



Shriram Transport Finance Co. Ltd

Social Bond Finance Report

September 2020

Introduction

Shriram Transport Finance Co. Ltd. (“STFC”) is the flagship company of Shriram Group – a diversified group with interests in financial services namely commercial vehicle finance, consumer finance, life and general insurance, stock broking, chit funds and distribution of financial products such as mutual funds. Headquartered in Mumbai, India, STFC was established in 1979 as an asset financing, non-banking finance company and has been playing a credible role in the financial inclusion of thousands of driver-turned-owners, by offering affordable finance on pre-owned commercial vehicles.

With professional management, Shriram Group has fostered the culture of entrepreneurship across all levels of the organization. As of 31 March 2020, Shriram Group has 28,045 employees (including 16,972 field officers) championing a unique “relationship-based” business model through a pan-India network comprising of 1,758 branches, 831 rural centers and partnerships with more than 500 private financiers.

STFC’s commitment towards socioeconomic advancement is at the core of their business as the company provides financing to drivers who typically do not qualify for bank loans due to the lack of stable income. The target population belongs to the weaker section of society. Thus, STFC plays an important role to promote financial inclusion by catering to the financial needs of millions, in particular First Time Buyers and Small Road Transport Operators by offering affordable finance on pre-owned commercial vehicles. This segment accounts for more than 90% of STFC’s lending portfolio.

The financing provided by STFC empowers thousands of drivers to become truck owners in 2-3 years, increasing their monthly income, which are double their previous salaries. This is paramount to alleviating poverty in India as it has a ripple effect on their families and communities.

STFC also runs synergistic initiatives focused on Quality Education, Skills Development and Healthcare Programmes. Some examples include supporting healthcare centres for drivers and their family members, education centres to provide job orientated courses for women, scholarship programmes to promote access to education and STFC’s drivers training program for unemployed youths to develop commercial vehicle driving skills and soft skills for them to be more employable. At the crux of all STFC’s initiatives is partnerships and collaboration - STFC invests strongly in multi-stakeholder partnerships as a strategy to achieve sustainable socio-economic development.

STFC's Social Finance

STFC has developed a Social Finance Framework under which STFC can issue Social Financing Instruments (“SFI”) including, inter alia, social bond(s), loan(s), private placement(s) and any other debt financing instruments to finance or refinance a portfolio of new and/or existing Eligible Social Projects (henceforth referred to as “Eligible Social Projects”) to promote sustainability.

The Social Finance is done in accordance with the Framework, which can be accessed at: <https://www.stfc.in/>

STFC intends to report on the allocation of net proceeds and associated output and impact indicators annually until the proceeds have been fully allocated, and as necessary in the event of material development. This report forms a key disclosure requirement under STFC’s Social Finance Framework.

Social Bond Issued

The Company issued Senior Secured Notes (Social Bonds) at 5.100 percent aggregating to USD 500 Million on January 16, 2020, under the USD 3 Billion Global Medium Term Note Programme (GMTN Programme) to the Qualified Institutional Buyers (QIBs) under the Rule 144A of the U.S. Securities Act 1933 and to the eligible investors outside United States under Regulations of the U.S. Securities Act 1933.

The Social Bonds got overwhelming response from investors with the final order book in excess of USD 2.20 billion and oversubscription of >4x. The order book received interest and demand from marquee Social Bond Investors. The said Senior Secured Notes/Social Bonds are listed on the Singapore Exchange Securities Trading Limited.

All Senior Secured Notes/Social Bonds issued under the GMTN Programme are fully hedged at an INR 3542.50 Crores and would not involve any foreign exchange risk to the Company.

Key Metrics

I. Allocation of Proceeds

ICMA SBP	SDG	Sr. No	Particulars	Number of Loans	Percentage %	Amount (INR in Crs)	Amount ¹ (USD in Mn)
Employment generation including through MSME financing and microfinance	SDG 8: Decent work and Economic growth SDG 10: Reduced inequalities	I	First Time Buyers Financing Finance to First Time Buyers who typically do not qualify for bank loans due to the lack of stable income	32,465	26.47%	937.71	132.35
		II	MSME Financing Total of MSME financing provided	69,993	73.53%	2,604.79	367.65
	III	Unallocated Proceeds	-	-	-	-	
Total				102,458	100 %	3,542.50	500.00

II. Social Impact of Proceeds

1. Loans provided by Beneficiaries Type

Sr. No.	Particulars	Number of Loans	Amount (INR in Crs)	Amount (USD in Mn)	Percentage by amount %
I	Loans provided to women lenders ²	8,364	311.87	44.02	8.80%
II	Loans provided to MSMEs	4,667	492.49	69.51	13.90%
III	Loans provided to economic weaker section ³	68,690	1,605.22	226.57	45.31%
IV	Loans provided to low-income groups ⁴	19,480	976.01	137.76	27.55%
V	Loans provided to First Time Users/Buyers	1,257	156.92	22.15	4.43%

¹ Conversion ratio for INR to USD considered at the date of drawdown, i.e. 1 USD equals to INR 70.85.

² Including individual women lenders and women-owned MSMEs, contributing to women empowerment.

³ 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 and with annual income not exceeding INR 3 lakhs i.e. USD 4,200.

⁴ Low-income groups as defined as those with income not exceeding INR 6 lakhs i.e. USD 8,400, according to the Government of India's classification.

2. Loans provided as per End Use of Vehicle

Sr. No.	Particulars	Number of Loans	Amount (INR in Crs)	Amount (USD in Mn)	Percentage by amount %
I	Agricultural/ Farming	31,130	1,139.30	160.80	32.16%
II	Passenger Transportation	40,991	1,201.74	169.62	33.92%
III	Supplying of General Goods to Consumer	13,132	419.93	59.27	11.85%
IV	Carrying Material/Finished Goods	15,681	699.61	98.75	19.75%
V	Carrying Fast-Moving Consumer Goods	1,524	81.93	11.56	2.31%

3. Loans provided by Finance End Use

In compliance with Environmental “Do No Significant Harm” commitments

Sr. No.	Particulars	Number of Loans	Amount (INR in Crs)	Amount (USD in Mn)	Percentage by Amount %
I	Loans provided to fuel efficient Compressed Natural Gas/Liquefied Petroleum Gas vehicles	6,377	136.22	19.23	3.85%
II	Loans provided for procurement of new vehicle	2,372	124.86	17.62	3.52%
III	Loans provided for pre-owned vehicles	44,252	1,785.58	252.02	50.40%
IV	Loans provided for vehicle upgrade /improvement	49,457	1,495.85	211.13	42.23%

4. Loans provided as per Geographic Location

Particulars	States	Number of Loans	Amount (INR in Crs)	Amount (USD in Mn)	Percentage by Amount %
Laggard States (Low income states as defined by World Bank)	Assam	1,127	52.22	7.37	1.47%
	Bihar	3,501	165.63	23.38	4.68%
	Chhattisgarh	3,146	98.16	13.85	2.77%
	Jammu & Kashmir	380	13.49	1.90	0.38%
	Jharkhand	1,990	162.91	22.99	4.60%
	Madhya Pradesh	11,533	314.81	44.43	8.89%
	Manipur	145	8.63	1.22	0.24%
	Meghalaya	19	0.77	0.11	0.02%
	Odisha	2,025	51.77	7.31	1.46%
	Uttar Pradesh	5,082	188.03	26.54	5.31%
Rest of India		73,510	2,486.08	350.89	70.18%

Case Studies

Case Study 1

The customer's family used to rely on her husband's small tours & travel business as the sole source of income. When her husband became beset with a critical illness, the business came to a standstill along with the family's income.

To support her family, the customer decided to manage the tours & travel business, and approached STFC for a loan as seed money to restart the business. The loan not only enabled her to sustain an income for her family, but also to expand and improve the business. The business initially had 1 vehicle, and now she has 2-3 vehicles for the business. She also learned how to drive.

Having stable income that has increased two-fold, the customer was also able to reconstruct the family's home, support her son in attaining education, and currently maintains a good repayment track record.

Case Study 2

The customer worked in a mall as a shop operator, and was assessed as part of the economic weaker section. Her husband did not have a regular job with stable income. All in all, the customer's family constantly faced difficulties in paying for regular expenses, rent, and education for her children.

The customer approached STFC as a first time buyer for a goods vehicle loan, aiming to enter the transport of goods business to improve her family's financial state. With the vehicle, she was able to obtain a contract for transporting goods between Kolhapur to Mumbai under a transport company which handles the transport of medicines in the region.

Her husband eventually joined her in this line of work. Through this new venture, they now have stable income that increased 1.5-fold, allowing them to meet routine expenses with ease, purchase their own property in a good locality, and repay loans on schedule.

Case Study 3

The customer was from an economic weaker section background where his family did not have rights to any agricultural land, and his parents worked in other people's farms to make ends meet. Upon coming of age, customer became a driver to support his family. However, with his job as a driver, his family was still only just meeting routine expenses and was not able to accrue savings.

As a first time borrower without any banking history, the customer was granted a loan from STFC to purchase his first vehicle, enabling him to start his own tours & travel business. With the small business being a success, his income grew by 1.5-fold and has since become a strong financial pillar for his family.

To date, the customer has not delayed a single loan repayment, and has managed to purchase insurance products from STFC to further protect and support his business and family.

External Review

STFC has engaged Sustainalytics to issue a limited assurance report on the allocation and impact of the use of proceeds of the Eligible Social Projects, to provide independent review.

Based on the limited assurance procedures conducted, nothing has come to Sustainalytics' attention that causes them 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 Shriram Transport Finance Social Finance Framework.

The full external review report can be accessed at: <https://www.stfc.in/>

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