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ESG PERFORMANCE IN INDIAN INDUSTRIES: A FIVE-YEAR SECTORAL ANALYSIS (2020-2024)

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ABSTRACT:

Environmental, Social, and Governance (ESG) performance has developed as a critical benchmark for evaluating a company's commitment to sustainable and ethical practices. ESG performance reflects how effectively organizations manage environmental risks, promote social responsibility, and uphold strong governance structures. This abstract looks into how ESG metrics are becoming crucial in defining corporate strategies, believable investor choices, and ensuring adherence to regulations. With global and domestic stakeholders increasingly demanding transparency and accountability, companies that determine strong ESG performance are more possible to gain competitive advantages, reduce risk exposure, and build long-term value. The study of ESG performance also discloses significant transformations across industries and geographies, highlighting the need for standardized frameworks and greater integration of ESG factors into financial and operational decision-making. As ESG continues to evolve from a voluntary initiative to a strategic imperative, understanding its impact is essential for sustainable economic development and responsible business growth.

KEYWORDS: ***ESG criteria, ESG performance, Sectoral Performance, significant transformations***

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1. INTRODUCTION

Environmental, Social, and Governance (ESG) refers to the three key factors used to evaluate the sustainability and ethical impact of an investment in a company or business. As global awareness of climate change, social justice, and corporate transparency increases, ESG has become a crucial framework for businesses and investors. Environmental, Social, and Governance (ESG) performance has gained significant traction in India over the past decade, reflecting a global shift toward sustainable and responsible business practices. With increasing pressure from investors, regulators, and consumers, Indian companies are recognizing the importance of integrating ESG principles into their core strategies. The Securities and Exchange Board of India (SEBI) has been instrumental in pushing ESG disclosures through the Business Responsibility and Sustainability Reporting (BRSR) framework, making sustainability reporting mandatory for the top listed companies. While ESG adoption in India is still evolving, there is a growing emphasis on environmental sustainability, social equity, and corporate accountability as drivers of long-term value creation. Sectoral analysis of Environmental, Social, and Governance (ESG) performance in Indian industries reveals significant variations, driven by the inherent nature of their operations, regulatory pressures, investor expectations, and the maturity of their sustainability practices. The last 5 years (2020-2024) have been extremely significant for the adoption and evolution of Environmental, Social, and Governance (ESG) by Indian industry.

2. ESG CRITERIA

ESG criteria are the principles used to evaluate a company's operations and their impact on the world, beyond just financial performance. These criteria help to factor in aspects of investment decisions, specifically environmental, social, and corporate governance factors.

ENVIRONMENTAL	**SOCIAL**	**GOVERNANCE**
• Climate Change and Carbon Emissions. • Resource Depletion and Pollution. • Biodiversity and Conservation. • Environmental Compliance.	• Labor Practices • Human Rights • Employee Welfare and Engagement • Community Relations. • Stakeholder Engagement • Product Responsibility and Customer Welfare	• Corporate Governance Structure • Ethics and Business Conduct • Risk Management and Internal Controls • Transparency and Disclosure

3. THE REGULATORY LANDSCAPE: A GAME CHANGER

Section 135 of the Companies Act 2013, which compels particular corporations to allocate a component of profits towards CSR activities. It goes hand-in-hand with 'S' (social) within ESG, as its duty is to promote the social well-being of society. The most significant development impacting ESG performance in India during this period has been the Securities and Exchange Board of India's (SEBI) introduction of the Business Responsibility and Sustainability Reporting (BRSR) framework.

- **Voluntary Disclosure (FY 2021-22):** SEBI initially encouraged voluntary BRSR disclosures for the top 1000 listed companies.
- **Mandatory Disclosure (FY 2022-23 onwards):** BRSR became mandatory for the top 1000 listed companies by market capitalization from FY 2022-23. This replaced the older Business Responsibility Report (BRR) and introduced a more comprehensive and rough reporting format, aligning with international frameworks like Global Reporting Initiatives (GRI) and Task force on climate related Financial Disclosures (TCFD).

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- **BRSR Core (July 2023 onwards):** SEBI further strengthened the framework by introducing "BRSR Core," mandating assured disclosures on key ESG parameters, including value chain reporting (from FY 2025-26, with assurance from FY 2026-27 for specific thresholds). This has significantly enhanced the credibility and comparability of ESG data.

These regulations have not only increased the volume of ESG data but also pushed companies to focus on the quality and robustness of their disclosures, moving beyond mere compliance towards genuine integration.

4. SECTORAL PERFORMANCE: DIVERGENT PATHS

ESG performance refers to how well a company or organization manages its environmental, social, and governance (ESG) practices and impacts. It's a framework used to assess a company's sustainability and ethical behavior, including its impact on the environment, its treatment of people (employees, communities, etc.), and the effectiveness of its governance structures. Based on analyses from various ESG rating agencies (like CRISIL, MSCI, and Refinitiv) and academic studies, a clear pattern of sectoral ESG performance has emerged over the last five years. The provided data seems to be a set of ranges from low to high. Most industries show relatively high average scores, from the mid -60s to the mid -90s. It represents a scoring or grading system with associated performance or risk level.

Table 1: Scoring Pattern Across Different Industries

PARAMETERS	MAX.	AVG.	MED.	MIN.	MAX-MIN Spread	MAX-AVG Spread
Sample	**(82)**	**(70)**	**(70)**	**(57)**	**(25)**	**(13)**
Information Technology	82	75	75	66	16	7
Financial Services	82	73	75	59	23	9
- Banks	82	75	76	63	19	8
- Insurance	77	71	72	59	18	7
- Other Financial Services	79	72	73	63	20	7
Consumer Durables	76	72	73	63	13	4
Fast Moving Consumer Goods	77	70	72	62	15	8
Others	75	70	69	59	16	5
Automobile and Auto Components	77	70	69	63	14	7
Healthcare	76	69	70	64	12	7
Oil Gas & Consumable Fuels	74	68	69	64	10	6
Consumer Services	76	68	70	63	12	7
Power	75	68	67	61	14	7
Construction Materials	74	67	66	61	12	7
Capital Goods	72	67	67	62	10	5
Metals & Mining	70	66	66	57	13	4
Chemicals	72	65	65	59	13	7

Sources: SES REPORT JULY 2024

(i)Leading Sectors:

ESG metrics can be categorized into two primary groups: quantitative and qualitative. Quantitative metrics rely on numerical information that can frequently be measured directly and compared. Instances of quantitative ESG metrics encompass greenhouse gas emissions, energy consumption, staff turnover rates, and documented HR infractions. It similarly offers a method to assess

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business risks and prospects in those sectors. ESG performance across different Indian industrial sectors:

a. Information Technology (IT) & Software:

- **Performance (2020-2024):** Consistently holding its position among the top performers.
- **Drivers:** Low inherent environmental footprint compared to manufacturing. Strong emphasis on human capital (talent retention, diversity & inclusion, and employee well-being) due to the nature of their business. Robust corporate governance practices, often driven by global client demands and international listing requirements.
- **Trends:** Continued focus on greening their operations (e.g., renewable energy for data centers, reducing e-waste), ethical AI, data privacy, and upskilling their workforce.
- **Challenges:** Managing the environmental footprint of their global supply chains and the ethical implications of emerging technologies.

b. Financial Services (Banking, NBFCS, Insurance):

- **Performance (2020-2024):** Show significant improvement and relatively strong overall ESG performance. The banking sector, in particular, has demonstrated notable progress.
- **Drivers:** Increased regulatory scrutiny from RBI and SEBI on sustainable finance, green lending, and risk management related to ESG factors. Growing demand from domestic and international investors for ESG-aligned financial products. Focuses on financial inclusion (social aspect) and robust governance due to the highly regulated nature of the industry.
- **Trends:** Significant growth in green financing, development of ESG-themed financial products, and integrating ESG risk assessments into lending decisions. Private Banks have often shown greater initiative than public sector counterparts.
- **Challenges:** Measuring and managing "financed emissions" (the emissions of their clients) and ensuring fair lending practices across diverse demographics.

c. Fast-Moving Consumer Goods (FMCG):

- **Performance (2020-2024):** Showing steady improvement, particularly on social and environmental fronts visible to consumers.
- **Drivers:** High consumer awareness regarding sustainable products and ethical sourcing. Pressure from stakeholders regarding packaging waste, water usage, and fair labor practices in their supply chains.
- **Trends:** Increased investment in sustainable packaging (e.g., plastics circularity), water stewardship, responsible sourcing of raw materials, and community development initiatives.
- **Challenges:** The vast and complex supply chains make comprehensive ESG oversight difficult. Managing plastic waste and transitioning to truly circular business models remains a significant hurdle.

(ii) Improving But Challenged Sectors: The Manufacturing And Heavy Industries

a. Metals & Mining, Cement, Chemicals, Energy & Power:

- **Performance (2020-2024):** Historically lower ESG scores, especially on environmental parameters, but showing concerted efforts towards improvement.
- **Drivers:** Intense regulatory pressure to reduce emissions and pollution. High capital expenditure essential for de-carbonization technologies. Growing investor demand for transition plans and TCFD-aligned disclosures.
- **Trends:** Significant investments in renewable energy adoption, carbon capture technologies, water recycling, and waste reduction. Increased focus on occupational health and safety (social) due to the inherent risks in these industries. Greater transparency in reporting their environmental impact under BRSR.
- **Challenges:** The inherent nature of these industries means high energy consumption, substantial GHG emissions, and resource intensity. Achieving "Net Zero" targets requires

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massive investments and technological breakthroughs. Balancing economic growth with environmental responsibility remains a core tension.

b. Automotive:

- **Performance (2020-2024):** A sector undergoing a significant transformation towards electric vehicles (EVs) and sustainable manufacturing.
- **Drivers:** Government push for EV adoption (FAME India scheme), rising consumer preference for greener vehicles, and global supply chain pressures for sustainable practices.
- **Trends:** Heavy investment in EV production, battery technology, and charging infrastructure. Focus on reducing emissions from manufacturing plants, responsible sourcing of minerals (e.g., lithium, cobalt), and end-of-life vehicle recycling.
- **Challenges:** Managing the move from Internal Combustion Engines (ICE) to EVs, ensuring ethical sourcing of critical minerals, and building robust charging infrastructure.

c. Poor Sectors:

a. Mining And Metals

- **Performance:** Generally low, with some improvements in larger, listed companies driven by investor pressure and regulatory changes. However, widespread adoption of strong ESG practices across the entire sector, including smaller and informal operations, remains a significant challenge. Environmental liabilities (pollution, land degradation), occupational health and safety failures, and community disruptions are frequently reported issues.
- **Drivers:** Inherently resource-intensive, leading to significant land degradation, water pollution, air emissions (GHG and particulate matter), and biodiversity loss. Decommissioning and rehabilitation of mines are often inadequate.
- **Trends:** While there's increased awareness and some larger companies are making efforts due to investor pressure, the sector as a whole still struggles with established environmental and social issues. Directing push is compelling nearly developments, but performance remains unreliable.
- **Challenges:** Inherently resource-intensive, leading to significant land degradation, water pollution, air emissions (GHG and particulate matter), and biodiversity loss. Decommissioning and rehabilitation of mines are often inadequate. Transparency issues, illegal mining activities, and challenges in regulatory enforcement. Data accessibility for comprehensive ESG reporting is limited. Mines are susceptible to physical climate risks (e.g., floods affecting operations) and face pressure to decarbonize.

d. Textile Manufacturing

- **Performance (2020-2024):** Large recognized companies might show some progress due to export market demands and access to capital. However, the vast majority of MSMEs (which constitute a significant portion of Indian manufacturing) exhibit very low ESG performance. Issues include high energy and water consumption, significant wastewater discharge, hazardous waste generation, and poor labor practices.
- **Drivers:** Initiatives encouraging energy efficiency, cleaner production technologies, and formalization of labor can provide some support, still interest can be slow. Easier access to flexible and affordable clean technologies for energy, water, and waste management. Growing interest from banks and financial institutions in providing to ESG-compliant businesses, creating an incentive.
- **Trends:** Evolution is slow, especially for MSMEs, due to cost suggestions, lack of awareness, and limited regulatory oversight for the huge informal sector.
- **Challenges:** High energy consumption, water pollution (especially from dyeing and chemical units), air emissions, and inadequate waste management. Many units lack emission treatment plants or proper disposal mechanisms. Prevalence of informal labor, low wages, long working

hours, lack of social security benefits, and inadequate health and safety standards. Child labor remains a concern in some unorganized segments

5. Main Trends And Insights (2020-2024):

(i) **Shift from "tick-box" to integration:**
While compliance with BRSR remains a primary driver, there's a discernible shift, especially among larger companies, towards integrating ESG into business strategy. This has been accelerated by the "leadership indicators" in BRSR, encouraging a more proactive approach.

(ii) **Enhanced data quality and transparency:**
The mandatory nature of BRSR has significantly improved the quality, granularity, and comparability of ESG data offered in the public domain. This permits for more meaningful sectoral analysis and investor decision-making.

(iii) **Growing investor engagement:**
Domestic institutional investors are increasingly incorporating ESG criteria, mirroring global trends. This has put direct pressure on company boards to prioritize ESG.

(iv) **Focus on "s" and "g" for value creation:**
While environmental concerns are critical, many Indian companies initially focused on Governance (due to pre-existing regulations) and Social aspects (often through CSR initiatives). However, the BRSR is pushing for more robust environmental disclosures.

(v) **Challenges persist:**

a. **Data Reliability & Verification:** While improving, ensuring 100% accuracy and third-party assurance for all reported ESG data remains a challenge, mainly for smaller companies and complex value chains.

b. **Lack of Internal Expertise:** Many companies, especially SMEs, still struggle with the technical expertise and resources required for comprehensive ESG data collection, analysis, and reporting.

c. **Greenwashing Risk:** As ESG gains prominence, the risk of companies making unsubstantiated claims or engaging in "greenwashing" persists, necessitating stronger regulatory oversight and independent verification.

d. **Financial Impact Disconnect:** While studies show a positive long-term connection between ESG performance and financial returns, demonstrating a clear, short-term financial benefit can still be elusive for some companies, particularly those in capital-intensive sectors making large upfront investments in sustainability.

6. Conclusion

The years 2020-2024 are a transition period for ESG in Indian businesses. The strong regulatory framework, in particular BRSR, has helped in terms of standardizing ESG disclosures and promoting more meaningful integration. The services are efficiently carrying it out, while heavy industry is having more of a struggle doing it, but increasingly even they are taking initiatives. The next five years will likely see further refinement of reporting standards, increased capital allocation towards sustainable projects, and a stronger linkage between ESG performance and tangible business value across all sectors of the Indian economy.

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