



Shriram Transport Finance Co. Ltd

Social Finance Framework

January 2020

1. 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 2019, Shriram Group has 26,630 employees (including 16,280 field officers) championing a unique “relationship-based” business model through a pan-India network comprising of 1,545 branches, 838 rural centers and partnerships with more than 500 private financiers.

2. Shriram Transport Finance’s strategy and social mission

India has a 25% poverty rate in rural areas and 14% in urban areas¹, as well as high income inequality with Gini Coefficient of 35.7². In the recent “Global Multidimensional Poverty Index” report by United Nations Development Programme and Oxford Poverty and Human Development Initiative, poverty is defined by a number of indicators including poor health, poor standard of living and lack of access to education. The report states that 27.9% of India’s population, approximately 369 million people, are living in Multidimensional Poverty in 2015 to 2016. This reveals the urgent need for action to alleviate poverty in India.

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, many earning a monthly salary of INR 10-15k (EUR 120-190)³. 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 to INR 100k, many of them save around 30% of their monthly income (INR 30k)⁴, which is double their previous salaries. This is paramount to alleviating poverty in India as it has a ripple effect on their families and communities.

Further, STFC provides financing to Micro, Small and Medium Enterprises (“MSME”) as defined by India’s Micro, Small And Medium Enterprises Development Act 2006, which is a category under

¹ World Bank, 2012; <https://www.worldbank.org/en/news/infographic/2016/05/27/india-s-poverty-profile>

² World Bank, 2011; <https://data.worldbank.org/indicator/SI.POV.GINI?locations=IN>

³ Shriram Transport Finance database

⁴ Shriram Transport Finance database

Reserve Bank of India's priority lending sector. According to International Finance Corporation ("IFC"), non-banking financial corporations like STFC are an important source of credit for MSME which account for 31% of the India's Gross Domestic Products and 45% of India's exports. In 2016, IFC invested in STFC to expand the MSME loan portfolio and in 2019, IFC further invested USD 100m to fund STFC in their purchase of commercial vehicles and MSME lending infrastructure. The support from IFC is a testament of STFC's efforts towards their social mission.

STFC also runs synergistic initiatives focused on Quality Education, Skills Development and Healthcare Programmes detailed in Appendix 2. 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.

3. STFC's Social Finance Framework

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.

This Social Finance Framework outlines the criteria and guidelines for the allocation of proceeds as per International Capital Market Association ("ICMA") Social Bond Principles 2018 ("SBP").

In alignment with the above principles, STFC's Social Finance Framework is structured based on the following key pillars:

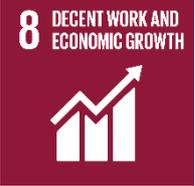
- i. Use of proceeds
- ii. Process for asset evaluation and selection
- iii. Management of proceeds
- iv. Reporting
- v. External review

3i. Use of Proceeds

A portfolio of Eligible Social Projects (together forming the "Eligible Social Portfolio") qualifies as use of proceeds under the categories and eligibility requirements listed in the below table.

In 2015, countries adopted the 2030 Agenda for Sustainable Development and its 17 Sustainable Development Goals ("SDG"). STFC's Social Finance Framework advances the below SDG goals and targets (not exhaustive).

Table 1: Eligible Categories for STFC’s Social financing

ICMA SBP	SDG goal and targets	Eligible use of proceeds
<p>Employment generation including through MSME financing and microfinance</p>	<div data-bbox="424 309 619 495">  </div> <p>SDG 8.3: Promote development-oriented policies that encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services</p> <div data-bbox="424 786 619 972">  </div> <p>SDG 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</p>	<ul style="list-style-type: none"> • Provision of financing for Small Road Transport Operators and First Time Buyers from underserved communities¹ 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 Enterprises Development Act, 2006. • Provision of affordable loans to help communities alleviate income through promoting entrepreneurship from low-income states as defined by World Bank²

Environmental Do No Significant Harm (“DNSH”) transparency

STFC tracks the vehicles that it funds by type, end use and geographic location in its management system. STFC’s internal system allows them to exclude vehicles that are used for the transportation of fossil fuel, coal, etc.

Further, STFC’s policy restricts financing of vehicles older than 10 years, which aims to encourage the owner of the vehicle to sell the existing old vehicle and upgrade to a new, more emission efficient vehicle.

During this process, STFC checks for certificates for safety, fitness and emission of the vehicle. The loan vehicles are insured and the insurance policy is renewed regularly. Ongoing education and

¹ STFC classifies their core market as people that do have bank accounts, yet cannot get a loan from their bank
²Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Odisha, Rajasthan and Uttar Pradesh as defined by World Bank India State Briefs

training for drivers are provided to educate them on the importance of environmental sustainability and the importance to obtain and renew periodically the Pollution Under Control (“PUC”) certificate under India’s Central Motor Vehicles Rule. STFC also provide financing for vehicle maintenance such as engine and tire replacements which improves environmental sustainability by lengthening the vehicles’ economic life.

Oil demand for trucks accounts for one fifth of total oil demand. As the industry moves towards fossil fuel displacement, current alternatives for trucks focus on mixing different fuel types or incorporating energy efficient technologies. While electric and hybrid trucks are currently not widely available in India, the government of India has made commitments to achieve 30% electric mobility by 2030 through the Faster Adoption and Manufacturing of Electric Vehicles scheme where USD 140m was allocated to build out public charging infrastructure for electric vehicles.

Similarly, STFC is taking steps to create awareness of environmental responsibility by promoting and financing trucks that are more fuel efficient to reduce fossil fuel usage. STFC’s current portfolio of Compressed Natural Gas (“CNG”), Liquefied Petroleum Gas (“LPG”) vehicles or vehicles that qualify under Bharat Stage VI or Euro 6 Norms comprises around 5% of the total portfolio of the company. STFC takes into account safety and pollution policies of vehicles before disbursing loans to their customers and monitoring are in place to ensure that financed vehicles are efficient, clean and safe to operate. This portfolio aims to grow by 10% every year.

3ii. Project Evaluation and Selection

The project evaluation and selection process is a key pillar that ensures projects financed meet the criteria stated in this Social Finance Framework.

Sustainable Financing Working Group

STFC has established a Sustainable Financing Working Group (“SFWG”), chaired by STFC’s Treasury, comprising of STFC’s departments as follows:

- Treasury department
- Corporate Social Responsibility department
- Transport planning department
- Business operation department

The SFWG’s role will be to:

- Review, select and validate the Eligible Social Portfolio, based on the Social Finance Framework
- Validate annual reporting for investors
- Monitor the on-going evolution related to sustainable capital markets in terms of disclosure/reporting in order to be in-line with market best practices
- Review the Social Finance Framework to reflect any changes with regards to STFC’s sustainability strategies and initiatives

SFWG, to the best of its ability, will finance fuel efficient vehicles such as those fuelled by CNG and LPG and avoid financing vehicles involved in projects included in the exclusionary criteria stated in Appendix 1 as part of efforts to ensure DNSH.

3iii. Management of Proceeds

STFC intends to allocate the proceeds from Eligible Social Projects to an Eligible Social Portfolio, selected in accordance with the use of proceeds criteria and evaluation and selection process presented above. To ensure proceeds are allocated in accordance to the Social Finance Framework, STFC will track investments in eligible projects, managed by SFWG in a portfolio approach.

STFC will ensure that the level of allocation for the Eligible Social Portfolio matches or exceeds the balance of net proceeds from its outstanding social financing after adjustments for intervening circumstances including, but not limited to, repayments and disbursements. Additional Eligible Social Projects will be added to STFC's Eligible Social Portfolio to the extent required to ensure that the net proceeds from outstanding social financing will be allocated to Eligible Social Projects.

Internal monitoring systems will be established and maintained to track and record the allocation of the net proceeds such that it is in line with the Use of Proceeds section. Any unallocated proceeds may be deployed temporarily at the Company's discretion in cash or cash equivalent instruments, in accordance with STFC's investments and treasury policy. To prevent double counting of eligible projects, STFC will ensure that the same capital investment will not be listed twice in the allocation of net proceeds. For the avoidance of doubt, STFC will not use the proceeds for the financing of projects included in the exclusionary criteria stated in Appendix 1 for both allocated and unallocated proceeds.

The above mentioned process will be monitored by STFC along the entire period in which the expected disbursements will be incurred.

3iv. Reporting

STFC intends to report on the allocation of net proceeds and associated output and impact indicators within one year from issuance date and annually thereafter until the proceeds have been fully allocated, and as necessary in the event of material development. This report can be published as a standalone Social Financing report or as part of the annual report, and can be found here: <https://www.stfc.in/>.

Wherever feasible, STFC may report on the aggregated impact of the Eligible Social Portfolio on a categorical level. STFC will align, on a best efforts basis, the reporting with the portfolio approach described in "Handbook - Harmonized Framework for Impact Reporting (June 2019)".

Allocation Reporting

The allocation report will provide:

- Amount or percentage of allocation to the Eligible Social Portfolio
- Percentage of net proceeds allocated to financing new and existing projects
- Examples of projects being financed (subject to confidentiality considerations)

- Balance of unallocated proceeds

Impact Reporting

STFC may report on relevant social impact indicators, where feasible, for its issuances. Some of the indicators are in line with Sustainability Accounting Standards Board’s and Global Reporting Initiative’s Financial Inclusion Indicators. Below are examples of indicative output and impact indicators (non-exhaustive):

ICMA SBP	Indicative Output and Impact Reporting Indicators
Employment generation including through MSME financing and microfinance	<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

In addition, STFC may report on environmental impact indicators to ensure DNSH transparency:

- Annual number of loans granted for vehicles funded that qualify under Bharat Stage VI or Euro 6 Norms
- Improvement of fuel efficiency of funded vehicles
- Annual number of loans granted for vehicle improvements for efficiency and safe driving
- Annual reduced and/or avoided emissions in tons of CO2 equivalent

3v. External Review

Pre-issuance: Second Party Opinion and Limited Assurance

The Social Finance Framework has been reviewed by Sustainalytics who has issued a Second Party Opinion and KPMG who has issued a limited assurance report. The Social Finance Framework, Second Party Opinion and limited assurance report will be published on the company’s website, found through <https://www.stfc.in/>.

Post issuance: Verification

STFC may engage with a third-party verifier to issue a limited assurance report on the allocation and impact of the use of proceeds of the Eligible Social Projects, starting one year after issuance and until full allocation.

Appendix 1: Exclusionary Criteria

The following projects/activities are ineligible for the use of proceeds:

1. Extraction, refining, or transportation of coal
2. Fossil fuel power generation as well as activities that are knowingly and intentionally dedicated to support the expansion of fossil fuel-based technologies
3. Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements
4. Production or trade in alcoholic beverages
5. Production or trade in tobacco
6. Production or trade in palm oil
7. Production or trade in weapons and munitions
8. Gambling, casinos and equivalent enterprises
9. Production or trade in radioactive materials
10. Production or trade in or use of unbonded asbestos fibers
11. Purchase of logging equipment for use in primary tropical moist forest
12. Production or trade in pesticides/herbicides subject to international phase outs or bans
13. MSMEs that knowingly and intentionally engage in child labour, forced labour, unfair labour practices, conflict minerals and predatory lending

Appendix 2: STFC's efforts in providing Quality Education, Skills Development and Healthcare

1. Enhancing futures through Quality Education

STFC has been making contributions towards Quality Education by extending scholarships to enable and improve formal education for children and youth from the families of STFC's transport fraternity. Further, STFC has increasingly focused on students from disadvantaged groups for improved and holistic education. Over 69,000 students from multiple regions of the country were directly supported for education at the secondary and higher secondary level till date.

Merit-based selection of students combined with the involvement of transport associations as a critical stakeholder in identification of potential students and for disbursement of scholarship amount strengthens the credibility of this initiative.

2. Augmenting livelihoods through vocational Skills Development

With one of the highest youth population in the world, Government of India's Skill India Mission has focused on empowering India's young population by enabling skilling for them to be more employable. STFC has contributed to this national mission's by providing trainings for the skilling, re-skilling and up-skilling of drivers. Shriram's flagship Driver Training Programme aims to bridge the gap between the demand and supply of professional commercial drivers, by training underprivileged youth and providing them an opportunity to be gainfully employed as drivers.

Furthermore, STFC provides trainings in driving Heavy Motor Vehicles ("HMV"). This transforms the largely inefficient and hazardous nature of truck driving. Driver trainings in both Light Motor Vehicles ("LMV") and HMV were conducted across the length and breadth of the country. 2976 candidates (80% enrolling from marginalised communities) were trained since the inception of the programme in 2017, with 83% of them getting placed in the logistics industry which cascades into capacity building and skill gap reduction.

STFC'S Flagship Commercial Driver Training Programme

Driver Training Programme aims to bridge the gap between the demand and supply of professional commercial drivers, by training underprivileged youth and providing them an opportunity to be gainfully employed as drivers. The programme's focus is:

- Ensure mobilization of candidates who come from disadvantaged backgrounds and are willing to build a career in the transportation industry
- Extensive counselling for candidates and their families to ensure proper buy in and readiness to embark on the journey
- Impart professional driving skills through a certified training programme and inculcate an attitude of responsible driving
- Educate trainees on road safety and appropriate communication and encourage health and wellness habits through regular health check-up and yoga
- Support trained beneficiaries with adequate employment opportunities that lead to better their income prospects and quality of life for them and their families

- Provide entrepreneurship opportunities to those interested and support them in gaining knowledge and leveraging networks.

Over the course of time, the programme has been active in 12 states- such as Tamil Nadu, Madhya Pradesh, Maharashtra, Gujarat, Haryana, Delhi, Andhra Pradesh, Assam, West Bengal, Rajasthan, Bihar & Jharkhand.

Driving empowerment for women

Driving in India is seen as a male bastion for many reasons, from safety concerns to a sense that is a physically demanding job. However, the STFC Driver Training Programme has blurred these barriers and encouraged 102 women to become LMV and HMV drivers and to be gainfully employed.

Driving inclusion

In an effort to alleviate poverty and empower communities left behind due to caste and other social stratification, STFC's Driver Training Programme has identified marginalised communities with no access to opportunities. The Programme especially encourages members of the community with a background in manual scavenging (Dewas, Madhya Pradesh and tribal communities such as those in Dwarka & Bhuj in Gujarat and Amarwara in Madhya Pradesh), to gain driving skills and benefit from placement opportunities. The programme trained 73 such candidates till the last FY.

Driving purpose in youth

Poverty and lack of guidance results in several girls and boys dropping out of school and remaining unemployed. The STFC Driver Training Programme works closely with these disengaged members of the community to motivate them and place them in regular driving jobs. The program is customized to ensure that the beneficiaries remain focussed and motivated to complete the programme. Ensuring that the training met the overall needs of the trainees, the programme also focus on a multitude of course components apart from technical training, including- simulator training, soft skills, financial literacy, yoga & meditation, health & wellness among others.

Driving aspirations

A large number of drivers on the Indian roads have not received any formal driving training, nor do they have proper understanding of the vehicles they drive. Finding permanent jobs with standardized pay scales is difficult for these individuals. The programme is customized to ensure that the beneficiaries receive training focused at road safety and basic motor mechanics.

3. Preventive Healthcare Programmes for truckers

Guided by the National Health Mission's vision of ensuring that all people in the country can access quality and affordable health services, STFC has set up "Mobile Medical Units /Clinic" across 23 locations in 11 states, providing free medical check-ups, lab tests, health awareness sessions, Tobacco Cessation Counselling and medicines to the truckers' community, which is largely isolated from mainstream healthcare systems.

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