

NEW CUE Rating upgrade lowers borrowing rates, opening scope for more such deals

Rate Reset Clause in Overseas Loan Pact Helps Shriram Fin Cut Costs

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Mumbai: Rating-linked repricing clauses tied to improving credit profiles are likely to feature more frequently—and prominently—in overseas fundraising deals after Shriram Finance, India's second-most-valued non-bank lender, secured a reduction in borrowing costs following a ratings upgrade.

Lenders typically charge more for subsequent downgrades following fundraising, but an upgrade rarely makes a noticeable difference to costs.

The upgrade helped Shriram, in which Japan's Mitsubishi UFJ Financial Group (MUFG) bought a significant stake, save 60-80 basis points on a \$1.3-billion syndicated loan. One basis point is a hundredth of a percentage point.

The Flip Side

Shriram Finance saved **60-80 basis points** after a ratings upgrade on its

\$1.3 billion syndicated loan



Repricing clauses typically allow lenders to raise borrowing costs after a ratings downgrade



The reverse is often absent, leaving companies with higher funding costs even after credit improves

Managing director and CEO Parag Sharma expects such clauses to become more prevalent as growing focus on credit ratings is expected to determine the rates at which financiers raise money.

"There was an interest rate reset clause in the loan in case of a ratings change. I think going forward many

will add this clause. We also plan to raise \$300 million to \$500 million in loans from overseas between January and March," said Sharma.

Typically, lenders and investors include repricing clauses in debt term sheets that allow them to raise the cost of borrowing if a company's rating is downgraded after a

round of fundraising is completed and bonds remain outstanding.

CREDIT PROFILE

But the reverse is often not included, meaning companies can remain stuck with a higher funding cost even after their credit profile improves.

Shriram Finance had raised \$1.3 billion in 2024, for a tenure of 3-3.5 years, with interest payable quarterly.

Shriram Finance will also look to raise further offshore loans in this financial year, after they got a ratings upgrade in early this year.

Major credit rating agencies upgraded Shriram Finance's long-term ratings to AAA, and BBB- internationally, in April 2026. The upgrade followed a strategic 20% equity stake acquisition by MUFG, then considered the biggest overseas investment in India's non-bank lending industry.