Press Release

Indian Railways is on the right track to reform

Rs 30,000 Cr PPP to stimulate private sector investments, boost 'Make in India' initiative

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According to Acuité Ratings, the Rs 30,000 Cr first-ever PPP scheme in passenger rail operations rolled out by Indian Railways (IR), is all set to stimulate much-needed private sector investments in India and give a boost to the 'Make in India' programme. Importantly, we believe that the entry of private operators will provide an opportunity for Railways to strengthen its operating efficiencies over the longer term. If the new PPP mechanism is implemented well, it can enable higher outlay on core infrastructure upgradation in railway networks and also reduce the burden on fiscal resources.

Suman Chowdhury, Chief Analytical Officer, Acuité Ratings said, *"The PPP model is not new to the infrastructure sector and has been successfully deployed over the last two decades to attract private enterprise in the construction, operation, and maintenance of highways, ports, and airports in the country. The experience in the road sector has largely been favourable except for a portfolio of delayed projects, which had been impacted by land acquisition problems. Even in the Union Budget 2019, the government advocated the PPP model to develop rail infrastructure; adding that an investment of Rs 50 Lakh Cr till 2030 was required to plug the gap. This announcement of first-ever PPP scheme of Rs 30,000 Cr will be a good way to initiate the much needed reforms in the railway sector."*

In the global context too, private participation in train services has worked well for advanced economies like the USA and EU, the two regions with the largest railway networks. In countries like Canada and Brazil, railway operations remain largely with the private sector. The rail network in South America would be a lot smaller than it is today if several governments had not taken the bold step to invite private participation in the 1990s.

In the opinion of Acuité Ratings, **there are three fundamental advantages that will accrue from the PPP in railway passenger services. One,** it will address the long-standing demand for better quality customer services and also bridge the gap between demand and supply in the passenger segment. IR had an average supply deficit of 8% and a peak summer deficit of over 13% in FY20. We believe that there is a latent demand for premium, short duration, and rapid rail transport services for sub 1,000 km distances. This segment is likely to develop and grow in India and also compete with domestic air travel which has seen steady growth in traffic volumes over the last decade. The private operators are expected to introduce advanced and clean technology, which will not only reduce transit time and provide "world-class experience" to the passengers but will also enhance safety levels and lower maintenance costs.

Secondly, it is expected to improve IR's overall efficiency of operations, with the cash flows from the private operators more than offsetting any possible losses of higher value customers. This will further reduce the burden on the government to provide substantial budgetary support to the railways, which has only an average operating surplus of 2% and also help them to allocate more funds to upgrade core infrastructures such as rail tracks, signal systems, and bridges.

Finally, the PPP is likely to spur new private sector and even foreign investments in the railroad segment where many domestic and global players will be keen to establish a foothold. We also expect it to give a significant push to the government's 'Make in India' initiative as the required locomotives and coaches are likely to be manufactured in the country.

Notwithstanding the positives, effective implementation of the programme will be the key to its success. Though currently a small step in the right track of reform, well-drafted contractual agreements and adequate clarity in the sharing of risks, will be important to sustain this initiative.

Added Suman Chowdhury, *"For the scheme to be effective, the Indian Railways needs to work out various details including how to accommodate the new high-speed private trains in the overburdened rail network. The government should also explore the formation of an independent regulator to oversee the management of disputes between the private operator and the railways. However, these are unlikely to pose any major challenges in the initial stage as private participation is only limited to the introduction of 150 new trains, a mere 5 percent of the nationwide passenger rail operations. Hopefully, this will kick-start a new era in the history of Indian Railways."*

About Acuité Ratings & Research Limited:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in BKC, Mumbai.

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