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Addressing Indian Railways' Bad Financial Health

What is the issue?

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- The Indian Railways has been incurring big losses and registered undesirable operating ratios.
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- It needs a holistic assessment to improve the financial health and operational efficiency.
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How is Indian Railways at present?

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- **Operating Ratio** is the sum that the transporter spends in order to earn a rupee’s revenue.
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- It is a key measure of efficiency, with higher percentages indicating lower efficiency.
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- The operating ratio for Indian Railways was 90.5% in 2015-16 and increased to 96.5% in 2016-17, and 98.5% in 2017-18.
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- **Fare-freight ratio** is the ratio of the average passenger fare to average freight rates.
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- For Indian Railways, it is 0.3, compared to 1.4 in South Korea, 1.3 in France, 1.2 in China, 0.9 in Malaysia and Indonesia, and 0.7 in Thailand.
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- The skewed fare pricing has huge implications for inflation as transport costs have large effects on inflation and other macroeconomic variables.
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- Railway passenger fares have stagnated for years and fare prices have lagged behind general inflation.
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Should fares be hiked?

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- It is projected that the domestic passenger traffic will grow by 19.2% in 2018-19.
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- Certainly, Indian Railways has to invest a huge amount of money to meet this additional traffic.
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- Besides this, other expenditures include that for station redevelopment, platform decongestion, laying new tracks, track renewal, creating rolling stock, and dedicated freight corridors.
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- However, the near-100% operating ratio hardly leaves any money for the Indian Railways to invest on its own.
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- The highest ever operating ratio since 2001 recorded in FY17 recently made the Comptroller and Auditor General to call for a fare hike.
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- Therefore, raising passenger fares has become a policy imperative now.
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- **Challenges** - Indian Railways is a state-run service provider competing with alternative modes of transport.
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- Given this, it has always adopted marketing policies that were applicable to all the zonal segments across the board.
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- A recent exception is the introduction of dynamic pricing or surge pricing for fast trains such as Rajdhani, Shatabdi and Duronto trains.
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- But such surge pricing has led to a suboptimal outcome of shifting travellers to airlines.
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- So the Indian Railways optimally pricing its fares so as to increase its revenues remains challenging.
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What could be done?

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- **Additional finance** - Indian Railways can raise additional finance

  i. through smart advertisement space-selling, akin to the Delhi Metro
  ii. by selling surplus and potentially unusable land
  iii. by developing commercial zones/shopping malls near the station area
  iv. by developing parking areas in railway stations
  v. by raising rail fares

- Given these options, devising optimal fund-raising mechanisms is the key.
- **Pricing** - With India's huge diversity and scale, optimal pricing is very complex as the socio-political obligations make it harder.
- The Indian Railways can thus consider conducting passenger surveys for optimal fare pricing.
- Sample surveys could be undertaken to assess consumers’ willingness to pay (WTP) for the good.
- The IRCTC website and social media platforms such as Facebook and Twitter can be used as medium, besides field surveys.
- WTP surveys to assess consumer preferences in transport have been implemented in countries such as Japan, Italy and Colombia too.

Source: Financial Express