Addressing Indian Railways' Bad Financial Health

What is the issue?

\n\n

\n

- The Indian Railways has been incurring big losses and registered undesirable operating ratios.
\n
- It needs a holistic assessment to improve the financial health and operational efficiency.
\n

\n\n

How is Indian Railways at present?

\n\n

\n

- **Operating Ratio** is the sum that the transporter spends in order to earn a rupee's revenue.
\n
- It is a key measure of efficiency, with higher percentages indicating lower efficiency.
\n
- 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.
\n
- **Fare-freight ratio** is the ratio of the average passenger fare to average freight rates.
\n
- 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.
\n
- The skewed fare pricing has huge implications for inflation as transport costs have large effects on inflation and other macroeconomic variables.
\n
- Railway passenger fares have stagnated for years and fare prices have lagged behind general inflation.
\n

\n\n

Should fares be hiked?

\n\n

\n

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

\n\n

What could be done?

\n\n

\n

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

\n

\n\n

\n

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

\n\n

\n

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

\n\n

\n\n

Source: Financial Express

\n