

INVESTMENT PROPOSAL SUMMARY

The Borrower	SREI Infrastructure Finance Limited (SREI), headquartered in Kolkata, India.
Proposed ADB Assistance	Participation in the form of a secured loan in Indian Rupees in an amount of up to \$ 50 million equivalent.
Classification	Targeting classification : General intervention Sector : Finance Subsector : Finance Sector Development Theme : Private sector development and sustainable economic growth Subtheme : Private sector investment and promoting economic efficiency and enabling markets
Project Description	<p>SREI's primary area of business is financing of infrastructure equipment to construction companies where it holds a major market share. This business accounted for approximately 93% of the company's total revenue in fiscal year 2006.</p> <p>Leveraging on its experience in infrastructure equipment financing and the absence of players focused on small to medium sized infrastructure projects, SREI has started to diversify into financing of smaller infrastructure projects. By raising funds for its infrastructure project financing division, SREI plans to grow its market share in infrastructure project financing and, consequently, consolidate its position in the infrastructure sector focusing on small and medium sized projects.</p>
Use of Proceeds	The proposed loan will be used to fund small and medium-sized private sector infrastructure projects in selected areas such as roads, power, and ports.
Sponsors and Shareholding Structure	<p>SREI is a private sector non-bank finance company (NBFC) owned by foreign institutions (34.03%), promoters (20.08%), the Indian public (25.73%), private corporate bodies (16.89%), and mutual funds (2.10%). Foreign institutional investors include shares underlying the global depository receipt issue (4.05%).</p> <p>SREI also benefits from financial assistance provided by international development institutions such as the International Finance Corporation (IFC), the Belgian Investment Organization (BIO), Deutsche Entwicklungsgesellschaft (DEG), and Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO).</p>

Justification

ADB's resources for financing private sector infrastructure projects are limited. The proposed loan to SREI presents an opportunity for ADB to leverage these resources in India, where infrastructure sector demand is huge and public funds are short. SREI is one of the few financial institutions in India focusing on the infrastructure sector financing, especially on the smaller transactions. To match the 5 to 10-year tenor of the infrastructure project financing business, SREI requires similar tenor liabilities. SREI's present size and short track record in project financing limits its ability to issue debt with tenor over 5 years in the local and international capital markets.

SREI's focus on small and medium-sized infrastructure projects will improve funding availability to sections of the Indian economy left underserved by the large commercial banks.

The project also aims to catalyze long-term funding from other international and local institutional investors in SREI, particularly in the area of infrastructure project financing where it competes with larger financial institutions.

Indirectly, the success of SREI will (i) demonstrate the viability of private sector participation in small and medium-sized infrastructure projects, (ii) create jobs for SREI and its customers, (iii) support India's economic growth through infrastructure development, and (iv) set a model private sector institution dedicated to infrastructure sector financing for India and other developing member countries to emulate.

Loan Terms

The proposed loan will be in local currency. Additional local currency funding is expected to be raised in 2006, either through the issue of a new ADB bond or via a swap transaction. Principal repayment will be amortized. The maximum tenor of the loan will not exceed 10 years. The interest rate will be the market rate for this type of borrower and instrument.

The loan will be structured in two tranches. The proposed loan will be secured by a first charge over all the assets and receivables financed out of the loan.

Risks and Safeguards

The main risks are: (i) inability to repay interest and principal, (ii) default by SREI's borrowers and/or construction delays of funded loans, (iii) changes in the regulatory environment, and (iv) inability to access debt.

These risks are mitigated by (i) the management's knowledge

and experience in the infrastructure sector, (ii) SREI's track record in meeting its debt obligations; (iii) demonstrated lower than industry average non-performing loan ratio, and (iv) enhancement of SREI's credit risk management policy.

Environmental Impact and Assessment

SREI has been classified as a financial intermediary (FI) with respect to ADB's Environment Policy. SREI will adopt an environmental and social management system (ESMS) satisfactory to ADB. SREI will ensure that subprojects in which the ADB loan proceeds are lent to, will comply with national social safeguard laws, regulations, and standards and with the ADB social safeguard policies, including involuntary resettlement and indigenous peoples policies. SREI will not engage in activities involving unresolved customary land claim by indigenous peoples that may trigger the ADB's Policy on Indigenous Peoples.