

Chapter-1 State of Finances

This chapter provides a broad perspective of the finances of the Indian Railways (IR) during 2011-12 and analyses critical changes in the major financial indicators with reference to the previous year as well as the overall trend analysis. The base data for this analysis is the Finance Accounts of the IR, which is a document that is compiled annually for incorporation in the Union Government Finance Accounts. In addition, data from authentic government reports¹ has also been used to compare actual performance of IR during 2011-12 vis-à-vis targets set by it.

1.1 Summary of Current Year's Fiscal Transactions

Table 1.1 presents the summary of IR's fiscal transactions during 2011-12 vis-à-vis the previous year and budget estimates for 2011-12. It broadly provides perspective of the finances of the IR during the year 2011-12, alongwith its comparison with actual of the previous year including deviations of actual receipts and expenditure of this year from the budget estimates.

Table 1.1 Summary of Receipts and Expenditure of IR
(₹ in crore)

Sl. No.	Details	Actual 2010-11	Budget Estimates 2011-12	Revised Estimates 2011-12	Actual 2011-12
1	Passenger Earnings	25,792.63 (9.81)	30,456.00	28,800.00	28,246.10 (9.51)
2	Freight Earnings	62,844.72 (7.42)	68,620.00	68,620.00	69,547.59 (10.67)
3	Other Coaching Earnings ²	2,469.84 (10.50)	2,903.00	2,750.00	2,716.85 (10.00)
4	Sundry Earnings ³	3,418.27 (18.70)	4,060.00	3,700.00	3,643.00 (6.57)
5	Suspense	10.17 (-107.23)	200.00	47.00	-43.19 (524.68)
6	Gross Traffic Receipts ⁴ (Item no.1 to 5)	94,535.63 (8.71)	106,239.00	103,917.00	104,110.35 (10.13)
7	Ordinary Working Expenditure ⁵	68,139.22 (3.54)	73,650.00	75,650.00	74,537.41 (9.39)
8	Appropriation to				
	Depreciation Reserve Fund	5,515.00 (152.17)	7,000.00	6,160.00	6,520.00 (18.22)
	Pension Fund	15,820.00 (6.05)	15,800.00	16,800.00	17,610.00 (11.31)
9	Total Working Expenditure (Item no.7 and 8)	89,474.22 (7.91)	96,450.00	98,610.00	98,667.41 (10.27)

¹ Budget documents, Annual Statistical Statements of Indian Railways.

² Other coaching earnings from transportation of parcels, luggage and post office mail etc

³ Sundry Earnings from renting, leasing of building, catering services, advertisements, interest, maintenance of sidings and level crossing, re-imburement of loss on strategic lines etc

⁴ Gross Traffic Receipts-Operational receipts from freight, passenger, other coaching traffic and sundry earnings of IR

⁵ Operating Expenses of IR

10	Net Traffic Receipts (Item no.6 – 9)	5,061.41 (25.02)	9,789.00	5,307.00	5,442.94 (7.54)
11	Miscellaneous Receipts ⁶	2,145.39 (-5.30)	3,154.13	2,729.78	2,134.92 (-0.49)
12	Miscellaneous Expenditure ⁷	860.66 (11.80)	950.00	892.39	796.26 (-7.48)
13	Net Miscellaneous Receipt (Item no. 11 – 12)	1,284.73 (-14.09)	2,204.13	1,837.39	1,338.66 (4.20)
14	Net Revenue (Item No.10 and 13)	6,346.14 (14.47)	11,993.13	7,144.39	6,781.60 (6.86)
15	Dividend Payable to General Revenues				
	Current year	4,941.25 (-10.86)	6,734.72	5,652.24	5,656.03 (14.47)
	Deferred Dividend of previous year	0.00			0.00
	Total Dividend Payment	4,941.25 (-10.86)	6,734.72	5,652.24	5,656.03 (14.47)
16	Net Surplus (Item no. 14 – 15)	1,404.89 (187220)	5,258.41	1,492.15	1,125.57 (-19.88)
17	Surplus available for appropriation				
	Development Fund	1,404.89	2,400.00	550.00	610.00 (-56.58)
	Capital Fund	-----	2,858.41	942.15	515.57

Source: Explanatory Memorandum on Railway Budgets and Accounts for 2011-12 and 2012-13

Note: Figures in brackets represent the increase/decrease in percentage over previous year

1.2 Reliability of Budget Estimates

Accurate forecast of budget is critical to an organization's financial and operational performance. Assessment of how well the financial targets are met depends on how realistic the financial estimates were from the outset. During the current fiscal year IR could not achieve the projected performance. Anticipated Gross Traffic Receipts (GTR) of 2011-12, in all the segments except for freight earning, was not achieved and overall decline of around two per cent (₹ 2,128.65 crore) was recorded as compared to the budget estimates of current fiscal year. Ordinary Working Expenditure (OWE) increased by one per cent (₹ 887.41 crore) whereas the Total Working Expenditure (TWE) increased by about two per cent above the Budgeted Estimates. There was a reduction in appropriation to Depreciation Reserve Fund (DRF) by around seven per cent with an increase in appropriation to Pension Fund by 11 per cent when compared to Budget Estimate. The resultant net revenue was below the budget projections by 43.45 per cent, mainly due to shortfall in passenger earning by seven per cent and additional appropriation to pension fund (11 per cent) than as envisaged in the budget 2011-12.

⁶Miscellaneous Receipts comprise of subsidy from Government of India (GoI) towards dividend receipt and other concession, receipts by Railway Recruitment Board etc.

⁷Miscellaneous Expenditure comprised of expenditure on Railway Board, Surveys, Research, Designs and Standards Organization, Other Miscellaneous Establishments of IR, Statutory Audit, Expenditure on Open Line Works (Revenue) etc.

1.3 Fiscal Transactions in 2011-12- An overview

1.3.1 Gross Traffic Receipts (GTR)

GTR increased by 10.13 *per cent* during the current fiscal year (2011-12), this was higher than the 8.71 *per cent* growth achieved during 2010-11, which was mainly due to increase in freight earnings during the current year as compared to the previous year. However, for all other sources of earnings the growth rate decreased as compared to previous year.

1.3.2 Ordinary Working Expenditure (OWE)

OWE grew by 9.39 *per cent* in current fiscal year (2011-12) over the previous year which was higher than the growth rate of 3.54 *per cent* achieved during 2010-11 as compared to 2009-10.

1.3.3 Miscellaneous Receipts and Expenditure

In the current fiscal year (2011-12), Miscellaneous Receipts as well as Miscellaneous Expenditure decreased by 0.49 *per cent* and 7.48 *per cent* respectively over the previous year. As the decline in the growth rate of Miscellaneous Expenditure was high, Net Miscellaneous Receipts grew by 4.20 *per cent* over previous year. Net Miscellaneous Receipts were significantly below the budget projection by nearly 39.27 *per cent*.

1.3.4 Net Revenue

Net revenue in the current fiscal year increased by 6.86 *per cent*, which was significantly low than the 14.47 *per cent* growth achieved during previous year. This was mainly due to increase in the total working expenditure (10.27 *per cent*) during the current year as compared to the 7.91 *per cent* rate for the previous year.

1.3.5 Dividend Payment

Dividend payable to the Government of India (GoI) is based on the Capital-at-charge advanced through general budgetary support. The rate of dividend for 2011-12 was fixed at five *per cent* by the Railway Convention Committee (RCC). Payment of dividend to general revenues in current fiscal year increased by 14.47 *per cent* over the previous year 2010-11. IR paid dividend of ₹ 5,656.03 crore in 2011-12. However, this was lower than the budget projection by nearly 16.02 *per cent*.

1.3.6 Net Surplus available for Appropriation

Generation of Net surplus after meeting all revenue liabilities including payment of dividend decreased by 19.88 *per cent* in current fiscal year. Net Surplus decreased to ₹1,125.57 crore as compared to ₹ 1,404.89 crore in 2010-11.

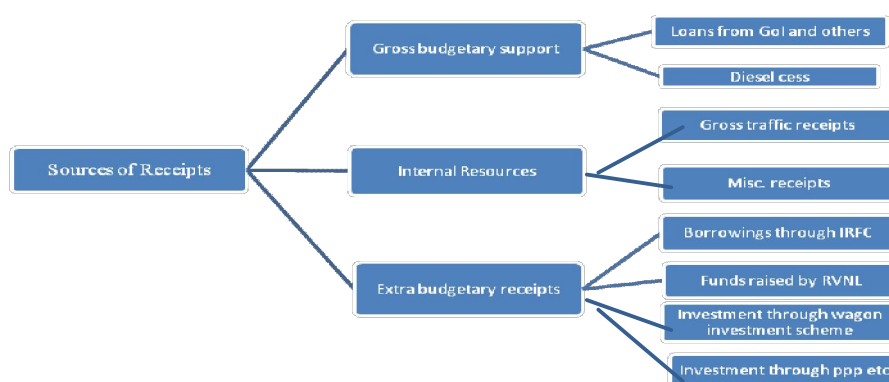
Net Surplus was 78.59 *per cent* less than the budget estimates, the reason of decrease in the net surplus was due to decrease in Net Traffic Receipt (excess of Gross Traffic Receipts over Total Working Expenditure) and Net Miscellaneous Receipt (excess of Miscellaneous Receipts over Miscellaneous Expenditure) by 44.40 *per cent* and 39.27 *per cent* respectively.

The Net Surplus to the tune of ₹ 610.00 crore and ₹ 515.57 crore was appropriated to Development Fund and Capital Fund respectively.

1.4 Resources of IR

The main sources of IR receipts were as follows:

Figure 1.1: Sources of Receipts

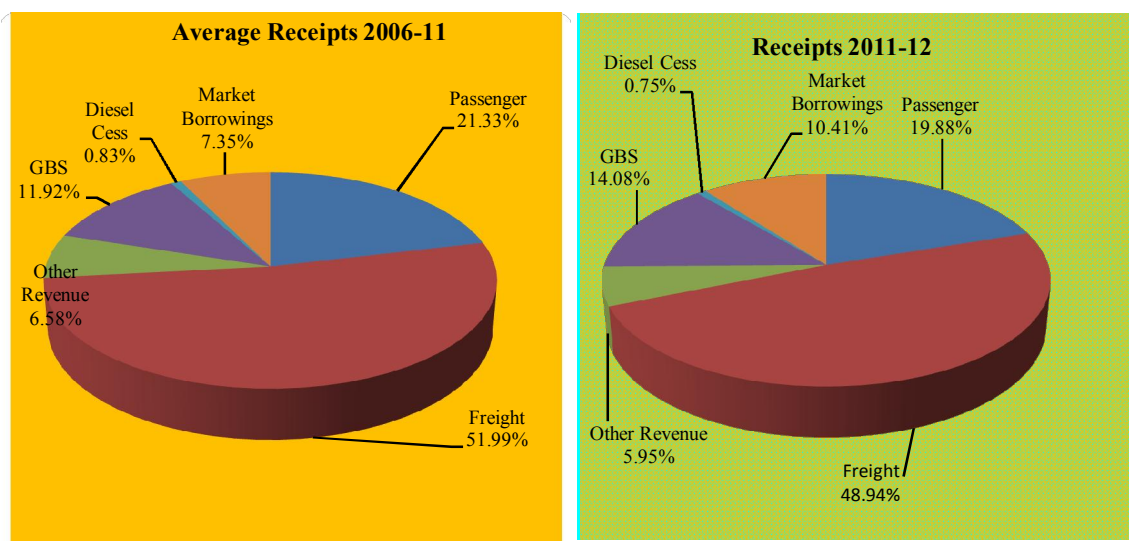


The revenue receipt from internal resources increased by 9.89 *per cent* during 2011-12 against the Compound Annual Growth Rate (CAGR)⁸ of 9.68 *per cent* during 2007-11. The General Budgetary Support increased by 8.86 *per cent* during 2011-12 against CAGR of 31.23 *per cent* during 2007-11, while extra budgetary receipts (market borrowings) increased by 51.23 *per cent* during 2011-12 against CAGR of 23.68 *per cent* during 2007-11. Thus Market Borrowings increased at a higher rate than internal resources of the IR.

Share of each of these sources of funds during the current year 2011-12 as well as over the average of past five years ended 31 March 2011 are given in pie diagram Figure 1.2.

⁸ Rate of growth over a period of years taking into account the effect of annual compounding

Figure 1.2: Relative Share of various Resources of IR



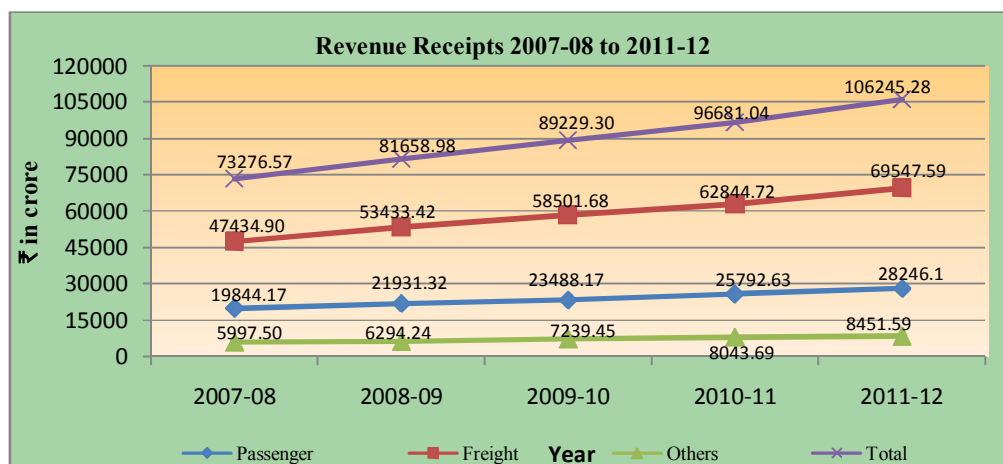
Note: Other Revenue Earnings include Other Coaching Earnings, Sundry Other Earnings and Miscellaneous Receipts; GBS- General Budgetary Support

Diagram at 1.2 shows that the single largest resource earnings of IR was mainly from freight sector, followed by passenger earnings. These two factors continued to be the largest sources of IR receipts for the current year also, their relative share reduced in the current year which was compensated by a significant increase in market borrowings.

1.4.1 Revenue Receipts

The trend of total revenue receipts for the last five years are given in the Figure 1.3.

Figure 1.3: Revenue Receipts during 2007-12



Note: Others include Other Coaching, Sundry Others, Suspense and Miscellaneous Receipts

Total Revenue Receipts increased at a CAGR of 9.68 *per cent* during 2007-11, however, the increase in the Total Revenue Receipts during year 2011-12 was 9.89 *per cent*. The annual inflation of all commodities on an average during 2011-12 was around 8.94 *per cent*⁹, which implies that the real increase in revenue receipts was 0.95 *per cent* (after discounting for inflation).

The trend of growth rates of different segments of revenue receipts are discussed in the succeeding paragraphs.

1.4.1.1 Freight Earnings

Trend of freight loading and freight earnings of IR for the last five years ended 31 March 2012 are shown in the graph below:

Figure 1.4: Annual Rate of Growth of Freight Earnings and Freight Loading

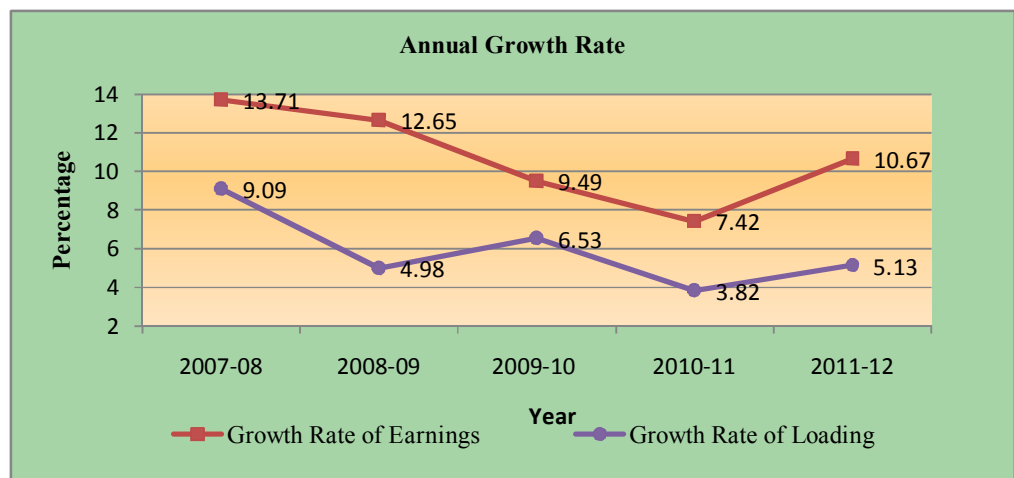


Figure 1.4 indicates that there is an increase in the annual growth of freight loading in the current fiscal year. The annual growth rate of loading in the last five years ended 31 March 2012 showed a decline from 2007-08, except for the year 2009-10, where it was 6.53 *per cent*. The annual incremental increase in loading (in absolute terms) ranged between 66.14 Million Tonne (2007-08) to 33.94 Million Tonne (2010-11) during the last five years. Therefore, increase in freight loading by 5.13 *per cent* during 2011-12 was marginally higher than the CAGR of 5.10 *per cent* achieved during 2007-11.

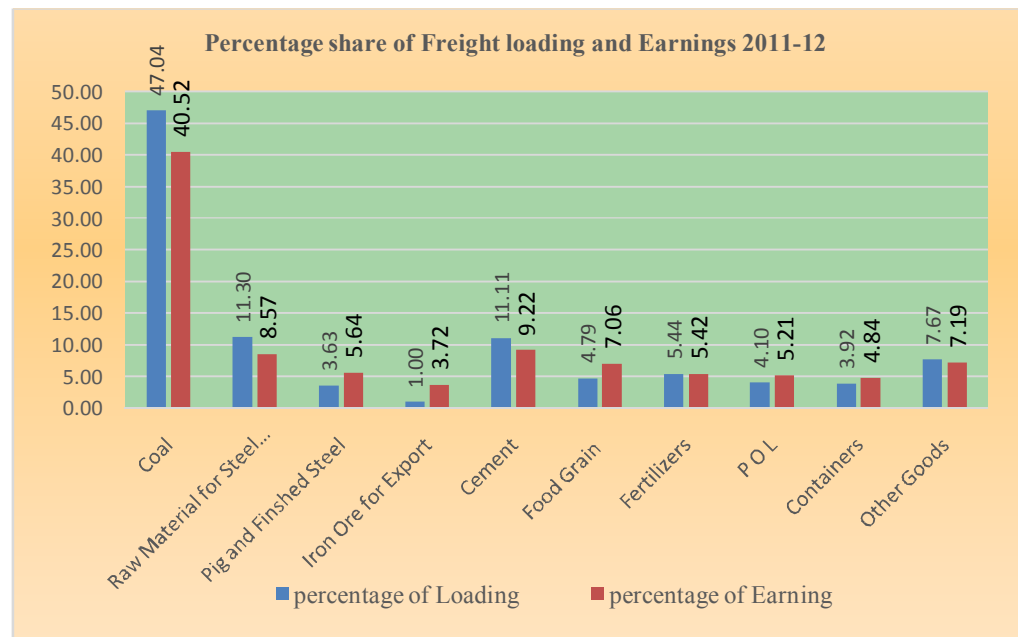
In 2011-12, freight earnings increased by 10.67 *per cent* over the previous year against the CAGR of 9.83 *per cent* achieved during 2007-11. The status of freight services statistics are given in the Table No. 1.2:

⁹ (Source – Economic Survey, Ministry of Commerce and Industry)

Table 1.2 Freight Services Statistics

Year	Loading (MT)	NTKM (in million)	Earning (₹ in crore)	Average lead (in kilometre)	Rate per tonne per km (in paise)
2007-08	793.89	521372	47,434.90	657	89.04
2008-09	833.39	551448	53,433.42	662	93.84
2009-10	887.79	600548	58,501.68	676	94.77
2010-11	921.73	625723	62,844.72	679	100.00
2011-12	969.05	667607	69547.00	689	104.17

During 2011-12, it was seen that the annual growth rate of freight loading was 5.13 per cent, whereas the NTKM increased at the rate of 6.69 per cent. Despite this, there was an annual increase of 4.17 per cent and 10.67 per cent in rate per tonne per kilometer and freight earning respectively. Average lead of 689 km in 2011-12 was higher than the previous year. Share of major commodities in loading and earnings are given in the bar chart (Figure 1.5).

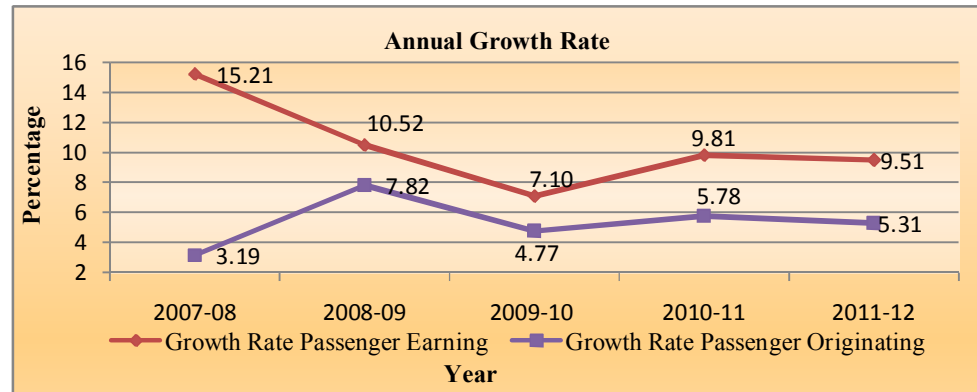
Figure 1.5: Major Commodity wise share of loading and earnings (2011-12)

Coal, being a captive commodity, was the major component both in loading and earnings for IR. The above major commodities (excluding 'Other Goods' and Miscellaneous earnings) contributed about 90 per cent of the total freight earnings of IR. Iron ore for export constituted one per cent of the total loading and earned four per cent of the total freight earnings.

1.4.1.2 Passenger Earnings

The growth in earnings from Passenger traffic and in Passengers Originating during the last five year (2007-12) are shown in Figure 1.6.

Figure 1.6: Growth Rate of Passenger Originating and Passenger Earnings



The percentage increase in earnings from passenger traffic in 2011-12 over the previous year was 9.51 per cent which was above the CAGR of 9.13 per cent for the period 2007-11. The percentage increase in passengers originating in 2011-12 over the previous year was 5.31 per cent which was below the CAGR of 6.12 per cent during 2007-11.

Audit observed that passenger earnings fell short of budget estimates in all zones except East Coast Railway and Metro Railway/Kolkata during 2011-12. The shortfall in passenger earnings targets was upto 11 per cent in South Western Railway.

Key performance indicators of passenger services are tabulated below:

Table 1.3 Passenger Services Statistics

Year	No. of Passenger (in millions)	Passenger Kilometre (in million)	Earnings (₹ in crore)	Average lead (in kilometre)	Average earnings per passenger per kilometre (in paise)
2007-08	6536.44	771070 (10.81)	19,844.18 (15.21)	117.96	25.74 (4.00)
2008-09	7046.91	839203 (8.84)	21,931.32 (10.52)	119.09	26.13 (1.52)
2009-10	7382.77	904761 (7.81)	23,488.17 (7.10)	122.55	25.96 (-0.65)
2010-11	7810.15	980131 (8.33)	25,792.63 (9.81)	125.50	26.32 (1.39)
2011-12	8224.38	1046522 (6.77)	28246.10 (9.51)	127.25	26.99 (2.55)

Note: Figures in bracket represent percentage increase over previous year.

It was observed that the growth of passengers originating and passenger earnings decreased during 2011-12 over the previous year. In 2011-12, it was seen that average earnings per passenger per kilometer increased to 26.99

paise from 26.32 paise in 2010-11. IR had been incurring a loss every year on passenger and other coaching services. However, during 2010-11¹⁰, this loss was ₹ 20,948.35 crore.

1.4.1.3 Sundry Earnings and Other Coaching Earnings

Sundries and other coaching earnings constituted around six *per cent* of the Gross Traffic Receipts in the current fiscal year (2011-12). It grew at around eight *per cent* in 2011-12 as against 15 *per cent* in the year 2010-11. Analysis in audit revealed that earnings from rent, license fee and advertisements increased in the current year as compared to the previous year. Though there was considerable scope for increasing revenue generation from the components of sundry earnings provided bills for realization of rent of buildings, license fee (wherever due) were raised and realized in a time bound manner.

1.5 Unrealized Earnings¹¹

Against the target for recovery of ₹ 200 crore during 2011-12 under unrealized earnings, IR accumulated ₹ 43.19 crore as unrealized earnings. At the end of the financial year unrealized earnings were ₹ 1,401.03 crore, of which ₹ 1,215.27 crore under Traffic Suspense and ₹ 185.76 crore under Demand Recoverable. During the current fiscal year Central Railway was the major contributor to the accumulation of unrealized earnings with ₹ 18.11 crore. This was followed by North East Frontier Railway with ₹ 16.47 crore. The major portion of outstandings under Traffic Suspense was on account of unrecovered freight and other charges from Power Houses and State Electricity Boards amounting to ₹ 676.58 crore which constituted 48 *per cent* of the total Traffic Suspense, yet to be recovered. Major defaulters are shown in the Table below:

Table 1.4-Outstanding dues against State Electricity Board
(₹ in crore)

Sl. No.	State Electricity Board/Power House	Outstanding dues as of 31 March 2011	Outstanding dues as of 31 March 2012	Increase/decrease (-) during the year
1.	Punjab State Electricity Board (PSEB)	448.07	447.47	(-)0.6
2.	Delhi Vidyut Board (DVB)	176.36	175.88	(-)0.48
3.	Rajasthan State Electricity Board (RSEB)	38.58	36.89	(-)1.69

Ministry of Railways in its Action Taken Note (Para 1.5) of the Report No. 3 of 2012-13 (Railways Finances) stated that realization of outstanding dues is

¹⁰Profitability/unit cost of coaching services for 2011-12 was still not compiled (March 2013).

¹¹Unrealized earnings on account of movement of traffic was classified as 'Traffic Suspense' whereas on account of rent/lease of building/land, interest and maintenance charges of sidings etc as 'Demand Recoverable'.

concurrently chased up with the parties concerned. As regards, Traffic Suspense, the cases relating to PSEB and RSEB are subjudice in court of law. The Hon'ble Supreme Court has directed the PSEB and Northern Railway to work out the accounts in terms of revised interpretation of the scheme given by General Manager/Northern Railway as per arbitration award in the case. The case of RSEB has been linked with the decision of the court in the case of PSEB. In respect of DVB, the matter is under consideration of Group of Ministers. As regards Demand Recoverable, the Ministry of Railways has stated that position is monitored concurrently and as a result the outstanding has come down.

The Ministry of Railways needs to speed up the efforts to realize the old outstanding dues from SEB's.

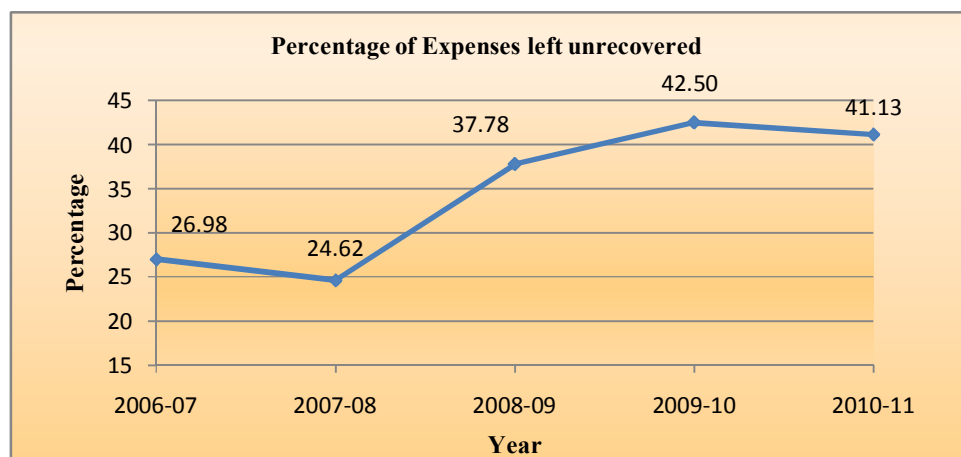
1.6 Cross-Subsidization

1.6.1 Subsidy towards Passenger and other Coaching Services

IR was unable to meet its operational cost of passenger services and other coaching services. Revenue from passenger services increased by 52 per cent¹² during the last five years as of 31 March 2011, however, the expenditure under this head increased by 88 per cent during the same period.

The Summary of End Results-Freight Services Unit Costs and Coaching Services Profitability/Unit Costs for the year 2010-11 published by the IR indicates that there was cross subsidization from freight earnings to passenger and other coaching earnings. Loss incurred by passenger and other coaching services increased from ₹ 7,309.26 crore in 2006-07 to ₹ 20,948.35 crore in 2010-11. The gap in percentage of expenditure on passengers and other coaching services left unrecovered during the period of five years as of 31 March 2011, are shown in Figure 1.7 given below:

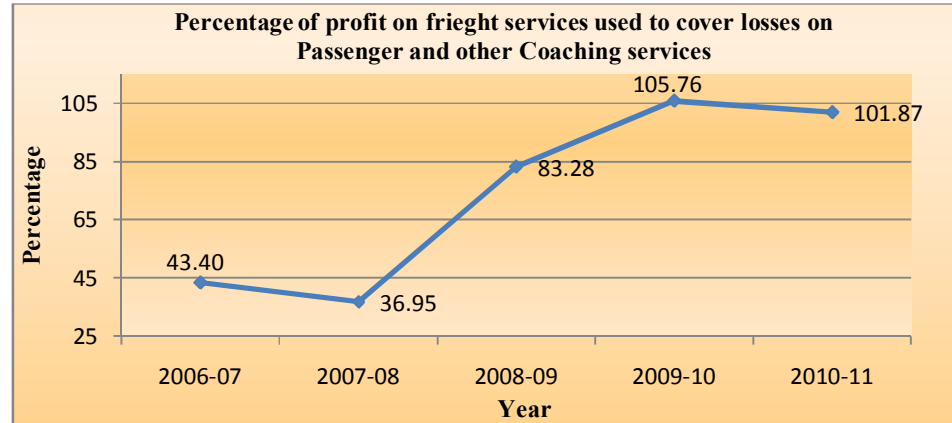
Figure 1.7: Percentage of expenditure on Passenger and Other Coaching Services left uncovered



12. Excluding Narrow Gauge and Metro Railway/Kolkata

Figure 1.8 shows the percentage of profit on freight services, utilized to make up the loss on passenger and other coaching services:

Figure 1.8: Percentage of profit on freight earnings used to subsidize the passenger and other coaching services



It would be seen that the entire profit amounting to ₹ 20,563.59 crore from freight traffic was utilized to compensate the loss of ₹ 20,948.35 crore on operation of passenger and other coaching services of IR.

1.6.2 Operational losses of various Classes of Passenger Services

Table 1.5 gives the operational losses of various classes of passenger services during 2006-07 to 2010-11:

Table 1.5 Operational losses of various Classes of Passenger Services
(₹ in crore)

Class of Passenger	2006-07	2007-08	2008-09	2009-10	2010-11
AC-Ist class	-19.76	-14.77	-59.37	-53.14	-46.61
Ist class	-13.84	-6.30	-69.67	-32.67	16.47
AC sleeper	72.92	123.09	-176.91	-372.32	-407.93
AC 3 Tier	423.99	547.60	540.57	212.14	266.31
AC Chair car	-4.94	114.68	5.45	-2.11	33.62
Sleeper Class	-1,888.27	-2,384.08	-3,175.24	-5,333.90	-6,070.58
Second class	-1,215.61	-993.22	-2,933.09	-3,401.25	-3,998.08
Ordinary (All Class)	-2,912.58	-3,541.28	-6,381.77	-7,763.36	-7,437.00
EMU suburban services	-891.13	-922.39	-1,651.19	-2,214.06	-2,320.23

As is clear in the above table, the 1st Class train service has earned a profit for the first time in last five years ended March 31, 2011. AC-3-Tier and AC Chair car has also covered their operational cost in 2010-11. There is significant improvement in operations of AC Chair car in 2010-11.

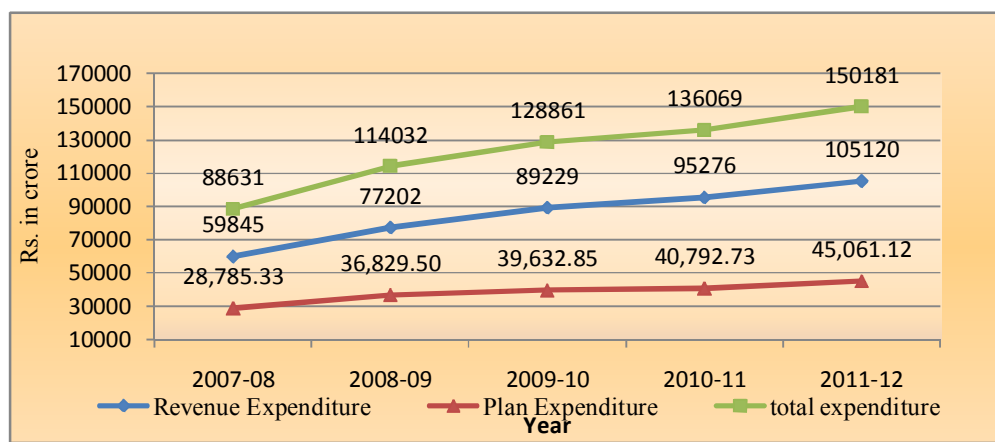
The subsidy provided to both ordinary class and suburban services increased almost continuously in the last five years with subsidy on Ordinary Class being the maximum. The percentage of loss to the earning of the various

classes of passenger services ranged from 13 per cent (AC-1st class) to 153 per cent (Ordinary class) with 125 per cent on EMU Suburban train services.

1.7 Application of Resources

The two main components of expenditure in IR are 'Revenue Expenditure' and 'Plan Expenditure'. Revenue expenditure includes ordinary working expenditure, miscellaneous expenditure and dividend payout. The total expenditure of IR and its composition under revenue and plan for the last five years are given below:

Figure 1.9: Plan and Revenue Expenditure in the last five years



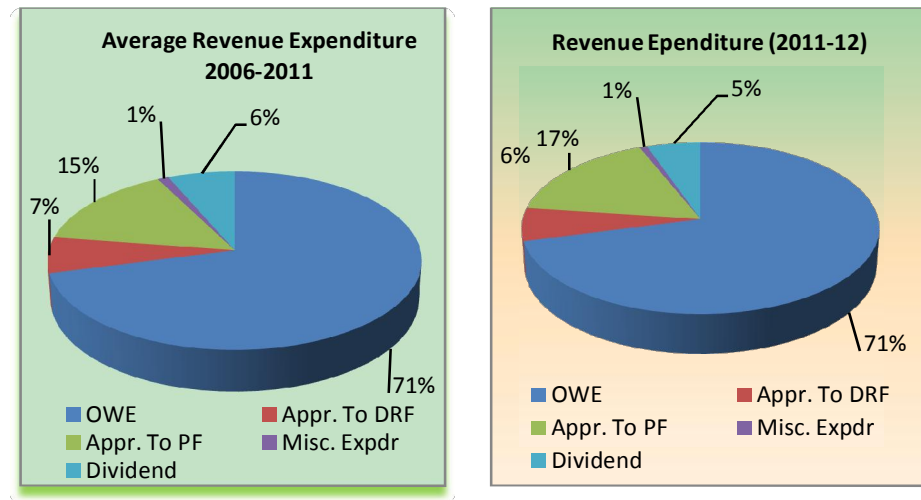
Total expenditure increased at the rate of 10.37 per cent in 2011-12 over the previous year. This was far below the CAGR of 15.36 per cent for the period 2007-11. Revenue expenditure grew at the rate of 10.33 per cent as compared to CAGR of 16.77 per cent over the period 2007-11. This was mainly due to impact of implementation of 6th CPC which had already been taken into account. Plan expenditure increased at the rate of 10.46 per cent in 2011-12 as compared to CAGR of 12.32 per cent over the period 2007-11. This indicates a substantial reduction in the availability of resources for capital creation.

During last five years, the share of revenue expenditure and plan expenditure to total expenditure remained almost static within the range from 68 per cent (2007-08 and 2008-09) to 70 per cent in 2010-11 and 2011-12 and from 30 per cent (2010-11 and 2011-12) to 32 per cent (2007-08 and 2008-09) respectively. A detailed analysis of plan expenditure is discussed in paragraph 1.10.

1.7.1 Revenue Expenditure

Composition of revenue expenditure during the current year and an average of past five years ended on 31 March 2011 are given in Figure 1.10:

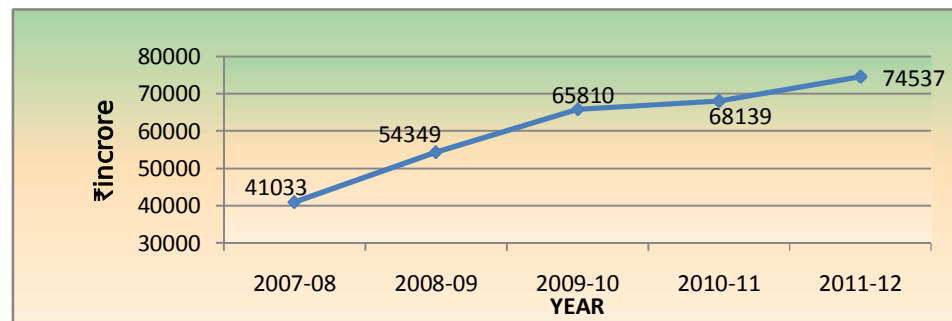
Figure 1.10: Revenue Expenditure in last five years



The main components of expenditure was OWE which constituted about 71 *per cent* of the total revenue expenditure on an average during 2006-11, which remained 71 *per cent* during 2011-12. Appropriation to DRF was reduced to six *per cent* in 2011-12 as compared to seven *per cent* on an average during 2006-11. Due to implementation of the 6th Central Pay Commission recommendations, appropriation to Pension Fund increased to 17 *per cent* in 2011-12 as compared to 15 *per cent* on an average during 2006-11 to meet the increased pension liabilities.

OWE comprises expenditure on day-to-day maintenance and operation of the IR i.e. expenditure on office administration, repairs and maintenance of track and bridges, locomotives, carriage and wagons, plant and equipment, operating expenses on crew, fuel, miscellaneous expenditure, pension liabilities etc. The trend in OWE over the last five years is shown in Figure 1.11:

Figure: 1.11 - Growth of Ordinary Working Expenses (2007-08 to 2011-12)

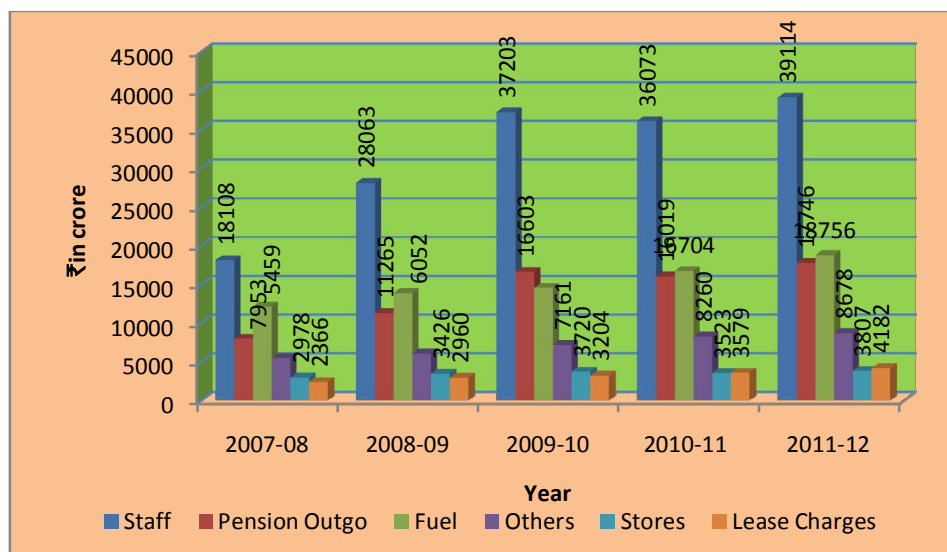


The steep increase in OWE during 2008-10 was on account of implementation of 6th CPC's recommendations. OWE increased at a rate of 9.39 *per cent*

during 2011-12 over the previous year against a CAGR of 18.41 per cent during 2007-11.

The break-up of working expenditure on IR under staff, fuel, lease charges, stores, other and pension outgo for the last five years is shown in the Figure 1.12.

Figure: 1.12 -Component wise expenditure



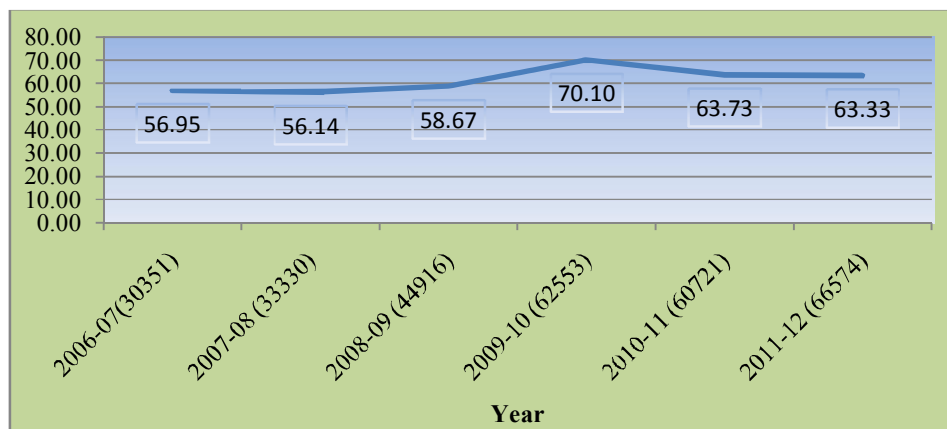
Staff cost (including pension outgo) constituted 62 per cent of the working expenses of the IR during the current year.

1.7.2 Committed Expenditure

The committed expenditure of the IR consisted of dividend payment to general revenues, staff cost, pension payments and lease hire charges on rolling stock.

Figure 1.13 shows the percentage of committed expenditure to the total revenue expenditure of IR during the last five years 2006-12:

Figure 1.13: Committed Expenditure as a percentage of total Revenue Expenditure



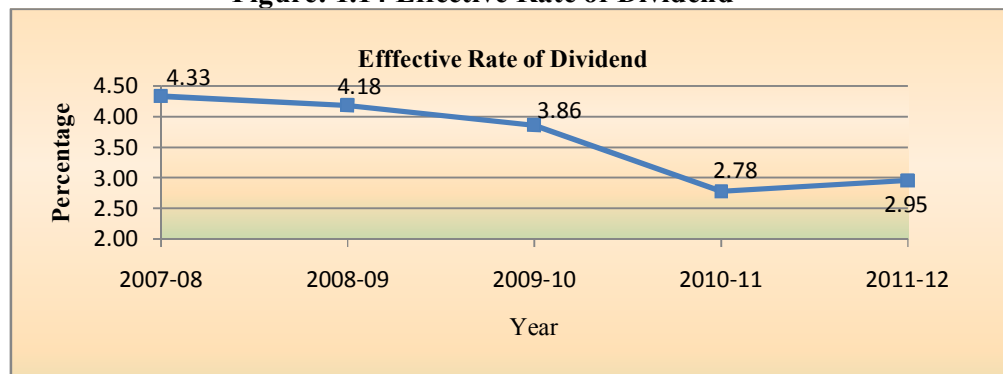
(Figures shown in bracket indicate total committed expenditure)

Committed expenditure to the total expenditure declined marginally during 2007-08 as the growth of total revenue expenditure was more than the growth of committed expenditure. However, it increased in 2008-10 due to payment of arrears of salary w.e.f 01.01.2006 (as a result of sixth pay commission recommendation). In 2010-11, committed expenditure decreased to 63.73 per cent from 70.10 per cent in 2009-10, however, it was higher as compared to previous years. With the increase in percentage of committed expenditure, in proportion to the total revenue expenditure, IR was left with only 36.67 per cent of the total revenue expenditure to run their operations, of this, fuel alone comprised as 48.80 per cent. This impacted IR's contribution to DRF.

1.7.3 Dividend and Subsidy

Under the 'Separation Convention' the IR is required to pay dividend to the general revenues on the capital advanced by the GoI at a rate determined periodically by RCC. Further, in terms of the recommendations of the RCC, IR is given concessions towards payment of dividend in respect of capital invested in the larger national interest¹³. Dividend paid on such capital is received back as subsidy to IR. The subsidy decreased from ₹ 2,037.64 crore in 2010-11 to ₹ 2,034.37 crore in 2011-12. Thus, the net effective rate of dividend increased from 2.78 per cent in the 2010-11 to 2.95 per cent in 2011-12.

Figure: 1.14 Effective Rate of Dividend



1.7.4 Un-discharged Liability

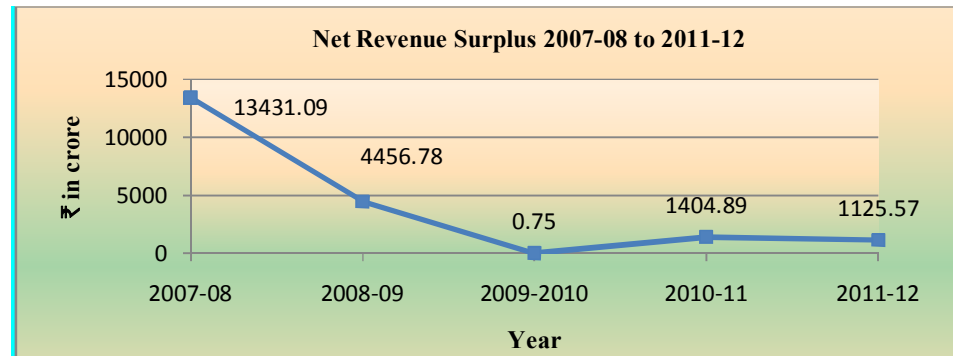
The RCC allowed a moratorium on payment of dividend on investments in New Lines during the period of construction and the first five years after opening of the line for traffic. Cumulative dividend was payable when the line showed surplus after discharging current liability. The account of dividend liability is closed after 20 years, extinguishing all such un-liquidated liability. The liability on this account which was ₹ 8,322.65 crore at the close of 2010-11 increased to ₹ 9,246.98 crore as of March 2012.

¹³Strategic Lines, 28 New Lines taken up on other than financial consideration, non-strategic capital of Northeast Frontier Railway, Un-remunerative branch lines, Ore lines, 50 per cent of work-in-progress

1.8 Revenue Surplus

Trend of net revenue surplus after meeting all revenue expenditure including payment of dividend, during the last five years as on 31 March 2012 are shown in the Figure 1.15.

Figure: 1.15 Revenue Surplus



The downward trend in net revenue surplus from 2007-10 was mainly due to decline of revenue receipts from 13 *per cent* to nine *per cent* and increase of revenue expenditure from 10 *per cent* to 16 *per cent*. Thereafter in 2010-11, there was slight increase in generation of net revenue surplus due to decline in revenue expenditure from 16 *per cent* to seven *per cent*. IR generated ₹13,431 crore as net surplus during 2007-08. Thereafter, generation of net surplus declined sharply to ₹ 75 lakh in 2009-10. The actual net surplus in 2010-11 was ₹ 620.53 crore. However, after adjustment of excess dividend of ₹ 784.36 crore pertaining to 2009-10, the net surplus in 2010-11 was ₹ 1,404.89 crore. The net surplus declined again to ₹1,125.57 crore in 2011-12.

1.9 Efficiency Indices

The financial performance and efficiency in operations of an enterprise can best be measured from its financial and performance ratios. The relevant ratios in this regard for IR were 'Operating Ratio', 'Capital-Output Ratio' and 'Staff Productivity', which are discussed below:

1.9.1 Operating Ratio

Operating ratio represents the percentage of working expenses to traffic earnings. The operating ratio was 94.59 *per cent* in 2010-11, decreased slightly to 94.85 *per cent* in 2011-12 for IR. This was primarily due to increase in growth rate of total working expenses from 8 *per cent* in 2010-11 to 10 *per cent* in 2011-12. Operating ratio of zonal railways and Metro Railway/Kolkata during the last three years ended on 31 March 2012 are shown in the table 1.6.

Table 1.6 Operating Ratio of Zonal Railways

Sr. No.	Zonal Railway	2009-10	2010-11	2011-12
1	Central	106.47	107.31	105.68
2	Eastern	186.25	178.52	182.1
3	East Central	107.94	109.06	103.58
4	East Coast	48.25	42.82	44.68
5	Northern	112.74	112.2	121
6	North Central	61.55	63.12	61.8
7	North Eastern	216.19	201.78	202.06
8	Northeast Frontier	161.28	167.25	166.4
9	North Western	110.29	106.41	99.99
10	Southern	137.47	135.55	122.58
11	South Central	80.66	85.76	85.9
12	South Eastern	69.18	66.98	72.74
13	South East Central	60.43	58.01	55.24
14	South Western	88.43	98.69	109.01
15	Western	97.88	97.96	94.61
16	West Central	74.07	74.93	70.13
17	Metro Railway/Kolkata	248	226.35	310.89
Overall IR		95.28	94.59	94.85

There were noticeable improvements in the Operating Ratio of East Central, North Western, Southern, West Central and Western Railways whereas the same deteriorated noticeably in Eastern, Northern, South Eastern, South Western and Metro Railway, Kolkata during the current year compared to the previous year. Operating Ratio of Central, Eastern, East Central, Northern, North Eastern, Northeast Frontier, Southern, South Western Railways and Metro Railway, Kolkata was more than 100 *per cent* during 2011-12, implying that their working expenditure was more than their traffic earnings.

1.9.2 Capital-Output Ratio

Capital Output Ratio indicates the amount of capital employed to produce one unit of output (Total Traffic in NTKMs could be seen as the output in the case of IR). The table 1.7 shows the Capital-output ratio for total traffic (in NTKMs), carried by the IR during the last five years ended on 31 March 2012:

Table 1.7 Capital Output Ratio of IR (2007-12)

As on	Total Capital including investment from Capital Fund (₹ in Million)	Goods Traffic (NTKMS) (in million)	Passenger Traffic		Total Traffic (in Million NTKMs)	Capital at charge (in Paise) per NTKM
			Passenger Kilometres (in millions)	Million NTKMs		
31-Mar-08	885,211	523,196	769,956	54,667	577,863	153
31-Mar-09	1,043,012	552,002	838,032	59,500	611,502	171
31-Mar-10	1,230,007	601,290	903,463	64,146	665,436	185

As on	Total Capital including investment from Capital Fund (₹ in Million)	Goods Traffic (NTKMS) (in million)	Passenger Traffic		Total Traffic (in Million NTKMs)	Capital at charge (in Paise) per NTKM
			Passenger Kilometres (in millions)	Million NTKMs		
31-Mar-11	1,432,205	626,473	978,508	69,474	695,947	206
31-Mar-12	1,614,480	667,607	1,046,522	74,303	741,910	218

Capital Output ratio had increased from 153 paise (2007-08) to 218 paise (2011-12) indicating decrease in physical performance of the IR as compared to capital employed. Higher cost overruns due to non-completion of projects in time coupled with investment in financially unviable projects contributed to higher Capital Output ratio.

1.9.3 Staff Productivity

Staff productivity in case of IR is measured in terms of volume of traffic handled in terms of NTKM in Million per thousand employees, increased by over 38 per cent during the period 2007-08 (443) to 2011-12 (611).

The improvement in staff productivity over the last five years was a result of two distinct factors:

- Increase in freight carried in terms of tonnage and passenger originating in relation to total distances carried/travelled.
- Decline in workforce from 13.04 lakh (2007-08) to 12.15 lakh (2011-12).

Zone wise analysis of staff productivity revealed that during 2011-12, highest Staff Productivity of 1496 Million NTKM per thousand employees was achieved by East Coast Railway whereas Staff Productivity of 200.38 Million NTKM per thousand employees of Eastern Railway was the lowest during the same period.

1.10 Plan Expenditure

IR plays a crucial role in augmenting infrastructure for sustainable economic growth. To keep pace with the transport sector in general and to respond to the pressures of a buoyant economy, it is essential that its plan resources are used effectively. Creation of new assets, timely replacement and renewal of depleted assets which had outlived its usage, augmentation of network capacity were the activities carried out by the IR through their plan expenditure. IR's plan expenditure was financed from the general exchequer extended as general budgetary support, internal resources¹⁴ and extra budgetary support i.e. market borrowing through IRFC for rolling stock and new network links by RVNL.

The table 1.8 gives the sources of funds for the plan expenditure during 10th FYP period and year wise expenditure of 11th FYP period:

¹⁴ Reserve Funds such as Depreciation Reserve Fund, Capital Fund, Development Fund

Table 1.8 Sources of Plan Expenditure

(*₹ in crore*)

Source of Plan Expenditure	10 th FYP	11 th FYP					
	(2002-03 to 2006-07)	2007-08	2008-09	2009-10	2010-11	2011-12	
	Actual	Actual	Actual	Actual	Actual	Budget Estimates	Actual
General Budgetary Support ¹⁵ (% age to the total)	37,516.06 (44.88)	8,667.90 (29.82)	10,110.43 (27.45)	17,716.09 (44.70)	19,485.06 (47.77)	22,000 (38.17)	21,336.80 (47.35)
Internal Resources (% age to the total)	29,567.99 (35.37)	14,948.00 (51.43)	18,941.23 (51.43)	12,195.68 (30.77)	11,527.39 (28.26)	13,260 (23.01)	8,933.73 (19.83)
Extra Budgetary Support (% age to the total)	16,502.15 (19.75)	5,169.43 (18.75)	7,777.84 (21.12)	9,720.79 (24.53)	9,780.29 (23.97)	22,370 (38.82)	14,790.59 (32.82)

Note: Figures in brackets represent percentage to the total

Due to generation of additional internal resources, the dependency of Plan Expenditure on general budget support decreased substantially in the first two years of the 11th FYP. While during the third, fourth and fifth year of the 11th FYP, dependency on general budget again increased due to non-availability of sufficient internal resources with corresponding decrease in Plan Expenditure from internal resources. During 2011-12, Ministry of Railways obtained extra budgetary support of ₹ 14,790.59 crore from IRFC for rolling stock and new network links etc. For this purpose, IRFC issued Tax free and Taxable bonds of ₹ 11,385 crore. The funds arranged by IRFC through bonds was utilized on rolling stock etc. At the end of 2011-12, ₹ 18.92 crore was with the Ministry of Railways which was carried forward in the next year.

Plan expenditure is broadly categorized under various Plan Heads. Table 1.9 gives the share of expenditure grouped under various categories of Plan Heads during the 10th FYP Period and year wise breakup of the 11th FYP period:

Table 1.9 Category-wise Plan Expenditure

(*₹ in crore*)

Plan Heads	10 th FYP (2002-07)	2007-08	2008-09	2009-10	2010-11	2011-12
New Lines, Gauge Conversion, Doubling, Traffic Facilities, Track Renewal, Bridge Work, S & T	42,391.07 (50.72)	13,056.99 (45.36)	15,094.45 (40.98)	15,386.09 (38.82)	15,899.34 (38.98)	13,839.34 (30.71)
Rolling Stock and Payment of Capital Component of Lease charges	26,556.21 (31.77)	9,611.16 (33.39)	13,043.34 (35.42)	15,141.94 (38.21)	17,210.25 (42.19)	21,679.67 (48.11)
Workshop and Production Units and	1,962.67	686.82	1,343.45	1,682.5	1,435.95	1,613.57

¹⁵Includes expenditure from RSF

Plan Heads	10 th FYP (2002-07)	2007-08	2008-09	2009-10	2010-11	2011-12
Plant & Machinery	(2.35)	(2.39)	(3.65)	(4.25)	(3.52)	(3.58)
Investments in Government Undertaking	2,886.59 (3.45)	1,581.74 (5.49)	2,095 (5.69)	2,041.99 (5.15)	1,789.58 (4.39)	2,599.88 (5.77)
Others	9,789.65 (11.71)	3,848.66 (13.37)	5,253.27 (14.26)	5,380.33 (13.57)	4,457.93 (10.93)	5,328.70 (11.83)
Total	83,586.19	28,785.37	36,829.51	39,632.85	40,793.05	45,061.16

Note: 1 Figures in brackets represent percentage to the total

Note: 2 Others include Road Safety Works, Electrification Projects, Computerization, Other Electric Works, Railway Research, Other Specified Works, Stores Suspense, Manufacturing Suspense and Miscellaneous Advance, Staff Quarters, Passenger Amenities, Metropolitan Projects.

Since IRFC, WIS and RVNL are also contributing to Plan Expenditure (i.e. Extra Budgetary Support), these were also including under Rolling Stock- (₹ 16,052.25 crore for 10th -FYP and ₹ 46,127.94 crore for five years of 11th FYP) and Investments-(₹ 450 crore in 10th -FYP and ₹ 1,111 crore for five years of 11th -FYP)

The table 1.9 shows that the share of Plan Expenditure on track related works (Construction of New Lines, Doubling, Gauge Conversion, Yard Remodelling and Traffic Facilities, Bridge Works and Signal and Telecommunication Works) declined from 51 per cent during the 10th Five Year Plan to 40 per cent during 11th Five Year Plan with commensurate increase in share of Rolling stock, Workshop and Production Units and Plant & Machinery during the same period.

1.11 Railway Funds

Table 1.10 Status of Railway Funds

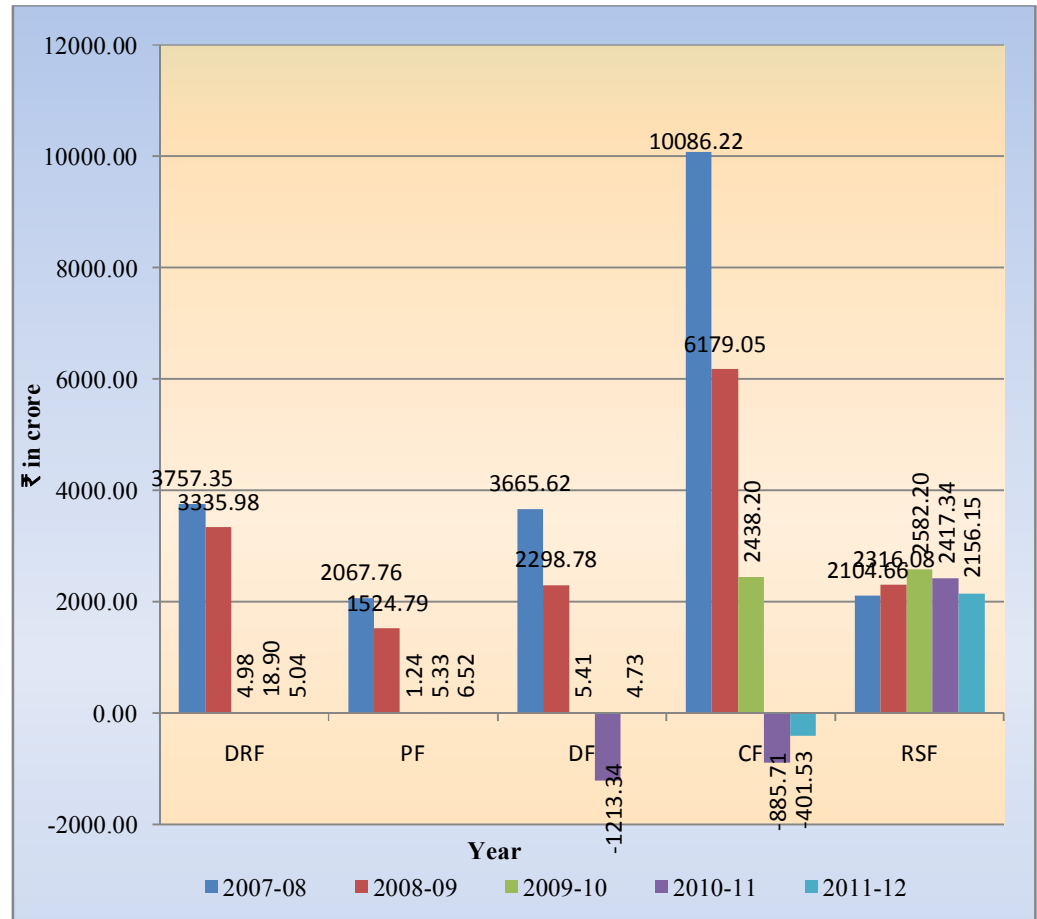
Fund	Description
Depreciation Reserve Fund	The appropriation to this fund is met out of the revenues earned by IR. This is meant for replacement and renewal of over-aged assets. This fund receives interest at the rate of dividend payable to general revenues. The fund closed at ₹ 5.05 crore at the end of 2011-12 by expending less amount (₹6,680.72 crore) on replacement and renewal of assets than appropriated to the fund (₹6,720 crore). The Appropriation to DRF was made less than Budgeted provision by 4 per cent.
Pension Fund	The opening balance in this fund account as on 1 April 2011 was ₹ 5.33 crore. Appropriation to this fund is also met out of the revenues earned by IR. The fund receives interest at the rate of dividend payable to general revenues. Appropriation to the fund during 2011-12 was slightly more than the withdrawals. The available balance under the fund at the close of the year was ₹ 6.52 crore as on 31 March 2012.

<i>Fund</i>	<i>Description</i>
<i>Development Fund</i>	<p><i>Due to continuous decrease in revenue surplus after 2007-08, there was a substantial decline in net balances under the fund at the end of each year. The fund account as on April 1, 2011 stood at negative balance of ₹ 1,213.34 crore. In 2011-12, the Revenue surplus to the tune of ₹ 610 crore was appropriated to it. Besides this, an amount of ₹ 3,000 crore was extended by the Central Government during 2011-12 towards loan to Railway Development Fund which was meant for appropriation to Railway Development Fund and to cover the negative balances in the fund and also enable funding essential safety related works in 2011-12. The fund closed at ₹ 4.73 crore due to the following reasons:-</i></p> <ol style="list-style-type: none"> <i>1. The capital expenditure incurred out of this fund amounting to ₹ 2,222.56 crore was much more than the contribution to the Fund amounting to ₹ 610 crore;</i> <i>2. Payment of the interest amounting to ₹ 41.12 crore to Government of India due to negative balance in fund account.</i> <i>3. Payment of interest of ₹ 128.25 crore on loan taken from Government of India</i>
<i>Capital Fund</i>	<p><i>With the decrease in generation of revenue surplus since 2007-08, appropriation to this fund decreased from ₹ 11,072.09 crore (2007-08) to ₹ 3,065.78 crore in 2008-09. IR could not appropriate any amount to this fund in 2009-10 and 2010-11. In 2011-12, only ₹ 515.57 crore was appropriated in this fund. However, due to negative balance of ₹ 885.71 crore as on April 1, 2011, Ministry of Railways had to pay interest of ₹ 31.40 crore instead of receiving interest. This resulted into the negative balances of ₹ 401.53 crore as on March 31, 2012 in fund account despite no expenditure being incurred.</i></p>
<i>Railway Safety Fund</i>	<p><i>The opening balance in this fund account as on April 1, 2011 was ₹ 2,417.34 crore. An amount of ₹ 1,323.36 crore was utilized in 2011-12 as against an amount of ₹ 1,062.17 credited to it. The fund account closed at ₹ 2,156.15 crore at the end of 2011-12.</i></p>

The funds¹⁶ shown above in Table No. 1.10 were either financed through revenues or surplus except Railway Safety Fund, which received a share of the Diesel Cess. The balance available in the funds increased from ₹ 342.51 crore in 2010-11 to ₹ 1,770.91 crore at the end of the year 2011-12 which was after obtaining a loan of ₹ 3,000 crore from Ministry of Finance under Development Fund.

¹⁶Till 2007-08, IR also operated Special Railway Safety Fund which was created in 2001-02 to wipe out the arrears in renewal/replacement. The fund was closed at the end of 2007-08 and balance remained in the fund was transferred to Depreciation Reserve Fund.

Figure 1.16- Fund Balances at the close of the years (2007-12)



The Development Fund and Capital Fund, are funded from the railway 'Excess' available after payment of dividend, closed with balances of ₹ 4.73 crore and negative balances of ₹ 401.53 crore, respectively. In order to bridge the gap in fund balances under the two funds, Ministry of Railways through Supplementary Demands for Grants (March 2012) obtained a loan of ₹ 3,000 crore towards Development Fund during 2011-12 under Major head-7002-Railways-Minor head 202-Loans to Railway Development Fund which was meant for appropriation to the Railway Development Fund to cover the negative balances in the fund and also to enable essential safety related works in 2011-12.

From Capital Fund, no expenditure was met during the year 2011-12. Ministry of Railways repays the principal amount of lease charges from Capital Fund to IRFC of money borrowed to purchase rolling stock. This repayment is made by IR since this is a committed liability. Initially, a budget provision of ₹ 3,700 crore was made for payment of principal component of lease charges to IRFC (₹ 3,447 crore) and investment in Rail Vikas Nigam Limited (₹ 253 crore). However, due to financial crunch (less generation of internal resources/revenue surplus and negative balance in the capital fund), the Ministry of Railways adopted General Budgetary Support and paid ₹

3,454.33 crore from 'Capital' to IRFC by obtaining supplementary grant of ₹ 664.09 crore (March 2012) and ₹ 2,776.08 crore by re-appropriation from other plan heads. Since principal component of lease charges to IRFC is met from Capital Fund, payment of principal component from 'Capital' will attract liability of payment of dividend to general revenues. Therefore, Ministry of Railways made an avoidable payment of dividend amounting to ₹ 172.72 crore to general revenues during 2011-12.

The contribution to DRF was not made on the basis of historical cost, expected useful life and expected residual life of the asset but was dependent on the amount which the working expenses could bear. During the last five years ending 31 March, 2012, the expenditure on renewal/replacement of assets to the appropriation made to the fund varied from 99 *per cent* (2011-12) to 251 *per cent* in 2009-10. Since renewal/replacement of assets is a high priority item, it is imperative that contribution to DRF be made in a transparent manner.

The annual contribution to DRF is distributed zone-wise in proportion to the Block Account (value of assets held) of each zonal railway. This apportionment is charged to the working expenses of the zone. It was seen that at the zonal level there was no relation between the amount appropriated to DRF and amount expended on replacement and renewal of the assets. There was negative balance at the end of 2011-12 in respect of Central, Eastern, North Central, North Eastern, North Western, South Central, South Eastern, South East Central, South Western, Western, West Central Railways, Integral Coach Factory (ICF), Central Organization for Railway Electrification (CORE) and MTP/Chennai.

1.12 Conclusions and Recommendations

Finances of IR were severely impacted mainly due to slow-down of the Indian economy and implementation of the 6th CPC recommendation during 2008-10. Therefore, they were not able to achieve the projected performance as outlined in the budget for last two years. Though GTR was achieved as per projection during 2010-11, the net revenue was 35.12 *per cent* below the budget projection. During 2011-12, the GTR increased by 10.13 *per cent* over the previous year, yet this was below the budget projections by two *per cent* (₹ 2,128.65 crore). The Total Working Expenditure increased by 2.29 *per cent* (₹ 2,217.41 crore) as compared to budget projections. Thus, the Net Revenue was below the budget projections by 43.45 *per cent* (₹ 5,211.53 crore).

IR has not been able to meet their operational cost of passenger and other coaching services. There was significant cross-subsidization from freight services to passenger services. In fact Railway Convention Committee (2009), in its first report on 'Rate of Dividend for 2009-10 and 2010-11 and other Ancillary matters' desired that the Railways should explore the ways of raising their revenue including avenues for resource mobilization while curbing wasteful expenditure and enforcing financial discipline. IR earned profit of ₹ 20,563.59 crore from freight traffic on one hand and incurred loss

of ₹ 20,948.35 crore on operation of passenger and other coaching services on the other hand during 2010-11.

During 2011-12, IR's Revenue surplus (₹1,125.57 crore) was 78.59 per cent below the budget projection of ₹ 5,258.41 crore. At the end of the year 2011-12, the funds closed with ₹ 1,770.91 crore. Even after obtaining a loan of ₹ 3,000 crore under Development Fund from Ministry of Finance during 2011-12, balance under this fund was ₹ 4.73 crore at the end of the year. The Capital Fund depicted negative balance of ₹ 401.53 crore. This situation may in long run affect the sustainability of IR operations.

The financial and operational efficiency indicators except the staff productivity indicator of IR were on decline during the year 2011-12. The overall operating ratio decreased from 94.59 per cent in 2010-11 to 94.85 per cent in 2011-12. Capital-output ratio increased significantly in the last five years (2007-12), indicating decrease in the physical performance of the IR as compared to capital employed.

The unrealized earnings increased to ₹ 1,401.03 crore at the end of 2011-12 from previous year's outstanding of ₹ 1,357.84 crore. This also affected the finances of IR.

Recommendations

- *IR is facing severe financial crunch and their accumulated funds have eroded considerably from ₹ 21,681.60 crore in 2007-08 to ₹ 1,770.91 crore in 2011-12. The way forward for IR is to improve its finances and rationalize both freight as well as passenger tariffs. IR may explore new avenues to recover the cost from its services in order to generate sufficient surplus to meet its future requirements.*
- *It is essential that IR increases its market share in bulk commodities like coal, steel, cement where it has an inherent competitive advantage.*
- *It is important for the IR to review all the capital works in progress and take expeditious decision with regard to operation/non-operation of projects wherein road connectivity exists especially in case of unremunerative lines.*
- *IR needs to review all cases of licensing/renting of its assets for timely revision/raising of bills and realization of dues including arrears.*
- *IR needs to pursue effectively the cases of unrealized earnings pending under traffic suspense mainly on account of movement of traffic and demand recoverable.*