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MIAL/VPR/2018-19/06

13<sup>th</sup> July, 2018

To  
The Secretary,  
Airports Economic Regulatory Authority of India,  
AERA Building,  
Safdarjung Airport,  
New Delhi – 110 003

भारतीय विमानपत्तन आर्थिक विनिमायक प्राधिकरण  
साफदरजंग एयरपोर्ट, नई दिल्ली-110003

प्राप्त  
डायरी नं: 12515  
तारीख: 17/07/18

Sh. Karan  
18/7

Madam,

**Subject: Comments on AERA Consultation Paper no. 07/ 2018-19 dated 22<sup>nd</sup> June, 2018**

**Ref: CP to consider the multi-year tariff proposal and annual tariff proposal for the second control period in respect of M/s Concor Air Ltd. (Concor) for providing cargo handling services at Chhatrapati Shivaji International Airport, Mumbai.**

Please find below comments of Mumbai International Airport Ltd. on the proposals contained in above referred consultation paper issued by the Airports Economic Regulatory Authority of India (Authority) in respect of Domestic cargo handling done by Concor:

1. We understand that due to delay in determination of cargo handling charges in respect of Domestic cargo handling by Concor, there has been under recovery of expenses incurred by Concor during the period till date i.e. till 30<sup>th</sup> June, 2018. The Authority has rightly added such unrecovered expenses aggregate Rs.2.48 cr. to the ARR for the balance control period i.e. till 31<sup>st</sup> March, 2021. However, the Authority should also have allowed, apart from the shortfall/ under-recovery, appropriate return commensurate to the RAB for those years and thereafter computed the shortfall.
2. We observe that in view of volume increase of 20.6% experienced in FY 2017-18 over 2016-17 of 20.6% and CAGR of 21.28% during the period 2013-14 to 2017-18, in respect of domestic cargo handling, the Authority has ignored the 5% volume growth considered by Concor and has decided to consider growth @18% for FY 2018-19 and 16% per annum for FY 2019-20 and FY 2020-21. In our opinion the future growth as projected by the Authority shall not be feasible due to following reasons:



The said growth of 20.6% happened due to other wise low base and addition of trans-shipment and mails earlier self-handled by the airlines, which was a one-time growth. Such

onetime growth rate observed is not sustainable year on year.

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- b. The future growth in volumes at CSI Airport, Mumbai shall also be curtailed due to its limitation to increase ATMs. In absence of increased ATMs the growth in passenger numbers as well as cargo handling shall be stunted.
- c. Another factor adversely impacting the growth rate is establishment of Base station warehouses / Hubs and moving of increased e-commerce goods through in-house road feeder services by e-commerce organisations.
- d. Authority should note that the growth experienced over past 9 months since the volume of cargo handling have stabilized after Concor setting up the new SACT at CSI Airport, Mumbai in September, 2017 is only 5.09%. We would like to point out that the cargo volumes handled in September 2017 of 10980 MT, when the operations were stabilized, increased to 11538 MT in June 2018, which is a growth of just 5.09% and this is the sustainable growth in volumes for domestic cargo.

In view of facts mentioned above, the 5% growth considered by Concor is perfectly justified. The Authority while finalizing the tariff determination should limit the growth to 5% only.

3. Exclusive State of Art facility for Domestic Air Cargo terminal has been created at CSI airport, Mumbai, depreciation on capex made forms a major cost component. We understand from Concor that they would be making capex on Domestic Cargo for Trans-shipment and Dedicated Freighter Operation aggregating Rs.1.55 cr. during FY 2018-19. Further capex of Rs. 4 cr. is anticipated over next 2 years for installation of new Dual Vision X ray machines as per new security policy of Government of India. The Authority should consider such capex as part of RAB of Concor and also provide depreciation on the same.

We would like to bring to the notice of the Authority that the concession agreement between MIAL and Concor Air Ltd. in respect of Domestic Cargo handling is valid till 30<sup>th</sup> September, 2024. The Regulated Assets Base in respect of domestic cargo handling of Rs.39.64 cr. as on 31<sup>st</sup> March, 2018 needs to be depreciated over the balance concession period of 6.5 years. Further capex made in the balance period shall also have to be written-off / amortized by 30<sup>th</sup> September, 2024.

We also note that the depreciation calculated for the purposes of companies Act, 2013 and for the regulation are determined on Straight Line Methodology, unlike under Income tax, where depreciation is on Written Down Value (WDV) methodology and would reduce year on year. In

  
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view of this, the reduction in depreciation by 10% year on year as mentioned in para 4.5 (d) of the CP needs to be reconsidered by the Authority.

The Authority, while re-computing the depreciation should also consider the additional capex as proposed by Concor and depreciate/amortize the value of assets in such a manner so that the Assets Base is reduced to Zero at the end of concession period on 30<sup>th</sup> September, 2024.

**4. Operating Expenses :**

As regards operating expenses we would like to state that the Authority should consider the steep escalation in minimum wages which have been upward revised by 48% as compared to October, 2016 and the fact that Concor has floated a new tender for cargo handling services and it expects a steep hike in charges should also be considered. The Authority should also consider the increased security expenses.

It would not be out of place to mention that charges on which Concor is operating had been approved by the Authority in its Order no. 32 /2012-13 dated 15<sup>th</sup> January, 2013 as part of tariff determination for MIAL. The rates in respect of domestic cargo handling have never been revised since then. The proposed increase of 11% proposed by the Authority is grossly inadequate to enable smooth operations by Concor Air Ltd and needs to be suitably increased in light of response of Concor and MIAL.

Considering all the factors enumerated above, the increase in charges for Concor should be in the range of 30-32%, with a minimum annual increase based on inflation for the year FY 2019-20 and FY 2020-21. Allowing a minimum annual increase based on inflation to take care of the normal escalation in costs would enable the ISP to steer through the normal escalation.

Thanking you,

**For Mumbai International Airport Ltd.**



**(Sanjiv Bhargava)  
Vice President (Regulatory and Taxation)**



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