कॉनकॉर एअर लिमिटेड
(भारत सरकार का उद्यम)
CONCOR AIR LIMITED
(A Govt. of India Enterprise)
(A fully owned subsidiary of CONCOR, Ministry of Railways)

Santacruz Air Cargo Terminal (SACT),
Near Milan Subway, Off. Western
Express Highway, CTS No. 2085,
Vile Parle (E), CSIA, Mumbai - 99.
Tel.: 022-26164631, 32, 35
Fax : 022-26164637

CAL/SACT/AERA/CAL SACT Tariff Rev./2018/ 09.07.2018

To,
The Chairman
Airports Economic Regulatory Authority of India
AERA Building, Administrative Complex
Safdarjung Airport, New Delhi- 110 003

Dear Sir,

Sub: CAL-SACT Observations on the consultation paper No. 07/2018-19

Ref: AERA Consultation paper no. 07/2018-19

This is in reference to the consultation paper released by AERA on considering the Multiyear tariff proposal and annual tariff proposal for the second control period in respect of M/s CAL for providing cargo handling services at CSIA, Mumbai. The authority has proposed to allow CONCOR to charge tariff with an increase of 11% in FY 2018-19 on the existing tariff and continue with same tariff for FY2019-20 and FY 2020-21 keeping in view of rise in operating expenditure predominantly due to revision of minimum wages and rise in inflation in future years.

The projections by AERA have been made to arrive at ARR (Aggregate revenue requirement) which are as follows: -

a) Shortfall/Under Recovery FY 2016-17 & FY 2017-18 is added to ARR of FY 2018-19.

b) Projected volume increase @ 18 % in FY 2018-19 and @ 16 % in FY 2019-20 and FY 2020-21.

c) Revenue from Non-Regulated services taken as average of actuals.

d) Depreciation reduced by 10% year on year from FY 2018-19 onwards for 2nd control period in the absence of details.

e) Capital expenditure taken as "ZERO "as CONCOR has not projected any CAPEX for future years,

f) Return on average RAB (Regulated Asset Base) taken as 16 %.

g) The operating expenditure has been assumed to increase @ 10 % year on year from FY 2018-19 onwards for 2nd control period.

h) The ARR includes the Operating Expenditure (OE), Depreciation (D) and Average RAB (AR) and calculated as

ARR: OE + D + 0.16 X AR

CAL's Observations on the projections of AERA are as under: -

a. Shortfall/under recovery of FY 2016-17 & FY 2017-18 is added to ARR of FY 2018-19

No Comments.

b. Volume Projection

i) CAL had taken over the operations at CUT Marol from MIAL w.e.f. 01.05.2013.

ii) As per concession agreement, CAL has constructed a new state of the art Domestic Common User terminal at Santacruz, Mumbai airport, at a total cost of Rs.43 plus crores (details of investment already submitted to AERA). This has helped augment the domestic cargo handling capacity at Mumbai airport.

iii) The SACT facility was commissioned on 9th June 2016. With augmented handling capacity, SACT could handle additional volume w.e.f. 09.06.2016. The volume has increased by 46.76% during FY 2016-17 at SACT because M/s. Jet Airways shifted its cargo to SACT.

iv) The volume details are as under: -

S No	Financial Year	Volume in Tons	Variation	CAGR
1	2013-14	57691		
2	2014-15	69215	19.98%	
3	2015-16	70507	01.87%	21.27%
4	2016-17	103477	46.76%	
5	2017-18	124792	20.60%	

v) Further, volume increase of 20.60 % during FY 2017-18 is due to base effect and other volume of cargo namely Transhipment and PO Mails, which was being performed by airlines themselves under self handling in the past. These volumes have already shifted to SACT and hence, it is not an organic growth. Also, based on the all India data, the Domestic Cargo growth will not exceed more than 5% to 7% YOY. Big Ecommerce Industry has made all the six (06) Metro Cities as their base station warehouses/Hubs and are moving goods through their in-house road feeder services.

vi) As operations at CAL-SACT started in June 2016, AERA should compare the volume from Jun-16 to Mar-17 with volume from Jun-17 to Mar-18. The volume increase during this period is 13.23 % only.

vii) Further, post commencement of operations at SACT facility w.e.f. Jun-16, after initial teething troubles, the operations were stabilized by Sep-17. During Sep-17, SACT handled a volume of 10980 Tons as against handling of 11538 Tons during Jun-18, i.e. with a growth of approx. 5.09% only.

viii) Sydney-based Centre for Asia Pacific Aviation (CAPA) has mentioned in one of its reports that the Mumbai airport has reached 94 per cent of its maximum passenger handling capacity and would reach its saturation point in 2018.

ix) Based on the above figures, it seems unrealistic to continue with the CAGR Growth rate of 21.27%. Considering the above, and also the fact that Mumbai airport has almost reached its saturation point, with very few landing/parking slots left to be filled, CAL has projected annual growth rate in volume by 5% only.

x) Moreover, at Mumbai airport, exclusive and dedicated State of the Art Domestic Common User Air Cargo facility has been created. Unlike other airports who are consolidating investment of International and Domestic facilities together in their Capex projections. Wherein depreciation plays a major role. CAL would be further investing on Domestic Cargo facility for Transhipment and dedicated freighter operations.

xi) We strongly recommend that AERA should consider 5% increase only in volumes year on year for the second control period.

xii) Based on projected volume, the regulated revenue with **existing tariff would be increased by 5%** in place of AERA projected volumes of 18%, 16% and 16% respectively for FY 2018-19, 2019-20 & 2020-21.

c. Revenue from Non Regulated Services taken as average of actuals.

No Comments.

d. Depreciation

i) CAL has been awarded the concession agreement for handling of domestic cargo on BOOT basis **and is valid till 30.09.2024** only.

ii) As communicated earlier CAL has incurred heavy CAPEX (approx.. 43.52 Crore) on the project which includes construction cost of facility and various security and other equipment cost such as XBIS Machines, ETD, EVD, Weighing scales, CCTV, HVAC System, Firefighting system etc.

500

iii) SACT has started its operations from 09.06.2016 & we have **08 years & 04 months** only (till 30.09.2024) to operate under the existing agreement.

Iv) **As per Companies Act 2013, the assets have to be depreciated as per the defined life of assets or remaining lease period i.e. whichever is less.**

v) As most of the assets viz. Civil Structure, HVAC, firefighting etc. having life more than the remaining concession period therefore following the above mentioned Companies Act, CAL has no option but to depreciate the assets on straight line method and make its value zero by the end of concession period i.e. 30.09.2024. Therefore, there is no possibility for reduction in the depreciation.

vi) The depreciation would further increase with additional CAPEX infusion in future. With proposed CAPEX infusion of Rs.1.55 Crore for the FY 2018-19 and based on remaining license period, CAL will have to depreciate the assets in coming 06 years which would translate to increase in depreciation by Rs. 25 Lakhs per year.

e. Capital Expenditure

Airlines are approaching CAL to facilitate them with augmented facilities to handle their ULD Cargo for wide body aircrafts. They are seeking installation of additional X-BIS Machines, weighbridges etc. which would require additional CAPEX in coming time. **We foresee infusion of additional CAPEX to facilitate the trade. CAL has planned a Capex of 1.55 Crore during FY 2018-19, which has already been approved by CAL Board of Directors.**

Apart from this, keeping in line with the new security policy of Government of India, CAL would be required to replace the existing single vision X-ray machines and install new dual vision X-ray machines in the next 1 to 2 years. Each dual vision X-ray machine costs approx. Rs. 50 lakhs and at SACT CAL has installed 8 X-ray machines. Thus, CAL will be incurring capital expenditure of Rs. 4 Crores in the next 1 to 2 years.

Moreover, as CAL's concession with MIAL is till 2024, the installed infrastructure will need modernisation and up-gradation in the next couple of years, resulting in further capital expenditure for CAL. Thought, we have not taken the same in this year, but will be intimated to AERA as and when it is incurred.

f. Return on Average RAB taken as 16%

No Comments.

501

g. Operating Expenditure

The operating expenditure at CAL-SACT majorly includes revenue sharing with MIAL and handling expenses which vary depending on the revision of the minimum wages.

i) The revenue share is a fixed payout to MIAL based on actual gross revenue. CAL has to pay **42 % of the Gross Revenue to MIAL as revenue share.**

ii) Further, the payout to the cargo handling contractor is made based on per ton basis. Any increase in the revenue due to increase in volume also results in increase in the payout to the contractor. **The approx. pay out to the current contractor is approx. 20 % of the regulated revenue.**

iii) The payout rates to cargo handling contractor revise with escalations in minimum wages. Being Central Government PSU, we have to abide by Central Government Minimum Wages. The Central Government Minimum wages have been revised upwardly by 48 % as compared to Oct-16. As we have floated a new tender for cargo handling services seeking compliance of central government minimum wages, we anticipate a very steep increase in the revised payout for cargo handling. **The estimated payout to the new contractor would be approx. 27 % of the regulated revenue.**

iv) Being a PSU, our staff cost has risen steeply with implementation of the 3rd Pay revision. The revised staff cost is **approx. 5.87 % of the regulated revenue.**

v) As on date our security expense is 4.33 % of the regulated revenue. With revised MSGB rates, we expect an increase of 14 % in the security payout i.e. the revised payout would be approx. **4.70 % of the regulated revenue.**

vi) The license fee paid to MIAL is escalated by 7.5 % year on year basis. The license fee for the year 2018-19 will be Rs. 3.01 Crore which **is approx. 7.5 % of the regulated revenue.**

vii) Considering above, the operating expenditure should be calculated based on projected volume and revenue along with the estimated impact of the various expenses head.

Based on above submissions, CAL's projected ARR is worked out and is **attached as Annexure A.**

We would also like to put following for your kind information: -

1) CAL's concession at International has come to an end on 15.04.2018 and now CAL's profitability depends only on the revenue earned from domestic operations.

2) CAL SACT is operating **on tariff which was approved by AERA more than 09 years ago** (present tariff is applicable from April 2009 as approved by AERA vide order no. 32/2012-13 dated 15.01.2013).

3) The TSP Charges which is a major component is **12.22 % higher at M/s. Celebi Delhi Cargo** as compared to our tariff at Mumbai and was last revised on 14.02.2017.

4) Further, as per AERA Consultation paper No. 08/2018-19, AERA has further proposed to increase **M/s. Celebi** tariff by 25% for 2018-19 and further by 10% increase year on year for 2019-20 and 2020-21 by taking following factors into consideration **which has affected CONCOR Air Limited alike** as M/s Celebi:
   a. Additional burden due to unexpected increase of 48 % in minimum wages since Oct-16.

   b. Cost increase due to inflationary impact.

   c. Skewed Risk Return profile resulting in a loss of investors' confidence.

5) Tariff comparison with M/s. Celebi has no rational as investment shown is on overall Capex wherein more than 90% is in international section.

Moreover, CAL has first approached AERA for revision in tariff more than two (02) years back. During this period the inflation and its related costs have gone up considerably.

Keeping in view the above facts and in order to make the SACT project sustainable, AERA is once again requested to consider a minimum hike of 30 % in the tariff over the current applicable tariff as asked by CAL in its request.

Thanking you in anticipation of an early favourable consideration.

Yours sincerely,

For CONCOR AIR LIMITED

09/07/18

(CFO/CAL)

503

ANNEXURE A							
Description			2016-17	2017-18	2018-19	2018-19	2018-19
			Actual	Actual	7% wage hike	43%(*) wage hike	ARR based proj.
	Volume (MT Handled)						
	Inward		46205	55025	57776	57776	57776
	Outward		57272	69767	73255	73255	73255
	Total		**103477**	**124792**	**131031**	**131031**	**131031**
B	**Revenue from Operation**		2993.43	3854.69	4047.41	4047.41	5227.51
	Total		**2993.43**	**3854.69**	**4047.41**	**4047.41**	**5227.51**
C	**Operating Expenditure**						
C1	**Terminal and Other service charges**		**1893.86**	**2424.32**	**2598.15**	**2877.54**	**3384.19**
	- Revenue Share		1280.26	1654.94	1737.68	1737.68	2244.33
	- Handling Expense		582.1	737.61	828.70	1108.09	1108.09
	- Concession SD Amortisation expense		31.50	31.77	31.77	31.77	31.77
C2	**Finance Cost**		**0**	**0**	**0**	**0**	**0**
C3	**Other Expense**		**854.92**	**959.10**	**1066.98**	**1066.98**	**1066.98**
i	Staff Cost		141.79	226.34	237.66	237.66	237.66
ii	Rent and Licence fee for office building		253.68	240.33	301.35	301.35	301.35
iii	Electricity and Water expenses		105.84	113.00	118.65	118.65	118.65
iv	Repair and Maintenance charges		57.11	98.41	103.33	103.33	103.33
v	Security expenses		163.57	167.07	190.46	190.46	190.46
vi	Rates and Taxes		83.05	82.23	82.23	82.23	82.23
vii	Other Misc. Expense		49.88	31.72	33.31	33.31	33.31
	Sub total ©		**2748.78**	**3383.42**	**3665.13**	**3944.52**	**4451.18**
D	Depreciation and Amortisation		418.20	546.87	572.70	572.70	572.70
	Total Expense (C+D)		**3166.98**	**3930.29**	**4237.84**	**4517.23**	**5023.88**
E	**Operating Margin / (Loss) (B-D)**		**-173.55**	**-75.60**	**-190.43**	**-469.82**	**203.63**
F	**Capex plan**				**155**	**155**	**155**
G	**Regulated Assets Base (RAB)**						
	Opening RAB		682	4230	3964	3964	3964
	Closing RAB		4230	3964	3546	3546	3546
	Average RAB		**2456**	**4097**	**3755**	**3755**	**3755**
H	**Aggrigate Revenue Requirement (ARR)**						
	Operating Expense				3665.13	3944.52	
	Depreciiation				572.70	572.70	
	Return on Average RAB				16%	16%	
	Return on Average RAB				600.82	600.82	
	Recovery of losses of earliar years				249.15	249.15	
	Total ARR required				**5087.81**	**5367.20**	
	Increase in rates required				**25.71**	**32.61**	
					29.16		

(*) 90% of the 48% wage hike.

9/7/18
CTO/CML

ANNEXURE "A" WORKING NOTES

Volume & Revenue:

I) The volume for the FY 2018-19 has been projected upward 5% of the actual volume handled in FY 2017-18.

II) Earlier, we had projected the FY 2018-19 volume based on estimated volume of FY 2017-18.

III) We estimated FY 2017-18 Volume as 120000 tons against actual handled volume of 124792 tons.

IV) The projected volume for FY 2018-19 has changed from 126000 Tons to 131031 Tons keeping projected volume increase as 5%.

V) The projected revenue for the FY 2018-19 has changed from Rs. 38.17 Crore to Rs. 40.47 Crore.

Expenses:

I) We have envisaged two scenarios for operating expenses while projecting the ARR for the FY 2018-19.

II) In scenario 1, we have continued with the 7% wages hike as per our last submission.

III) In scenario 2, ARR has been calculated taking into account the impact of revision of Central Government Minimum Wages (revised upwardly by 48% since Oct-16).

iv) The other expenses i.e. Staff cost, electricity & water expenses, repair and maintenance charge and other miscellaneous expenses have been revised by 5%.

v) The security expenses has been revised by 14% as per the revision in MSGB minimum wages revision and as per claim raised by MIAL.

vi) The license fee is revised annually by 7.5 % as per the license agreement with MIAL.

Margins

Scenario 1

We have continued with the 7% wages hike as per our last submission.

i) It is resulting into operating loss of Rs 1.9 Crore. The total ARR with 16 % return on Average RAB, recovery of operating expenditure and depreciation & recovery of losses of earlier years is Rs. 50.87 Crores.

ii) To achieve the said ARR, the tariff should be revised by 25.71%.

Scenario 2

We have calculated ARR taking into account the revised minimum wages by 48%.

i) ARR has been calculated taking into account the impact of revision of central government minimum wages (revised upwardly by 48% since Oct-16). Due to revision of minimum wages (43 % is shared with the contractor), the operating cost will by steeply escalated resulting into operating loss of Rs 4.69 Crore. The total ARR with 16 % return on Average RAB, recovery of operating expenditure and depreciation & recovery of losses of earlier years is Rs. 53.67 Crore.

ii) To achieve the said ARR, the tariff should be revised by 32.61%.

We have averaged out the proposed tariff revision rate and propose a minimum increase of tariff by 29.16%. We have projected the revenue based on the proposed increase in tariff i.e. 29.16%. The projected revenue would be Rs. 52.27 Crore with operating profit of meagre Rs. 2.03 Crore. The return on average RAB would be 5.40%.