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MELTDOWN MOMENTS

Emotive words that defined the last few weeks

The media has used a whole range of words to define the collapse of Wall Street titans and the sticky situation

BY SAMANTH SUBRAMANIAN
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NEW DELHI

Last week, as **Lehman Brothers Holdings Inc.** and **Merrill Lynch and Co.** slid from their pedestals, Indranil Mukherjee hurried to the Bombay Stock Exchange. Not to sell shares, but to prowl the sidewalk under the exchange's digital board with a camera in his hand. Mukherjee, a photographer with the *Agence France Presse* news agency in Mumbai, has been shooting pictures for stock market stories for four years.

During downturns such as this one, that inevitably means scouring brokerage houses and the exchange for grim-looking brokers and investors, to go with the grim-looking news the next day.

The exchange is Mukherjee's blood-soaked arena of choice. "There are always onlookers standing in front of the stock exchange, watching the movement of the share indices," he says. "They always give me the expressions that I look for to reflect the situation of the market."

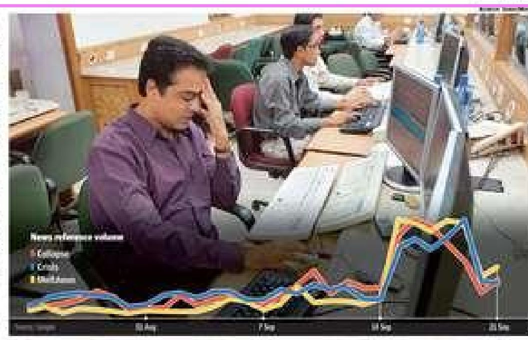
Over the last few days, these stock images—the distraught investor watching his wealth fade or the harried trader on his mobile phone—and stock terms such as crisis, collapse and meltdown, have fast become the media's preferred method to telegraph the severity of sticky financial situations. At times, they are alarming, cliched, even hyperbole.

But then again, says one editor: "The last few weeks have been unprecedented."

The India-based editor with an international news agency calls these "emotive words" and offers a slew of others: "plunge," "nosedive," "freefall." Her newsroom, she says, has a strict guideline on using them: Don't, if you can help it.

"But it does depend," she says, speaking on condition of anonymity. "So you read other people, because there's safety in numbers. You don't want to be the first one to call something a 'crisis,' but if somebody authoritative says it first in a quote, then it becomes more legitimate."

Starting on 14 September, the Sunday that brought the twin announcements of Lehman's bankruptcy and **Bank of America Corp.**'s takeover of Merrill, Google Trends, a feature that charts traffic, shows a clear spike in worldwide news mentions of the terms "collapse," "meltdown" and "crisis."



Media response: *Stockbrokers react to the Lehman bankruptcy on 15 Sep. The graphic in the foreground traces the number of times that global media has used the words collapse, crisis and meltdown since then.*

Simultaneously, television channels began their live coverage of events that were primed for drama.

Reprising the World Trade Center attacks on 11 September, one network even featured a graphic of an airliner labelled "US Credit Crisis" heading for four tall Wall Street towers, representing the four big investment banks. The CNBC-TV18 business network relied largely on footage from its American partner, CNBC.

"There was an unprecedented collapse, yet there was great poise in what they did," says Harsha Subramaniam, assistant news editor at CNBC-TV18. "They'd simply branded their coverage 'Wall Street Crisis,' not stuff like 'Blood on the Street,' which, very frankly, is the language we would use," he says.

On television, Subramaniam also mentions the importance of tone. "As a business channel, we're generally sympathetic to industry concerns," he says. "But as anchors, there is an attempt to sound neutral on air, and not act like there's been a death in the family if the market crashes."

Such restraint can matter more than consumers think. A few years ago, Andrew Lo, a professor at the Massachusetts Institute of Technology's Sloan School of Management, set out to determine the "emotional context" of articles that appeared in *The Wall Street Journal*. Choosing emotive words, such as "anxiety" and "depression," Lo counted the number of times they appeared in articles on a day, and then linked them to movements of the stock market.

In an interview to *The New York Times*, Lo said the frequency of such words on any given day "tended to be a leading indicator of the (**Standard & Poor's**) index."

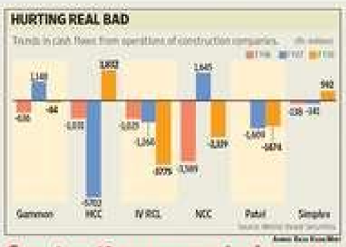
But picking your words, in any case, seems to be an easier task than picking pictures. Prashanth Vishwanathan, a freelance photojournalist for *Bloomberg*, recalls one attempt to focus a man outside the Bombay Stock Exchange.

"He was wearing glasses that were silvered and opaque, so I looked into the glasses, and I could see the BSE reflected there," Vishwanathan says. "I thought that made a good picture, so I went near to photograph him. He was so upset with me that he started shouting and left immediately."

Investors and other onlookers generally don't object to being photographed, Mukherjee points out. "But there are exceptions. Sometimes they cover their faces or turn and move away from the frame to avoid being photographed," he says. "In such cases, I don't shoot. I wait for my next picture."

TheCapitalist

RN BHASKAR | Inconvenient questions. Relevant answers



Construction companies' pangs

How badly is the slowdown in the economy hurting companies?

Quite badly. GDP growth has slowed. But the one industry that is hurting real bad is the construction sector.

A study of this sector by **Motilal Oswal Securities Ltd** found that of the six companies analysed—**Gammon India Ltd, Hindustan Construction Co. Ltd, IVRCL Infrastructure and Projects Ltd, Nagarjuna Construction Co. Ltd, Patel Engineering Ltd**, and **Simplex Infrastructure Ltd**—four had begun to face negative cash flows (see chart).

The study came to the following conclusions. The net working capital cycle for construction companies increased from 145 days during 2007-08 compared with 138 days in 2006-07 and 107 days in 2005-06; debtors outstanding for periods beyond six months increased from 17% in 2006-07 to 21% in 2007-08; loans and advances to subsidiary companies—mostly involved in real estate businesses—zoomed substantially from Rs72.9 crore in 2005-06 to Rs650 crore in 2006-07 and further to Rs780 crore in 2007-08.

As a percentage of capital employed, loans and advances increased from just 1% in 2006-07 to 6% in 2007-08.

Quite clearly, the industry is hurting. One of the reasons is that large construction projects—often cleared by the Union government and by state governments—have not been cleared in the recent past. This is further compounded by money tightening measures introduced by the Reserve Bank of India to curb inflation. Both have caused funds to dry up. Besides hurting the finances of the players in this field, this has also worsened the unemployment situation, as the construction industry remains one of the largest employers of unskilled and semi-skilled workers in the organized sector.

That isn't likely to go down well with daily wage earners either.

Taking a toll?

India remains a country where costs rise inexplicably—and not necessarily because of inflation. Many projects that were meant to be developed have not been allocated and are being shelved. This will cause costs to soar further.

This is particularly true of roadways, where governmental clearances can make or break a project (and related costs). This is of critical significance to the Indian economy. Much of the economic boom that India experienced in the past five years was largely due to the Golden Quadrilateral that the National Democratic Alliance government cleared when it was in power. By doing this, that government cleared the path to constructing 3,625 miles of new four- and six-lane highways compared with just 334 miles of four-lane roadways construction since independence.

That, in turn, is creating around 30 new cities which will encourage the migration of almost 300 million people over the next two decades, making it, what **Goldman Sachs Group Inc.** rightly described as "the biggest migration the world has ever witnessed".

This is likely to create demand for goods and services and infrastructure which, in turn, should continue propelling India's growth for the next two decades. It echoes the construction of national highways in the US during the 1920s and 1950s which fuelled commerce and industry. But that momentum has slowed. And, sadly, road construction costs are spiralling. They have gone up from Rs5.07 crore a km in the first phase of the National Highway Development Programme (NHDP Phase I) to Rs26.58 crore and Rs15 crore in NHDP Phase VI and NHDP Phase VII respectively. Both NHDP Phase VI and VII are awaiting clearance.

Ministry of surface transport officials explain away the lower costs in some contracts cleared during the 1990s and prior to 2005 because "they often applied to upgrading existing roads. But phase VI involved the building of greenfield roads". Costs vary with special roads, they add. For instance, elevated roadways could cost around Rs50 crore per km (the 9km Ennore elevated highway is estimated to cost Rs450 crore).

And costs could soar even further because the ministry recently changed the manner in which bids will be cleared. While it has opted for international competitive bidding norms, it has decided to first shortlist the bidders on the basis of technical capabilities, and then select only those who have the largest asset base. This has made several players, including **RITES Ltd**, quote a price for lending their names and their balance sheets to bidders. That will also get added to costs. And these costs will have to be eventually paid by either taxpayers or toll collections, or both.

But the real shocker could be the Delhi Mumbai Industrial Corridor (DMIC), where the 1,483km route is likely to cost $90 billion (Rs4.12 trillion) or an incredible Rs270 crore per km. Sources in the ministry justify these costs (nobody wants to go on record) as being inclusive of a lot more than mere road-building. Yet, there is no denying that the costs have ballooned to such an extent that even the Japanese who initially wanted to invest in this project appear to have backed off. But more about the DMIC later.

Abandoning growth

At a time when India has decided that curbing money supply to rein in inflation is the best way to prevent hurting the poor, it is interesting to see what China (even the US) is doing.

China, notwithstanding a painful inflation, has opted to reduce interest rates. The argument clearly is that growth is better than a slowdown. Inflation hurts, but unemployment hurts even more. And jobs can be created only by a growing economy.

But then—with elections looming large—inflation can be talked in concrete numbers; growth, only in abstract statistical projections. Is that why nobody in the government talks about growth any more?

Very short-sighted, right?

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ROAD PROJECTS

Shortlisting criteria in bidding scrapped

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In a major concession to highway contractors, the finance ministry has done away with a contentious rule—prequalification of firms bidding for highway stretches based on prior experience—after hectic lobbying and legal challenges.

This means all companies that fulfil the minimum threshold criteria such as having a net worth of 25% of the project cost (relaxable to 15% for projects worth at least Rs1,000 crore) will now be allowed to put in price bids. The ministry passed an order to this effect on 22 September.

The shortlisting criteria, issued by the finance ministry and ratified by the Prime Minister's committee on infrastructure in May, were made applicable to the so-called PPPs, or public-private partnerships. The companies were to be ranked based on development and construction experience in the infrastructure sector over five years.

According to the shortlisting criteria, more weightage was given to companies that had developed projects, as opposed to merely constructing them for a fee. Only between five and seven top-ranked companies—depending on the project—were allowed to bid for highway projects.

A National Highways Authority of India, or NHAI, official confirmed that the shortlisting clause will not be a part of documents for initial bids called after 22 September. The 60 projects for which initial bids have already been called, however, will be evaluated using the shortlisting norm, said the official who declined to be named.

"A special dispensation for the roads sector has been made because of the volume and the non-complicated nature of work," a finance ministry official, who also did not wish to be identified, said. "The applicability for the other sectors are closely being examined by a committee."

On 28 December, *Mint* had reported about concerns on cartels being formed if the rule came into effect. The National Highway Builders Federation, or NHBF, a trade body of highway contractors, challenged the rule in the Delhi high court in January.

Last month, **Reliance Infrastructures Ltd, Madhucon Projects Ltd** and the **GMR Group** also filed suits challenging the bid evaluation process for a road project in Andhra Pradesh, in which the contentious guidelines were used. All these cases are likely to be heard on 30 September.

NHBF director general M. Murali said the organization will not withdraw its case against NHAI, the Planning Commission and the finance ministry.

Madhucon's executive director S.V. Patwardhan said the company would also not withdraw its case because it was challenging only the Hyderabad-Vijayawada road project.

A Reliance Infrastructures spokesperson said: "We are not going to withdraw the case because the order does not affect our existing projects." GMR's spokesperson couldn't be reached for comment.

Partha Mukhopadhyay, an infrastructure expert and senior fellow at New Delhi think tank Centre for Policy Research, said it would't be difficult to amend the guidelines for projects that had already been bid for.

"The question to ask is, if it was decided that the new approach is the right one, why is it not being used for all projects?" he asked.