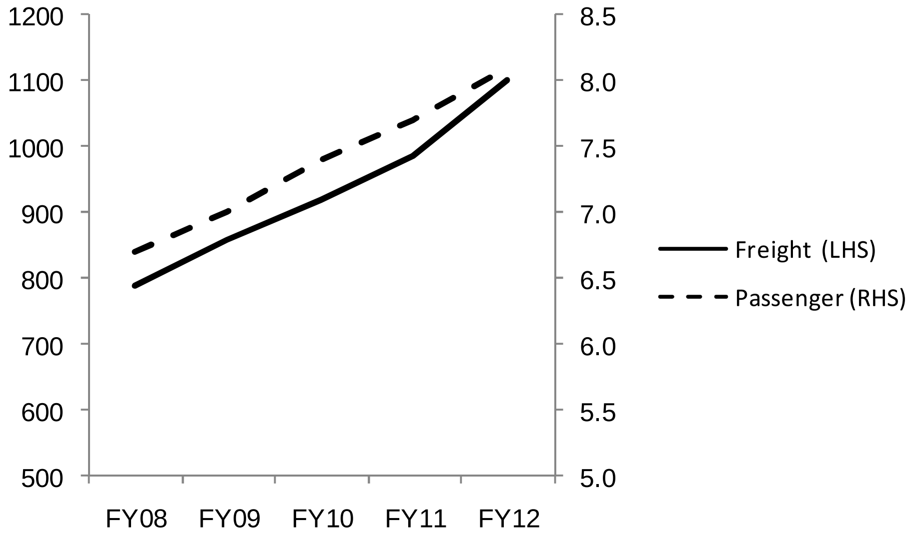
At the end of FY08 IR's cash surplus exceeded Rs2.5 trillion (US$62.5 billion), an ample financing cushion for its ambitious investment programme.

Pressure for change is coming from competition driven by the expansion of low-cost air travel, a boom in private car ownership and the loss of freight traffic to road transport. As a result, IR is seeking to upgrade rail services and to develop some of its vast holdings of land, both in prime city centre locations and in plots situated adjacent to major rail and road junctions. This is opening up new private investment opportunities, especially for logistics firms and property ventures. Total investment in railways and associated infrastructure during the eleventh plan period is targeted at Rs2.6 trillion (US$62.9 billion); 17 per cent of this total is expected to come from the private sector.

Even under the best of scenarios, though, IR will struggle to keep traffic growing in line with overall real GDP. Increasingly, long distance passenger travel will be lost to the airlines. In FY06, passenger traffic was 5.8 billion journeys, equivalent to 615.6 billion passenger km. Total passenger traffic is expected to increase around 5-6 per cent in the eleventh plan period. Non-suburban passenger traffic growth is projected at around 8 per cent per annum in the period to 2012, bringing the total to 8.2 billion journeys. Suburban rail travel is expected to grow 3-4 per cent annually in the same period.

Total freight traffic in FY06 was 407.4 billion net tonne km. IR expects to increase freight carried by 8.7 per cent per year until 2012, bringing the aggregate total to 1,100 million tonnes. Freight density in India was 9.1 tonnes per km in 2002, compared with 25.3 tonnes per km in China. Freight, particularly containerised cargos, will gradually move to roads as the country's road expansion moves forward, though given the congestion on the roads today, this is still some years away.

Exhibit 6.4 Projections of passenger traffic (billion journeys) and freight traffic (million tonnes)



Source: Planning Commission, IR.

The one area where IR will maintain a dominant role is in the transport of coal and other bulk commodities such as iron ore. Currently, coal traffic accounts for over 40 per cent of freight traffic, followed by iron ore and cement. Much of the incremental demand for coal for the 4,000 MW UMPPs will be met via imports and some of this will be supplied from ports directly to the plants via purpose-built coal handling facilities. Rail transport, though, will still play an important role in getting this coal from the ports to plants located elsewhere.