b>2,506.45</b>

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
<b>Total</b>		<b>2,763.17</b>	<b>2,902.43</b>	<b>3,046.70</b>	<b>3,199.24</b>	<b>3,359.30</b>

## 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:

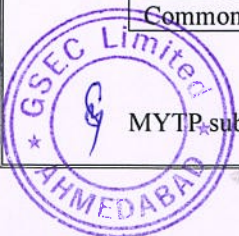
*Table 15 Projected Tax Expenditure*

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
<b>Profit before tax (PBT)</b>	<b>In Lakhs</b>	<b>1,068.96</b>	<b>1,169.06</b>	<b>844.77</b>	<b>1,085.79</b>	<b>767.36</b>
Less : Corporate Taxes	In Lakhs	369.95	404.59	243.63	316.18	223.45
<b>Profit after tax (PAT)</b>	<b>In Lakhs</b>	<b>699.02</b>	<b>764.47</b>	<b>601.14</b>	<b>769.61</b>	<b>543.90</b>
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
<b>Total Revenue</b>	Rs in lacs	<b>13,072.96</b>	<b>8,719.00</b>
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
<b>Total Expenditure</b>	Rs in lacs	<b>8,262.73</b>	<b>5,620.00</b>
<b>Profit Before Tax</b>	Rs in lacs	<b>4,810.23</b>	<b>3,099.00</b>
Corporate Tax	Rs in lacs	1,030.49	669.00
<b>Profit After Tax</b>	Rs in lacs	<b>3,779.74</b>	<b>2,430.00</b>
<b>Profit After Tax %</b>	%	<b>29%</b>	<b>28%</b>

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
<b>Total Revenue</b>	<b>3,101.87</b>	<b>3,380.41</b>	<b>3,681.83</b>	<b>4,011.85</b>	<b>4,371.67</b>
<b>Expenditure</b>					
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
<b>Total Opex Cost</b>	<b>1,961.91</b>	<b>2,110.12</b>	<b>2,270.92</b>	<b>2,446.46</b>	<b>2,637.72</b>
<b>Depreciation</b>	<b>160.13</b>	<b>137.41</b>	<b>153.79</b>	<b>173.19</b>	<b>184.69</b>
<b>PBT</b>	<b>979.82</b>	<b>1,132.88</b>	<b>1,257.12</b>	<b>1,392.21</b>	<b>1,549.26</b>
Tax	285.32	329.89	366.07	405.41	451.15
<b>PAT</b>	<b>694.50</b>	<b>802.99</b>	<b>891.05</b>	<b>986.80</b>	<b>1,098.12</b>
<b>PAT to Revenue %</b>	<b>22%</b>	<b>24%</b>	<b>24%</b>	<b>25%</b>	<b>25%</b>
<b>Average PAT to Revenue %</b>					<b>24%</b>

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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**ED/CARGO/1360/AMD/2020**

**DATE: 22-07-2020**

The Chairman & MD  
M/s. GSEC Ltd.  
2<sup>nd</sup> 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**

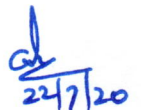
Sir,

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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22/7/20



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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.