



India: Expanding Micro and SME Lending in Semi-Urban and Rural Areas Project

Project Name	Expanding Micro and SME Lending in Semi-Urban and Rural Areas Project		
Project Number	50191-001		
Borrower/Company	Au Financiers (India) Limited		
Country	India		
Location			
Approval Number			
Type or Modality of Assistance	Loan	USD 75.00 million	Approved
Strategic Agendas	Inclusive economic growth Regional integration		
Drivers of Change	Gender Equity and Mainstreaming Private sector development		
Sector / Subsector	Finance - Small and medium enterprise finance and leasing		
Gender Equity and Mainstreaming	Some gender elements		
Responsible ADB Department	Private Sector Operations Department		
Responsible ADB Division	Private Sector Financial Institutions Division		
Responsible ADB Officer	Cheema, Asif		
Project Sponsor(s)			
Description	ADB will provide debt financing to AU by subscribing to up to \$75 million (in Indian rupee equivalent) of senior unsecured nonconvertible debentures (NCDs) having recourse to AU's balance sheet. At least 50% of the funding will target less developed states, as classified in the Raghuram Rajan Panel Report, 2013.		
Objectives and Scope	<p>(1) Support MSME growth and GOI priority sectors. ADB's funding will support growth of AU's Micro, and Small Enterprises (MSE) and Small, and Medium Enterprises (SME) portfolios and reach underserved customer segments in India directly as well as through other NBFCs. Over 85.0% of AU's loan portfolio is classified as Priority Sector Lending and will have significant financial inclusion and job creation effects. It will also support education and healthcare segments in rural India. AU has provided funding to 250 schools, helping approximately 30,000 rural children with improved educational infrastructure in rural and semi urban areas.</p> <p>(2) Provide access to longer tenor debt. AU had historically focused on CV financing, with relatively shorter tenors loans. As the management continues to diversify its loan portfolio and grow its MSEs, and SME businesses that are of relatively longer tenor, AU needs to tap longer tenor financing. This is also highlighted in ICRA's credit ratings note issued in March 2016. ADB's loan will provide scarce medium-term funds to AU needed to diversify its product portfolio.</p> <p>- Diversification of funding sources. Bilateral assignments and securitization with other banks are significant sources for AU's funding. As AU transitions to an SFB, management will focus on retaining a higher percentage of assets on its books and decrease its reliance on bilateral assignments and securitizations with other banks. ADB's funding will support the diversification of AU's funding sources.</p>		
Linkage to Country/Regional Strategy	The Midterm Review of Strategy 2020 emphasizes ADB's support to the financial sector by helping to develop financial infrastructure, institutions, and products and services. The proposed transaction contributes to financial sector development by supporting the growth of a Small Finance Bank, an important component of the financial sector in India. The Midterm Review of Strategy 2020 also seeks to promote inclusive growth. Without access to formal financial services, lower income people or underserved segments will be excluded from the growth process and its benefits. According to the India country partnership strategy, 2013 -2017, ADB's nonsovereign operations will continue to support the infrastructure and financial sectors by undertaking selective projects for physical and social infrastructure and financial infrastructure. The proposed transaction will support the development of microfinance in India, one of the financial infrastructures identified in the country partnership strategy and a high priority for the government.		

Safeguard Categories

Environment	FI
Involuntary Resettlement	FI-C
Indigenous Peoples	FI-C

Summary of Environmental and Social Aspects

Environmental Aspects	AU has an existing Environmental and Social Management Systems (ESMS) that applies an exclusion list and procedures based on the size of the loan to address environmental and social risks of projects. Prior to disbursement of the ADB financing, the company will enhance its existing ESMS to comply with ADB Safeguards Policy Statement requirements by updating its exclusion list, screening, and categorization procedures.
Involuntary Resettlement	The proposed debt financing will be used by AU to support inclusive sector segments including MSE, and SME , with targeted customers involved in trading, wholesale, distribution, education and healthcare facilities, commercial vehicle finance, and construction finance. AU will not utilize ADB funding to finance projects with category A impacts on the environment, or projects with category A or B impacts for involuntary resettlement or indigenous peoples.
Indigenous Peoples	The proposed debt financing will be used by AU to support inclusive sector segments including MSE, and SME, with targeted customers involved in trading, wholesale, distribution, education and healthcare facilities, commercial vehicle finance, and construction finance. AU will not utilize ADB funding to finance projects with category A impacts on the environment, or projects with category A or B impacts for involuntary resettlement or indigenous peoples.
Stakeholder Communication, Participation, and Consultation	The primary stakeholders in the project are the MSME borrowers who will seek loans from AU for their working capital and investment needs. Details of the consultation and participation activities and grievance and dispute resolution will be included in the company's ESMS.

Timetable for assistance design, processing and implementation

Concept Clearance	23 Sep 2016
Due Diligence	
Credit Committee Meeting	23 Sep 2016
Approval	31 Oct 2016
Last PDS Update	15 Dec 2016

Project Page	https://www.adb.org/projects/50191-001/main
Request for Information	http://www.adb.org/forms/request-information-form?subject=50191-001
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