



**CAG REPORT ON  
RAILWAY FINANCES**

**CHALLENGES &  
OPPORTUNITIES**

**“THE FUTURE AHEAD”**

# CAG Audit observations on

## Chapter-I

Matters arising from examination of Finance Accounts of Indian Railways for the year ended 31 March 2018.

## Chapter-II

Impact of the concessions allowed to passengers and the effectiveness of the existing internal control mechanism to check misuse of concessions

**The future ahead for Railways by converting challenges into opportunities**

# Sharing the opinion with the objective of enhancing financial performance of Indian Railways

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# CAG REPORT - SUMMARY



## Summary of CAG Report

- IR is a departmental commercial undertaking of the Government of India.
- In the year 2017-18 net surplus decreased by 66.10% - i.e. from Rs.4931 cr in previous year to Rs.1665.61 cr.
- Working expense increased by 8.14 %
- Sundry earnings negative growth by 16.20%
- Operating Ratio 98.44% - worst in last 10 years.

## Continued

- Operating Ratio would have been 102.66%, if advance payment (Rs.7341.90 cr) received from NTPC & IRCON are not accounted in 2017-18.
- Share of internal resources in capital expenditure decreased to 3.01% in 2017-18 from 26.14% in 2014-15
- IR heavily depends on Govt's Gross Budgetary Support & Extra Budgetary resources.
- Appropriation for Depreciation Reserve Fund (DRF) decreased by 68%.
- Sr.Citizens' concession & Privelige pass/PTO take away 89.7% of revenue forgone towards concession.



## IR - Is it financially non-viable?

Does operational losses of passenger services reflect true picture on IR performance?

IR is very much viable financially

Operational losses of passenger services are not because of IR's efficiency.

# Operational profit/losses of various classes – 2016-17

<b>Class</b>	<b>Profit/loss Rs. In Crore</b>	<b>% of profit/loss</b>
AC 1 <sup>st</sup>	<b>-139.39</b>	<b>-17.68%</b>
1 <sup>st</sup>	<b>-53.31</b>	<b>-80.27%</b>
AC 2 Tier	<b>-559.27</b>	<b>-13.60%</b>
AC 3 Tier	<b>+1040.52</b>	<b>+12.43%</b>
AC Chair Car	<b>+117.83</b>	<b>+08.13%</b>
Sleeper	<b>-9313.27</b>	<b>-40.80%</b>
2 <sup>nd</sup> class	<b>-10024.88</b>	<b>-49.17%</b>
Ordinary	<b>-14647.64</b>	<b>-70.16%</b>
EMU suburban	<b>-5323.62</b>	<b>-64.74%</b>

# CHAPTER-I SUGGESTIONS TO IMPROVE PASSENGER TRAFIC EARNINGS



## SUGGESTIONS TO IMPROVE PASSENGER TRAFIC EARNINGS

- Abolish AC 1<sup>st</sup> Class & 1<sup>st</sup> Class in non-suburban
- Abolish pantry cars & power cars
- Increase the capacity of profit making AC 3 tier & AC Chair Car by adding more coaches & double duckers
- Introduce private cabin facility in AC 2tier, AC 3 tier & Sleeper class & charge 15% additionally.
- Increase the fare of sleeper class by 25%.
- Losses in second class & Sub-urban classes may be compensated by central & state Government.
- Value of passenger concessions be compensated by Govt.

## 1. Abolition of AC 1<sup>st</sup> & 1<sup>st</sup> Class



- o Loss estimated by CAG report on operation of AC 1<sup>st</sup> & 1<sup>st</sup> Class is Rs.192.70 cr.
- o In 2017-18, 73 lakh passengers travelled in AC 1<sup>st</sup> & 1<sup>st</sup> Class.
- o These classes are no more popular as users of these classes are migrating to air travel.
- o AC 1<sup>st</sup> & 1<sup>st</sup> Class coaches may be replaced by AC 3 tier coaches, i.e. increasing the carrying capacity by 3 times.
- o **This will eliminate the loss of Rs.192.70 Cr and will earn additional profit of Rs.80 cr.**

## 2. Abolition of Pantry cars



- There is wide spread perception that quality of catering services is not up to the expectations of the passengers.
- Railways don't have any effective say in fulfilment of passengers' expectations in catering services.
- Around 350 pairs of trains are provided with pantry cars in Indian Railways.
- These pantry cars don't earn any passenger revenue for Railways and occupy one passenger coach space in the train formation.

## Continued



- All Air-lines in India have successfully implemented optional catering services to its passengers.
- Pantry car catering services can be replaced by E-Catering, base kitchen, train side vending, etc.
- On-line system may be further strengthened to enable the passengers to book their meal before the commencement of the journey & e-route.
- Reputed hotels may be allowed to do the E-catering services – delinking E-catering from IR.

## Continued



- In place of pantry cars, AC 3 tier coaches may be added in the formation.
- Railways may replace pantry cars with AC 3 tier coaches in 70% of trains which are having pantry cars.
- Selective long distance trains running through remote areas may be continued with pantry car services.
- **Railways can earn Rs.1400 crores additionally per year.**
- This will reduce the number of complaints on catering.
- Will reduce the high maintenance cost of Pantry cars.

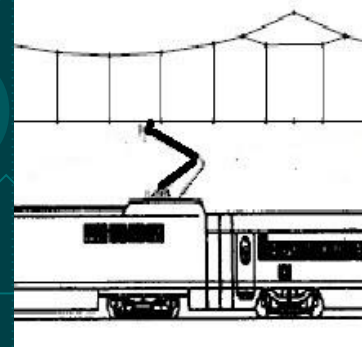
### 3. Abolition of Power cars



- o 22 coaches LHB formation includes two power cars for End on Generation (EOG). Effectively only 20 coaches are available for passengers.
- o This LHB formation is having less passenger capacity than ICF designed 24 coaches formation.
- o IR already taken steps to reduce power cars.
- o By introducing Head on Generation (HOG) one power car in a formation will be eliminated.
- o This process is happening in snail speed need to be expedited.

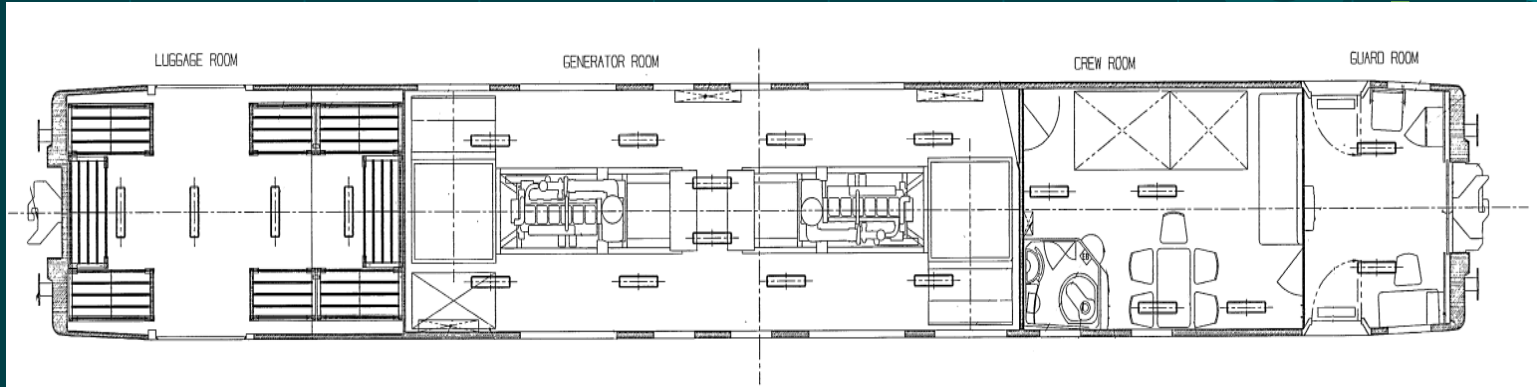
## Introduction of Rake on Generation (ROG)

Instead of existing power car, ROG coach with pantograph to collect power from OHE and electrical equipment under slung can be introduced.

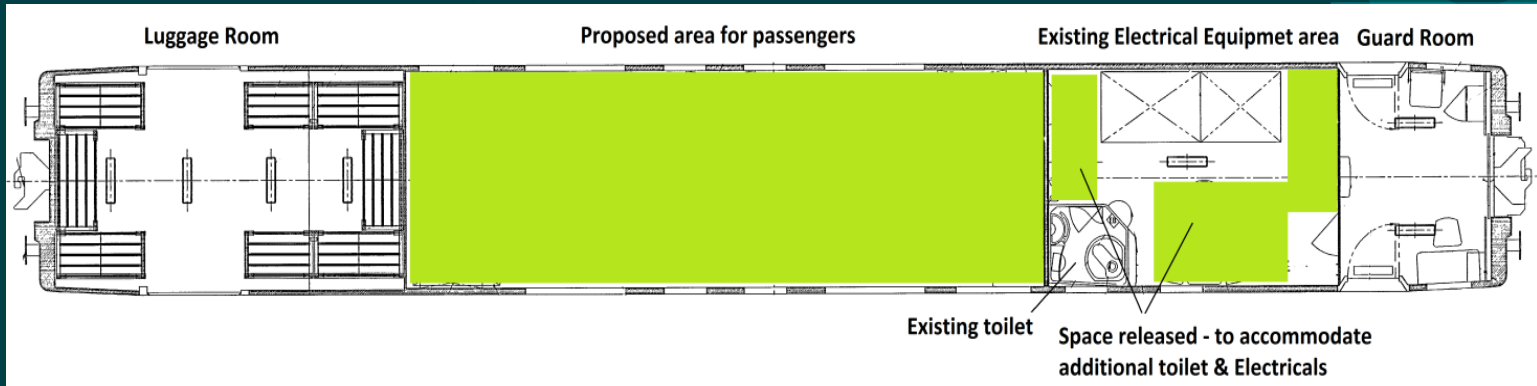


- In a train formation, both loco & ROG coach can draw power from OHE for the purpose of traction and for train electrical equipment respectively.
- This will release 6 passenger bays in existing LHB power car, which can accommodate 60 second class passengers or 48 sleeper class or 48 A/C 3 tier passengers.
- Other advantages - Less weight, less fuel cost, less pollution, less maintenance cost, energy saving, etc

# Existing Layout



# Proposed Layout



## Financial benefit on HOG & ROG



- 550 par of trains are operated with LHB coaches.
- By eliminating one power car because of HOG, one full AC 3 tier coach can be added.
- Instead of second power car one ROG coach can be added.
- Earning per passenger in AC 3 tier is Rs.1060.80
- **Indian Railways can earn Rs.3200 crore annually @ 90% occupancy.**

## 4. Introduction of Family / party Cabins in A.C 2 Tier, A.C 3 Tier & Sleeper

- 50% of berths in AC 2 tier, AC 3 tier & Sleeper coaches may be converted into cabins by providing light weight aluminium sliding doors.
- 15% can be charged more for these berths.

ADDITIONAL EARNING	
Class	Rs. In Crore
AC 2 tier	280
AC 3 tier	749
Sleeper Express	1047
Sleeper Ordinary	11
<b>Total</b>	<b>2087</b>



## 5. Increase the fare of sleeper class by 25%

### शयनयान SLEEPER CLASS

- Sleeper class is very widely used convenient class of IR.
- Around 36 crore passengers used sleeper class in 2017-18.
- Sleeper class accounts for 69% of total reserved passengers.
- Comparing the comfortness with road transport sleeper class is very much under charged.
- Tamil Nadu provides cheap & better road transport.
- A comparison between IR's sleeper class fare & non-AC bus fare between Chennai and Madurai (distance 500km) is given in the table in following slides.
- It is observed that IR's sleeper class is very much under charged.

# Comparison of non AC bus & IR's Sleeper fare between Chennai & Madurai

शयनयान  
SLEEPER CLASS

Type of Transport	Fare	Type of fare	% to TNSTC fare
TN State Transport bus non AC	Rs.460	Fixed	0%
Private Road Transport non AC	Rs.600	Goes up to Rs.1200	30% to 160%
Private Road Transport recog. by Govt non AC	Rs.740	Mostly Fixed	61%
IR Sleeper mail & Express	Rs.285	Fixed	-38%
IR Sleeper super fast	Rs.315	Fixed	-31%

## Continued

## शयनयान SLEEPER CLASS

- High demand between Channai & Madurai - Pandian Express (12637) one of the popular trains between Chennai & Madurai holds the history of running with 100% occupancy for many decades on all days.
- People are forced to travel in road with much higher fare because of gross inadequacy of berths in sleeper class.
- Yet IR is not able to increase number of trains/berths.
- Many inter-city routes are having inadequacy of berths .
- By charging less, Railway don't earn sufficient fund to enhance number of trains/berths.
- LHB formation has improved safety, comfort & speed, but it has marginally reduced the passenger capacity of a train.

## Continued



शयनयान  
SLEEPER CLASS

- In 2017-18, IR suffered a huge loss of Rs.9313 cr due to sleeper class.
- It is mainly due to non-revision of passenger fare since 2014.
- Staff productivity was improved by 9.18% since the last passenger fare revision.
- Fare of this popular class of IR can be increased by 25% to compensate the loss to some extent.
- **IR can generate Rs. 3500 cr additionally.**

## 2<sup>nd</sup> class, ordinary classes & EMU Suburban

- Operational losses of 2<sup>nd</sup> class, ordinary classes & EMU suburban class in 2016-17 is 30,000 cr.
- 2.13 cr passengers uses these classes on every day.
- Real common man class of travel, offered at cheapest rate.



Class	No of passengers carried in crores	% to total Number of passengers	Earning per passenger km in paise
<b>2nd class</b>			
2nd class (Mail)	105.0	12.64%	29.80
2nd class (Ordinary)	207.5	24.98%	20.80
<b>Suburban</b>			
1st Class (Ordinary)	27.4	3.30%	
2nd class (Mail)	0.1	0.01%	
2nd class (Ordinary)	439.0	52.85%	18.16
<b>Total</b>	<b>779.1</b>	<b>93.78%</b>	

## Continued

- Operational losses in sub-urban & ordinary Classes are not due to staff cost.
- Ratio of staff cost to total expenses (average) in various Metro Railways of Japan is given in table.



### Ratio of Personnel Costs and Expenses of Japan Metro operators (Avg)

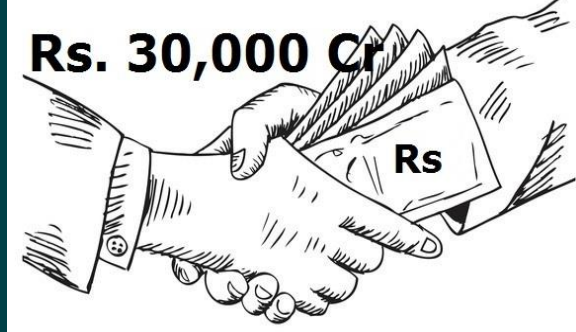
Cost of tracks	34%
Cost of electric circuits	50%
Cost of rolling stock	44%
Cost of train operation	75%
Cost of station duties	53%

Source: Japan International Cooperation Agency study report for Mumbai Metro line-3

In Indian Railways Staff cost (excluding pension outgo) constituted 41.3% of the working expenses in the year 2017-18.

Hence staff cost can not be the reason for operational losses.

## Central & State Govts to compensate Railway's losses in common man classes



- Losses in second class passenger business may be compensated by central & state Governments equally.
- **State Governments may pay in proportion to the usage originated from their state.**
- **EMU sub-urban losses may be compensated equally by respective state Government & centre.**
- This is justified, when state Governments are ready to invest hugely in Metro rail projects.

# CHAPTER-II CONCESSION TO PASSENGERS IN INDIAN RAILWAYS

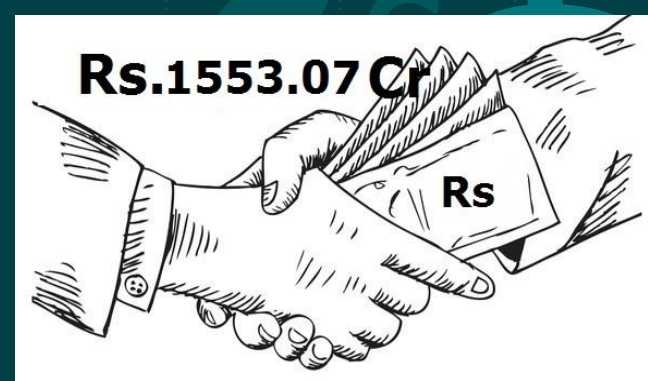


## Concessions offered by Indian Railways

- 53 categories of passengers are offered concession at different rates.
- Concessions are extended to Disabled, patients, senior citizens, awardees, war widows, students, youths, Kisans, artists, sport persons, medical professionals, persons with monthly income not exceeding Rs.1500, delegates for certain all India conferences, Bharat Sewa Dal, volunteers of service civil international, teachers on educational tour, members of St. Jhon Ambulanc, etc.
- **Extension of concession is purely Central Govt's policy & decision.**

## Continued

- Annual concessional value  
Rs.1553.07 cr is entirely due to  
the socio economic policy of Govt of India.



### Value of average annual concessions offered by IR

Senior Citizens	Rs. 1298.11 cr	83.58%
All other concessions	Rs. 254.69 cr	16.42%
<b>Total</b>	<b>Rs. 1553.07 cr</b>	

- Central Govt may compensate the loss of IR on  
account of concessions by 100%.

## Value of Privilege pass/PTO

- o CAG report included privilege pass/PTO in its study on concession extended to citizens on various categories.
- o CAG report said that IR had forgone average annual revenue of Rs.919.75 cr
- o Privilege pass/PTO are not concession, but statutory conditions of service as framed by President of India while framing Railway Service (Pass) rules.
- o Similar travel facility is extended to all Govt staff in the form of Leave Travel Concession (LTC)
- o **In 2016-17 value of LTC extended to CG employees is Rs.996.46 cr.**

## Suggestions in a Nut shell (Earnings within Rly)

### Suggestions to earn additional revenue in passenger business

1	Abolition of AC 1 <sup>st</sup> & 1 <sup>st</sup> Class & replacing them with AC 3 tier	Rs.272.7 Cr
2	Abolition of Pantry cars by 70% & replacing them with AC 3 tier	Rs.1,400 Cr
3	Abolition of power cars & introduction of HOG & ROG	Rs.3,200 Cr
4	Introduction of Family / party Cabins in A.C 2 Tier, A.C 3 Tier & Sleeper	Rs.2,087 Cr
5	Increase the fare of sleeper class by 25%.	Rs. 3,500 Cr
	<b>Total</b>	<b>Rs.10,459.7 Cr</b>

## Suggestions in a Nut shell (Compensation by Govt)

### Revenue losses in passenger business to be compensated by Central & State Governments

1	Compensation by Central & State Governments for the losses in 2 <sup>nd</sup> class, ordinary classes & EMU classes	Rs.30,000 Cr
2	Compensation by central Government for various concession extended in various categories	Rs. 1,553.07 Cr
	Total	Rs.31,553.07 Cr

# Thank You

For suggestions & improvements

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