

Shriram Finance Ltd.

Type of Engagement: Annual Review

Date: 23 November 2023

Engagement Team:

Amrita Kaur, amrita.kaur@morningstar.com

Ankita Mani, ankita.mani@morningstar.com

Introduction

In 2022 and 2023, Shriram Finance Ltd. (SFL)¹ issued social loans to finance the provision of vehicle loans, working capital loans, personal loans and gold loans that improve access to financing for, i) the underbanked and underserved individuals and MSMEs; and ii) women who may additionally reside in low-income states across India. In November 2023, SFL engaged Sustainalytics to review the projects financed with proceeds from the 2022 and 2023 social loans and provide an assessment as to whether the projects met the use of proceeds criteria and the reporting commitments outlined in the Shriram Finance Limited Social Finance Framework (the "Framework").² Sustainalytics provided a second-party opinion in January 2020³ and an update to it in December 2022. This is Sustainalytics' fourth annual review letter following previous annual reviews in August 2020, October 2021 and April 2022.⁴

Evaluation Criteria

Sustainalytics evaluated the projects and assets funded with proceeds from the social loans based on whether they:

1. Met the use of proceeds and eligibility criteria defined in the Framework; and
2. Reported on at least one key performance indicator (KPI) for each use of proceeds category defined in the Framework.

Table 1: Use of Proceeds Categories, Eligibility Criteria and Associated KPIs

Use of Proceeds Category	Eligibility Criteria	Key Performance Indicators
Access to Essential Services 1) Financing and Financial Services / Financial Inclusion 2) Employment Generation 3) Socioeconomic advancement and empowerment	<ul style="list-style-type: none"> • Provision of financing for Small Road Transport Operators and First Time Buyers from underserved communities⁵ across India at favourable interest rates. To exclude vehicles that are used in environmental unfriendly sectors such as extraction, refining, or transportation of coal. • Provision of suitable financial instruments and supporting services for micro-, small- and medium-sized enterprises in India, in accordance to the definition in India's Micro, Small & Medium 	<ul style="list-style-type: none"> • Number of products and services serving low-income groups • Number of enterprises benefiting from MSME financing and total of MSME financing provided • Number of people provided with access to financial services, including microfinance

¹ Shriram Finance Limited (SFL) was formerly called Shriram Transport Finance Co. Ltd (STFC).

² Shriram Finance Limited Social Finance Framework (2022), at:

<https://cdn.shriramfinance.in/uploads/investor/pdf/SFL%20Social%20Finance%20Framework%20Dec%202022.pdf>

³ Second-Party Opinion Shriram Social Bond Framework (2020), at: https://mstar-sustops-cdn-mainwebsite-s3.s3.amazonaws.com/docs/default-source/spos/shriram-transport-social-bond-second-party-opinion.pdf?sfvrsn=4ab07862_3

⁴ Sustainalytics, "Shriram Transport Finance Co. Ltd. Annual Review", (2022), at: [https://www.sustainalytics.com/corporate-solutions/sustainable-finance-and-lending/published-projects/project/shriram-transport-finance-co-ltd/shriram-transport-finance-co.-ltd.-annual-review-\(2022\)/shriram-transport-finance-co.-ltd.-annual-review](https://www.sustainalytics.com/corporate-solutions/sustainable-finance-and-lending/published-projects/project/shriram-transport-finance-co-ltd/shriram-transport-finance-co.-ltd.-annual-review-(2022)/shriram-transport-finance-co.-ltd.-annual-review)

⁵ SFL classifies their core market as people that do have bank accounts, yet cannot get a loan from their bank

	<p>Enterprises Development Act, 2006.e</p> <ul style="list-style-type: none"> • Provision of affordable loans to help communities alleviate income through promoting entrepreneurship from low- income states as defined by World Bank.⁶ • Provision of affordable financial instruments (personal loans, gold loans) to underserved customers without documents proving sources of income. 	
--	--	--

Issuer’s Responsibility

SFL is responsible for providing accurate information and documentation relating to the details of the funded projects, including description of projects, amounts allocated and project impact.

Independence and Quality Control

Sustainalytics, a leading provider of ESG research and ratings, conducted the verification of the use of proceeds from SFL’s social loans. The work undertaken as part of this engagement included collection of documentation from SFL and review of said documentation to assess conformance with the Shriram Finance Limited Social Finance Framework.

Sustainalytics relied on the information and the facts presented by SFL. Sustainalytics is not responsible nor shall it be held liable for any inaccuracies in the opinions, findings or conclusions herein due to incorrect or incomplete data provided by SFL.

Sustainalytics made all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight of the review.

Conclusion

Based on the limited assurance procedures conducted,⁷ nothing has come to Sustainalytics’ attention that causes us to believe that, in all material respects, the reviewed projects do not conform with the use of proceeds criteria and reporting commitments in the Framework. SFL has disclosed to Sustainalytics that the proceeds of the social loans were fully allocated as of May, 2023.

⁶ Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Odisha, Rajasthan and Uttar Pradesh as defined by World Bank India State Briefs

⁷ Sustainalytics limited assurance process includes reviewing the documentation relating to the details of the funded projects, including description of projects, their estimated and realized costs and impact, as provided by the issuing entity, which is responsible for providing accurate information. Sustainalytics has not conducted on-site visits to projects.

Detailed Findings

Table 2: Detailed Findings

Framework Requirements	Procedure Performed	Factual Findings	Error or Exceptions Identified
Use of Proceeds Criteria	Verification of the projects funded with proceeds from the social loans to determine if projects aligned with the use of proceeds criteria outlined in the Framework.	All projects reviewed complied with the use of proceeds criteria.	None
Reporting Criteria	Verification of the projects funded with proceeds from the social loans to determine if impact of projects was reported in line with the KPIs outlined in the Framework.	All projects reviewed reported on at least one KPI per use of proceeds category.	None

Appendices

Appendix 1: Allocation Report by eligibility criteria

In 2022 and 2023, SFL issued social loans of USD 875 million which was fully allocated. The total allocation was done towards financing of new projects/loans for the target population. A summary of these allocations, broken-down by eligibility criteria, is provided below.

Table 3: Allocation reporting by lending banks

Use of Proceeds Category	Name of lender	Allocation Date	Net Amount (USD million)
Access to Essential Services	Canara Bank	May 2023	50
	US Development Finance Corporation	July 2022	250
	Asian Development Bank	March 2022	100
	Syndicated Loan Facility	March 2023	275
	Deutsche Bank	May 2023	50
	MUFG Bank	April 2023	150
	Total		875

Table 4: Allocation reporting by beneficiary type

Use of Proceeds Category	Particulars	Net Proceeds Allocation (USD million)	Number of loans
Access to Essential Services	First Time Buyers ⁸	514	111,804
	MSME ⁹ / others	360	75,004
	Total	875	186,808

Appendix 2: Reported Impact by eligibility criteria

Table 5: Impact reporting

Use of Proceeds Category	Particulars	Net Proceeds Allocation (USD million)	Number of loans
Access to Essential Services	Loans provided to women ¹⁰	107	18,377
	Economic weaker section ¹¹	258	110,727

⁸ First Time Buyers includes women borrowers and economic weaker section.

⁹ MSMEs includes low-income groups. MSMEs are defined according to the Government of India. Government of India, "Ministry of Micro, Small and Medium Enterprises Notification", (2020), at: https://msme.gov.in/sites/default/files/MSME_gazette_of_india.pdf

	Low-income groups ¹²	219	39,641
	First Time buyers ¹³	148	8,949
	MSMEs ¹⁴ / Others	141	9,114
	Total	875	186,808

¹⁰ Including individual women borrowers and women owned MSMEs, contributing to women empowerment.

¹¹ This is defined as SFL's general target population, which are drivers who typically do not qualify for bank loans due to the lack of stable income. (Annual income not exceeding INR 3lakhs i.e., USD 4200).

¹² The World Bank defines low-income states in India as Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Odisha, Rajasthan and Uttar Pradesh, at: <https://www.worldbank.org/en/news/feature/2016/05/26/india-states-briefs>

¹³ Includes First Time Buyers besides women borrowers, economic weaker section, low-income groups.

¹⁴ MSMEs are defined according to the Government of India. Government of India, "Ministry of Micro, Small and Medium Enterprises Notification", (2020), at: https://msme.gov.in/sites/default/files/MSME_gazette_of_india.pdf

Disclaimer

Copyright ©2023 Sustainalytics. All rights reserved.

The information, methodologies and opinions contained or reflected herein are proprietary of Sustainalytics and/or its third party suppliers (Third Party Data), and may be made available to third parties only in the form and format disclosed by Sustainalytics, or provided that appropriate citation and acknowledgement is ensured. They are provided for informational purposes only and (1) do not constitute an endorsement of any product or project; (2) do not constitute investment advice, financial advice or a prospectus; (3) cannot be interpreted as an offer or indication to buy or sell securities, to select a project or make any kind of business transactions; (4) do not represent an assessment of the issuer's economic performance, financial obligations nor of its creditworthiness; and/or (5) have not and cannot be incorporated into any offering disclosure.

These are based on information made available by the issuer and therefore are not warranted as to their merchantability, completeness, accuracy, up-to-dateness or fitness for a particular purpose. The information and data are provided "as is" and reflect Sustainalytics' opinion at the date of their elaboration and publication. Sustainalytics accepts no liability for damage arising from the use of the information, data or opinions contained herein, in any manner whatsoever, except where explicitly required by law. Any reference to third party names or Third Party Data is for appropriate acknowledgement of their ownership and does not constitute a sponsorship or endorsement by such owner. A list of our third-party data providers and their respective terms of use is available on our website. For more information, visit <http://www.sustainalytics.com/legal-disclaimers>.

The issuer is fully responsible for certifying and ensuring the compliance with its commitments, for their implementation and monitoring.

In case of discrepancies between the English language and translated versions, the English language version shall prevail.

About Sustainalytics, a Morningstar Company

Sustainalytics, a Morningstar Company, is a leading ESG research, ratings and data firm that supports investors around the world with the development and implementation of responsible investment strategies. For more than 30 years, the firm has been at the forefront of developing high-quality, innovative solutions to meet the evolving needs of global investors. Today, Sustainalytics works with hundreds of the world's leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. Sustainalytics also works with hundreds of companies and their financial intermediaries to help them consider sustainability in policies, practices and capital projects. With 17 offices globally, Sustainalytics has more than 1500 staff members, including more than 500 analysts with varied multidisciplinary expertise across more than 40 industry groups.

For more information, visit www.sustainalytics.com

Or contact us contact@sustainalytics.com

