

# WAKING UP TO ESG

SEBI'S MANDATORY SUSTAINABILITY REPORTING IS LIKELY TO PUSH COMPANIES TO INVEST IN AND COMPLY WITH THE UN'S GUIDELINES.

By: Nidhi Singal

Back in 2004, when the term ESG (an acronym for environmental, social and governance) was coined under the guidance of the UN in a report titled "Who Cares Wins", it was just a fad. Now, 18 years later, it is at the heart of every decision made by the government, large businesses and even industry bodies. Investors and stakeholders pay special attention to a company's ESG rating to make sure their investments are future-proof, safe and stable. Challenges like climate change and Covid-19 have reiterated the importance of ESG.

"Research increasingly shows that investors, employees and customers (led by millennials) care deeply about sustainability, and value well-governed companies that positively impact the environment and society, more than organisations that do not account for their environmental and social impacts," says Niranjan Banerjee, Chief Financial Officer and Head of Sustainable Finance at YES Bank. It is in this context that we see the emergence of a new form of conscious capitalism, with an emphasis on ESG, "which seeks to value an organisation, not just on its financial performance, but also on environmental and social aspects—a kind of triple bottom line—that takes into account its aggregate impact on people, planet and profits," he adds.

Companies with better ESG performance have a better track record on issues such as human rights, climate change, environmental sustainability, social responsibility, ethics, and transparency, and hence are more resilient against future risks.



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CEO and Joint MD  
Welspun

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"Sustainable investment is gaining popularity across the world. CY21 was a record year for sustainable investments, with an estimated \$120 billion streaming in, more than twice the \$50 billion witnessed in CY20," says Chaitanya Kalia, Partner and National Leader of Climate Change and Sustainability Services at EY India. Investing in ESG will help businesses identify opportunities and also mitigate risks. In the years to come, firms that focus on value protection and creation for stakeholders will become well-run companies. And well-run companies are not just better-trusted but also good stocks to own, he adds.

Businesses have become mindful of their roles within the communities they operate in and are adopting sustainable ways of doing business. They have been investing in sustainable areas in the form of compliances, in isolation, for long but with ESG, everything has been integrated. Tata Communications, for instance, its annual spending amounted to \$100 million over its 11 crore on CSR and up to 20 crore on the environment in FY21. "We take responsibility for the impact of our internal operations by choosing approaches that are least likely to impact the environment, providing an inclusive and equitable workplace for our employees, volunteering and engaging with our communities, and committing to ethical business behaviour," says a spokesperson.



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MD and CEO  
Marico

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Companies are spending a lot on the environment to mitigate climate risks. The top performers have scores in the range of 76-92 per cent, according to a study by ESG rating agency ESGRisk.ai. Companies from computer programming and information services sectors, among others, have done well. "Our focus on the green ecosystem, clean energy, and optimum use of resources helps us in accelerating our transition towards a low carbon economy," says Sandeep Chaudha, Chief Sustainability Officer at IT services firm Tech Mahindra.

Spends on the social aspect have also been significant, more so because of the Companies Act-mandated 1 per cent spending requirement on CSR. Conglomerate Welspun Group says it has embedded sustainability as a responsibility and an opportunity to reinvent the business. "We have substantial running expenses on ESG activities like running and maintenance of STPs, waste management, air pollution management, sustainable raw material sourcing and education of farmers, energy efficiency projects, etc. For social projects through [our] CSV (corporate social values) initiatives, the total expense in FY21 was Rs 6.31 crore," says Dipali Goenka, CEO and Joint MD of Welspun India. The top performers here—with scores in the range of 60-71 per cent—include sectors such as consultancy, information services and manufacturers of coke and refined petroleum products, according to ESGRisk.ai.

As for the governance aspect, the industries that have seen the most activity are "electricity, gas, steam, and air conditioning, manufacture of food products, machinery and equipment, retail trade, financial services activities and wholesale trade," says Sankar Chakrabarti, Chairman of ESGRisk.ai and Group CEO of Aegis. The top performers have scored in the range of 81-84 per cent with electricity, gas, steam and telecommunications scoring the highest.

A growing number of companies are taking up ESG targets as part of their CSR activities, with India Inc. spending Rs 1 lakh crore on CSR over the last seven years, according to the Ministry of Corporate Affairs. But that's not enough. "Indian companies seem to remain largely traditional in the way they are run, with low gender diversity (women account for typically less than a fifth of the board) and independence below 10 per cent, as many entities are family-controlled. In addition, sustainability expertise could be the exception rather than the norm among directors," says Bertrand Joboulet, a Sustainable Finance Analyst at S&P Global Ratings.

To motivate businesses to focus on ESG, the government and industry associations are using markets regulator Sebi's Business Responsibility and Sustainability Reporting (BRSR) framework as an ideas exchange and impact leadership platform. While BRSR reporting was voluntary in FY22, it is mandatory in FY23, and will apply to the top 1,000 listed entities by market capitalisation.

Sustainability reporting, too, isn't very common among them. Of the 386 companies CRISIL studied for its Sustainability Yearbook, 2022, only a fifth published their sustainability reports in FY21. Even the Task Force on Climate-related Financial Disclosures notes that only 61 of the 1,641 companies listed on the NSE have adopted its voluntary climate-related reporting framework.

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"BRSR has definitely sowed the seeds of transparency, measurability and verifiability of impacts created by organisations for stakeholder ecosystems that matter," says Saugata Gupta, MD and CEO of FMCG major Marico. This has enabled Marico to expand the boundaries of ESG data architecture to improve the credibility, authenticity and quantification of outcomes across various sustainable value creation programmes, he adds.

But given the large ecosystem, covering just 1,000 companies isn't enough, say experts. For wider adoption of ESG compliance, the government and industry associations should consider making BRSR mandatory for private, unlisted companies, say experts. "In order to drive the ESG agenda, banks should build ESG compliance as a part of their lending framework. Equity and debt market funds can also ask for the same," says Preeti Kumar, Managing Partner at executive search firm Anup India. She adds that Sebi can also extend



**PREETI KUMAR**  
Managing Partner  
Anup India

Businesses are realising that those which embrace ESG will reap significant benefits in terms of finding new customers for their offerings, improving price points and customer loyalty. According to Anshuman Magazine, Chairman and CEO—India, South-East Asia, Middle East & Africa, CBRE—the commercial real estate services provider included in the Dow Jones Sustainability World Index that helps clients to tackle the key challenges of transitioning to a compliant framework—ESG is far beyond mere good intentions. "It is about creating a tangible plan that achieves real and measurable results."

In the pages that follow, read about India Inc.'s journey towards sustainability and what more needs to be done.