Shobhana's edit

Huge FY16 slippage casts shadow over FY17 plans

Given how spending on roads and railways was critical for stimulating GDP growth this year, railway minister Suresh Prabhu has done well to significantly increase capex in the current year. The minister claimed, on Thursday, that FY16 capex had doubled over the average levels of Rs 48,000 crore between 2009-14. Encouraged by his ability to get a moribund Railways bureaucracy to spend more on capex, Prabhu has raised the FY17 capex target by a fifth, to Rs 121,000 crore. While the plans are big—more electrification, more special trains, locomotive factories, rail corridors—most of this is being funded by either the government or by generous lending by LIC which includes a 5-year moratorium on interest payments and 10 years on repayment of the principal—in the current year, the gross budgetary support has been Rs 32,000 crore and in FY17 it is estimated at Rs 40,000 crore.

What is worrying, however, is that the operations of the Railways remain as inefficient as ever and the balance-sheet is in shambles. Though gross traffic receipts for FY16 were 9% below target, at Rs 19,897 crore, net revenues are 21% below target. With revenues so short in FY16, there have been sharp cutbacks in funds allocated—contributions to the Railway Development Fund, for instance, are short by Rs 4,430 crore and those to the Depreciation Reserve Fund by Rs 2,400 crore—and dividend payments to the government have also fallen short by over R2,300 crore. As a result, for FY17, Prabhu has projected a net revenue of Rs 18,210 crore which is even smaller than that for FY16.

With finances so precarious, Prabhu will need to really work very hard to get the Railways back on track. Indeed, given how badly it missed FY16 targets—passenger revenues rose just 7.5% compared to the 18.9% target and freight by 5.7% versus the 14.8% target—it is not clear if FY17's projections can be achieved. What is encouraging, though, is that pretty steep hikes in passenger fares have been baked into the numbers—around 18% in the sleeper class and a little over 12% across all classes—and the fact that nominal GDP is expected to rise by 10.5-11% in FY17 will also help. Some of the other assumptions—around Rs 8,000 crore extra to come from, among others, parcel traffic and advertising—can be achieved, but require Prabhu to be able to completely revamp the Railway Board's way of functioning. Indeed, the Rs 18,340 crore of investments via PPP that have been baked into the capex numbers will also require a huge step up in levels of activity. Achieving even the very poor 92% operating ratio target will require very sharp control over expenditure—expenditure is projected to grow by just 13% in FY17, which looks very ambitious considering this includes Rs 40,000 crore of additional expenditure due to the Pay Commission even though, it is true, large savings were made in FY16 by new electricity contracts and, of course, due to the fall in global crude prices. Given the sad state of the Railways, Prabhu's job was never expected to be easy, and today's numbers just confirm that. What is encouraging is that with plans of revamping the Railway Board's functioning, going in for commercial accounting and pushing for a railway regulator, Prabhu appears to have thought through his strategy carefully. Now to deliver on it.