

Indian Urban Transit PPPs: Mumbai & Hyderabad Metros

Sarah Tame

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Following the success of the Delhi metro system in the early part of the last decade the Indian government has been keen to develop new metro systems as well as expand existing systems in many cities across India.

In the first half of 2011 the second phase of the Mumbai Metro, and the Hyderabad Metro Rail projects reached financial close. Construction is now underway on both projects, but many concerns remain over whether the projects will be completed on time, and how well.

Examining the projects

Mumbai Metro II PPP

The Mumbai Metro II PPP project is the second phase of the US\$4.4 billion, 146km Mumbai metro project. The first phase, which reached financial close in October 2008, saw the construction of an 11.5km metro rail corridor between Versova and Ghatkopar.

The second phase of the project will see the construction of the 31.87km Charkop-Bandra-Mankhurd link. The metro project will be an entirely elevated corridor and will link Charkop and Bandra, running parallel to the western railway - crossing the Western Express Highway before finally reaching Mankhurd. The project will also include the construction of 27 stations.

Reliance Infrastructure, Reliance Communication and Canada's SNC Lavalin were awarded the contract for the project in May 2009, after a two year struggle to secure a bidder for the project.

The winning consortium is split as follows:

- Reliance Infrastructure (part of the Reliance Anil Dhirubhai Ambani Group) (48 per cent stake)
- Reliance Communication (26 per cent)
- SNC Lavalin (26 per cent)

The concession period for the project is 35 years plus an optional 10-year extension.

A third phase of the project is also planned. But Metro-II is expected to be the last Mumbai Metro project funded via PPP, with the state and central governments preparing to fund the third phase through debt and development bank loans.

The financing

The total project cost is US\$2.5 billion. The project is being financed with US\$500 million of equity, US\$1.5 billion of debt, and a government grant of US\$495 million. The project reached financial close on 14 March 2011. A group of nine banks

were involved in providing the US\$1.5 billion of debt in the form of an 18-year term loan.

The banks were as follows:

- Andhra Bank
- Axis Bank
- Canara Bank
- IDBI Bank
- Indian Overseas Bank
- Punjab National Bank
- State Bank of India
- Syndicate Bank
- Uco Bank

The debt was split equally between the nine banks.

The government grant was split as follows:

- Mumbai Metropolitan Region Development Authority – US\$165.14 million
- Government of India – US\$30.28 million

The sponsor is providing the equity. Systra is technical consultant to the sponsors.

Hyderabad Metro Rail PPP

The Hyderabad Metro Rail PPP is a US\$3.6 billion, 71km metro rail scheme project in Hyderabad in the Andhra Pradesh region of India.

The Hyderabad Metro project is the first full implementation project to use the PPP model in India. The Indian government has carried out a number of metro extension projects under the PPP model but the Hyderabad Metro is the first new implementation to use a PPP structure.

A Larsen & Toubro (L&T) consortium, L&T Hyderabad Metro Rail SPV, was awarded the contract in July 2010.

The consortium will be responsible for the construction of 71.16km of elevated metro rail in three corridors across the city of Hyderabad. Eco-friendly elevated metro stations will be located along every 1km along the route. There will be passenger access through staircases, escalators and lifts.

The three high density traffic corridors are:

- Miyapur-LB Nagar - 28.87km
- JBS-Falaknuma - 14.78km
- Nagole-Shilparamam - 27.51km

The concession period for the project is 35 years and is extendable by an additional 25 years. Construction will have to be completed in five years. Once implemented, Hyderabad is likely to be the first Indian city with inter modal connectivity and convenient sky-walks making seamless commuting a reality.

The financing

The Hyderabad Metro is being financed by a mixture of debt and equity, to a ratio of 77:23. The project will also receive US\$323 million government grant.

The project reached financial close on 5 April 2011.

A consortium of banks led by State Bank of India has sanctioned the entire debt requirement of US\$2.5 billion for the project.

Ten banks have participated in the funding for the project:

- Canara Bank
- Indian Bank
- Indian Overseas Bank
- Jammu & Kashmir Bank
- Punjab & Sind Bank
- State Bank of India
- State Bank of Hyderabad
- State Bank of Mysore
- State Bank of Patiala
- Syndicate Bank

The debt was split equally between the 10 banks.

L&T is providing around US\$77 million equity for the project.

The Government of India is providing the government grant.

Deloitte acted as financial advisor to the authority. Luthra & Luthra acted as legal adviser to the authority. Barsyl acted as technical adviser to the authority.

Conclusion

The Mumbai Metro-II and Hyderabad Metro rail projects are just two of a number of planned metro projects in India.

Future metro projects, many which have been tabled, have been marred with uncertainty. Some industry commentators said there remained doubt over whether the government will continue to use the PPP model to fund any future metro projects.

It has already been announced that the third phase of the Mumbai metro project is not to take a PPP structure. And Elattuvalapil Sreedharan, managing director of Delhi Metro Rail Corporation told IJ News at the beginning of the year that it was “not likely” that future projects to build metro lines in Delhi would be carried out under a PPP model.

However some future PPP metro projects are already in the early stages. The US\$2.1 billion Jaipur Metro project in Rajasthan was tendered in March this year with five international consortia announced to be in the running for the project in June. The US\$2.7 billion expansion of the Bangalore metro rail system is also underway with the Asian Development Bank committing US\$250 million to the project in April.

Also in June, the Punjab state cabinet in north-west India approved a detailed design for the Ludhiana Metro project and gave their approval for it to proceed on a concession model. What the outcome will be for these projects is not yet known. The success of future projects will depend on the availability of funding, both equity and debt.

The issues surrounding debt financing for Indian infrastructure has been well publicised and it will be interesting to see if this has any bearing on the future of Indian Metro. Project sponsors are looking for long term financing, something which the local bond market is struggling to provide.

Those involved in the transport sector in India are also waiting for the government's next five year plan, which is to allocate US\$1 trillion to infrastructure development in the country over the five year period. How those funds are to be distributed is still uncertain and that too will have an impact on whether any future metro projects in India are built under the PPP model.

The future of Indian metro remains in doubt. But what we can be sure of is that the success of these projects will certainly be a blueprint for those which follow.

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