IMPACT OF COVID-19 ON RAILWAY FINANCES

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Abstract: *This study examined the effects of the Coronavirus Disease 2019 (COVID-19) pandemic on the financial performance of Railways. Due to the COVID-19 epidemic, all passenger trains have been stopped until April 14, 2020. However, goods transportation has continued, with trains transporting crucial commodities to various sections of the country. Railways has also made railway parcel vans available for speedy bulk conveyance of goods for e-commerce businesses and other customers, including state governments. In small parcel sizes, these contain medical supplies, medical equipment, food, and so on. Aside from this, Railways has made a number of other steps to assist during the pandemic.*

Because the travel ban is in effect from March 23 to April 14, 2020 (and may be extended beyond), it will have an impact on Railways' budget for both 2019-20 and 2020-21. In this piece, we will look at the state of the railways' finances and speculate on what the future may hold.
Keywords: *Covid-19, Railways, Finance, Credit, Goods, Difficulties faced, Government Schemes, Passengers, Revenue.*

1.INTRODUCTION

India's goal of "flattening the curve" of the COVID-19 outbreak remains. The first case of COVID-19 in India was reported on January 30th (1/30/2020), and there had been over five million cases documented as of September 21st, 2020. The two biggest cities of Delhi and Mumbai, with populations of 18 and 20 million, respectively, have reported cases in excess of 184,000 and 246,000, respectively. Unsurprisingly, the epidemic has had a considerable impact on the economy, albeit the degree of those ramifications is not yet fully understood. Small firms, which are critical to India's industrial and service sectors, have been struck the worst. This report presents an overview of the implications of COVID-19 on micro, small, and medium-sized firms.

In response to the COVID-19 outbreak, the Government of India (GOI) implemented lockdown measures, which included a ban on domestic road, rail, and air travel as well as the closure of educational institutions, industrial establishments, and hospitality services, among other measures. The announced regulations specifically listed both a list of economic activities that are permitted and are deemed important, as well as a list of activities that are not considered important and are therefore prohibited (for example, all commercial, private enterprises, including manufacturing, restaurant services, hotels, courier services, etc.).During the lockdown, there were hospital services, electricity and water, and ATM banking. The Government of India

(GOI) imposed a nationwide lockdown for the following periods: 21 days, from March 25 to April 14, 2020 (Lockdown 1.0); 19 days, from April 15 to May 3, 2020 (Lockdown 2.0); 14 days, from May 4 to May 17, 2020 (Lockdown 3.0); and then 14 more days, from May 18 to May 31, 2020 (Lockdown 4.0). The number of reported total active cases, the rate at which confirmed cases doubled, and district feedback were used to assess the risk profile of the districts and determine how stringent the measures should be. Districts were divided into three groups: orange, green, and red zones (hotspots). 130 districts across the nation were selected by the Union Health Ministry.

2.SECONDARY RESEARCH

Secondary research is the process of analyzing and assessing material that has already been obtained and published by others. This method entails acquiring data and information for research purposes from pre-existing sources such as books, journals, online databases, and reports. In this case, I conducted secondary research by reviewing and analyzing data and material previously available online to assess the implications of Covid-19 on small enterprises or industries.

3.OBJECTIVES

***Impact of the travel ban on Railways' internal revenue**
***Freight has been cross-subsidizing passenger traffic; it may worsen this year**
***Railways expenditure**

4.COVID-19

A infectious respiratory illness, the SARS-CoV-2 virus is often referred to as COVID-19 (short for "coronavirus disease 2019"). In December 2019, the virus was first identified in Wuhan, China, and since that time, it has spread globally and caused a pandemic. Fever, coughing, and breathing problems are the most prevalent COVID-19 symptoms, but other side effects can include tiredness, muscle pains, sore throats, and a loss of taste or smell. By contacting a surface that has been exposed to the virus before touching one's mouth, nose, or eyes, as well as by coughing or sneezing respiratory droplets onto it, the virus is mostly spread. Maintaining physical distance, donning a mask or facial covering in public, washing your hands frequently, and avoiding large gatherings are all COVID-19 preventative measures.
While efforts are still being made to stop the virus's spread and lessen its effects, the pandemic has had a significant negative impact on the world's economies, social structures, and health.

5.Adverse effects on the bulk of India's small enterprises

Over 82% of India's small businesses, mostly in the manufacturing sector, have reportedly been negatively impacted by COVID-19, according to a report. In addition, the study of 250 firms revealed that 70% of companies believe it will take them at least another year to bounce back from the pandemic blues and return to demand levels from before COVID-19 emerged.

Keep in mind that India has been one of the pandemic's worst-affected nations globally. The second wave, which turned out to be worse than the first, hit the nation hard just as things were starting to move in the right direction. This forced municipal and state governments to implement brief lockdowns, which hindered operations and manufacturing.

6. The effect of the travel ban on internal income for railroads

Internal revenue for railroads is primarily derived from passenger and freight traffic. Passenger and freight traffic made up roughly 67% and 27%, respectively, of the internal revenue in 2018–19 (the recent actuals). The remainder is earned from many different sources, including platform ticket sales, coaching receipts, and package delivery. Railways anticipates that in 2020–21, freight will account for 65% of its internal revenue and passenger traffic would account for 27%.

- **Passenger traffic**
- In 2020-21, Railways expects to earn Rs 61,000 crore from passenger traffic, an increase of 9% over the revised estimates of 2019-20 (Rs 56,000 crore).
- As per numbers provided by the Ministry of Railways, up to February 2020, passenger revenue was approximately Rs 48,801 crore. This is Rs 7,199 crore less than the 2019-20 revised estimates for passenger revenue, implying that this much amount will have to be generated in March 2020 to meet the revised estimate targets (13% of the year's target). However, the average passenger revenue in 2019-20 (for the 11 months) has been around Rs 4,432 crore. Note that in March 2019 passenger revenue was Rs 4,440 crore. With passenger travel completely banned since March 23, Railways will fall short of its target for passenger revenue in 2019-20.
- As of now, it is unclear when travel across the country will resume to business as usual. Some states have started extending the lockdown within their state. In such a situation, the decline in passenger revenue could last longer than these three weeks of lockdown.

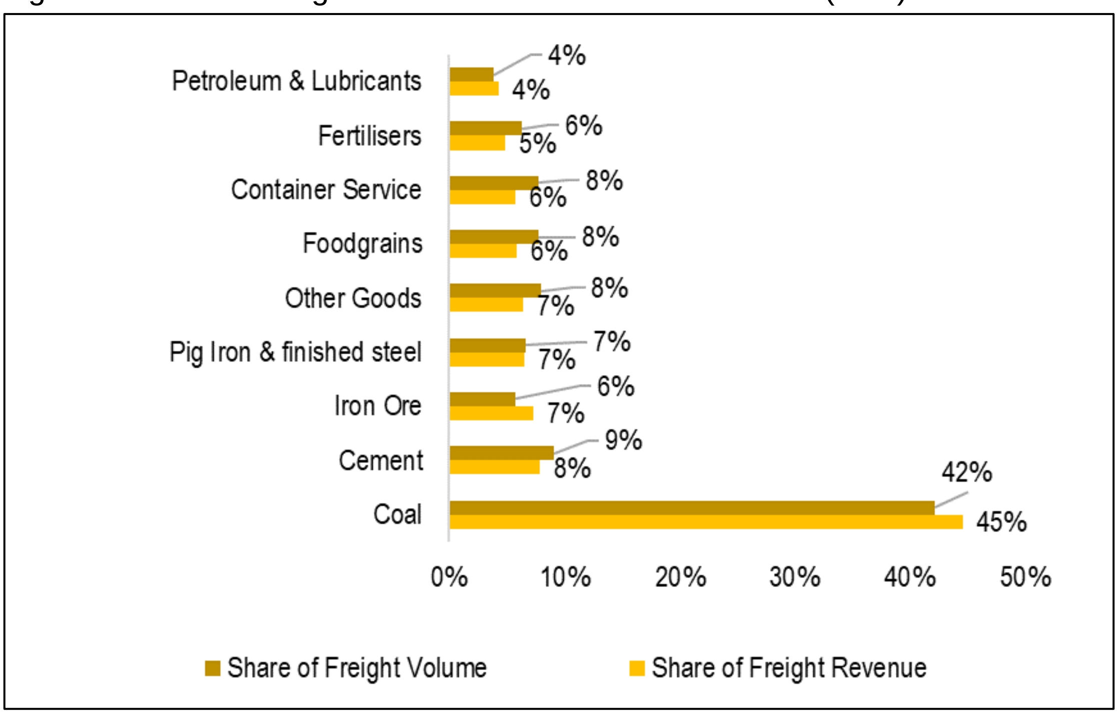
Freight traffic:

In 2020-21, Railways expects to earn Rs 1,47,000 crore from goods traffic, an increase of 9% over the revised estimates of 2019-20 (Rs 1,34,733 crore). As per numbers provided by the Ministry of Railways, up to

February 2020, freight revenue was approximately Rs 1,08,658 crore. This is Rs 26,075 crore less than the 2019-20 revised estimates for freight revenue. This implies that Rs 26,075 crore will have to be generated by freight traffic in March 2020 to meet the revised estimate targets (19% of the year's target). However, the average passenger revenue in 2019-20 (for the 11 months) has been around Rs 10,029 crore. Note that in March 2019, freight revenue was Rs 16,721 crore.

While passenger traffic has been completely banned, freight traffic has been moving. Transportation of essential goods, and operations of Railways for cargo movement, relief and evacuation and their related operational organisations has been allowed under the lockdown. Several goods carried by Railways (coal, iron-ore, steel, petroleum products, food grains, fertilisers) have been declared to be essential goods. Railways has also started operating special parcel trains (to carry essential goods, e-commerce goods, etc.) since the lockdown. These activities will help continue the generation of freight revenue. However, some goods that Railways transports, such as cement which contributes to about 8% of Railways' freight revenue, have not been classified as essential goods. Railways has also relaxed certain charges levied on freight traffic. It remains to be seen if Railways will be able to meet its targets for freight revenue.

Figure 1: Share of freight volume and revenue in 2018-19 (in %)



7. The cross-subsidization of passenger traffic by freight may get worse this year.

Railways ultimately uses the gains from its freight sector to manage its entire financial situation as well as to cover such losses in the passenger segment. High freight charges are the outcome of this cross-subsidization. Passenger operations will suffer more losses as a result of the ban on passenger movement and if the lockdown (in some form) were to persist. The cross-subsidy burden on goods could rise as a result. It's unclear how such cross-subsidization will operate given that Railways cannot raise freight rates any higher.

For instance, freight operations achieved a profit of Rs 39,956 crore in 2017–18 while passenger and other coaching services suffered losses of Rs 37,937 crore. To make up for the loss in passenger and other coaching services, almost 95% of the profit from freight operations was used. During this time, passengers generated a total of Rs 46,280 crore in income. This suggests that the passenger business's losses account for around 82% of its revenue. As a result, Indian Railways spent Rs 1.82 for every rupee it made from its passenger business in 2017–18.

8. Railway’s expenditure

Although the travel prohibition has prevented Railways from operating all of its services, it still must pay a significant portion of its operational costs. Paying employee wages and pensions accounts for 66% of the Railways' revenue expenditure. The cost of salaries at Railways has increased at an average annual rate of 13% between 2015 and 2020 (budget estimate).

Fuel costs make up about 18% of revenue expenditures, but they might decrease slightly if oil prices fall. Additionally, since maintenance, safety, and depreciation are long-term expenses that cannot be eliminated, railways will need to keep paying on them. Additionally, for freight operations, frequent repair of the rail infrastructure will be required.

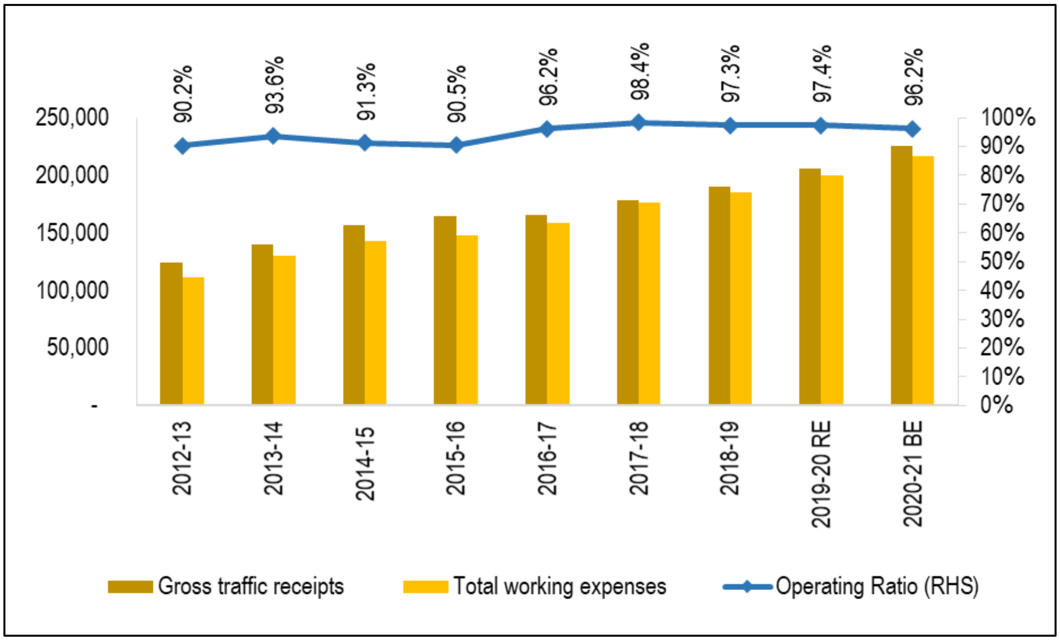
9. Revenue Surplus and Operating Ratio could further worsen

Railways’ surplus is calculated as the difference between its total internal revenue and its revenue expenditure (this includes working expenses and appropriation to pension and depreciation funds). Operating Ratio is the ratio of the working expenditure (expenses arising from day-to-day operations of Railways) to the revenue earned from traffic. Therefore, a higher ratio indicates a poorer ability to generate a surplus that can be used for capital investments such as laying new lines, or deploying more coaches. A decline in revenue surplus affects Railways’ ability to invest in its infrastructure.

In the last decade, Railways has struggled to generate a higher surplus. Consequently, the Operating Ratio has consistently been higher than 90% (see Figure 2). In 2018-19, the ratio worsened to 97.3% as compared to the estimated ratio of 92.8%. The CAG (2019) had noted that if advances for 2018-19 were not included in receipts, the operating ratio for 2017-18 would have been 102.66%.[9]

In 2020-21, Railways expects to generate a surplus of Rs 6,500 crore, and maintain the operating ratio at 96.2%. With revenue generation getting affected due to the lockdown, this surplus may further decline, and the operating ratio may further worsen.

Figure 2: Operating Ratio



Note: RE – Revised Estimates, BE – Budget Estimates.

Sources: Expenditure Profile, Union Budget 2020-21; PRS

10. Other sources of revenue

In addition to its own internal resources, Railways also receives funding from the central government's budget and from extra-budgetary sources, which mostly consist of borrowings but can also include institutional finance, public-private partnerships, and foreign direct investment.

11. Budgetary support from central government:

The central government encourages Railways to invest in capital projects and extend its network. The proposed gross financial contribution from the national government year 2020–21 is Rs. 70,250 crore. This is 3% more than the updated 2019–20 forecasts (Rs 68,105 crore). Keep in mind that this sum may alter over the year since government revenue is also impacted by the COVID outbreak.

12.Borrowings:

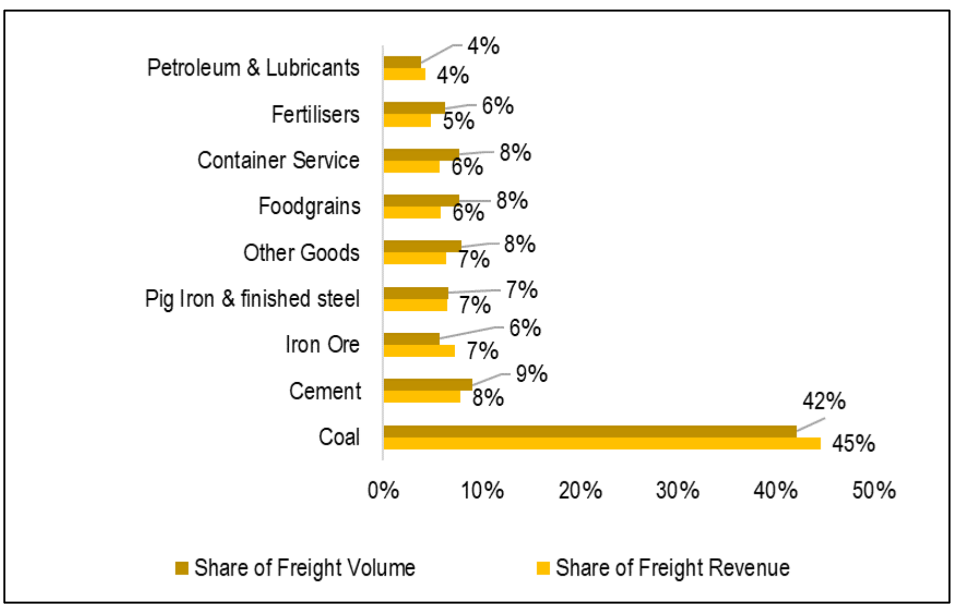
The Indian Railways Finance Corporation (IRFC) is primarily used by the railways to borrow money. In order to finance the rolling stock and project assets of Indian Railways, IRFC first borrows money from the market (via taxable and tax-free bond issuances, term loans from banks and financial organizations).

To close the funding gap between spending and available resources over the last few years, the Railways have dramatically expanded their borrowing. Prior to now, the majority of the capital expenses for the Railways were funded by fiscal assistance from the federal government. In 2015–16, this pattern reversed, with additional budgetary resources (EBR) covering the majority of the Railways' capital expenditures. The expected amount to be raised through EBR in 2020–21 is Rs 83,292 crore, which is little more than the updated forecasts.

Note that both these sources are primarily used to fund Railways' capital expenditure. Some part of the support from central government is used to reimburse Railways for the operating losses made on strategic lines, and for the operational cost of e-ticketing to IRCTC (Rs 2,216 crore as per budget estimates of 2020-21).

If Railways' revenue receipts decline this year, it may require additional support from the central government to finance its revenue expenditure, or finance it through its borrowings. However, an increased reliance on borrowings could further exacerbate the financial situation of Railways. In the last few years, there has been a decline in the growth of both rail-based freight and passenger traffic (see Figure 3) and this has affected Railways' earnings from its core business. A decline in growth of revenue will affect the transporter's ability to pay off its debt in the future.

Figure 3: Volume growth for freight and passenger (year-on-year)



Note: RE – Revised Estimates; BE – Budget Estimates.

Sources: Expenditure Profile, Union Budget 2020-21; PRS.

13.DISCUSSION

The COVID-19 pandemic has had a significant impact on the finances of railway systems in India. The decline in passenger demand has been a major consequence of the pandemic. Travel restrictions, lockdown measures, and public apprehension about the virus have led to a substantial decrease in the number of people traveling by train. This decline in passenger numbers has resulted in a significant loss of revenue for Indian railways, straining their finances.

Furthermore, the Indian government imposed various restrictions and guidelines during the pandemic, leading to the suspension or reduction of train services. These measures were implemented to ensure public safety and curb the spread of the virus. As a result, railways experienced decreased revenues due to reduced train frequencies and suspended routes. The disruption of supply chains also had an adverse effect on freight transportation, impacting the finances of railways.

In addition to the decline in revenue, Indian railways faced increased operating costs due to the implementation of COVID-19 safety protocols. These measures included enhanced cleaning and sanitization procedures, providing personal protective equipment to staff, and implementing social distancing measures. The additional expenses incurred to maintain passenger and staff safety further strained the finances of Indian railways.

To address the financial challenges brought about by the pandemic, the Indian government provided support and financial relief to the railway sector. Measures such as financial aid packages, deferred loan repayments, and increased budget allocations were implemented to ensure the continued operation of essential railway services and support the financial stability of Indian railways during this difficult period.

14.CONCLUSION

In addition to operating goods trains, Railways has been performing a number of other tasks to aid in the fight against the pandemic. For instance, the manufacturing capability of Railways is being used to help with COVID-19. Products like PPE gear are produced using the production facilities offered by Railways. Railways has also been looking into how to make modest beds, medical trolleys, and ventilators in its current manufacturing facilities. In locations where IRCTC base kitchens are located, Railways has begun distributing bulk prepared food to those in need. Additionally, the transporter allowed COVID patients access to its hospitals. 2,500 rail cars had been transformed into isolation coaches as of April 6. Over 133 locations nationwide, 375 coaches are converted each day on average. The issue is whether railways should cover these social expenditures given that they operate as a business agency under the federal government. The social and business goals of Railways are not well defined, according to the NITI Aayog (2016). One could argue that during a pandemic, these services could be viewed as a public good.

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