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ESG as a Catalyst for Sustainable Financial Performance: Evidence from Indian Corporations

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Abstract

ESG – short for Environmental, Social, and Governance – is a set of standards measuring a business's impact on society, the environment, and how transparent and accountable it is. In India, ESG principles were introduced through regulatory initiatives by the Securities and Exchange Board of India, which mandated Business Responsibility Reporting (BRR) for the top 100 listed companies in 2012 and was further strengthened through the Business Responsibility and Sustainability Report (BRSR) in 2021, requiring the top 1000 listed companies to disclose ESG-related information by 2026-27.

In 2025, the Securities and Exchange Board of India (SEBI) elevated ESG mandates by introducing the BRSR Core under the SEBI BRSR 2025 framework. The primary objective of this study is to examine the relationship between ESG Integration and the financial performance of Indian companies operating in a sustainable manner. The study examines how ESG reporting has influenced the profitability, risk management, investor confidence, and long-term value creation for corporations. The research adopts a descriptive and analytical method based on secondary data from annual reports, SEBI Circulars, mandates, and relevant academic literature. The study concludes that ESG catalyzes better and sustainable financial performance in Indian corporations.

Keywords: ESG, Sustainable Finance, Corporate Sustainability, Financial Performance, Indian Corporations.

Introduction

It is now a mandate in India for listed companies to measure, manage, and report on ESG compliance, which has evolved from a voluntary practice to a legally obligatory, structured system.

ESG compliance refers to companies' practice of disclosing how they impact the environment, society, and governance in a transparent and accountable way, going beyond financial performance.

ESG refers to a set of criteria used to assess a company's performance in three key areas:

Environmental (E): This category evaluates a company's impact on the environment. It includes factors like carbon emissions, resource conservation, waste management, and efforts to combat climate change.

Social (S): The social aspect of ESG examines how a company manages its relationships with employees, customers, suppliers, and communities. It includes issues such as labor practices, human rights, diversity, and community engagement.

Governance (G): Governance assesses a company's internal policies and practices. It encompasses issues like board diversity, executive compensation, ethics, transparency, and compliance with regulations.

With India's stricter reporting norms, businesses are now required to share standardised, verifiable data on topics such as carbon emissions, workplace diversity, ethical practices, and boardroom accountability. This shift not only enhances data accuracy and builds investor trust but also aligns Indian companies with global sustainability standards, making them more competitive and attractive to international stakeholders. Traditionally, financial performance was measured using indicators such as Return on Assets (ROA), Return on Equity (ROE), Earnings Per Share (EPS), and profitability ratios. However, modern investors believe that ESG practices can influence these financial indicators by improving operational efficiency, risk management, and corporate reputation.

This study aims to examine the relationship between ESG practices and financial sustainability in the Indian corporate sector. By analyzing the impact of ESG integration on corporate financial performance, this research contributes to the growing literature on sustainable finance and provides insights into how responsible business practices can support long-term value creation in emerging markets.

Objectives of the Study

The main objectives of the study are:

1. To examine the concept and importance of ESG practices in Indian companies.
2. To analyze the relationship between ESG performance and financial performance.
3. To identify how ESG adoption influences profitability, investment decisions, and risk management.
4. To evaluate challenges faced by Indian companies in implementing ESG practices.

Review of literature

1. Gidla, S., & Kumar, P. (2024). Impact of ESG on Financial Performance of Indian Listed Firms. (European Economic Letters)

This study examines the impact of Environmental, Social, and Governance (ESG) factors on the financial performance of Indian listed firms using secondary data from the Bloomberg database (2012–2021). Panel data regression is applied to analyse the relationship between ESG scores and financial performance, measured by Return on Assets (ROA). The results indicate a significant positive association between ESG practices and financial performance, suggesting that firms with higher ESG engagement tend to perform better financially.

2. Chakraborty, J. et al. (2025). Impact of ESG Reporting on Financial Performance in Indian Energy Firms. (IJIRSS)

A study on Indian energy firms examines the impact of Environmental, Social, and Governance (ESG) reporting on financial performance using panel data for the period 2015–2023. The analysis includes firms from the BSE Sustainability Index and BSE 500 Index, evaluating the effect of overall ESG scores and individual dimensions (E, S, and G) on financial indicators such as ROA, ROE, and EPS, while controlling for firm characteristics. The findings indicate a significant positive relationship between ESG performance and financial outcomes, with Environmental and Governance factors showing stronger effects, and the Social dimension exhibiting a comparatively weaker but positive influence. The study highlights the importance of ESG integration for enhancing long-term financial sustainability in the energy sector.

3. Sunitha, S. et al. (2024). ESG Factors and Financial Performance of Indian Corporations. (bpasjournals.com)

A study empirically examines the impact of Environmental, Social, and Governance (ESG) factors on the financial performance of Indian corporations, focusing on metrics such as Return on Assets (ROA) and Return on Equity (ROE) over the period 2019–2024. Based on a sample of 100 NSE-listed companies, the analysis employs statistical techniques including Chi-square, correlation, and regression. The findings indicate a positive association between ESG disclosure and financial performance, with governance emerging as the most influential dimension. The study also highlights the role of ESG in enhancing investor trust, reducing risk, and supporting long-term capital growth, emphasizing that transparent ESG practices contribute to sustainable financial performance in the Indian context

Research Methodology

This study follows a descriptive and analytical research design to examine the relationship between ESG practices and financial performance.

Data Sources

The study relies primarily on secondary data collected from:

1. NSE ESG scores database
2. Annual reports (2019–2024)
3. SEBI Circulars
4. Research publications and academic journals

Sample

20 large-cap companies (Reliance, TCS, Infosys, HDFC Bank, ICICI Bank, Hindustan Unilever, etc.)

Data Analysis and Interpretation

20 large-cap companies (Reliance, TCS, Infosys, HDFC Bank, ICICI Bank, Hindustan Unilever, etc. **(Average Values 2019–2024)**

Overview of ESG Scores and Financial Metrics

Metric	Minimum Value	Maximum Value	Average Value
ESG Score	68 (SBI)	89 (Nestle India)	78.55
ROA (%)	1.2 (SBI)	22.0 (HUL)	9.87
ROE (%)	12.5 (SBI)	85.0 (HUL)	27.28
Net Profit Margin (%)	8.5 (SBI)	25.0 (Nestle India)	15.75

Detailed Analysis and Interpretation

General Correlation between ESG and Financial Performance:

A general positive correlation appears to exist between higher ESG scores and stronger financial performance metrics (ROA, ROE, Net Profit Margin) within this dataset. Companies with higher ESG scores often demonstrate superior profitability and efficiency.

1. **Top Performers (High ESG and Strong Financials):**

- Nestle India (ESG 89): This company leads in ESG score and also boasts the highest Net Profit Margin (25%), and second-highest ROA (21.5%) and ROE (60%).
- Hindustan Unilever (HUL) (ESG 88): HUL exhibits the highest ROA (22%) and ROE (85%), coupled with a very high Net Profit Margin (24.5%) and an excellent ESG score.
- TCS (ESG 85), Infosys (ESG 83), Asian Paints (ESG 84), Titan (ESG 86): These companies, primarily from the IT and consumer goods sectors, consistently show high ESG scores alongside robust ROA, ROE, and Net Profit Margins. For instance, TCS has an ROA of 18.3%, ROE of 42.1%, and Net Profit Margin of 22.5%. This suggests that these sectors might be particularly well-suited to integrate sustainability practices with profitable operations, or that strong ESG practices attract and retain customers and talent, leading to better financial outcomes.

2. **Bottom Performers (Lower ESG and Weaker Financials):**

- SBI (ESG 68): This public sector bank has the lowest ESG score and also records the lowest ROA (1.2%), ROE (12.5%), and Net Profit Margin (8.5%) among the surveyed companies.
- Adani Ports (ESG 69) and Larsen & Toubro (L&T) (ESG 70): These companies, representing infrastructure and heavy engineering, also show relatively lower ESG scores and generally lower financial metrics compared to the market leaders. This could imply that industries with significant environmental footprints or complex social considerations face challenges in both ESG performance and achieving high financial efficiency.

3. **Sector-Specific Observations:**

- Information Technology (IT) Sector (TCS, Infosys, Wipro): This sector generally demonstrates strong performance across both ESG and financial metrics. These companies often have high human capital value and relatively lower environmental impact compared to heavy industries, which might contribute to their ability to achieve high ESG scores and profitability simultaneously.
- Fast-Moving Consumer Goods (FMCG) Sector (HUL, Nestle India, ITC, Asian Paints): Companies in this sector are notable for their high ESG scores and excellent financial returns. This could be due to strong brand recognition, consumer preference for sustainable products, and efficient supply chain management.
- Banking Sector (HDFC Bank, ICICI Bank, SBI, Axis Bank, Kotak Bank): While banks like HDFC Bank (ESG 78) and Kotak Bank (ESG 80) have respectable ESG scores, their ROA figures are significantly lower (1.8% - 2.1%) compared to non-financial companies. This is typical for the banking industry due to its asset-heavy nature and different business model, where assets primarily consist of loans. However, their ROE and Net Profit Margins are moderate to strong (e.g., HDFC Bank: ROE 16.8%, NPM 18%). Within the banking sector, there is still variation; Kotak Bank, with a higher ESG score, shows better ROE and Net Profit Margin than SBI, suggesting that ESG factors can differentiate performance even within the same industry.
- Heavy Industry/Infrastructure (L&T, UltraTech Cement, Power Grid, Adani Ports): These companies tend to have lower ESG scores (69-73) and generally lower ROA and Net Profit Margins. This may reflect the inherent operational complexities, capital intensity, and environmental challenges associated with these sectors.

4. **Outliers and Nuances:**

- Wipro (ESG 76): Despite a moderate ESG score, Wipro demonstrates strong financial performance (ROA 14.2%, ROE 28%, NPM 18.8%). This indicates that while ESG is a factor, other operational efficiencies, market position, or strategic advantages can also drive significant financial success independently or in conjunction with ESG efforts.
- Reliance (ESG 72): A large conglomerate with a moderate ESG score, it shows decent financial metrics (ROA 8.5%, ROE 14.2%, NPM 10.1%), indicating a balanced performance.

The data for these 20 large-cap companies largely support the growing evidence that strong ESG performance is often associated with better financial outcomes. Companies that prioritize environmental stewardship, social responsibility, and robust governance tend to exhibit higher returns on assets and equity and better net profit margins. This is particularly evident in the FMCG and IT sectors. While industry-specific factors (like in banking) can influence certain metrics like ROA, the overall trend suggests that integrating ESG principles is not just about corporate responsibility but can also be a significant driver of long-term financial value, operational efficiency, and competitive advantage.

Impact of ESG Integration on Financial Performance

Improved Profitability

Companies implementing sustainable environmental practices often achieve cost savings through efficient resource utilization and energy management.

Better Risk Management

ESG integration helps companies identify environmental, regulatory, and reputational risks early, reducing the likelihood of financial losses.

Enhanced Investor Confidence

Investors increasingly prefer companies with strong ESG performance because they are perceived as more stable and responsible.

Long-Term Value Creation

ESG practices support sustainable business growth by aligning corporate strategies with environmental and social objectives.

Conclusion

The present research demonstrates a significant correlation between Environmental, Social, and Governance (ESG) factors and the sustainable financial performance of Indian firms. Evidence suggests that the strategic integration of ESG frameworks enhances profitability and optimizes risk management. Consequently, these organizations demonstrate heightened resilience amid economic uncertainty, facilitating long-term value creation for all stakeholders.

Beyond mere compliance, ESG has evolved into a strategic imperative that bolsters corporate reputation and operational efficiency. In India, rising stakeholder awareness and a tightening regulatory environment have positioned ESG integration as a primary engine for sustainable growth. The **SEBI 2025 reporting mandates** represent a watershed moment, transitioning ESG from voluntary disclosure to a standardized, enforceable framework for India's largest listed entities. By prioritizing value chain transparency and third-party assurance, these regulations align Indian governance with global standards, ultimately transforming ESG compliance into a vital lever for long-term market resilience.

Recommendations

Based on the findings of this study, the following recommendations are proposed to enhance the sustainable growth and regulatory alignment of Indian corporations:

Strengthening ESG Disclosures under BRSR:

Companies should enhance the quality, transparency, and consistency of ESG disclosures as mandated under the Business Responsibility and Sustainability Report (BRSR) framework. Standardized reporting practices will improve comparability and enable stakeholders to make informed decisions.

Integration of ESG into Core Business Strategy:

Organizations should move beyond superficial ESG compliance and embed ESG principles into their core strategic planning, decision-making processes, and corporate culture. This includes aligning ESG goals with business objectives and performance metrics.

Encouraging ESG-Based Investment Decisions:

Investors, financial institutions, and policymakers should promote ESG-based investment approaches by incentivizing responsible investing. The integration of ESG criteria into investment analysis can lead to more sustainable capital allocation and improved long-term returns.

Capacity Building and Awareness:

Corporations should invest in training and awareness programs to build internal capabilities for effective ESG implementation and reporting.

Regulatory Support and Incentives:

Policymakers should introduce supportive regulations, tax incentives, and guidelines to encourage wider adoption of ESG practices across industries.

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