RAILWAY BUDGET

Background

The Indian Railways (IR) is the world's second-largest rail network under a single management. IR operates approximately 11,000 passenger trains a day, around 5,000 freight trains a week and employs nearly 1.412 million people. The freight traffic accounts for roughly 67 per cent of its revenues while the passenger traffic constitutes 33 per cent of its receipts.

The economic slowdown has significantly affected IR. Annual growth (year-on-year / y-o-y) in freight loading (million tonnes) has actually declined 4.97 per cent in FY09 from 9.1 per cent in FY08. The same had revenue implications. Growth (y-o-y) in total earnings moderated to 11.4 per cent in FY09 from 14.5per cent in FY08. The implementation of the sixth pay commission contributed to a jump in working expenses growth to 32.3 per cent in FY09 from 9.3 per cent in FY08. Consequently operating ratio (gross working expense to gross earnings) witnessed a sharp increase to 90.5 per cent in FY09 from 75.9 per cent in FY08.

As the Indian economy recovers, key challenges confront IR. Strong growth in the previous five years was complemented by optimal utilisation of existing assets to improve operating ratios. However, the need for augmenting investment in infrastructure and network has become evident during the downturn and the same would have to form a crucial part of the future strategy of the ministry. Moreover infrastructure augmentation would have to be underlined by accelerating investment in technical up-gradation. The same would require a larger proportion of operating surplus. Balancing the imperatives of passenger pricing with a rational freight pricing policy presents a challenging policy task to the railway minister.

Annual Plan for FY2010-11

Annual Plan Outlay for FY2010-11 is proposed to be at Rs.41,426 crore, the highest plan investment since independence. The resource mobilization is mainly from Gross Budgetary Support of 38 per cent, internal resources to the extent of 35 per cent, around 25 per cent via external borrowings and a small portion of 2 per cent through diesel cess.

The Budget estimates for FY2010-11 targets a freight loading of 944 million tonnes which is around 6 per cent higher than the revised estimates. The annual plan also envisages an expansion of 1,000 km to the existing rail network of 64,015 km.

As per revised estimates for FY2009-10, the Gross Traffic receipts stood at Rs.88,356 crore and gross working expenses stood at Rs.83,440 crore. The net revenue stood at Rs.951 crore (after meeting full dividend liability). In the Budget estimates for FY2010-11 the gross traffic receipts are projected at Rs.94,765 crore (showing a growth 7.2 per cent from the revised estimates) as against projected working expenses of Rs.87,100 crore (which has fallen by 1.4 per cent from the revised estimates). The net revenue after meeting dividend liability stood at Rs.3,173 crore.

Budget proposals

- Of the 120 new trains announced in FY2009-10 budget, 117 would be flagged off by the end of March 2010.
- 94 stations to be upgraded as Adarsh Stations and 10 stations to be identified as World Class Stations.
- Private Public Partnership (PPP) proposals: construction of 93 Multi Functional Complexes, multi-level parking and six clean drinking water bottling plants.
- Introduction of e-ticket based mobile vans for issuing tickets.
- Provision of housing facilities to all railway employees in next ten years.
- To set up a state-of-the-art advanced loco pilot training centre, centre for excellence in wagon prototyping and centre for railway research at Kharagpur and an advanced railway track training centre at Beleghata and four multi-disciplinary training centres.

- Modernization and augmentation of capacity of Chittaranjan Locomotive Works and Integral Coach Factory.
- A new Rail Axle Factory to be set up in New Jalpaiguri under PPP/JV mode.
- A Design Development and Testing Centre for Wheels to be set up at RWF, Bangalore.
- Five wagon factories, two workshops for POH of high-axle load wagons.
- To set up a refrigerated container factory on PPP mode at Budge.
- A modified wagon investment scheme for high capacity general purpose and special purpose wagons to be introduced.
- Private operators to be permitted to invest in infrastructure and run special freight train.
- Preliminary Engineering-cum-Traffic Survey (PETS) to be taken up for north-south, east-west, east-south and south-south for Dedicated Freight Corridors.
- To set up a National High Speed Rail Authority for planning, standard setting, implementing and monitoring six projects.
- To provide rail link between India and Bangladesh.

Budget implications

The budget provides significant opportunities for Private investment as a number of Public private PPP initiatives have been proposed. Among sectors that would benefit from these measures include logistics, automobiles, steel and construction. These initiatives are detailed below:

1) Manufacturing Facilities and infrastructure augmentation - Five wagon manufacturing factories, one Rail Axle factory, a diesel multiple unit and refrigerated container factory are proposed to be implemented on a PPP basis. A policy for role of private investors in network expansion, high speed train corridors and running of special freight trains is to be notified soon.

2) Development of Railway land and assets: Among projects considered for PPP are multi-function centres, multi-level parking, up-gradation of railway stations, multi-modal logistic parks, laying of optical fibre cables, port and mine connectivity, among others.

Despite a significant rise in operating ratio in FY09 and continued high level of working expenses in FY10 (RE), the budget does not propose any rise in freight and passenger fares, which is an immediate source of revenue. It has been observed that the growth elasticity of railways to GDP growth has hovered around 1.18 in the past five years. And this would significantly constrain railway's revenue growth to the envisaged GDP growth of around 7-8 per cent.

One of the key challenges confronting railways has been inadequate infrastructure augmentation. While the number of passenger train facilities has risen significantly over the years, network augmentation has not kept up. For example, the average annual addition to rail network has been 219 kms in the past five years. The budget proposes in its annual plan an addition of 1,000-km rail network in FY2010-11 which appears ambitious given the track record.

Among major projects, no clear cut-timeline on the Dedicated Freight Corridor has been put down. Surveys for four corridors in addition to the Western and Eastern Corridor are proposed in FY11. A positive development has been the setting up of a National High Speed Rail Authority for the first time which would expedite high-speed passenger corridors which are proposed to be developed.

The budget proposes some new initiatives to structurally strengthen the business model of the department. A strong focus on technical up-gradation can be discerned through the proposed revamping of Railway Design and Standards Organization (RDSO), setting up a new design development and testing centre of wheels in Bangalore, among others. Secondly, a special task force to simplify guidelines for clearance of private investment proposals within 100 days has been proposed.