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A Study of Investment Strategy in Indian Railways: Pre, During and Post COVID-19 Pandemic

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ABSTRACT

Investment in Indian Railways should be an integral part of the plans for stimulating economic recovery after COVID-19 pandemic. As countries across the globe moved towards a “stay at home” approach in the face of COVID-19 pandemic, the first causality was the public transport sector. As India has suffered under the impact of COVID-19 pandemic, travel ban is imposed by government of India to prevent spread of pandemic. Indian Railways is operating only 9000 goods trains. All its 13500 passenger trains have been halted. Indian railways have stepped up to provide essential services to the population while at the same time bearing the considerable financial impact of the collapse in regular passengers and freight services. Indian Railways is the core element of Indian transport sector. It is one of the major contributors in the economy of the nation. Indian railways generate internal revenue primarily from passenger and freight traffic. Indian Railways have proved their strength in offering efficient cargo and freight services for large volume of goods using minimal human resources during the crisis. Investment is required in the right resources and technologies to maximize infrastructure capacity; this will help rail freight achieve its true potential. From supply chain perspective there is a scope to work at best to provide technology and innovation necessary to get through the socio-economic storm provoked by COVID-19 pandemic. The current study is descriptive in nature and is based on secondary data. It is purely focused on possible scope of investments in Indian Railways in post COVID-19 pandemic scenario that could help in recovery from losses during COVID-19 pandemic.

Keywords: COVID-19 Pandemic, Indian Railways, Investment Strategy.

1. Introduction

As countries across the globe moved towards “stay at home” approach in the face of COVID-19 pandemic, the first causality was the public transport sector. Indian Railways is the core element of Indian transport system. It is one of the major contributors in the economy of the nation. Indian Railways aspires to add 1.5% to the country GDP by building infrastructure to support 40% modal freight share of the economy¹ in the year 2017-18. Indian Railways rail network seems to be responding energetically in this crucial time. Indian railways have suspended all passenger trains on 22nd March 2020, the first time in its history². As India announced for a lockdown from the midnight of 24th March 2020, Indian Railways had announced suspension of all interstate, city, and metro trains. Indian Railways is operating only 9000 goods trains. All its 13500 passenger trains have been halted³. Indian railways have stepped up to provide essential services to the population while at the same time bearing the considerable financial impact of the collapse in the regular passenger and freight services. Indian railways have proved their strength in offering efficient cargo and freight services for large volume of goods using minimal human resources during the crisis. Amazon India has strengthened its partnership with the Indian Railways to transport consignments via rail across the country. The company is leveraging the COVID-19 Parcel Special Trains introduced by Indian Railways to ramp up its operations to 55 lanes during the lockdown period⁴. Indian Railways with the support of the Railway Board and zones across Western, Central, Northern, Eastern, South Central, Southern, South Eastern, North East Frontier, North Western and South Western have created a proactive solution to provide support for transportation during lockdown⁵. The Indian Railways has operated 1,565 ‘**Shramik Special**’ trains since 1st May 2020, and ferried more than 20 lakh migrants for going back to their villages. For this purpose, UP, Bihar and Madhya Pradesh allowed 837 trains, 428 trains and more than 100 trains respectively⁶.

Investment is required in the right resources and technologies to maximize infrastructure capacity; this will help rail freight achieve its true potential. From supply chain perspective there is a cope to work at best to provide technology and innovation necessary to get through the socio-economic storm provoked by COVID-19 pandemic⁷.

Indian Railways is going to need more investment as our economic continues to grow and meeting the monetary demand is the main concern. In Indian Railways context, the main challenge is how to generate more money and recovery from losses during COVID-19 pandemic which creates positive impact on economic growth of our nation post COVID-19 pandemic.

1.1 Pre COVID-19 Pandemic Scenario in Indian Railways: Indian Railways is one of the largest networks in the world. The Indian Railways route length is spread over 115,000kms with 12,617 passenger trains and 7,421 freight trains each day from 7349 stations carrying 23 million travelers and

¹ <https://www.investindia.gov.in/sector/railways>

² <https://www.thehindu.com/society/how-the-indian-railways-is-reinventing-itself-in-the-time-of-covid-19/article31424345.ece>

³ <https://www.orfonline.org/experts-speak/public-transit-in-post-covid-19-india-where-do-we-go-from-here-64735>

⁴ <http://m.economics.com/small-biz/startups/newsbuzz/amazon-india-to-use-covid-19-parcel-special-trains-by-indian-railways-amid-lockdown/articleshow/75405410.cms>

⁵ <http://m.economics.com/small-biz/startups/newsbuzz/amazon-india-to-use-covid-19-parcel-special-trains-by-indian-railways-amid-lockdown/articleshow/75405410.cms>

⁶ <https://www.rediff.com/news/report/20l-migrants-ferried-through-shramik-trains-till-date/20200519.htm>

⁷ <https://www.railwaygazette.com/policy/rail-investment-is-vital-to-post-covid-19-recovery-say-associations/56323.article>

3 million tons of freight daily⁸. Indian Railways is ideal for long-distance and movement of bulk commodities, apart from being an energy efficient and economic mode of conveyance and transport. Indian Railways is also the preferred carrier of automobiles in the country with loading growing 16% in 2017-18⁹. The government of India is focused on investing in Railways to improve infrastructure for freight and high-speed trains. Presently many foreign companies are also looking to invest in the growth story of Indian Railways. In recent few years Railways has been losing market due to other modes of transport, but now IR are expected to make a recovery with the dedicated freight corridors and various new lines are becoming operational.

Indian Railways generates internal revenue mainly from passenger and freight traffic. In 2018-19 the total contribution of passenger and freight traffic to internal revenue was 67% and 27% respectively¹⁰. The rest earning was from other services like parcel services, coaching receipts and sale of platform tickets. According to Ministry of Railways, up to February 2020 the earning from passenger services was approximately Rs 48,801 crore and this is Rs 7,199 crore less than revised estimates for passenger revenue. Based on this fact it can be concluded that much amount will have to be generated in March 2020 to meet the targets¹¹. Since there is a travel ban it took time to resume passenger services in Indian Railways and recovery from loss in passenger services seems to be an unreachable task. From freight services in 2020-21 Indian Railways expects to earn Rs 1,47,000 crore from goods traffic, an increase of 9% over the revised estimates of Rs 1,34,733 in 2019-20¹². According to Ministry of Railways up to February 2020, freight revenue was approximately Rs 1,08,658 crore which is less Rs 26,075 crore than the 2019-20 revised estimates for freight revenue¹³. This fact reveals that Rs 26,075 crore will have to be generated by freight traffic in March 2020 to achieve the revised estimated targets. Passenger services are completely banned in lockdown and only freight services are in operation. The revenue losses during COVID-19 pandemic can only be recovered by adopting efficient strategies, technologies, relief package by central government and flexible investment policies.

1.2 Research Problem

The investment in Indian Railways is segmented in 2 different categories- passengers traffic and freight traffic. The fluctuation in revenue due to lockdown situation during COVID-19 pandemic, passengers traffic completely got sink and only freight traffics are in operation to serve Indian population in the crucial condition during COVID-19. Indian Railways facing global challenge in sustaining revenue and increase passenger's traffic for economic growth. Therefore, this study is undertaken to investment enhancement post COVID-19 pandemic, their obstacle to penetrate investment strategy and find opportunity for revenue generation to contribute and improve our national economy.

1.3 Research Questions

This study attempts to find answers of the following questions:

- i) What are the possible paths through which losses can be recovered?

⁸ <http://news.railanalysis.com/contribution-of-railway-industry-to-make-india-a-5-trillion-usd-economy-by-2024/>

⁹ <http://news.railanalysis.com/contribution-of-railway-industry-to-make-india-a-5-trillion-usd-economy-by-2024/>

¹⁰ <https://www.prsindia.org/theprsblog/impact-covid-19-railway%E2%80%99s-finances>

¹¹ www.prsindia.org

¹² <https://www.prsindia.org/theprsblog/impact-covid-19-railway%E2%80%99s-finances>

¹³ www.prsindia.org

- ii) What changes are required in current service pattern of Indian Railways which can help in prevention from COVID-19 pandemic?
- iii) What new technologies, innovations and investments are required in Indian Railways which can bring back all odds-on track?

2. Literature Review

Kher Samita & Shende P.N. (2013), looked the preferences of investors during investment and facts revealed that investment depends on income. Income always leads to enhance propensity to spend and upgrade propensity to invest or both.

Sanchari Roy Mukherjee (2017), in her research studied provisioning of Indian railways infrastructure through modes of state finance, market finance or public- private partnership. She concluded that the reordering of infrastructural priorities led pressure on Indian railways to raise capital support from internal sources and this did not reduce dividend and other associated obligations. She has drawn out an important fact that for railways services in India to be restored to competitiveness and for their infrastructural potential to be fully realized, through financial review and reforms are therefore needed.

Perry Ahmad Sajjad & Kadakol A.M. (10.21474/IJAR01/2825) in their research article titles "Should Indian Railway be Privatizes" tried to look into the problems faced by the Indian railways and what can be the solutions of those problems confronted by Indian Railways. They concluded that there is constant need for opening new Railway services in order to meet transport needs and Indian Railways is the backbone of the nation. They suggested that there is a need of technology that can be installed or used in order to enhance speed of rolling stock and passenger trains. As government has no enough funds to invest in the expansion plans hence it should make the railways attractive for the private investors who can take up different projects and invest in them.

Nagaraj H. & Venkatesh raj (2015), they studied the different investment classes and their special feature and found different risks and returns under their study. Bhatnagar K. Vinod (2013), studied that the investment behavior of the investors, information influencing investment decision and preferred avenues of investment to investors and found that the investors want to invest in Life Insurance Corporation for tax benefits.

3. Objectives

- i) To study the Investment Strategies of Indian Railways.
- ii) To find out the pre COVID-19 pandemic impact on Indian Railways investment Strategy.
- iii) To find out the post COVID-19 pandemic impact on Indian Railways investment Strategy.

4. Research Methodology

This research begins with analytic induction to gather data and information from previous reports of Indian Railways investment patterns. This study is descriptive in nature and based on secondary data. The required data for the purpose of study collected from recent articles, websites, Magazines, Journals and online portals.

5. Data Analysis

5.1 Investments: Indian Railways are among the world's largest rail network. In March 2020 the Indian Railways route network is spread over 1, 23,236km with 13,452 passenger trains and 9,141 freight trains from 7,349 stations¹⁴. The Indian government has focused on investing on railway infrastructure by making investor friendly policies. For the improvement of infrastructure for freight

¹⁴ <https://www.ibef.org/industry/indian-railways.aspx>

and high-speed trains Foreign Direct Investments is enabled in Indian Railways¹⁵. At present several domestic and foreign companies are looking to invest in Indian rail projects.

5.1.1 Pre COVID-19 pandemic Investments in Indian Railways: FDI inflows into Railways Related Components from April 2000 to December 2019 stood at US\$ 1,070.93 million. Major investments in Indian Railways are as follows

Year	Project
November, 2019	Pilot project was launched to study the feasibility of using Railways parcel service for e-tail players.
November, 2019	Procurement cum Maintenance Agreement with Madhepura Electric Locomotive Pvt. Ltd.(MELPL), a joint venture of Indian Railways and France-based Alstom to manufacture 800 electric locomotives for freight and its associated maintenance.
October, 2019	Indian Railways launched One Touch ATVM for fast ticketing at 42 Suburban Stations of Central Railway.
October 2, 2019	Khurja-Bhadan section of eastern corridor in Uttar-Pradesh to be formally opened for traffic.
July, 2019	Longest electrified tunnel built between Cherlopalli and Rapuru stations.
April-August, 2019	24,493 bio-toilets were installed in trains
May, 2018	IRCTC introduced Alternate Train Accommodation Scheme (ATAS) which aims to provide confirmed berths in alternate trains to waitlisted passengers.
December, 2018	France - based Alstom announced plans to augment its coach production capacity at its facility in Sri City from 20 cars per month to 24 cars per month. Also, it will set up a new production line to increase capacity to 44 cars per month by the end of 2019.
December, 2018	Prime Minister of India laid foundation stone for the third phase of the Pune metro

Source: Press Release, Department of Industrial Policy and Promotion, Press information Bureau, Media Reports, Railways Budget 2019-20, Indian Railways.

5.1.2 Government Initiatives Pre COVID-19 pandemic:

Year	Initiatives
2020-21	Minister of Railways have been allocated Rs 72,216 crore
February, 2019	Indian Railways decided to launch food packets with QR codes and live kitchen feed.
	The speed is been raised to 160 kmph on Delhi- Mumbai and Delhi Howrah routes by 2022-23. The passenger trains have got approval to raise 60% increase in average speed

¹⁵ Indian Railways Budget Report 2019-20

2019	DFCCIL is already building the first two freight corridors- Eastern Freight Corridor from Ludhiana to Dankuni (1,856 km) and Western Freight Corridor from Dadri to Jawaharlal Nehru Port (1,504 km)- at a total cost of Rs 81,000 crore
December, 2018	Government of India is considering a High-Speed Rail Corridor project between Mumbai and Nagpur.
November, 2018	Indian Railways is planning to come out with a new export policy for railways.
	Government of India is going to come up with a 'National Rail Plan' which will enable the country to integrate its transport and develop a multi-modal transportation network.
	A 'New Online Vendor Registration System' has been launched by the RDSO, which is the research arm of Indian Railways, in order to have digital and transparent systems and procedures.
	The Government of India has signed an agreement with the Government of Japan will help India in the implementation of the Mumbai- Ahmedabad high speed rail corridor along with a financial assistance that would cover 81% of the total project cost.

Source: Press Release, Department of Industrial Policy and Promotion, Press information Bureau, Media Reports, Railways Budget 2019-20, Indian Railways.

5.2 During COVID-19 pandemic: A nationwide lockdown was announced to combat COVID-19 pandemic. Since travel ban keeps on extending further after first lockdown by Indian Government, Indian Railways finance for both 2019-20 and 2020-21 get severely affected¹⁶. All passenger trains are suspended and only goods services have been continuing with train's carrying essential commodities to various parts of the country¹⁷. Indian Railways has made parcel van available for quick mass transport for e-commerce activities and other customers including state government to transport certain goods¹⁸. Freight services of Indian Railways continue the generation of revenue. Some goods that Railways transports such as cement which contribute 8% of Railways Freight revenue still transporting during lockdown¹⁹. Besides running freight services, Indian Railways has also been performing out several other actions to help deal with the pandemic. Indian Railways manufacturing capacity is being used to deal with COVID-19 pandemic. Production facilities available with Railways are being used to manufacture PPE, medical beds, medical trolley and ventilators. Indian Railways has also providing bulk cooked food to needy people at places where IRCTC base kitchens are located. Indian Railways also opened up its hospitals for COVID patients. On April 6, 2020, 2,500 rail coaches had been converted into isolation coaches. On an average 375 coaches are being converted in a day across 133 locations in the country²⁰. Considering that Railways functions as a commercial department under the Central Government, a question arises that whether Railways should bear these social costs. The NITI AAYOG (2016) has noted that there is a lack of clarity on the social and commercial objectives

¹⁶ www.thehindu.com

¹⁷ www.indianrail.gov.in

¹⁸ <https://www.prsindia.org/theprsblog/impact-covid-19-railways%E2%80%99s-finances>

¹⁹ <https://www.prsindia.org/theprsblog/impact-covid-19-railways%E2%80%99s-finances>

²⁰ www.prsindia.org

of Railways²¹. It may be a topic of discussion that such services could be considered a public good during pandemic or can be taken as an opportunity to increase revenue generation capacity.

5.3 Findings

Post COVID-19 pandemic Investments in Indian Railways (Proposed):

1. There is need of reorganization of passenger's segments, remodelling of freight business through technology and investment friendly policies.
2. There is need of investments in the field of technological advancement and infrastructure of supply chain in Indian Railways.
3. By diversification of freight traffic scheduled, assured and safe transit of bulk commodities can be done.
4. Investments can be welcomed for the expansion of manufacturing capacity of Indian Railways.

6. Conclusions

The current crisis of COVID-19 pandemic can be taken as an opportunity to create a new model that can help to sustain in conditions like this. IR shares 35% of freight traffic in transportation of bulk commodities like coal, iron, cement, food grains and these commodities are the main drivers of the economy²². Rail freight had started to show signs of marginal decline in the third quarter of 2019-20 due to deceleration in growth of core sectors of economy²³. Efficiency in freight operations and reorganization of passenger services will give IR the ability to achieve punctuality in freight operations and this can attract time sensitive cargo to rail services. IR can form a powerful supply chain with e-commerce firms and road logistic providers. IR should make its services more competitive and can become a preferred sector in Indian economy. Since the pandemic has severely impacted the transport sector, the government should consider investing in increasing the capacity of transport sector by creating jobs, allowing investors to invest for long term activities.

Suggestions:

- i) Automated ticket checking.
- ii) Time bound delivery of parcel goods and commodities can boost earnings of IR. Door to door cargo-based logistics by IR is also an option.
- iii) Flexible fare policy like airplane can be extended to all kind of trains. This can be done to improve earnings.
- iv) IR can cut their cost to offer competitive services.
- v) IR holds huge lands at prime locations and has infrastructure like hospitals that should be monetized. This can be a holistic approach in recovery from loss.
- vi) IR can develop standard operating procedures for all types of situations including pandemics.

²¹ <https://www.prsindia.org/theprsblog/impact-covid-19-railways%E2%80%99s-finances>

²² <https://www.globalrailwayreview.com/article/99820/indian-railways-covid-19-opportunity-overhaul/>

²³ www.globalrailwayreview.com

- vii) Augmentation of rail network (with speed potential 160-200 km/hr) in high density corridors, especially on golden quadrilateral routes (which carry 55% of the total traffic of Indian Railways), this will reduce overcrowding of trains.
- viii) Expansion of suburban railways in metropolitan cities.
- ix) Switching completely to e-payments
- x) Investment in Railways, especially through the private route can be considered an important area for generating revenue.
- xi) Railway production units can produce masks, sanitizers.

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