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Study for Optimum Results of Indian Railways by establishing Competitive Scenario

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Abstract: *This article focuses on how the railway sector play a vital role over the concentration of power. It is intended to describe the inefficiencies occurring in the sector and how could it be overcome.*

Key Words: *Indian Railways, Concentration of power, Competitive Scenario.*

1. INTRODUCTION:

As the current scenario revealed the prominent factors of competition as it is more economical from the consumer point of view besides it generates more availability of services in quality/quantity and various alternatives which enable to have bargaining power within the consumers. As a result, it does not leave the other option in supplier's hands but to provide the affordability criteria. On other hand, it's also optimal from the viewpoint of resources exploitation as well. Since competition encourage the producers or entrepreneur to uplift the quality and expand the production at the least wastage. Eventually, it would exploit the resources thoroughly as their main target is to have minimum cost. In short, competition would give privilege to consumers and economical resources which could raise the welfare along with growth as competition undertakes the demand of consumer as per their preferences. Nonetheless, it upholds the expansion of capitalization[1] in return releases the burden of state authorities plus the availing the resources. Anyhow, somewhere regulation of fiscal allocation is required, subsidies and minimal litigations could incentivize the production. Infrastructure is a key component of an economy without which it cannot run. Infrastructure includes transportation which is main driver of the same to mirror the image of communication in real. In other words, transportation is the main medium to transverse the talks into trading of goods and services. However, Railways are supposed to be cheapest source of goods to get transported. Nevertheless, it's being somewhere resulted into huge loss due to inefficiencies in proceedings since it's under the public sector.

As far as economic prospects are concerned, monopoly has to be eliminated which is being stipulated by government. **Power of this sector has been diluted till the extent of government which is restricting the competition to come in. Apparently, this would enable the distribution of holding which could encourage the optimum utilization of resources which entail decline in the cost.** Example of BSNL could be quoted. Hereby, Monopoly does not allow to look at their clues of inefficiencies which is eventually destructing the economy. privatization would inculcate nothing but leveraging the excess capacity which is not being utilised by state. In return they would proceed to minimize the cost, simultaneously private sector would provide the additional source of revenue for government.

From the societal aspect, which talks about optimum allocation of resources leads to mitigate the gap of inequality. Optimum allocation reroutes the resources from surplus sectors which occupies in extras towards the deficient one where resources are required which would enable to attain the equality. In contrast, private sector could only bring expansion in inequality since it's main motive is to earn profit not the social welfare which would result in fare hikes. Volvo examples has been placed number of times to state that standard people whosoever could afford it they can go for high fares. On other sides who cannot afford, government railways lines are still open. Somewhere it has been vehemently ignored that the ratio of the population which could not afford to have these amenities at these charges are quite higher, having been said even the current status of railways under the public sector are not suffice then how would it make it sustainable under the private holdings.

Along with the holding of private sector which triggers the optimum result by establishing competitive scenario. But hereby, main concern has been seen for the services class people who are holding their jobs in this sector, Revenue gain cannot be accumulated at the cost of their security and salary package. As a matter of fact, Growth cannot lead to development at sustainable level, but development can lead to growth for longer.

[1] It would not limit the burden under state only but diversify the base to access the capital.

Resources are to be allocated in such a way which results in minimum cost and maximum return. Holding should be given to private contractors for effective and efficient result but not at the cost of penance for the common people. Railway could run in same way by conducting inspections by the private people based on which incentives should be allotted for better results. Proper checks and balances could result optimally.

1.1. OBJECTIVES:

- To know the obstacles of railways under public sectors.
- To find out the comparative of Indian railways with other nations.
- To understand whether cost for the society overburdened the returns.

2. REVIEW OF LITERATURE:

In order to know, many articles were read to get comprehensive and evaluative knowledge regarding the obstacle of railways under government sector and how could it be overcome. Since it is however resulted in inefficiencies always. Eventually it would hamper the optimum allocation by leaving the resources underutilized. Somewhere, it's become necessary from societal prospects, must deal with huge population of lower strata which could not afford rate hikes in fares.

B Anbuselvan, Article titled, "privatization of railway may end cheap travel by train, feel passengers" talked about Railway decision of allowing private sector in its network has not only provoked railway employees but their users to. No private company would be interested in this until they get economical routes since they would get return. Simultaneously employees would not have security of job like in airline they have train on same route by both sectors may encourage the scale of malpractices and corruption.

Nirbhay Kumar, Article titled, "Early bird will rake-in in private trains, says Talgo; plans india manufacturing" revealed that Spanish train manufacturing Talgo has said it's win win situation for all as would make a lot of money given size of market and projected rise in passenger volume. While Indian Railways strengthen the operation by giving hold to private sector besides this, acquiring revenue share and fixed charges by private operators. Upper class would get better services, those who could not afford and would have option to take Indian Railway train. India has great talent in term of workforce, and we always look forward to manufacture in India. This is a very good opportunity and should justify 'Make in India' for in. He added we have broad gauge so we can easily get a train we have been working since we did the trial run it's going to be big market forces.
He explained in railways above 90 percent cost is of infrastructure only 10percent is for system (rolling stock). Investors could only make profit if they own the system. Infrastructure should be gift of nation to people as it is binding the country together.[2]

C Srikumar, Article titled, "Axe of privatization on India Railways: One by one, National Jewels are being sold off" stated that fair would become competitive introduction of private players would ensure that trains are available on demand, will ensure punctuality. Government continues to be loyal toward corporate sector and common people interest are always buried. He added privatization undermine the basic of self-reliant economy. Contrary to the claim that this will boost job generation, experience has shown that it will result in a huge loss creating insecurity for the employees of the Railways[3]."

Railways have increased 5.35 crore seats; out of these 70 percent is in AC Coaches and 30 percent was only left for the sleeper coaches. The government is not taking care of common man's need. It is aiming only to earn profit. Government should increase spending in railway sector and implement effective solution that does not depend on sale of national assets. In country like UK, Railway have been private during the year 1990, people are now fed up with private Railways and are demanding nationalization of the Railways.

Article Titled, "Piyush Goyal wants to put Indian Railways on Fast Track with private sector help" Livemint talked about that we want to end the era of slow moving trains by making way for the fast speed-driven MEMU and electric Trains, like the train being run in suburban Mumbai (with the help of private sector)," he said while advocating for reforms in the railways. Railways to attract 50lakh crore in next 12 years to expand the facilities in passenger and goods train through modernization which is impossible through only with government budget as it already has huge deficit. So, the way out is to work on PPP modes. Tokyo Review, "Railways under Natural Monopoly has been privatized in 1987, An interesting point is that in the UK, rail was privatized by splitting up the tracks and train operator, unlike the regional division in Japan. Commentators have suggested this as one reason for inefficiencies in UK. In summation privatization of Japan's national rail company was a success in area with dense

[2] Kuma Nirbay, "Early bird will rake-in in private trains, says Talgo plans India manufacturing", Business Today, July 2020.
[3] C Srikumar, "Axe of privatization on India Railways: One by one, National Jewels are being sold off, National Herald, 9, july,2020.

population and because rail operators were allowed to expand into other lines of business which help them shoulder the cost to upkeep and improve rail service. Finally, the fact that rail company were split up by geographical area and not functionality (trains trains) has also help them achieve efficiencies to keep them competitive. while each country has its own unique political and infrastructure needs, lesson from the Japan Railways provide an interesting point of comparison.

3. METHODOLOGY:

The Scope of Research topic was to study the obstacle of railways under public sector and what could be consequences of allowing private sector in it. It can also be shown through the comparative analysis with other nation where privatization has already undertaken. The method that was followed during research has been quantitative and data was collected through secondary sources. The relevant data were collected from specified documents, economic survey and compiling data basis in order to analyze the material and arrive at more accurate comprehension regarding the data analyzing of growth rate in the wilder terms.

4. DATA ANALYSIS:

Dwindling Trends till 2017-18

a) Downfall of Efficiency in Indian Railways

After studying the articles regarding Indian Railways, it has shown the mounting cost in the same with negative marginal return since a decade. It can't just let it go for long, in order to mitigate the cost, need to upgrade the technically and enhance the productivity of human Resources by time to time holding of checks and balances to grow product offerings for Railway Sector. According to report, by the CAG the organization's financial health worsened in recent years as it's earning from passenger traffic grew at sedate pace while it's expenditure on salaries and pension multiplied[4]

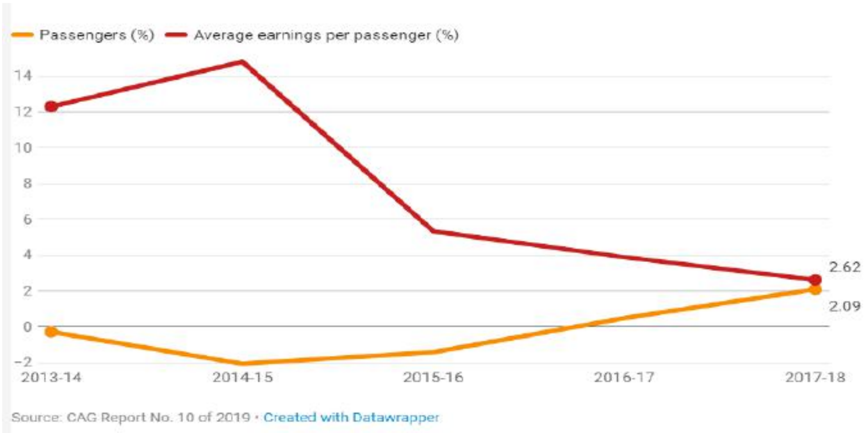
b) Operating Losses by class

Earnings from passengers grew at a slow pace as operational losses incurred in classes such as 'sleeper', 'second' and 'ordinary' ballooned in FY16 and FY17. For instance, in FY13, the Railways made a loss of Rs 40 crore in operating AC first class. Free tickets/passes and fare concessions contributed to the losses significantly[5].

(Amounts in INR Crores)

CLASS	FY 13	FY14	FY 15	FY 16	FY 17
AC 1st class	-40	-47	-127	-175	-139
1st class	-61	-92	-69	-58	-53
AC 2nd class	-348	-497	-495	-463	-559
AC 3rd class	495	410	881	898	1040
AC chair car	-38	-148	-142	-5	117
Sleeper	-6,852	-8,407	-8,510	-8,301	-9,313
2nd class	-5,167	-7,134	-7,642	-8,569	-10,024
Ordinary class	-9,783	-11,105	-11,673	-13,237	-14,647

Opposite Trends

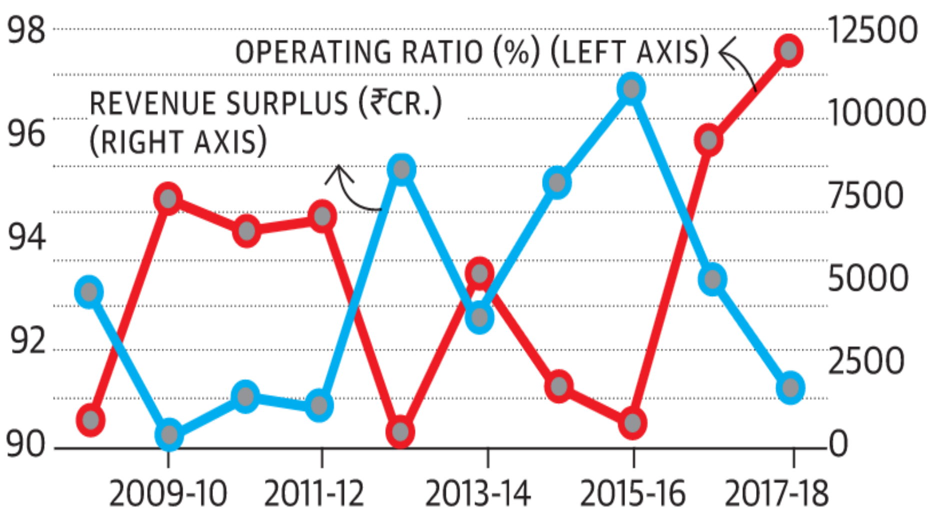


Graph. 1

[4] **Sen** Sumant, "Data: Indian Railways' efficiency dropped to its lowest in 10 years in 2017-18, The Hindu, 04 December,2019.
[5] Op.cit.

DWINDLING RETURNS:

In FY18, railways spent Rs 98.44 for every Rs 100 it earned: an operating ratio (OR) of 98.44%, the lowest in 10 years. Its surplus revenue dropped to Rs 1,665.6 crore; a six-year low. Importantly, had it not been for the advances paid by the National Thermal Power Corporation Limited (Rs 4,761.0 crore) and IRCON (Rs 2,580 crore), the operating ratio would have shot up to 102.66% with a non-existent surplus.

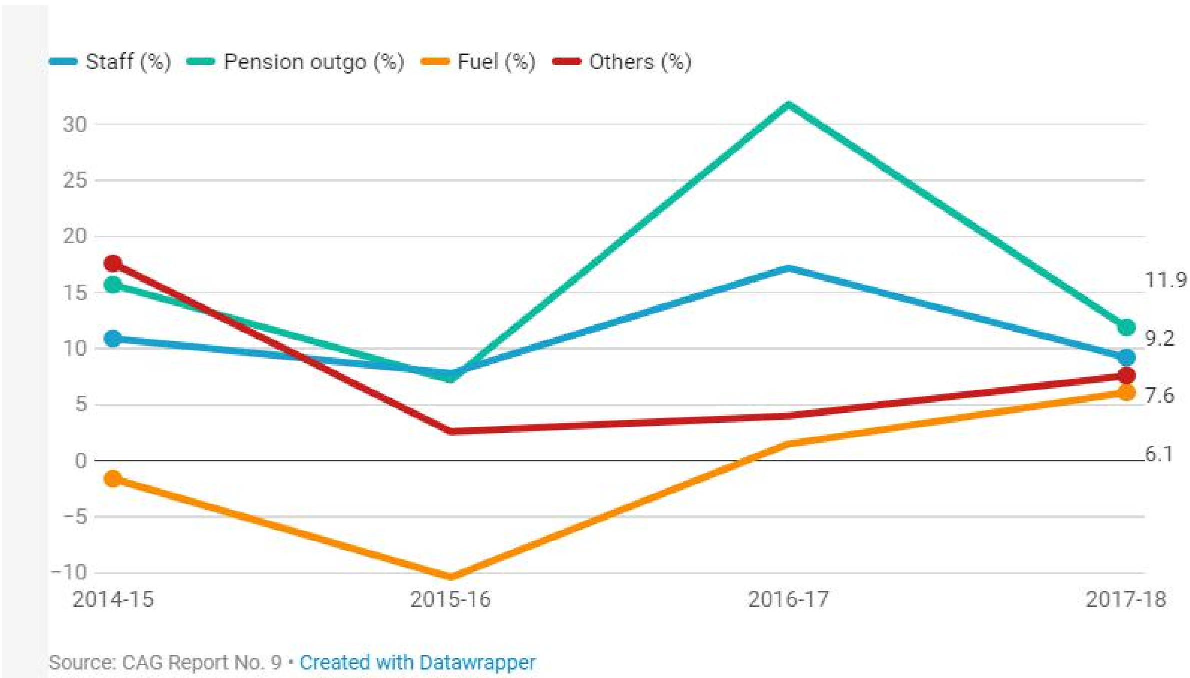


Graph. 2

TOWERING EXPENSES:

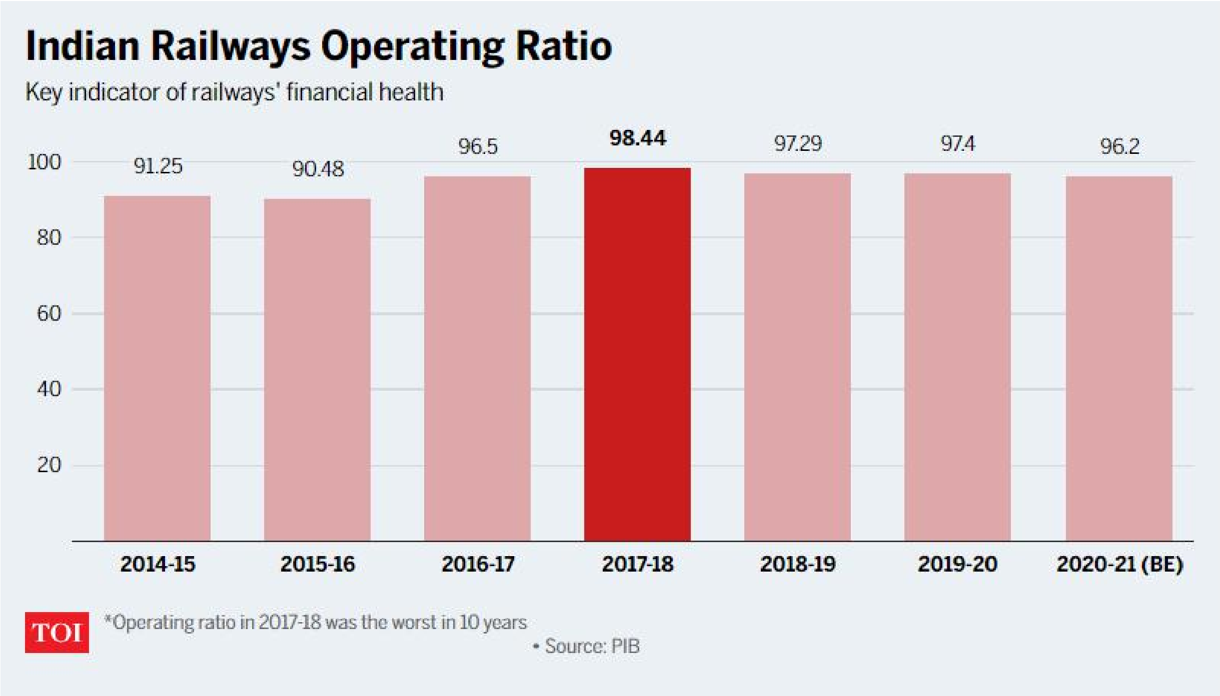
While income growth fell, the rate of expenditure increased for the railways. Staff expenditure and pension outgo surged in FY16 due to implementation of the Seventh Pay Commission. The robust increase in fuel costs and other expenses added to the burden. The graph shows this percentage change.

WORKING EXPENSE:



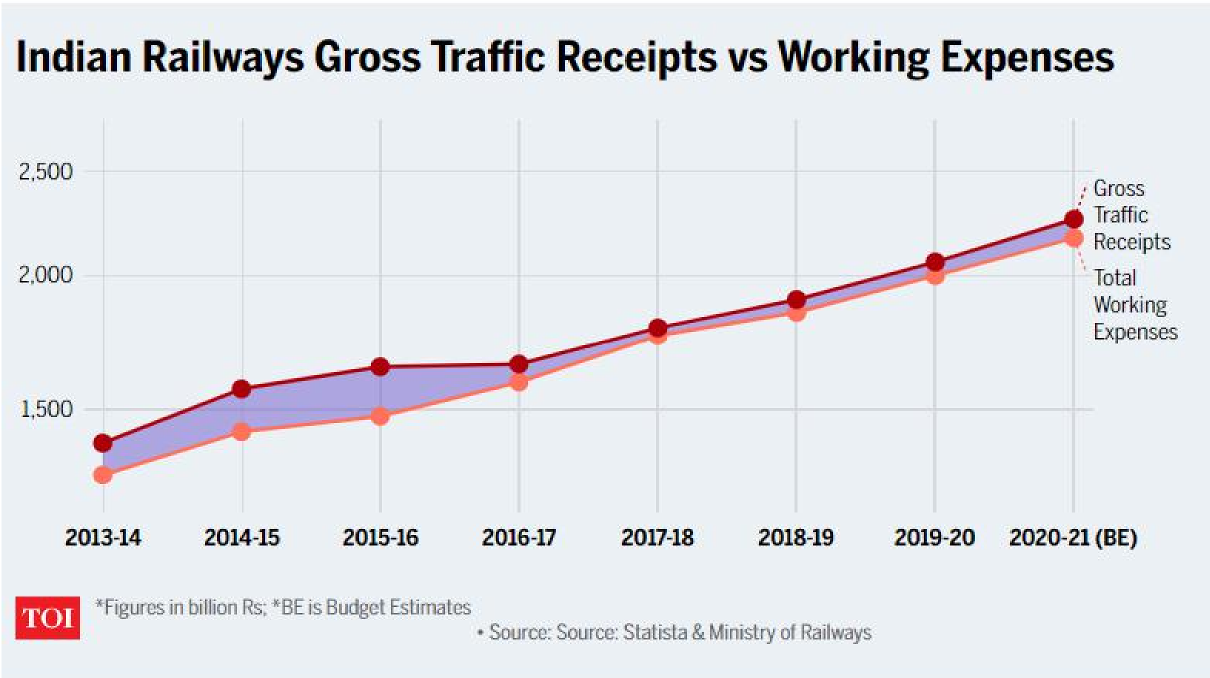
Graph. 3

TRENDS SINCE 2017-18 TO UPCOMING TRENDS:



Graph. 4

In 2008-09, the operating ratio[6] was 75.9% due to buoyancy in the national economy getting reflected in railway traffic. Deterioration in the operating ratio had emerged due to the advent of the 6th and 7th Central Pay Commission. In the meantime, working expenses have exacerbated.



Graph. 5

This graph has depicted the drowning pace of operating ratio as the difference of the traffic receipt and working expenses is diminishing with the time.

[6] 'Operating Ratio' is the ratio of operating expenses to receipts. A lower ratio indicates a higher surplus availability for investments.

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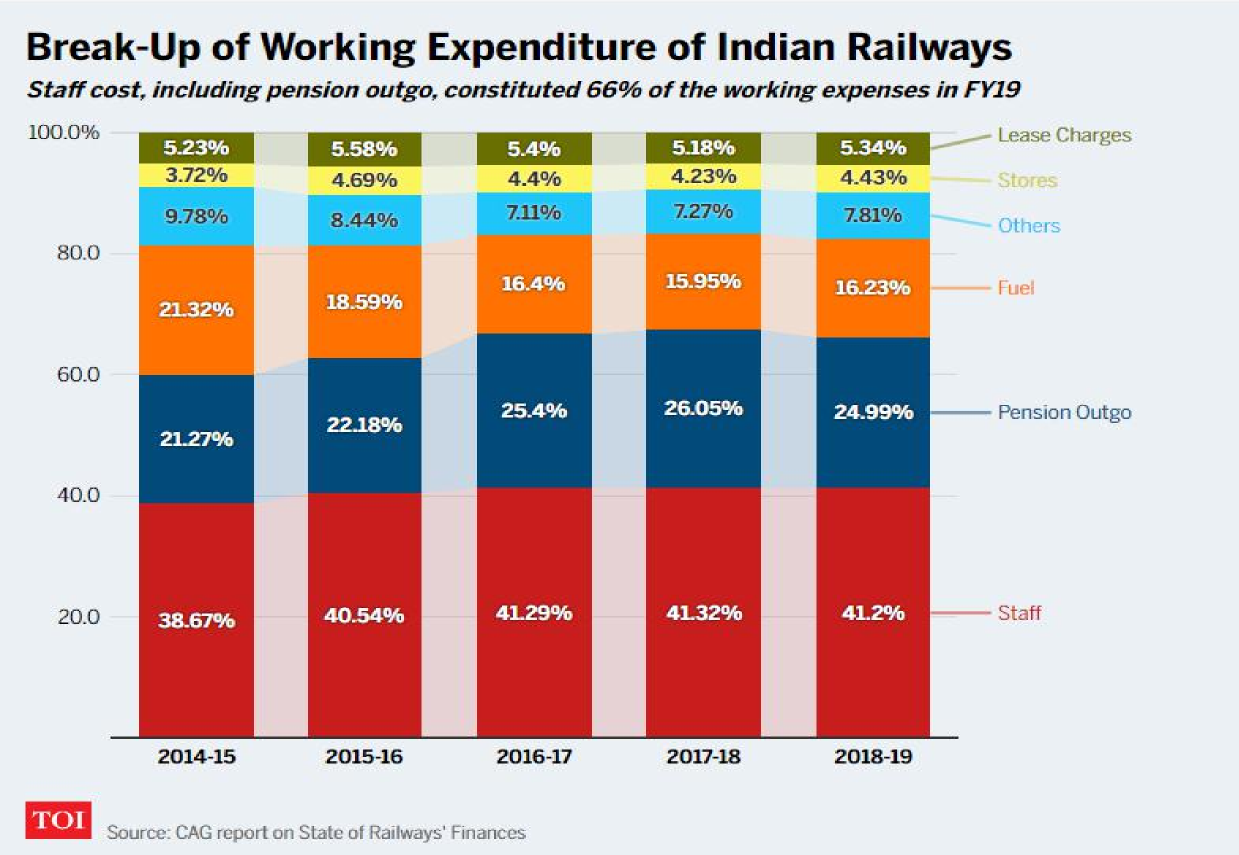
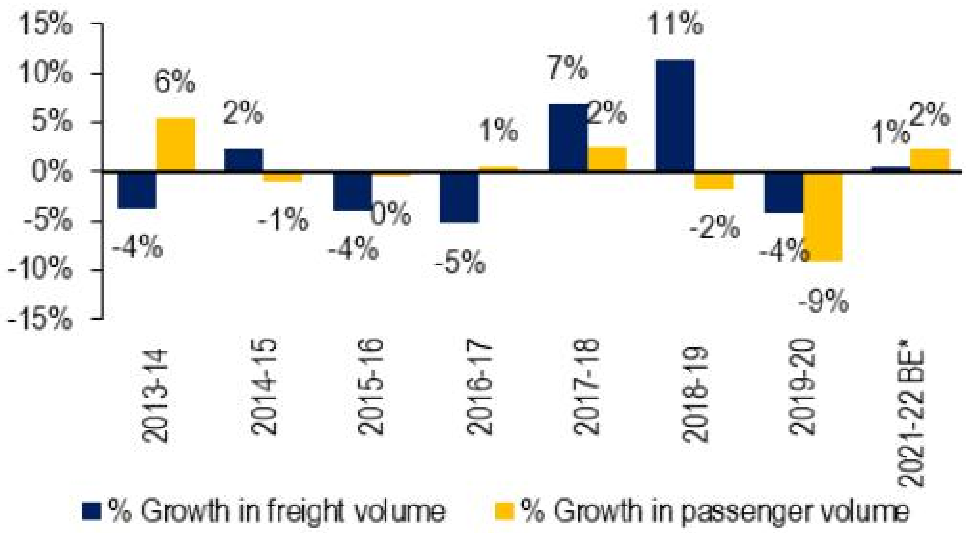


Graph. 6

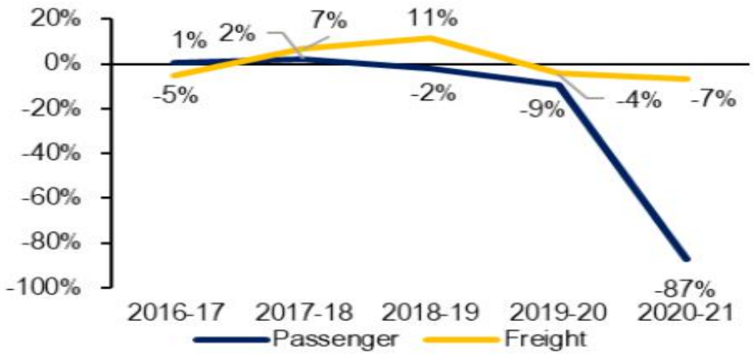
More than 90% of internal revenue of Railways comes from the core business of running freight and passenger trains. In 2020-21, passenger traffic volume is estimated to decline by 87% over the previous year (Figure 1), as against an increase of 1% estimated at the budget stage. During the initial phase of the national lockdown (March-April 2020), passenger services of Railways were completely suspended. Services have since resumed to some extent with provisioning of special trains, however, are yet to return to the pre-COVID level.[7]



Graph. 7

[7] Source: Expenditure Profile; Union Budget 2021-22; PRS.

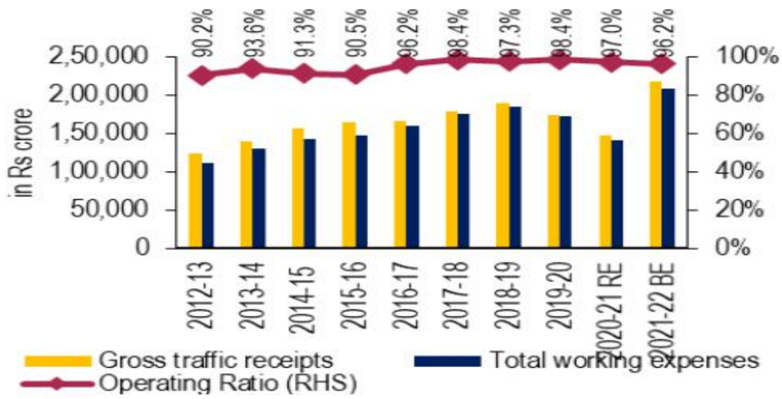
Figure 1 : Growth in traffic volume (year-on-year)



Graph. 8

This figure represents the tremendous negative growth in Passenger volume due to advent of covid which has suspended the passenger services. Comparatively, traffic volume of freight has not declined to that extent which could arrest the entire internal revenue. Somewhere, it enabled to upkeep the railways revenue from the major distortion.

Figure 10 : Operating Ratio



Sources: Expenditure Profile, Union Budget Documents; PRS.

Graph. 9

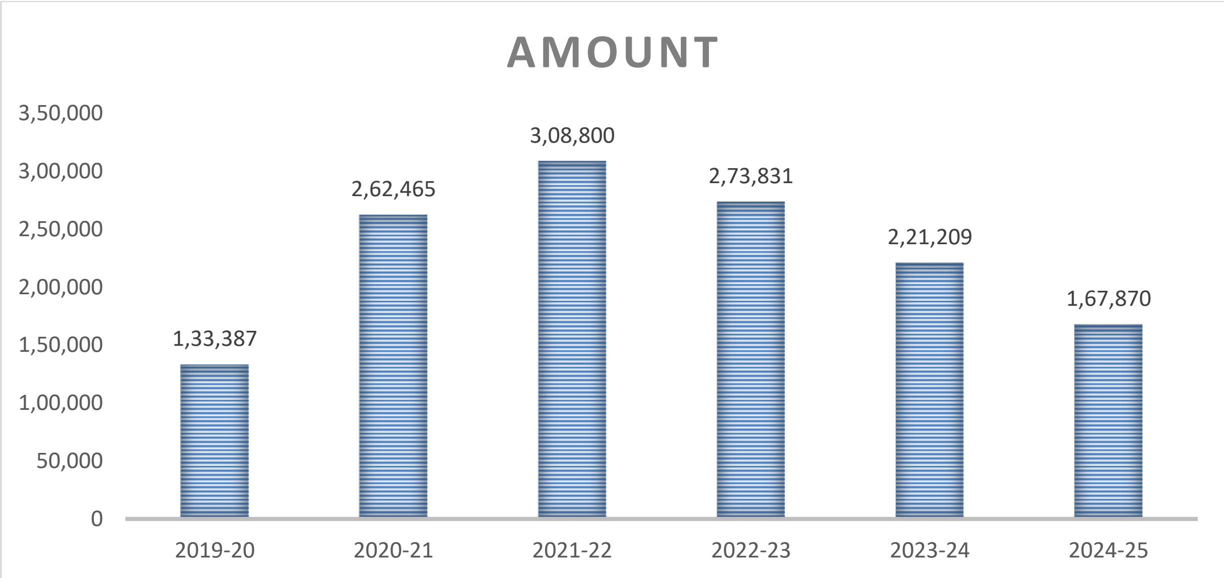
In the last decade, Railways has been struggling to generate a higher surplus. Consequently, the Operating Ratio has hovered around 95% for more than a decade in 2019-20, the operating ratio worsened to 98.4% as compared to the estimated ratio of 95%. Assuming the alterations in the pension due to Central Pay Commission. If appropriation to the pension fund were to be as per the requirement, the operating ratio for 2019-20 and 2020-21 will be 114.2% and 131.5%, respectively. Working expenses constituted 66% which has ballooned the operating ratio simultaneously services has been suspended. Unanticipated advent of covid is a result of unexpectedly Halt in revenue scale due to Suspension. Therefore, it resulted in expansion in operating ratio. Railways has not been able to accommodate some key physical targets for rejuvenation, expansion, and modernisation in recent years. Major abatements in completion of its budget targets have been noted in all three years between 2017-18 and 2019-20 for: (i) construction of new lines, and (ii) gauge conversion. Nonetheless, in 2018-19 and 2019-20, Railways also missed targets for electrification of railway lines. Having considerate for the same, funding could be undertaken through private investors through leasing, disinvestment, and privatisation. Apparently, it is likely to upgrade the scenario with respect to efficiency to inculcate revenue. Note that Railways aims to achieve 100% electrification of all broad-gauge routes by 2023. As per revised estimates for 2020-21, the achievement will be less than the budget target on almost all the indicators.[8]

[8] Source: Expenditure Profile; Union Budget 2021-22; PRS.

UPCOMING PROJECT:

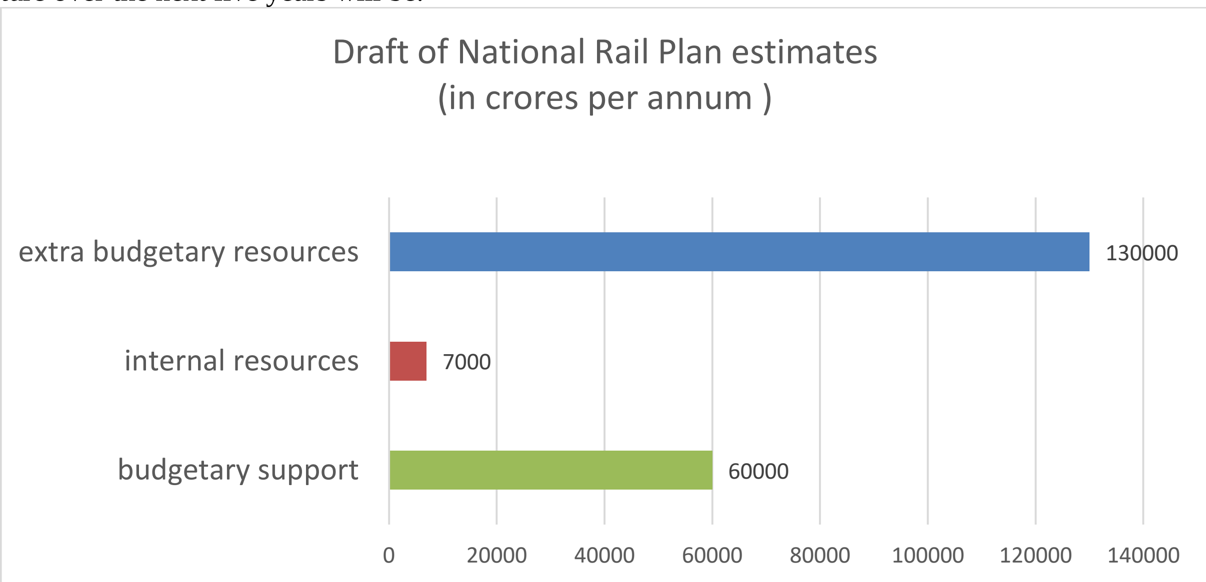
The Ministry of Railways has outlined the National Rail Plan 2030 for augmenting its infrastructure during the 2021-51 period. The National Infrastructure Pipeline is a plan of infrastructure projects worth Rs 102 lakh crore between 2019-20 and 2024-25. It includes projects worth Rs 13.7 lakh crore for Railways pertaining to track infrastructure, terminal infrastructure, rolling stock, and urban public transport.

Capital Expenditure Requirement for Railways under the National Infrastructure Pipeline (in Rs crore)



Graph. 10

The draft National Rail Plan estimates that on average, funds available with Indian Railways for capital expenditure over the next five years will be:



Graph. 11

It noted that it would be challenging to fund the projects envisaged under the National Rail Plan from internal resources due to persistently high operating ratio.[9]

[9]**Budgetary support** from central government supports Railways in the expansion of its network and investments.

5. CONCLUSION:

Dynamism is always a good solution to cope with variation with the upcoming scenario since it is Rule of Nature. The restructuring could result in integrated regional railways similar to those in Japan. The point is taken over of entire operations for 155 trains for 109 routes is arising a paradox since Indian Railways are already lacking in coaches. Government should be accountable for operations regarding fares, dilution of his hand over it. This would enable the people to shoulder this load. Checks and balances should be undertaken by the government regarding the fares. Restructuring in the railways need to take place but not at the cost of resources Indian economy has. Proceedings should take place in such a way, sector could take advantage of the resources we already have. In other word, mechanism should emphasize on the labour intensive mode. The Indian Railways is lured to migrate to the Public Private Partnership (PPP)/Joint Venture (JV) mode or outright privatisation in its major activities such as train running, asset maintenance, station management, project management and execution, production units and medical services.10 All relevant domain expertise will reside in the private sector. The research and technical training establishments could provide them privilege of attaining monopoly over new service or specification and enable them to act as autonomous institution. Having explained the importance of competition over the concentration of the economic power in few hands with the proper regulation by the state authority, we will proceed with following in detail. In order to have the include more and more private investors, incentivize policy are necessary. From the above, various constraints could be seen such as affordability criteria could stand in the way of making profit targets, anyhow investors will have to create their own monopoly in quality in order to get specification besides play the role of competition to grab the large chunk of demand for services. Insecurity of jobs could be eliminated by having eligibility criteria by manageable norms and contracts with proper dynamic standards which would not become roadblock in the distribution of the services. It is preferable to assist in the upliftment of the sector in the form of subsidies and concessional tax policies rather than full expenditure made by government. It cannot be continued to possess more losses in the upcoming years.

The emphasis on changing the management architecture of the Indian Railways could emerged as highly viable. Railway should be privatized by combining the tracks and train operator. Apparently, rail operators were allowed to expand into other lines of business which help them shoulder the cost to upkeep and improve rail service as operator could diversify its scale which always incur positive returns. It should split the system on regional division basis rather than functionality which entail the optimality.

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4. Expenditure Profile, Union Budget Documents; PRS 2021-22 Analysis
5. Draft National Rail Plan, Ministry of Railways; PRS 2021-22 Analysis

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Extra Budgetary Resources include market borrowings such as financing from banks, institutional financing, and external investments. External investments in Railways could be in the form of public-private partnerships (PPPs), joint ventures, or market financing by attracting private investors to potentially buy bonds or equity shares in Railways.

CAG (2020) observed that utilisation of gross budgetary support for repayment of lease charges is not a healthy trend as it deprives Railways of additional investments in capital works.

[10] https://www.thehindu.com/opinion/lead/transmogrifying-a-behemoth-the-railways/article65234722.ece