Business Standard

Railways' capex meets targets, likely to remain at the same level

Despite not getting any additional outlay in the Budget 2025, Railways officials are not worried since their spending numbers sit well with Budget Estimates (BE) for FY25

Subhomoy Bhattacharjee | New Delhi

(Photo: Shutterstock)

Finance ministry mandarins were pleasantly surprised to discover how well spending numbers for the Indian Railways sit with the Budget Estimates (BE) for the financial year ending 2025. Despite Ministry of Railways not getting a jump in their capital expenditure (capex) estimates for FY26, the numbers were a vindication of an expenditure pattern that began two years ago.

The detailed demand for grants by the ministry of Railways for the financial year ending March 2026 shows that expenditures on key investment streams including rolling stock, line renewals and station development will be almost flat from their FY25 levels. The aggregate capex of the Railways is Rs 2.52 trillion in FY26, the same level from FY25. This, however, will not worry key suppliers to the Railways as their order books continue to be full. In February 2023, the Railways placed their largest-ever order for 84,000 wagons. Those supplies are still being delivered and it will likely be difficult for the Railways to place more orders in the next fiscal.

The same is the case for a related sector — metro transportation, which comes under the ministry of urban development. The Bengaluru metro had placed orders for 206 train sets. As of February this year, only two sets will have been delivered from Titagarh Wagons. The order books of other railway equipment manufacturers show a similar pattern of high orders as well as pending deliveries.

In FY24, to bring in transparency and long-term planning in the capital investments of the Railways, the government had issued an unusual document to the Railway Board. The Memorandum of Meeting was issued in early July to bind the Board to a detailed plan of how it would spend the Rs 2.4 trillion allocated in Budget FY24 for capex, and that the funds would work like a rolling budget over more than one financial year.

"The document is a first-time exercise and we could replicate the model with other ministries when capital expenditure budgets become so huge," said a government official aware of the development.

The reasons for the exercise were two-fold. One, the expenditures were allocated with a time horizon stretching beyond one year. Two, the sums as finalised in the document were not to be changed. This had become necessary as the actual outcomes compared to the BE for each year were often substantially lower.

The revamping exercise was done by developing a new arrangement, the Memorandum of Minutes or MoM. The document was finalised after several meetings of the Board members with the finance ministry at the Centre and the Niti Aayog. The MoM went into granular detail, ensuring the budget for each zone, division and the corresponding departments was drafted in these meetings. The money was matched to the level of outcome sought to be achieved, with no wiggle room to change the course of action.

The complaint against this approach predictably came from the user ministries. It also made the task of the Board harder. On the flip side, however, it has pushed the Railways to give up trying to bridge its expenditure mismatch. In FY22 for instance, Rs 15,310 crore of capex had remained unspent, as a CAG audit had pointed out. The money was used to make up for deficits in the revenue expenditure.

This is not to say there has been no easing up of expenditure. For instance, the spending on rolling stock, which is expected to reach Rs 46,251.7 crore in FY25, is projected marginally lower at Rs 45,530.15 crore for FY26, the Detailed Demand for Grants shows. Yet as the purchase price of these items has been already pencilled in, annual fluctuations are not likely to be significant.

The ministry has also made provisions to meet its interest liabilities. The expenditure budget shows the payment of "capital component" for leased assets will reach Rs 27,904.65 crore in FY26, up from Rs 20,741.37 crore in FY24, a 34.5 per cent growth in just two years. "Indian Railways has witnessed a steady rise in capex allocations over the past five years, reflecting clear focus on modernization and expansion. With the government's consistent push on Railway capex, there is a rising industrial capacity to supply goods and services for electrification, signaling, track expansion, and modern rolling stock. As a result, it is understood that about Rs 1.92 lakh crore (about 72%) of the 2024-25 budgeted capex has been spent by January 2025. Another indication of industry confidence is seen in the valuation and share prices of most railway related companies, which continue to exhibit investor confidence", said Davinder Sandhu, Co-Founder and Chair Primus Partners.

Where the Railways have made no allowances for inflation is in laying of new lines and gauge conversion. In August 2024, the Cabinet Committee on Economic Affairs approved eight projects for new railway lines which will cost approximately Rs 24,657 crore, with a long timeline through FY31. These projects will build 900 kilometres of track across seven states: Odisha, Maharashtra, Andhra Pradesh, Jharkhand, Bihar, Telangana, and West Bengal. The budget for this for FY26 is Rs 36,785 crore, almost the same as the revised estimate of Rs 35,994 crore for the current fiscal year.

As the Demand for Grants show, the Railways is now able to now spend the sum allotted for each of the major heads of capex expenditure within the same financial year, which is quite unlike what the CAG audit used to show till FY22. The money the Railways now has can be used adequately and judiciously: the trick in this budget and the next is to keep this momentum going.

First Published: Feb 11 2025 | 4:53 PM IST
Page URL :https://www.business-standard.com/economy/news/railways-capex-meets-targets-likely-to-remain-at-the-same-level-125021101365_1.html