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**FINANCIAL ANALYSIS OF INDIAN RAILWAYS: A REVIEW****ASMA KHAN****ASST. PROFESSOR****DEPARTMENT OF MANAGEMENT STUDIES****SHOBHIT UNIVERSITY****MEERUT****NAWAB ALI KHAN****PROFESSOR****DEPARTMENT OF COMMERCE****ALIGARH MUSLIM UNIVERSITY****ALIGARH****ZIAUDDIN KHAIROOWALA****PROFESSOR****DEPARTMENT OF COMMERCE****ALIGARH MUSLIM UNIVERSITY****ALIGARH****ABSTRACT**

*This paper shows a review of earnings-expenses relationship of Indian Railways. The paper is focused on total earnings including freight, passengers and other earnings. The ordinary working expenses, depreciation-reserve-funds and appropriation-to-pension-funds are included in gross working expenses. The study covers the period of twelve years (from year 2000-01 to year 2011-12) and discusses ups and downs within this era. Further, the study applies operating ratio and net profit ratio to show the financial performance of Indian Railways.*

**KEYWORDS**

financial analysis, Indian Railways.

**1. INTRODUCTION**

Indian Railways (IR) consist a widespread network controlled by single management, separate both ministry and annual budgetary. Further, it is also considered as Asia's largest and world's fifth largest railway network after United States of America, Russia, China and Canada [1]. The IR plays an integrated role in socio-economic development of the country. IR not only occupies a distinct position in the socio-economic map of the country but also it is considered as a vehicle and barometer of country's financial growth [2]. IR is considered as primary mode of transportation for long-haul freight movement, long distance passenger traffic, and mass rapid transit in suburban areas. Freight and passengers are considered as key business operations. In spite of its key business, IR is also engaged in numerous linked services including parcel, catering and production units. Nearly 70 % of IR's revenues come from the freight operations. Over the years, IR has predominantly become a bulk freight carrier, accounting for about 94 % of the freight revenue. Coal alone accounts for nearly half of the bulk traffic carried. Passenger business accounts for nearly 60 % of IR's total transport effort, in terms of train kilometres, but yield less than 30 % of the total revenues. Suburban services account for 57 % of the originating passengers, while contribute to only 8 % of the passenger revenue. With the wide spread network, IR carefully maintains its details of earnings and expenditure through an established accounting system [1-2].

In last decade, several authors have viewed the financial performance of Indian Railways differently [3-9]. Sunny and Upadhyay [3] have evaluated the financial performance of zonal railways from 1966-1999 in terms various growth factors (i.e. aggregate output growth, factor input growth, partial productivity growth and total factor productivity growth). In this study, they have concluded that the overall performance does not show much improvement. Though, various restructuring schemes have been initiated in the recent years to improve its efficiency [3]. Veni and Ghosh [4] have studied the financial performance of railways. They found it positive in terms of gross traffic receipts, net traffic receipts, etc. The financial indicators of zone-wise analysis in their study specified that there are some financial imbalances among different zones and the financial performance of railways in Eastern, North-Eastern and Northeast Frontier Zones needs to be improved [4]. Gupta and Sataye [5] analyzed the factors that led to the turnaround of IR from low performing organization to high performance one. Literature on public sector turnaround provides the theoretical underpinnings. Enterprise turnaround is often assigned to managerial leadership; they found that environmental factors also contribute to the success. The implication of this study was that an organization's turnaround success needed to be put in a wider context [5]. Alivelu [6] analyzed productivity trends in IR in which it is shown that the technological progress must have been a very important factor leading to higher productivity [4]. Raghuram and Gangawar [7] examined the total earnings and total working expenses of IR till 2006-07. They also analyzed the operating ratio and found that operating ratio was 98.3 in 2000-01 reflecting a very poor performance but it sharply dropped down to 78.7 in 2006-07 [7]. Alivelu [8] overviewed the performance of the IR in terms of its output and employment during 1981-2008 for each decade. Asma and Khairoowala [9] recently analyzed the performance of IR deeply in which they have used 18 different ratios in which, it has been concluded that some ratios have shown better performance whereas some very poor. The purpose of this article is to show the analysis of only earnings and expenditures through two financial tools; operating ratio and net profit ratio as financial performance using these tools have rarely been evaluated in last decade. For this purpose, a twelve-year span (i.e. 2000-01 to 2011-12) is chosen. This paper is organized as follows. Section 2 focuses on total earnings of Indian Railways whereas section 3 deals with working expenditure of IR. The financial performance of Indian Railways using financial tools is discussed in section 4 and finally in section 5 the study is concluded.

**2. EARNINGS OF INDIAN RAILWAYS**

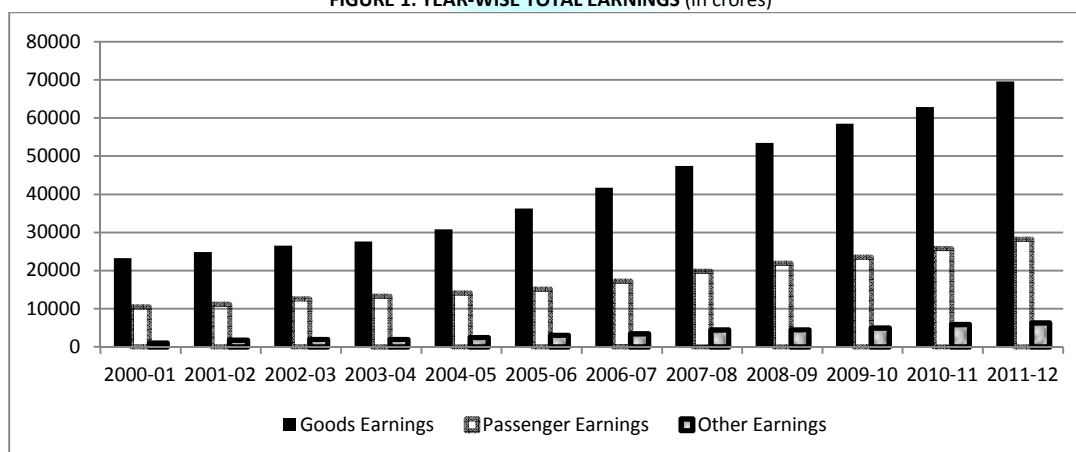
Table 1 shows the total earnings and their segregation since 2000. The earnings of IR mainly come from passengers and freight in which the freight constitutes the major share. On average, passenger trains constitute nearly ~70% of the trains run but contribute to less than ~30% of the revenue earned. Freight trains, on the other hands, constitute only ~30% of the trains, make up ~65% of the revenue [10]. Other earnings add to 5% in total revenue.

TABLE 1: TOTAL EARNINGS OF INDIAN RAILWAYS AND THEIR SEGREGATION SINCE 2000

Year	Total Earnings	Segregation of Total Earnings in crores and percentage					
		Goods Earnings	% of Total Earnings	Passenger Earnings	% of Total Earnings	Other Earnings	% of Total Earnings
2000-01	34880	23305	66.81	10515	30.14	1060	3.03
2001-02	37838	24845	65.66	11196	29.58	1797	4.74
2002-03	41068	26505	64.53	12575	30.61	1988	4.84
2003-04	42905	27618	64.37	13298	30.99	1989	4.63
2004-05	47370	30778	64.97	14113	29.79	2479	5.23
2005-06	54491	36287	66.59	15126	27.75	3078	5.64
2006-07	62732	41717	68.77	17225	28.39	3429	5.46
2007-08	71720	47435	66.20	19844	27.69	4440	6.19
2008-09	79862	53433	66.92	21931	27.46	4498	5.63
2009-10	86964	58501	67.27	23488	27.00	4975	5.72
2010-11	94536	62845	66.47	25792	27.28	5899	6.23
2011-12	104110	69548	66.80	28246	27.13	6316	6.06
Avg. →	63206	41901	66.28	17779	28.65	3496	5.28

Source: Indian Railways, Annual Reports and Accounts, Ministry of Railways, Government of India New Delhi.

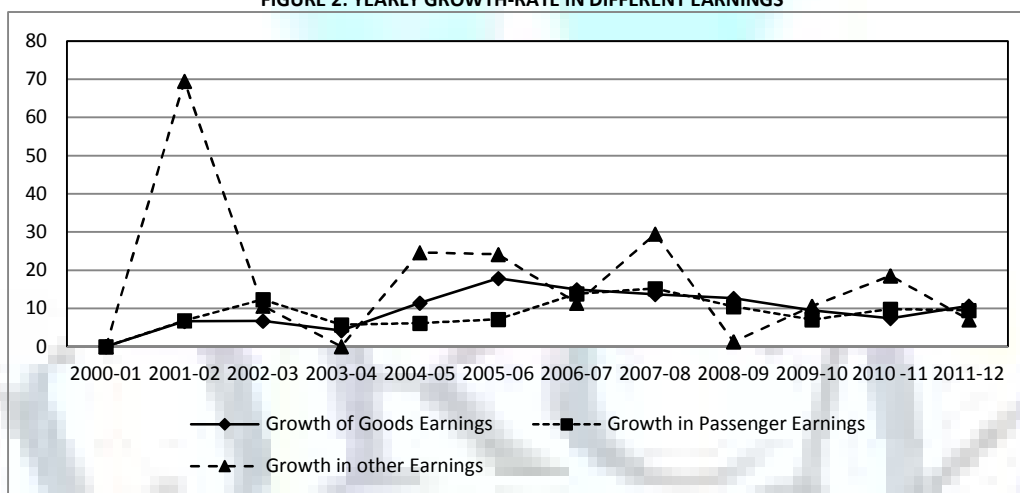
FIGURE 1: YEAR-WISE TOTAL EARNINGS (in crores)



Source: Indian Railways, Yearbooks, Ministry of Railways, Government of India, New Delhi.

Figure 1 shows a comparison of goods, passenger and other earnings which shows that the major portion of earnings comes from the goods follows by passengers and then by other sources. The rate of growth of each earnings is also computed and it is mentioned in Figure 2. The description of each earnings is described as follows:

FIGURE 2: YEARLY GROWTH-RATE IN DIFFERENT EARNINGS



Source: Indian Railways, Year book, Ministry of Railways, Government of India, New Delhi.

#### A. GOODS EARNINGS

It is clear from Figure 1 that the goods earnings generate the major portion of total earnings. Good earnings have increased 198% throughout the study period due to increase in the wagon loading capacity and by decreasing the wagon turnaround time. Also the IR extended the length of the railway sidings to allow loading and unloading to take place in short span of time. The IR also implemented the strategy of giving incentives to privileged customers in the form of various schemes (i.e. loyalty discount scheme, mini rakes to small customers, seasonal discount scheme etc.).

#### B. PASSENGER EARNINGS

IR plays an important role in the transportation of passengers. Passenger's earnings were increased by 169% throughout the study period because of the implementation of various strategies like increasing the speed of trains, adding more coaches to the existing mail express trains, up-gradation of passengers from lower class to higher class while travelling. Also there had been increase in charges for cancellation, more trains being made superfast with a reduction in time and thus imposing a superfast charge, booking tickets from an origin different from the place of reservation, separation of tickets if a through a journey involved more than one train or a break of journey.

The tatkal scheme, targeted at the 'last minute' passenger was extended first from one day to three days and then to five days. This offered an opportunity to increase earnings through differential pricing, based on the time of booking [11].

**C. OTHERS EARNINGS**

The other earnings come through parcel, catering, advertising, dividends from the public sector units under the ministry etc. This source of revenue had not received as much focus as in the earlier years, therefore not contributing much to the total earnings. But in recent years it has shown a great improvement and year after year its share in total earnings is rising due to few initiatives implemented by the Indian Railways on parcel business, catering and advertisement making it attractive for private parties to take advantage of the market opportunity [12]. From Table 1, the increment in other earnings is coming out to be 496% during last twelve years of study.

**TABLE 2: SEGREGATION OF TOTAL WORKING EXPENSES SINCE 2000**

Years	Total Working Expenses	Segregation of Total Working Expenses in crores and percentage					
		Ordinary Working Expenses	% of Total Working Expenses	Appropriation to Depreciation Reserve Fund	% of Total Working Expenses	Appropriation to Pension Fund	% of Total Working Expenses
2000-01	34667	27535	79.43	2301	6.64	4832	13.94
2001-02	36293	28703	79.09	2000	5.51	5590	15.40
2002-03	38026	29684	78.06	2401	6.31	5940	15.62
2003-04	39482	30637	77.60	2593	6.57	6253	15.84
2004-05	42759	33389	78.09	2700	6.31	6670	15.60
2005-06	45574	35030	76.86	3604	7.91	6940	15.23
2006-07	49047	37433	76.32	4198	8.56	7416	15.12
2007-08	54462	41033	75.34	5450	10.01	7979	14.65
2008-09	71839	54349	75.65	7000	9.74	10490	14.60
2009-10	82915	65810	79.37	2187	2.64	14918	17.99
2010-11	89474	68139	76.15	5515	6.16	15820	17.68
2011-12	98667	74537	75.54	6520	6.60	17610	17.84
Avg. →	56934	43857	77.29	3872	6.91	9205	15.80

Source: Indian Railways, Year books, Ministry of Railways, Government of India, New Delhi.

**3. WORKING EXPENSES OF INDIAN RAILWAYS**

Working expenses are directly related to the running of the railways and represent mainly the expenditure on operating expenses, repairs and maintenance of railway infrastructure, staff welfare and expenses relating to security and payment of interest component of lease charges. These are the first charge on railways revenues [13]. The most significant cost for Indian Railways is the staff expense (including salaries and pension) and it is continuously rising. The pension component of the staff expense is also growing since the number of retired staff is increasing. The second largest cost component for Indian Railways is fuel and energy, then lease charges, increasing due to a larger share of wagon stock being leased through IRFC and contribution to funds has also been on rise during the past few years [14]. Table 2 shows the segregation of total working expenses since 2000.

It is clear from Table 2 that the ordinary working expenses form major share of total working expenses. It was Rs 27535 crores in 2000-01 i.e. 79.43% of the total working expenses. The ordinary expenses continues to increase and reached to Rs 41033 crores in 2007-08 but its share in total working expenses fell to 75.34%. Then it keeps on increasing till it reaches to Rs 65810 crores in 2009-10 and its share once again reached to 79.37% after that its contribution to total working expenses decreased to 75.54% in 2011-12. Appropriation to Depreciation Reserve Fund was Rs 2301 crores and makes 6.64% of total working expenses in 2000-01 which declined to Rs 2000 crores and its share to 5.51% in the very next year. After that it started rising till it arrives at Rs 7000 crores in 2008-09. Unexpectedly in 2009-10 it reduced to just Rs 2187 crores. Its share in total working expenses was high of 10% in 2007-10 which came down to just 2.64% in 2009-10. Then it started rising and reached to 6.60% in 2011-12. The Appropriation to Pension Fund was Rs 4832 crores in 2000-01 and makes 13.94 % of total working expenses. There after it continue to increase and reached to Rs 17610 crores in 2011-12. Its share in total expenses keeps on rising and in 2006-07 reached to 15.12%. Afterwards it reduced for two years but again increased to 17.84% in 2011-12.

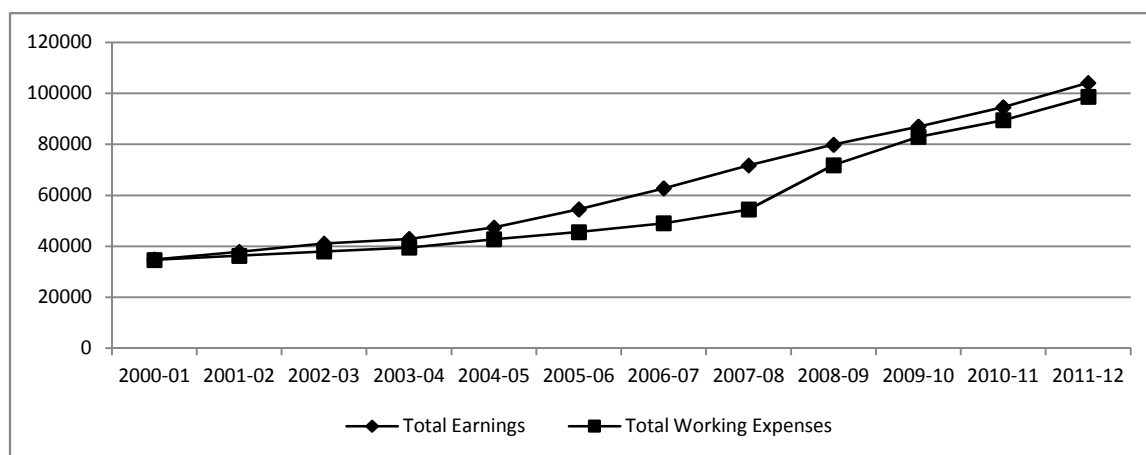
It is observed from Table 3 that the working expenses and total earnings have increased during the period of study. The total earnings have increased 198% during the study period whereas total working expenses were increased by 185%. A graphical representation of this is also given in Figure 3.

**TABLE 3: YEARLY VARIATIONS IN EARNINGS AND EXPENSES IN CRORES SINCE 2000**

Year	Total Earnings	% Increase or decrease (over previous year)	Total Working Expense	% Increase or decrease (over previous year)
2000-01	34880	----	34667	----
2001-02	37838	8.48	36293	4.69
2002-03	41068	8.54	38026	4.77
2003-04	42905	4.47	39482	3.82
2004-05	47370	10.41	42759	8.29
2005-06	54491	15.03	45574	6.58
2006-07	62732	15.12	49047	7.62
2007-08	71720	14.33	54462	11.04
2008-09	79862	11.35	71839	31.90
2009-10	86964	8.89	82915	15.41
2010-11	94535	8.70	89474	7.91
2011-12	104110	10.12	98667	10.27

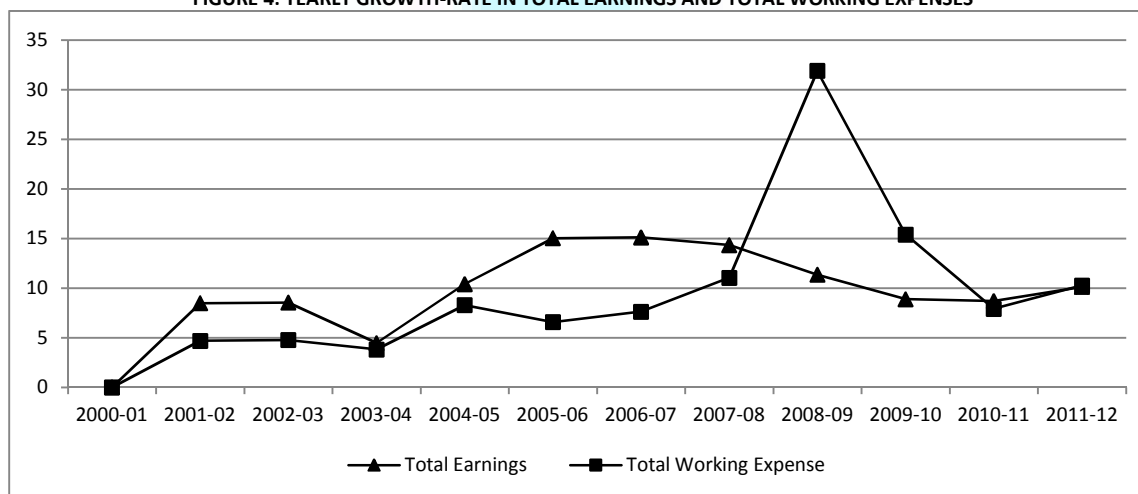
Source: Indian Railways, Annual Reports and Accounts, Ministry of Railways, Govt of India, New Delhi.

FIGURE 3: COMPARISON OF YEARLY TOTAL EARNINGS AND WORKING EXPENSES



Source: Indian Railways, Annual Reports and Accounts, Ministry of Railways, Govt of India, New Delhi.

FIGURE 4: YEARLY GROWTH-RATE IN TOTAL EARNINGS AND TOTAL WORKING EXPENSES



Source: Indian Railways, Annual Reports and Accounts, Ministry of Railways, Govt of India, New Delhi.

Figure 4 reveals that the working expenses increased from Rs 34667 crores in 2000-01 to Rs 54462 crores in 2007-08 registering an increase of 57%. In 2008-09, the working expenses sharply rose up by 31.90% over previous year. Further, there is a great fall in 2009-10 it is increased by just 15.41% over previous year. In 2010-11 the working expenses have increased by only 7.91%. There was a huge increment of 10.27% in 2011-12. Similarly, the total earnings are continuously increasing though not at a fast pace. The total earnings were increased to Rs 42905 crores in 2003-04 from Rs 34880 crores in 2000-01. Surprisingly, in next three years total earnings were increased by 10.41%, 15.03% and 15.12% due to the implementation of Lalu Prasad Yadav's strategies like market oriented tariffs, asset utilization, competition in container movement etc. After that the total earnings increased but at a decreasing rate due to slowdown of Indian economy. But again in 2011-12 total earnings of IR have shown improvement and rose up by 10.12%.

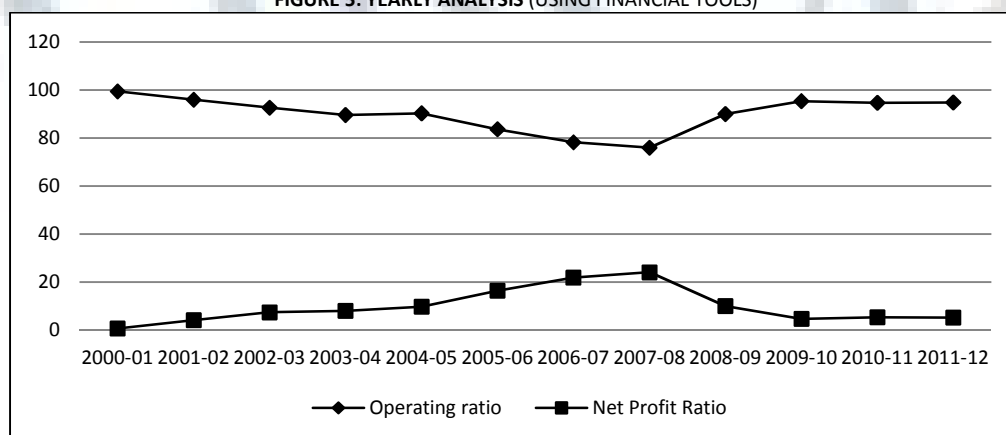
## 1. ANALYSIS THROUGH FINANCIAL TOOLS

### A. ANALYSIS USING OPERATING RATIO

Operating ratio matches working expenses plus other operating expenses on one hand with total earnings on the other. The ratio is closely related to ratio of operating profit to total earnings which can be obtained by subtracting the operating ratio from 100. The higher the operating ratio, the less favourable it is [15]. It is calculated by dividing the Total Working Expenses to Total Earnings.

$$\text{Operating Ratio} = \frac{\text{Total Working Expenses}}{\text{Total Earnings}} \times 100\% \quad (1)$$

FIGURE 5: YEARLY ANALYSIS (USING FINANCIAL TOOLS)



It is observed from Figure 5 that the operating ratio was 99.38 % in 2000-01, showing a relatively pitiable performance. After that it started improving till it reaches to 75.93% in 2007-08. But in the very next two consecutive years it has shockingly shoot up to 89.95 % and 95.34 % again reflecting very bad performance. Then it improves a bit but not up to the satisfaction level.

#### B. ANALYSIS USING NET PROFIT RATIO (NPR)

The relationship of net operating profit to gross earnings is established by this ratio and is expressed as percentage. This ratio shows the balance of profit left to proprietors, after all expenses are met. Higher the ratio higher will be the profit. This ratio assists the management in controlling costs and in increasing the turnover [16]. It is calculated as:

$$\text{Net Profit Ratio} = \frac{\text{Net Operating Profit}}{\text{Gross Earnings}} \times 100 \% \quad (2)$$

It is interpreted from Figure 5 the net profit ratio was just 0.61% in 2000-01 which shows the unpleasant condition of the organisation. However, then it maintained a good upward trend till it arrive at 24.06 % in 2007-08. Then, in very next year there was a great fall of 13.66 % because of increase in working expenses, investment and a sharp decline in reserves. Again, in 2009-10, there was a fall of 5.39 % and it reached to 4.65 %. Further, in 2010-11, it improved by just 0.7 % but in very next year it dropped by 0.13 %.

### CONCLUSIONS

This paper has provided an overview of the performance of Indian Railways in terms of its gross earnings and working expenses. It is found that the total earnings have increased at a faster rate than the total working expenses during the study period. As far as net profit ratio is concerned, it has showed a rising trend till 2007-08 and started declining after that showing a poor performance. Similarly, it has been observed that the operating ratio continuously declining till 2007-08 reflecting a very good performance but after that again started rising showing a pathetic performance. Hence, it is recommended that the gross earnings need to be increased as well as the working expenses need to be reduced for improving the IR operating and net profit ratios.

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