

## MANAGEMENT DISCUSSION AND ANALYSIS REPORT

### Industry Structure and Development:

India has the fourth largest railway network in the world with a total network of 68,442 route kilometer (rkm). It runs nearly 22,000 trains daily; i.e. approximately 13,313 passenger trains that carry more than 2.3 crore passengers and approximately 8,000 freight trains that carry around 3.3 crore tonnes of freight per day. The humungous magnitude of operations on Indian Railway can be appreciated from the fact that every day it moves people nearly equal to the population of Australia.

Railway reforms are addressing a wide range of challenges, which includes safety, infrastructure creation, loading punctuality of passenger trains and mail express, Improved customer experience and faster/timely delivery of cargo, [introduction of high-technology trains, locomotives, improved terminals, construction of Dedicated Freight Corridors (DFCs), policy initiatives to increase freight traffic], innovative financing mechanisms [Railways of India Development Fund (RIDF), engaging state governments in participative models for rail connectivity, attracting foreign direct investment (FDI)] and ensuring financial sustainability through non-fare revenues. The focus is also on encouraging the participation of the private sector in infrastructure up gradation including station development.

Niti Ayog has made a detailed report on “[Strategy for New India @ 75](#)” published in November 2018. As per the report, by 2022-23 India should have a rail network that is not only efficient, reliable and safe, but is also cost-effective and accessible, both with respect to the movement of people and goods. This requires achieving the following objectives where RVNL has got major role to play:

- Augment the capacity of existing railway infrastructure.
- Increase the speed of infrastructure creation from the present 7 Km/day to 19 Km/day by 2022-23.
- Achieve “100 per cent” electrification of broad gauge track by 2022-23 from the 40 per cent level in 2016-17.
- Increase the average speed of freight and mail/express trains to 50 Km/hr (from about 24

Km/hr in 2016-17) and 80 Km/hr (from 60 Km/hr, respectively).

- By 2022-23, the railways should have a freight load of 1.9 billion tonnes and an improved modal share of 40 per cent of freight movement from the current level of 33 per cent.

New initiatives by Railways during the year 2019-20 are introduction of Indigenous semi-high speed train ‘Vande Bharat, Humsafar, Antyodaya’, ‘Deendayalu’, ‘Anubhuti Coaches’ and ‘Glass top Vistadome coaches’ aimed at providing better services to passengers, Connecting North East: India’s longest Rail-Road Bridge Connecting Assam and Arunachal Pradesh Transformational Reforms speeded up: Emphasis on cultural, process & structural reforms, empowerment/strengthening of field level units Speedy and Smooth Passenger Services via Improved Coaches and Trains, UTS Mobile App, VIKALP Scheme and boosting Digital Transactions for Online Ticket Reservations Swachh Rail: Bio Toilets, Clean-My-Coach SMS Service.

Indian Railways is considered the country’s lifeline for transporting passengers as well as cargo. To remain competitive vis-à-vis other transportation modes and to provide optimum level of service to passengers and for freight, there is an acute need to invest in railway infrastructure to augment capacity to expand the railway network.

### Role of Rail Vikas Nigam Limited:

RVNL was incorporated with an objective to undertake rail project development, mobilization of financial resources and implementation of rail projects pertaining to strengthening of golden quadrilateral and port connectivity and raising of extra- budgetary resources for project execution. RVNL is in the business of executing all types of railway projects including new lines, doubling, gauge conversion, railway electrification, metro projects, workshops, major bridges, construction of cable stayed bridges, institutional buildings etc.

RVNL functions as an executing arm of Indian Railways and works for and on behalf of the Ministry for projects assigned to it for execution. It generally works on a turnkey basis and undertakes the full cycle of project development from conceptualization

to commissioning including stages of design, preparation of estimates, calling and award of contracts, project and contract management, etc.

These projects are spread all over the country and for efficient implementation of projects, 38 Project Implementation Units (PIUs) have been established at 25 locations to execute projects in their geographical hinterland. They are located at Ahmedabad, Agra, Ambala, Bengaluru, Bhopal, Bhubaneswar (2 Units), Chennai (2 Units), Chandigarh (2 Units), Guwahati, Jodhpur, Jhansi, Kanpur, Kolkata (3 Units), Kharagpur, Kota (2 Units), Lucknow (3 Units), Mumbai, Pune (2 Units), Raipur (2 Units), Rishikesh, Ranchi, Secunderabad, Varanasi (3 Units), Vijayawada and Waltair (2 Units). The PIUs are established and closed as per requirement.

RVNL's major client is the Indian Railways and other clients include various central and state government ministries, departments, and public sector undertakings.

RVNL has also recognised the vast potential for building a High Speed Rail Network in the country and with the approval of President of India has formed High Speed Rail Corporation of India Ltd. (HSRC), as its subsidiary. It has been mandated to carry out feasibility studies for the Diamond Quadrilateral of high speed rail corridors across the Country and Delhi-Chandigarh-Amritsar corridor. Accordingly, the feasibility studies for Delhi-Kolkata, Delhi-Mumbai, Mumbai-Chennai, Mumbai-Kolkata (upto Nagpur in 1<sup>st</sup> Phase), Delhi-Chennai and Delhi-Chandigarh-Amritsar are currently in progress.

Further, HSRC has also been entrusted with the work of conducting feasibility studies for upgradation of the existing track in the Chennai-Bengaluru-Mysore Section, to raise its maximum permissible speed for passenger trains. HSRC was also the project coordinator for raising the speed on New-Delhi Agra, New Delhi-Kanpur and New Delhi-Chandigarh sections upto 160 kmph. The work of New Delhi-Agra section has already been completed and a train running with maximum permissible speed of 160 kmph has been inaugurated.

### Strengths

- RVNL has successfully mobilized funds for the construction of new lines by creating project specific SPVs with strategic stakeholders. Its large capital base can be leveraged to raise funds as per its original mandate.

- Ministry of Railways has delegated the authority to RVNL for sanctioning of estimates within prescribed limits and for awarding contracts of any value for the projects in handenabling RVNL to implement projects faster.
- As RVNL can award large value contracts, it has been able to attract the best infrastructure companies in India.
- It has developed expertise in undertaking all stages of project development - from concept to commissioning.
- RVNL has developed the requisite skills and experience to follow ADB procedures for contracting and ensure Resettlement and Rehabilitation of Project Affected Persons to implement socio-economic safeguards.
- It has introduced large-scale mechanisation in all aspects of construction to achieve high quality output.
- It has refined its tendering processes and introduced innovative concepts like multi-package tenders resulting in faster decision making and savings in overall costs
- It has a sound and robust financial management system, allowing for effective monitoring and control of expenditure.
- HSRC, a subsidiary of RVNL, is poised to provide consultancy service and also for implementation of high speed corridors in the time to come.

### Weaknesses

- RVNL is dependent on the Ministry of Railways for funding of projects which may prove detrimental for the future growth of the Company and for timely implementation of projects.
- RVNL has not been notified as a Zonal Railway and accordingly does not have the authority to approve drawings, designs etc.
- As per the MoU executed in October 2003, RVNL was mandated for obtaining sanction from Commissioner of Railway Safety but subsequently the same was withdrawn in November 2007. Authority for CRS sanction shall expedite the project commissioning and enhance the project delivery.

- The progress of projects often gets impaired on account of delays in securing the necessary approvals for plans, granting of traffic blocks, etc. from Zonal Railways.
- Changes in approved plans by the Railways, during execution of projects, result in delays.
- RVNL has to depend on Railways for traffic blocks for execution of projects which causes delays.
- RVNL does not have the freedom to plan execution of projects and has to follow priorities set by Railways.
- RVNL is dependent on Ministry of Railways for approval of projects to be taken up through SPV route and for the terms of the Concession Agreement.

### Opportunities

- With the work of execution of Kolkata Metro projects, RVNL has developed expertise for implementation of metro projects in other cities across the Country.
- RVNL has successfully constructed major workshops for Indian Railways in fast track mode. RVNL can thus undertake implementation of large buildings, factories, townships etc. for other agencies as well.
- With RVNL's growth as a major provider of a variety of rail infrastructure, there is an opportunity of securing rail infrastructure projects overseas.
- RVNL can play a significant role in raising extra-budgetary resources for project execution as this is a specific mandate of the Company and has experience of implementation of projects in PPP mode.
- RVNL is implementing Rishikesh – Karnaprayag project in the Himalayan region and can also take up more such projects in hilly terrain and also projects located at strategic locations.
- RVNL has formed a subsidiary company for the development and implementation of High Speed Rail projects - High Speed Rail Corporation of India Ltd. which can provide opportunities for:
  - Implementation of High Speed Corridors in the Country

- Upgradation of some routes for semi high speed operation as planned by MoR, e.g. Chennai -Bengaluru -Mysore (130 km) etc.

### Threats

- The shortage of technical manpower, with required experience in the rail sector, is a major constraint in the delivery of projects.
- A large percentage of RVNL workforce is deputationists from Indian Railways. Any adverse policy decision may result in railway officers not being available for deputation.
- Land acquisition issues require to be resolved expeditiously so that the progress of projects is not hampered.
- Delays in clearances for project execution such as tree-cutting, removal of utilities from the construction of viaducts for metro rail projects etc.
- A number of projects are being executed along existing running lines, which makes safety a serious challenge.
- Projects are adversely affected due to poor law and order conditions such as those in Left Wing Extremists affected districts.
- Stoppage of work by MOR on nomination basis and withdrawal of power of sanction of estimate.

**Industrial Relation:** Industrial Relations remained harmonious and cordial.

### Strategies

The Company is taking measures for ensuring cost control and timely delivery of projects, without any compromise on quality for the execution and delivery of rail infrastructure projects on a fast track basis. RVNL can play a significant role in Ministry of Railways' efforts of raising extra-budgetary resources for project implementation, especially through the SPV route. Innovative models for project financing will also have to be explored. RVNL has also requested Ministry of Railways' that it may be permitted to leverage its equity base to raise funds from the market as per its mandate.

RVNL has created a permanent cadre through absorption to provide institutional continuity and to reduce the dependence on seeking officers and staff on deputation from Railways. Most of the workforce

consists of qualified technical staff with experience in Railways and/or its PSUs. Wherever required, RVNL has also recruited specialists to provide expert guidance in its project implementation.

A comprehensive and appropriate training programme is being implemented to develop competent, suitably skilled and qualified manpower. Efforts are also being made to transfer skills and best practices from other infrastructure sectors and acquiring skills related to execution of railway projects.

**The Mission, Vision and Objectives of the Company as per the Memorandum of Understanding (MoU) are mentioned below:**

### Mission

To create state of the art rail transport infrastructure to meet the growing demand.

### Vision

To emerge as the most efficient provider of rail infrastructure, with a sound financial base and global construction practices, for timely completion of projects.

### Objectives

- To undertake and execute successfully project development, financing and implementation of projects relating to infrastructure, especially rail infrastructure
- To mobilize financial and human resources for project implementation;
- Timely execution of projects with least cost escalation;
- To maintain a cost effective organizational set up;
- To encourage public private participation in rail related projects managed by RVNL;
- To be an infrastructure Project Execution Company committed to sustainable development and environment friendly construction practices of rail related projects in the country;
- To acquire, purchase, license, concession or assign rail infrastructure assets including contractual rights and obligation with the approval of MoR whenever required.

### Outlook

The Company proposes to expand its operations through its Subsidiary Company which will undertake the siding construction, siding maintenance, procurement of machines for operation and maintenance, PMC/GC services, solar panel work, Transmission line work, Export of wagon/coaches, Cranes etc, construction of Metro and HSR and also include bidding in the open market and thus it would be bidding arm of the parent Company i.e. RVNL.

During last 5 years, performance of the Company is as under:

- Project delivery in last 5 years:

Year	New Line/Gauge Conversion/ Doubling ( in Km)	Railway Electrification (in Km)
2015-16	259	266
2016-17	310	498
2017-18	417	608
2018-19	703	1123
2019-20	800	1279

- Project expenditure has got CAGR of 36.78% in last 5 years:

Year	CAGR (Rs/Cr.)
2015-16	5022
2016-17	6184
2017-18	8521
2018-19	11404
2019-20	16462

### Concerns

Over the past few years, RVNL has been augmenting its organisational capacity for project implementation and achieved a turnover of ₹14530.58 crore in 2019-20. The Company is in a position to further increase the turnover, which however, will be dependent on the continued availability of assured funding from the Ministry or directions with regard to raising of Extra Budgetary Resources.

Over a period of time, it is noticed that there is a huge outstanding share of project expenditure due from State Government/Union Government e.g. Government of Andhra Pradesh, Telengana, Himachal Pradesh, Maharashtra for about ₹1500 crore and Ministry of Road Transport and Highways (MoRTH) about ₹230 crore. Such committed funds from State and Union Government have got bearings on project delivery.

Delays in land acquisition, finalization of plans by users, timely clearance of permissions from other government departments (mainly Ministry of Environment and Forests), law and order problems, and the continued support from Ministry of Railways are main concern areas in project execution. The capacity constraints of agencies capable of delivery of large value rail infrastructure projects will also have to be addressed to ensure the successful and timely completion of projects.

The poor pace of supply of rails from SAIL has been a matter of concern for the last two years.

### Internal Control Systems

Effective internal control systems have been put in place for monitoring the implementation of projects including periodic reviews of the physical and financial progress, evaluation of efficiency of cost control measures based on inputs of both the Technical and Finance Departments.

Reviews of the progress and nature of expenditure is regularly conducted by the Finance and Accounts Department and reports thereon are submitted to Management. Budgetary reviews are also conducted.

The Company has laid down and developed a framework of internal financial controls, with

reference to financial statements and reporting and such controls are adequate and operating effectively. A system of internal audit by an external firm ensures the efficacy of control systems and also submission of comments on the appropriateness of incurrence of expenditure, and their accountability by the Company. The reports of the internal auditor are periodically reviewed by Audit Committee of the Board of Directors and implementation of recommendations are monitored. The Annual Accounts of the Company are also subject to scrutiny by the Statutory Auditor appointed by CAG and Audit by CAG.

### Financial Performance

RVNL has achieved all time highest turnover during the year 2019-20. The Company recorded total income of ₹14796.16 crore compared to ₹10332.70 crore in the previous year. Profit after tax for the year 2019-20 is ₹789.86 crore as against ₹606.59 crore in the previous year. During the financial year, the Company has earned a turnover of ₹14530.58 crore as against ₹10060.07 crore of previous year with percentage showing an increase of 44.44%. During the year the Company has spent ₹19.05 crore as against ₹11.48 crore in the previous year towards Corporate Social Responsibilities.

### Key Financial Ratios:

S. No.	Name of Ratio	Formula	2019-20	2018-19	Variation over FY 2018-19 (%)	Remarks
1	Debtor Turnover (No of Days)	Trade Receivable X 365 / Operating Turnover	21	23	9	-
2	Inventory Turnover	-	NA	NA		Not applicable as Company does not carry any inventory
3	Interest Coverage Ratio	-	NA	NA		Not applicable as there is no liability on RVNL to serve the debt.
4	Current Ratio	Current Assets / Current Liabilities	3.16	1.85	70	Increase in current ratio is on account of increase in amount recoverable from MOR/State Govt. and other customers .
5	Debt Equity Ratio	Long term debt / Equity	49:51	45:55		There has been increase in the amount of debt disbursed in FY 2019-20 in comparison to FY 2018-19

S. No.	Name of Ratio	Formula	2019-20	2018-19	Variation over FY 2018-19 (%)	Remarks
6	Operating Profit Margin (%)	PBT */ Operating Turnover  * excluding bank interest, dividend, misc. income & exceptional item.	5.16	5.18	-0.34	-
7	Net Profit Margin (%) (PAT / Total Revenue)	PAT/ Total Revenue	5.34	5.87	- 9.07	-
8	Return on Net Worth (%)	PAT/ Avg.Net Worth	19.17	17.11	12.06	Increase in return on net worth during current year in comparison to previous year is mainly because of increase in the amount of profit after tax on account of increase in operating turnover.

#### Human Resource Development and Industrial Relations

Rail Vikas Nigam Limited endeavors at enhancing the capabilities of the organization in acquiring, developing, motivating and retaining its human resources in an environment in which team work and cooperation among employees contributes to the growth and wellbeing of individual employees as well as the organization as a whole. Emphasis is laid on employees maintaining work life balance.

To strengthen its position, the Company has formed a nucleus of its own permanent cadre through an Absorption Policy along with a Recruitment & Promotion Policy as approved by the Board of

Directors of RVNL.

#### Cautionary Statement

Statements in the Management Discussion and Analysis Report describing the Company's strengths, strategies, projection and estimates are forward looking statements and progressive within the meaning of applicable laws and regulations. Actual results may vary from those expressed or implied, depending upon economic conditions, government policies and other incidental factors. Readers are cautioned and not to place undue reliance on the forward looking statements.