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F. No. AERA/20010/ MYTP/WFSBPL/C/Bengaluru/CP-I/2023-28

आदेश संख्या 13/2023-24
Order No. 13/2023-24

सत्यमेव जयते

भारतीय विमानपत्तन आर्थिक विनियामक प्राधिकरण
Airports Economic Regulatory Authority of India

मैसर्स डब्ल्यू.एफ.एस. (बैंगलुरू) प्राइवेट लिमिटेड द्वारा कैंपेगोड़ा अंतर्राष्ट्रीय हवाईअड्डा, बैंगलुरू में प्रदान की जाने वाली कार्गो हैंडलिंग सेवाओं के संबंध में प्रथम नियंत्रण अवधि (वित्त वर्ष 2023-24 से वित्त वर्ष 2027-28 तक) के लिए टैरिफ निर्धारित करने के मामले में/

IN THE MATTER OF
DETERMINATION OF TARIFF FOR WFS (BENGALURU) PRIVATE LIMITED PROVIDING CARGO HANDLING SERVICES AT KEMPEGOWDA INTERNATIONAL AIRPORT, BENGALURU FOR THE FIRST CONTROL PERIOD (FY 2023-24 TO FY 2027-28)

जारी करने की तारीख : 09/08/2023
Date of Issue: 09/08/2023

ऐरा भवन /AERA Building
प्रशासनिक कॉम्पलेक्स /Administrative Complex
सफदरजंग हवाईअड्डा /Safdarjung Airport
नई दिल्ली /New Delhi – 110003

TABLE OF CONTENTS

List of Tables

List of Abbreviations

AERA/ Authority	Airports Economic Regulatory Authority of India
AFS	Air Freight Station
ARR	Aggregate Revenue Requirement
ATP	Annual Tariff Proposal
BCAS	Bureau of Civil Aviation Security
BUP	Built-Up-Pallet
CAPEX	Capital Expenditure
CAGR	Compounded Annual Growth Rate
CCF	Cold Chain Facility
CGF	Cargo Facility, Ground Handling & Supply of Fuel to the Aircraft
CTO	Cargo Terminal Operator
CT2	Cargo Terminal – 2
FRoR	Fair Rate of Return
ISP	Independent Service Provider
KIA	Kempegowda International Airport
MHS	Material Handling System
MYTP	Multi-Year Tariff Proposal
MT	Metric Ton
OPEX	Operating Expenditure
O&M	Operation and Maintenance
PAT	Profit After Tax
PBT	Profit Before Tax
RAB	Regulatory Asset Base
SD	Security Deposit
SPRHA	Service Provider Right Holder Agreement
STP	Sewage Treatment Plant
ULD	Unit Load Device
VRV	Variable Refrigerant Volume
WFSBPL	WFS (Bengaluru) Private Limited
WPI	Wholesale Price Index
YoY	Year on Year

CHAPTER 1: INTRODUCTION

1.1 Background

1.1.1 WFS Global SAS has been awarded a concession to operate its first Cargo Terminal in India at Kempegowda International Airport (KIA), Bengaluru. A Joint Venture Agreement was signed by BIAL and WFS Global SAS on 3rd June 2022. A Special Purpose Vehicle (SPV) named WFS (Bengaluru) Private Limited (WFSBPL) was incorporated on 25th July 2022 to provide International Cargo Services at Cargo Terminal 2 and Cold Chain Facility at KIA, Bengaluru.

1.1.2 Subsequently, a Service Provider Right Holder Agreement ("SPRHA") (tripartite agreement) was executed between BIAL, WFS Global SAS and WFSBPL (SPV) on 16th December, 2022. As per SPRHA, this concession term is valid for a period of 15 years from the date of handover of the existing Cargo Terminal-2, which is further extendable for a period up to 7 years at the discretion of BIAL. As per clause-2 of SPRHA, WFSBPL has a right to design, build, finance, develop, refurbish, operate, manage, maintain and transfer of Cargo Terminal ("CT2") and the Cold Chain Facility ("CCF") at KIA, Bengaluru.

1.1.3 The shareholding structure of the WFSBPL is given as below:

Table-1: Summary of Shareholding Structure of WFSBPL

Name of Shareholder	Equity Holding (%)
WFS Global SAS	74
BIAL	26
TOTAL	**100**

1.1.4 In accordance with SPRHA, WFSBPL commenced its commercial operations at KIA, Bengaluru on 24th May 2023. The new ISP obtained security clearance from Bureau of Civil Aviation Security (BCAS) vide letter no. 1245-85/32/2023-BENGALURU-BCAS (E-233682) dated 20.04.2023, valid for a period of 5 years from the date of issue of security clearance or the period of validity of contract with the Airport Operator, whichever is earlier.

1.2 MYTP Submission:

1.2.1 WFSBPL submitted Multi Year Tariff Proposal ('MYTP') for First Control Period (FY 2023-24 to FY 2027-28) on 21.12.2022 to the Authority, for determination of Tariff in respect of International Cargo Handling Services provided by the ISP at Kempegowda International Airport, Bengaluru.

1.2.2 Based on the review of MYTP & the Authority's observations, the ISP vide email dated 17.02.2023 submitted the updated MYTP. Further, the ISP, vide email dated 23.03.2023 submitted separate tariff rates for AFS Cargo.

1.2.3 The Authority, on the request of WFSBPL and considering that ISP was scheduled to commence its commercial operations w.e.f. 24.05.2023, approved the Ad-hoc Tariff for the service provider in respect its international cargo handling services, vide Order no. 06/2023-24 dated 19.05.2023.

1.3 Consultation Paper

1.3.1 The Authority, after having examined the MYTP submission of the WFSBPL in detail and taking into account the additional information/ clarifications furnished by the ISP from time to time, during the period from January, 2023 to March, 2023, issued the Consultation Paper (CP) No. 01/2023-24 dated 24.04.2023 for stakeholders' consultation.

1.3.2 The Authority invited suggestions/ comments from the Stakeholders on the various proposals of the Authority in the Consultation Paper (CP) No. 01/2023-24 dated 24.04.2023 with the following timelines:

- Date for submission of written comments by Stakeholders: 15th May, 2023.
- Date for submission of counter comments: 22nd May, 2023.

1.3.3 The Authority received comments from the stakeholders namely M/s SpiceJet Ltd., Bangalore International Airport Limited (BIAL), Federation of Freight Forwarders' Associations in India (FFFAI), WFS Global SAS & WFSBPL on the various proposals of the Authority contained in the Consultation Paper No. 01/2023-24 and the same were uploaded on the AERA's website vide Public Notice no. 01/2023-24 dated 16.05.2022. Thereafter, the Authority, in response to Public Notice no. 01/2023-24 dated 16.05.2023, received counter comments from WFSBPL on 30.05.2023.

1.3.4 The Authority, after considering the comments/ representations on the CP submitted by the stakeholders within the stipulated timelines for consultation process, including detailed comments of service provider (as per Annexure-I) on the CP No. 01/2023-24, has finalized this Tariff Order.

CHAPTER 2: PRINCIPLES FOR THE DETERMINATION OF THE TARIFF FOR "AERONAUTICAL SERVICES"

2.1 The Authority, vide Order No. 12/2010-11 dated 10.01.2011 finalized its approach in the matter of Regulatory Philosophy and Approach in Economic Regulation of the Services provided for Cargo Facility, Ground Handling and Supply of Fuel to the Aircraft at the major airports. Accordingly, the Authority issued the Airports Economic Regulatory Authority of India (Terms and Conditions for Determination of Tariff for Services provided for Cargo Facility, Ground Handling and Supply of Fuel to the Aircraft) Guidelines, 2011 ("the Guidelines"), vide Direction No. 04/2010-11 issued on 10.01.2011.

2.2 In accordance with the above mentioned AERA Guidelines (clause 4.4), the following procedure is adopted for the determination of the Materiality Index of the Regulated Service:

Stage I: Materiality Assessment:

In accordance with the above mentioned AERA Guidelines and Directions, the following procedure is adopted for determination of Materiality Index of Regulated Service:

$$Materiality\ Index\ (MI_c) = \frac{Cargo\ Volume\ at\ Bengaluru\ Airport}{Total\ Cargo\ Volume\ at\ all\ Major\ Airports} \times 100$$

The Materiality Index for Bengaluru Airport = *374062/3228862 x 100*

= ***11.58%***

The percentage share of Cargo Handling for Kempegowda International Airport, Bengaluru for the FY 2019-20 is 11.58%, which is higher than Materiality Index (MI_C) of 2.5% for the above subject service. Hence, the regulated service is deemed **"Material"** for the ISP in respect of its First Control Period.

2.3 **Stage II: Competition Assessment:**

As per clause 5.1 of the above said Guidelines, if Regulated Service is provided at a Major Airport by two or more Service Providers, it shall be deemed "Competitive" at that airport.

The Authority notes that M/s Menzies Aviation (Bangalore) Private Limited (MABPL) is rendering similar services at KIA, Bengaluru.

From the foregoing, it is clear that there is a sufficient market competition for the proposed Cargo Handling Operations (International) of M/s WFSBPL at Bengaluru airport.

2.4 As per Clause 3.2 (ii) of the Guidelines, wherever the Regulated Service provided is **'Material but Competitive'**, the Authority shall determine Tariff(s) for Service Provider(s) based on a **'Light Touch Approach'** for the duration of the Control Period, as per the provisions of Chapter V of the Guidelines. Hence, in the instant proposal, the Authority has adopted the "Light Touch Approach" for the determination of the Tariffs of the regulated service for the First Control Period.

2.5 The Tariffs for the ISP, in the instant proposal, has been determined under the Light Touch Approach; however, it is pertinent to mention that even in light touch approach, the Authority examines all the regulatory building blocks & underlying assumptions/ basis thereof, including projections relating to revenues, expenses, volumes etc., and considers other relevant aspects of the proposal, to ensure that no undue gains accrues to the Service Provider and that the end users are not unduly burdened with higher Tariff(s). Accordingly, wherever required, additional details/ clarification etc. on the various aspects of the proposal, including regulatory building blocks, were sought from the ISP, in accordance with the provisions of CGF Guidelines / under the Section 13 (c) of the AREA Act, 2008.

2.6 The Authority notes that WFSBPL has submitted the Annual Tariff Proposal (ATP) for the Control Period, along with its MYTP. The ISP conducted stakeholders' consultation meetings on 23rd January, 2023 & 24th January, 2023 and has submitted Minutes of Meetings (MoM) to the Authority vide its email dated 23.03.2023. The representatives of 'The Air Cargo Agents Association of India (ACAAI)', 'Bangalore Custom House Agents Association Limited (BCHAAL)' and the Airport Operator (BIAL) participated in the above referred meetings. As per the minutes of the meeting, none of the Stakeholders raised any matter related to Tariff proposal of WFSBPL for the First Control Period.

2.7 **Stakeholders' Comments on the principles for the determination of Tariff for the Aeronautical Services**

2.7.1 **BIAL - *"Change in Regulatory Framework from "Light Touch" to "Price Control"***

"Authority, vide Order No. 12/2010-11 dated 10.01.2011 and Direction No. 04/2010-11 dated 10.01.2011, issued Airports Economic Regulatory Authority of India (Terms and Conditions for Determination of Tariff for Services provided for Cargo Facility, Ground Handling and supply of Fuel to the Aircraft) Guidelines, 2011 ("Guidelines"). The above-mentioned Guidelines clearly specify the manner of assessing an Operator based on materiality, competitiveness etc. In this case, WFSBPL has been evaluated to be under "Light Touch" approach correctly by the Authority. In a Light Touch approach, the Authority is required to evaluate the overall profitability etc. and approve the tariff, as the competitive environment ensures a level playing field of operations.

However, in the subject Consultation Paper, Authority has unilaterally decided to adopt an intrusive "Price Cap" regulatory approach. The Authority has claimed that even in "light touch approach", it can examine all the regulatory building blocks & underlying assumptions/ basis thereof, including projections relating to revenue, expenses, volumes etc. and other relevant aspects of the case, to ensure that extraordinary gains do not accrue to the Service Provider and that the end Users are not unduly burdened with high Tariff. We do not see anywhere in the Guidelines issued by the Authority that there is such a provision applicable for "light touch" regulatory approach.

The Guidelines have been issued pursuant to powers conferred on the Authority as contained in Section 15 of the Act. They form the guiding principles of the AERA's tariff determination methodology for service providers like WFSBPL. These Guidelines and Orders have been issued under Section15 of the AERA Act and they are binding as it is on the parties including AERA, unless it is amended or modified in a process known to law.

WFSBPL is a new Service Provider at KIAB who is filing the Tariff petition for the 1st control period and hence there is no case available for AERA to prejudge that extraordinary gains will accrue to WFSBPL and that end users will be burdened by higher tariff. AERA's reasoning mentioned in the Consultation Paper for changing the regulatory approach clearly exhibits that it has a "pre-conceived" notion, and such an approach is contrary to the role envisaged under the AERA Act.

In fact, the MYTP submissions clearly establish that there is a loss in the 1st two years of operations and the operator is only making profits in the last 3 years of the control period. Hence, there is no case to be made regarding "extraordinary gains" accruing to the operator. Further, the average PAT Margin for the 5 years as per MYTP submissions is only about 8% and this by no stretch of imagination can be termed as "extraordinary".

It is also pertinent to note that Tariffs for Cargo operators at KIAB was last revised in 2014 and hence cargo operations at KIAB cannot be termed as "extraordinary gains" accruing business. BIAL feels that the above statement made by the Authority is generic in nature and is not specific to Cargo operations at KIAB.

The stance taken by AERA in regard to "regulatory philosophy" will deprive WFSBPL the flexibility granted under "Light Touch" approach to fix rates and also the downside protection of true up offered under a "Price Cap" approach. This is detrimental to the development of cargo business at KIAB and we request the Authority to have a re-look at the above position.

The Authority recognizes that Air Cargo has been a beneficiary of the Covid pandemic and is expected to grow rapidly, primarily supported by Government of India's Make in India program and incentives aimed at boosting exports.

Since KIAB already accounts for nearly 40% of air cargo business in South India, the Authority is requested to relook its approach and adopt the "Light Touch" tariff philosophy that provides the WFSBPL with due flexibility and incentives to enhance the cargo infrastructure and bring in global best practices and operational efficiencies."

2.7.2 **M/s SpiceJet Ltd. - "Review of Tendering Process"**

"Authority may kindly note that "guiding principles issued by the International Civil Aviation Organization (ICAO) on charges for Airports and Air Navigation Services (ICAO DoC 9082), which lays down the main purpose of economic oversight which is to achieve a balance between the interest of Airports and the Airport Users. This policy document categorically specifies "that caution be exercised when attempting to compensate for shortfalls in revenue considering its effects of increased charges on aircraft operators and end users." The said policy document also emphasizes on balancing the interests of airports on one hand and aircraft operators, end users on the other, in view of the importance of the air transport system to States. This should be applied particularly during periods of economic difficulty. Therefore, the policy document recommends that States encourage increased cooperation between airports and aircraft operators to ensure that the economic difficulties facing them all are shared in a reasonable manner.

It is general perception service providers has no incentive to reduce its expenses as any such increase will be passed on to the airlines through tariff determination mechanism process and indirectly airlines will be forced to bear these additional costs. There needs to be a mechanism for incentivizing the parties for increasing efficiencies and cost savings and not for increasing the royalty for the airport operator.

Sir, as this is particularly a period of economic difficulty for airlines, AERA is humbly requested to ensure that Airport Operator does not take the decision to award concession agreements solely on the revenue share being offered. Basing decisions solely on highest revenue share being offered breeds inefficiencies and tends to disproportionately increase the cost, as envisioned in the abovementioned guiding principle.

2.7.3 **WFSBPL - "Principles of Tariff Determination"**

The Authority has determined that the operations of WFSBPL are "material but competitive," and as such should be considered under the Light Touch approach. WFSBPL agrees with this assessment. In line with previous submissions made by other cargo handling independent service providers ("ISPs") operating under Light Touch, as well as our understanding of the Light Touch guidelines issued by AERA.

2.7.4 ***WFS (Global)* - "Principles of Tariff Determination"**

The Authority has determined that the operations of WFSBPL are "material but competitive," and as such should be considered under the Light Touch approach (which WFS agrees with). WFS has reviewed a *number of cargo handling independent service provider ("ISP") submissions as well as the guidelines issued by AERA regarding this methodology. As such, WFS is fully aware of the Light Touch approach typically taken by AERA to limit revenues to those required to achieve a reasonable level of profitability in line with peer group profitability levels. Accordingly, WFSBPL's submission has been guided by such an approach. However, it appears that the Authority in its Consultation Paper has adopted a methodology consistent with the Price Cap approach with no `true-up' mechanism which is inconsistent with AERA's Light Touch guidelines and prior ISP determinations. This approach unfairly penalizes WFSBPL and jeopardizes the revenue and profits of the particularly if WFSBPL is unable to achieve the airline ceiling tariff rates outlined by the Authority (see "Uniform Rate Increases for Airlines and Freight Forwarders" below for further details).*

2.8 **Counter Comments of the Service Provider:**

2.8.1 **On BIAL's comments:** *"WFSBPL concurs with the views of BIAL in this regard. Our detailed views on this matter have also been submitted as part of stakeholder comments. The Authority has introduced an intrusive Price cap approach under Light touch wherein the True up benefit is also not given. WFSBPL also reiterates that adoption of intrusive method for a light touch approach is a direct deviation from the guidelines and as a result, WFSBPL is at a huge disadvantage.*

WFSBPL also reiterates the validity of the MYTP submission made and accompanying well-justified rate increases sought. WFSBPL requests that in determining the final Tariff Order, AERA considers a reasonable profitability benchmark and additional increase in TSP ceiling rates (versus what has been outlined in the CP) to ensure the long-term viability of its cargo operation at KIAB."

2.8.2 **On the comments of M/s SpiceJet:**

"WFSBPL submits that the question on structuring of Airport Operator concession agreements is not within its purview and hence no views are there to be offered."

2.8.3 **On WFS (Global) comments:**

"WFSBPL concurs with the views of WFS Global in this regard. Our detailed views on this matter have been submitted as part of stakeholder comments. WFSBPL also reiterates that adoption of intrusive method for a light touch approach is a direct deviation from the guidelines and WFSBPL is at a huge disadvantage.
WFSBPL also reiterates the validity of the MYTP submission made and accompanying well-justified rate increases sought. WFSBPL humbly requests that in determining the final Tariff Order, the Authority kindly considers a reasonable profitability benchmark and additional increase in TSP ceiling rates (versus what has been outlined in the CP) to ensure the long-term viability of its Bengaluru cargo operation."

2.9 **Authority's Analysis of the Stakeholders comments:**

2.9.1 The Authority notes the comments of the stakeholders namely BIAL, WFSBPL and WFS (Global) and counter comments of WFSBPL regarding the regulatory approach being adopted for the tariff determination in respect of WFSBPL.

Some of the stakeholders in their comments have contended that the Authority, under the light touch approach, is merely required to review the overall profitability of the service provider and the review & analysis of the regulatory building blocks (for the determination of tariff for the Service Provider) is not required to be undertaken by the Authority under the Light Touch Regulatory Approach.

The Authority does not agree to the above view and would like to draw attention to the para 11.3 of Chapter V ("Light Touch Approach") of CGF Guidelines, 2011 which states that "*the Authority shall duly consider the proposals and may, where deemed necessary, direct analyses of the said proposals, require* *submissions of additional information, and further stakeholder consultations, prior to granting approval for the same*".

Further, the provisions of the Section 13(a) of AERA Act, 2008 relating to the determination of Tariff for the 'aeronautical services' are reproduced below:

"To <u>determine</u> the tariff for the aeronautical services taking into consideration -

i. *the capital expenditure incurred and timely investment in improvement of airport facilities;*
ii. *the service provided, its quality and other relevant factors.;*
iii. *the cost for improving efficiency;*
iv. *economic and viable operation of major airports;*
v. *revenue received from services other than the aeronautical services;*
vi. *the concession offered by the Central Government in any agreement or memorandum of understanding or otherwise;*
vii. *any other factor which may be relevant for the purposes of this Act.*

In addition, Section 13(e) of Act, empowers the Authority to "*to call for such information as may be necessary to determine the tariff under clause (a)*".

From the above, it is clear that the AERA Act envisages the determination of Tariffs of the regulated services by the regulator. It is paramount to state that the determination of tariff doesn't mean merely approving the tariff as proposed by the service provider.

Accordingly, the Authority is well within its rights to call for additional information, consider & analyse relevant factors while determining tariffs for the regulated services. Further, in order to determine the tariff of the regulated services, it is incumbent on the Authority to review & analyse the regulatory building blocks, including tariff proposed by the service provider. The review & analysis of basis parameters given in the MYTP submitted by the ISP, based on which tariff is determined for the service provider, is integral part of the tariff determination process.

During the analysis of the proposal for tariff increase/ decrease, it is prerequisite on part of the regulator to assess the reasonability of various assumptions/ estimates pertaining to the regulatory building blocks (including traffic volume, CAPEX, OPEX) etc. considered by the service providers. The Authority, during the tariff determination exercise, wherever finds that the underlying assumptions/ estimates & projections pertaining to building blocks considered by the service providers are not reasonable/ not justified; optimizes such parameters while finalizing tariff, in the overall interest of all the stakeholders (refer para 5.8.2 of Chapter 5).

Further, the Authority is also mandated to consider the views of all the stakeholders before finalizing the tariffs for the service providers, in order to strike a balance between the interests of the service providers and service users.

2.9.2 The Authority notes the comments of M/s SpiceJet's regarding economic oversight of Airports & ANS services as per ICAO's guiding principles (ICAO doc 9082) and award of concession by airport operator on revenue sharing basis.

In this regard, the Authority observes that ICAO guiding principles for charges for Airport Services, encourages States to incorporate four key principles of non-discrimination, cost relatedness, transparency and consultation with users. It is stated that the Authority's regulatory approach for economic oversight of airports relating to Tariff determination of Aeronautical Services at Major Airports is compliant with

ICAO's abovesaid guiding principles and the same is also in accordance with the mandate given to the Authority as per the AERA Act, 2008.

It is informed that the Authority, while finalizing tariffs for the service providers, is guided by the ICAO's principles which, inter-alia, stipulates the need to balance the interests of the service providers and need to protect the interests of passengers and other users.

Further, as regard to SpiceJet's suggestions regarding award of Concessions by the Airport Operator on the basis of Revenue Share, the Authority notes that Concession Fee/ Revenue Share paid by the ISP to Airport Operator is in accordance with the concession agreement executed between the Service Provider and the Airport Operator. Moreover, the Authority is of the view that bidding process to award such contracts, based on which ISP pays Revenue Share to Airport Operator, is a non-regulatory issue and such matters may be dealt between the stakeholders at the appropriate forum.

2.10 Authority's decision regarding the principles for determination of Tariff for Aeronautical Services during the First Control Period

2.10.1 Based on the material before it and its analysis, the Authority decides that the Cargo Handling Service provided by WFSBPL at KIA, Bengaluru for the First Control Period is **'Material but Competitive'.** Accordingly, the Authority decides to determine the Tariff for the ISP in respect of its First Control Period based on **'Light Touch Approach'**.

CHAPTER 3: CARGO VOLUME PROJECTIONS

3.1 WFSBPL's submission on Cargo Volumes Forecast for the First Control Period as part of MYTP.

3.1.1 WFSBPL, as part of its MYTP submitted the historical International Cargo Volume handled at KIA, Bengaluru by the two erstwhile main cargo terminal operators as under:

Table 2: International Cargo Volume handled by Cargo Terminal Operators at KIA, Bengaluru for the Second Control Period (CP stage)

(In MT)

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23 (Up to Nov 22)
CT1 (Menzies Aviation Bobba (Bangalore) Pvt. Ltd.)	100,432	89,864	90,955	120,316	88,228
CT2 (AISATS)	129,235	119,064	98,456	126,547	64,942
Total	**2,29,667**	**2,08,928**	**1,89,411**	**2,46,863***	**1,53,170**

*Cargo volume doesn't include cargo handled by the self-handlers & express cargo.

3.1.2 The Cargo Volumes projected by WFSBPL (Cargo to be handled by the ISP) for the First Control Period is as under:

Table 3: Cargo Volume projected by WFSBPL (Cargo to be handled by ISP) for the First Control Period

(in MT)

Particular	FY 2023-24 (10 months) *	FY 2023-24 (annualized)	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
International Cargo (CT2)	76,019	91,223	99,889	109,378	119,769	131,147	5,36,202
Cold Chain Facility (CCF)	23,637	28,365	31,059	34,010	37,241	40,779	1,66,727
Total	**99,656**	**119,587**	**130,948**	**143,388**	**157,010**	**171,926**	**7,02,928**

**Cargo Volume projection for 10 months.*

3.1.3 WFSBPL has submitted the Cargo Volume projections based on the following assumptions:

a) **Exceptional Cargo volumes in FY 2021-22:** ISP submitted that KIA, Bengaluru recorded its highest-ever cargo tonnage in FY 2021-22, despite challenging circumstances due to multiple Covid waves. Such large increases in cargo turnover during the COVID-19 pandemic were due to one-time increases in the volume driven by various reasons such as a rise in e-commerce activity, adoption of China + 1 strategy and consolidation of cargo from across the region into Bangalore on account of restricted operation of international flights across many airports during the period. International Cargo at KIAB recorded a growth of 31% totaling to 271,988 MT (inclusive of volumes of self-handlers & express cargo) in FY 2021-22 as compared to 207,518 MT (inclusive of volumes of self-handlers & express cargo) handled in FY 2020-21 as tabulated below:

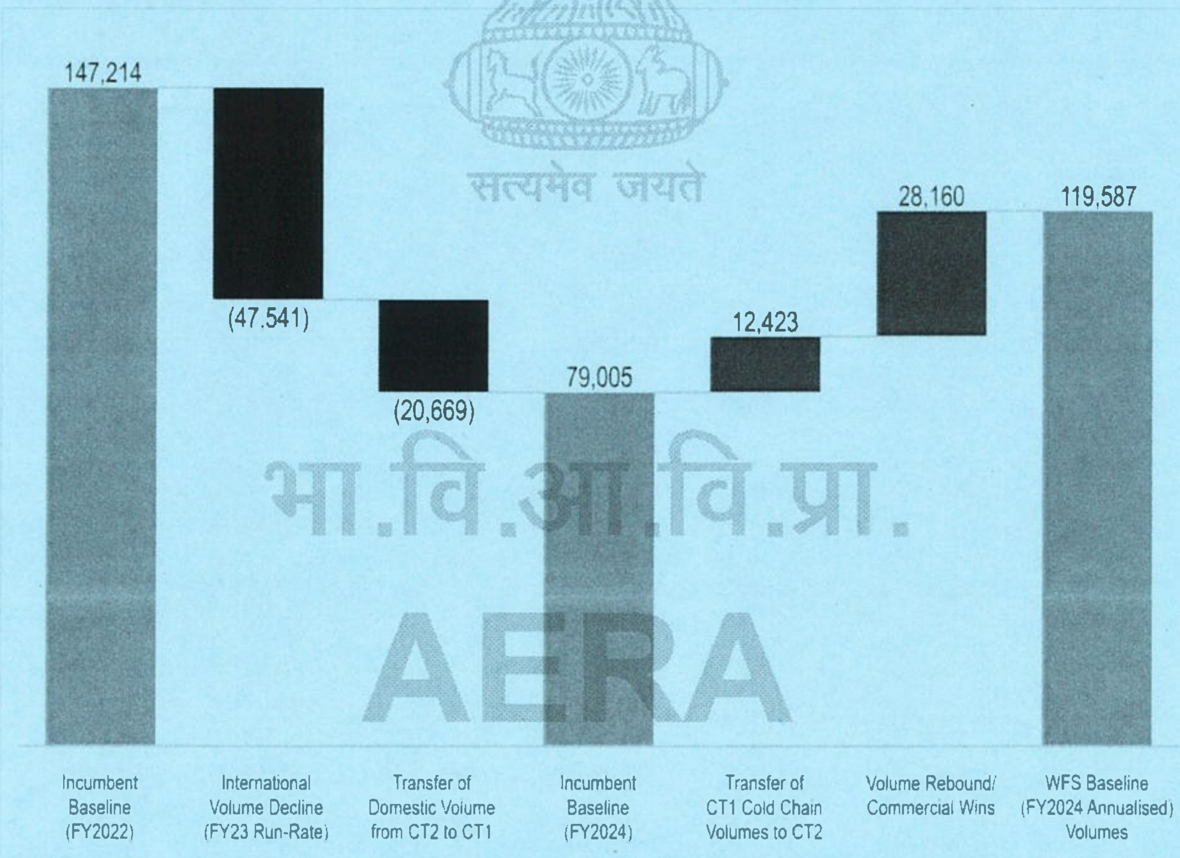
(in MT)

Particulars	**FY 2020-21**	**FY 2021-22**
CT1 (Menzies Aviation Bobba (Bangalore) Pvt. Ltd.)	90,955	120,316
CT2 (AISATS)	98,456	126,547
Self-handlers & Express Cargo	18,107	25,125
Total	**2,07,518**	**2,71,988**

As per WFSBPL, an increased focus on Make in India schemes and its associated incentives had discouraged imports to a certain extent. Declines can also be attributed to various geopolitical and macroeconomic factors, affecting both domestic as well as international markets. FY 2021-22 cargo volumes reflected a unique business scenario, and as per the ISP, it will take time to get back to volumes witnessed in FY 2021-22. As per WFSBPL, the present operating environment is challenging for all businesses, including air cargo.

b) WFSBPL submitted the graphical presentation about the various adjustments and assumptions made to incumbent's (AISATS) Cargo Volumes for FY 2021-22 (baseline volume) for projecting Cargo Volumes likely to be handled by ISP during 1st Tariff year of the control period i.e. FY 2023-24:

Figure 1: Baseline Tonnage Assumptions by WFSBPL for FY 2023-24

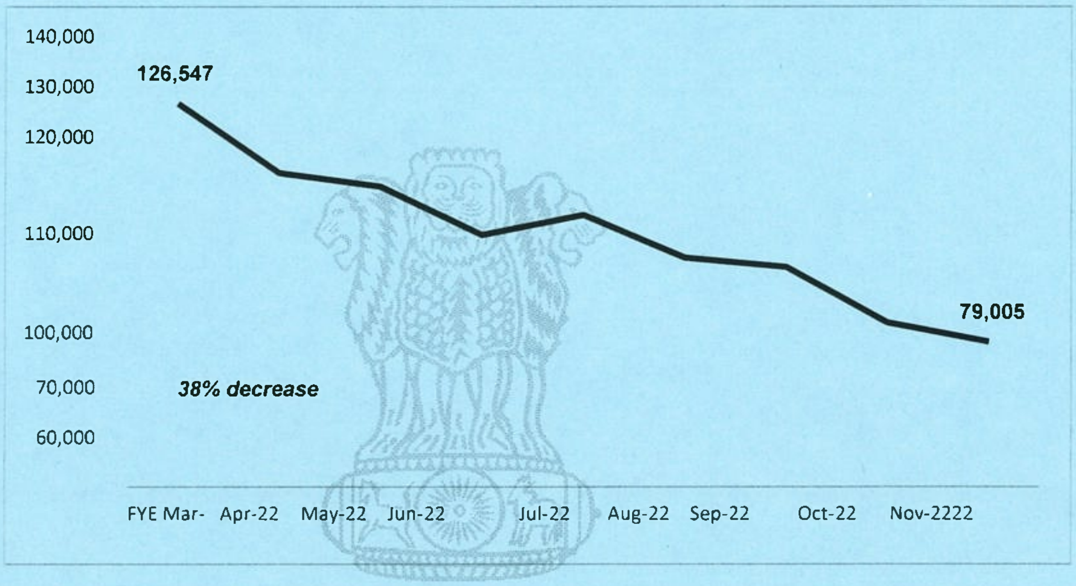


WFSBPL submitted the following justifications for making adjustments in the baseline Volumes pertaining to the incumbent's FY 2021-22 volumes to arrive at projected volumes for the ISP in respect of FY 2023-24:

- As per the ISP, the incumbent (AISATS) recorded a total international tonnage figure of 6,584 MT in November 2022. Accordingly, WFSBPL has worked out the estimated annualized volume around 79005 MT (6584*12) for FY 2022-23, resulting in decrease in international volumes by 47,541 MT (i.e. 38% on annual basis) when compared to AISATS's international volume of 126,547 MT for FY 2021-22.

- ISP highlighted that contrary to historic growth trends, aggregate International Volumes within CT2 and CCF are declining in FY 2022-23 (April 2022 to November 2022). Year to date graphical depiction of Cargo volumes achieved by present incumbent (CT2), including CCF, during March 22 to November 22 is as under:

Figure 2: YTD volumes achieved by CT2 including CCF during FY 2022-23 (up to Nov22)



- ISP stated that the terms of the new concession stipulate that CT2 will no longer be permitted to physically handle domestic cargo volumes. As such, all domestic volumes will be transferred to CT1 (Menzies Aviation Bobba (Bangalore) Pvt. Ltd.) which will further reduce total tonnage by 20699 MT based on FY 2021-22 domestic volume.
- WFSBPL also highlighted that as per new concession, ISP will physically handle all Cold Chain volumes at KIA, Bengaluru. While this does not restrict CT1 from agreeing commercial terms with customers to handle cold chain cargo, physical handling of cold chain volumes will be subcontracted to the operator of the CCF (WFSBPL). The ISP submitted that this will increase tonnages in the first year by 12423 MT on an annualized basis.
- WFSBPL enhanced forecast volume figures for FY 2023-24 by including a further uplift of 28,160 MT on an annualized basis, due to combination of factors:
  (i) partial rebound in Cargo Volumes between today and the commencement date of the concession (24.05.2023).
  (ii) impact from potential commercial wins that WFSBPL is pursuing, underpinned by the offer of improved quality of service and efficiency.

3.1.4 As regard to future growth rates, WFSBPL analyzed historic volume growth rates for the incumbent operator for this concession, as well as the market, over varying periods as under:

International (CT1, CT2 and CCF) Volume Growth (FY 2013-14 to FY 2021-22)

Particulars	Incumbent Operator	KIAB Total
FY 2013-14	82,176	217,031
FY 2021-22	126,547	354,384
CAGR	**5.5%**	**6.3%**

International (CT1, CT2 and CCF) Volume Growth (FY 2013-14 to FY 2018-19)

Particulars	Incumbent Operator	KIAB Total
FY 2013-14	82,176	147,992
FY 2018-19	129,235	229,667
CAGR	**9.5%**	**9.2%**

As per WFSBPL, their strategy is to improve quality of service, safety and security at the cargo terminals and through better quality of service, ISP hopes to attract new customers and therefore result in significant volume growth. For the purpose of this submission, WFSBPL considered an optimistic annual volume growth rate of 9.5% CAGR for international volumes for the period FY 2023-24 to FY 2027-28, in line with the most aggressive pre-COVID volume growth rate observed.

3.1.5 WFSBPL assumes that the market declines witnessed thus far in FY 2022-23 will not continue on the current trajectory. ISP assumed stabilization of current volume levels and return to 9.5% growth rates in cargo volumes for overall Bengaluru international airport as a whole. WFSBPL estimates cargo handling of 119,587 MT by the end of FY 2023-24, resulting in an approximate 50:50 market share split between the two cargo operators in first tariff year (FY 2023-24), representing an increase in CT2 and CCF market share from 36% (based on annualised volume for FY 2022-23) to 50% by the end of FY 2023-24.

Market Growth for Year 1 Projections as submitted by WFSBPL

Particular	Cargo Volume for FY 2022-23 (based on Nov.22 volume)	Market Share %	Growth Rate %	Projection for FY2023-24	Market Share %
CT1 Operator	139,388	*64%*	*(14.2%)*	119,553	*50%*
CT2 and CCF Operator	79,005	*36%*	*51.4%*	119,587	*50%*
Total	**218,393**		***9.5%***	**239,140**	

3.2 **Authority's Examination on Cargo Volumes projections in respect of WFSBPL for the First Control Period at CP stage:**

3.2.1 The Authority noted from the ISP's submission that actual International Cargo Volumes handled by CT2 terminal for the period April 2022 to November 2022 was 64,942 MT (refer Table 2). The Authority also noted that ISP considered the international cargo volumes for the month of November 2022 in respect of present incumbent (CT2 operator) for estimation of annualized volume for the FY 2022-23, resulting into 38% decrease in volumes when compared to FY 2021-22.

3.2.2 The Authority observed that the ISP, while arriving at annualized volumes for FY 2021-22 (baseline volume considered by the ISP for projecting Cargo Volumes for the Control Period), had relied solely on cargo volumes transacted for the month of November, 2022 and ignored actual cargo volumes handled by present incumbent for the period from April to October, 2022.

3.2.3 In this regard, the Authority referred to the AAI statistics in respect of international cargo volume handled at KIA, Bengaluru for FY 2022-23 (up to February, 2023) as under:

Table 4: International Cargo Volumes handled by KIA, Bengaluru for the period from April, 2022 to February, 2023 and corresponding periods of preceding years from FY 2018-19 to FY 2021-22.

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
April	19284	19610	7232	21743	20416
May	20877	19968	11957	20926	21492
June	22187	18908	31618	20666	21229
July	22469	19182	16303	22758	23215
August	21682	18312	17139	24316	22042
September	19868	18268	19123	24440	22664
October	20086	19197	19620	25657	20843
November	18201	18732	19248	22590	20770
December	19259	18896	20425	22336	21639
January	18363	18196	19259	21710	19439
February	18782	19063	19060	20981	19134
Total (April to February)	**221058**	**208332**	**200984**	**248123**	**232883**

The Authority observed from the above table that International Cargo Volumes from April 2022 to February 2023 surpassed the corresponding volumes in preceding pre-covid years (FY 2018-19 & FY 2019-20). In fact, cargo volumes for the period from April, 2022 to February, 2023 increased by 12% as compared to corresponding period of FY 2019-20 (pre-Covid).

3.2.4 In view of the above, the Authority sought the updated figures of cargo volume handled by the incumbent operator (AISATS) for the period from April, 2022 to February, 2023 (as against the actual figures submitted earlier by the ISP for the period from Apr, 22 to Nov, 22). WFSBPL, vide email dated 04.04.2023 provided actual cargo volume handled by incumbent operator from December, 2022 to February, 2023 as tabulated below:

Period	Actual International Cargo Volume handled by the incumbent operator (AISATS) (in MT)
April, 2022 to November, 2022	64942
December, 2022	7194
January, 2023	6639
February, 2023	6475
Total (April, 2022 to February, 2023)	**85250**

3.2.5 Based on the above, the Authority computed the annualized baseline international cargo volume for FY 2022-23 in respect of ISP (after considering the actual volume handled in February, 2023 i.e. 6475 MT for the month of March, 2023) totaling to 91725 MT.

3.2.6 The Authority noted that WFSBPL had made following adjustments to the CT2's actual cargo volumes for FY 2021-22 for working out estimated cargo volume for the FY 2023-24 (first tariff year):

- Excluded 20669 MT as all domestic volumes will be transferred to CT1.
- Included 12423 MT as WFSBPL will physically handle all Cold Chain related cargo volumes at KIA, Bengaluru.

- Further increase of 28,160 MT in cargo volumes has been considered by the ISP due to combination of factors:
  - (i) assumed natural growth rate in cargo volumes from December, 2022 up to commercial operations date (24.05.2023).
  - (ii) winning potential new clients on the ground of improved quality of service and efficiency.

The Authority observed that ISP had estimated the annual growth rate of 9.5% p.a. in the Cargo volumes for FY 2024-25 to FY 2027-28.

Computation of cargo volume projection for FY 2023-24, as per the AERA vis-à-vis volumes projected by WFSBPL is given as under:

Table 5: Cargo volumes proposed to be considered by AERA as against volume projected by WFSBPL for FY 2023-24 at CP stage

WFSBPL		AERA	
Cargo Volume			
Particulars	in MT	Particulars	in MT
Actual Cargo volumes for FY 2021-22 in respect of present incumbent **(A)**	147214	Actual Cargo volumes for FY 2021-22 in respect of present incumbent	147214
Adjustment made to arrive at projected figure for FY 2022-23			
For estimating annualized international cargo volumes for FY 22-23, ISP had considered a decrease of 38% in international cargo volumes for FY 22-23 (based on actual figures for the month of November, 22), as compared to actual international cargo volume handled by present incumbent (AISATS) for FY 21-22 i.e. 126547 MT.	(-) 47540	For estimating annualized international cargo volumes for FY 22-23 (baseline volume), the Authority considered decrease of 28% in international cargo volumes in FY 22-23 (based on actual international cargo volume handled by the incumbent (AISATS) for the period April, 22 to February, 23 & extrapolating cargo volumes for Mar, 23), as compared to actual international cargo volumes handled by AISATS in FY 21-22 i.e. 126547 MT.	(-) 34820
Excluded domestic cargo volumes, as the domestic cargo terminal not to be operated by ISP.	(-) 20669	Excluded domestic volumes, as the domestic cargo terminal not to be operated by ISP.	(-) 20669
Net Annualised Volume for FY 2022-23	**79005**	Net Annualised Volume for FY 2022-23	**91725**
Further Adjustments made to arrive at projected figure for FY 2023-24			
1. Included Cold Chain related volumes	12423	1. Included Cold Chain related volumes	12423
2. Considered increase in cargo volumes due to natural growth in volumes (Dec, 2022 to May, 2023) and impact of potential new customers.	28160	2. Considered increase in cargo volumes due to natural growth in volumes (Dec, 2022 to May, 2023) and impact of potential new customers.	28160
Total estimated baselines Volumes for FY 2023-24.	**119587**	**Total estimated baselines Volumes for FY 2023-24.**	**132308**

3.2.7 The Authority, taking cognizance of actual cargo volumes achieved by present incumbent for FY 2021-22 (147214 MT) and after making above adjustments, estimates annualized cargo volumes for FY 2023-24 (first tariff year) for ISP at 132308 MT.

3.2.8 The Authority, from Table 3 notes that the ISP had considered the international cargo volumes pertaining to Cargo Terminal 2 (CT2) and Cold Chain Facility in the ratio of 76:24 for FY 2023-24. In view of the above, the Authority proposed to maintain same ratio in the cargo volumes pertaining to CT2 and CCF as indicated above, for the remaining tariff years of the Control Period.

3.2.9 The Authority proposed to consider annual growth rate @9.5% in international cargo in respect of International Cargo Terminal (CT2) and Cold Chain Facility (CCF) for the remaining tariff years of the Control Period (FY 2024-25 onwards), as considered by the WFSBPL.

3.2.10 In view of the foregoing, the Authority proposed to consider cargo volumes projection for WFSBPL for the First Control Period as per table given below:

Table 6: Projected Cargo Volume as per the Authority for WFSBPL for the First Control Period at CP stage

(in MT)

Particular (MT)	FY 2023-24* (10 months)	FY 2023-24 (annualized)	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
International Cargo (CT2)	83,794	1,00,554	1,10,140	1,20,602	1,32,059	1,44,605	**5,91,200**
Cold Chain Facility Cargo (CCF)	26,461	31,754	34,246	37,500	41,063	44,964	**1,84,234**
Total	**1,10,255**	**1,32,308**	**1,44,386**	**1,58,102**	**1,73,122**	**1,89,569**	**7,75,434**

**10 months Cargo Volume considered due to partial operations during the year.*

3.3 Stakeholders Comments on the Cargo Volume Projections of the ISP for the First Control Period

3.3.1 SpiceJet's comments:

"While it appears that the domestic volumes and operations appear to have normalized and recovered from the impact of COVID-19, it my may be noted that recent trends during abnormal times of COVID -19 may not show similar trends in the future after normalization of operations, and thus should not be linearly extrapolated for projecting future volumes.

Thus, is submitted that at this point in time, it may not be realistic to assess the impact on the cargo volumes and therefore it is requested that Authority may rationalize and true up the actual volumes during the 2nd Control Period, when a clearer picture emerges, especially since WFSBPL is a new entrant with no track record at this station.

In addition, we request AERA to conduct an independent expert study for Cargo Volumetric projections, in accordance with the Airport Economic Regulatory Authority of India Act, 2008 (AERA Act)."

3.3.2 WFSBPL's comments:

"WFSBPL has maintained consistency in its approach to cargo volume forecasts. The incumbent operator at the cargo terminal as well as the airport as a whole have experienced a significant reduction in annual cargo volumes. While WFSBPL noted the significant reduction in market volumes, it forecasted a large rebound and increase in market share in year-1 to compensate for this reduction. The Authority has taken a different approach to volume forecasts, assuming a smaller (and unrealistic based on current volumes and trends) baseline reduction in cargo volumes but has also assumed a similar increase in volumes due to market share wins. This approach results in a double count/ inflated volume number and ultimately an unachievable baseline volume which artificially inflates the revenue figure utilized for the purposes of tariff determination."

3.4 **Response of WFSBPL on comments of M/s SpiceJet regarding Cargo Volume Projections**

WFSBPL agrees with the contentions made that the COVID-19 impacted period led to abnormally high surge in international cargo volumes which has already shown a steady decline worldwide and in particular at the facility being taken over by WFSBPL, with a Y-o-Y decline of 26% during FY2022-23 as compared to the preceding year.

The Authority has assumed an annualized traffic volume of 132,308 MT for WFSBPL for FY2023-24, which represents a growth of over 42% compared to the volume of cargo handled by AISATS at the same facility during the period of FY2022-23, which amounted to 93,319 MT.

For the month of Apr'23, the Cargo tonnage of AISATS has decreased by 21% (7,436MT in Apr'23 Vs 9,394 MT in Apr'22).

In this backdrop of declining volumes and shrinking overall market following the normalizing global air cargo market, the volume growth assumption of 42% YoY for WFSBPL for FY2023-24 appears highly optimistic and difficult to realize.

However, WFSBPL disagrees with the suggestion by SpiceJet to opt for a true-up of volumes in the 2nd control period by when WFSBPL would have suffered irreparable harm to its finances due to the over-estimation of early-stage cargo volumes right from year 1 of operations. WFSBPL humbly requests the Authority for rationalization of cargo volumes keeping in mind the realistic market trends and the fact that WFSBPL is inheriting the smaller operation in the Bangalore market with only about 41% of the volume share (and steadily declining) as opposed to 59% enjoyed by its competitor as on date.

3.5 **Authority's Analysis regarding Cargo Volume for the First Control Period**

3.5.1 The Authority notes the comments of M/s SpiceJet pertaining to cargo volume projection, wherein the stakeholder, inter-alia, requested the Authority to consider the trueing up of the projected cargo volumes of the ISP for the First Control Period, at the time of tariff determination for the Second Control Period, as the ISP is a new entrant at the Bengaluru airport & there isn't much clarity in cargo volumes trend post Covid pandemic. In this regard, the Authority is of the view that as the tariff determination exercise for the ISP is being done under the Light Touch Approach and there is no provision of true-up (regulatory building blocks).

However, while proposing Cargo Volumes for the ISP in respect of its First Control Period (at CP stage), the Authority had duly considered relevant factors, including justifications/assumptions submitted by the service provider, including the actual cargo volumes handled by the erstwhile cargo operator (AISATS) for FY 2021-22 & FY 2022-23 (up to Feb. 2023). In addition, the Authority had reviewed the past trend of cargo volumes at the KIA, Bengaluru, while proposing the cargo volumes for the ISP pertaining its First Control Period. Hence, as the Authority carried out necessary due diligence in respect of the projected cargo volumes for the ISP (CP stage). Therefore, in the instant case, the trueing up of cargo volumes of the First control Period in respect of the ISP, as suggested by the stakeholder, is not required.

3.5.2 As regard to the comments of WFSBPL on the Cargo Volumes proposed by the Authority for ISP at CP stage, it is noteworthy to mention that the Authority in its Consultation Paper had considered the same methodology & considered all the assumptions/ justifications as were submitted by the ISP for cargo volume projections, including 9.5% Y-o-Y volume growth & natural growth in cargo volumes (December, 2022 to May, 2023) assumed by the ISP. Except, that the Authority had considered the actual cargo volumes pertaining to the erstwhile operator for the period from April, 2022 to February, 2023 & has extrapolated cargo volumes for March, 2023, in order to estimate the cargo volumes likely to be handled by the AISATS in FY 2022-23. This estimate (Cargo volumes of AISATS for FY 2022-23) was used to workout baseline cargo volumes for ISP, for projecting the Cargo Volumes pertaining to the WFSBPL in respect of the first Control Period.

It is pertinent to note that WFSBPL itself in its MYTP submission assumed market share around 50% in respect of international cargo handling and has considered estimated cargo volume pertaining to AISATS for FY 2022-23, as a base for projecting its own cargo volumes for first tariff year i.e. 2023-24.

As regard to the ISP's submission in response to consultation paper wherein the ISP stated that cargo volume of previous operator (AISATS) has decreased in April, 2023 as compared with April, 2022 by 21%. It is important to note that M/s AISATS's concession was ending in May, 2023, it is natural that when the service provider was on the verge of closing down its operations, the traffic/ turnover in such situation may decrease, as the service provider was likely to be focused on the closure of its business at the Bengaluru airport.

Subsequent to completion of consultation process, the Authority enquired about the actual volume handled by previous cargo operator (AISATS). WFSBPL, vide email dated 05.06.2023 submitted the actual figures of international cargo handled by the erstwhile cargo operator i.e. AISATS for the FY 2022-23. The Authority notes from the submission of ISP (email dated 05.06.2023) that the actual international cargo volume in the first quarter of FY 2023-24 remained stagnant when compared with corresponding period of FY 2022-23.

3.5.3 In view of the above and taking into account the comments of the stakeholders regarding cargo volume projections for WFSBPL, the Authority decides to consider projected cargo volumes for FY 2023-24 at 119587 MT (as against 132308 MT proposed by the Authority at CP stage), as originally proposed by the ISP in its MYTP submission. Further, the Authority decides to consider Y-o-Y growth in projected cargo volume @ 9.5%, as proposed by the ISP.

Based on the above, the Authority has computed projected cargo volumes in respect of WFSBPL for the First Control Period as per the Table given below:

Table 7: Projected Cargo Volume as per the Authority for WFSBPL for the First Control Period

(in MT)

Particulars	FY 2023-24* (10 months)	FY 2023-24 (annualized)	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
International Cargo (CT2)	76,019	91,223	99,889	1,09,378	1,19,769	1,31,147	5,36,201
Cold Chain Facility Cargo (CCF)	23,638	28,365	31,059	34,010	37,241	40,779	1,66,726
Total	**99,657**	**1,19,587**	**1,30,948**	**1,43,388**	**1,57,010**	**1,71,926**	**7,02,927**

**10 months Cargo Volume considered from the COD.*

3.6 Authority's decision regarding Cargo Volume Projection in respect of WFSBPL for the First Control Period:

3.6.1 Based on the material before it and its analysis, the Authority decides to consider the Cargo Volume for the First Control Period for WFSBPL as per Table 7.

CHAPTER 4: CAPITAL EXPENDITURE (CAPEX), REGULATORY ASSET BASE (RAB) AND DEPRECIATION

4.1 WFSBPL submission on Capital Expenditure for the First Control Period

4.1.1 WFSBPL projected a total Capital Expenditure (CAPEX) of ₹ 144.97 crores during the First Control Period for development of Cargo Infrastructure and procurement of Cargo Handling Equipment. The details of Capital Expenditure proposed by WFSBPL for First Control Period are given below:

Table 8: Capital Expenditure proposed by WFSBPL for the First Control Period

(₹ in crores)

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Cargo Complex	100.96	-	-	-	-	100.96
Cargo Equipment	21.68	1.06	1.43	1.80	2.28	28.25
Computers	5.94	-	-	-	-	5.94
Fixtures	9.83	-	-	-	-	9.83
Total	**138.41**	**1.06**	**1.43**	**1.80**	**2.28**	**144.97**

4.1.2 Out of total CAPEX of ₹ 144.97 crores proposed by the ISP for the First Control Period, major portion (₹ 138.41 crores) of capital expenditure has been earmarked for capital works/ schemes relating to restoration and refurbishment of cargo infrastructure at Cargo Terminal 2 and Cold Chain Facility & procurement of cargo handling equipment.

4.1.3 WFSBPL submitted the following justifications/ requirements for major capital works proposed during the First Control Period:

(I) Cargo Terminal 2 (CT2) Refurbishment Plan:

WFSBPL submitted CT2 was constructed with Material Handling System (MHS) to have a handling capacity of 210,000 MT and much of this handling capacity has been eroded due to structural defects and disrepair, resulting in a current annual capacity of approximately 120,000 MT only. The CT2 improvements will focus on rehabilitation and repair of existing infrastructure that will restore handling capacity to 210,000 MT and further increase that capacity to 250,000 MT, as required under the terms of the JV2 concession. Break up of proposed CAPEX in respect of CT2 including Refurbishment of CT2 and at an estimated cost of Rs. 109.47 cr. is given below:

Particulars	Rs. in Crores
Restoration/ Strengthening of basic building structure (Shell)	66.97
Procurement of Material Handling System (Cargo Handling)	28.31
Other CAPEX includes: MHS IT System Hard &Software including cam recorders, Monitors, CCTVs, Control System, PLC, Other IT` Infrastructure, Office equipment, Design and Project management and other Pre-Operative Capital Expenditure.	14.19
Total	**109.47**

Further, the line-item wise details of proposed CAPEX in respect of CT2 amounting to ₹ 109.47 crores is placed at Annexure-I of CP.

The highlights of Refurbishment Plan in respect of CT2:

a) **Structure (Shell):** WFSBPL stated that CT2 was constructed in 2007/ 2008. As per the ISP, the floors are cracked, uneven and requires to be rehabilitated and reinforced. The Automated Storage and Retrieval System (ASRS) and Workstations have pits to accommodate lifting mechanisms. However, both the ASRS pit and Workstation pit have leakages.

   The ISP submitted that the structural improvements will focus on the following aspects:

   i. the rehabilitation of the foundation and floors to accommodate existing and planned MHS at design capacity,
   ii. the enhancement of connectivity between the ground floor and basement, and
   iii. the realignment of the majority of import flows to the basement from the ground floor.

b) **Systems:** WFSBPL in its submission stated that the office and terrace areas of CT2 are air conditioned with variable refrigerant volume ("VRV") systems. These systems installed in 2008 have reached the end of their useful life. The basement ventilation has been decommissioned and is in poor condition rendering portions of the basement unacceptable for employee occupancy.

   WFSBPL submitted that though the transformer, generator, and main panel are in functional condition and can last another 10 to 12 years; however, the remaining elements of the system are in poor condition. Also, the electrical system does not have sufficient capacity to meet the demands of the CT2 improvements, including the contractually required replacement of the forklift fleet with electric vehicles, and will have to be upgraded. Refurbishment will include installation of Enhanced (LED) lighting in basement and streetlights, replacement, modification, refurbishment and overhauling of existing panels, replacement of distribution boards and point wiring, replacement of lighting protection system, refurbishment of earth pits for electrical system with new earth electrode, Replacement of all three cold storage room refrigeration units, Replacement of passenger lift, goods lift etc.

   ISP further stated that the CT2 has eight toilets, all of which are in very poor condition and must be replaced. The Sewage Treatment Plant (STP) similarly is in poor condition and needs repair.

   Further, as per the ISP, much of the fire protection system is not in alignment with regulatory requirements and will need to be upgraded or replaced. In addition to fire protection devices, CT2 is lacking a smoke extraction system installed in the basement to meet regulatory requirements.

c) **Material Handling System (MHS) Infrastructure Improvement:** ISP stated that CT2 has a four-line building configuration of ULD storage, build up/ breakdown ("BU/BD"), bulk storage and dock area. The MHS was commissioned in 2009. Most of the MHS is unable to be used due to structural defects as under:

   - The pallet container handling system ("PCHS") storage structure is in functional condition. However, the mechanical, electrical and IT aspects of the system are in poor condition with replacements necessary for (a) ETV and airside conveyor electrical / mechanical components, (b) PCHS software and (c) ETV guide rails.
   - Shell column and footing structural defects supporting the PCHS has rendered the PCHS incapable of operating at design capacity. The structural defects, rail failure, and component conditions have resulted in the PCHS having a throughput that is 50% of its expected capability.

- CT2 BU/BD has four workstations connected to PCHS. The workstations are in a functional condition but (a) the scissor lifts must be refurbished and (b) control panels must be replaced.
- The ASRS storage structure is in functional condition, but many storage bins must be refurbished and partly replaced. The stacker crane ropes were replaced in 2017 and the chains of all input and output conveyors were replaced in 2020.Regardless, the stacker cranes have mechanical, electrical and IT aspects that are in poor condition with replacements necessary as to motors, gearboxes, wire, sensors, PLC software, control panels, and communication cables. Further, the ASRS software currently functions as standalone system and must be connected to the cargo management systems (CMS).
- The Automated Storage and Retrieval System (ASRS) currently is offline due to IT issues and rail failure. Shell column and footing structural defects has rendered the ASRS incapable of operating at design capacity.
- The Import VNA storage structure is in functional condition but Import VNA High Reach Forklifts have batteries that must be replaced. The Import VNA software must be updated for connection to the CMS.

d) Realignment of Flow:

- WFSBPL submitted that at the time of handover of CT2, current domestic flows will be assigned to the domestic cargo terminal ("CTD") and international cool flows will be assigned to CCF such that CT2 will focus only on international dry flows.
- The ground floor of CT2 will include the entire export operation and part of the import operation inclusive of the inbound unit dolly dock interface, handling of Out of Guage and 20ft units, and loading of 40ft truck docks.
- The basement will handle the remainder of the import operation inclusive of ULD breakdown, ASRS shipment storage, bulk storage, VAL strong room, mini-shipment storage, import detained cargo, Customs examination area and a large delivery area.
- CT2 cold rooms will be demolished.

As per ISP, after successful implementation of CT2 Refurbishment Plan, there will be major improvements in CT2 infrastructure & MHS resulting in enhancements in cargo handling processes as indicated below:

Sub process	***Equipment or Area***	***Current***	***Optimized***
ULD Storage	*10ft Storage Positions*	*120*	*141*
BU/BD	*Workstations or equivalent*	*19*	*29*
Bulk Storage	*Bulk Racking IHP Positions*	*3,660*	*3,538*
Truck Docks	*Number of Docks*	*32*	*32*
Truck Docks	*Number of X-Rays*	*3*	*6*
Truck Docks	*Acceptance Area (SQF)*	*12,917*	*19,978*
Truck Docks	*Delivery Area (SQF)*	*11,780*	*10,358*

(II) **<u>Cold Chain Facility (CCF) Refurbishment and Expansion Plan</u>**: WFSBPL in its MYTP submission stated that the CCF was constructed in 2016. The CCF is a pre-engineered building and includes a ground floor and two partial mezzanine floors. As per the ISP, while the stated capacity of CCF is 40,000 MT, due to poor maintenance, the actual capacity is significantly lower and requires significant refurbishments and enhancements to restore the capacity to 40,000 MT and then further enhance its capacity to 80,000 MT. At the time of handover of CCF, current domestic flows will be assigned to the Domestic Cargo Terminal and the physical handling of cool flows will be assigned to the CCF. The ISP informed that the CCF has suffered deterioration in its mechanical, electrical, and plumbing (MEP) building systems and material handling system, constricting infrastructure utilization. As per the ISP, CCF cool system is further compromised by excessive clear height within parts of the facility, causing an excessive draw on power to cool unused space.

Major highlights of Refurbishment and Expansion Plan of CCF at an estimated cost of Rs. 28.92 crores proposed by the ISP are as under:

a) **Structure:** WFSBPL in its submission stated that floor and surfaces are in a serviceable condition and able to support the existing MHS at existing design requirements. The columns are in adequate condition to meet existing MHS design requirements but will need to be reinforced to meet anticipated MHS design requirements. In addition, the building height in the acceptance/ delivery area and build-up/break down area is not efficient causing an excessive drain on power to cool unused space.

b) **Systems:** ISP informed that while the Chiller, Pumps, Cooling Tower, AHU, and Cold Storage Units are in serviceable condition; however, the HVAC Panels, Pump Foundation, Actuators and various gauges and valves need to be replaced. Air Handling Unit (AHU) duct cleaning is required once in five years, but as per ISP, AHU duct cleaning has not been done yet and same needs to be implemented. The MEP building systems will be overhauled. The Sewage Treatment Plant needs repair and upgradation. Lighting Protection system (LPS) to be replaced as per relevant IS/ IEC guidelines. Lighting in basement needs to be enhanced. Firefighting system to be upgraded. All the existing pumps to be replaced with higher capacity pumps. Underground water capacity to be enhanced to 300KLD.

c) **Expansion:** WFSBPL further stated that the CCF will be extended by approximately 125 ft. to the west by construction of a CCF module to handle import perishable, import pharma, and export pharma. Accordingly, with expansion, various equipment i.e. Truck docks, workstations, X-ray machines, BU/BD will required to be procured.

As per the ISP, upon successful completion of refurbishment and expansion plan in respect of CCF, there will be enhancements in cargo handling processes. The CCF design evolution focuses on rehabilitation, flow realignment, and product segregation while increasing capacity from 40,000 MT to 80,000 MT as indicated below:

Sub Process	***Equipment or Area***	***Current***	***Improved***
Unit Storage	*10ft Storage Positions*	*40*	*40*
BU/BD	*Workstations or equivalent*	*10*	*15*
Bulk Storage	*Bulk Racking IHP Positions*	*68*	*80*
Truck Docks	*Number of Docks*	*5*	*10*
Truck Docks	*Number of X-Rays*	*2*	*4*
Truck Docks	*Acceptance Area (SQF)*	*1,341*	*7,792*
Truck Docks	*Delivery Area (SQF)*	*1,055*	*2,236*

The line-item wise details of refurbishment and expansion of CCF amounting to ₹ 28.93 crores proposed by the ISP is placed at Annexure-I of CP.

(III) Maintenance Capex: Apart from major CAPEX on CT2 and CCF, WFSBPL anticipates miscellaneous capex on YoY basis costing around ₹ 1 to 2 crores from tariff year 2 to 5 of the First Control Period.

4.2 **Authority's Examination on CAPEX & Additions to RAB at CP stage:**

4.2.1 The Authority noted that WFSBPL proposed major capex on restoration & refurbishment of Cargo Terminal 2 and refurbishment & expansion of Cold Chain Facility. In this regard, the Authority observed that as per the scope of work (clause 2.1.1 and 2.1.2) of Service Provider Right Holder Agreement (reproduced below), ISP is mandated to operate CT2 with international cargo handling capacity of not less than 2,50,000 MT per annum. In respect of CCF, ISP is required to operate the cold chain facility with not less than 40,000 MT and further enhance its annual cargo handling capacity to 80,000 MT.

Clause 2.1.1. of SPRHA in respect of International Cargo Terminal 2:

(i) Design, build, finance, develop, and undertake refurbishment activities of the Existing Cargo Terminal 2 as prescribed by BIAL which lead to creation of an additional capacity of not less than 40,000 MT (forty thousand metric tons) per annum. For the avoidance of doubt, the International Cargo Terminal 2 shall have a total handling capacity of not less than 250,000 MT (two hundred and fifty thousand metric tons) per annum; and

(ii) Operate, maintain, manage and transfer the Existing Cargo Terminal 2 and the expanded facility as set out in Clause 2.1.1 (i) above.

Clause 2.1.2. of SPRHA in respect of Cold Chain Facility:

(i) Design, build, finance, develop, Operate, manage, maintain, and transfer the expanded Existing Cold Chain Facility by not less than 40,000 MT (forty thousand metric tons) ***("Expanded Cold Chain Facility")*** *in accordance with Clause 9.5 (Alteration, Expansion and Upgradation of Cargo Terminal 2);*

(ii) Operate, maintain, manage and transfer the Cold Chain Facility; and

(iii) Undertake refurbishment activities as prescribed by BIAL within the Existing Cold Chain Facility.

4.2.2 WFSBPL, in order to comply with the obligations entrusted on it under the aforesaid clauses of SPRHA, has engaged the consultants namely "Structwel Designers and Consultants Pvt. Limited" & "Realog Consulting GMBH" to carry out the structural analysis of the CT2 in relation to its design capacity for revised relevant MHS and Indian Codes. The major conclusions in the report dated 13.12.2022 submitted by aforesaid consultants is given below:

The structure is unsafe for its intended MHS Design load. The fact that it is still standing may be attributed to the combined effects of the following: -

(i) It has not been subjected to the maximum loading as per Design MHS capacity.

(ii) It has not been subjected to an earthquake as per IS code.

(iii) The structure is eating into the design factor of safety left in design as per IS code.

The consultants also recommended remedial techniques as under:

"There are several strengthening techniques which may be applicable to retrofit the Structure. Structwel proposes the following measures:

a) Foundation strengthening is challenging and can be done with inserting piles to reduce the load on the current footings.

b) Column strengthening can be done with fiber wrapping or RCC jacketing/ steel jacketing.

c) Beam strengthening can be done with steel plate flitching."

The design review report of the Consultant regarding structural strength etc. in respect of CT2 was placed at Annexure-II of CP.

4.2.3 The Authority examined the details of proposed CAPEX in respect of CT2 submitted by the ISP (Annexure–I of CP) and found that the estimated costs of some items under infrastructure facilities construction (*Foundation strengthening area of Proposed Failure Footings - ₹11.76 crores, Super Structure Strengthening - ₹26.32 crores, Tremix flooring with Nominal Steel - ₹4.26 crores & MEP - Electrical – ₹5.89 crores*) apparently were on the higher side. The Authority, accordingly, sought justification/ cost basis for these items. WFSBPL, vide email dated 04.04.2023 submitted its response/ justification along with detailed considerations behind the estimates submitted for the aforesaid cost items, as under:

a. Foundation strengthening area of Proposed Failure Footings (estimated cost ₹11.76 crores) - The specific remedial work includes boring, providing and installation bored cast-in-situ reinforced cement concrete piles of grade M-30 of specified diameter and length below the pile cap, to carry a safe working load, excluding the cost of steel reinforcement but including the cost of boring with polymer solution and temporary casing of appropriate length for setting out and removal of same and the length of the pile to be embedded in the pile cap etc. by percussion drilling using Direct mud circulation (DMC) or Bailer and chisel technique by tripod and mechanical Winch Machine all complete, including removal of excavated earth with all its lifts and leads.

b. Super Structure Strengthening (estimated cost ₹26.32 crores) – As per the ISP, superstructure remediation focuses on:

- Column strengthening with jacketing
- Beam strengthening with flitching
- Slab strengthening with steel frames
- Slab strengthening with fiber sheets/ laminates

c. Tremix flooring with Nominal Steel (estimated cost ₹4.26 crores) – WFSBPL mentioned that CT2 floors are cracked, chipped and uneven. They will undergo even more damage in the basement when implementing the micro piling and other structural strengthening measures. The CT ground floor surface will be prepared and a coating of 4 mm thick PU self-smoothening flooring be applied.

d. MEP – Electrical (estimated cost ₹5.89 crores) - The CT2/CCF electrical system emanates from the CT2 main electrical room. The premises has two nos. DRY type transformer of 1000 KVA capacity feeding CT-2 terminal (Transformer-1). The main electrical panel is situated on basement floor and supplies main power to both CT2 and CCF. In event of main power supply failure, a separate generator set of 750 KVA capacity is available inside electrical room. Electrical power is fed through express feeder and metering location at domestic gate no.2.

4.2.4 The ISP vide email dated 31.03.2023 further submitted that they proposed to undertake additional works with a CAPEX of around ₹ 8 to 9 crores on the construction of Airside canopy of 5100 sq. mtr. in area and other related works. As per the ISP, this canopy is required to be constructed in order to enhance storage and safety of cargo packages on the Airside.

As regard to CAPEX for additional works, WFSBPL submitted that they would endeavor to explore possible avenues of value engineering, evaluation of alternatives etc. on super structure strengthening and other works (to ensure cost saving for additional works i.e. Airside Canopy) so that overall CAPEX stays within the CAPEX proposal submitted to the Authority and hence, did not propose to submit an additional cost outlay to the Authority.

4.2.5 The Authority observed from the ISP's submission that the additional airside works (construction of canopy) are being proposed to enhance storage and safety of cargo packages on airside. In view of the above, the Authority proposed to consider additional works relating to the construction of canopy on airside, which is within the overall CAPEX proposed for the First Control Period, amounting to ₹ 144.97 crores.

4.2.6 The Authority noted from the consultant's report & WFSBPL's submission that the present cargo terminal (CT2) has structural weaknesses and lacks required strength to support MHS as per its designed cargo handling capacity. The cargo infrastructure at CT2, as per ISP, required restoration and refurbishment to restore its designed cargo handling capacity.

4.2.7 The Authority further observed from WFSBPL submission that apart from major restoration/ refurbishment in civil structure, the allied material handling equipment and other systems, including air-conditioning, improvement in electrical system & provision of LED lightings, restoration of ASRS functionality and replacement of existing forklift fleet with electric vehicles (contractually mandated) required to be accomplished to restore CT2's designed cargo handling capacity.

The ISP further highlighted the poor condition of the eight toilets in the CT2 building which requires major renovation along with major repairs of STP. In order to comply with SPRHA and to address the cargo volume bottleneck, WFSBPL requires to make sufficient investment to enhance the present cargo handling capacity of CT2.

In view of the above, considering the age of Cargo Terminal (which was constructed in 2007/ 2008) and its present deteriorated condition due to normal wear and tear over the years etc.; the Authority felt that the proposed refurbishment and restoration of CT2, including restoration and enhancement of MHS and other systems in CT2 is required for smooth operations of Cargo Terminal and to restore its designed cargo handling capacity to 2,50,000 MT p.a., as envisaged in the SPRHA.

4.2.8 The Authority noted the ISP submission stating that CCF is approaching its capacity limits in some functional areas and CCF has also suffered deterioration in its mechanical, electrical, and plumbing building systems and material handling system over the years, constricting its effective utilization.

WFSBPL, in respect of air-conditioning system indicated that though certain components of such as Chiller, Pumps, Cooling Tower, AHU, and Cold Storage Units are in serviceable condition; however, the HVAC Panels, Pump Foundation, Actuators and various gauges and valves need to be replaced. The ISP further stated that the Sewage Treatment Plant in CCF also requires major repairs.

The Authority noted that ISP is contractually bound to enhance annual capacity of CCF from 40,000 MT to 80,000 MT. Further, considering the present poor condition of the CCF terminal (as per the ISP) requiring restoration and refurbishment of infrastructure & MHS etc. to restore cargo handling capacity to its designed level and to further enhance it to 80,000 MT.

The Authority, further noted that WFSBPL projected a YoY nominal maintenance capex (misc. capex) amounting to ₹ 1 to 2 crores from tariff year 2 to tariff year 5 of the First Control Period. The Authority felt that ISP, apart from major planned capex as discussed above, may require unforeseen capex on cargo handling equipment etc., the nominal misc. capex projected appeared reasonable, considering the scale of cargo handling operations.

In view of the above, the Authority considered that the CAPEX proposed by the ISP on CCF during the First Control Period is imperative for conduct of smooth business operations & to meet future demand.

4.2.9 As regard to capitalization schedule proposed for the First Control Period, the Authority observed that ISP proposed capitalization of around 95% of total CAPEX planned for the First Control Period, in the initial year of the Control Period (i.e. FY 2023-24) and further, vide email dated 07.03.2023, the ISP conveyed that prior to commencement of Operations they will spent ₹ 52.76 crores and the remaining will be capitalized during the Control Period.

4.2.10 The Authority further observed that capitalization proposed by the WFSBPL in respect of CT2 refurbishment/ restoration during FY 2023-24 includes consultancy expenses totaling to Rs. 8.26 crores. The Authority sought details of consultancy expenses proposed to be incurred by the ISP. WFSBPL, in its response, submitted that during the initial phase from November 2022 to March 2023, they required to spend both capital expenditure and operating expenditure (for implementation of concession awarded by the airport operator). The ISP submitted that the consultancy expenses of Rs 8.26 crores proposed were primarily linked to project management, design and consulting expenses for services provided by various consultants in the course of refurbishment and strengthening of the terminal. The ISP further gave the breakup of consultancy expenses of ₹ 8.26 crores as under:

Particular of Expenses	₹ in Crores
Project Management Consultancy Cost - M/s CBRE South ASIA Pvt. Ltd. & M/s Realog Consulting GMBH	5.32
Other consultancy cost (IT Consultancy) - M/s Deloitte Touche Tohmatsu India LLP	2.94
Total	**8.26**

The Authority sought clarification from WFSBPL regarding the expected cost of PMC amounting to ₹ 5.32 crores and whether the PMC cost included consultancy work relating to Material Handling Systems (Equipment). ISP vide email dated 04.04.2023 stated that the project involves a brownfield redevelopment and MHS recommissioning of two fully mechanized facilities with serious structural and dilapidation challenges to be remediated during ongoing operations. Also, under the scope, the PMC is integrally involved in the assessment, design, quantification, pricing, tendering, and remediation/ installation of all aspects of the capex of the shell and MHS. As per the ISP, engagement of the PMC was necessary as the WFSBPL does not have, nor do its parent companies have, the internal expertise in brownfield redevelopment and MHS recommissioning to accomplish this undertaking internally.

The ISP further stated that the shell PMC was selected by competitive bid. The MHS PMC was selected for its particular expertise in the subject matter and prior track record in the Indian market at a fee consistent with MHS consulting fees globally.

4.2.11 The Authority noted the clarification submitted by the ISP and observes that the proposed PMC cost i.e. ₹ 5.32 crores accounts for 4% of total CAPEX proposed in respect of facility construction and MHS with respect to CT2 and CCF (totaling to ₹ 124.21 crores) by the ISP for the FY 2023-24. The Authority further noted from ISP's submission that PMC have been appointed in connection with the works relating to refurbishment/ restoration project in respect of CT2 & CCF and consultant will play critical role in successful implementation of aforesaid project. As per WFSBPL, PMC will be responsible for and will assist the ISP in each stage of project implementation, right from project planning, designing, tendering of works, monitoring of project work, testing and commissioning etc. up to the handing over of the facilities to the ISP. Considering the nature and extent of PMC involvement in the completion of the refurbishment/ restoration work in respect of CT2/ CCF, for smooth rollout of cargo services by the ISP, the Authority felt that the PMC cost proposed to be incurred by the ISP appeared reasonable.

4.2.12 On the basis of examination of proposed CAPEX and considering the clarifications & justifications submitted by WFSBPL, the Authority proposed to consider Additions to RAB submitted by WFSBPL as per Table 8.

4.3 **<u>WFSBPL submission on Depreciation for the First Control Period</u>:**

WFSBPL computed the depreciation for the First Control Period as given in Table below:

Table 9: <u>Depreciation proposed by WFSBPL for the First Control Period</u>

(₹ in crores)

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Cargo Complex	6.73	6.73	6.73	6.73	6.73	**33.65**
Cargo Equipment	1.45	1.52	1.63	1.78	1.99	**8.37**
Computers	0.99	0.99	0.99	0.99	0.99	**4.95**
Fixtures	1.40	1.40	1.40	1.40	1.40	**7.00**
Total	**10.57**	**10.65**	**10.75**	**10.90**	**11.11**	**54.00**

4.4 **<u>Authority's Examination on Depreciation at CP Stage</u>:**

4.4.1 The Authority compared the depreciation rates and useful life of assets applied by BSSDPL, Delhi, during the First Control Period and those prescribed as per AERA Order No. 35/2017-18 as given below:

Table 10: <u>Comparison of Depreciation rates of WFSBPL, Delhi vis-a-vis AERA Order 35</u>

Particulars	As per ISP Submission	As per AERA Order no. 35/2017-18
	Useful Life	
Cargo Complex	15	30/60
Cargo Equipment	15	15
Computers	6	6/3
Fixtures	7	7

4.4.2 The Authority noted from the MYTP submission of WFSBPL that ISP has claimed ₹ 54 crores as depreciation, considering useful life of all components of RAB as per Order no. 35/ 2017-18 (except Infrastructure improvement, where the useful life considered as 15 years, based on the concession term which is ending on 2038). WFSBPL proposed to depreciate the infrastructure improvements (during leasehold period) by the end of concession period.

4.4.3 The ISP in its MYTP submission stated that they considered depreciation @ 50% of the value of the assets during the year of capitalization (assuming that asset is capitalized in the middle of the financial year). However, it was observed that WFSBPL computed depreciation, considering 100% value of the assets during the year of capitalization, which was not consistent with their aforesaid submission.

4.4.4 In view of the above and considering that during the first Tariff year, most of the capital works were likely to be capitalized around middle of FY 2023-24, therefore, the Authority proposed to compute depreciation for the year of capitalization, considering 50% of the asset value, as per the table given below:

Table 11: Depreciation computed by AERA for WFSBPL for the First Control Period at CP Stage

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Cargo Complex	3.37	6.97	6.97	6.97	6.97	**31.25**
Cargo Equipment	0.72	1.53	1.63	1.76	1.95	**7.59**
Computers	0.49	0.99	0.99	0.99	0.99	**4.45**
Fixtures	0.70	1.40	1.40	1.40	1.40	**6.30**
Total	**5.28**	**10.89**	**10.99**	**11.12**	**11.31**	**49.59**

4.4.5 The Authority proposed to consider the Depreciation computed by AERA for WFSBPL as per Table 11 stated above.

4.5 **WFSBPL submissions on Regulatory Asset Base (RAB):**

Based on the financial data submitted by WFSBPL, the computation of Opening, Closing and Average RAB for the First Control Period is given in the Table below:

Table 12: RAB for the First Control Period submitted by WFSBPL

(₹ in crores)

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Opening RAB	-	127.83	118.25	108.92	99.82	
+ Additions	138.40	1.06	1.43	1.80	2.28	**144.97**
(-) Disposals	-	-	-	-	-	
(-) Depreciation	10.57	10.65	10.75	10.90	11.11	**53.99**
Closing RAB	**127.83**	**118.25**	**108.92**	**99.82**	**90.99**	
Average RAB	**63.92**	**123.04**	**113.59**	**104.37**	**95.40**	

4.6 **Authority's Examination on Average RAB at CP stage:**

4.6.1 The Authority considered the revised depreciation as per table 11, recomputed Average RAB as stated under:

Table 13: RAB computed by the Authority for WFSBPL for the First Control Period at CP Stage

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Opening RAB	-	133.12	118.25	108.92	99.82	
+ Additions	138.40	1.06	1.43	1.80	2.28	**144.97**
(-) Disposals	-	-	-	-	-	-
(-) Depreciation	5.28	10.89	10.99	11.12	11.31	**49.59**
Closing RAB	133.12	123.29	113.73	104.41	95.38	
Average RAB	66.56	128.21	118.51	109.07	99.90	

4.6.2 The Authority proposed to consider Average RAB as per table 13 above.

4.7 **Stakeholders' Comments on the CAPEX proposed by ISP for the First Control Period**:

4.7.1 **M/s SpiceJet's comments regarding "Stoppage of non-safety / security related Capital Expenditure"**:

"In order to support the airlines to continue and sustain its operations due to adverse impact of Covid-19, all non-essential CAPEX proposed by WFSBPL should be put on hold / deferred to the Second Control Period, unless deemed critical from a safety or security compliance perspective.

Without prejudice to the above, in case WFSBPL wants to make capital expenditure, then it should be at no additional expense to the airlines until the project is completed and put to use. Similarly, if any proposed Capex projects can be deferred from the First Control Period to the Second Control Period, same should be considered by AERA.

It is humbly submitted that the proposed hike from the prevailing tariffs due to CAPEX planned in 1st Control Period may be a bit premature as it would be possible to gauge only in the last year of 1st Control Period (2027-28) whether significant work has progressed in development of infrastructure, procurement of latest equipment and repairs / refurbishment, as proposed in the CP. Thus, as the actual requirement and its actual impact would only be evident in the last year of 1st control period (2027-28), Authority is humbly requested that the proposed hike from the prevailing tariffs be deferred to the 2nd Control Period based on ground realities at that time.

Authority is also requested to evaluate whether the expansion in the current tonnage scenario would be required, as the current capacity may have not been optimized."

4.7.2 **WFSBPL's comments regarding Depreciation**:

"WFSBPL has assumed a capitalization of assets in May 2023 as these investments will be used for operation of the facility. However, AERA has assumed a mid-year capitalization which WFSBPL submits is not accurate. WFSBPL believes its approach is consistent with realistic scenarios and requests that AERA considers depreciation for 10 months for FY 2023-24."

4.8 **Counter Comments of WFSBPL**

4.8.1 **WFSBPL response to comments of M/s SpiceJet regarding deferment of Capital Expenditure**

The Authority, even under light touch approach, has undertaken an extensive analysis of capital spends and has finally concluded in para 4.2.8 that "In view of the above, the Authority feels that the CAPEX proposed by the ISP on CCF during the First Control Period is imperative for conduct of smooth business operations & to meet future demand."

WFSBPL, in its MYTP submission has elaborately explained the need for the capex, along with granular break up of cost. Hence, WFSBPL submits that all the costs for capital spends are justified and does not see any further optimization that can be done at this stage.

4.9 **Authority's Analysis regarding Additions to RAB, Depreciation and Average RAB for the First Control Period**

4.9.1 The Authority took note of the comments of M/s SpiceJet on deferment of non-essential CAPEX and response thereon of the ISP. The Authority notes that WFSBPL, out of the total proposed CAPEX for the First Control Period amounting to ₹ 144.97 crores, projected a major portion of CAPEX to be incurred on infrastructure improvements amounting to ₹ 100.96 crores and on the cargo handling equipment amounting to ₹ 28.25 crores. The Authority at consultation stage, had examined in detail the ISP's submission on the

CAPEX proposed for the first Control Period, including justifications/ reasons submitted by the ISP for its proposed CAPEX.

It is pertinent to note that WFSBPL is inheriting old Cargo Terminal constructed around 2007/ 2008 and as per WFSBPL, the present condition of terminal is very bad & it requires major restoration/ renovation works to restore its cargo handling capacity back to its designed level. Further, as per the ISP, most of the material handling equipment have outlived their normal useful lives and same are also required to be replaced to maintain the seamless cargo operations. The Authority, is of the view that it would be unreasonable to expect quality services from the ISP, if service provider is not allowed to incur reasonable CAPEX.

4.9.2 As regard to comments of WFSBPL pertaining to computation of depreciation during the year of capitalization, it is noteworthy that the ISP in its MYTP submission had proposed depreciation @ 50% of the value of the assets during the year of capitalization, assuming mid-year capitalization of the assets. However, WFSBPL in its financial calculations had considered 100% value of the assets for computing depreciation during the year of capitalization, which is inconsistent with the ISP's approach towards depreciation (during the year of capitalization) as indicated in its MYTP document.

Further, the Authority sought the actual status of capex executed and amount capitalized as on 30.06.2023. WFSBPL, vide email dated 17.07.2023, submitted that they have capitalized assets costing to ₹ 11.40 crores (as on 30.06.2023). The ISP further informed that there are capital work-in-progress for ₹ 8.70 crores (30.06.2023) and the entire capex plan submitted earlier will be executed during the FY 2023-24.

The Authority, as per its uniform approach regarding computation of depreciation during the year of capitalization, has considered depreciation @ 50% of full year's depreciation, in the year of capitalization of assets (assuming midyear capitalization). The Authority also notes that the ISP so far (as on 30.06.2023) has capitalized around 8% of the total projected CAPEX for the Control Period. Hence, considering the above, the Authority decides to maintain the same view regarding the depreciation (during the year of capitalization of Assets), as was taken at CP Stage.

4.9.3 The Authority, in respect of the CAPEX proposed for the First Control Period, notes that the ISP would be eligible to claim GST input tax credit of certain movable assets etc. The Authority advises the ISP to ensure that wherever the GST Input Tax Credits (ITC) are available against the Capital Works/ Equipment, the GST ITC for such assets may be availed and the cost of GST component shall be excluded during the capitalization of such assets.

4.10 **<u>Authority's decisions regarding Additions to RAB, Depreciation, Regulatory Asset Base (RAB)</u>**

Based on the material before it and based on its analysis, the Authority decides the following for the First Control Period:

4.10.1 To consider Additions to RAB as per Table 8.

4.10.2 To consider the Depreciation as per Table 11.

4.10.3 To consider Average RAB as per Table 13.

CHAPTER 5: OPERATING & MAINTENANCE EXPENDITURE

5.1 As provided in Clause 9.4 of the Guidelines mentioned in Direction No. 04/ 2010-11, the Operation and Maintenance (O&M) Expenditure shall include all expenditures incurred by the Service Provider(s) including expenditure incurred on security operating costs, other mandated operating costs and statutory operating costs.

5.2 Operation and Maintenance Expenditure submitted by WFSBPL is segregated into the following categories:

- Payroll Cost
- Admin & General Cost
- Concession Fees & Facility Rental Costs
- Marketing and Branding Costs
- Custodianship Costs
- IT Costs
- Consumables
- R & M Cost
- Utility Cost
- Return on Security Deposit and Performance Guarantee
- Interest & Finance charges
- Pre-operative Expenses

5.3 Operating & Maintenance Expenditure projected by WFSBPL for the First Control Period is given in Table below:

Table 14: Operating & Maintenance Expenditure projected by WFSBPL for the First Control Period

Particulars	(₹ in Crores)						
	2023-24# (In year)	2023-24 (Annual.)	2024-25	2025-26	2026-27	2027-28	Total
Payroll Cost	33.43	40.12	48.86	56.50	65.70	76.80	281.29
Admin & General Cost	12.72	15.26	16.31	17.43	18.63	19.91	85.00
Concession Fees	39.08	46.90	63.60	85.59	108.11	136.83	433.21
Facility Rental Costs	21.58	25.90	27.19	28.55	29.98	31.48	138.78
Marketing and Branding costs	1.30	1.56	2.12	2.85	3.60	4.56	14.43
Custodianship Costs	0.35	0.42	0.42	0.42	0.42	0.42	2.03
IT Costs	5.88	7.05	7.89	8.82	9.86	11.03	43.48
Consumables	1.40	1.69	1.88	2.09	2.33	2.59	10.29
R & M Cost	6.77	8.12	9.04	10.07	11.21	12.48	49.57
Utility Cost	3.13	3.76	4.19	4.66	5.19	5.78	22.95
Return on security deposit	5.83	7.00	7.00	7.00	7.00	7.00	33.83
Bank Charges on Performance Guarantee	0.76	0.91	1.13	1.43	1.73	2.10	7.15
Interest & Finance Charges	15.06	18.08	19.02	19.50	19.29	18.00	90.87
Pre-operative Expenses	15.35	15.35	-	-	-	-	15.35
Total	**162.66**	**192.12**	**208.66**	**244.91**	**283.04**	**328.99**	**1228.24**

#Costs projected for FY 2023-24 is for 10 months.

WFSBPL has submitted the following assumptions/justifications for O&M expenses projected for the First Control Period:

5.3.1 **Payroll Cost:** WFSBPL submitted that the total manpower count for handling current level of traffic is approximately 962, of which, 478 are direct labour employees in the warehouse. The remainder include security staff and agency staff. The ISP has estimated operation considering cargo handling of around 149 kilos per man hour. The WFSBPL submitted that considering the reduction in traffic during the first year of the operations, the number of direct labour employees in the warehouse have been reduced to 380, to maintain a productivity of ~149 kilos cargo handling per man hour. WFSBPL submitted that on the basis of efficient practices and procedures, it expects significant productivity improvements over the control period. From FY 26, ISP projects a 15% per annum efficiency in direct labour employees, driven by an improvement in productivity within the warehouse from 149 kilos per man hour to 243 kilos per man hour over the control period, representing a cumulative improvement of 63%.

As per WFSBPL, there is requirement of administrative employees over and above those currently assigned to cargo by the incumbent operator. As per the ISP, the total estimate for these additional employees will be Rs. 9 Crores from year 1 on an annualized basis.

The ISP, based on the traffic projections, existing manpower count of incumbent operator and WFSBPL's global experience has estimated the total number of employees for its proposed Cargo operations at 878, including the new indirect headcount for administration. Further, the projected number of employees have been grouped into various categories and the average monthly salary is also estimated for each category of employees.

In addition, WFSBPL submitted that they have analyzed the relationship between historical Wholesale Price Index (WPI) - WPI Manufactured Products and minimum wage growth for the loaders and unloaders category, based on official publications of Government Authorities for India as a whole. As per the ISP, the calculated relationship is wage growth of 3.22x of the WPI growth, as summarized in the table below:

Indicative Ratio of Minimum Wage to WPI Inflation

Particulars	FY 12	FY 22	CAGR - FY 12 to FY 22	Source
WPI - Manufacture of products	100	135	3.05%	Office of the Economic Advisor, GoI
Min. wage (₹ pm)	6,656	17,004	9.83%	Ministry of Labour and Employment, GoI
Min. wage / WPI-Manufacture of products			3.22	

WFSBPL considered 4.4% as average long term WPI growth and calculated 14.17% (4.4% * 3.22) annual inflation estimate for direct personnel cost. Further, ISP assumed that as volume increases, personnel costs will also rise based on volume growth. As per WFSBPL, % cost variability (with volume change) is dependent on the type of personnel cost and is incremental to inflation cost applied to the estimates, as tabulated below:

Cost Variability with Cargo Volume and Inflation Assumptions for Personnel Costs

Type	No. of employees	% Cost Variability with Cargo Volume	% Inflation/Increase
Field Direct	380	100.0%	14.2%
Field Overhead	9	30.0%	14.2%
SG&A / Indirect	36	15.0%	14.2%
Agency & Other Direct Staff	453	50.0%	14.2%
Total	**878**		

5.3.2 **Administrative & Management Cost:** The Authority noted from the submission of ISP that these costs are primarily associated with selling, general and administrative expenses functions, including finance (e.g., Audit fees), legal, and other miscellaneous non personnel related costs.

WFSBPL conveyed that costs under this expense head have been estimated based on the incumbent operator's cost and internal WFS Group benchmarking. Further, in the base year, these are adjusted for reduced volumes. As per the ISP, for the forecast period, these costs are estimated to be 25% variable with volume and subject to inflation of 4.4% p.a. in line with WPI.

5.3.3 **Concession Fees:** WFSBPL projected the concession fees at the rate of 30% of the gross revenue as per clause 13.1 of the concessionaire agreement with BIAL.

5.3.4 **Facility Rental Costs:** WFSBPL submitted that in line with lease rental charge requirements outlined in Schedule C of the sub lease deed and clause 13.1 of the Concessionaire agreement, lease rent has been calculated at the rate of Rs. 468 per sq mtr. per month for FY 2023-24 and will be increased by 5% from FY 2024-25 and thereon. For the purpose of calculation of lease rental rent, the area of CT2 and CCF considered as 29740 sq mtr. and 16374 sq mtr. respectively.

5.3.5 **Marketing and branding costs:** WFSBPL, in line with the requirements set out in Clause 16 of the SPRHA, has made a provision for marketing and branding cost @ 1% of the gross revenue.

5.3.6 **Custodianship Costs:** WFSBPL submitted that the business is required to have a custom bond outstanding to the value of Rs. 60 Crores. This will be executed by BIAL and the costs will be borne by JVC. This is governed by para 18 of the concessionaire agreement between the two parties (ISP and Airport Operator). ISP estimated costs on the custom bond outstanding at 0.7% of the total custom bond outstanding. This 0.7% represents the commission to be paid to the bank on the bond to be executed.

5.3.7 **Consumable, Utility, Repair and Maintenance Cost:** WFSBPL, based on comprehensive preventive and ongoing maintenance program developed for cargo operations, estimates that spare parts purchasing along with monitoring of warranty clauses with the vendors, can contain this cost to their tightest. This estimate has been developed based on recurring maintenance expenses at comparable WFS stations. Similarly, utility costs estimated across comparable stations and in consideration of the utility tariff applicable at KIA, Bengaluru. As per the ISP, these costs are estimated to increase based on the volume with cost variability of 70% vis-à-vis volume, and further subject to inflationary increase @ 4.4% p.a. (WPI) from FY 2024-25 onward.

5.3.8 **IT Cost:** WFSBPL highlighted that they embrace cutting edge technology and driving transformational change by employing the sophisticated IT systems, which differentiates them from the competition. WFSBPL submitted that the IT cost buildup includes various cost allocations for implementation of global operations excellence programs, labour management, state-of- the-art cybersecurity and other sophisticated technology, which as per the ISP, has not been adopted by the current operator at CT2. Accordingly, as per WFSBPL, estimated IT costs are higher as compared to incumbent operator. The ISP, while estimating projected IT costs for the Control Period, considered IT cost variability factor @ 75% vis-à-vis volumes and further escalation @ 4.4% of WPI from FY 2024-25 onward.

Table 15: IT Cost Estimates (OPEX) for Tariff Year 1 as submitted by WFSBPL

(₹ in crores)

Particular	Details	Total expenses for Year 1 (Annualized)
Infrastructure	Physical servers, IT operations, hypervizers & SAN / storage, cybersecurity, workstations andlaptops, cabling and any other infrastructure	1.21
Network and Communications	Circuits, firewalls, routers, any other data room infrastructure, Wi-Fi, network monitorization, administration, IP phones, telephones etc.	2.62
Others	Utilities, maintenance, equipment rental	1.63
Business Applications (incl.WMS System)	SLA management, warehouse monitorization, cool temperature, payroll/accountancy, pulse, SITA prepare, PMP prepare and others	1.60
Total IT Costs		**7.05**

***Note**: This analysis does not include IT personnel as these are included in personnel costs.*

5.3.9 **Cost of providing Security Deposit and Performance Guarantee:** WFSBPL submitted that in accordance with the SPRHA, the ISP is required to deposit interest-free refundable security amounting to ₹ 50 crores with BIAL during the concession period. ISP computed cost of security deposit [return on SD] @ 14% p.a. of the value of SD.

ISP further submitted that as per concessionaire agreement, the WFSBPL is required to submit a performance guarantee equivalent to the 3 month's forecasted revenue share payable to the Airport Operator (30% of gross revenue). ISP computed cost of guarantee @ 5% p.a. of value of performance guarantee.

5.3.10 **Preliminary Expenses:** WFSBPL submitted that as per clause 4.8 of JV agreement (between WFS Global SAS and BIAL), all the preliminary expenses with regard to the incorporation of the JV2 Company including all the costs, charges, expenses, professional fees, out of pocket expenses that may be incurred during the incorporation and formation of the JV2 Company and incidental to the establishment of the JV2 Company shall be borne by and paid/ reimbursed for by the JV2 Company. Further, ahead of commencement of operations on 24th May 2023, WFSBPL is required to employ several individuals, consultants and invest in operating expenditures to be ready to commence operations on this date.

5.3.11 **Interest Expenses:** WFSBPL submitted there is a loan agreement (External Commercial Borrowing) with the parent company in place to draw down up to ₹ 109 crores, governed by the RBI ECB regulations. Apart from this, WFSBPL had also projected further loan requirement of ₹ 80.09 crores, based on their forecasts. Details of loan, loan repayment schedule and interest liability as submitted in form F5 & F6(a) of MYTP by WFSBPL is as under:

Table 16: Projection of Interest on Loan submitted by WFSBPL for the First Control Period

(₹ in Crores)

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Outstanding principal at the beginning of the year	189.05	189.05	189.05	180.16	168.56
Principal repayment during year	-	-	8.88	11.61	11.61
Average interest for the year	15.06#	19.02	19.49	19.28	18.00
Outstanding principal at end of year	189.05	189.05	180.16	168.56	156.95
Interest rate % (as per Form F5 of MYTP)	**9.56%**	**10.06%**	**10.56%**	**11.06%**	**11.06%**

#includes ₹ 3.10 crores prior to COD

5.4 **Authority's Examination on O&M Expenses for the First Control Period at CP Stage:**

The Authority reviewed various components of OPEX, including growth rates considered by the ISP, for projecting OPEX for the First Control Period. The Authority noted that WFSBPL is expected to commence its commercial operations from 24.05.2023, accordingly OPEX has been projected by the ISP for 10 months only during FY 2023-24. The Authority's analysis on OPEX projected by WFSBPL is as under:

5.4.1 **Payroll Cost** –WFSBPL estimated total manpower requirement of around 878 numbers for their maiden cargo operations at Bengaluru Airport, as against total 962 employees approx. deployed by the incumbent operator.

The Authority noted that payroll cost projected by the ISP is much higher than that of incumbent cargo operator (AISATS), though manpower number (878) projected by the ISP is lower than that of incumbent operator (962). As per the WFSBPL, while projecting payroll expenses, they considered prevailing pay structure of the incumbent operator, manpower productivity, their global experience, cost variability with volume and local factors etc. The Authority observed from the MYTP submission that after working out average salary for each category of employees, ISP further considered a 25% upliftment in salary for all category of employees.

The ISP vide emails dated 27.02.2023 & 07.03.2023 submitted the basis of payroll cost assumed for FY 2023-24, which as per the ISP, has been based on the pay structure of incumbent operator for the FY 2021-22 as under:

Particulars	₹ in crores
Payroll Costs for FY 2021-22 as per the incumbent	20.76
Increased for FY 2022-23 at 14%	2.91
Increased for FY 2023-24 at 14%	3.31
+ Management salary cost including annual increments	5.15
Total	**32.13**
+ Other cost uptake on the above @ 25%	8.03
Total Cost considered for FY 2023-24	**40.16**

It is observed that though WFSBPL while projecting OPEX, including payroll & R&M Expenses etc., has based its cost estimates on the prevailing cost structure of the previous operator; however, ISP had not submitted any documents relating to cost structure of the erstwhile cargo terminal operator (AISATS). As per the information relating to AISATS available with the Authority, previous cargo terminal operator had considered just 3% YoY increase on its total payroll costs for its Bengaluru cargo operations, as against annual inflation of 14.2% considered by the ISP for payroll expenses. Moreover, the YoY increase of 14.2% considered by the ISP is in addition to volume driven increase in payroll expenses.

The justifications submitted by WFSBPL for upliftment of 25% in payroll costs for each category of employees, over and above the category-wise average salary calculations, are not convincing and obscure; as the baseline salary for each category of employees had already been worked out by the ISP considering all the relevant factors, moreover baseline salary is further subject to annual increments & increase in minimum wages etc.

In addition, as per the ISP, the majority of cargo employees falls under the unskilled labour category whose wages are governed under the minimum wages, notified by Government Authorities from time to time, and annual increase in minimum wages is generally lower than the YoY increase considered by the ISP for these employees.

Besides above, it is also observed that the ISP linked historical WPI-Manufacturing with increase in minimum wages and has worked out projected inflation in payroll expenses @ 14.2%, based on ratio of historical increase in minimum wages with historical increase in WPI manufacturing (FY 12 to FY 22). It is not appropriate to compare and link increase in price of commodities (WPI manufacturing) with increase in price of services (minimum wages).

In view of the above, the Authority proposed to rationalize the payroll expenses projected by the WFSBPL, by excluding upliftment of 25% in salaries for all employees, considered by the ISP for the first Tariff Year. Accordingly, payroll expenses for the ISP have been worked out at ₹ 32.13 crores (annualized) by the Authority, as against Rs. 40.12 crores proposed by the ISP for the FY 2023-24.

However, as regard to Y-o-Y increase in payroll costs considered by the WFSBPL, the Authority considered the projected increase in cargo volumes, increase in minimum wages and annual salary increments and also taking into account the projected Y-o-Y increase in the revenues which is in line with the projected Y-o-Y increase in payroll costs, proposes to consider Y-o-Y increase in payroll expenses as proposed by the ISP.

The Authority solicits specific comments of Stakeholders on the payroll costs projected by the ISP for the First Control Period.

5.4.2 **Administrative & General Cost:** The Authority noted that WFSBPL considered Administrative and General cost as 25% variable with volume and further an inflation of 4.4% p.a. in line with WPI has been proposed, resulting in an YoY increase of 7% in Administrative and General expenditure from FY 2024-25 to FY 2027-28. The Authority considered YoY increase of 7% projected by the ISP in Administrative & General Expenses for the First Control Period as reasonable.

5.4.3 **Concession Fee:** The Authority noted that as per clause 13.1.1 of Service Provider Right Holder Agreement, WFSBPL is obliged to pay a revenue share of 30% of Gross Revenue to BIAL in the relevant financial year. The Authority noted that Concession Fee payable to the Airport Operator is linked to the projected Revenue of the Cargo Service Provider. Accordingly, the Authority proposed to consider Concession Fee, based on Revenue for the First Control Period as calculated by the Authority under chapter no. 8 of this consultation paper.

5.4.4 **Facility Rental Cost:** The Authority noted that clause 13.1 of the Concessionaire agreement, lease rent is be calculated at the rate of Rs. 468 per sq. mtr. per month for FY 2023-24 and will be increased by 5% from FY 2024-25 and thereon. The Authority observed that for the purpose of calculation of rent, the area of CCF considered by ISP is 16374 sq. mtr., whereas as per Annexure F of joint venture agreement - Deed of sub-lease of project site, area of existing CCF mentioned is 10035 sq. mtr. The Authority sought clarification from ISP in this regard. In response, WFSBPL has submitted that they require further space in order to expand the facility and improve operations and airport operator has agreed to it. WFSBPL, vide email dated 17.02.2023 submitted the excerpt of lease deed, stating that the ISP is allotted total area of 29554 sq. mtr. for CT 2 and 20281 sq. mtr. for CCF. Out of total area of 20281 sq. mtr. in respect of CCF, present area of CCF is 10588 sq. mtr. and is already developed and balance 9693 sq. mtr. is earmarked for expansion. Currently an area of 5841 sq. mtr. is under development and remaining area i.e. 3852 sq. mtr. (9693-5841) is meant for future development. In view of the clarification furnished by the ISP, the Authority proposed to consider facility rental charges for the Control Period as proposed by the ISP.

5.4.5 **Marketing and Branding Cost:** The Authority noted that as per clause 16.2 of Joint Venture Agreement, Service Provider Right Holder also shall maintain the cargo marketing budget equivalent to 1% (one percent) of its gross revenue as set out in its business forecast. The proceeds of such cargo marketing budget shall be used annually in consultation with BIAL for marketing of Cargo Terminal 2 and Cargo Handling Services 2. The Authority further noted that WFSBPL linked the marketing and branding cost to the projected revenue of the Cargo Service Provider. Accordingly, the Authority proposed to consider Marketing and Branding cost based on Projected Revenue for the First Control Period as calculated by the Authority under Chapter no. 8 of this consultation paper.

5.4.6 **Custodianship Cost:** The Authority noted that as per clause 18 of Joint Venture Agreement, Service Provider Right Holder shall be solely responsible for performing all the obligation under and complying with all applicable laws relating to Indian Customs, whether applicable to BIAL as custodian or otherwise. The extract of the relevant Clause is as under:

"SPRH-2 i.e. WFSBPL shall reimburse to BIAL the costs incurred by BIAL for providing bond, bank guarantee and any other costs required by customs authorities in relation to its custodianship.

The SPRH-2 shall also be responsible for costs such as penalties, fines, other costs related to custodianship, or any other cost required by Customs"

In the view of the above, the Authority proposed to consider the custodianship cost (commission @ 0.7%) payable to bank on the bond to be executed for estimated outstanding custom outstanding of Rs. 60 crores, as submitted by ISP for the First Control Period.

5.4.7 **Consumable, Utility, Repair and Maintenance Costs:** The Authority noted that WFSBPL proposed Consumable, Utility, Repair and Maintenance costs to be 70% variable with change in volume and further subject to annual inflation of 4.4% p.a. in line with increase in WPI proposed, resulting in an YoY increase of 11% in Consumable, Utility, Repair and Maintenance expenditure from FY 2024-25 to FY 2027-28.

The Authority observed that as per the ISP, the current state of the Cargo Terminal (CT2) and CCF is extremely poor and in disrepair. Accordingly, ISP had undertaken major refurbishment of CT2 & CCF and procurement of MHS at an estimated cost of Rs 109.47 crores & Rs. 28.93 crores (incl. expansion) respectively. Considering that WFSBPL is spending huge amount on refurbishment & restoration works & procurement of new Cargo Handling Equipment for Cargo Terminal & CCF, it should result in lower R&M expenses for the ISP, at least in initial years of the Control Period. In the above background, repair and maintenance expenses of ₹ 49.57 crores proposed by the WSFBPL for the First Control Period appears to be on higher side.

The Authority sought clarifications from ISP in this regard. In response thereto, ISP submitted that they have estimated the repair and maintenance cost for the control period by starting with the approximate costs that are incurred by the incumbent. WFSBPL further submitted that approximately ₹ 21 crores only have been proposed to be spent as capital expenditure on new equipment. This mainly consists of forklifts and x-ray machines. Apart from these changes, the existing equipment would continue, and therefore

WFSBPL expects that the costs incurred by the previous operator would continue. Further, the ISP highlighted that the CT2 terminal is about 15+ years old.

As already indicated above, after the major refurbishment & restoration work in respect of CT2 & CCF and procurement of new cargo equipment, the Authority feels that the repair and maintenance costs proposed by the ISP is on higher side and on top of it, ISP has considered YoY escalation in R&M expenses at 11 %, whereas, ISP itself has estimated WPI of 4.4% p.a. Therefore, the Authority proposed to rationalize the R&M costs by considering lower YoY increase in R&M expenses @7% YoY from FY 2024-25 onward for the First Control Period as stated under:

Table 17: Repair & Maintenance cost as proposed by the Authority at CP stage

Particulars	FY 2023-24 (10 months only)	FY 2023-24 (annualized)	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Closing RAB (i)	127.83	127.83	118.25	108.92	99.82	90.99	
R & M Cost (ii)	**6.77**	**8.12**	**8.69**	**9.30**	**9.95**	**10.65**	**45.37**
% of RAB (ii)/ (i)	5%	6%	7%	9%	10%	12%	
YoY% Increase	-	-	7%	7%	7%	7%	

5.4.8 **IT costs:** The Authority observed that most of the items proposed by WFSBPL under IT OPEX cost apparently appears to be capital in nature. Therefore, the Authority sought clarification about the nature of IT costs considered under OPEX. In response thereon, ISP has confirmed that projected IT costs (under OPEX) differs from the CAPEX related to IT. Further, vide email dated 09.02.2023, WFSBPL has submitted that they have undertaken a full analysis of the underlying expenditures (IT expenses) and segregated these into capital expenditures and operating expenditures on an independent basis and as per the ISP, the operating expenditures proposed as OPEX are appropriate. The ISP further clarified that within "infrastructure" there are physical servers that need to be established are included in capex figure and the recurring operating expenditures to keep these physical servers running has been included in operating expenditure as IT costs.

Other IT costs included in operating expenditures are explicitly recurring and operating, for example yearly subscriptions, licenses, rentals, cloud bandwidth/storage payments, circuits, internal line rentals, printer rentals and applications payments amongst others.

WFSBPL submitted that the projected IT operating costs are based on the incumbent operator's baseline IT costs (OPEX). As per the ISP, the general maintenance and repair cost by the incumbent operator is almost entirely for facility and ground support equipment required to operate the facility. However, WFSBPL intends to bank on IT to improve the IT infrastructure and operating procedures, WFSBPL fully intends to pay for maintenance and support from high quality IT service providers in order to avoid any high-risk scenarios that could impact customers and service quality.

ISP further submitted that WFS is a market leader in IT infrastructure and operating procedures at cargo operations worldwide. In calculating its operating expenditures for this facility, WFSBPL envisaged best-in-class infrastructure, networks, cyber security and other Investments and operating expenditures that will bring the facility in line with WFS' other facilities worldwide. As per the ISP, the projected expenditure on IT is required in order to facilitate automation efficiencies envisaged in this business plan including (i) the 5% per annum demurrage efficiency proposed in the calculations from year 3 as well as (ii) the 15% per year improvement in annual direct field personnel productivity (costs) projected from year 3. These investments also help improve the overall customer experience and, in our view, will contribute to delivering the aggressive volume growth outlined within the MYTP.

The ISP vide email dated 27.02.2023 further provided line item-wise details of IT OPEX for the FY 2023-24 as stated under:

Particulars	(₹ in lakhs)
Business Applications	
OPS -Core Cargo	30.93
OPS -Warehouse Monitorization	8.33
OPS -SLA Management CQC	8.33
Messaging	12.50
OPS -Others	12.50
OPS -Cool Temperature	4.17
Accountancy	9.15
Payroll	20.83
T&A	37.50
Pulse	8.33
SITA Prepare	3.13
PMP and others BI	4.17
Infrastructure Operations	
Physical Server Operations	1.61
IT Operations	12.18
Hypervizors and SAN/Storage	1.61
Cybersecurity	
Subscriber Cost - Threat spike	5.39
Subscriber Cost -Trend	2.16
Subscriber Cost – Carbon	0.12
Renting printers	25.00
Workstations and Laptop Recurring Costs	66.24
Cabling and others	6.90
Network and communications	
Operating Circuits	19.32
Firewalls Location Operating Costs	7.67
Firewalls BIAL assistance	7.20
Switches Operating Costs	5.75
Network Monitorization, Administration and Others	94.20
Number of VoIP circuits - LAN connection	9.00
IP Phones Operating Costs	4.95
Telephones Operating Costs	20.83
Others communications	92.62
Others	
Combined Packages -- Support & Maintenance	150.00
Others	12.50
Total	**705.12**

From the above, it is evident that WFSBPL is aggressive on implementation of IT systems and applications for their proposed cargo operations at Bengaluru Airport. Accordingly, ISP earmarked IT OPEX of ₹ 7.05 crores in the first year of their operations itself. Further, the Authority noted that ISP had considered YoY increase of 12%, envisaging 75% IT cost variability with volume which is further subject to inflation factor of 4.4% p.a. in line with WPI, for FY 2024-25 to FY 2027-28.

Since, ISP already considered broad-based IT OPEX in first year itself (FY 2023-24), the Authority feels that going forward with 12% YoY escalation in IT OPEX is on the higher side, particularly taking into account WPI inflation estimated by the ISP is around 4.4%. Further, 75% IT cost variability with volume assumed by ISP also appears to be on higher side as IT hardware and software are capable of handling higher cargo turnover (in financial terms), though the physical handling of higher cargo volumes may require more material handling equipment.

In view of the foregoing, the Authority proposed to rationalize the IT costs by considering lower YoY increase in IT costs @ 7% from FY 2024-25 to FY 2027-28 as under:

Table 18: IT Cost (OPEX) for WFSBPL proposed by the Authority for the First Control Period at CP Stage

(₹ in crores)

Particulars	FY 2023-24	FY 2023-24 (annualized)	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
IT Costs	5.88	7.06	7.55	8.08	8.64	9.25	**39.40**
YoY % increase	-	-	7%	7%	7%	7%	

5.4.9 **Return on Security Deposit (SD) and Performance Guarantee:** The Authority noted that as per Joint Venture Agreement, ISP is required to pay ₹ 50 crores of interest free refundable security deposit to the Airport Operator during concession period and performance security in the form of bank guarantee equivalent to three months of projected revenue share in the relevant financial year. ISP has proposed return @14% p.a. on Security deposit amount and 5% p.a. on performance guarantee amount in its MYTP.

As regard to return on interest free SD, the Authority proposes to consider 5% return on interest free SD, as per the AERA's consistent approach regarding rate of return on interest free SD and also proposes to exclude return on SD from OPEX table as the same has been given separately along with return on RAB under ARR calculation.

The Authority sought basis of proposed bank commission @ 5% p.a. in respect of performance guarantee, which appears to be higher. The ISP vide email dated 07.03.2023 stated that it was a clerical error and bank commission on performance guarantee may be taken as 1.9% p.a. instead of 5% p.a.

5.4.10 **Preliminary Expenses:** The Authority noted that as per clause 4.8 Joint Venture Agreement (between ISP and its holding company [WFS Global SAS]), all the preliminary expenses with regards to the incorporation of the joint venture company including all the costs, charges, expenses, professional fees, out of pocket expenses that may be incurred during the incorporation and formation of the WFSBPL and incidental to the establishment of the Joint venture Company shall be borne by and paid/ reimbursed for by the WFSBPL.

The Authority sought break up of preliminary expenses with documentary evidence for incurrence of such expenses, as most of such expenses must have already been incurred before or up to the date of incorporation of the company. In response, the break up provided by ISP is as under:

Table 19: Estimated breakup of expenses to be incurred by the ISP before commencement of operations as provided by WFSBPL

Nature of Expense	₹ in crores
Personnel Costs	4.49
IT Operating Costs	4.15
WMS Operating Costs	0.61
Interest on loan –WFS Global	3.10
Travel cost	0.72

HR consultancy services	0.50
Commercial Consultant	0.42
Others (Audit fee, inauguration expenses, space rental, accounting services, other consultancy services.)	1.36
Total	**15.35**

The Authority noted that major chunk of preliminary expenses relates to Personnel, IT and Interest on Loan; accordingly, breakup of these expenses was sought from the ISP.

The ISP vide email dated 17.02.2023 furnished the cost breakup of aforesaid major costs forming part of preliminary expenses as under:

Personnel Costs

(₹ in crores)

Particulars	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Total
Salaries cost	0.16	0.23	0.40	0.44	0.49	0.71	0.75	**3.19**
Staff Activities (incl. Staff transportation and Training)	-	0.00	0.00	0.00	0.00	0.02	0.90	**0.93**
Recruitment Fees	0.02	-	0.35	-	-	-	-	**0.37**
	0.18	**0.23**	**0.75**	**0.45**	**0.49**	**0.73**	**1.65**	**4.49**

IT Operating Costs

Particulars	₹ in crores
Upfront Windows server license expense	0.03
Cabling license expense	0.21
Passive Networking on site	0.14
VLAN Activation and Use (BIAL Assistance)	0.24
WIFI Activation Expense	0.02
Conf Room with TV & Audio System	0.01
FAX services (BIAL Assistance)	0.01
Radio Communications (BIAL Assistance)	0.15
FIDS services (BIAL Assistance)	0.01
Business App Installation Operating Expenses	
• OPS -Warehouse Monetarization	0.21
• OPS -SLA Management CQC	0.13
• OPS -Others	0.13
• OPS -Cool Temperature	0.13
• Payroll	0.13
• T&A	0.13
• Pulse	0.13
• SITA Prepare	0.13
• PMP and others BI	0.13
Transitional Services Costs	2.13
Total IT OPEX cost	**4.15**

Interest on loan –WFS Global

Particulars	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23
Loan Drawdown Amount	3.82	5.65	-	51.71	47.82	-	-
Loan Outstanding Amount	3.82	9.47	9.47	61.18	109.00	109.00	109.00
Interest	0.03	0.07	0.07	0.46	0.82	0.82	0.82
Cumulative Interest							**3.10**

The Authority further noted from the information submitted by the WFSBPL that the interest of ₹ 3.10 crores for the period Nov 2022 to May 2023 on the loan availed from parent company had been included in Preliminary expenses. The Authority noted from the documents furnished by the ISP that the tenure of the loans indicated above are being availed by the ISP is more than 12 months and the aforesaid loans are primarily meant to finance CAPEX proposed for the Control Period. Accordingly, the same is not qualifying for a working capital loan. Therefore, the Authority proposed to exclude interest amount of ₹ 3.10 crores from OPEX proposed for the First Control Period.

In view of the above, the Authority proposed to consider the preliminary expenses up to COD amounting to ₹ 12.25 (₹15.35 - ₹ 3.10) crores in the first year i.e., FY 2023-24.

5.4.11 **Interest Expenses:** The authority noted that yearly interest liability on term loans from FY 2023-24 to FY 2027-28 had been considered by WFSBPL as part of its operating costs and charged off to projected Profit & Loss Account in the respective years of the First Control Period. The Authority proposed to consider interest expenses in Profit & Loss statement only and same will not be made part of ARR calculations.

5.4.12 Based on review and analysis of operating costs projected by the ISP in its MYTP, the Authority proposed to consider OPEX for WFSBPL for the First Control Period as per Table given below:

Table 20: OPEX proposed by the Authority in respect of WFSBPL for the First Control Period at CP stage

(₹ in crores)

Particulars	(₹ in Crores)						
	2023-24# (In year)	2023-24 (Annual.)	2024-25	2025-26	2026-27	2027-28	Total
Revenue	121.09	145.30	174.84	206.66	242.22	284.01	1028.82
Payroll Cost	26.78	32.13	39.2	45.47	52.75	61.71	225.9
Admin & General Cost	12.72	15.26	16.31	17.43	18.63	19.91	85.00
Concession Fees	36.33	43.59	52.45	62.00	72.67	85.2	308.65
Facility Rental Costs	21.58	25.9	27.19	28.55	29.98	31.48	138.78
Marketing and Branding costs	1.21	1.45	1.75	2.07	2.42	2.84	10.29
Custodianship Costs	0.35	0.42	0.42	0.42	0.42	0.42	2.03
IT Costs	5.88	7.06	7.55	8.08	8.64	9.25	39.40
Consumables	1.4	1.69	1.88	2.09	2.33	2.59	10.29
R & M Cost	6.77	8.12	8.69	9.3	9.95	10.65	45.37
Utility Cost	3.13	3.76	4.19	4.66	5.19	5.78	22.95
Preliminary expenses	12.25	12.25	-	-	-	-	12.25
Total	**128.4**	**151.63**	**159.63**	**180.06**	**202.98**	**229.83**	**900.91**

**Based on the Revenue computed by the Authority.*
#Cost for 10 months only.

5.5 **Stakeholders' Comments regarding OPEX proposed by the ISP for the First Control Period**

5.5.1 **M/s SpiceJet's comment regarding "Abolishment of Royalty Charges/ Concession Fee":**

"Any attempt to award the contracts by the airport operator on highest revenue share basis should be discouraged as it breeds inefficiencies and tends to disproportionately increase the cost.

It is general perception that service providers have no incentive to reduce their expenses, as most of any such increase would mostly be passed on to the airlines/stakeholders through the tariff determination mechanism process, and indirectly the airlines would be forced to bear these additional costs. There needs to be a mechanism for incentivizing the parties for increasing efficiencies and cost savings and not for increasing the royalty for the airport operator.

As you are aware, royalty is in the nature of market access fee, charged (by any name or description) by the airport operator under various headings without any underlying services. These charges are mostly passed on to the airlines by the airport operator or other services providers.

It may be pertinent to note that market access fee by any name or description is not practiced in most of the global economies, including European Union, Australia etc. Sometimes it is argued by the airport operators that 'Royalty' on 'Aero Revenues' helps in subsidizing the aero charges for the airlines, however royalty in 'Non-Aero Revenues' hits the airlines directly without any benefit.

We humbly submit the following:

i. *The rates of royalty (concession fees) at BIAL as mentioned in the Consultation Paper by WFSBPL for Cargo Services is 30% of Gross Revenue to the Airport Operator.*

ii. *In this regard, kindly refer to the submission of Federation of Indian Airlines (FIA) to AERA dated 30th July 2021 in response to AERA consultation paper No. 11/2021-22 dated 2 July, 2021 for determination of aeronautical tariffs in respect of Rajiv Gandhi International Airport, Shamshabad, Hyderabad for the Third control Period. In this submission, FIA had submitted that the royalty charges are passed on to the airlines by the service providers, without any underlying services, and further, that it may be pertinent to note that market access fee by any name or description is not practiced in most of the global economies, including European Union, Australia etc. FIA had requested in the afore mentioned consultation paper to abolish such royalty which may be included in any of the cost items - aeronautical and non –aeronautical.*

iii. *In repose to the above-mentioned submission by FIA, AERA had mentioned in the tariff order No. 12/2021-22 dated 31st August 2021 that the Authority had noted FIA's comments on royalty and cargo tariff and would take the suggestions into account while determining the said tariff for the Independent Service Provider.*

iv. *Accordingly, in response to the consultation paper No. 21/ 2021-22 dated 14/10/ 2021 for determination of tariff for the Third control period (FY 2021-22 to FY 2025-26) in respect of M/s Globeground India Pvt. Ltd. (GGIPL) for providing ground handling services at RGIAL, SpiceJet in its response dated 28 October 2021 to the said consultation paper had submitted that there needs to be a mechanism for incentivizing the parties for increasing efficiencies and cost savings and not for increasing the royalty for the airport operator. SpiceJet had further reiterated and urged Authority to abolish such royalty (24% in the case of GGIPL) which may be included in any of the cost items.*

v. *However, the Authority had in its tariff order no. 31/2021-22 dated 23rd December 2021 noted that it considers the process of "Award of Contract" as non-regulatory in nature and is of the view that* *all such issues, including royalty share to Airport Operators, may be taken up by the Stakeholders with the Service Providers/Airport Operators in appropriate forums.*

vi. *Similar observations have been made by the Authority in other consultation paper for determination of aeronautical tariff (example Ahmedabad tariff Order No. 40/2022-23 dated 18th January 2023, in reference to consultation paper number No 10/2022-23 dated 20th October, 2022), wherein Authority has noted that the Authority has a separate tariff determination process for service providers providing Cargo, Ground Handling and Fuel Supply to aircraft where the royalty charges are addressed alongside a rigorous Stakeholders' consultation process.*

vii. *However, when the issue of royalty is taken up at the time of tariff determination process for service providers providing Cargo, Ground Handling etc., Authority has noted (refer tariff order 32/2022-23 dated 29th December 2023 in regard to determination of tariff for cargo handling services for M/s CDCTM at IGIAL) that the Concession Fee paid by the ISP to the Airport Operator is as per the Concession Agreement executed between the Service Provider and the Airport Operator, and further that the Authority was of the view that bidding process to award such contracts, based on which ISP pays Revenue Share to Airport Operator, is a non-regulatory issue and such matters may be dealt between the stakeholders at the appropriate forum.*

viii. *Thus, it is observed that while Authority mentions that it has noted comments on royalty and would take the suggestions into account while determining the tariffs for independent service providers like CGF etc., at the time of issuing that tariff order, the Authority decided that:*

a. *Royalty is a non-regulatory issue and such matters may be dealt between the stakeholders at the appropriate forum.*

b. *this is a matter between the Independent Service Providers and the Airport Operator as per their agreement and that this is non-regulatory matter in nature.*

Sir, it is humbly requested that royalty charges may please be abolished, whether be it for aeronautical and non – aeronautical services, as royalty when allowed by AREA as a fundamental concept on aero charges becomes an allowable charge, the concept of which is then extended by non-aero service providers like in-flight caterers, etc. and applied on airlines and drives up the cost of the airlines, These charges are mostly passed on to the airlines by the service provider without any underlying benefits, which is against the preamble of the National Civil Aviation Policy 2016 for increasing efficiency of airlines and reducing cost. Thus, we once again humbly submit and urge AERA to abolish such royalty which may be included in any of the cost items.

5.5.2 **M/s SpiceJet's comment regarding "*Operational Expenditure – Drastic Cost Cutting*":**

It may be noted that across various industries, instead of cost escalations, all the costs have been renegotiated downwards substantially. It may also be noted that cost incurred by WFSBPL impacts the airlines, as such cost is passed through or borne mostly by the airlines. In order to ensure that there is no adverse impact/increase in the tariff, we request AERA to kindly put on hold any increase in operational expenditure by WFSBPL not related to safety or security. Further, we submit that:

i. *Payroll Costs: The Y-o-Y increase after 2023-24 may please not be more than approx. 6%, in line with recent proposals of AERA in other consultation papers, rather than the proposed Y-o-Y high increase.*

ii. *Administrative & General Expenses, Repair & Maintenance Expenditure, Utility Expenses: The Y-o-Y increase after 2023-24 may please not be more than approx. 5%, in line with recent proposals of AERA in other consultation papers.*

iii. *Repair & Maintenance Expenditure, Utility Expenses: The Y-o-Y proposed increase from FY24-25 is 7% in Consumable, Utility, Repair and Maintenance expenditure. The Y-o-Y increase after 2023-24 may please not be more than approx. 5%, in line with recent proposals of AERA in other consultation papers.*

In view of the above, WFSBPL may please be directed to pass on cost benefits to the airlines."

5.5.3 **WFSBPL's comments regarding Payroll Costs:**

"AERA considers the MYTP-outlined uplift of payroll costs by 25% (accounting for Employee Benefits including Provident Fund and other similar contributions) to be unconvincing and obscure. WFSBPL reiterates that these are based fully on incumbent operator cost insights which have been confirmed by the incumbent. WFSBPL further emphasizes that it has considered an aggressive optimization of costs over the control period based on efficiency/ productivity improvements which is only achievable with well-incentivized and well-trained employees.

5.5.4 **WFSBPL's comments regarding "Consumable, Utility, Repair and Maintenance Costs":**

At present, operating expenses in the Indian market have been growing significantly year-over-year (YoY) and the Authority has also recognized this fact in allowing double-digit YoY increases in Operating Expenses for CTOs in major metros in a number of recent tariff orders/consultation papers. WFSBPL has considered escalation rates for the costs based on the rate of increase anticipated by it (and informed by vendor discussions and assessment of the needs of the operation). As such, the Authority is requested to consider Operating Expenditure estimates in line with WFSBPL submissions made.

5.5.5 **WFSBPL's comments regarding "Preliminary Expenses Interest":**

WFSBPL had estimated the cost of interest to be incurred before commencement of the project. As this relates to costs to be incurred until May 2023, a period less than 1 year from the time of receipt of the loan, the same is not capitalized as part of the Capital Expenditure cost, as per the applicable accounting provisions. Not considering a legitimate cost as part of the cost to be considered for reimbursement through regulatory means deprives a legitimate reimbursement, resulting in loss, which WFSBPL believes is not in line with the regulatory framework of ensuring reasonable return. WFSBPL hence requests the same to be considered as part of the preliminary expenses. It is pertinent to note that if the cost is part of capex, as per AERA, the same is not also added to the asset base by AERA to provide a return on the same.

5.5.6 **WFSBPL's comments regarding "IT cost":**

WFSBPL has considered escalation rates for the costs based on the rate of increase anticipated by it and in line with the trends observed in other operations. AERA has not considered that the software utilized by Cargo Operators (e.g., Warehouse Management System "WMS") requires a charge per volume handled. This therefore increases costs on a one-for-one basis with volume.
WFSBPL requests AERA to consider the escalation rates as proposed within the MYTP, which WFSBPL believes represent accurate estimates informed by vendor insights and WFS experience from other WFS stations.

5.5.7 **WFSBPL's comments regarding "Other Interest Costs":**

WFSBPL has reviewed the Authority's approach and treatment of multiple types of interest costs. The responses set out within the accompanying response document, consider the reasons why WFSBPL disagrees with the approach taken by the Authority. As such, WFSBPL humbly requests that the Authority:
i. *Provide for increase in interest cost as estimated by WFSBPL within the MYTP submission;*
ii. *Consider cost of guarantee as a part of Operating Expenditure; and*

iii. Consider cost of work capital as a part of Operating Expenditure."

5.6 Counter Comments of the WFSBPL on the Operating Expenditure:

5.6.1 WFSBPL response to M/s SpiceJet's comment on abolishment of royalty charges

"WFSBPL submits that this charge is as per the concession agreement entered into with BIAL for rendering specific cargo services in KIAB. The overall royalty charge is also in line with the Order issued by the Authority - In the matter of Capping the percentage of Royalty / Revenue Share payable to Airport Operator as a "Pass Through" Expenditure for the Independent Service Providers providing Cargo facility, Ground Handling and Supply of Fuel to the Aircraft at Major Airports. The fairness and requirement of abolishment, being a non-regulatory matter, WFSBPL does not wish to reply on these comments.

5.6.2 WFSBPL response to M/s SpiceJet's comment regarding OPEX

"WFSBPL has considered optimization in costs based on aggressive productivity and efficiency improvements targeted over the Control Period. Such efficiency improvements expected during the First Control Period are significantly more ambitious (in terms of YoY % improvement) than those achieved at other stations in the WFS portfolio worldwide and are only achievable with well-incentivized and well-trained employees (hence the need to secure a highly skilled and motivated workforce).

The personnel cost submitted by WFSBPL is comparable to the industry standards and is in the range as compared with other Cargo operators which has been approved by AERA and detailed comparisons have been submitted along with the stakeholder comments.

The Authority has also carefully considered the following criteria before allowing the Y-o-Y increase as submitted by WFSBPL -

- *the projected increase in cargo volumes,*
- *increase in minimum wages and annual salary increments and projected Y-o-Y increase in the revenues*

WFSBPL has considered escalation rates for the costs based on the rate of increase anticipated by it. WFSBPL requests AERA to consider the escalation rates as proposed within the MYTP, which WFSBPL believes represent accurate estimates informed by vendor insights and WFS experience from other WFS stations."

5.7 Authority's Analysis regarding OPEX for the First Control Period

5.7.1 In respect of comments of M/s SpiceJet regarding the abolishment of Royalty Charges, payable by the ISP to the Airport Operator, the Authority notes that the Concession Fee paid by the ISP to the Airport Operator is as per the Concession Agreement executed between the Service Provider and the Airport Operator. Further, the Authority is of the view that bidding process to award such contracts, based on which ISP pays Revenue Share to the Airport Operator, is a non-regulatory issue and such matters may be dealt between the stakeholders at the appropriate forum. Moreover, as per the AERA's regulatory approach, the royalty paid by the ISPs to the Airport Operators is treated as aeronautical revenue; hence, such revenues directly help in subsidizing the Aeronautical Tariff levied by Airport Operators to the Airlines.

So far as the comments of M/s SpiceJet relating to services rendered by the non-aero service provider such as in-flight caterers are concerned, the Authority is of the view that as these services (non-aeronautical services) are outside the ambit of the AERA, therefore, such matters may be discussed between the concerned parties, accordingly.

5.7.2 The Authority notes the comments of WFSBPL regarding uplift of payroll costs by 25% (*accounting for Employee Benefits including Provident Fund and other similar contributions*). The Authority notes from the initial MYTP submission of WFSBPL, has projected its payroll costs based on the payroll structure of previous cargo operator (AISATS). The Authority, in this regard also notes that the baseline payroll costs of erstwhile cargo operator had included all components of payroll expenses, including employer's contribution to Provident Fund etc. Further, from the review of financial model of MYTP, the Authority observed that the ISP after working out average salary of each category of its employees, had given upliftment of 25% in salaries across all categories of the employees.

The Authority, at CP stage has computed payroll costs for the ISP based on the payroll expenditure of erstwhile cargo operators (AISATS), wherein the Authority has considered Y-o-Y increase in payroll costs for the ISP @14.2% p.a., which as compared to previous operator is much higher. Further, the Authority, post CP stage, in this Tariff Order has considered much lower projected baseline cargo volume for FY 2023-24 (which is approximately 10% lower than the volume considered at CP stage). Accordingly, considering the revised cargo volumes for FY 2023-24, the ISP may now require lesser additional manpower as compared to initial manpower projection for FY 2023-24.

In view of the above, considering the stakeholders comments, the Authority decides to maintain same view regarding payroll expenses, for the ISP pertaining to first tariff year (FY 2023-24) of the Control Period, except for the upliftment of the salaries of all the employees by 10% (over and above the average baseline salary of all category of employees worked out by the ISP as per AISATS' pay structure), as against no upliftment in salaries of employees considered at CP stage. Accordingly, the Authority decides to consider the payroll costs for the WFSBPL for the first tariff year, as per table given below:

Particulars	₹ in crores
Total Payroll Costs proposed at CP stage	32.13
+ 10% salary upliftment for all categories of employees	3.21
Total Payroll Cost considered by the Authority for FY 2023-24	**35.34**

5.7.3 As regard to comments of M/s SpiceJet regarding Y-o-Y increase in payroll expenses may not be more than 6% after FY 2023-24. The Authority is aware that Cargo Handling is a specialized job and skilled & trained manpower is deployed at the Cargo Terminals. Further, considering the proposed increase in cargo volume by the ISP @ 9.5% Y-o-Y basis, and taking into account the periodic increase in minimum wages & annual increments in salaries, contribution to statutory components such as PF etc., the Authority decides to maintain the same percentage increase in payroll expenses on Y-o-Y basis as was proposed at CP stage i.e. 14.2% p.a.

5.7.4 WFSBPL as part of its comments on the CP, compared its payroll costs with that of GMR Hyderabad Air Cargo (GHAC), Hyderabad and has stated that its payroll cost per employee is lower than the payroll cost per employee of the other service provider. As per the Authority, it is not appropriate to compare cost structure of different service providers operating at various airports, as each service provider operates at a given airport with its unique business model, including different operating strategy on the financial and operating parameters including CAPEX, OPEX, Traffic Volumes, etc. Further, service providers operate as per the terms & conditions of their agreements with the airport operators, which again may differ from airport to airport.

5.7.5 Notwithstanding the above, if payroll costs of the service providers is to be compared, then the comparison should be between the services providers in the comparable situation, for instance ISPs operating at same airport, under the similar terms & conditions as per the similar concession agreements. Accordingly, the Authority has compared the payroll costs of the WFSBPL with the other cargo service provider at the Bengaluru airport namely MABPL, who has also been awarded cargo handling concession by the same airport operator (BIAL) at Bengaluru airport. Further, both cargo terminal operators have commenced their commercial operations at Bengaluru airport on the same date i.e., 24.05.2023. The Authority, from its comparative analysis notes that WFSBPL's projected payroll cost per MT of cargo in FY 2023-24 is much higher when compared with its peer at Bengaluru airport, as tabulated below:

Particulars	WFSBPL	MABPL#
Cargo Volumes (MT)	119587	246875
Total Projected Annualized Payroll Costs by the ISP (₹ in crores) for FY 2023-24	40.12	67.60
Employee cost per MT of Cargo (in ₹/ MT)	**3354.88**	**2738.23**

Figures as per CP no. 06/2023-24 dt. 28.07.2023 for MABPL.

The payroll cost pertaining to other service provider in the above table includes their corporate headquarters' cost allocation. The Authority, based on the above comparative analysis draw inference that the other service provider is operating with higher employee productivity as compared to WFSBPL. The Authority expects ISPs to optimize and bring efficiency in their operating costs, so as to maintain a competitive edge.

5.7.6 Considering the above and taking cognizance of the stakeholders' comments, the Authority decides to consider payroll costs for the ISP in respect of its First Control Period as per Para 5.7.4.

5.7.7 As regard to comments of M/s SpiceJet that the Y-o-Y increase in Administrative and General expenses may not be more than 5%. The Authority notes that the ISP in its MYTP submission has considered Y-o-Y increase of 7% while projecting Administrative & General Costs from FY 2024-25 onward. Considering the Y-o-Y growth in cargo business @ 9.5% estimated by the ISP and taking into account the impact of general inflation (4.4% p.a. considered by the ISP), the Authority considers Y-o-Y increase in Administrative & General expenses @ 7% p.a. as reasonable. Therefore, the Authority decides to consider same Y-o-Y % increase in the projected Admin. & General Expenses, as was proposed at CP stage.

5.7.8 The Authority notes the comments of M/s SpiceJet regarding Repair & Maintenance costs and the response thereon by the ISP. The Authority observes that the WFSBPL has proposed major CAPEX on the refurbishment of International Cargo Terminal (CT2), Cold Chain Facility (CCF) and on the procurement of new cargo handling equipment/systems. Considering that the major renovation & restoration of the cargo infrastructure at a significant CAPEX is already being undertaken by the service provider. In addition, new equipment/ systems are also being procured by the ISP.

The Authority feels that as the new equipment & material handling systems etc. are generally under the warranty for first few years; similarly, cargo infrastructure which is being renovated/ restored must also be under the defect liability period/ warranty period. Hence, the R&M costs are expected to be comparatively lower during the initial tariff years of the Control Period. Though, as the equipment ages, due to higher wear & tear, R&M expenses during the later part of the Control Period may be higher. Therefore, the Authority decides to consider Y-o-Y increase in R&M Expenses @ 7% for initial two tariff years (FY 2024-25 and FY 2025-26) and @ 11% p.a. from FY 2026-27 onward.

Accordingly, the Authority has computed the revised R&M Expenses for the First Control Period of ISP as tabulated below:

Table 21: Revised Repair & Maintenance Costs considered by the Authority for the ISP in respect of the First Control Period

(₹ in crores)

Particulars	FY 2023-24 (10 months only)	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
R & M Cost (ii)	**6.77**	**8.69**	**9.30**	**10.32**	**11.46**	**46.55**
YoY% Increase	-	7%	7%	11%	11%	

5.7.9 As regard to the projected Y-o-Y increase in 'Consumables & Utility Costs', the Authority at CP stage has considered Y-o-Y increase in these expenses as projected by the ISP. The Authority received no comments on the projected expenses under the 'Consumable and Utility Costs'; hence, the Authority decides to maintain the same view on these expenses as taken at CP stage.

5.7.10 The Authority notes the comments of WFSBPL pertaining to Y-o-Y escalations in 'IT Costs' considered by the AERA at CP stage. It is noteworthy to mention that the Authority, at CP stage, had considered total IT costs (₹ 7.06 crores), as was proposed by the ISP for the first tariff year of the Control Period. The Authority proposed no reduction in IT costs in respect of the first tariff year.

During the review of MYTP submission, the Authority noted that the ISP has linked the Y-o-Y increase in IT Costs considering 75% cost variability with change in cargo volumes. The ISP has considered that IT Costs would further increase due to inflation factor of 4.4% p.a. As per the Authority, 75% IT cost variability with volume change, as assumed by ISP, appears to be incorrect, as IT hardware and software are capable of handling higher cargo volumes (in financial terms), actual cargo volume handling (in physical terms) have no implication on the Y-o-Y increase in IT Costs, though the physical handling of higher cargo volumes may require more manpower/ material handling equipment.

Therefore, the Y-o-Y increase in IT costs considered by the Authority for the ISP at CP stage is reasonable, particularly considering that Y-o-Y % increase in IT Costs estimated by the Authority is higher than the projected increase in Wholesale Price Index (WPI) assumed by WFSBPL (at 4.4% p.a.) in its MYTP submission. Hence, the Authority decides to maintain the same view regarding 7% Y-o-Y increase in IT costs, as taken at CP stage.

5.7.11 The Authority notes the comments of WFSBPL regarding non-inclusion of borrowing cost (interest component of preliminary expenses) under the OPEX/ CAPEX. In this regard, during the examination of MYTP submission of WFSBPL, the Authority noted that the loan availed by the ISP to finance its proposed CAPEX. As per the ISP submission, assets against which loan has been availed will get capitalized within 12 months of Capex spend. As per the accounting provisions, for such assets (assets getting capitalized in less than 12 months), interest charges/ borrowing costs thereon can't be capitalized.

Further, considering that the loan availed by the ISP is towards Capex financing, having a tenure of more than 12 months; accordingly, the interest on such loan can't be treated as 'interest on working capital loan' (where loan tenure is up to 12 months) also. Hence, in the instant case, the interest on loan availed by the ISP (loan tenure of more than 12 months) is not eligible for considering as operation and maintenance expenditure of the ISP, as per the CGF Guidelines, 2011 (clause 9.4.3). However, the ISP is being allowed Cost of Debt, while computation of Return on RAB, in accordance with AERA CGF Guidelines, 2011 (clause 9.1.4).

Further, the Authority from the submission of the other service provider (M/s MABPL) who is providing cargo handling services at same airport, notes that they have proposed preliminary expenses of ₹ 1.15

crores, as against significantly higher preliminary expenses amounting to ₹ 15.35 crores considered by the ISP. The Authority expects ISP to optimize their operating expenses to reduce burden on the end users. Therefore, the Authority considering the above factors, decides to maintain the same view regarding non-inclusion of preliminary interest from OPEX or CAPEX while computing ARR for WFSBPL, as taken at CP stage.

5.7.12 The Authority notes the comment of WFSBPL regarding the following components of the ISP's Operating Expenditure:

- **Increase in the Rate of Interest of the Term Loan:** The Authority, at CP stage, has reviewed the historical trend of 10-year G-Sec yield (refer para 7.2.2) available at RBI website. As per the historical trend, the average of '10-year G-Sec yield' for past 10 years comes to 7.50%.

  As the cost of debt availed by the ISP from its parent company is pegged to G-Sec. Yield, therefore, the Authority has reviewed the prevailing yield of '10-year G-Sec' as on 30th June, 2023 at RBI website. The Authority from RBI website notes that the current yield as on 30th June, 2023 i.e. 7.10% is lower than the yield of '10 year G-Sec' as on 1st July, 2022 (7.42%). Further, the Authority is of the view that yield on GSEC in future may not move only in upward direction, as assumed by the ISP.

  Accordingly, the Authority decides to consider Cost of Debt for the ISP @ 9.56% for the first control period as proposed at CP stage, which is comparable to Cost of Debt (9.50%) as proposed by other service provider (MABPL) at Bengaluru Airport.

- **Bank Charges on Performance Security:** WFSBPL in its MYTP submission has initially considered cost of providing performance security in form of bank guarantee (equivalent to three months of projected revenue share in the relevant financial year) to the airport operator @ 5% value of the performance security. Subsequent to AERA query in this regard, the ISP had considered reduced bank charges @1.9% of the value of performance security. However, in the consultation paper, the bank charges in respect of performance security were excluded from the OPEX due to oversight.

  Post CP stage, the Authority sought details of the actual bank charges towards submission of performance security guarantee to the airport operator. WFSBPL, vide email dated 17.07.2023 submitted the estimated gross revenue for the 5 years (FY 2023-24 to FY 2027-28) as per business plan, based on which the performance security guarantee (@ 3 months' average revenue of the respective year as per business plan) is payable to the airport operator. The ISP further submitted that average bank charges for submission of performance security guarantee amounts to 1% approx. (as against 5% originally considered by the ISP) of the value of the performance security.

  Accordingly, the Authority decides to consider the bank charges in respect of performance security guarantee @ 1% of the average 3 months' Gross Revenue of the relevant financial year, (based on the gross revenue as per the Business Plan of the ISP), as tabulated below:

Table 22: Computation of bank charges on the performance security guarantee for the First Control Period

(₹ in crores)

Particulars	FY 2023-24 (10 months)	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Gross Revenue as per Business Plan	206.10	247.10	296.30	355.30	387.20	

Average 3 months' Revenue	61.83	61.78	74.08	88.83	96.80	
Bank charges on Performance Guarantee @ 1%	0.16*	0.62	0.74	0.89	0.97	**3.37**

**Actual charges paid by the ISP for the FY 2023-24*

- **Interest on Working Capital:** WFSBPL in its comments on the CP has stated that the Authority has not allowed interest on working capital. The Authority disagrees to the wrong inferences drawn by the service provider regarding 'interest on working capital'. It is pertinent to mention that the WFSBPL, in its MYTP submission and subsequent communications etc., has nowhere indicated any details relating to working capital loan proposed by the ISP. The Authority, at CP stage noted that the loan availed/ proposed to be availed by the ISP, during its First Control Period, have tenure of more than 12 months. Hence, in the context of clause 9.4.3 of CGF Guidelines, 2011, the loan availed by the ISP was not eligible to be considered as working loan (having tenure of less than 12 months). Therefore, the Authority at CP stage has not considered any interest on working loan.

  The Authority, has also reviewed the MYTP forms submitted by the ISP. The Authority observed that in the Form no. F6(b) (relating to working capital loan etc.), there is no details/ any reference relating to working capital loan etc.

  As per the documents submitted by the WFSBPL in respect of the loan availed from the Holding Company (WFS Global, Paris) for ₹ 109 crores, the loan under reference has final repayment date as 31.05.2035; hence, this loan is a long-term loan which doesn't qualify as a working capital loan (loans with tenure of less than 12 months). The ISP in addition to aforesaid loan, has also proposed another loan for ₹ 80.05 crores from its Holding Company. As per the Form F6(a) and other documents, the above loan is also to be repaid in 13 years. Hence, the second loan being availed by the ISP is also a long-term loan and can't be treated as working capital loan.

  In view of the above, the interest charges on the above mentioned two loans are not eligible to be considered as 'interest on working capital loan'; hence, interest on these loans haven't been considered as part of operating expenditure of ISP, as per CGF Guidelines.

  In view of the above, the Authority decides to maintain same view regarding 'interest on working capital loan', as taken at CP stage. Further, the Authority would like to clarify that AERA, as part of its tariff determination exercise for the ISPs, does not compute any cash flow statements (cash losses estimate) as is being attributed to the Authority by the service provider in its comments.

It is pertinent to mention that one of the stakeholders representing airlines (M/s SpiceJet) in its comments has strongly advocated for drastic cost cutting measures by the service providers, including considering Y-o-Y increase in payroll expenses at 6% only (as against 14.2% p.a. increase considered by the ISP) so as to reduce the burden of higher tariff on the end users, as any increase in expenses are ultimately passed on to end users (airlines) in form of higher tariff.

5.7.13 Based on the above analysis, the Authority decides to consider the O&M Expenses in respect of the ISP for the First Control Period as per Table given below:

Table 23: OPEX computed by the Authority in respect of WFSBPL for the First Control Period

Particulars	(₹ in Crores)					
	2023-24 (10 months)	2024-25	2025-26	2026-27	2027-28	Total
Revenue	110.46	171.89	211.64	260.94	322.13	1077.06
Payroll Cost	29.45	43.11	50.01	58.02	67.88	248.47
Admin & General Cost	12.72	16.31	17.43	18.63	19.91	85.00
Concession Fees*	33.14	51.57	63.49	78.28	96.54	323.12
Facility Rental Costs	21.58	27.19	28.55	29.98	31.48	138.78
Marketing and Branding costs*	1.10	1.72	2.12	2.61	3.22	10.77
Custodianship Costs	0.35	0.42	0.42	0.42	0.42	2.03
IT Costs	5.88	7.55	8.08	8.64	9.25	39.40
Consumables	1.40	1.88	2.09	2.33	2.59	10.29
R & M Cost	6.77	8.69	9.30	10.32	11.46	46.55
Utility Cost	3.13	4.19	4.66	5.19	5.78	22.95
Bank Charges on Performance Guarantee	0.16	0.62	0.74	0.89	0.97	3.37
Preliminary expenses	12.25	-	-	-	-	12.25
Total	**127.93**	**163.25**	**186.89**	**215.31**	**249.60**	**942.99**

**Based on the revised Revenue computed by the Authority for the first control period (after tariff increase).*

5.8.1 As regard to Operating Expenses projected by the ISP for the First Control Period (₹ 1228.24 crores), the Authority, after detailed review & analysis, has rationalized some components of OPEX such as payroll costs, concession fees, IT costs, Marketing & Branding Costs, etc. Further, the Authority excluded the return on SD from OPEX and instead has considered the nominal return on SD in the ARR computation, which is consistent with AERA's approach towards return on SDs. Further the Interest charges (on loan having tenure more than 12 months) which are ineligible to be considered as 'interest on working capital loan' have also been excluded from the Operating Expenditure of the ISP for the First Control Period.

The Comparison of OPEX proposed by the ISP vis-à-vis OPEX considered by the Authority is tabulated below:

Table 24: Comparison of major components of OPEX as per the ISP and as per the Authority in respect of the First Control Period

(₹ in crores)

Particulars	As per the ISP	As per AERA (CP Stage)	As per AERA (Order Stage)	Difference (a-c)
	(a)	(b)	(c)	
Payroll Costs	281.29	225.90	248.47	32.82
Concession Fees	433.21	308.65	323.12	110.09
Marketing and Branding Costs	14.43	10.29	10.77	3.66
IT Costs	43.48	39.40	39.40	4.08
R&M Costs	49.57	45.37	46.55	3.02
Bank Charges on Performance Guarantee	7.15	0	3.37	3.78
Preliminary Expenses	15.35	12.25	12.25	3.10
Interest & Finance	90.87	0	0	90.87

Charges				
Return on SD	33.83	0	0	33.83
Total	**969.18**	**641.86**	**683.93**	**285.25**

5.8.2 The major reasons for the difference in OPEX proposed by the ISP vis-à-vis OPEX decided by the Authority after rationalization of few components of OPEX are summarized below:

a) Payroll Expenses – The Authority, in respect of payroll expenses, has decided to consider 10% upliftment in salary of all employees for FY 2023-24, as against 25% upliftment in salaries considered by the ISP.

b) Concession Fees and Marketing & Branding Costs – As per the Concession Agreement, the Concession Fees and Marketing & Branding costs are linked with the Revenue projected by the ISP. Accordingly, the Authority has considered these costs based on the revised revenue computed by AERA for the ISP.

c) Return on SD – The Authority has considered return on SD @5% p.a. in its ARR computation as per its consistent approach of AERA in this regard and has excluded return on SD from the OPEX of the ISP, accordingly. Whereas, the ISP has considered return on SD (₹ 33.83 crores) based on the FRoR applicable to RAB and has treated it as its Operating Costs.

d) Interest Charges – As the ISP has availed long term debts (having tenure of more than 12 months), which as per the CGF Guidelines do not qualify as 'working capital loan'. Hence, the interest charges (on long term debts) not considered under OPEX.

e) R&M Costs – As the cargo infrastructure inherited by the ISP is under major restoration/ renovation and most of the cargo equipment & other assets proposed to be procured during first tariff year are new; accordingly, the Authority decided Y-o-Y increase in R&M Expenses @ 7% for FY 2024-25 and FY 2025-26 (as against 11% Y-o-Y increase considered by the ISP).

The cumulative impact of rationalization of some components of the OPEX & exclusion of 'ineligible interest charges' and return on SD from the OPEX projection of the ISP, amounts to ₹ 285.25 crores (₹ 1228.24 crores – ₹ 942.99 crores) for the First Control Period.

5.8.3 However, post consultation stage, while deciding the OPEX projection for the First Control Period, the Authority, after considering the views of the stakeholders & additional information submitted by the ISP, has increased the projected OPEX for the First Control Period. Major components of OPEX, which have been increased at Order stage are as under:

i) Payroll Costs – The Authority has considered 10% upliftment in salary of all categories of employees in FY 2023-24, as against no upliftment in salaries proposed at CP stage.

ii) Concession Fees and Marketing & Branding Costs – Increase in Concession Fees and Marketing & Branding Costs considering revised revenue (after tariff increase) computed by the Authority for the ISP.

iii) R&M Expenses – Y-o-Y increase of 11% in R&M expenses for last two tariff years of the Control Period considered, as against 7% increase on Y-o-Y basis proposed at CP stage.

iv) Bank charges on Performance Security – Considered bank charges as submitted by the ISP as against nil bank expenses considered at CP stage.

Pursuant to increase in OPEX considered by the Authority, the projected OPEX for the ISP in respect of the First Control Period has increased from Rs. 900.91 crores (CP Stage) to Rs. 942.99 Crores (Order Stage).

5.9 Authority's decision relating to OPEX for the First Control Period

5.9.1 Based on the material before it and its analysis, the Authority decides to consider the OPEX projection for the WFSBPL in respect of the First Control Period as per Table 23.

CHAPTER-6: AIR FREIGHT STATION (AFS)

6.1 Introduction

6.1.1 Ministry of Civil Aviation (MoCA), in order to strengthen Air Cargo Logistics Infrastructure in the Country, vide OM no. AV.13011/03/2013-ER dated 28th October, 2014 issued Policy guidelines on 'Air Freight Station' (AFS) to create an off-airport common user facility equipped with fixed installations of minimum requirements and offering services for handling International Air Cargo in the form of Air Freight Stations with a mandate to enable the Cargo Industry as follows:

i. Off-Airport common user facility equipped with fixed installations of minimum requirements and offering services for handling and temporary storage of import/ export goods, loaded and empty Unit Load devices (ULDs) and cargo in bulk/loose for outright export

ii. Create an enabling environment for promoting International Air Cargo operations by reaching out to hinterland regions of the country besides de-congesting the congested Air Cargo terminals in some gateway International Airports that face high dwell time.

iii. Authorizing some of the ICDs to cater to the International Air Cargo operations, the existing facilities in these ICDs, could be fully utilized.

The Policy document also emphasizes the following primary functions to be performed at Air Freight Station:

a. Receipt of Export cargo for processing and to make the cargo "Ready for Carriage" condition, including Unit Load Device (ULD), building of export cargo and scanning of Cargo. While ULDs will be the ideal mode of handling cargo for and from AFS, export/import consignments both in palletized /ULD and bulk, loose form shall also be facilitated
b. Transit operations by Road to and from serving Airport
c. All Customs related requirements for import and exports including inspection of cargo wherever required
d. Unitization of Cargo
e. Temporary storage of Cargo and Unit Load Device (ULDs)
f. Re-building of ULDs of export cargo
g. De-Stuffing of Import Cargo
h. Storage, Examination, Packing and Delivery of Import Cargo
i. Auction/Disposal of 30 days old uncleared Import Cargo
j. Maintenance and Repair of ULDs.

6.1.2 The policy guidelines governing Air Freight Station would be common and binding on all stakeholders concerned in the supply chain of International Air Cargo operations such as Airlines, Air Cargo Terminal operators, Airport Operators, Freight Forwarders / Customs Brokers, Exporters / Importers and all regulatory organizations.

6.1.3 The Authority is conscious of MoCA's policy initiative on AFS, which has a larger national intent to strengthen and develop air cargo logistics in the country and same is expected to reduce the bottlenecks in air-cargo logistics and help in ease of doing business, particularly for exporters. AERA supports the progressive step taken by the Govt. and feels that AFS Cargo needs to be incentivized by way of lower charges vis-à-vis rates applicable to normal cargo (Cargo directly received by the Cargo Terminal Operator).

6.1.4 The Authority observed that WFSBPL in its initial MYTP proposal did not submit proposed tariff rates for Cargo originating from approved AFS operator. Accordingly, the Authority asked the ISP to consider separate Tariff rates for BUPs pertaining to the approved AFS. WFSBPL, vide email dated 23.03.2023 submitted composite Tariff for Built up Pallets (BUPs) pertaining to AFS cargo as indicated below:

(₹/ Unit)

Sl. No.	BUP Charge - General Cargo	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
1	BUP Charge (up to LD3)	2200/unit	2875/unit	3725/unit	4475/unit	5375/unit
2	BUP Charge (above LD3 - lower deck pallet)	4400/unit	5750/unit	7450/unit	8950/unit	10750/unit
3	BUP Charge (above LD3 - main deck pallet)	6600/unit	8625/unit	11175/unit	13425/unit	16125/unit
	BUP Charge - Other than General Cargo					
4	BUP Charge (up to LD3)	3300/unit	4300/unit	5600/unit	6725/unit	8100/unit
5	BUP Charge (above LD3 - lower deck pallet)	6600/unit	8600/unit	11200/unit	13450/unit	16200/unit
6	BUP Charge (above LD3 - main deck pallet)	9900/unit	12900/unit	16800/unit	20175/unit	24300/unit

6.1.5 The Authority noted that proposed TSP charges for BUPs (General cargo pertaining to AFS) indicated above when compared to TSP rates on per kg basis for normal cargo (cargo received directly by the CTO at cargo terminal) are lower by 18%, except Sl. no. 3 & 6, where the proposed TSP rates for BUP cargo are lower by 41%.

6.1.6 The Authority observed that ISP had not proposed separate TSP charges for Import BUPs. Therefore, in line with TSP charges proposed for Export BUPs, separate TSP charges for AFS Import BUPs have been proposed by the Authority in the Tariff Rate Card (Annexure IV of CP) for the stakeholders' consultation.

6.1.7 The Authority, taking cognizance of intent of MoCA's AFS Policy dated 28.10.2014 to encourage the concept of AFS Cargo in the country as step towards improvement of air cargo logistics in the country, proposed to adopt at least 30% lower TSP charges for BUPs/ ULDs pertaining to approved AFS. Accordingly, the Authority proposed 30% lower TSP charges in respect of General Cargo and other than General Cargo BUPs falling under the category of 'up to LD3' & 'above LD3 – lower deck pallets' (Sl. no. 1, 2, 4 & 5).

6.1.8 The Authority further noted that ISP had not proposed separate BUP charges pertaining to AFS in case of Imports. The Authority, in line with its proposal for approved AFS BUPs for Export Cargo, proposes 30% lower TSP charges for BUPs/ ULDs pertaining to approved AFS for Import Cargo.

6.1.9 The Tariff rates proposed by the Authority pertaining to BUPs/ ULDs in respect of approved AFS for Stakeholders' consultation are contained in Annexure – IV of CP.

6.1.10 The Authority invited specific views/ comments of the Stakeholders on the proposal of the Authority regarding lower TSP charges for AFS Cargo, particularly considering that AFS is a relativelynew concept in Indian Civil Aviation. The Authority at CP stage proposed to consider the views/ suggestions received from the Stakeholders during the consultation process before issuing the Tariff Order.

6.2 Stakeholders Comments on proposals relating to Air Freight Station

6.2.1 FFFAI's comment regarding "Air Freight Station":

"In accordance with the AFS Policy, issued by MoCA vide OM no. AV.13011/03/2013-ER dated 28th October, 2014, Air Cargo Terminal Operators will not insist on levying full TSP charges on consignments/cargo meant for/received from AFS and AERA, while approving the TSP charges shall give the break-up of Transit, Storage and Processing charges.

On perusal of the subject Consultation paper, it is observed that M/s WFSBPL has not submitted the TSP charges on 'per kg' basis, proposed to be leviable on AFS consignments by M/s WFSBPL, but instead, has submitted composite tariff for Built Up Pallets (BUPs).

However, AERA has sought specific views/comments of the stakeholders on the proposal regarding lower TSP charges for AFS cargo, particularly considering the AFS is a relatively new concept in Indian Civil Aviation.

The levy of the TSP charges depends on the activities performed by the Air Cargo Terminal Operator/AFS Operator from the point of accepting the export cargo at AFS premises till handing over to the Air Cargo terminal Operator for shifting to Air side to enable Airline(s) upliftment for its foreign destination.

The detailed activities which will be carried out at AFS, earlier being carried out by Air Cargo Terminal for both export and import is as per attached Annexure (Annexure II of this order).

On perusal of the said Annexure, it may be seen that 85% of the above-mentioned activities will be carried out at AFS premises, hence it is recommended 85% reduction in the TSP charges for AFS cargo.

Since shippers will not be willing to pay TSP charges, twice, one each to AFS and WFSBPL, shippers may be given the option to pay TSP charges to AFS operator only are physicallyhandling the cargo and cargo terminal Operator may be permitted to handle loaded ULDs only as forwarded by AFS for the Airlines to be loaded in their respective Aircrafts.

WFSBPL may charge Rs 1250/- per pallet (up to 1500 kgs) and 50% of the General cargo TSP charges for pallets more than 1500 kgs i.e., [(Total weight of the pallet – 1500 kgs) X 50% of General Cargo TSP rate].

The above recommendations, it is felt will go a long way in further developing the AFS concept and de-congestion of the Airport premises which will be utilized for only movement of the cargo and AFS facility will be utilized for storing and processing of the cargo.

As a concluding observation on the subject Consultation paper, circulated by AERA to all the concerned stakeholders, FFFAI wishes to inform that AERA plays a very crucial role in ensuring that tariff proposals submitted by Air Cargo Terminal Operators for Cargo handling Services are reasonable and transparent.

It should ensure that rationalised tariff proposals are approved and issue guidelines/directions in this regard to all the Cargo Terminal Operators so that fair and efficient tariff structure is provided by all the stakeholders."

6.2.2 **M/s SpiceJet's comments regarding "Air Freight Station (AFS)":**

"Since the Air Freight Station (AFS) would an off-Airport common user facility and would be offering services for handling and temporary storage of import/export goods loaded on ULDs, it would reduce the congestion of cargo in airports and the cost is also saved. Implementing the same would be hugely beneficial for all customers who are in the business of "Import & Export". It will also help online connectivity, along with document filing where agents do not have to come to the airports. All activities, such as Customs documentation and examination, Cargo Acceptance Check, Security Checks, and warehousing will be carried out at the AFS.

It would also streamline the cargo operations, as a provision for having a bonded trucking service for the export cargo from the offline airport to the airline operating station would make is economically viable and competitive pricing. More importantly, it will help to save on demurrage charges, as it will help customers take the delivery of cargo within one or two days. There would be no congestion at the custodian warehouse.

In view of the above, decentralization would help in break the warehousing monopoly, and would benefit the cargo business by letting market forces determine lower TSP charges that those proposed in Annexure IV of the CP, and should be encouraged. In addition, it is recommended that the AFS should also have provisions for Airline's self-handling setup, which can also support the airlines for remote advance cargo acceptance and cost-effective operations."

6.3 <u>Counter Comments of the ISP</u>

6.3.1 WFSBPL response to comments of FFFAI

"WFSBPL respectfully disagrees with the contention made by FFFAI on the scope of activities & cost burdens involved in processing an AFS cargo through a cargo terminal and it is to be noted that under the present approach being considered for AFS operations in India, the role of the Cargo Terminal Operator is far beyond merely "ULD (BUP) off loading and location" as claimed in the submission.

WFSBPL proposes to accept the BUP Tariff proposed by the Authority in the Consultation Paper with a view to be supportive of the efforts made by the Authority and industry to encourage BUP usage in the country.

6.3.2 WFSBPL response to comments of M/s SpiceJet

"WFSBPL proposes to accept the BUP Tariff proposed by the Authority in the Consultation Paper with a view to be supportive of the efforts made by the Authority and industry to encourage BUP usage in the country.

However, WFSBPL fully refutes the negative remarks alleging warehousing monopoly and the efforts to bring in discussions on airline self-handling which are unrelated to the tariff determination process under the existing framework for development and operation of airports and on-airport facilities in the country."

6.4 <u>Authority's Analysis regarding Tariff relating to Cargo Handling Services pertaining to Air Freight Station</u>

6.4.1 The Authority notes the comments of stakeholders, including counter comments of service provider, relating to service charges for the AFS cargo. In this regard, the Authority is of the view that even after processing of cargo in the AFS premises, there are number of important activities that are required to be performed at the cargo terminal, including receiving the AFS cargo on city side, storing and transporting the built-up pallets/ ULDs to the airlines on air side.

The major activities required to be performed at cargo terminal with respect of AFS cargo are indicated below:

a. Acceptance of Built-up-Pallet/ ULDs at city-side of Cargo Terminal.
b. Unloading of Pallets/ ULDs from trucks at truck dock area.
c. Transferring & moving Cargo to Storage Racks/ Security Hold Area (SHA).
d. Transporting of Cargo from Built-up Station/ SHA to Cargo Release Bays.
e. Shifting ULDs/ BUPs from Release Bays to Ground Handler's Dollies, digital messages to customer's airlines etc.

In view of the activities performed by cargo terminal operator at its terminal pertaining to AFS cargo indicated above, the Authority considers that 30% lower TSP Charges proposed by the ISP in respect of AFS Cargo, vis-à-vis normal cargo directly received from the shippers at cargo terminal, is reasonable. Accordingly, the Authority decides to maintain same view on the application of lower TSP charges to AFS cargo, as was taken at consultation stage.

6.4.2 The Authority, notes that the concept of AFS in Air Cargo Logistics is still at nascent stage in India, accordingly, based on the performance of AFS and the feedback of the stakeholders, the Authority may review the tariff determination methodology for the AFS Cargo, at an appropriate time in future.

6.5 **Authority's decisions relating to AFS Cargo for the First Control Period:**

6.5.1 Based on the material before it and its analysis, the Authority decides to consider 30% lower TSP Charges in respect of the cargo pertaining to AFS.

CHAPTER 7: AGGREGATE REVENUE REQUIREMENT (ARR)

7.1 ARR projected by WFSBPL for the First Control Period

7.1.1 As per MYTP submission, WFSBPL has projected Aggregate Revenue Requirement (ARR) for the First Control Period as per Table given below:

Table 25: Aggregate Revenue Requirement submitted by WFSBPL for the First Control Period

(₹ in Crores)

Particulars	2023-24#	2024-25	2025-26	2026-27	2027-28	Total
RAB	127.83	123.04	113.59	104.37	95.40	
FRoR	16.83%	17.07%	17.31%	17.55%	17.55%	
Return on RAB (A)	18.45	21.01	19.67	18.32	16.75	94.20
OPEX (B)	101.91	117.89	131.40	146.93	165.05	663.18
Depreciation (C)	10.57	10.65	10.75	10.90	11.11	53.99
Concession Fees based on ARR (D)	58.94	67.58	72.96	83.65	99.62	382.76
Tax (E)	-	-	-	10.31	30.44	40.75
Return on SD (F)	5.83	7.00	7.00	7.00	7.00	33.83
Bank charges on Performance Security (G)	0.76	1.13	1.43	1.73	2.10	7.15
Aggregate Revenue Requirement (H) = (A+B+C+D+E+F+G)	**196.47**	**225.26**	**243.21**	**278.84**	**332.07**	**1275.85**

figures for 10 months only.

7.2 Authority's Examination on ARR for the First Control Period at CP stage:

7.2.1 The Authority noted that WFSBPL has computed ARR considering Interest on Working Capital, which is not consistent with AERA's CGF Guidelines, 2011. It is observed that the WFSBPL has not computed Present Value (PV) of ARR worked out for the First Control Period. Further, the Authority observes that the ISP has considered separate FRoR for each Tariff Year of the Control Period, which is also not consistent with the AERA's formula for ARR.

7.2.2 The Authority from the WFSBPL's submission observes that ISP has availed an initial term loan of Rs. 109.00 crores, drawn in tranches starting from November 2022 up to March 2023. In addition, another loan of Rs. 89.09 crores is also projected to be taken by the ISP during FY 2023-24. In respect of loan of Rs. 109 crores, ISP has considered rate of interest @ 9.06% for FY 2022-23 and for subsequent years, considered a yearly increase @ 0.5% p.a.

The Authority, sought basis of the rate of interest on loan considered by the ISP, which is projected to increase annually @ 0.5 %. In response thereto, WFSBPL has submitted that Interest rate per annum is the prevailing yield of the Government of India Securities (GSEC), corresponding to a maturity of the loan plus margin of "1.53%", and the same is in line with External Commercial Borrowings (ECB) Guidelines of the RBI. WFSBPL further estimates that prevailing yield of the GSEC to increase @ 0.5% per annum, from the end of 2023-24 to the end of 2026-27, based on the current trend of interest rates in India.

The Authority, noted that ISP assumes yield on GSEC, in future, will increase in a linearly in upward direction @ 0.5% p.a., however, the same is not supported with any historical data to back the assumption. The Authority reviewed the historical trend of GSEC yield for the maturity period of 10 years from 2012 to 2022 available at RBI website. It was observed that yield on GSEC has shown a general downward trend, i.e. from 8.23% in 2012 to 6.82% in 2022. The average GSEC yield for 10 years maturity period comes to 7.50%.

Period	G-SEC Yield %
February, 2012	8.23
March, 2013	7.91
February, 2014	8.86
February, 2015	7.77
February, 2016	7.77
February, 2017	7.12
February, 2018	7.64
March, 2019	7.37
February, 2020	6.65
February, 2021	6.34
March, 2022	6.82

The Authority feels that GSEC yield may fluctuate in a short term, however, on a long-term perspective GSEC yield is expected to follow historical trend. Therefore, the Authority is of the view that yield on GSEC in future may not move only in upward direction, as assumed by the ISP. In view of the above, the Authority, for the purpose of computation of FRoR, proposed to consider the Cost of Debt @ 9.56% for the First Control Period, based on the cost of debt considered by the ISP for its first tariff year i.e. FY 2023-24.

As regard to equity share of JV partners, ISP submitted that SPRH agreement provides for a maximum equity infusion to the tune of ₹ 38.46 crores by both JV partners together. The Authority notes from MYTP (Form F2) of WFSBPL that for the First Control Period, ISP has considered total equity of ₹ 36.08 crores, including share of Airport Operator. The Authority proposed to consider Cost of Equity @ 14% for the First Control Period, which is in line with the AERA's consistent approach for regarding Cost of Equity for ISPs.

Considering the above, the Authority proposes to consider FRoR @ 10.31% for computation of ARR in respect of WFSBPL for the First Control Period as per Table given below:

Table 26: FRoR calculated by the Authority in respect of WFSBPL for the First Control Period at CP stage

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Equity (₹ in crores) (A)	36.08	36.08	36.08	36.08	36.08
Debt (₹ in crores) (B)	188.42	188.42	179.59	168.03	156.47
Total (Debt + Equity) (₹ in crores) (C) = (A+B)	224.50	224.50	215.67	204.11	192.55
Gearing (G) = (B/C)	83.93%	83.93%	83.27%	82.32%	81.26%
Cost of Equity (K_e)	14.00%	14.00%	14.00%	14.00%	14.00%
Cost of Debt (K_d)	9.56%	9.56%	9.56%	9.56%	9.56%
Weighted Average Gearing (WG) = $\{\Sigma^5_{T=1} (C_T*G_T)/\Sigma^5_{T=1} C_T\}$	83.00%				
FRoR $((WG*K_d) + (1-WG)*K_e)$	**10.31%**				

7.2.3 The Authority observed that the ISPs bring different mix of debt and equity, which leads to considerable variation in the Fair Rate of Return. The Authority will analyze this issue in future and may rationalize and shift to notional gearing ratio, for the computation of FRoR.

7.2.4 The Authority, after review and analysis of various regulatory building blocks, as discussed in previous chapters computed Aggregated Revenue Requirement for WFSBPL in respect of First Control Period as per Table given below:

Table 27: ARR proposed to be considered for WFSBPL by the Authority for the First Control Period at CP stage

(₹ in Crores)

Particulars	2023-24*	2024-25	2025-26	2026-27	2027-28	Total
Average RAB	66.56	128.21	118.51	109.07	99.90	
Return on RAB @ 10.31% (A)	6.86	13.22	12.22	11.25	10.30	53.84
O&M Expenses (B)	92.07	107.18	118.07	130.31	144.63	592.26
Concession Fees (C)	36.33	52.45	62.00	72.67	85.20	308.65
Return on SD of ₹ 50 crores @ 5% (D)	2.08	2.50	2.50	2.50	2.50	12.08
Depreciation (E)	5.28	10.89	10.99	11.12	11.31	49.59
Tax @ 25.17% (F)	-	-	-	-	-	-
Aggregate Revenue Requirement (A+B+C+D+E+F) = (G)	**142.62**	**186.24**	**205.77**	**227.85**	**253.94**	**1016.43**
PV Factor at @ 10.31% (H)	1.00	0.91	0.82	0.74	0.68	
PV of ARR (I) = (G*H)	**142.62**	**168.83**	**169.11**	**169.74**	**171.50**	**821.81**
Regulated Revenue at Prevailing Tariff for AISATS	97.12	127.17	137.32	148.25	160.01	669.86
Revenue from Non-Regulated Services	4.55	5.46	5.46	5.46	5.46	26.39
Total Revenue at Prevailing Tariff	101.67	132.63	142.78	153.71	165.47	696.25
Tariff Increase % proposed by the Authority	**20%**	**11%**	**10%**	**9%**	**9%**	
Regulated Revenue after Tariff increase	116.54	169.38	201.20	236.76	278.55	1002.43
Revenue from Non-Regulated Services	4.55	5.46	5.46	5.46	5.46	26.39
Total Revenue	**121.09**	**174.84**	**206.66**	**242.22**	**284.01**	**1028.82**
PV of Total Revenue	**121.09**	**158.50**	**169.84**	**180.45**	**191.81**	**821.69**

** Figures for 10 months only.*

7.2.5 The Authority has computed PV of ARR as ₹ 821.81 crores in respect of WFSBPL for the First Control Period as indicated in the Table above.

7.2.6 The Authority notes that one Time Tariff increase for the ISP to meet the ARR for the First Control Period works out at 47% over the Tariff as applicable to the previous operator.

7.2.7 The Authority, considering that the aviation sector is gradually recovering from the aftermath of Covid-19 pandemic and in order to avoid onetime steep increase in Tariff, proposed to stagger the Tariff increase for the First Control Period as per table stated above instead of allowing one-time increase.

7.2.8 Accordingly, the Authority, based on the its computation of ARR for WFSBPL for the First Control Period, proposed following % increase in Tariff for regulated Cargo Handling Services, over the prevailing tariff as applicable to erstwhile cargo terminal operator:

- 20% increase for FY 2023-24 (w.e.f. 24.05.2023)
- 11% increase for FY 2024-25
- 10% increase for FY 2025-26
- 9% increase for FY 2026-27 & FY 2027-28

The Authority, at CP stage, proposed Tariff Rate Card for WFSBPL in respect of its First Control Period as per the Annexure-IV of CP.

7.2.9 The Authority, considering that the ISP is a major global player in the cargo handling business, expects news cargo operator to implement best global practices at their Bengaluru operations and incur CAPEX in an efficient manner as per the capitalization schedule. Further, the ISP is also expected to optimize the OPEX for the First Control Period to bring in efficiency in operations, in the overall interest of all the Stakeholders.

7.3 **Stakeholders Comments relating to ARR & FRoR for the ISP during the First Control Period:**

7.3.1 **BIAL's comments regarding "treatment of Security Deposit"**

"WFSBPL is required to deposit interest-free refundable security amounting to Rs 50 crores with BIAL during the concession period. The Authority has proposed 5% as the return on this Security Deposit. This is totally contrary to the Hon'ble TDSAT's decision dated 23rd April 2018 in AERA Appeal No 6 of 2012. The Hon'ble TDSAT has clearly stated in paragraph 106 of its order that "... At the least, the cost would be the rate of return made available by the approved funds having required ratings of CRISIL." The Authority needs to consider the above-mentioned principles for the Security Deposit provided to BIAL by WFSBPL."

7.3.2 **M/s SpiceJet's comments on the Aggregate Revenue Requirement proposed for the ISP**

"Authority is requested to carefully peruse the reasons for the restructuring of the Tariff Rate Card, such that there are no hidden cost impact or imbalance on the users. The Authority's proposal for the increase in charges is very high (20% to 9 % Y-o-Y), which may be noted is not as per the CPI and this is opposed strongly. To enhance business, the service provider must target volumes instead of rate increase, which should be competitive in comparison to road and sea shipping. As it would be possible to gauge only in the last year of 1st Control Period (2027-28) whether significant work has progressed in development of infrastructure, procurement of latest equipment and repairs / refurbishment, as proposed in the CP, Authority is humbly requested that the proposed hike from the prevailing tariffs be deferred to the 2nd Control Period based on ground realities at that time.

The freight charges in the market are softening due to various modes of competition, especially with road connectivity between major cities and ease in logistic movement from state to state. In case of an increase in airfreight, the volumes will tend to decrease as there will be a market shift by the freight community.

Currently airlines have been struggling to support the cargo business post COVID-19, as there have been drop in volumes of pre-Covid levels in terms of per flight and this needs to be strengthened for the next few years to enhance the infra requirement as projected. To offset the high fuel prices and low % freights we request to defer these increases beyond the level of 2 to 3% on year-on-year basis.

We humbly request AERA to kindly consider our submission as mentioned above, and review the proposed tariffs in light of the same, as the proposed rates of tariff are very high, especially in the back drop of COVID-19. It is in the interest of all the stakeholders not to implement such high tariffs in order to encourage middle class people to travel by air, which will help in sharp post COVID-19 recovery of the aviation sector. Customers of airlines have limited capacity to pay for the air fares, and when the cost of *travel goes up (caused in part due to high service provider charges), the air traffic goes down, leading to further losses and financial crisis for airlines.*

In the given circumstances, it is humbly submitted that it is imperative that AERA does not take any steps, including by way of approving the proposed high tariffs, during the First Control Period, which would precipitate further adverse financial impact on the airlines. In this regard, we also humbly request AERA to not implement any Y-O-Y increase in tariffs during the First Control Period and defer any increase in the same to the subsequent control period, given the scenario described above.

7.3.3 **SpiceJet's Comments on the FRoR proposed for the ISP**

It is submitted that only a reasonable Fair Rate of Return (FRoR) to the service provider may be provided. It is observed that AERA has considered FRoR of 10.31%, for the First Control Period. However, while such fixed/ assured return favours the service provider, but it creates an imbalance against the airlines, which are already suffering from huge losses and are bearing the adverse financial impact through higher tariffs.

Due to such fixed/assured returns, service providers have no incentive to look for productivity improvement or ways of increasing efficiencies, take steps to reduce costs as they are fully covered for all costs plus their hefty returns. Such a scenario breeds inefficiencies and higher costs, which are ultimately borne mostly by airlines.

In the present scenario the assured return on investment through the proposed FRoR to WFSBPL appears onerous for the airlines. In view of the above, AERA is requested to kindly review the proposed FRoR to WFSBPL and requested to minimize the effect on the airlines.

WFSBPL's Comments related to Return on SD, FRoR & proposed Tariff increase

7.3.4 **Return on Security Deposit:**

"The mismatch between the cost of equity/ loan and the return permitted on a substantial long-term investment in the form of deposit creates an implied real loss on capital that has been invested in the security deposit. The security deposit must be a cost-neutral facility in order to achieve its intended purpose of providing security for the airport in case of any accidents or required pay-outs. The implied loss on funds attributed to the security deposit is one of the drivers of a lack of profitability (negative profit) as estimated by AERA for the WFSBPL operation. Hence, WFSBPL requests AERA to provide for a return equal to WACC or at least the cost of debt on the security deposit funded.

7.3.5 **Fair Rate of Return (FRoR/WACC):**

The Authority has stated that the Cost of Equity will be 14% in line with Authority's approach for ISPs. This appears inconsistent with an appropriate evaluation using a capital asset pricing model as set out in Clause 9.1.3 and AI.5.2.3 read with 2.11 of the AERA Guidelines in Direction 4. Under such approach, WFSBPL considers a Cost of Equity of 23.55%. Further, WFSBPL sets out in this document the reasons why the approach to Gearing is not consistent. As such, WFSBPL humbly requests that the Authority applies a FROR of 12.44% to 13.98% instead of the 10.31% set out by AERA in its workings.

7.3.6 **Tariff Increase:**

WFSBPL would like to reiterate its request for determination of tariffs under a Light Touch Approach, and for year-over-year TSP tariffs to at a minimum be increased as outlined below to help ensure financial viability of the company and a reasonable level of profitability:

Year	*FY 24*	*FY 25*	*FY 26*	*FY 27*	*FY 28*
TSP Increase (%)	***45%***	***25%***	***25%***	***20%***	***20%"***

7.4 **Counter Comments of the ISP:**

7.4.1 **WFSBPL response to the comments of BIAL regarding treatment of Security Deposit**

WFSBPL concurs with BIAL's comment that a reasonable rate of return should be provided on the security deposit, especially since WFSBPL has had to fund the amount through external funding in the absence of any internal accruals at the startup stage. Providing lower returns on Security Deposit raised by a startup business like WFSBPL will result in losses for the startup. The implied loss on funds attributed to the Security Deposit is also one key reason for the lack of profitability (Negative profit) as estimated by AERA in CP.

WFSBPL requests AERA to provide for a return equal to WACC, or at a minimum Cost of Debt, on the Security Deposit funded.

7.4.2 **WFSBPL response to the comments of M/s SpiceJet regarding ARR**

"The tariff increase over the last 10 years at KIAB for AISATS' (the incumbent) cargo operations was minimal. It is our understanding that the impact of inflationary pressures was historically able to be partially offset by continued volume growth and lower absolute costs. Now that volume has reduced significantly in the current year whilst inflation is increasing and new contractual costs have been introduced under the new concession agreement, WFSBPL contends that all of these factors contribute to the tariff increase sought. As discussed in the MYTP, WPI has increased ~35% over the last 10 years, and labor inflation (for warehouse-equivalent workers in Bengaluru) in the same period increased to ~150%.

Despite the challenging scenario, WFSBPL has been mindful of the need to balance the interests of all stakeholders and has voluntarily submitted a proposal with gradual increases in tariffs that allows for a positive PAT figure only in the 3rd year of operations.

In its MYTP submission, WFSBPL would begin to approach a PAT margin close to the level attained by industry peers only in year 5 (projected PAT margin of ~19%) and the PAT margin is projected to be either loss-making or low (versus peers) in years 1-4. As such, WFSBPL submits that its request for a tariff increase is fair and reasonable in nature, and that sufficient consideration is given to the interests of the broader stakeholder group at KIAB (as evidenced by the gradual increase in tariffs requested).

7.4.3 **WFSBPL response to the comments of M/s SpiceJet regarding FRoR**

WFSBPL as submitted in its MYTP is committed to improving efficiencies at every step. Detailed notes on how process improvements will increase efficiencies thereby reducing costs have been given in the MYTP submission. However, the same are summarized below for ready reference:

"Personnel Costs - WFSBPL strives to build the business on efficient practices and procedures. We expect to therefore make significant productivity improvements over the control period. From FY 26, WFSBPL projects a 15% per annum efficiency in direct labour employees, driven by an improvement in productivity within the warehouse from 149 kilos per man hour to 243 kilos per man hour over the control period, representing a cumulative improvement of 63%."

Continuous Improvement, Investment and People Focus: WFS Group invests in its network and the technology needed to provide greater value and sustainability. This continual improvement creates efficiencies that enables WFS Group to streamline processes and retain its position as the global best-in-

class cargo handler. WFS Group's experienced, passionate, and proactive teams constantly strive to achieve the safest, most efficient way to deliver services to its valued customers.

At KIAB, WFS Group will bring in its highest international standards for safety, security and operational excellence as well as invest in optimizing and expanding KIAB's cargo infrastructure. Together with BIAL, WFS Group will work to sustain growth in the long term and help achieve the airport's goal of creating a robust ecosystem that can cater for up to one million tons of cargo a year."

WFSBPL reiterates here that the approach proposed by the Authority is that of a light touch approach, but with a full intrusive analysis whereby the tariff is fixed as a fixed percentage of the RAB. This method does not yield any profits to the company even over a 5-year period and since it is a light touch approach, the company loses on true up also at the end of 5-year period. Hence, it is only in the company's interest and profitability that WFSBPL would ensure most efficient practices and policies are laid out and the costs are kept to the minimum.

WFSBPL requests the Authority to kindly consider and allow FROR as per its Stakeholder Response submission dated 15th May 2023.

7.5 **Authority's Analysis regarding Return on SD, FRoR & ARR for the ISP pertaining to its First Control Period**

7.5.1 The Authority notes the comment of BIAL & WFSBPL regarding the treatment of Return on the Security Deposit and response thereon by WFSBPL.

The Authority is aware that SDs are submitted by the service providers to the airport operators, as part of their contractual obligations under the concession agreements; however, the Authority is also conscious of the fact that the SDs submitted by the ISPs with the Airport Operators are not utilized by the service providers for provision of any aeronautical services to the end users. It would be unfair to the users, if Authority allows normal FRoR on the SDs, as no service(s) is provided to the end users against the SDs.

Further, the TDSAT Order dated 27.09.2019 in the AERA Appeal no. 1 of 2018 (Delhi Aviation Fuel Facility Pvt. Ltd. [ISP] Vs. AERA), wherein the ISP has contended that meager return of 5% p.a. on SDs is unreasonable [Para 21(ii)]. In this regard, TDSAT vide para 24 of the Order states that *"Although at the first blush, it appears tempting to treat the security deposit on the same footings as equity but on a deeper analysis it is found that while equity money has to be used necessarily for the operation of the required service or activity, in the present case the security deposit has no such purpose and therefore only on account of an unusual and peculiar arrangement between DIAL (Airport Operator) and the appellant (ISP), it would be unfair to other stakeholders who pay for such Aeronautical Service relating to Fuel Farms to compensate the appellant for a deposit which is not related to the operations of the Fuel Farm and cannot be considered as a part of RAB. In such scenario, the nominal return on account of inflation cannot be held to be arbitrary or inadequate."*

Considering the above, the nominal return @ 5% p.a. on SDs being considered by AERA for ISPs is viewed reasonable.

As regard to the ISP's comments relating to business risks of the new entrant being similar to risks faced by startup business. Startups, who develop new products/ services, generally find it very difficult to market and sell their products/ services to consumers. Further, getting the required finance for their projects is a big challenge for the startups. As against the startups, ISP is operating in the air cargo sector, which is a regulated sector and where the number of service providers is comparatively limited. The Authority notes that the ISP has inherited a running business, with a ready-built customer base. Further, the ISP being a part of well-established major global player in cargo business, is in much advantageous position and has access to latest technology, required business support from the parent company for its maiden cargo venture in India. Hence, the Authority feels that the business risks of the service provider are not much lower than and not comparable to the risks faced by the startups, where business failure rate is very high.

In respect to the ISP and BIAL's references to the Authority's past orders pertaining to the Airport Operators, in context of the Return on SDs proposed by AERA at CP stage, the Authority feels that the above stakeholders have quoted the extracts of the AERA orders out of context. Airport Operators have different business models and operate in different eco-system. Their business risks and challenges are not comparable with the ISPs. Accordingly, they are being regulated by the separate AERA Guidelines applicable to the airport operators.

Similarly, the references by the above stakeholders to the hon'ble TDSAT's decision dated 23rd April 2018, in the AERA Appeal No. 10 of 2012 (in the case between DIAL [Airport Operator] Vs. AERA), is also out of context. The aforesaid decision of the hon'ble TDSAT was given in the background of Refundable Security Deposits received by the Airport Operator for financing the airport operator's Capex Plan, which were initially considered as equivalent to Debt at zero cost by the Authority. Whereas, in the case of the ISPs, the Authority as per its consistent approach on the return on 'Interest free SDs' is allowing a nominal return @ 5% p.a. to cover up for erosion in value of the SDs over the period due to inflation.

Therefore, the Authority taking a balanced view in the matter, consistent with the past tariff orders for the ISPs, decides to consider 5% nominal return p.a. on the interest free SD deposited by ISP with the airport operator. The above stand of the Authority is in accordance with the hon'ble TDSAT's Order dated 27.09.2019 (quoted above).

7.5.2 The Authority notes the comments of the WFSBPL & SpiceJet on the FRoR. Whereas, the ISP has requested that considering their business risks/ return expectations on their investments, the Cost of Equity may be considered at 23.55%. As opposed to this, SpiceJet in its comments has strongly urged the Authority to allow only a reasonable FRoR to the service provider and review the FRoR (10.31%) proposed by the Authority for the ISP. As per the SpiceJet, with such kind of assured returns to service providers, ISPs have no incentive to improve efficiencies and reduce costs and it creates an imbalance against the airlines, which are already suffering huge losses. The Authority notes that even the FRoR of 10.31% proposed by the Authority at CP stage is viewed by some of the stakeholders as on higher side and have requested the Authority to allow only reasonable rate of return to the ISP.

7.5.3 As per the Authority, airport operations are more complex and their business operations are subject to far more regulatory controls & oversights. Airport operations are influenced by fast changing technological advancements in the field of airport operations & management. Further, Airport Operators require large investments with long gestation periods, consequently their investment risks as compared to ISPs are significantly higher. The Authority feels that in a regulated sector, cost of equity proposed by the ISP (23.55%) is way too high. The Regulator is dutybound to consider the views/suggestions of all the stakeholders and try to strike a balance in the conflicting interests of the service provider and the users. In the instant case, the Cost of Equity proposed by the Authority for the WFSBPL is as per the AERA's consistent approach for the ISPs. Even, in case of the airport operators, the Authority generally considers cost of equity in the range of 14% to 15.50% only. In view of the above, the Authority decides to maintain same view on the Cost of Equity (@14%) for the ISP as taken during the CP Stage. Accordingly, the Authority decides to consider FRoR for the ISP @ 10.31% (considering cost of debt @ 9.56%, cost of equity @ 14% & actual gearing). The basis for considering cost of debt @ 9.56% for the ISP, in respect of its First Control Period, has been discussed in details under Chapter 5 relating to O&M Expenditure (Refer para 5.7.12).

As regard to comments of the ISP relating to the Authority's intention of shifting to the concept of 'notional gearing' in future for ISPs, in this regard, it is clarified that any such proposal of the Authority will be implemented after following laid down consultation protocol with a prospective effect. Further, 'notional gearing' is likely to be considered for such ISPs, who predominately rely on the equity infusion for their CAPEX requirements.

7.5.4 The Authority notes the comments of M/s SpiceJet wherein the stakeholder requested the Authority to review the high tariff increase proposed for the ISP and urged the AERA to defer the proposed increase in the prevailing tariff to next control period. In this regard, the Authority is mindful of the fact that last revision for the erstwhile cargo operator at Bengaluru airport was done during FY 2013-14. Since then, the operating costs for providing cargo handling services have increased, which necessitates increase in tariff rates for the service provider. However, the Authority agrees with the views of the SpiceJet that the service provider ought to focus more on expanding its client base and business enhancement (profitability) ought to be achieved through volume growth, rather than high tariff rates.

In view of the above and considering the detailed review of various regulatory building blocks, including proposed Capex, Cargo Volumes, OPEX, etc., as discussed in the previous chapters and taking into account the stakeholders' views/comments, the Authority has computed the ARR for the WFSBPL for the First Control Period as given in the ARR table below.

Table 28: ARR computed by the Authority for WFSBPL by the Authority for the First Control Period

(₹ in Crores)

Particulars	2023-24 (2 months)	2023-24 (8 months)	2024-25	2025-26	2026-27	2027-28	Total
Average RAB *(Refer Table 13)*	66.56		128.21	118.51	109.07	99.90	
Return on RAB @ 10.31% (A)	1.37*	5.49#	13.22	12.22	11.25	10.30	53.85
O&M Expenses (B) *(Refer Table 23)*	28.73	66.07	111.68	123.40	137.03	152.96	619.87
Concession Fees (C) *(Refer Table 23)*	5.54	27.60	51.57	63.49	78.28	96.64	323.12
Return on SD of ₹ 50 crores @ 5% (D)	0.42	1.67	2.50	2.50	2.50	2.50	12.09
Depreciation (E) *(Refer Table 11)*	1.06	4.22	10.89	10.99	11.12	11.31	49.59
Tax @ 25.17% (F) *(Refer Table 35)*	-	-	-	-	-	-	-
Aggregate Revenue Requirement (A+B+C+D+E+F) = (G)	**37.11**	**105.04**	**189.86**	**212.60**	**240.18**	**273.71**	**1058.50**
PV Factor at @ 10.31% (H)	1.00	1.00	0.91	0.82	0.74	0.68	
PV of ARR (I) = (G*H)	**37.11**	**105.04**	**172.12**	**174.72**	**178.93**	**184.85**	**852.77**
Regulated Revenue at Tariff approved for AISATS (Including Demurrage) *(Refer Table 28)*	12.65	50.62	83.13	89.28	95.84	102.84	434.36
Regulated Revenue from Airline Fees at Tariff approved for AISATS *(Refer Table 28)*	4.90	19.61	32.20	35.26	38.61	42.28	172.86
Revenue from Non-Regulated Services	0.91	3.64	5.46	5.46	5.46	5.46	26.39
Total Revenue at Prevailing Tariff	**18.47**	**73.86**	**120.79**	**130.00**	**139.91**	**150.58**	**633.61**
% Tariff Increase (including Demurrage charges)	**-**	**30%**	**17%**	**17%**	**17%**	**17%**	
% Tariff Increase for the Airlines Charges	**-**	**15%**	**8%**	**8%**	**8%**	**8%**	

Particulars	2023-24 (2 months)	2023-24 (8 months)	2024-25	2025-26	2026-27	2027-28	Total
Regulated Revenue after Tariff increase (including Demurrage)	12.65	65.80	126.44	158.88	199.55	250.52	813.84
Regulated Revenue from Airline Fees after Tariff increase	4.90	22.55	39.99	47.30	55.93	66.15	236.82
Revenue from Non-Regulated Services	0.91	3.64	5.46	5.46	5.46	5.46	26.39
Total Revenue	**18.47**	**91.99**	**171.89**	**211.64**	**260.94**	**322.13**	**1077.06**
PV of Total Revenue	**18.47**	**91.99**	**155.83**	**173.92**	**194.40**	**217.56**	**852.17**

**Return on RAB for 2 months*

Return on RAB for 8 months

As per the above table, the total projected revenues considering the tariff applicable to previous operator (AISATS) are not sufficient to meet the projected ARR for the First Control Period. Hence, the Authority decides to increase tariff rates as indicated in the above table for the ISP, so as to match the projected ARR of the WFSBPL for the First Control Period.

7.5.5 The Authority has worked out ARR for the WFSBPL, after considering the stakeholders comments and other information/ clarifications submitted by the ISP, at ₹ 1058.50 crores, which is lower by ₹ 217.35 crores, as compared to ARR proposed by the ISP (₹ 1275.85 crores) as tabulated below:

Table 29: Comparison of ARR computed by the Authority vis-à-vis ARR proposed by the ISP for the First Control Period

(₹ in crores)

Particulars	ARR as per the ISP	ARR as per AERA (CP stage)	ARR as per AERA (Order Stage)	Difference (a-c)
	(a)	(b)	(c)	
Return on RAB	94.20	53.84	53.84	40.36
Depreciation	53.99	49.59	49.59	4.40
Concession Fees	382.76	308.65	323.12	59.64
Tax	40.75	-	-	40.75
Return on SD	33.83	12.08	12.08	21.75
OPEX (excluding Concession Fees & Interest Charges)	663.18	592.26	616.50	46.68
Bank charges on Performance Security	7.15	-	3.37*	3.78
ARR for the First Control Period	**1275.86**	**1016.42**	**1058.50**	**217.36**

**As per ISP revised submission on Bank Charges on Performance Security (as per Table 22)*

The major difference in the ARR as per WFSBPL and as decided by the Authority is mainly on account of the optimization/ rationalization done in the few building blocks, as elucidated below:

a) The Authority has considered Cost of Equity @ 14% for the ISP as per its consistent approach.
b) Based on the projected profitability for the ISP (Table no. 36), nil tax liability on part of the ISP considered in its ARR calculations.
c) Return @5% p.a. on SD has been considered by the Authority as per its consistent approach for the ISPs, which is also in line with the TDSAT Order dated 27.09.2019 in the AERA Appeal no. 1 of 2018.

d) After detailed review & analysis of Operating Expenses, some component of OPEX, such as Payroll Costs, R&M Expenses, IT Costs etc., have been optimized/ rationalized.

7.5.6 However, subsequent to consultation stage, the Authority considering the stakeholders' comments and additional information submitted by the ISP, has rationalized / readjusted the Target Revenue (ARR) upwards from CP stage, due to followings:

i. Considered Cargo Volumes at 119587 MT (as against cargo volume 132308 MT proposed at CP stage), which is the same cargo volumes as proposed by the ISP in its MYTP submission.
ii. Operating costs with respect to Payroll Expenses, R&M Expenses have been further increased.
iii. Bank charges on Performance Security (Bank guarantee) considered as per revised information submitted by the ISP.
iv. Concession Fee and Marketing & Branding Costs have been re-computed based on the revised Revenue (after tariff increase), as the same are linked to the revenue as per the concession agreement.

In view of the above readjustment in ARR, from CP stage to Order stage, the ARR for the ISP has increased significantly i.e. from ₹ 1016.43 crores to ₹ 1058.50 crores, which is expected to result in improved profitability for the ISP during the First Control Period.

7.6 **Authority's decisions regarding Aggregate Revenue Requirement for the First Control Period**

Based on the material before it and its analysis, the Authority decides to consider:

7.6.1 FRoR for the First Control Period as per Table 26.

7.6.2 ARR for the First Control Period as per Table 28.

7.6.3 Tariff Rate Card for Cargo Handling Services for the ISP in respect of its First Control Period as per **Annexure-III.**

CHAPTER 8: REVENUE FROM OPERATIONS, PROFITABILITY & TAXATION

8.1 WFSBPL's submissions on projected Profitability for the First Control Period

8.1.1 WFSBPL has forecasted the following revenue for the First Control Period based on the volumes as proposed by WFSBPL at the Tariffs, as applicable to the previous Cargo concessionaire (AISATS) at KIAB.

Table 30: Revenue Projected for the First Control Period as per WFSBPL before the proposed Tariff increase

(₹ in crores)

Particulars	FY 2023-24 (10 months)	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Cargo Volume	99,656	1,30,948	1,43,388	1,57,010	1,71,926	7,02,928
TSP Revenue	38.90	51.11	55.97	61.29	67.11	274.38
Demurrage Revenue	24.37	32.02	33.31	34.55	35.73	159.98
Revenue from Shippers/ Agents	**63.27**	**83.13**	**89.28**	**95.84**	**102.84**	**434.36**
Airlines Fees	24.51	32.20	35.26	38.61	42.28	172.86
Other than Regulated Revenue	4.55	5.46	5.46	5.46	5.46	26.39
Total	**92.33**	**120.79**	**130.00**	**139.91**	**150.58**	**633.61**

8.1.2 WFSBPL, while projecting Revenues has considered 5% drop in demurrage revenue per annum from FY 2025-26 onward, on account of expected improvement in operating efficiency after integration of the station into WFS' network.

8.1.3 As per the WFSBPL, without tariff increase, their profitability will be (-) 50% for the First Control period.

8.1.4 Further, in order to achieve 8% Return on Revenue (Average PAT margin for First Control Period), WFSBPL has proposed the following % age tariff increase in the tariff rates applicable to the erstwhile cargo terminal operator as under:

Table 31: Percentage increase in tariffs proposed by WFSBPL for the First Control Period

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
TSPs (incl. Demurrage Charges)	60.0%	30.0%	30.0%	20.0%	20.0%
Airline Fees	10.0%	4.4%	4.4%	4.4%	4.4%

8.1.5 Based on the proposed Tariff increase indicated in the table above, WFSBPL submitted its proposed Tariff Rate Card for the First Control Period as per Annexure-III of the CP. The ISP has further submitted the projected Revenue and Profitability Statement for the First Control Period, after considering the proposed Tariff increase, as per the following table:

Table 32: Projected Profitability Statement as per WFSBPL after considering the proposed Tariff Increase

(₹ in crores)

Particulars	FY 2023-24 (10 months)	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
TSP Revenue	62.24	106.32	151.34	198.86	261.31	780.07
Airlines Fees	24.51	33.62	38.43	43.93	50.22	190.71
Demurrage Revenue	38.99	66.59	90.06	112.11	139.13	446.87
Other Revenues	4.55	5.46	5.46	5.46	5.46	26.37
Total Revenue	**130.28**	**211.99**	**285.29**	**360.36**	**456.11**	**1,444.03**
OPEX	86.56	117.89	131.40	146.93	165.05	647.83
Revenue sharing/ Concession Fee	39.08	63.60	85.59	108.11	136.83	433.21
Depreciation	10.57	10.65	10.75	10.90	11.11	53.99
Preliminary Expenses	15.35	-	-	-	-	15.35
Return on Security Deposit	5.83	7.00	7.00	7.00	7.00	33.83
Interest on Term Loan	15.06	19.02	19.50	19.29	18.00	90.87
Bank charges on Performance Security	0.76	1.13	1.43	1.73	2.10	7.15
Total Expenditure	**173.21**	**219.29**	**255.67**	**293.96**	**340.09**	**1282.23**
PBT	-42.93	-7.30	29.62	66.40	116.02	161.81
Taxation	-	-	-	10.31	30.44	40.75
PAT	-42.93	-7.30	29.62	56.09	85.58	121.06
PAT %	-33%	-3%	10%	16%	19%	
Average PAT %	**8%**					

figures for 10 months only.

8.2 Authority's Examination on the projected Revenue from Operations, Profitability and Taxation at CP stage:

8.2.1 The Authority noted that as per Section 115BAA introduced by the Government of India through the Taxation (Amendment) Ordinance, 2019 on 20.09.2019, provides option to a Domestic company to pay corporate tax at lower rate of 22% (plus applicable surcharge and cess, where the total turnover for Previous Year 2017-18 does not exceeds ₹ 400 Crore), as opposed to normal tax rate of 30%/ 25% (plus applicable surcharge and cess), w.e.f. Assessment Year 2020-21 subject to other precedent conditions.

The Authority observed that WFSBPL considered corporate tax @ 25.17% on profit before tax and the Authority proposed to consider the same rate of tax for the First Control Period as proposed by the ISP. The Authority further observed from the MYTP submission that ISP s not computed Present Value (PV) of ARR and PV of Revenues at current Tariff & after Tariff increase; accordingly, the percentage increase in Tariff proposed by the ISP seems higher.

8.2.2 The Authority noted that WFSBPL has proposed nominal % Tariff increase for Airlines, as compared to the % Tariff increase proposed for Shippers/Agents. The Authority feels that CAPEX & OPEX incurred by cargo operator for the improvement of infrastructure and improving efficiency of cargo handling operations is enjoyed by all the users, including airlines. It would not be appropriate to burden the Shippers/Agents with higher % Tariff increase (in respect of TSP etc.) vis-à-vis % Tariff increase proposed for the services availed by the Airlines.

In view of the foregoing and to maintain balance in the interests of all the Users, the Authority proposed to consider uniform % tariff increase for all users of cargo handling services, which is also in line with AERA's consistent approach regarding uniform rates of Tariff increase for all the services provided by the ISP.

8.2.3 The Authority, considering its estimated Cargo Volumes for WFSBPL for the First Control Period as per Table 6 (under Chapter 3) proposes to consider projected Revenues for ISP, as per the then Tariff applicable to previous operator, as per Table given below:

Table 33: Revenue from Regulated Services at prevailing Tariff for the First Control Period as per the Authority at CP Stage

(₹ in crores)

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Cargo Volume considered by the Authority	1,10,255	1,44,386	1,58,102	1,73,122	1,89,569	7,75,434
TSP	42.89	51.47	56.35	61.71	67.58	302.54
Airlines Fee	27.03	32.43	35.50	38.88	42.57	190.60
Demurrage	26.87	32.24	35.31	36.73	38.10	176.40
Other Revenue	4.55	5.46	5.46	5.46	5.46	26.39
Revenue Projected at existing rate for volume proposed by Authority	**101.34**	**121.60**	**132.63**	**142.78**	**153.71**	**695.92**

8.2.4 The Authority noted that projected revenue for WFSBPL in respect of the First Control Period (as per the then prevailing Tariff) is not sufficient to meet ARR requirement for the ISP. Considering the above, the Authority proposed the following % increase in the tariffs for the First Control Period in respect of WFSBPL:

Table 34: Tariff increase proposed by the Authority for WFSBPL in respect of the First Control Period at CP Stage

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Proposed Tariff increase (in %age) by the Authority	20%	11%	10%	9%	9%

8.2.5 Accordingly, the Authority proposed to consider the Profitability for WFSBPL (after proposed Tariff increase) for the First Control Period as per table below:

Table 35: Profitability Statement computed by the Authority in respect of WFSBPL (after proposed Tariff increase) for the First Control Period at CP stage

(₹ in crores)

Particulars	FY 2023-24 (10 months)	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total#
TSP Revenue	51.64	75.06	90.42	107.93	128.81	453.87
Airlines fee	32.54	47.29	56.96	67.99	81.15	285.94
Demurrage Revenue	32.35	47.03	53.81	60.84	68.58	262.62
Other Revenue	4.55	5.46	5.46	5.46	5.46	26.39
Total Revenue	**121.09**	**174.84**	**206.66**	**242.22**	**284.01**	**1028.82**

Particulars	FY 2023-24 (10 months)	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total#
OPEX*	**92.07**	**107.18**	**118.07**	**130.31**	**144.63**	**592.26**
Revenue sharing/ Concession fees	36.33	52.45	62.00	72.67	85.20	308.65
Depreciation	5.28	10.89	10.99	11.12	11.31	49.59
Interest	15.06	19.02	19.50	19.29	18.00	90.87
Total Cost	**148.74**	**189.54**	**210.55**	**233.39**	**259.14**	**1,041.37**
PBT	**-27.65**	**-14.70**	**-3.89**	**8.83**	**24.87**	**-12.54**
Taxation#	-	-	-	-	-	-
PAT	**-27.65**	**-14.70**	**-3.89**	**8.83**	**24.87**	**-12.54**

**Excluding return on Security Deposit.*

#*Nil Tax provision in FY 2026-27 & FY 2027-28 due to anticipated losses in previous years.*

8.2.6 From the above table, the Authority noted that in the initial years of the Control Period, ISP is projected to have negative profitability, primarily on account of preliminary expenses & depreciation resulting from significant CAPEX in first year of Control Period. However, it is observed that ISP is expected to significantly improve profitability from FY 2026-27 onward & generate surplus.

8.2.7 The Authority expects WFSBPL to bring efficiency in executing the CAPEX and adhere to the committed timeline. Further, the ISP is also expected to optimize the OPEX proposed for the First Control Period and bring in global best practices in respect of Cargo Handling Services, to improve overall operating efficiency, in the interest of all the Stakeholders.

8.3 Stakeholders Comments on the Projected Profitability of the ISP for the First Control Period

BIAL's comments:

8.3.1 Uniform Price increase for Airlines and Shippers/Agents:

"AERA has proposed to apply a uniform tariff increase between the tariff for Agents/Freight Forwarders (FF) and Airlines. Denying the freedom to structure or allocate the tariff hikes between different customer segments (FF/Airlines) would result in artificially increasing the revenue projections but one which WFSBPL would not be able to achieve at all, in reality. This would further lead to increase in losses than that projected by AERA, making the entire operation of activities at WFSBPL totally unviable. BIAL requests the Authority to allow WFSBPL due flexibility to structure the rate card within the tariff eventually approved by the Authority."

8.3.2 Estimated loss, Unviable Operations and Risk of exit of Global Players"

"Private Airports Operators take a lot of initiatives to introduce Global market leaders, thereby introducing best practices and improving operational efficiencies resulting in higher overall cost efficiencies in the entire life cycle / value chain. These efficiencies bring sustained savings and better quality of operations in line with the global standards. These activities undertaken by the Airport Operators are in line with the objectives of GoI's National Air Cargo policy (NACP).

A proposition of a loss making scenario (with such low tariff resulting in a loss of Rs 12.54 crs for 5 years), as proposed by AERA would lead to unviable operations resulting in panic of the Global leaders entering the Indian Cargo market, which will risk the fulfilment of NACP through the entry of global leaders. This also will have a serious impact on FDI flows into India."

FFFAI's comments:

8.3.3 Yearly increase in the Cargo Tariff:

As per the MYTP submission, WFSBPL has proposed the following %age increase in Tariff, over the prevailing rates of AISATS (for FY 2022-23), in respect of its proposed Cargo Handling Services at KIA, Bengaluru:

Particulars	*FY 23-24*	*FY 24-25*	*FY 25-26*	*FY 26-27*	*FY 27-28*
TSPs (incl. Demurrage Charges)	*60.0%*	*30.0%*	*30.0%*	*20.0%*	*20.0%*
Airline Fees	*10.0%*	*4.4%*	*4.4%*	*4.4%*	*4.4%*

The said consultation paper has been issued at the time when the global and domestic industry is still reeling under the impact of Covid-19 pandemic lockdown. The growth has been impacted to such an extent that the complete revival is still not there for the industry.

At this juncture, when the Indian industry was expecting a hand holding from the Govt of India for its revival with reduction in the tariff and discounts, AERA has submitted the said consultation paper for the comments/observations of the stakeholders duly recommending the enormous YoY increase in the Cargo tariff as per the above-mentioned table in spite of the fact that KIA, Bengaluru recorded its highest-ever cargo tonnage in FY 2021-22, despite challenging circumstances due to multiple Covid waves.

Since the yearly increase is without any justification, FFFAI outrightly rejects this increase.

8.3.4 Free Period for Import Cargo:

WFSBPL has considered the free period of 48 hours from the Flight's Actual Time of Arrival (ATA), based on which demurrage charges for different time period has been recommended by AERA in the Cargo Tariff chart. However, as per the 'Notes' it has been clarified that the free period will be from the segregation time.

AERA is requested to clarify this anomaly and based on the Govt of India guidelines, the time period for free period and subsequent calculation of demurrage charges may be resubmitted for the comments of FFFAI.

8.3.5 Overtime Charges (Beyond Customs Working Hours):

AERA has recommended Overtime charges @ Rs 240/- per Bill of Entry for General Cargo, whereas for VAL cargo these charges are Rs 1200/- per Air Way Bill.

FFFAI is of the opinion that the benchmark for the Overtime charges should be same for all type of cargo, i.e., either 'per Shipping Bill' OR 'per Air way Bill'.

Further, uniformity and rationality in the Overtime rate should be considered for all type of cargo and separate charges for different type of cargo be avoided.

8.3.6 Transshipment Charges:

In case of transshipment cargo, AERA has recommended that stipulated TSP charges will also be levied to all types of cargo, in addition to the transshipment charges.

In this regard, FFFAI is of the opinion that in case of 'transshipment cargo' only transshipment charges may be levied since levy of additional TSP charges will lead to duplication and increase in the total charges.

8.3.7 **Stakeholders' consultation meeting:**

"Before the submission of the MYTP, it has been mentioned that the stakeholders meeting was conducted on 23-01-2023 and 24-01-2023. In the absence of MoM, not enclosed with the said consultation paper, FFFAI has no comments to offer and also is not party to the enhancement of the Cargo Handling charges, as per the table mentioned above."

8.3.8 **M/s SpiceJet's Ltd. Comment regarding "Profitability Analysis":**

"In the current situation, airlines in India are staring at significant losses and with limited financial support from the Government, airlines are constrained to implement severe cost control measures to sustain their operations. On the other hand, it is noted that as per the proposed P&L Summary (Table 29), the service provider is expected to report significant profits. This contradiction of service providers to airlines making profits, while the airlines themselves making losses is contradictory in principle. We request Authority to reconsider this anomaly which would be caused by the proposed hikes.

WFSBPL's comments:

8.3.9 Uniform Rate Increases for Freight Forwarders and Airlines:

The Authority's guidelines permit the operators to structure the Tariff Card aligned with the business and market needs and accordingly WFSBPL proposed to have different levels of price adjustments for rates charged to airlines versus freight forwarders (which is in sync with global market practice within the cargo handling sector). The Authority has however proposed a uniform increase in rates for both airlines and freight forwarders, and WFSBPL submits that the increase in airline ceiling rates will not in reality be translated into a material increase in revenues (as suggested by the Authority within the CP) given the following key reasons:

a) *An air cargo handling services market like Bengaluru with more than one Cargo Terminal operator present provides substantial price negotiation power to airlines. In a competitive market, forcing an airline to pay ceiling rates is difficult (and ultimately unrealistic) given the competitor can simply undercut pricing to secure the business.*

b) *As the new concession is due to start on 24 May 2023, prices are currently being finalised with airlines within the boundaries of the existing ceiling rates, for contracts with a duration ranging from three to five years. Any uplift in airline ceiling rates subsequently granted by the Authority will not make any material difference to the pricing for existing Bengaluru customers within the First Control Period given pricing has to be agreed contractually within the coming weeks and given this pricing will be fixed for the next three to five years (depending on duration of each customer contract).*

c) *Airline pricing is an important factor in being able to attract new customers to a given market. WFSBPL believes that attractive airline pricing is important to help drive the levels of volume growth outlined in the MYTP, and that materially higher airline pricing could prompt some carriers to select competing airports and therefore curtail the ability to deliver the aggressive volume growth outlined in the MYTP.*

For the aforementioned reasons, WFSBPL respectfully disagrees with the feasibility of the Authority's assumption that increasing airline ceiling rates will automatically translate into higher revenue generation for WFSBPL, and requests that the authority reconsiders the magnitude of overall combined tariff increases as well as the weighting of rate increases between airlines and freight forwarders. Specifically, WFSBPL submits that the TSP tariffs (payable by freight forwarders) outlined within the MYTP submission are reasonable and necessary to ensure a sustainable business operating at a reasonable profit margin in line with industry standards and peer benchmarks. WFSBPL reiterates that TSP tariffs at Bengaluru have not materially changed in over 10 years which is materially out of sync with pricing trends observed across other international cargo markets.

8.3.10 Negative Profitability for the First Control Period:

WFSBPL has made an analysis of revenues required to achieve a reasonable level of profitability. WFSBPL reviewed and analyzed a number of peer cargo operators in India (including the Bengaluru incumbents), many of whom generate profitability margins in excess of 20%. Unlike other ISPs, WFSBPL submitted a rate proposal that would result in losses in the initial years of the control period which WFSBPL was willing to incur in the interest of balancing the interests of different stakeholders, and in aggregate a profit of only 8% for the First Control Period. Within the CP however, consideration does not appear to have been given to allowing WFSBPL to operate at a reasonable level of profitability, and instead the Authority appears to have adopted a methodology more closely associated with the Authority's Price Cap approach resulting in an overall negative profitability (equivalent to negative 1.22%) for First Control Period. This approach appears to be inconsistent with prior ISP submissions (for example: AAICLAS Chennai, Mangalore, Jaipur, Pune, GSEC Ahmedabad amongst others).

Consequently, we believe WFSBPL is being unfairly penalized and that this negative profitability outlook will restrict the ability of WFSBPL to compete and operate in a sustainable manner. With such low levels of profitability, WFSBPL may be required to revisit a number of investment decisions in an effort to curtail the material cash losses faced by the business if the tariffs remain unchanged versus what has been outlined in the CP, which in turn could restrict the growth potential for the operation and Bengaluru.

WFSBPL requests that the Authority kindly reconsiders the allowable level of profitability to be more in sync with peer benchmarks and the industry standard, and ultimately to be more in line with the profitability proposal outlined in our original MYTP, which in turn will help ensure a sustainable business that can cater to future demand growth.

8.3.11 **WFS Global SAS's comments regarding "Negative Profitability for the First Control Period":**

The proposals set out by the Authority within the Consultation Paper outline that WFSBPL will be permitted to achieve an aggregate 5-year negative profit after tax margin of (1%) for the First Control Period. Firstly, WFS agrees with WFSBPL's submission that this level of profitability is likely unachievable due to multiple unattainable assumptions made by the Authority which are addressed in detail within the WFSBPL response document. Secondly, WFS reiterates that this level of profitability is materially lower than that generated by peers in the Indian market, many of which achieve profit after tax margins in excess of 20%, and as such the negative profit after tax margin appears unreasonable in comparison. Furthermore, this decision by the Authority will result in the business generating material cash losses in the long-term and will impact WFSBPL's ability to raise the required level of funding to invest in the facilities and operations. Ultimately, if not revisited as part of the final Tariff Order, this negative outlook will prompt a revisit of the original investment plans developed for the business which were focused on generating best-in-class efficiencies and supporting development of the Bengaluru air cargo market.

8.4 **Counter Comments of WFSBPL:**

8.4.1 On the comments of BIAL regarding Uniform Price increase for Airlines and Shippers/Agents:

"WFSBPL concurs with the views of BIAL on this matter. Assuming a uniform increase in tariff for both airlines and freight forwarders is neither realistic nor achievable. WFSBPL will be unfairly penalized due to market realities that are beyond its control. Our detailed views on this matter have already been submitted as part of stakeholder comments.

For reasons stated in the stakeholder comments, WFSBPL respectfully disagrees with the feasibility of the Authority's assumption that increasing airline ceiling rates will automatically translate into higher revenue generation for WFSBPL, and requests that the Authority reconsiders the magnitude of overall *combined tariff increases as well as the weighting of rate increases between airlines and freight forwarders. Specifically, WFSBPL submits that the TSP tariffs (payable by freight forwarders) outlined within the MYTP submission are reasonable and necessary to ensure a sustainable business operating at a reasonable profit margin in line with industry standards and peer benchmarks. WFSBPL reiterates that TSP tariffs at KIAB have not materially changed in over 10 years which is materially out of sync with pricing trends observed across other international cargo markets."*

8.4.2 On the comments of BIAL regarding estimated losses:

"WFSBPL fully agrees with the comments of BIAL on profitability and potential consequences of such extended periods of negative profitability. Whilst a number of other players in the market are allowed to operate with a profitability in excess of 20%, tariff increases proposed by the Authority result in losses for the First Control Period for WFSBPL. This renders the operations in India unviable.

In the final Tariff Order, WFSBPL humbly requests that AERA revisit and update for a reasonable profitability target and in parallel a greater increase in tariffs (notably TSP tariffs) in sync with the proposal outlined in the WFSBPL MYTP submission. WFSBPL believes the profitability and tariffs outlined in the MYTP are reasonable and more importantly critical to ensuring a viable business that can encourage continued investment to help realize the demand and growth potential at Bengaluru."

8.4.3 On the comments of FFFAI:

a) Regarding Tariff increase:

"The tariff increase over the last 10 years at KIAB for AISATS (the incumbent) cargo operations was minimal. It is our understanding that the impact of inflationary pressures was historically able to be partially offset by continued volume growth and lower absolute costs. Now that volume has reduced significantly in the current year whilst inflation is increasing and new contractual costs have been introduced under the new concession agreement, WFSBPL contends that all of these factors contribute to the tariff increase sought. As discussed in the MYTP, WPI has increased ~35% over the last 10 years, and labor inflation (for warehouse-equivalent workers in Bengaluru) in the same period increased to ~150%.

Despite the challenging scenario, WFSBPL has been mindful of the need to balance the interests of all stakeholders and has voluntarily submitted a proposal with gradual increases in tariffs that allows for a positive PAT figure only in the 3rd year of operations.

In its MYTP submission, WFSBPL would begin to approach a PAT margin close to the level attained by industry peers only in year 5 (projected PAT margin of ~19%) and the PAT margin is projected to be either loss-making or low (versus peers) in years 1-4. WFSBPL submits that its request for a tariff increase is fair and reasonable in nature, and that sufficient consideration is given to the interests of the broader stakeholder group at KIAB (as evidenced by the gradual increase in tariffs requested)."

b) Regarding free period for Import Cargo:

"WFSBPL would like to submit that the demurrage calculations will be in full compliance with guidelines issued by the Ministry of Civil Aviation, Government of India. As on date, for import cargo, free period is 48 hours and the time of reckoning of Free Period would start from segregation time reflected in ICEGATE."

c) Regarding Overtime Charges:

"WFSBPL submits that in the interest of maintaining consistency and continuity of the tariff structure, no changes have been proposed to the overall structure/charging parameters as compared to the structure approved by AERA for the incumbent operator."

Subsequently, in response to AERA observation on the above charges, WFSBPL vide email dated 17.07.2023 further clarified as under:

"Furthermore, the practice of differential charging for different types of cargo is aligned with different access/handling procedures involved and difference in risks & liabilities (for e.g. for VAL, additional access control & security protocols and resources are deployed) and as per our understanding the same is also in line with the practice at several other facilities including Delhi and Hyderabad Cargo."

d) Regarding Transshipment charges:

"WFSBPL submits that in the interest of maintaining consistency and continuity of the tariff structure, no changes have been proposed to the overall structure/charging parameters as compared to the structure approved by AERA for the incumbent operator."

Subsequently, the ISP vide email dated 17.07.2023 further clarified that:

"Furthermore, it is to be noted that process for handling Transshipment cargo is different from other cargo handling and involves additional efforts, coordination and activities on the part of the cargo terminal operator.

In a typical Air to Air transshipment – the Cargo Terminal Operator:

i. Performs breakdown of incoming cargo consignment;
ii. Segregates the cargo;
iii. Identifies transshipment cargo and moves it to a separate designated storage area under security protocols;
iv. Prepares and processes a Cargo Transfer Manifest (CTM);
v. Obtains sign-off from the carrier on the CTM;
vi. Obtains approval from Customs authorities on the CTM;
vii. Moves the cargo from Transshipment area to export processing area following security protocols;
viii. Performs security screening;
ix. Performs build up as per load plan provided by carrier;
x. Releases/hands over cargo to carrier.

As can be seen, there are several additional steps involved in processing a Transshipment Cargo as compared to a regular shipment. Accordingly, an additional fee is levied on Transshipment cargo."

e) Regarding Stakeholder's Meeting:

"The minutes of the meeting were shared with the stakeholders and the same was also duly submitted to AERA."

8.4.4 WFSBPL response to the comments of M/s SpiceJet regarding profitability of the ISP:

"WFSBPL would like to respectfully highlight here that unlike airlines that enjoy full pricing freedom in the market, Cargo Terminal Operators such as WFSBPL are fully price-regulated entities with high, upfront fixed costs and no room for market-linked price increases and profit maximization.

During the COVID-19 pandemic and the period thereafter, all major carriers reported record levels of price increases with resulting boost to cargo revenues and profitability unlike CTOs who had to contend *with unchanged tariff even in the face of lower overall volumes and rising costs. All available information in the public domain indicates that the airlines were able to increase prices by 2x to 5x or more of pre-pandemic prices on air cargo even as terminal charges payable to CTOs remained the same for as long as a decade almost, as seen in the Bangalore market.*

WFSBPL also rejects the assertion that the proposed P&L for WFSBPL as contained in the Consultation Paper shows a level of 'significant profitability' given how the company is projected to report a negative profitability for the entire Control Period combined, even with unrealistically high estimations on starting cargo volumes and airline tariff increases coupled with aggressive Y-o-Y growth applied.

WFSBPL respectfully submits that its request for tariff increase to be eventual profitability of 19% on revenues for the final year of the First Control Period, in line with industry standards, with losses projected for the first 2 years is a sufficient consideration given to meet the interest of all the stakeholders in the value chain and hence its fair and reasonable to consider the tariffs requested by WFSBPL."

8.5 **<u>Authority's Analysis regarding Revenue from Operations, Profitability and Taxation in respect of the ISP for the First Control Period:</u>**

8.5.1 <u>Authority's analysis on the comments of FFFAI and counter comments of ISP thereon:</u>

a) As regard to the comments of FFFAI that the AERA in its CP had proposed same %age Tariff increase as was submitted by the WFSBPL (refer para 8.3.3 above). In this regard, it is clarified that tariff increase proposed by the Authority for WFSBPL at CP stage was different (with lower %age of tariff increase) from the %age Tariff increase proposed by the Service Provider (%age tariff increase proposed by the Authority at CP stage is indicated in Table 33 of this tariff order).

b) The Authority notes that the issue raised by the Stakeholder, with respect to the time of commencement of the free period, for the purpose of levy of demurrage charges has been adequately addressed/ clarified by the service provider. However, AERA would like to emphasis that the free period in respect of import cargo (for the purpose of demurrage charges) shall be as per the orders issued by the Central Government in this regard, from time to time.

c) The Authority notes the comments of stakeholders relating to overtime charges (beyond normal working hours of Customs Department). The Authority considering the clarification furnished by the ISP vide email dated 17.07.23 and taking into account the fact that such charges were also levied by erstwhile cargo operator (AISATS), further these charges are also prevalent at other airports. In view of the above, the Authority decides to consider overtime charges (beyond Customs' normal working hours) as proposed by the ISP. However, ISP is advised to consider uniform rate of overtime charges (beyond Customs normal working hours) for all types of cargo, during the next control period.

d) As regard to Transshipment Charges proposed by WFSBPL, the Authority considering the subsequent clarification furnished by the Service Provider vide email dated 17.07.23 wherein the Service Provider has highlighted the additional activities/ services involved in case of transshipment of cargo, decides to consider the transshipment charges as proposed by the ISP.

e) The Authority, in respect of minutes of stakeholders' consultation meeting, notes from the submission of WFSBPL that the service provider had forwarded minutes of consultation meeting to the concerned participants. The Authority further notes that the ISP has respondent to the comments/ suggestions of the FFFAI on the various proposals of the Authority contained in the Consultation Paper.

8.5.2 The Authority notes the comments of SpiceJet & FFFAI relating to higher tariff increase proposed by the Authority for the ISP. It is informed that while proposing tariff increase for the ISP, the Authority (at CP stage) analyzed various regulatory building blocks, including the projected CAPEX, OPEX, Traffic

Volume etc. and has done the required due diligence for computation of ARR for the ISP, including rationalization of few components of Operating Costs, traffic volume etc. The Authority, sought various clarifications/ additional information pertaining to the regulatory building blocks and other relevant aspects of the proposal, before considering tariff increase for the ISP.

Subsequently, after completion of consultation process, the Authority has also considered the stakeholders comments and the counter comments of the ISP relating to the proposed tariff increase. Based on the stakeholders' comments & further clarification/ additional information submitted by the WFSBPL, the Authority has finalized tariff increase for the ISP, to meet its projected revenue requirements for the First Control Period, as per the revised ARR computation done by the Authority (refer Table no. 27).

8.5.3 As regard to the comparison made by the ISP (in its comments) relating to its projected profitability with that of other service providers at different airports, the Authority is of the view that every ISP has its own unique business model as per its specific requirements with respect to the concession agreement with the airport operator. Further, ISPs have different levels of investments, operations etc., catering to different traffic volumes. Hence, it would not be appropriate to compare the profitability and tariffs of different ISPs.

8.5.4 BIAL and WFSBPL have commented against the uniform %age of tariff increase proposed by the Authority in respect of services relating to 'Freight Forwarders and Airlines' at the Consultation Stage. As per the above stakeholders, the revenue projected from the 'Airlines related Charges', at the tariff increase proposed by the Authority (at CP stage) are unlikely to be realized. In this regard, the Authority, at CP stage, while proposing uniform %age of tariff increase in services relating to airlines and shippers/ agents, maintained the prevailing ratio of revenues earned from the Airlines and Shippers/ Agents (based on tariff rate card of previous operator). In fact, it is the WFSBPL's proposed Tariff Rate Card, wherein the ISP intended to recover a very high proportion of revenues from Shippers/ Agents (TSP charges etc.) as compared to revenue pertaining to airlines' related services.

It is important to note that the Authority, being a regulator is inclined to follow the principles of non-discrimination between the various groups of users availing similar services. In the instant case, the Authority notes that WFSBPL in respect of its first tariff year, has proposed 6 times higher percentage tariff increase in the services related to 'shippers/ agents' as compared to percentage increase in tariff for the services relating to the airlines.

Nonetheless, considering the counter submission of the ISP, the Authority decides to consider higher percentage (%) Tariff increase for the shippers/ agents to an extent only, while largely maintaining the tariff structure of erstwhile cargo service provider (AISATS). The percentage tariff increases decided by the Authority, in respect of the airlines and shippers/ agents related services, is given below:

Table 36: **Percentage increase in tariff considered by the Authority for WFSBPL in respect of the First Control Period**

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
TSPs (incl. Demurrage Charges)	30%	17%	17%	17%	17%
Airline Fees	15%	8%	8%	8%	8%

8.5.5 As regard to comments of WFSBPL, WFS Global SAS and BIAL regarding projected negative profitability of the ISP for the Control Period, it is important to note that the civil aviation is capital-intensive sector and the investments in airport sector, including cargo handling business, are made with long term perspective. Any business in its initial stage generally has low/ nil returns and it takes ample time for the business to grow and generate profits. Further, the profitability of entity depends upon many factors, including its business model, CAPEX Plan, OPEX, Market Share, efficiency of business operations, etc. Hence, the profitability of the business entity is not just a function of Tariff rates alone, the other key parameters indicated above play equally important role in deciding profitability of commercial entity. It is imperative on part of the commercial entities, particularly during their initial stages of the business cycle, to operate efficiently and to exercise cost control measures in its operating expenditure so as to achieve targeted profitability.

In the instant case, the Authority notes that the projected operating expenditures of the WFSBPL is significantly higher when compared with erstwhile cargo terminal operator i.e M/s AISATS and its peer (MABPL) at Bengaluru Airport, who has also been awarded similar concession by the same airport operator (on similar terms and conditions).

Further, the ISP has proposed significant CAPEX (95% of total CAPEX) in the first tariff year itself, resulting in significant depreciation provision from first year onward; consequently, depreciation along with higher operating costs are impacting profitability of the service provider in the initial tariff years of the Control Period.

Further, while reviewing MYTP of WFSBPL, it is observed that its proposed operating costs (for FY 2023-24 on annualized basis) is much higher as compared to the proposed OPEX of MABPL, as can be seen from table given below:

Particulars	WFSBPL (FY 2023-24)	MABPL (FY 2023-24)
Total OPEX (annualized) proposed by the ISP (Cost ₹ in crores)	192.12	175.85
Proposed Cargo Volumes (in MT)	119587	246875
Average OPEX per MT (Cost in ₹)	16065.29	7123.04

It is pertinent to mention that some of the stakeholders in their comments during consultation process strongly advocated to the Authority that ISP may be directed to consider stringent cost-cutting measures to ensure minimal burden on the end users and Y-o-Y escalations in Payroll Costs, Administrative Expenses, R&M Expenses etc., in respect of the service provider (WFSBPL) may be considered in the range of 5 to 7% only.

8.5.6 AERA, being the regulator is mandated to consider the views/ suggestions of all the stakeholders, including the service providers and the users of services, while finalizing tariff for the ISP. In the instant case, some of the stakeholders have strongly opposed the %age Tariff increase proposed by the ISP.

Notwithstanding the above, the Authority in order to improve profitability and maintain viability of operations, has considered higher TSP charges for the ISP. Accordingly, the Authority has taken a balanced view while finalizing tariff increase for the service provider, in the interest of all the stakeholders.

The Authority notes that WFSBPL has been awarded the concession for international cargo handling at Bengaluru Airport for a period of 15 years and as per the Authority's profitability projection for the ISP, the Service Provider is expected to start generating profits from FY 2025-26 onward.

8.5.7 In view of the above analysis and taking into account the stakeholders' comments, the Projected Profitability (after tariff increase) in respect of the ISP for its First Control Period is as per table given below:

Table 37: Profitability Statement in respect of WFSBPL (after Tariff increase) for the First Control Period

(₹ in crores)

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
TSP Revenue	48.24	77.74	99.60	127.61	163.48	516.67
Demurrage Revenue	30.22	48.70	59.28	71.94	87.04	297.17
Airlines fee	27.45	39.99	47.30	55.93	66.15	236.82
Other Revenue	0.91	5.46	5.46	5.46	5.46	26.39
Total Revenue	**110.46**	**171.89**	**211.64**	**260.94**	**322.13**	**1077.06**
OPEX	94.79	111.34	123.40	137.03	152.96	619.87
Revenue sharing/ Concession fees	33.14	41.39	63.49	78.28	96.64	323.12
Depreciation	5.28	10.89	10.99	11.12	11.31	49.59
Interest Charges	15.06	19.02	19.50	19.29	18.00	90.87
Total Cost	**148.27**	**193.16**	**217.38**	**245.72**	**278.91**	**1083.44**
PBT	**-37.81**	**-21.27**	**-5.74**	**15.22**	**43.23**	**-6.38**
Taxation#	-	-	-	-	-	-
PAT	**-37.81**	**-21.27**	**-5.74**	**15.22**	**43.23**	**-6.38**

Nil provision for taxation due to projected losses during first three tariff years of the control period.

8.5.8 It may be noted that though the Interest Charges (on long term debt) is not a regulatory building block (for OPEX projection), the Authority in the above table has considered Interest Charges (as per ISP submission) only for the purpose of computing Tax liability of the Service Provider. Further, in accordance with the CGF Guidelines, the interest charges have not been considered in OPEX by the Authority while arriving at the final computation of ARR for the ISP (refer para 5.7.12).

8.6 Authority's decision regarding Projected Profitability in respect of the ISP for the First Control Period

8.6.1 Based on the material before it and its analysis, the Authority decides to consider projected Profitability Statement (after Tariff increase) in respect of WFSBPL for the First Control Period as per Table 37.

CHAPTER 9: SUMMARY OF AUTHORITY'S DECISIONS

The below mentioned summary provides the Authority's decisions relating to relevant chapters regarding the tariff determination for WFSBPL, providing Cargo Handling Services at Kempegowda International Airport, Bengaluru:

Chapter	Para	Authority's Decision(s)	Page No.
Chapter No.2	**2.10.1**	The Authority decides that the Cargo Handling Service provided by WFSBPL at KIA, Bengaluru for the First Control Period is **'Material but Competitive'**. Accordingly, the Authority decides to determine the Tariff for the ISP in respect of its First Control Period based on **'Light Touch Approach'.**	**13**
Chapter No.3	**3.6.1**	The Authority decides to consider the Cargo Volume for the First Control Period for WFSBPL as per Table 7.	**22**
Chapter No. 4	**4.10.1**	The Authority proposes to consider Additions to RAB as per Table 8.	**34**
	4.10.2	The Authority proposes to consider the Depreciation as per Table 11.	
	4.10.3	The Authority proposes to consider Average RAB as per Table 13.	
Chapter No. 5	**5.9.1**	The Authority decides to consider the OPEX projection for the WFSBPL in respect of the First Control Period as per Table 23.	**58**
Chapter No. 6	**6.5.1**	The Authority decides to consider 30% lower TSP Charges in respect of the cargo pertaining to AFS.	**63**
Chapter No. 7	**7.6.1**	The Authority proposes to consider the FRoR for the First Control Period as per Table 26.	**74**
	7.6.2	The Authority proposes to consider the ARR for the First Control Period as per Table 28.	
	7.6.3	The Authority proposes to consider the Tariff Rate Card for Cargo Handling Services for the ISP in respect of its First Control Period as per **Annexure-III.**	
Chapter No. 8	**8.6.1**	The Authority decides to consider projected Profitability Statement (after proposed Tariff increase) in respect of WFSBPL for the First Control Period as per Table 37.	**87**

CHAPTER 10: ORDER

Upon careful consideration of the material before it, the Authority, in exercise of powers conferred by Section 13(1) (a) of the Airport Economic Regulatory Authority of India Act, 2008, hereby orders that:

(i) The services relating to International Cargo Handling being provided by WFSBPL at Kempegowda International Airport, Bengaluru for the First Control Period of the ISP, is deemed as 'Material but Competitive'. Accordingly, the Authority has determined Tariff for the First Control Period in respect of WFSBPL, at Kempegowda International Airport, Bengaluru under the 'Light Touch Approach'.

(ii) WFSBPL is allowed to levy the revised Tariff for the International Cargo Handling Services for its First Control Period (FY2023-24 to FY 2027-28) with effect from **10.08.2023,** as per **Annexure-III.**

(iii) Tariff determined hereinunder is the maximum Tariff to be charged to Users. No other charge(s) is to be levied over and above the approved Tariff rates.

(iv) The Tariff rates approved hereinunder are excluding of all applicable taxes, if any.

(v) The Airport Operator shall ensure the compliance of this Order.

By the Order of and in the Name of the Authority

(Col Manu Sooden)
Secretary

सत्यमेव जयते

To

Mr. Kiran Kumar JG,
Chief Financial Officer, (CFO)
M/s WFS (Bengaluru) Private Limited (WFSBPL),
Administration Block, Kempegowda International Airport,
Bengaluru, Karnataka-560300.

Copy to for information:

1. Secretary, Ministry of Civil Aviation, Rajiv Gandhi Bhawan, Safdarjung Airport New Delhi-110003.
2. Sh. Hari K. Marar, CEO, BIAL, Alpha-2, Kempegowda International Airport, Bengaluru, India – 560300.

ANNEXURE-I

DETAILED COMMENTS OF WFSBPL ON THE CONSULTATION PAPER

WFS

Worldwide Flight Services

WFS (BENGALURU) PRIVATE LIMITED, BENGALURU

Response to Airports Economic Regulatory Authority of India (AERA)'s Consultation Paper No. 01/2023-24 dated April 24, 2023, Determination of tariff for WFS (Bengaluru) Private Limited (WFSBPL) in respect of cargo handling services at Kempegowda International Airport, Bengaluru for the First Control Period (FY 2023-24 to FY 2027-28)

1 Introduction

Airports Economic Regulatory Authority of India ("AERA") has released Consultation Paper No. 01/2023-24 in the matter of determination of tariff for WFS (Bengaluru) Private Limited in respect of cargo handling services at Kempegowda International Airport, Bengaluru for the First Control Period (FY 2023-24 to FY 2027-28), ("Consultation Paper" or "CP") on 24th April 2023.

WFS Bengaluru Private Limited ("WFSBPL") would like to thank the Authority for preparing and issuing the CP on WFSBPL's tariff proposal for the First Control Period as per the Authority's Light Touch Approach.

WFSBPL and its parent company, WFS Global SAS ("WFS"), have devoted significant time and resources to this process and our first major venture into India. As the largest independent cargo handling services company in the world, WFS believes that the application of its global cargo handling experience, know-how and operational prowess can help deliver significant improvements and efficiencies across India's maturing air cargo market. WFS views India as a long-term investment opportunity extending beyond its first venture in Bengaluru.

Within this document, WFSBPL submits its responses to the proposals made by the Authority within the CP. Following a detailed review of the Authority's proposals, WFSBPL believes that the proposed tariffs do not ultimately allow WFSBPL to generate a reasonable and sustainable level of profitability, and similarly that the Authority's target profitability is materially less than what other peer group cargo handlers in India are allowed to generate. The aggregate negative profit for the First Control Period outlined by the Authority ultimately makes the investment unviable, and if unchanged will prompt a revisit of a number of investment decisions which could in turn curtail the longer-term growth potential of the operation in addition to discouraging future WFS investments across India.

WFSBPL requests that the Authority consider the arguments and rationale outlined in detail within this document, and subsequently reflect an additional (incremental to what is outlined in the CP) increase in overall target level of profitability plus accompanying increase in the freight forwarder Terminal, Storage and Processing ("TSP") ceiling tariffs in the final Tariff Order, in sync with the request outlined in the WFSBPL MYTP submission which WFSBPL maintains.

2 Principles For Determination of Tariff – Light Touch Approach

2.1 AERA's Proposal

"It is pertinent to mention that though, the instant case, the Tariff for the ISP is being determined under Light Touch Approach; however, even in light touch approach, the Authority examines all the regulatory building blocks & underlying assumptions/ basis thereof, including projections relating to revenue, expenses, volumes etc. and other relevant aspects of the case, to ensure that extraordinary gains do not accrue to the Service Provider and that the end Users are not unduly burdened with high Tariff." (Para 2.5)

"Based on the material before it and based on its analysis, the Authority considers that the Cargo Handling Service provided by WFSBPL at KIA, Bengaluru is 'Material but Competitive'. Therefore, the Authority proposes to determine the Tariff for the First Control Period based on 'Light Touch Approach'" (Para 2.8)

2.2 WFSBPL's Submissions

a) WFSBPL submits that it has fully complied with the submissions required to be made as per Airports Economic Regulatory Authority of India (Terms and Conditions for Determination of Tariff for Services Provided for Cargo Facility, Ground Handling and Supply of Fuel to the Aircraft) Guidelines, 2011 ("CGF Guidelines").

b) WFSBPL has also provided all additional details/ documents and clarifications called for by the Authority.

c) AERA has also concluded, based on its analysis, that the operations of WFSBPL as per the Service Provider Right Holder Agreement executed with Bangalore International Airport Limited ("BIAL") on 16th December 2022 ("SPRHA") are "Material and Competitive" and has confirmed applicability of the Light Touch approach.

d) Under this approach, WFSBPL is required to submit Form B, Tariff Card, Details of consultations with stakeholders as required by the CGF Guidelines. Being a new concessionaire, WFSBPL is in the process of entering into User agreements with Airlines which can be submitted to AERA as soon as they are executed.

e) Even after being satisfied of the availability of a competitive environment for operations of WFSBPL, which is the framework envisaged for the Light Touch approach of tariff determination in AERA's Guidelines, it appears that AERA has gone beyond its own framework in its evaluation process and has undertaken a detailed evaluation and computation of required revenues, which is more appropriate under the Price Cap approach. It is pertinent to note that under a competitive environment, AERA's Guidelines also envisage the position wherein the market forces will drive an optimized and reasonable tariff structure for the benefit of the users.

f) WFSBPL had carried out an analysis of the revenues required to ensure reasonable profitability, determined with reference to comparable peer benchmark profitability levels, and had accordingly computed the increase in rates required which have been outlined in the MYTP. Unlike other independent service providers ("ISPs") in India, ***WFSBPL had submitted rates that would result in losses in the initial years which it would absorb considering the need to balance the interest of all stakeholders***. The Consultation Paper and approach taken by the Authority do not appear to consider reasonable profitability targets, which we understood to be a core principle of Light Touch.

a) AERA's evaluation of the MYTP, while being stated as Light Touch, is in our view more akin to an intrusive Price Cap determination, which would not provide a level playing field for WFSBPL with other operators (Refer 1 for example of such operators) with respect to whom a Light Touch approach together with an overall profitability evaluation was conducted. Additionally, in a Light Touch approach AERA does not provide for any "True Ups", thereby creating a further disadvantageous situation for WFSBPL. In effect, the Authority has introduced an intrusive Price cap approach under Light touch wherein the True up benefit is also not given.

Table 1: Example of Operators with Profitability determined via Light Touch Approach by the Authority

ISP	Airport Location	Tariff Period	CP/Order No	Order Date
AAICLAS	Mangalore	FCP (FY20 - FY24)	45/2020-21	17.09.2020
	Chennai	FCP (FY20 - FY24)	16/2020-21	29.06.2020
	Pune	FCP (FY20 - FY24)	35/2020-21	01.09.2020
GSEC	Ahmedabad	TCP (FY22 - FY26)	27/2021-22	16.11.2021

b) Most importantly, AERA's computation under its approach has resulted in a negative profit for WFSBPL in aggregate for the entire First Control Period. This makes the entire investment unviable for WFSBPL and vitiates the assumptions and plans made at the time of investing in Indian cargo operations by WFSBPL.

c) Also, in AERA's assessment, apart from negative profit, cash losses are estimated throughout the Control Period, when the estimate considered by AERA is adjusted for the unrealizable revenue from airlines (as elaborated in Para 10.2(**Error! Reference source not found.** (Refer Table 2) which again contributes to making the entire investment unviable for WFSBPL and again vitiates the assumptions and plans made at the time of investing in Indian cargo operations by WFSBPL.

Table 2: Profitability situation / Cash Losses estimated by AERA

भारतीय विमानपत्तन आर्थिक विनियामक प्राधिकरण
Airports Economic Regulatory Authority of India
सत्यमेव जयते

Profit and Cash losses as per AERA (Rs. In Crs.)	FY24	FY25	FY 26	FY 27	FY 28	Total
Profit as per AERA	(27.65)	(14.70)	(3.89)	8.83	24.87	**(12.54)**
Add: Depreciation	5.28	10.89	10.99	11.12	11.31	49.59
Cash Profit as per AERA	**(22.37)**	**(3.81)**	**7.10**	**19.95**	**36.18**	**37.05**
Less: Revenue not realisable *(Table 12)*	(5.42)	(10.22)	(14.59)	(19.55)	(25.78)	(75.56)
Total Cash Profit/ (Loss)	**(27.79)**	**(14.03)**	**(7.49)**	**0.40**	**10.40**	**(38.51)**

d) Therefore, WFSBPL submits that AERA, by taking the view that it is acceptable for a commercial venture to achieve negative profits over the course of a Control Period, acts against its own objectives to create a level playing field and encourage investment in airport facilities. By not permitting WFSBPL to achieve a reasonable and sustainable net profit margin, AERA has set a precedent that it will limit future investment in India's cargo operations. Please also refer Section 10.2 of this document.

e) AERA has noted that this analysis is done in order to ensure that there are no extra-ordinary gains to operator and that there is no burden to users. WFSBPL reiterates that it has in its submission projected an eventual profitability of 19% on revenues for the final year of the First Control Period, in line with industry standards, with losses projected for the first 2 years. Hence, there is no question of undue gains or burden.

WFSBPL reiterates the validity of the MYTP submission made and accompanying well-justified rate increases sought. WFSBPL requests that in determining the final Tariff Order, AERA considers a reasonable profitability benchmark and underpinning additional (versus what has been outlined in the CP) increase in TSP ceiling rates to ensure the long-term viability of its Bengaluru cargo operation.

3 Cargo Volume Projections

3.1 AERA's Proposal

"For estimating annualized international cargo volumes for FY 22-23 (baseline volume), the Authority considered decrease of 28% in international cargo volumes in FY 22-23 (based on actual international cargo volume handled by the incumbent (AISATS) for the period April 22 to February 23 & extrapolating cargo volumes for Mar 23), as compared to actual international cargo volumes handled by AISATS in FY 21-22 i.e 126547 MT." (Para 3.2.6, Table 6)

3.2 WFSBPL's Submissions

a) WFSBPL had submitted a detailed bottom-up projection of the base tariffs for FY 2023-24 considering the overall traffic conditions at Bengaluru and the conditions of sharply declining volumes handled by the incumbent operator of CT2, to arrive at an annualized volume assumption of 79,005 MT. In the presented scenario, WFSBPL considered a steep increase in projected volumes (28,160 MT) to account for customer wins and a general rebound in cargo at the airport. Such assumptions assumed a growth in market share for WFSBPL to ~50% from less than 40%, which is unlikely to be achievable in such a short period of time. Incremental to this aggressive baseline assumption, annual growth was projected at the highest CAGR experienced at Bengaluru Pre Covid-19 impact.

b) Since its MYTP submission which considered volume trend up to November 2022, the cargo volumes handled by the incumbent operator AISATS have remained materially down year-over-year, as detailed in the table below.

Table 3: CT 2 - Existing international cargo volumes handled

Month	FY2021-22	FY2022-23	YoY % Change
April	9,688	9,366	-3%
May	10,116	9,170	-9%

June	9,257	8,366	-10%
July	10,881	8,704	-20%
August	11,870	7,987	-33%
September	11,963	7,902	-34%
October	12,683	6,903	-46%
November	10,916	6,584	-40%
December	10,391	7,194	-31%
January	9,193	6,639	-28%
February	8,592	6,475	-25%
March	10,995	8,031	-27%
Grand Total	**1,26,546**	**93,319**	**-26%**

c) Also, a comparison of Cargo volumes in April 2022 and April 2023 is as below:

Table 4: CT 2 – Comparison of Cargo volumes handled in April 2022 and April 2023

Month	International Cargo MT
April 22	9366
April 23	7436
Difference	(1930)
Y-o-Y growth	**(20.6%)**

d) The Authority has considered a baseline of 91,725 MT versus 79,005 MT considered by WFSBPL by considering actual volume of AISATS in FY 2023 till February 2023 and adding an estimate for March 2023. The cargo volumes witnessed in April 2022 – May 2022 are extraordinarily high (one-time impacts), and these volume spikes are unlikely to repeat in the next years.

e) The Authority has subsequently assumed an annualized traffic volume of 132,308 MT for WFSBPL for FY2023-24, which represents a growth of 42% compared to the volume of cargo handled by AISATS at the same facility during the period of FY2022-23 which amounted to 93,319 MT (see table above).

f) It is pertinent to note that during the FY2022-23 period in question, the overall cargo volumes at AISATS facility declined 26% YoY, and the overall market at KIAB (considering CT1 and CT2) declined 8% YoY.

g) It is important to note that the volume for the months April 2023 onwards will be on the basis of the volumes handled by AISATS in March 2023. The reducing volumes handled by AISATS clearly indicates its loss of market share/ impact of shifting customers, and hence should be considered based on the monthly run rate. With current share being only 36% of total volumes, WFSBPL has considered a steep increase to around 50% of the total, which is a very aggressive and optimistic estimate.

h) AERA has therefore considered an increased baseline which runs contrary to the actual trends on the ground, and in addition to that, added the rebound target calculated on the assumption of a lower base. This is double counting of the potential upside on cargo volumes and results in an unrealistic tonnage projection right from FY 2023-24.

i) With the prevailing market conditions casting doubts on the achievability of the already estimated baseline number of 119,587 MT, any increase in the same would only artificially increase the volume and revenue, thereby artificially reducing the necessary rate increase.

j) WFSBPL does not expect to be able to achieve the volumes estimated by the Authority, which is expected to result in significant under-recovery of revenues and result in a much higher loss than the overall loss estimated by the Authority.

WFSBPL requests the Authority to consider the volume estimates as submitted by WFSBPL in its submissions in order to avoid over-inflating the revenue estimates by volume rebound and growth which

will not be achievable. With no true-up protection in under Light Approach, this will severely impact profitability and investment decisions.

4 Depreciation

4.1 AERA's Proposal

"In view of the above and considering that during the first Tariff year, most of the capital works are likely to be capitalized around middle of FY 2023-24, therefore, the Authority proposes to compute depreciation for the year of capitalization, considering 50% of the asset value"(Para 4.4.4)

4.2 WFSBPL's Submissions

a) WFSBPL notes that Para 9.2.5 (d) of AERA guidelines provides for additions to be considered to be in the middle of the year and depreciation is considered accordingly.

b) We submit that this however is trued up based on actual depreciation based on the date of capitalization at the time of update of actual details in the next control period.

c) In the current submission, based on the date of commencement of operation in May 2023 during which these assets will be used for operations, WFSBPL requests the Authority to consider deprecation for a 10-month period for 2023-24.

WFSBPL requests AERA to consider depreciation for 10 months for FY 2023-24.

5 Operating Expenses

5.1 Payroll Cost

5.1.1 AERA's Proposal

"It is observed that though WFSBPL while projecting OPEX, including payroll & R&M Expenses etc., has based its cost estimates on the prevailing cost structure of the incumbent operator; however, ISP has not submitted any documents relating to cost structure of present incumbent operator. As per the information relating to present cargo operator available with the Authority, AISATS has considered just 3% YoY increase on its total payroll costs for their Bengaluru cargo operations, as against annual inflation of 14.2% considered by the ISP for payroll expenses. Moreover, the YoY increase of 14.2% considered by the ISP is in addition to volume driven increase in payroll expenses.(Para 5.4.1)

The justifications submitted by WFSBPL for upliftment of 25% in payroll costs for each category of employees, over and above the category-wise average salary calculations, are not convincing and obscure; as baseline salary for each category of employees have already been worked out by the ISP considering all the relevant factors, moreover, baseline salary is further subject to annual increments & increase in minimum wages etc. (Para 5.4.1)

In addition, as per the ISP, the majority of cargo employees falls under the unskilled labour category whose wages are governed under the minimum wages, notified by Government Authorities from time to time, and annual increase in minimum wages is generally lower than the YoY increase considered by the ISP for these employees. (Para 5.4.1)

Besides above, it is also observed that the ISP has linked historical WPI-Manufacturing with increase in minimum wages and has worked out projected inflation in payroll expenses @ 14.2%, based on ratio of historical increase in minimum wages with historical increase in WPI manufacturing (FY 12 to FY 22). It is not appropriate to compare and link increase in price of commodities (WPI manufacturing) with increase in price of services (minimum wages).(Para 5.4.1)

In view of the above, the Authority proposes to rationalize the payroll expenses projected by the WFSBPL, by excluding upliftment of 25% in salaries for all employees, considered by the ISP for the first Tariff Year. Accordingly, payroll expenses for the ISP have been worked out at ₹ 32.13 crores (annualized) by the Authority, as against Rs. 40.12 crores proposed by the ISP for the FY 2023-24. (Para 5.4.1)

However, as regard to Y-o-Y increase in payroll costs considered by the WFSBPL, the Authority considering the projected increase in cargo volumes, increase in minimum wages and annual salary increments and also taking into account the projected Y-o-Y increase in the revenues which is in line with the projected Y-o-Y increase in payroll costs, proposes to consider Y-o-Y increase in payroll expenses as proposed by the ISP." (Para 5.4.1)

5.1.2 WFSBPL's Submissions

a) WFSBPL thanks the Authority for considering the year-over-year increase in payroll expenses. However, the Authority has not considered the component of 25% of salary cost made up of Employee Benefits including Provident Fund and other similar contributions, stating that these are not convincing and obscure.

b) WFSBPL reiterates that in line with the detailed submissions made earlier, the estimates are fully based on the incumbent cost insights and estimates which have been confirmed by AISATS, relating to Provident Fund and other contributions.

c) WFSBPL has also considered optimization in costs based on aggressive productivity and efficiency improvements targeted over the Control Period. Such efficiency improvements expected during the First Control Period are significantly more ambitious (in terms of YoY % improvement) than those achieved at other stations in the WFS portfolio worldwide and are only achievable with well-incentivized and well-trained employees (hence the need to secure a large element of the existing incumbent workforce).

d) The personnel cost submitted by WFSBPL is comparable to the industry standards and is in the range as compared with other Cargo operators which has been approved by AERA as outlined below:

Table 5: Personnel Cost comparison (Submitted by WFSBPL and as per Hyderabad Cargo Order)

Airport	Operator	Financial Year	No of Employees	Payroll Cost (INR Crs.)	Payroll Cost per Employee (INR Lakhs)
Bangalore	WFSBPL	FY 24	878	40.12	4.57
Hyderabad	GHAC	FY 24	760	36.63	4.82

WFSBPL requests AERA to consider the personnel costs as submitted within the MYTP which are underpinned by current incumbent-confirmed estimates.

5.2 Consumable, Utility, Repair and Maintenance Cost

5.2.1 AERA's Proposal

"The Authority observes that as per the ISP, the current state of the Cargo Terminal (CT2) and CCF is extremely poor and in disrepair. Accordingly, ISP has undertaken major refurbishment of CT2 & CCF and procurement of MHS at an estimated cost of Rs 109.47 crores & Rs. 28.93 crores (incl. expansion) respectively. Considering that WFSBPL is spending huge amount on refurbishment & restoration works & procurement of new Cargo Handling Equipment for Cargo Terminal & CCF, it should result in lower R&M expenses for the ISP, at least in initial years of the Control Period. In the above background, repair and maintenance expenses of ₹ 49.57 crores proposed by the WSFBPL for the First Control Period appears to be on higher side. (Para 5.4.7)

The Authority sought clarifications from ISP in this regard. In response thereto, ISP has submitted that they have estimated the repair and maintenance cost for the control period by starting with the approximate costs *that are incurred by the incumbent. WFSBPL further submitted that approximately ₹ 21 crores only have been proposed to be spent as capital expenditure on new equipment. This mainly consists of forklifts and x-ray machines. Apart from these changes, the existing equipment would continue, and therefore WFSBPL expects that the costs incurred by the incumbent would continue. Further, it should be noted that the CT2 terminal is about 15+ years old. (Para 5.4.7)*

As already indicated above, after the major refurbishment & restoration work in respect of CT2 & CCF and procurement of new cargo equipment, the Authority feels that the repair and maintenance costs proposed by the ISP is on higher side and on top of it, ISP has considered YoY escalation in R&M expenses at 11%, whereas, ISP itself has estimated WPI of 4.4% p.a. Therefore, the Authority proposes to rationalize the R&M costs by considering lower YoY increase in R&M expenses @7% YoY from FY 2024-25 onward for the First Control Period." (Para 5.4.7)

5.2.2 WFSBPL's Submissions

a) WFSBPL has considered escalation rates for the costs based on the rate of increase anticipated by it and in line with vendor insights and the trends observed in other WFS operations.

WFSBPL requests AERA to consider the escalation rates as proposed within the MYTP, which WFSBPL believes represent accurate estimates informed by vendor insights and WFS experience from other WFS stations.

5.3 IT costs

5.3.1 AERA's Proposal

"Since, the ISP has already considered broad-based IT OPEX in first year itself (FY 2023-24), the Authority feels that going forward with 12% YoY escalation in IT OPEX is on the higher side, particularly taking into account WPI inflation estimated by the ISP is around 4.4%. Further, 75% IT cost variability with volume assumed by ISP also appears to be on higher side, as IT hardware and software are capable of handling higher cargo turnover (in financial terms), though the physical handling of higher cargo volumes may require more material handling equipment. In view of the foregoing, the Authority proposes to rationalize the IT costs by considering lower YoY increase in IT costs @ 7% from FY 2024-25 to FY 2027-28."(Para 5.4.8)

5.3.2 WFSBPL's Submissions

a) WFSBPL has considered escalation rates for the costs based on the rate of increase anticipated by it and in line with the trends observed in other operations. AERA has not considered that the software utilized by Cargo Operators (e.g., Warehouse Management System "WMS") requires a charge per volume handled. This therefore increases costs on a one-for-one basis with volume.

WFSBPL requests AERA to consider the escalation rates as proposed within the MYTP, which WFSBPL believes represent accurate estimates informed by vendor insights and WFS experience from other WFS stations.

6 Return on Security Deposit (SD)

6.1 AERA's Proposal

"As regard to return on interest free SD, the Authority proposes to consider 5% return on interest free SD, as per the AERA's consistent approach regarding rate of return on interest free SD and also proposes to exclude return on SD from OPEX table as the same has been given separately along with return on RAB under ARR calculation."(Para 5.4.9)

6.2 WFSBPL's Submissions

a) WFSBPL submits that requirement of a Security Deposit is an integral part of the SPRHA executed with BIAL.

b) The Security Deposit is a part of the long-term funding required for the project for which funds are to be arranged by WFSBPL.

c) WFSBPL had, considering the total long-term fund requirement for Capital Expenditure and Security Deposit, arranged for funding through ECB from its Parent Company in addition to the Equity funding. Rate of interest for the said loan was based on RBI approved rates and on an arms' length basis as per the Corporate Governance Framework.

d) As a loan has been taken for funding the Security Deposit and as the same is paid in cash to BIAL (and not as Guarantee etc.), the cost incurred by WFSBPL should be considered accordingly by the Authority in its tariff determination process.

e) WFSBPL is a new entrant in Cargo business and faces many risks similar to any new startup business and hence should not be compared with other operators. Also, the Security Deposit has not been funded by any internal accruals but only based on borrowing and Equity. Providing lower returns on Security Deposit raised by a startup business like WFSBPL will result in losses for the startup which has no access to large scale internal accruals.

f) The mismatch between the cost of equity/ loan and the return earned on a substantial long-term investment in the form of a Security Deposit creates an implied loss on funds that have been invested in the Security Deposit. The Security Deposit should be a cost-neutral facility in order to achieve its intended purpose of providing security for the airport in case of any accidents or required pay-outs. The implied loss on funds attributed to the Security Deposit is also one key reason for lack of profitability (Negative profit) as estimated by AERA itself for the WFSBPL operation.

g) WFSBPL also notes that in the earlier Orders of other ISPs (Order No. 32/ 2017-18 dated 18th December 2017) where Authority has noted that "*If a WACC return on such large deposit is provided to ISP, then the corresponding return earned by the Airport operator has to be clawed from their respective ARR. As the Authority has so far not considered any notional revenue in the books of the Airport operator for the ARR computation, in case a WACC return is allowed to ISP, then a retrospective calculation of the same may have to be made while truing up the revenue for the airport operator in the coming control period*". In this context WFSBPL submits that any deposit raised by an Airport Operator, if remains as cash, results in an Interest Income which is considered as part of Tariff determination process as part of Non-Aeronautical Revenues by AERA. Hence, these revenues are already in the ambit of Airport Operator tariff determination.

h) AERA has also noted in the said ISP Order that "*On the contrary, in case no return for a large deposit of a long tenure is allowed to ISP, it would result in the reduction of the real value of such deposits at the end of the contract period*". WFSBPL respectfully submits that not providing an adequate return on a deposit, will also reduce the real value of the deposits.

i) While AERA and TDSAT have noted that the Security Deposit has no direct relevance to the operations of the facility, WFSBPL submits that these are part of the terms of commercial agreements that were mandated by the Airport Operator and the concessionaire such as WFSBPL has no option but to comply with the same. Any income earned out of the concession including interest etc. on Security Deposit, at the hands of Airport Operator, is being considered as part of the tariff determination at the airports.

j) A stylised example demonstrating the effect of a very low and inappropriate return being given on Security Deposit and its impact on the overall profitability is given below. ***(Please note that the numbers herein used are examples and for illustration only).***

Table 6: Sample computation of return % under current process of AERA for hypothetical company

Assumptions	Figures
CoE	14%
CoD	10%
Total Project cost - Rs. Cr.	
Capex	150
Security Deposit	50
Total	**200**
Funded by - Rs. Cr.	
Equity	50.00
Debt	150.00
Total	**200**
Depreciation per annum Rs. Cr.	**10**
Interest cost per annum Rs. Cr.	**15**
Assume Loan repayment equals Depreciation	

Assume all actual costs are a passthrough, (Operating Expenditure, Depreciation and even Tax (Tax not considered in this example). Therefore, return on RAB plus return Security Deposit minus Interest cost is the profit for the hypothetical/example company as presented below:

Particulars	Y1	Y2	Y3	Y4	Y5
Equity Movement					
Opening Equity	50.00	53.78	57.44	60.98	64.39
Add Profit for the year	3.78	3.66	3.54	3.41	3.29
Closing Equity	53.78	57.44	60.98	64.39	67.68
Average Equity	51.89	55.61	59.21	62.69	66.04
Debt movement					
Opening Debt	150.00	140.00	130.00	120.00	110.00
Less: Repayment	-10.00	-10.00	-10.00	-10.00	-10.00
Closing Debt	140.00	130.00	120.00	110.00	100.00
Average Debt	145.00	135.00	125.00	115.00	105.00
Gearing Equity	26.35%	29.17%	32.14%	35.28%	38.61%
Gearing Debt	73.65%	70.83%	67.86%	64.72%	61.39%
Total funds	196.89	190.61	184.21	177.69	171.04
Weighted Gearing	67.90%				
WACC	11.28%				
WACC (Annual)	11.05%	11.17%	11.29%	11.41%	11.54%
Average RAB computation					
Opening RAB	150.00	140.00	130.00	120.00	110.00
Depreciation	10.00	10.00	10.00	10.00	10.00
Closing RAB	140.00	130.00	120.00	110.00	100.00
Average RAB	145.00	135.00	125.00	115.00	105.00
Simplified P&L					
Return on RAB	16.36	15.23	14.10	12.98	11.85
Return on SD @ 5%	2.50	2.50	2.50	2.50	2.50
Interest cost	-15.00	-14.00	-13.00	-12.00	-11.00
Net profit	**3.86**	**3.73**	**3.60**	**3.48**	**3.35**
Return on Equity invested	**7.44%**	**6.71%**	**6.09%**	**5.55%**	**5.07%**

k) From the above, it is clearly evident that, under AERA's own methodology, it is not possible to earn even a reasonable return if the return on Security Deposit is not given based on the cost incurred to raise the deposit.

l) Further, Hon'ble TDSAT has, in the order issued relating to DIAL's Aeronautical Tariff for the first control period stated in Paragraph 106 that "*...At the least, the cost would be the rate of return made available by the approved funds having required ratings of CRISIL*"

WFSBPL requests AERA to provide for a return equal to WACC, or at a minimum Cost of Debt, on the Security Deposit funded.

7 Preliminary Expenses

7.1 AERA's Proposal

"The Authority further notes from the information submitted by the WFSBPL that the interest of ₹ 3.10 crores for the period Nov 2022 to May 2023 on the loan availed from parent company has been included in Preliminary expenses. The Authority notes from the documents furnished by the ISP that the tenure of the loans indicated above are being availed by the ISP is more than 12 months and the aforesaid loans are primarily meant to finance CAPEX proposed for the Control Period. Accordingly, the same is not qualifying for a working capital loan. Therefore, the Authority proposes to exclude interest amount of ₹ 3.10 crores from OPEX proposed for the First Control Period. In view of the above, the Authority proposes to consider the preliminary expenses up to COD amounting to ₹ 12.25 (₹15.35 - ₹ 3.10) crores in the first year i.e. FY 2023-24."(Para 5.4.10)

7.2 WFSBPL's Submissions

a) WFSBPL had estimated the cost of interest to be incurred before commencement of the Project. As these relate to costs to be incurred until May 2023, a period less than 1 year from the time of receipt of the loan, the same is not capitalised as part of the Capital Expenditure cost, as per the applicable accounting provisions.

b) Not considering a legitimate cost as part of the cost to be considered for reimbursement through regulatory means deprives a legitimate reimbursement (resulting in loss), which WFSBPL does not believe is in line with the regulatory framework of ensuring reasonable return.

c) WFSBPL submits that the actual interest and pre-operative cost incurred till March 2023 amounts to Rs. 5.9 crore.

d) WFSBPL hence requests the same to be considered as part of the Preliminary expenses. It is pertinent to note that if the cost is part of Capex, as per AERA, the same is not also added to the asset base by AERA to provide a return on the same.

WFSBPL requests to the Authority that legitimate costs incurred for the entity be considered as part of the cost and a reimbursement provided on the same basis through the tariff determination process.

8 Interest Cost

8.1 AERA's Proposal

<u>*Cost of Debt*</u>

"The authority notes that yearly interest liability on term loans from FY 2023-24 to FY 2027-28 has been considered by WFSBPL as part of its operating costs and charged off to projected Profit & Loss Account in the respective years of the First Control Period. The Authority proposes to consider interest expenses in Profit & Loss statement only and same will not be made part of ARR calculations." (Para 5.4.11)

The Authority notes that WFSBPL has computed ARR considering Interest on Working Capital, which is not consistent with AERA's CGF Guidelines, 2011. (Para 7.2.1)

...The Authority feels that GSEC yield may fluctuate in a short term, however, on a long-term perspective GSEC yield is expected to follow historical trend. Therefore, the Authority is of the view that yield on GSEC in future may not move only in upward direction, as assumed by the ISP. In view of the above, the Authority, for the purpose of computation of FRoR, proposes to consider the Cost of Debt @ 9.56%, based on the cost of debt considered by the ISP for the first tariff year i.e. FY 2023-24. (Para 7.2.2)

Cost of Guarantee

Custodianship Cost: The Authority notes that as per clause 18 of Joint Venture Agreement, Service Provider Right Holder shall be solely responsible for performing all the obligation under and complying with all applicable laws relating to Indian Customs, whether applicable to BIAL as custodian or otherwise. The extract of the relevant Clause is as under:

"SPRH-2 i.e. WFSBPL shall reimburse to BIAL the costs incurred by BIAL for providing bond, bank guarantee and any other costs required by customs authorities in relation to its custodianship.

The SPRH-2 shall also be responsible for costs such as penalties, fines, other costs related to custodianship, or any other cost required by Customs"

In the view of the above, the Authority proposes to consider the custodianship cost (commission @ 0.7%) payable to bank on the bond to be executed for estimated outstanding custom outstanding of Rs. 60 crores, as submitted by ISP for the First Control Period. (Para 5.4.6)

The Authority sought basis of proposed bank commission @ 5% p.a. in respect of performance guarantee, which appears to be higher. The ISP vide email dated 07.03.2023 stated that it was a clerical error and bank commission on performance guarantee may be taken as 1.9% p.a. instead of 5% p.a. (Para 5.4.9)

Interest on Working Capital

The Authority notes that WFSBPL has computed ARR considering Interest on Working Capital, which is not consistent with AERA's CGF Guidelines, 2011. (Para 7.2.1)

8.2 WFSBPL's Submissions

Interest cost as part of P&L and not ARR

a) WFSBPL notes that the Authority has proposed that the interest cost on term loans will be part of P&L and not considered as part of the ARR calculations.

b) WFSBPL submits that the MYTP submissions made by it are based on an overall reasonable profitability level supported by the projected income statement, and that the interest costs are part of the overall costs and should be considered accordingly by the Authority.

Cost of Debt considered at a standard rate without any increase in further years.

c) WFSBPL has submitted the basis of the Interest costs estimated for the first year and the future years.

d) While the rate increase is pegged to the G-Sec movement, the future trends are not exactly reflective of the past behaviour as detailed by AERA. It is pertinent to note that even in AERA's analysis, March 2022 yield rates are higher than the rates of February 2021.

e) Considering the emerging global scenarios and the rate hikes announced everywhere, the interest costs are only likely to increase, as can be seen from recent developments.

f) AERA also has taken cognizance of the fluctuations in the G-Sec noting that "The Authority feels that GSEC yield may fluctuate in a short term, however, on a long-term perspective GSEC yield is expected to follow historical trend". Even with any short-term fluctuations, WFSBPL is obligated to pay such costs to the lender of the loan and cannot refer to a long-term equilibrium and avoid Interest payments. Considering current global scenarios and rate hikes in other countries, it is considered likely that interest costs will continue to rise. Recent developments support this include the US Federal Reserve's decision to increase interest rates in December 2022. (References: Reuters, "Fed Raises Interest Rates for First Time in Over a Year", December 15, 2022. (https://www.reuters.com/markets/central-banks-ramp-up-rates-again-pace-slows-2022-12-15/)

g) The below table of SBI MCLR for a period of last one year gives a clear indication of increasing interest rates.

Table 7: SBI MCLR rate trend

Marginal Cost Lending Rates

Effective Date	Interest Rate (%)						
	ON	1M	3M	6M	1Y	2Y	3Y
15.04.2023	7.95	8.1	8.1	8.4	8.5	8.6	8.7
15.03.2023	7.95	8.1	8.1	8.4	8.5	8.6	8.7
15.02.2023	7.95	8.1	8.1	8.4	8.5	8.6	8.7
15.01.2023	7.85	8	8	8.3	8.4	8.5	8.6
15.12.2022	7.85	8	8	8.3	8.3	8.5	8.6
15.11.2022	7.6	7.75	7.75	8.05	8.05	8.25	8.35
15.10.2022	7.6	7.6	7.6	7.9	7.95	8.15	8.25
15.09.2022	7.35	7.35	7.35	7.65	7.7	7.9	8
15.08.2022	7.35	7.35	7.35	7.65	7.7	7.9	8
15.07.2022	7.15	7.15	7.15	7.45	7.5	7.7	7.8
15.06.2022	7.05	7.05	7.05	7.35	7.4	7.6	7.7
15.05.2022	6.85	6.85	6.85	7.15	7.2	7.4	7.5
15.04.2022	6.75	6.75	6.75	7.05	7.1	7.3	7.4

Source: https://sbi.co.in/web/interest-rates/interest-rates/mclr-historical-data

h) Considering the above, it is important that the small increase in rate of interest estimated by WFSBPL is provided so that there is no interest cost lost by WFSBPL which remains uncompensated in the regulatory mechanism of AERA.

Interest on Bank Guarantee related cost not considered

i) In the Consultation Paper, AERA has outlined the requirement of a Performance Guarantee as per the SPRHA executed with BIAL. WFSBPL has requested that the Performance Guarantee be considered at 1.9%, instead of the 5% initially submitted.

j) However, AERA has not considered the cost as part of Operating Expenditure, possibly, we would respectfully suggest, by oversight.

k) As these are legitimate costs contractually required to be incurred by WFSBPL, we request the Authority to include the same as part of Operating Expenditure. The estimate for the 5-year period for the same are Rs. 2.24 crs. respectively.

Interest on Working capital not allowed

l) WFSBPL has estimated the need for working capital based on the requirements for funding routine operational needs and to meet the cash losses expected to be incurred in the business. These cash losses (Refer Table 2) as estimated by AERA amounting to Rs. 27.05 Crs, further adjusted for the revenue that will not be collected (Refer Table 12) in the region of Rs. 51.84 Cr.

m) It is evident from the table that despite the increased volume and other factors proposed by the Authority in the Consultation Paper, cash losses are still expected to be incurred.

n) It is essential to factor in the cost of working capital to ensure that the business is adequately funded and can meet its operational requirements without any interruption.

o) AERA has noted that this is not consistent with CGF Guidelines. WFSBPL reproduces Para 9.4.3 of the CGF Guidelines which states as follows:

"The Authority shall consider interest on short term loans, generally raised towards working capital with a maturity of less than one year, as operation and maintenance expenditure to address the working capital requirement."

p) WFSBPL submits that one part of the loan proposed to be taken is for funding the Working Capital requirement, which is also explicitly provided for consideration as Operation and Maintenance Expenditure as per the CGF Guidelines.

q) As these are legitimate and mandatory costs required to be incurred for the purpose of operations of WFSBPL considering the working capital requirement and the loss position not resulting in any Internal accruals being built up, these are required to be provided for as reimbursement as part of Operating Expenses of WFSBPL.

Based on the above rationale, WFSBPL humbly requests the Authority to:

a) Provide for increase in interest cost as estimated by WFSBPL
b) Consider cost of guarantee as a part of Operating Expenditure
c) Consider cost of work capital as a part of Operating Expenditure

9 Fair Rate of Return (FRoR/ WACC)

9.1 AERA's Proposal

"The Authority proposes to consider Cost of Equity @ 14% for the First Control Period, which is in line with the AERA's consistent approach for considering Cost of Equity for ISPs (Para 7.2.2)

... Considering the above, the Authority proposes to consider FRoR @ 10.31% for computation of ARR in respect of WFSBPL for the First Control Period as per Table given below (Para 7.2.2)

The Authority observes that the ISPs bring different mix of debt and equity, which leads to considerable variation in the Fair Rate of Return. The Authority will analyze this issue in future and may rationalize and shift to notional gearing ratio, for the computation of FRoR. (Para 7.2.3)

9.2 WFSBPL's Submissions

a) As detailed earlier, WFSBPL submits that the tariff determination process should adopt a Light Touch approach evaluating overall profitability and reasonableness only. Whilst WFSBPL does not agree with the Authority's application of FRoR and Return on RAB (which WFSBPL understands are only applicable to Price Cap and therefore not applicable under Light Touch), WFSBPL submits the following observations:

<u>Cost of Equity</u>

b) AERA has stated that the Cost of Equity will be only 14% in line with the Authority's approach for ISPs and has not detailed any basis or backing for such an estimate.

c) Clause 9.1.3 and AI.5.2.3 read with 2.11 of the CGF Guidelines also require an evaluation using a Capital Asset Pricing model, details of which have not been provided by the Authority.

d) WFSBPL has noted that AERA has proposed a Cost of Equity of 14% without evaluating the factors that may impact the project's risk and return expectations. The Cost of Equity generally applied by WFSBPL is 23. 55% which is reflective of the risks and consequent return expectations.

e) AERA has evaluated the cost of equity for Airport Operators in the range of 15% to 15.5% together with a notional gearing being used for evaluating FRoR as can be assessed from the table below. The Airport

Operators generally enjoy a monopoly situation whereas there are additional risks of competition and other factors that ISPs face and hence the risk profile of the ISPs is different and far higher.

f) Table 8: FRoR of other Airport Operators considered by AERA

Airport	Control Period	Order No	Date	Gearing	CoE	FRoR
Delhi	TCP (FY20 - FY24)	57/2020-21	12/30/2020	48.00%	15.41%	12.75%
Bangalore	TCP (FY22 - FY26)	11/2021-22	8/28/2021	48.00%	15.05%	11.59%
Mumbai	TCP (FY20 - FY24)	64/2020-21	2/27/2021	48.00%	15.13%	12.81%
Hyderabad	TCP (FY22 - FY26)	12/2021-22	12/2021-22	48.00%	15.17%	12.20%

Gearing and consequent FRoR

g) WFSBPL notes that the FRoR considered by AERA in case of other ISPs are in a much higher range as detailed below:

Table 9: FRoR of other ISP operators considered by AERA

Airport	Operator Category	Operator	Gearing	Cost of Debt	Cost of Equity	FRoR	Approach
Delhi	Cargo	DCSC	0.00%	0.00%	14.00%	14.00%	Light Touch
Hyderabad	Cargo	GHAC	38.25%	9.00%	14.00%	12.09%	Light Touch
Bangalore	Fuel	IOSPL	9.00%	8.50%	14.00%	13.50%	Price Cap
Bangalore	ITP	BSSPL	21.00%	10.00%	14.00%	13.12%	Price Cap
Mumbai	Fuel	MAFFFL	0% to 30%	0.25% to 2.18%	14.00%	13.28%	Price Cap
Mumbai	Cargo	MCSCAPL	0.00%	0.00%	14.00%	14.00%	Light Touch

h) This is presumably because of the lower gearing of debt. WFSBPL has consciously worked on ensuring an optimum mix of debt and equity to balance business needs and contractual arrangements in place with the Airport Operator as a JV partner. It appears that WFSBPL is being penalized for ensuring optimum financing whereas AERA has considered the Gearing at actuals, taking advantage of the higher debt financing and at the same time considering CoE at 14% without basis.

i) Further, AERA has computed the Gearing considering the Debt and Equity mix of entire WFSBPL operations. It is pertinent to note that a significant part of the total funding is towards Security Deposit which the Authority has evaluated separately. Hence, the Authority should consider the gearing after setting aside the cost related to Security Deposit for computing the Weighted average gearing as presented below:

Table 10: Weighted Average Gearing after setting aside cost related to Security Deposit

Particulars	FY 24	FY 25	FY 26	FY 27	FY 28
Equity in INR Cr.	36.08	36.08	36.08	36.08	36.08
Debt in INR Cr.	139	139.05	134.01	126.25	118.49
Total in INR Cr.	**175.13**	**175.13**	**170.09**	**162.33**	**154.57**
Gearing	**79.40%**	**79.40%**	**78.79%**	**77.77%**	**76.66%**
Weighted Average Gearing					**78.47%**

j) Also, AERA has noted that it may shift to a notional gearing ratio in future. WFSBPL submits that it has planned efficiently the Debt and Equity mix of the operations in order to ensure costs of operations are managed optimally. Not allowing a notional gearing but applying the actual gearing and on top of the same, considering a Rate of Equity at 14% has led to a very curtailed FRoR being considered by AERA for WFSBPL, which is not reflective of the business needs and has led to a loss on an overall basis, making the operations unviable. The FRoR is also not in line with the other operators in the Aviation sector in India.

k) Based on the Cost of Equity at 23.55% and the gearing after setting aside costs relating to Security deposit, allowing for increase in cost of debt over the years, the reworked FRoR is as follows:

Table 11: FRoR as proposed in the CP and reworked by WFSBPL

Particulars	FY 24	FY 25	FY 26	FY 27	FY 28
As per AERA in CP					
Equity in INR Cr.	36.08	36.08	36.08	36.08	36.08
Debt in INR Cr.	188.42	188.42	179.59	168.03	156.47
Total in INR Cr.	**224.50**	**224.50**	**215.67**	**204.11**	**192.55**
Gearing	**83.93%**	**83.93%**	**83.27%**	**82.32%**	**81.26%**
Weighted Average Gearing					**83.00%**
CoE					14.00%
CoD					9.56%
FRoR					**10.31%**
As requested by WFSBPL					
Equity in INR Cr.	36.08	36.08	36.08	36.08	36.08
Debt in INR Cr.	139.05	139.05	134.01	126.25	118.49
Total in INR Cr.	**175.13**	**175.13**	**170.09**	**162.33**	**154.57**
Gearing	**79.40%**	**79.40%**	**78.79%**	**77.77%**	**76.66%**
CoE	23.55%	23.55%	23.55%	23.55%	23.55%
CoD	9.56%	10.06%	10.56%	11.06%	11.06%
FRoR	**12.44%**	**12.84%**	**13.32%**	**13.84%**	**13.98%**

WFSBPL requests the Authority to

a) **Consider Cost of Equity at 23.55% in line with the risk assessment of WFSBPL**
b) **Consider Gearing ranging from 76.66% to 79.40% after setting aside the costs related to Security Deposit**
c) **Considering increase in cost of debt over the years as requested by WFSBPL**
d) **Consider FRoR as per above computations of WFSBPL.**

10 Aggregate Revenue Requirement (ARR) and Revenue

10.1 AERA's Proposal

The Authority, considering that the aviation sector is gradually recovering from the aftermath of Covid-19 pandemic and in order to avoid onetime steep increase in Tariff, proposes to stagger the Tariff increase for the First Control Period as per table stated above instead of allowing one-time increase.(Para 7.2.7)

Accordingly, the Authority, based on its computation of ARR for WFSBPL for the First Control Period, proposes following % increase in Tariff for regulated Cargo Handling Services, over the prevailing tariff as applicable to incumbent operator: - 20% increase for FY 2023-24 (w.e.f. 24.05.2023) - 11% increase for FY 2024-25 - 10% increase for FY 2025-26 - 9% increase for FY 2026-27 & FY 2027-28.(Para 7.2.8)

The Authority notes that WFSBPL has proposed lower % Tariff increase for Airlines, as compared to the % Tariff increase proposed for Shippers/Agents. The Authority feels that CAPEX & OPEX incurred by cargo operator for the improvement of infrastructure and improving efficiency of cargo handling operations is enjoyed by all the users, including airlines. It would not be appropriate to burden the Shippers/Agents with higher % Tariff increase (in respect of TSP etc.) vis-à-vis % Tariff increase proposed for the services availed by the Airlines. (Para 8.2.2)

In view of the foregoing and to maintain balance in the interests of all the Users, the Authority proposes to consider uniform % tariff increase for all users of cargo handling services, which is also in line with AERA's *consistent approach regarding uniform rates of Tariff increase for all the services provided by the ISP. (Para 8.2.2)*

From the above table, the Authority notes that in the initial years of the control period, ISP is projected to have negative profitability, primarily on account of preliminary expenses & depreciation resulting from significant CAPEX in first year of control period. However, it is observed that ISP is expected to significantly improve profitability from FY 2026-27 onward & generate surplus."(Para 8.2.6)

10.2 WFSBPL's Submissions

a) WFSBPL reiterates its submission that the tariff determination should be done on a Light Touch approach based on evaluation of overall reasonableness and profitability.

Uniform rate increases

b) The Authority's guidelines permit the operators to structure the Tariff Card aligned with the business and market needs. In line with this, WFSBPL had submitted its Tariff Card proposing to have different levels of % price adjustments for rates charged to airlines and freight forwarders.

c) An air cargo handling services market such as Bengaluru with more than one Cargo Terminal operator present provides substantial price negotiation power to airlines. In a competitive market, forcing an airline to pay ceiling rates is difficult given the competitor can simply undercut pricing to secure the business.

d) For example, the airline carrier ceiling rates in place for the incumbent operator have been in place since FY 2013-14, but many customers still pay substantially less than these rates given the competition in place. This highlights the challenges that Cargo Terminal Operators face in achieving the permitted ceiling tariff levels from airlines and associated challenges in offsetting continued cost inflation. The revenue projections presented in the Consultation Paper assume an increase in revenues for both airlines and freight forwarders, but they are neither realistic nor achievable as can be seen in the table below. Consequently, WFSBPL will be unfairly penalized due to market realities that are beyond its control.

e) Additionally, a carrier's cost of operations at a given airport/terminal will be seen in comparison to the entire global network of airport options available to the carrier when starting operations. Therefore, being able to attract a carrier to a given market brings benefits to the entire local ecosystem including forwarders, exporters/importers and local economy at large. By offering attractive rates to carriers, WFSBPL would be able to attract more carriers to its facilities, thereby increasing choice, capacity and connections available to the users.

f) The situation is even tougher for a new entrant in the market such as WFSBPL, competing against an established and much larger competitor (in local volume terms), and as such price discounting becomes a primary tool to attract and retain carrier customers. If WFSBPL wishes to maintain the existing facility customer business, WFSBPL simply cannot compel the customers to pay the ceiling rates.

g) From a practical perspective, as the new concession is due to start on 24 May 2023, prices are currently being finalised with airlines within the boundaries of the existing ceiling rates, for contracts with a duration ranging from three to five years. Any uplift in airline ceiling rates subsequently granted by the Authority will not make any material difference to the pricing for existing customers given this has to be agreed contractually within the coming weeks and given this pricing will be fixed for the next three to five years (depending on duration of customer contract).

h) Given the above, it is impossible that the tariff hikes prescribed for carrier customers can be fully realised by WFSBPL. In the longer term, due to the length of standard contracts in this industry (3-5 years on average), the gap between assessed revenues from airlines and the realized revenues would become too large and could endanger the overall viability of operations for the ISP unless a significantly more material (versus current CP proposal) TSP tariff increase is granted.

Table 12: Revenue Gap (Computed Airline Revenue as proposed in CP vis-à-vis estimated Airline Revenue as per WFSBPL)

Particulars (Rs. In Cr.)	Ref.	FY 24	FY 25	FY 26	FY 27	FY 28	Total

Airline revenue as per WFSBPL submission (Table 26 of CP)	A	24.51	33.62	38.43	43.93	50.22	190.71
Adjustment for Volume (To compare with AERA Volumes)	B = A*C	27.12	37.07	42.37	48.44	55.37	210.37
Airline Revenue as per Authority (Table 29 of CP)	D	32.54	47.29	56.96	67.99	81.15	285.93
Revenue Gap	E = D-B	**-5.42**	**-10.22**	**-14.59**	**-19.55**	**-25.78**	**-75.56**
Computation of Volume adjustment							
WFSBPL Volume (Table 4 of CP)	F	99656	130948	143388	157010	171926	702928
AERA Volume (Table 7 of CP)	G	110255	144386	158102	173122	189569	775434
Adjustment factor	C = G/F	1.11	1.10	1.10	1.10	1.10	1.10

i) Further, it is pertinent to note that even in case of Airport Operators, there is freedom to balance charges among Aeronautical Charges (Landing, Parking & Housing, UDF) and Airport Operators often build in attractive tariff structures to encourage airlines.

j) Moreover, imposing restrictions on pricing freedom enjoyed by the Cargo Terminal Operator/ISP operating under the Light Touch Approach appears to run contrary to the principles laid down by AERA and indicates to the international investors a worrying shift towards price control rather than regulation in the Indian aviation services market.

k) It appears that the Authority has extended the evaluation beyond market realities and is providing the strategic direction on operation and business decisions on behalf of WFSBPL which is ultimately not implementable (tariff structure proposed by Authority for Airlines) on the ground and which if unchanged will likely result in losses much greater than those projected by the Authority within the CP.

l) For the aforementioned reasons, WFSBPL disagrees with the feasibility of the Authority's assumption that increasing airline ceiling rates will automatically translate into higher revenue generation for WFSBPL, and requests that the authority reconsiders the magnitude of overall combined tariff increases as well as the weighting of rate increases between airlines and freight forwarders. Specifically, WFSBPL submits that the TSP tariffs (payable by freight forwarders) outlined within the MYTP submission are reasonable and necessary to ensure a sustainable business operating at a reasonable profit margin in line with industry standards and peer benchmarks. WFSBPL reiterates that TSP tariffs at Bengaluru have not materially changed in over 10 years which is materially out of sync with pricing trends observed across other international cargo markets.

Negative profit from operations

m) As highlighted in its submissions to the Authority, WFSBPL intends to achieve profitability in line with the industry standards in India (which are in the range of 20% - 30%). WFSBPL had in its MYTP submission estimated losses in the first years and a PAT margin ranging from 8% - 19% for the balance of the control period.

n) The tariff proposed by the Authority results in negative profitability of (-)1.2% for WFSBPL for the Control Period overall, even with the unrealistic assumptions made on revenue contributions as referred to in the earlier paragraphs of Section 10.2 above.

o) The continuous stream of losses will seriously impede the ability of WFSBPL to operate the business viably and such a financial situation could limit the ability of WFSBPL to raise funds from the market or from the parent company to overcome the anticipated cash shortfall.

p) The Indian Government has set forth the National Civil Aviation Policy 2016 (NCAP) to promote the growth of the aviation sector in India, in recognition of its potential to have a multiplier effect on the economy. The policy aims to provide a conducive environment for the harmonious development of various aviation sub-sectors, including airlines, airports, cargo, and others. Furthermore, the policy emphasizes the importance of ensuring that the user charges recommended by AERA and ISPs are competitive compared to those of other aviation hubs.

q) As per AERA's proposal, the investment made in India will result in significant losses that may adversely affect the viability of the venture. This outcome could also discourage WFS Global SAS, the parent company, and other investors from making further investments in the Indian market in the same line of business which goes against the key goals set under NCAP.

r) Also, as explained above, the model of providing 5% return on Security Deposit seems to have been decided without taking into account that WFSBPL is making the payments prior to the start of operations, using funds raised through an ECB/loan, contributing to overall negative profitability under this evaluation framework.

s) WFSBPL notes that ensuring viability and sustainability of operations is one of the cornerstone objectives of AERA wherein it is required to balance the interest of various stakeholders. WFSBPL requests that the Authority to re-estimate the P&L, permitting WFSBPL to achieve industry-standard PAT by Year 5 of the Control Period in line with the original MYTP submission.

For the final Tariff Order, WFSBPL humbly requests that AERA revisits and updates for a reasonable profitability target and in parallel a greater increase in tariffs (notably TSP tariffs paid by the forwarders) in sync with the proposal outlined in the WFSBPL MYTP submission. WFSBPL believes the profitability and tariffs outlined in the MYTP are reasonable and more importantly critical to ensuring a viable business that can encourage continued investment to help realise the demand and growth potential at Bengaluru.

Specifically, without prejudice to the positions and arguments articulated elsewhere in the documents, WFSBPL would like to reiterate its request for determination of tariffs under a Light Touch Approach, and for year-over-year TSP tariffs to at a minimum be increased as outlined below to help ensure financial viability of the company and a reasonable level of profitability:

Year	FY 24	FY 25	FY 26	FY 27	FY 28
TSP Increase (%)	**45%**	**25%**	**25%**	**20%**	**20%**

Annexure II

Annexure to FFFAI's comments pertaining to AFS Cargo

Details of activities (as per FFFAI) performed by AFS Operator at its premises

A. Relating to the Export Cargo

Sr No	EXPORT PROCESS	Presently done by		Later through AFS	
		AGENCY	TERMINAL OPERATOR	AFS OPERATOR	TERMINAL OPERATOR
1	Payment of Customs Cost recovery charges	TERMINAL OPERATOR	✔	✔	✖
2	Carting order to Agent	AIRLINES	✔	✔	✖
3	TSP Charges receipt	TERMINAL OPERATOR	✔	✔	✖
4	Gate checking of goods/docs	TERMINAL OPERATOR	✔	✔	✖
	Docs. receipt of goods	TERMINAL OPERATOR	✔	✔	✖
	a) Goods to be off loaded from trucks	TERMINAL OPERATOR	✔	✔	✖
	b) Weight check of Goods	TERMINAL OPERATOR	✔	✔	✖
5	c) Truck Dock (TD) Entry	TERMINAL OPERATOR	✔	✔	✖
6	Cargo X ray /screening	TERMINAL OPERATOR	✔	✔	✖
7	Packages brought for examination after locating from lot as per Customs requirement.	TERMINAL OPERATOR	✔	✔	✖
8	Opening and repacking of boxes	TERMINAL OPERATOR	✔	✔	✖
9	Repairing and proper stacking of boxes after customs examination.	TERMINAL OPERATOR	✔	✔	✖
10	Warehouse location given to agents on AWBs and other docs.	TERMINAL OPERATOR	✔	✔	✖
11	Docs handed over to Airlines.	TERMINAL OPERATOR	✔	✔	✖
12	ULD(BUP) off loading and location.	TERMINAL OPERATOR	✖	✔	✔

B. Relating to the Import Cargo

Sr No	EXPORT PROCESS	Presently done by		Later through AFS	
		AGENCY	TERMINAL OPERATOR	AFS OPERATOR	TERMINAL OPERATOR
1	Payment of Customs Cost recoverycharges	TERMINAL OPERATOR	✔	✔	✕
2	Carting order to Agent	AIRLINES	✔	✔	✕
3	TSP Charges receipt	TERMINAL OPERATOR	✔	✔	✕
4	Gate checking of goods/docs	TERMINAL OPERATOR	✔	✔	✕
	Docs receipt of goods	TERMINAL OPERATOR	✔	✔	✕
	a) Goods to be off loaded from trucks	TERMINAL OPERATOR	✔	✔	✕
	b) Weight check of Goods	TERMINAL OPERATOR	✔	✔	✕
5	c) Truck Dock (TD) Entry	TERMINAL OPERATOR	✔	✔	✕
6	Cargo X ray /screening	TERMINAL OPERATOR	✔	✔	✕
7	Packages brought for examinationafter locating from lot as per Customs requirement.	TERMINAL OPERATOR	✔	✔	✕
8	Opening and repacking of boxes	TERMINAL OPERATOR	✔	✔	✕
9	Repairing and proper stacking ofboxes after customs examination.	TERMINAL OPERATOR	✔	✔	✕
10	Warehouse location given to agentson AWBs and other docs.	TERMINAL OPERATOR	✔	✔	✕
11	Docs handed over to Airlines.	TERMINAL OPERATOR	✔	✔	✕
12	ULD(BUP) off loading and location.	TERMINAL OPERATOR	✕	✔	✔

Annexure – III

APPROVED TARIFF RATE CARD FOR WFSBPL FOR THE FIRST CONTROL PERIOD (FY 2023-24 TO FY 2027-28) IN RESPECT OF THE CARGO HANDLING SERVICES PROVIDED AT KEMPEGOWDA INTERNATIONAL AIRPORT, BENGALURU

Approved Tariff rates are effective from 10.08.2023

I - TSP & OTHER CHARGES FOR INTERNATIONAL CARGO - PAYABLE BY SHIPPERS/ FREIGHT FORWADERS/ AGENTS

(A) EXPORT CARGO

S.NO.	LIST OF CHARGES	FY 2023-24		FY 2024-25		FY 2025-26		FY 2026-27		FY 2027-28	
		Rs. Per KG	Minimum Rate	Rs. Per KG	Minimum Rate	Rs. Per KG	Minimum Rate	Rs. Per KG	Minimum Rate	Rs. Per KG	Minimum Rate
1)	**Terminal, Storage and Processing Charge (TSP) – per Shipping Bill**										
(a)	General Cargo	1.37	163	1.60	191	1.87	223	2.19	261	2.56	305
(b)	Special Cargo (AVI)	2.05	325	2.40	380	2.81	445	3.29	521	3.85	610
(c)	PER/DGR/VAL cargo	3.55	325	4.15	380	4.86	445	5.69	521	6.66	610
(d)	Perishable CARGO in Cold Chain Facility (PER/PIL/PEF, etc)	3.58	325	4.19	380	4.90	445	5.73	521	6.70	610
(e)	**BUP Charge - General Cargo***										
	BUP Charge (upto LD3)	1523 per unit	-	1782 per unit	-	2085 per unit	-	2439 per unit	-	2854 per unit	-
	BUP Charge (above LD3 - lower deck pallet)	3045 per unit	-	3562 per unit	-	4168 per unit	-	4877 per unit	-	5706 per unit	-
	BUP Charge (above LD3 - main deck pallet)	6521 per unit	-	7630 per unit	-	8927 per unit	-	10444 per unit	-	12220 per unit	-
(f)	**BUP Charge - Other than General Cargo***										

S.NO.	LIST OF CHARGES	FY 2023-24		FY 2024-25		FY 2025-26		FY 2026-27		FY 2027-28	
		Rs. Per KG	Minimum Rate	Rs. Per KG	Minimum Rate	Rs. Per KG	Minimum Rate	Rs. Per KG	Minimum Rate	Rs. Per KG	Minimum Rate
	BUP Charge (upto LD3)	3300 per unit	-	3861 per unit	-	4517 per unit	-	5285 per unit	-	6184 per unit	-
	BUP Charge (above LD3 - lower deck pallet)	6600 per unit	-	7722 per unit	-	9035 per unit	-	10571 per unit	-	12368 per unit	-
	BUP Charge (above LD3 - main deck pallet)	9900 per unit	-	11583 per unit	-	13552 per unit	-	15856 per unit	-	18551 per unit	-
2)	**Demurrage/Storage Charge (Rate per kg per 24 hours)**										
(a)	General Cargo	1.09	177.45	1.28	207.62	1.50	242.92	1.76	284.22	2.06	332.54
(b)	Special Cargo (AVI)	2.05	341.25	2.40	399.26	2.81	467.13	3.29	546.54	3.85	639.45
(c)	PER/DGR/VAL cargo	3.55	341.25	4.15	399.26	4.86	467.13	5.69	546.54	6.66	639.45
3)	**Courier Handling Charge**	2.05	195.00	2.40	228.15	2.81	266.94	3.29	312.32	3.85	365.41
4)	**Packing/Repacking/ Strapping Charge**	6.50 per Carton/Bag	6.50	7.61 per Carton/Bag	7.61	8.90 per Carton/Bag	8.90	10.41 per Carton/Bag	10.41	12.18 per Carton/Bag	12.18
5)	**Return Cargo Charge**	650.00 per AWB	650.00	760.50 per AWB	760.50	889.79 per AWB	889.79	1041.05 per AWB	1,041.05	1218.03 per AWB	1,218.03
6)	**Airway Bill Amendment Charge**	130.00 per AWB	130.00	152.10 per AWB	152.10	177.96 per AWB	177.96	208.21 per AWB	208.21	243.61 per AWB	243.61
7)	**Weight/Volume Mis-Declaration Charge**										
(a)	2-5% variation	2 times of applicable TSP	-	2 times of applicable TSP	-	2 times of applicable TSP	-	2 times of applicable TSP	-	2 times of applicable TSP	-
(b)	More than 5% variation	5 times of applicable TSP	-	5 times of applicable TSP	-	5 times of applicable TSP	-	5 times of applicable TSP	-	5 times of applicable TSP	-
8)	**Overtime Charge (Beyond Customs Working Hrs)**	65.00 per Shipping Bill	65.00	76.05 per Shipping Bill	76.05	88.98 per Shipping Bill	88.98	104.11 per Shipping Bill	104.11	121.81 per Shipping Bill	121.81
	VAL Cargo	1,300.00 per AWB	1,300.00	1,521.00 per AWB	1,521.00	1,779.57 per AWB	1,779.57	2,082.10 per AWB	2,082.10	2,436.06 per AWB	2,436.06

**BUP not permitted for consignments with restricted articles/DG/VAL cargo*

(B) IMPORT CARGO

S.NO.	LIST OF CHARGES	FY 2023-24		FY 2024-25		FY 2025-26		FY 2026-27		FY 2027-28	
		Rs. Per KG	Minimum Rate	Rs. Per KG	Minimum Rate	Rs. Per KG	Minimum Rate	Rs. Per KG	Minimum Rate	Rs. Per KG	Minimum Rate
1)	**Terminal, Storage and Processing Charges (TSP) – per Bill of Entry**										
(a)	General Cargo/ Unaccompanied Baggage	7.02	163	8.21	191	9.61	223	11.24	261	13.15	305
(b)	Special Cargo (AVI)	14.04	325	16.43	380	19.22	445	22.49	521	26.31	610
(c)	PER/DGR/VAL cargo	14.04	325	16.43	380	19.22	445	22.49	521	26.31	610
(d)	**BUP Charges - General Cargo**										
	BUP Charges (up to LD3)	7803 per unit	-	9130 per unit	-	10682 per unit	-	12498 per unit	-	14623 per unit	-
	BUP Charges (above LD3 - lower deck pallet)	15602 per unit	-	18254 per unit	-	21358 per unit	-	24988 per unit	-	29236 per unit	-
	BUP Charges (above LD3 - main deck pallet)	33415 per unit	-	39096 per unit	-	45742 per unit	-	53518 per unit	-	62616 per unit	-
(e)	**BUP Charges - Other than General Cargo**										
	BUP Charges (up to LD3)	15607 per unit	-	18260 per unit	-	21364 per unit	-	24996 per unit	-	29246 per unit	-
	BUP Charges (above LD3 – lower deck pallet)	31204 per unit	-	36509 per unit	-	42715 per unit	-	49977 per unit	-	58473 per unit	-
	BUP Charges (above LD3 - main deck pallet)	66830 per unit	-	78192 per unit	-	91484 per unit	-	107036 per unit	-	125233 per unit	-
2)	**Demurrage/Storage Charges (Rate per kg per 24 hrs)**										
(a)	General Cargo										
(i)	Flight Actual Time of Arrival (ATA) plus 48 hrs	No charge		No charge		No charge		No charge		No charge	
(ii)	Cargo cleared between 48 hrs and 96 hrs	2.15	437	2.52	511	2.95	598	3.45	700	4.04	819
(iii)	Cargo cleared between 96 hrs	4.02	437	4.70	511	5.50	598	6.44	700	7.53	819

	and 720 hrs										
(iv)	Cargo cleared after 720 hrs	6.02	437	7.04	511	8.24	598	9.64	700	11.28	819
(b)	Special Cargo (AVI)										
(i)	Flight Actual Time of Arrival (ATA) plus 48 hrs	No charge		No charge		No charge		No charge		No charge	
(ii)	Cargo cleared between 48 hrs and 96 hrs	4.02	813	4.70	951	5.50	1,113	6.44	1,302	7.53	1,523
(iii)	Cargo cleared between 96 hrs and 720 hrs	8.02	813	9.38	951	10.97	1,113	12.83	1,302	15.01	1,523
(iv)	Cargo cleared after 720 hrs	12.04	813	14.09	951	16.49	1,113	19.29	1,302	22.57	1,523
(c)	PER/DGR/VAL cargo										
(i)	Flight Actual Time of Arrival (ATA) plus 48 hrs	No charge		No charge		No charge		No charge		No charge	
(ii)	Cargo cleared between 48 hrs and 96 hrs	8.02	1,658	9.38	1,940	10.97	2,270	12.83	2,656	15.01	3,108
(iii)	Cargo cleared between 96 hrs and 720 hrs	16.12	1,658	18.86	1,940	22.07	2,270	25.82	2,656	30.21	3,108
(iv)	Cargo cleared after 720 hrs	24.15	1,658	28.26	1,940	33.06	2,270	38.68	2,656	45.26	3,108
3)	**Courier Handling Charges**	7.88	260	9.22	304	10.79	356	12.62	416	14.77	487
4)	**Airway Bill Amendment Charges**	130.00 per AWB	130.00	152.10 per AWB	152.10	177.96 per AWB	177.96	208.21 per AWB	208.21	243.61 per AWB	243.61
5)	**Transshipment Charges**										
(a)	General Cargo	2.57	163	3.01	191	3.52	223	4.12	261	4.82	305
(b)	PER/DGR/VAL Cargo	2.57	306	3.01	358	3.52	419	4.12	490	4.82	573
6)	**Documentation Charges**	130.00 per AWB	130.00	152.10 per AWB	152.10	177.96 per AWB	177.96	208.21 per AWB	208.21	243.61 per AWB	243.61
7)	**Overtime Charges (Beyond Customer Working Hrs)**										
(a)	General Cargo	260.00 per Bill of Entry	260.00	304.20 per Bill of Entry	304.20	355.91 per Bill of Entry	355.91	416.42 per Bill of Entry	416.41	487.21 per Bill of Entry	487.20
(b)	VAL Cargo	1,300.00 per AWB	1,300.00	1,521.00 per AWB	1,521.00	1,779.57 per AWB	1,779.57	2,082.10 per AWB	2,082.10	2,436.05 per AWB	2,436.06
8)	**Packing/Repacking/ Strapping Charges**	6.50 per Carton/Bag	6.50	7.61 per Carton/Bag	7.61	8.90 per Carton/Bag	8.90	10.41 per Carton/Bag	10.41	12.18 per Carton/Bag	12.18

Notes:

1. Consignments of Human Remains, Coffins and Unaccompanied Baggage of the Deceased and Human eyes will be exempt from the purview of TSP charges and Demurrage Charges.

2. TSP charges applicable to Newspaper TV reel consignments shall be at 50% of applicable charges.

3. TSP charges are inclusive of forklift used for loading offloading the cargo to from the truck and putting cargo on customs area for examination.

4. *Charges will be levied on the Gross weight or Chargeable Weight whichever is higher. Wherever there is a mis-declaration of Gross weight or Chargeable Weight, the Actual Gross weight or the Actual Chargeable Weight will be used for the charges whichever is higher.*
5. *Demurrage Charges:*

Export Cargo - Total free period available for export cargo would be 12 hrs. or as decided by Govt. of India from time to time.

Import Cargo - Free period shall be 48 hrs. from segregation time or as decided by the Govt. of India from time to time.

If the clearance is done on 3rd and 4th day from Flight segregation Time then the charges are as per 2 (A), (B) & (C) per kg per day. If the clearance is done after the 4th day of the Flight Segregation Time, the demurrage will be calculated cumulatively as under:

   a) *Day of Flight Segregation Time 4th day Slab 1*
   b) *5th Day - 29 days - (both days inclusive) Slab 1 & Slab 2*
   c) *Beyond 29 days Slab 3*

6. *All billing will be rounded off to the nearest INR 5/- as per IATA Tact rule.*
7. *Special Cargo (AVI) consists of live animals and day-old chicks.*
8. *VAL cargo includes gold bullion, currency notes, shares, share coupons, traveler's cheque, diamonds (including diamonds for industrials use) diamond jewellery watches of silver-gold platinum and items valued at USD 1000/kg and above.*
9. *For consolidation on Transshipment cargo, TSP charges will be levied to all types of cargo, in addition to Transshipment Charges mentioned above. Demurrage charges for the free period may be considered to be governed as per the instruction of Govt. of India issued from time to time.*
10. *All charges mentioned above exclude taxes which will be charged at the prevailing rates.*
11. *All charges mentioned above include the concession fees & other airport levies charged by the airport operator.*
12. *No outside labour will be allowed to handle cargo in WFSBPL Airfreight Terminal and WFSBPL Cold Chain Facility.*
13. *For BUP consignments, it is assumed that cargo arrives in unitized form, pre-screened and cleared. Any Unitization/Build-up Palletization and X-ray screening services availed at the cargo terminal will attract the applicable charges.*

II - AIRLINES FEES - INTERNATIONAL CARGO

(A) EXPORT CARGO

S.NO.	LIST OF CHARGES	FY 2023-24		FY 2024-25		FY 2025-26		FY 2026-27		FY 2027-28	
		Rs. Per KG	Minimum Rate	Rs. Per KG	Minimum Rate	Rs. Per KG	Minimum Rate	Rs. Per KG	Minimum Rate	Rs. Per KG	Minimum Rate
a	Handling Charges	450	450 per manifest, including nil flights	486.00	486 per manifest, including nil flights	524.88	524.88 per manifest, including nil flights	566.87	566.87 per manifest, including nil flights	612.22	612.22 per manifest, including nil flights
a.1	General Cargo										
1)	Palletization/containerization	2.17	-	2.34	-	2.53	-	2.73	-	2.95	-
	Bulk Cargo	1.40	-	1.51	-	1.63	-	1.76	-	1.90	-
a.2	Valuable/Perishable/Hazardous Cargo/Live Animals, etc										
	Palletization/containerization	4.35	-	4.70	-	5.08	-	5.49	-	5.93	-
	Bulk Cargo	2.66	-	2.87	-	3.10	-	3.35	-	3.62	-
a.3	Express & Courier Cargo										
	Palletization/containerization	5.44	-	5.88	-	6.35	-	6.86	-	7.41	-
	Bulk Cargo	3.32	-	3.59	-	3.88	-	4.19	-	4.53	-
a.4	**BUP Charges - General Cargo***										
	BUP Charges (up to LD3)	1556 per unit	-	1681 per unit	-	1815 per unit	-	1960 per unit	-	2117 per unit	-
	BUP Charges (above LD3 - lower deck pallet)	3112 per unit	-	3360 per unit	-	3629 per unit	-	3920 per unit	-	4233 per unit	-
	BUP Charges (above LD3 - main deck pallet)	6664 per unit	-	7197 per unit	-	7773 per unit	-	8395 per unit	-	9066 per unit	-
	BUP Charges - Other than General Cargo*										
	BUP Charges (up to LD3)	2957 per unit	-	3193 per unit	-	3449 per unit	-	3725 per unit	-	4023 per unit	-
	BUP Charges (above LD3 - lower deck pallet)	5912 per unit	-	6385 per unit	-	6896 per unit	-	7447 per unit	-	8043 per unit	-
	BUP Charges (above LD3 – main deck pallet)	12662 per unit	-	13675 per unit	-	14768 per unit	-	15950 per unit	-	17226 per unit	-

S.NO.	LIST OF CHARGES	FY 2023-24		FY 2024-25		FY 2025-26		FY 2026-27		FY 2027-28	
		Rs. Per KG	Minimum Rate	Rs. Per KG	Minimum Rate	Rs. Per KG	Minimum Rate	Rs. Per KG	Minimum Rate	Rs. Per KG	Minimum Rate
2)	**Demurrage/Storage Charges (Rate per kg per day)**										
(a)	General Export Cargo	2.06	330 per AWB	2.22	356.40 per AWB	2.40	384.91 per AWB	2.59	415.70 per AWB	2.80	448.96 per AWB
(b)	Valuable/Perishable/Hazardous Cargo/Live Animals, etc	4.96	380 per AWB	5.36	410.40 per AWB	5.79	443.23 per AWB	6.25	478.69 per AWB	6.75	516.99 per AWB
3)	**X-ray Charges with Certification**	2.54	subject to min. of 120.75 per AWB	2.74	subject to min. of 130.41 per AWB	2.96	subject to min. of 140.84 per AWB	3.20	subject to min. of 152.11 per AWB	3.46	subject to min. of 164.28 per AWB
4)	**Export General**										
	Electronic Data Submission for Customs	155.25 per flight	155.25	167.67 per flight	167.67	181.08 per flight	181.08	195.57 per flight	195.57	211.22 per flight	211.22
* BUP not permitted for consignments with restricted articles/DG/VAL cargo											

(B) IMPORT CARGO

S.NO.	LIST OF CHARGES	FY 2023-24		FY 2024-25		FY 2025-26		FY 2026-27		FY 2027-28	
		Rs. Per KG	Minimum Rate	Rs. Per KG	Minimum Rate	Rs. Per KG	Minimum Rate	Rs. Per KG	Minimum Rate	Rs. Per KG	Minimum Rate
a	Handling Charges	450.00	450 per flight	486.00	486 per flight	524.88	524.88 per flight	566.87	566.87 per flight	612.22	612.22 per flight
a.1	General Cargo										
1)	De-Palletization	2.17	-	2.34	-	2.53	-	2.73	-	2.95	-
	Bulk Cargo	1.40	-	1.51	-	1.63	-	1.76	-	1.90	-
a.2	Valuable/Perishable/Hazardous Cargo/Live Animals, etc.										
	De-Palletization	4.35	-	4.70	-	5.08	-	5.49	-	5.93	-
	Bulk Cargo	2.66	-	2.87	-	3.10	-	3.35	-	3.62	-
a.3	Express & Courier Cargo										
	De-Palletization	5.44	-	5.88	-	6.35	-	6.86	-	7.41	-
	Bulk Cargo	3.32	-	3.59	-	3.88	-	4.19	-	4.53	-
a.4	**BUP Charges - General Cargo***										

S.NO.	LIST OF CHARGES	FY 2023-24		FY 2024-25		FY 2025-26		FY 2026-27		FY 2027-28	
		Rs. Per KG	Minimum Rate	Rs. Per KG	Minimum Rate	Rs. Per KG	Minimum Rate	Rs. Per KG	Minimum Rate	Rs. Per KG	Minimum Rate
	BUP Charges (up to LD3)	1556 per unit	-	1681 per unit	-	1815 per unit	-	1960 per unit	-	2117 per unit	-
	BUP Charges (above LD3 - lower deck pallet)	3112 per unit	-	3360 per unit	-	3629 per unit	-	3920 per unit	-	4233 per unit	-
	BUP Charges (above LD3 - main deck pallet)	6664 per unit	-	7197 per unit	-	7773 per unit	-	8395 per unit	-	9066 per unit	-
	BUP Charges - Other than General Cargo*										
	BUP Charges (up to LD3)	2957 per unit	-	3193 per unit	-	3449 per unit	-	3725 per unit	-	4023 per unit	-
	BUP Charges (above LD3 - lower deck pallet)	5912 per unit	-	6385 per unit	-	6896 per unit	-	7447 per unit	-	8043 per unit	-
	BUP Charges (above LD3 - main deck pallet)	12662 per unit	-	13675 per unit	-	14768 per unit	-	15950 per unit	-	17226 per unit	-
2)	**Demurrage/Storage Charges (Rate per kg per day)**										
(a)	General Import Cargo	2.06	subject to min. of 277.73 per IGM	2.22	subject to min. of 299.94 per IGM	2.40	subject to min. of 323.94 per IGM	2.59	subject to min. of 349.85 per IGM	2.80	subject to min. of 377.84 per IGM
(b)	Valuable/Perishable/Hazardous Cargo/Live Animals, etc.	4.96	subject to min. of 277.73 per IGM	5.36	subject to min. of 299.94 per IGM	5.79	subject to min. of 323.94 per IGM	6.25	subject to min. of 349.85 per IGM	6.75	subject to min. of 377.84 per IGM
3)	**Import General**										
	Electronic Data Submission for Customs	155.25	per flight	167.67	per flight	181.08	per flight	195.57	per flight	211.22	per flight
TRANSHIPMENT CHARGES											
1)	Transshipment Charges	2.42	subject to min. of 193.20 per AWB per day	2.61	subject to min. of 208.66 per AWB per day	2.82	subject to min. of 225.35 per AWB per day	3.05	subject to min. of 243.38 per AWB per day	3.29	subject to min. of 262.85 per AWB per day

Notes:

1. *Only maximum cargo handling rates have been suggested for Airlines as user agreements will be entered into with each Airline based on the IATA AHM 810 STANDARD GROUND HANDLING AGREEMENT 2004 or 2008 or 2013 (SGHA) as amended from time to time with mutual consent.*
2. *The rates with each Airline will be negotiated based on services required from SGHA service items (usage of equipment and manpower) and other services necessary, throughput service level agreement, credit period and liability and indemnity requirement.*
3. *All charges mentioned above exclude taxes which will be charged at the prevailing rates.*
4. *No outside labour will be allowed to handle cargo in WFSBPL Airfreight Terminal and WFSBPL Cold Chain Facility.*
5. *For BUP consignments, it is assumed that cargo arrives in unitized form, pre-screened and cleared. Any Unitization Build-up Palletization and X-ray screening services availed at the cargo terminal will attract the applicable charges.*