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RAILWAY FREIGHT ACTIVITY OPTIMISM INDEX

Q2 2022



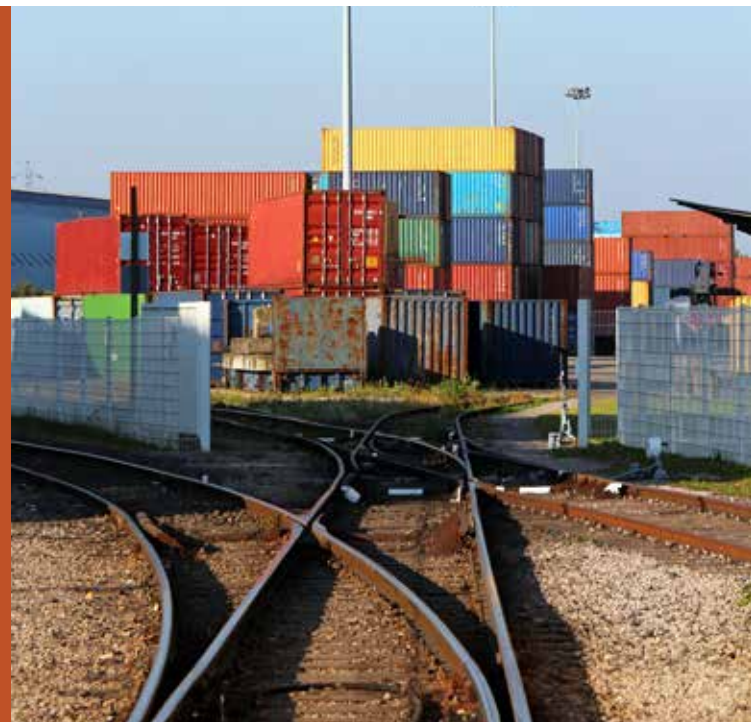
TABLE OF CONTENT

Executive Summary	1
Railway Freight Activity Optimism Index (RFAOI)	3
RFAOI Sub-index: Optimism for Factors of Supply	4
RFAOI Sub-index: Optimism for Operational Efficiency	5
RFAOI Sub-index: Optimism for Investment Activity	6
RFAOI Sub-index: Optimism for Demand	7
RFAOI: By Size of Businesses	8
RFAOI: By Regions	9
Cost of Transporting Goods	10
Share of Goods Transported Through Railways	11
Firmographics	12
About the Index	13

EXECUTIVE SUMMARY

OBJECTIVE

- RFAOI is a forwarding looking index of pan India rail freight activity
- An important input in supply chain planning of service providers, supply side industries and government
- Stakeholders will be able to identify the expected shift in demand and supply and meet expectations for operational efficiency across segments/regions to make informed decisions
- A ready reckoner for policy makers to understand the requirement of the user industries and plan towards meeting supply/investment demand



The Railway Freight Activity Optimism Index (RFAOI) is a unique index aiming to capture the optimism level of rail freight users (industry players and logistics service providers) i.e. whether the rail freight activity is expected to improve, remain stagnant or decline. The index is composed of 14 sub-parameters across four sub-indices



Optimism for factors of supply

- Availability of wagons
- Availability of labour
- Connectivity: frequency of availability of rakes
- First & last mile connectivity



Optimism for demand

- Domestic Trade
- Captive trade
- Export
- Import



Optimism for operational efficiency

- Loading and unloading of goods
- Transit time
- Utilization of containers
- Utilization of wagons



Optimism towards investment activity

- Investment in mechanization for loading and unloading
- Investment in technology

KEY TAKEAWAYS



Railway Freight Activity Optimism Index (RFAOI) for Q2 2022 stands at 63, three points higher than the previous quarter; despite the uncertainty posed by the Russia Ukraine war and the eminent risks weighing upon the pace of recovery of businesses (global inflation and swift change in monetary policy)



Out of the four sub-indices, optimism level for investment activity is the highest with optimism index at 66 in Q2 2022, (the largest increase of 6 points from Q1 2022). The optimism for freight demand continues to the lowest (optimism index at 59) similar to the previous quarter



Businesses in the western region are the most optimistic in Q2 2022 (optimism index at 65). They have revealed the highest level of optimism for most number of parameters i.e. 8 out of 14



Businesses are most optimistic about loading and unloading of goods (optimism index at 69) followed by investment towards mechanization (optimism index at 66)



Participants in the survey are the least optimistic about transit time and import freight demand (optimism index at 57)



Businesses in western region are most optimistic about loading and unloading (optimism index at 72). Businesses in the southern region are not optimistic about transit time with optimism level at 50, where 50 in the neutral level



Amongst the 14 parameters considered in the study, we found optimism level of businesses have increased the most for investment in mechanization (+6 points), investment in technology (+6 points), captive trade (+6 points), import (+5 points), utilization of wagons (+5 points) and first & last mile connectivity (+5 points) in Q2 2022 from Q1 2022



Optimism level fell for two parameters i.e. transit time (-4 points) and availability of wagons (-4 points) in Q2 2022 from the previous quarter

RAILWAY FREIGHT ACTIVITY OPTIMISM INDEX (RFAOI)

Railway Freight Activity Optimism Index for Q2 2022 stands at 63, indicating high optimism level of user industries and logistic service providers, towards transporting goods using railways, three percentage points higher than Q1 2022.

RFAOI FOR Q1 2022



SUB-INDICES

Out of four sub-indices, optimism for investment activity is the highest at 66, whereas optimism for demand is the least at 59. The high optimism level for investment could be due to the record capital allocation of Rs 2.45 tn in the Union Budget for FY23, almost twice the amount spent in FY21.

SUB-INDICES AND THE CONSTITUENT PARAMETERS

	40	50	60	70	
<p>Factors of Supply ■ Q1 2022 - 63 ■ Q2 2022 - 64</p>			● ●		Availability of labour
			● ●		Availability of wagons
			● ●		Connectivity (frequency of rakes on existing/new routes)
			● ●		First & last mile connectivity
<p>Operational Efficiency ■ Q1 2022 - 61 ■ Q2 2022 - 64</p>			● ●		Loading and unloading of goods
			● ●		Transit time
			● ●		Utilization of containers
					Utilization of wagons
<p>Investment Activity ■ Q1 2022 - 60 ■ Q2 2022 - 66</p>			● ●		Investment in mechanization for loading and unloading
			● ●		Investment in technology
<p>Freight Demand ■ Q1 2022 - 55 ■ Q2 2022 - 59</p>		● ●			Captive trade
			● ●		Domestic Trade
			● ●		Export
		● ●			Import

RFAOI SUB-INDEX: OPTIMISM FOR FACTORS OF SUPPLY

- Optimism for factors of supply chain increased at the slowest pace (one percentage point gain) in Q2 2022 compared to the other three segments
- Optimism level for availability of wagons fell by 4 points in Q2 2022 from the previous quarter; optimism remains low especially amongst businesses in the northern region (optimism index at 55)
- Out of the five regions, central region is least optimistic about frequency of trains on existing/new routes and first & last mile connectivity



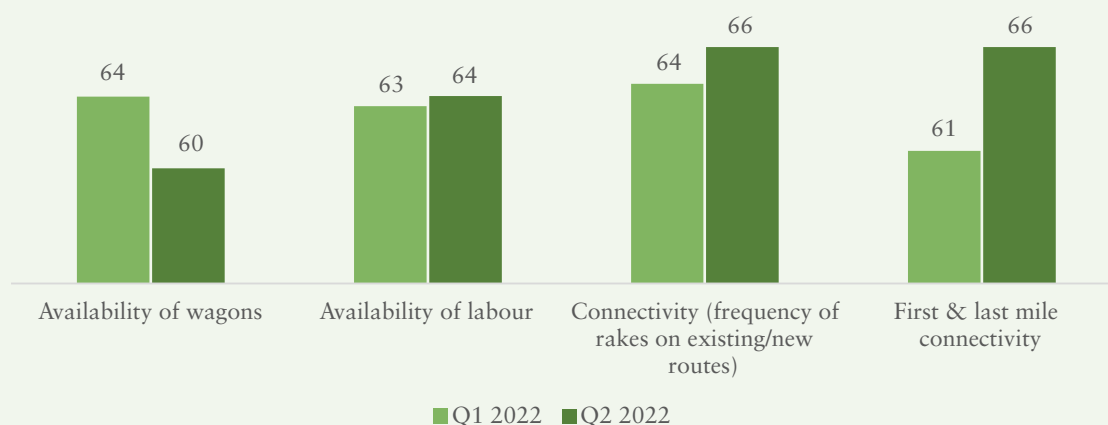
■ Q1 2022 - 63
 ■ Q2 2022 - 64



Significantly higher allocation towards connectivity enhancements would have added to the optimism levels

- Outlay for construction of new lines in FY23 at Rs 252.4 bn is 24 times the amount spent during FY21.
- Enhanced thrust on doubling of lines: Amount of Rs 121.1bn allocated during FY23 is double the amount spent in FY22 and 32 times from FY21.

Optimism for Factors of Supply: Sub-parameters



RFAOI SUB-INDEX: OPTIMISM FOR OPERATIONAL EFFICIENCY

- Optimism for operational efficiency in Q2 2022 improved by three points to 64 from Q1 2022
- Businesses are most optimistic about loading and unloading of goods with (optimism index at 69)
- Survey reveals that even though optimism towards availability of wagons have fallen optimism for utilization of wagons has increased by 5 points to 64
- Participants in the survey are the least optimistic about transit time (optimism index at 57)

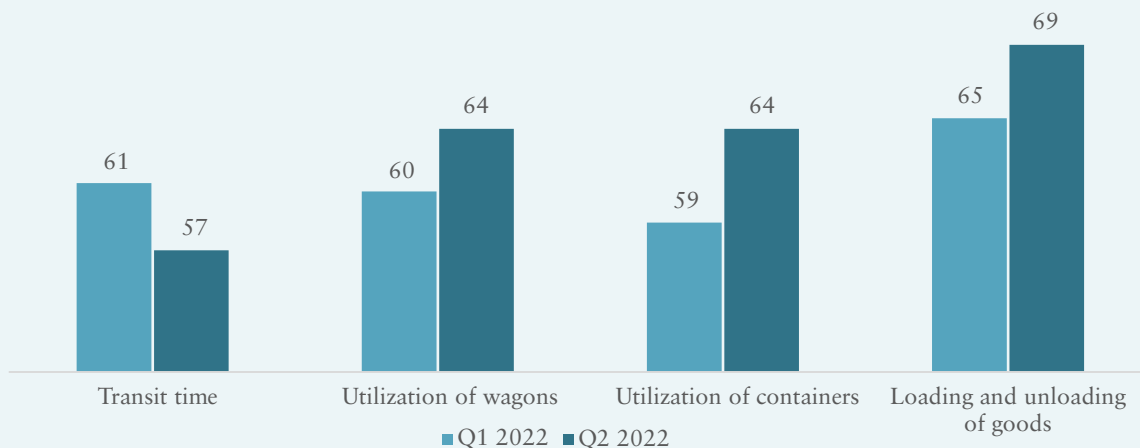


■ Q1 2022 - 61
■ Q2 2022 - 64



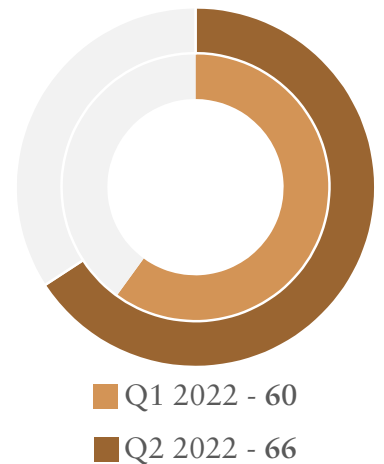
- 2,000 km of rail network to be brought under ‘Kavach’ programme in FY23. This aims for safety and capacity augmentation using indigenous world-class technology.
- Indian Railways plans to add new products and services for farmers and small businesses.
- 400 new generation Vande Bharat Trains to be developed in the next 3 years with improved energy efficiency and better riding experience.

Optimism for Operational Efficiency: Sub-parameters



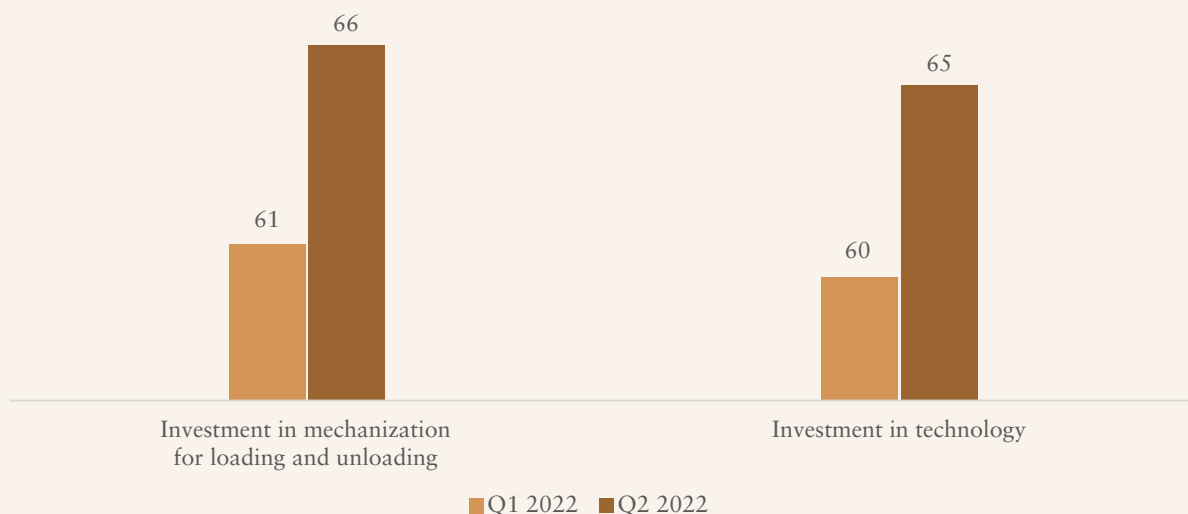
RFAOI SUB-INDEX: OPTIMISM FOR INVESTMENT ACTIVITY

- Optimism level for investment activity is the highest at 66 in Q2 2022; the optimism level increased most by six points in Q2 2022
- Businesses in the central and northern regions are the most optimistic about investment in mechanization



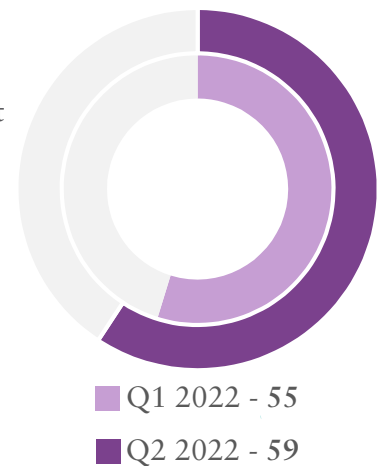
- PM GatiShakti aims to transform multi-modal connectivity offering higher efficiency.
- Integration of Postal and Railway networks to provide seamless solutions for movement of parcels.
- Multimodal connectivity between mass urban transport and railway stations to be facilitated on priority.

Optimism for Investment Activity: Sub-parameters



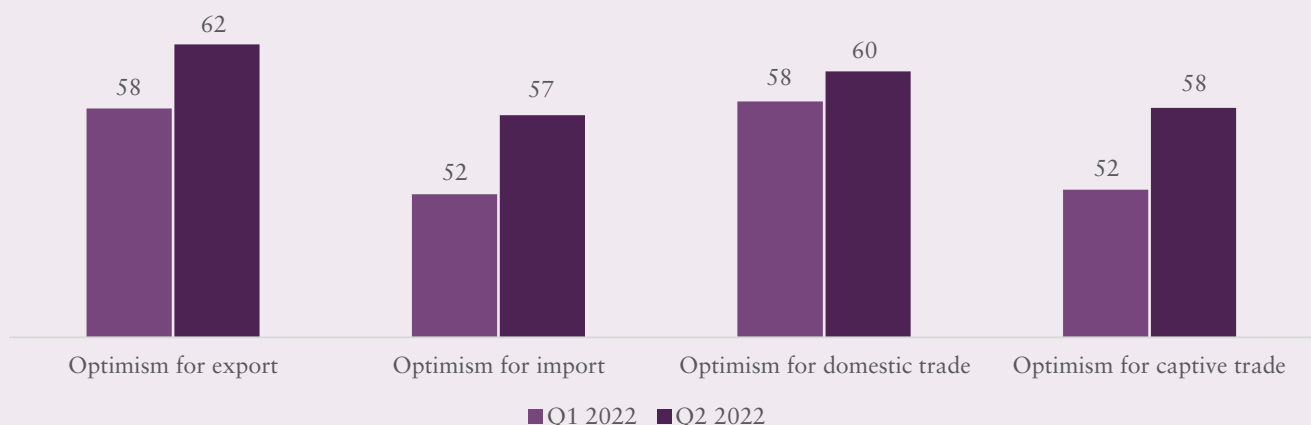
RFAOI SUB-INDEX: OPTIMISM FOR DEMAND

- Optimism for freight demand improved quarter on quarter yet remains lowest among all the four sub-indices in Q2 2022 at 59
- Businesses are more optimistic about export freight demand (optimism index at 62) compared to domestic freight demand (optimism index at 60) in Q2 2022. Indicating strong export growth momentum to continue in Q2 2022. India achieved a record export performance in 2021 and Q1 2022
- Businesses in the western region (optimism index at 67) are the most optimistic about export freight demand
- In domestic freight demand, optimism level for import (optimism index at 57) and captive trade (optimism index at 58) increased by five and six points compared to optimism for domestic trade activity which increased only by two points
- Protectionist measures taken by countries amidst the geopolitical tension and high commodity prices affected the optimism for import freight demand which continues to be the lowest in Q2 2022 even though it has increased by 5 points from Q1 2022
- Businesses in the northern region is the least optimistic for import freight demand at 51, where 50 is the neutral level



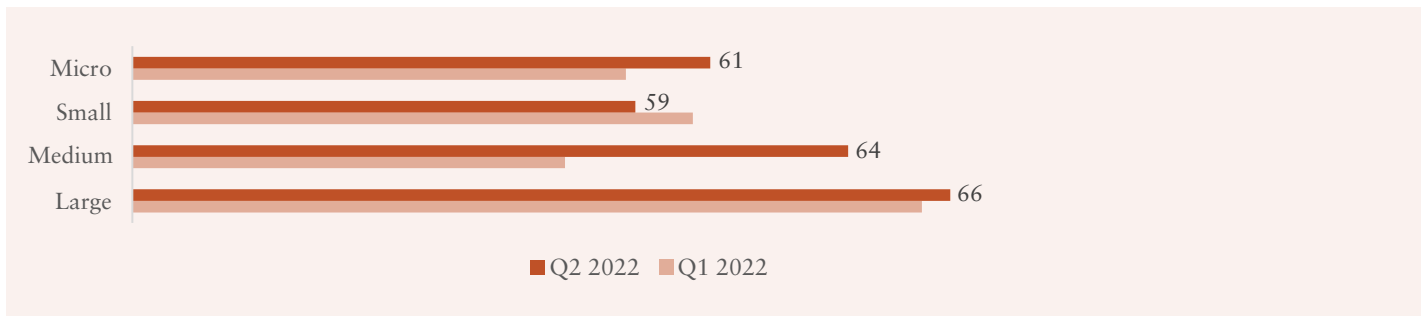
- Stable demand conditions albeit low, buoyant external demand and improved business continuity supported the increase in optimism level for freight demand in Q2 2022 by four points from Q1 2022 despite the Russia Ukraine war.
- After UAE and Australia, FTA with UK in 2022 is likely to boost exports.

Optimism for Demand: Sub-parameters



RFAOI: BY SIZE OF BUSINESSES

Large players are most optimistic about utilization of wagons but least about transit time



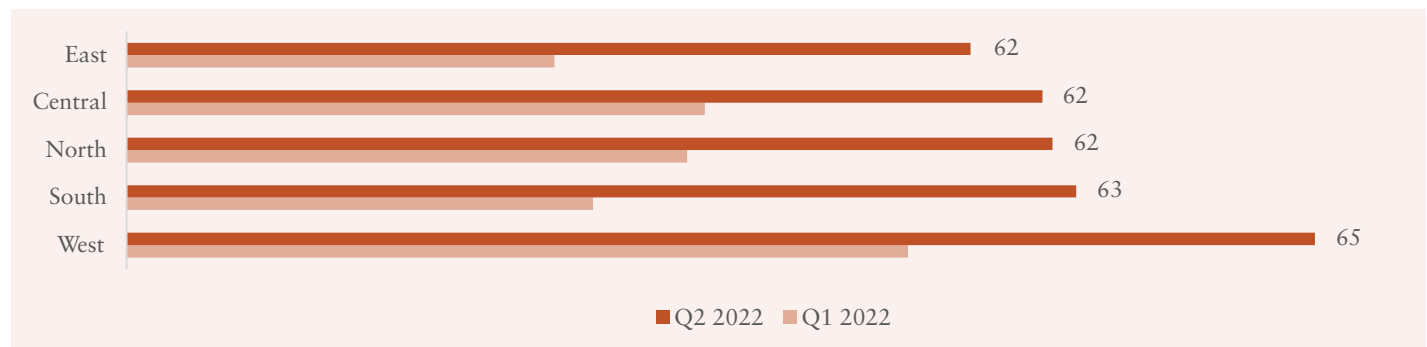
- Optimism for medium scale players increased by the maximum of 6 points while optimism for small players fell by one point in Q2 2022 over Q1 2022
- Both large and medium scale businesses are more optimistic about export freight demand compared with small and micro players
- Players operating in the domestic segment are the least optimistic about transit time (optimism index at 55)
- Large players are less optimistic than medium players about availability of wagons, investment in technology and utilization of containers
- While optimism about transit time remained low across all size of businesses, optimism of medium scale businesses is less than 50 in the southern and eastern region, where 50 is the neutral level

Sub-indices	Parameters	Large	Medium	Small	Micro
Demand	Export	●	●	●	●
	Import	●	●	●	●
	Domestic Trade	●	●	●	●
	Captive trade	●	●	●	●
Supply	Availability of wagons	●	●	●	●
	Availability of labour	●	●	●	●
	Connectivity (frequency of rakes)	●	●	●	●
	First & last mile connectivity	●	●	●	●
Operational Efficiency	Loading and unloading of goods	●	●	●	●
	Utilization of wagons	●	●	●	●
	Utilization of containers	●	●	●	●
	Transit time	●	●	●	●
Investment	Investment in mechanization for loading and unloading	●	●	●	●
	Investment in technology	●	●	●	●

In the above table, higher color intensity, indicates higher optimism level

RFAOI: BY REGION

Western region is most optimistic for most of the parameters (more than 50%)



- Businesses in the western region are the most optimistic in Q2 2022 (optimism index at 65). They have revealed the highest level of optimism for most number of parameters i.e. 8 out of 14
- Businesses in the western region are the most optimistic about loading and unloading (optimism index at 72)
- Businesses in the northern are the least optimistic for import freight demand at 51, where 50 is the neutral level
- Businesses in the southern region are not optimistic about transit time; with (optimism level at 50), where 50 in the neutral level
- Business in the central and southern regions are more optimistic towards utilization of wagons while businesses in the western and northern regions are more optimistic about utilization of containers

Sub-indices	Parameters	Central	Eastern	Western	Northern	Southern
Demand	Export	●	●	●	●	●
	Import	●	●	●	●	●
	Domestic Trade	●	●	●	●	●
	Captive trade	●	●	●	●	●
Supply	Availability of wagons	●	●	●	●	●
	Availability of labour	●	●	●	●	●
	Connectivity (frequency of rakes)	●	●	●	●	●
	First & last mile connectivity	●	●	●	●	●
Operational Efficiency	Loading and unloading of goods	●	●	●	●	●
	Utilization of wagons	●	●	●	●	●
	Utilization of containers	●	●	●	●	●
	Transit time	●	●	●	●	●
Investment	Investment in mechanization for loading and unloading	●	●	●	●	●
	Investment in technology	●	●	●	●	●

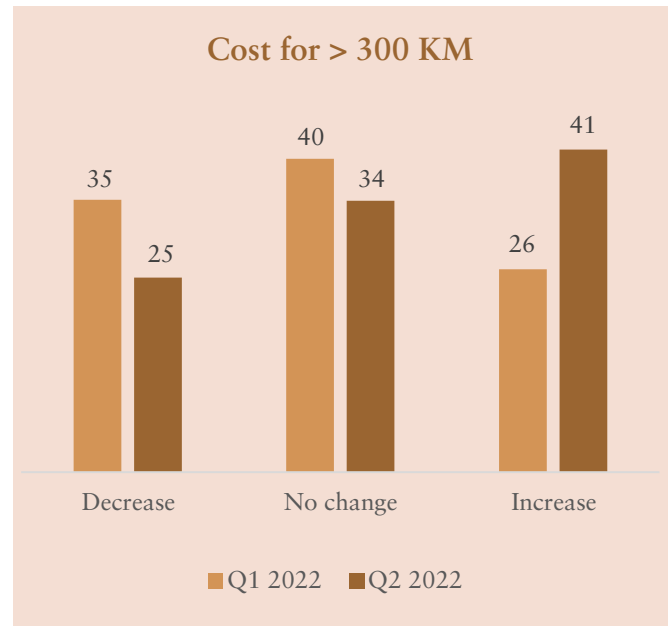
In the above table, higher color intensity, indicates higher optimism level

COST OF TRANSPORTING GOODS

More than 40% of businesses expect cost* of transportation to increase for both less than 300 km and above 300 km distance in Q2 2022

Cost inclusive of freight and other costs (any additional cost of door-bridging, charges for first/last mile road transportation and handling at origin and destination points, haulage charges etc).

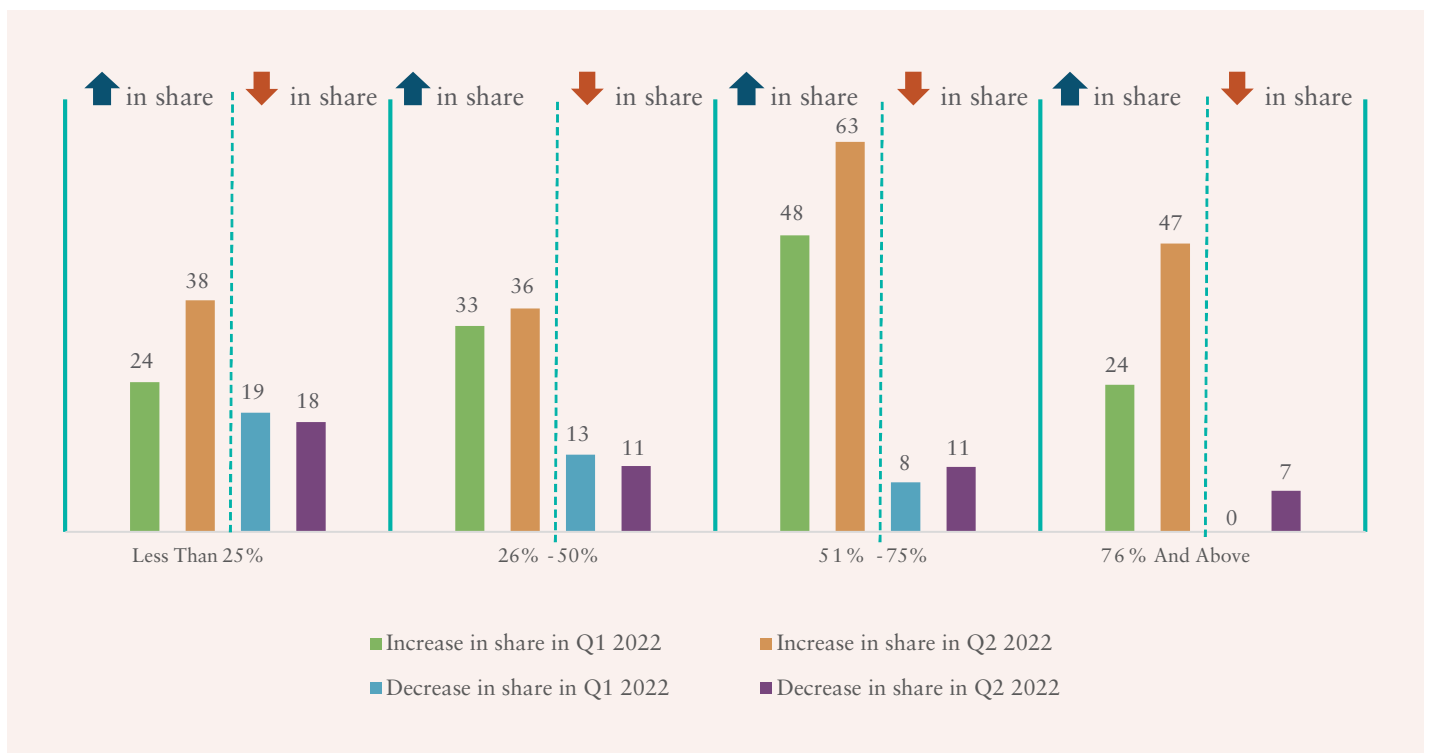
Overall freight transport cost (% of respondents)



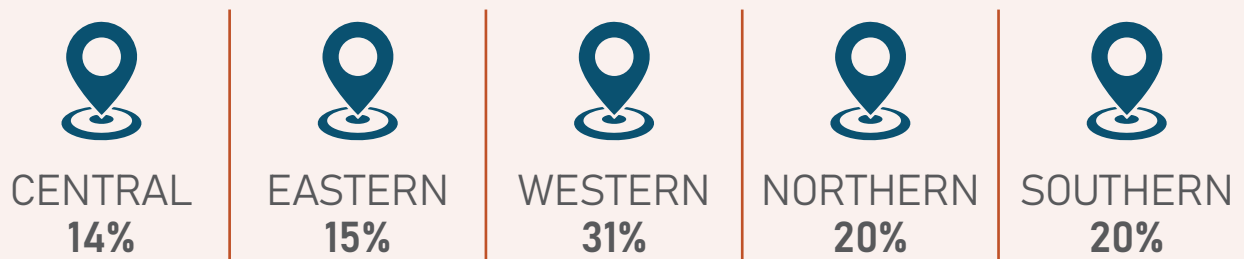
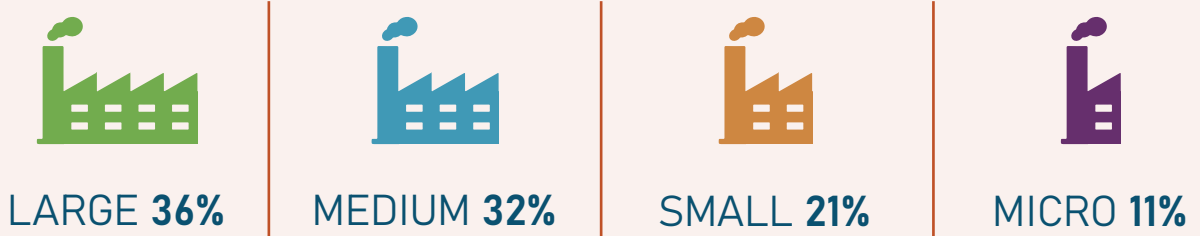
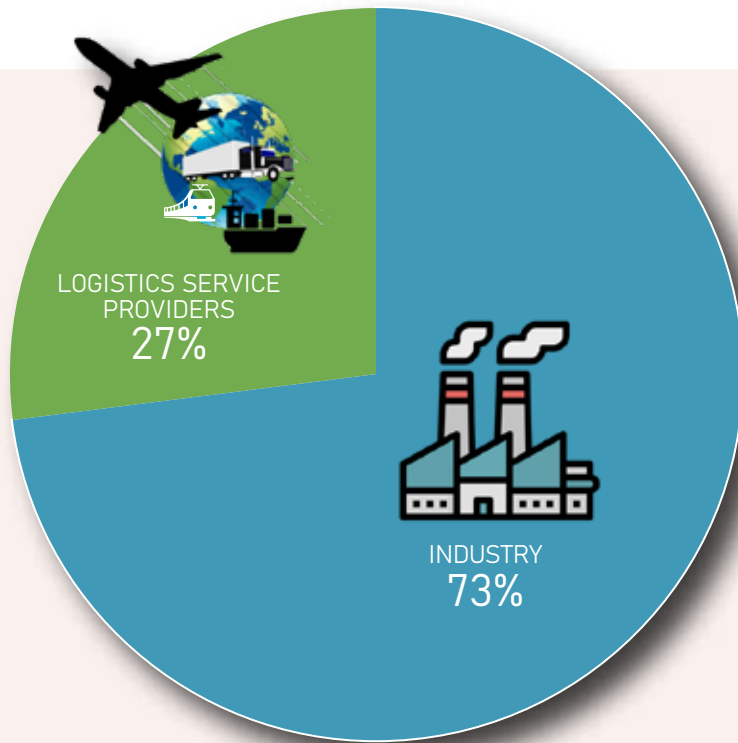
SHARE OF GOODS TRANSPORTED THROUGH RAILWAYS

- Majority of the respondents i.e., 51% transport less than 25% of their goods via railways
- Percentage of respondents indicating increase in share of goods, transported through railways, has increased in all segments
- Businesses already transporting more than 76% of goods via railways expect it to increase further.

Percentage share of goods transported through railways



FIRMOGRAPHICS



ABOUT THE INDEX

Dun & Bradstreet conducted a pan India survey of more than 300 Large, Medium, Small, and Micro players to create the RFAOI index. This is a unique, forward looking index, capturing the optimism of user industries and logistics service providers on Rail Freight Activity for the forthcoming quarter. The index is composed of four sub-indices viz Optimism for Freight Demand, Optimism for Supply Factors, Optimism for Operational Efficiency and Optimism towards Investment Activity. Each of the sub-indices constitute of four parameters each, except for investment. There are a total of 14 parameters.

Survey sought respondent's expectation towards freight demand, improvement in supply factors, gains in operational efficiencies, and improvement in the railway investment in terms of an increase, decrease or no change for the upcoming quarter compared to the same quarter in the previous year.

The percentage share of responses indicating increase, decrease or no change were then aggregated to arrive at a diffusion index. The diffusion index for each parameter was then multiplied by respective weights and aggregated to arrive at the Railway Freight Activity Optimism Index (RFAOI). The derived index value can range between 0 to 100, with 50 being the neutral level of optimism viz-a-viz the base period. An Index value above 50, indicates an increase in the level of optimism from the previous year's quarter and vice-versa.

RESEARCH TEAM

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