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Second Party Opinion

Indiabulls Housing Finance Ltd. Sustainable Financing Framework

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Location: India

Sector: Non-banking financial institutions

Alignment With Principles

Aligned = Conceptually aligned = Not aligned =

- Social Bond Principles, ICMA, 2023
- Social Loan Principles, LMA/LSTA/APLMA, 2023
- Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)
- Green Loan Principles, LMA/LSTA/APLMA, 2023
- Sustainability Bond Guidelines, ICMA, 2021

See [Alignment Assessment](#) for more detail.

Strengths

Eligible activities contribute to India's national sustainable development objectives.

Eligible project categories fall under Reserve Bank of India (RBI)'s Priority Sector Lending (PSL) and support the country's national targets, such as increasing renewable energy capacity.

Disclosing the assumptions and having third-party verification of allocation post-issuance are strong reporting practices. These add to the transparency of financing activities.

Weaknesses

The impact indicators Indiabulls Housing Finance Ltd. (IBHFL) will disclose are largely outputs rather than outcomes oriented. The company will disclose the number of loans and total loan amount disbursed under each eligible category but not the related social outcomes (e.g. increased income of beneficiaries). This limits the insight into the effectiveness and impact of projects.

Areas to watch

Points-based green building certifications do not necessarily require minimum performance improvement thresholds. Furthermore, the framework does not target the highest ratings.

Micro, small and medium enterprise (MSME) loans are intended to serve business purposes, not consumption. It will be important for BHFL to monitor the end use of funds by borrowers to ensure financing is directed to supporting the growth of MSMEs.


The framework uses official classifications to define target populations. Their broad coverage could allow financing to be directed to less underserved segments, lowering the social benefits. IBHFL's expected affordable housing loan distribution and specific focus on micro- and small-enterprises should mitigate these concerns.

Lending practices are coming under increasing regulatory and public scrutiny in India. Widespread concern about predatory lending practices increases regulatory and reputation risk for IBHFL.

Eligible Green Projects Assessment Summary

Eligible projects under issuer's framework are assessed based on their environmental benefits and risks, using Shades of Green methodology.

Green buildings

 Light green

Financing or refinancing to real estate developers for construction of residential or commercial buildings that meet one of the selected green building certifications.

Renewable energy

 Dark green

Financing to developers or corporates for purposes of manufacturing, constructing, installing, or developing renewable energy sources such as solar panels, and solar-based power generators.

Financing to individual households to install renewable energy capacity, such as solar panels, within their households.

See [Analysis Of Eligible Projects](#) for more detail.

Issuer Sustainability Context

This section provides an analysis of the issuer's sustainability management and the embeddedness of the financing framework within its overall strategy.

Company Description

Incorporated in 2000, IBHFL is a non-deposit taking, non-banking housing finance institution. It is regulated by the RBI and based in Gurugram, India. IBHFL's loan offerings include home loans, MSME loans against property, non-resident Indian home loans, home renovation and extension loans, rural home loans, and credit-linked subsidy and emergency credit line guarantee schemes. IBHFL also provides loans to real estate developers in India for the construction of residential and commercial buildings and lease rental discounting loans provided against the hypothecation of rent receivables from an operational commercial property.

As of Sept. 30, 2023, IBHFL's total assets stood at Indian rupee (INR, ₹) 729 billion (US\$8.8 billion), and the loan book stood at INR543 billion (US\$6.6 billion). Its loan book comprised 52% housing loans and 48% non-housing loans. The company has a nationwide presence with 218 branches spread across 150 towns and cities.

IBHFL is listed on the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE). As of March 31, 2023, retail investors owned the majority of the shares (67%), followed by institutions (23%), corporations—private and public—(6%), individuals/insiders (2%), and employee stock ownership plan (1%).

Material Sustainability Factors

Access and Affordability

Nonbanking financial companies (NBFCs) provide individuals and businesses with access to alternative financing options. While banks may offer financial services as a package deal, NBFCs usually unbundle these services, tailoring specific-purpose offerings for particular groups. However, challenges such as asymmetric information and limited financial literacy can result in high expenses for borrowers. Technology advances should help NBFC lenders improve their cost efficiencies and provide innovative product solutions. In India, formal credit use is low. According to the National Multidimensional Poverty Index India had a 19% poverty rate in rural areas—5% in urban areas—in 2019-2021. Income inequality is also high, with a Gini coefficient of 0.34., according to the World Bank. A Gini coefficient of 0 equals perfect equality, with 1 equal to perfect inequality.

Responsible Labeling and Marketing

While the financial services sector depends on customer satisfaction and trust, opaque pricing and misleading sales have undermined customer trust in some NBFCs. Regulators are closely watching certain subsectors such as subprime lending, student loans, and residential mortgage origination/servicing. But the regulation and supervision of this industry remains lighter than that applying to banks. That can result in aggressive underwriting or collection practices, or in opaque pricing. Furthermore, investors, regulators, and the broader community are subjecting NBFCs' sustainable products to particular scrutiny. There is skepticism about sustainability claims, based on the possibility that such statements may make the products and services appear more proactive on the issues than they are. Such ethical challenges, if not properly managed with responsible marketing practices and customer engagement considerations, could pose material social risks to issuers. Regulation and consumer protection mechanisms have evolved over the past decade and should continue to help limit these risks in the financial services sector. In India, the RBI has issued the Fair Practices Code to guide microfinance institutions on responsible lending.

Impact on Communities

NBFCs can address a wide range of community issues by providing economically vulnerable groups with access to essential services. This may help alleviate income inequality and foster upward social mobility. The realization of these objectives hinges on the responsible lending practices of NBFCs. These include transparent contractual terms, financial education programs, and support for borrowers encountering unexpected financial hardships. By contrast, obscure loan terms or predatory lending practices can exacerbate existing socioeconomic disadvantage in the customer base. By actively addressing such concerns, NBFCs can access new markets, achieve better financial performance, attract top talent, and mitigate reputational and regulatory risk.

Physical Climate Risk

Physical climate risks will affect many economic activities as climate change increases the frequency and severity of extreme weather events. NBFCs finance a wide array of business sectors that are exposed to physical climate risks. However, while climate change is a global issue, weather-related events are typically localized. So the magnitude of NBFCs' exposure is linked to the geographical location of the activities and the assets they finance. Similarly, NBFCs' physical footprint (e.g. branches) may also be exposed to physical risks, which may disrupt the ability to service clients in the event of a natural catastrophe, amplifying the impact on communities. India faces vulnerability from physical risk hazards such as flooding and heat waves; this exposure may be heightened in rural areas that lack investment in physical resilience.

Climate Transition Risk

NBFCs are highly exposed to climate transition risk through their financing of economic activities that affect the environment. The number, scope, and ambition of regulatory requirements regarding greenhouse gas (GHG) emissions will increase significantly for the real estate sector. The sector's contributions to global climate change affects many stakeholders across the value chain, including carbon that is embedded in buildings and economic infrastructure. As governments and regulatory bodies implement policies to mitigate climate change, NBFCs may face regulatory risks. For example, stricter building codes and energy efficiency standards may require real estate developers to make costly upgrades to their properties. The management of climate transition risks is at the forefront of real estate industry participants. As a financial enabler, NBFCs play a vital role in incorporating climate risk assessments into their lending practices and engaging with borrowers to encourage sustainable and climate-resilient practices. India aims to reduce the emissions intensity of its GDP by 45% by 2030, from the 2005 level. It aims to achieve net zero by 2070, a comparatively long timeline.

Issuer And Context Analysis

All project categories directly address IBHFL's material sustainability factors. Green project categories aim to address climate transition risks while social project categories will provide improved access and affordability for the target populations identified by the company. According to the 2021 Global Findex Database, 45% of India's adults have borrowings, but only a third is from a formal source. It is too expensive for conventional financial institutions to reach rural, underserved populations due to their geographical remoteness and the lack of access to customer data. This suggests NBFCs have an important role to play in enabling financial inclusion.

IBHFL focuses on lending to the economically weak, as well as low- and middle-income groups, to improve their access to affordable credit. For example, housing loans, the key component of its loan book, are aligned with the Indian government's vision of increasing home ownership in India, particularly among low- and middle- income groups. As of end-March 2024, the company's average home loan interest rate was around 9.9%, which is higher than that of traditional banks but similar to other NBFCs in India. In contrast, informal money lenders, who are not regulated by the RBI, often charge much higher rates and may resort to unethical practices for loan collection. IBHFL's home loans could bring more people into formal financing channels. Furthermore, the company intends to make its digital solutions, specifically the eHome loans platform, easier to access for its customers.

IBHFL's policies should ensure responsible marketing and labelling practices. The company's Fair Practices Code is available on the company website. It details commitments to conducting business in a fair and ethical manner. In terms of financial literacy and transparency, it makes loan offers after an in-person meeting at which all key terms and conditions are clearly explained in local languages. There is a grievance mechanism and a publicly accessible customer support service helpline. IBHFL has a target to increase its customer satisfaction from the current 90% to 95% by end of financial year 2025 (ending March 31).

IBHFL underwriting policies use income documents and credit bureau data to determine the borrower's repayment capacity to address over-indebtedness. A know your customer (KYC) policy is also in place, such that a profile must be set up for each customer, containing information such as the identity, social or financial status, nature of business activity, etc. Payment collection practices by NBFCs in India are under increased regulatory and public scrutiny. IBHFL's Fair Practices Code, which guides employees on non-coercive collection techniques, minimizes these risks.

Construction and development of renewable energy projects and buildings may introduce social risk. Worker health and safety are important considerations on construction sites. Indirect social risks (such as working conditions) exist along the solar panel value chain, from mineral extraction to manufacturing. In our view, it is important for lenders to ensure that the developers have measures in place to address and minimize the social risks associated with these projects. Given the relatively small scale of solar projects addressed in this framework and IBHFL's responsible lending policy, which bars borrowers with a track record of human rights abuses from receiving loans, these risks are mitigated.

Physical climate risk is a growing sustainability issue for NBFCs, especially in India. The country is vulnerable to physical risks such as flooding and heat waves. The company's financed assets, particularly buildings, may have significant exposure to these risks. IBHFL mainly relies on the due diligence process prior to loan approval to address these risks, but it is unclear how much of a safeguard this is. Given that the target customers are low-income and underserved populations residing in rural and semi-urban areas, their ability to rebuild and recover from climate hazards may be more limited than it would be for a broader borrower base.

Investments in green buildings and renewable energy projects address some transition risks in the loan book. These projects will contribute to the reduction of GHG emissions, and play an important role in India's decarbonization pathway. IBHFL has set a target to become carbon neutral by financial year 2032. It has set interim targets to reduce its scope 1 and 2 emissions by 25%, and scope 3 emissions by 25%, by financial year 2027. However, the company is not measuring its financed emissions for the time being. These could be substantial.

Alignment Assessment

This section provides an analysis of the framework's alignment to the Social Bond Principles, Green Bond Principles, Social Loan Principles, Green Loans Principles, and Sustainability Bond Guidelines.

Alignment With Principles

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✘

- ✓ Social Bond Principles, ICMA, 2023
- ✓ Social Loan Principles, LMA/LSTA/APLMA, 2023
- ✓ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)
- ✓ Green Loan Principles, LMA/LSTA/APLMA, 2023
- ✓ Sustainability Bond Guidelines, ICMA, 2021

✓ Use of proceeds

We assign a shade of green to all the framework's green project categories, and consider all social project categories aligned. The issuer commits to allocate the net proceeds issued under the framework exclusively to eligible green and social projects. IBHFL will disclose the proportion of financing versus refinancing, on a best-effort basis in its allocation reporting. The maximum refinancing look-back period is three years after issuance, in line with market practice. Refer to the Analysis of Eligible Projects section for more information about our analysis of the environmental and social benefits of the expected use of proceeds.

✓ Process for project evaluation and selection

There are three internal parties involved in the project evaluation and selection process. The sustainable lending working group (SLWG) focuses on initiatives related to sustainable lending. It consists of representatives from treasury, finance and accounts, and business credits. The sustainability committee focuses on all sustainability-related initiatives, and comprises senior members of relevant departments. The SLWG and sustainability committee will identify potential projects and submit them to the board-level ESG committee for approval. The ESG committee will evaluate the proposed projects according to the eligibility criteria and oversee the process of identifying and mitigating social and environmental risks in the due diligence process, guided by its policies related to sustainability (e.g. customer satisfaction, human rights, energy efficiency, waste management etc.), publicly available on the company website. IBHFL's exclusion list—projects or entities that will not be eligible under this framework—includes large scale hydropower projects, fossil fuel related activities, carbon intensive sectors, and entities or activities implicated in forced or child labor.

✓ Management of proceeds

IBHFL will establish a sustainable project portfolio and track its allocation of net proceeds. Pending allocation, unallocated proceeds will be held in cash, cash equivalents, or other liquid market instruments, in accordance with IBHFL's investment policy and liquidity guidelines. The company commits to replacing projects which cease to be eligible as soon as practicable.

✓ Reporting

IBHFL will publish an allocation and impact report on its website each year until full allocation. Allocation reporting will include a brief description of financed projects with their associated target populations for social projects, among other metrics. Impact reporting will include information such as the number of loans and the total loan amount disbursed under each social category. However, these disclosures are largely outputs rather than outcomes (e.g. increased income of beneficiaries), and provide limited insight into the effectiveness of projects. Metrics for green categories include annual energy savings, annual reduction of GHG emissions, and annual amount of renewable energy generated. IBHFL commits to disclose the assumptions used and to

have third-party verification of its allocation post-issuance, which adds to the transparency. In addition, the company will, on a best effort basis, align its reporting with the Harmonised Framework for Impact Reporting.

Analysis Of Eligible Projects

This section provides details of our analysis of eligible projects, based on their environmental benefits and risks, using the "[Analytical Approach: Shades Of Green Assessments](#)," as well as our analysis of eligible projects considered to have clear social benefits and to address or mitigate a key social issue.

Over the three years following the initial issuance of the financing under this framework, IBHFL expects to allocate 90% of proceeds to affordable housing, 5% to socioeconomic advancement and empowerment, and 5% to employment generation. The company expects the majority of proceeds will be directed to finance new projects. As communicated by IBHFL, the company does not intend to allocate proceeds to green project categories in the first issuance but may do so under this framework in future issuances.

Green project categories

Green buildings

Assessment

Light green

Description

Loans to real-estate developers for construction of residential or commercial buildings that meet one of the following green building certifications:

- U.S. Leadership in Energy and Environmental Design (LEED)—Gold or above
- Building Research Establishment Environmental Assessment Method (BREEAM)—Excellent or above
- Green Building Council of Australia's Green Star—5 star or above
- Green Rating for Integrated Habitat Assessment (GRIHA)—4 star or above
- Indian Green Building Council (IGBC)—Gold or above
- IFC EDGE—EDGE Certified, EDGE Advanced, Zero Carbon

For refurbishment, eligible buildings have to achieve a performance improvement in energy or emissions of at least 30%.

Analytical considerations

- Green buildings support climate change mitigation by alleviating GHG emissions associated with energy use. In India, residential and commercial buildings contribute to about 33% of total electricity consumption. Energy demand will increase with urbanization. The financing of green building projects is aligned with the National Mission for Sustainable Habitat, one of whose objectives is to improve energy efficiency in buildings. IBHFL expects the main energy source to be electricity from the grid. Commercial buildings serving fossil fuel related activities and carbon-intensive sectors are not eligible under this category.
- IBHFL expect the majority of eligible projects to be new construction, which typically involves embedded emissions and associated climate impacts. But new construction methods can improve energy performance and reduce the emissions associated with building materials. We believe these are key areas of focus in order to achieve low-carbon buildings. For existing buildings, high energy performance is important in the transition to a low-carbon economy. IBHFL relies on certifications to assess a given building's environmental impacts throughout its life cycle, such as material sourcing, energy, water, and waste

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management. IBHFL's minimum criterion of 30% performance improvement in energy or emissions for eligible refurbishment activities refers to the Climate Bond Initiative (CBI), adding to the credibility of its assessment.

- IBHFL mainly relies on green building certifications as the eligibility criteria. However, the points-based systems of these certifications do not necessarily require minimum performance improvement thresholds. Therefore, the overall assessment of the category is limited to light green. Required certification levels could be achieved without addressing specific environmental issues (e.g. energy saving) thoroughly. The framework does not target the highest rating of green building certifications, as reflected by the light green shade we have assigned.
- In addition to international green building certifications, IBHFL refers to two local schemes, the GRIHA and IGBC, adding local context to its criteria. The GRIHA is a national rating system for green buildings in India, rating buildings with a built-up area of more than 25,000 square meters (sq m), with the exception of industrial complexes. It rates buildings on their energy performance index based on 31 criteria. On the other hand, the IGBC complies with all national standards, including the Energy Conservation Building Code, with a 30% to 40% saving in energy and 20% to 30% saving in water consumption.
- For all buildings, mitigating exposure to physical climate risks such as flooding is crucial to improving climate resilience. IBHFL relies on green building certifications and the due diligence process to consider these risks, but details are unclear, and therefore we have shaded it light green.

Renewable energy

Assessment

 Dark green

Description







Loans to developers and corporates for purposes of manufacturing, constructing, installing, or developing renewable energy sources (e.g. solar panels and solar based power generators), with a limit of INR300 million (US\$4.05 million).

Loans to individual households to install renewable energy capacity (e.g. solar panels) within the household, with a loan limit of INR1 million (US\$13,485) per borrower.

Analytical considerations

- Use of renewable energy is key to the low carbon transition and contributes to climate change mitigation. Eligible loans to solar power generation projects will participate in integrating renewable energy in the local power grid, where coal still plays a large role. It will also contribute to India's target of reaching about 50% cumulative electric power installed capacity from non-fossil fuel-based energy resources by 2030, and its National Solar Mission. Therefore, greater deployment of renewable energy sources, including solar, is essential for low-carbon and climate-resilient socioeconomic development in the region, reflected by the dark green shade.
- IBHFL expects the majority of eligible projects to be renewable energy installations in residential and commercial buildings. Large-scale hydropower projects are not eligible. Fossil fuel-related activities and carbon-intensive sectors are also excluded and dedicated connections to heavy emitters are not eligible, reducing emissions lock-in. The company indicates that only projects that have fossil fuel backup of no more than 15% will be eligible.
- There are lifecycle carbon emissions considerations during the development, construction, installation, and maintenance phases. These include emissions from material sourcing, manufacturing, transportation, and equipment end-of-life. While IBHFL is the lender and not the asset owner, the company does not provide details on how it assesses the lifecycle of solar panels. Its responsible lending policy of giving lending rate discounts to borrowers who promote the use of innovative technologies or have positive environmental impacts may partly mitigate the risks.
- The company weighs up other environmental risks, such as land use changes and physical climate risks, as part of the due diligence process of loan approval. It is unclear how effective this safeguard will be in practice.

S&P Global Ratings' Shades of Green

Assessments					
Dark green	Medium green	Light green	Yellow	Orange	Red
Description					
Activities that correspond to the long-term vision of an LCCR future.	Activities that represent significant steps toward an LCCR future but will require further improvements to be long-term LCCR solutions.	Activities representing transition steps in the near-term that avoid emissions lock-in but do not represent long-term LCCR solutions.	Activities that do not have a material impact on the transition to an LCCR future, or, Activities that have some potential inconsistency with the transition to an LCCR future, albeit tempered by existing transition measures.	Activities that are not currently consistent with the transition to an LCCR future. These include activities with moderate potential for emissions lock-in and risk of stranded assets.	Activities that are inconsistent with, and likely to impede, the transition required to achieve the long-term LCCR future. These activities have the highest emissions intensity, with the most potential for emissions lock-in and risk of stranded assets.
Example projects					
 Solar power plants	 Energy efficient buildings	 Hybrid road vehicles	 Health care services	 Conventional steel production	 New oil exploration

Note: For us to consider use of proceeds aligned with ICMA Principles for a green project, we require project categories directly funded by the financing to be assigned one of the three green Shades.

LCCR—Low-carbon climate resilient. An LCCR future is a future aligned with the Paris Agreement; where the global average temperature increase is held below 2 degrees Celsius (2 C), with efforts to limit it to 1.5 C, above pre-industrial levels, while building resilience to the adverse impact of climate change and achieving sustainable outcomes across both climate and non-climate environmental objectives. Long term and near term—For the purpose of this analysis, we consider the long term to be beyond the middle of the 21st century and the near term to be within the next decade. Emissions lock-in—Where an activity delays or prevents the transition to low-carbon alternatives by perpetuating assets or processes (often fossil fuel use and its corresponding greenhouse gas emissions) that are not aligned with, or cannot adapt to, an LCCR future. Stranded assets—Assets that have suffered from unanticipated or premature write-downs, devaluations, or conversion to liabilities (as defined by the University of Oxford).

Social project categories

Affordable housing

Loans to individuals for the purpose of affordable housing under PSL as defined by the RBI.

- Housing loans to individuals of up to INR3.5 million (US\$47,000) in metropolitan cities (with a population of 1 million and above), and up to INR2.5 million (US\$33,700) in other cities, for the purchase or construction of one dwelling unit per family provided the overall cost of the dwelling unit in the metropolitan city and at other cities does not exceed INR4.5 million (US\$60,700) and INR3.5 million (US\$40,500) respectively.
- Housing loans up to INR1 million (US\$13,500) in metropolitan centers and up to INR600,000 (US\$8,000) in other centers for repairs to damaged dwelling units conforming to the overall cost of the dwelling unit as described above.
- Loans for the construction of affordable housing projects defined as using at least 50% of the floor area ratio or floor space index for dwelling units with a carpet area of no more than 60 sq m.

Target populations, referring the RBI's classification, are identified as:

- Economically weaker section (EWS) and low-income group (LIG) with an annual income up to INR600,000 (US\$8,000).
- First-time buyers from the EWS, LIG, and middle-income group (MIG) with an annual income up to INR1.8 million (US\$24,200) while MIG is further classified as MIG-I with an annual income between INR0.6-INR1.2 million and MIG-II with an annual income between INR1.2-INR1.8 million.

Analytical considerations

- Eligible housing loans help bridge the demand-supply gap of urban housing shortage in India spurred by rapid urbanization. The government has been pushing affordable housing through various urban housing schemes and designating affordable housing, as defined in the PSL Master Directions, as a priority lending area. The target populations, EWS and LIG, account for 96% of the total housing shortage in India, according to RBI. Notably, first-time buyers from MIG are also eligible. Housing for the middle class was further emphasized as a development priority for India in the Minister of Finance's Interim Budget 2024-2025 speech. The speech highlighted that the government intended to launch a new scheme to help middle class households to buy or build their own houses.
- Loan limits and target populations are defined based on RBI's PSL guidelines, ensuring financing is channeled to populations the government sees as being in need. Based on IBHFL's home loan distribution, EWS, LIG, and MIG-I represent 82% and 47% by total count and total value respectively. While the framework does not preclude loans to individuals outside the defined target populations, the company expects eligible loans under this category will have a similar distribution.
- To manage potential social and environmental impacts, IBHFL will only extend loans where construction occurs with all relevant permissions and it will monitor the process. In cases of proven non-compliance with local regulations, the company will stop further disbursement of loans.

Socioeconomic advancement and empowerment

Loans to support women's socioeconomic advancement and empowerment.

- Housing loans to women for purchase of homes.
- Loans to women-founded start-ups or MSMEs which are majority owned (i.e., greater than 50%) or managed (at the most senior level) by women

Analytical considerations

- Eligible activities help address key social issues such as gender equality and financial inclusion. In India, formal use of credit by women is lower than it is for men. The percentage of women who borrow through formal channels is 10%, compared with 15% of men, according to the World Bank. Meanwhile, financial inclusion is a national strategy for India, highlighted in the RBI's

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2019-2024 National Strategy for Financial Inclusion report. IBHFL helps women business owners develop credit records and thereby broadens, over time, their ability to raise money.

- Women who do not have access to formal financing channels due to a lack of collateral, low financing needs sizes, or no credit history are the target population in this category. While IBHFL prioritizes women from EWS and LIG, all women are eligible. In our view, identifying an income threshold would better ensure financing is channeled to the underserved segment of the population.
- The criterion regarding greater than 50% women-ownership or management at the most senior level is an unstable metric. Ownership or management structures can evolve. Communicated by IBHFL, its risk management team will conduct continuous loan surveillance. In case of change in ownership or management, such loans will cease to be eligible, and the company will replace projects as soon as practicable, as per its commitment in management of proceeds.

Access to financial services for micro-, small-enterprises

Loans to MSMEs, self-employed individuals and proprietorships for working capital or business expansion needs in India. These loans are to the micro and small enterprises with a loan ticket size varying from INR1 million (US\$13,500) to INR100 million (US\$134,800).

The definition of MSMEs refers to RBI's classifications:

- A micro enterprise means an investment in plant and machinery or equipment does not exceed INR10 million and turnover does not exceed INR50 million.
- A small enterprise means investment in plant and machinery or equipment does not exceed ten crore rupees and turnover does not exceed INR500 million.


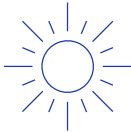




Analytical considerations

- This category aims to generate employment through supporting entrepreneurship, and growth of MSMEs, which typically operate in the informal or unorganized part of the economy with insufficient access to finance. According to the International Finance Corp., potential debt demand from MSMEs in India was INR69.3 trillion (US\$83 billion) in 2018. Formal financial sources (commercial banks, NBFCs, other smaller banks, and government financial institutions) met only 16% of that demand. The RBI considers MSMEs a priority lending category because such businesses contribute 31% of India's GDP and 45% of the country's exports.
- IBHFL appraises loans against business cash flow and secures them against residential or commercial property. The end use of the loan must be for a business purpose, not for consumption. Compared to unsecured loans available in the market, IBHFL's eligible loans have a longer tenure and larger quantum, which enable MSMEs to undertake future capital expenditure for business expansion, and thereby could create additional employment opportunities.
- MSME loans constitute about 17% of IBHFL's total assets under management. Based on IBHFL's MSME loan distribution, micro and small enterprises represent 72% and 24% of its loan book respectively. IBHFL has committed to offering MSMEs loans to micro- and small-enterprises only, mitigating the risks of channeling financing to less underserved segments, such as medium enterprises which have a relatively high annual turnover ceiling of up to INR2.5billion, i.e. close to US\$30 million.

Mapping To The U.N.'s Sustainable Development Goals

Where the financing documentation refers to the Sustainable Development Goals (SDGs), we consider which SDGs it contributes to. We compare the activities funded by the financing to the International Capital Markets Association (ICMA) SDG mapping and outline intended linkages within our SPO analysis. Our assessment of SDG mapping does not impact our alignment opinion.

This framework intends to contribute to the following SDGs:

Use of proceeds	SDGs
Green buildings	 <p data-bbox="459 751 639 835">*11. Sustainable cities and communities</p>
Renewable energy	 <p data-bbox="444 1035 654 1092">*7. Affordable and clean energy</p>
Affordable housing	 <p data-bbox="467 1287 630 1314">*1. No poverty</p>
Socioeconomic advancement and empowerment	  <p data-bbox="440 1507 857 1591">*5. Gender equality *8. Decent work and economic growth</p>
Providing access to financial services for micro-, small-enterprises	

***8. Decent work
and economic
growth**

*The eligible project categories link to these SDGs in the ICMA mapping.

Related Research

- [Analytical Approach: Second Party Opinions: Use of Proceeds](#), July 27, 2023
- [FAQ: Applying Our Integrated Analytical Approach for Use-of-Proceeds Second Party Opinions](#), July 27, 2023
- [Analytical Approach: Shades of Green Assessments](#), July 27, 2023
- [S&P Global Ratings ESG Materiality Maps](#), July 20, 2022

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Second Party Opinion: Indiabulls Housing Finance Ltd. Sustainable Financing Framework

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