25th June, 2021

To,
The Secretary,
Airport Economic Regulatory Authority of India,
AERA Building,
Administrative Complex Safdarjung Airport,
New Delhi-110003

Sub: Delhi Aviation Fuel Facility Pvt. Ltd. response on Consultation Paper 05/2020-21 of Mumbai Aviation Fuel Farm Facility Pvt. Ltd.

Dear Sir,

I, Deepak Agrawal aged 37 years resident of New Delhi, India acting in my official capacity as Chief Financial Officer M/s Delhi Aviation Fuel Facility Pvt. Ltd. having its registered office at Aviation Fueling Station, Shahbad Mohammadpur, IGI Airport, New Delhi-110061 do hereby state and affirm as under that:

1. That I am duly authorized to act for and on behalf of M/s Delhi Aviation Fuel Facility Pvt. Ltd. in the matter of response on Consultation Paper 05/2020-21 of Mumbai Aviation Fuel Farm Facility Pvt. Ltd. before the Airport Economic Regulatory Authority of India at New Delhi.

2. I am competent to submit response on Consultation Paper before the Authority.

Enclosed herewith the response on MAFFPL's Consultation paper 05/2020-21, Dated 28th May 2021 " In the matter of Determination of Fuel Infrastructure Charges".

For Delhi Aviation Fuel Facility Private Limited

Delhi Aviation Fuel Facility Private Limited
New Delhi

Deepak Agrawal
Chief Financial Officer

Place: New Delhi

3.28.1 The Authority proposes to consider the depreciation for the 2nd Control Period as per Table no.8.

Table no.8 – Depreciation Amount as proposed for Truing up during the 2nd Control Period by the Authority.

Particulars (Rs.In lakhs)	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**Total**
As submitted by MAFFFL in MYTP	3811.8	2901.13	2559.21	2768.33	2464.11	14504.58
As recalculated by the Authority	3389.13	2663.45	2453.52	2189.05	2496.41	13191.56

DAFFPL Response –

The Authority has proposed that the depreciation rate adopted in respect of buildings to be taken as 60 years.

At the end of concession period MAFFPL needs to transfer all the assets at Nil cost. Accordingly, the useful life of any asset of MAFFPL would be maximum up to the end of concession period. **As per depreciation schedule of Companies Act 2013, depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. Further, the useful life of an asset is the period over which an asset is expected to be available for use by an entity.**

Furthermore, it may also be noted that Authority in its Order No. 35/2017-18, in matter of determination of useful life of Airports Assets, the Authority has considered life of Building as 30 years or 60 years, as determined by the Operator. In MAFFPL's case, where MAFFPL have considered a shorter life, at least the shorter life, i.e., 30 years should have been considered by the Authority for 3rd Control period.

Therefore, Considering the depreciation rate as suggested by the Authority, the balance assets will either be written off or will be completely charged off in the last control period in the form of tariff which will significantly impact the tariff in the last control period, and it may pinch the Users as well as the Operator, as they may have significant shortfall or over recovery depending upon the traffic situation in the last control period.

View above, we request the Authority to review depreciation rates in this proposal and allow depreciation as per companies act (i.e. as per useful life or concession period, which-ever is earlier).

4.2.7.3 The Authority proposes to rework the RAB of the MAFFFL, Mumbai for the third Control Period, by reducing the RAB by 1% of the delayed cost of the projects, if the MAFFFL, Mumbai fails to commission and capitalize the projects by March 2022.

DAFFPL Response –

The Authority has proposed to rework the RAB of the Operator for the third Control Period, by reducing the RAB by 1% of the delayed cost of the projects if the Operator fails to commission and capitalize the projects by March 2022.

Delhi Aviation Fuel Facility Private Limited
New Delhi

A penalty of 1% is penalizing the Operator which is in addition to loss of return and depreciation. It is in beneficial for the Operator to complete the project as per schedule to start monetizing, though delays can occur due to various un-certainties like shortage of manpower, funds, and internal accruals, **especially due to the covid-19 pandemic where the situation is beyond anyone's control**.

We request the Authority to reconsider this proposal.

5.6.1 The Authority proposes to maintain the cost of equity at 14% for the third Control Period.

DAFFPL Response –

The Authority has proposed the Operator to maintain cost of equity at 14%.

However, the recommendation to MIAL and DIAL, which are significantly bigger companies in terms of size and sources of revenue, were to maintain cost of equity at 15.13% and 15.41% respectively. Furthermore, in subsequent Consultation Paper No. 08/2020-21 issued by the Authority in matter of Cochin International Airport, the Authority has proposed to consider a Cost of Equity of 15.16%.

Moreover, as operator is dealing with hydrocarbons, they are subjected to tighter regulations by statutory bodies like PESO etc. and carry a higher risk associated with handling of hydrocarbons.

Considering the additional risk to the Operator due to the relatively higher beta and industry average, we request the authority to allow the Operator to maintain a higher cost of equity compared to that of MIAL, DIAL and Cochin Int. Airport.

We request the Authority to reconsider this proposal.

6.10.1 The Authority proposes to consider the Operation and Maintenance expenditure as per Table no.28.

Table No. 28. Operation and Maintenance Expenditure proposed to be considered by the Authority for the 3rd Control Period

Particulars (in INR lakhs)	FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26	Total
Employees Expenses	265.07	283.62	303.48	324.72	347.45	**1524.34**
Utilities and Outsourced expenses	1694.1	1787.83	1887.27	1992.78	2104.77	**9466.75**
Repair and Maintenance expenses	37.33	38.58	39.89	41.27	42.71	**199.78**
Administration and General expenses	1439.83	1210.62	393.5	414.99	437.68	**3896.62**
Other O&M expenses	21.00	22.00	23.05	24.15	25.31	**115.51**
Sub Total	**3457.33**	**3342.65**	**2647.19**	**2797.91**	**2957.92**	**15203.00**
CSR	65.16	30.29	-	39.89	117.6	252.94
Total	**3,522.49**	**3,372.94**	**2,647.19**	**2,837.80**	**3,075.52**	**15,455.94**

Delhi Aviation Fuel Facility Private Limited
New Delhi

DAFFPL Response –

The Authority has proposed a growth of 7% in staff cost, though in our experience the industry norm of escalation of such expenses is 10%. The same is required to retain good and talent resources, which are required in fuel industry. As the same is categorised as a hazardous, due to inflammable nature of product which is handled by these people on daily basis.

Therefore, we request the Authority to reconsider its proposal.

7.6.1 The Authority proposes to consider the projected Fuel Throughput (Volume) for determination of tariff for the third Control Period as per Table no. 33

	2021-22	2022-23	2023-24	2024-25	2025-26
Volume proposed by Authority (In TKL)	771	1483	1616	1780	1854

DAFFPL Response –

Typically, the fuel offtake is more by International ATM traffic, as compared to Domestic ATM traffic. Currently we are witnessing unprecedented time due of COVID outbreak and expect the International ATM traffic to recover to pre COVID levels beyond FY2025, due ongoing restrictions laid by various Governments on travel, and which is very unlikely to change that easily in the years to come.

Further, considering the 2nd wave of COVID and anticipation of a 3rd wave considering daily changing variants of COVID virus, the fuel offtake should also move in the same effect and pre COVID levels should be achieved beyond FY2025, instead of FY2023 as considered by the Authority.

We request the Authority to reconsider the volume provided by the Operator as part of their submission.

3.19 IndAS Adoption ignored by the Authority – Lease

We have noted that Authority has ignored IndAS reporting as per Audited Financial Statements.

Pursuant to Ministry of Corporate Affairs Notification dated 30th March 2019, Ind AS 116 "Leases" applicable, w.e.f., 1st April 2019, and the same had to be is adopted by the Operator, wherein, at the date of initial implementation, the Lease Liability is measured at the present value (PV) of remaining lease payments and Lease asset has been recognized at an amount equal to Lease Liability. Lease asset is depreciated over lease term on Straight Line Method (SLM) basis over lease term (which is equal to concession period) and Interest on Lease Liability is charged to Statement of Profit and Loss as Finance cost.

The Authority may kindly note that, Actual lease rent payable by the operator is paid towards lease liability (which includes Principal + Interest cost) and at the end of the lease term, Lease asset and Lease liability will become NIL resulting company end up paying actual lease rent only.

Since, MAFFPL is required to prepare its Financials in compliance with IND AS, and Companies Act, 2013 and as per the Direction 4 and Direction 5 of AERA, MYTP has to be prepared based on Audited

Delhi Aviation Fuel Facility Private Limited
New Delhi

Financials of the Company. Therefore, in the MYTP submission, MAFFPL has considered depreciation and Fair Rate of Return (FROR) on the above-mentioned lease asset also as a part of Regulatory Asset Base (RAB).

Prima facia as per MYTP submission, it seems operator would be getting benefit in the 3rd control period after recognizing lease asset. However, Regulator should look at the Tariff rational in subsequent Control period. From 4th control period onward, lease asset depreciated value in RAB will be less resulting lower FROR whereas actual lease rent payable will be high due to yearly escalation as mentioned above compensating each other. Which will result to rationalized tariff in both (3rd and 4th) control period. considering above, there is only timing gap due to IND AS treatment of Lease, which would result in Rational Tariff Rate in all the controlling period.

It may be noted that going forward, Financial Statements would be prepared using the aforementioned notifications only and keeping track of balance using IGAAP Financial [erstwhile reporting method] may not be practically possible.

Therefore, we request the Authority to reconsider the approach of considering Financials as per IndAS for Lease assets.

Notwithstanding above, In any case, if Lease Ind-AS adjustment is not considered by the Authority, then it may be noted that equity base will get increased and resultant WACC will also get increased which will have impact on our return on RAB. Therefore a separate point to be incorporated on this.

Nevertheless to say, considering the uncertainties in prediction of volume and business operation continuity of the Fuel Farm Operator, we request authority to take a liberal view considering cash flow / Financial situation of the company. In any case, any unexpected surge in volume in 4th and 5th year (which is more unlikely) will be subject to true-up in the next controlling period. This will help Operator to stay afloat and help to serve its planned debt repayment & approved capex plan and refinancing of debt (if required) at the proposed cost of debt level in those period may also be smoother, as the credit rating agencies would only consider the immediate cashflows for the Operator, instead of long term cashflows.

Delhi Aviation Fuel Facility Private Limited
New Delhi