

# Demand for Grants 2026-27 Analysis

## Railways

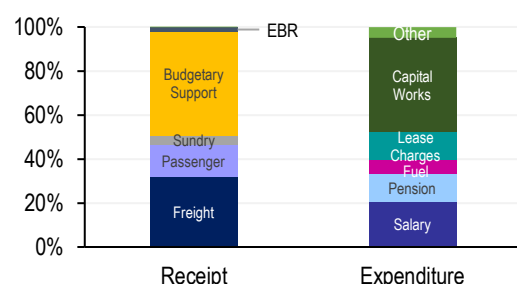
### Highlights

- Freight revenue cross-subsidises passenger services. Freight remains concentrated in coal and other bulk goods. Share of container services has remained small, although, has seen a slow increase.
- Operating ratio is above 98%, leaving little revenue surplus for capital works. 90% of revenue is committed to salary, pension, and lease liabilities in 2026-27. Implementation of the 8<sup>th</sup> Pay Commission recommendations may increase expenditure pressure.
- Capital expenditure has been sustained mainly through budget support. Performance indicators such as average speed of trains and efficiency of capital, have not yet shown significant improvements.

The Railways finances were presented on February 1, 2026, by the Finance Minister Ms. Nirmala Sitharaman along with the Union Budget. Indian Railways is a commercial undertaking of the central government. The Ministry of Railways administers Railways through the Railway Board.<sup>1</sup>

Expenditure of Railways is financed through: (i) its own internal revenue (mainly goods and passenger earnings), (ii) budgetary support from the central government, and (iii) extra-budgetary resources (includes borrowings, institutional financing, and public-private partnerships). Working expenditure including salaries, pension, and maintenance of assets is covered through its internal resources. The revenue after covering this expenditure is insufficient to fund capital expenditure (such as construction of lines, track renewals, and wagon procurement). Hence, capital expenditure is also supported by grant from the central government and extra-budgetary resources. This note looks at the proposed expenditure of Railways for 2026-27, and the state of its finances.

**Figure 1: Railways' internal revenue inadequate to finance its capital expenditure (2026-27 BE)**



Note: Lease charges – payments to Indian Railway Finance Corporation for leased assets. EBR: Extra-budgetary resources. BE: Budget estimates.

Sources: Expenditure Profile, Railway Statements, Union Budget Documents, 2026-27; PRS.

### Announcements in Budget Speech 2026-27

- East-West Dedicated Freight Corridor (DFC):** A new DFC, connecting Dankuni in West Bengal with Surat in Gujarat, has been proposed. It will integrate with the existing Western DFC, and will pass through Odisha, Chhattisgarh, Maharashtra, and MP.
- High-speed rail corridors:** Seven high-speed rail corridors have been proposed connecting major cities such as Mumbai, Hyderabad, Bangalore, Pune, Chennai, and Varanasi. These corridors are expected to span nearly 4,000 km and attract investments of around Rs 16 lakh crore.

### Budget Overview

- Revenue:** Railways' internal revenue for 2026-27 is estimated to be Rs 3.02 lakh crore. This is an increase of 8.4% over the revised estimate for 2025-26.
- Traffic revenue:** In 2026-27, 99.7% of revenue is estimated to be raised from traffic operations. 62% of traffic revenue is estimated to come from freight (Rs 1.89 lakh crore), and 29% from passenger services (Rs 87,300 crore). Revenue from freight and passenger services are estimated to increase by 5.8% and 9.1% over the previous year, respectively.
- In 2025-26, freight revenue is estimated to be 5.1% lower than budgeted. In the same year, revenue from passenger services is expected to fall short by 13.8% compared to budget target.
- Revenue Expenditure:** The total revenue expenditure in 2026-27 is estimated at Rs 2,99,500 crore, an increase of 8.1% over the revised estimate for 2025-26.
- Capital Expenditure:** In 2026-27, capital expenditure is estimated at Rs 2,93,030 crore, an increase of 10.5% over the revised estimate for 2025-26. Budget support from the central government is estimated at Rs 2,78,030 crore, financing 95% of the capital expenditure. Budget support in 2026-27 is estimated to be 10% higher than the previous year.
- Operating Ratio:** In 2026-27, operating ratio is estimated to be 98.4%. This is lower than the revised estimate for 2025-26 (98.8%). However, the ratio in 2025-26 is expected to be higher than the initial budget estimate (98.4%). Operating Ratio is the ratio of working expenses to traffic receipts. A lower ratio implies better profitability and availability of resources for capital spending.

**Table 1: Overview of receipts and expenditure of Indian Railways (Rs crore)**

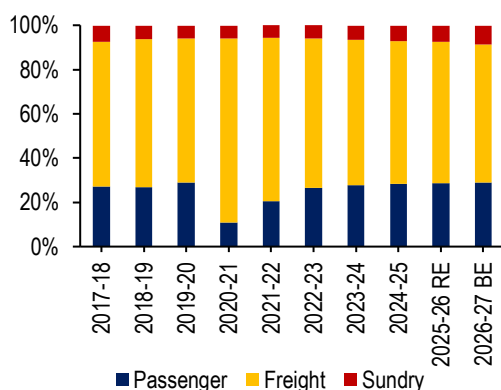
Sr. No.	Items	2024-25 Actuals	2025-26 BE	2025-26 RE	% Change (2025-26 BE to 2025-26 RE)	2026-27 BE	% Change (2025-26 RE to 2026-27 BE)
<b>Receipts</b>							
1	Passenger Revenue	75,368	92,800	80,000	-13.8%	87,300	9.1%
2	Freight Revenue	171,163	188,000	178,457	-5.1%	188,800	5.8%
3	Other Traffic Sources	18,583	20,600	19,800	-3.9%	25,600	29.3%
4	Gross Traffic Receipts (1+2+3)	265,114	301,400	278,257	-7.7%	301,700	8.4%
5	Miscellaneous Receipts	564	700	700	0.0%	800	14.3%
6	<b>Total Internal Revenue (4+5)</b>	<b>265,678</b>	<b>302,100</b>	<b>278,957</b>	<b>-7.7%</b>	<b>302,500</b>	<b>8.4%</b>
7	Budgetary Support from Government	252,324	252,200	252,200	0.0%	278,030	10.2%
8	Extra Budgetary Resources (EBR)	15,049	10,000	10,000	0.0%	12,000	20.0%
9	<b>Total Receipts (6+7+8)</b>	<b>533,051</b>	<b>564,300</b>	<b>541,157</b>	<b>-4.1%</b>	<b>592,530</b>	<b>9.5%</b>
<b>Expenditure</b>							
10	Ordinary Working Expenses	200,469	226,256	208,000	-8.1%	223,500	7.5%
11	Appropriation to Pension Fund	59,500	68,603	65,500	-4.5%	71,500	9.2%
12	Appropriation to Depreciation Reserve Fund	800	1,500	1,000	-33.3%	1,500	50.0%
13	<b>Total Working Expenditure (10+11+12)</b>	<b>260,769</b>	<b>296,359</b>	<b>274,500</b>	<b>-7.4%</b>	<b>296,500</b>	<b>8.0%</b>
14	Miscellaneous	2,249	2,700	2,500	-7.4%	3,000	20.0%
15	<b>Total Revenue Expenditure (13+14)</b>	<b>263,018</b>	<b>299,059</b>	<b>277,000</b>	<b>-7.4%</b>	<b>299,500</b>	<b>8.1%</b>
16	<b>Total Capital Expenditure</b>	<b>269,361</b>	<b>265,200</b>	<b>265,200</b>	<b>0.0%</b>	<b>293,030</b>	<b>10.5%</b>
17	<b>Total Expenditure (15+16)</b>	<b>532,378</b>	<b>564,259</b>	<b>542,200</b>	<b>-3.9%</b>	<b>592,530</b>	<b>9.3%</b>
18	<b>Net Revenue (6-15)</b>	<b>2,660</b>	<b>3,041</b>	<b>1,957</b>	<b>-35.6%</b>	<b>3,000</b>	<b>53.3%</b>
19	<b>Operating Ratio</b>	<b>98.22%</b>	<b>98.43%</b>	<b>98.82%</b>	-	<b>98.40%</b>	-

Sources: Expenditure Profile, Railway Statements, Union Budget Documents, 2026-27; PRS.

## Railways' Revenue

### *Two-thirds of Railway revenue comes from freight operations*

Railways earns its internal revenue through: (i) passenger train operations, (ii) goods train operations, and (iii) sundry revenue. Sundry revenue includes rent, catering, revenue from commercial utilisation of land, and advertisements. Freight revenue is estimated to constitute 62% of the total internal revenue in 2026-27. This is followed by earnings from passenger train operations at 29% and sundry revenue at 8%.

**Figure 2: Earnings from freight operations constitute the bulk of internal revenue**

Note: BE: Budget Estimates; RE: Revised Estimates.

Sources: Expenditure Profile, Railway Statements, Union Budget Documents, 2017-18 to 2025-26; PRS.

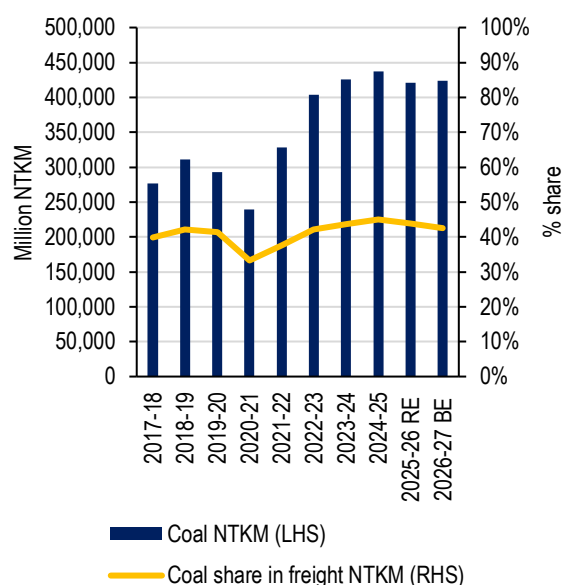
Between 2017-18 and 2026-27, freight revenue has contributed an average of 68% to total internal revenue, making it the primary source of revenue for Indian railways. As a result, financial performance of railways is sensitive to growth and margins in the freight segment. Between 2017-18 and 2026-27, freight revenue is estimated to grow at an annualised rate of 5.5%. During the same period, revenue from passenger services is estimated to grow by 6.7%.

### *High dependence on coal freight*

Coal continues to be the single largest contributor to Indian Railways' freight earnings. It is estimated to account for 48% of freight revenue in 2026-27, up from 44% in 2017-18.

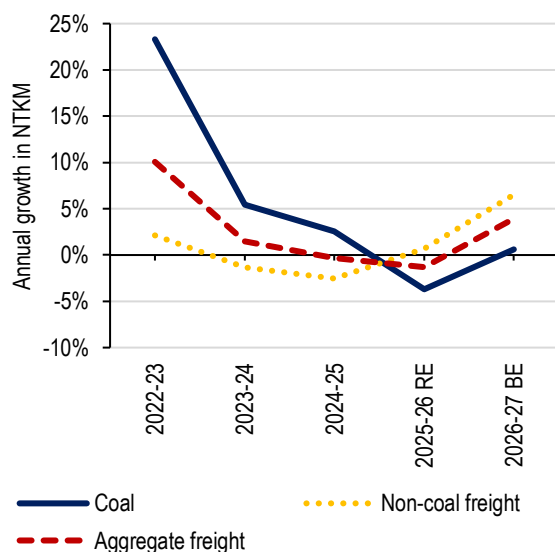
In 2022-23, Railways transported around 55% of the total coal evacuated in the country.<sup>2</sup> The Ministry of Coal (2023) is making efforts to increase this share to 75% by 2029-30.<sup>2</sup> In recent years, growth in coal freight has consistently outpaced growth in non-coal and overall freight (Figure 4). Between 2022-23 and 2026-27, coal freight is estimated to grow at an annualised rate of 1.2%, whereas all other freight traffic is estimated to grow at an annualised rate of 0.8%.

Coal consumption is projected to grow at about 3% per year until 2030, translating into a cumulative increase of over 200 million tonnes (MT).<sup>3</sup> These factors are likely to sustain coal-related freight volumes over the next few years.

**Figure 3: Coal freight in 2026-27 estimated to be 0.6% lower than 2023-24**

Note: NTKM – Net Tonne Kilometre (One NTKM is when one tonne of freight is carried for a kilometre).

Source: Part C: Revenue Earning Traffic Performance Targets, Railway Statements, Union Budget, 2019-20 to 2026-27; PRS.

**Figure 4: Growth in coal, non-coal, and aggregate freight**

Source: Part C: Revenue Earning Traffic Performance Targets, Railway Statements, Union Budget, 2022-23 to 2026-27; PRS.

The Standing Committee on Railways (2025) highlighted another opportunity for Railway freight in the coal-related value chain.<sup>4</sup> Coal-based power plants generate large quantities of ash, known as fly ash. To reduce environmental risks from unsafe disposal, the government has mandated the utilisation of fly ash. In 2021-22, about 96% (260 MT) of the fly ash generated in the country was utilised.<sup>5</sup> Cement and concrete industries account for about 30% of fly ash utilisation.<sup>4</sup> Currently, 99% of fly ash is transported by road.<sup>4</sup> Rail-based transportation of fly ash can be more economical

for bulk movement over long distances and is also more environment-friendly. The Committee observed that realising this potential would require addressing certain constraints. These include: (i) creating adequate unloading infrastructure at cement and other end-use plants, (ii) reducing rail freight tariffs to improve cost competitiveness, and (iii) acquiring wagons tailored for fly ash transportation.

Coal is predominantly used in the power sector in India, with 73% of the total coal consumption in 2025 being for electricity generation.<sup>6</sup> While power demand is expected to grow at an annualised rate of 5.7% between 2026-27 and 2031-32, the share of coal in India's the generation mix is projected to decline from about 70% in 2025 to 60% by 2030.<sup>5,6</sup> This reduction is based on environmental concerns and increased adoption of cleaner energy technologies. Coal demand in India is expected to peak between 2030 and 2035.<sup>7</sup> This presents a long-term revenue risk for Railways, given its heavy dependence on coal freight.

### ***Low contribution of non-bulk goods to freight revenue***

Indian Railways' freight revenue is skewed towards bulk commodities, which include goods such as coal, iron ore, cement, food grains, fertilisers, petroleum, and limestone. These commodities are expected to contribute 84% to freight earnings in 2026-27, roughly same as their contribution in 2017-18 (84%). The remaining share is represented by non-bulk goods, such as container freight, vehicles, fast moving consumer goods (FMCG), pharmaceuticals, and parcels. The contribution of container services, the closest proxy available for non-bulk goods, is estimated to increase from 4% of freight revenue in 2017-18 to 6% in 2026-27.

Rail freight charges are based on a minimum chargeable weight per wagon. The Draft National Rail Plan (2020; NRP) had observed that this makes rail transport less competitive for light cargo, as charges are also linked to wagon capacity rather than the actual weight carried.<sup>8</sup> It further noted that costs for first and last mile transportation, terminal handling and haulage makes rail transportation of these goods costlier than by road. Lack of timetabled delivery for most freight trains may also be limiting expansion into segments like e-commerce, parcel delivery and FMCG, where timely delivery is key.<sup>9</sup>

### Railways' schemes for promoting automobile freight

Transportation of automobiles through Railways has increased significantly in recent years. Automobile loading increased from 27,522 wagons in 2017-18 to 1,79,291 wagons in 2023-24.<sup>4</sup> India's largest car manufacturer, Maruti Suzuki, increased the share of its vehicle dispatches through rail from 5% in 2014-15 to 21.5% in 2023-24.<sup>10</sup> The following have contributed to this growth:

- **Automobiles Freight Train Operator Scheme (AFTO):** This scheme was launched in 2010 to permit private players to procure and operate special purpose wagons for automobiles.<sup>11,12</sup> Wagon owners charge customers market-determined rates for various services.<sup>13</sup>
- **Dedicated Gati Shakti Cargo Terminals (GCTs):** This scheme was launched in 2021 to encourage private investment in development of terminals for handling rail cargo.<sup>11</sup> Railways has approved proposals for 306 GCTs.<sup>14</sup> 118 GCTs have been commissioned with an investment of Rs 8,600 crore.<sup>15</sup> Between 2022-23 and 2024-25, freight revenue worth Rs 23,200 crore was generated by GCTs. In 2025, the country's largest automobile GCT was inaugurated at Maruti Suzuki India Limited in Manesar, Haryana.<sup>16</sup> It has a loading capacity of 4.5 lakh automobiles per annum.

### Operational efficiency is crucial for increasing freight revenue

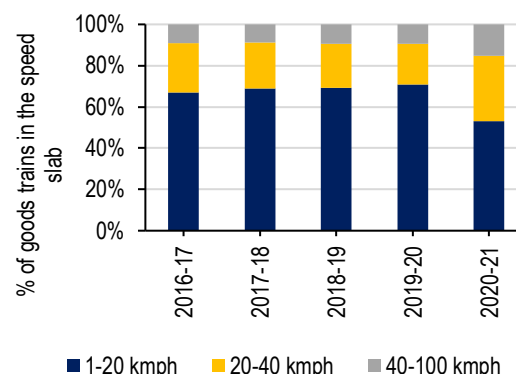
CAG (2022) noted that efficient management of wagons is crucial to achieving higher freight targets.<sup>17</sup> This includes matching wagon availability with demand, improving utilisation through better infrastructure, and ensuring timely maintenance.

Wagon turnaround (WTR) is the time between two successive loadings of a wagon. Between 2018-19 and 2023-24, WTR remained nearly the same at around five days.<sup>18</sup> In 2023-24, wagons travelled empty for 37% of the distance travelled.<sup>19</sup> Empty running of wagons is unavoidable on account of unbalanced nature and quantity of outward traffic and inward traffic. However, between 2018-19 and 2023-24, the percentage of distance run empty by wagons increased at an annualised rate of 0.6%. This could signify an increased wastage of transport capacity and loss of earnings.

Speed of goods trains is one of the vital indicators of efficient freight operations. Speed of goods trains is affected by factors such as crossings, crew changes, equipment failure, and congestion on routes. Railways has undertaken several measures to improve speed. These include developing dedicated freight corridors, multi-laning, deploying higher horsepower locomotives, shifting to higher-capacity air-brake wagons, upgrading workshops, and using Freight Operations Information System to manage and monitor freight movement across the network.<sup>17</sup> However, between 2016-17 and 2020-21, 65% of the goods trains travelled in the lowest speed range of 1-20 km per hour (kmph),

with around 11% trains travelling at more than 40 kmph.<sup>17</sup> In 2023-24, goods trains recorded an average speed of 25 kmph, marginally higher than 23.3 kmph in 2017-18.<sup>20,21</sup> NRP has set a target of increasing average freight train speed to 50 kmph by 2030.

**Figure 5: Majority of goods trains run on speeds between 1-20 kmph**



Source: Report No. 35 of 2022 – Volume II, CAG; PRS.

### Dedicated Freight Corridors (DFCs)

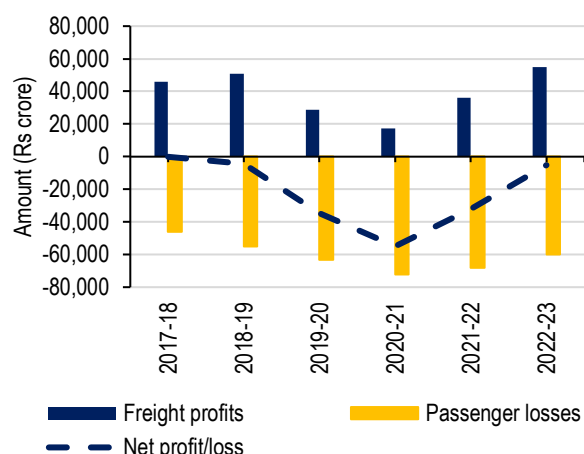
The Union Budget 2026-27 proposed a new DFC connecting Dankuni in West Bengal with Surat in Gujarat.<sup>22</sup> Two DFCs are currently operational: Eastern DFC (EDFC) and WDFC. The EDFC, spanning 1,337 km and fully commissioned, primarily carries coal and mineral traffic from Eastern India. The WDFC, spanning 1,506 km, of which nearly 93% is commissioned, is intended to move port-based traffic of western coast to the northern hinterland.<sup>4</sup> The DFCs were conceived to reduce transit time and logistics cost, and improve service reliability.

Freight traffic on DFCs has increased rapidly. Traffic rose from 22,389 million NTKM in 2022-23 to 111,898 million NTKM in 2024-25.<sup>23</sup> The average speed of freight trains on the DFC network was 38 kmph in 2023-24 and 37 kmph in 2024-25.<sup>4</sup> While this is higher than the average speed of freight trains on Railways' network (25 kmph in 2023-24), it remains well below the targeted average speed of 60-65 kmph on DFCs.<sup>24</sup> In 2024-25, EDFC handled about 198 trains per day, nearly twice its capacity of 100 trains per day.<sup>25</sup> The WDFC though remains underutilised, running 159 trains per day in 2024-25 against its capacity of 380 trains per day. DFCs face operational constraints such as shortage of locomotive pilots and guards, and congestion on feeder routes connecting to the DFCs.<sup>4</sup>

### Freight cross-subsidises passenger services

The Standing Committee on Railways (2025) noted that Railways has been able to maintain affordable passenger fares for the public primarily due to freight income.<sup>4</sup> In 2023-24, the subsidy on passenger services is estimated to be Rs 60,466 crore, covering about 45% of the cost of passenger travel.<sup>26</sup> As per the NRP, this inherent cross-subsidy has resulted in Indian Railways' freight charges being higher than its global peers.<sup>8</sup> Revenue from passenger services across most categories are unable to cover costs (see Table 2).



**Figure 6: Profit from freight unable to cover for losses from passenger services**

Source: Report No. 9 of 2025, Railway Finances, CAG; PRS.

**Table 2: Most passenger service categories register losses (figures in Rs crore)**

Class	2019-20	2020-21	2021-22	2022-23
AC- 1 <sup>st</sup> Class	-403	-719	-406	-245
1 <sup>st</sup> Class	-38	-43	-45	-95
AC 2 Tier	-1,378	-2,995	1,564	-561
AC 3 Tier	65	-6,500	-698	3,300
AC Chair Car	-182	-1,079	-473	-298
Sleeper	-16,056	-20,134	-17,038	-17,819
Second Class	-14,457	-17,641	-16,393	-16,357
Ordinary Class	-20,450	-11,438	-15,282	-17,077
Suburban	-6,938	-7,799	-8,316	-7,842

Note: Second Class refers to non-AC 2<sup>nd</sup> sitting class and Ordinary Class refers to general (unreserved) class.

Sources: Report No. 9 of 2025, CAG; PRS.

Except AC 3 tier in 2019-20 and 2022-23, all other classes of passenger services have observed losses in all four years between 2019-20 and 2022-23. AC 3 tier contributes about a third of passenger traffic earnings on 15% of passenger traffic volume (see Table 3 in Annexure). Losses in the passenger segment are classified as social service obligations of the Railways.<sup>27</sup> Indian Railways is a commercial undertaking of the government.<sup>1</sup> Therefore, the question arises whether a commercial entity must bear social costs. The NITI Aayog had noted that there is lack of clarity on the social and commercial objectives of Railways.<sup>28</sup>

Several committees have also emphasised the need to rationalise passenger fares to improve the financial sustainability of Railways.<sup>8</sup> The Standing Committee on Railways (2024) recommended a comprehensive review of Railways' operating expenses for passenger trains, and passenger fares.<sup>29</sup> It recommended rationalising them to reduce losses while also ensuring affordability of prices.<sup>29</sup>

Passenger fares were revised from July 1, 2025, after a gap of five years.<sup>30</sup> The increase ranged from half a paise to two paise per km for premium classes. Passenger fares were increased again in December 2025.<sup>31</sup> Ordinary class fares increased by one paise per kilometre for journeys beyond 215 km, while mail and express non-AC and AC classes saw an increase of two paise per kilometre. In contrast, despite rising input costs, Railways has not revised freight rates since 2018.<sup>30</sup> As per the NRP, freight charges are already considered high and any further increase could lead to a decline in traffic.<sup>8</sup> The Economic Survey (2025-26) noted that high freight rates distort competition with roads, inflate commodity and consumer prices, and logistics costs.<sup>32</sup> It observed that rationalising freight rates could improve revenue buoyancy, incentivise a modal shift of freight from roads to rail, and increase market share. It will also help in decongesting road space and decarbonising the transport sector.

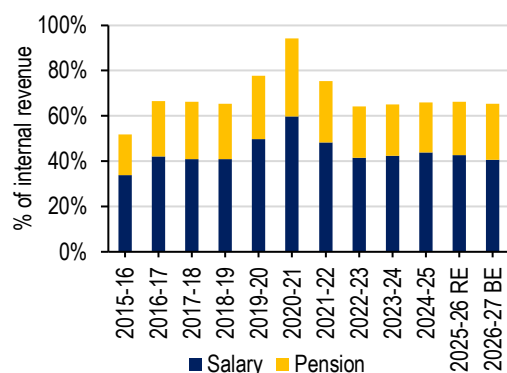
#### Mumbai-Ahmedabad High Speed Rail (HSR) Corridor

India is developing its first HSR corridor between Mumbai and Ahmedabad.<sup>33</sup> The 508 km corridor is being developed at a project cost of Rs 1.08 lakh crore.<sup>34</sup> About 81% of the project cost is being financed through a 50-year loan from Japan International Cooperation Agency, with the remaining cost funded by the Ministry of Railways and the state governments of Gujarat and Maharashtra. As of June 30, 2025, approximately 92% of the project cost has been incurred. The project began in 2017.<sup>35</sup> The Ministry of Railways (2025) noted that delay in land acquisition in Maharashtra impacted the project till 2021.<sup>36</sup> The first section between Surat and Bilimora in Gujarat is expected to be completed by December 2027. The full corridor is targeted for completion by December 2029. The Ministry of Railways (2025) also noted that HSR is a complex project and exact timelines can be reasonably ascertained after completion of all associated works and supply of trainsets.

## Railways' Expenditure

### *Two-thirds of Railways' internal revenue is committed towards salaries and pension*

A major share of Railways' revenue expenditure is budgeted towards staff salaries and pension. On average, Railways has spent 71% of its revenue on salaries and pension in the last 10 years. In 2026-27, 41% of the internal revenue will be spent towards staff salaries and 25% towards pension. Between 2017-18 and 2026-27, salaries and pension expenses have grown at an annualised rate of 5.9% and 5.7%, respectively. Internal revenue has grown only slightly higher, at an annualised rate of 6%, during this period.

**Figure 7: Spending on salaries and pension at about two-third of internal revenue**

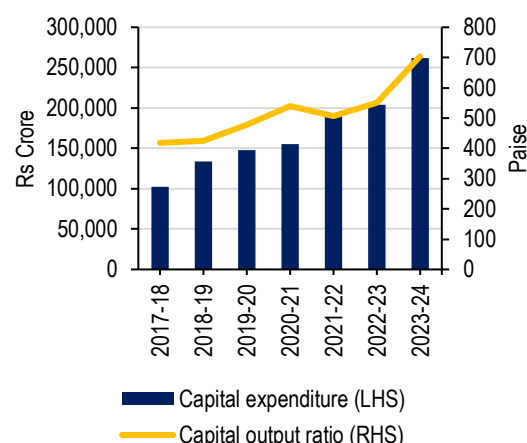
Note: In 2020-21, revenue declined due to impact of COVID-19 pandemic, resulting in higher ratios than usual.

Source: Expenditure Profile, Railway Statements, Union budget documents, 2017-18 to 2026-27; PRS.

The terms of reference for the 8<sup>th</sup> Central Pay Commission (CPC) were approved in October 2025. The revised pay structure is expected to take effect from January 1, 2026.<sup>37</sup> The implementation of the 7<sup>th</sup> CPC from January 1, 2016 increased Railways' expenditure by Rs 22,000 crore per annum.<sup>38</sup> Expenditure on salaries and pension rose by 26% between 2015-16 and 2016-17, leading to a deterioration in the operating ratio from 90.5% to 96.5%. During this period, the share of revenue spent on salaries and pension jumped sharply from 52% to 67%. The operating ratio of Railways is currently above 98%. Railways has limited flexibility to raise passenger fares or freight rates. Further, a high proportion of revenue is already committed to staff costs. This indicates less room to absorb increase in staff costs from the 8<sup>th</sup> CPC. Any such increase may affect spending on capital, maintenance, or other priorities.

### **Capital expenditure grew faster than earnings or other operational metrics**

Railways' capital expenditure grew at an average annual rate of 17% between 2017-18 and 2023-24, increasing from Rs 1,01,985 crore to Rs 2,62,217 crore.<sup>39</sup> Over the same time, total revenue grew at a much slower rate of 6.2%, from Rs 1,78,929 crore in 2017-18 to Rs 2,56,093 crore. The capital output ratio (COR), which measures capital employed per unit of traffic (in NTKM for freight and passenger traffic), rose at an annual average rate of 7.7%, from 418 paise in 2017-18 to 704 paise in 2023-24. Accounting for inflationary impact, this indicates that there was no improvement in the efficient use of capital. Factors such as cost overruns due to project delays and investments in financially unviable projects may have contributed to the higher COR. Despite the higher capital outlay, there has been no perceptible improvement in train speeds (see Figure 9).

**Figure 8: Railways is deploying more capital for generating one NTKM of traffic**

Source: Indian Railways' Year Books, Indian Railways; PRS.

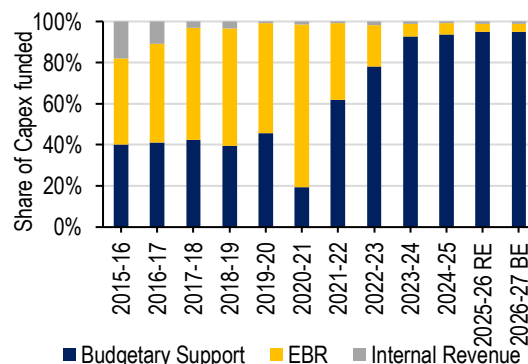
**Figure 9: Average speed of trains has remained at about the same level between 2017-18 and 2023-24**

Note: Railways operated fewer trains during COVID-19 pandemic, which reduced network congestion and allowed trains to maintain higher speeds.

Source: Indian Railways' Year Books, Indian Railways; PRS.

### **Capital expenditure sustained by a higher budget support**

In 2026-27, Railways has budgeted capital expenditure of Rs 2,93,030 crore in 2026-27. Since 2021-22, higher budgetary support from the central government is financing capital expenditure.<sup>40</sup>

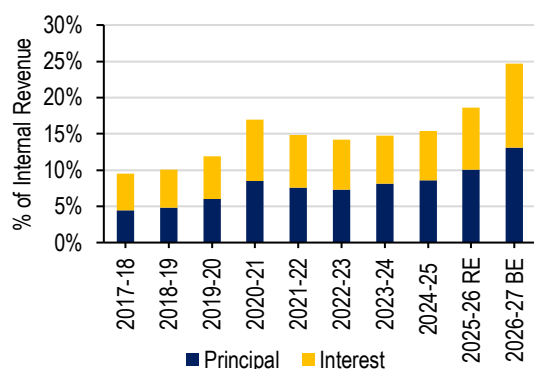
**Figure 10: Financing of capital expenditure**

Source: Expenditure Profile, Railway Statements, Union budget documents, 2017-18 to 2026-27; PRS.

### Increasing lease liabilities

Railways raises extra budgetary resources (EBR) through Indian Rail Finance Corporation (IRFC). IRFC borrows from market and follows a leasing model to finance the rolling stock assets. Outstanding liabilities raised by IRFC under the leasing arrangement are estimated to be Rs 4.3 lakh crore as of 2026-27.<sup>41</sup> In 2017-18, these liabilities were Rs 1.6 lakh crore. Lease charges have both interest and principal components. Expenditure on both principal and interest component of lease charges has increased over the last few years. Interest expenditure is estimated to grow from around Rs 9,000 crore in 2017-18 to Rs 35,130 crore in 2026-27. Expenditure on repaying principal amount is estimated to rise from Rs 7,980 crore in 2017-18 to Rs 39,650 crore in 2026-27. In 2026-27, total expenditure towards lease charges is estimated to be 25% of internal revenue, a significant jump from 19% in the previous year.

**Figure 11: Spending on lease charges payment to IRFC has risen**



Source: Expenditure Profile, Railway Statements, Union budget documents, 2019-20 to 2026-27; PRS.

### Low private participation in Railways

Railways has remained a publicly owned and operated system, given its strategic importance and public service role. Private participation has been pursued mainly through Public-Private Partnership (PPP) models and outsourcing arrangements. These include: (i) station redevelopment, (ii) construction of rail lines and connectivity projects, (iii) freight terminals and logistics infrastructure, (iv) rolling stock manufacturing and leasing, and (v) non-core services such as catering and cleaning.<sup>42</sup> Operations of passenger train services continue to remain with Indian Railways. In 2006, Railways began allowing private players to run container train for transportation of containerised cargo.<sup>43</sup> As of 2020, there were 18 private container operators in the country.<sup>44</sup>

Under the Amrit Bharat Station Scheme, 1,337 stations have been identified for redevelopment or upgradation. Of these, 15 stations were identified for redevelopment through PPP models.<sup>45</sup> Rani

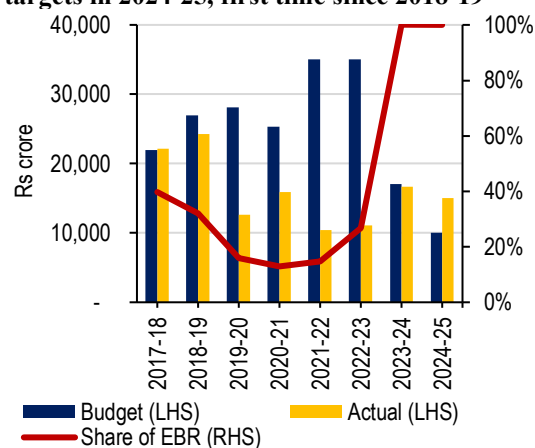
Kamalapati Railway Station in Madhya Pradesh has been commissioned under a PPP arrangement.

According to the Ministry of Railways (2024), private participation in railway line projects has remained limited as construction risks reduce their attractiveness for private players.<sup>46</sup>

Private sector involvement has been stronger in freight-related activities.<sup>4</sup> Gati Shakti Terminals are being developed with participation from industry. In addition, 79 Private Freight Terminals have been commissioned on private land to handle goods traffic.<sup>47</sup> Railways has also introduced several wagon investment schemes to encourage private ownership of rolling stock. 640 rakes have been procured under these schemes.<sup>4</sup> A rake is a fixed set of wagons of the same type. Further, three coal connectivity projects are being implemented through joint ventures.<sup>4</sup>

Public private partnership (PPP) is a source of extra budgetary resources (EBR) for Railways. Standing Committee on Railways (2025) recommended Railways adopt a more ambitious approach towards private participation in infrastructure creation and set higher PPP targets to reduce dependence on budgetary support.<sup>48</sup> EBR from PPP is estimated at Rs 12,000 crore in 2026-27, significantly lower than 2017-18 (Rs 22,116 crore) and 2018-19 (Rs 24,281 crore) levels.

**Figure 12: Railways met its EBR (Partnerships) targets in 2024-25, first time since 2018-19**



Source: Expenditure Profile, Railway Statements, Union budget documents, 2017-18 to 2026-27; PRS.

Several structural factors have constrained private investment in some railway infrastructure projects such as DFCs.<sup>4</sup> These include high capital requirements, long gestation periods with delayed returns, and revenue uncertainty arising from traffic allocation decisions by Indian Railways.<sup>4</sup> The Committee on Restructuring of Railways (2015) observed that private participation has been limited because policy formulation, regulation, and operations are all vested in the Ministry of Railways.<sup>49</sup> The Committee recommended that these roles must be separated.

## Operating Ratio

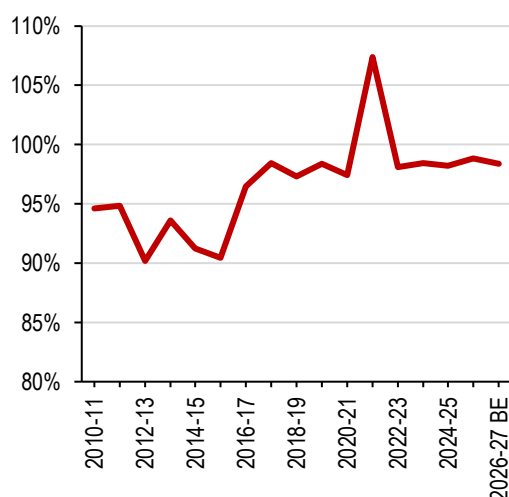
### *High operating expenditure leaves limited surplus*

Over the past decade, Railways' revenue expenditure has absorbed nearly all of its internal revenue, averaging close to 99% of receipts. This has resulted in generation of limited revenue surplus, limiting Railways' ability to invest toward capital works from its own resources (Figure 13).

Operating Ratio is the ratio of the total working expenditure and the internal revenue of the Railways. It indicates how much the Railways spends to earn Rs 100. A higher operating ratio indicates poorer financial performance. Operating ratio reduced from 94.6% in 2010-11 to a targeted 98.4% in 2026-27. In 2025-26, operating ratio is estimated at 98.8%, higher than the initial budget estimate (98.4%).

CAG observed that operating ratio reported by Railways may understate true working expenses. For 2021-22, full appropriation to the Pension Fund and the Depreciation Reserve Fund (DRF) would have raised the ratio from 107.4% to 109.4%.<sup>50</sup> Similarly, if the entire revenue surplus in 2022-23 had been appropriated to DRF, the operating ratio would have increased from 98.1% to 99.2%.<sup>51</sup> Near 100% operating ratio has led to under-provisioning for essential funds such as Depreciation Reserve Fund for replacement and renewal of assets, Capital Fund for debt servicing, and Rashtriya Rail Sanraksha Kosh for renewal, replacement or upgradation of critical safety assets of Railways (see Table 5 in Annexure).

**Figure 13: Consistently high operating ratio**



Source: Railway Statistical Publications, Year Books, 2010-11 to 2023-24, Ministry of Railways; Expenditure Profile, Railway Statements, Union budget documents, 2026-27; PRS.

## Quality of Service

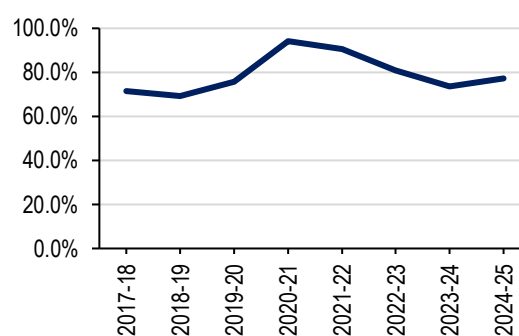
### *Poor punctuality and on-board cleanliness affect overall service quality*

In 2024-25, Railways recorded a punctuality index of 77%.<sup>52</sup> The index measures the share of passenger trains arriving on time at their destination, based on an allowed delay of up to 15 minutes from the scheduled time. CAG (2021) noted that several other countries follow stricter standards, with allowable delays of a few seconds in Japan, three minutes in the Netherlands, five minutes in Germany and Russia, and 10 minutes in the UK.<sup>53</sup> In most countries, punctuality is measured at the originating point, intermediate station, as well as at terminating stations.

An audit analysis of about 13 lakh train runs during 2016-17 and 2018-19 found that only 30% of trains arrived on time, while 20% arrived early and the remaining 50% were delayed.<sup>53</sup> CAG (2021) noted that early arrivals could also be due to padding in schedules, reflecting inefficiencies in timetabling. Audit revealed that punctuality is affected by factors such as lack of available paths due to poor monitoring, track defects, rescheduling by zonal railways, and congestion caused by unscheduled train movements.

Further, CAG (2021) noted that Railways does not specify delivery timelines or fixed schedules for majority of freight trains.<sup>53</sup> Freight paths are allotted after passenger services, making it difficult to operate goods trains on a timetable. This adversely affects freight speeds and operational efficiency.

**Figure 14: Despite a low benchmark and higher threshold, Railways' punctuality remains low**



Note: Punctuality index was high in 2020-21 primarily due to the sharp contraction in train operations during the COVID-19 pandemic, which temporarily eased pressure on the network. Source: Indian Railways' Year Books, Indian Railways; Unstarred Question No. 595, Lok Sabha, Answered on December 3, 2025; PRS.

Cleanliness is an important indicator of service quality in Indian Railways. CAG (2025) found shortcomings in the enforcement of contract conditions at Clean Train Stations (CTS).<sup>54</sup> CTS scheme was introduced for mechanised cleaning



of a few areas of coaches, such as bio-toilets and doorways, during the 10-15 minutes' halt of trains at enroute stations.<sup>54</sup> Joint inspections at 29 CTS revealed limited cleaning of toilets and other areas, along with shortfalls in the use of machines and deployment of manpower.

In 2022-23, over one lakh complaints were reported regarding non-availability of water in toilets and wash-basins on trains. Quick watering facilities were not operational at 25% of the 109 stations identified for this purpose.<sup>54</sup> Quick watering system is a mechanised water supply system that allows multiple coaches of a train to be filled simultaneously during a short halt at a station. A passenger survey covering 2,426 passengers across 96 trains found that the condition of bio-toilets was better in AC coaches than in non-AC coaches as of March 31, 2023.<sup>54</sup> Bio-toilets are designed to treat human waste biologically, reducing discharge on railway tracks. CAG (2025) further observed that passenger feedback on the quality of linen was not effectively enforced on contractors.

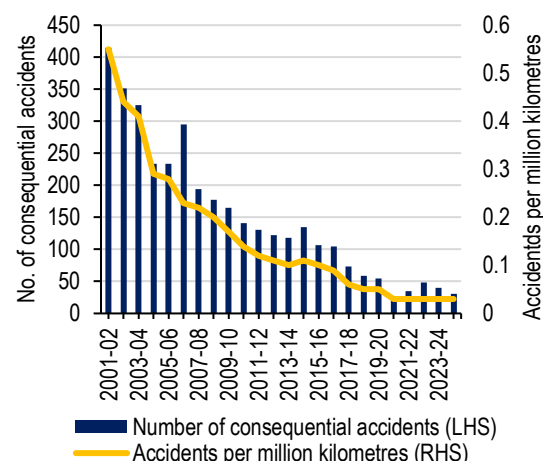
## Safety

Between 2000-01 and 2024-25, 3,984 consequential train accidents have taken place, including 40 accidents in 2023-24 and 31 in 2024-25.<sup>55</sup> Consequential accidents are serious incidents such as collisions, derailments, or fires that result in loss of life or property, injury, or disruption of rail traffic. Measured per million train kilometres, accidents declined from 0.65 in 2000-01 to 0.03 in 2024-25 (see Figure 15).<sup>56,57</sup>

In cases of derailments, CAG (2021) noted the following to be among key reasons: (i) bad driving or over speeding, (ii) lack of track maintenance, (iii) deviation of track parameters beyond permissible limits, (iv) defects in coaches/wagons, and (v) mistakes in shunting operations.<sup>58</sup> It also noted a shortfall ranging between 30-100% in inspections to assess the conditions of railway tracks.<sup>58</sup> It observed that 63% of the assessed non-AC coaches did not have fire extinguishers.<sup>58</sup>

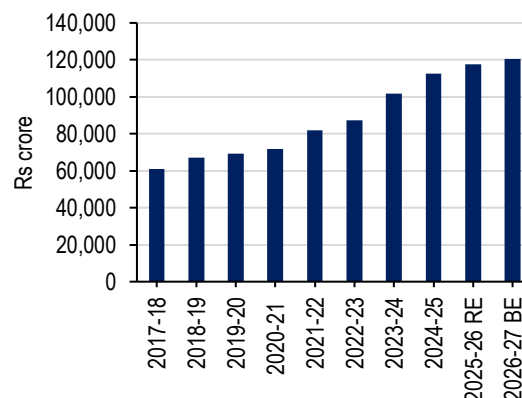
Expenditure on safety related works has increased by an annualised rate of 8%, from Rs 60,884 crore in 2017-18 to Rs 1,20,389 crore in 2026-27 (see Figure 16). Some measures taken by Railways to address safety issues include: (i) removal of unmanned level crossings, (ii) introduction of Kavach – automatic train protection system, (iii) introducing vigilance control devices on trains to improve alertness of pilots, and (iv) closure, merger and replacement of level crossings.<sup>59</sup>

**Figure 15: Accidents have come down over the years**



Sources: Railway Year Books; “Indian Railways’ Safety Push Brings Down Consequential Train Accidents to 31 in 2024–25 and 3 in 2025–26 from 1,711 in 2004–14: Ashwini Vaishnav”, Press Information Bureau, Ministry of Railways, August 8, 2025; PRS.

**Figure 16: Expenditure on safety related works increased by 8% between 2017-18 and 2026-27**



Sources: Expenditure Profile, Railway Statements, Union budget documents, 2019-20 to 2026-27; PRS.

## Annexure

**Table 3: Passenger traffic details (traffic volume in million PKM; earnings in Rs crore)**

Head	2024-25 Actuals		2025-26 Revised		2026-27 Budget		% change (2025-26 RE to 2026-27 BE)		% share in 2026-27 BE	
	Earning	Volume	Earning	Volume	Earning	Volume	Earning	Volume	Earning	Volume
<b>Suburban (A)</b>	<b>3,027</b>	<b>1,21,687</b>	<b>3,284</b>	<b>1,24,681</b>	<b>3,613</b>	<b>1,29,791</b>	<b>10%</b>	<b>4%</b>	<b>4%</b>	<b>11%</b>
<b>Non-Suburban (B)</b>	<b>72,340</b>	<b>10,10,813</b>	<b>76,716</b>	<b>10,46,011</b>	<b>83,687</b>	<b>11,00,911</b>	<b>9%</b>	<b>5%</b>	<b>96%</b>	<b>89%</b>
AC First Class	1,281	4,033	1,434	4,313	1,593	4,558	11%	6%	2%	0.4%
AC 2 Tier	7,303	38,279	7,551	37,818	7,936	37,818	5%	0.0%	9%	3%
AC 3 Tier	27,237	1,96,439	27,262	1,87,765	28,638	1,87,765	5%	0%	33%	15%
Executive Class	673	1,597	818	1,856	971	2,095	19%	13%	1%	0.2%
AC Chair Car	4,354	21,235	5,377	25,053	6,540	28,992	22%	16%	7%	2%
First Class (ME)	54	28	41	20	43	20	5%	0.0%	0%	0.00%
First Class (Ordinary)	6	132	6	138	7	150	14%	9%	0%	0.01%
Sleeper Class (ME)	14,847	2,61,677	14,977	2,52,208	15,741	2,52,208	5%	0.0%	18%	20%
Sleeper Class (Ordinary)	7	94	22	299	69	894	214%	199%	0%	0.1%
Second Class (ME)	14,997	4,08,306	17,553	4,56,593	20,311	5,02,926	16%	10%	23%	41%
Second Class (Ordinary)	1,581	78,993	1,675	79,948	1,838	83,485	10%	4%	2%	7%
<b>Total (A+B)</b>	<b>75,368</b>	<b>11,32,500</b>	<b>80,000</b>	<b>11,70,692</b>	<b>87,300</b>	<b>12,30,702</b>	<b>9%</b>	<b>5%</b>	<b>100%</b>	<b>100%</b>

Note: PKM – Passenger Kilometre (One PKM is when a passenger is carried for a kilometre).

RE: Revised Estimates; BE: Budget Estimates. ME: Mail and Express.

Sources: Expenditure Profile; Union Budget 2026-27; PRS.

**Table 4: Freight traffic details (traffic volume in million NTKM; earnings in Rs crore)**

Head	2024-25 Actuals		2025-26 Revised		2026-27 Budget		% change (2025-26 RE to 2026-27 BE)		% share in 2026-27 BE	
	Earning	Volume	Earning	Volume	Earning	Volume	Earning	Volume	Earning	Volume
Coal	86,989	4,37,099	87,304	4,20,918	89,793	4,23,561	3%	1%	48%	43%
Raw materials for steel plants*	2,733	16,667	2,848	15,957	3,149	17,273	11%	8%	2%	2%
Pig iron and Finished steel	11,591	67,434	12,228	63,782	14,213	72,555	16%	14%	8%	7%
Iron ore	12,456	59,338	13,683	60,981	14,639	63,804	7%	5%	8%	6%
Cement	13,021	85,540	13,381	83,840	14,316	87,804	7%	5%	8%	9%
Food grains	7,647	63,800	8,264	62,514	8,559	63,378	4%	1%	5%	6%
Fertilisers	7,437	52,665	8,393	58,390	9,553	65,054	14%	11%	5%	7%
Petroleum, Oil, and Lubricant	6,792	35,413	7,029	34,455	7,238	34,731	3%	1%	4%	3%
Containers service	8,790	78,221	10,029	82,034	11,170	89,252	11%	9%	6%	9%
Other Goods	13,708	74,908	15,298	75,511	16,170	78,644	6%	4%	9%	8%
<b>Total</b>	<b>1,71,163</b>	<b>9,71,085</b>	<b>1,78,456</b>	<b>9,58,382</b>	<b>1,88,800</b>	<b>9,96,056</b>	<b>6%</b>	<b>4%</b>	<b>100%</b>	<b>100%</b>

Note: NTKM – Net Tonne Kilometre (One NTKM is when one tonne of freight is carried for a kilometre). RE: Revised Estimates; BE: Budget Estimates. \*Excluding coal and iron ore.

Sources: Expenditure Profile; Union Budget 2026-27; PRS.

**Table 5: Appropriation to various funds (Rs crore)**

Fund	Depreciation Reserve Fund		Capital Fund		Rashtriya Rail Sanraksha Kosh	
	Budget	Actual	Budget	Actual	Budget	Actual
2017-18	5,000	1,540	5,948	0	1,000	0
2018-19	500	300	6,990	0	5,000	3,024
2019-20	500	400	3,035	0	5,000	201
2020-21	800	200	0	0	5,000	1,000
2021-22	800	0	0	0	5,000	0
2022-23	2,000	700	2,360	0	2,000	1,517
2023-24	1,000	800	0	0	1,000	1,760
2024-25	1,000	800	0	0	1,800	2,119
2025-26*	1,500	1,000	0	0	2,000	1,000
2026-27	1,500	-	0	-	2,000	-
<b>Total</b>	<b>14,600</b>	<b>5,740</b>	<b>18,333</b>	<b>0</b>	<b>29,800</b>	<b>9,621</b>

Note: Depreciation Reserve Fund is maintained for replacement and renewal of assets. Capital Fund was created to meet the expenditure on leased assets. Rashtriya Rail Sanraksha Kosh was created to renew, replace or upgrade critical safety assets of Railways.

RE: Revised Estimates; BE: Budget Estimates.

\*Figures indicated under Actual column are Revised Estimates.

Sources: Expenditure Profile; Union Budget 2017-18 to 2026-27; PRS.

**Table 6: Details of capital expenditure (Rs crore)**

Head	2024-25 Actuals	2025-26 BE	2025-26 RE	2026-27 BE	% change from 25-26 RE to 26- 27 BE
New Lines (Construction)	33,363	32,235	30,632	36,722	20%
Gauge Conversion	5,212	4,550	4,284	4,600	7%
Doubling	32,791	32,000	29,026	37,750	30%
Traffic Facilities-Yard Remodelling and Others	7,334	8,601	7,874	7,897	0%
Rolling Stock	60,625	58,895	63,373	65,497	3%
Leased Assets-Payment of Capital Component	22,699	27,905	28,157	39,650	41%
Road Safety Works-Road Over/Under Bridges	7,049	7,000	7,734	8,225	6%
Track Renewals	23,433	22,800	25,166	22,853	-9%
Electrification Projects	4,248	6,150	4,500	5,000	11%
Other Electrical Works incl. TRD	1,596	1,651	1,959	1,952	0%
Workshops Including Production Units	3,990	4,624	3,185	3,888	22%
Staff Welfare	723	833	1,000	967	-3%
Customer Amenities	13,034	12,118	12,121	11,972	-1%
Investment in Govt. Commercial Undertaking	25,741	22,444	21,598	17,251	-20%
Metropolitan Transport Projects	3,646	4,003	3,990	4,498	13%
Others	8,828	9,391	10,601	12,308	16%
EBR- Partnership	15,049	10,000	10,000	12,000	20%
<b>Total</b>	<b>269,361</b>	<b>265,200</b>	<b>265,200</b>	<b>293,030</b>	<b>10%</b>

RE: Revised Estimates; BE: Budget Estimates. EBR: Extra Budgetary Resources.

Sources: Expenditure Profile; Union Budget 2026-27; PRS.

**Table 7: Physical target and achievement for capital expenditure**

Head	2024-25			2025-26			2026-27	
	Budget Target	Achievement		Budget Target	Revised Target	Revised as % of Budget Target	Budget Target	% change from 25-26 RE to 26-27 BE
		In Units	In %					
Construction of new lines (Route km)	700	1,105	158%	700	700	100%	500	-29%
Gauge conversion (Route Km)	200	166	83%	200	200	100%	100	-50%
Doubling of lines (Route Km)	2,900	1,977	68%	2,600	2,600	100%	2,400	-8%
Rolling stock (vehicle units)								
<i>Diesel locomotives</i>	100	105	105%	100	100	100%	100	0%
<i>Electric locomotives</i>	1,280	1,576	99%	1,600	1,726	108%	1,800	4%
<i>Coaches</i>	8,405	7,237	91%	9,423	9,557	101%	10,392	9%
<i>Wagons</i>	38,000	29,889	100%	38,000	26,000	68%	32,000	23%
Track renewals (Track kms)	5,000	6,851	137%	5,500	5,500	100%	6,400	16%
Electrification Projects (Route km)	-	2,701	-	-	-	-	-	-

Sources: Expenditure Profile; Union Budget Documents, 2025-26 and 2026-27; PRS.

<sup>1</sup> Indian Railways Website, as accessed on January 30, <https://indianrailways.gov.in/>.

<sup>2</sup> Inter-Ministerial Report on Long-term Plan for Movement of Coal through Ports & Waterways, Ministry of Coal, <https://www.coal.nic.in/sites/default/files/2023-10/09-10-2023-rsr.pdf>.

<sup>3</sup> Coal 2025: Analysis and forecast to 2030, International Energy Agency, <https://iea.blob.core.windows.net/assets/113a8274-500c-4684-951f-947d25bef3c9/Coal2025.pdf>.

<sup>4</sup> Report No. 6, Standing Committee on Railways, Lok Sabha, December 16, 2025, <https://sansad.in/ls/committee/departamentally-related-standing-committees/28-railways-nameH=%E0%A4%B0%E0%A5%87%E0%A4%B2>.

<sup>5</sup> National Electricity Plan, Ministry of Power, May 2023, [https://cea.nic.in/wp-content/uploads/document\\_upload/2023/06/NEP\\_2022\\_32\\_FIN\\_AL\\_GAZETTE.pdf](https://cea.nic.in/wp-content/uploads/document_upload/2023/06/NEP_2022_32_FIN_AL_GAZETTE.pdf).

<sup>6</sup> Coal 2025: Analysis and forecast to 2030, International Energy Agency, <https://iea.blob.core.windows.net/assets/113a8274-500c-4684-951f-947d25bef3c9/Coal2025.pdf>.

<sup>7</sup> Unstarred Question No. 2511, Lok Sabha, Ministry of Coal, December 21, 2022, <https://sansad.in/getFile/loksabhaquestions/annex/1710/AU2511.pdf?source=pgals>.

<sup>8</sup> Draft National Rail Plan, Indian Railways, 2020, <https://indianrailways.gov.in/NRP-%20Draft%20Final%20Report%20with%20annexures.pdf>.

<sup>9</sup> Report No. 22 of 2021, CAG, [https://cag.gov.in/uploads/download\\_audit\\_report/2021/22%20P%202021-0624d80426ef498.58288689.pdf](https://cag.gov.in/uploads/download_audit_report/2021/22%20P%202021-0624d80426ef498.58288689.pdf).

<sup>10</sup> Maruti Suzuki takes a big leap in Green logistics, dispatches 2 million vehicles through Indian Railways, <https://www.marutisuzuki.com/corporate/media/press-releases/2024/july/maruti-suzuki-takes-a-big-leap-in-green-logistics-dispatches-2-million-vehicles>.

<sup>11</sup> Indian Railways Statistical Publications, Year Book, 2023-24, [https://nfr.indianrailways.gov.in/railwayboard/uploads/directorate/stat\\_econ/2025/IR%20Year%20Book%202023-24-English.pdf](https://nfr.indianrailways.gov.in/railwayboard/uploads/directorate/stat_econ/2025/IR%20Year%20Book%202023-24-English.pdf).

<sup>12</sup> Railways' Policy on Automobile Freight Train Operator Scheme, Press Information Bureau, <https://www.pib.gov.in/newsite/erecontent.aspx?relid=64615&reg=3&lang=2>.

<sup>13</sup> Indian Railways Freight Services, <https://www.fois.indianrail.gov.in/RailSAHAY/pages/OwnWgoNNew.jsp#AFTO>.

<sup>14</sup> Unstarred Question No. 671, answered on December 3, 2025, Lok Sabha, Ministry of Railways, <https://sansad.in/ls/questions/questions-and-answers>.

<sup>15</sup> Gati Shakti Multi-Modal Cargo Terminal Freight Revenue Increases Four Times in Three Years, Reaching ₹12,608.05 Cr in 2024-25, Press Information Bureau, December 2, 2025, <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2198392&lang=1>.

<sup>16</sup> Union Railway Minister Inaugurates India's Largest Automobile Gati Shakti Multi-Modal Cargo Terminal at Maruti Suzuki India Ltd., Manesar, Press Information Bureau, June 17, 2025, <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2136909&reg=3&lang=2>.

<sup>17</sup> Union Government (Railways) (Compliance Audit), Report No. 35 of 2022 – Volume II, CAG, [https://cag.gov.in/webroot/uploads/download\\_audit\\_report/2022/Report-no.-35-of-2022-Vol.-II--English-Digitally-signed-\(1\)-06437ec4e3c3d06.84593583.pdf](https://cag.gov.in/webroot/uploads/download_audit_report/2022/Report-no.-35-of-2022-Vol.-II--English-Digitally-signed-(1)-06437ec4e3c3d06.84593583.pdf).

<sup>18</sup> Indian Railways Annual Report Accounts, 2017-18 to 2023-24, [https://indianrailways.gov.in/railwayboard/view\\_section.jsp?lang=0&id=0.1.304.366.554.941](https://indianrailways.gov.in/railwayboard/view_section.jsp?lang=0&id=0.1.304.366.554.941).

<sup>19</sup> Indian Railways Annual Report Accounts 2023-24, Indian Railways, [https://indianrailways.gov.in/railwayboard/uploads/directorate/stat\\_econ/2025/Indian%20Railways%20Annual%20Report%2020Accounts%202023-24%20-English.pdf](https://indianrailways.gov.in/railwayboard/uploads/directorate/stat_econ/2025/Indian%20Railways%20Annual%20Report%2020Accounts%202023-24%20-English.pdf).

<sup>20</sup> Indian Railways Year Book 2023-24, Indian Railways, [https://indianrailways.gov.in/railwayboard/uploads/directorate/stat\\_econ/2025/IR%20Year%20Book%202023-24-English.pdf](https://indianrailways.gov.in/railwayboard/uploads/directorate/stat_econ/2025/IR%20Year%20Book%202023-24-English.pdf).

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<sup>22</sup> Record CapEx of ₹2.93 Lakh Crore for Indian Railways; High Speed Connectivity, Strengthening Freight & Safety Prime Focus of Spend, Press Information Bureau, February 1, 2026, <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2221838&reg=3&lang=1>.



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