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Date: 21 September 2021

To,

The Chairperson
Airports Economic Regulatory Authority of India
AERA Building, Administrative Complex
Safdarjung Airport, New Delhi – 110003

Dear Sir,

Sub: Response to letter from SpiceJet Limited dated 14th Sep, 2021 received from AERA through email dt. 15 Sep, 2021 in reference to Consultation Paper No. 15/2021-22 to consider the Multi-Year Tariff Proposal (MYTP) for providing Ground Handling Services at Cochin International Airport, Cochin for third control period (FY 2021-22 – FY 2025-26).

We are in receipt the above referenced letter wherein some comments have been made against our MYTP submission by SpiceJet Limited. We would like to provide our justification on each of the comments:

1. **Review of Tendering Process (1.1 of Consultation Paper)**

   We do not agree on the proposal of limiting the tenure of license agreements to maximum three years. Authority will agree of the view that any new business requires capital expenditure and few years to come to the break-even level. If the agreement will be kept maximum for three years how the service provider will recover its investment? This will also resist the service provider to invest and bring the best in class equipment & technology which in turn going to affect the services of airlines only.

   In regards to number of players, the Airport operator has to comply as per National Civil Aviation Policy and we believe they are following the same.

   We agree that there should be some incentive mechanism to attract investment and to improve efficiency to have low operational cost

2. **Deferment of Capital Expenditure – Regulatory Asset Base (4.1 & 4.2 of CP)**

   All the capital expenditure which has been planned and presented in MYTP is based on the estimated volume of operations over the coming years which also includes some replacement which may be required for the existing equipment considering their age and working condition.

   On one hand the customer airlines expect the best in class equipment with negligible downtime and disruption to their services and on the other hand they object to our plans for the investment in the same which cannot go together.

3. **Abolishment of Royalty Charges/Concession Fees (Form 11(f) of CP)**

ÇELEBİ AIRPORT SERVICES INDIA PVT. LTD.
www.celebiaviation.com
Regd. Office: Room No. CE-01, Import Building 2, International Cargo Terminal, IGI Airport, New Delhi - 110037
Tel : +91 11 2560 1193 Fax: +91 11 2560 1320 CIN: U63090DL2009PTC196128

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The concession fees rate is determined by the Airport Operator on which we don't have any control. However, we support the idea to rationalize the royalty charges/concession fees and appropriate steps should be taken at Airport Operator/Authority level.

4. **Operational Expenditure – Drastic Cost Cutting (Point 5 of CP)**

Covid – 19 pandemic has affected not only to airlines but to entire aviation sector including Celebi as well. We have also taken drastic cost cutting measures to survive. There has been salary cut across all levels of employees, surrender of some spaces to save on the lease rentals, re-negotiation with vendors on the fixed costs etc.

(i) **Payroll Costs (Point 5.3 of CP)**

Employees are the backbone of every company and majority of our employees come under the purview of Minimum Wages Act. Therefore, we will have to abide by the related laws and regulations.

Employee strength and cost is in line with the volume of operations and revenue.

(ii) **Other expenses**

As explained above, Celebi has also reduced their costs but as the operations will grow the cost will increase and the same is in line with the increase in volume of operations.

We would also like to bring your attention to the fact that during this pandemic we had continued to support the airlines and provided them extended credit period which has helped them in their cash flow position. We have continued to maintain our quality and safety certifications to ensure compliance with the regulations and continued to deliver the required service standards to the airline customers. All these incur cost without any direct revenue benefit.

During this pandemic, airlines had operated number of ad hoc flights for which we were required to provide services at very short notice. To meet customer demand, we always had to maintain resources available incurring a cost with no revenue visibility.

5. **Review on Fair Rate of Return (Annx 1 of CP)**

Any business is being done with the combination of debt & equity. Cost of Debt is as per the prevailing bank rate and Cost of Equity is always higher than the Cost of Debt with a Risk Premium. The Fair rate of return is the weighted average combination of the Cost of Debt & Cost of Equity. In 3% over and above the bank deposits rate, doesn't cover the cost of debt itself leaving aside the return on equity. We believe the FRoR presented by us is fair and reasonable in the domestic economic environment.

6. **Tariff Order (Point 6.1 and Annx -I of CP)**

When we had applied for MYTP of Second Control Period, there were no domestic freighter flights operating. Post Covid-19, domestic freighter flights have started

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operating and the requested tariffs are reasonable and competitive enough to provide the required quality services. The increase is appearing high @ 50% - 95% due to the low base of the previous approved tariffs. Also, as we all know the tariffs approved by Authority are the maximum price, airlines can always negotiate with the service provider for the rates lower than approved tariffs based on the volumes, services required etc.

Summarising, to all the comments provided by SpiceJet Limited, we would like to re-iterate the fact that the pandemic has affected the entire industry and we have implemented all measures to reduce & control the cost. But to continue the operations, maintain the infrastructure and to provide the best services, costs will have to be incurred. The tariffs have been proposed considering all these facts only.

Thanking you,

Yours sincerely,

For Celebi Airport Services India Pvt. Ltd

Celebi Airport Services India Pvt. Ltd. ★

Laxman K Prasad
Chief Financial Officer