



Report and Recommendation of the President to the Board of Directors

Project Number: 52371-001
June 2019

Proposed Senior Secured Debt Financing Facility GR Infraprojects Limited Highway Equipment Finance Project (India)

This is an abbreviated version of the document approved by ADB's Board of Directors, which excludes information that is subject to exceptions to disclosure set forth in ADB's Access to Information Policy.

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 07 June 2019)

Currency unit	–	Indian rupee/s (₹)
₹1.00	=	\$0.01440
\$1.00	=	₹69.4700

ABBREVIATIONS

ADB	–	Asian Development Bank
BOT	–	build–operate–transfer
EPC	–	engineering, procurement, and construction
GRIL	–	GR Infraprojects Limited
HAM	–	hybrid annuity model
km	–	kilometer
MORTH	–	Ministry of Road Transport and Highways
NHAI	–	National Highways Authority of India

NOTES

- (i) The fiscal year (FY) of GR Infraprojects Limited ends on 31 March. “FY” before a calendar year denotes the year in which the fiscal year ends, e.g., FY2019 ends on 31 March 2019.
- (ii) In this report, “\$” refers to United States dollars.

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PROJECT AT A GLANCE

1. Basic Data		Project Number: 52371-001	
Project Name	Highway Equipment Finance Project	Department /Division	PSOD/PSIF1
Country	India		
Borrower	GR Infraprojects Limited		
2. Sector		ADB Financing (\$ million)	
✓ Transport	Subsector(s) Road transport (non-urban)		23.00
		Total	23.00
3. Strategic Agenda		Climate Change Information	
Inclusive economic growth (IEG)	Subcomponents Pillar 1: Economic opportunities, including jobs, created and expanded	Climate Change impact on the Project	Low
4. Drivers of Change		Gender Equity and Mainstreaming	
Private sector development (PSD)	Components Promotion of private sector investment	Some gender elements (SGE)	✓
5. Poverty and SDG Targeting		Location Impact	
Geographic Targeting	No	Nation-wide	High
Household Targeting	No		
General Intervention on Poverty	No		
SDG Targeting	Yes		
SDG Goals	SDG5, SDG9		
6. Nonsovereign Operation Risk Rating			
Obligor Name	Obligor Risk Rating	Facility Risk Rating	
GR Infraprojects Limited			
7. Safeguard Categorization			
Environment: C	Involuntary Resettlement: C	Indigenous Peoples: C	
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		23.00	
Nonsovereign Local Currency Loan (Regular Loan): Ordinary capital resources		23.00	
Cofinancing		0.00	
Others*		27.40	
Total		50.40	
Currency of ADB Financing: INR			

* Derived by deducting ADB financing and Cofinancing from Total Project Cost.

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed senior secured debt financing facility of up to \$23,000,000 in Indian rupee equivalent into nonconvertible debentures being issued by GR Infraprojects Limited (GRIL) for the Highway Equipment Finance Project in India.

2. GRIL, which is an engineering, procurement, and construction (EPC) contractor and developer of roads and highways, intends to use this funding to purchase new construction equipment and machinery. The project will help increase GRIL's execution capacity, and the Asian Development Bank (ADB) funding will enable the company to access medium term financing in a domestic environment where such financing is becoming scarce for companies operating in core infrastructure sectors. This increased operational capacity will enhance GRIL's ability to execute its order book, and thus support the investment plans of the Government of India in the roads subsector.

II. THE PROJECT

A. Project Identification and Description

3. **Project identification.** India has the second largest road network in the world, totaling 5.48 million kilometers (km). Road is the most common mode of transportation and accounts for about 86% of passenger traffic and 68% of freight traffic. In India, the 120,543 km of national highways constitute 2% of the road network but carry about 40% of the total road traffic. This has required the government to come up with a comprehensive development plan for the national highways network in India.¹

4. The National Highways Authority of India (NHAI), the nodal agency under the Ministry of Road Transport and Highways (MORTH), is responsible for building, maintaining, and upgrading national highways in India. To develop the national highways network, the NHAI launched the National Highways Development Project in December 2000. The project consisted of upgrading over 48,589 km of national highways at a cost of \$31.6 billion. As of September 2018, 25,641 km of national highways had been upgraded and 9,575 km were under implementation. In 2018, the government ended the National Highways Development Project, and included the national highways that were still under implementation as part of the larger Bharatmala Pariyojana Project (footnote 1).

5. The NHAI has widely involved the private sector in the development of national highways. Projects have been awarded to private companies either on an EPC or build–operate–transfer (BOT) basis under the BOT toll model, the BOT annuity model, or the newly introduced hybrid annuity model (HAM). The concession framework for BOT projects (prior to the HAM concession framework) did not outline clear implementation of the remedial measures to be undertaken for delays in land acquisition and receipt of approvals for projects. Although land acquisition and approvals were the NHAI's responsibility, these invariably faced delays. This led to delays in implementation and projects becoming unviable because of increased project costs, resulting in financial stress for the developers. In the initial years of public–private partnership framework implementation in the roads subsector, there was insufficient data for accurate traffic forecasting, resulting in traffic being overestimated in many cases. Actual debt service coverage ratios of projects were lower than projected, resulting in projects facing financial stress. Resultant stress

¹ CRISIL Research. 2019. *Industry, Roads and Highways, Our View*. New Delhi.

on debt service led to an increase in nonperforming assets of banks. Because of these legacy issues, developers are reluctant to bid, and banks are increasingly reluctant to lend to BOT projects. To revive private sector interest in highways development, the NHA has developed newer concession frameworks such as HAM.

6. The Bharatmala Pariyojana Project is a new program that focuses on optimizing efficiency of freight and passenger movement across India by bridging critical infrastructure gaps through effective capacity enhancements.² The project envisages construction of 65,000 km of highways, including national corridors (north–south, east–west, and the “golden quadrilateral”),³ economic corridors, intercorridor roads, feeder roads, international connectivity, border roads, coastal roads, port connectivity roads, and expressways. The expected investment for phase 1 of the Bharatmala Pariyojana Project, which includes the upgrade of 34,800 km of the road network by fiscal year (FY) 2022, is \$77.0 billion.⁴ In addition to the Bharatmala Pariyojana Project, 48,877 km of projects under other ongoing schemes, with estimated spending of \$22.6 billion, are expected to be awarded by FY2022.⁵ The NHA is expected to award 4,500 km–5,000 km of roads to the private sector for enhancement annually from FY2020-FY2023. This would be a mix of two-, four-, six-, and eight-lane roads. Greenfield expressways, particularly in Maharashtra and Uttar Pradesh states, are under planning and implementation. The mode of award for private sector participation is expected to be a mix of EPC, BOT toll, and HAM projects.

7. (Confidential information redacted).

8. (Confidential information redacted).

9. **Borrower.** Incorporated in 1995, GRIL is primarily engaged in road construction and is promoted by Vinod Kumar Agarwal and his family. The principal business operations are divided into three categories: (i) civil construction, under which GRIL provides EPC services to the highways subsector; (ii) development and ownership of roads and highways on a BOT basis; and (iii) manufacturing of inputs used in highways construction.

10. (Confidential information redacted).

11. **Integrated business model.** GRIL benefits from backward integration into manufacturing of various inputs used in road construction and owning a strong fleet of equipment and vehicles, which reduces dependence on third-party suppliers. GRIL has also set up a central procurement team that procures major materials and engineering items required for its projects. This integrated business model facilitates the timely execution of projects. (Confidential information redacted).

12. (Confidential information redacted).

13. (Confidential information redacted).

14. Motilal Oswal Private Equity Advisors Private Limited, through its two funds (India Business Excellence Fund and India Business Excellence Fund I), owns a 9.9% shareholding in GRIL. (Confidential information redacted).

² The awards under the Bharatmala Pariyojana Project commenced from 2018.

³ The 5,846-kilometer Golden Quadrilateral refers to the national highway network that connects India’s four major metropolitan areas of Delhi in the north, Mumbai in the west, Chennai in the south, and Kolkata in the east.

⁴ MORTH, Press Information Bureau. 2018. *Allocation of funds for Bharatmala Projects*. New Delhi.

⁵ These projects include awards under the Special Accelerated Road Development Programme in North East.

15. Integrity due diligence was conducted.⁶ No significant or potentially significant integrity risks were identified in the project. The beneficial owners do not appear to constitute a potentially significant integrity risk, in the absence of any unresolved or unsubstantiated adverse media or other related information. None of the beneficial owners are politically exposed persons. ADB's review of the entity does not give ADB cause to believe that it is being used for money laundering or terrorism financing. Tax integrity due diligence was not required. It is noted that GRIL has been awarded previous ADB funded projects and is likely to bid on future ADB sovereign projects. In line with ADB's standard practice for procurement in all sovereign projects, all award decisions to be made in any potential procurement would independently rest with the executing agency, and need to be completely aligned with the ADB Procurement Policy (2017, as amended from time to time) and the Procurement Regulations for ADB Borrowers (2017, as amended from time to time). This would mitigate any potential conflict of interest that may arise.

B. Development Impact, Outcome, and Outputs

16. **Impact.** The impact of the project is aligned with the Government of India's Bharatmala Pariyojana Project, which targets 65,000 km to be constructed or upgraded.

17. **Outcome.** The project will have the following outcome: connectivity and travel time improved as GRIL capacity to construct roads will be expanded.

18. **Outputs.** The project outputs will be (i) total stock of equipment and machinery of GRIL increased, (ii) employment generated, and (iii) company's social and gender-inclusive strategies implemented.

C. Alignment with ADB Strategy and Operations

19. **Consistency with ADB strategy and country strategy.** The project, through its support for enhancement of connectivity, is consistent with ADB's Strategy 2030 with respect to the following operational priorities: promoting rural development, making cities more livable, and addressing remaining poverty and reducing inequalities.⁷ The project is consistent with ADB's country partnership strategy, 2018–2022 for India, specifically with pillar 2—providing inclusive access to infrastructure networks and social services by improving the infrastructure bottlenecks in lagging regions.⁸

20. **Consistency with sector strategy and relevant ADB operations.** The project is consistent with the following elements of the Sustainable Transport Initiative of the Transport Sector Group: scaling up urban transport, improving cross-border transport and logistics, and supporting road safety and social sustainability.⁹

21. **Lessons from previous operations.** This is, as such, the first nonsovereign debt financing by ADB for the purchase of equipment to be utilized in the road subsector in India. However, from a sovereign road construction project in Mongolia, the importance of managing

⁶ ADB. 2003. *Enhancing the Asian Development Bank's Role in Combating Money Laundering and the Financing of Terrorism*. Manila.

⁷ ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

⁸ ADB. 2017. *Country Partnership Strategy: India, 2018–2022—Accelerating Inclusive Economic Transformation*. Manila.

⁹ ADB. 2010. *Sustainable Transport Initiative - Operational Plan*. Manila.

cost over-runs was cited as a key lesson learned.¹⁰ Cost overrun could be attributed to increase in cost of material, equipment or delays in land acquisition for the road project construction. GRIL has thus far largely managed this risk through a proactive backward integration strategy by way of in-house sourcing of key raw material, and several efficiency-improvement measures to avoid or reduce the impact of increase in cost of material and equipment. The risk of delay in land acquisition resulting in cost overrun is also mitigated by the recently rolled out models of concession structures in India - which ensures substantial part of land acquisition prior to construction – and allows for descoping of the project in case land is not handed over in a timely manner.

D. Project Cost and Financing Plan

22. (Confidential information redacted).

23. (Confidential information redacted).

E. Implementation Arrangements

24. (Confidential information redacted).

F. Projected Financial and Economic Performance

25. (Confidential information redacted).

III. THE PROPOSED ADB ASSISTANCE

A. The Assistance

26. ADB will invest up to \$23 million in Indian rupee equivalent by subscribing to secured unlisted nonconvertible debentures issued by GRIL. These nonconvertible debentures would be redeemed over a 5-year period from the subscription date and include a grace period of 1 year from the date of subscription.

B. Value Added by ADB Assistance

27. ADB's assistance will provide access to medium-term financing to GRIL in a domestic environment where longer term financing is becoming scarce for companies operating in core infrastructure sectors. (Confidential information redacted). As GRIL is one of the key companies developing roads in India, a constraint in its ability to expand is a constraint for this critical sector. ADB's assistance will also help strengthen (i) GRIL's existing human resource management system and will help implement measures to promote gender equality in its business activities (refer to paragraph 35); and (ii) GRIL's social and environment standards by implementing a standardized corporate wide environment, health and safety policy.

C. Risks

28. (Confidential information redacted).

¹⁰ ADB. 2008. *Report and Recommendation of the President to the Board of Directors: Proposed Grant for the Western Regional Road Corridor Development Project-Phase I (Mongolia)*. Manila.

29. (Confidential information redacted).

30. (Confidential information redacted).

31. (Confidential information redacted).

IV. POLICY COMPLIANCE

A. Safeguards and Social Dimensions

32. ADB has categorized the investment in accordance with ADB's Safeguard Policy Statement (2009) as follows: environment category C, involuntary resettlement category C, and indigenous peoples category C.¹¹ ADB's investment will be used to purchase road construction equipment to ensure minimal reliance on hired or leased equipment. The environmental impact is expected to be minimal. No involuntary resettlement impacts or impacts on indigenous peoples are envisaged as a result of ADB's investment and use of proceeds.

33. ADB has undertaken due diligence and reviewed the potential environmental and social impacts of the project and considers that there are minimal or no adverse impacts from the project. GRIL has commissioned an independent corporate audit of the company's environmental and social management system and an environment and social compliance audit of the company's present and past performance as per Safeguard Requirement 4 of ADB's Safeguard Policy Statement. The corporate audit assessed that the company follows the statutory requirements. The current environmental and social systems, processes, and practices of the company were also commensurate with the regulatory requirements governing its business and operations.¹²

34. The corporate audit found that, although the company has existing environmental, health and safety, human resource and social, and/or corporate social responsibility policies and procedures, there is a need to strengthen, integrate, formalize, and document the different procedures and processes into one corporate policy or procedure. GRIL plans to develop and implement an integrated management system (covering environment, health and safety, and quality) to bring consistency in approach and outcomes across its different operations. GRIL will (i) apply ADB's prohibited investment activities list, and (ii) ensure that investments using ADB funds comply with ADB's Safeguard Policy Statement and abide by national laws and regulations. These and other audit findings and recommendations have been documented and agreed on in a corrective action plan which will be implemented by GRIL. The company will also report annually to ADB on the utilization of ADB proceeds and compliance with the agreed corrective action plan.

35. **Some gender elements.** The investment is proposed to be categorized as possessing some gender mainstreaming elements. GRIL commits to implement measures to promote gender equality and/or women's empowerment in its business activities following ADB's Policy on Gender and Development.¹³ These measures are (i) committing to increase the employment levels of women in the corporate office by 50% by FY2023 (i.e., from 11.6% to 17.5% of total corporate office workforce); (ii) working with the local community organizations to design and implement a targeted corporate social responsibility program that will promote gender equality and women's

¹¹ ADB. [Safeguard Categories](#).

¹² GRIL is working on some construction contracts which are partly financed through ADB's sovereign assistance. In one case, there is a complaint regarding adherence to the environmental and social requirements (under ADB's Safeguard Policy Statement) and project-specific management plans. GRIL is already undertaking some mitigation measures. This is being assessed by the sector division and suitable corrective actions will be taken.

¹³ ADB. 1998. *Policy on Gender and Development*. Manila.

empowerment through activities such as tertiary education scholarships; and (iii) providing livelihood training to women, such that 25% of funds for corporate social responsibility programs are invested in women-centric activities by FY2023. Within 3 months of ADB loan disbursement, the company will submit to ADB a gender action plan for corporate social responsibility activities. Further, GRIL will periodically submit reports on implementation of gender measures to ADB.

36. **Other social dimensions.** GRIL will comply with national labor laws and, pursuant to ADB's Social Protection Strategy (2001), will take measures to comply with the internationally recognized core labor standards. The reporting and disclosure requirements related to the project will be done in compliance with ADB requirements.

B. Anticorruption Policy

37. GRIL was advised of ADB's policy of implementing best international practice relating to combating corruption, money laundering, and the financing of terrorism. ADB will ensure that the investment documentation includes appropriate provisions prohibiting corruption, money laundering, and the financing of terrorism, and remedies for ADB in the event of noncompliance.

C. Investment Limitations

38. The proposed nonconvertible debentures are within the medium-term, country, industry, group, and single exposure limits for nonsovereign investments.

D. Assurances

39. Consistent with the Agreement Establishing the Asian Development Bank (the Charter),¹⁴ ADB will proceed with the proposed assistance upon establishing that the Government of India has no objection to the proposed assistance to GRIL. ADB will enter into suitable finance documentation, in form and substance satisfactory to ADB, following approval of the proposed assistance by the ADB Board of Directors.

V. RECOMMENDATION

40. I am satisfied that the proposed senior secured debt financing facility would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the investment of up to \$23,000,000 in Indian rupee equivalent from ADB's ordinary capital resources into nonconvertible debentures issued by GR Infraprojects Limited for the Highway Equipment Finance Project in India, with such terms and conditions as are substantially in accordance with those set forth in this report, and as may be reported to the Board.

Takehiko Nakao
President

25 June 2019

¹⁴ ADB. 1966. *Agreement Establishing the Asian Development Bank*. Manila.

DESIGN AND MONITORING FRAMEWORK

Impact the Project is Aligned with Government of India's Bharatmala Pariyojana Project, which targets the construction of new roads and upgrade of the existing road network in India (target of 65,000 km to be constructed and upgraded)			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
Outcome Connectivity and travel time improved as GRIL's capacity to construct roads will be expanded	By FY2023: Length of roads constructed by GRIL annually increased to 1,928 lane-km (2019 baseline: 1,697 lane-km)	GRIL's annual development effectiveness report	Country's economic conditions deteriorate
Outputs 1. Total stock of equipment and machinery increased 2. Employment generated 3. Company's social and gender-inclusive strategies implemented	1. Stock of machinery of GRIL increased to 6,000 by FY2020 (2019 baseline: 4,928) 2. Total number of employees increased to 13,149 (2019 baseline: 11,149) by FY2021 3a. Increase in the employment level of women in the corporate office by 50% by FY2023 (i.e., from 11.6% in FY2019 to 17.5% of total corporate office workforce by FY2023) ^a 3b. Percentage of corporate social responsibility budget spent on gender-related activities increased to 25% by FY2023 (existing baseline: Nil)	1.-3. GRIL's annual development effectiveness monitoring report	Slowdown in the infrastructure sector in India Lack of availability of qualified women to be employed in the construction business
Key Activities with Milestones Toward attaining outputs 1-3 enumerated above: 1.1 ADB approves debt financing by July 2019 1.2 Borrower signs the debenture trust deed with ADB by August 2019 1.3 ADB's safeguards requirements met by December 2019 1.4 Financial close by December 2019			
Inputs Asian Development Bank: \$23 million debt financing			
Assumptions for Partner Financing Not applicable			

ADB = Asian Development Bank; GRIL = GR Infraprojects Limited; km = kilometer.

^a As of March 2019, GRIL has corporate offices in Udaipur (India) and Gurgaon (India) with a total employee strength of 292 employees.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=52371-001-4>

1. Sector Overview
2. Client Information
3. Details of Implementation Arrangements
4. Contribution to the ADB Results Framework
5. Financial Analysis
6. Economic Analysis
7. Country Economic Indicators
8. Summary Poverty Reduction and Social Strategy
9. Environmental and Social Management System: Audit Findings and Details of Arrangement