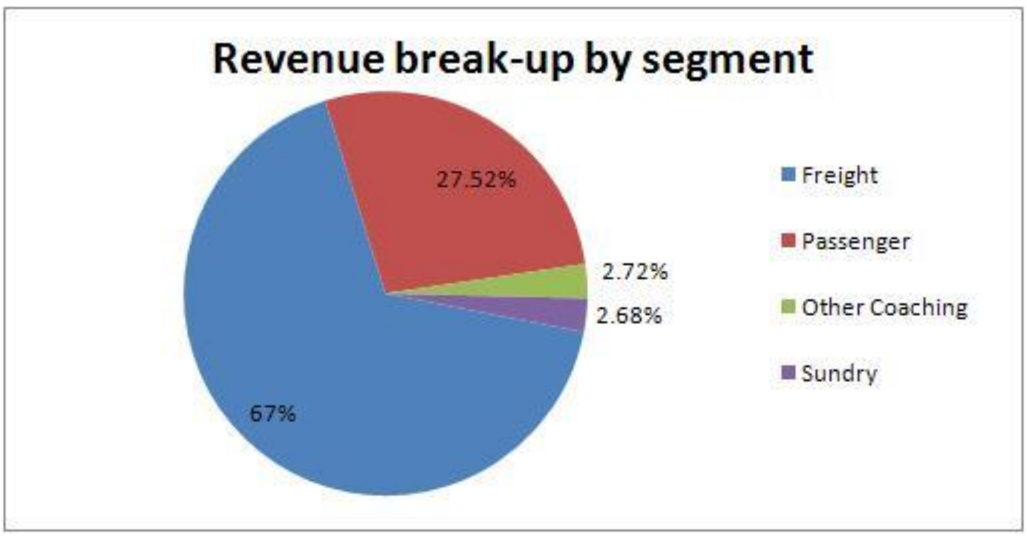
Government initiatives to provide fillip to Railways

August 09, 2017

Indian Railways is one of the world's largest rail networks spread over 115,000 km, with around 12,700 passenger trains and 7450 freight trains (approx) each day from around 7,170 stations plying 23 million travellers and 3 million tonnes (MT) of freight daily. India's railway network is recognised as one of the largest railway systems in the world under single management. The railway network is also perfect model for long-distance travel and movement of bulk commodities, apart from being an energy efficient and economic mode of conveyance and transport.

Indian railways earn revenues basically from freight and passenger. Freight remains the major revenue earning segment, accounting for 67.09 per cent of total revenues in FY16, followed by the passenger segment. Profits from the freight segment are used to cross-subsidise the passenger segment. Freight business for Indian Railway is supported by 9 commodities: coal, iron, steel, iron ore, food grains, fertilizers, petroleum products etc.

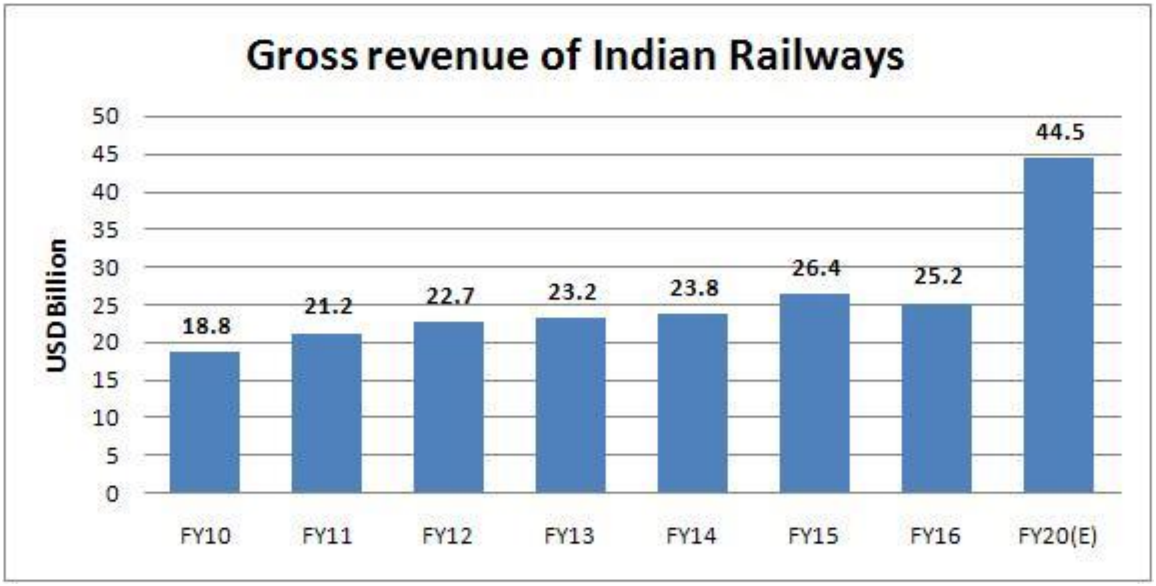


Current scenario

During FY 2016-17, the passenger traffic of Indian Railways grew 0.8 per cent to 8,219.38 million, with passenger revenue growth of 4.6 per cent at Rs 47,449.75 crore ($7.37 billion). The overall revenue of Indian Railways grew 8.7 per cent year-on-year to Rs 15,884.58 crore ($2.47 billion) during March 2017. The passenger earnings grew 10.1 per cent to Rs 4,205.29 crore ($652.90 million) and the freight earnings grew 4.1 per cent to Rs 10,273.20 crore ($1.60 billion) during March 2017. The revenue generated by the Railways is expected to grow at 10 per cent in the fiscal year 2017-18. As per Union Budget 2017-18 estimates the overall earnings will rise to Rs 189,498.37 crore ($28.42 billion) in 2017-18, compared to Rs 172,305 crore ($25.84 billion) in the fiscal year 2016-17.

Revenue during FY07-16 increased at a CAGR of 6.4 per cent to $25.2 billion in FY16, and is estimated to expand at a CAGR of 9.07 per cent to $44.5 billion by the end of FY20, led by improvement in the economy and increasing industrial activity. During FY07-16, revenues from the passenger segment expanded at a CAGR of 6.9 per cent, with the total revenue earnings in

FY16 totalling to around $6.9 billion. Indian Railways generated $16.9 billion in earnings from commodity freight traffic during FY16. Increasing carrying capacity, cost effectiveness, improving quality of service will support the increment in the share of Railway in the freight movement from 35 per cent to 50 per cent by 2020.

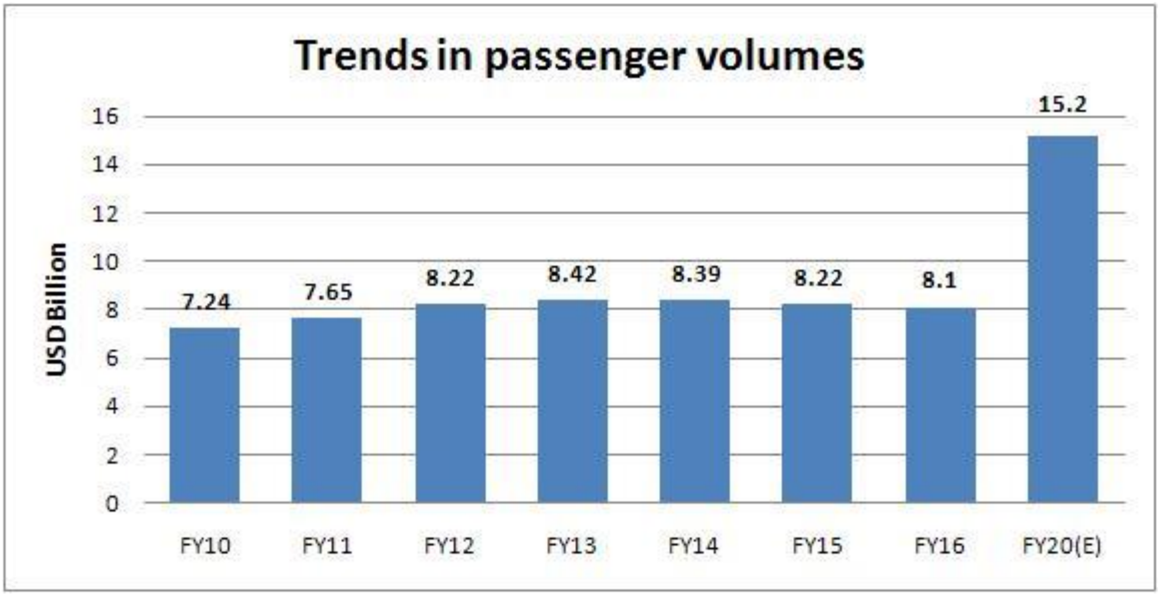


Passenger volumes witness healthy growth

Train travel remains the preferred means of long-distance travel for majority of Indians, a fact reflected by volume & growth of passengers over the years. Increase in the demand for passenger trains is supported by urbanisation, improving income standards, etc. During FY16, passenger traffic using Indian Railways reached 8152 million. Passenger traffic is expected to increase to 15.18 billion by FY20.

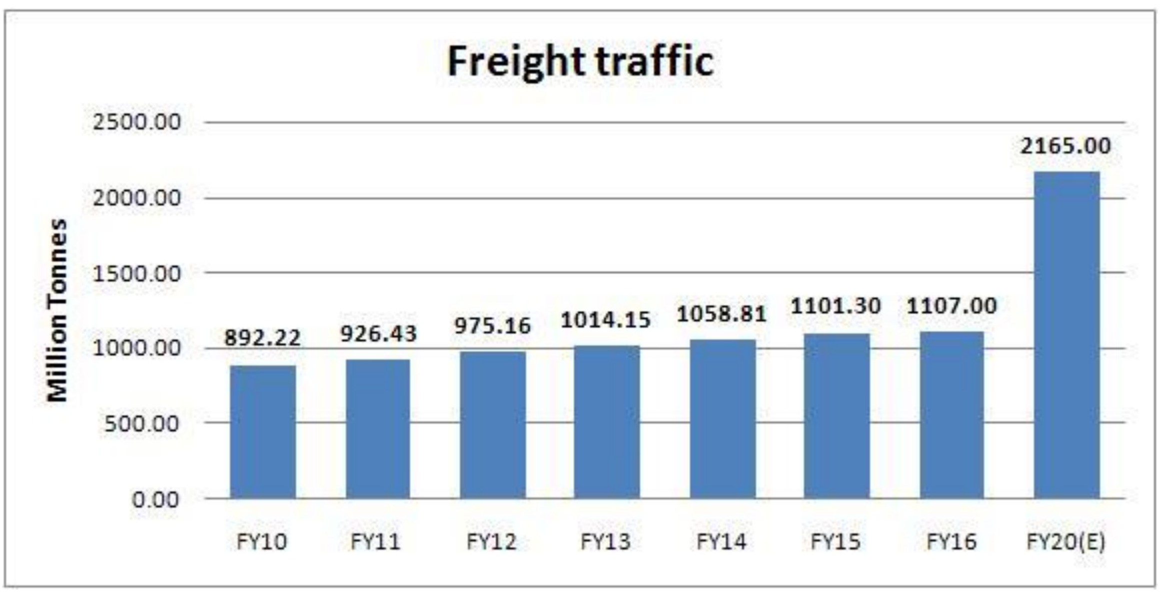
By 2020, Indian Railways is planning to achieve speed of 160 to 200 kmph from current level of 130 kmph or 110 kmph to reduce the journey hours between important stations. Meanwhile, suburban passenger booking in FY16 reached 4,459 million from 4,504 million in FY15. Non-suburban passenger volume in FY16 was recorded at 3,693 million.

The 12th Five-Year Plan estimates suburban & non-suburban passenger volumes to increase to 5.9 billion & 5.8 billion passengers, by FY17, respectively. Indian Railways is aiming to increase passenger boarding of suburban & non - suburban passengers at a CAGR of 6.8 per cent (cumulative) from 6,920 million suburban & non - suburban passengers in FY09 to 11,710 million passengers by FY17.



Strong growth in freight traffic

Indian Railways carried 1,107 million tonnes of freight traffic in FY16, from 1,101.30 million tonnes in FY15. Indian Railway estimates originating loading for freight business segment would increase to 2,165 MT by FY20. Coal is the leading commodity for the freight business segment (49.35 per cent of the total freight in September 2015).



Increasing role of private players in Railways

Railway projects in India have typically been in the public sector domain. Private players were involved in allied activities such as track laying & maintenance, maintenance of coaches & wagons, construction of bridges, stations, signalling & telecommunications works. In December 2012, the Cabinet approved the new policy of 'participative models for rail-connectivity & capacity augmented projects'. The policy addressed the issues of ownership of the railway line &

repayment of investment. Areas proposed for private investment during this period would include elevated rail corridor in Mumbai, some parts of dedicated freight corridor, freight terminals, redevelopment of stations & power generation/energy saving projects.

Indian Railways started the Public Private Partnership (PPP) mode of funding and already awarded projects which amounted to around $1.73 billion in the first 7 months of FY16. For FY17, PPP investment is expected to reach $2.7 billion as per the revised estimates. Setting up of MUTP-III is expected to begin in FY17 for which government is targeting an investment of $1.63 billion from the World Bank. The project would be executed by Mumbai Railway Vikas Corporation (MRVC). In January 2017, Indian Railways has signed a JV agreement with the Government of Jharkhand to develop the state's railway infrastructure.

Cheap Air travel set to eat Railways' business

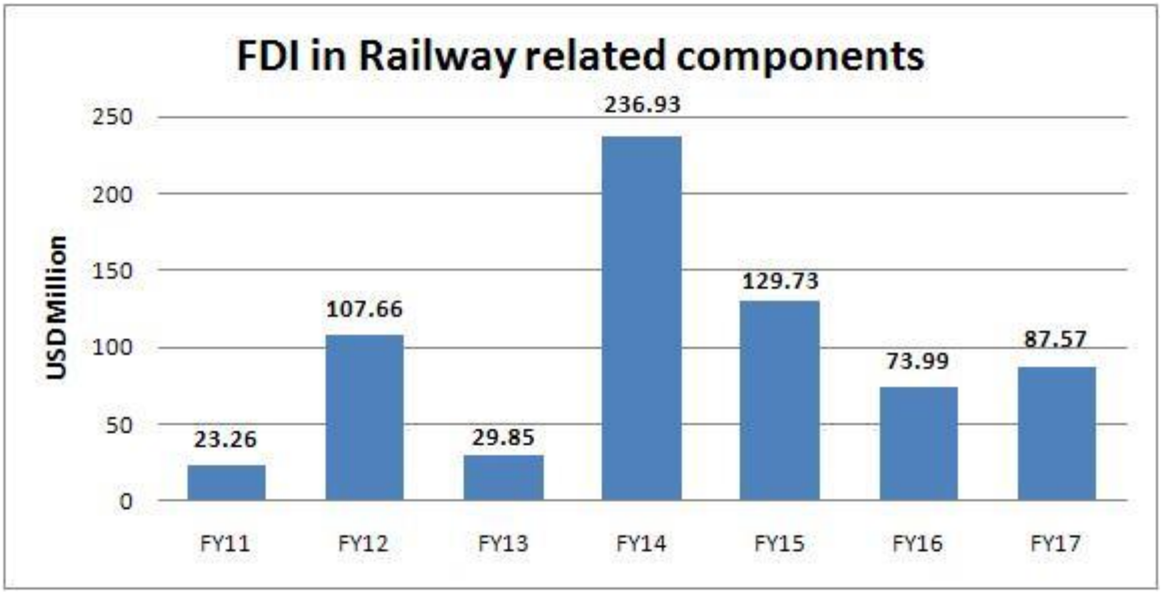
There are more than 25% of domestic air travel happened over inter-city distances within 500 km, a segment where previously the Railways cherished an unchallenged monopoly. Within the course of the next 3 years, domestic airlines in India is likely to eat Railways' business by overtaking the Rail travel as the country's most preferred mode of long-distance travel for middle and upper-class passengers.

Economical pricing and good quality passenger services are providing better edge for airlines over Railways. With the proliferation of airports into small towns and massive thrust of low-cost airlines to Tier-II and III cities, chances are extremely slim that the Railways can match up to this cut throat competition. Railways need to take up service up-gradation on an urgent basis to survive this strong competition from aviation sector.

FDI in railway related components

The Government of India has focused on investing on railway infrastructure by making investor-friendly policies. It has moved quickly to enable Foreign Direct Investment (FDI) in railways to improve infrastructure for freight and high-speed trains. At present, several domestic and foreign companies are also looking to invest in Indian rail projects.

The railway related components segment attracted foreign direct investments (FDI) to the tune of Rs 589.33 crore or $87.57 million in FY17, as compared to Rs 482.40 crore or $73.99 million in FY16. In FY15, the sector attracted FDI worth Rs 775.71 crore or $129.73 crore.



Recent developments

Govt approves setting up of Rail Development Authority

The government has given approval for the formation of an independent rail regulatory authority to determine tariffs ensuring fair play and level playing field for private players keen on investment in the railways. Considered to be the biggest and first-of-its-kind reform in the rail sector, setting up of Rail Development Authority (RDA) is meant to improve the services offered to passengers, provide comfort to investors and enhance transparency and accountability.

The RDA will be formed through an executive order of the government, according to the cabinet decision. It will make suggestions regarding policies for private investment to ensure reasonable safeguards to PPP investors and to resolve disputes over future concession agreements. RDA will also help the government to take appropriate decisions on pricing of services commensurate with costs, suggest measures for enhancement of non-fare revenue, protection of consumer interests, promote competition, encourage market development and create positive environment for investment.

Railways to consider land-pooling with states

Indian Railways' ambitious plan for the re-development of 400 stations for commercial use at an investment of about Rs 1 lakh crore is set to get a fresh lease of life as state governments are joining the initiative through a unique land-pooling method. In this regards, Railways will tie-up with the concerned state governments to pool their nearby unused land as part of the station development programme by forming joint ventures. The re-developed stations will provide amenities like digital signage, escalators, self-ticketing counters, executive lounges, restaurants, malls, theatres and Wi-Fi facility. Through commercialisation of vacant land, railways is targeting a surplus revenue of about Rs 10,000 crore on an annual basis. The national transporter has so far picked 23 stations across the country, which is expected to see investments worth Rs 9,000 crore in the first phase of station redevelopment.

The 23 stations that were up for grabs in the first phase, included Chennai Central, Ranchi, Udaipur, Indore, Yesvantpur, Bangalore Cantonment, Visakhapatnam, Howrah, Kamakhya, Faridabad, Jammu Tawi, Secunderabad, Vijayawada, Kozhikode and Bhopal. Habibganj station in Bhopal was allotted to Bansal Group in July 2016 while bidding process for Surat, Anand Vihar and Bijwasan are also under way. The total estimated cost of re-development of Habibganj station is Rs 100 crore and that of commercial development is approximately Rs 350 crore. The companies that are in the fray for Anand Vihar and Bijwasan include Tata Group, Shapoorji Pallonji, GMR, Essel Group, L&T, IL&FS, Mcnally Bharat, Supreme Infrastructure, Oriental Structure, Bhartiya group, MBL Infrastructure, ASF Infrastructure, Bansal Constructions, Bharti Realty, Ahluwalia and IRB Infra.

Railways to add 15,000 upgraded coaches to fleet by 2022-23

Indian Railways is planning to add 15,000 coaches with upgraded interiors and exteriors by 2022-23 and also planning to upgrade 25,000 more coaches. This will help the companies like Bharat Wagon & Engineering, Titagarh Wagons, BEML, Hindusthan Engineering & Industries, Texmaco etc. The interiors and exteriors of about 25,000 existing coaches would also be upgraded depending 'on the availability of required sanctions'. The up-gradation of coaches would result in a marked improvement in the overall ambience and enhanced passenger comfort. The upgraded coaches include aesthetically appealing toilet modules with enhanced amenities, modular panels without visible screws inside the passenger area, dustbins and fire extinguishers in all coaches, passenger address system and global positioning system-based passenger information system, enhanced number of charging points and light emitting diode (LED) lighting. Deployment of new coaches or refurbished coaches was generally done both for new trains as well as for existing trains depending on operational feasibility, maintenance practices, and passenger demand obtained at the time.

CAG slams Railways for delay in electrification projects

The Comptroller and Auditor General (CAG) came down heavily on the Railways for the delay in processing, assigning and completing the projects for electrification. It also said that the railways did not adopt the e-tendering system to reduce the tender processing period. The CAG in its report said it had done an audit on the 14 completed projects, 15 ongoing projects and seven new projects for detailed examination. In its report, the CAG said, 'The objective of saving time for deciding whether or not to take up a section for the railway electrification is not being fulfilled due to delays in processing the proposals and preparation of abstract estimates, which was up to 59 months in 24 projects'. The CAG report also pointed out that, variations of six per cent to 62 per cent between the abstract and detailed estimates indicated that the system of abstract estimates were hardly adding value to the process.

India signs agreement with Japan on rail safety

India signed an agreement with Japan on enhancing railway safety in the Indian Railways with focus on railway track and rolling stock safety. The Memorandum of Cooperation was signed on February 17, 2017. The areas of cooperation include rail inspection, rail wielding and providing automatic railway track safety inspection, maintenance of rolling stock and 'any other relevant railway safety matters jointly determined by both sides' with the aim to prevent major rail accidents. The agreement with Japan comes at a time when the train derailments are on the rise.

In 2016-17, the number of consequential train accidents remained the same level as last year at 95. While the unmanned level crossing accidents declined from 27 in 2016-17 to 16 this financial year, the derailments rose from 56 to 74.

Outlook

Indian Railways network is growing at a good pace and in next five years the Indian railway market is expected to be the third largest, accounting for 10 per cent of the global market. Government of India's Goods and Services Tax (GST) will bring a lot of opportunities to the railway sector in India. With the GST leading to an increase in inter-state transfers, railways will have advantage on long distance transportation. Several government initiatives like approval for setting up of Rail Development Authority will help railways. However, railways may face strong competition from cheaper air fares which started eating its business.

Companies Financial Data In Industry

Company Name	CMP	MCAP	BOOK VALUE	DIV. YEILD %	TTM EPS	TTM PE
Anup Malleables Ltd.	17.50	11.89	15.85	0.00	0.53	33.29
Cimmco Ltd.	79.85	160.89	84.41	0.00	-5.24	0.00
Texmaco Rail & Engineering Ltd.	90.30	1983.01	46.85	0.28	0.78	115.22
Titagarh Wagons Ltd.	114.50	1321.85	77.41	0.70	1.67	68.55

Sorted with TTM EPS (High to Low)

Source – Ace Equity