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Schedule

This Schedule contains the various specified forms that relate to specific Clause(s) of the Guidelines or Section(s) of the Appendix, as the case may be.

Form A: (ref: Section A1.1 of Appendix I)

BEFORE THE AIRPORTS ECONOMIC REGULATORY AUTHORITY OF INDIA

AT NEW DELHI

SUBMISSION OF MULTI YEAR TARIFF PROPOSAL FOR AND ON BEHALF OF

M/S. KERALA STATE INDUSTRIAL ENTERPRISES LIMITED
(PERTAINING TO CALICUT AIR CARGO COMPLEX)

I, FEBI VARGHESE, aged 43 years, resident of Thiruvananthapuram, acting in my official capacity as MANAGING DIRECTOR in M/s. KERALA STATE INDUSTRIAL ENTERPRISES LTD having its registered office at St. Joseph's Press Buildings, Cotton Hill, Thiruvananthapuram-695014 do hereby state and affirm as under that:

1. That I am duly authorized to act for and on behalf of M/s. Kerala State Industrial Enterprises Ltd 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) Business Plan (ii) information relating to the Regulatory Building Blocks; (ii) Competition Assessment; (iv) Historical and Forecasted Volumes, and (v) Historical Revenues, are correct and true to my knowledge and belief and nothing material has been concealed there form.

Place: Thiruvananthapuram
Date: 20/5/2011



(FEBI VARGHESE)
MANAGING DIRECTOR

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EXECUTIVE SUMMARY

- In terms of revenue, growth in business is assumed at 10% annually. Some stagnation is expected in the volume of perishable export as well as UB import in the near future. Similarly, after commissioning of the Kannur Airport within the next three years or so, some diversion of business from Calicut Airport is anticipated. Future revenue loss on account of reduction in volume of business is proposed to be recouped by possible expansion in Airport/Cargo related activities and also by leasing out the vacant Office premises etc available at CACC.
- CAPEX of Rs.10 crores is proposed during the year 2012-13 and another Rs.15 crores during 2013-14 in connection with relocation of Cargo Complex. This will be met from borrowings and internal surplus.
- Improvement in cargo handling efficiency is proposed, to handle higher volumes with existing man power.
- Addition to man power is not envisaged, regular increments and wage revision is considered in the financial projections.
- Annual increase in expenditure is assumed at 16 to 25 % , based on past experience.



INTRODUCTION

Kerala State Industrial Enterprises is a State PSU fully owned by the Kerala Government and has been operating the Air Cargo Complex at Calicut since 1995. KSIE is also operating another cargo complex attached with Trivandrum Airport. A business plan has been prepared to position the air cargo handling activities in line with the Government policies and also the growing need of the exporters, importers and other users of the cargo facilities at the airports. This business plan is based on the past performance of the company and the projections made on that basis. These are estimates and actual performance may depend on the volume of business and other economic parameters.

LOCATION

Kozhikode, also known as Calicut, is one of the main cities in the northern Kerala, India. Kozhikode has a population of 436,556 as per 2001 census, with an extended metropolitan population of about 0.9 million, making it the third largest urban agglomeration and the third largest city in Kerala. According to data compiled by economics research firm Indicus Analytics on residences, earnings and investments, Kozhikode ranked as the second best city in India to reside in. Indicus considered six parameters - health, education, environment, safety, public facilities and entertainment. Kozhikode was ranked eleventh among Tier-II Indian cities in job creation by a study conducted by ASSOCHAM in 2000. Kozhikode was declared the first litter-free city in India in 2004. Kozhikode is expected to come under the radar of the IT industry with the development of Cyber park by the Kerala government.

Calicut International Airport also known as Karipur Airport is an International Airport serving the city of Kozhikode (Calicut), Malappuram and other Districts in the



Malabar region of Kerala. Actually, 'Karipur' is a part of Malappuram District, through the Airport is named as Calicut Airport. It is the third busiest airport in Kerala and the 12th busiest airport in India in terms of passenger traffic and 11th in cargo handling. The airport was given the international airport status on 2 February 2006, thereby paving the way for the improvement of infrastructure for promoting exports and handling international flights. Kozhikode is the main city in Northern Kerala having airport and port facility. The neighboring Wynad district is a hilly district and has to depend on Kozhikode for such services.

Calicut: Agricultural scene

Calicut was dubbed the "City of Spices" for its role as the major trading point of eastern spices. Agriculture is the main occupation of the people & it continues to be the main economic activity of the district. Kozhikode district has a rich heritage in agriculture as it was a port city famous for pepper & species trade. Agriculture plays a major role in the district economy. According to the 1991 census, agriculture provides full time employment to 13.56% of the total workers. More than half of the district's income is from agriculture & allied sectors. Heterogeneity in cultivation practices & diversity of cropping patterns are the important features of agriculture in the district. The total geographical area of the district is 2,33,330 hectares in which the net area sown is 1,63,932 hectares. The crops like coconut, paddy, banana, tubers and other spices and tree crops are cultivated in 8 major soil series such as Thikkoti series (18400 Ha), Nanminda series (1,20,000 Ha), Kakkodi series (4,500 Ha), Thiruvambady series (43,700 Ha) Kunnamangalam series (6,500 Ha), Adivaram series, Menmala series (16,800 Ha) and Periya series (9,000 Ha). The district receives an average rain fall of 3000 mm during the months from March to December.

Exports: Malabar area is the gateway for exports to the Middle East and large quantities of vegetables, meat and other consumer goods are exported through the Calicut airport.



CALICUT AIR CARGO COMPLEX

(KSIE was appointed as the Custodian of Calicut Air Cargo Complex (CACC) for both Imports and Exports by the Commissioner of Customs, Kochi (vide Customs notification No.1/95 dtd.17/04/1995).

KSIE started its cargo operations at the Kozhikode U B Centre during May 1995. KSIE acquired 4.18 acres of land adjacent to Calicut Airport, Karipur and constructed a State-of-the-Art Air Cargo Complex at a total cost of Rs.500 lakhs. Full-fledged cargo operations (both import and export) started from here in September 2000. Bulk of export cargo handled at CACC is perishables like fresh vegetables, fruits, fish, meat, etc. Non-perishables such as Textile items, Industrial / Engineering products, Electronic components, etc are also exported occasionally. An expansion project of Rs. 477 lakhs was completed during last year with 50% assistance under ASIDE scheme. At present CACC has a total built-up area of 7130 Sq.M)as detailed below:

Administrative Complex	:	2140 Sq. M
Import godown	:	2960 Sq. M
Export (Airport)	:	1000 Sq. M
Passenger Lounge	:	400 Sq. M
User Agencies	:	230 Sq. M
Temporary Sheds	:	400 Sq. M

The Machinery/Equipment and Material Handling system include:

- X-ray screening machines.
- Platform Scales
- Strong room for precious cargo
- Computer network



Calicut Air Cargo Complex, Kumpur

- Material handling equipments viz. Fork-lift, Trolleys etc.
- Weigh Bridge and Cold Storage are under erection

It is expected that there shall be a gradual increase in the quantum of Export/ import cargo through CACC and for the business plan it is assumed at 10% annually. Similar to Trivandrum Airport, a proposal for relocating the Airport Terminal is under active consideration of the AAI and the State Government. It will be necessary for KSIE to relocate the Air Cargo Complex also in order to ensure that the cargo operations will synchronize with the Airport Terminal operations after its relocation. Suitable location has been identified and incorporated in the AAI's master plan. A CAPEX of Rs.10 crores has been provisionally allocated towards this during the year 2011-12.

Export Cargo handled at CACC:

The cargo exported through CACC is of two types:

- Perishables
- Non-perishables

Perishables

This includes fresh vegetables, fruits, fish and meat, flowers, etc. However, the quantum of fish, meat and flowers at present is not very significant.

Vegetables form the major share of exports from Calicut. The export of vegetables and fruits are from the small-scale sector and the destinations are mainly to the Middle East. It is to meet the requirement of NRK/NRI population working in such places. They prefer only the fresh vegetables and fruits and hence any further processing is not required, particularly for Middle East destinations.



Calicut Air Cargo Complex, Karipur

Major vegetables moving from Calicut Airport are Banana of which Kerala Nentran is in bulk quantities, bitter gourd, long beans, curry leaves, etc. These items also come direct from the farms as the buyers want only very fresh items.

At present nearly 1100 tonnes per month of fresh vegetables and fruits are being exported by different Exporters through Calicut Airport. These exporters are located at different parts of Kerala and some of them are also from other States. The fresh vegetables and fruits collected from various markets and farms in Kerala and Tamil Nadu are being transported to the Complex in packed condition. The Perishables constitute about 95% of the total Export Cargo.

Non-Perishables

Non-perishables (also referred as General Cargo) include mainly commercial cargo viz. engineering products, textile items such as ready-made garments, etc. Besides this, small quantities of spices like Cardamom, etc. are also exported. Around 5% of the total export cargo constitutes Non-perishables.

The total tonnage of export cargo through CACC from 2005-06 onwards is given in table below:

Quantity of Export Cargo Handled at Calicut Air Cargo Complex

Year	Quantity (MT)
2005-06	5515
2006-07	6204
2007-08	5602
2008-09	8629
2009-10	10665
2010-11	13694



Import Cargo handled at CACC:

Almost 98% of the import cargo at CACC consist of Personal Effects. The balance 2% constitutes garments and other items of commercial value and also negligible quantity of valuable cargo.

The total tonnage of Import cargo through CACC from 2005-06 onwards is given in table below:

Quantity of Import Cargo Handled at Calicut Air Cargo Complex

Year	Quantity (MT)
2005-06	5983
2006-07	6085
2007-08	4939
2008-09	4534
2009-10	7734
2010-11	10300



Growth Trends of Air cargo at CACC

The total tonnage of import and export cargo through CACC during 2008-09,2009-10 and 2010-11 and the revenue earned are given below. The trend exhibited and the market conditions have been taken into consideration while preparing the projections for the business plan.

Past performance

Year	Tonnage	Revenue (Rs lakhs)
2008-09	13163	304
2009-10	18399	495
2010-11	23994	585

Future projections

Year	Tonnage	Revenue (Rs lakhs)
2011-12	27275	644
2012-13	30050	708
2013-14	33075	779
2014-15	33600	857
2015-16	33675	942



Projected Financials

The estimated profit and loss account, balance sheet, projected cargo movement etc, for the cargo handling operations at Trivandrum are attached herewith . The basic assumptions underlying this are:

- Revenue is projected to grow at 10 % per year.
- Revenue includes rent and other income.
- General Expenditure, including staff cost is anticipated to move up 16 to 20% annually as per the past trend.
- Head Office share of expenses is assumed to increase by 10% every year.
- Deprecation is charged on WDV basis.
- Income tax is estimated at 30.9% every year

Statements attached

Profit and Loss account _ Annexure 1
Projected Balance Sheet - Annexure 2
Projected Cargo Movement-Annexure 3
Historical Tariffs and Revenue _Annexure 4



Conclusion

CACC is one of the major profit centres of KSIE. The major challenge before the Company is relocation of the Cargo Complex along with relocation of the Airport Terminal for which land acquisition proceedings have been initiated by the State Government. Our requirement of land has been approved by the state Government and the location has been incorporated in the overall master plan of AAI for the expansion of Calicut Airport. In any case (it is expected that the cargo operation will continue at the existing location for the next four or five years, until the new complex is ready. Therefore, essential improvement in cargo handling facilities like cold storage, weigh bridge, forklifts etc are being added at CACC now itself to handle the increased volume of business on account of increase in international flights as well as cargo freighters.

Reduction in revenue on account of reduction in volume of perishable exports or UB imports or on account of commissioning of Kannur Airport after three or four years, is proposed to be recouped by expanding the activities at CACC, possibly in association with AAI and also be leasing out the office building and other facilities available at CACC to user agencies.)



Calicut Air Cargo	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
RAB for calculating ARR	575.88	827.14	1319.25	2447.41	3044.50	2899.51
Fair rate of Return	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%
RAB* FRoR	74.86	107.52	171.49	318.14	395.76	376.91
Depreciation	34.09	39.10	86.68	156.98	148.84	141.15
Operation and Maintenance expenditure	84.44	244.42	289.64	343.38	407.28	483.27
Interest	0.00	0.00	45.00	203.57	266.79	223.93
Tax	0.00	114.24	91.85	26.72	14.39	33.39
Other revenues	8.27	9.10	10.01	11.01	12.11	13.32
Aggregate revenue requirement	201.66	514.39	694.67	1059.81	1245.16	1271.98



Calicut Air Cargo Complex_KSIE

Form f12(a)-Historical and Projected Cargo Volumes in tonnes (ref: Section A16 of Appendix 1)

Anx 3

Year	Domestic								International							
	Loaded				Unloaded				Loaded				Unloaded			
	General	Perishable	Valuable	Other	General	Perishable	Valuable	Other	General	Perishable	Valuable	Other	General	Perishable	Valuable	Other
2003-04	78	1							49	3921						4165
2004-05	97	2							60	5590						5624
2005-06	189	2							20	5304						5983
2006-07	108	2							440	5654						6085
2007-08	63	1							426	5112						4939
2008-09	23	1							684	7921						4534
2009-10	17	1							692	9955						7734
2010-2011	17	1							822	12854						10300
2011-2012	25								1000	14250						12000
2012-2013	50								1000	15500					1	13500
2013-2014	75								1000	17000					1	15000
2014-2015	100								1000	17000			500		2	15000
2015-2016	125								1000	17000			550		2	15000
2016-2017	150								1000	17000			600		2	15000
2017-2018	175								1100	18000			650		2	16000
2018-2019	200									18000			700		2	16000
2019-2020	225									18000			750		2	16000



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