Give us a break, Mr Sreedharan

RATIONAL EXPECTATIONS

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In a fairly well-publicised letter to Planning Commission Deputy Chairman Montek Singh Ahluwalia, Delhi Metro Rail Corporation (DMRC) chief E Sreedharan has lambasted the Hyderabad public-private partnership (PPP) model, arguing that his state-owned model is the best one, that the Hyderabad model can "lead to a big political scandal", that the idea's to reap a windfall profit from the land allocated, and so on. He points out that while the Maytas consortium has agreed to pay the government Rs 30,300 crore over the project's life (in terms of net present value, that's Rs 1,240 crore), much of this is due to the fact that the government gave the metro 296 acres of land it can use for development — had this not been so, Sreedharan says Rs 10,000 crore more would have been required in terms of viability gap funding. Most who read the letter, the contents of which were liberally leaked to the press, would assume none of this applied to the DMRC — indeed, the finance ministry's so impressed by the argument, it is actively examining the merits of this vis-a-vis the PPP model being pushed by the Planning Commission.

A closer look at the Delhi Metro annual report (http://www.delhimetrorail.com/corporates/DMRC-english_report.pdf) makes it clear that most of these arguments are self-serving, apart from of course the fact that the DMRC model, where the Union and Delhi governments own just 50 per cent each of the equity, means that no one's really in charge of the project — this has its own implications in terms of accountability and vigilance, but that's the subject of another column. Let's look at the sops the DMRC's getting and compare them with the Hyderabad ones that have so shocked the DMRC chief.

In 2006-07, DMRC had a total loan base of Rs 6,648 crore, on which the average interest rate was 1.44 per cent and equity of Rs 3,702 crore, which had earned no dividend so far and looks unlikely to ever earn one. If you assume a market interest rate of even 12 per cent and the same return for equity (though equity returns are usually much higher), this means DMRC is getting an annual subsidy of more than Rs 1,000 crore. Nearly 90 per cent of the loan is a concessional one from the JBIC of Japan, but the exchange rate risk (which is significant in a project of such a long gestation) is borne by the Government of India.

DMRC never paid any excise/customs/sales taxes on capital equipment either — assume this to be a conservative 20 per cent and that's a one-time saving of another Rs 2,000 crore, or another Rs 240 crore per year subsidy assuming the same 12 per cent interest rate. It also gets electricity at half the commercial rate, a saving of another Rs 25 crore per year. All this, by the way, when DMRC's annual revenues are just Rs 543 crore, of which Rs 252 crore is from real estate transactions!

Contrast this with the Hyderabad case, where Maytas will raise all funds at commercial rates, has the same tariffs as the DMRC and will still pay the government a net present value of Rs 1,240 crore. So, the savings from the PPP route are obvious.

But if you've been following Sreedharan's arguments, you'll have noticed the fatal gap in my argument — there's no mention of the 269 acres of real estate the Hyderabad metro's got, what Sreedharan calls the selling of family silver. According to the DMRC chief, had this land not been given, Maytas would have asked for Rs 10,000 crore instead of offering to pay the government.

If the Hyderabad metro's a scam, what about the Delhi one?

What's important to keep in mind here is that the Delhi Metro itself got a huge amount of land — the 2006-07 annual report talks of 960 acres of land in just one place! In other words, whatever the Hyderabad metro got, Delhi Metro got many times that. And while the Hyderabad metro didn't get any land to lease/sell (it can develop/lease only the space above the metro stations/depots), the Delhi Metro's also transferring the leases of chunks of land for as many as 90 years — this is tantamount to selling government land. While DMRC's auditors have said that this amounts to selling property and violates the law, the CAG says it is okay — the short point, however, is that DMRC's land deal is a lot sweeter than Hyderabad could ever imagine. Not surprisingly then that the Municipal Corporation of Delhi has levied a Rs 452 crore property tax on DMRC, which the latter has contested, citing the chief secretary's decision that this would not be levied — the New Delhi Municipal Corporation has followed with a Rs 33 crore demand. Not paying taxes on the land, in turn, boosts Delhi Metro's profits even more, and it's unlikely the Hyderabad one will ever get any tax breaks like this. Interestingly, real estate income in 2006-07 accounted for 53 per cent of DMRC's total revenues, nearly 70 per cent of EBDIT profits — in terms of pre-tax profits, real estate profits were 11.6 times the overall profits.

What's most galling is that while the DMRC chief is so fulsome in his praise for his model, he doesn't care to mention that even as he's getting these hundreds of crores of annual sops, the metro's struggling to meet even its physical targets. While the original target for Phase I was to carry 2.18 million passengers by 2005, this was lowered to 1.5 million in 2005 — the 2006-07 report says the ridership was 610,000! So, as the criticism of PPP projects builds up, you'll do well to keep these facts in mind.

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