



CARGO SERVICE CENTER

Delhi

Date: 11th September, 2018

To,

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

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

प्राप्त
डायरी नं. 12886
तारीख : 11/09/18

Dear Madam,

We refer to the comments received from Air Cargo Agents Association of India (ACCAI) and Delhi Customs Clearing Agents Association (Regd.) (DCCAA), in relation to Authority's Consultation Paper No. 14/2018-19 dt. 16th August, 2018.

We wish to state as below:

Background

It is pertinent to note here that the Company sought a 7% increase in the tariff for the year 2016-17 vide its ATP application dated 18.03.2016, but the relevant tariff order 02/2017-18 for the said ATP was issued on 11th May 2017 i.e., after a lapse of 14 months. Naturally, the Company lost the incremental revenue during the said 14 months.

In the month of January 2017 Government increased the Minimum Wages by approximately 43% and this resulted in a huge increase in the manpower costs of the Company.

The inherent 7.5% YoY increase in License Fees payable to the Airport Operator and the general inflation in costs coupled with the less than estimated growth in the cargo volumes dealt a severe blow to the profitability of the Company. The general sluggishness in the global economy contributed to a less than expected growth in cargo volumes.

Save and except Concession Fees, which is levied @24% of Gross Turnover all other costs of the Company are fixed in nature. The Company must maintain an optimum level of workforce to handle the anticipated cargo volumes. Similarly, the Company's temperature-controlled warehouse must be maintained at prescribed temperatures (-20 deg C to 25 deg C) irrespective of volumes of perishable cargo that it may handle. Likewise, the License Fees for the land, interest on borrowing, the lease rentals of handling equipment, expenses on utilities, etc., have to be incurred irrespective of volumes of cargo that may be handled.

The Company operates in a competitive environment and thus has a significant pressure on its margins. Besides, it has long term rate contracts with airlines and, therefore, is never able to increase air side tariff even after receiving a tariff increase sanction from the Authority. Thus the increase in yield that the Company enjoys after tariff increase is far less than the percentage increase that the Authority sanctions.



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The above factors resulted in huge accumulated losses to the Company. It is important to mention here that the DCSC Terminal is a green field project and the project has not made any profits ever since it commenced operations from 2012-13. In addition, the Company has significant debt repayments obligations for which it needs adequate cash generation from operations. The investors have invested heavily and continue to infuse capital to fund capital commitments and working capital requirements but with mounting losses they are losing confidence and interest in the project.

To tide over the loss-making situation and restore the investors' confidence in the project, the Company decided to apply for increase in tariff for the remaining future years of the second control period. Accordingly, the Company drew estimates of Aggregate Revenue Required (ARR) for FY 2018-19, 2019-20 and 2020-21 to mitigate the losses and put the Company back on the path of reasonable profitability and providing returns to the investors. The estimates have been made on an expectation of a modest return to the investors. The working and estimates of Aggregate Revenue Required (ARR) for FY 2018-18, 2019-20 and 2020-21 are shown in the Annexure IV of the Consultation Paper.

In the said Annexure IV the growth in tariff rates required to match the determined ARR is 34%, 16% and 16% for the FY 2018-19, 2019-20 and 2020-21 respectively. Accordingly, the increase in tariff should be 34%, 16% and 16% for the FY 2018-19, 2019-20 and 2020-21 respectively. The increase of 34% sought in the year 2018-19 would stand good only if the increase was applied from the beginning of the FY 2018-19 which is not the case now. About half of the FY 2018-19 is already over and there is no way to recover the lost revenue for the lost time.

Meanwhile, the Company has also incurred a Capex amounting to Rs 40 Cr in the year 2018-19 to fulfil its concession commitments.

However, the Authority after due deliberations decided to moderate the tariff increase and, instead of Company's proposed increase, considered an increase of 25% in tariff for FY 2018-19 and 20% in 2019-20 and 3% in FY 2020-21. This assumed that the growth of the cargo volumes in the remaining years of the second control period will be at a CAGR of 11.5%.

It is important to state here that such a growth is difficult to sustain as the growth in cargo volume is directly dependant upon carrying capacity of the Airlines and the operating capacity of Airports. It is a common knowledge IGI Airport is already operating at an excess of its designed capacity and has challenges in facilitating Airlines to grow their carrying capacity within the existing infrastructure. Therefore, a CAGR of 11.5% in cargo growth as assumed by the Authority in its calculations of Company's ARR is a forlorn hope. The Authority has itself stated in the Consultation Paper that *"the growth may not sustain for a long period"*.

It is believed that the aforesaid moderation in tariff increase was brought about by the Authority with a noble intention to lessen the impact of the tariff increase on the users and the Company appreciates this step of the Authority.





DCSC Response to the ACAAI Comments

Reg: No 1 (Terminal Storage & Processing):

As has been explained above the justification of the proposed tariff increase for the FY 2018-19, 2019-20 and 2020-21 has already been drawn in detail by the Authority in its Consultation Paper vide Paragraph **"4. Authority's Examination on the Proposal"**. The increase proposed by the Authority is based on due deliberations, financial evaluation and the merits of the proposal while also keeping in view the interests of the users. This is also borne by the fact that in the FY 2020-21 the increase proposed is a nominal 3%.

It is therefore, unjustified on the part of ACAAI to state that *"each additional increase annually should be consulted with the trade bodies and airport operator by informing them of the improvement in the facilities and services which are being provided and adequate justification for the increase should be provided"*

While the improvement in the facilities and services which are being provided is an ongoing obligation of the Company, the increase in tariff is not being sought to compensate the Company for such improvements. The increase is being sought by the company to mitigate its losses, ensure its future financial sustainability and to enable it to apply resources for providing quality services at reasonable costs.

By stating that *"each additional increase annually should be consulted with the trade bodies and airport operator"* ACAAI is trying to step into the shoes of the Authority by overlooking the conclusions that the Authority has arrived at after due deliberation and undertaking an economic and financial evaluation of the proposal.

ACCAI's suggestion undermines the Authority's process of due deliberation and financial evaluation of a proposal by seeking a primacy of its own consultation process over the Authority's process.

It is pertinent to mention here that while ACAAI has sought to place a priority of its consultation process over the Authority's process it has failed to state any reason why increase should not be allowed in the "subsequent years".

ACCAI's suggestion is therefore not only arbitrary but devoid of any reason as well. The Company rejects ACAAI's suggestion and affirms its confidence in the Authority's proposal of a 25% increase in FY 2018-19, 20% increase in FY 2019-20 and 3% increase in FY 2020-21.

Reg: No 1 (Express Delivery):

Definition of Express Service and the comparison with Normal Services

The Company defines the Express Service offered to customers with 04 hours of express service which includes

- a) Export - Acceptance at truck dock, X-ray, built-up.
- b) Import - Release takes priority over normal general cargo.





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The Express Service does not include Custom or any regulatory clearances which need to be carried out by the Shipper / Agent / Consignee. These services are purely optional at the option of the person requesting such service.

The Company in its communication dated 30th August 2018 and addressed to Chairman ACAAI-NR has defined the Express Service. The Company agrees to mention the service definition of Express Service in the Tariff Sheet.

Reg: No 2 (Repacking Charges):

The Repacking Charges appear at S. No. 2.2 and 2.3 of Other Charges in the tariff sheet. These charges are on demand only and are applicable only in case repacking is done. It is denied that such charges are proposed to be levied across the board to all the shipments as alleged in the ACAAI's letter.

Reg: No 3 (HAWB Deconsolidation Charges):

HAWB Delivery Charges (Deconsolidation) appear at B 4.1 of the tariff sheet. While the sanctioned tariff of this item in the existing tariff order is Rs. 1,391/- per HAWB the Company currently levies an amount of Rs. 254/- per HAWB.

The Company has proposed a reduction in the maximum applicable tariff of HAWB Delivery Charges (Deconsolidation) from Rs. 1391/- to Rs. 350/- per HAWB in the FY 2018-19.

The proposed tariff of Rs. 350/-, Rs. 420/- and Rs. 433/- per HAWB for FY 2018-19, 2019-20 and 2020-21 respectively is the maximum applicable tariff that can be charged, and the Company has the option to charge a lesser tariff against this item as is the case with every item of the tariff sheet.

Reg: No 4 (New Charges not existing in Previous Tariff Sheets):

The new charges mentioned in the tariff sheet and referred to in the ACAAI's letter are charges predominantly for newly introduced services. The newly introduced services are proposed to be introduced for broad basing the service offerings of the Company. These are based on the demands made by various customers in the past. As is the case with any company that offers its products and services to its customers, DCSC also wants to introduce new services to its customers to offer them greater convenience and better experience. Introduction of such services is based on sustained customer interactions and demands. It is with intention that DCSC has introduced these services.

Needless to say, such services are purely on demand only and the customers will be charged only if they voluntarily opt for such services. There is no compulsion for the customers to opt for such services. No charges are proposed to be "arbitrarily imposed" by DCSC as has unfortunately been alleged by ACAAI in its letter.

DCSC agrees to mention prominently the words "On Demand Only" against such newly introduced services which are available only on demand.





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DCSC further agrees to consult the trade for remaining newly introduced services before charging the same. This has also been conveyed by DCSC to ACAAI in its letter dated 30th August 2018.

Reg: No 5 (Charges for AFS Shipments):

While applying charges to the consignments DCSC does not take into consideration the origin of the consignment. DCSC shall continue to apply all the charges that are applicable for the services it renders to its customers without regard to the origin of the consignment. DCSC believes that ACAAI's comment on this subject is not relevant to the present proposal.

DCSC Response to the Delhi Customs Clearing Agents Association (DCCAA) Comments

DCCAA's allegation that *"charges proposed by DCSC are exorbitant and without any justification relating to services point of view"* is in utter disregard to the facts, explanations and justifications the Authority has given in several paragraphs of the Consultation Paper. DCCAA has failed to substantiate its allegation of DCSC's charges being *"exorbitant and without any justification relating to services point of view"*.

While DCSC sympathises with DCCAA pleadings that the *"importers/exporters/ traders are already burdened with the increasing costs of transactions in every field of business"*, such pleadings cannot be a basis of denying DCSC a bona-fide increase in its tariff. It may not be out of place to state here that the Cargo Terminal charges are a miniscule percentage of the total logistic costs that an international freight incurs. For example, while the average airport to airport freight rate from Delhi to a destination in Europe is estimated to be around Rs. 150/- per Kg the Cargo Terminal charges are between Rs.1.12 to Rs.2.89 per Kg. Destination airport costs and logistic costs to and from the departing and arriving airports respectively are in addition to the above freight costs.

It is stated that the proposed tariff is based on merits and financial evaluation of the Company. Therefore, it is humbly requested that the proposed tariff increase, i.e., 25% for FY 2018-19, 20% for FY 2019-20 and 3% for FY 2020-21, be approved and a Tariff Order be issued for three years starting from 2018-19.

Yours Sincerely,

(Avinash Razdan)
CEO

Delhi Cargo Service Center Private Limited

