



# Report and Recommendation of the President to the Board of Directors

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Project Number: 55240-001  
October 2021

## Proposed Equity Investment Zenex Animal Health India Private Limited Zenex Improved Animal Health and Welfare Project (India)

This is an abbreviated version of the document, 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 6 September 2021)

Currency unit	–	Indian rupee/s (₹)
₹1.00	=	\$0.0137
\$1.00	=	₹72.992

## ABBREVIATIONS

ADB	–	Asian Development Bank
COVID-19	–	coronavirus disease
E&S	–	environmental and social
ESMS	–	environmental and social management system
FY	–	fiscal year
Multiples	–	Multiples Private Equity Fund III Limited
OP	–	operational priority
TA	–	technical assistance
ZAHL	–	Zenex Animal Health India Private Limited
Zydus	–	Zydus Animal Health Limited

## NOTES

- (i) The fiscal year of Zenex Animal Health India Private Limited ends on 31 March. “FY” before a calendar year denotes the year in which the fiscal year ends, e.g., FY2022 ends on 31 March 2022.
- (ii) In this report, “\$” refers to United States dollars.

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## PROJECT AT A GLANCE

<b>1. Basic Data</b>		<b>Project Number: 55240-001</b>	
<b>Project Name</b>	Zenex Improved Animal Health and Welfare Project	<b>Department/Division</b>	PSOD/OPSD
<b>Country</b>	India		
<b>Investee</b>	Zenex Animal Health India Private Limited		
<b>Portfolio at a Glance</b>	<a href="https://www.adb.org/Documents/LinkedDocs/?id=55240-001-PortAtaGlance">https://www.adb.org/Documents/LinkedDocs/?id=55240-001-PortAtaGlance</a>		
<b>2. Sector</b>		<b>Subsector(s)</b>	<b>ADB Financing (\$ million)</b>
✓ Agriculture, natural resources and rural development		Agricultural production	10.69
		<b>Total</b>	<b>10.69</b>
<b>3. Operational Priorities</b>		<b>Climate Change Information</b>	
✓ Addressing remaining poverty and reducing inequalities		GHG reductions (tons per annum)	0.000
✓ Accelerating progress in gender equality		Climate Change impact on the Project	Low
✓ Promoting rural development and food security		<b>ADB Financing</b>	
✓ Fostering regional cooperation and integration		Adaptation (\$ million)	0.00
		Mitigation (\$ million)	0.00
		<b>Cofinancing</b>	
		Adaptation (\$ million)	0.00
		Mitigation (\$ million)	0.00
<b>Sustainable Development Goals</b>		<b>Gender Equity and Mainstreaming</b>	
SDG 2.4		Effective gender mainstreaming (EGM)	✓
SDG 5.a		<b>Poverty Targeting</b>	
		General Intervention on Poverty	✓
<b>4. Nonsovereign Operation Risk Rating - NA</b>			
<b>5. Safeguard Categorization</b> Environment: B    Involuntary Resettlement: C    Indigenous Peoples: C			
<b>6. Financing</b>			
<b>Modality and Sources</b>		<b>Amount (\$ million)</b>	
<b>ADB</b>		10.69	
Nonsovereign Direct Investment: Ordinary capital resources		10.69	
<b>Cofinancing</b>		0.00	
None		0.00	
<b>Others *</b>		498.31	
<b>Total</b>		509.00	
Currency of ADB Financing: Indian Rupee, US Dollar			

\* 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 equity investment of up to ₹780,000,000 (or its equivalent in United States dollars) in Zenex Animal Health India Private Limited (ZAHL) for the Zenex Improved Animal Health and Welfare Project in India.

2. The project will support the enhanced production of quality animal health care products, which will help smallholder farmers to mitigate disease risk, reduce losses, and increase productivity, thereby increasing farmers' incomes. The project will also support increased awareness about antimicrobial resistance, better farm hygiene, and biosecurity best practices. The project will also support gender inclusion at corporate and farm levels. It is fully aligned with the Government of India's goal of boosting agricultural productivity and farmers' incomes.

## II. THE PROJECT

### A. Project Identification and Description

#### 1. Project Identification

3. **Importance of livestock and poultry in India.** Livestock contributes about 5% to India's gross domestic product and nearly 12% to rural household income. As income per capita grows, the Indian population is shifting towards better nutrition through high-protein diets, including milk and meat. Globally, India is the largest producer of milk with an estimated output of about 187.7 million metric tons, and the fourth-largest broiler (chicken) producer with an estimated output of 5.1 million metric tons, in fiscal year (FY) 2019.<sup>1</sup> However, livestock rearing in India is plagued by issues such as high fragmentation of land, low national average in productivity, and poor hygiene and animal health practices, leaving smallholder farmers vulnerable to income loss.

4. **Improving productivity.** To increase productivity, progress is required in breed improvement, better feed and nutrition, animal health, and better herd composition. In dairying, milk output has grown, but largely because of the increased number of livestock. This type of growth is not sustainable. Dairying practices need a shift to automated milking and feed management, while health and disease control need skill improvement and capacity building. Vaccination and health care infrastructure and services are equally critical, and animal health and welfare assume even greater importance because of disease outbreaks. The infrastructure for vaccination and veterinary services is highly inadequate in many states.<sup>2</sup>

5. **Biosecurity risks.** Since India's first major avian flu incident, reported in FY2006, India experienced about 28 episodes of the disease, reported mostly by poultry farms. In all the reported outbreaks, all birds in broiler farms within the prescribed radius were promptly culled to prevent the disease from spreading. In other livestock such as cattle, buffalo, sheep, and goat, prevalence of diseases such as foot and mouth disease and brucellosis led the government to create the National Animal Disease Control Programme in 2019. The program aims to control foot and mouth disease by 2025 with vaccination and achieve its eradication by 2030. This will result in increased domestic production and, ultimately, in increased exports of milk and livestock products. Similarly, the Intensive Brucellosis Control Program aims to control brucellosis in animals, resulting in

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<sup>1</sup> Government of India, Department of Animal Husbandry and Dairy. 2019. *Annual Report*. New Delhi.

<sup>2</sup> Government of India, National Institution for Transforming India (NITI Aayog). 2015. *Raising Agricultural Productivity and Making Farming Remunerative for Farmers*. New Delhi.

effective management of the disease in both animals and humans.<sup>3</sup> India is a known hotspot for zoonoses, including emerging zoonotic diseases such as Nipah virus, Kyasanur forest disease, Zika virus, Japanese encephalitis, West Nile virus, and coronavirus disease (COVID-19).<sup>4</sup>

6. **Antibiotic misuse.** Antibiotics are an effective and important veterinary tool for treating animal diseases when used appropriately. However, smallholder farmers in India typically use feedstuff mixed with antibiotic additives as growth promoters to increase growth rates while reducing feed conversion ratios and feed costs. As India ramps up poultry production, areas of high antimicrobial consumption (30 kilograms per square kilometer) are expected to grow 312% by 2030, and antimicrobial use is expected to double between 2010 and 2030.<sup>5</sup> Meanwhile, the country still faces high levels of infectious disease, with a lack of health advice and guidance in veterinary care. This, together with weak regulations surrounding the sale and use of antibiotics and surveillance, has led to the emergence, maintenance, and spread of antimicrobial resistance.<sup>6</sup> Antimicrobial resistance is one of the top 10 global public health threats facing humanity, according to the World Health Organization, and India is a particular hotspot for its development.<sup>7</sup> In India, nearly 60,000 newborns die of antimicrobial-resistant neonatal infection.<sup>8</sup>

7. **One Health in India.** Since 2007, the government made significant strides towards One Health<sup>9</sup>, including withdrawal periods to limit antibiotic residues in food, strict restrictions on the purchase and use of the last resort drug colistin, and a ban on the use of antibiotics and several pharmacologically active substances in fisheries.<sup>10</sup> However, despite many policies for livestock, poultry, and aquaculture, a lack of coordination and uniformity among relevant parties continue to hinder the effectiveness of efforts to tackle antimicrobial resistance in livestock India.<sup>11</sup>

8. **Project selection.** An existing investee of the Asian Development Bank (ADB), Multiples Private Equity Fund III Limited (Multiples) identified the established animal health business operated by Zydus Animal Health Limited (Zydus) as a potential acquisition; Zydus is a subsidiary of Cadila Healthcare Limited, one of India's largest pharmaceutical companies. To complete the acquisition of the animal health business from Zydus, Multiples needed to establish ZAHL and source additional capital from other investors. Multiples completed the acquisition of the animal

<sup>3</sup> Government of India, Ministry of Fisheries, Animal Husbandry, and Dairying. [Department of Animal Husbandry and Dairy](#).

<sup>4</sup> T. Allen et al. 2017. [Global hotspots and correlates of emerging zoonotic diseases](#). *Nat Commun* 8, 1124 (2017); M. C. Rulli et al. 2021. [Land-use change, and the livestock revolution increase the risk of zoonotic coronavirus transmission from rhinophilid bats](#). *Nat Food* 2, 409–416 (2021); and P. Nambiar. 2020. [India to Envision One Health Movement for Confronting Emerging Health Threats: From Concept to Approach toward Institutionalization](#). *International Journal of One Health* 6(2): 165-176.

<sup>5</sup> T.P. van Boeckel, C. Brower et al. 2015. [Global trends in antimicrobial use in food animals](#). *PNAS*. 112 (18). pp. 5649–5654; and Organisation for Economic Co-operation and Development (OECD). 2015. [Working Party on Agricultural Policies and Markets: Global Antimicrobial Use in the Livestock Sector](#). Paris.

<sup>6</sup> Flavie Goutard et al. 2017. [Antimicrobial policy interventions in food animal production in South East Asia](#). *BMJ*. 358 :j3544.

<sup>7</sup> Boeckel et al. 2019. [Global trends in antimicrobial resistance in animals in low- and middle-income countries](#). *Science*. 371, 6528, (474-474).

<sup>8</sup> R. Laxminarayan, A. Duse et al. 2013. [Antibiotic resistance – the need for global solutions](#). *Lancet Infect Dis*. 2013 Dec;13(12):1057-98.

<sup>9</sup> One Health is a collaborative, multisectoral, and transdisciplinary approach—working at the local, regional, national, and global levels—with the goal of achieving optimal health outcomes recognizing the interconnection between people, animals, plants, and their shared environment.

<sup>10</sup> Directorate General of Health Services. 2013. [Sub-rule 3A of Rule 97 of Drugs and Cosmetics Rules 1945 regarding withdrawal period](#). 23 May. File No. 12-01/13-DC (Pt-54); and B. Oghifo. 2019. [Indian Govt's Ban on Colistin is Big Win in Fight against Antimicrobial Resistance, Says CSE](#). *This Day*.

<sup>11</sup> K. Walia, M. Sharma, S. Vijay, and B.R. Shome. 2019. [Understanding policy dilemmas around antibiotic use in food animals & offering potential solutions](#). *Indian J of Med Res*. 149 (2). pp. 107–118.

health business, which is now owned and operated by ZAHL, and offered ADB the opportunity to invest in ZAHL alongside a consortium of other investors.<sup>12</sup> Following the acquisition, ZAHL is India's second largest animal health company and has a diversified product portfolio, including therapeutic and nontherapeutic products largely covering cattle, buffalo, and poultry populations.

9. ZAHL has been chosen as an attractive potential investment for ADB, because of its (i) leading market position and diversified portfolio; (ii) significant penetration across milk animals and poultry, both fast-growing end segments; (iii) distribution reach to 100,000 veterinary doctors and more than 100,000 farmers; and (iv) good financial profile.

## 2. Project Design

10. ZAHL will use ADB's investment proceeds for working capital, maintenance capital expenditure, and research and development, including new product development. The investment by ADB and other investors together with re-investment of internal accruals will enable accruals to grow the business as opposed to upstreaming of cash to its previous owners, CHL, from when the animal health business was under Zydus.

11. **Improved farmers' incomes.** The project will help improve farmer incomes by making health care products available and supporting their appropriate and responsible use. The use of antibiotics in livestock has significantly helped increase farm efficiency, productivity, and incomes.<sup>13</sup> While overuse of antibiotics at subtherapeutic levels for growth promotion and prophylaxis led to antimicrobial resistance, the use of antibiotics for responsible therapeutic and metaphylaxis purposes improves animal health, reduces mortality, and leads to better incomes for farmers compared to where antibiotics are not available.

12. **Improved animal welfare.** The project, via complementary technical assistance (TA), will improve animal welfare by increasing the availability of antibiotics and supporting their responsible therapeutic and metaphylactic use to treat sick and injured animals. Animal welfare is unquestionably impacted when sick or injured animals remain untreated because appropriate antibiotics are not available.<sup>14</sup> Additionally, the appropriate metaphylactic use of antibiotics in livestock improves animal welfare.<sup>15</sup> Improved animal health and productivity can also reduce the intensity of GHG emissions, or carbon footprint, of livestock.

13. **Increased quality health care.** The project will promote increased availability of quality health care products. It will allow ZAHL to reinvest its free cash accruals towards (i) maintenance capital expenditure, (ii) incremental working capital needs, (iii) investments in acquisitions, increasing product portfolio as well as geographical footprint, and (iv) new product development. This will allow ZAHL to expand the animal health business to its full potential, which was restricted as a noncore business division when under the ultimate control of Cadila Healthcare Limited.

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<sup>12</sup> Investors that have already invested in ZAHL are (i) Multiples, (ii) Canada Pension Plan Investment Board, and (iii) Rare Equity Private Limited. Other investors that are currently negotiating an investment in ZAHL are (i) International Finance Corporation and (ii) International Finance Corporation's Asset Management Company.

<sup>13</sup> C. Kirchhelle. 2018. [Pharming Animals: A Global History of Antibiotics in Food Production \(1935–2017\)](#). Palgrave Communications. 4, 96.

<sup>14</sup> National Research Council (US) Committee on Drug Use in Food Animals. 1999. *The Use of Drugs in Food Animals: Benefits and Risks*. Washington, DC: National Academies Press (US); and J. Coffman et al. 1999. [Food-Animal Production Practices and Drug Use](#). Washington, DC.

<sup>15</sup> A.B. Word, T.A. Wickersham, L.A. Trubenbach, G.B. Mays, and J.E. Sawyer. 2020. [Effects of metaphylaxis on production responses and total antimicrobial use in high-risk beef calves](#). *Applied Animal Science*. 36 (2). pp. 265–270.

14. **Reduced dependency on antibiotics.** The project will promote a less antibiotic-dependent model of animal health by discouraging the use of antibiotics as growth promoters and by encouraging antibiotic alternatives like vaccines, herbals, and improved animal health and welfare practices. The project will train farmers and veterinarians (vets) on (i) the appropriate use of antibiotics and effective alternatives to antibiotics; and (ii) improved biosecurity and farm hygiene standards towards better animal health and productivity, distributing training materials to 10,000 vets. The project will also raise awareness about antimicrobial resistance by demonstrating that with higher-quality therapeutics, vaccines, natural alternatives, and a higher level of farm hygiene and biosecurity, antibiotics use can be reduced without compromising animal health and productivity. Additionally, the responsible use of antibiotics to reduce antimicrobial resistance (AMR) and thus preserve antibiotic effectiveness, will be imperative adaptation to climate change as immune responses are rendered less effective in both humans and livestock due to increased heat.

15. **Increased gender participation.** Pharmaceuticals and life sciences are a nontraditional area of employment for women and tend to employ few women.<sup>16</sup> India is one of the world's largest producers of drugs, but only 15% of the nearly 50 million workforce are women.<sup>17</sup> While data on women's participation in veterinary professions is not available, recent developments suggest that veterinary medicine has undergone dramatic, rapid feminization.<sup>18</sup> Further, women play an important role in livestock-farming labor and animal care in India, yet often lack knowledge and access to suitable animal health services.<sup>19</sup> Through the project, Z AHL is committing to increase women's representation in different roles of its operations, including on its board of directors, and to develop a gender inclusion policy, all of which will contribute to increasing gender equality results at the company level.

16. **Technical assistance.** To complement the project, ADB will provide TA of \$575,000 to support Z AHL's training programs for 2,300 farmers and 580 vets in Bangladesh, India, Nepal, and Sri Lanka in appropriate therapeutic and metaphylactic use of antibiotics, effective alternatives to subtherapeutic antibiotic use for prophylaxis or growth promotion, biosecurity best practice, antibiotic management, waste management, animal welfare, and gender sensitization. At least 40% of training participants (farmers and vets) will be women.<sup>20</sup>

### 3. Investee

17. With operations spanning more than six decades and a strong presence in all product segments, Zydus was a reputed company in the Indian animal health industry. It had a well-regarded, technically trained field force and wide distribution network. Most of these attributes transferred to Z AHL when it acquired the animal health business from Zydus. Z AHL will operate the animal health business through species-based strategic business units for livestock and

<sup>16</sup> Institute for Transportation and Development Policy. 2017. [Women and Transport in Indian Cities](#). New Delhi.

<sup>17</sup> C.H Unnikrishnan. 2014. [Bridging the gender inequality gap in the pharma sector](#). *Mint*. 21 November.

<sup>18</sup> T.P Sethumadhavan. 2018. [Changing shift towards women in veterinary profession](#). *Mathrubhumi*.

<sup>19</sup> Food and Agriculture Organization of the United Nations. 2012. [Invisible Guardians: Women Manage Livestock Diversity](#). Rome.

<sup>20</sup> The TA will be approved by the Director General of ADB's Private Sector Operations Department as delegated by the President, following the final approval of the proposed investment presented in this report. Of the total amount, \$300,000 has been secured from Regional Cooperation and Integration Fund, \$175,000 from Technical Assistance Special Fund (TASF-7), and \$100,000 from Technical Assistance Special Fund (TASF-other sources). Outside of India, the TA will work with Z AHL's distribution partners. As regional and global trade and cooperation expand, the potential for the widespread and cross-border transmission of emerging infectious diseases is an increasing risk. These risks are heightened where zoonoses and antimicrobial resistance are a factor. Summary of the Proposed Technical Assistance (accessible from the list of linked documents in Appendix 2).

poultry. For its livestock business line, Z AHL has two product categories: (i) therapeutic drugs for specific medical indications; and (ii) farm-care products, including feed supplements and antiparasitic products. For its poultry business line, Z AHL also has two product categories: (i) biologicals, primarily vaccines; and (ii) nonbiologicals, including therapeutic and feed supplement products. Z AHL follows an asset light business model and uses a mix of third-party manufacturing and its own manufacturing. It has one manufacturing facility located in the state of Uttarakhand and employs more than 900 staff, including almost 600 on-field staff and 200 manufacturing staff.

18. Z AHL acquired the existing management team of Zydus as part of the acquisition of the animal health business. Z AHL is led by Dr. Arun Atrey (managing director and chief executive officer), an industry veteran with 35 years of experience, earlier in Zydus and now in Z AHL. He has been responsible for building the business from inception and will spearhead Z AHL's growth. The two business verticals, livestock and poultry, are both headed by highly experienced persons with more than 20–30 years of experience in the animal health sector and are continuing from Zydus to Z AHL. To ensure adequate focus on growth, exports is managed as a separate vertical, headed by a separate business head. The board composition of Z AHL is yet to be fully ascertained and will be completed once all investors have completed their respective investments.

19. ADB conducted integrity due diligence on the investee, its management, and its shareholders, and on the investee's significant contracting entities.<sup>21</sup> They do not appear to constitute a significant or potentially significant integrity risk, since no unresolved or substantiated adverse media or other relevant information related to them exists. ADB has obtained reasonable assurance that the investee was not established and is not being used for money laundering or terrorism financing in the project jurisdiction. Tax integrity due diligence was not required.

## B. Development Impacts, Outcome, and Outputs

20. **Impacts.** The project is aligned with the following impacts: healthy and productive livestock in the Indian subcontinent using standard, efficient, and safe veterinary biological products achieved, and farmers' income doubled through increased agricultural productivity.<sup>22</sup>

21. **Outcome.** The project will have the following outcome: production and delivery of animal health products improved.<sup>23</sup>

22. **Outputs.** The expected outputs of the project will be (i) animal health care product portfolio expanded, (ii) animal health and welfare practices in a gender-sensitive manner improved, (iii) corporate governance and gender-inclusive policies improved, and (iv) gender equality and employment opportunities enhanced.

## C. Alignment with ADB Strategy and Operations

23. **Consistency with ADB strategy and country strategy.** The project is consistent with ADB's Strategy 2030 and four of its operational priorities (OPs): OP1: addressing remaining poverty (by improving the incomes of farmers and improving health outcomes for all); OP2, accelerating progress in gender equality (by promoting gender equality); OP5, promoting rural

<sup>21</sup> ADB. 2003. *Enhancing the Asian Development Bank's Role in Combating Money Laundering and the Financing of Terrorism*. Manila.

<sup>22</sup> Chaudhary Charan Singh National Institute of Animal Health. 2017. *Vision 2030*. Baghpat; and Government of India, National Institution for Transforming India (NITI Aayog). 2017. *Doubling Farmers' Income: Rationale, Strategy, Prospects and Action Plan*. New Delhi.

<sup>23</sup> The design and monitoring framework is in Appendix 1.

development and food security (by providing farmers with quality farm inputs to improve agricultural production); and OP7, fostering regional cooperation and integration (by using regional cooperation for cross-border communicable disease prevention and facilitating trade).<sup>24</sup> The project is also aligned with ADB's Operational Plan for Private Sector Operations, 2019–2024, which calls for focusing on and mobilizing funds for providers of agricultural inputs and improving quality standards in upstream sectors, and with ADB's country partnership strategy for India, 2018–2022, which supports investments in rural infrastructure to improve agricultural productivity.<sup>25</sup> The country partnership strategy also refers to focus on the government's priority of doubling farmers' incomes and provide support to intensify and diversify agricultural production.

24. **Consistency with sector strategy and relevant ADB operations.** The project is aligned with ADB's operational plan for OP5, which stresses that “excessive and unauthorized use of antibiotics in livestock rearing by developing member country farmers is widespread” and that “smallholder farmers’ access to modern inputs ... is quite limited.”<sup>26</sup> The plan calls for ADB to mobilize private investments to “sustainably increase farm productivity and incomes” and promote “better-quality farm inputs.”<sup>27</sup> The project complements other ADB sovereign initiatives: (i) the Greater Mekong Subregion Health Cooperation Strategy, 2019–2023<sup>28</sup>; (ii) the South Asia Subregional Economic Cooperation Operational Plan, 2016–2025—One Health;<sup>29</sup> and (iii) South Asia Department's scoping study on One Health.<sup>30</sup>

#### D. Project Cost and Financing Plan

[Redacted]

#### E. Implementation Arrangements

25. Table 3 summarizes the implementation arrangements.

**Table 3: Summary of Implementation Arrangements**

Aspects	Arrangements
Regulatory framework	The Department of Animal Husbandry and Dairying is responsible for livestock production, preservation, protection from diseases, and improvement of stocks and dairy development. It falls within the Ministry of Fisheries, Animal Husbandry, and Dairying of the Government of India, dedicated to animal health and productivity. The regulation of animal health products in India is under the control of Veterinary Cell of Central Drug Standard Control Organization.
Management	The company's overall strategy will be guided by a board of directors. Incoming investors will nominate representatives and appoint independent directors to compose a new board. The existing management team from Zydus Animal Health Limited will continue in ZAHL. The executive management of ZAHL is run by experienced and well-reputed industry experts.
Implementation period	2021-2022
Implementation arrangements:	ZAHL uses a mix of third-party manufacturing and its own manufacturing. Apart from its own manufacturing, ZAHL procures products under the following arrangements:

<sup>24</sup> ADB. 2019. [Strategy 2030 – Operational Plans: Overview](#). Manila.

<sup>25</sup> ADB. 2019. [Operational Plan for Private Sector Operations, 2019–2024](#). Manila; and ADB. 2017. [Country Partnership Strategy: India, 2018–2022—Accelerating Inclusive Economic Transformation](#). Manila.

<sup>26</sup> ADB. 2019. [Operational Plan for Priority 5](#). Manila. para. 65.

<sup>27</sup> Footnote 26, paras. 29 and 31.

<sup>28</sup> ADB. 2019. [Greater Mekong Subregion Health Cooperation Strategy 2019-2023](#). Manila. Learnings from this project have been useful in understanding various One Health related issues.

<sup>29</sup> ADB. 2016. [Technical Assistance for Regional Project Development Support for the South Asia Subregional Economic Cooperation Operational Plan, 2016-2025](#). Manila.

<sup>30</sup> ADB. 2021. [Report on Scoping Study of One Health Capacity, Capability, and Operationalization in South Asia and SASEC Countries](#). Manila.

Aspects	Arrangements
Procurement and raw material supply	(i) Loan licensing with products manufactured on a job work basis. Z AHL procures raw materials and provides it to job workers who then process it and charge conversion fee. (ii) Contract manufacturing. Products are manufactured entirely by a third party and bought by Z AHL for marketing and branding. (iii) Imports. Imports mainly include purchases from Israel for vaccines and active pharmaceutical ingredients and feed supplements from the People's Republic of China. Raw materials are bought from time to time on a purchase order basis. Long-term contracts are not usual in the industry and input prices are subject to demand–supply.
Sales, marketing, and distribution	Z AHL sells its products to veterinary doctors and farmers mainly through commission and sales agents. Z AHL has 2,500 stockists who generate orders for Z AHL and place them to the commission and sales agents. The stockists then directly sell products to end customers.
Monitoring	Z AHL will report on key performance indicators, including output and outcome indicators.

Z AHL = Zenex Animal Health India Private Limited.

Sources: Multiples Private Equity Fund III Limited and Asian Development Bank.

## F. Projected Financial and Economic Performance

[Redacted]

## G. Unique Features

26. The project will be the first agribusiness co-investment of ADB's Private Sector Operations Department leveraging on the market reach and due diligence abilities of an existing investee private equity fund. This is also the department's first investment in a new sector of animal health. The animal health sector is an extremely important sector for ADB in the post-COVID-19 world, where improving biosecurity, AMR mitigation, and zoonosis prevention have gained immense significance. The project also benefits from strong collaboration with the South Asia Environment, Natural Resources and Agriculture Division whose staff have made significant contribution to project design by: (i) providing regional and local context, (ii) identifying implementation geographies, (iii) offering technical inputs, and (iv) establishing linkages with governmental initiatives based on their experience gained in complementing sovereign projects (para. 24).

## III. THE PROPOSED ADB ASSISTANCE

### A. The Assistance

27. ADB will make an equity investment of up to ₹750 million (approximately \$10.3 million) from its ordinary capital resources to purchase common equity shares of Z AHL from Multiples (footnote 31). This will result in ADB owning about 3.0% of Z AHL's issued share capital.<sup>31</sup>

### B. Value Added by ADB Assistance

28. ADB assistance will add value on three fronts:

- (i) **Provide equity capital.** ADB's investment will fill a market gap at the request of Multiples towards total funding required. Without ADB's participation, Multiples would need to find another investor to fill the gap, which would prevent the intended strategy implementation whereby the development priorities are implemented.

<sup>31</sup> ADB will purchase shares in Z AHL on a secondary basis from Multiples because of the need for Z AHL's acquisition of the animal health business to complete in July 2021, which was prior to ADB's completion of its due diligence requirements on this proposed investment in Z AHL. Z AHL will apply an amount equivalent to ADB's investment proceeds as described in paragraph 10.

- (ii) **Encourage best safeguard and governance practices and improving industry best practices.** ADB will promote higher environmental and social (E&S) standards, particularly in effluent and waste treatment, labor standards, and human resources and corporate governance policies. The project's accompanying TA will train farmers and vets on correct use of antibiotics, biosecurity, farm hygiene, and alternatives to antibiotics' use.
- (iii) **Promote gender inclusion.** ADB will promote gender equality in the project, working with Z AHL to implement a gender action plan integrating strong gender interventions directly benefiting the project's male and female stakeholders (vets and farmers) and addressing gender gaps at corporate level. Further, ADB will promote that at least 20% of directors on Z AHL's board are female.

### C. Risks

[Redacted]

## IV. POLICY COMPLIANCE

### A. Safeguards and Social Dimensions

29. ADB has categorized the investment in compliance with ADB's Safeguard Policy Statement (2009) as follows: environment (category B), involuntary resettlement, category C) and indigenous peoples (category C).<sup>32</sup>

30. ADB has undertaken due diligence and reviewed the potential environmental and social impacts of the project and the measures to avoid, minimize, mitigate, and compensate for the adverse impacts in the safeguard reports and plans. The environmental and social measures and institutional capacity of Z AHL to manage the project's social and environmental impacts needs to be strengthened.

31. A third party audit report comprised of (i) an assessment of the current status of environmental, social, and governance risks in the animal health business; (ii) a review of Zydus' existing procedures in operating the manufacturing plant; (iii) an evaluation of Zydus' existing processes and procedures in the absence of an existing formal environmental and social management system (ESMS) and their implementation; and (iv) a review of compliance with applicable national laws of Zydus' identified existing procedures, sites, and facilities. The audit confirmed that the operational footprints of the animal health business that Z AHL was acquiring from Zydus were limited to a corporate head office in Ahmedabad, Gujarat and the manufacturing plant in Haridwar's Integrated Industrial Estate, away from residential areas and not impacting any indigenous peoples' communities. Audit findings and recommendations, including the E&S action plan, have been documented. ADB reviewed and updated the E&S action plan to be addressed by Z AHL. Z AHL will (i) apply ADB's prohibited investment activities list, (ii) ensure that any future investment and/or re-investment activities using ADB funds will comply with ADB's Safeguard Policy Statement and abide by national laws and regulations, and (iii) implement activities to build staff capacity to implement the ESMS. Z AHL will engage a third-party consultant to prepare an ESMS commensurate with the nature of its business operations. Also, the ESMS will set out requirements to comply with national labor laws and take measures to comply with the internationally recognized core labor standards pursuant to ADB's Social Protection Strategy (2001). Z AHL will ensure that the human resource policies on working hours, overtime pay, and

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<sup>32</sup> ADB. [Safeguard Categories](#).



internal grievance mechanism, among others, are consistent with state and federal labor laws. The ESMS will also contain requirements for information disclosure and consultation with affected people following ADB requirements. Z AHL will report annually to ADB on its compliance with the ESMS, applicable national laws and regulations, and ADB's Safeguard Policy Statement and social protection requirements.

32. **Effective gender mainstreaming** Following ADB's Policy on Gender and Development (1998), Z AHL has incorporated measures to promote gender equality and women's empowerment in its business activities. Key features of the gender action plan are as follows: (i) gender sensitization introduced in Z AHL's training programs to farmers and vets; (ii) participation of female livestock farmers in trainings; (iii) appointment of women in the company's new board of directors; (iv) development of a corporate policy on diversity, gender equality, and inclusion; (v) workshops on gender equality at work, contributing to Z AHL's women leadership intervention initiative; (vi) increase of women in technical roles; (vii) integration of female interns in the company's internship program; and (viii) targeted participation of female employees in a management and leadership development program. Z AHL will submit periodic reports on implementation of gender measures to ADB.

## **B. Anticorruption Policy**

33. Z AHL 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**

[Redacted]

## **D. Assurances**

34. Consistent with the Agreement Establishing the Asian Development Bank (the Charter),<sup>33</sup> ADB will proceed with the proposed assistance upon establishing that the Government of India has no objection to the proposed assistance to Z AHL. 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**

35. I am satisfied that the proposed equity investment would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the equity investment of up to ₹780 million (or its equivalent in United States dollars) from ADB's ordinary capital resources in Zenex Animal Health India Private Limited for the Zenex Improved Animal Health and Welfare 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.

Masatsugu Asakawa  
President

22 October 2021

<sup>33</sup> ADB. 1966. *Agreement Establishing the Asian Development Bank*. Manila.

## DESIGN AND MONITORING FRAMEWORK

<b>Impacts the Project is Aligned with</b> Healthy and productive livestock in the Indian subcontinent using standard, efficient, and safe veterinary biological products achieved (Vision 2030) <sup>a</sup> Farmer's income doubled through increased agricultural productivity (Doubling Farmers' Income: Rationale, Strategy, Prospects and Action Plan) <sup>b</sup>			
<b>Results Chain</b>	<b>Performance Indicators</b>	<b>Data Sources and/or Reporting Mechanisms</b>	<b>Risks and Critical Assumptions</b>
<b>Outcome</b> Production and delivery of animal health products improved	By FY2024: a. Total annual sales from therapeutics, farm care, biological, and nonbiological products increased to at least ₹9,189 million, of which ₹400 million is from exports (2020 baseline: ₹5,133 million sales, ₹100 million exports) (OP7.2)  b. Number of farmers using the company products increased to at least 108,200 (2020 baseline: 100,000 farmers) (OP5.3.2)	a.–b. Company's annual development effectiveness monitoring report	Unusual supply and demand dynamics in the market affect price.  Regulatory risk (e.g., taxes, tariffs, duties, subsidies, and export restrictions on products) affect production and prices.
<b>Outputs</b> 1. Animal health care product portfolio expanded  2. Animal health and welfare practices in a gender-sensitive manner improved	1a. At least one merger and acquisition deal completed to expand product and/or geographical footprint by FY2024 (2020 baseline: Not applicable)  1b. At least three new products developed and introduced to market by 2026 (2020 baseline: Not applicable)  2a. A training handbook on best practices on animal health and welfare created and distributed to 10,000 vets in India by June 2023 (2020 baseline: Not applicable)  2b. At least two training programs for farmers and vets developed covering best practices on farm	1.–4. Company's annual development effectiveness monitoring report	Delays arise because of unsatisfactory commercial due diligence on acquisition targets and/or buyer-willing seller agreements.  Unforeseen changes arise in regulations.  Unforeseen restrictions arise because of continuing pandemic impacts.

Results Chain	Performance Indicators	Data Sources and/or Reporting Mechanisms	Risks and Critical Assumptions
<p>3. Corporate governance and gender-inclusive policies improved</p>	<p>hygiene, animal health, optimal use of antibiotics, and alternatives to antibiotics using natural or herbal products, among others, by June 2023 (2020 baseline: Not applicable)</p> <p>2c. Training programs to farmers and vets include at least one module on gender sensitization by June 2023<sup>c</sup> (2020 baseline: Not applicable)</p> <p>2d. At least 2,000 livestock farmers (of which 40% are women) in India and other relevant developing member countries trained in animal health and welfare management, including use of antibiotics and gender sensitization by December 2024 (2020 baseline: 0) (OP1.1.1)</p> <p>3a. Environmental, social, governance, and sustainability policies (such as policies on risk management and compliance) developed by December 2024 (2020 baseline: Not applicable)</p> <p>3b. At least 20% of appointed directors on the company's new board of directors are women by December 2022<sup>d</sup> (2020 baseline: Not applicable) (OP2.3)</p> <p>3c. Corporate policy on diversity, gender equality, and inclusion developed by December 2022 (2020 baseline: Not applicable) (OP2.3.2)</p> <p>3d. At least two workshops held annually through the</p>		

Results Chain	Performance Indicators	Data Sources and/or Reporting Mechanisms	Risks and Critical Assumptions
4. Gender equality of employment opportunities enhanced	<p>company's women leadership intervention initiative on gender equality at work by December 2024<sup>e</sup> (2020 baseline: 0)</p> <p>4a. Share of women in technical roles increased to at least 10% by December 2024 (2020 baseline: 6%) (OP2.1)</p> <p>4b. At least 25% of total interns selected in the company's internship program each year are female by December 2024 (2020 baseline: 0) (OP1.1.1)</p> <p>4c. At least 25% of total female employees receive management and leadership development program by December 2024 (2020 baseline: 0) (OP2.3.1)</p>		

### Key Activities with Milestones

#### 1. Animal health care product portfolio expanded

- 1.1 ADB disburses investment and other co-investment completed by June 2022.
- 1.2 Multiples Private Equity Fund III Limited hires advisory services or investment bankers to initiate merger and acquisition opportunity by September 2023.
- 1.3 Company pilot-tests at least two new animal health products in the market by December 2024.

#### 2. Animal health and welfare practices in a gender-sensitive manner improved

- 2.1 Commission technical assistance consultants by December 2022 to help develop training programs and handbooks.
- 2.2 Develop a rollout plan for the training that accommodates the needs of both men and women by Q3 2022.
- 2.3 Assess local gender context and scope gender sensitization module by Q3 2022.

#### 3. Corporate governance and gender-inclusive policies improved

- 3.1 Conduct internal consultations and review of policies to inform the drafting of the corporate policy on diversity, gender equality, and inclusion by Q4 2022.
- 3.2 Identify female candidates for the new board of directors by Q1 2022.
- 3.3 Identify topics and themes for gender workshops based on staff consultations by Q3 2022.

#### 4. Gender equality of employment opportunities enhanced

- 4.1 Review existing recruitment practices and develop a plan to increase women in technical roles by Q3 2022.
- 4.2 Develop a plan to reach out and enroll female students for the internship program by Q3 2022.

4.3 Develop a rollout plan to reach out, consult with, and integrate more women staff into a management and leadership development program by Q3 2022.

**Inputs**

Equity	\$333.0 million
ADB equity	\$10.3 million
ADB technical assistance	\$0.5 million
Debt	\$68.5 million
Internal accruals	\$97.2 million

ADB = Asian Development Bank, OP = operational priority, Q = quarter, vets = veterinarians.

<sup>a</sup> Chaudhary Charan Singh National Institute of Animal Health. 2017. *Vision 2030*. Baghpat.

<sup>b</sup> Government of India, National Institution for Transforming India (NITI Aayog). 2017. *Doubling Farmers' Income: Rationale, Strategy, Prospects and Action Plan*. New Delhi.

<sup>c</sup> Gender sensitization module for farmers may include joint decision-making at household and farm levels and build awareness of local gender issues, such as girls' education and early marriage. The gender sensitization module for vets may include effective methods to disseminate information and services to female livestock-owners and farmers.

<sup>d</sup> Zenex Animal Health India Private Limited's initial board composition will be five members, of which at least one will be a woman. Zenex Animal Health India Private Limited commits to keep a 20% balance should board membership increase over the next five years.

<sup>e</sup> The workshops will aim to boost morale and retention of women in the company and likely focus on increasing productivity, building better teams, building confidence and balancing home and work particularly during COVID-19.

**Contribution to Strategy 2030 Operational Priorities**

Expected values and methodological details for all OP indicators to which this project will contribute results are detailed in Contribution to Strategy 2030 Operational Priorities (accessible from the list of linked documents in Appendix 2).

Source: Asian Development Bank.

**LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/RRPs/?id=55240-001-4>

1. Contribution to Strategy 2030 Operational Priorities
2. Country Economic Indicators