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Funding woes of Metros: Expansion continues, PPP model needs recalibration

As Metro rail expansion gathers pace nationwide, public-private partnership (PPP) projects in the segment are showing signs of strain. L&T's decision to exit the Hyderabad Metro project and Reliance Infrastructure's earlier attempts to divest its stake in Mumbai Metro Line 1 have underscored the need to recalibrate the PPP model.

Even as Metro networks expand rapidly across nearly 20 cities, large-scale systems have proved difficult to sustain as commercially viable private assets. Governments continue to lean on private capital to bridge funding gaps, but experts suggest the model needs recalibration amid recent exits of private players.

Hyderabad Metro Phase-I, one of the world's largest PPP metro projects, is set to be taken over by the Telangana government, which will refinance debt and acquire L&T's entire equity stake. The government will provide around ₹2,000 crore in cash to L&T as a one-time settlement, while it assumes around ₹13,000 crore of SPV-level debt. L&T's investments in the project hovered around ₹7,000 crore at the end of the second quarter of FY26.

The exit is financially pragmatic for L&T, as the project posted over ₹626 crore in losses in FY25 and the firm's departure is expected to improve the company's return on equity by 60-70 basis points, according to equity research firm JM Financial. This comes amid only partial materialisation of the announced ₹3,000 crore in phased state support, with only ₹900 crore provided as of Q2 FY26, alongside a fall in rides after the government announced concessions for women in state buses.

Ridership averaged 414,000 passengers daily in Q3 FY26 versus 445,000 a year earlier, and despite a fare hike in May 2025, the project continued to post losses, reporting a net loss of ₹185

Debt burden

"The revenue gap is simply too large to bridge through fares," said Vijay Agrawal, managing director and sector lead infrastructure at Equirus Capital. "Hyderabad Metro was generating roughly ₹600 crore in revenue against a debt of nearly ₹13,000 crore. That flexibility to keep infusing funds exists for governments, not private developers."

Reliance Infra's debt-ridden Mumbai Metro Line 1's cost had escalated from an initial estimated cost of ₹2,356 crore to the final cost of ₹4,321 crore. Operated by Mumbai Metro One Pvt Ltd (MMOPL), in which R-Infra holds 74 per cent, the project has seen lenders attempting to sell ₹1,226 crore loans, with National Asset Reconstruction Company Ltd placing an anchor bid.

State Bank of India (SBI) and IDBI Bank had initiated insolvency proceedings against MMOPPL amid non-payment of loans of ₹416.08 crore and ₹133 crore, respectively, in 2023. However, in April 2024, the Mumbai Bench of the National Company Law Tribunal (NCLT) dismissed the banks' petitions as the parties concerned agreed to a one-time debt settlement.

The Maharashtra government approved a ₹4,000 crore buyout of R-Infra's stake, but the plan was stalled due to funding constraints. MMOPPL's total standalone debt stood at ₹4,459 crore at the end of FY24, up from ₹3,851 crore at the start of the year. Revenue rose 22.5 per cent year-on-year to ₹375 crore, but losses widened to ₹461 crore in FY24 from ₹345 crore in FY23, company documents accessed via Tofler show.

The challenges are not isolated. Gurgaon's Rapid Metro — the first fully privately developed Metro by IL&FS-led consortia — struggled with weak ridership and financial stress, and was taken over by Haryana authorities in 2019. The Delhi Airport Express Line, developed by Reliance Infrastructure and DMRC, also faced traffic shortfalls and disputes, leading to R-Infra's exit in 2013. R-Infra also terminated its Mumbai Metro Line-2 contract in 2014, citing project delays. Currently, a Tata-Siemens joint venture is developing the Pune Metro corridor under the PPP route for ₹8,313 crore, in line with the New Metro Rail Policy 2017, which made the PPP component mandatory for availing of central assistance for new Metro projects.

Metro projects are among the most capital-intensive urban assets. Construction costs average around ₹250 crore per kilometre and take five years or more. Revenue stabilisation often takes another decade. "Expecting private capital to sustain such long gestation periods is unrealistic," Agrawal said. In contrast, road PPPs typically see faster traffic stabilisation and quicker capital recovery. Last-mile links, feeder buses and multimodal integration are typically handled by municipal bodies. Fare hikes are politically sensitive and often delayed. Subsidised bus services directly compete with Metro systems.

Industry participants caution that recent exits should not be read as a rejection of private participation altogether. Globally, metros are predominantly government-funded, with private players participating selectively in construction, rolling stock supply, operations and maintenance.

In India, experts see greater potential in unbundled models, rolling stock leasing, equipment supply, station redevelopment and annuity-style operations contracts with predictable cash flows. "One viable model is leasing rolling stock with guaranteed availability and long-term annuity returns," Bhavik Damodar, partner at Deloitte India, said. Governments could also consider funding construction upfront and monetising mature assets after ridership stabilises, or offering minimum revenue guarantees during initial years to reduce downside risk.

As Metro networks expand across Mumbai, Bengaluru, and Pune, behavioural shifts towards public transport are visible. Private capital is unlikely to disappear, but it will be more selective, favouring airport links, high-density corridors and station-centric developments over city-wide concessions. "There is no perfect path forward," said an industry expert who didn't wish to be named. "Initial attempts may fail, but as data improves and risk-sharing frameworks mature, private participation will increase, just not in the form originally imagined."

There's interest among global operators and large infrastructure funds in parts of the value chain, subject to financial viability. An industry source stated that the Adani group is also exploring ways to work on operating and maintaining metro projects based on the PPP model in India. Queries sent to the Adani Group remained unanswered.

An industry analyst said the government could fund metro construction upfront and monetise assets after ridership stabilises, or offer minimum revenue or ridership guarantees to reduce investor risk. Clear central policies, standardised concession models, and appropriate risk-sharing mechanisms, including backstop or guarantee structures, would help strengthen private sector confidence and avoid negative precedents. Email queries sent to L&T, R-Infra, MMRDA, Tata Realty & Infrastructure, and Siemens remained unanswered.