GMR CARGO
GMR HYDERABAD AIR CARGO
A division of GMR Air Cargo and Aerospace Engineering Limited
(Formerly a separate legal entity known as GMR Hyderabad Air Cargo and Logistics Private Limited)

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15th March 2023

To
Director (P&S, Tariff),
Airports Economic Regulatory Authority of India (AERA),
AERA Administrative Complex,
Safdarjung Airport, New Delhi – 110003, India

Dear Sir,

<u>Sub</u>: Response to Stakeholder Comments on CP 15/2022-23 in the Matter of Determination of Tariff in Respect of Cargo Handling Services for GMR Hyderabad Air Cargo (GHAC) – Submission of Counter Comments – Reg.

This is with reference to our Multi Year Tariff Proposal (MYTP) for the 3rd Control Period submitted to the Authority and subsequent release of Stakeholder Comments on 9th Mar'23 on the Consultation Paper (Ref. No. 15/2022-23).

In this regard, GMR HYD Air Cargo (GHAC) humbly submits the below Responses/Inputs to the comments put forward by SpiceJet:

#	Comments put forward by SpiceJet	Responses/Inputs by GHAC
1	**Review of Tendering Process:** Relating to the typical process of Airport awarding concession solely based on highest revenue share	The point raised does not directly relate to the current ongoing process of Tariff determination of our 3rd Control Period.
2	**Cargo Volume Projections:** ...The hike in tariff is proposed on the assumption of erosion of cargo volumes of GHAC due to 2nd cargo terminal operator and operation of 2nd cargo terminal. However, there is no historical data or trend to arrive at the loss of loss of volumes as proposed... ...Authority may rationalize the volumes significantly upwards while considering only a minimal impact from the above-mentioned uncertain factors...	The decadal growth rate (FY13-FY23) of Hyderabad Air Cargo is 5.3% CAGR. The traffic volume in FY13 was 76,100 MT while in the current year FY23, it is expected to be 127,998 MT. For the 3-year period (FY24-FY26), the Authority has considered extremely steep growth rate of 11% CAGR from 127,998 MT to 175,000 MT. We have requested the Authority to consider growth rate of 8% during FY23 to FY26 i.e., from 127,998 MT to 161,774 MT based on the actual cargo volume figures for FY23. In view of the above facts, a CAGR of 8% for remaining 3 years of current CP is reasonably high and certainly a very steep target considering the 2nd cargo terminal.

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3	**Deferment of Capital Expenditure - Regulatory Asset Base:** ...the proposed hike in tariff due to CAPEX planned in 3rd Control Period may be a bit premature as it would be possible to only in the last year of 3rd Control Period (2025-26) ...	The CAPEX proposed by us is based on the requirements highlighted by the Cargo users/ customers/ stakeholders/ regulators and considering the current constraints and future growth. Only based on these, we have finalized our expansion plans. The rationale and details for each of the components and associated facilities have been clearly mentioned in our submissions. The hike in tariff is based on the Regulatory Building Block and standard Approach followed by the Authority for a Control Period. The same also considers the funding requirement of the proposal. Hence, to say that the proposed hike in CAPEX may be a bit premature is not fair and not representative of the facts.
4	**Fair Rate of Return (FRoR)**	The Authority regulates the Tariff of ISPs. The FRoR for the same is based on the cost of capital i.e., Cost of Equity and Cost of Debt. The Consultation Paper is based on the same fundamentals. Hence, the point raised by SpiceJet on FRoR is redundant.
5	**Abolishment of Royalty Charges/ Concession Fee**	Same as in Response to point no. 1
6	**Operational Expenditure**	All OPEX line items have been reasonably projected based on historic trends, business requirement, external/ market factors. For e.g., in case of Payroll costs, in addition to the annual increments, we have also factored in the Manpower required for handling additional Cargo as well optimization/automation and economies of scale as volume increases. Similarly, the Utility Costs factors in the Actual power Tariff increase in the recent past along with increase in the Area and need for Temp. controlled facilities as part of the proposed Expansion. Repairs & Maintenance (R&M) expenses factors in ageing of assets now at 15+ years many of which require higher repair and replacements. It also factors in regular R&M for the Expanded Area. Overall, we have been judicious and have optimized our OPEX despite increase in Terminal Area and Capacity and enhanced cargo volume that we'll be handling in the future.

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7	**Air Freight Station (AFS)**	We understand and note the points mentioned about AFS operations. In order to facilitate movement of completely built pallet units from AFS, we've already considered a separate discounted category in our proposed Tariff Rate Card. We look forward to working with Air Cargo Trade on this to the benefit of all the stakeholders involved.
8	**Aggregate Revenue Requirement:** ...The ISP proposal for the charges is very high ... which may be noted is not as per the CPI ... To enhance business, the service provider must target volumes instead of rate increase, which should be competitive in comparison to road and sea shipping...	It is to be noted for a period of almost 14 years, from 2008 onwards, there is no increase in the approved Tariff rates. If one has to only look at average CPI growth during this period, then resulting increase would be 2-3 times of the current Tariff. We would also like to highlight that ARR also includes the impact of investment being made for expanded capacity to handle higher volumes. Further, Hyderabad Air Cargo has been pursuing volume growth relentlessly through several strategic and Industry first initiatives as a result of which it has been among the top 2 performing Metro Airport in terms of Cargo Volume growth during the last decade. Even during the current FY, Hyderabad's cargo volume growth is better than other Metro peers. Regarding comparison with road and sea, the same is not comparable as the type of cargo, its pricing and market structure/segment is separate from that of Air Cargo.
9	**Profitability Analysis:** In the current situation, airlines in India are staring at significant losses ... On the other hand, it is noted that as per the proposed P&L Summary, the service provider is expected to report significant profits...	Airlines operate in a free market, wherein the pricing of the services is determined by an Airline considering the market forces. On the other hand, ISPs operate under a regulated environment. It is not rational to compare both these businesses. Further, the point of linking the profit/losses of any company with that of its service providers is not at all rational.

Thanking you

Yours sincerely,

For **GMR Hyderabad Air Cargo** (A division of GMR Air Cargo and Aerospace Engineering Ltd),

GMR CARGO AND AEROSPACE ENGINEERING LIMITED

Srikanth Vetcha
Chief Financial Officer