6.1 Introduction

The Minister for Railways (MR), Mr. Lalu Prasad, the Chairman and Members of the Railway Board (RB) were reviewing investments for the XI Five Year Plan in mid July 2006. The focus areas that had been put forth in the XI Plan Approach Paper were [Planning Commission, 2006]:

1. Capacity augmentation, especially Delhi-Mumbai and Delhi-Howrah dedicated freight corridors
2. Establishment of logistic parks and terminals
3. Rationalization of freight structures
4. Increased use of IT enabled services
5. World class quality passenger amenities
6. Public-private partnerships for building and operation of rail infrastructure
7. Design of high capacity wagons
8. Restructuring of IR to focus on core activities
9. Establishing a Rail Tariff Regulatory Authority

The total investment being planned for the eight year time frame (2007-2015) was tentatively in the order of Rs 350,000 crores. This was a significant increase from the planned Rs 60,000 crores (actual expected to cross Rs 80,000 crores) in the X Plan period of 2002-07.

This confidence was a result of what the Indian Railways (IR) achieved, not only due to the rising trend of performance, but also due to the significant growth in the past two years (2004-06). The fund balances had crossed Rs 12,000 crores. These two years coincided with Mr Lalu Prasad being at the helm of affairs of the IR, having moved into his position on 23rd May, 2004.
Mr. Lalu Prasad, in his opening remarks of the budget speech of 2006-07 on 24th February 2006 had said, “Mr. Speaker Sir, I rise to present the Budget Estimates 2006-07 for the Indian Railways at a point in time when, there has been a historical turnaround in the financial situation of the Indian Railways.”

IR was considered to be heading towards bankruptcy, as per the report of Expert Group on Indian Railways (also called the Rakesh Mohan Committee report), submitted in July 2001 (of which the author was a member) which studied the IR for nearly two years [NCAER, 2001]. They had stated,

“Today IR is on the verge of a financial crisis... To put it bluntly, the business as usual low growth’ will rapidly drive IR to fatal bankruptcy, and in sixteen years Government of India will be saddled with an additional financial liability of over Rs 61,000 crores… On a pure operating level, IR is in a terminal debt trap.”

The fund balance at the end of 1999-00 had reached a low of Rs 149 crores, improving to Rs 5228 crores by the end of 2003-04 and over Rs 12,000 crores by the end of 2005-06. A 20 year perspective since 1987-88 gives a bird’s eye view of the performance of IR, in terms of total earnings, total working expenses, operating ratio and net revenues (Exhibit 2). The operating ratio (ratio of total working expenses (including depreciation and pension, but exclude dividend to GOI) to total earnings) and net revenues (total earnings less total working expenses, adjusted with miscellaneous transactions) had reached low levels of performance in 2000-01 (98.3%) and then had consistently improved till 2005-06 (83.7%).
The figures were however not strictly comparable. There had been a decrease in allocations to the depreciation reserve fund during the late 1990s from over Rs 2000 crores to a low of Rs 1155 crores in 1998-99. This was followed by a gradual increase until 2004-05 to Rs 2700 crores. In 2005-06, the allocation jumped to Rs 3600 crores (Exhibit 3). Further, there was a change in accounting practice in 2005-06 when Rs 1615 crores of lease charges to IRFC towards the principal amount for wagon procurement had been shifted from working expenses to miscellaneous expenditure. The operating ratio, for the sake of comparability with earlier years, would be 86.6%. Exhibit 4 gives the key statistics of IR as on 31st March, 2005. As a recognition of this ‘turnaround,’ some of the world’s biggest asset managers, investment bankers and consultants including Goldman Sachs, Deutsche Bank, HSBC, Mckinsey etc had shown interest in working with IR.

### 6.2 Turnaround Diagnostics

To diagnose the ‘turnaround,’ the first question would be whether it really was a ‘turnaround.’ Exhibit 1 allows an analysis of this.

The total earnings in 2005-06 increased by Rs 7121 crores, a 15.0% growth with respect to 2004-05. The total earnings in 2004-05 increased by Rs 4465 crores, a 10.4% growth with respect to 2003-04. Similar figures for the earlier years since 2001-02 ranged between 4.5% and 8.5% with respect to the previous year. The total working expenses plus the lease charges towards principal payments in 2005-06 increased by Rs 4431 crores, a 10.4% rise with respect to 2004-05. The total working expenses in 2004-05 increased by Rs 3277 crores, a 8.3% rise with respect to 2003-04. Similar figures for the earlier
years since 2001-02 ranged between 3.8% and 4.8% with respect to the previous year.

As a consequence of the total earnings and total working expenses, the net revenue reached a record of Rs 8005 crores in 2005-06, following the Rs 5274 crores in 2004-05. This was a record increase of Rs 2731 crores, reflecting a 52% increase in net revenues. Earlier, until 2004-05, there had been a steady climb from the low of Rs 1071 crores in 2000-01. The internal generation of cash surplus including provision for depreciation and Special Railway Safety Fund (SRSF) reached an historic level of Rs.13,068 crores for 2005-06, following the Rs 7603 crores in 2004-05. Exhibit 2 provides a visual description of the total earnings, total working expenses, their growth rates and the net revenue receipts.

The essence of the ‘turnaround’ was in the fact that (i) total revenues increased by a significant percentage in the last two years and (ii) the net revenues continued a robust upward trend.

This justified the principles that “freight business is a play on volumes,” and that “passenger business is a play on volumes and quality” which were behind various focused initiatives undertaken by the MR, and driven by the RB. Further, the initiatives were pursued in a manner that results could be obtained as quickly as possible, yet laying the foundation for continued performance improvements.

An interesting aspect was that the total earnings in 2005-06 had gone up by a record Rs 3523 crores with respect to the budget estimates (BE) for the year.
While this could raise questions about the budgeting process, for the year 2005-06 it is more of a consequence of initiatives that were put in place during the year, with results coming in the same year.

The next question would be the determinants of the 'turnaround'.

The increase in total earnings of Rs 7121 crores could be attributed to (i) goods earnings of Rs 5509 crores (17.9% increase on a base of Rs 30,778 crores), (ii) passenger earnings of Rs 1013 crores (7.2% increase on a base of Rs 14,113 crores) and (iii) others earnings including parcel, catering, advertising etc of Rs 599 crores (24.2% increase on a base of Rs 2479 crores) in 2005-06, out of the total earnings, goods constituted 67%, passenger constituted 28% and others 6%.

**Goods Earnings:**
The increase in goods earnings for 2005-06 over 2004-05 was Rs 5509 crores, including miscellaneous earnings due to wharf age and demurrage. Excluding the miscellaneous, the increase was Rs 5482 crores. Exhibit 5 provides an analysis of the commodities through which the increased goods earnings were obtained.

Coal (Rs 1365 crores), other goods including raw material (iron ore, limestone and dolomite) for other than major steel plants, and other stones, sugar, salt, non bulk goods and containers (Rs 1121 crores), iron ore for exports (Rs 733 crores), cement (Rs 550 crores), raw material for steel plants (Rs 475 crores), fertilizers (Rs. 449 crores) and pig iron and finished steel (Rs 373 crores) accounted for 92% of the increase in earnings, in that order.
The increase in earnings from coal and other goods were largely due to the increased loadings. The increase in earnings from iron ore for exports was both due to increase in loading and increase in rates by change of classification. The increase in earnings from cement was due to increase in loading. The increase in earnings from raw material for steel plants was due to the increased loading and increase in rates by change of classification. The increase in earnings from fertilizers was due to the increased loading and higher lead. The increase in earnings from pig iron and finished steel was primarily due to higher lead. Exhibit 6 gives the change in freight classification and rates since 2000-01.

It was important to note that while the public stance had been that there was no tariff increase, iron ore had been subject to tariff increases by revision of classification. A significant share of increase in earnings from iron ore for exports and raw material for steel plants would be attributable to this. Taking the case of iron ore for exports, a maximum of Rs 277 crores (current yield multiplied by the increase in traffic) out of the increase of Rs 733 crores was attributable to the increase in loading. The balance would be attributable to the tariff increase since there was no change in lead. Also, some of the extra income was attributable to (i) busy route surcharges, (ii) busy season surcharges and (iii) priority allotment of rakes for willingness to pay at two classes higher.

A comparison of the loading figures between 2005-06 and 2004-05 shows that increased loadings have been achieved in coal, other goods, raw material for steel plants, and iron ore for exports. The percentage increase with respect to 2004-05 was most significant for other goods (25%) followed by raw material
for steel plants (19%), cement (14%), and iron ore for exports (13%). The increase in coal was 8%. The increased axle load would account for a maximum of 14%. The rest would be due to increased rake availability as a consequence of (i) improvements in wagon turnaround, especially in iron ore circuits due to the efforts towards 24 hour loading in sidings in SER and SWR, and reduced train examination and (ii) use of covered wagon rakes which would otherwise have gone empty in SWR.

A whole host of schemes have been put in place to attract the freight customer, since July 2005 [MOR, 2006-b]. These include mini rakes for the small customer, volume discounts for the large customer, lean season discount scheme, long term freight incentive scheme, loyalty discount scheme, discounts for providing traffic in the empty direction, incentives at terminals like engine on load and construction of sidings, wagon investment scheme etc. An analysis of the above brings out the effect of the initiatives of (i) increased axle load (ii) reduced wagon turnaround and (iii) market oriented tariffs and schemes.

**Passenger Earnings**

The passenger earnings in 2005-06 had gone up by Rs 1013 crores (7.2%) over 2004-05. Disaggregate data is not yet available to analyse the elements of this increase.

The possible reasons for the earnings in 2005-06 being higher were due to initiatives in running 24 coach trains, deploying additional coaches in well patronised trains and even running of additional trains. These initiatives were made possible by ensuring analysis of demand based on the passenger
reservation system data and requiring the field level officers to respond to it by additional supply where possible.

In the passenger segment, a reduction of one rupee was offered in the second class ordinary fare, 10% in ACII and 18% in ACI. There had been increase in charges for cancellation, more trains being made superfast with a reduction in time and thus imposing a superfast charge, booking tickets from an origin different from the place of reservation, separation of tickets if a through a journey involved more than one train or a break of journey – thus not offering the telescopic benefits (the last charge has since been withdrawn).

The tatkal scheme, targeted at the ‘last minute’ passenger was extended first from one day to three days and then to five days. This offered a window of opportunity to increase earnings through differential pricing, based on the time of booking.

Emphasis has been laid on what has been called ‘touch and feel’ initiatives to improve the service quality for the passenger.

Consequent to the above initiatives, the growth in number of passengers has been 7.5% in 2005-06 over 2004-05 and 7.1% in 2004-05 over 2003-04. The growth in the earlier three years had ranged between -2.4% to 5.4%.

**Other Earnings**

The increase in other earnings of Rs 599 crores (24.2% over 2004-05) came through parcel, catering, advertising, dividends from the public sector units under the ministry etc (Exhibit 7). The increase of 24.2% in 2005-06 over
2004-05 followed a similar growth of 24.7% in 2004-05 over 2003-04. In the earlier years, the growth in this segment had been marginal. This source of revenue had not received as much focus as in the past two years. A slew of initiatives on these areas had been implemented over the past two years, making it attractive for private parties to take advantage of the market opportunity that IR could offer.

**Parcel**

For the parcel business, even though the leasing concept had been in place earlier, the implementation had been slow due to poor market response. This was given a thrust over the past two years. In a correspondence to the GMs in July 2005, the MR urged, “The GMs should ensure that all tender notices concerning parcel contracts are issued within 15 days and tenders are finalized within 2 months from the date of receipt of this letter.” The zones were empowered to fix up leases if they could get a bid at 20% more than the previous year’s earnings.

**Catering**

Catering was an essential service to IR passengers, both on the trains (mobile) and at the stations (static). Public private partnership in catering through the IRCTC was a major initiative, which received increased attention during the past two years. Like parcel, in the MR’s correspondence to GMs, a sense of urgency was communicated focusing on the need to quickly finalize the catering contracts within three months of issuing the tender. Open competitive bidding, many times having to deal with pressures (including court litigation) brought by incumbents, had been a strategy to unlock the potential of this business activity. The political stature of Mr Lalu Prasad and his ability to deal
with such pressures had enabled the GMs and IRCTC to move forward. Even then, at the end of the year, there were pending cases in courts.

**Advertising**

As stated by CCM, NR, “easy processing of innovative ideas for advertising was put in place.” This enabled zonal railways to be more proactive on this front. As an example, the NR doubled its advertising income from the three major terminal stations: Delhi, New Delhi and Hazrat Nizamuddin in two years. The increase in earnings from advertising had been even more significant in the CR and WR, leveraging the Mumbai area. The overall IR earnings had gone up from Rs 50.2 crores in 2004-05 to Rs 78.1 crores in 2005-06.

**Overall Strategy**

The country’s economy was growing faster than before, moving from the 4% to 6% GDP growth rates (from 1996-97 until 2002-03) to the 8.5%, 7.5% and 8.4% achieved in 2003-04, 2004-05 and 2005-06 respectively. This growth environment offered an opportunity for IR and had a significant impact on the turnaround.

In the freight business, there was focus on higher volumes, on the premise that marginal revenues were significantly higher than marginal costs (Exhibit 8). This was done with the objective of lowering the unit costs, resulting in the record surplus.

The strategy for freight rates made a clean departure from the past (the nineties, when rates were increased and high value finished goods suffered a greater increase in rates than low value raw materials) by (i) freezing freight
rate increases and (ii) rationalising the commodity classification to benefit the high value goods and charge more from the low rated commodities (Exhibit 6).

The strategy of higher volumes was also carried through in the passenger business. The concept of revenue management, where in differential prices could be charged for differential services like tatkal and superfast were leveraged.

In the other business areas of parcel, catering and advertising, the strategy of outsourcing through public private partnership and wholesaling rather than retailing was adopted. Underlying all this was the strategy of increasing asset utilisation.

**Proposed Initiatives**
Continuing and building on the strategies adopted, the focus for the future is on capacity enhancement, reduction in unit cost, reducing transit times and having world class terminals.

**Freight**
The MR, with inputs from the RB, has proposed various initiatives towards (i) improving the wagon productivity (ii) improving the mobility of wagons (iii) running of higher axle load trains (iv) improvements in asset liability and (v) infrastructure development for reducing transit times.

Exhibit 9 provides a perspective on the freight traffic trends in IR. Over a thirty year horizon, coal has become the most important commodity for IR.
Other commodities had reduced in significance, but have the potential for the future, especially due to growth in container traffic and other customer oriented schemes. The wagon turn around has been reducing consistently from a peak of 15.2 days in 1980-81 to just over 6 days in 2005-06.

**Passengers**
A recent initiative has been providing automatic upgrades to passengers in case of vacancy in a higher class, while there is a waiting list in a lower class and increasing the number of superfast trains. The MR has suggested a range of initiatives focused on (i) reducing passenger losses by increasing volumes by increasing the length and occupancy of trains (ii) modifying train length and composition based on passenger profile management (analysis of the passenger reservation system data to understand class wise and season wise occupancy of trains) (iii) increasing average speeds of trains (iv) providing affordable air-conditioned travel for the poor and (v) improved design of coaches.

Related ‘touch and feel’ initiatives at stations and on board trains focused on the passenger would be stepped up, driven by the zonal GMs and executed through IRCTC.

Exhibit 10 provides a perspective on the passenger traffic trends in IR. In terms of passenger earnings, the long term trend in earnings shows a growth in second class mail/express and upper class and a reduction in second class ordinary. The trends in number of passengers are similar. This reflects an increasing focus on the long distance reserved passenger rather than the short distance unreserved passengers. Between suburban and non-suburban, the
originating passengers are more for suburban, while it is the reverse in earnings.

**Others**

Parcel, catering and advertising are expected to witness more aggressive efforts. In his budget speech in February 2006, he described the outcomes and process as, “Present capacity utilization in parcel is less than 25% which is causing a loss in the parcel business. Certain measures were employed in parcel business in the current year which has registered a growth of 30% in parcel earnings. Open tenders were invited with reserve prices set at the initial rates and if inadequate response was obtained, the prices were reduced to 50% in 2nd round and then to 25% in 3rd round.”

Initiatives focused on the passenger being implemented by the IRCTC are (i) improving the quality of the ticketing transaction, (ii) improving value added and basic services at stations, (iii) passenger amenities on board trains, especially as an integrated service, (iv) low cost hotels and (v) leveraging tourism business.

**Investments**

To support the above, appropriate investments are being considered. The focus has been on low cost, short gestation and high return projects. Route based throughput enhancement works are being aggressively pursued by relaxing any cap on resource availability. The other thrust areas are gauge conversions to improve the BG network flexibility, sidings and the dedicated freight corridor. Exhibit 3 provides a perspective on the investment trends in IR.
6.3 Critical Appraisal: Strategies

As we review the initiatives behind the ‘turnaround,’ it is clear that significant dynamism has been brought in to leverage value from a whole range of business possibilities.

Freight

The strategy of higher volumes has done well for the railways. Increasing the axle load has been a major driver for this. The focus on improving wagon turnaround has been a key support for this. However, the implications of increasing the axle load and relaxing the examination norms for improving wagon turnaround need to be studied scientifically rather than just empirically. In view of the fact that increase in axle load had a significant role in the turnaround of IR, this has been separately dealt with as a case study [Raghuram and Shukla, 2006].

The tariff strategy in the 90s had not recognised the market reality, especially as a consequence of the liberalisation. Corrective strategies in terms of rationalisation of freight classes had begun from 2002-03, with a reduction from 59 classes to 32 in one year (Exhibit 6). These strategies had continued over the past two years, bringing down the number of classes to 18. More significantly, in the past two years, the approach to freight tariff's had recognised the market scenario and price elasticity of demand where in (i) IR has a competitive advantage in the generally ‘low rated’ bulk raw materials and can afford higher rates and (ii) IR faces tough competition in the generally ‘high rated’ finished goods and cannot afford higher rates. Exhibits 6 and 11 provide perspectives on the tariff strategies and shares of major commodities. The net result has been an increase in volumes and revenues, and more
importantly an increase in market share. Cement, coal, and iron and steel are examples. POL is a commodity where freight rates were reduced and there was gain in lead. For an organisation, generally charged with losing market share, the ‘turnaround’ in regaining market share especially in ‘high rated’ commodities is indeed commendable.

On the tariff strategy, it is important that the stance that tariffs have not been increased be underplayed, since tariffs have actually been increased, and significantly so in the case of iron ore, by reclassification. However, it would appear that the tariff increase had been “accepted” by the customers, primarily because iron ore selling rates in the international markets had gone up significantly (88.9% increase in 2004-05 with respect to 2003-04, and 23.5% increase in 2005-06 with respect to 2004-05 [Business Line, July 26, 2005 and FIMI, 2006]). Information from Chakradharpur (SER), Hubli (SWR), Nagpur (CR) and Solapur (CR) divisions reinforced the interest shown by customers in the various schemes announced by the IR.

While the higher volumes and market oriented tariffs have increased revenues under the scenario of economic growth, the issue of customer oriented strategy development is still in question. One of the important lacunae in IR is its ability to listen to the customers. In spite of various initiatives, the approach is essentially supply driven. While the important customers have appreciated the recent initiatives in increasing IR’s traffic handling ability, they have been unhappy with the unilateral approach. Concerns like changes in rates, demurrage free hours, load ability of wagons, etc have been repeatedly voiced (Exhibit 12).
Passengers

The emphasis on increasing volumes has done well in numbers, and revenue to an extent. There have been earlier years when revenue growth has been higher.

The public stance of not increasing fares has come up for criticism in the media. While the base fares have not been increased (and in fact reduced), charges for various related services have been increased. Exhibit 13 gives the excerpts from a news item that takes a critical view of such charges. However, these charges are relatively insignificant compared to the volume based revenue.

The ‘reclassification’ of trains as ‘superfast’ has certain problems. A train was considered ‘superfast’ if the average speed between origin and destination was at least 55 kmph. Such trains charged Rs 20 per ticket more in second class and sleeper, and Rs 30 in the upper classes. Timings of many trains which had an average of just below 55 kmph were readjusted to make them ‘superfast.’ Efforts are on to review the entire passenger train timetable, so that a ‘zero based’ approach is evolved, rather than newly introduced trains having to weave their way through schedules already set for existing trains. The July 2006 passenger railway timetables have been issued as being valid only till November 2006, with the idea that a more streamlined set of timings would be put in place.

However, there are inconsistencies, especially when we see that there are many trains which have significant common route segments and timings, but some being superfast and the other not superfast (Exhibit 14). In such segments, the passenger pays superfast charge on one day and not on the other.
for the same service enjoyed. In fact, a better strategy may be that for all trains, superfast charges are levied if the average between the pairs of stations that the passenger is travelling provides a superfast service (a speed of above 55 kmph) or not. The floor level for the superfast speed would also need to be increased, since it is significantly lower than the maximum speed.

The recent initiative of providing automatic upgrades to passengers when there was vacancy in a higher class and waitlisted passengers in a lower class had proved to be an image builder for the IR. Whenever an upgrade does happen, then at least two passengers are happy. (Initial data shows that on the average there are two upgrades for every wait listed person provided confirmed accommodation. Thus goodwill is generated among three passengers.) The revenue earning potential of this has yet to be demonstrated, since even though on the aggregate, waiting lists are longer in the lower classes, it is not clear that the probability of there being a vacancy in a higher class with a waiting list in a lower class is significant.

Others
While parcel earnings were going up, there was a basic question of whether the IR should be in this business. The alternate use of line capacity where parcel trains run was an issue for consideration. Regular freight trains and container specials (which could be carrying the parcel) had greater revenue potential. Similarly, in passenger trains, the alternate use of the space for carrying passengers might be a more viable proposition, unless safety requirements made the non-passenger space imperative in trains.
On catering and advertising, as discussed in exhibit 7, the potential for revenue increases is significant. The driving principle would be that the IR passenger is the target market for such activities leveraging of interested stakeholders would be the key.

6.4 Critical Appraisal: Processes

Having attempted an appraisal of the strategies, we now critically examine some of the key processes behind them. Discussions with various Board Members and ex-Members by the author brought home the point that there had been a significant increase in initiatives over the past two years. “This has brought in a confidence and up-beat attitude right through the organization”. More significantly, many had been brought to a logical conclusion, through speedy execution. As seen from Exhibit 8, on the freight business, what was projected in June 2005 was realised.

For example, the increase in axle load [Raghuram and Shukla, 2006], which had been considered by the IR even as early as 1982, never saw an ‘ownership’ that could see the initiative through. Based on some approved extra loading for commodities like slack coal in 1997 and run-off-mines coal in 1998, the RB had taken a decision in early May 2004 to increase the chargeable carrying capacity (CC) to CC+2 for all commodities loaded in BOXN/BOXNHS wagons. As per section 72 of the Indian Railways’ Act 1989, the maximum CC for wagons had to be fixed by the Central Government and hence the approval of the MR was required. The RB decision was soon approved by Mr Lalu Prasad. (He had become the new MR on 23rd May, 2004). However, later that year, during field visits, he came across many
wagons which were significantly overloaded. This set him thinking that there should be potential to formally increase the axle load.

Initially, there was resistance from the engineering department, fearing implications on track and bridges, and consequently on safety. The process of increasing the axle loading required many departments and sub-institutions (RDSO and CRS) to get aligned. A consistency of direction from the MR got the initiative going. The RB, after taking into consideration the views of RDSO, decided to increase the axle load to CC+8+2 on a trial basis, to be monitored by RDSO. This trial period has since been extended for one more year until 30th June 2007. From a safety perspective, the CRS sanction has been received for most ZRs and is under process in other cases.

Similarly, the initiative on providing automatic upgrades to passengers was initially resisted as a loss making proposition. Again, consistency of direction from the MR got the initiative going.

All major policy initiatives require the MR’s approval. Hence the role of the MR vis-à-vis the RB becomes critical. Exhibit 15 gives the top management structure of the IR.

The MR
As stated above, given the implicit power structure, the MR becomes the effective CEO of the IR. He is thus in a position to drive initiatives. Based on an analysis in [Raghuram and Gangwar, 2006], the key factors affecting the IR’s financial performance over the past 20 years have been summarized as:
• IRFC: 1986 (positive effect due to facilitation of market borrowings for wagon procurement, negative effect due to high interest rates)
• CONCOR: 1989 (positive effect due to focus on containerized movement of non-bulk)
• Project Unigauge: Early 90’s (negative effect in the 90’s, including due to reduction in track renewal works, positive in the recent and future years)
• Fifth Pay Commission: 1997-98 (negative in the late 90’s)
• Special Railway Safety Fund: 2001-02 onwards (positive in the recent and future years)
• Reorganization from 9 to 16 zones: 2001-02 and 2002-03 (positive in the future years, due to greater focus)
• Focus on PPP format for investments, catalyzed through RVNL: 2002-03 onwards (positive, due to the ability to leverage other stakeholders’ funds).
• Market oriented tariffs (positive)
• Focus on increasing asset utilization: 2004-05 and 2005-06 (positive, provided implications on asset wear and tear are appropriately dealt with)
• Competition in container movement: 2006 (expected to be positive, though implementation has to be seen)

Almost all the above initiatives were moved by the RB and brought to finality by the MR (except the Fifth Pay Commission, which was a Government of India initiative). A list of the MRs is given in Exhibit 16.
The tenure of Mr. Jaffer Sharief in the early 90’s saw the initiative of project uniguage taken to an irreversible state. While there was resistance from within the IR on a project of this magnitude which took away funds even from normal maintenance and replacements, the initiative has resulted in tremendous increase in connectivity and flexibility of operations. Zonal railways like ECR, NER, NWR, SCR, SR, SWR, and WR and the regions they serve have benefited significantly from this. The tenures of Mr. Ram Vilas Paswan and Nitish Kumar saw the restructuring of IR from 9 to 16 zonal railways. This has given increased focus to traffic in many of the regions. SWR is one railway which has leveraged this focus. However, this has increased the number of interchange points, thus posing a greater challenge to operations. Mr. Nitish Kumar had also set in motion the tariff rationalisation strategy.

The SRSF was set up with a corpus of Rs 17,000 crores (with Rs 12,000 crores being a contribution from the Government of India) in 2001-02 for renewal and replacement of over-aged assets. This initiative, when completed in 2007-08, would modernise and strengthen track infrastructure and other assets.

Apart from the above, initiatives that directly benefited the passenger segment have been a mainstay of most of the Mrs. Amongst the most significant were the passenger reservation system and Shatabdi class of trains initiated by Mr. Madhav Rao Scindia.

Initiatives of market oriented tariffs; asset utilization and competition in container movement are attributable to Mr. Lalu Prasad.
The Style of the Present MR

The operationalisation of the various strategies over the past two years depended significantly on the leadership style of Mr. Lalu Prasad. It was a common sense based approach, showing an astute understanding of the market reality, the asset base of the IR and the expertise and capability of the IR’s management and systems. Consequently, he followed this up with the principles of leveraging the assets (“milk the cow fully”) and empowerment and delegation. With whatever has been achieved in the ‘turnaround,’ Mr. Lalu Prasad has demonstrated that good economics is good politics.

Non Interference: Dealing with the RB

“Mr. Lalu Prasad is a non-interfering, yet aware MR, who sets the goals and expects results.” was stated by most of the ex-Members and the current Members of the Board. “This has given him a position of strength to build organizational alignment to see through fundamental initiatives.” “It appears that the current Members of the Board function as a cohesive entity, due to the force of expectation on legitimate initiatives.”

Direct Approach: Communication to GMs

To build alignment for execution, the MR periodically communicated to the GMs, setting and reinforcing priorities. Exhibits 17 and 18 give two sample letters sent on 1st April, 2005 and 27th March, 2006. The latter letter has urged a freight loading target of 800 mt, internal generation (fund balance) of Rs 20,000 crores and operating ratio of 77%. The annexure to the letter included sharp actionable statements in the areas of freight, passenger, and parcel and catering.
Caring Attitude: Staff and Unions

Mr. Lalu Prasad had a positive approach in dealing with the staff and unions. Given the financial performance of the IR, the unions wanted a doubling of the contribution to the staff welfare fund. He offered them more. When he saw that gang men who had to walk on the stone ballast were not provided footwear as part of their equipment, he ensured the same. Running crew had to carry their own provisions for food to be cooked in the running rooms, many times at odd hours. He directed that all running rooms must outsource food and provide the same to the crew at subsidized rates.

Whenever concerns were raised about downsizing of the IR, he came out with his Hindi one liner which translated to, “Downsizing may make IR thinner, but not necessarily healthier.” On presenting the future, his pitch was, “regenerate competitiveness and leverage resources rather than restructure and downsize.” He believed in instilling hope and excitement rather than fear and anxiety.

Image Building: Media

Given his penchant for wit and one liner, Mr. Lalu Prasad was sought after by the media. Whenever there was an opportunity to highlight an initiative or an achievement, advertisements were released. Exhibit 19 gives an example of two advertisements of initiatives in the freight and passenger segments respectively.

Exhibit 20 provides a comparative brief on “Sizing up the Railway Ministers” [Indian Express, April 2006]. In recognition of his initiatives, Mr. Lalu Prasad
has also been ranked as the second best minister in the current cabinet [India Today, May 29, 2006].

**Identifying Right People: Choice of OSD**

In this tenure, in all the dealings of the MR with the IR, a nodal person has been the OSD, Mr. Sudhir Kumar. He was specially chosen by the MR for this position, based on earlier interactions when Mr. Sudhir Kumar held different positions in Bihar as an IAS officer. He joined as the OSD on 1st September, 2004. It had been clarified between him and the MR that his role would be to provide the link between the MR and the RB to translate the MR’s vision for IR into action.

The first task that the OSD took upon himself was to understand the functioning of the IR and what has been said about the IR in a studied manner. In his own words, “I read whatever reports on IR that I could lay my hands on, and there were plenty. I read various correspondences to understand the decision making processes. I soon realized that the IR had tremendous strengths in its systems that ensured robust decision making.” This understanding that he developed gained him acceptance in the RB. The OSD understood that the IR officers themselves were a source of ideas for innovation that would be in line with the MR’s thinking. He made it a point to be open to ideas from within the IR, so that they could be examined by the concerned functional departments and appropriate action finalized and implemented quickly. Given his unique position, he could cut across the hierarchy of the IR.
Whenever initiatives were taken up, he was relentless in follow up. The initiatives related to axle load increase, market oriented tariffs, reducing wagon turnaround, innumerable freight incentive schemes, passenger profile management, up gradation of passengers, zero based timetabling, leasing of parcel capacity, catering, are among the many which have been followed up for execution. This is even more significant, given that all this has happened through the existing systems and culture of the IR.

The tactic behind the achievements was the balanced use of the MR’s support for legitimacy, and in keeping independence in the departmentally oriented and hierarchical organization that IR was.

A premise that comes forth is that if all it takes is an MR’s consistency of direction and follow up to make the giant organization more dynamic, then by implication, the IR is well set in terms of people and a lot of systems, but does not have the mandate and structure for a corporate approach to fructify policy initiatives in a timely manner independent of the political leadership, in the context of the transportation requirements for the nation.

**The RB**

Most of the initiatives implemented over the past two years (and earlier) have been ideas from within the IR, considered and evaluated by various functional departments in the RB. The RB has played a pivotal role in implementing the initiatives, leveraging the well laid out systems. In the instance of increasing the axle load, the various departments considered the implications before the policy decision and then alerted the zones to monitor the various effects during the trial period. However, while many ideas had been generated within the IR, the structure of the Board with Members being cadre based often
slowed down decision making for innovations. The Board Members had to ensure that their decisions comply with the technical and systemic requirements of their respective departments. Resolution of this for a policy decision often took more time than would be appropriate for a changing environment in a fast growing economy.

The strength of the systems was in the fact that the RB was able to function well on its own for routine and to rally around whenever routine was disrupted (like in the case of accidents).

Thus, most innovations generated in the RB had come to fruition with the active involvement and leadership of the MR. The one notable instance of a Chairman driving initiatives (with the backing of the Prime Minister) was in the early 80’s during the tenure of Mr. M S Gujral. He had pushed through far reaching initiatives like the idea of block rake movement (which eliminated the need for yard based sorting and marshalling), segregating the wagon stock with different speed and safety characteristics forming homogeneous rakes for enhanced performance, relaxing the examination requirements of such rakes from at each major yard enrooted to just the origin, etc. The wagon turnaround data (Exhibit 9), as one performance measure, shows the impact of these initiatives. From a peak of 15.2 days, a reducing trend was established. He had also proposed that the IR should increase the axle load for better throughput and experimented with it. However, after his tenure, the initiative did not sustain on the grounds that it would adversely affect safety.

A list of the Chairmen, Railway Board (CRB), is given in Exhibit 21. The Chairmen have had relatively short tenures. The same would be the case for
the Members. Given the relationship between the political leadership and the RB, the implication of this reduced in significance when there is an MR who is committed to getting the best out of the organization.

6.5 Critical Appraisal: Sustainability

The final question is whether the strategies and processes are sustainable.

It is important to recognize that apart from a faster growing economy, the one variable that was different in the past two years of the ‘turnaround’ was the political leadership. The natural corollary is that sustainability depends on the political leadership.

From the perspective of IR responding to environmental changes in a fast growing economy, what is required is a framework for continued innovation. We shift our focus from just the current strategic initiatives to the process of continuing such initiatives. Towards this, the strategies and processes can be sustained if the political leadership is well intentioned and has consistency of direction. Political leadership does not come in through a controlled process. The need is for the professional top management (RB) to be able to respond as a commercially oriented organization with a corporate culture.

Strategies and processes have to be customer centric. The current structure of the organization lends itself primarily to supply driven strategies, where at best the initiatives are what the IR thinks is good for the customer and not necessarily driven from the customers’ perspective.
An important strategic tool to evolve customer-centric strategies is market segmentation. Exhibit 22 provides an example of a segmentation of the market on the dimension of the nature of the origin/destination for freight traffic, based on 2004-05 data. The most significant flow is from mines to industries, accounting for 303 mt, which is about 50% of IR’s traffic. The next largest flow is from industries to distribution centres, accounting for 170 mt, which is about 28% of IR’s traffic. These would have implications on planning the logistics, siding and handling automation and ownership, etc. Another interesting statistic that emerges is the role of the port contributing to IR’s traffic, either as import or export. Port originating traffic is 59 mt and port terminating traffic is 71 mt, accounting for a total of 130 mt, which is about 22% of IR’s traffic. There could be other dimensions of segmentation like size of customer, time value of cargo, geographic origin/destination, monetary value of the cargo, rake load vs. non rake load shipper, etc.

Every DRM (the division being the operational interface with the client systems) should be asked to periodically evolve a strategy paper with a ten year time frame, which can then be consolidated at a zonal level. Exhibit 23 gives the zonal and divisional organization of the IR. In the freight segment, periodic workshops should be held wherein key customers discuss what their needs are, with the top management listening. In the passenger segment, periodic market research should be conducted and assimilated to understand the customers’ needs.

Strategies and processes have to be scientifically based. This needs a paradigm shift on research, development and training to evolve and sustain increasing asset utilisation and new technologies and systems that are world class. There
is scope in increasing the asset utilisation in all the infrastructure elements: right of way (track), rolling stock (locomotives, coaches and wagons), and terminals. Given a railway system that has a natural advantage of scale, investments in research, development and training will yield long term returns, not only from use in IR, but also from global markets.

To sustain the above, IR needs to focus on organizational restructuring. Many of the recommendations of the Indian Railways Report submitted in 2001 are valid for the way ahead. These need to be seriously considered (Exhibit 24). Top down restructuring with a focus on customers and merging of cadres, beyond the mid way career are imperatives for the IR. Exhibit 25 provides excerpts from the Tandon Committee Report of 1994, some of which are contestable, but still provide a framework for thought. (This is a suggestion of the consultant which is not yet accepted by IR.)

The ‘turnaround’ over the past two years has demonstrated that IR is indeed a sunrise sector. With the right moves, nothing can hold it back from being world class.

6.6 Key Recommendations of the Indian Railways Report
1. If IR is to survive as an ongoing transportation, organization it has to modernize and expand its capacity to serve the emerging needs of a growing economy. This will require substantial investment on a regular basis for the foreseeable future.
2. IR will have to compete even harder with other modes in order to sustain its traffic volumes, let alone accelerate growth. Thus a significant change is needed in IR’s strategy towards its freight services.

3. IR should take steps to recover its market share through a combination of tariff re-balancing and quality enhancement measures, and to increase its share of the transportation of “other commodities”.

4. The Committee has constructed three possible investment strategies for IR over the next fifteen years. The first two scenarios, “Low Growth” and “Medium Growth” are constructed in a “Business as Usual” framework, whereas the third scenario, “Strategic High Growth” will require substantial focused remunerative investment and corresponding organizational restructuring of IR internally and in its relationship with government, including corporatisation.

5. For IR to survive over the next 20 years and beyond, it has to adopt a “strategic perspective” where it rekindles high growth in both the passenger and freight segments.

6. IR will have to explore every avenue of cost reduction. Among the cost reductions to be implemented staff cost reduction will be crucial.

7. From the point of view of investment strategy, the most undesirable feature of the annual budget exercise is the very short-term focus it imparts to all investment initiatives. The priority for IR is to invest in
debottlenecking points of congestion in the network (particularly on the saturated arterial networks of the Golden Quadrilateral linking Delhi, Kolkata, Chennai and Mumbai).

8. The Expert Group’s focus on root causes has highlighted three priority areas: institutional separation of roles; clear differentiation between social obligations and performance imperatives; and the need to create a leadership team committed to and capable of redefining the status quo.

9. The current system has two flaws that the Expert Group believes must be corrected: tenure and skills. A system which effectively rewards those on the basis of seniority and age with a position on the Board for a few months prior to retirement is not the mechanism to breed leaders. Skills in the leadership team need to be broadened and deepened. IR urgently requires an injection of fresh ideas and fresh skills to accelerate its development into a commercially savvy market oriented set of businesses.

10. The Expert Group has carefully examined the experience of European and other railways in their restructuring efforts. The focus should be on commercialization rather than privatization. This involves reorganizing the rail system into its component parts, spinning off non-core activities, restructuring what remains along business lines and adopting commercial accounting performance management systems. IR’s management needs to be allowed a degree of autonomy that is comparable to any other commercial organization.
11. IR must eventually be corporatised into the Indian Railways Corporation (IRC). The Government of India should be in charge of setting policy direction. It would also need to set up an Indian Rail Regulatory Authority (IRRA), which would be necessary to regulate IRC’s activities as a monopoly supplier of rail services, particularly related to tariff setting. The Indian Railways Corporation (IRC) would be governed by a reconstituted Indian Railways Executive Board (IREB).

6.7 Excerpts from Tandon Committee Report

Restructuring the Organisation

Railway Board
Functions to be represented in the Board should cover the major external and internal transactions of the organization. The external transactions are with the customers in passenger and freight. The internal transactions are those between the freight, passengers and inter-modal services divisions and the division responsible for production and maintenance of rolling stock and infrastructure, and their maintenance. These divisions are to be supported by services such as finance, personnel, corporate planning, operation research, economics, legal security, medical, purchases, stores and training. A major area of future source of funds for the development of the network will be property development. The distribution of these functions under a compact Board may be as follows:
### Table 5.1 Distribution of Functions

<table>
<thead>
<tr>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulk Freight Services</td>
<td>Which will deal with the existing bulk movements like coal, ore, cement etc?</td>
</tr>
<tr>
<td>Passenger Services</td>
<td>which deal with long distance, commuter, intercity and suburban</td>
</tr>
<tr>
<td>Inter-modal Services</td>
<td>This is the major thrust area and will deal with containerized and wagon loads as a total door to door services. This is expected to bring back highly paying of “smalls” traffic to Railways and will require major initiatives</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>to look after track, OHE and signaling systems</td>
</tr>
<tr>
<td>Moving Assets</td>
<td>to look after locomotives, coaches, wagons and their production and maintenance</td>
</tr>
<tr>
<td>Finance and Planning</td>
<td>to look after Banking, Fund raising, Financial Services and Long Range Planning</td>
</tr>
</tbody>
</table>
Human Resource Management:
Direct recruitment to Indian Railways at the officer’s level is made through the UPSC into ten departmentally based services. These are:

Through Combined Engineering Services
1. Indian Railways Service of Mechanical Engineers
2. Indian Railways Service of Engineers
3. Indian Railways Service of Electrical Engineers
4. Indian Railways Service of Signal Engineers
5. Indian Railways Store Services

Through the Civil Services Examination
1. Indian Railways Traffic Service
2. Indian Railways Account Service
3. Indian Railways Personnel Service
4. Indian Railways Protection Force

Through Combined Medical Services
1. Indian Railways medical Service

As a first step it would be worthwhile to examine the possibility of Indian Railways recruitment under a single service.

Indian Railway Administrative Service
After recruitment and appropriate training they could then be allotted to the different departments according to each on needs and not according to technical disciplines. Initially the infrastructure, rolling stock and workshop
and operations department will source their requirements from the pool of technical graduates and the Finance, Commercial and Personnel would draw from those with appropriate qualifications.

The Next Step

Recommendations

1. Tenures of general managers, members and Chairman of the Board should be for a minimum of 3 years. The general managers and members may be made equal in salary so that they do not have to move simply for the sake of increased salaries. Similar tenures are suggested for additional general managers in the new structure.

2. The average age of divisional railway manager is generally above fifty which results in short tenures at more senior positions. To remedy this and to assure minimum tenures at senior levels, posting at divisional railway managers should be at younger age level.

3. Creation of a unified Indian Railways Service with a development and selection process to groom those who only will man general management positions such as Divisional Railway Manager, Additional General Manager, General Manager and Member.

4. The changes suggested for the functions of the Board members from the present departmental to those proposed should be implemented first to send out the message of change.