

Shriram Transport Finance Co. Ltd.

Type of Engagement: Annual Review

Date: April 25, 2022

Engagement Team:

Nilofur Thakkar, nilofur.thakkar@sustainalytics.com

Anirban Sengupta, anirban.sengupta@sustainalytics.com

Introduction

In January 2022, Shriram Transport Finance Co. Ltd. (“STFC”) issued a social bond under the 2020 Shriram Transport Finance Co. Ltd. Social Finance Framework (the “Framework”).^{1,2} The Social Bond (“2022 social bond”) aimed at financing projects that improve access to finance for underbanked individuals, namely First Time Buyers³ or Small Road Transport Operators⁴ from underserved communities, and Micro, Small & Medium Enterprises (MSMEs)⁵ in the transportation sector. In April 2022, STFC engaged Sustainalytics to review the projects funded through the issued 2022 social bond and provide an assessment as to whether the projects met the Use of Proceeds criteria and the Reporting commitments outlined in the Framework.

Evaluation Criteria

Sustainalytics evaluated the projects and assets funded with proceeds from the 2022 social bond based on whether the projects and programmes:

1. Met the Use of Proceeds and Eligibility Criteria outlined in the Framework; and
2. Reported on at least one of the Key Performance Indicators (KPIs) for each Use of Proceeds criteria outlined in the Social Finance Framework.

Table 1 lists the Use of Proceeds, Eligibility Criteria, and associated KPIs.

Use of Proceeds	Eligibility Criteria	Key performance indicators (KPIs)
Employment Generation including through Micro and small enterprises financing and microfinance	<ul style="list-style-type: none"> • Provision of financing for Small Road Transport Operators and First Time Buyers from underserved communities⁶ across India at favourable interest rates. To exclude vehicles that are used in environmentally 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 Enterprises Development Act, 2006. • Provision of affordable loans to help communities alleviate income through promoting entrepreneurship from low-income states as defined by World Bank⁷ 	<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 Transport Finance Co. Ltd, “Shriram Transport Finance Co. Ltd. Social Finance Framework January 2020”, at: https://cdn.stfc.in/stfc/uploads/2020/01/STFC-Social_Finance_Framework-January-2020.pdf

² In January 2020, Sustainalytics provided a Second-Party Opinion on the Framework, at: https://cdn.stfc.in/stfc/uploads/2020/01/STFC_Sustainalytics-Second-Party-Opinion.pdf

³ First Time Buyers refer to individuals or Micro, Small & Medium Enterprises that own zero trucks.

⁴ Small Road Transport Operators refer to individuals or Micro, Small & Medium Enterprises that typically own between one to three trucks.

⁵ Defined as per The Micro, Small & Medium Enterprises Development Act 2006 (2006), Parliament of India. For more information see: <https://www.wipo.int/edocs/lexdocs/laws/en/in/in114en.pdf>

⁶ STFC classifies their core market as people that do have bank accounts yet cannot get a loan from their bank.

⁷ Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Odisha, Rajasthan and Uttar Pradesh as defined by World Bank India State Briefs.

Issuing Entity's Responsibility

STFC is responsible for providing accurate information and documentation relating to the details of the projects that have been funded, including a description of projects, amounts allocated, and project impact.

Independence and Quality Control

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of STFC's Social Bond Use of Proceeds. The work undertaken as part of this engagement included collection of documentation from STFC employees and review of documentation to confirm the conformance with the Shriram Transport Finance Co. Ltd. Social Finance Framework.

Sustainalytics has relied on the information and the facts presented by STFC with respect to the Nominated Projects. Sustainalytics is not responsible, nor shall it be held liable if any of the opinions, findings, or conclusions it has set forth herein are not correct due to incorrect or incomplete data provided by STFC.

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 over the assessment of the review.

Conclusion

Based on the limited assurance procedures conducted,⁸ nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, the reviewed bond projects, funded through proceeds of STFC's Social Bond, are not in conformance with the Use of Proceeds and Reporting Criteria outlined in the Social Finance Framework. STFC has disclosed to Sustainalytics that the proceeds of the social bond were fully allocated as of February 2022.

Detailed Findings

Table 2: Detailed Findings

Eligibility Criteria	Procedure Performed	Factual Findings	Error or Exceptions Identified
Use of Proceeds Criteria	Verification of the projects funded by the social bond in 2022 to determine if projects aligned with the Use of Proceeds Criteria outlined in the Framework and above in Table 1.	All projects reviewed complied with the Use of Proceeds criteria.	None
Reporting Criteria	Verification of the projects funded by the social bond in 2022 to determine if impact of projects was reported in line with the KPIs outlined in the Framework and above in Table 1. For a list of KPIs reported please refer to Appendix 1.	All projects reviewed reported on at least one KPI per Use of Proceeds criteria.	None

⁸ Sustainalytics limited assurance process includes reviewing the documentation relating to the details of the projects that have been funded, including description of projects, estimated and realized costs of projects, and project impact, which were provided by the Issuer. The Issuer is responsible for providing accurate information. Sustainalytics has not conducted on-site visits to projects.

Appendices

Appendix 1: Allocation Reporting by Eligibility Criteria

In January 2022, STFC issued a Social Bond⁹ with a value of USD 475 million which was fully allocated. The total allocation was done towards financing of new projects/ loans towards the target population. A summary of these allocations, broken-down by eligibility criteria, is provided below.

Use of Proceeds Category	Particulars	Net Bond Proceeds Allocation (Million USD)	Number of Loans	Percentage (%)
Employment Generation including through Micro and small enterprises financing and microfinance	I. First Time Buyers Financing	200	44,961	42
	II. MSME Financing	275	51,750	58
	III. Total Allocation of Net bond proceeds	475	96,711	100

Appendix 2: Impact Reporting by Eligibility Criteria

Use of Proceeds Category	Particulars	Net Bond Proceeds Allocation (Million USD)	Number of Loans	Percentage (%)
Employment Generation including through Micro and small enterprises financing and microfinance	I. Loan provided to women borrowers ¹⁰	100	18,619	21
	II. Economic weaker section ¹¹	204	58,807	43
	III. Low-Income Groups ¹²	90	11,677	19
	IV. Other Eligible Individuals ¹³	57	6,252	12
	V. Other Eligible Enterprises ¹⁴	24	1,356	5
	VI. Total		475	96,711

⁹ As of January 2022, STFC has issued USD 475 Million worth Senior Secured Notes under the Framework.

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

¹¹ This is defined as STFC'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 Low-income groups as defined as LIG (income not exceeding INR 6 lakhs i.e., USD 8400, according to India Government's classification).

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

¹⁴ Defined as rest of eligible MSME financing besides the mentioned categories of beneficiaries.

Disclaimer

Copyright ©2022 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. The firm 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. The world's foremost issuers, from multinational corporations to financial institutions to governments, also rely on Sustainalytics for credible second-party opinions on green, social and sustainable bond frameworks. In 2021, Climate Bonds Initiative named Sustainalytics the "Largest Approved Verifier for Certified Climate Bonds" for the fourth consecutive year. The firm was also recognized by Environmental Finance as the "Largest External Reviewer" in 2021 for the third consecutive year. For more information, visit www.sustainalytics.com.

