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TRANSFORMING INDIAN FINANCE: THE ROLE OF ESG INVESTMENTS IN MARKET AND MINDSET SHIFTS

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ESG Takes Centre Stage in India

Over the past few years, Environmental, Social and Governance (ESG) investing has moved from the margins of global finance to the mainstream, and India has been part of this shift. ESG investing goes beyond traditional balance-sheet analysis by evaluating how a firm treats the environment, engages with society and structures its governance, alongside its financial performance.

In the Indian context, this approach has expanded at a remarkable pace. A CRISIL study released in 2023 reported that ESG-oriented assets under management in India grew by about 25% in 2022–23, touching ₹19,686 crores (CRISIL, 2023). This surge signals that sustainability is no longer a niche theme but an important lens through which capital is being allocated.

Forces Driving the ESG Wave

Multiple developments are pushing ESG from a “good-to-have” label to a strategic necessity for Indian companies and investors:

1.Tighter Regulatory Frameworks

The Securities and Exchange Board of India (SEBI) has introduced mandatory ESG-related disclosures for the top 1,000 listed companies, beginning with the 2022–23 financial year.

This step is compelling firms to systematically document and communicate their non-financial performance.

2. Evolving Investor Preferences

Institutional investors and a growing pool of retail investors are actively searching for portfolios that align with sustainability goals. Many now view ESG not only as a moral or reputational consideration, but also as a factor that can influence long-term risk and return.

3. Global Sustainability Momentum

International commitments, such as the Paris climate agreement and various net-zero pledges, are shaping expectations for Indian businesses that operate in global value chains. Aligning with these expectations is increasingly seen as essential for remaining competitive in export markets and cross-border financing.

4. Heightened Climate and Social Risk Awareness

More frequent extreme weather events and greater visibility of social issues have made climate and social risks harder to ignore. Firms and financiers are recognizing that neglecting these risks can lead to disruptions, stranded assets and reputational damage.

Roadblocks and Untapped Potential

Despite the strong growth trajectory, ESG investing in India still encounters several structural challenges:

1.Quality and Consistency of Data

ESG assessments depend heavily on reliable information. In India, disclosure practices and metrics remain uneven across companies and sectors, making it difficult for investors to draw clear comparisons and build robust ESG indices.

2.Concerns about Greenwashing

As ESG becomes more popular, some firms may highlight minor sustainability initiatives while continuing with business-as-usual practices. This risk of overstating ESG performance creates mistrust and calls for better verification and assurance mechanisms.

3.Limited Product Universe

Compared to mature markets, India has relatively fewer dedicated ESG mutual funds, exchange-traded funds and other products. This restricts investors who wish to build diversified, sustainability-themed portfolios.

Yet, the upside is substantial. Bain & Company (2022) reported that around 90% of Indian investors show interest in ESG-based investments, and roughly 60% are ready to pay a premium for products that meet ESG criteria. This latent demand suggests significant room for innovation in ESG products and services (Bain & Company, 2022).

How ESG Investing is Influencing Corporate Behaviour

The expansion of ESG capital is gradually altering how Indian companies think about strategy and risk management. Many firms are now paying closer attention to:

1.Lowering Environmental Footprints

Companies are investing in cleaner technologies, energy efficiency, waste reduction and better resource management to curb emissions and environmental damage.

2.Strengthening Labour and Community Practices

Workplace safety, fair wages, employee well-being and constructive engagement with local communities are receiving greater emphasis as part of social performance.

3.Improving Board Composition and Diversity

Boards are under pressure to enhance independence, diversity and expertise in sustainability, leading to more balanced decision-making.

4.Deepening Governance Standards

Stronger internal controls, transparent reporting, ethical conduct and accountability mechanisms are increasingly treated as central to long-term value creation. For many firms, ESG is no longer just a marketing label to attract capital; it is embedded in risk management, operational efficiency and reputation-building. Entities that integrate ESG meaningfully are likely to be more resilient and better positioned to capture emerging business opportunities.

Emerging Directions for ESG in India

As the ESG ecosystem develops, several trends are likely to shape the next phase of growth:

1.Use of Digital Tools and Analytics

Artificial intelligence, machine learning and big data platforms are expected to play a larger role in collecting, analysing and rating ESG information. This can help address data gaps and improve comparability across companies.

2.Sector-Specific ESG Frameworks

Over time, it is likely that ESG indicators will be adapted to reflect the distinct realities of sectors such as banking, manufacturing, agriculture, information technology and infrastructure, rather than relying only on generic metrics.

3.Evolving Regulation and Incentives

Policymakers may move towards more granular and stringent ESG reporting norms, coupled with possible incentives such as tax benefits or easier access to green finance for firms that demonstrate credible ESG performance.

4.Growing Role of Retail Investors

As awareness spreads through financial literacy programmes, digital platforms and media, individual investors are expected to contribute more actively to ESG fund flows, reinforcing the trend beyond institutional capital.

A KPMG India report (2023) anticipates that ESG assets in India could exceed US$240 billion by 2030, underlining the sector's considerable growth prospects (KPMG India, 2023).

Conclusion

ESG investing in India marks a deeper transformation in how capital markets perceive risk, value and responsibility. Sustainability considerations are gradually weaving into the fabric of financial decision-making, influencing both corporate strategies and investor behaviour.

Firms that are slow to adapt to ESG expectations may face rising financing costs, regulatory scrutiny and reputational setbacks. Those that embed ESG into their core operations, by contrast, can potentially unlock new markets, attract patient capital and enhance long-term competitiveness.

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