

# Second-Party Opinion

## Shriram Social Bond Framework



### Evaluation Summary

Sustainalytics is of the opinion that the Shriram Transport Finance Social Finance Framework is credible and impactful, and aligns with the four core components of the Social Bond Principles 2018. This assessment is based on the following:



**USE OF PROCEEDS** The eligible category for the use of proceeds – Employment generation through Micro, Small & Medium Enterprises (“MSME”) financing and microfinance – is aligned with those recognized by the Social Bond Principles 2018. Sustainalytics considers that the Eligible Assets will provide positive social impacts by improving financial access for the underbanked MSMEs that are unable to access conventional financial services due to their poor credit ratings or lack of stable income. They will also support the advancement of the UN Sustainable Development Goals, specifically Goals 8 and 10.



**PROJECT EVALUATION / SELECTION** Shriram Transport Finance has established a Sustainable Financing Working Group, chaired by Treasury and consisting of representatives from the Treasury Department, Corporate Social Responsibility Department, Transport Planning Department, and Business Operation Department. The working group, among other tasks, oversees the review, selection, and validation of Eligible Social Assets based on the stated criteria in the Social Finance Framework. Sustainalytics views Shriram’s project evaluation and selection as in line with market practice.



**MANAGEMENT OF PROCEEDS** Shriram Transport Finance’s processes will be managed by the Sustainable Financing Working Group based on a portfolio approach. Eligible projects will be allocated to the Eligible Social Portfolio. Proceeds will be tracked and recorded through the internal monitoring system. Pending full allocation, unallocated proceeds will be deployed in cash or cash equivalent instruments, in accordance with the Company’s investments and treasury policy. Sustainalytics views Shriram’s management of proceeds as aligned with market practice.



**REPORTING** Shriram Transport Finance intends to report on its website, within one year from the issuance and annually thereafter until full allocation, the allocation of net proceeds and associated impact metrics in its allocation and impact reporting. Allocation reporting will include (i) the amount or percentage of allocation to the Eligible Social Portfolio, (ii) percentage of net proceeds allocated to financing new and existing projects, (iii) examples of projects being financed, and (iv) balance of unallocated proceeds. Impact reporting will report on relevant social impact indicators. Sustainalytics views Shriram’s proposed allocation and impact reporting as aligned with market practice.

<b>Evaluation date</b>	January, 2020
<b>Issuer Location</b>	Mumbai, India

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### For inquiries, contact the Sustainable Finance Solutions project team:

**Phoebe Wang (Amsterdam)**  
Project Manager  
phoebe.wang@sustainalytics.com  
(+31) 20 205 00 44

**Charles Cassaz (Amsterdam)**  
Project Support  
charles.cassaz@sustainalytics.com  
(+31) 20 205 02 09

**Nicholas Gandolfo (Singapore)**  
Client Relations  
susfinance.apac@sustainalytics.com  
(+852) 3008 2391

## Introduction

Shriram Transport Finance Co. Ltd. (“Shriram”, “STFC”, or the “Company”), is a flagship company of Shriram Group. Focusing on pre-owned trucks and Small Truck Owners, the company is a financial institute that provides services ranging from commercial vehicle finance, passenger commercial vehicle finance, as well as consumer finance, life and general insurance, stock brokerage, chit funds and distribution of financial products such as mutual funds.<sup>1</sup> Shriram Transport Finance Co. Ltd. was established in 1979 in Mumbai, India.

Shriram has developed the Shriram Transport Finance Social Finance Framework (the “Framework”) under which it intends to issue social bonds and use the proceeds to finance or refinance, in whole or in part, existing or future projects that improve access to finance for underbanked individuals, namely First Time Buyers<sup>2</sup> and Small Road Transport Operators,<sup>3</sup> and Micro, Small & Medium Enterprises (MSMEs) in the transportation sector. The Framework defines eligibility criteria in one area:

1. Employment Generation Through MSME Financing and Microfinance

Shriram engaged Sustainalytics to review the Shriram Transport Finance Social Finance Framework, dated January 2020 to provide a second-party opinion on the Framework’s social credentials and its alignment with the Social Bond Principles 2018 (SBP).<sup>4</sup> This Framework has been published in a separate document.<sup>5</sup>

As part of this engagement, Sustainalytics held conversations with various members of Shriram’s management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Shriram’s social bond. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics’ opinion of the Shriram Transport Finance Social Finance Framework, dated January 2020, and should be read in conjunction with that Framework.

<sup>1</sup> Shriram Transport Finance Co. Ltd., Economic Times. Accessed on December 2019: <https://m.economictimes.com/shriram-transport-finance-company-ltd/stocks/companyid-13106.cms>

<sup>2</sup> First Time Buyers refer to individuals or Micro, Small & Medium Enterprises that own zero trucks.

<sup>3</sup> Small Road Transport Operators refer to individuals or Micro, Small & Medium Enterprises that typically own between one to three trucks.

<sup>4</sup> The Social Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/social-bond-principles-sbp/>

<sup>5</sup> The Shriram Transport Finance Social Finance Framework is available on Shriram Transport Finance Co. Ltd.’s website at: <https://www.stfc.in/>

## Sustainalytics' Opinion

### Section 1: Sustainalytics' Opinion on the Shriram Transport Finance Social Finance Framework

#### Summary

Sustainalytics is of the opinion that the Shriram Transport Finance Social Finance Framework is credible, impactful and aligns with the four core components of the Social Bond Principles 2018 (SBP). Sustainalytics highlights the following elements of the Shriram Transport Finance Social Finance Framework:

- Use of Proceeds:
  - The eligible use of proceeds category – Employment Generation Through Micro, Small & Medium Enterprise (MSME) Financing and Microfinance – is recognized as credible and impactful by the SBP. Sustainalytics is of the opinion that STFC's use of proceeds will contribute to greater financial access for the underbanked MSMEs hence further securing and/or generating employment opportunities.
  - The Framework restricts the financed target population to those who are Small Road Transport Operators and First Time Buyers from underserved communities, meaning those who are unable to access bank loans due to poor credit ratings and/or lack of stable income. STFC's financing of the identified population is considered socially impactful.
  - STFC intends to generate employment opportunities in India by providing loans with favorable rates, 16%-18%, and repayment terms to MSMEs in the transport sector defined under India's governmental definition in The Micro, Small & Medium Enterprises Development Act 2006.<sup>6</sup> Sustainalytics notes that STFC specifically targets used commercial vehicles for small truck owners. The usual financing source for this specific population in the market is from unorganized private lenders that charge 36%-40% interest rate, while organized financial institutions provide financing only to new vehicles and large fleet operators. Sustainalytics recognizes the positive social impact based on STFC's specific target population in India's social context.
  - While STFC does not have a defined look-back period, STFC commits to disclose the portion of financing versus refinancing in its annual allocation report.
  - Sustainalytics positively views the Environmental Do No Significant Harm Transparency, and the exclusionary criteria which prevents any financing in high risk sectors and activities.
- Project Evaluation and Selection:
  - STFC confirms the establishment of the Sustainable Financing Working Group (SFWG), which is chaired by STFC's Treasury, and comprised of representatives from STFC's Treasury Department, Corporate Social Responsibility Department, Transport Planning Department, and Business Operation Department. This ongoing working group is will meet on a quarterly basis for its assigned responsibilities.
  - The SFWG is responsible for (i) the review, selection, and validation of projects to be allocated to the Eligible Social Portfolio based on the Framework, (ii) the validation of annual reporting to investors, (iii) monitoring evolving trends in the sustainable finance market in order to adjust STFC's sustainability practices and strategies, and (iv) review of the Framework in order to reflect any changes with regards to STFC's sustainability strategies and initiatives.
  - Sustainalytics views STFC's project evaluation and selection process as aligned with market practice.
- Management of Proceeds:
  - The SFWG will manage the proceeds in a portfolio approach through the establishment of the Eligible Social Portfolio. STFC intends to achieve a level of allocation for the Eligible Social Portfolio that matches or exceeds the balance of net proceeds from its total outstanding social financing.
  - Proceeds will be tracked and recorded through internal monitoring systems. Unallocated proceeds will be held in cash or cash equivalent instruments, in accordance with STFC's

<sup>6</sup> The Micro, Small & Medium Enterprises Development Act 2006 (2006), Parliament of India. To be retrieved from <https://www.wipo.int/edocs/lexdocs/laws/en/in/in114en.pdf>

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- investments and treasury policy. The overall management of proceeds will be monitored by STFC during the entire period in which the expected disbursement will be incurred.
- Sustainalytics views STFC's management of proceeds as aligned with market practice.
- Reporting:
  - STFC intends to report on its website, within one year from the issuance and annually thereafter until proceeds have been fully allocated, on the allocation of net proceeds and associated output and impact indicators in its allocation and impact reporting. Allocation reporting will include (i) the amount or percentage of allocation to the Eligible Social Portfolio, (ii) percentage of net proceeds allocated to financing new and existing projects, (iii) examples of projects being financed, and (iv) balance of unallocated proceeds.
  - Disclosure of impact reporting may include relevant social impact metrics, such as, (i) number of products and services serving low-income groups, (ii) number of enterprises benefiting from MSME financing and total of MSME financing provided, and (iii) number of people provided with access to financial services, including microfinance. Furthermore, STFC intends to report on environmental indicators, including (i) annual number of loans granted for vehicles funded that qualify under Bharat Stage VI<sup>7</sup> or Euro 6 Norms,<sup>8</sup> (ii) improvement of fuel efficiency of funded vehicles, (iii) annual number of loans granted for vehicle improvements for efficiency and safe driving, and (iv) annual reduced and/or avoided emissions in tons of CO<sub>2</sub> equivalent.
  - Sustainalytics views STFC's reporting process as aligned with market practices.

### Alignment with Social Bond Principles 2018

Sustainalytics has determined that the Shriram Transport Finance Social Finance Framework aligns to the four core components of the Social Bond Principles 2018. For detailed information please refer to Appendix 1: Social Bond/ Social Bond Programme External Review Form.

## Section 2: Sustainability Performance and Strategy of the Issuer

### Contribution of Framework to issuer's sustainability performances and targets

Focusing on lending to underbanked MSMEs that have limited access to conventional financial services and funding as its main business activity, STFC's sustainability strategy is incorporated in its core business. STFC has developed the STFC Corporate Social Responsibility (CSR) Policy in which the Company is obliged to place a minimum of 2% of its average net profit of the last three financial years or any part thereof towards CSR projects aligned with STFC CSR Policy. Should the Company's CSR expenditure not exceed the required minimum amount, it is required to provide and publish explanations.<sup>9</sup>

Sustainalytics considers that STFC has a strong sustainability strategy and governance structure due to the following:<sup>10</sup>

- STFC's CSR Policy identifies three types of activity, namely providing education, vocational training, and promoting health care facilities to economically weaker and underprivileged section of the society, as recognized social projects.
- Following the CSR Policy, STFC established a CSR Committee consisting of members including STFC's Managing Director & CEO and other non-executive independent directors. The committee oversees the implementation and monitoring of the Company's CSR Policy.
- Expenditures focusing on relevant projects during the financial year of 2018-2019 including, (i) Truckers Transformation Abhiyan project that aims at creating awareness on health hazards, road safety and financial literacy among truckers' community, and (ii) Drivers' Training project which provides training and skill development to communities with a manual scavenging background in order to alleviate poverty through providing skills and replacement opportunities.

Given the Company's efforts in carrying out its social commitments to the underprivileged communities in India, Sustainalytics considers STFC well-positioned to issue social bonds, which will further advance STFC's social strategies and activities in supporting underprivileged populations across India.

<sup>7</sup> India Bharat Stage Vi Emission Standards (2016), International Council on Clean Transportation. To be retrieved from <https://theicct.org/sites/default/files/publications/India%20BS%20VI%20Policy%20Update%20vF.pdf>

<sup>8</sup> A Technical Summary of Euro 6/VI Vehicle Emission Standards (2016), International Council on Clean Transportation. To be retrieved from [https://theicct.org/sites/default/files/publications/ICCT\\_Euro6-VI\\_briefing\\_jun2016.pdf](https://theicct.org/sites/default/files/publications/ICCT_Euro6-VI_briefing_jun2016.pdf)

<sup>9</sup> Shriram Transport Finance Co. Ltd. 40<sup>th</sup> Annual Report 2018-2019, to be retrieved from [https://www.stfc.in/pdf/annual-report/STFC-AR\\_18-19.pdf](https://www.stfc.in/pdf/annual-report/STFC-AR_18-19.pdf)

<sup>10</sup> Idem

### Well-positioned to address common social and environmental risks associated with the projects

While Sustainalytics recognizes the positive impact of financing underbanked MSMEs, specifically to those unable to access finance in the local context of India, it is acknowledged that MSME financing as well as financing the transport sector can pose certain social and environmental risks.

The main social risks include workers'/drivers' health and safety, and related risks to surrounding communities if the supported population is not well-targeted. STFC's Truckers Transformation Abhiyan project aims at providing training workshops across India on topics covering health hazards, road safety and financial literacy. Beneficiaries under STFC's Driver Training Programme receive trainings on health and safety knowledge, as well as regular health check-ups and yoga practice. Furthermore, STFC specifically provides encouragement and support to women taking the Driver Training Programme, along with employment opportunity placement. Apart from internal CSR projects, STFC is also the finance provider for the Mobile Medical Units and Health Clinics programme provided by local NGO Piramal Swasthya<sup>11</sup> which is a free-of-charge healthcare service for the truckers' community at locations such as truckers' parking hub in Kalamboli and Navi Mumbai.<sup>12</sup>

The most pertinent environmental risks from financing the transport sector include CO<sub>2</sub> emissions. With this consideration, STFC confirms to Sustainalytics that the Company limits financing to trucks less than ten years old, which could potentially limit the financed trucks to newer and more emission efficient models. STFC also confirms that through STFC's Truckers Transformation Abhiyan project and Driver Training Programme, STFC further increases awareness of the Pollution under Control Certificate (PUC Certificate)<sup>13</sup> among the truckers' community, and with STFC's financing for truck upgrading, it provides incentives<sup>1</sup> to upgrade and use emission efficient vehicles.

While Sustainalytics is of the opinion that the issuer is well-positioned to manage and mitigate potential environmental and social risks associated with the Eligible Social Portfolio, Sustainalytics further encourages STFC to develop a process to assess environmental and social risks of the Eligible Social Portfolio along with relevant disclosure.

## Section 3: Impact of Use of Proceeds

The use of proceeds category is recognized as impactful by the Social Bond Principles 2018. Sustainalytics has focused below on how the impact is specifically relevant in the local context.

### The Importance of Microfinance and Financing for MSMEs in India

Micro, Small & Medium Enterprises ("MSMEs") largely contribute to economic development and innovation worldwide, employing a majority of the population and significantly contributing to economic growth.<sup>14</sup> However, due to their small size, lack of diversification and weak financial structures, MSMEs often experience credit-constrained situations.<sup>15</sup> According to the IFC report, 40% of all the MSMEs surveyed in 128 countries are credit constrained. As such, the financial gap between current credit supply and demand undermines MSME's ability to provide growth and employment, such as in India where the potential demand gap is estimated to be \$418 billion. In fact, impact studies have shown that many Indian SMEs are credit constrained, and that additional credit to SMEs can further increase their growth and potential positive social externalities.

MSME financing and microfinance can spearhead a wide range of social benefits to the targeted populations, particularly by reducing income inequalities through enhancing accessibility of services and support to low-income groups.<sup>16</sup> Microfinance is a mechanism that provides the capability for low-income populations to maintain their economic activities or even to create new ones.<sup>17</sup> Moreover, microfinance can lead to enhanced

<sup>11</sup> Piramal Swasthya is a registered not for profit organization supported by Piramal Foundation that aims at providing accessible and affordable healthcare for the underprivileged population in India. Further information to be accessed at <http://www.piramalswasthya.org/who-we-are/>

<sup>12</sup> Piramal Swasthya operations. To be retrieved from <http://www.piramalswasthya.org/operations/>

<sup>13</sup> PUC Certificate is a mandatory certificate required on all new motor vehicles sold in India, and all motor vehicles after one year from the date of its first registration. The certificate indicates whether vehicles meet the emission standards and can be acquired should the vehicle pass the standardize emission examination. Further information to be retrieved from <https://transport.delhi.gov.in/content/frequently-asked-questions-faq-about-puc-certificate>

<sup>14</sup> International Finance Corporation, "MSME Finance Gap – Assessment of the Shortfalls and Opportunities in Financing Micro, Small and Medium Enterprises in Emerging Markets", (2017), at: <https://www.ifc.org/wps/wcm/connect/03522e90-a13d-4a02-87cd-9ee9a297b311/121264-WP-PUBLIC-MSMEReportFINAL.pdf?MOD=AJPERES&CID=m5SwAQA>

<sup>15</sup> Ayadi, R. and al., (2013), "Access by MSMEs to Finance in the Southern and Eastern Mediterranean: What Role for Credit Guarantee Schemes?" MEDPRO Technical Report, at: [https://www.medpro-foresight.eu/ar/system/files/MEDPRO%20TR%20No%2035%20WP6%20Ayadi\\_0.pdf](https://www.medpro-foresight.eu/ar/system/files/MEDPRO%20TR%20No%2035%20WP6%20Ayadi_0.pdf)

<sup>16</sup> Clarke G., and al., (2006), "Finance and income inequality: what do the data tell us?", Southern Economic Journal, at: <https://www.jstor.org/stable/20111834?seq=1>

<sup>17</sup> Khandker, S., (1998), "Fighting Poverty with Microcredit: Experience in Bangladesh," Oxford University Press, at: <http://documents.worldbank.org/curated/en/549951468768619206/Fighting-poverty-with-microcredit-experience-in-Bangladesh>

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access to health and education,<sup>18</sup> as well as social promotion.<sup>19</sup> In addition, a correlation between microfinance borrowers and Gini<sup>20</sup>/poverty indicators has been established: a wider coverage of microfinance institutions helps more people to be alleviated out of poverty.<sup>21</sup>

In the Indian context, MSMEs' role in economic and social development is well established, especially during periods of recession where MSMEs hold a major role in restoring jobs and business activities.<sup>22</sup> The small-scale industry sector contributes almost 40% of the gross industrial value added in the Indian economy.<sup>22</sup> In the last census that took place in 2006-07, SMEs employed about 59.7M persons.<sup>23</sup> As such, India's Micro, Small & Medium Enterprises Development Act has contributed to better defining MSMEs by providing a legal framework that facilitates MSMEs development. The Act also seeks to enhance MSME's competitiveness to foster employment opportunities.<sup>24</sup>

Sustainalytics is of the opinion that Shriram's MSME financing and microfinance in the transport sector can potentially (i) fill the gap between MSME credit supply and demand, (ii) generate positive social outcomes for India's low-income population, and (iii) strengthen India's policy in favor of MSMEs. Based on the above, Sustainalytics considers the use of proceeds as credible and impactful.

### Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. This social bond advances the following SDG goals and targets:

Use of Proceeds Category	SDG	SDG target
Employment generation including through MSME financing and microfinance	8. Decent work and economic growth	8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro, small and medium-sized enterprises, including through access to financial services
	10. Reduced Inequalities	10.2 Empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status

## Conclusion

Shriram Transport Finance Co. Ltd. has developed the Shriram Transport Finance Social Finance Framework under which it intends to issue social bonds and use the proceeds to finance or refinance, in whole or in part, existing or future projects that improve access to finance for underbanked individuals and MSMEs in the transportation sector. Sustainalytics considers that the eligible projects will contribute to socio-economic advancement of underprivileged target populations through the category of Employment Generation Through MSME Financing and Microfinance.

<sup>18</sup> Morduch J., and al., (2002), Analysis of the Effects of Microfinance on Poverty Reduction, NYU Wagner Working Paper, at: [https://pdf.wri.org/ref/morduch\\_02\\_analysis\\_effects.pdf](https://pdf.wri.org/ref/morduch_02_analysis_effects.pdf)

<sup>19</sup> Littlefield, E., and al., (2003), Is Microfinance an Effective Strategy to reach the Millennium Development Goals?, CGAP Focus Note, at: <http://documents.worldbank.org/curated/en/982761468319745482/Is-microfinance-an-effective-strategy-to-reach-the-Millennium-Development-Goals>

<sup>20</sup> The Gini index (or coefficient) is a synthetic indicator of wage inequality (income, standard of living, etc.). It varies between 0 and 1: the higher the Gini index, the greater the inequality.

<sup>21</sup> Bangoura, L., and al., (2016), "Impact of Microfinance on Poverty and Inequality A Heterogeneous Panel Causality Analysis", Revue d'économie politique, at: <https://www.cairn.info/revue-d-economie-politique-2016-5-page-789.htm>

<sup>22</sup> Jeswal, R., (2012), "Role of SME in Indian Economy", at: <https://fr.scribd.com/document/192905616/16-Role-of-SME-in-Indian-Economoy-Ruchika-FINC004>

<sup>23</sup> Government of India, "Fourth All India Census of Micro, Small & Medium Enterprises, (2009), at: <http://www.dcmsme.gov.in/publications/census10.pdf>

<sup>24</sup> Syal, S., (2015), "Role of MSMEs in the Growth of Indian Economy", Journal of Commerce & Management Perspective, at: <https://www.longdom.org/articles/role-of-msmes-in-the-growth-of-indian-economy.pdf>

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Sustainalytics considers the outlined processes for project selection and evaluation, management of proceeds, and reporting to be in line with market practice. Additionally, Sustainalytics has assessed the Framework and concluded that it aligns with the four core Social Bond Principles 2018.

Based on the above, Sustainalytics considers the Shriram Transport Finance Social Finance Framework to be credible, robust and transparent.

## Appendices

### Appendix 1: Social Bond/ Social Bond Programme - External Review Form Section 1. Basic Information

<b>Issuer name:</b>	Shriram Transport Finance Co. Ltd.
<b>Social Bond ISIN or Issuer Social Bond Framework Name, if applicable: <i>[specify as appropriate]</i></b>	Shriram Transport Finance Social Finance Framework
<b>Review provider's name:</b>	Sustainalytics
<b>Completion date of this form:</b>	January 2020
<b>Publication date of review publication: <i>[where appropriate, specify if it is an update and add reference to earlier relevant review]</i></b>	

### Section 2. Review overview

#### SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarize the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBPs:

- |                                                            |                                                                                  |
|------------------------------------------------------------|----------------------------------------------------------------------------------|
| <input checked="" type="checkbox"/> Use of Proceeds        | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting                                    |

#### ROLE(S) OF REVIEW PROVIDER

- |                                                                                 |                                        |
|---------------------------------------------------------------------------------|----------------------------------------|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification                                           | <input type="checkbox"/> Rating        |
| <input type="checkbox"/> Other <i>(please specify)</i> :                        |                                        |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

#### EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW *(if applicable)*

Please refer to Evaluation Summary above.

### Section 3. Detailed review

## Shriram Transport Finance Social Bond Framework

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

### 1. USE OF PROCEEDS

Overall comment on section (*if applicable*):

The eligible category for the use of proceeds – Employment generation including through Micro, Small & Medium Enterprises (“MSME”) financing and microfinance – is aligned with those recognized by the Social Bond Principles 2018. Sustainalytics considers that the Eligible Assets will provide positive social impacts by improving financial access for the underbanked MSMEs that are unable to access conventional financial services due to their poor credit ratings or lack of stable income while advancing the UN Sustainable Development Goals, specifically Goals 8 and 10.

#### Use of proceeds categories as per SBP:

- |                                                                                                                                                    |                                                                                                    |
|----------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------|
| <input type="checkbox"/> Affordable basic infrastructure                                                                                           | <input type="checkbox"/> Access to essential services                                              |
| <input type="checkbox"/> Affordable housing                                                                                                        | <input checked="" type="checkbox"/> Employment generation (through SME financing and microfinance) |
| <input type="checkbox"/> Food security                                                                                                             | <input type="checkbox"/> Socioeconomic advancement and empowerment                                 |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBPs | <input type="checkbox"/> Other ( <i>please specify</i> ):                                          |

If applicable please specify the social taxonomy, if other than SBPs:

### 2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (*if applicable*):

Shriram Transport Finance’s Sustainable Financing Working Group, chaired by Treasury and consisting representatives from Treasury Department, Corporate Social Responsibility Department, Transport Planning Department, and Business Operation Department. The working group, among other tasks, oversees the review, selection, and validation of Eligible Social Portfolio based on the stated criteria in the Shriram Transport Finance Social Finance Framework. Sustainalytics views Shriram’s project evaluation and selection as in line with market practice.

#### Evaluation and selection

- |                                                                                                                     |                                                                                                                    |
|---------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------|
| <input checked="" type="checkbox"/> Credentials on the issuer’s social objectives                                   | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories    |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Social Bond proceeds | <input type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input type="checkbox"/> Summary criteria for project evaluation and selection publicly available                   | <input type="checkbox"/> Other ( <i>please specify</i> ):                                                          |

#### Information on Responsibilities and Accountability

- |                                                                                                                |                                              |
|----------------------------------------------------------------------------------------------------------------|----------------------------------------------|
| <input checked="" type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input type="checkbox"/> In-house assessment |
|----------------------------------------------------------------------------------------------------------------|----------------------------------------------|

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- Other (please specify):

### 3. MANAGEMENT OF PROCEEDS

Overall comment on section (if applicable):

Shriram Transport Finance's processes will be managed by the Sustainable Financing Working Group based on a portfolio approach. Eligible projects will be allocated to the Eligible Social Portfolio. Proceeds will be tracked and recorded through internal monitoring system. Pending full allocation, unallocated proceeds will be deployed in cash, cash equivalent instruments, in accordance with STFC's investments and treasury policy. Sustainalytics views Shriram's management of proceeds as aligned with market practice.

#### Tracking of proceeds:

- Social Bond proceeds segregated or tracked by the issuer in an appropriate manner
- Disclosure of intended types of temporary investment instruments for unallocated proceeds
- Other (please specify):

#### Additional disclosure:

- |                                                                                  |                                                                                         |
|----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|
| <input type="checkbox"/> Allocations to future investments only                  | <input checked="" type="checkbox"/> Allocations to both existing and future investments |
| <input type="checkbox"/> Allocation to individual disbursements                  | <input type="checkbox"/> Allocation to a portfolio of disbursements                     |
| <input type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input type="checkbox"/> Other (please specify):                                        |

### 4. REPORTING

Overall comment on section (if applicable):

Shriram Transport Finance intends to report on its website, within one year from the issuance and annually thereafter until full allocation, the allocation of net proceeds and associated impact metrics. Allocation reporting will include (i) the amount or percentage of allocation to the Eligible Social Portfolio, (ii) percentage of net proceeds allocated to financing new and existing projects, (iii) examples of projects being financed, and (iv) balance of unallocated proceeds. Impact reporting will report on relevant social impact indicators. Sustainalytics views Shriram's proposed allocation and impact reporting as aligned with market practice.

#### Use of proceeds reporting:

- |                                                        |                                                                  |
|--------------------------------------------------------|------------------------------------------------------------------|
| <input type="checkbox"/> Project-by-project            | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (please specify):                 |

#### Information reported:

- |                                                       |                                                                         |
|-------------------------------------------------------|-------------------------------------------------------------------------|
| <input checked="" type="checkbox"/> Allocated amounts | <input type="checkbox"/> Social Bond financed share of total investment |
|-------------------------------------------------------|-------------------------------------------------------------------------|

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- Other (*please specify*): share of financing vs. refinancing, balance of unallocated proceeds.

### Frequency:

- Annual  Semi-annual  
 Other (*please specify*):

### Impact reporting:

- Project-by-project  On a project portfolio basis  
 Linkage to individual bond(s)  Other (*please specify*):

### Frequency:

- Annual  Semi-annual  
 Other (*please specify*):

### Information reported (expected or ex-post):

- Number of beneficiaries  Target populations  
 Other ESG indicators: number of products and services serving low-income groups and number of enterprises benefiting from MSME financing.

### Means of Disclosure

- Information published in financial report  Information published in sustainability report  
 Information published in ad hoc documents  Other (*please specify*):  
 Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):

Where appropriate, please specify name and date of publication in the useful links section.

### USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

Allocation and impact reporting will be published on the Issuer's website: <https://www.stfc.in/>

### SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

#### Type(s) of Review provided:

- Consultancy (incl. 2<sup>nd</sup> opinion)  Certification  
 Verification / Audit  Rating  
 Other (*please specify*):

**Review provider(s):****Date of publication:****ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE SBP**

- i. **Second Party Opinion:** An institution with social expertise, that is independent from the issuer may issue a Second Party Opinion. The institution should be independent from the issuer's adviser for its Social Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second Party Opinion. It normally entails an assessment of the alignment with the Social Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to social sustainability, and an evaluation of the social features of the type of projects intended for the Use of Proceeds.
- ii. **Verification:** An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or social criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the socially sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Social Bond proceeds, statement of social impact or alignment of reporting with the SBP, may also be termed verification.
- iii. **Certification:** An issuer can have its Social Bond or associated Social Bond framework or Use of Proceeds certified against a recognised external social standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. **Social Bond Scoring/Rating:** An issuer can have its Social Bond, associated Social Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on social performance data, process relative to the SBP, or another benchmark. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material social risks.

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