The General Manager
All Indian Railways

**Subject:** Applying IR Unit Costs & related Instructions to process rating / concessions / BDU proposals.

**Ref:**
(i) Rly. Bd. Letter No. 2020/TT-IV/2/1 dt 01.07.2020
(ii) General Manager, Southern Railway’s D.O. letter no. T.143/BDU/2022/Policy dt 28.04.2022

1. Business Development Units (BDUs) were constituted over IR in terms of Railway Board’s letter under ref. (i) wherein following core objectives had been outlined for BDUs:
   
   (i) To Increase Rail Co-efficient in traditional commodities
   
   (ii) To Increase Railways’ Modal Share - especially “miscellaneous” non-bulk goods, that comprise a large volume, mostly moving by Road.

2. In 2021-22, IR’s Traffic Output showed that ‘Balance / Miscellaneous Other Goods’ constituted 9% of NTKMs and grew at 18%. This basket is a fast emerging segment and pivotal to realising freight targets.

3. General Manager, Southern Railway vide ref. (ii) raised an important policy point to consider adopting IR’s Unit Costs while processing rating / concession / BDU proposals. Though SR has an Operating Ratio > 200%, its revenue per NTKM is higher than that of IR’s. Zones with O.R > 100% contribute more than 45% to IR’s originating NTKMs. GM/SR has mentioned that “while processing/evaluating BDU proposals, Finance follows Unit costs of the Zone instead of IR’s. This concept makes all BDU proposals from SR unviable.” SR has proposed that, since rates / tariff is determined by Rly Board based on IR’s Unit Costs, it would be consistent to adopt IR costs as a standard reference for a level playing field among Zonal Railway’s business development efforts.

4. It needs to be appreciated that though IR has a high level of fixed costs, revenue remains a direct function of NTKMs. IR can thus sharply increase its network’s surplus with little incremental costs by maximising asset utilisation to increase traffic transportation.

5. The BDUs would have to play a very important role given the highly competitive transportation / logistics market space and if the dwinding rail co-efficient is to be reversed so as to achieve 3 billion tonnes by 2027. They have a significant role to play in the crucial task of tapping growth

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potential of non-traditional as well as incremental traffic. IR can no longer take its monopoly status for granted.

6. It has been decided that in supersession to any other instructions / practice being applied and in order to bring uniformity across all BDUs, henceforth following instructions would govern:

(i) Rating / Concession / BDU proposals would be formulated by applying IR's Freight Unit Expense per NTKM with commensurate escalation factor to bring costs to the level of year in consideration. Illustration Box is at Annexure-I.

(ii) BDU's effectiveness requires de-layered working and conveying time bound decisions to customers. As already emphasised vide Railway Board's letter under ref. (i), BDUs at all levels would decide on business proposals within 7-days of the receipt of such proposals. Divisional BDUs would submit their report through the DRM to Zonal BDU.

(iii) Zonal BDUs would submit recommendations direct to the GM who may refer the recommendations to Rly Board. MCDOs of the GMs and concerned PHODs would reflect the status.

(iv) A strong monitoring mechanism should be put in place to track the output of BDUs at all levels. BDU proposals referred here should quantitatively fulfil objectives outlined at para 1 of this letter.

(v) It may be generally kept in view that costing is not alone the final determinant and rather important parameters like competing demand for that type of wagon stock, line-capacity, better turn-around and optimum economic opportunities often govern pragmatic business decisions to maximise output out of sunk investments in assets (track-infra & rolling stock).

7. This issues with approval of the Board (Member Finance and the Chairman & CEO).

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Railway Board
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New Delhi, dated: 31.08.2022

No.2022/Trans. Cell/BDU

1. PFAs, All Indian Railways & Production Units
2. The ADAI (Railways), New Delhi
3. The Director of Audit, All Indian Railways

Copy-As per list enclosed

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Annexure-I

Net Revenue = A - B, where

A = Freight Revenue estimated / proposed from the specific Traffic Proposal under consideration of BDU

B = T*C*e

T = Traffic Transportation Output (i.e. NTKM of Traffic Proposal under consideration of BDU)

\[ C = \text{Freight Unit Expense (viz.)} \frac{(\text{IR's Total OWE as per Annual Statistical Statement 3 col.5}) \times (\text{IR's BG Freight Expense\%})\times}{(\text{IR's Total Revenue NTKMs as per Annual Statistical Statement 13 Row 22 Col.7})} + 100 \]

\[ \times \text{IR's BG Freight Expense\%} = \frac{(\text{Total BG Goods Expense as per IR's Annual Statistical Statement 15 col.8}) \times 100}{(\text{IR's BG Total Working Expense as per IR's Annual Statistical Statement 15 col.4})} \]

For the Financial Year 2020-21, C = 99 paise per NTKM

c = commensurate Escalation Factor (to bring C to current level i.e. to the year in consideration)

For the Year 2022-23, c = 1.0687 to bring C (99 paise per NTKM) to current FY 2022-23 level.

Explanatory note: IR's Annual Statistical Statement 15 column 7 & 8 are the only columns that contain information under the common column title of “Division of the expenses between coaching and goods services” for BG. This factor has been applied above to assess percentage of IR’s O.W.E. allocable to Freight Services This is the best objective approximation to assess freight services expense in O.W.E. on which escalation factor is to be applied to bring costs to current level.

Note: Traffic Costing and/or Statistical Unit/Cell would render prompt and priority assistance to BDUs as and when required.

Important footnote: Annexure-I may be read only in conjunction with the instant letter No. 2022/Trans. Cell/BDU dated 31.08.2022

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Transformation Cell, 3rd Floor, Rail Bhawan, Raisina Road, New Delhi-110001.
Copy for information to:

1. The Director General, National Academy of Indian Railways, Vadodara
2. The Director General, Indian Railway Institute of Civil Engineering, Pune.
3. The Director General, Indian Railway Institute of Mechanical and Electrical Engineering, Jamalpur.
4. The Director General, Indian Railway Institute of Signal Engineering and Telecommunications, Secunderabad.
5. The Director General, Indian Railway Institute of Electrical Engineering, Nasik.
6. The Director General, Indian Railway Institute of Transport Management, Lucknow.
7. The General Secretary, IRCA, New Delhi.
8. Business Development Units, All Zonal Railways and Divisions.

Copy to:

1. Advisor/MR, EDPG/MR, OSD/MR, OSD/Coord/MR, Additional PS/MR PS/MoSR(D), EDPG/MoSR(D), EDPG/MoSR(J), Addl.PS/MoSR(J)
2. PSOs/Sr.PPSs/PPSs to CRB & CEO, M/O&BD, MF, M/TRS, M/Infra
3. All DGs, Secretary/RB, All AMs, PEDs, All EDs, Railway Board.
4. RBCC, Room No. 476 for uploading on the website.

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