

## **Railways**

9.62 The Indian Railways is one of largest railway systems in the world. It has an extensive network which is spread over 63,140 Route Kilometre (RKm), comprising Broad Gauge (45,099 RKm), Metre Gauge (14,776 RKm) and Narrow Gauge (3,265 RKm). Approximately, 25 per cent of the network is electrified. The Indian Railways has historically played an important integrating role in the social and economic development of the country. Railway's have a innate advantage as a mode of surface transport, being less energy intensive and more environment-friendly. There is need for a strategic shift in Railways approach to give optimal benefits of these advantages to the economy. For this purpose, the thrust has to be on augmentation of capacity in high density corridors, sufficient reorientation along commercial lines and necessary tariff rationalisation while continuing to play the desired social and developmental roles.

9.63 The Railways had set target of 500 million tonnes of revenue earning freight traffic for 2001-02, in anticipation of strong economic growth. But the economic slow-down, which had started in the second half of 2000-01, continued through 2001-02. Due to reduced demand, the freight loading target was revised to 489 million tonnes. The Railways had, however, achieved originating revenue earning freight loading of 492.50 million tonnes during 2001-02, increase of 19 million tonnes over 2000-01 and 3.5 million tonnes over the revised target. For 2002-03, a target of 510 million tonnes of revenue earning freight traffic (originating) has been set. The freight loading performance of Railways up to December 2002, at 380.5 million tonnes, is 23.2 million

tonnes higher than that achieved during April-December 2001 and 7.7 million tonnes higher than the proportionate target. The overall increase in revenue earning freight traffic in terms of NTKM during April-December, 2002 works out to 10.6 per cent over the performance of April-December 2001. A key element driving this outcome was the sharp growth in movement of foodgrains, which rose by 54.2 percent (Table 9.13).

9.64 Indian Railways, being a public utility service, has been undertaking certain uneconomical operations in the larger social and national interests, so as to provide affordable transport facilities to the common man and to carry certain essential commodities meant for mass consumption at very low freight rates. During 2001-02 losses incurred on this account, termed as 'Social Service Obligation', are estimated at Rs. 3,413 crore. Such losses constitute approximately 9 per cent of the total earnings and 9.3 per cent of the total expenses of the Indian Railways. These costs have significant implications for Railway finances.

9.65 The losses incurred on passenger services are cross-subsidized by profit earned through freight services as also earnings from higher classes of passenger travel. In addition, cross-subsidization exists within the freight services since certain commodities, such as, salt, fruits, vegetables, etc. are being carried at much below cost of operations. Since, Indian Railways do not receive any subsidy from the Government to fulfil such Social Service Obligations, the level of cross-subsidization can only be reduced through proper tariff rationalisation, action for which has already been initiated in the Railway Budget 2002-03, effective April 1, 2002. The Railways are also making efforts to close down all

**Table 9.13 : Performance of the railways**

1	2000-01	2001-02*	April-December*		Change Over previous year	
			2001	2002	2001-02	2002-03@
			4	5	6	7
						(percent)
1. Total revenue earning freight traffic (million tonnes)	473.5	492.5	357.2	380.5	4.0	6.5
(i) Coal	223.7	229.8	166.7	172.8	2.7	3.7
(ii) Raw Materials for Steel plants (excl.coal)	38.6	39.4	29.3	30.0	1.9	2.3
(iii) Pig iron & finished Steel from steel plants	11.9	12.4	8.6	9.3	3.8	8.3
(iv) Iron ore for export	14.6	15.7	11.9	11.4	8.0	-4.4
(v) Cement	42.9	44.0	32.2	33.9	2.7	5.3
(vi) Foodgrains	26.7	32.8	21.9	33.8	23.2	54.2
(vii) Fertilizers	27.0	27.2	20.7	20.7	0.7	0.0
(viii) POL	36.2	35.6	26.6	25.8	-1.6	-2.8
(ix) Balance (other goods)	52.0	55.6	39.3	42.7	6.9	8.7
2. Net tonne kilometers (billion)	312.4	333.2	238.7	263.9	6.7	10.6
3. Net tonne kilometers per wagon per day (broad gauge)	2042	2223	2107	2290	8.9	8.7
4. Passenger traffic originating (million)	4833	5093	3838	3750	5.4	-2.3
5. Passenger kilometers (billion)	457	493	369	380	7.9	3.0

\* Provisional. @ April-December.

Source : Ministry of Railways.

uneconomic branch lines where alternative modes of transport exist or can be developed. This is being attempted in consultation with the State Governments with the condition that in case the State Governments do not agree for closure for their own reasons, they should share the losses with the Railways on a 50:50 basis. Instructions have been issued for closure/discontinuance of 21 uneconomic branch lines.

9.66 Railways have taken a number of initiatives to face competition from other modes and increase its share in the transport sector. Some of the steps which have been taken in this regard include rationalization of freight structure by reducing the number of classes for charging freight from 59 to 32, and reducing the ratio

between the highest and lowest freight rates from 8.0 to 3.3. More powers have been delegated to the General Managers for quoting concessional freight under Station-to-Station Rates scheme.

9.67 Many other operational improvements have also been recently undertaken. Mini rakes of 20 bogie wagons are being allowed at train load rates for distance up to 300 km. Freight movement has been computerized to provide real time information of movement of freight trains. High-speed goods trains to run at 100 kmph are being introduced. Integrated transport facilities are also being developed through the terminal warehousing scheme. Block rakes are being permitted to a larger number of two-point combinations of destinations. Time-tabled parcel express

trains have also been introduced between Metropolitan cities to retrieve piecemeal traffic.

9.68 The Prime Minister on August 15, 2002 approved an important initiative to put Indian Railways on the path of fast track growth. The Government has drawn up an important non-budgetary investment initiative for the development of Indian Railways to be called the National Rail Vikas Yojana (Box 9.11). Work on the Rs.3,564 crore project for constructing the Udhampur to Baramulla railway line in Jammu & Kashmir would be taken up. The first train would roll into Kashmir Valley before August 15, 2007.

9.69 A new category of seventeen inter-city train services called Jan Shatabdi was also introduced during 2002-03. These trains have most of the characteristics of the prestigious Shatabdi Express trains and also have specially designed second class chair car accommodation. These trains are more affordable and, therefore, accessible to a much wider spectrum of the traveling public.

9.70 High priority is being accorded to safety on the Indian Railways. The safety organization functions as a three-tier arrangement – at the Railway Board, Zonal Headquarters and the Divisional levels. It is essentially a service department monitoring the safety performance of various departments, and helping them to discharge their safety-related functions effectively. In order to implement one of the major recommendations of the Railway Safety

Review Committee, a non lapsable “Special Railway Safety Fund” (SRFS) of Rs.17,000 crore was set up in 2001-02 to wipe out the arrears in renewal of overaged assets, within a fixed time frame of six years. The funding is to be done by a dividend-free grant of Rs.12,000 crore from the General Exchequer and Rs.5,000 crore to be generated by the Ministry of Railways by levy of safety surcharge on passenger fares. SRFS will be utilized to wipe out arrears of renewals of track, bridges, signaling installations, rolling stocks and enhance specified safety measures. Safety Enhancement Measures include tracking circuiting of maximum number of stations, aids necessary for improving the safety on rolling stock, upgradation of training facilities including training aids in training institutions, simulators for locomotive drivers, and development of computer based training modules. During the year 2001-02, works totaling Rs.1,434 crore were executed under the SRFS.

9.71 Several new initiatives have taken place in augmenting resources. Two separate MOUs were signed with Government of Karnataka and Government of Andhra Pradesh to formalize their financial participation in certain railway projects in their respective States. The MOU between Government of Karnataka and Ministry of Railways envisaged formation of a joint-venture company (K-RIDE), funded by the Central Government, the State Government, financial institutions and others. Besides, the State Government has agreed for the funding

#### **Box 9.11 : Salient features of the National Rail Vikas Yojana**

1. Capacity bottlenecks in the critical sections of the railway network will be removed at an investment of Rs.15,000 crore over the next five years, i.e., during the Tenth Plan period.
  - (i) Strengthening of the Golden Quadrilateral and its Diagonals to enable the Railways to run more long-distance mail/express trains and freight trains at a higher speed of 100 kmph, at a cost of Rs.8,000 crore.
  - (ii) Strengthening of rail connectivity to ports and development of multimodal corridors to hinterland, at a cost of Rs.3,000 crore.
  - (iii) Construction of four mega bridges - two over the River Ganga, one over River Brahmaputra, and one over the River Kosi, at a cost of Rs.3,500 crore.
  - (iv) Accelerated completion of last mile and other important projects, at a cost of Rs.763 crore.
2. Completion of all viable Sanctioned Railway Projects within the next 10 years.
3. “Operation Cleanliness” to significantly improve the standards of sanitation at railway stations, on platforms and inside railway compartments.

of rail projects by contributing two-thirds of the cost. Similarly the MOU with the Government of Andhra Pradesh envisages formation of a joint-venture company to plan and implement a model scheme of seamless Multi-modal Urban Transport System involving both rail and road at Secunderabad-Hyderabad. The Government of Tamil Nadu is also continuing to share two-thirds of the cost of Mass Rapid Transport System Project between Thirumayilai and Vellacherry; it has also agreed to contribute 50 percent of the cost of Salem-Cuddalur Gauge Conversion project and Chennai Beach- Chengalpattu Suburban Gauge Conversion project.

9.72 A Special Purpose Vehicle (SPV) with equity participation of Ministry of Railways and M/s Gujarat Pipavav Port Ltd. (GPPL) was earlier formed to provide Broad Gauge connectivity to the Port of Pipavav on the West Coast of India by conversion of Surendranagar-Rajula City, meter gauge line and new line from Rajula City to the Port of Pipavav. Connectivity of Mundra Port on the West Coast to the Broad Gauge network of Indian Railways has already been effected.

9.73 Among the significant developments regarding partnership with State Governments for funding of projects, is the signing of a MOU between Government of Jharkhand and Ministry of Railways, for execution of six projects estimated at Rs.1,997 crores. Two-thirds of the project cost will be borne by the State Government and one-third by the Ministry of Railways. The projects will be completed in a time-frame of five years.

9.74 The Railways also expected to augment revenues from non-traditional sources, such as, commercial publicity, commercial use of land and air space and utilization of 'right of way' for optic fibre cable network. Parcel services of Indian Railways are also being improved with leasing of space in brake vans of passenger trains. With fast growth in cargo in private sector, it has become possible to offer better quality of service by guaranteed clearance of cargo through regular train services.

### Box 9.12 : Special purpose vehicles (SPVs)

- A Special Purpose Vehicle (SPV) is a firm which embodies a financial contract. An SPV has no management and no employees. It is a firm which is a legal person, where every action of the firm is defined by prespecified contracts. Typically, a trustee discharges the functions of receiving and distribution cash according to the prespecified contracts. There is no management team which can make autonomous decisions once the SPV is set into motion.
- SPVs are a tool for financial engineering, and a mere means to obtain sound contracting. For this reason, they need to avoid double taxation. This is done using either a trust structure or using a mutual fund structure, both of which give a tax pass-through in India. Regardless of legal form, generally SPVs are purely financed by debt capital. Traditional notions of equity capital or capital adequacy are irrelevant with SPVs, which are not 'normal' companies but mere placeholders for contracts.
- As an example, consider a bridge being built by the Indian Railways. One possibility is for the Indian Railways to issue bonds in order to finance the bridge, and augment the general revenues of Indian Railways by charging the traffic. However, the bondholder would then be exposed to the complexities of the balance sheet of the Indian Railways. An alternative contracting mechanism would be to setup an SPV for this bridge alone. The SPV would issue bonds which are only focused on the bridge, and would have cashflows which only derive from the user charges for the bridge. This allows the bond investor to purely focus on the clearly identified cashflows of the bridge, and make decisions about investment without complexities introduced by the broader financial position of the Indian Railways. At a legal level, it is essential that the SPV is 'bankruptcy remote' from the main Indian Railways in the sense that financial distress of either would not affect the other.
- The contracts embodied in an SPV can be more complex. The cash that comes into the SPV can be divided between multiple different investors based on seniority rules, where "Class A investors" have the first claim upon cash, and residual cash (if any) is then used to service "Class B investors". This would imply that the SPV would issue securities which have different claims upon the incoming cashflows, and hence different (market determined) prices and rates of return.