

India has one of the largest and busiest railways networks in the world, transporting over 18 mn passengers and 2 mn tonnes of freight daily.

After having been run under Central Government control since Independence, with only the manufacture of some railway parts allowed to private players, over the last few years there have been several steps to encourage private participation in various segments of railways in India, running of container trains being one of the more important ones.

The pressure on infrastructure has predicated the involvement of the private sector for capacity augmentation, removal of bottlenecks and improvement in service quality.

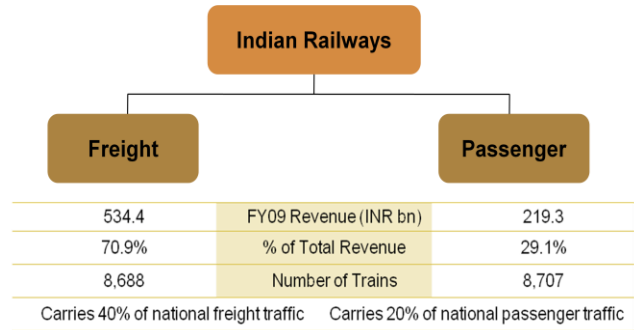
The 11<sup>th</sup> Five Year Plan has envisaged an investment of INR 2,300 bn in railways, almost 60% of which is expected to come through PPP projects.

Slowly, but steadily, with the help of several initiatives like Wagon Investment Scheme and Dedicated Freight Corridor, avenues for private involvement in India’s railways sector have grown.

The opportunities for traditional EPC contractors in India, with the experience of executing railways projects, as well as for international players looking to partake of this lucrative pie are immense.

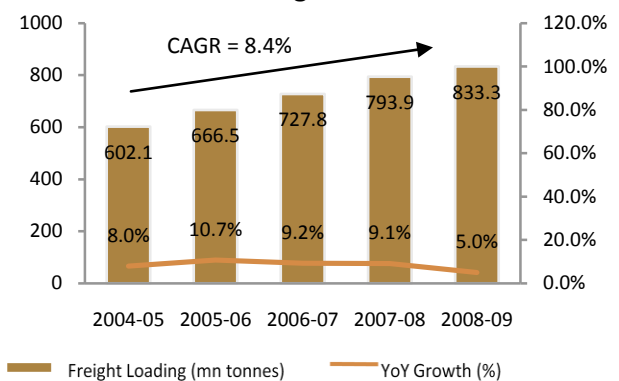
At the same time, several key issues like cross-subsidization of passenger traffic through freight traffic, strong competition from road freight and traffic congestion remain.

**Exhibit 1: Railways share in traffic (2008-09)**



Source: Ministry of Railways

**Exhibit 2: Growth in freight traffic**



Source: Indian Railways White Paper

This report by o3 Capital makes a case for the need for private sector involvement in India’s potentially lucrative railways sector, at the same time analyzing the issues that could dampen the beneficial effects of this participation. The report also evaluates two of the most talked about PPP initiatives in recent times – the Dedicated Freight Corridors and the involvement of private players in running container trains.

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