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## INDIAN RAILWAYS: IN QUEST OF A SUSTAINABLE TURN-AROUND

*"Madam, rail transportation is vitally interlinked with the economic development of the country. With the economy slated to grow at a rate of 8-9%, it is imperative that the railways grow at an even faster pace. I see the railways as an artery of this pulsating nation. In the coming decade, Indian Railways will continue to keep its service focus on the underprivileged and the poor, even as it expands its services for the more fortunate.... Madam Speaker, I have no hesitation in informing this august House that Indian Railways are passing through a very difficult phase... Implementation of the 6th Pay Commission's recommendations increased the expenditure on staff and pension by an unprecedented 97%... My mind is always with the common people. Railways provide the only affordable mode of long distance travel. I do not want to further burden them this year. That is why on behalf of the government I have not increased the fares for the last two years despite all pressures on our finances."*

- Indian Railway Minister addressing the Parliament while introducing the 2011-12 Railway Budget, 25 February 2011, New Delhi.

Raj Shekhar pensively looked at the grand Raj Path Avenue spanning the expanse of central New Delhi from the Rashtrapati Bhavan to India Gate. It was a bright sunny morning. He was mulling over the yesterday evening meeting that he had with the Prime Minister.

It had been just a day since he had taken over as Chairman of the Railway Board, the apex governing body of the Indian Railways. He had been handpicked by the Prime Minister after managing one of India's top corporate houses over the last two decades. He was apprehensive of joining a government organization but was persuaded strongly by the Prime Minister who had known him since he was in college.

*"It's going to be a challenge for you- but I can assure you that you will not regret it"*

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*This case was written by Professor Bodhibrata Nag and Professor Ashok Banerjee at the Indian Institute of Management Calcutta and Debprotim Dutta. The case was prepared solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation.*

- the Prime Minister

Raj Shekhar still remembered their conversation a month back. Challenges had always driven him and he was not going to let go of this opportunity.

It was the first time that Raj Shekhar met the Prime Minister, after the Prime Minister had assumed office a month back. The Prime Minister had retained the portfolio of Cabinet Minister of the Railways- the only time a Prime Minister had done so since India's independence. The Prime Minister had made his intentions clear in a recent television interview.

*"India needs Indian Railways for its development- and I intend to ensure that it becomes a viable sustainable entity"*

- the Prime Minister

The Prime Minister was quite blunt in outlining the task for Raj Shekhar in the months ahead. His opening sentence was:

*"I want you to improve the operating ratio (Exhibit 8) of the Indian Railways from the current level of 90% to 70% in the next five years. You have more than 1`200 thousand crores<sup>2</sup> of projects pending<sup>3</sup> and the Indian Railways could generate only around `13 thousand crores for funding these projects through internal resources on an average over the last five years. With your current earning levels of `100 thousand crores, an operating ratio of 70% will allow clearing the back log of projects in the next 3 to 4 years. I will ensure that Indian Railways gets a matching budgetary support<sup>4</sup> for its projects from the Central Government."*

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<sup>1</sup> `Indicates Indian Rupee (known as INR) , the currency of India. One US Dollar was trading for about 62 INR on March 10, 2014.

<sup>2</sup> One crore is a South Asian number unit, which equals 10 million. A lakh is another South Asian number unit, which equals 100 thousand. A hundred lakhs equals a crore.

<sup>3</sup> The total cost of projects pending with IR is `203,450 crores, of which 39% is for the Dedicated Freight Corridor projects, 35% is for construction of new lines, 16% is for conversion from single to double lines and remaining for conversion to broad gauge. [19]

<sup>4</sup> Though IR is wholly owned by the Government of India, its finances had been separated from that of the Central Government more than nine decades ago to make it a sustainable commercial entity. IR has to finance all its working expenses without any budgetary support from the Central Government. The Central Government however provides budgetary support towards IR's capital expenditure to a certain extent. This budgetary support becomes a loan in perpetuity, for which IR has to pay a dividend at a rate fixed by Parliament. For example, IR's capital expenditure of `203,311 crores during the Eleventh Five Year Plan (2007-12) was financed through IR's internal resources (35%), loans raised in open market by IR (27%) and Central Government budgetary support (38%).

- the Prime Minister

Raj Shekhar was well known in corporate circles as a super-fast number cruncher. He did a quick calculation and had immediately responded:

*"I think that should be possible with a minimum of 6% freight and passenger fare hikes annually, while keeping the expenses constant. Given that our inflation<sup>5</sup> is around 5% on the average, it won't be unreasonable. I will work on the expenses part and keep it flat."*

- Mr. Raj Shekhar

The Prime Minister's swift and vehement rebuttal surprised Raj Shekhar.

*"No way! We already have the highest rail freight rates in the world. And with the world's lowest road freight rates in India, the railway traffic share has been steadily declining over the last six decades-it is down to 30% [1] compared to 43% in the US [2]. I don't want India to go down to the European level of 20% [3]. Do you know what it means for our environment? Transporting freight by road emits 150 gms of carbon dioxide per ton-km - which is more than three times that emitted by rail [4]. I can't allow that to happen."*

- the Prime Minister

Raj Shekhar volunteered.

*"Ok, then we will leave out the freight hikes. Passenger fares have not increased in real terms over the last decade, according to my knowledge. An annual passenger fare hike and a little tweaking of expenses should suffice"*

- Mr. Raj Shekhar

Again the Prime Minister came out with an emphatic "No".

*"We must not send the wrong message. While a little passenger fare hike is possible, we cannot increase too much. My government will become unpopular."*

- the Prime Minister

Finding Raj Shekhar perplexed, the Prime Minister smiled.

*"That is your challenge- to reduce the operating ratio to 70% without touching the passenger or freight fares. Come up with some good ideas- if it's feasible, I promise you all my support and*

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<sup>5</sup> Inflation has been calculated using Wholesale Price Index given in **Exhibit 4**

*help that you will need. I know you will not disappoint me- Prime Ministers rarely choose a Railway Board Chairman and the choice usually turns out to be correct."*

- the Prime Minister

The Prime Minister was talking about M.S.Gujral who was handpicked by the then Prime Minister in 1980. M.S.Gujral became a legend in his lifetime introducing far reaching initiatives like block rake movement, elimination of marshalling and sorting of wagons and reducing wagon turnaround time<sup>6</sup>. Raj Shekhar was a little worried- would he be able to live up to the expectations of the Prime Minister?

Raj Shekhar had called for a meeting with all the Railway Board Members at 11 am today, immediately after returning from the Prime Minister's office. All the Board Members had clocked up more than three decades in this organization. He was confident that many ideas were sure to emerge in this meeting.

He looked at the clock- it was five minutes to eleven o'clock. The meeting was about to start.

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<sup>6</sup> Wagon turnaround time has come down from 15 days 1980-81 to around 6 days in 2011-12.