Railway Budget 2016-17: On the right track but not at the right speed

Summary

- **Focus on capex but lacks clarity on raising resources**
- **Better efficiency in FY2016; however, weak growth in freight and passenger traffic disappoint**
- **Optimist targets would require better economic vibrancy in FY2017; while higher employee cost would adversely affect operating ratio.**

The Railway Budget 2016-17 proposes significantly higher capital expenditure (capex) on modernisation, expansion and better amenities & services. However, there is a lack of clarity on the generating required resources given the tepid growth in the freight and passenger fare revenues. The railway minister has hinted at raising some funds through monetisation of assets along with not so successful models of public private partnership (PPP; at least in the case of railways) and participation from state governments (again looks difficult as most of the state governments are already in tight fiscal situation).

In terms of operational metrics, as per 2015-16RE, the operating ratio (gross expenses as ratio of gross revenues) has increased to 90% against 93.3% in 2014-15. However, there was clearly a miss on the receipt front in 2015-16RE over the budget numbers, largely on account of a lower-than-estimated freight traffic. Nevertheless, the receipt is expected to grow by 7% in 2015-16RE over last year and better net surplus at Rs11,402 crore.

Going forward, in FY2016-17 the budget proposes a revenue growth of 10% YoY, despite any tariff revision which indicates there is an expectation of traffic improvement. We believe, a revival in the economy could be crucial to uplift traffic and given the challenging environment, the budget seems a bit optimistic on that front. In FY2016-17 railways budget, the operating expenses could be slightly under pressure to implement the 7th Pay Commission. On this account, the appropriation to pension fund is budgeted to surge and result into lower surplus in FY2016-17. On the positive side, the railway minister has highlighted a plan to expand freight basket and move to time-table freight, which could be helpful in achieving better freight traffic. Moreover, the higher investment plan (capex plan of Rs120,100 crore) for capacity augmentation, modernisation and improvement in passenger services, is encouraging. We also see unprecedented focus on the security, convenience of passenger with interactive platform for feedback and monitoring system.

The budget remained focused on adding tracks, broad gauge lines, electrification of lines for the budgeted year. Moreover, efforts to achieve long-term plans like adding more freight corridors, improving track laying pace, average speed of trains and set-up of two more locomotive factories. Thus, we believe that the Railway Budget is positive from the corporate India point of view, given the higher spending in physical infrastructure in the above mentioned areas and no hike in freight tariff. We believe, the stocks like Larsen & Toubro, Kalpataru Power Transmission and KEC International would benefit from the electrification and other infrastructure plans. However, the effect would not be material enough. On the other hand, the long-term plan to add two more dedicated freight corridors apart from timely completion of on-going Dedicated Freight Corridor (DFC) project by 2019 are going to be key drivers in enhancing container volumes which could provide some relief to companies like Container Corporation of Inida and Gateway Distriparks Ltd. However, railways propose to develop rail-side logistics parks and warehousing, which could increase competition for the private logistic solution providers.

Performance of Indian Railways (Rs cr)

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16RE	2016-17BE
Gross traffic receipts	104,110	123,733	139,558	156,710	167,834	184,820
Working expenses	98,667	111,572	130,321	142,996	150,690	169,260
Operating ratio (%)	94.9	90.2	93.5	93.3	90.0	92.0
Ordinary working expenses	74,537	84,012	97,571	105,996	110,690	123,560
Appropriations to depreciation reserve fund	6,520	6,850	8,726	7,775	5,500	3,200
Appropriation to pension fund	17,610	20,710	24,024	29,225	34,500	42,500
Net traffic receipts	5,443	12,161	9,237	13,714	17,144	15,560
Net miscellaneous receipts	1,339	1,455	2,556	3,124	2,754	2,651
Net revenues	6,782	13,615	11,793	16,838	19,898	18,211
Net dividend payable	5,656	5,349	8,010	9,174	8,495	9,731
Surplus (+) or deficit (-)	1,126	8,266	3,783	7,665	11,402	8,479

Key highlights

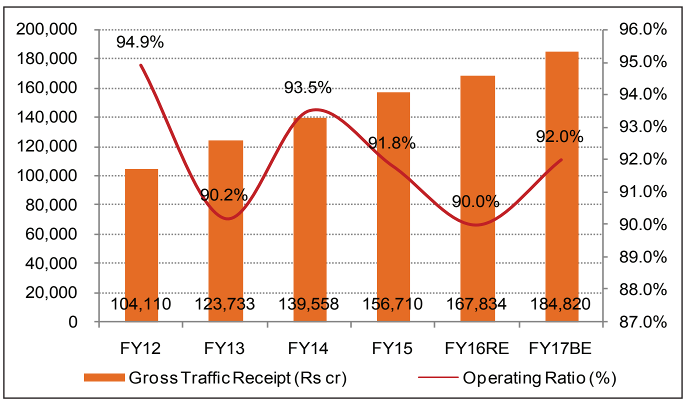
- Targets an operating ratio of 92% for 2016-17 and receipts growth of 10% year on year (YoY) to Rs184,820 crore without hike in tariff. However, surplus to be lower at Rs8,479 crore, on account of higher provision in pension adjusting for the 7th Pay Commission.
- During 2016-17, capex is pegged at Rs1.21 lakh crore, which is substantially higher than the previous year. The capex would be implemented through joint ventures with states, developing new frameworks for PPP, etc.
- It proposes to commission 2,800km of tracks in FY2016-17 and improve the track laying pace to 13km per day in FY2018 and 19km per day in FY2019. It aims to commission broad gauge lines at 7km per day in FY2017.
- The budget aims electrification of 2,000km against 1,600km last year. As a result, allocation for electrification has gone up by 50% in FY2017. It intends to improve average speed of express trains as well as freight trains.
- Almost all the contracts for civil engineering works for the ongoing DFC project would have been awarded before the closure of this financial year. The contracts worth Rs24,000 crore have been awarded against Rs13,000-crore-worth of contracts in the last six years. Further, two more DFCs have been scheduled to be commissioned by 2019.
- Initiated capacity augmentation on some busy routes and finalised bids for two loco factories; proposed to increase the current procurement of train sets by 30%.
- To set-up Margaon and Hazira ports in FY2017 by PPP model. Also, working on redevelopment on 400 stations on PPP model.
- Investment plan for the next five years remains intact at Rs8.5 lakh crore and has tied up with LIC for Rs1.5-lakh-crore-worth of investments. Joined hands with six states and received expression of interest from 17 more states for local rail projects. Intends to avail multi-lateral financial and adopt PPP models to meet the funding requirement in the long run. Also, highlights about several asset monetisation plan and non-tariff revenue enhancement options.
- Substantial focus on quality of travel and passenger services which include interactive feedback system and proposed security and several other facilities.

Investment Plan **(Rs cr)**

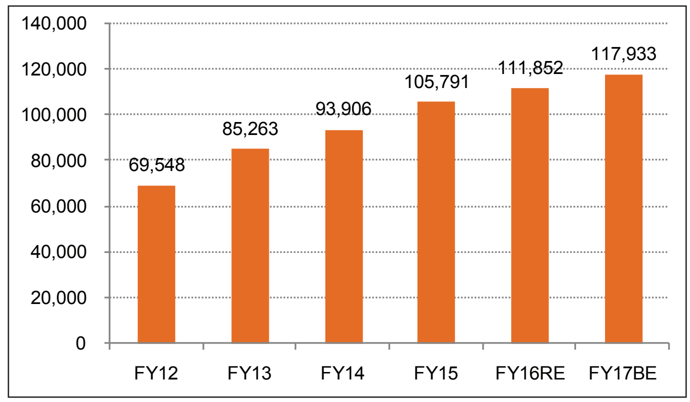
Particulars	2013-14	2014-15A	2015-16RE	2016-17BE
New lines (construction)	0	0	2,060	3,623
Gauge conversion	0	0	604	1,065
Doubling	0	0	7,175	20,336
Traffic facilities- yard	0	0	131	100
Rolling stock	14,785	10,771	11,592	21,830
Road safety work-over/under bridge	0	0	0	6,242
Electrification projects	0	0	2,230	3,386
Workshops including production units	0	0	430	1,342
Passengers amenities	0	0	12	1,000
Investment in non-govt incl JV/SPV	440	273	2,217	0
Transport projects	0	0	22,247	0

Target and achievements of major developmental activites	2014-15		2015-16RE	2016-17BE
	Target	Achieved	Target /Achieved	Target
Electrification (route km)	1,350	1,375	1,600	2,000
Track renewals (track km)	2,200	2,424	2,350	1,500
Construction of new lines (km)	300	313	500	400
Gauge conversion (km)	450	527	800	800
Rolling stock	647	605	710	747
Coaches - EMU/MEMO	3,359	3,731	3,592	3,431
Wagons (units)	10,000	11,151	12,814	12,000

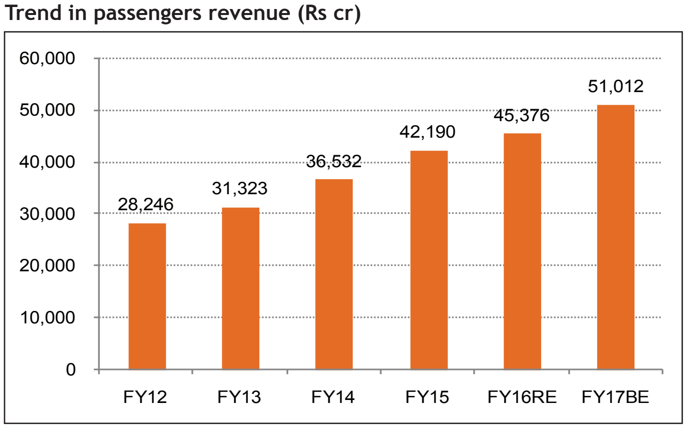
Trend in gross receipts and operating ratio



Trends in goods revenues (Rs cr)



Trend in passengers revenue (Rs cr)



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